



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS,  
DEFENCE AND TRADE

(TRADE SUBCOMMITTEE)

**Reference: Australia's trade and investment relations with Central Europe**

WEDNESDAY, 19 FEBRUARY 2003

CANBERRA

BY AUTHORITY OF THE PARLIAMENT

## **INTERNET**

The Proof and Official Hansard transcripts of Senate committee hearings, some House of Representatives committee hearings and some joint committee hearings are available on the Internet. Some House of Representatives committees and some joint committees make available only Official Hansard transcripts.

The Internet address is: **<http://www.aph.gov.au/hansard>**

To search the parliamentary database, go to: **<http://search.aph.gov.au>**

## JOINT COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE

### Trade Subcommittee

Wednesday, 19 February 2003

**Members:** Senator Ferguson (*Chair*), Mr Brereton (*Deputy Chair*), Senators Bartlett, Bolkus, Cook, Eggleston, Chris Evans, Harradine, Hutchins, Johnston, Sandy Macdonald, O'Brien, Payne and Stott Despoja and Mr Baird, Mr Baldwin, Mr Beazley, Mr Bevis, Mr Byrne, Mr Edwards, Mr Laurie Ferguson, Mrs Gash, Mr Hawker, Mr Jull, Mr Lindsay, Mrs Moylan, Mr Nairn, Mr Price, Mr Prosser, Mr Scott, Mr Snowdon, Mr Somlyay and Mr Cameron Thomson

**Subcommittee members:** Mr Baird (*Chair*), Senator Cook (*Deputy Chair*), Senators Eggleston, Ferguson (*ex officio*) and O'Brien and Mr Brereton (*ex officio*), Mr Hawker, Mr Jull, Mrs Moylan, Mr Nairn, Mr Prosser, Mr Scott, Mr Somlyay and Mr Cameron Thompson

**Senators and members in attendance:** Senators Eggleston and O'Brien and Mr Baird and Mr Price

#### Terms of reference for the inquiry:

To inquire into and report on: expanding Australia's trade and investment with the countries of Central Europe, in particular:

- The nature of Australia's existing trade and investment relationships with the countries of Central Europe;
- The future trend of Australia-Central Europe trade and investment including:
  - the benefits for Australia as these countries become market-based economies;
  - the impact of accession to the European Union (EU) on Australian trade with the economies of the region, including Australia's prospects as an alternative trading partner as EU market domination increases;
  - the experience of non-EU countries in accessing trade and investment opportunities in Central Europe;
- The role of Government, particularly DFAT and Austrade, in identifying and assisting Australian companies to capture opportunities in Central Europe as they emerge.

## WITNESSES

<b>ADAM, Mr Abbas, Acting Director, Diversity Principles Section, Multicultural Affairs Branch, Department of Immigration and Multicultural and Indigenous Affairs .....</b>	<b>139</b>
<b>BAJKOWSKI, Mr Eugene Andrew, Federal Executive Secretary, Australia Poland Business Council.....</b>	<b>75</b>
<b>BERTONCELJ, Mr Bojan, Charge D’Affaires, Embassy of the Republic of Slovenia .....</b>	<b>95</b>
<b>GANCARZ, Mr Alexander Marian, National Secretary for Associations, Australia Poland Business Council .....</b>	<b>75</b>
<b>IBLER, Dr Mladen, Ambassador, Embassy of the Republic of Croatia .....</b>	<b>112</b>
<b>KEOGH, Mr Peter John, Principal Consultant, Acumen Alliance Pty Ltd.....</b>	<b>86</b>
<b>KESKI-NUMMI, Ms Arja Sinikka, Assistant Secretary, Temporary Entry Branch, Department of Immigration and Multicultural and Indigenous Affairs.....</b>	<b>139</b>
<b>KORDEK, Mr Michael, Affiliate Member, Australian Poland Business Council.....</b>	<b>75</b>
<b>MALARZ, Dr Adam, Hon. Federal Treasurer, Australia Poland Business Council .....</b>	<b>75</b>
<b>NASH-NASIELSKI, Mr Alexander, Member, Australia Poland Business Council.....</b>	<b>75</b>
<b>PARAJS, Mr Wieslaw, Vice President, Australia Poland Business Council.....</b>	<b>75</b>
<b>SLADEK, Mr Josef, Ambassador, Embassy of the Czech Republic.....</b>	<b>126</b>
<b>THURBON, Mr Phillip Richard, Director, Tourism and Working Holiday Makers Section, Department of Immigration and Multicultural and Indigenous Affairs .....</b>	<b>139</b>
<b>TURENICOVA, Dr Anna, Ambassador, Embassy of the Slovak Republic .....</b>	<b>102</b>
<b>VUKINOVAC, Ms Vlatka, Second Secretary, Embassy of the Republic of Croatia .....</b>	<b>112</b>
<b>VULPE, Mrs Manuela, Ambassador, Embassy of Romania .....</b>	<b>129</b>
<b>WIECLAW, Mr Jerzy, Ambassador, Embassy of the Republic of Poland .....</b>	<b>148</b>
<b>WOJTKOW-KACKI, Mrs Barbara, Member, Representative in South Australia, Australia Poland Business Council .....</b>	<b>75</b>
<b>ZOLADKIEWICZ, Mr Tomasz, (Commercial) Counsellor, Embassy of the Republic of Poland .....</b>	<b>148</b>

**Committee met at 9.33 a.m.****BAJKOWSKI, Mr Eugene Andrew, Federal Executive Secretary, Australia Poland Business Council****GANCARZ, Mr Alexander Marian, National Secretary for Associations, Australia Poland Business Council****KORDEK, Mr Michael, Affiliate Member, Australian Poland Business Council****MALARZ, Dr Adam, Hon. Federal Treasurer, Australia Poland Business Council****NASH-NASIELSKI, Mr Alexander, Member, Australia Poland Business Council****PARAJS, Mr Wieslaw, Vice President, Australia Poland Business Council****WOJTKOW-KACKI, Mrs Barbara, Member, Representative in South Australia, Australia Poland Business Council**

**CHAIR**—I declare open this third public hearing of the trade subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade's inquiry into expanding Australia's trade and investment relationships with the countries of central Europe. We will be examining our trade and investment relationships with 11 countries, namely: Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, Hungary, Slovenia, Romania, Bulgaria and Croatia. Of importance is the future trend of Australia-central Europe trade and investment, including: the benefits for Australia as these countries become market based economies; and the impact of accession to the European Union on our trade, including Australia's prospects as an alternative trading partner. Furthermore, we will be looking at the role of government—particularly the Department of Foreign Affairs and Trade, and Austrade—in assisting Australian companies to win business in central Europe. We hope that our inquiry will lead to a better understanding between Australia and the countries of central Europe and to an expansion in trade and investment.

On behalf of the trade subcommittee, I welcome the representatives from the Australia Poland Business Council. The subcommittee prefers that all evidence be given in public, but should you wish to go in camera please let us know. I do not think that is likely in this investigation, but you do have that ability. 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 before it submission No. 24 from the council. I now invite you to make a short opening statement before we proceed to questions.

**Mr Bajkowski**—I shall be very brief. I shall go straight to the recommendations. We are only dealing with the bilateral and multilateral aspects of trade between Australia and Poland. We are not touching on other countries. We believe that, to achieve the maximum benefit from Poland's entry into the European Union, we should follow an integrated approach and strategy that combines economic, political, cultural, historical and linguistic elements. We believe we should better exploit the advantages that are provided by Australia's multiculturalism and cultural diversity, which are very important. In trade policy formulation, we believe that the multicultural and multi-ethnic composition of Australia's population and its creative cultural

---

diversity constitute major assets for promotion of Australian exports, for attracting foreign investment to Australia and for exploring or identifying opportunities for Australian investment in Poland. Australian investment in Poland—not only the other way—is an upcoming issue now. We have some concrete examples about which we would welcome any questions you wish to ask.

We think that the Department of Foreign Affairs and Trade and Austrade could perhaps a little more actively monitor, encourage and assist such constructive activities as our society and similar organisations in other ethnic communities carry out. We also believe that Australia should be more actively presented and promoted in Poland before Poland's entry into the European Union. That would involve encouraging the systematic and active participation of the Australia Polish Business Council and other Australian-Polish organisations in the annual World Polonia Economic Conference in Warsaw. These are major events which are sponsored largely by the Polish government, although they are mounted by—

**CHAIR**—What is the conference called again?

**Mr Bajkowski**—It is called the World Polonia Economic Conference. These conferences are very large events which many countries with citizens or residents of Polish extraction attend, just—to put it bluntly—to push their goods, services and trade. I think we should be more actively present there.

We had several occasions to present Australian business opportunities and to promote Australia at those conferences. I think Mr Parajs has attended five of them—he is the vice-president of the foundation that organises those conferences. The conferences are attended by Poland's President and Prime Minister, its ministers for finance and trade—all the major ministries—and, of course, senior public servants and many local businessmen. To be frank, so far the conferences have been dominated by Polish community representatives from countries like the United States, the United Kingdom, France and continental Europe who, obviously, do not place Australia at the top of the agenda. In the meantime, some benefit has come through trade connections, but we strongly recommend that DFAT and Austrade take a very serious interest in that. They cannot be everywhere—

**CHAIR**—So, basically, business people of Polish background from various countries go to these economic conferences?

**Mr Bajkowski**—Yes.

**CHAIR**—Is there any role at all played by the Australian Embassy in that?

**Mr Bajkowski**—There has been some involvement. Perhaps Mr Parajs will say more because he has been to four conferences. I have not been to any, but he has attended every one. The Australian Embassy is involved, although I do not think it is greatly involved. One of the problems is that a lot of people see these conferences as meetings of purely Polish ethnic groups. In fact, some of the people attending come from countries like Malaysia. A company may have two or three employees of Polish extraction, and that entitles it to participate in the Polonia conference. No-one really advertises that in Australia. We have been paying all our expenses to attend the conference, and some assistance in this area to groups such as ours—there are probably other countries that have similar exercises—would be very useful.

---

**CHAIR**—Do you want to speak briefly about the conference, Mr Parajs, before we press on?

**Mr Parajs**—There are a few points I would like to raise. These conferences are held each June. About 500 people from 32 to 40 countries attend the conferences. The conferences give us the opportunity to exchange information, do business and extend relations. As I have explained a few times to Austrade, we should attend in a better way, presenting what Australia is, what it is able to do and in which fields we can cooperate with potential partners. Creating partnership is the main issue in these conferences—and the next step is doing business.

**Mr Bajkowski**—We have no quarrel with Austrade: we think it is an excellent organisation and does very well, and we do not want our comments to be taken as being critical in any way. However, I also think it important that Austrade's activities be supplemented in some way, perhaps.

**CHAIR**—They will check your *Hansard*.

**Mr Bajkowski**—Yes, they will. They always do. But I think it would be useful if Austrade were to start promoting Australian investment in Poland, particularly now that Poland is entering the European union—assuming it does enter. That is not a foregone conclusion, but I think we can assume it will happen. There are still opportunities to buy into a number of Polish businesses that would be profitable for Australia and generate funds. The husband of the lady who is running late—because she is on a plane from Adelaide—is now in Poland. He is a member of our organisation. He has been having discussions with the Polish economic minister about an opportunity to buy a major Polish plant that produces vodka—it is a plant that produces alcohol.

**CHAIR**—Did you say vodka?

**Mr Bajkowski**—Yes, vodka.

**CHAIR**—That is a bit unusual, isn't it?

**Mr Bajkowski**—Yes. They are marketing it; their plan is—

**CHAIR**—Do you think we could have some samples when we visit Warsaw?

**Mr Bajkowski**—We should have some samples here, but we cannot bring them into Parliament House.

**CHAIR**—No, of course not!

**Mr Bajkowski**—The lady actually offered to bring some samples. We persuaded her not to do it, because I think the machine downstairs would be a bit upset.

**CHAIR**—When we visit Warsaw, it will be different.

**Mr Bajkowski**—Yes. One of the promotional ploys that the company uses is to put vodka into bottles that have pictures of Sydney Harbour on them—and various other Australian

themes. They intend to buy the plant, and if they are successful they will import some technology into Australia and produce it here and service the nearby markets. I think most of the vodka here comes from New Zealand at this stage; there is a little bit being produced here, but not terribly much.

**CHAIR**—I thought it all came from Russia, so that shows my ignorance.

**Mr Bajkowski**—The Russians are very proud, of course, and I think we will not quarrel about the origins of this excellent drink.

**CHAIR**—There is Smirnoff.

**Mr Bajkowski**—Smirnoff is from America and New Zealand.

**CHAIR**—By the way, I understand that your two colleagues who were held up down below may want to join you at the table.

**Mr Bajkowski**—Yes, because they came here to testify. I was speaking about investment in Poland, and Mr Kordek is one of the investors, as well as being a member of the Australia Poland Business Council. He can give you a first-hand account of how investment happens.

**Mr Kordek**—I am involved in land development and home building.

**CHAIR**—Do you build homes here?

**Mr Kordek**—I build apartments here and in Warsaw.

**CHAIR**—It will be good to hear about what you are doing.

**Mr Bajkowski**—We believe it is a particularly opportune moment for our relations with Poland to progress because, whatever view we take of the Iraqi conflict and what is going to happen later, both countries are very close allies to the United States. Inevitably, this will have some repercussions for Poland and its relations with some of the western European countries. I understand that the Polish embassy will be presenting its own evidence. We are not part of it. I doubt whether they are going to talk about that issue, but I think it is going to be an important development.

**CHAIR**—They are the last witnesses appearing this afternoon, if you want to stay around.

**Mr Bajkowski**—I do not think any diplomats will tell you about adverse repercussions in economic terms, but there have been some. Also, Poland bought United States military aircraft recently in a major deal—it was a major offset deal as well. I think they spent \$4.1 billion and they are getting \$6.1 billion in offsets, if and when they get it. These deals are very difficult, of course. There was a lot of competition over that and some investment has been diverted to countries that bought European aircraft. There is an opportunity and there is a great deal of interest now in Poland in securing deals with Australian banks and financiers, particularly because of the situation as it is now. One knows that the European Union is going to give funds for development which have to be matched to some extent by local firms, and many local firms

---



do not quite have that money so they would probably want to borrow in Australia. Our interest rates are very competitive at this stage.

The other point I wish to mention is the promotion of tourism from Poland to Australia, which could be done more effectively. One marketing point is the fact that Australia is a very safe country; another is the fact that the Australian dollar is still fairly cheap in terms of foreign exchange. People in Europe, particularly Poland, think in terms of US dollars, so when they land in Sydney or Perth, and they have US\$1000, you have an immediate bonus. I think they should be encouraged to come and spend it. Trade missions could be combined with tourist activity. They are anyway, but as long as the Polish government continues to subsidise some of their trade missions we should make an effort to bring them over more frequently.

**CHAIR**—Thank you for that. You mentioned that you saw some downside in Poland's accession to the European Union. Could you outline what you see as the downside?

**Mr Bajkowski**—There will be some downside. Until there is a referendum, we cannot assume that accession is going to happen; but I think there is about an 85 per cent chance that it will. Coming here today, I heard an unfortunate remark on the radio. There was some dispute, with the President of France castigating several aspiring EU member countries—notably Bulgaria and Romania—for their views on Iraq. I have not heard anything about Poland; but judging from the speeches of Polish ministers I think that their outlook is identical to that of the Australian government, and the reaction of the population is roughly similar too.

**CHAIR**—On the assumption that Poland will go into the EU, do you think that it will be a positive thing for Poland overall?

**Mr Bajkowski**—Assuming they enter the European Union—and, as I said, it is not a foregone conclusion but it is most likely—there will still be many positive aspects for Australia. First of all, Australian firms operating in Poland will be able to operate without barriers in all European markets. That will be fairly important, even in terms of our agriculture. Australian banking institutions will not have to be limited entirely to countries such as the UK. Basically, if you go to companies such as Westpac, they essentially deal through London. I think that they will probably be able to offer services in competition with European banks. The European banks now have a very dominant position in Poland, but they are not invulnerable to competition, and I think we should look very seriously at providing credit facilities. Again, those companies registered in Poland would be able to operate throughout the European Union. The other thing, of course, is that Poland still deals a great deal with the countries of the CIS—the Commonwealth of Independent States—such as Russia and others, and there is always some difficulty in arranging payments. Poland is very much a clearing house for goods trades over there, and I think we could benefit from that as well. Dr Malarz would know more about that.

**Dr Malarz**—I want to add one small element regarding the issue of agricultural trade with Poland. After Poland's accession to the European Union obviously the full barrier will apply to Poland, and this will definitely impact upon trade from outside the area. I am saying this because when there are discussions about proposals of cooperation with Poland—and the other countries which adhere to the European Union—usually one of the advantages cited is that Poland will be a full member of the European Union. Obviously it will be, but agricultural exports will be as difficult with this area as they are with the European Union. It will be a level field, whereas now we can play a little bit on this difference.

---

**CHAIR**—I understand. Mr Kordek, do you want to give us the benefit of your experience of constructing homes in Poland? How long have you been there, and what types of homes have you constructed, et cetera?

**Mr Kordek**—I initially went to Poland in 1974. Mike and Steve Raymond of Liverpool City Raceway asked me to go and negotiate a contract to bring out some solo riders to a communist versus capitalist tour of Australia and New Zealand. That was my introduction to Poland. Then over the years, having been in touch when they changed the system in 1989 and having seen it at its lowest level—as is today's Serbia—Poland was the place to go for people who were looking for the big profits that we all like to make.

My partner, the legendary Dr Morven Dan of the Progress Property, and I went to Poland in 1989. We realised that that was the time to buy in, because you could buy in cheaply, but of course the problem was land ownership. Fortunately, being of Polish extraction, I was able to secure a site. But, unfortunately, I had to buy it in my own name, not in a company name. This has now caused me few problems, but that is a separate issue. I have been able to successfully build a block of 10 apartments right in the middle of the consular core residential area in Mokotow. That being the case, I have a unique opportunity to sell the whole building to any one of the consular people there. There are about 30 in the particular area. So far, the Syrians have shown the greatest interest, and I expect to make a handsome profit out of it. I now have the opportunity to take on half a dozen similar projects that I looked at when I was there last year—again, with very good profits.

But quite apart from the residential development aspect, because one travels via the USA, one could not help but get involved with the terrorist attack on the World Trade Centre. I am now looking at doing documentaries, and I have reactivated a dormant company—it was not dormant; I did produce a paper back in 1989—to do documentaries. One of the documentaries—I have a tape of it here, by the way—is a serious one pertaining to Australia. I have tried to sell it to the *60 Minutes* program in America. It was put through the system—who knows where it is—but they did not buy it and they did not show it. The significance of the documentary is that there was an ambassador here a year ago, Professor Radomir Davidovic, of Bosnia-Herzegovina, and that when he took over he came across certain documents that indicated that his predecessor allowed some 3,000 potential terrorists into this country. Anyway, he has come back and done a documentary for me—I do not know if it is appropriate for me to mention it here.

**CHAIR**—Unfortunately not, because our focus is on trade with Europe, but we note your comments with interest.

**Mr Kordek**—The trade aspect is the production of documentaries. I am fully into doing that now as well, and that was a spin-off from my initial interest in land development; whereas I initially went in to do land development, I am now doing these documentaries on fundamental Islamic terrorism.

**CHAIR**—That is interesting. Does anybody else have experience in investment in Poland?

**Mr Gancarz**—My background is in IT and ICT. I spent 15 years in the federal government working for different departments and a couple of years contracting. I have been in Australia for 20 years and I spent 30 years in Poland working in the IT industry, so I know the area. Now,

---

with my partners, I have decided to help Australian companies go to Poland. First of all, I want to put forward how it looks at the moment in Poland. As you know, Poland is a country of 40 million people but it is the size of Victoria—312,000 square metres. It is a country packed with people and packed with ICT technology. It went basically from no technology to high technology. In the 1980s there were basically no computers or software solutions. Now all the major players—IBM software, Microsoft and Oracle—are in Poland, and there are a number of Polish companies which have become system integrators and compete with the publicly listed companies. That is Poland; now let us move to Australia. There are 614 ICT companies registered with Austrade which are willing and able to export software around the globe. They are my clients or potential clients. I want to make two points: it is an excellent time for a company to move to Poland—or to help a company move to Poland—and Poland can be a vehicle to go further west.

**CHAIR**—That is quite interesting, because yesterday—Senator O'Brien was here as well—the Department of Foreign Affairs and Trade and Austrade both identified the IT area as a very significant one for Australia, particularly as it relates to government applications, too.

**Mr Gancarz**—E-government. That is one of the main points. Also, the Polish government have committed themselves to e-government, e-business, by the year 2004. As all of you know, we are the leader in the world in the IT in e-government solutions, and we put a lot of time, effort and money into it. That is our product at the moment. That could be utilised by businesses themselves, not only in Poland but in other countries.

**CHAIR**—Thank you for that. We will be looking at that area particularly in our discussions when we are in Poland—

**Mr Gancarz**—The main area is e-government, software solutions and Internet based applications. In Poland there are 5.2 million Internet users out of 40 million people, so that is a big proportion of people using the Internet. When I talk to my clients or my future clients—or they talk to me, because they see an opportunity for themselves and see that I can help them—there is a little bit of hesitation. They want to go but they know that it is a faraway country. They do not want to take all the risk, and they want to talk to me or my partners in Poland. They have expressed this a number of times, asking me to help and looking for assistance.

**CHAIR**—Are you aware that an Austrade trade mission to the former eastern bloc is planned for later this year and is going to particularly look at the IT area?

**Mr Gancarz**—No, I am not. I know a couple of companies have been to Germany, the Czech Republic and Poland but they are companies from the ACT such as Softtower and SoftLaw. Procom is pretty active.

**CHAIR**—We should link you in. The guy who is looking after that is Peter Kane, the National Manager of Central Europe at Austrade. He is putting that together, so I would suggest that you two speak about that. Because of the time parameters, Mr Parajs, did you have anything to add before we pass on to the others?

**Mr Parajs**—No, thank you.

**Senator O'BRIEN**—Dr Malarz, you touched on the difficulties which would be likely to arise on Poland's accession to the EU. What opportunities are you aware of that exist for Australian agriculture, agribusiness, machinery supplies et cetera that should be focused on in Poland, and how will that be affected by accession?

**Dr Malarz**—Before I answer your question, I would like to make a point that relates to point 12 in the executive summary. It says:

Two way "niche focusing" and packaging of Australian trade and business offers is very important for expanding bilateral relations.

This comes after point 11, which lists all the Polish organisations involved in trade. We think it is important that, prior to listing something as a trade opportunity in Poland, Austrade should do some preliminary research. They would not need to spend a great deal—probably \$1,000 per case, if they think it is appropriate and justified—to find out the intricacies of the Polish system, Australian requirements and all sorts of other issues. This would facilitate deals with small and medium-sized Australian enterprises or even their consideration of a business offer.

Obviously after the accession to the European Union—and this is your question now—there will be practically unrestricted access to the other parts of Europe for agricultural products. In particular, food-processing equipment is very important. Poland has to meet a very high standard of food-processing and preservation, and it is using less aggressive chemical fertilisers on its agricultural products. To be able to grasp these opportunities, the potential Australian partner has to have some assistance—probably a bit more than they can get from Austrade. I am not sure whether this answers your question.

**Senator O'BRIEN**—In part it has. You have identified a couple of areas that will arise as a trade opportunity with accession to the EU—food-processing equipment and agricultural chemicals.

**Dr Malarz**—I had an opportunity to speak to a lady who is a producer of pasta in Poland and supplies about 30 per cent of the country's consumption. She said to me that, after the European accession, she will lose the business because bigger companies—especially Italian companies—will offer much better technologies. She was here in Australia to find out whether she can get a partner with a similar technology to the western Europeans—the Italians in this case—and the French. We tried to help her; it is a difficult issue. This is one example.

