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JOINT STANDING COMMITTEE ON FOREIGN
AFFAIRS, DEFENCE AND TRADE

(Trade Subcommittee)

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

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

Trade Subcommittee

Friday, 22 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 and O'Brien and Mr Hollis and Mr O'Keefe

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 9.08 a.m.

CHARD, Mr Rob, Senior Trade Commissioner, South America, Australian Trade Commission

LANGHORNE, Mr Peter, Executive General Manager, Corporate and Government, Deputy Managing Director, Australian Trade Commission

OLAH, Mr Alex, Manager, Americas Office, Australian Trade Commission

SYMON, Mr Craig, General Manager, Corporate and Legal Affairs, Australian Trade Commission

CHAIR—Welcome. I declare open this fifth public hearing of the inquiry by the Trade Subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade 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 Australia-South America 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.

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 Austrade, submission No. 20. I now invite you to make a short opening statement, if you wish, before we proceed to questions.

Mr Langhorne—Thank you. I would like to make some very brief opening comments and then hand over to my colleague Rob Chard to give the committee a presentation on South America. The committee may then wish to address a number of issues that we raise during the presentation and in the submission.

Firstly, the Australian Trade Commission very much appreciates the opportunity to appear before this committee. South America is a key plank in the government's and the Trade Commission's diversification strategy and we see great potential in that market. However, there are a number of issues to be addressed and a number of challenges to be overcome, and Mr Chard will talk more about those as we progress through this morning.

We believe that this committee is another positive step in developing our trade and investment relationships with South America. For that reason, we have taken the decision to have Mr Chard travel from Buenos Aires to appear before the committee and give the committee the opportunity to ask questions of someone who is on the ground in the market itself. Just as background, Mr Chard is responsible for all Austrade's operations in South America. He is not restricted to any market and is in fact a subregional manager.

By way of introduction, with regard to resources, it is interesting to note that in 1997-98 Austrade had 20 people in the South American market and we were spending \$3.7 million on the ground at that time. In 1999-2000, following decisions by the government to enhance the operations in South America, including through the opening of an office in Lima in Peru, Austrade has 27 people on the ground, soon to grow to 28 people, and the budget is close to \$5 million. This represents, overall, 25 per cent of the total budget that we are spending in the Americas at this point in time.

With regard to other forms of assistance to companies working in South America, again it is interesting to note that in the last EMDG grant year, 1998, there were 182 EMDG recipients active in South America. These 182 clients received a total of \$1.4 million in grants from the government in that last year. They achieved some \$48.7 million in export sales to the South American countries for the year and over the year spent a total of \$4.7 million in marketing expenses to promote their products in South America.

I believe that that gives an overview of the interest that is beginning to take place from Australian business with regard to the South American market. I conclude my opening comments there and again say that we very much appreciate and welcome the opportunity to appear before this committee, to re-emphasise that the Australian Trade Commission considers South America as one of the key emerging markets as far as this country is concerned and that we are aware that it is a very competitive marketplace, particularly from the United States and Canada. We believe that the strategies we are putting in place at the present will well-equip Australia and Australian business to take advantage of that marketplace in the long term, if those challenges can be overcome.

CHAIR—Of the 27 staff you have—which is increasing to 28—is it all trade work that they do? Could you enunciate a little as to the sorts of areas of trade where they are being the most beneficial or helpful. In other words, are any of the Austrade people doing consular work? Are they doing work that is outside trade or is it specifically trade?

Mr Langhorne—I will ask Mr Olah and Mr Chard to comment on that. As a general point, we operate two consulate generals in South America. Therefore, we have people who have dual roles as a consul general and as a senior trade commissioner or trade commissioner. Mr Olah or Mr Chard could give an overview of how many people are in marketing and how many are working in the consular area.

CHAIR—Can you also say whether those 27 or 28 people all work on trade matters or is it, say, 22 people who work on trade the whole time?

Mr Chard—We have two consular offices—our newly opened office in Lima and our Sao Paulo office. By and large, in all of our offices, the majority of our staff conduct wholly trade work. In a non-consular office—for example, in Buenos Aires—there is one person who does not conduct trade and marketing work. That is usually the office administrator and the local area network administrator, which is by necessity. We need them to run the offices. In the consular offices, we usually have one additional officer who is solely dedicated towards consular functions. Other than that, all of our staff in the region are dedicated toward the trade function.

CHAIR—Do you do any cost-effective results from each of those persons or is it just done as one big pool?

Mr Chard—In what sense?

CHAIR—In other words, Austrade person X has facilitated \$5 million worth of extra trade; operator Y has not facilitated any extra trade in the year. Is there any comparative analysis amongst the operatives?

Mr Chard—Yes, there is. The comparative analysis amongst operatives is by and large restricted to internal operational requirements for the post manager to know who, of his four or five marketing staff, is the top performer and who is not performing so well. Our systems allow us the ability to capture that information. We are also, on a post by post basis, further developing a system which at this point in time measures our return on investment. We measure many key activity indicators and key outcomes on a post by post basis. We have a look at the return we get for our money, both on an individual by individual basis and on a post by post basis.

CHAIR—Does that comparative analysis also go into other areas of the world comparing South America with, say, parts of Asia?

Mr Langhorne—Yes. To go back to the overall process, as Mr Chard said, we have in our operational plan and now, of course, in our portfolio budget statements, targets set at the commencement of the year, which indicate what we expect to achieve across a number of regions and across the organisation, in the form of key performance indicators related to the outcomes and outputs set by the government. Those translate down from the corporate level—the Austrade-wide level—to a regional level, then down to a post level and, beyond that level, they are also reflected in numerous performance agreements that we have with our staff. We are generally a performance based organisation, so the performance agreements we have with our staff would indicate what their contribution is expected to be.

At the end of the reporting period, and generally at about the same time as we report in our annual report, we do an internal analysis of, say, the amount of exports that the South American posts have facilitated, the number of new companies that have gone into the market, and so on. We look at that in comparison with other areas. Of course, it is not a straight, easy comparison. For example, our latest post in Lima, South America, and the latest post that the government has funded in Bucharest, Romania, have been put in place, looking at the longer-term potential. You would not expect Lima or Bucharest to be returning the same performance levels per person as you would, say, an established post like Singapore. There has to be an umbrella over the top of those.

Also, because of the way that the government has now structured the outcome-output arrangements within portfolios, we also measure the performance of our posts with regard to other activities, such as consular activities. If you were to look at our performance measures, you would see that we have a separate outcome for consular work. Again, we can do comparisons across regions, not only on our directly trade related work but also on other activities we carry out.

I would also make one other comment about the consular role. We actually carry out the consular function on behalf of the Department of Foreign Affairs and Trade in 17 or 18 locations around the world. We refer to those offices mainly as trade consulates. The prime purpose that those offices have is to facilitate trade and to promote trade and investment. They also have a very important role, and obviously a priority role, in looking after the interests of Australians in the marketplace, in the country or in the consular area. That is obviously of great importance and is something that Austrade takes very seriously, as I said, as performance measures.

There is a spin-off here in that, by having that dual role, the consul general title can open doors from a business point of view as well, so we see real benefit in it. We review that situation regularly. We have been reviewing a number of our posts in that context with the department regularly.

There are examples from over the past three or four years where we have jointly come to an agreement with the Department of Foreign Affairs and Trade that the level of consular work that is being undertaken, and of economic reporting that may be required from those consulates, is in fact outweighing the trade work directly. In those situations, we have seen those consulates revert back to the Department of Foreign Affairs and Trade. I think that makes sense. Providing that South America applies exactly the same principle here, providing we keep the distribution of work under review, it is our view that the joint consular/trade role works quite satisfactorily.

Senator O'BRIEN—I noticed your submission suggests that in the last financial year there were 239 EMDG grants made but you talked about 182. I am a little confused as to whether we are comparing the same thing.

Mr Chard—It may well be, and we can verify this with some concrete data later, if you would like, that the difference in the information would be attributable to the inclusion of the Caribbean and Mexico. From an Austrade perspective, we delineate North and South America due to the NAFTA arrangement and, with basically everything south of the Caribbean, the Mexico post looks after that and reports to North America.

Senator O'BRIEN—Let us make the assumption, which you are going to confirm or give some other explanation, that there is somewhere in the vicinity of a 10 for one return on that investment. You are saying there are \$41 million in exports and \$4.9 million in grants.

Mr Langhorne—We would need to check those results. The information that I gave was the information provided to us last night by the EMDG group. We will check and confirm what the situation is.

Senator O'BRIEN—Can you go over that again? The information you got last night was 182 EMDG grants, which totals how much?

Mr Symon—\$1.4 million.

Mr Langhorne—I will read the figures again. In the last grant year, 1998, there were 182 EMDG recipients active in South America. These 182 clients received a total of \$1.4 million in grants last year. They achieved \$48.7 million in export sales to South American countries for the year. Over the year they spent a total of \$4.7 million in marketing expenses to promote their products in South America. That is different from the figure provided on page 8 of the submission and we would need to check why there is that difference.

Senator O'BRIEN—Who spent the \$4.7 million in marketing expenses?

Mr Langhorne—The recipients of the agreements.

Senator O'BRIEN—When I read that book, it talked about the year 1998, whereas the figure here is the financial year 1998-99.

Mr Langhorne—Yes, I note that, and I suspect that that is probably where the difference is. We will check that. If we can find out before the end of the session this morning, we will pass that information on to the committee.

CHAIR—Just on internal comparatives, is there any opportunity for the committee to have that in confidence or in camera so we, the committee, can evaluate for ourselves? It would not be for publication.

Mr Langhorne—Yes, I will see what we can do. So you would be interested in the South American situation.

CHAIR—Compared to some other parts—performance and that sort of thing.

Senator O'BRIEN—That is exactly what my questions are leading to, and that is the relative effectiveness of EMDG grants in this market as compared with others. I suppose a cost-benefit analysis is possibly what I am leading to, although there would be unquantifiable benefits at this stage, such as the potential for market establishment and future sales on the back of EMDG. Have you done such an exercise?

Mr Langhorne—Sorry, I missed the last part.

Senator O'BRIEN—Have you effectively done a cost-benefit analysis on the EMDG grants in this region as compared with others?

Mr Chard—We have not specifically done a cost-benefit analysis for the region. However, I learned yesterday that we have in fact undertaken in the past some empirical analysis of the degree to which the EMDG grant affected the outcome in terms of whether the company made a sale or not. The previous analysis indicated that around 30 per cent of all EMDG recipients told us that they would not have made the sale without the grant. We are currently in the process of undertaking another set of analyses. I am not sure when they will be made available, but if the previous one is any indication then it was around 30 per cent of people who said that it would not have happened without the grant.

CHAIR—Has there been any change since air services improved to help facilitate trade? In other words, instead of travelling for 27 hours, you can travel for 15.

Mr Chard—It is a very difficult question to answer. I personally think that it has made a significant change. However, I think it is clouded by other criteria—namely, the crisis in Asia. We saw something of an uplift in terms of people looking away from the Asian region, and we had the upward benefit of an increase in activity in South America. To what extent that is attributable to the Asian crisis or the Qantas flight I am not sure. I am not sure what the percentage split would be, but my own perception is that the Qantas flight is critical.

Mr O'KEEFE—I do apologise for rushing in and out. I did not have my hearing aids and there is no point in me sitting here not being able to hear what you are saying, so I had to go and get them again. Perhaps I should not ask any questions at this point because I am likely to be covering only the ground that both of you are covering but, picking up on the last point you made, Rob, do you think that the surge in interest that has come off the back of the Asian downturn can be sustained, or do you have a worry that, as Asia reignites, people will go back to the places they are familiar with? If so, what do you think we need to do in this exercise to try to lock in whatever gains you have made for whatever reason?

Mr Chard—I have significant concerns about the degree to which people will head back towards Asia. As we speak, it is on the upturn, and it is in the paper all the time. For me, that is a significant cause of concern for the region. In fact, I think we are actually seeing the results of that slowly starting to trickle through in terms of numbers that are coming into the posts and in terms of clients. I will allude to it later on. There are several things we can do to improve it. What we really need to do is, one, not lose the momentum and, two, certainly drive it forward. I have knuckled out something of a marketing promotion plan internally with my post managers in South America. We think that is a good way ahead to try to spread the word and raise the levels of awareness and try to, one, generate more momentum and, two, maintain what we have already got.

Mr O'KEEFE—Good.

Mr Chard—It is significant cause for concern.

CHAIR—Now that the technology is right for you and also for Mr O'Keefe, can we proceed and get on with the presentation.

Mr Chard—May I firstly reiterate Mr Langhorne's comments and say thank you for the opportunity to present to you this morning on this very important issue. You have already heard who I am and what my responsibility is. But I repeat, for the deputy chair, that I am the Senior Trade Commissioner for Austrade, responsible for all of South America, not including Latin America at this point in time. I have been with Austrade for the last 12 months and was recruited out of the private sector from BHP.

If you are agreeable, I propose to put forward a fairly short presentation highlighting some of the major issues that we put forward in our presentation, then we will open it up to any questions that the committee may have.

Slides were then shown—

Mr Chard—The markets in South America are indeed not one single market, as some people may have you believe, but are certainly a multitude of individual markets and must be taken with their own significant characteristics. There are also many outdated perceptions which linger out there today and which need to be addressed if we are to engage the region commercially at an appropriate level. Along with these perceptions, I believe that there is also a significant ignorance of what exists from a commercial perspective within the region for Australian business.

In our submission we alluded to some of these problems and, if I may, I will go through a few now. The market is certainly a large one. If you look at South America as one market, it is enormous. It is of the order of 400 million people for the area under my responsibility. If you include the Caribbean and Mexico, then we are looking at 500 million people—a figure which is by no means insignificant. The large size of the region also has a geographical significance to businessmen in the region. If you get on a plane and fly from Buenos Aires to Miami, it will take you about 10 hours, which is more than twice the time it takes to fly from the east coast to the west coast in Australia. It is certainly a large continent and it represents a large opportunity for us, I believe.

It is very sophisticated, a point that I do not believe is widely known amongst the Australian business community. These markets are indeed more sophisticated than I was aware of previously. The only business people who would be aware of that are the ones who are currently conducting business, or who have previously conducted business in the region. Upon my arrival in Buenos Aires, I was truly shocked at the level of sophistication just of the city itself, and then subsequently by the degree to which they conduct themselves in a businesslike fashion. I have read a copy of *Hansard* in which the committee referred to the Indiana Jones type syndrome. I myself was in fact a victim of that until I set foot off the plane. There is an enormous degree of diversity in the region and that is evidenced geographically, economically and through the people themselves. You only have to travel, as hopefully you all will in the New Year—

CHAIR—Can I interrupt there and just say that we are hoping to get plenty of assistance from Austrade for a trip the committee is anticipating taking in February. I know that you have already been in touch with the secretary of our committee, Jane Vincent, and hope that that cooperation, help and support continues.

Mr Chard—You will certainly get all the assistance you require from Austrade. In fact, I am going to meet with Ms Vincent tomorrow afternoon and have a chat about the possibility of that. The diversity is staggering, as hopefully you will find out for yourselves, and that only takes a trip through the major capital cities. If you cover Peru, Santiago, Buenos Aires, Sao Paulo and Rio, it is staggering. Really it is something that needs to be beheld to be believed.

There is certainly a familiar business culture that exists in the region. The business culture in South America descends primarily from its European backgrounds, through Portugal and Spain, and as such is somewhat familiar to what we would be used to and what we would be more accustomed to here in Australia. I would say, however, that it is certainly

a far cry from what I would imagine one might expect in, say, China. Having worked as a businessman in Thailand in South-East Asia, I can vouch that it would be an awful lot easier to do business in South America due to the familiarity of the business culture than it was in Thailand.

From my business experience in Asia, I believe that the cultural and business similarities makes doing business in South America easier than many of the major markets that we currently operate in around the world. There are significant rewards to be had. Businessmen are generally somewhat shy when it comes to talking about their bottom line profits. However, in discussions in the region with businessmen, it is my belief that the profits to be had through conducting business in the region are equal to, if not greater than, the profits that are to be had in some of our other major trading regions.

A significant issue that must be taken into consideration by anyone contemplating doing business in the region is that you must display a level of commitment to the region in order to succeed. These are certainly not opportunistic markets. This is another thing that stems back to the European history. Relationships are a significant factor and the family type cohesive relationships in South America are very important. You must visibly display a commitment to the region. It does not mean getting on a plane, flying over there, flying back, going in and out every now and again and being successful. That will not happen. It is something that Australian business needs to understand well and truly up-front if they are going to get anywhere.

Mr O'KEEFE—What sorts of things do you do then, apart from going and living there, if you just cannot fly backwards and forwards a few times?

Mr Chard—Initially, it is going over there and taking the time out to understand the business culture; certainly developing honest and sincere relationships with the people that you have identified who might be appropriate partners, joint venture partners, agents or whatever; and putting in the time and being honest and sincere in developing those relationships. Subsequently, if you decide that that business option is viable for you, then it will usually require—and I stress usually—that you have some sort of representation on the ground, be that an agent, a joint venture partner or some other form of representation. I would venture to say that, if you tried to conduct business from this side of the Pacific to that side of the Pacific without significant levels of representation, you probably would not succeed.

CHAIR—So it still personal eyeball to eyeball?

Mr Chard—A very personal approach. In fact, South American businessmen will question you in quite a lot of detail and quite openly about your family circumstances and how many children and grandparents you have. It is very important to them and very similar to the Italian type of experience.

So, why should South America all of a sudden be a market to be taken seriously? Firstly, it is because, despite some of the outdated perceptions out there that these markets are closed, unstable and difficult to operate and make money in, I believe the reverse is true. The market in recent times over the past decade have become increasingly market driven and

open. The major economies of the region are now reaping the rewards of the difficult years of fiscal restraint, policy stability and, with a 10-year track record behind them, they now display the macro-economic conditions which are becoming far more appealing to Australian corporates who are considering investing over there.

Although the next slide does not have detail on a country by country basis—if you like I can provide that later—but it certainly gives you an indication of the degree to which these countries and the region as a whole has been developing with significant growth since 1990—the last 10 years—growth of GDP and reductions in inflation.

The potential for trade and investment in the region is significant, not only because of its size but also because of the abundance of expenditure which is forecast in areas in which Australia possesses significant capabilities. In Chile for example, and indeed throughout the region, the bulk of our investment has been in mining, but we are yet to take full advantage of the associated products and service industries which have been so successful to date in Chile. We should be getting our fair share of the pie, but to date I believe we have been taking something of a back seat to the major corporates operating out of the US and Canada. Two weeks ago while I was in Santiago I found out that Codelco—which is the state owned copper mining organisation in Chile and is indeed the number one copper mining company in the world, followed closely by BHP I believe—has a \$200 million per annum purchasing bill and Australian companies are canvassing only \$100,000 of that. I believe there is significant room for improvement. Despite the significant presence that we have over there and the success that we have enjoyed, I believe that we could do things a little bit better.

It is an interesting point that 25 per cent of the world's mineral exploration at this point in time is taking place in South America. That is projected over the next five to 10 years to undergo significant growth. As I alluded, if we are not well positioned to take advantage of that growth at this point in time, then I believe we run the risk of leaving money on the table. If we do not do it, someone else will and those major corporates who are already positioned at this point in time will take advantage of the situation.

This slide, although it is a little bit busy and I apologise for that, highlights the size of the opportunity. The slide is somewhat outdated and you may pick that up in our presentation. It is not actually two-thirds as it was at the time I put this slide together—it now represents something like 98.5 per cent. The six largest economies in South America are roughly equivalent to the six largest emerging counterparts in Asia, which is quite significant. Once again, it is a point that I believe is not widely known amongst the Australian exporting business community, but it should be.

Whilst it could be argued that we have seen dramatic and significant growth in our trade figures annually in terms of percentage growth figures in recent years, I hope you do not see this as a somewhat trite representation. It is, in fact, a real representation of our performance in the region. At this point in time, South America represents less than one per cent of Australia's total trade figure. As I have tried to demonstrate in the previous few slides, given the significant size of these markets, I really believe that we could be performing a lot better than we are to date.

During a recent regional conference in Buenos Aires, I asked my post managers, my trade commissioners and their senior marketing staff to consider the issue of ‘what can we do to address this issue?’ The following slide is a representation of some of the suggestions that came forward from that think-tank. By funding Australian consultants to scope the needs of various major projects as and when they arise in South America, particularly in infrastructure in the very early planning stages, I think that Australian industry would stand a far greater likelihood of achieving a far greater level of success in the ensuing downstream project phases.

I am sure you have heard an awful lot about visas, and you will probably continue to hear about visas. In my travels around the region, I certainly am blasted by all and sundry about the problems that they have experienced with getting visas into Australia. I know it is a significant cause of concern to businessmen, politicians, students and many different types of people in the region. If we are serious about engaging the region at an appropriate level, then I believe it is owing upon us to do something about this particular situation with visas.

Mr O’KEEFE—Could I interrupt there for a second. Mr Chair, could we ask Jane to minute the need for a meeting of this committee with the immigration minister to actually talk about this issue? It comes up all the time, doesn’t it?

CHAIR—It has been rather consistent.

Mr O’KEEFE—We will talk about that. The point has been made, Rob. There is no need to labour it. We know all about it.

CHAIR—You are not the first.

Mr Chard—I have tried not to belabour the point. It is a significant point, and I hear it all the time. In fact, if you ask Minister Vaile, he was accosted a few times in various meetings. It is a point that recurs over and over.

CHAIR—But you are not the first.

Mr Chard—No. Technical scholarships and exchange programs are a fantastic way, I believe, of developing a core of Australia-friendly decision makers in the business communities within South America. Strategically, I believe that education is the way ahead and that if we are to engage the region at an appropriate scale then this is the way ahead for us. I think our experience in Asia in recent times has certainly proved that to be true time and time again.

The Australian Tourist Commission does not have any permanent offices within the region at this point in time. They were closed some years ago. I am not sure of the reasoning behind those closures; however, I am of the understanding that a significant barrier to the re-establishment of an ATC presence in the region is that there is not a sufficient critical mass to warrant it. It is something of a chicken and egg scenario, if you will. I believe that the re-establishment of an ATC presence in the region would have a significant pull-through and multiplier effect, which would significantly boost and aid our efforts to attract the attention of the Australian business community eastwards. Tourism is usually the vanguard of any

significant thrust into a region, and for this reason I am also firmly of the belief that not only the success but the expansion of the Qantas route will be critical to achieving our aims in the region.

