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DEFENCE AND TRADE TRADE SUBCOMMITTEE

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JOINT COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE

Trade Subcommittee

Tuesday, 18 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 Brereton, 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: Senator O'Brien and Mr Baird, Mr Brereton and Mr Jull

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.

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Subcommittee met at 9.36 a.m.

BROOKING, Mr Alexander John, Director, Northern, Central and Eastern Europe Section, Department of Foreign Affairs and Trade

FORD, Mr Andrew, Executive Officer, Agricultural Policy and Negotiations Section, Office of Trade Negotiations, Department of Foreign Affairs and Trade

RITCHIE, Mr David, First Assistant Secretary, Americas and Europe Division, Department of Foreign Affairs and Trade

THRELFALL, Mr Peter, Executive Officer, Northern, Central and Eastern Europe Section, Department of Foreign Affairs and Trade

TWOMEY, Ms Margaret Eileen, Assistant Secretary, Northern, Southern and Eastern Europe Branch, Department of Foreign Affairs and Trade

URBANSKI, Mr Anthony, Director, Southern Europe Section, Department of Foreign Affairs and Trade

CHAIR—I declare open the second public hearing of the Trade Subcommittee of the Joint Standing Committee on Department of Foreign Affairs and Trade 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—that is in brackets, depending on whether we agree with the proposals put forward by Austrade on the weekend—Hungary, Slovenia, Romania, Bulgaria and Croatia.

Of importance is the future trend of Australian and central European trade and investment, and the benefits for Australia as these countries become market based economies. There is the impact of accession to the European Union on our trade, as well as 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 expansion in trade and investment.

On behalf of the Trade Subcommittee, I welcome the representatives from the Department of Foreign Affairs and Trade. The subcommittee, as you know, prefers all evidence to be given in public but should you wish at any time to go in camera, please advise us. Having been through this process many times before, I am sure you are all aware that these proceedings are legal proceedings of the parliament and have the same standing as discussion and debate in the parliament itself. The subcommittee has two submissions from DFAT, No. 16 and No. 26. I say at the outset that we appreciate the input that DFAT has provided the committee. The quality of your report, the one that we originally received, was excellent and the assistance we have received has been first class. We thank you all for coming today. I think it is going to be quite an interesting inquiry. Mr Ritchie, would you like to make an opening statement and we will proceed to questions from that.

Mr Ritchie—My opening statement very much addresses the submission that you have before you. The first point to make is that we think the inquiry is a timely one, given the eastward expansion of the European Union—and of NATO, which is perhaps not purely within the inquiry's ambit but may be of general interest. Since we provided the submission, eight out of the 11 countries under inquiry—or maybe it is 10; I do not know what happened with Austrade over the weekend—have completed accession negotiations with the European Union.

First of all, we need to bear in mind that our trade with these countries starts from a reasonably modest base. As you would see in the submission, we have looked at the figures. By our calculation, our exports to the countries under inquiry amount to 0.2 of one per cent of Australian exports. We anticipate that export opportunities will grow, but the scale of growth will, in our view, be reasonably moderate. The submission tracks the fundamental changes in the composition or nature of our trade over the last decade or more. As these countries move from being centrally planned economies to market economies, it notes the importance of accession for trade policy issues. As these countries move into the European Union—or most of them do; eight of the 11 do—a great deal of the trade policy issues will become EU trade policy issues, and we will deal with them in the way that we deal with the EU itself.

For the sake of clarity, I will talk a little on the timetable for general accession to the EU. The accession treaty was adopted by the 15 current EU member states on 5 February this year. The treaty was submitted to the European parliament and to the council for assent, with a view to signing the treaty in Athens on 16 April 2003. Then there follows national ratification procedures in the current and acceding states. Those ratification procedures are to take place in time for the acceding states to join the European Union on 1 May 2004. That timetable allows them to participate in the next European parliamentary elections, which I think are in June 2004. Referenda will be held progressively in acceding countries over the coming months. If the voting outcome is successful candidate countries can then, as I mentioned, accede to the union in May 2004.

I think it is worth noting the significance of accession for these countries in political and economic terms. After accession, the EU will become a different entity. First and foremost, of course, it will have 25 countries rather than 15, but the geographic centre of gravity will in a way have moved east. We have seen in recent days, with the publication of a letter on the Iraq issue by the Vilnius group of countries, that the acceding countries will have a political point of view to bring to bear within the EU. In economic terms, the impact will be probably less weighty. The countries will increase the EU's population by 20 per cent, but its GDP, on current figures, by something less than five per cent.

Our judgment is that the accession process to the EU will be positive for Australia. There will probably be some trade diversion as companies of the existing EU operate throughout the enlarged EU. The acceding countries will be eligible for EU funding, which is both the common agricultural policy funding and the structural adjustment funding. They will become subject to single market disciplines in a number of areas, which will bolster their standards of governance in economic terms. We believe that that will provide an impetus to their growth, which over the last period of time has already been reasonable by European standards.

If you look at the previous accessions by candidate countries to the EU, particularly Ireland, Greece, Spain and Portugal—the material on that is given in the submission at page 44 and onwards—there has been a convergence of economies of the lower developed economies of

those countries with EU standards to the point where Ireland is over average EU GDP. This has not happened with the other countries so much, but the convergence has still worked. As convergence with EU standards of living has taken place and GDP has increased, so our exports to those countries have increased. Our extrapolation, which, of course, is subject to how reality works out in the end, is that accession will lead to increasing standards of living, better economic governance and therefore more trade opportunities for Australia.