**Senator EGGLESTON**—I was very interested in what you had to say about information technology, because I am the chairman of the Senate Environment, Communications, Information Technology and the Arts Legislation Committee. I understand that, in Poland, your phone system is now very largely wireless and that mobiles, because the old phone system was very old-fashioned, did not work very well. I would have thought there were great opportunities there for Australian IT development, especially in areas like broadband. I am also interested in the comments that were made by Mr Kordek about film, because we do have quite a strong export in films, particularly children's television. I wondered what you thought the prospects might be for the export of Australian film products to Poland.

Finally, in your submission you mention education as being an area in which Australia might develop a trade or business relationship with Poland. What kind of education did you have in

---

mind—technical education, more professional education or the VET program that we have in schools, a bit like the German program. What did you have in mind when you talked about education as an area which we might develop as an avenue of business between the two countries.

**Dr Malarz**—In 1987, I went to Poland to do a study for a consortium of Australian universities on the export of distance education to Poland. I spoke with everybody who was relevant to this area of tertiary education. It was supposed to be delivered partially by Australian universities and partially by Polish partners—the Polish universities—that were supposed to be concentrating on teaching English. I suggested that business studies should probably be considered as another possibility. Since the report of 1997, when the number of Polish private institutions was about 40, the number has now increased to about 175. So there is a big demand for private secondary and tertiary education institutions. For example, the number of students increased in about seven years by about 100 per cent. Nearly every parent in Poland understands that the way for social progress in the European Union is through the provision of good standard education for their children. The problem is the low fees paid by Polish people to institutions for education, but this is changing. In about two or three years, the price levels will change dramatically in Poland. Costs will increase. We expect that this venture and the future possibilities will continue to improve; it is not too late.

**Senator EGGLESTON**—You are saying is that there are now a lot of institutions both at the secondary and tertiary level that might be interested in Australian education and that business studies is a strong possible area in which we could participate?

**Dr Malarz**—Yes. Incidentally, I have the report in my suitcase here. It did not eventuate for very strange reasons. The two people who were interested from the Australian consortium lost their positions in the university elections, and we could not get interest from these universities any more. But I identified the potential Polish institutions which were interested and there was correspondence. They were still waiting for about a year after I finished my report.

**CHAIR**—I think that is a very good point. It is something we can pursue. It is obviously a focus: I note that the Department of Foreign Affairs and Trade have highlighted it; Austrade have highlighted it and you have highlighted it. Are you going on the trip, Alan?

**Senator EGGLESTON**—Yes.

**CHAIR**—That is great. Perhaps that is an area that you could take a special interest in, given your skills. Perhaps a bit of dialogue between you and Senator Eggleston would be very useful. Thank you for that.

In a perfect piece of timing there is one of our members—who will be nameless—who always arrives late and has maximum impact. I wonder whether you would mind introducing yourself and telling us a little bit about establishing your own business there, just in a few minutes, because we are just about out of time.

**Mrs Wojtkow-Kacki**—I apologise for being late. I am from Adelaide.

**CHAIR**—Thank you for coming; we appreciate your flying here. Could you tell us the name of the company you are representing today?

---

**Mrs Wojtkow-Kacki**—I represent the company called Victid Import/Export Pty Ltd. We import Polish vodka. My husband and I are in the process of purchasing one of the distilleries in Warsaw. At the moment, he is in Poland negotiating with the ministry of finance.

**CHAIR**—Is that the largest distillery of vodka?

**Mrs Wojtkow-Kacki**—No, it is not. From what I know, Poznan is the largest in Poland. There are a few others which are probably bigger. It holds about seven acres of land altogether. It is a very old area. It was built in 1800 by the Russians who occupied central Poland in those days. The distillery was built to supply the Tsar's army with vodka. At the moment, it is one of the very last ones on the market to be privatised.

**CHAIR**—What percentage of the market would that have in Poland?

**Mrs Wojtkow-Kacki**—I could not give you exact figures, but it is a fair size of the market.

**CHAIR**—And you produce vodka here or you import?

**Mrs Wojtkow-Kacki**—Konoser in Warsaw is actually producing vodka for us. We have bottles in Sydney and Melbourne.

**CHAIR**—But you import all of yours from Poland?

**Mrs Wojtkow-Kacki**—From Poland.

**CHAIR**—And now when you buy this distillery, they are all going to come from—

**Mrs Wojtkow-Kacki**—When we buy the distillery, we would like to establish an Australian Polish tourist bureau business centre. We would also like to import in bulk South Australian wine and have the bottling over there.

**CHAIR**—That sounds great. Do you plan a travel agency sort of arrangement?

**Mrs Wojtkow-Kacki**—We would like to. There are three big buildings on the property that are protected by the heritage people. We would like to convert them into medium class hotels for Australian Polish tourists. We would also like to have the Polish chamber of commerce office in there.

**CHAIR**—That would be great; it sounds good. Will either you or your husband be there when we are in Poland?

**Mrs Wojtkow-Kacki**—We will be there. We will probably have partners; we will take it in turns.

**CHAIR**—We would be interested in seeing the site and what you have.

**Mrs Wojtkow-Kacki**—We have support from the South Australian government in the project to establish a business centre.

---

**CHAIR**—That sounds very interesting. Perhaps the secretariat could get some details so that, if possible, we might be able to include that in our visit. If you or your husband were there, it would be interesting if you could take us.

**Mrs Wojtkow-Kacki**—Of course, it would be a pleasure for us. That is, if we are successful in buying it.

**CHAIR**—We wish you luck with all of that and we appreciate you coming. We are now five minutes over time. Obviously, the dialogue will continue. We invite you to stay for the rest of the day while we speak to others. We will be hearing from the Polish embassy today at 3.45 p.m. and, if you would like to stay, you are welcome to do so. Otherwise, thank you all for coming and for providing your input, particularly with regard to IT, the building and the businesses you have been interested in establishing. I think it is a great time for opportunity, with Poland going into the EU. We see this as a great impetus for our relationship with Poland to take off. It is an important market.

We have asked the various bodies—the Department of Foreign Affairs and Trade, Austrade and so on—how they rank the various countries. Certainly, Poland is right up there as one of the key markets, so your role as part of the chamber is going to be key. Let us, together—from the government side and your side—see what we can do to advance interests. As you would know better than us, there are a lot of people in Australia with Polish backgrounds who have risen to all kinds of very senior positions in government, bureaucracy and the private sector; we want to build on that. If you have any further comments that you would like to make you can do that directly to Pierre, the new secretary—Jane Vincent is retiring at the end of the month—or to my office or, if you know any of these gentlemen, you can go directly to them. We are very happy to continue to have dialogue with you and we really appreciate you coming today. You will be sent a copy of the transcript of today's proceedings. If you have any problems, Hansard will allow some minor changes. Thanks very much for coming.

[10.28 a.m.]

**KEOGH, Mr Peter John, Principal Consultant, Acumen Alliance Pty Ltd**

**CHAIR**—I welcome Mr Keogh to the table. The subcommittee prefers that all evidence be given in public, but should you at any stage wish to give evidence in private, please let us know. The subcommittee does not require you to give evidence under oath, but these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the respective houses. The subcommittee has before it your submission. It is submission No. 12. I invite you to make a short opening statement before we proceed to questions.

**Mr Keogh**—Acumen Alliance is one of those rare breeds that Austrade is looking for all the time. We are a small medium exporter. We export services. We are regionally based. We have been exporting for less than two years. Our involvement with central and eastern Europe has been through the exportation of management consulting services and the provision technical assistance to the Bulgarian government. Our main area of service export is government reform strategies and policies—assisting governments with their reforms to enable them to develop a more market based economy.

**CHAIR**—So you are particularly working with Bulgaria and Romania?

**Mr Keogh**—Our main focus at the moment is on those countries, but we currently have other projects in Afghanistan and Vietnam. We move around to where the government work and the government reform is.

**CHAIR**—How many consultancies do you have working for you? Is there a range of consultants?

**Mr Keogh**—We have about 130 consultants in Canberra. In our overseas projects there are about seven or eight at the skill level capable of providing expertise in government reforms. We also use a number of senior retired public servants who provide their expertise on a contract basis.

**CHAIR**—Like Max Moore-Wilton?

**Mr Keogh**—I don't think there are any airports being built! We would prefer to see a more strategic approach to the development of any relationship. Whilst we understand the need for specific opportunities, we do not see arriving at the airport with a couple of bottles of red wine in your hand as a long-term strategy for entering a market. We do not see selling e-government solutions to governments that do not have the funds to purchase them, or which are not computer literate enough to implement them, as a long-term strategy either. In our view, any long-term strategy and capability of a particular market or country is correlated to the stability and the reforms already undertaken by the central government. We are actively involved in providing that sort of assistance, particularly in the areas of budget reform, legislation reform and implementing financial management systems. Australia in particular has an extremely good reputation and strong skills in those sorts of areas. That reputation was borne some time back under this and previous governments. We took the reforms head on: we introduced accrual

---



accounting, we privatised, we outsourced. We did all the things that those governments now see as being crucial to the development of their economies. We now apply those skills around the world, basically through agencies like the Asian Development Bank and the World Bank.

**CHAIR**—Were the contracts that you are now doing won through the Asian Development Bank and the World Bank?

**Mr Keogh**—Yes, they were. One of the barriers to trade that Austrade identifies in its proposal is the lack of funds from government to implement e-governments, for example. That is why the World Bank, the Asian Development Bank and the economic redevelopment bank are taking such a strong lead in helping those governments to come out of the past and to provide a framework in which trade can be done. The biggest barrier to any sort of trade is a lack of information and a lack of confidence in the market—and that comes from stable government. Before anyone is going to take the risk of looking at a market, they will also look at the risk involved in entering that market. Stable governments, with a lack of bureaucracy and which promote good governance, provide the types of markets that people see as being easier to enter.

Getting back to my earlier point, all of these projects are funded by the World Bank and various aid agencies. This morning I read on the Internet that the World Bank has channelled some \$A80 billion into central and eastern Europe in the last 10 years, of which over 60 per cent is channelled towards government reforms in various sectors. The challenge for Australian firms such as ours—and even for some large, well-known and capable project management firms like SMEC, ACIL and SAGRIC—is that the system of awarding contracts under the World Bank and the Asian Development Bank is heavily weighted towards experienced consultants who have physically worked in those markets previously.

For example, it is quite common in a tender evaluation that 80 per cent of the points awarded will be awarded if the company has done work in that country and its consultants have done work in that country. So that is a significant barrier to Australian firms entering those markets. I can name, off the top of my head, nine to 10 Australian consultants that are working in that region, but they are working for American firms—purely because the American firms have had that experience.

My proposal to the committee was that perhaps we should look at a more strategic approach to the market, develop relationships with government, help reform the government, and take a long-term stand in the market. From that, trade and relationships will develop. If you go into a project in Bulgaria, Romania or any other countries, you develop relationships with the people in senior government. That is when you introduce them to a bottle of wine from Australia. Those relationships develop future trade.

**CHAIR**—Were you suggesting that this assistance from the government initially be done on a cost-free basis?

**Mr Keogh**—The proposal that I put in the paper to the committee was to do with the mechanism that exists in the European Bank of Reconstruction and Development, of which Australia was a founding member; I think it is the third largest non-European contributor. Inside that bank is a technical assistance branch that provides technical assistance to various governments in government reform. My proposal was that, along with many of the other governments that support the European Bank of Reconstruction and Development, perhaps we

---

could channel money away from the EMDG—the Export Market Development Grants—which I think is more output based. It can tell you how many nights it paid for accommodation and how many people took planes, but it cannot really nut down how many exports it developed. We could take a small amount of that—I was only proposing a couple of million dollars—and put it into the technical assistance department as tied aid, just like any other country is doing. We could get the Australian companies to do tied aid work in these countries. From that, they will easily then be able to be in a very strong position to win significant amounts of work from the World Bank and now the Asian Development Bank.

**CHAIR**—Is tied aid a basis for providing assistance, so you say that you will offer the assistance with structural reform in terms of financial management if this flows on?

**Mr Keogh**—That is up to the countries in question and the European development bank. But, yes, I believe that there is opportunity for us to work with the bank, work with the governments, identify specific areas where they need help and provide some tied aid linking back Australian firms to go and do a small project for, say, \$60,000. From that, they will then be in a position to win projects in the vicinity of \$2 million to \$3 million from the World Bank. It seems a small investment and it builds on what I mentioned before—developing this long-term strategic approach to the market, building relationships with government and then pulling trade into the market based on those relationships and based on the capability that we have and that we have already displayed overseas.

**CHAIR**—I think that sounds a very interesting approach and very worth while. It is certainly one which has not been in our official briefings to date. That is very timely.

**Mr Keogh**—To my surprise, I think you will find that Austrade even made mention in their submission of looking at tied aid and looking at ways of taking a strategic approach to the market.

**Senator EGGLESTON**—Are you saying that we should look upon central Europe as a bit like South-East Asia—an area that needs support and aid? For example, in Vietnam we are working with the government on a better governance program to improve governance levels. Is that the sort of approach you are suggesting?

**Mr Keogh**—I am sorry, I missed the start of your question, Senator.

**Senator EGGLESTON**—I was asking whether you are suggesting, by talking about Australia working in cooperation with the World Bank and seeking to get attached to World Bank programs, that we really should be looking at central Europe as being a bit like parts of South-East Asia which need a lot of assistance in governance and the development of financial institutions and so on. Is that what you are saying is needed, rather than direct trade?

**Mr Keogh**—I am not sure whether there is a tied aid capability available in the Asian Development Bank. But, if you look at what we have done in Asia, particularly in countries like Vietnam, our relationships in trade have been developed by the work we are doing in reforms with the governments.

**Senator EGGLESTON**—That is sort of what I was asking: should we use a country like Vietnam as a model for what we should do in central Europe?

---

**Mr Keogh**—You could use Papua New Guinea and Indonesia as models, with what we started under the Colombo Plan back in the fifties and sixties. The benefits from the Colombo Plan are our good trade relationships in Asia now. There is the model—the Colombo Plan back in the sixties. It takes a long-term strategic approach to a market, rather than an opportunist approach. The approach which says, ‘What can we sell in?’ is only good until someone comes on the next plane with the same product at a cheaper price.

**Senator EGGLESTON**—Thank you. I understand what you are saying.

**CHAIR**—As you see the markets from your strategic viewpoint, I am surprised that you started with what we would have seen as perhaps smaller markets; I think Romania and Bulgaria were the two that you mentioned. How do you see Australia’s involvement overall, taking a strategic viewpoint? Of the range of eastern European countries, which ones do you think—

**Mr Keogh**—I can only speak about Romania and Bulgaria, because that is where we had skills and capabilities. For a firm like ours, a small to medium exporter, a relatively small project of \$2 million to \$3 million is quite huge. The long-term benefits from that and the capability of winning other projects is the big carrot in front of us. You talk about Bulgaria and Romania being relatively small but, as I mentioned earlier, there are World Bank projects in there that start at \$50,000 or \$60,000. We believe we could do those capably, but we are excluded because of the weighting system in awarding tenders—because we have not done work there. To win those tenders is only a matter of winning a small amount of work there, through what I propose—the tied aid approach.

**CHAIR**—Yes.

**Senator O’BRIEN**—We have seen a lot of US businesses use the Irish model as a beachhead into the EU. Would that be a model that we could also follow, given that these countries are not now in the EU but are likely to gain accession on 1 May 2004? That might place us at an advantage. We have seen a lot of US IT, pharmaceutical and other businesses establishing in Ireland and using that as their beachhead for economic activity in the EU; I am wondering whether Australia could use that example and apply it to establishing businesses in some of these central and eastern European countries which, with accession, will move into the EU on 1 May next year.

**Mr Keogh**—I am again a little out of my expertise here. Realistically, the market we are talking about is significant enough for all Australian exporters. We still have an obligation and a commitment to the Asian market. Sorry—I have lost my train of thought.

**Senator O’BRIEN**—That is all right. You may want to think about that and let me know if there is something you want to contribute; I would appreciate it.

**CHAIR**—What role do you think Austrade should have in terms of your strategic model?

**Mr Keogh**—Being a former trade commissioner like you, Chair, I think the resources that they have channelled into that area are correct. I use the analogy that it is like running for election—you put your resources into marginal seats where you think you are going to win the opportunities.

---

**CHAIR**—Do they have a rep at the EBRD to assist? They used to have a trade commissioner in Manila.

**Mr Keogh**—They used to have a trade commissioner for the ADB. I do not think that position exists now. I am not sure whether they still have a trade commissioner in New York for the World Bank; I think they do. But they certainly do not have someone specifically in Europe.

**CHAIR**—The World Bank is in Washington, isn't it?

**Mr Keogh**—Yes. A more strategic approach by Austrade is to look at building the relationships in assisting firms in this role of assisting the government. I believe that the more strategic approach is building on the multicultural links that we have, rather than having these one-off 'take a product to the country' trade shows. Looking at ways we can develop a strategy that builds on relationships with the governments and that builds multicultural links is going to provide a far longer term strategy and view of the market than—I am a little bit cynical—just running off there with flavour of the month products.

We talk about e-government. If you walk through some of the departments of finance in those countries, you will not find a computer. Why are we talking about e-government when there are no computers or servers? Even if they did want them, they do not have the funds to get them, because they have to get the funds from the World Bank. Other countries—particularly Poland, the Czech Republic, Slovakia and Hungary—are a different kettle of fish. They are significantly more advanced. But as you move further into eastern Europe you will not find a computer in a department of finance. So why are we talking about e-governments? When are you there, go for a walk through some of the departments of finance. So perhaps we need to rethink that.

I can talk about this from experience, because we do a lot of consulting to the federal government here. Name me a government department here that met the deadline of 2001 for e-government. You will not find one. If you look at the role of NOIE and go to their web site, you will see that a huge amount of work needs to be done in structural development, protocols and all the government reforms that need to back up implementing an e-government reform. How does the e-government link into their financial management when they do not have a financial management act? These are things that perhaps have not been thought out to that extent, and they are perhaps things that can be looked at on your visit.

**Senator EGGLESTON**—But they would be areas in which we could offer assistance. We have NOIE; they do not. We could say, 'This is what we are doing,' and provide a model, which in a way is the sort of thing you are talking about, because it is a strategic approach.

**Mr Keogh**—We do have an e-government role, but we really need to look at where they are at and what their capabilities are.

**Senator EGGLESTON**—I understand that point, but obviously they want to get to the point where they can have the capability for e-government. We can show them the way to get there as part of a program of assistance.

**Mr Keogh**—I agree with you there but, before we can sell them a piece of software, they need government reforms and a structure to put it in and work with it, in the framework of good government. They can have the piece of software sitting there but, if they do not have a

---

financial management act that supports that framework, then it is useless. They do not have the good government to take advantage of that piece of software or do what they are trying to achieve. In Bulgaria, we were dealing with pieces of legislation in their accounting act that came straight out of the dark old days before the bringing down of the wall. If the accountant of the department got it wrong, he went to jail. This was the type of legislation we were dealing with. Before we can go in and talk about trade, we need to help them develop the infrastructure to support good trade relationships and good operations of government. This will enable trade to foster and develop. The basis of good trade with any country is the capability of its government to manage and support it—and for there to be a lack of bureaucracy.

**Senator EGGLESTON**—That surely becomes an area where Australia could play a big role in demonstrating what modern financial laws should be, how the civil service should be structured and so on; don't you agree? Is that what you are saying?

**Mr Keogh**—Sorry Senator, I am having a bit of difficulty hearing you.

**Senator EGGLESTON**—We could offer advice on and demonstrate to these countries the development of new financial models, new financial laws, a structure of government and so on. That is a legitimate area where we could offer quite significant consultancy assistance, is it not?

**Mr Keogh**—That is the genesis of my paper. That is where we should start, because that lays the foundation for a long-term strategy into the market. Most of that government reform and the consultancies are being funded by the World Bank. Australia has difficulty in breaking into that. I think the Treasury report submission mentioned that Australia has had a low success rate in securing technical assistance tenders to help government reform. Yet I know, as I said before, that nine or 10 consultants who are working with an American company in central Europe are Australian consultants from Canberra—ex-department of finance, ex-HIC and ex-Treasury. The Australian companies cannot break in because of this barrier of not having been there before.

So the strategy is: if we can get some small funding for tied aid for project management firms in Australia to go and do this work through the European Bank for Reconstruction and Development, we can then go back to the World Bank and say, 'We now have experience; we can now take on the larger projects in our own right.' We are not talking about a big lot of money. The technical projects that would push this along could be something like a \$60,000-project on budgetary reform; from that you would win a significant World Bank project. And you could get 30 per cent of it back in tax.

**Senator EGGLESTON**—Is there a culture of looking to the United States for this sort of advice and assistance?

**Mr Keogh**—Quite the contrary. Most of the government reforms are being recommended by the World Bank and the Asia Development Bank. Other reforms have originally come out of Canada, New Zealand, Australia and the UK. As I mentioned before, they are around output budgeting, accrual accounting and those sorts of areas. There are very few experienced consultants in the world who have actually done this type of work. They are now retiring out of the public service or are still doing it here. The reason why American companies are winning the jobs is that they score highly on the tender assessments because they are using consultants who have done that work. I will just add that, had those consultants been working with an Australian firm and the Australian firm had had experience in that country—this is how the

points system works—in awarding a tender, obviously you get more points. We have not had that experience in those countries, yet our consultants are being used by other companies particularly out of Amsterdam, the US and the UK.

**Senator EGGLESTON**—When you talk about getting more points, does that come back to what you referred to as the ‘weighting program’?

**Mr Keogh**—The weighting program in awarding tenders by the World Bank, yes.

**Senator EGGLESTON**—Can you explain that more fully for the benefit of the committee?

**Mr Keogh**—Usually in a tender process, you put in two documents—a technical proposal and a financial proposal. The normal ratio that applies is that a technical proposal will earn you 80 per cent of the points, and a financial proposal will earn you 20 per cent of the points. With respect to the technical proposal, the experience of the consultant and the firm in the country in question is usually weighted at about 90 per cent. So about 70-odd per cent of the awarding of points under a contract system goes to your previous experience in that country.

**Mr PRICE**—That is a pretty superficial test that you have been pointing out this morning: you do one project and you get the full quota of in-country experience.

**Mr Keogh**—It is superficial, but it is very risk-adversed by the World Bank.

**Mr PRICE**—I accept that.

**CHAIR**—I presume some relevance is given to whether your previous consulting assignment in the country was appropriately handled?

**Mr Keogh**—With the Bulgarian project, we put in consultants that perhaps did not have the skill levels that were required to do a good job, but we knew that we would win the points because they had worked there before.

**CHAIR**—We get your drift. What constraints exist in working with the EBRD?

**Mr Keogh**—I do not know of any constraints, because we have been precluded from working with the EBRD. We have mainly done work with the World Bank.

**CHAIR**—Why have you been precluded—because you are not European?

**Mr Keogh**—Most of the projects come out of the World Bank. It is just that the government reform projects have come out of the World Bank and international labour organisations.

**CHAIR**—What comes out of the EBRD then?

**Mr Keogh**—The EBRD has only been going since, I think, about 1990—but I can be corrected on that. The EBRD, particularly with its technical assistance, is now looking at where it can go with the technical assistance program. Now would be an opportune time to talk to it

and say, 'We would like to take a moralistic approach to central Europe, and we would like to help government reform. We believe we have good capabilities. We want to see it in tied aid.'

**CHAIR**—I presume it is based in Brussels, is it?

**Mr Keogh**—I think so.

**CHAIR**—In terms of this tied aid, you recommend that that be with the EBRD or with the World Bank?

**Mr Keogh**—I do not believe that the World Bank does tied aid, but I believe the EBRD does.

**Senator EGGLESTON**—Can you tell us exactly what 'tied aid' means? Can you give us specific examples?

**Mr Keogh**—Putting it in its raw form, you would say, 'Of the money the we have put into the EBRD, we see government reform in budgeting or financing as being crucial to these countries. We would like to put in half a million dollars to explore how these governments can advance their budgeting techniques. With that half a million dollars, we will use Australian project management companies and consultants who have high-level skills in this area'—just like the Japanese are doing.