It is quite difficult to enthuse anyone about our country if we do not provide them with any information in their own language. After all, we have to consider only two languages—Portuguese and Spanish—to cover the entire region. I believe that we therefore require a much higher level of access to information in both of the languages of the region, particularly through our government organisations.

This is a particularly significant point: official visits carry a far greater importance and significance in this part of the world than we are accustomed to here in Australia. I believe that a significant increase in commitment by our political figures at the most senior level to visiting the region is absolutely essential if Australia is to be viewed as a viable trading and investment partner by the region.

CHAIR—The point has been made by ambassadors already that the Prime Minister should visit the region. That has been well noted.

Mr Chard—You have been given the recent example of the Canadian Prime Minister's visit, with a delegation representing something like 400 businesses in tow. That sort of visit and engagement is viewed with incredible reverence. It has particular significance to the Latino business community. Having said that, though, it is particularly encouraging to see that Minister Vaile chose South America for his first visit in his new portfolio. We look forward to seeing him there again in the future. I believe that a comprehensive web of double taxation agreements will give Australian business interests greater confidence and competitiveness in the region. It was great to see that Minister Vaile signed a double taxation agreement in Buenos Aires on his recent visit there.

The other significant issue is bilateral trade agreements. I know this has been discussed on previous occasions also. Bilateral trade agreements are a far more complex issue than I would profess to understand. However, I believe—in my own self-important way—that they make Australian products and services more competitive in the region and, therefore, are of significant value.

A somewhat simplistic but very illustrative example of that is recently, once again in Santiago, I had a meeting with a gentleman who was the purchasing director for a company by the name of Chilquerer, the single greatest importer of Australian products into Chile, so they are quite significant to us. They are the largest independent power producer in Chile. Their consumption rate of imported product is between three million and four million tonnes per annum, so it is not insignificant. Three years ago Australia's share of that three to four million tonnes was 55 per cent; at the time I sat with him he said we were sitting at 30 per cent and falling. I asked why that was. He said it was because the Colombians and the Canadians have a bilateral trade agreement with them whereby they pay duty of—according to my recollection—only 3.5, 2.2, one and zero per cent over the next four years reducing, whereas Australia pays the standard rate. He said the bottom line was that we just did not cut the money on bottom line competitiveness.

He is a big fan of Australian thermal coal. He has visited Australia many times. He is a big fan of the Hunter region and knows all of the industries. But he quite bluntly said to me that, if we continue in that fashion and if those people continue to be more competitive than us, we will continue to drop below 30 per cent. So there is self-interest there. It is a bigger issue but, from my perspective in terms of making Australian businesses more competitive, bilateral trade agreements do have some value.

Mr O'KEEFE—Just on that example, Rob, with the countries that are now supplying them with coal and are getting the cheaper import duty out of their trade agreements, what is the quid pro quo at the other end? There are obviously products going in at a discount.

Mr Chard—I am not sure. I did not ask him about that. I know that is a significant issue for the Department of Foreign Affairs and Trade in that I believe a significant impediment is quite often that Australia has to give away more than we are to gain. My short answer is that I do not know.

Mr O'KEEFE—My reason for asking that is not mischievous, in the sense that it may well be that we have gone out and led the way quite significantly in a lot of this trade and tariff reduction, et cetera, and that others are getting these concessions for giving them access to markets that are only equivalent to what we have already given them. It would be worth knowing if that is the case, because it changes the nature of the negotiation. If Canada has dropped from 20 to 15 and Australia was already 15, we ought to at least be getting the same deal as Canada, given that we give the same deal as Canada—that kind of thinking. I do not know what the quid pro quo is but, if there is any way of finding out, it would be very interesting.

Mr Chard—I do not have that information, but I am sure we could access it, maybe through our colleagues in the Department of Foreign Affairs and Trade.

Membership of the Inter American Development Bank was seen as very much a long-term option, one that is very expensive. I think it costs roughly \$500 million up-front and probably \$100 million in contributions annually thereafter. We have, however, from time to time received complaints from companies—not me personally, but through our other offices—that they have missed out on an opportunity because Australia was not a member of the Inter American Development Bank. I would see that membership of that would be a good option in the long term to give us a greater level of credibility within the region and certainly serve as a platform from which to leverage our other assets through the region.

Mr O'KEEFE—Is that a national thing? Does it just need an Australian institution that is backing exporters, for instance—like a super fund or whatever—to take \$500 million worth, or does it need to be an Australian government or Reserve Bank take of it? How does it work?

Mr Chard—I believe it has to be an all of government approach; it is the latter.

Mr O'KEEFE—Do we know anything about that?

CHAIR—No, but we will find out more about it.

Mr O'KEEFE—You had better tell us what you think we have to do.

Mr Chard—Austrade has four offices in the region, located in Sao Paulo, Buenos Aires, Santiago and, most recently, Lima. These are all permanent offices which offer a full range of Austrade services and are staffed by 27 personnel currently. Most of the offices maintain industry specialisations at this point. These depend on market conditions at the time and are negotiated between the Trade Commissioner and me through the annual business planning process.

Austrade offers a variety of services to Australian businesses interested in investing or exporting into South American markets. These range from providing readily available information to providing detailed market entry strategies, in-market assistance and other services which are individually tailored to our clients' needs. Our services are usually provided on a fee for service basis at a significantly subsidised rate. This has been an issue for some businessmen, I know, but it has been instrumental, I believe, in driving our clients' service framework, which has resulted in a far superior level of service being delivered to our end users in recent years.

Austrade conducts a broad range of business activities in an effort to improve our performance in the region. Spreading the word is one of those, as ignorance and a lack of understanding are among the most significant impediments to the way forward in the region. We spend a significant part of our time trying to educate and inform our clients and potential clients about the marketplace and the opportunities that it represents for them. I might take one moment to explain our terminology. When I refer to 'clients', that is our Australian businesses interested in South America, and 'customers' are their counterparts on the other side of the Pacific.

That gives you an idea of some of the activities that we conduct. One-on-one opportunity delivery and briefing is certainly our preferred mode in South America. We cooperate very closely with our chambers of commerce and business councils. We have a significant commitment to regional Australia through our regional trade commissioners and our export access network. Indeed, each time our trade commissioners return to Australia we require them to head out into rural Australia and spread the message out there as well, instead of taking the easy option of doing Sydney and Melbourne and heading back home.

Seminars, functions and trade fairs are very much the traditional *modus operandi* of Austrade and have proved very successful in the past. Expomin, the world's largest and most significant mining trade fair, will be conducted in Santiago in May of next year. At this point we have in excess of 60 Australian businesses which will be participating, which represents a significant increase on last year, which is good to know. We have business measures both inwards and outwards, into Australia and into the region.

CHAIR—Regarding the trade fairs in your customer countries and the seminars that you have here for your clients, where do you get the biggest benefit? Maybe this is a question that Mr Langhorne might have to answer. One of the complaints sometimes is that there are not enough trade fairs in foreign countries. That might be because of budgetary constraints or whatever. What gives the biggest benefit—getting the client to know what the market is about, or letting the customer know what is available from the client country?

Mr Chard—I believe they are equally important.

CHAIR—I knew you would say that. I wanted you to give it away one way or the other.

Mr Chard—My personal belief—and we have demonstrated this in the marketing plan that we have put together—is that the importance of the customer side of the equation and the client side of the equation are valued equally. I do not believe that either can be looked at in isolation. One would do so at one's peril. I would give equal weighting to both of them.

Concerning the shortage of trade fairs, I am not sure there is a lot we can do about that because, by and large, we participate in trade fairs. Austrade, as an organisation, does not generate them. As an example, Expomin is the largest mining fair in the world. That is organised by the mining community. We just try to act as the genesis for the Australian business community, and as a catalyst for that. We would put together a stand under the Australian umbrella.

CHAIR—The stand costs money.

Mr Chard—It costs money for the individual who wants to take part. By necessity, through budgetary constraints, we have to be budget neutral. If someone is interested in participating at a trade fair it will cost them money, as it costs anyone else in the world. That is a commercial decision that person must take if they want to participate. Whatever the level of financial commitment, they make that decision themselves.

Mr Langhorne—Depending on the amount of expenditure that a company makes in a trade fair and their total expenditure over the year, they can claim through the Export Market Development Grants Scheme for a percentage of those costs. Secondly, while Austrade no longer subsidises—if I can use that term—the direct costs associated with attendance at trade fairs, we do still provide substantial in-market support and substantial support with regard to arranging business meetings and activities that surround the fairs themselves. Whereas we have removed one form of subsidy, we still are very active in that area. If my memory serves me correctly, in 1998-99 we supported something like 140 trade fairs around the world. I do not know, off the top of my head, how many there were in South America. We are still very active in that area and in supporting Australian business.

Mr Chard—We see that as a significant part of our marketing activities as well. For example, with Expomin, if we have 60 Australian companies participating and obviously a multitude of other companies from within South America, our staff will be hosting. The Australian companies will be at the actual trade fair, understanding the needs of the clients, following up with all of those clients, trying to identify opportunities and bringing the clients together. We see it as a significant part of our marketing effort.

Mr Langhorne—Regarding the client-customer relationship, the Austrade corporate view would be exactly as Mr Chard has put it—that we consider them both to be of equal priority, whether that contact is made on the ground, face-to-face through our network, or by electronic means through the Internet and our online services. The importance of maintaining a relationship with both is absolutely essential. Again, as Mr Chard inferred, with regard to

countries like those in South America, the eyeballing process is so important in building that level of business trust. Obviously Austrade and the Australian business people need to develop relationships with customers. Those relationships, importantly, are not short-term relationships but, rather, medium to long-term relationships.

Mr Chard—Our focus in the region at this point is firmly on getting away from process, getting out of the office and into the marketplace, developing the networks which are so crucial to our being successful and which, I believe, are our most significant value-add for the Austrade network globally, and also gathering that primary intelligence which is something that small and medium exporters do not have the capacity to gather on their own, which is the real value-add that we deliver to small businesses.

Bringing that back to Australia, additional funds have been reallocated internally within my area in order to get more people back to Australia and spread the word. Traditionally, it has just been the trade commissioners that have come back annually on their own. They are great spokespeople, but there is an enormous wealth of corporate knowledge and experience that has been accumulated through our locally engaged marketing staff who are, after all, people who are from the market; they are citizens from there. I believe they are the people that the business people want to see up-front on a podium talking and they want to ask questions of. I have internally reallocated resources to make sure that we get back annually not only our trade commissioners but also all of our marketing staff. I think that will really stand us in good stead in terms of raising the levels of awareness and spreading the word in Australia.

We try to work in partnership with our portfolio partners—the Department of Foreign Affairs and Trade and other departments and like-minded allies—wherever possible. A good example of this was a recent market research exercise which was undertaken via Austrade regionally on behalf of the Department of Industry, Science and Resources into the opportunities that exist in South America for the Australian fast ferries industry. This research, which has just been concluded, has uncovered more than 60 ferry operators which we were unaware of previously. In fact, tomorrow I am going to talk to the Department of Industry, Science and Resources personnel about looking at some follow-up activity whereby we can maximise that opportunity. I think it represents a significant opportunity for that industry. That is a good example of the way in which we try to work with our fellow allies.

In looking to the future, Austrade and South America have come to realise that there are significant issues which need to be addressed if we are to be successful in the region. The outdated perceptions of the region need to be challenged and corporate Australia needs to be educated in this respect. There is certainly a requirement—and you would have heard this previously—to raise the levels of awareness on both sides of the Pacific. The impact of a visit to the region by a business executive from either side of the Pacific cannot be understated, in my opinion. It is truly a case of a picture speaking a thousand words—once you have set foot off the plane in either Sao Paulo or Buenos Aires. That business executive will know what I am talking about.

We have acknowledged that, in order to achieve a behavioural change in the way the Australian export community thinks about the region, we will have to do something differently to what we have done in the past. To this end we have embarked on developing

an integrated marketing program, which is to be implemented over the next three years, in an effort to try and kick-start the region—to try and gain some movement or some momentum. We have coined the program ‘A whole new world of business opportunities’.

The aim of the program is to improve our performance in the region, initially over a one- to three-year period, and then subsequently to build on these early gains and achieve more significant growth levels in exports to the region in the medium term, which would be three to five years. This will, of course, necessitate significant concerted effort on both sides, both in-market and here in Australia, on clients and customers.

The program is two-sided, as I alluded to earlier. I believe both sides are weighted equally—the client in Australia and the customer in market. The draft contents of the proposal in its current form are as listed. I will let you all read those rather than bore you with them. There is some significant content in there. However, on the client side, I would bring your attention to the South American marketing manager. It is one aspect of the program that I have put together which I believe to be crucial—crucial from the perspective that I believe it is that thing we need to do differently to what we have done in the past. I would like to have a dedicated resource internally that solely focuses on South America and is not spread across other regions globally.

Another issue there is the import gap analysis and the hit list, which is a terminology that I have coined. In order to get the best return on our investment, we would like to base our efforts on some substantive market research. As such, we will be having a look at all of Australia’s capabilities and our exports. We will have a look at everything that is being imported into the country, as being their needs, on a line item by line item basis and we will cross-match those to see whether there are any significant opportunities which we are missing out on at this point in time. Quite often, it is a case of: without having done the market research, they sit right under our nose and you cannot see the forest for the trees. So that will be an effort to try and make sure nothing gets by us.

Finally, I would like to leave you with two messages. The first is that the opportunity is significant and I believe we cannot afford to ignore it and, secondly, that there is a limited window of opportunity for the Australian business community to exploit that opportunity. If we are going to act in South America, I believe the time to act is now. I very much look forward to the recommendations and outcomes that come from this committee hearing. Thank you very much for your time. We could open it up to any questions that you might have.

Senator O’BRIEN—You talked about the number of ferry operators that you have discovered. What are the types of opportunities? Are we talking about the smaller, Western Australian construction ferries or are talking about the much larger, Incat fast ferry services?

Mr Chard—My understanding is that, of the opportunities that we have discovered, the 60 operators range quite significantly in terms of their requirements. Some have very small boats. Some are enormous big ferries. So a broad cross-section of the industry sector will be able to avail themselves of that opportunity. Mr Cesar Fernandez, my industry specialist in marine in Buenos Aires, is currently in the process of putting together a strategy for how best we might exploit those opportunities.

Senator O'BRIEN—In the Austrade submission, it says that we have an established presence in the market for port management and distribution. Who does that?

Mr Chard—Port management and distribution is P&O. They are quite a significant presence.

Senator O'BRIEN—P&O Ports?

Mr Chard—Yes. Mr Hugh Wyndham is the chairman, based in Buenos Aires. They are quite actively looking around for acquisitions within the region. They are very active.

Senator O'BRIEN—Would you characterise that as an Australian firm?

Mr Chard—Yes, at this point in time.

Senator O'BRIEN—And is that firm competitive with other international operators?

Mr Chard—It is very competitive. In fact, it is interesting to note that they operate the port in Buenos Aires and a cold storage facility. Their operations on the port in Buenos Aires are among their most cost-effective and time-effective port operations anywhere in the world, according to Mr Wyndham.

Senator O'BRIEN—What about the shipping links between Australia and South America? What experiences can you relate to the committee about how those links assist or inhibit trade?

Mr Chard—There has been much talk about the shipping links between Australia and South America. There has been some research which indicates, empirically, when you actually have a look at it, that our shipping links would not cause any Australian exporters to be any less competitive than, say, someone coming out of North America, depending on whether you get a direct route or a transshipment route. In my time in Buenos Aires, I have not received any significant complaints. I would imagine that specific complaints might be confined to those people who have some sort of a specific need for a very fast shipping time.

Senator O'BRIEN—So it is not a perennial issue for you in terms of the representations that you receive?

Mr Chard—In my experience thus far in Buenos Aires, it has not been, although I am aware that it is something of a perennial issue in terms of discussion amongst the business community. The question of to what degree would be a question for the Australian business community in South America to answer directly.

Senator O'BRIEN—You talked about some studies on the shipping links.

Mr Chard—Yes. They were conducted by the Department of Foreign Affairs and Trade.

Senator O'BRIEN—No doubt we can access those if we need them. You talked about the issue of language and doing business. What are the requirements for an Australian company trying to establish links, in terms of the language issue?

Mr Chard—I do not believe language is any more of a significant issue in South America than it is, for example, in Asia. When I was in Asia, a lot of general managers running businesses over there did not speak the local language, but they specifically hired staff who were bilingual and who assisted them. It is then no longer a significant issue. I believe that to be also the case in South America. I would hazard a guess that English is less widely spoken in South America than it is now in, say, South-East Asia. South-East Asia has come a long way. But I believe that principle still applies. I would not consider language to be a barrier to doing business in South America. Certainly, English is quite widely spoken among businessmen at senior levels. It also goes back to the issue that I raised earlier of the demonstrable commitment to the market. Once you commit yourself and you have a representative there, you will obviously choose a representative who is bilingual, who can converse with you and conduct business on your behalf in Spanish or Portuguese—whatever the case may be.

Senator O'BRIEN—It would be a bit of an own goal if you did not, I would think.

Mr O'KEEFE—Rob, just before I go to this specifically, you mentioned in your presentation that you have been with Austrade for about a year and that you have come in from outside. You know what the perceptions of corporate Australia is of Austrade from outside. What was your impression once you got inside the show? Do you think it actually delivers the things you went through in your spiel?

Mr Chard—I am sitting next to Mr Peter Langhorne, here.

Mr O'KEEFE—I know.

Mr Chard—I was the general manager of a BHP Steel building products industry in Thailand and Papua New Guinea. In Thailand, I had occasion to use Austrade and I found their services excellent. In fact, in part the reason I am sitting here now in front of you is due to that. I think that the services of Austrade are viewed positively, in general, by the Australian business export community.

CHAIR—You could have refused to answer that, of course, on the grounds that it could have incriminated you.

Mr Chard—I might lose my job! No, I think it is positively viewed.

Mr O'KEEFE—An important part of any sales or marketing initiative is that you have to believe in the product.

Mr Chard—Absolutely.

Mr O'KEEFE—You can sit there and read through the spiel or you can actually have it in the heart. You having come from outside, if it has grabbed you, that is terrific for me to hear. I get the impression that it has grabbed you.

Mr Chard—In fact, in Thailand I was also the regional manager responsible for Burma, Laos and Cambodia, but I was based in Thailand. I will not belabour it, but we were looking to develop into new markets, which is exactly what I am in the business now, and I contracted the services of Austrade in Laos to find me specific agents. I was very happy with the people they set me up to visit. In fact, I took one of those people on as an agent. He was a political heavyweight—exactly the person that we were after. We put something in the order of \$2 million behind a marketing program to launch that subsequently. I was very happy with the services that I received.

Mr O'KEEFE—In the submission you have got a graph that makes a comparison of the Mercosur countries with PRC and Hong Kong. I regard China as a big pond with a hell of a lot of fishermen and not all that many juicy fish swimming around in it. I get the impression that South America may well be as big a pond with juicier fish and maybe not as many fishermen tackling the task. Is there any substance to that perception?

Mr Chard—I could not have put it better myself. I would agree 100 per cent.

Mr O'KEEFE—To go to a couple of specifics—and I think this is probably more for you, Peter, than Rob—with EMDG I remember someone giving me an analogy that Japan really kicked off its inbound business executive conference awareness market in the early 1960s by giving a huge tax discount to corporates that attracted overseas executives into the country for conferences or whatever, and that kick-started a whole appreciation of doing business with Japan in the early 1960s.

I am wondering if there is not a role for EMDG—if we already do, that is fine—to allow expenditure for bringing people here to form these partnerships that you are talking about, as distinct from just the expenditure we spend outside Australia as part of the exercise. Is that allowable at the moment? If not, have you thought about recommending that we think about that sort of thing?

Mr Langhorne—The situation at the moment is that generally it is not allowable under the present scheme. But, having said that, the government and the minister have recently agreed to the terms of reference et cetera for the review of EMDG, which is due to commence on 1 January 2000 and conclude by 30 June with a report submitted to the parliament by the minister within, I think, 15 or 30 sitting days of that date.

There will be an opportunity during that review to examine all the possibilities for the scheme. It will be a very thorough process. It will involve public submissions and obviously consideration of the present categories that are involved in the scheme itself. We will be looking at the scheme from the bottom up. Obviously if it is shown that there would be substantial benefit to Australian business by having such a category, I imagine that that would flow through into the report and be put forward to the government for consideration at the end of the scheme.

At this point in time, I would not make a judgment on it. I just do not have enough information to know whether the sort of grant category that you are referring to would have a better return than some of the others that are there at the present time. So we would need to examine it, and we would of course be taking evidence and submissions from individuals who would have an interest in that. So we would look at that with interest.

Mr O'KEEFE—Having put it on the table today as an idea—and that is not to say that it is original to here—might it be an idea to ask your representatives in the different countries what they think about it as a specific idea? That is, whether encouraging the business visits to Australia to build the relationships ought to be something we do more aggressively from Australia, or what they think about it? You could canvass your own people.

Mr Langhorne—Yes, certainly we could do that. But my concern would be that we would need to do it in the context of the review. We would need to assess what the views of business people are, of course, and also look at advice from our posts and—as Mr Chard referred to them—from our customers from overseas as to what benefits would flow. At the end of the day it is really a matter of judgment which has to be taken in a policy sense by the government as to whether or not that sort of expenditure has a better return than another sort of expenditure that we might look at. So certainly we would be looking at it, and certainly, as has been raised in the context of this committee—and I am chairing the steering committee involved with this review—I would take it into account and make sure that it is properly addressed.

Mr O'KEEFE—Excuse the private indulgence here, Rob, but I am the politician who dreamed up the 'Australian Made' campaign in the 1980s, and I still love the logo and I would still like to see it aggressively marketed. I wonder if we are anywhere near the stage yet where the perception of Australians in South America is such that we should be clearly branding products as Australian made, and would that be a marketing advantage in South America for the SMEs that are getting into that sort of export market?

Mr Chard—Yes. In the marketing plan that we have put together, we have put significant effort into branding on both sides—that is positioning Australia in the minds of our customers and positioning South America in the minds of Australia. It will be very targeted and focused because we have a very immature market at this point in time. We conducted some initial market research, and, to my dismay, the levels of awareness or even knowledge of South America within the Australian business community was almost non-existent. To that end, we are being very targeted and very focused. We are developing some very specific branding—generic branding of Australia and South America at this point—to raise the levels of awareness.