I should also say that my comments are very much focused on EU accession and EU factors because they will become important for us in the near future. But the bilateral relationships with these countries are also important, as indeed they are with existing EU members. We have strong communities who already trace antecedents back to these countries in Australia and we have a high level of exchanges, interestingly, with these countries. Last week, for example, we had Mr Bársony, the political secretary of the Hungarian department of foreign affairs, in Australia.

CHAIR—Just on that point, it was a pity that he did not have wider exposure. He came to see me and then I realised he was more significant than I first thought. It would have been good to have introduced him to the foreign affairs committee as a whole. I do not know who is responsible for that glitch, but it would have been very useful, especially given this study tour.

Mr Ritchie—That is worth bearing in mind. I think his program was organised by the Hungarian mission.

CHAIR—Yes, I heard that.

Mr Ritchie—But he had good exposure to a degree. He spoke to Mr Downer, you and others but could very well have talked to the committee. We will also have the visit by the Polish foreign minister, Mr Cimoszewicz, in March. Of course, your own visit will take forward the tempo of bilateral visits. As I mentioned, the bilateral relationships are generally in good repair with the other countries under inquiry and give us that bilateral dimension as well as the EU accession mentioned. With those comments, I might leave it and open up to questions.

CHAIR—Do any of your other colleagues want to add to that at this stage? Before proceeding, I would like to kick off the discussion with two questions. Firstly, are we wasting our time in terms of when we look at some of the prognoses that come out? In my notes, Charles O'Hanlon says that he sees our trade investment links with central Europe as weak. Charles O'Hanlon seems to be a very good operator. Is this just his reflection on the past? Is this unduly pessimistic as we look to the future, especially in terms of the potential EU accession for a number of these countries which you outlined?

Mr Ritchie—No, I do not think you are wasting your time. From a multilateral perspective, these countries are going to be very important in EU terms. They will be 10 out of 25 members—or eight out of 25 members, because two of the other accession countries are not in this group. But eight out of 25 are members of the EU. There will be extra points of pressure for us to use in our representations to the EU. The EU is one of the 800-pound gorillas of international trade, along with the United States. So, from that multilateral perspective, it is certainly not a waste of time. From a bilateral perspective—although Austrade might want to comment more on this—we see that there are niche possibilities for us in these countries. Our

trade still is very much commodity based, but these countries are increasing in their stance of governance. They are looking for things like e-government, for example, education—

CHAIR—Is this one of the niches you are talking about?

Mr Ritchie—Yes. We have had some reasonable education successes in Europe—Norway particularly comes to mind—and that is another area where we could take forward our endeavours with these countries. So, from my perspective, I would not regard it as a waste of time.

CHAIR—What are some of the other niche markets you are thinking of, in particular?

Ms Twomey—Most of them are covered in the submission, but, in short, there are agribusiness commodities, especially meat and livestock, wine and wool. They appear to offer good short-term and sustainable opportunities to rebuild trade. We have mentioned education. I have statistics—

CHAIR—Are we getting many out from there?

Ms Twomey—It is a low base—again, like most of the things you will hear us talk about today. But, in terms of percentage increase, exports grew by 315 per cent from 1994 to 2000. So, while I do not think you could compare it with what we are doing with Asia in terms of numbers, in terms of growth it is promising. We also have a few major projects secured already in environmental goods and services. As convergence between accession countries and the EU occurs, they are going to have to pay heed to regulatory standards to do with the environment. Australia is in a position to be able to help them out there. There is not as much so far in the way of trade as we would have hoped, but we are optimistic for the future. Financial service providers are another one, particularly in the banking and finance sectors. They have been quite active in the region in recent years.

CHAIR—Who has, in particular? Has Mac Bank, for example, been there?

Ms Twomey—There has not been much from them, but QBE is quite big in Hungary and Romania. We also think that new markets are likely to arise for Australian providers of government services and private suppliers of the services governments require, such as social, health, welfare and economic services. We see quite a diverse range of opportunities for Australian IT and communications suppliers. In particular, these countries have to continue to develop their IT infrastructure. Austrade will be able to tell you how they recently sent a delegation over to the region to explore that. In particular, we are looking at government plans to make their systems of government more e-based, as it were. Privatised programs in the manufacturing sector and increased consumer affluence have enhanced opportunities for exports of manufactured products to central European countries. Finally, perhaps the classic one—but it is still very important to us—is the mining and minerals sector. It has been quite successful in securing—

CHAIR—I thought you were going to say ugh boots and opals.

Ms Twomey—I certainly would not do that. Wool, of course—ugh boots aside—is another one. That is just a brief scan of where we see the niches being.

CHAIR—How would you rank the countries in order of importance for us, trade and investment wise? That would assist us because we are looking at the program at the moment, not so much politically but in terms of what we are about.

Ms Twomey—I think economic size is obviously a big factor that you have to look at. Secondly, with respect to trade and investment, the safer the environment the better for us, in terms of the progress the countries have made to reform. So I think you could reasonably say that most of the accession states have really come a long way towards being good, safe business partners for Australia now.

CHAIR—But which ones are, in particular?

Ms Twomey—I would say all of them are. Our track record with certain countries that have moved faster than the others would suggest that Hungary would be very good example. Alex, is there anything you would like to add?