**CHAIR**—I understand that there are Australian Treasury officials who work with EBRD. Have they been of assistance in trying to win some of these projects?

**Mr Keogh**—We have not had any discussion with Treasury. Our main focus at the moment is trying to win projects off the World Bank and looking at what has been done at the EBRD, but we have not had discussions with Treasury or anything like that. I think Treasury make mention of the EBRD in their submission. In point 7, on page 3 of submission 19, Treasury mention that we do not win work because the other countries use tied aid.

**Mr PRICE**—You were saying that we should adopt a strategic approach to these countries. But isn't Austrade under tremendous pressure for year-by-year results? Isn't it to some extent mutually exclusive to, on the one hand, have a long-term strategic approach to developing a relationship and trade opportunities with a country and, on the other hand, to have this emphasis on getting year-by-year results?

**Mr Keogh**—To be quite honest, since 1986 Austrade has always been under pressure.

**Mr PRICE**—I, for one, will not dispute that.

**Mr Keogh**—I guess it is under pressure to constantly produce the 'now factor' of what they are doing and how they are doing it. But, like all government funded organisations and statutory authorities, it has to take the best approach for the Australian economy. In conjunction with the Department of Foreign Affairs and Trade, which is also in those regions, it should be taking a long-term strategy. Perhaps the answer is for DFAT to take the strategic role and for Austrade to take the more operational role—I do not know. Maybe that is a good mix; maybe that is what they are doing now. I think you were right in your comment that Austrade is under pressure.

**CHAIR**—Thank you very much, Mr Keogh. We appreciate your input. It was most useful, and it was also provocative in terms of the strategic approach that is necessary. We will be testing your theories as we go on. Your input certainly made a lot of sense to me in terms of an appropriate way to go. I still think we might consider taking a couple of bottles of red wine and see how that works.

**Proceedings suspended from 11.04 a.m. to 11.12 a.m.**



**BERTONCELJ, Mr Bojan, Charge D’Affaires, Embassy of the Republic of Slovenia**

**CHAIR**—I welcome you on behalf of the Trade Subcommittee. The subcommittee prefers that all evidence be given in public, but should you at any stage wish to give any evidence in camera, please let us know. I do not believe it will be necessary in this case. The subcommittee has received submission No. 3 from the embassy. I invite you to make a short opening statement before we proceed to questions.

**Mr Bertoncelj**—At the outset I would like to thank the committee for its inquiry. I think it is important to get this part of Europe back on the radar screen in Australia. On the basis of our submission, I would like to point out a few elements. I would like to start with the notion that Slovenia has an open economy. From the data, 60 per cent of our GDP comes from exports. Price and cost effectiveness are the main factors of this open economy. On one side, we have a commercially competitive economy; on the other side, we have economic and political stability, which again gives some sort of potential sustained growth.

**CHAIR**—Are most of the exports to the European Union?

**Mr Bertoncelj**—From the latest data, 60 per cent of the exports go to the European Union, 19 per cent goes to south-east Europe and around 10 per cent go to the countries of CEFTA—the Central European Free Trade Association. I would also like to stress that Slovenia is very active in obtaining access to markets, and this has now been made easier through the 33 free trade agreements which Slovenia has concluded.

**CHAIR**—What happens to your free trade agreements upon your accessing the European Union?

**Mr Bertoncelj**—These free trade agreements have been established before our accession to the European Union. Apart from the data which we have put in our submission, I stress once again that Slovenian GDP purchasing power is around \$A29,000, which represents 72 per cent of the European Union average.

**CHAIR**—Are you saying GDP per capita?

**Mr Bertoncelj**—No, GDP per purchasing power—GDP per capita is around \$A16,000. Sixty per cent of GDP comes from services, 31 per cent comes from industry and just three per cent comes from agriculture. Last year, total GDP was \$US19 billion, with real growth of three per cent, which I think is quite a number. Our inflation was a bit higher than was perhaps expected or would be seen as favourable in the European Union. It was about 8.4 per cent. But unemployment is quite okay at 6.4 per cent. In Slovenia we have 67,000 students at university. So Slovenia offers a very well-educated work force in that sense. I also point out that we have an IT sector. I heard before that this is also quite an interesting point for Australia.

**CHAIR**—Before you move off the GDP figures and the economic base, what has the growth rate of your economy been in the last few years? Did you say three per cent?

**Mr Bertoneclj**—It was three per cent last year, but taking the data on a mid-term basis, over the last five, six or seven years the average would be around four per cent. Regarding the IT sector, e-government is already very much in practice. It is not just in some empty rooms. There are computers—which I say in response to hearing before that in some cases this may not be the case.

**CHAIR**—The last gentleman was talking about the further east you go. You are amongst the furthest west.

**Mr Bertoneclj**—Yes. I also point out that our government is very well aware of the need for the electronic conduct of business in the economy. One of the things which we have just put into operation is a new scheme called e-Slog, which stands for ‘electronic Slovenian economy’. To our knowledge, with other systems in Europe in mind, this will be one of the most advanced systems. To put Slovenia in the European Union context, in the enlarged European Union of 25 members, Slovenia will of course be a small member. We will have 0.4 per cent of the inhabitants, 0.3 per cent of the GDP and 0.7 per cent of the foreign trade. Nevertheless, our ambition with economic policy is very high—within 10 years we aim to become one of the 10 most developed European Union countries.

I will tackle two points in our submission—that is the European Union and NATO. We have advanced a bit from the data that I put in there last year. On 19 April, along with other candidates, Slovenia will be signing the Accession Treaty. We have also formally been invited to join NATO. This is connected with the question of a secure environment and a secure economy, and also some impetus which we expect from the investment programs out of that framework. In trade with Australia, in comparison with what Australia is trading with some big countries, the numbers are not much but still it comes to around \$US30 million, so the total trade exchange is about \$A50.7 million. Nevertheless, I looked at some data from the DFAT submission about the countries that are involved in this inquiry and Slovenia, although it is a small country, is actually in fourth place.

As you are probably aware—and you can see from the data—Slovenia is not a big market per se for Australian exports, but I stress the importance of being an open economy. The other fact is that we are strategically positioned geographically in Europe and that means we can offer to be a hub for selling to customers in the European Union and to the fast-growing markets of central and south-eastern Europe. Something was said earlier about confidence in the market. In respect to this, I would like to point out that we have two bright examples of how opportunities from the Australian side can be seized. One has been around for quite a few years, a company called Impact International in Sydney, and the other is perhaps more well known, the retailer Harvey Norman which opened its first store in Europe last year in the Slovenian capital Ljubljana. This is also one of the arguments for Slovenia: it is possible to see that there are big opportunities behind doors which have been closed for some years.

**CHAIR**—How has Harvey Norman been going there?

**Mr Bertoneclj**—To my knowledge, they are doing very well. Of course, they have some competition from Slovenian companies, but as a newcomer they are doing very well. This will bring this company closer to some markets in the vicinity of Slovenia, which I think was also the idea. The fact that they chose Slovenia is one of the elements that we would like to point out.

**CHAIR**—What was the other firm that you mentioned?

**Mr Bertoneclj**—It is Impact International. It is owned by a Slovene who came to Australia many years ago. Part of this company is a factory in Ljubljana which was owned by his family before the Second World War.

The last thing I would like to point out is perhaps an attractive opportunity from the Australian side—that is, the port of Koper. We have already mentioned this in our submission. We would like to stress that this port could be a south European gateway for Australian goods. This port could serve very well as a logistic distribution centre in the heart of Europe. From the Australian side, that would mean you would save time and money. It also serves a region with huge economic potential. We are to become a member of the European Union and Slovenian business has knowledge of the south-eastern European region. I would like to point out that the transit time between Sydney and the port of Koper is about 37 to 40 days. This compares well with the transit time between Sydney and Rotterdam, in northern Europe, which is 50 days. I think this is quite important in today's framework of how business is conducted.

Again, the port is less than 24 hours from all major central European markets and the journey is about 500 kilometres shorter. This is not much perhaps compared to the vastness of Australia, but it is quite a distance in European circumstances. The port of Koper, with its specialised and well-skilled personnel, would be able to offer some real opportunities, not just as a distribution centre for Australian goods—which I think we would put first—but also for possible investment in joint venture operations, in cooperation with Australian logistic operators working with the port of Koper for the Australian market. I would like to point out that last year foreign direct investments in Slovenia grew significantly, and I think this is also an area in which we can upgrade our relations.

**CHAIR**—Thank you for your review. Have you had the vote on accession to the EU yet?

**Mr Bertoneclj**—No, we will have a referendum on 23 March. There will be a referendum on the same day on European Union accession and on joining NATO. We are quite confident that it will go positively. There is always a debate in terms of public opinion and the level of support, but we are quite confident that this will be the case.

**Mr PRICE**—As politicians, we are always interested in polls. What is your estimate of the positive vote?

**Mr Bertoneclj**—Of those who turn up, about 60 per cent will be for the European Union and a bit more than 50 per cent will be for NATO. It will not be overwhelming, but it will still be quite an important yes vote.

**CHAIR**—You talked about the IT area being a potential area in which we could work. You have had the advantage of sitting through the recommendations from Mr Keogh as to how we could work in providing advice on structuring government IT et cetera, and opportunities could develop from that. What did you think of his proposal?

**Mr Bertoneclj**—It might be that differences exist between countries in this region. I mentioned that e-government is already in place in Slovenia. Not many governments and government sessions in western Europe operate with computers. Another thing is that some of

---

the services which are very important to citizens are in place. They are quickly within hand's reach—for example, there is electronic book lending, which is very important for our people. I again point out the significance of the IT sector. Wherever it is possible to get connected with businesses in this segment, the government is doing so. Businesses already do 70 per cent of their business with the European Union electronically. We are very much up to the standard of the European Union countries. In this respect, we do not expect big problems or anything like that with our accession to the European Union. I will point out one more thing. Something was said earlier about the capacity of the market. In terms of being a future member of the European Union, I think Slovenia is already the only country which is in a position to absorb all the financing which is now available from the European Union, in the sense of structural and cohesion funds. That shows what kind of development has been done in the 12 years since independence.

**Mr PRICE**—As I understand it, Slovenia has always been the more industrialised part of the former Yugoslav federation. You have always had a history of being a highly industrialised country. Is that correct?

**Mr Bertoneclj**—Yes. Economic data shows that about 25 per cent of the former Yugoslavia's GDP was developed by Slovenia although it had a small number of inhabitants in proportion to the other parts of Yugoslavia.

**Mr PRICE**—What will be the challenges for Slovenia in terms of entry into the EU?

**Mr Bertoneclj**—I think entering the European Union is a very natural step forward for Slovenia. After gaining independence for our country, joining the European Union and NATO is the second most important step in our development. In a way, it is a natural step. It is something that is inevitably coming to us, as all the companies and industries are already so connected with European Union countries.

**Mr PRICE**—In some ways it would then be fairly seamless. I would have thought that there would not be too many difficulties for Slovenia as opposed to, say, Poland, which has to restructure its agricultural industry et cetera.

**Mr Bertoneclj**—That is one of the more problematic issues for the European Union. But agriculture for Slovenia represents a bit less than three per cent of the GDP. Our difficulties—and I see perhaps some possibility for cooperation here—will be more a question of sound environmental development and protection.

**Mr PRICE**—What are the reasons for the opposition vote to EU membership?

**Mr Bertoneclj**—It is not so much economic, I would say, as perhaps a fear that, with accession to the European Union, Slovenia will lose some of its national identity. However, I think that is not a factor, as we can see from the members who are in the European Union now. The national state will go on.

**Mr PRICE**—Is it more about independence?

**Mr Bertoneclj**—On this, perhaps there is more—I don't know how to put it—resentment. But the agricultural sector—farmers who are traditionally linked with the soil—have quite good political representation and that is how it then comes to this effect.

**CHAIR**—You were a part of the former Yugoslavia, weren't you?

**Mr Bertoneclj**—Yes. Slovenia was one of the republics of the former Yugoslavia.

**Mr PRICE**—It gained independence with bugger-all bloodshed. Pardon my ignorance, but does Slovenia have a merchant fleet—ships that carry goods?

**Mr Bertoneclj**—Yes; we have our own company.

**Mr PRICE**—Is it a national or a government owned company?

**Mr Bertoneclj**—Yes, it is a national company. I do not know exactly what the government's stake in it is and what might be owned by the private sector. To go a step back with regard to the privatisation process in Slovenia, this process is a bit different from that in other countries. It was perhaps a bit slower in the eyes of foreign investors, but I think that our economic data shows that we made the right decision in 1991. In recent years, ahead of the European Union accession, the government has put programs in place to go more in this direction—there were some big privatisation projects with some of the banks, insurance companies are still to be dealt with, and probably some energy systems.

**CHAIR**—I have a couple of questions. You have now been in Australia for a few months. Is that right?

**Mr Bertoneclj**—It will be nine months soon.

**CHAIR**—That is a significant amount of time. From where you sit at the moment, where do you think Australia has got the best opportunities in terms of trading with your country?

**Mr Bertoneclj**—There are possibilities to use the links which we already have and to find some new ones. On this very basis, representing major imports or exports, I think it shows a good grasp of what the market is after. As I said, the other thing is that Australia should really use Slovenia as a hub to go to this part of Europe. It is this that I think we can offer. It would also be a political and economic niche in Slovenia and the European Union, with the knowledge of south-eastern Europe.

**CHAIR**—One thing Rotterdam boasts about is the high rate at which it can move containers. How does your rate compare to Rotterdam's? I have forgotten the figure, but I understand they can move about 17 or 18 containers per hour.

**Mr Bertoneclj**—I would have to provide that data later; I do not have it in my head now.

**Mr PRICE**—We are shocked!

**CHAIR**—The container rate is a key factor people look at when deciding whether to use a port, and it is one of Rotterdam's big attractions, in terms of its overall efficiency. What about education services—that is an area that has been identified by DFAT. Were you at the DFAT presentation yesterday?

**Mr Bertonec****lj**—No.

**CHAIR**—It was interesting, because they talked about education and bringing students to Australia. Did you say you already have 67,000 students studying. Are there opportunities there?

**Mr Bertonec****lj**—This is one of the opportunities, although—to be accurate—the figures I have looked through show that Slovenia does not have a large proportion of students coming to Australia. But one of the things I believe is quite important is the fact that Slovenia is very much interested in an exchange—not just a one-way flow. Slovenia is interested in attracting Australian students to come to Slovenia too. Perhaps some development in the educational services that Australia has would be most welcome. I must also stress that there are a lot of direct connections between universities in Slovenia and Australia, going to very specific areas of cooperation that perhaps government is not always very well aware of. In some areas, such as biotechnology and electronics, we find that universities are cooperating very well. There is no formal, written arrangement, but that cooperation is going on. Interest in the exchange system will also be derived from that kind of cooperation.

**CHAIR**—Are there opportunities in the area of insurance as well?

**Mr Bertonec****lj**—Yes, because insurance companies are on the brink of a privatisation process. As I explained earlier, that issue was until now part of the debate about national interest in Slovenia—which I found very similar to the one which goes on here, although it focused on some other aspects of the question. What proportion of companies should stay in the hands of Slovenians was one of the questions raised, for instance. I think that is now behind us and the merits of foreign direct investment have been seen in terms of economics, politics and public opinion. Since this sector is in an initial phase, I think it would be worthwhile for Australia to look at.

**CHAIR**—I have a final question related to Slovenia's inflation rate, which I understand has been an issue for you. Can you tell me what the rate is at the moment and what the average over the past few years has been?

**Mr Bertonec****lj**—I am not an expert on the exact interpretation of data, but at the moment I think our macroeconomic institute measures the inflation rate at around 7.2 per cent. If you were to measure it over a longer period, it would be about eight per cent, although the figure varies from month to month because it incorporates the cost of energy and so on.

**CHAIR**—Why has your inflation rate been higher than the European average? Are there any factors for that? Are there any reasons for that?

**Mr Bertonec****lj**—The question of why inflation is high is another of the more, if you like, scientific debates back at home. There are different explanations, but the Slovenian government's economic policy has given Slovenia a very sound base. One aspect is Slovenia's

---

quite extensive social system, and in a way higher inflation is part of the price for that. But, as I said, since December last year when we got a new Prime Minister, inflation has been one of the main issues for the new government. Of course, inflation must also come down because of the European Union economic criteria.

**Senator EGGLESTON**—If Slovenia goes into the European Union, we will lose the potential for agricultural exports to your country. I suppose it is true to say that we will need to get into things like financial services, insurance and IT, which are clever things. But I noticed you also made some reference to environmental programs: I wonder whether there are any aspects of Australia's environmental policies which might particularly apply in your country and which you might like to enlarge upon?

**Mr Bertoneclj**—I am afraid I am not an expert on the environment but, as I think I already mentioned, this is becoming a more and more important issue for Slovenia as well. Since it is a small country, the potential risk from the effects of environmental pollution is high. In this respect, this will be one of the areas we will develop very much. There is already very good cooperation with some European Union members—Austria and Italy on our northern and western borders—and we have had some very good results. With the knowledge Australia has, it is very worthwhile to step into this area. I am sorry I am not expert enough to give you more concrete information on the programs that go on.

**Senator EGGLESTON**—That is quite understandable.

**CHAIR**—Thank you very much for coming today. We have now run out of time. We appreciate your input and look forward to continuing the dialogue. This committee is proposing to have a luncheon with the various representatives of the eastern European countries, and we will let you know the details. It will be an opportunity for more informal dialogue. We will undoubtedly be in touch with you as we proceed. Not all our members will be going; we will be splitting into two groups.

**Mr Bertoneclj**—We are looking forward to it too.

**CHAIR**—That will be great. I plan to go to Slovenia myself. I am looking forward to that.

**Mr Bertoneclj**—Thank you very much.

**Mr PRICE**—We will have to increase the security arrangements if the chair is going to Slovenia!

**CHAIR**—Exactly. That is what other people have said!

[11.51 a.m.]

**TURENICOVA, Dr Anna, Ambassador, Embassy of the Slovak Republic**

**CHAIR**—Welcome. As you know, the committee prefers all evidence to be given in public. If you at any time wish to go in camera, please let us know, but I do not think that will be necessary in this case. The subcommittee has an exhibit from the embassy. That is exhibit No. 2. I now invite you to make a short opening statement before we proceed to questions.

**Ambassador Turenicova**—Thank you very much for this opportunity. I say that very frankly and sincerely, because I am very grateful for it. Even now when I introduce myself and say that I am from Slovakia, people quite often say, ‘What? Yugoslavia? Czechoslovakia?’ Even last week, an Australian daily newspaper published a map of Europe, listing the countries which support and oppose the US approach towards the crisis in Iraq, and the map did not show my country. It was swallowed by Poland, Hungary and the Czech Republic. Slovakia just disappeared from the map.

**CHAIR**—I apologise on behalf of the media.

**Ambassador Turenicova**—I do not blame you. I know that you know where Slovakia is. Many of the members of the subcommittee visited my country two years ago. That delegation included the Speaker of the House of Representatives. So I know that you are aware of where the country is and what it is like. This low level of knowledge is probably because the country is so very young. We recently commemorated the 10th anniversary of the independent existence of the Slovak Republic. Slovakia is only 10 years old.

**CHAIR**—You were part of Czechoslovakia before. Is that right?

**Ambassador Turenicova**—It was Czechoslovakia before. It has only been Slovakia for 10 years. If you consider that the Slovaks settled on the territory of today’s Slovakia in the fifth and sixth centuries and that Christianity was spread in the ninth century, the Slovak lands and people have been incorporated into various states and empires for a long time. But all the time they were struggling and hoping for their own country and identity. Fortunately, independence was achieved in a peaceful and smooth way. From recent history, you might remember the famous Velvet Revolution by which the old regime was transformed into a democracy. That happened peacefully. This was followed by what might be called the Velvet Divorce—the splitting of the former Czechoslovakia, when the two peoples, the Czechs and Slovaks, agreed to go their own ways. That also happened without conflict, by negotiation and without a drop of blood being spilt.

Instead of repeating all the figures and numbers we have delivered to you in written form, it would probably be better if I gave you a picture of the country—an idea of the atmosphere and situation currently. Slovakia these days is a fully democratic country which sees its future as a part of Europe, as a part of the European family of nations and as a future member of the European Union.

**CHAIR**—When is your referendum on accession?

---



**Ambassador Turenicova**—The referendum is on 16 and 17 May this year. From the very beginning, the firm policy priorities of the Slovak government included the membership of three key international bodies: the OECD, NATO and the European Union. Slovakia became a member of the OECD in August 2000. I would like to take this opportunity to thank you very much for Australia's support for our membership. We were invited during Australia's presidency in the organisation, so I really appreciated that very much because I could inform my ministry and my government that it was 'my country' which supported our membership. We were invited to join NATO last November at the summit of NATO in Prague. With respect to membership of the European Union, Slovakia was among the first countries which closed the 30 chapters the union negotiated with the candidate countries. Over 70 per cent of the population of our country support membership. I think that will be demonstrated in the referendum in May this year.

All these positive steps and developments are achievements of the current government, which was re-elected in September last year. It is also a very interesting and positive moment: probably for the first time in a postcommunist country the same government has been re-elected. Usually, the government is changed or there are some preliminary elections, but for the first time the same government is staying again for a second period, which we consider a sign of stability.

Slovakia definitely had a much more difficult starting point than other countries in our region. As you can understand, you cannot have everything twice in one country. After the split, many things—especially institutions, including the foreign service—remained on the Czech side. In going through a transformation process—transforming the economy to a market economy—Slovakia had to build many things, such as institutions and so on, from point zero. So that was the difficulty we had to go through. Fortunately, Slovakia was able to catch up. Today's economic results are very comparable with the results of the other countries in the region; in some cases, they are better than those of some areas.

A lot of help and cooperation from other foreign countries and the inflow of foreign investments have made these results possible. Attracting foreign investors is one of the Slovak government's priorities. Foreign investment is still considered to be the big hope for bringing positive prospects to the Slovak economy. Slovakia offers a lot of advantages to investors. Allow me to mention just some of them: its tax credit; its duty-free import of machinery and equipment; and its repatriation—up to 100 per cent— of post-tax profits in foreign currency. Slovakia is ready to close agreements concerning double taxation and protection of investment. At this stage, allow me to add that Australia and Slovakia have already signed the agreement about avoiding double taxation, and the IPPA—the Investment Protection and Promotion Agreement—is in its final approval stage. It will be ready to be signed in a very short time.

At this stage, I would also like to mention a very important thing—that is, that Slovakia is the first and, as far as I am informed, probably the only country in central Europe which abolished visa requirements for Australian passport holders. You are experts in economics so you will understand that it is, of course, a certain loss of financial income for us—for example, my embassy was able to live from the money we charged for the visas. But I was able to convince my government that it would help our bilateral relations and that, once Australian citizens in another country in Europe knew that there were no formalities necessary to enter our country, they would go and visit Slovakia. I was right. I get the proof every day when Australian citizens call the embassy, and we happily inform them about this arrangement. They very much appreciate that, and we know that they are going to visit Slovakia.

---

**CHAIR**—Well done.

**Ambassador Turenicova**—Thank you. Another advantage to investors is the possibility of up to 100 per cent company ownership. Slovakia offers a skilled work force with a high percentage of university graduates. At this stage, I would like to mention that Slovakia's work force has received highly positive evaluations in respect of high professional levels. If you look at the education structure in the Slovak Republic, you find that 12 per cent of the population are university graduates, 79 per cent of the population have secondary or technical education and there is almost no illiteracy.