We will move off the back of some initial gains in maybe years 2 and 3 and remodel the marketing effort, maybe coming from a different angle. But yes, certainly, there are some significant branding efforts.

Mr O'KEEFE—With your permission, Mr Chairman, I have one more private indulgence. My electorate is in the region of Victoria to the north and west of Melbourne in a circle from Geelong to Ballarat and Bendigo. We have started to put together a pretty

aggressive regional corporate strategy among the companies. I wonder if, when you are next in Australia, or some of your people—whomever you recommend; including, as you said, some of the local marketers—we could have a look at the regional development organisation or someone running a major breakfast. We would probably get 200 or 300 businesses along to hear this kind of presentation. I think they are pretty smart people but, like the rest of us, they just did not know about the opportunity. Is that the sort of thing we could organise with you?

Mr Chard—Absolutely. As I indicated, seminars are part of our traditional *modus operandi*. It is part of our marketing plan. A significant number of my trade commissioners are already in Australia for AIMEX, which is a significant mining trade fair. The next time I will be looking at getting them out will be April-May, possibly May-June, next year. At that time I would hope that we would be sufficiently organised to be able to integrate all those people and really leverage off getting a few people into the market.

Mr Langhorne—For the past two years, Austrade has been running a fairly extensive regional and rural briefing program. It has been focusing on South-East Asia, North-East Asia and the middle east Indian Ocean. Exactly as you said, we have had our senior trade commissioners and marketing officers—the locally engaged people—in the field travelling to regional centres, giving seminars on opportunities, talking to local business people and so on. There was an Access America program, too, which was run along similar lines. We would certainly see benefit in doing a similar thing with South America. So if Mr Chard can arrange something early in the year 2000 we would fully support it.

Mr O'KEEFE—I will put this to my corporate groups out there and get them to sponsor something—say around April or May next year. That would be great.

Mr Chard—That would be a fantastic opportunity.

Mr Langhorne—I will make one other comment on that. I will ask Mr Chard to check on this. We could make sure that our Tradestart offices, which we run jointly with the states or regional development authorities and some chambers, are fully briefed and have appropriate information on the South American market, and are involved in pushing it forward to Australian business as well.

Mr O'KEEFE—I might supplement that point with a suggestion. The new government in Victoria has kind of taken everybody by surprise. The fact that it is the new government means the people are very fresh and receptive but would not know anything about these things at this point. So it might be worth targeting some of those new ministers about the South American opportunity straight away.

Mr Langhorne—We will take that on notice.

CHAIR—I think this question might be to you, Mr Chard. The Australia-Latin American Business Council says that trade commissioners spend a limited time in the post and, by the time they build up a network of their contacts and the understanding of the region, off they go. Do you have a length of contract in the area or, if you are highly successful, are you likely to be moved to another area that has more than one per cent of Australia's exports?

Mr Chard—My contract is for three years with a fourth year of mutually agreed extension. I do not believe that it is a valid comment that our trade commissioners gain all that corporate knowledge and then after three years they disappear and we start from scratch again. I believe that the strength of our organisation and the corporate knowledge that we hold is held within our locally engaged marketing staff. I would not expect, and I do not think anyone would expect, that a trade commissioner who newly goes into Sao Paulo, for example, would be an authority on Brazil within 12 months of being there. When he stands up in front of a seminar and tries to deliver the word, he is trying to deliver the word generically. In my mind, the people who really deliver the ‘killing stroke’ and really deliver that value-add message is the locally engaged marketing staff—the people who lock up that corporate knowledge. Without them, the trade commissioner really could not operate. So it is mutually beneficial.

CHAIR—I did not think that was a very easy question for you to answer. But that is an argument that is given. But then again, if you are in an area for three years and you are fully enthusiastic, it is better than being there for 12 years and losing enthusiasm after the sixth year.

Mr Chard—Getting stale—I agree.

CHAIR—In your submission, you said that it was less than one per cent and you said that we have to perform better. I think they were the words that you used: ‘we have to perform better’. You gave some ideas about performing better. Where do you believe are the major opportunities? It is mentioned in the Austrade submission that communications and those sorts of things are areas where we have good opportunities. Where do you, personally, believe are the big opportunities in the area for really doing a push to increase trade—being specific, whether it is agriculture, machinery, mining equipment, exploration or whatever?

Mr Chard—I would like to preface it by saying that there are opportunities not just within those industry specific sectors. There are opportunities abounding across an enormously broad range of opportunities. But specifically, I believe that the areas that offer us the greatest potential are those areas that we have indicated in the submission. These are IT&T, agribusiness, mining and marine. I would insert marine—I am not sure if we put marine in at the time of that report. Infrastructure is a significant area although a very difficult one to grasp because it is very broad and there are an awful lot of subsectors within that.

I believe that those are the areas. In my recent business planning process I asked all of my trade commissioners and their senior marketing managers, who are the guys and girls with all the wealth of corporate knowledge, ‘to go and not take on face value what we have always been doing, but have a significant look at your market and from the ground up, with no previous history, tell me what are the greatest areas of opportunity that you believe your market represents for Australian industry’. Those areas that we have indicated in the submission are the result of that. I believe firmly that those are the areas where we will get the greatest return on our investment.

CHAIR—What if I give a hypothetical? If I say, ‘I have got some widgets here in Australia. I am manufacturing these widgets and they are selling reasonably well in

Australia,' and I contact you, how quickly would you be able to give me an appraisal of whether widgets have a place in South America?

Mr Chard—We should be able to initially get back to you within two to three days. It is not initially that difficult. The inquiry will come to one central person. The virtue of the region is that when people want to come to the region, they do not usually come and say, 'I have a widget. I would like to have a look at Ecuador or Brazil only.' They usually say, 'Could you give me an idea of where this would fit within South America?' So we usually have a regional perspective in terms of looking at whether something looks like it might have a corresponding need in one of the markets. The person who receives that would take it on board. They are responsible for then sending to the relevant person in each of the posts, usually by email, the substance of that inquiry. They then come back with their answers. That would then be collated and sent back to the person.

CHAIR—I do not think widgets have a world-wide patent. But there is an opportunity there for people who want to sell that type of thing?

Mr Chard—Yes. And, indeed, a lot of the widget type, very niche market specific products, are the ones that get a run, particularly if they have some sort of a cutting edge technology—some sort of a leading edge. It is the nondescript things that you do not hear about that are usually quite successful.

CHAIR—How much work does an Australian company have to do in South America compared, say, to Asia? That can be added to by Mr Langhorne or somebody else. Does there have to be, say, 10 trips there to really get that business relationship or is it better to go in with a joint venture with somebody in one of those countries there and even do the manufacturing offshore?

Mr Chard—I do not want to sound evasive, but I really think that is on a case by case basis. You get into the market. You make your initial round of visits and contacts and start developing your relationships. I would say that it 'as long as it is going to take you' to the point where you would feel comfortable to then go to phase 2. We would certainly advise anyone trying to enter the markets on prospective market strategies. They are free to take that advice or go their own way.

CHAIR—What are the opportunities for educational services in the four major markets there, for example?

Mr Chard—I think the opportunities for educational services are quite significant. In fact, as my Buenos Aires office have taken it under their wing as their project, I have put it in my trade commissioner's performance management agreement that he will put together a strategy for me as to how we can best exploit the educational opportunities that are available within South America, particularly Brazil. Brazil is an enormous market.

That is evidenced by IDP, which is currently in the market. They are very interested. They have been there for some time and are very active. In Buenos Aires, maybe a day or two ago, my trade commissioner and his industry specialist were talking to Australian Education International as to how we can best put something together which is really going

to be under an Australian umbrella. It was about how we can really market education services in South America.

CHAIR—So you are putting in a fair bit of time and resources in that area?

Mr Chard—Yes. I am waiting for the report with interest.

CHAIR—You note that one of the strengths for Australia in the market is the perception that Australian products and services are of a high quality and are very competitive. By the same token, one of the weaknesses that Australia identifies is the perception that Australian manufacturers do not have the capacity or the experience needed to participate in the market. It is a double-edged sword. Where is the common ground?

Mr Chard—There are two separate issues. One of the barriers to South America is the perception that it is so big. Indeed, some of the opportunities, when you look at them, in Brazil, for example, are absolutely enormous. They are mind-boggling to some of our small and medium exporters. However, individuals who have a technological edge and a very competitive product quite often find themselves in a very small niche market and they are off and running. I do not think they are necessarily linked issues. They are quite separate issues. One is a very enormous opportunity and the other one is a very small, focused niche opportunity, which is where we quite often find that we are very successful. Sometimes they will overlap.

CHAIR—In your submission, you suggest not trying to start a new business in the countries but to buy into a business. Is there much of that happening? Can you facilitate much of that? Are you facilitating any buying up of businesses or joint sharing arrangements?

Mr Chard—There are joint ventures especially for the larger investments and the larger corporates that come into the region. Joint ventures leverage off the contacts and the experience of the company they are entering into the joint venture with. It leverages off that for the incoming partner. It has significant advantages, as long as you make sure that the relationship is well and truly in place and appropriate prior to entering down that course of action. It is a preferred method of choice for the larger corporates, usually the smaller and medium Australian exporters. You can still leverage off expertise, relationships and knowledge in market, but it is usually through appointing an agent and/or a distributor.

CHAIR—So the agency system is working well?

Mr Chard—Yes.

CHAIR—What is the story with shipping? We had evidence in Sydney that most of the shipping goes through Los Angeles and then comes down and it is not direct. We talked earlier about the air services and how that will get better quickly. Shipping is not going to change. Is that one of the big impediments?

Mr Chard—I do not personally believe it is, although I know that it is an ongoing issue amongst the Australian export community. My understanding is that, depending on whether

you get a direct or a transshipment service, it can take between usually 45 days and as little as 26 days. It also depends on where your port of call is, be it Santiago or right around the other side in Rio.

CHAIR—A month?

Mr Chard—Yes.

CHAIR—So it is four times more than what it is to Asia?

Mr Chard—Yes.

CHAIR—Is that one of the comparative disadvantages?

Mr Chard—I would like to take that on notice. I will find out the shipping times from, for example, Canada and Europe or North America, which are our major competitors in that market. I will then put our 45 days and/or 26 days up against their shipping times. That would be more relevant than the Asian experience.

CHAIR—Than other rates?

Mr Chard—I know there has been some work done on that, not by us. I believe there has been some work done by DFAT.

CHAIR—You talk about the window of opportunity. How long is the window going to be open? You are saying that it is quite big. It is only a window of opportunity to get into more trade. How long is the window open with competition from other countries and blocs such as NAFTA? What about the push down from the north, if you like, compared with our push from the west? How long have we got before we will be out of the marketplace because North America has cleaned it up?

Mr Chard—It is an issue of a diminishing rate of returns. We have a very short window of opportunity within the next 12 months to two years, although you could stretch that out. In accordance with that diminishing rate of returns, you would still get a good return on your investment over three to five years. The graph I put up was only 10 years ago and they are significant trends. If you push that out to 10 years, those markets will be nothing like how they appear to be now. I would not go beyond five years at a stretch.

CHAIR—Mr Vaile sits down with Mr Jackson, Mr Jamieson, Mr Langhorne and Mr Michael Johnson and says, ‘This Rob Chard in South America tells us that there is a great deal of opportunity here, so we will give him an extra 50 staff.’ What could you do with them?

Mr Chard—With 50 staff I could do an awful lot. You are more than generous.

CHAIR—If we are going to allocate resources, is there potential there, or will the other people from some of the other areas say, ‘No. We can achieve more than Rob Chard can in South America because we are here in Asia. We want an extra 50 staff here’? I am giving

you a hypothetical scenario. You have 50 staff. Will you increase trade from one per cent of our total trade to 20 per cent, five per cent or 10 per cent?

Mr Chard—If I were allowed to, I would rather trade the 50 staff for the monetary value. I would like to undertake some significant market research in those markets so that we can allocate our resources where we know that we will get a good return and where we have some good fundamental knowledge of the markets. An example of that is the likes of Venezuela, Colombia and Bolivia. We do not have any representation there. As a result, we do not have any in-depth market knowledge. I would like to look at those markets and the opportunities that they represent for Australia.

Theoretically, I would then like to spend the additional resources on personnel. That would give a broader coverage of the markets in South America. I indicated that, for example, in Caracas in Venezuela we only have an embassy. Roger Frankel, the ambassador there, is a very commercially orientated fellow and a very strong ally for us. The next fellow might not be. We do not have any Austrade representation. We also do not have any in the rest of the countries, which you would have seen by the map. We are not in them at this time. Some of them are significant. Colombia, Venezuela, Bolivia and, to some extent, the Caribbean are, as are maybe some other offices in some larger markets such as Mexico.

CHAIR—Could you have commissioned non-commercially involved agents working on your behalf so that it would not be coming out of the Austrade budget? Could you handle it if, for example, a bloke like David Brownhill was there and was quite happy to work on a commercial basis?

Mr Chard—Acting as a consultant to me?

CHAIR—As a consultant to you, with you being the boss of my enterprise. I would not be commercially involved, obviously.

Mr Chard—Yes. We can do that. We have done that in the past. In the past, we have run a string of Andean consultants, who reported to the trade commissioner in Santiago. Those contracts have disappeared now for one reason or another: people retiring and some people being unacceptable. We have certainly operated in that mode in the past. At the moment, I am looking at an option with Roger Frankel, the ambassador, in Venezuela, involving an individual we may bring on.

CHAIR—Pay on performance?

Mr Chard—I am not sure of the details at this time. I am not 100 per cent happy with the traditional arrangements that we have had. I would like to give it some further thought. I am certainly happy to look at engaging external consultants to conduct work on our behalf. I am somewhat concerned at the degree to which that person is not an employee of the Australian government. Therefore, there are some issues that we need to be aware of at a political level. I have some concerns, but I am certainly open to pursuing business along those lines.

Mr Langhorne—I want to make one point about the agents. The issue for Austrade has always been dividing the work that an agent or consultant does in their own right from the work they do for the Australian government. Austrade is not in the business of trading. We are in the business of facilitating. As an organisation, we do not conduct trade and business between an overseas country and ourselves. We facilitate that with commercial enterprises. The issue is that when we engage someone, we need to be very careful that they are not using the government imprimatur to further their own business needs and means.

What can happen is that you can get those people trading in their own interests, which can be at the expense of other Australian companies. We need to be very careful when we set up this process involving trade consultants. We have used them previously and we still use them around the world. They need to be very neutral. They should not be trading in their own right and they are not to trade off Austrade and the Australian government to further their own business interests.

CHAIR—You are not challenging my credentials, in my hypothetical?

Mr Langhorne—No. Not at all. The concept of a similar TradeStart network overseas like the one we have in Australia, from a business and cost effective point of view, is attractive. The issue is how you build those walls and separate it out from what is effectively an agent working on a commission basis.

CHAIR—When we were in Sydney, the witnesses there said that there are not enough troops on the ground. There are 500 million people and then you have 28 working.

Mr O'KEEFE—Perhaps our committee needs to work through the formula of getting more people on the ground if we are making a recommendation that this is a significant trade opportunity for Australia and we think more resources ought to be placed into it. We might explore some of the ways that we could do it. In the end, those sort of technical issues are areas for Austrade for work its way through. What follows on from that is that if we start aggressively promoting this story to large regional seminars or whatever and we suddenly have 10 or 15 companies send a person over in a hurry, that results in another 10 or 15 people suddenly wanting a long-term or medium-term presence.

Is Austrade in a position to gear itself up to handle that sort of influx of Aussies running around if we are able to generate it? Are you flexible enough to be able to move with that demand if it happens to be built off some impetus, for instance, out of our visit to South America and some of these regional seminars? If we create some momentum, you are comfortable about being able to handle it?

Mr Chard—We are in a position to be able to handle it to a ceiling, and I would have to hazard a guess at a ceiling. I would say it is probably another 30 per cent beyond our current work capacity. If you come over to the region, it would be great for you to be able to ask that question of the marketing staff, who would probably challenge me and be able to answer it a lot more truthfully than I.

Mr O'KEEFE—That is fine. We are all just very conscious that we have to be able to deliver.

Mr Chard—We have a ceiling. I am not sure where it is at—not too much further into the future, I would imagine. We certainly have the flexibility. At the moment we are exploring different areas. Oil and gas are other significant opportunities. It is an area that we have not traditionally looked out within South America. My trade commissioner in Sao Paulo is taking that up. The oil and gas industry in Brazil is based in Rio de Janeiro, with the mining industry just north in Belo Horizonte. So we are looking at getting one of his staff out of the Sao Paulo office and starting up a virtual type of office with a laptop and spending a significant amount of time down in Rio, feeling out the market and seeing what it is like. If it looks like it is justifiable, then we will send her down there on a more permanent basis. Certainly, we are mobile and flexible to that degree, yes.

Mr O'KEEFE—I was going to shift to another point.

CHAIR—You identified in your SWOT analysis that one of the factors that hinders increased trade and investment links with South America is that:

... unlike comparable American and European organisations, the Australian Chambers of Commerce put few resources into generating new business.

The chambers of commerce said:

Austrade seems unable to develop relationships with SMEs and Chambers of Commerce and its focus is very narrow ...

That is where I came from with my questioning. Because you have now had a swat at somebody and somebody else has had a swipe back at you, I would like you to finish that one.

Mr Chard—The chambers and Austrade should have great complementarities, and at this point in time we may or may not be leveraging off those to the best degree possible. I can understand where Austrade is coming from with the criticism that we do not understand SMEs. It may be that we are not in Australia. If they are talking about posts, then the post people who deal with the clients once they are over there are not sitting in Australia. They are dealing with a different client base, if you like, whereas our posts are dealing with the customers on a day to day basis. I certainly do not see any reason for conflict there. What we do should be complementary and wherever possible we should leverage off the relationship and develop it to the full extent possible.

CHAIR—I would like to come back to Mr Langhorne and ask: are we doing enough here with the chambers of commerce in Australia to get the link going? Is Austrade doing enough with the chambers of commerce in Australia?

Mr Langhorne—We have a number of ongoing programs with the chambers and obviously we have day to day contact with them, et cetera. In the case of the South American market, there is obviously an issue here. Whether it is a perception or whether it is a fact, it is something we need to work through. I am hoping that Mr Chard can do some of that while he is here.

Clearly, we see our relationship with the chambers as an important part of the linkage. We have very good relationships with a number of joint chambers in other countries. There is absolutely no reason why we should not have a good relationship with the joint chambers that link into South America. My view would be that, given that evidence has been given—we have given it in our SWOT and the chambers have given a view in evidence before the committee—obviously, we need to do more work in that area and we certainly will.

Mr Olah—Can I just add that as the desk officer of the Americas I am based here in Australia in Canberra. I am also on the executive of the Australia-Latin American Business Council, which, as you know, is the largest chamber relative to South America. It covers Latin America, so it includes Mexico and Central America. We have made an effort to get close to them. As I said, for the last two years I have actually been on the executive of that business council. There are a number of other bilateral chambers as well—the Mexico-Australia chamber, the Chile-Australia chamber and the Argentine-Australia chamber, and we work with those as required. If they come to us, we certainly support them in all their activities, but we work very closely and proactively with the business council. In fact, Mr Chard will be meeting with the executive next Wednesday at their monthly meeting. They have invited him to come along and meet with the executive.

Mr O'KEEFE—In fact, if you have an in-house strategic program for developing the relationships with the business councils, you might be able to send it along for us to have a look at. If there is something that documents it in some way or another, we could look at it for our own material.

Mr Chard—We have not documented anything in terms of developing the relationship that would indicate that we have said that the relationship has been deteriorating to a point where we really need to address it. Certainly, within the Americas and within my region of South America, no, we put all our efforts in as far as we possibly can to leveraging off the activities of the chambers and linking into them wherever possible. Certainly, within the marketing plan that we are looking at putting together over the next few years, the chambers represent a significant part of that. I do not think we can do it without them.

Mr O'KEEFE—That is getting closer to the observations that have been made to us by the chambers. It can lead to a strategy from within to deal with it. Down the track, if something emerges that is quite defined or is a forward looking strategy that you think we ought to understand and give some emphasis to in our report, then get some material to us.

My final question is from left field, but I have raised this in other discussions in this inquiry before. It relates to us going into the next round of GATT negotiations and the window of opportunity Rob described. I have certainly held the view for some time that the relationship with the Cairns Group countries—a number of which are Latin and South American countries—is not just about agriculture. As we better understand the nature of opportunities between the countries, it is a lot broader than that. What is now coming home to us is that, as we go into this GATT round, everybody is trying to broaden the agenda. It is also very clear that the Cairns Group has to stay together and will have to act pretty forcefully if our parts of the world respectively are going to do any good in this at all.

It seems to me that the traditional focus is totally agriculture. It may be that, if you can get the message in via the network to the people who are focusing on the resources for the GATT round that the relationship between these countries is not just an agricultural trade partnership but that we can be much better friends across a broader range of activities, it may well be that the commitment to the GATT activity could lead to some additional resources for this as well. I am always keen to try any lateral angle to get the resources. I am well aware of the fact that nobody wants mixed messages and I am well aware of the fact that Australia's primary focus in the GATT round is generally agriculture. But I also know that the agenda is getting broadened and it may represent an opportunity in this window of opportunity that you are talking about. Can you understand where I am coming from?

Mr Chard—Yes.

Mr Langhorne—From Austrade's point of view, we are obviously interested in taking advantage of any opportunities we possibly can. Clearly, the Cairns Group is focused on agriculture. Our view would be that that is absolutely the way it should be, given the importance of agriculture in the round. Obviously there are relationships that build up between ministers, non-government organisations and officials that are associated with the Cairns Group, and I can assure you that we tap into that process. We are alert to it. We talk to people on both the non-government side and the government side. If there are any opportunities to use the Cairns Group process to extend our trade basis, then certainly we would take them.

CHAIR—Is there anything further you would like to add?

Mr Langhorne—Yes, I have one concluding comment. The information I provided this morning in evidence on the export market development grants into South America and the amounts involved was a correct statement of the figures. The figures on page 8 of the submission, where it talks about 239 EMD grants, relate to payments rather grants—and there is a technical difference. If the committee would bear with us, we are now saying that there is a direct amendment to that statement on page 8 and that, in the evidence I gave this morning, I provided the correct figures and the correct terminology.