Mr Brooking—Within the grouping, Poland is the stand-out member because of its size, the size of its economy and the importance of its agricultural sector, which will impact on us in various ways. The Czech economy is moving along quite well and their export figures to Australia are pretty impressive. Hungary is a bit different. It is a landlocked country—as, indeed, is the Czech Republic—and does not have quite the obvious links to Australia that a country like Romania has with its port of Constanza and the direct transport links we can establish with it. Romania would be next. It is bigger than the Czech Republic or Hungary but at a lower stage of transition to a fully functioning market economy. Then you slide away to fairly small economies like the Baltic states. Slovenia is a small economy but a very wealthy one. To what Mr Ritchie and Ms Twomey have already said about the value of the market I add that one has to start from the assumption that these are very small markets in terms of population and their potential will never rival that of many of our other trading partners in this region or in North America or western Europe. But we think they will become more prosperous and will become high-value markets, as the western European markets are, and we think exporters will make good profits there in due course as consumers begin to buy the sorts of products that we make a lot of money from.

CHAIR—So in some ways it is appropriate, as I discussed with Ms Twomey before, that we look at the opportunities presented by the accession.

Mr JULL—In your submission you suggest that once the accession happens it is going to be something of a bunfight, with everybody in there having a go, but you seem pretty optimistic that Australia could probably still do quite well out of it. Why is that?

Ms Twomey—The actual moment of accession itself is not all that significant. If you look back to 1995, when the EU started getting seriously engaged in its agreements with the accession countries, you will find that a lot of their trade has been going to the EU and a lot of EU trade has been going to those countries since the end of communism. I was interested when we were doing our research to note that about 70 per cent of central European exports go to the EU and 60 per cent of central European imports come from the EU. So the first important point to note is that there is not going to be a very dramatic change in the trading environment come 1 May 2004. Can you remind me about the rest of your question?

Mr JULL—There was a suggestion that Australia has unique qualities which could provide us with some advantages in an open-slather campaign that might evolve following the accession.

Ms Twomey—I hark back to a point that we have alluded to before: whether or not the percentage of trade that Australia gets access to post expansion drops, we calculate that the amount of trade opportunities for Australia will actually increase. We base that judgment on the wealth creation fact that you have a market of 375 million increasing by 100 million people. The expansion of that market is just going to create much wider, larger trade opportunities. That is not to suggest that the competition will not be out there. That is why, as I think we have said before, we need to be intelligent in looking for niche areas where Australia has a competitive advantage and where we can advantage our companies.

Mr Ritchie—It goes to the comparative advantage that Australia enjoys in a number of areas in any case and which applies in its trade with EU countries as they stand now. For example, we are a reasonably large education provider to Norway—interestingly, not an EU country. There are something like 3,000 Norwegian students in Australia at any one time. It happens to be the case that Norwegians, when they think of education in English, now think of education in Australia. It is a case of capitalising on our comparative advantage, and that is what we would be aiming to do in these countries as well in the niche areas that Margaret has mentioned already.

Mr JULL—You made some fleeting reference to old family ties. Just how important are they? Do you have any background on any activity that has been going on in regard to investment or trade between Australia and, for example—the one I remember—Croatia? I was there a couple of years ago and I was surprised at the number of Croatian Australian families who had gone back to do something for the homeland, establishing businesses and manufacturing plants and all of that. This has nothing to do with the case, but the classic example was a young couple from Melbourne who had a coffee shop and who had introduced muffins to the Zagreb market. They showed us their little café and out the back I have never seen so many piles of White Wings muffin mix in all my life, all made in Australia. Is that activity really quite significant?

Ms Twomey—It is a very good question and it is one that we have had a bit of a debate about in the department. I think the crux of the issue here is: how do you find out what is going on? To be perfectly honest, we do not have any good statistical data on that because, obviously, it is not collected. Our overall impression is that not as much of this is happening as we would like. We have often wondered why this is the case. For example, looking outside the AC, accession countries, for a minute, why isn't Australian trade with Italy higher than it is when both economies seem to work around small to medium enterprises, which is exactly the type of trade that you would think would be easily facilitated by these family connections. We do not really know the answer. We can hypothesise that many of the migrants who came to Australia after World War II without any start-up capital and who got their businesses going tend to want to forget the experiences of their past and the decisions that led them to migrate to Australia. Of course, we have high profile examples of successful Australians from migrant backgrounds, but I am not sure that I would categorise them within this question.

There have been more recent waves of migration as well. We now have younger foreign-born migrants from central Europe in Australia and we are hopeful that we can encourage these

people to develop those links—those people who still have the language and understand the business environment under which the countries that they originally came from operate. We do have a few examples. Unfortunately, they involve names that I find difficult to pronounce. The best one is a Romanian refugee who built up a very successful business in Australia and who has recently invested in the state owned piggery in Romania. It is a very significant investment, a very significant tie and a very significant part of our overall trade relationship with Romania. I might defer to my colleagues who are more expert on specific examples to see if we can give you a few more.

Mr Brooking—There are not as many examples as there should be, as Ms Twomey said. We often wonder why more advantage is not taken of the language skills and the local knowledge. There is a bit of anecdotal evidence to suggest that, in countries like Croatia, there is a lot of very small-scale trading activity going on. A lot of Australians of dual nationality are going back to Croatia and establishing a business. Whether any profits flow back to Australia, it is hard to tell. We have had a couple of famous examples—the late Sir Peter Abeles in Hungary and Nick Greiner on the non-economic side but I think he is also involved commercially now in Hungary. We already mentioned Nick Cojocararu in Romania. The Cheesecake Shop has also set up a major operation in Poland and Poles are now delighting in the benefits of wonderful Australian cheesecakes. I think there is an ethnic connection there, although I might need to be corrected on that.

Ms Twomey—We should definitely visit.

Mr Brooking—We should definitely visit.

CHAIR—Yes, we are always happy to do that; somebody has got to do it. And Arvi Pabo and Frank Lowy, do they have any?