Another very interesting and important thing is that currently—from the little country of Slovakia, with its population of 5.4 million—1,600 students are studying at educational institutions in Australia. Most of them are in Sydney, but there are also some in Perth, Adelaide, Brisbane and here in Canberra. I say that with real pride and happiness, because I belong to the generation that was punished. Under the communist regime, my generation and the older generations were not allowed to learn foreign languages or to travel. You can recognise that by my knowledge of English.

**CHAIR**—You have caught up since.

**Ambassador Turenicova**—I am happy that the kids have different opportunities and that they can go out in the world and get education. I am also happy that their parents are able to afford to pay for these courses, to buy their tickets and to send them to this developed part of the world to get a good high standard of education.

**CHAIR**—Why has Australia done so well?

**Ambassador Turenicova**—Australia is, of course an attractive, beautiful country, and those who have already been here go back and spread the information and more and more students come. However, your question is very important, because the other significant factor is the fact that Australia allows students to work for a certain time per week, which means that they can pay for their stay here from the money they earn. First they have to pay for the course when they are still at home—and they have to buy their tickets, of course—but then it is easier for them to afford their stay because they can work as waiters, pizza deliverers et cetera.

**CHAIR**—I met someone last night driving a taxi who was a student at ANU, and he was on 20 hours a week—I think that is what they are restricted to.

**Ambassador Turenicova**—Yes. That is a big help and a big advantage for them. Additional advantages for investors in Slovakia also include the fact that Slovakia is a candidate country to the European Union, which means that Slovak industrial goods have free access to the European markets. While having a skilled work force, labour costs are still very low in Slovakia, and a very important advantage for investors is that Slovakia provides a top location to promote traditional trading ties with the developing economies in the east, including the former Soviet Union, while offering a low cost base for supplying the European Union. The advantage of Slovakia's location is that it is in the middle of Europe: the geographical centre of Europe is on the territory of the Slovak Republic. Slovakia has been used already by an Australian company called Legend, which is based in Adelaide in South Australia. Legend opened its base in

Slovakia in the city of Bojnice. It distributes its computer hardware products not only to the former communist countries but also to the members of the European Union.

**CHAIR**—Is the head of that company a former Slovak?

**Ambassador Turenicova**—It is an Australian company, but one of the directors is of Polish origin. He recognised that Slovakia is in the middle of Europe, and so he opened his base in our country, even providing goods from Slovakia to Poland.

Among other advantages to investors are a top network of roads and inland waterways to market areas and a stable microeconomic environment within eastern Europe, based on a low per capita foreign debt and a stable currency. I could list a lot of other advantages, including the 10-year tax holiday and many others. Thanks to these, the Slovak Republic received the greatest number of investments in ratio to GDP of all the European Union candidate countries. Germany, Holland, Austria, Italy, France and the United States have been among the strongest investors. France is especially strong. Since Slovakia was invited to join NATO, France has decided to build a new plant producing Peugeot and Citroen cars in the city of Trnava in Slovakia. That is really a green field project. Another very important and increasing source of investment in Slovakia is Japan. In 1992 there were zero investments in Slovakia from Japan. Now, with Namuri, Yazaki and Sony, Japan is among the strongest investors. As a result, Japan opened an embassy in Bratislava last year.

I have been going through different magazines and brochures about the current development of foreign trade and foreign investment. To give you an idea, there are headlines like ‘South Korea Samsung shall employ up to 600 employees in Slovakia’; ‘Italian businessman intends to build an industrial zone in Levice’; ‘The entry of concern US Steel into Slovak steelworks: advantages for both parties’; ‘Dell Computer Corporation opens a centre in Bratislava’; ‘American Delphi increases its investment in Slovakia’; ‘German investors visit Kosice’ et cetera.

The Slovak Republic welcomed the first investment from Australia. QBE bought 99.4 per cent of a Slovak insurance company and, as I have already mentioned, the company called Legend is taking advantage of the top location in Bojnice. But bilateral economic cooperation is not a one-way street. I can state that some Slovak capital has also come to Australia. We have a company called R Glass—Royal Glass—in Sydney, which is exporting crystal from Slovakia and importing it into Australia. They are quite successful. We have a software company called Gratex. It is also based in Sydney. These are Slovakia’s exports to Australia. Talking of exports, we also exported somebody who is regarded as a very successful businessman. I think he is regarded as the second richest man in Australia—the owner of the Westfield shopping centres, Frank Lowy. He was born, educated and grew up in Slovakia.

**CHAIR**—A good man to have on side.

**Ambassador Turenicova**—I hope we have more of that kind in Slovakia. In the materials we prepare for our government—for our ministers—there is a very nice expression. The expression is ‘unused reserves’—or ‘unused opportunities’—between Australia and Slovakia. I am sure this inquiry, for which I am very thankful, will help to get better use of these unused reserves or opportunities.

My personal praise of my country might not sound all that convincing, so I will avail myself of another Australian daily, which announced a competition for its readers. They asked readers to send them postcards from locations where they spent their holidays, and the postcard with the best and most interesting text on it would win a book prize. The winner was a postcard from Slovakia. From the city of Banska Bystrica, the Australian tourist writes:

We discovered this enchanting musical comedy town by chance and before the tourist hordes who will come soon enough, alas. No tipping accepted in cafes and the tower in the village square plays waltzes on the hour. Charming, polite, helpful locals. No graffiti. Innocence and charm everywhere. We are delighted and wish we could stay longer. Lovely mountains surround and the variety of flowers delightful. Excellent food and strong coffee—nothing expensive.

I encourage you to go and see it.

**CHAIR**—It sounds good. Before we get on to questions, there is a technical problem in terms of our committee's visit to Slovakia. We have discovered that Good Friday is in our program, and we need to cut back because I understand that it would be very difficult to meet people on Good Friday. People do not work on Good Friday. Is that true?

**Ambassador Turenicova**—Will you be in Slovakia from 8 to 10 April?

**CHAIR**—We are not sure because we are looking at the program now. We have problems with our program because of Good Friday. Is it true that that is a public holiday?

**Ambassador Turenicova**—Yes, Good Friday is a public holiday.

**CHAIR**—We need to have a look at our program again, as we have some problems with trying to fit everything in. Thank you for your very enthusiastic presentation of your country. It sounds as though it would be great to visit. With your knowledge of Australia and Slovakia, what represent the best opportunities for Australian trade in Slovakia? We have had some suggestions in terms of investment. But, knowing what you do about the Australian opportunities, can you say whether they are in areas like e-commerce, the agricultural area, the manufactured areas, sporting goods or automotive equipment? We are looking at possibilities. Have you given any thought to that?

**Ambassador Turenicova**—There are already some products which are either imported or exported, and I would say that those are the most suitable for export or import. From Slovakia to Australia, there are some small agricultural machines, some minitractors and some other vehicles—I do not know the name of them—to put up some heavy goods; they are special vehicles for that. Those things are already imported from Slovakia. This equipment and these vehicles are becoming more modern. They are now, and will be in the future, good articles for import.

What is very important to Slovakia is tourism. The country is truly beautiful. It is often called the Switzerland of central Europe with the wonderful Tatra mountains, which are common to Poland and Slovakia. But what we need are new hotels and accommodation facilities, and also services. When I say that the country is recovering from the past, the most difficult thing to change is the way of thinking—the minds of people. They quite often still think in the previous era, so the services generally are not as good as those in the Western world. It would be a really wonderful opportunity for Australia because here services are number one and we would need to either prepare or to educate—

---

**CHAIR**—They are not number one all the time, but most of the time.

**Ambassador Turenicova**—I consider this area of tourism to be a wonderful opportunity: for us it is necessary and for Australia it is very suitable.

**CHAIR**—Is 2007 the date of proposed access for Slovakia to the EU?

**Ambassador Turenicova**—No, it is 2004. On 16 April this year, the Accession Treaty will be signed in Athens. The referendum will take place in May, and then the accession agreement will be ratified in all the parliaments of the member countries of the European Union. In 2004 the new invited countries, the candidate countries, will become full members. It is arranged so that they will be able to vote in the European Parliament elections in 2004.

**CHAIR**—I understand that the government is promoting industrial parks in Slovakia. Can you outline the benefits to Australian companies wishing to locate there?

**Ambassador Turenicova**—I mentioned that there are some countries that are already building industrial parks. What is very correct here in Australia is that there are residential areas and there are industrial areas. In our countries, and my colleagues will probably confirm this, it is quite mixed. This is a very progressive way to organise the structure of industry and residential parts. These industrial parks are starting to be built in different parts outside the cities. For example, the one I mentioned earlier that the Italians are building is a wonderful opportunity for the citizens from the capital city, Bratislava, to find a workplace that is not in the city itself but outside it, and it offers a lot of workplaces for the citizens.

**CHAIR**—Do you offer special incentives to locate there?

**Ambassador Turenicova**—For sure: as I mentioned, they have special advantages like 100 per cent ownership, 10-year tax holidays and so on.

**Senator EGGLESTON**—Under the heading of ‘opportunities’, you mentioned opportunities for Australia to export minerals and other raw materials. What are we talking about: coal, iron ore and those kinds of minerals, or things like aluminium?

**Ambassador Turenicova**—We are a small country. We have some resources for our own needs, especially resources of brown coal. Our next door neighbour, the Czech Republic, has some black coal resources and Poland, our northern neighbour, also has black coal. So we are importing coal especially from our neighbouring countries, and probably all these sources—our own source and those of these two neighbouring countries—are sufficient for us. I have already spoken with several partners in Slovakia about this issue because I was approached at the beginning of my posting here, but at this time we probably have sufficient coal.

**Senator EGGLESTON**—What about other minerals and raw materials? You mention them as export opportunities for Australia. What are we talking about—bauxite or titanium perhaps?

**Ambassador Turenicova**—That would probably be a better opportunity, because we have an aluminium factory in Slovakia.

**CHAIR**—Is it a smelter or is it an extrusion plant? Is it where they produce the aluminium ingots or where they extrude the aluminium products?

**Ambassador Turenicova**—Extrusion. That would probably be an opportunity, but it would be necessary to speak with the experts in this field.

**Senator EGGLESTON**—Do you have a steel making capacity?

**Ambassador Turenicova**—Yes, we have one of the biggest factories in the eastern part of Slovakia. I mentioned that the US Steel concern is already there.

**Senator EGGLESTON**—Where does your iron ore for the steel mill come from—Sweden or somewhere like that?

**Ambassador Turenicova**—It comes from the former Soviet Union. We also have our own resources under the High Tatra Mountains.

**Senator EGGLESTON**—Do you get oil and gas from Romania?

**Ambassador Turenicova**—We also get them from the former Soviet Union, but the government has negotiated with many other countries about the diversification of our sources for oil and gas.

**Senator EGGLESTON**—You said that there was a lot of Japanese investment. Does that include making cars?

**Ambassador Turenicova**—Exactly. We are a small country, but so many car parts are produced in Slovakia that you would be able to put together a whole car. There is strong investment from Germany, from Volkswagen, and whole cars are being built in Slovakia. A lot of small parts are also being made—for example, rear-vision mirrors. Other car parts are being produced by a Japanese factory in Slovakia—I do not know which parts, but some parts.

**Senator EGGLESTON**—That is interesting. Thank you very much.

**CHAIR**—What is the average income in Slovakia, compared with the current average income in EU countries? If there is going to be an attraction to invest, obviously the labour component is important.

**Ambassador Turenicova**—I could not tell you exactly. As I mentioned, the labour cost is very low in Slovakia.

**CHAIR**—What is the average income?

**Ambassador Turenicova**—The average income in Slovakia would be about 12,000 Slovak crowns, and 22 Slovak crowns would equal \$A1.

**CHAIR**—So that is about \$A5,000.

**Ambassador Turenicova**—It is very low. It is less than the average income in neighbouring countries in the European Union.

**Senator EGGLESTON**—Slovakia was where all the industry was in Czechoslovakia, wasn't it; you were more industrialised than the Czech Republic?

**Ambassador Turenicova**—The former Czechoslovakia was among the seven best developed countries in the world, but many years under the old regime have thrown us back into the Middle Ages, unfortunately.

**Senator EGGLESTON**—That is very dramatic.

**CHAIR**—There are great opportunities for you now, though. I notice that SARIO, the Slovak investment and trade development agency, has set itself the task of attracting 10 per cent of CEFTA FDI flows by 2010. How does the government plan to reach this goal?

**Ambassador Turenicova**—Those advantages which I listed are very interesting and important for potential investors. SARIO are doing promotions in different countries. I have tried to get them to Australia for many years, and hopefully I will be successful in the future. They are doing these promotions to explain to potential investors the advantages of and the incentives for coming to Slovakia and how to establish a company in the Slovak Republic. So they make potential investors aware of the very interesting and lucrative advantages there.

**CHAIR**—Which country in the existing EU does Slovakia have the most relations with—economically, politically et cetera?

**Ambassador Turenicova**—Economically, it is definitely Germany. Germany is the strongest investor and foreign trade partner. Of course, Slovakia also has the most relations with Germany politically, but I would also say Austria. As our next-door neighbour, Austria helped us very much, especially after the fall of the Communist regime. Austrian politicians were the first to speak on the tribunes and in the big square in Bratislava to give us courage, encouragement and motivation not to give up. So I would definitely say Austria, regarding the political scene. But it is also amongst the biggest investors and trade partners. Germany would take first place as the strongest investor, with Volkswagen, Siemens and Henkel. A lot of German companies are in Slovakia. They built a lot of plants from point zero—for example, a shoe company in a less developed part of Slovakia offered more than 2,000 jobs for Slovak citizens.

**CHAIR**—You mentioned that France has been there with their new plants.

**Ambassador Turenicova**—Yes, France has been the most recent to develop, as I mentioned. Being invited to join NATO meant for the member countries that Slovakia is a safe environment. France chose Slovakia from amongst various competitors and decided to build a plant for Peugeot and Citroen cars.

**CHAIR**—Is the second language in Slovakia now English or German?

**Ambassador Turenicova**—It is definitely English now. In the past it was probably German because Austria is our next-door neighbour but, as I mentioned, we were not allowed to learn

foreign languages. I was perhaps over 30 when I first heard a native speaker of a foreign language. So it was a really bad situation but, with the influence of Western culture, it would now definitely be English. If you go around the streets, you will hear that everybody younger than me speaks English perfectly.

**Senator EGGLESTON**—What about the older people? Do they speak Russian as well? Did they learn Russian as a second language?

**Ambassador Turenicova**—Yes. The only foreign language taught in our schools was Russian, so we all speak Russian.

**CHAIR**—What about your own background? You have done a very good job in representing your country. Could you tell us about your career and how you ended up being the ambassador to Australia? It would be interesting to know.

**Ambassador Turenicova**—Thank you very much. I was a simple village girl from simple parents. I had the chance and the privilege to be chosen to study in the eastern part of Germany, of course; nothing else would have been possible at that time. My first foreign language was German, but in Germany we learnt a little bit of English. However, this was taught through German. When you say ‘sky’, I do not think of the equivalent word in the Slovak language but ‘Himmel’ in German because I learnt English via German. I studied in a university in Germany. I studied Germanistics, which is German literature, history and culture. Then I worked with the then Czechoslovak television in the international relations department. But what kind of international relations could that be? It could be between Slovakia and Bulgaria, Slovakia and Poland et cetera, but it was taboo with other countries. When I wrote my PhD—

**CHAIR**—What was the PhD in? Was it in German?

**Ambassador Turenicova**—Yes, it was in German. I did it in the same university where I had studied, in the city of Leipzig. I asked the government to allow me to go to Switzerland for two months. I do not know how it happened, but I was allowed to travel to Switzerland. That was a shock for me. We had been brainwashed about how the bad capitalist enemies lived. We were told that they were just beggars on the streets. Then I saw the reality.

**CHAIR**—You started at the top a bit with Switzerland!

**Ambassador Turenicova**—Yes, exactly. It opened my eyes and that is why, when the regime was falling down, I was able to convince the people to protest on the streets and in the squares.

**CHAIR**—What role were you in at that time to be able to convince people?

**Ambassador Turenicova**—I was able to convince them because I had seen the reality behind the Iron Curtain. I was among the leaders who brought the people into the streets and into the squares. I was able to tell them what the reality was—how it actually looks rather than how they were telling us it looked. I was able to tell the people how they were manipulating our minds. After the fall of the regime, it was not only the old politicians who were fired but also their staff. New staffers were needed. Because they knew that I spoke German and a little bit of English they asked me to join the first democratically elected prime minister in Slovakia. I was the spokesperson and press secretary for three prime ministers. Then after the splitting up of the

---



former Czechoslovakia, they elected the first Slovak president and he asked me to join his chancellery, also as his spokesperson.

**CHAIR**—Is this your first posting as ambassador?

**Ambassador Turenicova**—Yes, it is my first posting.

**CHAIR**—You have done very well. Thank you for the excellent job you have done today and we look forward to being in contact as we try to organise our program.

**Ambassador Turenicova**—I would be more than happy to help you with your trip to my country.

**CHAIR**—Thank you.

**Proceedings suspended from 12.31 p.m. to 1.34 p.m.**

**IBLER, Dr Mladen, Ambassador, Embassy of the Republic of Croatia****VUKINOVAC, Ms Vlatka, Second Secretary, Embassy of the Republic of Croatia**

**CHAIR**—On behalf of the trade subcommittee, I welcome you. The subcommittee prefers that all evidence be given in public, but should you at any stage wish to go in camera, please let us know. However, I do not consider that it is likely in this type of inquiry. The subcommittee has before it a submission from the embassy that is submission No.10. I now invite you to make a short opening statement, if you wish, before we proceed to questions.

**Ambassador Ibler**—Thank you. It is a great honour to have the opportunity to present my country before the trade subcommittee at the parliament of Australia today. In my presentation I will try to describe the economic development of Croatia, its progress toward a market economy and the opportunity for Australian trade and investments in Croatia. As you probably know, the Republic of Croatia is a central European and Mediterranean country, spreading over an area of approximately 20,000 square kilometres—it is larger than Tasmania—and with a population of 4.3 million. The country can be divided into three zones: the coastal zone in the south; the mountainous zone stretching across that central part of Croatia; and the lowlands in the north of the country. Each of these has its own geo-economic characteristics.

During the last 10 years since its independence, Croatia has been undergoing a transition from a socialist to a liberal economy. Due to the war environment, Croatia had in the beginning negative economic growth. The trend of economic recovery with an upward tendency has been registered in the last two years, with an annual average GDP growth rate of 3.8 per cent. The economic growth that began in 2000 after the 1999 recession continued in 2001, reaching 4.1 per cent. Services, trade, transport, communication and tourism had the highest average growth rates, while the signs of a notable recovery were shown in the construction industry. The contribution of industry to its growth was the second largest, following that of trade.

The main generator of GDP growth in 2001 was domestic demand, while in 1999 and 2000 it was net foreign demand. The estimated growth rate for 2002 is 3.5 per cent. GDP per capita doubled from \$US2,349 in 1993 to \$US4,625 in 2001. Inflation remained subdued, with a retail prices growth of 1.7 per cent, showing a substantial downward trend of inflation in 2001. Personal consumption rose by 4.5 per cent in 2001. It was actually the second consecutive year of personal consumption growth as a result of not only an increase in wages and salaries and government transfers to households but also a new household sector borrowing from banks. Government consumption in 2001 followed a downward trend, which resulted in a decline of 3.9 per cent of the annual consolidated central government budget.

Investments in gross capital formation, with a 9.8 per cent annual growth, contributed 2.2 per cent of the GDP growth. Favourable developments in demand and financing conditions encouraged investments. Bank loans rose by approximately 12.7 per cent in nominal terms in 2001. External debt stood at \$US11 billion or 54 per cent of GDP at the end of 2001, which is lower than at the end of 2000. The structure of external debt by debtor shows that the government retained the highest share in total debt—about 44 per cent, remaining at the level recorded in the previous year.

The merchandise trade balance was negative in 2001 and stood at \$US4 billion, up 25 per cent compared with 2000. Croatian exports to developed countries accounted for 62 per cent of total exports in 2001 and were mostly to EU markets. Austria, Germany and Italy were the main trading partners. The remaining 38 per cent of exports related mostly to developing countries, mostly CEFTA and former Yugoslavian states. Imports of goods from developed countries accounted for two-thirds of total imports.

The transition from a socialist to market economy was not an easy task. The infrastructure and organisational structures take many years to develop, as do the training skills, ethics, standards and practices of the marketplace required for an economy's efficient operation. The strategies of transition to a market economy involved rapid development of these requirements. The path and pace of reform were influenced by a number of factors—strength of political support, legal and institutional infrastructure for a market economy and privatisation of previously state owned companies. The overall goals of the reforms in Croatia are: the creation of a favourable business environment similar to the one in the EU, further development of the market economy institutions, the promotion of international competitiveness, the mobilisation of private investment, and an increase in employment.

The Croatian government is giving special attention to trade liberalisation based primarily on the reciprocal, bilateral free trade agreements, in line with EU and WTO standards. About 80 per cent of Croatia's foreign trade is done under free trade conditions. Croatian industrial and agricultural products exported to the EU market are completely without any customs or nontariff restrictions. Countries with which Croatia's free trade agreements have entered into force are: Iceland, Liechtenstein, Norway, Switzerland, Hungary, Macedonia, Poland and Slovenia. Countries or trade areas with which free trade agreements are to be signed or will soon enter into force are: CEFTA, Albania, Lithuania, Moldova, Turkey, Serbia, Montenegro and Bosnia and Herzegovina—and that is applicable from the beginning of 2001. CEFTA countries will be applicable from the beginning of next month.

Croatia is a Mediterranean and central European country and, at the same time, has a very long coastline and very easy access to the biggest single consumer market in the world—the market of the European Union. Two major sea ports, Rijeka and Ploce, are starting points of pan-European road and railway transport corridors. The capital city of Zagreb lies on the main European east-west corridor. There are several international airports. The most important among them are in Zagreb, Split and Dubrovnik, from which there are numerous direct international flights connecting to the whole of Europe.

My government is fully aware of the importance of foreign direct investments for the future development of the country. Understanding that foreign direct investments can strongly contribute to a restructure of efforts, an improvement in competitiveness and job creation, the government is determined to increase foreign direct investment levels. It is now undertaking steps to improve Croatia's attractiveness to foreign investors, such as new investment legislation, a legal regime on intellectual property rights adjusted to WTO standards, measures to eliminate administrative barriers, and the establishment of an investment information centre at Zagreb.

Foreign direct investments from 1993 to 2001 reached a total of about \$US6.6 billion. For that period, foreign direct investments in Croatia reached almost \$US1,500 per capita which, in spite of unfavourable circumstances at the beginning of the last decade, puts Croatia among

---

mid-successful countries in transition. Foreign direct investments came into a wide range of sectors of the Croatian economy, but only three of them account for nearly 63 per cent of total foreign investments: telecommunications, banking and pharmaceuticals. Over 68 per cent of investments from 1993 to 2001 originate from the countries of the European Union. The three largest single investors, in terms of total investments, are Austria, Germany and the USA. These three are followed by Luxembourg, the Netherlands, the United Kingdom, Slovenia, Italy, Sweden and so on.

Today, we think that the time is ripe to present Croatia to Australian investors as a partner country worth investing in. This assertion is based on the fact that we have already entered or are close to entering membership in all important international, political and economic associations. We also have good cooperation with the World Bank and the countries in Europe and overseas. Consequently, we have eliminated the political instability and isolation of prior years. As is well known, since November 2000, Croatia has been a member of the World Trade Organisation.

Within the group of central European transition countries, Croatia has a substantial comparative advantage in the service and transport sectors. These are, above all: tourism, the Adriatic ports and transport infrastructure like natural gas pipelines, oil pipelines, rail networks and roads. Major sectors of the Croatian economy that could be considered as the most attractive investment opportunities, among the others, are tourism; industry; agriculture and food industries; financial sector—banking, insurance; infrastructure: roads, railway, telecommunications; ports; shipbuilding; and, environment.