CHAIR—Thank you for your attendance here today. You have been asked to provide some additional material, which you were going to tell us about afterwards. We would be very happy to hear from you on that matter at a later date about those plans. You will be sent a transcript of the evidence on which you can make corrections of grammar and fact—and you have obviously made a correction of fact already.

Mr HOLLIS—I move that the overheads be incorporated in the transcript of evidence.

CHAIR—Is it the wish of the committee that the overheads be incorporated in the transcript of evidence? There being no objection, it is so ordered.

The overheads read as follows—

[11.14 a.m.]

MORCHIO, Mr Federico Luis, Minister Counsellor, Embassy of Argentina

STANCANELLI, His Excellency Mr Nestor Edgardo, Ambassador, Embassy of Argentina

CHAIR—Welcome, Ambassador Stancanelli and Mr Morchio. Would you like to make a statement?

Ambassador Stancanelli—We will be making a short statement regarding the bilateral relationship but, before this, I wish to thank the Joint Standing Committee on Foreign Affairs, Defence and Trade for this opportunity to exchange points of view regarding the bilateral relationship. First of all, I wish to stress the importance of this study that the subcommittee is intending to look at regarding the expansion of the trade and investment relationship with Latin America. I believe Latin America is a very important continent. It has a substantial participation in international trade and investment and, especially during this decade of the 1990s, the relationship with Australia, and within the region of the South Pacific, has been increasing at a steady pace. I believe this to be a good omen for the future of this relationship.

Argentina shares a lot of coincidences with Australia. I would say, from the multilateral point of view, both countries support strongly the United Nations system. They share democratic principles and a democratic system of government and are backing up all peacekeeping operations around the world, trying to strengthen cooperation among nations and to pursue the peaceful evolution of mankind. The same can be said from the multilateral economic point of view. We share common points in the World Trade Organisation, especially regarding agricultural negotiations. We are both members of the Cairns Group and because of the action of both countries, and of course the other members of the Cairns Group, it was possible to obtain a meaningful result for agriculture in the last round of multilateral trade negotiations, the Uruguay Round, for the first time since the inception of the GATT system in 1947. Both countries, together with the other members, are coordinating all their actions for the next round of multilateral trade negotiations, especially taking into account the convening of the third ministerial meeting of the WTO in Seattle, which will be held at the end of November this year.

I would say that both countries also share, from the social, economic and political points of view, many similarities. They have both practically been settled by immigration from different countries of Europe. They have both, economically speaking, through the exploitation of natural resources—agriculture and mining resources—reached a high level of growth and income till the 1930s, through this combination of European settlement and exploitation of natural resources. Perhaps, during a certain time in our history, we had to have discrepancies from the political point of view because of the instability of the democratic system in Argentina, from the 1930s practically until the 1980s. But we can say that, from the 1980s on, there is a great deal of convergence again between the two nations regarding their economic policies and the strengthening of their democratic systems. Argentina is heading for presidential and parliamentary elections next Sunday. With the next

government, we will have had practically 20 years, since the 1980s, of steady democratic government, with alternating political parties in the government.

Regarding the bilateral relationship, we have agreements covering the different fields—from a general framework agreement regarding consultations between the political authorities at the level of ministers of foreign affairs to a bilateral investment agreement between the two countries, an agreement to avoid double taxation in order to favour investments and reciprocal trade, and agreements of cooperation in different fields of the economic sector—agriculture, mining, industry and services. We have an air transport agreement that provides for several flights a week for each of the flag companies. This has been an important tool in order to promote the getting in touch of Australian, Argentinean and Latin American people for different purposes, such as tourism, education, business and so on. So far, the two companies have implemented four flights a week, with Aerolineas Argentinas adding an additional flight from December—that is to say that they will have five flights a week. If you consider that, 10 years ago, there was only one flight on the South Pole route, you have real proof of the increase in the flow of people between the two countries. That implies, of course, more business, more tourists and more cultural and educational relationships.

Going to bilateral trade we can say that, so far, the figures are not very significant. In total we are talking about \$A300 million, or around \$US200 million, but we are observing a steady increase in this rate and also in the diversification of goods being exported and imported by both countries, especially in industrial and high-tech goods, in our mutual trade. I wish to stress that what is also important is that, through this increase in the flow of people and also because of the convergence of economic policies, Argentina has adopted, from the beginning of the 1990s, a bold economic program of deregulation, of opening up of the economy, of discipline regarding fiscal and monetary policies and the convertibility law that fix the parity between the Argentinean peso and the dollar and the obligation for the central bank to back up the monetary base with foreign currency reserves and gold reserves. That implies a strong discipline from the fiscal point of view. It has been strong from the point of view that the economy has grown at more than five per cent per year, of course with some difficulties during the Mexican crisis in 1995 and this year with a bit of recession because of the turndown in the Asian economies and in the prices of natural resources.

This convergence has meant that a lot of Australian interests have been involved in Argentina. We have more than 30 companies set up there, with investment covering different fields of the economy—from agriculture to industrial production to mining and to services. We consider that Australia is among the 10 biggest investors in Argentina, especially in one of the investments, Bajo de la Alumbrera, the deposit of copper and gold, which has signified a more than \$US1 billion investment and which is giving yearly exports of \$US600 million.

There are other projects going on that have been implemented during the 1990s. One is another gold and copper deposit called Agua Rica in the province of Catamarca in the north-west of Argentina. At the moment it is at the stage of prospecting and exploration and, if implemented, would mean another \$US1 billion investment. Also under consideration is a system of transportation of iron ore, together with Brazil, through the Parana River. If this feasibility study finished with positive results it would mean an investment of around \$US2 billion.

Argentina is participating with a group based in Victoria in the meat processing sector. It is an important multinational group based in Argentina and also with headquarters in Brazil. We are participating in the international tender for construction of the nuclear research reactor at Lucas Heights. One of the Argentinean companies has qualified, among four enterprises in total, out of 12. We attach a great deal of importance to this project, taking into account that it is high-tech and involves a partnership between Argentina and Australian companies.

In this picture of how our bilateral relationships are evolving, I refer to the importance of Mercosur in the economy of Argentina. As you know, Mercosur is a custom union with the purpose of building a common market between Brazil, Argentina, Uruguay and Paraguay. It is a market of more than 200 million people with a GDP of over one trillion and with imports that are over \$US100 billion per year. The Mercosur has finished the total liberalisation of bilateral trade—no duties are being applied to the flow of merchandise between the four countries—and it has set up a common external tariff. There are macro and fiscal policies in coordination between the four countries. The four countries also coordinate their participation in economic forums. We are having a dialogue, through Mercosur, with the CER—that is, the closer economic association between Australia and New Zealand. We attach great importance to this dialogue continuing in the future in order to reach agreements on economic cooperation in trade and investments between the two regions.

To complete this short review of our bilateral relations, we believe it is necessary to continue promoting this getting in touch with politicians, entrepreneurs and academics in order to diversify and strengthen the economic relationships.

I might also mention that Argentina has lifted the requisites of visas for Australian citizens to enter our country. We are trying to negotiate a similar approach by the Australian authorities through their electronic processing of visas. When we have a flow of more than 1,000 persons per week among the two countries we believe it is necessary to streamline the procedures because it means more business and better relations among the two countries.

The immigration department has to study this flow and also the behaviour of Argentinean citizens in Australia—Argentinean citizens are not remaining in the country when out of their permit of tourism or business purposes. We do not believe there is reason to continue with this stringent treatment of visas. We are not required visas to enter the United States or European countries—that is, Argentinean citizens are free to travel to those countries without any impediment. We are happy to respond to your questions and comments.

CHAIR—I take up your point, Ambassador, regarding the visas—especially as a member of the Cairns Group. I acknowledge the help and support that you give to that instrumentality in trying to get the trade barriers down around the world, especially in agricultural trade. Congratulations on getting in the quarter finals of the World Cup Rugby, and all the best in your endeavours to beat France on Monday night.

Ambassador Stancanelli—It will be a very difficult match.

CHAIR—High-level visits have been mentioned quite often and also the fact that your president has been here and we have not had high-level people there. I guess it goes without

saying that you would like a high-level visit. Hopefully, you will be getting a high-level visit from this committee. It is not quite as high-level as you would like, but in February this committee is hoping to visit the countries that we are inquiring into. We are looking forward to cooperation, help and support during that visit.

Mr HOLLIS—Thank you, Excellency, for a very wide-ranging and comprehensive presentation. You mentioned Lucas Heights. Did I understand you to say that Argentina has tendered for part of that rebuilding process—some of the technical facilities?

Ambassador Stancanelli—First of all, let me say that the visit by this subcommittee will be welcomed. It is of real importance because of the personal involvement and the personal appreciation of what is going on in Latin American countries. I forgot to mention, in terms of the evolution of the mutual relationships, the visit by President Menem in 1998, two visits by Tim Fischer—the former Deputy Prime Minister and Minister for Trade—the visit of Minister Ruddock to Argentina last June and the visit of the shadow foreign minister, Laurie Brereton. These high-level visits between the two countries are very important, as will be the visit by the subcommittee. We can collaborate with the joint standing committee in order to organise a very good program for you so you can get in touch with parliamentary people and those from different sectors. I am reminded that the Minister for Trade, Mark Vaile, has also been in Argentina for the Cairns Group and for bilateral contacts. During his visit the agreement on double taxation was signed.

Regarding the nuclear research reactor, an Argentinean company, Invap, which is located in the south of Argentina with around 1,000 technicians working there, has been qualified by ANSTO. This company has constructed several nuclear research reactors around the world, including in Peru. Egypt was the last one, just finished last year. We can say that this is one of the best technology companies around the world in this area. They will present the offer at the end of this year. They are in partnership with Australian companies with the aim to transfer technology and to establish a joint corporation, not only for this field because they work also in the construction of satellites and on aerospace projects. They are seeking to establish a joint basis of collaboration with Australian companies in this high-tech field. So the scope for the future is not only for nuclear research reactor projects but also in other fields of high-tech.

Mr HOLLIS—That leads me to my next question. In your presentation you emphasised the trade successes between the two countries. At the conclusion you talked about fields of cooperation in high-tech. From your experience, what do you think are the main trade potentials or possibilities for trade between our two countries that we have overlooked? We have had more tourists and more business, but what other areas we have not looked at yet?

Ambassador Stancanelli—If you consider the evolution of investment and trade, first of all we can say that Australia is importing around \$US60 billion and Argentina more than \$US30 billion, and Australian exports to Argentina and Argentinean exports to Australia are meaningless considering these total imports. They are less than 0.3 per cent of the total. So there are big possibilities. Only reaching one per cent of the total would increase the trade substantially. Both countries are very open to international trade and every field is a potential field for expansion of exports.

Regarding your question specifically, I would say that the orientation of both economies is to important investments in non-traditional sectors such as the telecommunications industry. In Argentina during the 1990s we have had around \$US20 billion of investment in telecommunications. Australia in starting to participate with export of telecom equipment very recently and has scarcely participated before. The telecom sector is one that will surely continue expanding during the first decade of the new millennium. It is a very important one, because through telecommunications you have possibilities of developing new services and there are new areas of trade and economic involvement that are being dealt with through telecommunications systems. Because of this, I believe this is a particular area for developing relations between the two countries.

The other area is without any doubt mining. Argentina, with the reform of the mining code, has opened substantial possibilities for foreign investors in mining. We know that the present situation of the market is not a very forthcoming one in order to promote investment, but prices have moved positively during the last month compared with the situation in the middle of this year. There are many profitable big projects in Argentina where Australian companies are involved, and it is possible that in the near future we will be having some decisions taken to pass from the present exploration and prospecting stage to implementation of the projects. Next week I have a program of meetings in Melbourne with several of the companies in order to see how they are envisaging the near future regarding important mining projects. With mining projects, you have to consider also the staff and the management of the projects, capital investment in capital goods, the transfer of technology et cetera. This is another important area, in my view, for mutual development of trade.

I mentioned the experience with the nuclear research reactor and the field of high-tech outer space industry and satellites, where we have a great deal of possibility of cooperation. There are other high-tech companies in Argentina involved in the region, not in Australia, for example, constructing hydro-electrical centrals in the Philippines. There is one selling huge cranes to China, to the Philippines and to Indonesia. I have also been in touch with Australian companies in order to try to have them work together with these Argentinean companies in the field of electrical projects and also in the construction of turbines and all this kind of heavy equipment. This is another important possibility. We can also touch on other sectors. The auto sector is another one where recently there has been an increasing flow of spare parts and also finished autos between the two countries. This sector can be explored in more depth to see mutual possibilities.

Senator O'BRIEN—I apologise that I was unable to be here for part of your presentation. I will have a look at the *Hansard* to pick up on what I missed. I have a couple of questions and you can let me know if you dealt with them in the presentation—I would not want you to double up. Your country is a member of Mercosur. Would you like to comment on the internal trade preferences and preferential links with other South American countries and what that means for your country and how that will interact with any trade relationship with Australia?

Ambassador Stancanelli—First of all, Mercosur, as I mentioned before, is a customs union, which means that the flow of trade is totally liberalised among our countries without any duties at all. Also a common external tariff is being applied to third countries. The principles under which Mercosur was constructed were the opening up of their economies to

international trade. If you compare the duties being applied nowadays by the different countries participating in Mercosur, you see that these duties have been substantially diminished during the implementation of Mercosur. We have a common external tariff being applied that is around nine per cent on average. Of course there are duties, for example in the auto sector, that are around 20 per cent. That is the maximum tariff Mercosur is contemplating on a unilateral basis. We have bound our duties at a ceiling of 35 per cent in the WTO on a general basis. But autonomously we are applying, as I mentioned, tariffs that on average are around nine per cent.

That means that Mercosur is operating on the basis of opening up its economy and on the basis of integration in international trade. All the positions regarding the WTO are to pursue liberalisation in the field of agriculture of industrial duties and to try to obtain a fairer system internationally out of the negotiations that have been held and that will be held, we suppose, after Seattle.

There is a convergence of points of view with Australia and not in any way has the Mercosur been constructed to prevent trade with other nations; but, on the contrary, it is to make possible the economies of scale for a more competitive economy and to continue this process of opening up. The Mercosur countries have also an objective to continue this process of integration with the South American countries to try to obtain the objective of the Latin American Integration Association—ALADI—acting as a common market among the South American countries and with low duties being applied to third countries on the same basis to make possible a more competitive economy in order to contribute positively to international trade.

Senator O'BRIEN—What are the impediments that Argentina sees with trading with Australia?

Ambassador Stancanelli—We have to progress more regarding sanitary and phytosanitary issues. We have proposed a framework agreement to cooperate on these matters. I can give one example. We are permitted to sell horses freely to Europe. You import horses freely from Europe. But between our two countries you cannot trade live horses. We have to send them to Europe in order to bring them to Australia. It is a nonsense—because, if they are permitted to be importer to Europe, they enter Europe and they come to Australia. We have proposed to negotiate a mutual recognition agreement. Maybe we have to apply stringent sanitary provisions to products that are entering into Argentina to ensure they are free of certain pests or diseases, and it is the same in Australia. But I believe there is a great deal in the food processing field and also with live animals and so on where trade is possible but is prevented because we have not sat down and discussed with our technicians how to make trade possible in this field without affecting, of course, the necessary caution you should have in these matters. I believe this is an example of where we feel that trade with Australia is prevented or impeded.

In other matters, I would say that what is necessary is more getting in touch between entrepreneurs. This is a substantial impediment. I do not see enough flow of entrepreneurs between the two countries. We perhaps need more publicity or to send entrepreneurial missions by Austrade or by Fundacion Exportar—which is similar to Austrade—to participate in trade exhibitions, trade shows and fairs in order to make possible more

business. In the declaration I made in Argentina recently regarding the mutual relationship I said that there is not enough flow of entrepreneurs between the two countries. The figures of trade I mentioned before show that total imports are only reaching substantially less of one per cent in the mutual trade—that trade could be multiplied several fold. Of course, alongside trade there are other possibilities for joint collaboration.

Senator O'BRIEN—There are a number of questions I could ask but, of course, you have raised the question of trade in horses. I know there are horses in Australia that were bred in South America. Are you saying that they had to go through America or Europe to get here?

Ambassador Stancanelli—No, I was only giving one example of the craziness of the thing. If you have free entry into Europe for Argentinean horses and if you have an agreement with Europe for free entry for horses leaving Europe for Australia, it means that you have an equivalence of sanitary provisions. But this equivalence does not apply to bilateral trade. It is only an example, because the trade of living horses is not individually important. It is not meaningful. It is only one example of the craziness of the system that we have to address through bilateral negotiations.

Mr O'KEEFE—Senator O'Brien is an expert in this field. If you have a Melbourne Cup winner for him, I am sure he will fast-track it.

Senator O'BRIEN—No, the secretary is the expert.

Mr O'KEEFE—I have just one quick question to you, Excellency. With the development of Mercosur, which seems to me to be an eminently sensible strategy for the countries involved, the major focus is going to be on establishing direct trade links with Europe and the US with the Mercosur bloc. At this stage Australia is a very minor consideration in that. This whole exercise is intended to stimulate that further. Do you see Australia having the chance to gain the same treatment that the major blocs will get from Mercosur if we can step up those levels, or is there going to be some steps we have to go along?

Ambassador Stancanelli—I would say, first of all, that we are in a dialogue with the United States through the ALCA process—that is, the free trade area of the Americas that was proposed by President Bush in 1992. Also, we are in a dialogue and we have a framework agreement with the European Union. This is the same as the dialogue that we have going on with the CER. But there is not any measure implemented so far between Mercosur and the different regions. As I mentioned before, the main aim of Mercosur is to strengthen the customs union and to try to widen it to the South American countries. I believe that Minister Di Tella, our Minister for Foreign Affairs, was asked—I do not know whether it was when he was here during the presidential visit or when Tim Fischer visited Argentina—about the relationship with ALCA and Europe. He mentioned that for us what is paramount is to strengthen Mercosur. Because in Mercosur, we are four countries—including the other South American countries. We are 10 in total and it is easy for a small number of neighbouring countries to reach agreements while drinking coffee. But when you are 30, 40 or 50 countries, it is better to go to the WTO and try to reach agreements there to liberalise

international trade, because it is to the benefit of the whole world and not a way of discriminating towards other countries.

Argentina—and I am sure that my Brazilian colleague the Ambassador for Brazil will share my view—wishes to implement dialogue with the CER in the same way that we are implementing dialogue with other regions in order to strengthen and promote cooperation on the same basis and without discriminating at all. This is the principle of Mercosur. Mercosur, as I mentioned, is there to make us more competitive and to facilitate the development of our nations in order to be more integrated into the international economy. We attach a great deal of importance to the relationship with Australia.

Mr O'KEEFE—I noticed in our briefing notes that Argentina has moved away from its import substitution policy and started to encourage export development and export entry. Looking back to before that, was the import substitution policy an effective industry policy within the country, in your view, or has the country gained from moving away from import substitution and encouraging overseas products to have better entry? What is your view about that?

Ambassador Stancanelli—My view is that, in that past, it depended on what kind of import substitution policy was applied. From the 1990s on, it is very clear that Argentina and, as I mentioned, Mercosur were opening up in order to integrate their economies into the international economy on a competitive basis. But before that, the problem was how import substitution policies were applied. I would say it was perhaps in the same way as they had been considered in Australia.

There are some countries that applied import substitution policies with a great deal of success, when to these policies is attached the condition that they develop international trade—when you say, ‘Well, enterprises may be set up to benefit from investment promotion and so on but with the condition that they have to export or be integrated into the international market.’ Because they have to compete in the international market, after a certain time these enterprises may be in favour of the opening up of the economy because they do not need the protection. But sometimes, or perhaps because of the instability in the economic process in Argentina in the past and also because of the changes of governments usually you have changes of policies, this import substitution policy has not been a steady and very clear one, as has occurred for example in Korea and many Asian countries, where they developed an important flow of exports through their import substitution policy and afterwards were ready for the opening up of their economies.

In many cases in Argentina, I would say the investments that had been set up through the import substitution policy were only oriented to the domestic market. Being oriented to the domestic market, of course at the end they finished asking for the continuation of protection or for more protection. In this pattern there was no way out through the import substitution policy toward developing a more efficient economy and also integrating the economy to the international economy.

Mr O'KEEFE—Thank you. That is interesting.

CHAIR—Excellency, thank you very much for your time here today and for your attendance. Thank you also to Mr Morchio. Does he want to add something very quickly? We have gone over time. Obviously we will continue these discussions on an ad lib basis and also before and after our visit to your country eventuates in February. Thank you very much for your attendance here today.

Ambassador Stancanelli—Thank you very much. I will leave with you a brief summary and diskette regarding Argentinean bilateral Australian relations, hoping that will be useful for you.

CHAIR—We note the submission that has just been added to your submission. Thank you very much, Ambassador.

[12.02 p.m.]

GARAYCOCHEA, His Excellency Mr Jose Luis, Ambassador, Embassy of Peru

CHAIR—On behalf of the Trade Subcommittee, I welcome the Peruvian Ambassador, His Excellency Mr Jose Garaycochea. The subcommittee prefers that all evidence be given in public but should you at any stage prefer to give your evidence in private you may ask to do so and the subcommittee will give consideration to your request. The subcommittee has a submission from you, submission No. 29. I now invite you to make a short opening statement, if you wish, before we proceed to questions.

Ambassador Garaycochea—First of all, I would like to express my gratitude to the honourable members of the committee for this invitation. During the last few years, I have observed that bilateral relations between Peru and Australia have increased, especially in the commercial and political field. In regard to bilateral trade, during 1998 Australian exports to Peru were \$72,208,000 and imports from Peru were \$13 million. This means the balance is in favour of Australia, by around \$59 million. In 1998, we had some difficulties with our exports due to the international situation—the Asian crisis, the Brazilian crisis—and also due to climatic factors like the phenomenal El Nino that affected our exports.

According to information we have, the exports from Australia to Peru were telecommunications equipment, refined petroleum, milk, cream, margarine, electronic equipment, manufactured products and engineering equipment. The Peruvian exports to Australia were preserved vegetables, textiles, explosive pyrotechnic products, coffee and coffee substitutes, dyeing and tanning extracts, and insecticides. We hope that our exports are going to improve due to the fact that the world situation has improved after the international crisis and the climatic phenomena that we have had, like El Nino last year. According to the information, in the first half of this year we have a clear recovery. We hope and expect that at the end of the year we will have a growth of three per cent and next year a growth of five per cent.