Mr Brooking—Yes. One could say that they are the exceptions that prove the rule that there is not such a flow of contact. One can only speculate as to what the reasons are for that. We have looked at comparative countries—Canada, the US—to see whether they have programs or in some way make better use of the assets that the local communities in their countries offer. Nothing has come out of that very clearly to us.

Mr JULL—Is it a similar situation with Australian investment in those places? Do we have any real handle on how much is invested or is that disguised again?

Mr Brooking—We do have some figures on investment. They are quite small. I think \$150 million is the figure that is often quoted. It is hard to say how reliable that figure is for the very reason that you mentioned: a lot of small-scale investment is going on which we are not aware of. There are a couple of major flagship investments like that of Amcor in Poland, which is a very significant investment, and QBE Insurance has moved into a very strong position in Hungary and Romania. Nick Cojocararu has put quite a lot of money into his piggery in Romania. We have Harvey Norman in Slovenia. So there are some good examples, but the figures are still relatively small. That would be the point that we would have to always bear in mind.

Ms Twomey—On the theme of how we get the figures, we believe that a lot of Australian investment in the region probably goes through other hub countries, so a lot of the money that goes into the UK we think flows out again. We suspect that a good proportion of that would

flow into central Europe, but we do not have the statistics to prove it. Again, that is anecdotal. The other thing to say about investment is that, although it is very low, figures have been picking up since 1995 as reforms have progressed. I think the reason why that is the case is fairly obvious. Central Europe is still a risky environment. Eastern Europe is even riskier. As improvements with EU harmonisation reforms are introduced, the risk lowers. It also means that the competition gets higher. It is not likely to be the El Dorado that the high risk deals in the more remote parts of unregulated eastern Europe might be.

There is still progress needed in central Europe and we expect that that progress will continue after EU accession. There will still be work to be done to make the country the safe investment environment that investors tend to look for. A lot of work still needs to be done on large-scale privatisation. Competition policy is still something on which a lot of work needs to be done. Non-bank financial institutional reform and judicial reform are still particularly important. Corruption is an issue. We have put in our submission a transparency international corruption index because perception is important with all these things, and investment relates to the perception of risk. Fraud and economic crime are also a problem, and lack of transparency in government decision making can still be an issue in some countries. It can be an issue in countries outside central Europe as well.

There is a feeling amongst investors that regulatory authorities still need to become more effective, particularly in the spheres of telecommunications, energy and transport. Investors are not necessarily too keen to go in if those things are not guaranteed to be working properly. Also, there is the eventual adoption of the euro, and that what will not be immediate. At the very least, accession countries will have to wait a couple of years before they can join in the euro. Once they do, that will again reduce investment risk for countries, particularly with respect to exchange rate volatility.

Mr BRERETON—I have a question for David Ritchie. We have heard about niche opportunities and incremental improvements, with the qualification that you could not expect to do as well here as in other areas of opportunity. In your view, in substantive terms, what is likely to be different in 10 years time in terms of these sets of relationships?

Mr Ritchie—In terms of our relationships with them?

Mr BRERETON—Yes. Realistically, in substantive terms as opposed to the increments and the niches—anything much?

Mr Ritchie—I think so. Just going back to the point I made earlier about extrapolating what happened with Greece, Ireland, Spain and Portugal, if all the other factors remain the same, I think we are looking at a group of countries that are actually going to consolidate their economic growth. They have been growing faster than the European average for the last few years—at a rate of four point something and 2.4 per cent in the last year. So we are going to see countries which, admittedly starting from a low base, are going to take advantage of the stimulus to growth that the EU membership will give them. They will be richer than they are now and I think they will have better systems governance than they have now. I think they are going to become stronger countries for us to engage in economically.

Going back to a point I mentioned earlier, eight of them are going to be members of the EU; so they are going to be part of this huge trade bloc—currently an economic bloc—with which

we do a hell of a lot of business. The EU, taken as a single entity is already our largest trading partner. There is doubt whether you can take it as a single entity, but these countries will be part of the EU and we will relate to them in that sense. Whenever we have difficulties or issues to take forward with the EU, we will have to consider where we press the buttons in the EU, where the influence lies and where opinion is formed. On certain issues, it may be important to take our representations and our advocacy forward in these countries.

If current conditions continue, I think in 10 years time we are looking at stronger countries and at countries we will be doing business with, both bilaterally and in terms of trying to influence EU policy. And that is probably true not only in trade but also in terms of security. These countries of recent date have had quite a strong impact in the current security debate because of the positions taken by some of them with the letter authored by Aznar and Blair and the letter after that from the Vilnius group. So in security terms I think they are going to have an effect on the way the EU develops. We have to keep a certain perspective about it, but I think there are exciting prospects for our engagement with these countries.

Senator O'BRIEN—I am particularly interested in your comments and AFFA's comments about the agricultural trade prospects for the central Europe bloc of countries, with particular regard to the coming EU accession. How do you see that playing out in terms of agriculture and—this is a fairly broad question—what do you expect will be the impact of their participation in the CAP in terms of its long-term affordability to the European economic community?

Mr Ritchie—I will ask my colleagues to come in on this. The accession process is going to affect some of our trade into east Europe, but there are mechanisms which can be taken forward to seek compensation for whatever we lose. My colleague from OTN may wish to add to that. In terms of the affordability of the CAP, that is an excellent question. The EU has recently taken a decision to cap the CAP—to put a limit on spending on the CAP—which is, from memory, from the year 2007 inflation minus one per cent. So there will be a limit on CAP spending, but that of itself simply provides for a continuation of the CAP. We have to continue our efforts, both bilaterally with the EU and in multilateral fora, particularly with the WTO, to seek change in the CAP, rather than rely on some sort of internal process to lead to the demise of the CAP.