Croatia offers diverse forms of tourism, with holidays on the Adriatic coast including scuba diving, fishing, hunting, health tourism with 19 continental and sea resorts, nautical tourism with 44 marinas and about 15,000 pleasure-boat berths. A long tradition in tourism is one of the reasons why the Croatian service sector is larger as a percentage of GDP than the service sectors of most other transition economies. With 43 million overnight stays and expected revenue of over \$US3.5 billion, tourism in the year 2001 accounted for about 17 per cent of our GDP.

**CHAIR**—What is the number of international visitors you receive each year?

**Ambassador Ibler**—Ms Vukinovac, do you have any idea?

**Ms Vukinovac**—No.

**Ambassador Ibler**—It is a big number. We have tourists from Germany, Austria, Great Britain, Israel and a lesser number of tourists from the USA and some from Australia too.

**CHAIR**—Before the break-up of Yugoslavia, your area of the coast received a huge number of visitors, particularly from Germany and other parts of Europe. I am interested to see the extent to which it has recovered.

**Ambassador Ibler**—It is about 80 per cent of the previous numbers. Information from the ministry of tourism shows that it has been 80 per cent of the normal tourist numbers.

**CHAIR**—Is that mainly to areas around Split?

**Ambassador Ibler**—The area is mostly located in Istria, which is very easily accessible from central Europe, with the Split and Dubrovnik areas being very popular. We have a weekly connection with Israel, with a lot of tourists coming from there, and the British tourists are coming mostly by ship cruiser.

**CHAIR**—How far is it from Zagreb to the coast?

**Ambassador Ibler**—By car, it will take you about three hours; by plane, 45 minutes.

**CHAIR**—Do you know the number of international visitors?

**Ambassador Ibler**—There were 35 million overnight stays.

**CHAIR**—The number of international visitors per se. I am interested as a reference point in relation to Australia; we receive about 5.3 million international visitors.

**Ambassador Ibler**—I will send you information on the number later.

**CHAIR**—Could you also provide the figures that predated the problems in Yugoslavia?

**Ambassador Ibler**—It is interesting; you are right.

**CHAIR**—It is an area in which Australia and Croatia have a lot in common. Perhaps there is an opportunity there to encourage visitors, both this way and that way, and to encourage expertise.

**Ambassador Ibler**—A reason, perhaps, that our tourism is not 100 per cent yet is that, because of a shortage of investment in the industry, Croatian tourism does not yet have the capacity to attract high-spending, sophisticated tourists. Often we look at not only the number but the quality of tourists who are coming.

**CHAIR**—That is right—the spend.

**Ambassador Ibler**—Exactly. However, foreign investors have entered into partnerships recently. Some of them bought hotels in Istria, Dubrovnik and along the Dalmatian Coast. The government is trying to accelerate the privatisation of hotels and other tourist capacities.

Industry in Croatia generally accounts for approximately one-fifth of GDP. The largest sectors within industry in terms of production are food processing, chemicals, pharmaceuticals, textiles, wood processing, machinery, communications equipment and shipbuilding. Croatia's industrial sector produces both finished goods as well as intermediate goods. Industrial exports make up about 95 per cent of the total Croatian commodity exports. The main investment opportunities lie in buying shares of existing companies. They have the knowledge and well-trained workers but, I must stress, due to the lack of investments in the equipment, these companies have comparatively low productivity and are sometimes not competitive enough for the European market, which is the reason why Croatia is interested in foreign investments in our industries.

Agriculture plays an important role in the Croatian economy. Together with forestry and fishing, it currently generates approximately seven per cent of GDP and employs approximately six per cent of the Croatian work force. Approximately 40 per cent of the Croatian population live outside towns, in the countryside. Over 80 per cent of all agricultural land is privately owned. That has been so for many years, even during the socialist time.

**CHAIR**—You are saying that 80 per cent is privately owned?

**Ambassador Ibler**—Yes. The process of urbanisation is progressive, but still about 40 per cent of the Croatian population is living in the countryside. Croatia is generally self-sufficient in agricultural products. Croatia had been a net exporter of food products prior to 1991—during the time of Yugoslavia. The Croatian food industry includes some of the most successful Croatian companies. In Australia, we have Podravka, a company which has an office in Sydney and has a good corporation, importing beef from Australia and processing the beef meat into conserves and exporting it to different countries. The banking sector is among those that have attracted the biggest portion of total foreign investment until now. It is almost 90 per cent privatised. The privatisation of the remaining bank, Croatia Bank, and the biggest state owned insurance company, Croatia Insurance, is expected to be completed by the end of the year.

**CHAIR**—Is there any Australian participation in the banking sector?

**Ambassador Ibler**—Unfortunately, a large part of the Croatian banking sector is now invested in foreign hands.

**CHAIR**—Okay.

**Ambassador Ibler**—Croatia has 29,000 kilometres of road and 2,700 kilometres of railway. The main seaports are Rijeka, Ploce and Split.

**CHAIR**—Where is Dubrovnik on that map?

**Ambassador Ibler**—Dubrovnik is quite far to the south on the coast, close to the Montenegrin border. It is the largest and southernmost port on the Croatian coastline. The biggest airports are located in Zagreb, Rijeka, Pula, Split and Dubrovnik, and there are smaller airports, of course. The development of roads is a high priority for government. In recognition of the importance of Croatia's connection with Europe, the participation of foreign investors is very welcome in the development of pan-European corridors. Priority has been given to the Zagreb-Rijeka route, linking central Europe with the Adriatic, and the Zagreb-Belgrade route, which links western Europe with the Balkans. The Zagreb-Dubrovnik route is important for the development of tourism and may form part of the Adriatic-Ionian highway that has been planned to connect Italy with Greece, through Albania. That highway will be a very important third corridor from west to east in the future.

The telecommunications network in Croatia is operated by Croatian Telecom and is 51 per cent owned by Deutsche Telecom. There are also two mobile phone licences in Croatia, owned by Cronet and VIPnet, and in the coming years we expect to further accelerate the privatisation of the mobile phone sector. In the energy sector, the biggest oil and gas concern is INA, a state owned electricity company that will also be privatised soon. INA is regulated by a package of laws adopted by our parliament that aims to liberalise the market in the energy sector.

---

I must say that Croatia's greatest asset and comparative advantage is its human potential. A recent EU study has shown that Croats receive an education comparable to those provided by other European states. Many Croats gain their work experience in western European countries, where they are held in very high esteem for their diligence, skilfulness and innovative capacities. As you probably know, a great number of Australians of Croatian origin were builders on the Snowy Mountains scheme. Many of those are now very clever and good builders who are known here in Canberra. With such workers and experts it is not hard to develop and implement any economic project, regardless of how ambitious or complex it may be.

**CHAIR**—I do not want to stop your review, but we do have time constraints. I do not know how much longer your comments go for. It is possible that, if you have them written out, we can incorporate them into the transcript. We have members of our committee who are not here, and we can take it all on. Is there something particularly that you want to hit on there? Strictly speaking, we are out of time now. But we will take some extra time for questions.

**Ambassador Ibler**—I would like you to answer the question: how could Australia enlarge its trade with Croatia? In view of the facts that I mentioned before, I believe that Australia should consider Croatia as an entry port for Australian goods on their way to the central and eastern European markets. The port of Rijeka—

**CHAIR**—What is the handling rate for containers at your ports?

**Ambassador Ibler**—There are different types of cargo.

**CHAIR**—But there are normal standardised rates. I understand the figure in Rotterdam is 17 to 18 containers an hour.

**Ambassador Ibler**—I will find out the details for you. It is possible for the port of Rijeka to receive large ships. It is the only port on the eastern Adriatic where the great ships can harbour. This is important. We have free zones in the harbours of Rijeka, Ploce and Split, which could be further developed by foreign investments. I think it would be an excellent idea and an excellent opportunity for Australia to invest in these free harbours to export Australian sheep and beef to Europe. I suggest that Australia starts a cooperative venture in meat and livestock production and processing—which has already started. There are investment opportunities in Croatian tourism in hotels and in the development of golf courses. A short time ago I had a meeting with Greg Norman's company, which showed an interest in investing in building golf courses on the Adriatic coast. Some Croatian immigrants to Australia, now prosperous Australian citizens, have activities and business relations with Croatia. For example, a majority owned business in South Australia, which deals in tuna, retail and tourism industries in Croatia, will turn over approximately \$A40 million and employ over 500 people.

**CHAIR**—Which one is that?

**Ambassador Ibler**—It is a South Australian firm called Tudorovic, working in Zadar.

**Ms Vukinovac**—In retail, tourism and tuna.

**Ambassador Ibler**—In Dubrovnik I met a man from Adelaide who opened an Australian bar where you can get Australian breakfasts and Australian beer. He is very happy to develop his business there. The name of the bar is Billabong. Australian investors are heartily invited to join them because of their developed technologies, entrepreneurial spirit, positive attitude toward work and, most importantly, Australian know-how. Croatia is open to every form of cooperation and partnership with Australia. I hope you have a good visit to Croatia.

**CHAIR**—Thank you. Is it the wish of the subcommittee that the document entitled ‘Republic of Croatia—current economic affairs’ and the document entitled ‘Australian investments in Croatia’ produced by the Ministry of the Economy of the Republic of Croatia be incorporated in the transcript of evidence? There being no objection, it is so ordered.

*The documents read as follows—*

### **Republic of Croatia - Current Economic Affairs**

#### Presentation of the Country

The Republic of Croatia is a Central European and Mediterranean country spreading over an area of 20,000 sq kilometres larger than Tasmania, and with population of 4.3 million.

The country can be divided into three zones: the coastal zone in the south, the mountainous zone stretching across the central part of Croatia and the lowlands in the north of country, each of which has its own geo-economic characteristics.

During the last ten years, since its independence, Croatia is undergoing a transition from the socialist to the liberal economy.

Due to the war environment, Croatia had in the beginning negative economic growth. The trend of economic recovery with upward tendency has been registered in the last two years with annual average GDP growth rate of 3.8 per cent.

The economic growth that began in 2000 after the 1999 recession continued in 2001, reaching 4.1 %. Services, i.e. trade, transport, communications and tourism had the highest average growth rates over the year, while the signs of a notable recovery was shown in construction industry. Due to its large share in gross value added, the contribution of industry to its growth was the second largest, following that of trade. The main generator of GDP growth in 2001 was domestic demand, while in 1999 and 2000 it was net foreign demand. The estimated growth rate for 2002 is 3.5%.

GDP per capita doubled from 2 349 USD in 1993 to 4 625 USD in 2001. Level of employment remained very sensitive to seasonal effects.

Inflation remained subdued, with retail prices growth of 1,7% showing substantial downward trend of inflation in 2001.

Personal consumption rose by 4.5% in 2001. Therefore, the year 2001 was the second consecutive year of personal consumption growth as a result of an increase of the wages and salaries, and government transfers to households, but also of new household sector borrowing from banks.

Government consumption in 2001 followed a downward trend, which resulted in a decline of 3.9% of the annual consolidated central government budget. The purchase of other goods and services on a cash basis was reduced by 11.8%.

Investments in gross capital formation, with a 9.8% annual growth, contributed 2.2% to the GDP growth. Favorable developments in demand and financing conditions encouraged investments. Bank loans rose by approximately 12.7% in nominal terms in 2001.

External debt stood at 11 049 million USD, or 54.5% of GDP at the end of 2001, which is lower than at the end of 2000. The structure of external debt by debtor shows that the government retained the highest share in total debt (44.7%), remaining at the level recorded in the previous year.



The merchandise trade balance was negative in 2001 and stood at USD 4bn, up 25.2% compared with 2000.

Croatia's exports to developed countries accounted for 62.2% of total exports in 2001 (of which almost 55% relate to exports to the EU markets—Austria, Germany, Italy as main trading partners). The remaining 37.8% of exports relate mostly to the developing countries, most by CEFTA and former Yugoslavia states. Imports of goods from developed countries accounted for two thirds of total imports.

The transition from a socialist to a market economy was not an easy task. The infrastructural and organizational structures take many years to develop, as do the training skills, ethics, standards and practices of the market place required for an economy's efficient operation. The strategies of transition to a market economy involved rapid development of these requirements. The path and pace of reform were influenced by a number of factors: strength of political support, legal and institutional infrastructure for a market economy, and privatization of previously state-owned companies.

The overall goals of the reforms in Croatia are:

- creation of favorable business environment similar to the one in the EU;
- further development of the market economy institutions;
- promotion of the international competitiveness;
- mobilization of the private investment and
- increase in employment.

Special attention of the Croatian government is given to trade liberalization, based primarily on the reciprocal bilateral free trade agreements in line with EU/WTO standards. About 80% of Croatia's foreign trade is done under free trade conditions. Croatian industrial and most agricultural products export to the EU single market is completely free, without any customs or non-tariff restrictions. Croatia's free trade agreements with other European countries entered into force: Iceland, Liechtenstein, Norway, Switzerland, Hungary, Macedonia, Poland, and Slovenia. Free trade agreements with other trade areas or countries are to be signed or to enter into force soon: CEFTA, Albania, Lithuania, Moldova, Turkey, Serbia & Montenegro and Bosnia-Herzegovina that is applicable since beginning of 2001, CEFTA will be applicable from the beginning of next month.

The foreign trade with the European Union is from the beginning of this year under the regime of so-called "asymmetrical free trade", meaning that the access of all Croatian industrial and most agricultural products export to the EU single market is completely free, without any customs or non-tariff restrictions. This is the result of the application of the protocol on interim application of the stipulations of the Stabilization and Association Agreement between the EU and Croatia.

Croatia is a Mediterranean and Central European country at the same time, with a long coastline, and very easy access to the biggest single consumer market in the world - market of the European Union.

Two major sea ports, Rijeka and Ploce, are starting points of Pan-European transport corridors for road and railway transport V b (Rijeka-Budapest, Hungary) and V c (Ploce-Budapest). The capital city of Zagreb lies on the main European East-West corridor X (Nuremberg, Germany-Thessaloniki, Greece). There are several international airports, the most important among them being Zagreb, Split and Dubrovnik, connected with numerous direct international flights with whole Europe.

The government is fully aware of the importance of the Foreign Direct Investments for the future development of the country. Understanding that Foreign Direct Investments can strongly contribute to restructuring efforts, improvement of competitiveness and job creation, the Government is determined to increase Foreign Direct Investments level and undertakes steps to improve Croatia's attractiveness to foreign investors.

To improve the investment environment the Government is firmly committed to reforms based primarily on its Working Program and through the several international frameworks, most important among them being the Stabilization and Association Agreement with the EU that has entered into the force from January 1st, 2002.

To attract more direct investment, our Government has undertaken:

- a new investment incentives legislation;
- a legal regime on intellectual property rights, adjusted to the WTO standards;
- measures to eliminate the administrative barriers;
- establishment of the investment info center.

Foreign Direct Investments from 1993 to 2001 has reached the total amount of about US\$ 6.6 billion. For that period Foreign Direct Investments in Croatia reached almost US\$ 1500 per capita what, in spite of unfavourable circumstances in the last decade, puts Croatia among mid-successful countries in transition.

Foreign Direct Investments came into a wide range of sectors of the Croatian economy, but only three of them account for nearly 63% of total foreign investments; the telecommunications, banking and pharmaceuticals.

Over 68% of investments from 1993 to 2001 originates from the countries of the European Union. The three largest single investors, in terms of total investments, are *Austria* (27% of the total), *Germany* (26%) and the *USA* (18%). The three are followed by Luxembourg, Netherlands, UK, Slovenia, Italy, Liechtenstein, Sweden, etc.

Today, we think that the time is ripe to present Croatia to foreign investors as a partner country worth investing in. This assertion is based on the fact that we have already entered or are close to enter membership in all important international political and economic associations. We also have good cooperation with the World Bank and the countries in Europe and overseas. Consequently, we have eliminated the political instability and isolation of prior years. On 30 November 2000, the Republic of Croatia became the member of the World Trade Organization (WTO).

Within the group of Central European transition countries, Croatia has a substantial comparative advantage in the service and transport sectors. These are, above all, tourism, the Adriatic ports and transport infrastructure (natural gas pipelines, oil pipelines, rail networks and roads).

Major sectors of Croatian economy, that could be considered as the most attractive investment opportunities, among the others, are tourism, industry, agriculture and food industry, financial sector (banking, insurance), infrastructure (roads, railway, telecommunications, electricity), ports, shipbuilding and environment.

#### **Tourism:**

Croatia offers diverse forms of tourism, holidays on the Adriatic coast, including scuba-diving and fishing, hunting, health tourism with 19 continental and sea resorts, nautical tourism with 44 marinas and about 15 thousand pleasure boat-berths.

A long tradition in tourism is one of the reasons why Croatia's service sector is larger as a percentage of GDP than in most other transition economies. It generated revenues of 12.4% of GDP in 1999. With 43,4 million overnight stays and expected revenue of over 3,5 billion USD, tourism in 2001 accounted for about 17% of GDP. (This proportion is in effect much higher since a large part of tourism revenue is unrecorded.)

Because of the shortage of investment in the industry, Croatian tourism does not as yet have the capacity to attract high spending, sophisticated tourists. Recently, however, foreign investors have entered into partnerships or bought hotels in Istria, Dubrovnik and along the Dalmatian Coast.

Government is trying to accelerate the privatisation of hotels and other tourist capacities.

#### **Industry:**

Industry in Croatia generally accounts for approximately one-fifth of GDP and employs around one-quarter of the labour force.

The largest sectors within industry in terms of production are: food processing, chemicals, pharmaceuticals, textiles, wood processing, machinery and communications equipment and shipbuilding.

Croatia's industrial sector produces both finished goods as well as intermediate goods (i.e. raw materials and semi-finished products). Industrial exports make up about 95% of total Croatian commodity export.

---

The main investment opportunities lays in buying shares of existing companies that have the knowledge and well-trained workers, but due to the lack of investments in the equipment, have comparatively low productivity and are sometimes not competitive enough for the European market.

**Agriculture and food industry:**

Agriculture plays an important role in Croatian economy. Together with forestry and fishing it currently generates approximately 7% of GDP and employs approximately 6% of the Croatian workforce. Approximately 40 % of Croatian population live in the countryside and over 80% of all agricultural land is privately owned, with the balance owned by the state.

Croatia is generally self-sufficient in agricultural products. Croatia had been a net exporter of food products prior to 1991 and Croatian food industry (food, beverages and tobacco) includes some of the most successful Croatian companies (Podravka-Koprivnica, Kras-Zagreb, Tobacco Factory Rovinj).

**Financial sector (banking, insurance):**

The banking sector is among the sectors that attracted the biggest portion of the total foreign investments in Croatia. It is nearly 90% privatised. The privatisation of the remaining bank (Croatia bank), as well as the biggest state owned insurance company (Croatia osiguranje) is expected to be completed by the end of the year.

**Infrastructure (roads, railway, telecommunications, energy):**

Croatia has 29 000 km of roads and 2 762 km of railways (983 km electrified). The main seaports are Rijeka, Ploce and Split and the biggest airports are located in Zagreb, Split, Pula, Dubrovnik and Zadar.

The development of roads is a high priority for the Government in order to realize Croatia's importance in Europe. The participation of foreign investors is most welcomed in the development of Pan-European Corridors No. V and X cross the country. Priorities have been given to the following road routes: Gorican-Zagreb-Rijeka, linking Central Europe with the Adriatic (Corridor Vb), Macelj-Zagreb-Belgrade, linking Western Europe with the Balkans (Corridor Xa) and Zagreb-Dubrovnik, via Zadar, Sibenik-Split, which is important for the development of tourism and might be a part of the Adriatic-Ionian highway.

In respect of the railway transport, the following projects are the most important: modernization of the railway line Ostarije-Knin-Split (connection between coastal area and close inland area) and modernization of the railway line Botovo-Zagreb-Rijeka, linking the northern Adriatic with Central Europe (Corridor V b).

The telecommunications network in Croatia is operated by Croatian Telecom, 51% owned by Deutsche Telecom. In addition, there are 2 mobile phone licences in Croatia owned by "Cronet" and "VIPnet" companies. The coming years are expected to further accelerate privatisation of this sector in order to bring a new investments and know-how into the country.

The strategy for the restructuring of the energy sector has been approved by the Croatian Parliament and the laws on privatisation of oil and gas concern INA and state electricity company HEP has been adopted. The state electricity company, HEP, is to be divided into three separate units, for generation, transmission and distribution, while the oil and gas concern, INA, will be transformed into two separate companies. In the first phase the core business is going to be divided from the non-core businesses and the process will start by the privatisation of the non-core activities, as soon as possible. Privatisation of Adriatic Oil Pipeline is expected to be concluded soon.

This sector is regulated by a package of recently adopted laws that aim to liberalize market in the energy sector.

Croatia's greatest asset and comparative advantage is undoubtedly our human potential. A recent EU study has shown that Croats get the education, comparable to that of other Europeans. Many Croats gained their working experience in Western European countries, where they were highly esteemed for their diligence, skilfulness and innovative capacities. With such workers and experts, it is not hard to develop and implement any economic project, no matter how ambitious or complex it might be.

Croatia has opened its market and become competitive for producers. Legally, in line with the world standards, we do not make distinctions between domestic and foreign investors. Croatia has created a positive legal framework to support investments, address and solve the problems efficiently.

Such institutional and legal improvements, along with maintenance of macroeconomic stability, should be very positive for foreign entrepreneurs and investors. This should help Croatia begin a new phase of the development, with higher rates of economic growth of at least 5%.

We believe that, in the coming years, we will be much more successful in accomplishing our goal of stimulating economic growth. With the help of productive Foreign Direct Investment, Croatia will achieve faster economic growth based on export of goods and services.

Now, how could Australia enlarge its trade with Croatia?

In view of the facts mentioned previously, Australia should consider Croatia:

- as an entry port for the Australian goods, on its way to Central and Eastern European market. The Port of Rijeka has a strategic geographical position (close to the Central & Eastern hinterland) and possibilities for reloading different types of cargo;
- possibilities to use the free zones established in harbours Rijeka, Ploce and Split, and investment opportunities in their development;
- cooperation in the area of the meat and livestock production and processing;
- investment opportunities in the Croatian tourism sector (hotels, development of golf-courses etc).

Some of Croatian immigrants to Australia, now loyal and prosperous Australian citizens, has shown activities in the business relation in Croatia, e.g. majority owned businesses by South Australian in the tuna, retail & tourism industries in Croatia which will turnover approx AUS\$40 Million, and employ over 500 people.

The Australian investors are heartily invited to join them, because of the developed technologies, entrepreneurial spirit, positive attitude toward work and Australian "knowhow".

Croatia is open to every form of cooperation and partnership with Australia.

#### **AUSTRALIAN INVESTMENTS IN CROATIA**

1. Purchase 70% of shares of oil factory, Makarska
2. Purchase 85% of shares of retail company "TKV", Zadar
3. Purchase 87% of shares of constructional company "Glavice", Opuzen
4. Purchase 80% of shares of tobacco company "Duhan", Dubrovnik
5. Purchase 78% of shares of company "PPK Maksimir", Zagreb
6. Purchase majority of shares of agricultural company in Varazdin
7. Investment in pig breeding in Slovonska Pozega
8. Investment in tuna breeding in Zadar
9. Purchase of majority shares of "Ilirija" – tourist resort and many other investments in tourism sector are made

The sum of above mentioned investments in tourism are approximately **13 Million USD**

**Mr PRICE**—What is the exchange rate between Australia and Croatia?

**Ambassador Ibler**—The exchange rate is \$A1 to—

---

**Ms Vukinovac**—It was 4.17.

**Ambassador Ibler**—Yes, approximately four kuna—that is the name of our currency.

**CHAIR**—What is the average per capita income?

**Ambassador Ibler**—The average income in 2001 was about \$US4,500 per annum.

**CHAIR**—Are there plans to reform the judiciary and look at issues such as corruption et cetera?

**Ambassador Ibler**—This problem has been emphasised by our government and parliament. In the Croatian parliament, we have some laws against bankruptcy and corruption. We can actually show you the paper about it.