Another item which is very important in the relations between Australia and Peru is in the area of investments, the most important being in the mining sector. According to our information, Australian investment with Peru in the mining sector is around \$500 million. There are many companies that have shown concrete or potential interest in investment in the mining sector in Peru. Among them are BHP, Ausmelt Ltd, Newcrest Mining Ltd, Savager Resources Ltd, North Ltd, Ampolex Inc., MIM and others. I would say that the majority of the Australian companies mentioned before have shown a strong interest also in the privatisation of state Peruvian companies, especially in the mining and energy sectors. Many of them have participated in the international bidding of various mining prospects. Besides these, a group of Australian firms dedicated to mining services have also installed branches in Peru. Among them, we can mention Anderson Drilling, Sigent Engineering, Mimcom, Amdel and others.

In the economic field, I would like to say also that the investment of Australia in the stock exchange was very important last year. We will say that the investment in the stock exchange continued to be significant. The Lima stock exchange attracted more than \$50 million from Australia, especially in the mining and industry sectors of investment.

I would refer also to the area of tourism, because it is very important for us. The infrastructure of tourism in Peru has increased in the last few years. The tourism industry is expanding. With regard to this, according to the information we have, close to 10,000 tourists from Australia visited Peru last year—an increase of more than 1,000 compared with the previous year. We hope that this will continue. We want to receive tourists from Australia.

Another aspect of the economic field that I would mention that is going to increase the economic links with countries in the Pacific rim—and of course with Australia—is the fact that Peru joined APEC in 1998. In November 1998 Peru became a full member of APEC. I am sure this is going to benefit the bilateral links between Australia and Peru.

I would refer also to the fact that cultural cooperation is very important for the knowledge of both countries. The cultural area could improve the reciprocal knowledge between Australia and Peru. With regard to this, we have a project to bring an exhibition to Australia. It will be a very big exhibition in the year 2001 on the occasion of 100 years of the Australian Federation. In this project we have the collaboration of three important Australian museums and five Peruvian museums. The Australian museums that are cooperating in this project are the museums of Sydney, Brisbane and Melbourne. This exhibition will be in Australia for the whole year of 2001 and will be held in these three cities. That will be a factor that is going to enhance bilateral relations and improve and increase cultural relations. It is very important for us to increase this area of cultural relations for the better knowledge of both sides—Peru and Australia.

In the last 15 years, we have had collaboration, research and cooperation in the field of archaeology between the Catholic University in Lima and the Australian National University. This project has been very successful and we would like to increase and expand this to all universities. We are going to work to have in the future a change of academics, professors and students between universities in Peru and Australia. In the future I will have to put before you details about the advances that we have made in this regard. I would like now to refer to the Peruvian economic situation:

International analysts agree that after the first quarter of 1999, the Peruvian economy is still being affected by the recession caused by three adverse external shocks in 1998: the Asian crisis, with its negative effects on commodity prices; the climatic disturbances produced by the El Nino phenomenon; and the scarcity of domestic credit, caused by Russia's financial crisis. However, it is believed that economic activity touched rock-bottom and is now on its way up again in a process of gradual recovery.

The lowest point of the recession was reached during the fourth quarter of 1998, when GDP showed a contraction of 0.1% compared with the same period of 1997. Subsequently, the economy grew by 1% over the first quarter of 1999. However, all the banks report that the recovery is not yet reaching all sectors of the economy; the recovery is led by commodity sectors, while those sectors sensitive to credit and dependent on domestic demand continue depressed. The activity of the export sector, which was the worst hit by the El Nino phenomenon in 1998, is regaining its normal level, and some quite high growth rates have been recorded over the first quarter of the year . . .

However, the sectors that depends on domestic demand are still entrenched in a deep recession. Domestic demand fell 7% in the fourth quarter of 1998 . . . As a consequence, in the first quarter of 1999, the construction sector dropped by 12.4% and retailing by 7.4% compared to the same period of 1998 . . . In this sector, the only items showing growth were those linked to the processing of commodity goods.

The situation was caused by the strong impact of international market conditions on the financial liquidity of the Peruvian economy. Foreign credit lines, which were financing half of the expansion of the domestic credits in Peru, were cut off at the time of the Russian crisis. The annual expansion of dollar loans to the private sector dropped from 23.5% in August 1998 to only 3.5% in February 1999. This recessive effect was accentuated by the negative expectations in the internal market.

However, some analysts point out that this situation, unfavorable for emerging countries in international markets, could be turning around. BBV states that "market sentiment towards the region has improved noticeably", adducing that the region's stock exchanges have recovered, exchange rates have levelled off, interest rates have started to go down, and several countries of the region have successfully placed sovereign bonds. In the case of Peru, the return of the confidence in the region is reflected in the fact that stripped spreads between Peruvian Brady bonds and North American Treasury bonds decreased by 294 basic points between January and May 1999, reaching a lower level than before the Russian crisis.

Morgan Stanley is of the opinion that Peru is in a favorable situation to take advantage of the return of capital flows to the region. It has stated that Peru is in better shape than any of its Andean peers and is ready to benefit from capital flows coming back to the Latin American region.

So we have a positive prospect for Peru. We hope that, at the end of the year, we are going to have a clear recovery and a growth in our economy of three per cent.

In regard to the policy of privatisation and the policy of concession, after more than 20 years of government control and strong protectionist policies, Peru has experienced a radical change since 1999—transforming and modernising its political and economic systems. The government is now in a program of privatisation and is selling all the state companies to the private sector—international and national companies. In the concessions, the government grants the authorisation for the protection of resources for a certain period of time. The idea is to make these companies more effective and more productive for our economy.

As part of the investment opportunities in Peru now with the ongoing privatisation program which began in the early 1990s, many state owned companies have been successfully transferred to the private sector. The introduction of private capital into sectors as diverse as telecommunications, electricity, mining and banking has been a key factor in the revitalisation of the economy. Current official plans are to complete the privatisation program by 1999-2000. Most public infrastructure, such as airports, seaports and some railroads and roads, which are still managed by the state will be made available for private sector operation through concessions in periods that allow the recovery of investment and a subsequent benefit to the state. Legislative decrees 758 and 839 regulate the promotion of private investment in public infrastructure and public services by means of concession. These decrees have been integrated in Supreme Decree 059-96 and further detailed in Supreme Decree 060-96—both of December 1996.

I would now like to say something about the policy of concession. Within the private investment sector, economic development has been enriched with a system of concessions. In the upcoming months, various projects will be presented to local and international banks, inviting them to invest in Peru. This concessional system started in 1992. The shift from public companies to the private sector has already achieved its most significant objective and has been facilitated by appropriate legislation.

Presently, the COPRI—which is the executive organisation in charge of this process—has been working on many areas. The following concessional projects have to be mentioned. Olmos is at a potentially exciting stage of development and has the possibility of extending itself through the addition of other rivers belonging to the Amazonian deep valley, such as the Huancabamba and the Alto Piura, comprising engineering constructions for the irrigation of 34,000 hectares of land. The Red Vial No. 5 project—route No. 5—comprises the maintenance, operation and the enlargement of the Huacho-Pativilca Freeway and also the maintenance of the 410-kilometre National Network Route and asphalt surfacing of the Canta-Unish Highway.

Other concessions include the utilisation of the superficial and subterranean waters of the Chillón River and the national railway network. The Bosques del Biabo—Forests of the Biabo—comprise an extensive zone of more than 640,000 hectares of forests which is expected to be divided into lots of up to 40,000 hectares. Exploitation will be carried out, however, with the concept of sustainable development. In telecommunications, the Banda B grant for cellular services for provinces and other telecommunication services will be established for the national development of MMDS, PCS and fixed wireless telephony.

The grant for the Matarani port will serve as an example to other ports in the north such as Paita, Salaverry and Chimbote and later to the large Callao port concession. Due to its dimension and complexity, Callao represents much more than the existing maritime terminals in the country. Matarani—the grain and mineral port—is the second most important port in the country. The port attends to more than 300,000 tonnes of cargo annually. The future highway, Ilo-Desaguadero, will stimulate Bolivian trade, the maturation of mining projects and the economic growth of the south. The concession for airports will include in its first stage the Internacional Jorge Chavez del Callao. In the second stage, emphasis will be placed on the airports in Cusco, Arequipa, Trujillo and Iquitos. These will require private operators to be in charge of maintenance, operation, expansion and management of the public services.

The Proyecto Isla San Lorenzo—the San Lorenzo city block project—has been assigned to the special committee. In the second semester, it is expected to be capable of presenting feasibility studies based on the project and will take into account the growth in population in Lima and the necessity of expanding through the creation of new centres.

In conclusion, all the projects are progressing simultaneously with technical advancement in order to shape the privatisation of various mining projects and the irrigation of all the littoral regions. Furthermore, the state is selling its holdings in various private companies, such as Edelnor and Telefonica amongst others. As I mentioned before, the idea is to make all the state companies more effective. We are inviting national and international companies to participate in this program. Among them, of course, Australian companies will be most welcome to participate in the future of this project.

I will refer now to some important advancements in the process of concession and privatisation until now. I will mention the case of the Telpher at Machu Picchu. The contract for the design, construction, operation and maintenance of the Telpher at Machu Picchu has been granted now to Consorcio Peru Hotel S.A., Peru Operadora de Turismo S.A., after a public tender. The contractor will invest approximately \$US10 million in works and

machinery that will transport tourists from the Aguas Calientes station to the main station at Machu Picchu. It will have the capacity to transport 40 people per trip, or 400 people per hour. The travelling time is eight minutes. With the Telpher, the transport to Machu Picchu will be very fast, secure and comfortable with spectacular views. Due to the travelling time being shorter, it will enable the tourists to spend more time visiting the cities and villages around Aguas Calientes. The actual system of transport to the cities is a bus network which does not satisfy the growing tourist industry. The Telpher will provide high-quality, fast travel in compliance with strict Swiss regulations imposed upon the concessionary. It will also be useful to develop additional tourist attractions in Cusco and Aguas Calientes, as I said.

Another project which is working now is the Telpher at Lima. The rehabilitation of the historic centre in the capital of Peru and the social rejuvenation of the suburbs bordering the hill of San Cristobal has encouraged the government to build the Telpher. This will be an attraction for the Lima population and also for the increasing number of tourists. The Telpher will have the characteristic inspirational quality of others overseas. At the end of April, the San Lorenzo Island Promotional Commission for Private Investment was established in order to promote and develop the island. It is situated in Lima in front of the Callao port. This project is expected to be finished at the end of the year.

Another project is the Olmos project. The French bank, Paribas, which advises Olmos CEPRI, presented to the board of Olmos CEPRI a technical and economic evaluation report with reference to the irrigation and hydro-energetic Olmos project which shows its viability and execution in various stages. Through the observation of past experience, the Paribas bank considers it very difficult for one consortium to carry out all the work involved in the project. It proposes that the Olmos concession be carried out by separating irrigation from the hydro-energetic module to facilitate a larger participation of international bidders. It is considered that the viability of the project is supported by the existence of irrigable land to be offered to the private sector.

I would like also to mention the new agricultural system and the new agricultural project. The Ministry of Agriculture and the Land Promotional Commission for Private Investment carried out the promotion of an agricultural project that offered big advantages for the investor. The climate and the hydro-electric project developed on the auctioned land will ensure that farming will be possible 365 days of the year and also there will be a permanent supply of water with technical irrigation. This project is situated along the Pan American Highway close to the ports and airports. In addition, they have access to electricity and agriculture of high efficiency and productivity that permits exports in the world market. In the next few months it is considered that a privatisation program for unploughed land at Chinecas, Chavimochic, Majes, Olmos and Jequetepeque-Zana with a total of more than 35,000 hectares will be developed. With regard to this, I would like to give you at the end of this submission this document that will explain this aspect in more detail.

I would like to refer also to the next concessions. The concession for the railway system will facilitate the renovation of the national railway. Currently 50 per cent of the network is subsidised due to the fact that the traffic of trains in the country has been reduced. The country has 1,600 kilometres of railway lines and the construction began in the last century. Lately it has been improved due to a loan from the World Bank. Three groups in the

concession are the Central Railway, Callao-Huancayo-La Oroya-Cerro de Pasco, the South Railway, Matarani-Arequipa-Juliaca-Puno-Cusco, and the South East Railway, Cusco-Hydro electric of Machu Picchu. Also a concession will be given on all the locomotives, eight carriages and two boats that navigate on Lake Titicaca. The consortiums that wish to administer the network, the rolling material and the railway traffic must present a tender for all three routes. Later they can be separated for administration purposes.

The Special Committee for Privatisation of Ports has a program for special public action for private concession of seven ports; Ilo, Matarani, Pisco, Chimbote, Salaverry, Paita, and Callao. The terms and drafts for the concession contracts were prepared by the committee with the support of technical consultants, the Investment Bank and legal consultants. It contains basic aspects such as the stipulation that the investments should be for the expansion and modernisation of ports, improving their operation and the further commitment to diminish the cost to the exporter and importer and to affirm competition between the ports of the region.

The concession or sale of government properties which are not adequately operating is an alternative for rational utilisation. In accordance with this judgement, the first step has been taken by handing over to the private investors the Gran Unidad Escolar Alfonso Ugarte building situated in San Isidro. The main reason for this decision was that the building was inadequately utilised and the value of the building is estimated to be millions of US dollars. As part of the scheme, the possibility of handing over properties such as hospitals, like the Victor Largo Herrera and another hospital called Puericultorio Perez Aranibar, both situated in Avenida Ejercito in Magdalena del Mar, a district of Lima, has been contemplated. Likewise, the Petroperu building in San Isidro in Lima, which was constructed in the 1970s, will be privatised and there will be a scheme of direct sale to the highest bidder. The estimated value of this property is \$US30 million.

I would like now to also refer to the Camisea project. The system of concessions gets stronger with the calling of a public international bid for the exploitation of the Camisea deposit, together with the transport concessions for the transport of liquid gas from Camisea and the distribution of gas in Lima and Callao. The baseline for the two bids is set at \$US15,000 as of 4 June at the offices of the Ministry of Energy and Mines.

Camisea has gas reserves of large proportions which are situated in the Lower Urubamba, near the city of Cusco. This postulates Peru as a possible future exporter of gas. According to the Land Promotional Commission for Private Investment of Camisea, the gas is expected to be in Lima by June 2003. In general terms, it is estimated that the concession for 40 years of exploitation and desegregation means an investment of \$1,500 million and another \$700 million for the 33-year concession of transportation of liquids and gas from Camisea to the coast and further distribution in Lima and Callao.

The Camisea project is being designed to be transferred integrally to the private sector. Each module will be given as an independent concession stipulating that each of the receivers will be able to have cross-participation without losing control.

This is what I wanted to refer to in regard to the present approach of the project as a concession of the government in this year. We are sending further information in regard to

this to international companies and of course to companies in Australia. I will send information that we receive in the near future to the commission for study.

In regard to the economic situation, I would like to give you this document about the economic situation in Peru at the end of 1998 and the first half of 1999. I think this will be useful for you.

In conclusion, I would say that relations between Australia and Peru have increased in the last few years. A very important factor has been that Australia decided to open a consulate in Lima at the beginning of this year. This is going to help to improve bilateral relations in the economic field. In the future, we would like to extend this increased cooperation with Australia to other areas. We think that it would be very important to consider an exchange of visits of economic missions. In this regard, we propose to bring a commercial mission to Australia next year to study, with Australian companies, Australian authorities and Australian entrepreneurs, the possibility of increasing our bilateral trade and the participation of Australia in the programs of investment—the programs that I referred to already.

We will also contemplate a parliamentary exchange in the near future. Last year we had a meeting of the Interparliamentary Pacific Forum, and it was a good opportunity for the parliamentarians of Australia and Peru to meet. This year we will have here in Canberra the next meeting of the Interparliamentary Pacific Forum. This will be a good opportunity for the Peruvian delegation to exchange points of view with members of the Australian parliament. If possible, we would like to think in the near future about the possibility of establishing a friendship group—until now we have not had a friendship group—between the parliaments of Australia and Peru.

CHAIR—Thank you very much. I have two documents from the Peruvian ambassador. One is *Opportunities for investment in agricultural land in the coastal region of Peru*, and the other is *Analysts' view on the Peruvian economy* by PromPeru, a summary of reports published by BBV, Dutsche Bank, Flemings, Goldman Sachs, ING Barings, JP Morgan, Merrill Lynch, Morgan Stanley, Dean Witter, Santander Investment and Warburg Dillon Read, between March and May 1999. These should be accepted as exhibits.

Thank you very much, Ambassador, for your very comprehensive presentation. We are looking forward to going to Peru in February. I hope we can get mutually good arrangements for that visit by this committee. We are very interested to go and ask questions of the people who live there and to learn more about it for our report. Thank you once again.

Proceedings suspended from 12.41 p.m. to 1.33 p.m.

DAYRELL de LIMA, His Excellency Mr Antonio Augusto, Ambassador, Embassy of Brazil

CHAIR—On behalf of the Trade Subcommittee, I welcome the Brazilian Ambassador. 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. I invite you to make a short opening statement, if you wish, before we proceed to questions. Can I say at the outset that we are looking forward to visiting your country in February and having a good relationship, and working out how the visit can best prosper in terms of its relationship with this inquiry.

Ambassador Dayrell de Lima—Thank you very much, Mr Chairman. It is a great honour for me to appear before this subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade. I think this inquiry is an exceptionally well focused exercise in trying to explore all the potentialities between Australia and the countries in South America, and between Australia and Brazil in particular. I will speak you for only 15 minutes or so, and then I hope you will have some questions.

I will not make any long appraisal of our bilateral relationship. This was done at great extent in the documents that were submitted to you. I will mainly concentrate on trade and investment, which is the purpose of this investigation. Let me convince you of six facts. The first thing I want to convince you of is that, considering the very terms of this inquiry, the fact must be highlighted that the Brazilian economy recovered in record time from the January confidence crisis, with a resilience not seen in other parts of the world. The second point I am going to make right now is that, when economic comparisons are made, Brazil's scale should always be taken into account. Brazil is pretty much at the hub of economic matters in South America, but I must say that your exposure there is still very small, in my opinion.

The third point is that we must recognise that, even if there is a steady growth in the Australia-Brazil trade and investment relationship, opportunities are obviously still being lost there in terms of Australian interests. The fourth point is that there is obviously much room for improving Australian general knowledge on the Brazilian economy and society. The fifth point is that we would benefit from a more encompassing and strategic view of the Australia-Brazil trade and investment relationship and we should go systematically for the big picture. I watched the representative from Austrade explain several points this morning, and I think we are on the right track now, and I commend the efforts made in this subcommittee. The final point is that trade and investment matters should always be put against the perspective that the Australian and Brazilian societies are in fact very similar, which entails economic consequences.

Let us consider the present economic situation of Brazil. In general, I will not dispute the facts and figures referred to by DFAT and Austrade. I will only add some aspects and give some more recent data. The first truth is that, if you compare the Brazilian confidence crisis of January with the Asian crisis, for example, you will remark that all the catastrophes announced in the newspapers did not happen. No big bank folded, no major enterprise closed its doors, no international debt remained unpaid, no major political change occurred and, of course, democracy was not threatened at all. Inflation did surge, but in micro-dosage,

infinitely less than predicted. It has reached today the mark of about seven per cent; that is the accumulated rate for the last 12 months. We will probably close the year of 1999 with a one-digit yearly inflation rate.

Devaluation has gradually reached more or less bearable levels and was absorbed by the economy through the floating exchange rate system introduced after the crisis. The national currency, the real, is valued today at around 80c of the Australian dollar, due to market forces and entirely without any interference or artificial controls over it whatsoever. Interest rates, which are the third aspect of all this, are falling consistently. They came down from a very high level to the present nominal 19 per cent, which, taking into account inflation, corresponds to 12 per cent. Not long ago they were more or less at the level of 45 per cent, so that has been a really consistent and dramatic plunge. There is a definite prospect of their going down even further.

The IMF targets for primary budget surplus before interest payments will be achieved and overtaken through a series of tax measures and spending cuts. Government expenditure now has been further trimmed through convincing fiscal adjustment and reform, while public revenue has increased. There is talk right now that Brazil, after last trimester forfeiting the third tranche of \$US2.4 billion of the loan of \$US41.5 billion that was granted last year by multilateral credit organisations and by the IBS, will not need the forthcoming disbursement of the fourth tranche of another \$US2.4 billion.

With a prudent perspective, I would say that these are all very optimistic settings for Brazil for the year 2000. The country is, in fact, in a comfortable position and is already paying back to the international community what it got last year. The financing of external accounts does not represent an impediment to the adjustment of the Brazilian economy. We have even surmounted of late difficulties related to a rise in the price of oil, a fall in commodities prices—which everybody has suffered—and the uneasy situation of other countries. In terms of our trade accounts, Brazil has come down from a deficit of \$US6.5 billion last year to a very bearable deficit this year. The month of September is the first month where the two lines have crossed, and we are actually coming to a positive result. In the years 2000 and 2001, we should reach a situation of stability in the balance of payments. This last month of September marked the fourth consecutive trimester when we attained the targets set by the IMF.

There was also, at the time of the crisis, a lot of gibberish about the severe contraction in the economy, even of four to 10 per cent. Four per cent was the expectation of the IMF. The fact is that, while we are going to attain at the end of 1999 a modest GDP growth rate of around 0.5 per cent to one per cent, it is still a growth. The prospects for the next two years are very bright, and the rate could reach four per cent yearly. It seems thus that Brazil has not at all lost the credibility it had acquired. Domestic and international confidence was reassured, and foreign investment never came down from its very important levels, as the numbers show.

If you take the year of 1998, Brazil was an emerging country that suffered less—in terms of losing any entry of foreign capital—with the Asian and Russian crises. In 1998, \$US28.7 billion was invested there, and Brazilian companies invested \$US2.6 billion abroad. That year, we ranked fifth in the world after the United States, the United Kingdom, China and

the Netherlands in terms of direct foreign investment. As an emerging country, we were second after China. Four hundred and five out of the 500 biggest international companies are in Brazil. No-one bailed out after January-February. On the contrary, devaluation made investment attractive. You paid less for what you bought. This year, we are expecting the same level of resources. An estimated \$US25 billion is landing there, while an estimated \$US20 billion will enter during the year 2000. The international reserves of Brazil attained more than \$US41 billion this trimester.