My first posting was in Rome from 1976 to 1979. That was my first real acquaintanceship with the CAP and it struck me then that the CAP would at some stage soon—and that was then—have to collapse under its own weight. That has not happened yet, so I think we really cannot wait for accession to lead to fundamental reform of the CAP—if only because it is already provided for, in a way, in this capping mechanism that has already been adopted by the EU. We simply have to take the struggle forward within the WTO, essentially.

Mr Ford—In our analysis it would be difficult to come down on one side or another about the impact on the CAP of the accession countries joining the EU. On one hand is the effect that we are now going to have a lot more farmers eligible to receive the CAP—and the CAP is what we would call a trade-distorting instrument—and a larger group of farmers with a vested interest in the CAP's continuation is a negative.

CHAIR—When you say that the cap on the CAP has been reached—this figure of minus one per cent—does this mean that the cap does not shift at all with the accession of these countries?

Mr Ritchie—That is from 2007. That was a decision taken at a recent EU summit to apply from 2007.

Senator O'BRIEN—Does it have to be shared?

Mr Ritchie—Yes, it would have to be shared.

Senator O'BRIEN—More broadly.

Mr Ritchie—Indeed.

CHAIR—So it is going up while this accession program is going up?

Mr Ritchie—Yes, and it will go up in monetary terms thereafter. My understanding is that it is inflation minus one per cent, so even you if you see a real plateauing, in monetary terms—depending on the rate of inflation—it will increase.

Mr Ford—But the CAP spending per farmer is going to have to go down once these countries join. That is the positive impact—the financial pressure still to try to restrain the CAP. As I understand it, one of the conditions of accepting enlargement set by the countries that are already in the EU is that there be this cap on the CAP, so there are budgetary pressures to not expand. The countries that are joining the EU will only be eligible for a certain percentage of the subsidies that farmers already in the EU receive. To begin with it will be 25 per cent of the subsidies to existing members, rising to 100 per cent by 2013. Also, as Mr Ritchie said, the mid-term review of the CAP said that its additional costs will be funded by reducing the overall subsidy per farmer, and that is being built in. The EC have put forward proposals which will reduce the direct payments to farmers. That is a positive from our point of view. The financial pressure to restrain the CAP as new countries join the EU is actually leading to a reduction in the subsidies paid, which is what we in Australia want to see.

CHAIR—With these new accession countries the overall quantum of agricultural products will increase exponentially, though, won't it? Have we got a figure for the average increase as a result of these eastern European accession countries joining the EU in the key commodities that we are interested in?

Mr Ford—As I understand it, there will be a 30 per cent growth in farm product.

CHAIR—That is what I am after.

Mr Ford—The other factor that will come into play, as Mr Ritchie said, is the WTO negotiations which are under way at the moment. We are hoping that, from 2005—or soon after—if the negotiations go as planned, there will be an overall impact and the EU will be required to reduce its domestic support to farmers. The Cairns Group has put forward a proposal which would actually eliminate, over a five- to 10-year period, all current domestic support. The current proposal that is being considered, under the text released last week by the chairman of the WTO agriculture committee, was talking about a 60 per cent reduction in domestic support.

CHAIR—By what date?

Mr Ford—Over a five-year period from the beginning of the commitments after the end of the round.

CHAIR—It does not take into account elections and promises by politicians in between time? Has there been a groundswell of reaction against—

Mr Ford—Of course, the EU are not supportive of large cuts to domestic support. The EU's own proposal actually talked about a 55 per cent cut, but that was with retaining some of the exemptions on such things as production limiting payments—but I will not get into the technical details of that. I think we can say with a great deal of confidence that one of the results of the new round will be that there will be significant cuts required of the EU's domestic support. That will therefore also impact on the accession countries.

Senator O'BRIEN—One of the critical things for Australia is the impact of production based subsidies. Has there been any analysis of the sorts of consideration these countries will bring to the EU's approach to a shift away from production based subsidies to some other form of subsidy which may not be as trade distorting?

Mr Ford—That is one of the things that is being strongly debated in the EU at the moment. The mid-term review proposal looked at a shift from what we call 'blue-box payments', which are the subsidies, to what we call 'green-box payments', which are more environmental-rural development type payments. I guess that the EU, recognising that in the WTO these blue-box payments that are currently not subject to reduction commitments will in the future be subject to them, are looking to try to change the forms of their payments out of production limiting support to what we call a more decoupled form of support. One of their considerations is the EU accession countries; however, the debate is currently just happening amongst the EU 15.

Senator O'BRIEN—Coupled with all of this, I am wondering what the transport infrastructure arrangements are which will facilitate our increased access to these eastern European markets if we are to penetrate them for some of our more voluminous products—be it coal, wheat or ores of various kinds. How do we get into these landlocked countries? Is the transport infrastructure sufficient for us to make a dent there without it costing us too much to get there?

Mr Brooking—I am not sure that I am very well equipped to answer the question, but perhaps we could explore it a bit further and you can let me know if I am on the right track. In terms of the international transport infrastructure, countries like Poland and Romania have big seaports. Croatia is building up its seaport and Slovenia has a seaport it is wanting to develop. Australian companies, by the way, are bidding for some of the business of reconstructing those seaports. Once those seaports are fully operational, they obviously will give us an interesting access point into those countries' markets and the region.

It is true that, generally speaking, transport infrastructure within central Europe is substandard, but a lot of work is being done. Hungary now has a wonderful highway between Budapest and Vienna, which during communist times was not allowed to exist because of the perceived threat to security. The European Union is putting a lot of money into building key transport infrastructure routes from, for example, the north west of Europe through to the south-east of Europe—a big highway which will eventually go through the Balkans.