**Ms Vukinovac**—The bill on bribery and anticorruption normative acts in the Republic of Croatia amends the criminal law for more comprehensive and effective combating of corruption with an international element, bribery and international business transactions as prescribed in article 89, by which the notion of an official person will expand to include all categories of persons encompassed in international conventions—foreign officials or persons, representatives of foreign parliaments and international courts, foreign state officials and members of government bodies. The law on prevention of conflicts of interest in performing public offices represents one of the aspects of a national program with an action plan for combating corruption.

**CHAIR**—It sounds good. Not that long ago we set up our own bodies—for example, the Independent Commission Against Corruption in New South Wales—to work in that area. What about land reform? You mentioned that only 40 per cent was privately owned.

**Ambassador Ibler**—No, 40 per cent of the people in Croatia are living in the country but 80 per cent of the land is in private hands. The rest is in state hands, usually for big enterprises such as beef or swine farms and so on. I know that some people from New South Wales—Casino Meat Packers—have been visiting Croatia and have expressed an interest in building cooperation with those enterprises.

**CHAIR**—Is a privatisation program under way?

**Ambassador Ibler**—Yes, absolutely.

**CHAIR**—When is the vote on for the accession of Croatia into the EU?

**Ambassador Ibler**—Our Prime Minister will visit Brussels this month, February, and officially ask for Croatia to be a candidate. We expect that by 2007 or 2008 Croatia will be a member of the EU.

**CHAIR**—You have joined CEFTA?

**Ambassador Ibler**—Yes.

**CHAIR**—Which areas of the Croatian economy do you see as having the most potential for two-way trade with Australia?

**Ambassador Ibler**—I would stress food processing, especially beef and lamb. Livestock exported to Croatia could be processed in Croatia and then further exported to the EU, even to Bosnia and Herzegovina and to the eastern parts. I think it is actually very important.

**CHAIR**—Do you mean live exports?

**Ambassador Ibler**—Livestock, yes. The second thing that I would suggest is Australian investment in hotels and the tourism industry. The idea is that the whole Croatian tourism industry will be privatised in the end.

**CHAIR**—You have some great assets in terms of your coast. I have never been there but I hear that it is wonderful.

**Ambassador Ibler**—But what we need is the know-how that you have in Australia. We need Australian effectiveness. Therefore, it would be a good idea. Our government also plans to develop some sports, like golf, not only for business and tourism but also for the nation, and young people especially. As I mentioned previously, I have had meetings with Greg Norman's company and I presented to him the Croatian government's plan to develop golf in Croatia. People from the company will visit Croatia in May and look at Istria, Dubrovnik and Split, where we have already located areas to develop for golf.

**CHAIR**—You have a famous countryman, Jim Bosnjak, who is quite big in the tourism industry and the bus industry.

**Senator O'BRIEN**—You said Rijeka was the name of the deepwater port. Would it take bulk carriers?

**Ambassador Ibler**—Yes.

**Senator O'BRIEN**—Does it have bulk unloading facilities?

**Ambassador Ibler**—There are facilities at Rijeka port for different kinds of cargo and bulk. It is possible for the harbour to receive different kinds of ships. The port at Rijeka is also to be developed, modernised and opened for foreign investment.

**Senator O'BRIEN**—The port itself?

**Ambassador Ibler**—Yes. Therefore, we are also looking for foreign investors with foreign technology. As you know, we do not have the technology to completely modernise this harbour.

**Senator O'BRIEN**—What about the rail link from the port? Can you take bulk cargoes if you want to put goods on the rail from the port?

**Ambassador Ibler**—We can.

**Senator O'BRIEN**—How far can you take them?

**Ambassador Ibler**—Previously I spoke about problems with the transportation of Australian goods. The problems came from the Austrian side. Austria was asking a very high price for transportation. Maybe this problem will be solved inside the European Union so that transportation through Croatia and Austria to Germany et cetera will not be too expensive. I remember we spoke about this 1½ or two years ago.

**Senator O'BRIEN**—I do not mean to assume that there is no refrigeration in the community but, if Australia was exporting chilled meat products, is there a distribution system that could handle that?

**Ambassador Ibler**—It is well developed. There is no problem.

**Senator O'BRIEN**—But we are not doing it at the moment. Is there a reason for that?

**Ambassador Ibler**—No. But it would be more convenient to export livestock if you are talking about lamb or beef, because in Croatia we have excellent slaughter houses to prepare and process the meat. Fresh meat would be favoured in European Union countries, and in Bosnia and Herzegovina and maybe some eastern countries like Albania. The future in that area is huge. The future in agriculture is probably not so good, because we have enough agricultural products in Croatia. But, for the transportation of Australian agricultural products, it is worthwhile to think about the port of Rijeka and the corridor through Hungary and the European Union in the west. I know that Poland is a great corridor.

**CHAIR**—As there are no further questions, I thank you for your time here today. If there are any further issues in terms of the points that we have raised, please come back to us. You will receive a copy of the *Hansard* transcript to make sure that you are happy with it. We look forward to having further contact with you. We will be inviting you to a luncheon with the full membership of the committee—we now have eight members who will be going on the visit. We are currently working on the times and it will be some time in the third week in April. It will be a relatively short visit—one or two days. We are splitting into two groups and I will be with the group that goes to Croatia. I am looking forward to seeing you and we will have the opportunity to have face to face discussions with you later.

**Ambassador Ibler**—Please do not hesitate. Thank you for your attention.

**CHAIR**—Thank you for the slides and for coming today.

[2.17 p.m.]

**SLADEK, Mr Josef, Ambassador, Embassy of the Czech Republic**

**CHAIR**—Welcome, Your Excellency. 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. Thank you for appearing today. I invite you to make a short opening statement. We have your submission, exhibit No. 3, but you may wish to expand on it.

**Ambassador Sladek**—Thank you for the welcome and the introduction. It is my pleasure to be here and to be of assistance to the development of Czech-Australian trade. I would like to briefly say some words about the Czech Republic today and its economy. The Czech Republic is an all-industrial nation. Between the wars, the former Czechoslovakia was the seventh richest nation in the world. Before the First World War, there were the Czech industrial powerhouses of Hapsburg and Bayer. In 1918, Czechoslovakia inherited two-thirds of its industrial potential and over 60 per cent of its qualified labour force.

After the Communist takeover in 1948, Czechoslovakia lost quite a lot of its glory, but it still remains the powerhouse of eastern Europe and of the eastern world. It again inherited, through to modern times, a huge industrial potential, producing a whole range of products from hi-tech products used in Russian space crafts, and even in US space crafts, to the huge locomotives and trucks used in the harsh conditions of Siberia and the Sahara. Before the war, Czechoslovakia was Australia's 16th largest trade partner. Czechoslovakia has supplied a lot of industrial products to Australia. Icons like the Sydney Harbour Bridge were built with Czech steel from Vitkovice. It is quite a pity that today the Czech Republic is around 50th on the list of Australia's commercial partners, but it is true that the Czech Republic is still Australia's biggest trade partner in central Europe. Two-thirds of Australia's wool export to central Europe goes to the Czech textile industry, one-half of Australia's meat sold to central Europe goes to the Czech food industry and half of the foreign students coming to Australia from central Europe are Czech. I think there is a lot of potential for further development in that field, and representatives of both countries have repeatedly expressed their willingness to improve it.

As has been mentioned, we submitted two exhibits. One was the investment incentives issued by the Czech government in the late 1990s. They were very successful. During the last five years they have attracted more than \$US20 billion worth of investment in the Czech Republic—that is, more than \$US5 billion a year. Major world-leading companies have also been established in the Czech Republic, led by Germany, France, Holland and now Japan. Australia has significant investments in the Czech Republic, represented by Coca-Cola, Pioneer International, Brambles and now Village Cinema. But I think Australia's share is still very low, and that is a shame. We would like to see more diversity in foreign investment and trade.

Our powerful neighbour Germany has the biggest share of foreign trade, with more than 35 per cent of our exports going to West Germany. More than 80 per cent of our foreign trade goes to Western developed countries, and we believe that Australia should have a fair share in it as well. If I may, I will conclude with some suggestions on the practical side of the problem. Of the countries in our region, we know that the Czech Republic is Australia's biggest trade partner

---



and we know that the Czech Republic attracts the biggest share of Australian tourists, yet Australia still has no diplomatic representation in Prague.

**Mr PRICE**—Shame.

**Ambassador Sladek**—We understand that the Australian embassy was closed in 1993, I think, for economic reasons. But there are a lot of reasons why you should think about how you can get your representation back to the capital of the Czech Republic. There are many reasons, and I believe that you are aware of them. I am aware of how difficult it is to decide to come back, and it represents quite a lot of money. But still, I have to repeat that sometimes it looks a little bit unfair to other people and to governments—not just unfair to the Czech side; it is definitely an obstacle in the further development of other trade relations.

One thing which is very close to this problem is the visa problem. First of all, all our citizens, including businessmen, have to apply for a visa to the Vienna immigration office, which is of course difficult. It presents quite a difficult situation for them. Again, we respect the Australian visa policy, and we are aware that all citizens of all countries have to ask for visas, but there are certain different approaches to different countries. Very often, our citizens are met with very harsh requirements from your immigration officers. Normally, form 48 is to be applied to our citizens, but very often your officers in Vienna ask for the so-called form 48R, which is for risk people or the so-called risk countries. We understand that it is up to the officer to choose which form is used, but sometimes we think that this happens too often. They are just two issues I would like to present. If there are any questions, I am ready to answer them.

**CHAIR**—Thank you for your input.

**Senator EGGLESTON**—You mentioned education, and the fact that Czechoslovakia sends more students to Australia than any other central European country. Are they coming here to study? Are they exchange students or are they completing full-time courses here?

**Ambassador Sladek**—They are mostly coming to study English at the English language colleges. There are students in tertiary education as well, about 50 of them, but most of the students are coming to study English.

**CHAIR**—How many students are coming to Australia from the Czech Republic?

**Ambassador Sladek**—There are over 1,500 here.

**Senator EGGLESTON**—Are they going to the east coast, to Sydney and Melbourne?

**Ambassador Sladek**—They are mostly concentrated in Sydney but a growing number are coming to Brisbane as well.

**Senator EGGLESTON**—The other thing I noticed in your submission is that we export a lot of wool to the Czech Republic. If you join the European Union, will that trade be adversely affected?

**Ambassador Sladek**—I would not say so. I do not see any reason for that. In the beginning of the nineties, the Eastern markets collapsed. Before 1989, most of the production of the textile industry went to the Eastern markets. Fortunately the Czech Republic managed to switch immediately to the Western markets, so now over 90 per cent of production goes to western Europe. We do not expect any change in that condition after our entry into the European Union.

**Senator O'BRIEN**—I noted in the department of immigration's submission to this committee that electronic travel authority is not available to nationals from the countries of central Europe and that they can only obtain visas through the traditional method. You say you have to go to Vienna to obtain those visas. Is that right?

**Ambassador Sladek**—I beg your pardon?

**Senator O'BRIEN**—Where do Czech applicants need to go?

**Ambassador Sladek**—They need to go to Vienna.

**Senator O'BRIEN**—What is involved in that, and how can we make it more accessible even though we might not have an embassy in the Czech Republic?

**Ambassador Sladek**—We hope that, with our entry into the European Union and after we implement all the conditions of the Schengen agreement, we might be eligible for your ETA as well. But I believe it will take more than two years because the Schengen agreement will not apply to us immediately after our entry. But what I am talking about is the simple technicality that our citizens could use form 48 and not form 48R, which is much too complicated. To fill in 48R, you have to go to certain doctors in Vienna or in just two places in the Czech Republic where they can issue the health certificate for you; you have to have a lot of confirmation that you are employed, that you have a vocation and so on. It is complicated, and a lot of people are calling us asking for help, and of course we say, 'We can't help you; it is a policy.' But the point is that the Czech Republic is entering the EU and the time when we will be able to use your electronic system is not far away, so why not apply just form 48 to our citizens?

**Senator O'BRIEN**—Have you been given any encouragement that that is under consideration, or has it been deferred until after accession?

**Ambassador Sladek**—It is a problem that we discuss repeatedly in a number of meetings with the immigration authorities, and the discussions are very friendly. I think that maybe the problem is in Vienna, because I talked recently to the first secretary of the immigration department and the lady explained to me that it is up to the officers in Vienna which form they will use.

**Senator O'BRIEN**—What do you expect the impact of accession to the EU will be on Australia's trade in meat to the Czech Republic? How will your going into the EU affect our trade in meat to the Czech Republic?

**Ambassador Sladek**—We have to follow the EU rules, so you may expect exactly the same conditions as any other member country is applying now to Australia, by the look of it.

**Senator O'BRIEN**—The question I asked was: how do they compare?

**Ambassador Sladek**—I do not think there are any restrictions given by the community to the member countries on what they can import. The main restrictions which will be applied to us are limits on production. In that situation, some changes could drive towards the importation of meat.

**Senator O'BRIEN**—What interest do you think there would be in sourcing Australian coal and coal related technologies for the Czech Republic?

**Ambassador Sladek**—I think that negotiations on that particular issue have been under way for years. There is a chance of importing Australian coal, which is of much better quality—not that we do not have our own coal, but for environmental reasons we are closing down our mining interests, so there is a possibility of importing coal from Australia.

**Mr PRICE**—I agree with you; we should have diplomatic relations. We should have an embassy in Prague.

**CHAIR**—In terms of your own assessment, what would you see as being the products and commodities that represent the best opportunities for Australia in the Czech Republic?

**Ambassador Sladek**—Of course, Australian wool is the main product we always expect from Australia because it is of such a high quality and of such a standard that our entire textile industry cannot deal with other kinds of wool. So that probably remains the basic product. We acknowledge, first of all, Australian know-how in technologies like telecommunications and environmentally sensitive technologies—and, of course, we expect some investment by Australia in our hi-tech centres and hi-tech zones that the government is going to open in the Czech Republic. There are some initiatives on the way already. We hope that Australia can help us and other countries in the region with the know-how in this field as well.

**CHAIR**—In the interests of time, I think we had better call a halt to it there. When parliament resumes in the next few weeks, and we have the full membership of the committee, we plan to have a luncheon so that we can discuss issues. As you know, we then plan to visit the Czech Republic on our visit to Europe in April. We look forward to that and to having further discussions. Thank you for your paper and your appearance before us today. We appreciate your coming here today.

[2.43 p.m.]

**VULPE, Mrs Manuela, Ambassador, Embassy of Romania**

**CHAIR**—Welcome. As you know, the subcommittee prefers that all evidence be given in public but, if you should at any time wish to go into camera, please let us know. The subcommittee has a submission from the embassy. That is submission No. 9. I now invite you to make a short opening statement, if you wish, before we proceed to questions.

**Ambassador Vulpe**—Thank you very much for inviting me and for taking an interest in my part of the world. I welcome the initiative of the Australian government and the federal

parliament in conducting an inquiry into the business opportunities for Australia in central Europe. Some of the members of the parliament may be familiar with my approach to this issue, because from the beginning of my mandate here in Australia more than three years ago I encouraged the Australian government, the parliament and the business circles to take a closer look at and a proactive approach to the trade, investment and business opportunities that Romania and my part of the world generally have to offer.

I have always considered—and I still do—that the emerging democracies and markets in central and eastern Europe offer plenty of economic opportunities that will ultimately prove to be equally beneficial for the countries themselves and their partners. I hope that this will be also the conclusion of your overall assessment after conducting this inquiry—especially after establishing direct contacts in central Europe, which you will do during your visit there. It is a visit that I warmly welcome.

After so many submissions and inquiries, I am absolutely confident that your knowledge about Romania and central Europe as a whole has increased substantially; therefore, I do not want to give a presentation that overlaps with those of the speakers before me. Please interrupt me at any time during my presentation if you consider that you are too familiar with the issue, if you are not familiar with it at all, or if it is too boring. How long should I speak for?

**CHAIR**—For about five minutes.

**Ambassador Vulpe**—You will not allow me any more time than that?

**CHAIR**—Ten minutes?

**Ambassador Vulpe**—Okay. I will try to make it fast.

**CHAIR**—It is really a matter of hitting the highlights, because we have got the main outline. If you could give us something brief in terms of your economy and what you hope to gain out of EU accession. What is the date for your accession?

**Ambassador Vulpe**—It is 1 January 2007; we are not in the first 10 groups that are going in.

**CHAIR**—Also, could you indicate your trade situation at the moment: the commodities, people who are investing and two-way trade. You could indicate what the future holds.

**Ambassador Vulpe**—I will start with 1990 and the main foreign policy goals of Romania that are directly linked to the internal and domestic development in my country. I am sure that most of the issues I will present in this context are similar to those in all the other countries in central Europe. You may be familiar with our desire to join two main international institutions—the European Union and NATO. Romania has made a lot of progress in the last 13 years since the collapse of communism in my part of the world, and it is getting closer to achieving these goals. With regard to NATO, you may be aware that recently, in November 2002, at the NATO summit in Prague, Romania was invited to join NATO. Romania sees itself now as a de facto member but will become a fully-fledged member in the course of 2004, after the ratification process of the accession protocols is completed in all member states. Romania believes that the integration into NATO will provide further investment guarantees and will add to the existing incentives for foreign investors to locate their projects in Romania. For Romania,

---

the accession to NATO is not merely a political or military prospect but also has an important economic connotation.

With regard to the European Union, as I mentioned, our target to join the European Union is January 2007. This objective was endorsed by the European Council at its summit in December 2002. So far, out of a total of 31 chapters that should be negotiated in order to join the EU, Romania has closed 16 chapters and the remaining 15 are open and under negotiation. So Romania is now approaching the end of a very important stage in its development and the beginning of a new one. If joining NATO represents the end of the transition in Romanian politics to a total break-up with the communist past, joining the EU will also mean the end of that transition and the economic transformation of our country. After more than 30 years we can say today that Romania is much closer to the country that she has always wanted to be: free, democratic, with a functioning market economy and embraced by the European family. That is just a short outline of these two main important issues that have been dominating Romanian foreign policy and its internal developments over the last 13 or 14 years.

With regard to the economic and investment environment in Romania, I have a lot of information to provide but I will try to be brief. Romania is situated in the south-eastern part of central Europe and we believe that one of its main assets is that Romania enjoys a favourable geographical position. It is a gateway to western Europe. I am sure you have heard much of this before from my colleagues, but I want to present Romania as a 'hub' for Romanian investment and economic activities. It is not my original term. I borrowed it from Australia and from your representatives—the Australian ambassador to Belgrade and from Austrade. I think Romania is perceived like this in economic and government circles in Australia. It is a country full of opportunities. It has 22 million inhabitants and is the second largest country in that part of the world after Poland. It has considerable human potential, skill and competitive labour, and solid knowledge in science and technology, IT and engineering, which I think makes it safe and attractive for investment. The foreign investment policy, the continuous growth of Romanian exports, the development of small and medium enterprises, and sustained and well-balanced regional development are considered major tools of the reform process and fundamental premises for our country's integration into the European Union. The prospect of joining NATO and the EU generates a stable and predictable business climate.

With regard to our economic performances, 2001 was the second year of economic growth after a long period of hesitating transition towards the market economy. The gross domestic product recorded an impressive growth of 5.3 per cent, which positioned Romania in first place among the central and eastern European countries. For 2002, the GDP increase was 4.9 per cent and for 2003 there is an estimated economic growth of 4.5 to five per cent. That confirms the positive trend of the Romanian economy. The contribution of the private sector to the GDP structure was 67 per cent; this reflects the dynamic of the reform in the privatisation process in Romania. As a main driver of the Romanian economy, foreign trade registered an increase of 17.8 per cent in 2002, with exports representing \$US14 billion.

**CHAIR**—Was 17.8 per cent the growth factor?

**Ambassador Vulpe**—Yes; the growth compared to 2002. The export share was \$US14 billion—all my figures will be in US dollars—and the import share was \$US17.8 billion. It is relevant to mention that European countries accounted for 82.3 per cent of Romanian exports and 82.5 per cent of its imports, so most of the trade is done with European countries. Among

---

this, trade with the EU accounts for 67 per cent of Romanian exports and 58 per cent of its imports. The economic performance registered in the last period allowed for three consecutive improvements over the country's risk indicators for Romania. There are rating agencies, like Moodys and Standard and Poors, that increased the rating for Romania several times, which was a good signal given to the foreign investors and business circles.

**CHAIR**—What rating is it now?

**Ambassador Vulpe**—It is from BB- to BB for credit ratings. The privatisation process is essential; it has always been a priority in restructuring the Romanian economy, so the Romanian government privatised almost the entire small and medium sized companies, as well a number of big companies. We have a Romanian authority in charge of the privatisation of state owned assets. Recent figures, at mid-January 2003, show that the portfolio held by this Romanian authority for privatisation still includes 1,267 companies which should be privatised by the end of this year—that is the intention of our government. I will mention only a few of the most important achievements in the privatisation process. The Romanian Development Bank, one of the biggest banks in Romania, was sold to Société Générale, France. Dacia, the car manufacturer, was sold to French Renault. Sidex—which is a relevant company in terms of our bilateral relations because it processes iron and steel, and processes coal and iron ore from Australia—was sold to an Anglo-Indian consortium, LNM Ispat. Also, the agricultural bank was sold to Raiffeisenbank Austria.

Improving the business environment also means improving the investment environment. We have an attractive legal framework for investment that stipulates the granting of specific facilities in accordance with the kind of investment. This was presented in detail in my written submission to the committee. If you have had a chance to look at it, you may have seen the investment facilities and incentives that are offered by the government. In order to more efficiently promote Romania as a profitable destination for investments, Romania has created a governmental agency to specifically deal with this issue. It is the Romanian Agency for Foreign Investment. The agency offers assistance to foreign investors, it offers a database for investors, and it aims to become a service organisation in order to facilitate and support the implementation of foreign investment.

Counting from 1990, the level of foreign investment in Romania now amounts to \$US8.5 billion, out of which \$US1.37 billion was invested in 2001. The main countries to invest in Romania are the Netherlands, Germany, France, the United States, Cyprus, Austria and Italy. We consider that Australia has a high investment and export potential, and Romania could be Australia's economic expansion base in central and eastern Europe, the Balkans and the Black Sea area—a region with a very important market. That was a general outline of Romania's economy.

With regard to Romanian-Australian bilateral relations, I am delighted to say that there are no pending issues that may hinder the further development of our relations. I see only opportunities. Romania is committed to working with Australia in order to identify and promote these opportunities. Even though Romania is one of Australia's biggest export markets in central Europe, the trade figures show that only a modest volume of goods is exchanged between our two countries—a volume much below the real potential of Romania and Australia. According to the Romanian statistical data, the total bilateral trade between Romania and Australia in 2002 amounted to \$US29.6 million, of which Romanian exports were a very small

---

\$4.13 million. The exports included machinery, equipment, wood and furniture. Romania's imports amounted to \$US25.4 million, of which almost 50 per cent was minerals. I conclude that there is room for an active and fast development of Romanian-Australian trade and economic cooperation.

I want to highlight some of the Romanian initiatives that will make relations with Australia more relevant. I underline that Romania is attaching special attention to developing relations with Australia; Australia is perceived as an important player in the Asia-Pacific and in the world arena, and as a developed, like-minded country with which Romania shares similar aspirations and goals. One of the concrete measures undertaken by the Romanian government in order to enhance relations with Australia, especially in the economic area, is the recent establishment of the Consulate-General of Romania in Sydney. We decided to expand our diplomatic and economic representation to Australia, so we established a consulate-general in Sydney, upgrading the former Romanian trade office that was functioning there. The new office will be better equipped with personnel and logistic support to deal with economic related issues.