But what is more important than all this data, which perhaps is already known to you, is the fact that—and this is the message of confidence that I am bringing here to you—politically, the country reacted during the crisis very positively and in a very mature way to necessary changes and sacrifices. On the socioeconomic front, the government managed to maintain during the crisis the stability it had brought to Brazil since 1994. I have brought you a series of documents, including a document that was produced after five years of the Real Plan. I would like it to be considered as information to this subcommittee.

Contrary to other countries, while still high, our overall unemployment rate remained at the level of some seven per cent, which I think is the rate in Australia. My simple conclusion, then, is that we were obviously underestimated internationally. Perhaps I am preaching to converts, but I would like to remind you of some facts. Brazil has some indisputable assets: first, the availability of natural resources; second, its present and projected infrastructure; third, the size of its consumer market; fourth, its technological achievements; fifth, its recognised entrepreneurial efficiency; sixth, the size of the productive and financial system; seventh, its condition as a global trader; eighth, the long history of success for the investments of many of the biggest and most important world corporations; and, ninth, the democratic path it has been following again in the past decades. Last but not least, there is a similar cultural background which makes it easier for Western businessmen to deal with us.

We come to the second obvious conclusion that I referred to in the opening part of my statement. Brazil is pretty much, in all objectivity, at the centre of the matters which concern this subcommittee. My observations are that trade with us has been growing constantly, if slowly, and even more so that it has been favourably changing in nature. Both our countries, known universally to be among the main commodities exporters, are very much diversifying their reciprocal exports, selling more value added products, ETMs or services.

I will give you some examples. We started to buy Australian cars last year, and you were already buying car parts made in Brazil last year also. In the near future, you will be buying whole cars. In investments also, you are going off the beaten track of mining, making forays into agribusiness, manufacturing and, most importantly, entertainment and services. But when we rank these exports with our respective overall trade, we come to mediocre numbers—to tell you quite frankly. Trade with Australia or Brazil represents a meagre 0.5 per cent of the total exports of both countries. Is this a reflection in our case of a disaffection on the part of Brazil for this part of the world? Certainly not, if you take into account the percentage of trade we have with the Asia-Pacific region, which is around 12 per cent of the value of our exports to there and 14 per cent of the value of our imports from there. Japan occupies six per cent of our trade both ways.

Here I would like to echo the assessment Minister Mark Vaile made when he returned from South America last month. I quote from his press release 'Take a close look at Brazil'. He said:

Brazil is a large, diverse and emerging economy that offers a vast range of new commercial opportunities for Australian exporters. Sao Paulo, the industrial heart of Brazil, has a population equal to Australia's.

... ..
Brazil's privatisation and modernisation program in telecommunications, oil and gas and power opens up an economy to modernisation and foreign participation. This will promote growth in Brazil and open up markets for Australian exports.

We can surely reach a third not so obvious conclusion: opportunities in Brazil are slowly coming to the attention of Australian interests, but there is still too much apparent indifference to what is happening in South America in general and in Brazil in particular. My automatic fourth conclusion is that we must make Brazil more known to this part of the world, and this has been referred to this morning. People have said that we should make an effort both ways—Australia to Brazil, and Brazil to Australia.

Instead of going through statistics let me induce you to exercise your very own fantasy. Imagine an economy—to make it easier, we will see it through Asian-Pacific eyes—almost three times larger than Australia's own economy. Envisage that just one of its 26 provinces has the corresponding economic dimension of one Thailand or almost a South Korea or two Malaysias. This is the state of Sao Paulo. And reckon that when this country grows at a modest six per cent—not an unheard of rate in the past—it adds to itself more or less the equivalent of one New Zealand GDP each year.

Imagine a country that produces as many Fiats and Volkswagen cars as Italy or Germany and re-exports a sizeable portion of this production. Imagine a place that has 75 per cent or 80 per cent of its people in very big cities and towns—we are not at all only a rural country—with middle-class values, even if part of the population is not middle class, and a population which is very much attuned to modern fads and consumption and which brings in turn a huge market for all kinds of businesses, big and small.

Imagine that this country has an industry responsible for almost 40 per cent of its whole domestic production—which I think is the same percentage you have here in Australia. This industry contributed last year to more than 70 per cent of this country's export earnings, with \$US35 billion from sales of products with high technological content, such as aeroplanes, buses, cars, lorries, motors, electronic equipment, tractors and car parts. Did you know that now our second main export is not coffee anymore—the first one being iron ore—but regional jets for 50 passengers? Accept this not as some multinational aberration but as a truly endogenous technological effort that has obtained world recognisance. With EMBRAER in Melbourne, it sells, for example, the regional jets I referred to. It is building a remote sensing satellite that has been hovering over your heads since last Friday. This country participates in the construction of the International Space Station, drills oil at sea at the record depth of more than 1,850 metres, and carries out top-notch agricultural and biotech research.

Think of a place that is today among the world's five fastest growing users of the Internet and has the world's fourth largest TV broadcasting system. Envisage a level of organisation and sophistication of a financial market that is unheard of in developing countries—the volume of transactions in only one of its stock exchanges being 60 per cent of all stock exchange operations in Latin America. Put together this salad of symptomatic data in a growing market of almost 170 million people, with an expanding rate of businesses, with an already proven modern banking system and a good infrastructure, rest assured with the background of a democratic society set in a definitely Western culture, count on a sound entrepreneurial tradition, and you would certainly have the recipe for a fertile investment environment—in Brazil, of course.

I would sincerely urge the members of this subcommittee, until they come to visit our country, to at least visit the web site of the embassy here in Canberra, which is <http://brazil.org.au>—a site which, I assure you, is not as institutionally dull as official sites normally are. It will give you a follow-up to what I am saying, with all necessary links to Brazil—in English.

What will you see there? You will see that in political terms an unequivocal path has been traced by the Brazilian government—and taken for granted by the people by now—towards democracy, the rule of law, the opening up of the economy and the competitive insertion of Brazil in world markets. You will see that there is also something that was referred to by other ambassadors here: a definite drive towards regional integration in South America. This drive is irreversible, as the recent dissolving of the Mercosur tensions after the Brazilian devaluation shows. The problems were all solved in time.

You will see that with the clear comeback of the capacity of planning in public management, a corollary of the economic stability brought by the Cardoso administration since 1994, several big infrastructure projects—which will have an enormous economic multiplier effect in the economy of the South American subcontinent—have been concluded recently. I am referring to the construction of the natural gas pipeline between Bolivia and Brazil; the Waterway of the Parana River—which interests several countries in the Southern Cone; the port of Sepetiba; the highway between Manaus, the capital of our state of Amazon, and Caracas in Venezuela; and the doubling of the lanes of the Sao Paulo-Buenos Aires Highway, as a lot of commercial traffic is by truck in South America. So the picture is big, and that is an important part.

My fifth obvious conclusion is that we should not lose ourselves in particularities, if only trying to find small niches for our own products. This is very legitimate in itself and should be done, but let us never forget the big picture. We should benefit from a more encompassing and strategic view of the Australian-Brazilian trade and investment relationship, and we should systematically go for a more encompassing attitude as well. The important political fact is that we have room to build a positive trade and investment agenda. It is certainly not the occasional attrition between commodities competitors that should occupy the front page—and I thank God that the price of oranges has gone up lately!

In a more generous vein we can envisage, for example, the following positive steps that will lead to more ample cooperation. Firstly, try to build on the very effective long-standing collaboration between Brazil and Australia, in the context of the Cairns Group. Secondly, try

to build on the obvious interest in strategically cooperating in common areas of interest in commodities, as we are starting to do with sugar. Thirdly, try to build up interest in cooperating in the technical and scientific field—for example, in matters related to commodities to combat common plant diseases. Fourthly—and this is perhaps the most important thing—try to build on the fact that we are dealing with an urban environment market and that we are already trading services.

My sixth remark is this—and it is the obvious one which every one who knows Brazil and Australia makes: there are obvious similarities between Brazil and Australia, and many more than meet the eye. This has a consequence in economic and financial terms. Both our countries are continental and quite new medium powers, with certainly an unchallenged economic and political regional role, with people who are hard battlers—Brazilians like work, as you do—and who, because of social mobility, are very informal. So there is a natural empathy between these totally ‘made from scratch’ mass cultures. Ease of understanding and communication is essential to good business practice, and dealing with people with whom you feel comfortable is a first step to a successful operation—particularly so in a less strenuous, convoluted or hazardous economic environment which shows pragmatic, dynamic and ethical behaviour.

Trade is a two-way road: 170 million Brazilians can buy not only merchandise and services from Australia—and here perhaps I will echo a reference that was made this morning concerning marking and labelling—but also something more intangible that will work as a multiplier for more trade. I mean that the very idea of Australia as a country and people, with its values, will be understood and very much appreciated—just as we appreciate the same constructs we make for America, Europe or Japan that ultimately sell so many other things. On the same wavelength, South America and Brazil should also be recognised to be the sophisticated, profitable and congenial partners Australia has been missing out on for so long a time. With these remarks, I would like very much for you to put the questions that you feel are pertinent and perhaps to ask specific questions on the bilateral relationship. Thank you.

CHAIR—Thank you, Ambassador. The United States of America has big investments in Brazil and so does Japan. What percentage of Japanese investment is there in Brazil and, with the downturn in the Japanese economy, has that caused much of a problem?

Ambassador Dayrell de Lima—As I told you before, no capital was disinvested during the recent crisis, on the contrary. The privatisation process, the telecoms and other aspects brought a large influx of investment. One used to say during the military years that the order of the investment in Brazil—I do not know exactly the percentage of Japan—

CHAIR—Take it on notice, if you like. I was interested because the point was made to me, when I was last in Brazil, that there was a large proportion of Japanese investment.

Ambassador Dayrell de Lima—Yes, but there is also a large proportion of American and European industries and investors in Brazil. This more or less reflects our long-standing situation of global traders and the presence of capital in Brazil echoes that. For example, 30 per cent of our exports go to the European Union; 22 per cent to the United States, our second best client; 20 per cent to the South Americans; and, 12 per cent to Asia. This more

or less adds up to 84. The remainder is the rest of the world, and you are included there with 8 per cent.

CHAIR—Qantas tells us that Brazil is the largest source of business to Australia from South America, and that that is despite the lack of a direct air link. I brought up earlier the direct air link with BA, for example. Qantas told the subcommittee that for some time now they have been seeking to open an office in Brazil and that, despite Varig's presence here in Australia for many years, Qantas is still yet to receive registration from the local authorities. Without that registration, they cannot hire staff, put ticket stock on the market, rent premises or even advertise. Perhaps this could be an initiative whereby we could be the first persons to go to a Qantas office in Brazil, do you think?

Ambassador Dayrell de Lima—Firstly, Varig does not and has not for a long time now had his own representative in Sydney. Secondly, and more importantly, in 1995 negotiations concerning a direct transport link were pushed by Brazil, without much interest from Qantas. The situation was reversed when Qantas established this link with South America, with Buenos Aires. I know this is an important link and it concerns us in the sense that almost 40 per cent of the passengers that are on Qantas flights come from Brazil, as their submission shows. Qantas now favours a bilateral agreement, which is under examination by Brazilian authorities, with Brazilian companies.

Steps have been advanced on the question of the Qantas representation in Sao Paulo and, from talks with DFAT today, perhaps this has been solved. There was some mix-up as to how this was presented. We have Brazilian legal provisions for the registration process that have to be respected and, probably, there was need for good legal advice. This will be solved, I hope, before you come to Brazil. The absence of direct links has not inhibited the increase of travel between the two countries. This question is also examined at the CER-Mercosur talks that discuss international developments in the area of transport trade. I am optimistic on that. I think this is an occasion to build up the market for tourism and for other aspects as well.

Mr O'KEEFE—Mr Ambassador, I found your presentation highly exciting, quite frankly. All of the submissions to our subcommittee have made the point that we should be understanding better the opportunities in South America and Latin America and that the imagery is just no longer real. The experiences you have described—with the devaluation of your currency, interest rates, inflation—are very similar to what we experienced here in the mid-1980s with the collapse of our terms of trade. I think we can relate very strongly to the opportunities you are now talking about.

I notice you also made a point that comes home to me a lot and that is the Cairns Group partners. I think this has been part of the problem. We did a lot of very strong work together as Cairns Group partners, with a total focus on agriculture, but we have tended not to understand that each other's economies have a bit more to them than agriculture. If you keep conveying the message that the links built in the Cairns Group can be expanded more broadly, to our mutual benefit, we will also convey that message.

One point I raised with the chamber of commerce when they submitted to us was that there are a few areas where there is a bit of antagonism—for example, orange juice

concentrate is one area where there seems to me to be a strong opportunity for a joint venture to look at how we might tackle the rest of the world together rather than be competing with each other. We both have a strong capacity in that industry. I am sure there many more issues like that.

So my first point is just a comment on the enthusiasm that I picked up from your submission. My second point is that the Cairns Group should be pressed by you and by us to see itself as having a broader role. Not everybody in foreign affairs and trade agrees with that view but I am happy to put it out publicly. My third point is that I think our agricultural strengths can lead to some opportunities for joint ventures in tackling, together, the rest of the world.

Ambassador Dayrell de Lima—Thank you for your remarks concerning my talk. The most important aspect you referred to I totally agree with. I envisage this as a two-pronged approach. Of course, there is room for cooperation. Let us take as an example iron ore. BHP cooperates with CVRD. We have taken a lot of your market in Japan, of course, but, between themselves, they not only have a gentlemen's agreement to work well, as big mining companies, but also they export to each other. They complement each other's exports and they more or less try to rule the market instead of being ruled by the market. That is one aspect.

The second aspect is that in very technical things—and I was talking to the orange juice syndicate producers president in Brazil before coming here—they say, 'Look, not only is there an opportunity for having some discussion among big producers but also, at a technical level, there are some aspects on which we have to get together, because there are pests and diseases that affect both cultures and we have a certain knowledge of this that could be shared with Australia.' Of course, the price goes up and the price goes down. So they will dump a lot of oranges in front of my house in Canberra when business is bad. That has been done, that happened to my predecessor! But have in mind that conditions are also different in certain areas. Perhaps the phytogenesis in Brazil is a little more productive than it is here. Let us not resort to dirty tricks between ourselves. Sometimes I feel I am in a difficult position defending the free access when producers resort to heavy tactics.

CHAIR—I think something like 8,000 of your citrus growers also went out of business in the last number of years.

Ambassador Dayrell de Lima—Yes.

Mr O'KEEFE—The price discounting of the world price for concentrate severely affected both countries.

Ambassador Dayrell de Lima—It went down a lot. Juice, which is an important export of ours, is the only item nowadays for which the price is up. For all the other basic products, including coffee, soy, tobacco and sugar, there has been between a 20 and 40 per cent downturn in price. We had to gain volume instead of price. It was a heavy loss.

Mr O'KEEFE—That will work its own way out. That is predominantly coming off the devaluation, isn't it?

Ambassador Dayrell de Lima—No, this is the fall in the commodity prices around the world.

Mr HOLLIS—Is it the case that the largest number of tourists that we get from Latin America are from Brazil? It has always surprised me, with the image of the whole of South America, why there is not a greater flow of tourism between the two countries.

Ambassador Dayrell de Lima—I am very glad you asked this question, because I have great respect for two things in Australia, after being here for one year. The first is that you are very good marketers—your marketing is very good, at all levels. The second is that your tourism industry is topnotch. I have been in several countries in Europe and in the States and I find the tourism industry here well developed. To answer your direct question, the answer is no—and this is the point. Brazil is not the main country in South America for tourism. We have inferior numbers than several other countries in Latin America. This is perhaps one area of interest that Australia should look into, because I feel there is a lot to do in terms of tourism in Brazil. It is continental, as you know. You can do ecotourism in the Amazon, you can do beach tourism in the north-eastern part of Brazil and you can do historic tourism in the old towns in the centre of south-eastern Brazil, which is very beautiful. You can have an exciting metropolitan stay in a metropolis that probably ranks as one of the five most animated in the world, and you have Rio and Bahia—the big cities that are, in themselves, the emblem of good life and good fun with the carnival and so on. Tourism there can be everything. Certainly, there is a problem in services and infrastructure and in developing the right culture to develop that. We are making many efforts, but perhaps we could do some joint ventures on this as well.

Mr O'KEEFE—If I could take up on that point, that was a serious concern for Australia in the mid-1980s. Tourism became the industry that gave us breathing time between the collapsing commodities and the development of other sophisticated industries, and building a service and facilities culture became a prime government strategy. What you are experiencing took 10 or 15 years to develop, but it has been extraordinary. I have no doubt that exactly the same thing will happen in Brazil, if the government gives it a high enough priority.

Ambassador Dayrell de Lima—I hope that the priority to develop this sector will be given. Of course there are lots of other priorities as well. The problem with Brazil is that it is a very big bathtub. You cannot compare it with a washbasin. It takes a long time to fill it up, and sometimes the drain is very big—and I am referring to the debt payments. The water keeps coming and you open further the faucet, but it does not always reach the level you want it to. Yes, tourism is a priority. I think the development of interest at the municipal level is important as well, in the sense that you have got a lot of small and medium enterprises that are playing that card well in several places in Brazil.

Brazil is pretty much decentralised. There are more than 10 cities, spread out all over the country, of more than one million inhabitants. Each one can work as a pole for a kind of touristic overview of the region.

Senator O'BRIEN—Your Excellency, I wonder if you might give us the benefit of your views on the main impediments to trade between our two countries—from Brazil's point of

view first; that is, what are the impediments to your trade with Australia—and, if you wish, what are the impediments to Australian trade with Brazil?

Ambassador Dayrell de Lima—From the point of view of mutual trade, I would say that the main impediment is purely and simply knowledge. You do not know the products that we have and we do not know the products that you have. This is an obvious thing. If I take the statistics I was getting through the computer yesterday from the ministry of commerce, there are categories which are broken down into blocks and then into the main countries, and I came to the conclusion that Australia is not even on the list. Of course it is because Australia makes up 0.5 per cent of our imports, but some other countries there are also small exporters—because they are inside a group of very dynamic countries. If I look at the five countries which more or less constitute South-East Asia, for January to August, South Korea is 2.1 per cent of our imports, Malaysia is 0.6 per cent, Indonesia is 0.3 per cent—I think they have reached your level—Thailand is 0.3 per cent, and the Philippines is just 0.1 per cent.

I am not speaking, of course, of Japan, China, Taiwan, Hong Kong, Singapore or even India, which are all more than the 0.5 per cent that you represent. Those five countries I quoted before are sometimes less than you are, but you are not even set in there. I do not think that we have come up to each other. That is the main impediment.

There are specific aspects, but they are small things that have to be sorted out. I think that a normal bilateral relationship can solve these things. For example, at the moment we have a problem with A4 paper and an inquiry by Customs is going on. We have a phytosanitary memorandum of understanding that was signed some years ago that has not entered into force yet and perhaps could be translated into more dynamic legislation or international agreement. But the main thing is to present each other with all the opportunities that there are. I think that we have been back to back too much for many years. Perhaps you had the vision of South America more attuned to the wool producing countries, or the meat producing countries, which were more important to you or because some mining interests were more akin to you and you did not look to other things.

Senator O'BRIEN—So, essentially, what you are saying is that those tariff and other legislative measures that either country has in place are only minor impediments to our trade relationship.

Ambassador Dayrell de Lima—Yes. I think there is a drive to complete globalisation in free world trade. From the point of view of Brazil, we have gone through phases of closing our economy, but when we opened, some people were critical, saying that we opened it too much. We have been invaded by products of this region, but not Australian products. Sometimes you will find Australian wine in Brazil and sometimes you will even find Akubra hats. We have rodeos as big as American rodeos.

CHAIR—I have one last question before I close this session. Are there any problems with visas?

Ambassador Dayrell de Lima—No, quite frankly.

CHAIR—A lot of the other South American countries have.

Ambassador Dayrell de Lima—A lot of people go to Brazil and they complain, ‘Oh, you are charging for visas; they are very expensive.’ We had a bilateral agreement in the 1960s which exempted Australians and Brazilians from paying for visas. Just a month after I arrived here, you ignored this agreement and introduced a policy for Brazilians to pay for visas to come to Australia. We waited for a month, thinking that perhaps there was some mix-up among departments, but we were told, ‘No, we are introducing the ETA—the Electronic Travel Authority—system and we have to pay, so we decided to charge Brazilian citizens for issuing them visas.’ So we had no choice then, and we reciprocated. I think that if you go back on that, we would automatically do the same. We are open to discussing the situation if the Australian authorities respect the letter of the agreement. I think it would be very good if this committee came up with a recommendation to do something about it. I find it a little bit ridiculous to charge \$70 to go to Brazil. The flow is not so big. The money that our countries earn from that is not so big. It is not worth it. It is an impediment to a good and longstanding relationship.

Mr O’KEEFE—I think you have made the point well.

CHAIR—Thank you, Ambassador, for your attendance here today. I think you said you have an exhibit that you want to give us.

Ambassador Dayrell de Lima—Yes, this documentation is the Real Plan—for five years. It is in English and has graphs and statistics.

[2.27 p.m.]

GEBBIE, Dr Dennis, Assistant Secretary, International Branch, Agriculture, Fisheries and Forestry Australia

HUGHES, Mr Brett, Director, FAO/Americas Section, International Branch, Agriculture, Fisheries and Forestry Australia

LOUDON, Mr Lew, Director International Dairy Section, Wool and Dairy Branch, Agriculture, Fisheries and Forestry Australia

CHAIR—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 has a submission from AFFA—that is, submission No. 30—and I now invite you to make a short opening statement, if you wish, before we proceed to questions. I apologise that we are late.

Dr Gebbie—Thank you, Mr Chairman. Agriculture, Fisheries and Forestry Australia is very pleased to appear before the committee. I will make a short opening statement which highlights the main points of importance in our submission.

AFFA welcomes the committee's attention to the trade and investment opportunities of Latin America. We believe it is a region too often left off Australia's agenda. Perhaps this is no longer the case following the Asian financial crisis when we were reminded that market diversification is an essential element in any export strategy. A number of important developments have occurred over the past decade or so which we believe should encourage us to keep Latin American opportunities more in our focus, in particular the wide-ranging political and economic reforms which have significantly improved the climate for business and strengthened institutions generally in Latin America leading to an overall much more predictable commercial environment.