Senator O'BRIEN—But that is a big route for us to take for our product. Croatia might be a good route for quantity product to access that part of Europe. But to go right around and then come back through—

Mr Brooking—It would not be realistic.

Senator O'BRIEN—It would be very expensive, I would imagine.

Mr Brooking—The Danube is an interesting element of the transport infrastructure. Back in the 1980s, we were putting quite a lot of product into Romania, into the port of Constanza, which is the delta of the Danube, in the expectation that we might be able to get product like iron ore and coal shipped up the Danube in barges, which is quite cheap. The Austrians, the Bavarians and the Hungarians have done a lot of work on building the Danube Canal, which will link the west European waterway system with the south-east European waterway system. So there are lots of projects going on. We expect, as part of the general increase in prosperity in the region, that the transport infrastructure will improve. We will be looking to the port system in Croatia, in Gdansk in Poland and in Constanza in Romania for our commodities trade. For the high-tech items it is obviously not so important.

Senator O'BRIEN—No, the value is there in the product. At the moment we are penetrating with commodities. If we are to increase that penetration, the transport infrastructure is critical.

Mr Brooking—Yes.

Senator O'BRIEN—Having a look at the location of the countries with the major transport routes, I wonder whether shipping is going to be there for us in an economic way. You have answered part of that question in terms of access through the Mediterranean and the Black Sea. But the land infrastructure sounds like work in progress rather than infrastructure that is available now.

Mr Brooking—That is a good description. I think it will move fairly quickly.

Senator O'BRIEN—Not like Ireland, I hope.

CHAIR—Mr Ford was talking about the negotiations with regard to the CAP and the WTO round. As I understand, the Doha Round is somewhat bogged down on agricultural areas. Do you see that this could be a problem in terms of access for our agricultural products if the EU continues to take a fairly hard line in this area?

Mr Ford—Discussions on agriculture are always going to be very tough. We are still within the broad timetable and schedule. The aim is for agricultural negotiating modalities to be agreed by the end of March. We have a text on the table, as I mentioned, and it is now the subject of debate. I do not think we could say conclusively one way or the other which way the negotiations are going to go or whether they are going to be stalled. I think it is far too early to be making a judgment such as that. But we do know that they are going to be difficult. Australia has made it very clear, as have a number of other countries, that there will not be a conclusion to the Doha Round without a very strong outcome on agriculture.

Mr Brooking—Mr Chairman, I would like to add a comment in terms of your prospective travel to the region. I think this is a subject that would be very fruitful both from our point of view and, hopefully, from your own to pursue. My sense is that countries like Poland have not yet really decided exactly what position they are going to take in the round. At the moment they are focused on getting as much out of the commission's coffers as possible. They want as little discrimination between the treatment they receive as new member states of the EU and the treatment that the old member states of the EU are getting. That is important domestically, politically and financially for them. The game has been for them to get as much as possible out of the existing EU programs, like the CAP. Once they have that tied down, I imagine they will start to think about where they go from there and what is in their interests in terms of policies within the round.

There will be variations between the individual countries. A country like Hungary, which used to be a member of the Cairns Group, is quite an efficient agricultural producer and may well begin to take the view that it would prefer to push ahead some liberalisation because it can compete very effectively and not be constrained by all the restrictions of the CAP through quotas on production and such things. Poland has a very inefficient agricultural structure and has a lot of investment to undertake and probably a lot of political pain to suffer in moving people off the land and into jobs elsewhere. That will be a very difficult process. Poland will have to face up to those decisions. It depends on the government, how strong it feels and on its philosophy. There are smaller countries like Slovenia and the Baltic States which probably do not have a very big interest, frankly, and will tend to drift along and try to take concessions elsewhere for their votes in the council. That will be work in progress. I think it would be very interesting to hear what your interlocutors will say to you in your travels there about that question.

Ms Twomey—I was in Prague and Warsaw a couple of weeks ago and you could feel the vibes, the energy, the tension and the weight of all the issues that have to be dealt with in the next few months. All of the accession governments are extremely focused at the moment on getting through their referenda. They are all very worried about the prospect of a no vote, obviously, and they are all very cautious about how they manage their campaigns up until that point. As Mr Brooking suggested, domestic politics will have a lot to say about how the various accession countries position themselves on CAP reform. As Mr Brooking has also said, some have bigger stakes than others, who, we suspect, will be neutral.

We had hoped that some of the more efficient, unsubsidised producers now might actually decide that it would be to their competitive advantage if they pushed hard for CAP reform, but we are not seeing any particularly encouraging signs of that at this stage. We do look forward to hearing what you have to say. Unfortunately, your travel will be at a time when referenda campaigns are starting. Perhaps one will take place while you are there; the rest will take place after. It will be a very good opportunity to register Australia's concerns about the issue, as we hope to do when the Polish foreign minister comes here next month.

Mr JULL—I want to move to another area; you may not be able to answer this. In terms of our representation and the location of our embassies and trade offices, is there any ongoing review as to those locations and operations as part of a study leading up to the accession? I know we have opened in Zagreb. Is there anywhere in particular you think there would be some urgency in having a fully operational post—that is, Prague?

Mr Ritchie—That is an interesting question, Mr Jull. Between DFAT and Austrade, we have a pretty good network throughout the area that is probably attuned to our interests. We have to make a sort of cost-benefit calculation with overseas missions. They are very expensive to operate, as you know. It has to be a really tough decision, especially on opening a new post. My starting point would be to say that the existing network is commensurate with the extent of interest that we have in the area and that, were those interests to change or were there to be a surge in trade or a surge in political interest in any particular area, we would have to look at our representation again.