With the support of the Australian government, in January 2003 we also established an honorary consulate in Melbourne. It is the first honorary consulate that Romania has had in Australia. The main task of this office is the promotion of economic relations between Romania and Australia, especially the state of Victoria. The honorary consulate is led by an Australian businessman of Romanian origin. He is your main investor in Romania. He acquired an impressive piggery, and this was mentioned in the briefing file that you had from DFAT and our embassy.

In addition to this, Romania would like to send an important signal with regard to the status and prospect of its relations with Australia. This year we will have a very important event in our bilateral agenda; I refer to the planned visit of the President of Romania to Australia, expected to take place by the end of 2003. I am currently working with the Department of Foreign Affairs and Trade and the Department of the Prime Minister and Cabinet in order to find a mutually acceptable date for this visit to take place. I would like to take this opportunity to express my gratitude for all the support that I am receiving from these departments in preparing the visit, and I am confident that the visit will be highly successful.

It is worth mentioning that, apart from the political signal that such a visit will convey, the presidential delegation is expected to include an important business component. During the president's visit, we may even hold the 15th session of the joint economic ministerial commission between Romania and Australia, the main purpose of which is to reinvigorate the bilateral economic dialogue between our two countries. So, from Romania's and my point of view, the forthcoming Australian parliamentary visit to Romania is a timely one, better equipping the Australian officials with first-hand information about the status of our economy and preparing the ground for the high-level contact later this year.

I wanted to be original at this point but I cannot be, because my colleague from the Czech Republic and probably some of my other colleagues have already mentioned this issue of Australia's diplomatic representation in other countries. Romania is aware of the budgetary constraints imposed on each and every government, including the Australian one, and is aware of Australia's foreign policy goals. But Romania embraces the view that the existence of an Australian embassy in Bucharest will properly reflect the status of our bilateral relations and will essentially contribute to the advancement of our relations as a whole. Current relations with

---

Romania are covered from Belgrade, and you have a consulate-general that is led by an Austrade person who is doing a great job for Australia. But, for your information and for the sake of statistical data that may sometimes be relevant, I would mention that of the 30 member countries of the OECD—and I speak here of the most advanced economies in the world—Australia is one of the few countries that does not have an embassy in Bucharest. Only Iceland, Ireland, Luxembourg and Australia do not have embassies in Bucharest—and I understand Ireland will soon open an embassy. I am of the opinion that Australia should join the other 26 OECD member states and be fully represented in Bucharest. Australia has the means, the capacity and the interests to do so.

**CHAIR**—Thank you very much for the comprehensive review. Going to the core of it, where do you see the best opportunities for Australia in terms of exports to your country, and where do you see the best opportunities for investment?

**Ambassador Vulpe**—With regard to your exports to Romania, I am sure you have very good promoters in Austrade and your Department of Foreign Affairs and Trade. I concentrate on promoting Romania's exports to Australia. I do not know whether I have been very successful so far. Even though the level of Romanian exports to Australia has steadily increased by an average of 25 per cent every year, Romanian exports to Australia still remain at a modest level. On Australian exports, I think there is still a way of increasing your mineral exports to our steel industry. Recently, your export figures to Romania dramatically decreased from about \$A200 million. I will have to look at my papers to see the exact trend but, from a big figure, your export figures decreased quite dramatically.

**CHAIR**—I understand that that was following privatisation.

**Ambassador Vulpe**—Yes, following privatisation of this big coal and iron ore consumer. But I am confident that your exports and the bilateral trade will be able to stand up for a higher share of our total trade. With regard to investments, the main point that our embassy's submission made, and which the Romanian government would also like to make, is that Romania is an attractive destination for investment. In terms of recommendations for investment, there are a lot of areas with huge possibilities—infrastructure, energy, environment, tourism and agriculture, to name a few. I gave a comprehensive list of opportunities in my submission; perhaps you may like to go through that.

**CHAIR**—Thank you for that. I noticed that the Department of Foreign Affairs and Trade talked about the slow reform process and some of the bureaucratic obstacles that are in the way of investment. What comments could you make about reform of government structures and the bureaucracy and those impediments that we have found ourselves in the past, here in this country?

**Ambassador Vulpe**—As I mentioned before, in the last 13 years Romania had a lot to learn in order to transform its economy from being a heavily centralised one to a fully functioning market economy. It has not reached this point yet, but constant efforts have been made by successive Romanian governments to improve the administration and the business climate and to ease up the bureaucracy. I think heavy bureaucratic procedures are acknowledged by the Romanian government as being a problem, and the first step towards solving a problem is to acknowledge that it exists. The agency that I mentioned that deals with privatisation and helping foreign investors is just one of the examples that show that the Romanian government is

---



committed to improving the bureaucracy and the way procedures are done in Romania. Perhaps there is some specific issue that you would like to deal with. Of course, bureaucracy in general is an issue that I am always confronted with, even in my own department, for example.

**CHAIR**—Are there funds available for the modernisation of the government services? Have you used multilateral funds?

**Ambassador Vulpe**—We definitely have. Modernisation of the administration is a prerequisite of joining the European Union, so you will hear me mentioning this issue a few more times. In terms of our preparation for the European Union, we have to adapt ourselves to the European Union standards. There is not too much time left to go before we are accepted, and Romania will definitely be up to the standards required. The administration, the bureaucracy, the business climate and the environment in general in Romania are progressing constantly and rapidly, so I am sure that you will hear less and less about this issue in a few years time.

**CHAIR**—Have you become a member of NATO yet?

**Ambassador Vulpe**—We were invited on 21 November. In Prague there was, from our point of view, a historic summit that decided on the further expansion of NATO. We have not joined yet because we are involved in a short negotiation process which is just about to be completed. In one year's time, in 2004, probably in April, we will be ready to join if all the accession protocols are ratified by the member countries of NATO. It is a technical procedure.

**Senator O'BRIEN**—I want to ask about shipping access. I think it was yesterday that we were told that there is a limitation on ship size in through the Bosphorus. What limitations are there on cargo shipments between Australia and ports in Romania?

**Ambassador Vulpe**—I should be better equipped for this question because my husband is a chief engineer in the merchant navy—but I am not. I know that the traffic through the Turkish straits has been a constant problem for the Turkish government. I have attended many meetings in the International Maritime Organisation in London about this. It is not about cargoes—there is no limit. It is mainly an issue of protecting the environment. As far as I know, it is about the tankers. I am not properly briefed about this. In terms of Romania's capacity for sea transportation, it does not affect the traffic through the straits.

**Senator O'BRIEN**—So we can take bulk iron ore and coal and potentially wheat?

**Ambassador Vulpe**—Yes, definitely so. I think it refers only to tankers—oil carriers. So I do not think this will affect in any way other goods. I should have mentioned that Romania is well positioned because of its access to the Black Sea and because of the existence of Constanza Harbour, which is the largest in the Black Sea and one of the biggest and most modern in Europe. Australia could take advantage of this five-star harbour in Romania.

**Senator O'BRIEN**—It was interesting that the Croatian ambassador was encouraging us to look at one of their ports as an access point into Europe. What are the connections from Romania into central Europe and Northern Europe?

**Ambassador Vulpe**—We have connections through all sorts of ways of transportation—by air, road, train and by river. We have quite a solid infrastructure, which is constantly upgraded. It is still a condition for joining the European Union, and we receive assistance for constantly improving our infrastructure. Romania is well connected with regard to all of our neighbouring countries.

**Senator O'BRIEN**—In terms of airport linkages, what are the main connecting ports?

**Ambassador Vulpe**—European ports?

**Senator O'BRIEN**—Yes.

**Ambassador Vulpe**—All major capitals. We have our own company, Tarom. Many airlines fly to Romania, so we have direct links with practically all the European capitals.

**Senator O'BRIEN**—Obviously that is critically important for tourism.

**Ambassador Vulpe**—Definitely. Romania is a tourist country, and we want to promote it as a tourist destination. I am happy to see an increase in Australian tourists to Romania as part of their tour to central Europe. Years ago, Romania used to be a highly regarded tourist destination. This is another sector under modernisation and privatisation, and lately the facilities have improved dramatically.

**Senator EGGLESTON**—The matter of education has been raised quite a lot. Is there any potential for Romanians to use Australian educational services?

**Ambassador Vulpe**—I am confident that this will be the case. I am not aware of the figures, but I do not think that there are many Romanian students in Australia at this point. That is related to the financial capabilities of Romanian students to be able to bear the costs of Australia. I was one of those students: I recently completed a degree in one of your universities. So you can count me among the students who took benefit of your highly regarded universities. I am sure that, with time, more and more young people would like to come here. I know that there is a great interest. I follow with great interest the establishment of direct links between universities. I hope that my interest and the Australian interest in attracting Romanian students will bear fruit in the near future. Romanian students are highly skilled. The education standards in Romania are very high. I am sure that for university degrees there will be greater and greater interest for Romanians to come to Australia. The financial cost is a barrier and the visas may also be an issue.

**Senator EGGLESTON**—Yes, I understand that. The other area that I am interested in is information technology, ICT. I suppose Romania is building up its IT base. Is there potential there for Australia to be involved?

**Ambassador Vulpe**—Definitely. I should have mentioned this in my presentation: Romania has a strong IT sector. That is a consequence of our education system, which has a lot of options that offer students scientific IT and engineering degrees. I think the value of the Romanian IT standard is recognised around the world. As far as I am aware, an initiative of an Australian group of businesspeople is to look into this field of activity. A forum devoted to IT&T opportunities in central Europe will be organised soon in Sopron in Hungary. As far as I know,

---

Romania will be represented there. There is a standing invitation on behalf of your minister of communications to the Romanian minister of IT—and I hope my minister will give course to this invitation—in order to discuss directly the possibilities of developing this sector. Romania definitely has opportunities and possibilities to offer to Australia.

**Senator EGGLESTON**—You said that there are IT courses at universities: what is the percentage of Internet uptake in Romania?

**Ambassador Vulpe**—I am not briefed. It is increasing. There are a lot of computer literate students, young people and persons in Romania. Computer units are increasing, and schools pay particular attention to these. Great attention is accorded to this side of education, and schools now make sure that they have computers. The information courses in Romanian schools, even at the younger ages, are of a very high standard. Young children in Romania are introduced to it from a very early age.

**CHAIR**—Ambassador, we have come to the end of our time. Thank you very much for your comprehensive review. We look forward to having further contact with you. You have a high profile around Canberra, so we see you often. We are planning a luncheon with all of the members of the committee, eight of whom are committed to the visit. We will be splitting into two groups, so about four members will be coming through Romania.

You will be given a copy of the transcript of your evidence. If you see any problems with it, please let us know. We look forward to having contact with you, both before we go and when we come back.

**Ambassador Vulpe**—Thank you very much. I wish you all the best of luck with your visit. I look forward to assisting you in any way. I have just received your letter of interest, and I would like to discuss further with you the way in which I as the ambassador and the embassy could be useful in preparing your visit. I wish you all the best of luck with it. Thank you.

**CHAIR**—Thank you. Jane Vincent, our retiring secretary, will have contact with you, and Pierre Huetter is taking over that role. Trent Mumford from my office will also be involved, as well as my colleagues.

**Ambassador Vulpe**—Best of luck to all your staff.

**CHAIR**—What is the degree you have just finished?

**Ambassador Vulpe**—A masters degree in international affairs.

**CHAIR**—Where was that at?

**Ambassador Vulpe**—ANU. I thought I was not too old to do this.

**CHAIR**—Congratulations. Well done.

**Ambassador Vulpe**—It was hard work. I have to tell you that it was the most difficult thing that I have obtained in my life.

**CHAIR**—I do not think they would be game to fail the ambassador, would they?

**Ambassador Vulpe**—The course was extremely demanding, and I did not have any feeling that they would be prepared to make allowances for an ambassador.

**CHAIR**—Again, thank you very much.

[3.20 p.m.]

**ADAM, Mr Abbas, Acting Director, Diversity Principles Section, Multicultural Affairs Branch, Department of Immigration and Multicultural and Indigenous Affairs**

**KESKI-NUMMI, Ms Arja Sinikka, Assistant Secretary, Temporary Entry Branch, Department of Immigration and Multicultural and Indigenous Affairs**

**THURBON, Mr Phillip Richard, Director, Tourism and Working Holiday Makers Section, Department of Immigration and Multicultural and Indigenous Affairs**

**CHAIR**—Welcome. We have before us your submission, which has been numbered 22. I now invite you to make an opening statement before we proceed to questions.

**Ms Keski-Nummi**—I thank the committee for the opportunity to appear before you today. I apologise for the mix-up yesterday. We appreciate the fact that you have been able to reschedule the time to see us. I will make a couple of opening remarks relating to our submission. You will note from the submission that we focused on questions of productivity diversity, emerging visa trends in central Europe and DIMIA's approach in responding to potential growth from these countries. Our historic immigration flows from central Europe, as from elsewhere, have immeasurably enriched Australia. The government's agenda on productive diversity recognises that contribution and the value of our multicultural society in advancing Australia's interests, both domestically and globally. The department has implemented an innovative program called the Productive Diversity Partnerships Program. This is aimed at working closely with business in advancing the productive diversity agenda. My colleague, Abbas, will certainly be able to expand on this.

In relation to visa trends and issues, as you will note from the submission, we have in recent years started to see a resurgence of interest in coming to Australia, particularly in the overseas student program and in tourism. But, admittedly, it is from a very small base. Within the student program, we have experienced an increase of between 20 and 80 per cent in the numbers of students coming from central Europe. Last year, we increased the number of our student grants to Poland by some 62 per cent, to the Czech Republic by 32 per cent, to Hungary by 78 per cent and to the Slovak Republic by 20 per cent. All of the education sectors are well represented, but the majority of grants are for vocational education training and/or intensive English language courses.

In our regular discussions with peak education bodies, the bodies have also noted new and emerging trends in relation to students wanting to come and study in Australia. Since the introduction of the new student regulations in July 2001, this trend has continued and, in many ways, the regulations have given greater certainty and clarity in relation to the requirements for a visa. Approval rates have also been increasing. At our posts in Warsaw and Budapest the approval rate of student visa applications now stands at around 96 per cent. At the Zagreb post, the approval rate averages around 88 per cent. The reasons for refusals are usually students having inadequate funds or not meeting English language requirements in the various sectors.

Compliance with the student visa conditions has also improved markedly in recent years. The number of visa cancellations has fallen for students from most central European countries. In Hungary it is down by 50 per cent, in the Czech Republic it is down by 30 per cent, and in Slovakia it is down by 15 per cent.

**CHAIR**—Sorry, which visas do those numbers relate to?

**Ms Keski-Nummi**—They relate to student visa cancellations, which essentially means that students are abiding by their visa conditions. There has been a remarkable change in the last 12 months, and it is a good result, considering the growth in application rates that we have also seen in that time.

In relation to managing the student program, our aim is to facilitate and support the growth of Australia's education export industry. At the same time, we want to ensure the integrity of the outcomes of the student visa program—that is, that students are genuine students and that when they come here they comply with their visa conditions.

In the tourism sector, we have also started to see some growth but, admittedly, from a fairly small base. Approval rates have been increasing. It is also pleasing to note that there has been a downward trend in non-return rates for visitors: we are saying yes more often than we are saying no. Looking at the future, whilst the number of visa applications from these countries has not been large in the global context, we are starting to see a growth trend emerging, particularly within our visitor and our student programs.

The challenge now is for us to monitor very closely EU accession, particularly accession to the Schengen treaty, and what the implications of that will be for us in the future in relation to the management of our visa programs. We are looking at issues such as ETAs, electronic visas and how we might be able to manage those in a quite new and different environment. That is all I have to say at the moment. We have a submission, and we would be happy to take any questions you have.

**CHAIR**—Thank you for your comprehensive input. I do not know whether you were here when the ambassador from the Czech Republic was outlining his fairly strong criticisms, particularly in relation to business and student visas. He said that Czech citizens, instead of getting form 48, were getting form 48R and that was causing major havoc by people ringing up wanting assistance. He felt it was going overboard. Do you have any comments?

**Ms Keski-Nummi**—In fact, I have met with the Czech Ambassador on that issue as well. We have had discussions around the use of the forms. I explained to him as well that the use of form 48, with the additional information, gives us a greater capacity to be able to assess the genuineness of the visitor application and what a person's intentions are while they are in Australia. As a result of that, we are now seeing much higher approval rates out of the Czech Republic than we had been seeing previously. The non-return rates similarly have been decreasing. This means that additional information that we are getting from the form certainly assists us in our decision making without having to go back to applicants a number of times, as would otherwise be the case, to verify information such as what their intentions are, whether they have the funds and all those sorts of things. Those things help us manage the visitor program in particular. In terms of the student program, I am not quite sure what the issues were.

**CHAIR**—Again, the extent of questioning that was taking place and the frustration of just what was required.

**Ms Keski-Nummi**—In relation to the overseas student program, as a result of the July 2001 regulation changes, each country is assigned an assessment level and each sector within that country is assigned an assessment level, which equates roughly to what the risk factors are that we manage in that particular sector within that country. I would have to refresh my memory, but the assessment level for the Czech Republic is in the submission. Generally speaking, I think it is AL2, which is a medium risk level. I think the vocational education sector is AL3, which is a higher risk assessment level. The regulations for each of those assessment levels state the regulatory requirements of evidence of financials and English language. That applies globally, and we review the assessment levels fairly regularly. The minister then makes a decision on whether we should assign a sector into a higher assessment level or into a lower assessment level, depending on visa outcomes of compliance with visa requirements. The school sector, ELICOS and the non-award sectors are assessment level 3, and the rest are assessment level 2.

**CHAIR**—Getting back to the issue raised so strongly by the Czech ambassador—we did not have too much discussion on it, apart from the Czech ambassador—what percentage of people applying to come to Australia on, I think, the business visa program used to be knocked back under the old 48 form, and what is the approval rate now?

**Ms Keski-Nummi**—At the moment, the variations from the first six months of the 2001-02 program to the first six months of the 2002-03 program—which is basically 1 July to 31 December 2001 and 1 July to 31 December 2002—are that there were 528 visa grants in the first year and this year it has trended down to 468, which is an 11 per cent drop. I have not got the approvals, but I could get them for the committee.

**CHAIR**—That does not necessarily support your argument that the use of the 48R form improves the success rate.

**Ms Keski-Nummi**—This is on grants. I cannot tell you whether application rates may have been going down as well, because I have not got the statistics in front of me; but I certainly can get them for the committee.

**Senator O'BRIEN**—The Czech ambassador says it is because of the form used.

**CHAIR**—Yes. You do not have the figures there for the applications?

**Ms Keski-Nummi**—I will get them for the committee.

**Senator O'BRIEN**—What categories of visa are represented in the non-return rate and how are they represented?

**Ms Keski-Nummi**—In the non-return rates we look at the visitor visa subclasses: the short-stay business is a subclass 456; the tourist subclass is a 676; and the long-stay visitor visa is a 686.

**CHAIR**—What are the numbers for each category? Have you got those figures?

---

**Ms Keski-Nummi**—I have got them, but I would have to go through them country by country. I have got the global statistics here. In the submission, we presented the overall visitor visa statistics for the outcome of last year. If you would like us to disaggregate that, we could.

**CHAIR**—Could you run across a couple of them—some of the bigger ones such as Poland, the Czech Republic and Hungary.

**Ms Keski-Nummi**—If I look at the Czech Republic in terms of the 456 visa class, it has gone down from 528 to 468, which is an 11.4 per cent drop.

**CHAIR**—Is that visitor?

**Ms Keski-Nummi**—That is business visitor.

**Senator EGGLESTON**—What about the non-return rate—the overstayers?

**Ms Keski-Nummi**—We have not got those figures disaggregated. We would have to get those for you.

**Senator O'BRIEN**—When you say 'not disaggregated', do you mean that you have not broken it down by country?

**Ms Keski-Nummi**—We can do that, but I have not got it in front of me. If I look at Poland, business visas have also gone down, from 586 to 335.

**CHAIR**—How do student visas stack up?

**Ms Keski-Nummi**—Students numbers have increased.

**CHAIR**—What about the overstays?

**Ms Keski-Nummi**—The overstay rate has gone down. The growth that we are now starting to see out of the student visa program is actually one of the highlights. It now represents around three per cent of the overseas student market in Australia.

**CHAIR**—Could we have a breakdown of the different categories of rejections for visas and the overstay rates for the countries that we are looking at in relation to this visit?

**Ms Keski-Nummi**—Yes.

**CHAIR**—Could we also have the number of applications you get so that we can follow that through?

**Ms Keski-Nummi**—Yes.

**CHAIR**—We do not need it tomorrow, but we will be leaving in seven weeks.

**Ms Keski-Nummi**—We can certainly get that to you by tomorrow.

---



**Senator O'BRIEN**—In terms of student visas, has there been any trend in breaches of work restriction arrangements?

**Ms Keski-Nummi**—No; that is one of the things I said in my opening statement. The visa cancellations would normally be on things such as breaching the work requirements. Those have gone down markedly in the last 12 months, which shows that students are actually abiding by their visa conditions.

**Senator O'BRIEN**—Your submission states that access to visas through the eVisa system is only available in some areas for student visas and not available at all for other classes of visas in these countries. Can you explain that?

**Ms Keski-Nummi**—That is correct. The eVisa is available for all AL1 students. That is assessment level 1, which is the lowest risk.

**CHAIR**—Are eVisas the same as ETAs?

**Ms Keski-Nummi**—No; it is an Internet based application where students can go onto the Internet and put their application through over the Internet. There is a health requirement and if they meet all of the other requirements they are then asked to do the health component, which can be inputted via the Internet as well; then a grant is given electronically over the Internet.

**CHAIR**—How long does that take?

**Ms Keski-Nummi**—If there are no issues and health is okay, that usually takes two working days—we are in a peak at the moment. That is currently only available for assessment level 1 countries.

**Senator O'BRIEN**—Of the countries that we are looking at, which are assessment level 1?

**Ms Keski-Nummi**—None of the countries in central Europe are assessment level 1 at the moment. There are some that are assessment level 2 and we will continue to be monitoring how the eVisas work.

**CHAIR**—Is the eVisa not available to any of the countries that we are looking at?

**Ms Keski-Nummi**—Not at this stage.

**CHAIR**—Are ETAs not available either?

**Ms Keski-Nummi**—Not at this stage.

**CHAIR**—What about the question of servicing out of Vienna for the visas? The Czech Republic does it and there are probably other countries that you service out of Vienna. Are there any plans to change that?

**Ms Keski-Nummi**—No, there are no plans to change that at this point in time. As I mentioned earlier, we are monitoring very closely EU and Schengen treaty accession and what

---

pressures that will raise for us in relation to how we manage our visa programs from central Europe with that development. Our officers in Vienna do travel quite regularly to Prague and they have meetings with agents there, particularly education agents, and they work closely with Austrade as well on issues relating to the Czech Republic. We try to facilitate as much as possible. We are also looking at other ways of working closely with other trusted third parties in relation to being able to provide good services to people.

**CHAIR**—This is a problem in terms of our mission being to look at trade opportunities there. If people say one of the biggest problems is getting visas, then how do we relate the two? You have got a job in terms of border protection and security of applications, and this committee has a job in terms of trying to maximise our exports. Obviously, an area that needs to be looked at is how this can be improved.

**Ms Keski-Nummi**—Absolutely, and it is one of the areas where we have been looking at how to manage our 456 program, which is the short-term business visitors visa program, in relation to working closely not only with Austrade but with other chambers of commerce to facilitate and provide much more streamlined services particularly in countries where we do not have any representation. That means looking at things like better and more strategic use of couriers and so forth to make quick decisions and have quick turnaround times.