In the agricultural area—which, of course, is AFFA's main focus—we believe Australia's cooperation with many of the countries of the region through the Cairns Group, which began in 1986, has forged close links and enhanced awareness of the opportunities and the mutual benefits of closer cooperation with many of the countries of Latin America. Our agriculture and food exports to Latin America represent only around eight per cent of our total exports to the region, which are not in any case very large. There has been good growth in agrifood exports over the last few years in dairy, processed foods and cotton, although it must be admitted that these have occurred from a low base.

The reasons for our relatively low exports are probably understandable. There is a general lack of complementarity in what we produce and export—that is to say we tend to be natural competitors in the agrifood area, producing and exporting much the same things and in the same seasons. We also face strong competition from other regional countries and

from countries outside the region, such as the United States and the European Union, which have longstanding historical and commercial links with Latin America.

We are, of course, a long way from Latin America. Transport links have not been satisfactory, and so we face much higher exporting costs. We also face a variety of import restrictions—in particular, those arising from preferential trading arrangements in the region. Of particular note here is Mercosur, the third largest free trade area after NAFTA and the European Union. But there is also the Andean customs union. There is also further activity in this area in terms of the free trade area of the Americas, which we need to watch closely in terms of both barriers to our exports and, indeed, opportunities for our trade.

While some or all of these constraints are likely to remain, we do not believe this means that we should ignore Latin America. Growing prosperity and rising incomes will result in opportunities. We can succeed there, as recent trade growth demonstrates. We need to continue to identify and exploit niche markets, particularly at the high value added premium price and quality end of the agrifood market. We need to be ready to step in if shortages in regional supply occur, in an opportunistic sense, as we have sometimes done in the past successfully. We need to be alert to opportunities to invest in the growing Latin American food processing sector and perhaps in this way to build worldwide food supply chains.

We also need to be alert to opportunities to get in behind the walls that have been set up by preferential trading arrangements and in this way to benefit from regional growth as well as trade links between Latin America and third markets, particularly North America. We should also be looking to exploiting our advantages in agricultural R&D as well as in the supply of technology services and general know-how, which may be of considerable benefit as the relevant sectors grow in Latin America.

At quite another level we need to continue to promote and cooperate to achieve a more conducive international trading environment, particularly through our efforts in the Cairns Group. We need to continue also on a bilateral basis to attempt to reduce tariffs and other import restrictions to our exports. We need to broaden our bilateral dialogue and develop cooperative arrangements with the countries of the region. Perhaps here efforts towards free trade areas, such as CER and Mercosur, might be something that we need to continue to give attention to. We probably need to increase our trade promotion effort in Latin America to publicise our wide-ranging capabilities in the agrifood area and to generally raise industry awareness of the trade and investment opportunities in the region through domestic education programs and the like. They are the main points I wanted to highlight in my opening statement.

Senator O'BRIEN—I am interested in those parts of your submission that deal with our export trade prospects with South America in the dairy and grain areas, and particularly the impact of tariffs and freight tax imposts on our products. Is there any prospect for long-term contracts in any of those areas, or are we going to be perpetually limited to spot trade arrangements, particularly in grains?

Dr Gebbie—I will say something about grains, and Mr Loudon can speak about dairy. I think in the grains area generally it is going to continue to be mainly opportunistic sales, as in the past, if climatic conditions and so forth permit. Some of the Latin countries, as you

would know, are strong competitors and traditionally have supplied a good part of Latin America's demand for grains. We believe there will continue to be relatively small opportunities, but I do not think there are any good prospects for any large-scale improvement on what we have done in the past there on grains.

Mr Loudon—I think a similar situation probably applies in terms of dairy, particularly into Brazil. Apart from the shipping impediments and the financial requirements for importers, the increase of the tariff recently to over 30 per cent, coupled with the devaluation of the real, has meant that trade there has gone from something like \$40 million a year to \$4 million a year. That will take some time to recover. There may be some prospects in Peru for some expansion, but the market there is not anywhere near the size of the Brazilian market. Of course, several other countries in that area are very substantial milk producers in their own right and in fact are substantial exporters into Brazil, which had been our biggest market.

Senator O'BRIEN—Yes, but what about the relative efficiency of our dairy industry compared to theirs? I seem to recall some figures which showed that we were way ahead of most other parts of the world in terms of our efficiency in the cost of production.

Mr Loudon—That is particularly true in terms of Brazil; it is less so in terms of Argentina and Uruguay. But the problems with the freight, the financial arrangements that are required for imports, the tariff and then the devaluation represent substantial impediments. As the economy improves, we can expect to see trade improve. But it will not happen overnight.

Senator O'BRIEN—The Brazilian Ambassador has just told us that he thinks the legislative barriers to trade between our countries are rather minor. Do you share that view?

Mr Loudon—No.

Dr Gebbie—No, not in general. If you take the common Mercosur external tariff, I think for agricultural products it averages out at about 15 per cent and goes as high as 35-odd per cent for some products, and given the transport impediments and so forth, these do in fact represent significant barriers. On top of that, there are the well-established historical trading patterns in Latin America, particularly for grains. I did not say so in answer to your previous question, but the supply of wheat requirements in Latin America can become quite a sensitive issue, and has done in the past when traditional supply arrangements have been disturbed, with product coming in from outside. Which is not to say that we should not jump in and exploit whatever opportunities are open to us, but we do need to bear in mind sometimes the sensitivities associated with jumping in to what some people would regard as the traditional markets of others.

Senator O'BRIEN—Is it similarly true that there are significant barriers to South American agricultural products entering the Australian market?

Dr Gebbie—No, not in terms of the traditional barriers. Our agricultural sector is protected only by tariffs, and low tariffs in all cases—these days less than five per cent, with many at the zero or one per cent mark. We have only one tariff quota arrangement, which

applies to European Union cheese. So, in fact, there is very little in the way of agrifood protection in Australia. The situation concerning quarantine might be quite different, and you would have to look at that case by case. Given that we would look at establishing particular quarantine arrangements only on request, you would find many areas where there would be quarantine barriers, but simply because no import access has ever been requested. Again, the reason for that would probably be that, in most cases, we produce very competitively like products. That, of course, is a problem across the board in dealing with Latin America—as I said, it is the lack of complementarity in what we produce in the agriculture and food areas.

Senator O'BRIEN—A number of the ambassadors have intimated that there are problems with sanitary and phytosanitary arrangements and agreements between the countries. Do you have any comments on that?

Dr Gebbie—I can only repeat what I have just said, I think. There is certainly a common perception that that is the case. We do indeed run a very conservative quarantine regime in Australia, but I think if you checked into the individual product access you would probably find that no formal access request has ever been made. AQIS has a very large number of import access requests on its work program, and it has to allocate priority to those according to the timing and indeed the importance we attach to particular cases. My guess would be, as I said, that there would be very few instances where formal import access has actually been requested. So, by definition, at our end nothing has ever been done. What I am saying is that we do not go about establishing import access protocols across the board just for the sake doing it. We only respond to specific requests.

Senator O'BRIEN—I am not expecting you to have an answer to this question now, but you might like to take it on notice and come back to us. We had an example put to us that there was an absolute barrier to the importation of horses, I think from Argentina—and it is possibly from the whole of South America. It would be interesting to know the basis for that barrier.

Dr Gebbie—I think that is correct, but I will take that on notice and get back to you.

Mr O'KEEFE—You were not here, Dennis, when the point was being made to us that Argentina can export horses to Europe and that those horses can come to Australia barrier free, but they cannot come from Argentina to Australia. You may have some response to that.

Dr Gebbie—I have no expertise in the veterinary area but if horses are subject to foot and mouth disease, then they are not. That could be a problem with any animals entering from Latin America. I will take that on notice.

CHAIR—It is actually to do with equine influenza which has a 14-day withholding period. That is probably the answer. I am not an expert, but that could be advice that I have received—and the protocols, too. If we got it from the horse's mouth rather than from my mouth, that would be better.

Mr O'KEEFE—I do not have much to ask about—I think the thrust of the submission is excellent. Austrade put to us this morning that the Mercosur negotiations with the EU and

the US are leading to some discounting of some of those general tariff barriers that Mercosur operates as they reach their agreement and that Australia is not getting the same benefit. My counter-question to that was that it may well be that we have gone so far so quickly in lowering our own access to these products that we actually have a general situation that the others are only reaching. So the EU might say, for a particular product, 'We will lower that to 20 per cent if you will allow our products into Mercosur,' when they are already getting five in Australia and we do not have anything else to offer. Maybe we have not even put the card on the table that this deal is already available.

Where I am getting to is that we asked Austrade—and of course it now relates a lot to what you are saying—to have a look at areas where this common Mercosur barrier is a constraint to us and where we are already offering better than, for instance, the EU or the US is offering for similar products just to give our trade people a better deal. It does not require a response, but the issue came up and it might be something to add to our negotiating kitbag. Do you understand where I am coming from?

Dr Gebbie—Yes. Concerning Mercosur's efforts to link in with some of the other regional arrangements—you have mentioned NAFTA, the EU and Australia and New Zealand in the form of CER having discussions with Mercosur over some period of time—it is true to say that all of those discussions are at a very early stage and we are nowhere near, on any of them, achieving a genuine extension of the free trade areas. So for the free trade areas of the Americas initiative, for example, which the Americans from time to time have put quite some emphasis on, they are looking to conclude their talks by around 2005, but I think they have a long way to go.

In our experience with any of these things, as I am sure you appreciate, agriculture has generally been the stumbling block. You will find they are quite happy to mutually reduce tariffs on a whole range of industrial goods, but on agriculture you will find, as is usually the case, there will be special rules, there will be exclusions and there will be much longer phase-in times. So you need to look at the fine print, the detail of these things to see exactly where they would come out.

In terms of our negotiation with Mercosur to extend CER to Mercosur, I think we would find agriculture will again be the stumbling block. As you pointed out, we have a very open regime here for agricultural; they by and large have not. I would be surprised if they were willing to immediately open up their agricultural sectors or even to place agriculture on the same time frame as the industrial sector.

We have had some discussions—again, with New Zealand—with Chile, for example. Agriculture, particularly dairy, has proved to be a stumbling block there. So you can probably negotiate a useful 'free trade' arrangement, but the balance of benefits would be very much in the favour of the other side, because agriculture would not be an equal part of the arrangement.

Mr O'KEEFE—If I could give an example of what seemed to be coming through, take what I would call value added dairy products. Lew, you were talking before about a decline from \$40 million to \$4 million—that is value added products, I assume.

Mr Loudon—No, primarily bulk commodities.

Mr O'KEEFE—My own view is that the stuff we call commodities is going to continue exactly as you have described. Far more interesting to me is, if you are up the value add tree—through Mercosur, for instance, packaged yoghurt is getting a better deal through Europe than we are—there is scope for some serious discussion. Austrade tended to give us the impression that, with those value add products, there might be some grounds to argue these things.

Dr Gebbie—It is not the case at the moment that anybody is getting a better deal than we are—unless there are bilateral agreements of which I am not aware—because, under the WTO MFN principle, we have to be accorded the same entry terms and conditions as anywhere else, unless there is a WTO recognised free trade arrangement or customs union in place. So until either the NAFTA people or the European Union conclude those agreements and have them effectively ratified in the WTO, they should not be receiving better deals than we are.

Mr O'KEEFE—I think they made that point too in the broader agricultural sphere, but we were going into the value adds like wine, dairy products, vegetables and heaven knows where we go. The WTO is going to be a big factor in it too. So you might have a look at the nature of the discussion when it is reproduced in *Hansard*. There might be something to pick up from it; there might not.

I want to touch on—and reinforce, in a way—another thing. You have made the point in your submission that the Cairns Group activities have given us a lot of commonality with the Cairns Group countries. I see us moving into a phase now where, in the next round, Europe will—as the NFF put it—want to talk about anything but agriculture. Certainly there is some pressure to broaden the agenda. We will be focusing on trying to keep the Cairns Group together and to keep it focused on agriculture—and that will be the main resource effort of the government, I assume—but it strikes me that, in recognising the way that activity is broadening between the Cairns Group countries and the opportunities that are broadening between the Cairns Group countries, there might be some merit in taking into our own consideration the fact that it is not just agriculture and that the more we can broaden the base with these countries, the more we can also see the common interest in staying together on agriculture.

As we keep our focus on agriculture, it might actually help that focus to recognise that the Cairns Group countries have a lot more to offer each other—which is a point you are building, but it might be useful in getting resources both for GATT and for developing broader trade, which you are also encouraging. Am I making myself clear?

Dr Gebbie—Yes. The Cairns Group over the years—since 1986; we are 13 or so years into cooperation through the Cairns Group—has helped generally in enhancing overall cooperation between Australia and the members of the group, particularly the Latin American group. That help is simply an increasing awareness and the fact that business is increasingly involved in Cairns Group activities and that the links are improving.

I would not want to overstate the possibilities of any sort of formal cooperation arrangements extending outside agriculture. I say that because we have made some attempts at various times within the Cairns Group to extend its scope of operation, for example, to cover fisheries or even agricultural value added products. With 15 countries there, not only the Latins, to have to balance out all of the various additional interests which come into the mix became very difficult indeed. It is true to say that, in order to preserve the main focus of the Cairns Group and its total cohesion—which is important, as you said—we have not persisted with attempts to broaden the scope. But I do agree that, in general, because of the overall enhancement of understanding and knowledge of each other, that general cooperation has been improved.

CHAIR—How much export has there been of agricultural R&D?

Dr Gebbie—I do not have a number for that. There have been from time to time linkages established and discussions and so forth going on between Australian entities and counterparts in some of the countries. For example, in the grains area I am aware of efforts to establish linkages with one of the Argentine grain R&D agencies. It is very limited but, as I said before, we have a lot of scope to improve that sort of situation because we are well ahead of the level in the R&D area in many of those countries.

CHAIR—If you find any figures for that, we would be very appreciative of getting them. I know there have been very big efforts, not as part of our inquiry but with Mexico, and I just wondered whether there had been any specific R&D. Page 26 of your submission says:

... these markets (Brazil, Argentina, Chile and Peru) provide expanded market opportunities through access to the region's other markets as a result of the network of regional trade agreements.

You touched on a little bit of that with Mr O'Keefe. The submission continues:

In particular they provide the opportunity for Australian industry to tap into the region's growing markets through strategic investments or cooperative industry alliances with local industry within the trade groups.

How effective will this approach be in keeping Australia's products competitive? Is it the way to go? Do we always look at trade in terms of selling somebody something rather than doing something in cooperation with all those little trade agreements that are on over there?

Mr Hughes—In terms of increased scope to utilise that sort of access to the markets within a region, the reason that focus is being emphasised in some places is partly a result of the restrictions that apply in terms of the access to the market and tariff restrictions in a number of areas. The wine area is one instance where those sorts of strategic investments in the region have been utilised to not only take advantage of the increased access to the larger markets, say, within the Mercosur region or within the South American region but also potentially base yourself for future access to any expansion of those free trade areas with the northern hemisphere—which is, at this time, the primary focus for the wine industry, and there are better returns being achieved there.

That is why there has not been a focus on achieving increased export penetration into the South American markets but rather on looking at a longer term strategic approach to the

market and positioning yourself to take advantage of the future access available in terms of the expended markets in the region. As I said, there are instances where that is particularly applicable because of the future prospects.

Dr Gebbie—Mr Chairman, you mentioned Mexico. The sort of thing we were thinking of there was the situation with wool in Mexico. Our wool exports to Mexico have grown enormously, as you would know, based on NAFTA's and Mexico's access into North America. There we are providing the raw materials to be value added in Mexico and then using their preferential access into North America to increase the overall trade. That is the sort of strategy that is often useful when these sorts of arrangements exist. If you cannot get in the door directly, get in in terms of investment or the provision of key inputs to a process and exploit the internal arrangements in whatever is the appropriate way. That is what we are thinking of there.

Mr O'KEEFE—What do the Mexicans make out of Australian wool that the Americans buy?

Dr Gebbie—Suits and various apparel. I do not have the numbers in my head, but we have done extremely well in wool in Mexico since NAFTA—

CHAIR—I guess the sad thing is that we miss the value adding here in Australia.

Dr Gebbie—Yes, that is true.

CHAIR—It is better to get a market than have no market at all.

Dr Gebbie—Exactly, yes.

CHAIR—That takes me on to the processed food. You said:

. . . consideration could be given to initiatives which:

- . improve industry awareness and market information about opportunities . . .
- . encourage Australian companies to investigate emerging opportunities and provide practical assistance
- . improve transport links . . .
- . foster closer linkages between Australia and South America at economic, industry and government levels . . .
- . seek improved market access for Australian processed food exporters through bilateral negotiations and forthcoming WTO multilateral negotiations.

Do you think we really do not have enough market access negotiators in Australia? It is a pretty small department. Should it be enlarged? It would appear that not enough has been done. I guess you are being a bit critical of DFAT, Austrade and EFIC.

Dr Gebbie—That was not the intention.

CHAIR—I know you would not be critical of anyone. I can read into it that you are not, but you are saying that maybe there should be more resources or something there. Would you like to make a comment on the performance of those three: DFAT, Austrade and EFIC?

Dr Gebbie—No, not really. I think the biggest gains we have made in terms of increased access opportunities have come through multilateral rounds. By and large, the resources allocated to the multilateral area have been sufficient. Multilateral rounds come around only every so often. The governments of the day have allocated the required resources to pursue the multilateral negotiations quite efficiently.

Senator O'BRIEN—Are you suggesting with that answer that perhaps it is not worth while to pursue bilateral—

Dr Gebbie—No, not at all. In fact, I was coming to that. The bilateral area is, of course, quite different. Given the number of difficult markets there are around the world, you could allocate tremendous resources to that if you so wished, but I think the reality there is that you have to look more carefully at what the prospects for success are, to prioritise and to devote resources to things that are achievable in the short term.

As I see it, that is precisely the purpose of the Market Development Task Force, which you would be aware of, Mr Chairman. The main purpose of that is to focus on achievable bilateral opportunities—things that are doable in the short term—by making sure that there is high level attention given to this and that resources can be brought to bear where they are needed at the time. That is how I see it. I think you can always argue that in the bilateral area you need more resources because there is always going to be some market or product-market combination out there that is not being addressed. From where I sit, I would think that most Australian priorities are being addressed effectively at the present time.

There is another factor which I believe is always important here. For example, at the end of the Uruguay Round, developed countries were given six years and developing countries 10 years to implement the outcome of the Uruguay Round. They have transition periods. All WTO members have set about implementing the commitments they made in the Uruguay Round, so of course it is hard to go to them during those transition periods and say, 'We want something additional.' They will tell you, as many do, 'We're still hard at work doing the difficult adjustment that came out of the Uruguay Round. How can you ask us for more?' Of course we do not sit back and accept that either. We have to be out there doing our best, using the best arguments we have and what negotiating leverage we have to still resolve the issues of concern.

CHAIR—I am not taking any position of criticism against departments that, up until recently, I have very much been close to. I hope nobody gets any information out of that, but sometimes I wonder why and how New Zealand seem to get into markets with a little bit more ease than Australia does. I wonder whether that is done because they have more people on a particular area. I do not know which area it would be, but they sometimes seem to be able to get market access ahead of us in different areas. Maybe that is only a feeling.

Dr Gebbie—I am aware of that perception. I am not aware of decent analysis as to how true that is.

CHAIR—I was not trying to prove objective analysis; I was just trying to get a feeling. Maybe we should do a survey on that. Maybe I could do a postgraduate paper or something. Is there anything further you would like to add?

Dr Gebbie—No, thank you.

CHAIR—Thank you very much for your participation here today. I am quite sure that you will look at the transcripts we will send you and correct facts or whatever it happens to be that is incorrect. Thank you very much.

[3.11 p.m.]

McGUCKIAN, Mr Peter, General Manager, International Education Media, IDP Education Australia Ltd

STREAT, Mr William Lloyd, Executive General Manager, IDP Education Australia Ltd

CHAIR—On behalf of the Trade Subcommittee, I welcome representatives from IDP Education Australia Ltd. 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 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 IDP Education Australia Ltd, submission No. 32. I invite you to make a short opening statement, if you wish, before we proceed to questions.

Mr Streat—I should point out at the outset that Australian education exports are now roughly sixth in line in the totality of Australian exports—No. 6 or 7 in the world as far as Australia is concerned—drawing about \$3 billion a year in earnings from tuition fees and living costs and other ancillary expenses. The other point to make at the outset is that Australian education is a global export. We now cover the world. Originally, we were a regional export to East and South-East Asia in the early 1980s, late 1980s and early 1990s, but in the latter part of the 1990s we have expanded the export of Australian education to India, the Gulf, eastern and central Europe, western Europe, southern Africa and North America. Through IDP and the institutions and Australian Education International, which is an agency of the Department of Education, Training and Youth Affairs, Australia is now making a sustained and substantial push into Latin America. We define Latin America as all that part of the land mass south of the US border.

IDP Education Australia claims to be the national carrier. We are at the pivot of this. We celebrate our 30th anniversary next month. We have been involved in international education and related matters for a considerable period of time. We were involved when the Labor government in 1985 introduced the full fee program for foreign students. We engaged in that and provided facilitation and services in that area from the outset.

There are some 140,000 to 150,000 foreign students in Australia at any one time—about 80,000 of those are university students. They draw substantial earnings to the Australian institutions and make up a good portion of that \$3 billion that I mentioned.

As far as IDP is concerned, we counsel students, we assist them with their enrolment and we run a lot of promotions around the world—some 170 a year. Virtually every day of the week we are running a promotion on Australian education somewhere in the world. We are the largest publisher of education materials advising foreign audiences on Australian education. We partner the British Council and the University of Cambridge in the second biggest test of English proficiency in the world—the IELTS test. We run English language

teaching in various parts of the world. We also engage in a lot of project management consultancy in the area of human resource development and organisational improvement. Noteworthy here is the winning of a World Bank project to introduce a new social security and health insurance system in Bulgaria. That was done on the basis of the estimate by the World Bank that Australian social security policy and practice was world class and that assisted us into a relatively foreign market. We hope that that sort of capability, including our own project management capability, will assist us in this regard in Latin America in the future.