We did complete a review of representation in 1999. That went to DFAT, DIMIA and Austrade representation. We look at the performance of our posts and their coverage of Australia's national interest every year in a post evaluation process, which throws up any mismatches between resources and interest. At the moment, our network is commensurate with our interests, I would have to say.

Mr JULL—The other thing I would like to raise, which got us all fairly excited, is submission No. 17 from the chair of the Australia-Romania chamber of commerce, Mr von Gross. The organisation received a letter from Romania's parliamentary group of friendship, apparently inviting Australia to take a place, presumably with observer status, in the Parliamentary Assembly of the Black Sea Economic Cooperation. Do you have any idea what this is all about, and are we doing any follow-up?

Mr Ritchie—I have only just got the letter in front of me so I am at a bit of a disadvantage to digest it and come out with a reasonable response. But maybe one of my colleagues, Tony Urbanski, can respond.

Mr Urbanski—Yes, we can give you a little background. This was mentioned in Mr von Gross's submission, and we made some inquiries as to what the PABSEC is. It is a parliamentary dimension of the Black Sea economic cooperation group. The group of countries involved includes Albania, Armenia, Azerbaijan, Georgia, Moldova, Romania, the Russian Federation, Turkey and the Ukraine. One of the purposes of that particular grouping is to try to strengthen democracy in the region through working with the parliaments of the various countries concerned. That is about all the background I can give you. An initial reaction is that that is a desirable objective, but the issue that will need to be considered by your committee in terms of strengthening parliaments et cetera is whether it would be better to become an observer of that particular grouping or to look more at working bilaterally with the various countries concerned. My initial reaction is that there would be resource considerations and hard issues like that for you. They are the sorts of things you would need to look at.

Senator O'BRIEN—I have a question about the compensation mechanism that you discussed earlier. What form would compensation take, if any—would it be the provision of special trade access or something like that? What sort of thing?

Mr Brooking—I can say a little about that. In past enlargements of the European Union, an article of the GATT comes into play, article 24.6, which in effect says that if a free trade area takes in new members and that has a deleterious effect on the new members' existing trade with non free trade area countries then the free trade area should make some compensation. That means the European Union would have to go into negotiations with all of the major trading partners of those acceding countries—these eight central and eastern European countries—and

identify what our existing trade is and what proportion of that trade would be negatively affected by increased tariffs or the imposition of quotas that restrict our access to the markets, and then we would negotiate some form of compensation.

In the past that has sometimes been an increase in the overall EU quota. For example, I think we argued in the case of the last EU accession, of Sweden, Austria and Finland, that we were losing some market access to those countries for beef products, and the EU agreed to give us a slightly higher quota of beef into the EU to reflect that. Compensation can also be offered in other areas if the EU says, 'We absolutely refuse to increase the beef quota.' I need to check to be sure that I am being strictly accurate with this statement, but I understand that compensation can be offered in other areas on a totally unrelated product, and that would come back to the exporters from Australia—whether they were happy to forgo that right and let some other exporter have slightly better access to the overall EU market. That is a process of negotiation that we have to engage in with the European Commission, which represents the European Union in those matters.

Mr JULL—Would wine come into that?

Mr Ritchie—Not directly because wine is not subject to the provisions of the common agricultural policy. However, when the new countries join the European Union, they will have to adhere to the wine agreement that we have with the EU, which we are in the process of completing. They will become subject to those conditions. If we find for some reason that our access to those markets has been reduced because of them taking on the EU-Australian wine agreement, I imagine we would have a case to argue that there should be some compensation. There are no quotas in the case of wine; it is not like beef or sheep meat.

CHAIR—They could get us on nomenclature.

Mr Ritchie—We do not envisage a wine agreement actually restricting our wine trade with Europe.

Mr JULL—There was some concern about the Czech Republic, where South Australian red wine has apparently gone through the roof and somebody suggested that we have almost 50 per cent of the market. They thought that it could be in some jeopardy after accession.

Mr Ritchie—No. It would be interesting to get your feedback on that after you have travelled there, but my understanding, as Alex has said, is that there are no quotas on wine. There is minimal tariff on wine, but it is very small. The conclusion of the wine agreement is really meant to resolve those issues which were not resolved when we first negotiated the wine agreement in 1994 and will simply allow trade to go ahead. We have already got a huge success in one EU country—the UK—where our wine is the largest volume and value wine import. We look to the wine agreement to consolidate the conditions under which wine is exported to the EU generally.

Mr Brooking—Where things will change a little bit in the case of a country like the Czech Republic is that the labelling requirements that the EU imposes will have to be adopted by the Czech Republic, and they might be more stringent. Given that the Czech Republic is not a big producer of red wine—particularly not the excellent full-bodied sort of wine that we produce—they may not be too concerned at the moment about labelling for red wines, but many of the EU

countries are concerned about that and about our practices of blending and interregional blending.

CHAIR—Hasn't the current Doha Round put on the table tougher proposals in relation to geographic indicators, as well?

Mr Ritchie—Yes. It has for non-wine products—cheese, processed meats and so on.

CHAIR—On page 58 of your submission you have a section on the Central European Free Trade Agreement that was originally signed in Cracow in 1992 and then the Prime Minister signed it again on 25 November 1995. What is the future of that, given accession to the EU? Will that become null and void?