**CHAIR**—Perhaps it is something that you may wish to look at. To be truthful, we have only had it raised by one embassy representative. We have yet to hear the Polish representative, who is our last witness today, so I am not sure what they will have to say.

**Ms Keski-Nummi**—Maybe I should stay and listen.

**CHAIR**—Perhaps, as they are sitting behind you, it might prompt them. Maybe it is an issue which you might want to consider so that we could have some discussions with you, when we return, to see whether it is an issue.

**Ms Keski-Nummi**—Certainly.

**Senator O'BRIEN**—Could you explain what the Productive Diversity Partnerships Program is, in the clearest possible language?

**Mr Adam**—It basically supports and encourages Australian businesses to utilise the language and cultural diversity in the work force and in the Australian population to do business in overseas markets. We have people who represent various countries in terms of understanding the language and culture, business practices, customs and consumer preferences. In doing trade or investment in the global market, this can provide a competitive edge for Australian businesses in accessing, understanding and doing business overseas. Therefore, we are trying to encourage businesses to look at this diversity as a competitive advantage for Australian businesses. Through ethnic chambers of commerce and bilateral business associations, we try to foster networking opportunities between mainstream Australian businesses, ethnic chambers of commerce and bilateral business associations.

We also develop tools and information avenues for businesses to tap into. It is market intelligence information, if you like, in overseas markets and using the communities here from various countries that businesses are targeting to develop and package products and identify the

---

consumer preferences. This is particularly useful for small and medium sized enterprises because they do not have the infrastructure to get market intelligence from overseas. It is a way of fostering and opening avenues for Australian businesses to look at how the cultural and language diversity and business networks among migrant communities can be utilised to increase market share or to capitalise on opportunities in new markets overseas.

**Senator O'BRIEN**—Do you work with Austrade and DFAT in relation to the integration of that program with other programs that are relevant to enlarging trade opportunities overseas?

**CHAIR**—On that hang all law and the prophets. Do you work independently in your area without consideration of a changing world in terms of the former eastern Europe? There appears to be a tougher assessment regime if you come from central Europe than if you come from western Europe.

**Ms Keski-Nummi**—I will answer that. We manage the visa program and it is a constant juggling act between integrity and facilitation. The things that we watch very closely are application rates, approval rates, refusal rates and non-return rates. These allow us to make assessments as to whether we move to an ETA environment, whether we move to being able to relax some of the documentary evidence that we request or whether we need to take action because we see that there are a higher number of protection visa applicants from a particular region, for example.

**CHAIR**—Isn't it true, for example, that one of the highest groups for overstays is actually our good old friends from the UK?

**Ms Keski-Nummi**—In absolute numbers it might appear large but as a proportion of non-returnees, no, they are one of the lowest.

**CHAIR**—In terms of absolute numbers, I am sure that the numbers from the UK would swamp the numbers of people from eastern Europe who overstay.

**Ms Keski-Nummi**—If we are talking absolute numbers, but what we tend to do is look at proportional numbers.

**Senator O'BRIEN**—My question was not about visas at all. It was about how the Productive Diversity Partnerships Program has been developed and how this agency works—if it does—with Austrade and DFAT to use the skills and knowledge that you understand to be in our community and businesses of Australia. How can that be developed to expand our opportunities in the markets where Austrade is assisting Australian businesses, for example? I want to know how you work with Austrade and DFAT to maximise the benefit that the PDPP is designed to achieve.

**CHAIR**—I have to be honest and say that I do not know too much about the PDPP.

**Senator O'BRIEN**—That is why I was asking the question, because I do not know anything about it either.

**CHAIR**—What does it mean?

**Ms Keski-Nummi**—It is the Productive Diversity Partnerships Program. It is part of the government's agenda. In this context, we do work very closely with Austrade and DFAT and all government departments to progress the government's agenda of productive diversity. Productive diversity is really about harnessing the skills, the resources and the richness of the Australian community, irrespective of where people come from, to promote greater diversity in the way we work and in our business interests as well. Therefore, it has a very strong domestic angle and an outward looking angle in relation to the way we promote it.

**Senator O'BRIEN**—Neither of those agencies have mentioned it to us in conjunction with their submissions. I am trying to understand how it intersects with their work and what weight we should give it in our inquiry in terms of an evaluation of its relevance to our trade relationships in particular with these countries. We know that there are many people in the Australian community whose origins are from the countries that we are talking about.

**Senator EGGLESTON**—Does it mean, for example, that you facilitate business visas so that a businessman can get into Australia more easily?

**Ms Keski-Nummi**—It does mean working closely with communities in relation to being able to understand the business environment. It would certainly also mean understanding if there are people who want to come to Australia to look at business opportunities. That gives us a heads up on how we might be able to manage the 456 program and promoting the interests of Australia, and any sorts of business investments from those places as well.

**CHAIR**—Your submission talks about the assessment level. How many levels of assessment do you have?

**Ms Keski-Nummi**—This is specific to the student program. We have four assessment levels and each is governed by regulations. Assessment level 1 is the lowest risk and assessment level 4 is the highest risk. There is an assessment level 5, but no country is at that level.

**CHAIR**—Are any of the countries that we are looking at AL4s?

**Ms Keski-Nummi**—No, none are AL4. It is in the submission; they are between assessment levels 2 and 3. But different sectors have also assigned different assessment levels.

**Senator O'BRIEN**—If there is anything else you would like to tell us about the way you work with Austrade and DFAT using the PDPP, you can tell us on notice. We may need to go back to those agencies and ask them to comment.

**CHAIR**—I am still not 100 per cent sure of what it is all about, but it would be interesting to hear how they think it works. Maybe we will pick up on this when we go away and do more work on it and when people make complaints, as they normally do.

**Mr Adam**—I can give you an example of our interaction with Austrade. A joint project was undertaken by the ACCI central office and Austrade to develop a database for Austrade containing the names of all the ethnic chambers of commerce and bilateral business associations. ACCI was supposed to maintain the database. That was one of the projects we were involved with to facilitate trade. The Western Australian and South Australian governments have co-located ethnic chambers of commerce—for example, in Adelaide, in trade

centre—so that they can have better networking opportunities. The International Business Council in Western Australia also works with various state chambers of commerce. There are regular monthly business networking meetings at which trade and investment opportunities can be discussed among mainstream and ethnic chambers of commerce and bilateral business associations.

**CHAIR**—We may need to get back to you to gain a bit more of an understanding of the issues. You have explained part of it with respect to the overall assessments you make in relation to overstays, non-returns, et cetera. If most of the area under discussion becomes part of the EU, with different problems and different challenges, one part of the EU will be classified in a different way from the others. That will be difficult as well.

**Ms Keski-Nummi**—We are very conscious of that and would like to avoid that sort of scenario. I could give you a snapshot of the non-return rates.

**CHAIR**—Yes.

**Ms Keski-Nummi**—The year-to-date figure for this financial year for business visas relating to the Czech Republic is 0.68 per cent; the figure for last year was 1.1 per cent, so we have seen quite a dramatic decrease in those non-return rates. The figure for Hungary this financial year is 0.26; the figure last year was 1.92 per cent—again, there has been a dramatic decrease. The non-return rate for Poland is 0.81 per cent; it was 1.2 per cent last year. The figure for Slovakia is 0.71 per cent; it was 1.68 per cent last year. So we are seeing a downward trend in non-return rates for business visas with respect to all of those countries.

The non-return rate for tourist visas with respect to Poland is down to 5.05 per cent from 6.81 per cent last year. Slovakia has bucked the trend: it has gone up to 4.29 per cent compared to last year's figure of 3.97 per cent, while the Czech Republic has gone down slightly from 5.47 per cent to 5.55 per cent. So we are seeing some shifts in the non-return rates.

**CHAIR**—Thank you for your interesting presentation. We will see what it registers on the Richter scale as we go around!

**Ms Keski-Nummi**—We would certainly be happy to clarify any other issue if required.

**CHAIR**—We may need to invite you back after we hear from other witnesses. Thank you for coming.

[3.54 p.m.]

**WIECLAW, Mr Jerzy, Ambassador, Embassy of the Republic of Poland**

**ZOLADKIEWICZ, Mr Tomasz, (Commercial) Counsellor, Embassy of the Republic of Poland**

**CHAIR**—On behalf of the trade subcommittee, I welcome His Excellency Mr Jerzy Wieclaw, Ambassador of the Republic of Poland and Mr Tomasz Zoladkiewicz. I see that you have quite a good support group from the chamber of commerce; they spoke to us this morning. The subcommittee has before it a submission from the embassy. It is submission No. 23. I now invite you to make a short opening statement, if you wish, before we proceed to questions.

**Ambassador Wieclaw**—Mr Chairman, distinguished members of the committee, ladies and gentlemen, as a newly accredited ambassador to Australia, I am greatly honoured to appear today before this subcommittee. May I also introduce my colleague who is accompanying me here, Mr Tomasz Zoladkiewicz, Commercial Counsellor. In my very brief remarks I shall try to summarise the key points of the submission delivered to this committee prior to my arrival. First, I would like to stress that Poland is a politically stable, parliamentary democracy with a rule of law. It is strategically located in the very centre of Europe and provides the most convenient and efficient point of entry into the European Union in political and logistical terms. This is also the case in terms of economic relations with the Russian Federation and several countries of the Commonwealth of Independent States.

Second, Poland became a role model of political transition towards democracy and conducted a remarkably successful economic reform. Poland plays a stabilising role in the region, with membership of NATO since 1999 and the upcoming membership of the European Union, hopefully by 2004, being key factors in that regard. Third, both the OECD and the WTO have accepted Poland as a newly emerged, fast-growing market economy. Poland has been identified as one of the strongest and more consistent economies in Europe, as well as offering a more favourable climate to investors. Poland has a generally successful record of privatisation of state-owned companies.

Fourth, Poland offers a favourable general business environment underpinned by systematically progressing integration with European and global economies. Fifth, Poland's infrastructure has been improved significantly over the last 10 years to catch up with western European standards. A massive plan to build international quality motorways has been launched, while the telecommunications network has been expanding rapidly. European Union funds will contribute to further upgrading of our infrastructure.

Six, Poland has been praised by European economists for its mature financial system and a stable banking sector that meets global standards. There are currently over 80 banks with domestic and/or foreign capital on the market. I would like to point out that there are opportunities for Australian banks and financial institutions in this sector. Seven, this year the Export Finance and Insurance Corporation upgraded Poland from group 3 to 2 as a potential export insurance risk. This decision, in my view, acknowledges Poland's political and social

stability, rapid progress with macroeconomic stabilisation and structural economic reform and upgrading of its legal and administrative—

**CHAIR**—What was upgraded?

**Ambassador Wieclaw**—The legal and administrative structure has been upgraded. We have been upgraded from group 3 to group 2 as a potential export insurance risk. I want to emphasise that Australia is a very important economic partner for Poland; the Polish government attaches a great deal of weight to developing economic relations with Australia. With a view to the abovementioned factors and membership in the enlarged European Union, we see a number of opportunities for the expansion of bilateral trade, both in goods and services and investment.

In my view, Poland should be seen as an important—perhaps the major—production and/or assembly base for Australian products and services. Because of its central geographical location, Poland is also an attractive distribution base for these markets. Amcor Ltd, based in Melbourne—with its expanding operations in Poland, branching out into neighbouring countries—provides an excellent example of benefits and rewards offered by this approach.

Since 1989 Poland has attracted over \$A120 billion in FDIs. At the end of 2002 some \$A136 million had been registered in Poland as being of Australian origin. Given the economic potential of Australia and its long experience in international economic relations, this level of investment certainly cannot be treated as satisfactory. So far, there are only two Australian companies, the abovementioned Amcor Ltd and Lend Lease, which have invested more than \$US1 million in Poland.

Australian investors are particularly welcome in several major sectors of the Polish economy. First, Poland's energy supply sector is the largest of its kind in central Europe. Up for privatisation are 17 power generation plants, 33 wholesale electric power distributors and 19 power and heat generation plants. Second, Poland intends to privatise 25 out of 29 industrial enterprises in the defence and armaments production sector, including enterprises that have long been well known in Poland and in international markets. My country is looking for companies possessing modern technology and the capacity to meet NATO requirements and standards for these products.

We also offer for privatisation the enterprises working with and for the aircraft and motor vehicle industries. Four of the largest Polish chemical plants are ready for FDIs. There are opportunities for Australian investors in road construction and environment protection. Building and construction projects such as hotels, homes and supermarkets remain a promising area for Australian enterprises with up-to-date technologies and capital resources. Certainly, this is only an indicative list. I am quite sure that the delegation of the Joint Standing Committee on Foreign Affairs, Defence and Trade will easily expand this list while visiting this country. Therefore, Mr Chair, I am looking forward to working closely with you and the distinguished members of the committee in order to make this visit a success. I will be very happy to take questions now.

**CHAIR**—We appreciate your input and also the brevity of it. I would like to ask a few questions before Senator Eggleston. Firstly, which product areas do you see as being the best opportunities for Australia's exports and investments into the future?

**Ambassador Wieclaw**—I will begin with a general answer, and then I will turn to my colleague on my left to be more specific. I should point out that there is a group of goods that traditionally have been supplied to Poland—wool, meat et cetera—but, with the modernisation of the Polish economy, we are looking for more advanced products such as telecommunications and general medical equipment for the medical system, which is undergoing both modernisation and profound reform. With your permission, I will now to turn to my colleague to be more specific about product groups.

**Mr Zoladkiewicz**—As Mr Ambassador told you, I think that Australian wool still has a future on the Polish market, although the volume of your export of wool to Poland has decreased significantly. But, in future, wool should remain the No. 1 item. Australia's telecommunications equipment is very well known all over the world as good quality equipment. Poland has a very big capacity for telecommunications, so telecommunications should in future be item No. 2 for Poland. As representatives of the Polish government, we are first of all interested very much in Polish exports to Australia, which is logical.

**CHAIR**—Absolutely; that is what it is all about.

**Mr Zoladkiewicz**—I share your opinion that foreign trade cannot all be one way; it has to be two ways. There is no country in the world that can export only and does not have to buy. That is why I think this committee's forthcoming visit to Poland is very important, so the committee can to get to know the possibilities for Australian companies to export to Poland. The very important thing, as far as Australia is concerned, is the investment possibilities. As Mr Wieclaw told you, since 1989, when we changed the political system, Poland has attracted over \$120 billion of investment measured in Australian dollars. I would add, only for your knowledge, that there was more direct foreign investment in Poland than in Australia. In 2001, there was \$A12,000 billion of foreign investment in Australia, and in Poland it was over \$14,000 billion. I am convinced that Australia should be more flexible and should see Poland not only as the biggest country in the region—almost 40 million people live there—but as a future member of the EU and a neighbour to Russia and other post Soviet republics. Altogether, in the eastern part of Europe, there are almost 250 million people plus the EU from the west. Our labour costs compared with Australian labour costs are about four times lower in Poland. That is a very big amount.

**CHAIR**—Could I ask about how land reforms are progressing? What percentage of the land is now privately owned, and what reforms are in place? I understand there are small land holdings, and that creates problems.

**Ambassador Wieclaw**—For quite a long time, even since World War II ended, Poland has been a particular country in the Soviet bloc with a high percentage of privately owned land. Practically 100 per cent of land is now privately owned. The few per cent of land that is in the hands of government is simply the land which has not yet been successfully sold. This is in terms of land ownership. Secondly, with regard to the structure of the land, we are going through a period of restructuring our agriculture. This means that, on the one side, the huge state or collectively owned farms have been disbanded. The land has been either privatised or unfortunately in some cases it is still lying idle and unused. There are no owners for that land.

On the other side, there is a very positive encouraging trend. There are new owners who are buying arable land for huge farms which, of course, cannot compete on a square metre basis

---



with Australian ones, but by European standards they are fairly large. For example, we have farms which have 1,200 hectares, which by European standards is quite impressive. The number of small farms is gradually decreasing and, in the near future, I think they will decrease dramatically while Poland integrates into the European and global economy.

**CHAIR**—How about the issue of corruption? Is that being addressed?

**Ambassador Wieclaw**—We are, of course, not immune from corruption. It is definitely a negative phenomenon.

**CHAIR**—Neither is Australia immune.

**Ambassador Wieclaw**—We are certainly very sad that our ranking by Transparency International was slightly decreased last year. This is the concern of all branches of power in Poland—executive, legislative and judicial branches. Poland is trying very hard to achieve medium international standards. In this respect, I guess the work we have done so far in integrating European standards into our law system is of great help. This is the issue that preoccupies the fourth branch of power. By that, I mean the independent media, which is very alert in Poland. Today, for example, I read in the Polish newspapers that the Prime Minister has asked the governor of one of the provinces to step down after the media exposed his wrongdoings in some investment projects. The governor has lost the confidence of the Prime Minister and it was certainly thanks to a very alert media.

I should point out here that, in this respect, as a government we are very happy in our relationship with the Australian government. The initiative on good governance was put forward in the international forum. This initiative was supported by our two governments in the United Nations framework.

**CHAIR**—What has been the progress in labour market reforms?

**Ambassador Wieclaw**—Over the last decade, even when the prospects for membership in the EU were not as clear as they are today, Poland embarked on the road of profound structural changes, with consecutive governments sometimes even risking political capital. This pays off in terms of a better economic structure. Of course, the downside of that is painful; but it is also courageous. I believe that the relatively high rate of unemployment of 18.2 per cent associated with the strategy will hopefully decrease while the economy will pick up. The labour market over the last 10 to 12 years has been subject to profound changes, and especially heavily affected have been the traditional branches of our production such as coalmining—we are losing a lot of ground here—and the steel industry et cetera.

**Senator EGGLESTON**—I would like to ask you some general questions. This morning the business council suggested that Australian agencies should have a higher profile in Poland. We also heard evidence from a gentleman who used to be a trade commissioner for Australia who thought Australia should take a more strategic approach to its economic relations with eastern Europe and perhaps get involved in World Bank finance for projects—for instance, improving governance and other things—in eastern Europe. Do you have any general comments about the profile of Australian business and our level of investment in eastern Europe in terms of those remarks?

**Ambassador Wieclaw**—Thank you very much for that question. I believe that Poland should be looked at, and of course it also applies to our side. We should change our perception of Australia and the possibilities for our businesses here. I think the general approach should be like that. Poland constitutes half of the population of the new members of the European Union. Out of some 75 million people who are supposed to join the European Union, we will make up 38 million. It is a huge market; it has huge possibilities. Secondly, all the institutions are based on the Western style capitalist market economy, thanks to a long-term process of absorbing European Union standards—*acquis communautaire*, as we used to call it in Europe. Thirdly, the general approach to Poland should be that it is a country which is next door to Germany, and maybe not physically but politically and economically it is next door to the great countries of Europe—Italy, France and Great Britain. It has an excellent relationship with Germany, certainly in political terms, and it is intertwined with many links with those leading nations. Last but not least is that Australia cherishes its strong security and political bond with the United States; Poland is perhaps one of the strongest allies—and I do not like to qualify the countries here—of the United States in that part of Europe.

**Senator EGGLESTON**—Indeed, they are very supportive of the West, as it was called, in general. The suggestion was made this morning that, rather than piecemeal investments in different industries, Australia ought to have a broad approach of developing relations with governments in eastern Europe and take a long-term view of developing and promoting economic relations through government agencies, rather than making individual business investments. Do you think that is a good approach? What are the other agencies in eastern Europe that Australian government agencies, such as Austrade and EFIC, and Australian industry can work with? Or, in fact, are those agencies not there?

**Ambassador Wieclaw**—I think the role of governments cannot be written off in that respect. Of course I represent the government, so I do see a role for our government structures and I do see a large role for Australian government structures in promoting trade and investment. Without that, certainly it would be fairly difficult, especially for mid-size and small companies, to get a better knowledge of each other and to enter into a confident relationships with partners. Certainly, time and effort should be allowed for those agencies to provide good services to individual business units. I should also say that our government is now, and has been over the last few years, very focused on our major national project, which is membership of the European Union. A few days ago our prime minister visited Singapore and India, where he signed substantial contracts and long-term agreements with the Indian government. That shows that other regions are on our radar screen, and I am very happy to announce that we are expecting a visit by the Polish foreign minister to your country quite soon.

**Senator EGGLESTON**—Was the Indian agreement about information technology?

**Ambassador Wieclaw**—Yes, Indian IT, the Indian silicon valley, is very much on our minds. But also, as I mentioned in my presentation, there are possibilities, for example, for contracting in the defence industry. India is fairly interested in that area, and we have signed very promising agreements with India.

**Senator EGGLESTON**—Thank you, Ambassador.

**CHAIR**—Are there opportunities for Australia to get into the e-government area, into the government structural reform areas that we have been through in recent years and share our knowledge? Is that a possibility?

**Ambassador Wieclaw**—I brought—in not very elegantly plastic bags—some material which I hope will be of assistance to the delegation. It is both in hard copies and also in electronic copies. I think it demonstrates that the government of Poland is moving quite forcefully towards government online. In the 30 years of my career in the government I have witnessed profound change. Last year I was forced by my minister to go through examinations and tests in computer knowledge, as is the case for every civil servant in our country. I think there are huge opportunities and we are embarking on this road with great enthusiasm. I think we have registered some progress and I hope the committee members will be interested in the material we have provided to support our presentation.

**CHAIR**—You made a point in your submission that the two-way niche focusing and packaging of Australian trade and business offers is especially important for investment. Was it in line with your comment that we need to look at the two-way aspect and not just look at trade? Where do you see the opportunities for developing trade from Poland into Australia?

**Mr Zoladkiewicz**—I would like to point out one thing: Polish and Australian statistical data are different. In Australia you register only direct business—direct export or import. Polish statistical information shows that your export to Poland is higher than your imports.

**CHAIR**—I think that is because a lot of product goes via Britain or Germany.

**Mr Zoladkiewicz**—Exactly. For example, we buy a lot of telecommunications equipment—it was a huge amount in 2001—and, as far as I know, we bought it from the UK. For your statistical information it was exported to the UK and for our statistical information it was imported from Australian products, so we count it as being imported from Australia. Our trade turnover was not too high in 2002 according to Australian statistical information. It was \$A102 million. Our export was \$A82 million to Australia and your export to Poland was only \$A18 million or \$A19 million. As I told you, in Poland it is different but still our trade turnovers are not very big. I think there are pretty good possibilities for increasing our trade turnover and I think there is a big role for Austrade to encourage Australian business people to invest in Poland. It is a very well-known and important organisation here. I remember I was told about five or six years ago that Austrade organised three or four seminars in major towns in Australia encouraging Australian business to invest in central Europe and in Poland, of course. I think maybe it is time to do it again and we should find Australian capital or businesses interested in investing into Poland.

**CHAIR**—In terms of the figures that have been supplied by DFAT, how much did you say the exports from Poland were according to your figures?

**Mr Zoladkiewicz**—Exports from Poland to Australia were worth \$A82 million.

**CHAIR**—I have \$A66 million.

**Mr Zoladkiewicz**—That is because the information you have in front of you is from 1 January 2001 until 30 June 2002. My figures were for the year 2002.

---

**CHAIR**—What were your figures for the exports from Australia to Poland?

**Mr Zoladkiewicz**—It was about \$A18 million or \$A19 million.

**CHAIR**—That is similar to the figures here.

**Mr Zoladkiewicz**—That is for the year 2002.

**CHAIR**—I am very glad that you could be here. All the members of the committee will receive your input in the *Hansard*. Before you go, I move that the following be made committee exhibits: a CD entitled ‘Business opportunities in Poland’ and a guide entitled ‘How to do business in Poland’ from the Ministry of Economy in Poland. Thank you for coming today. We will send you a copy of the *Hansard*. If you have any queries, please let us know. We very much appreciate your input today.

Resolved (on motion by **Senator Eggleston**, seconded by **Mr Baird**):

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

**Committee adjourned at 4.32 p.m.**