The company is putting up about \$1.5 million of investment itself to promote Australian education in Latin America in the next two years. By establishing a permanent presence in the country and therefore a day-to-day opportunity for people to contact us and find out about Australian education, we will be a substantial marketing platform under this effort. We have identified Colombia, Brazil and Venezuela as well as Mexico, which we allude to in our presentation, as being the primary market countries to start with. Colombia is interesting. It is demonstrating an interest by way of purchasing places in Australian education. We recently conducted a major exhibition there. The numbers have changed a little bit from what is in the presentation you have, but the point is that in two days we received three or four thousand visitors. We had a queue from the hotel about a kilometre long which was not satisfied in the end and we had to turn many people away. So there was quite profound interest in Australian education, which gives us some encouragement for the future.

The numbers of Latin American students going abroad for study number about 200,000, as far as we were able to ascertain, and only a little under 2,000 are coming to Australia at the moment—it is about one per cent. But we should not be disheartened by that. Australia is a major player in international education and yet the number of foreign students coming to Australia is barely five per cent of the world market. But it is still very substantial. Australia is seen as being the second or third most prominent as well as the most aggressive, innovative player in international education in the world.

We can envisage that, with the effort by Australian institutions assisted by the Australian government and with the effort that IDP is going to put into the market, we could see at least a doubling of the market in the next two years. This would be similar to what has happened in other places. There is a strong correlation between IDP entering a market and the market taking off. We have seen very strong evidence of that in places like India, Vietnam—which is really roaring along at the moment as a market for Australian education—and in other little places such as Mauritius and South Africa. If we envisage the market doubling or more in the next two years, the likely income to Australia would increase from the present estimate by us of about \$20 million annually, which is tuition fees and living expenses, to probably around the \$100 million mark, which then gets it into the substantial league. And from there on in, it is anyone's guess. But that is a fairly conservative estimate and it indicates that Latin America will become a significant market for Australian education.

I will not go into any great detail about the advantages and impediments seen by the market in Latin America with regard to Australian education. We certainly are cost competitive with the rest of the world. We are seen as a safe environment. The Olympic Games are giving Australia a profile at the moment in Europe and Latin America which is

assisting us with our marketing. There are impediments. Distance, of course, is one, but that can always be overcome when people have experienced the situation and go home and say, 'It is not as bad as we thought.' Matters of visa administration are matters that we will want to address in a little more detail in a moment.

Award recognition is very important when you enter a new market. If foreign governments are prepared to acknowledge the quality and substance of Australian education, that then helps private enterprise in those countries to accept graduates returning with an Australian degree. It would be handy, for instance, if we were also able to offer a scholarship program there, because in every part of the world scholarships can oil the wheels of marketing and give an encouragement. The British, and the Americans particularly, offer substantial numbers of scholarships and therefore always have a high profile in any marketing endeavour.

There have been a number of issues with regard to the promotion of Australian education, which players should be engaged in that and so on. There were difficulties in the first half of the 1990s between the newly-formed Australian International Education Foundation established by the minister for education and IDP, because we saw the AIEF coming in not only to do a job which we supported but also attempting to substitute itself for IDP in many areas where we had developed experience and a capability. But now those difficulties, those tensions, have disappeared. We find that the mark II AIEF is doing what we had wanted all along, that is, to play a complementary role in the industry, carrying out those functions that it is well-equipped to do and has the power to do. These sorts of things were to engage in intergovernmental relations, to explain Australian education policy, to explain the quality of Australian awards, to work to get this recognition of Australian qualifications and so on, and also to do the generic marketing role that can be done, because in many parts of the world if a government endorses its own education publicly in those markets it does a lot to give comfort, support and understanding to prospective students and their families. So we now have that sort of complementarity. The industry is a powerful marketing tool in its own right. Brokers such as IDP can play a significant role, and do, and government can also play a role if it picks the right things to play the role on. We believe it is now heading in the right direction.

As far as visas are concerned, there is a real problem. We have had over the years, the 15 years that this marketing campaign has been going, a lot of support from the Department of Immigration and Multicultural Affairs. But at the same time there have been difficulties, and those difficulties really surround the speed, timeliness and convenience of visa issue. Especially in new markets, where the immigration department personnel perhaps are not sufficiently experienced or where they have not equipped themselves satisfactorily to deal with the onslaught that they are about to receive, we find particular difficulties. Those difficulties translate into marketing disadvantages. If the Americans can provide a student visa in days or a week and it takes us two months, automatically we are placed at a disadvantage. We are finding difficulties in that respect in South America, and we would hope that the Department of Immigration and Multicultural Affairs will rectify that as the market becomes evident. I will ask my colleague in a moment to make one or two comments on that to illustrate the difficulties we are facing at the moment. In fact, I think I might ask him to do that now.

Mr McGuckian—Our first beachhead, if I can use the term, in Latin America is Colombia. Our two senior staff from IDP who have been tasked to develop the Latin American market are currently based in Bogota, Colombia. The recent promotional program held in early September in Bogota, as Mr Streat has already outlined, attracted many thousands of inquiries. Applications have started to flow from that promotional program. Our office in Bogota was opened just days after Minister Vaile had opened the office in Sao Paulo in Brazil. We have started to send applications and visa applications down to Santiago because DIMA stopped student visa processing in Caracas, Venezuela a few weeks or months ago; I am not exactly sure of the detail there. Student applications for visas from Colombia have now got to be sent to Santiago in Chile. We have examples of applications which have been there more than two months.

Perhaps I should explain for committee members the process for countries which are described as being non-gazetted countries. There is a two-stage process for a visa application. All students must go through a pre-visa assessment stage to determine whether they are going to have a likelihood of getting a visa. Documentation goes off twice. At the stage of actually applying for the visa, of course the passport must be sent to Santiago, Chile, with all the paperwork and documentation. We have examples of a masters engineering student, for example, who wants to start in February but wants to spend Christmas in the US with his family. He cannot do that if his passport is in Santiago. There is a medical student also from Colombia who wants to take six months off her medical studies to improve her English in Australia—lots of money—and then come back to finish her course. When told that the visa to do that could take two months, the UK becomes the immediate easier solution.

CHAIR—How long does it take for the UK?

Mr McGuckian—A matter of days, and they have an embassy in Bogota to handle the process. They even have an office of the British Council there as well.

CHAIR—What about Canada or the US?

Mr McGuckian—The US is everywhere. Canada has Canadian education centres linked very closely with their embassies also, and they are in all countries. They have a higher level of presence than we have.

CHAIR—In Latin America.

Mr McGuckian—In Latin America, yes.

CHAIR—We do not have any agreements with, for example, Canada to do that processing for us?

Mr McGuckian—No. We have suggested that student visa processing be brought back to Caracas in Venezuela. It is a lot closer to Colombia.

Mr O'KEEFE—Is it practical for us to think, for instance, of recommending that they coordinate with you when you are doing a major promotion of this kind and actually

establish a partnership office with you when you have got a major promotion going where there are likely to be several hundred applications come out of it? Is there some way of doing a partnership with them or having them come down a week later or something and spending a month there? Are those sorts of things viable? I do not know what the communications are like and all the rest of it.

Mr Streat—That is entirely possible to broach with the department of immigration. At the moment the major proportion of students coming out of Latin America do English language study in Australia. We want to reverse that. We want to go for the big dollar recruitments, which are in the formal courses of university and TAFE and so on, and we see that developing. But the point I am making about the English language students taking visas is that they come along at any time of the year because they can enrol at any time of the year. Really the presence is required annually. When we move to a bigger proportion of the market coming from the formal course area, there is a seasonality. There is a lag after an exhibition before people put in applications, so it might be a little difficult to mesh that together.

Basically, what we require is a strengthening of the immigration presence for education in Latin America. When Australian education goes into a new market, there must follow soon after—especially if that market is prospective—the governmental education services that are required and that fundamentally is visa issue. It can be very destructive for us, in very heavy competition with Britain and the US, if our visa issue lags well behind their capability.

Mr O'KEEFE—I understand your point. The point was well made.

CHAIR—I was on an inquiry that this committee conducted some time ago. It must have been 1995 when Michael Duffy was the chairman. It was titled 'Services exports' and concerned the problems we had in some places at that stage, for example, in Indonesia. If we are really going to get education exports into Australia—in other words, people coming into Australia to study—we actually have to have our universities doing the right thing.

My question is: are the universities doing the right thing here? Are they saying, 'This university is the premier university for law' or whatever, instead of about six of them around Australia saying that they are all the premier universities at which to study law? In other words, they actually compete amongst themselves. In the end, a student from Latin America or anywhere else will say, 'I think I will go to Harvard or Yale, because at least they seem to know where they are going.'

Mr Streat—We have not yet reached the peak of aspiration in terms of the way we market. Certainly the institutions compete with each other. That does not necessarily mean that the audience on the other side of the fence gets a raw deal. The institutions are in competition rather than in cooperation. They depend on this market very substantially now for income as government funding to institutions is reduced. It is now not a little bit of fat on the edge; it is a fundamental part of their income. The brief that each marketing officer from an institution gets each year is now a very pointed one from the vice-chancellor.

There is pressure to rate institutions in terms of quality. We do not feel that that is really necessary, because Australian education in universities is funded according to formula by government. There is still a narrow range in terms of their quality, from those that might be regarded as superior to those that might be regarded as less superior. This contrasts with the United States where universities, of course, are of a very high calibre on the one hand and of a very poor quality on the other. The rating scale in the United States is a very important assistance to students in selecting the institutions they go to.

CHAIR—Turning to the Olympics, obviously you will be members of the Business Club. I notice that you have done exhibitions in South America with AEI recently. Can you tell me how much interest there was in those that will then be added onto by people coming to the Olympics and Australia becoming much more of a ‘strategic place’ after the Olympics? Hopefully, apart from winning all the gold medals, that will be one of the things that will follow. Can you report on the seminars you have held, plus what you expect to get out of the Olympics?

Mr McGuckian—The promotional programs that were held early in September, as we alluded to earlier, were very well attended by students and also created significant interest in the local community. Tony Keen, our general manager now in Latin America, told us a story where in Colombia they had—free of cost to us—a two-hour television program on public television that was broadcast nationwide and actually had phone-ins, so that students in some of the outlying towns could pose their questions to the panel of experts. They had on the spot translations at the same time. Tony is not yet fluent in Spanish, unfortunately. A great level of interest was created through those promotions.

I brought some copies of our promotions calendar for next year. We have planned promotions in February, March and August for 2000. We have featured, and will continue to feature, things Olympic in our publications. I will also send over for the committee some copies of our student newsletter that we produce. We are producing three editions next year for Latin America. We call it ‘Study Oz Latin America’. Three editions of that will be produced next year. We had to produce 10,000 extra copies of the one for September to cope with the demand at the exhibitions. In those magazines we feature Olympic articles—stories about what is happening in Australia prior to the Olympics—and draw together the sport and education experience that students can have. The fact is a lot of the Brazilian students that are coming to study English are sticking fairly close to the coast and doing a fair amount of surfing while they are here, so they are enjoying our sports and our climate. We will be taking part in Business Club Australia activities. We are in discussion with Austrade and AEI about how to maximise that linkage between education, sport and business, and we are hoping to take part in some of the parallel activities that will be under way in Sydney.

CHAIR—Have you done enough to generate that interest? Will enough people come from South America for the Olympics?

Mr McGuckian—I am not sure of that. It is early days for us because our people have only been there since July. It will be essential over the coming months that our people get more involved with the local business community to ensure that the high value visitors do come. I am sure they are cooperating with local Austrade staff on that issue.

CHAIR—If you have the visa issue fixed before then that would be a good help.

Mr McGuckian—It certainly would.

Mr Streat—There is a closer linkage—and not before time—between Australian Education International and the Australian Tourist Commission and IDP. In the last 18 months we have done a lot of work to build up some notion of a brand image for Australian education that can be projected overseas. That tripartite connection and using the Olympics and so on as a drawcard is starting to provide some sort of focus message out there in a general way about Australia and its attractions—its physical attractions, its cultural attractions and its education attractions. In fact, we decided to market Australian education as an intellectual adventure—trying to brand Australian education in terms of being modern and vocationally oriented as opposed to traditional and so on—a market segment that Harvard, the University of Cambridge and the University of Oxford and so on control.

CHAIR—We have got three pieces of material here: a corporate profile, a January to December promotions calendar for the year 2000 and also the story of IDP. It was suggested that they become exhibits for this inquiry. It is so ordered. I see here there is a promotion for 28 September. That is the one you just talked about, isn't it?

Mr McGuckian—Yes.

CHAIR—That will be a bit late for the Olympics. That is the first thing I thought.

Mr McGuckian—There is one in February and there is one in March: from 19 to 26 February in Venezuela and Colombia, and then from 10 to 14 March in Mexico and Colombia.

CHAIR—Yes, because they would have to be early enough to generate interest to get follow-up. What people would come out as a result of the Olympics to study in Australia?

Mr McGuckian—I guess we are hoping that the business people who are attracted to Australia at the time of the Olympics will be so impressed that they will either send their children or convince friends and family to seriously consider Australia.

CHAIR—So following on after that will be what occurs in parts of Asia: people studying here will end up going back and becoming parts of government in other countries. There will be the multiplier effect. Education starts a lot of trade off in the other end of trade rather than in the trade of education.

Mr Streat—There could be a bigger impact in Latin America than in Asia as a consequence of the Olympics because Latin Americans, as you know, are very keen on sport as opposed to some of the Asian communities. The Olympics could give the export of Australian education quite a lift. We would expect to see some substantial increase in numbers in the six to nine months following the Olympics.

CHAIR—I was going to be a bit facetious and say that they do not play cricket, but they do play rugby and Argentina is in the quarter finals.

Mr McGuckian—That is right.

Mr O'KEEFE—I would pick up on the last point that the chairman started to allude to. In the mid-1980s, when we started to aggressively develop this education export strategy, I know that within the government we came to the conclusion that Defence had done a very good job of maintaining links between old Colombo Plan students and military exchange students. Defence knew where those students were in their economies and who now were the decision makers. It became very clear to us that, provided those networks were kept well structured, there was a long-term advantage. In a sense, I suppose I am asking, but I am also hoping, that IDP continue to mobilise that kind of structure as we develop markets, whether they be with South America or Latin America or wherever, and that you teach businesses that become involved with you to keep these links.

As an analogy, my own son is now a computer programmer in California earning much more than I do as a politician in Australia. But I remember, when starting his computer science degree at Swinburne, he said to me, 'Dad, most of the students in the class are Asian.' All I was led to believe by his saying that was that he was doing the right course. But the links worldwide now between those students are quite extraordinary and very much two-way for Australia. So there is plenty of awareness of the importance of what you have been putting to us. I suppose my question really is: are we going to be keeping that follow-through structurally locked into the system?

Mr Streat—I do not think Australian education has done as well as the Americans and the British in terms of maintaining alumni connections and so on. Certainly we have ministers for education and ministers for this and that from Singapore and Malaysia and so on, but we have not tracked those people through as much as we should. Certainly, now that the international marketing of their courses is so important, institutions are giving a lot of attention to the development of their alumni and so on. It is a difficult business keeping in touch with people and arranging activities to keep them engaged.

But I would make this point: we are in the process in IDP of 'migrating'—being the lingo of the moment—the company to an e-business platform. That will involve a major web site and modular databases and all the rest of it. But it will be based on a whole of life connection with the student: from the time we talk with them at high school in Singapore or wherever, with their coming back to our office for counselling and assistance in enrolment, and the time we assist them in getting their job back in Singapore through our international graduate recruitment service that we are developing, to later on helping them with their own kids.

This database and the electronic platform that will be there will enable us to send these people birthday cards forever. So, if someone is a minister for something or other in Malaysia, a birthday card will be lobbed on their desk year after year through this platform. The new technologies, I think, will enable us to strengthen that sort of whole of life connection with students which we recognise as being so vital in terms of the benefits that one can get when needing business support in these markets.

Mr O'KEEFE—I suppose in a sense you have answered the question in saying that at this stage the institutions are not doing it as well as you would like them to. I think also—

and we will put this into our own thinking, Mr Chairman—that our government focus, as a long-term strategy, ought to be assisting education exporters to do this because it ought to be part of a national strategy.

Mr Streat—It is part of a national strategy and it is a matter of national interest.

Mr O'KEEFE—Yes, I believe so.

CHAIR—What role has Austrade played in providing you with assistance to enter the South American market? Was it on a free for service basis, or was it on a fee for service basis? Does Austrade have the resources and network of contacts to provide organisations like yours with the necessary market intelligence analysis of opportunities?

Mr McGuckian—We started to undertake our market research back in late 1998 with Austrade's assistance and cooperation—that assistance and cooperation have been substantial and free. The support to Tony Keen, whom I mentioned earlier—he was undertaking our investigations on the ground in Latin America—was substantial, working through the Austrade offices. I think it is fair to say that Austrade has welcomed our entry into that market. We continue to work extremely closely with Austrade and with diplomatic missions.

CHAIR—And you would not do this promotion unless you believed in it.

Mr McGuckian—Absolutely not. As Bill mentioned earlier, it is an investment over the next two to three years of several million dollars, and we are confident of achieving a return.

CHAIR—At the International Education Conference held in Fremantle a couple of weeks ago, was South America on the agenda?

Mr McGuckian—Yes.

Mr Streat—Yes, it was. That was our conference.

CHAIR—High up on the agenda?

Mr Streat—It was significant. We brought our general manager back from Latin America for that. It was part of the market presentations that were given to the audience of 600 people. Yes, Latin America was an emerging market that had high priority, high profile.

CHAIR—What or where is the highest market now?

Mr Streat—East and South-East Asia.

Mr McGuckian—The country with the single largest number of in-country students is Indonesia.

CHAIR—May it continue so. What was DETYA's response to your recommendations? I think it is on pages 5 and 6 of your submission that you say:

Undertake a strategic generic promotion campaign . . .

and also:

Consider the introduction of an Australian-Latin America scholarship scheme to promote the level and extent of Australia's sincere interest in developing relations with Latin America.

Mr Streat—We have not broached this with the department yet; we have not presented these proposals.

CHAIR—How do you think they will be received?

Mr Streat—As to the first question, the AEI is active within the limits of the resources it has available. It itself did a major market analysis of Latin America some six months before we went in and did our own prior to setting up, and we took the benefit of its survey. It also accompanied us, as our submission indicates, on this exhibition trail that has just been completed and used that opportunity to start intergovernmental discussions, and awareness raising of Australian education and its capabilities, with the authorities in Latin America. So we feel, within the constraints of the resources it has, that it is doing a reasonable job with us in Latin America.

As far as the scholarships are concerned, it is problematic. There is already a modest scholarship program for students. There are a variety of them, but when they are aggregated together they still constitute, in world terms, a very modest scholarship program, and it is unlikely that the department would have the resources to expand on that much.

At another time I might have the opportunity to talk about an alternative scholarship program that we would like to see introduced that would arise from the endeavours of a number of parties but might also include a reorientation of the existing scholarship provision into a more focused and marketable product—but maybe that is for another time.

CHAIR—If you would like to put that in writing to the secretariat, it could be floated as far as this inquiry is concerned. You could send it to us in confidence so that we can call you back, or whatever you like. How and where have scholarships, like an Australian-Latin American scholarship scheme which you are suggesting, worked in other areas? Have they worked, and what sort of competition do you have with, say, America on scholarships in South America?

Mr Streat—I might start the ball rolling here. We have very stiff competition with the United States. The United States offers foreign students, particularly those in East Asia, full scholarships: tuition, living expenses, air fares and so on. They would total something of the order of \$A20,000 to \$A25,000 a year. There is no way any Australian scholarship scheme of any note can match a full scholarship. The United States, by offering these sorts of scholarships—particularly to the People's Republic of China, Taiwan and so on—has over the years drawn the top intellectual talent out of those countries, which of course has massaged the development of the American IT industry. We just pale into insignificance beside what the Americans can offer by way of scholarships.

I would like to see the development of a full scholarship program, as I have mentioned, similar to that which is offered by the Americans, that would be offered to the top three to five per cent of intellectual talent in the countries of South-East Asia and would draw these people into Australia. That would offer a number of benefits. First, it would add to the intellectual capabilities within Australian universities because these top students—postgraduates—would be focused upon those institutions that are doing top quality research in their own right, in areas that were of course relative to the students' interests. We could market that back to the countries that Australia has, as it were, Nobel prize-quality scholars in the country. We could use that to market Australian education generally, demonstrating that Australian education had the capability to draw the top intellectual talent from these countries, which would have a compounding influence on our marketing endeavours and would generally add to the quality of the intellectual effort that is going on in this country.

At the moment, the scholarships that are offered are very small in number. The department of education could tell you more accurately. We have Australian-French scholarships, Australian-German scholarships and so on, but they number probably one, two, three or five. We have the Australian development scholarships which are run by AusAID. They are substantial but they are applied on a development assistance basis. Overall, the critical mass of scholarships offered by Australia is very small.

Mr McGuckian—It is interesting to compare countries where the old Colombo Plan scholarships operated—Singapore, Malaysia, Hong Kong, India, Indonesia, Thailand—from which we now have substantial flows of international students. With countries where there was never any Colombo Plan presence, particularly Taiwan and Korea, we still struggle, to a certain extent, with American domination of the markets.

CHAIR—Basically, if you are looking at coupling foreign aid with education or scholarships, it is a very good foreign aid type program for the future—I use those words very loosely.

Mr Streat—Yes. Some would argue that the Australian government effort in marketing Australian education, much of which is spent on placing personnel in very expensive locations, such as Seoul, Delhi or wherever, might be better spent if it were applied to a major scholarship program, because the populations of the markets that Australia is involved in are looking to see whether there is a balance between Australia's commercial interests in education and its generosity. If Australia could offer a substantial scholarship program, it would soften to some extent the very hard-edged marketing approach adopted by Australia. It benefits us a great deal that hard-edged vigorous approach, but by the same token it also puts people off a little. A scholarship program that could be taken in with your marketing endeavour would I think have a pretty significant effect on our pulling power—our attractiveness.

CHAIR—Just before I close, if you would like to send us the ideas that you enunciated a moment ago for a different type of scheme, we would very much appreciate it if you could contact the secretariat.

Mr Streat—We would be happy to do that.

CHAIR—Thank you very much for your attendance. You will get a copy of the transcript of the evidence, and you can make corrections to grammar and fact, and, seeing you are in the education business, you can most probably see if all the things you said were correct.

Subcommittee adjourned at 3.57 p.m.