Mr Brooking—Our understanding is that, when the ceding countries which are members of the Central European Free Trade Agreement join the AC, they will have to leave CEFTA, but CEFTA will continue to exist. There are some indications that the European Union would like to see it move to encompass some of the countries that are not currently members of CEFTA, particularly countries in the Balkans area like the Former Yugoslav Republic of Macedonia, Bosnia and Herzegovina, Serbia, Montenegro and Albania. The EU would also like to see that regional free trade organisation promote the habit and the practice of regional cooperation and borderless trade flows within those countries so that, when they come to join to European Union, they will already have gone a long way along the path towards free trade in the region and then with the European Union. It is a waiting room, in effect.

CHAIR—I have a couple of questions in relation to corruption and, Ms Twomey, you mentioned something about that. To what degree is that an impediment for Australian trade and investment?

Ms Twomey—It is obviously a delicate subject, one that many countries are sensitive about: no-one wants to hear that investors consider their country to be a dangerous place to invest in because of corruption. I think the important point to make is that these things can be addressed by reform in areas such as the judiciary and that the EU is a very good force for bringing these areas into line. But it is never a quick or easy process and, as I suggested before, we do not expect it will all be done by 1 May 2004; there will be further work to do. Anecdotal experience at the end of the day is what contributes to investor perceptions about whether or not a place is safe to invest in or to trade with. Messages going about such as, 'Do not trade with country X because you will never get your money and if you do try to go to the courts to get your money you never will,' are profoundly damaging. The proof of the pudding is really in the eating so we have to go through a process of reform and it has to be tested by somebody. It is an ongoing process and I know the EU expects to continue to work on those areas of reform once the accession is formalised.

CHAIR—I have a question about visas. One of the big areas of complaints to my electorate office is usually about visa access from the former Eastern bloc. Is that expected to be a little easier in terms of business and investment travel to Australia?

Mr Ritchie—That is probably a DIMIA question about immigration.

CHAIR—Okay, we can deal with DIMIA.

Mr Ritchie—I think they will accede at some stage to Schengen, which is the visa-free European area, won't they?

CHAIR—Yes, that is right. It also relates to the educational area, which we are looking at. That is one of the areas that have been difficult. Is Vienna growing as a centre for these countries we are visiting or have they all become important in their own right? What is the significance of Vienna as the centre of the former Eastern bloc countries now that they are all going into the EU? Is it going to increase in its importance?

Ms Twomey—It is already important and I think it has been for a long time, for the reasons that you have set out. As I said in an earlier presentation on the exchange between the accession countries and the existing EU 15, particularly the ones on the border, if you look at the trade and investment statistics you will see that bordering countries have the closest trade and investment relations with the central European countries. I think that Vienna has had a major role to play in that for a long time.

CHAIR—Do you mean the countries on the border of Austria?

Ms Twomey—Yes, where East meets West.

Mr Urbanski—There was some work done by the European Commission on how EU accession would affect the EU 15 and it was found that there would be a small positive effect in terms of economic growth, with most of that growth flowing through to Germany and Austria, which are the countries closest to eastern Europe.

Mr JULL—I am sorry if I seem to be obsessed with wine. One of the exhibits we have in a submission that I think is going to be examined tomorrow is from the Czech Republic. It is entitled 'An invitation for the investors to support the vineyard plantation programme in the Czech Republic.' This document says:

OBJECTIVE OF THE CZECH REPUBLIC

To double the vineyard acreage in the Czech Republic prior to the accession to the European Union since it has declared a ban on planting vineyards in the Article 2 of the Council (EC) Regulation 1493/99.

I am wondering what the negotiations are all about.

Mr Ritchie—So the thrust of that is—

Mr JULL—get in while the going is good.

Mr Ritchie—the Czech Republic is actually planting vineyards at a great rate before it gets in; it could well be. I am not sure how much of an effect it would have on our wine exports; in the end they would probably go to a different sector of the market.

Ms Twomey—Or are we talking about investment?

Mr Ritchie—Yes, Australian wine makers, as they are already in France, for example, might be quite interested in helping the Czechs with their wine.

CHAIR—As there are no further questions, we thank you very much for coming—we appreciate it. We also appreciate the very constructive cooperation and assistance we have had from DFAT. We hope this is going to be an interesting and fruitful exercise, and we will continue to talk to you. Like you, Mr Ritchie, I arrived in Europe in the seventies as assistant trade commissioner in Bonn, when Britain went into the European Union on 1 January 1973. It was always the view then that the CAP could not possibly last and that it was going to be abolished and that was why we needed to be in there and working it hard. So I share your degree of caution.

Mr Ritchie—Yes, it is caution of a long date, Mr Chairman!

CHAIR—Yes, 30 years.

Mr Ritchie—Can I reciprocate and thank you very much for the opportunity to testify. We look forward to supporting the subcommittee's visit to the countries and to an increase in our understanding and analysis of what our relations will be all about in the future as a result of it.

CHAIR—We also thank you for early indications that we will be accompanied by a representative from DFAT on the visit. I did not go on the South American visit, but I know that Senator Ferguson, Mr Jull, Senator O'Brien and the others all spoke very highly of the great assistance that they had from your representative on that visit, so we look forward to our visit.

Mr Ritchie—I am sure the officer will look forward to travelling with you.

CHAIR—Thank you very much.

Proceedings suspended from 10.52 a.m. to 11.06 a.m.

AMEY, Mr Peter Robin, Manager, Europe Office, Austrade

DWYER, Ms Elizabeth Agnes, Project Manager, Europe Regional Office, Austrade

KANE, Mr Peter Robert, National Manager, Central Europe, Austrade

CHAIR—I welcome representatives of Austrade. As I said before to DFAT, we really appreciate the strong cooperation we have had from Austrade in relation to this visit. Charles O'Hanlon has been terrific in providing suggestions and recommendations. He has been working on our program from the start. We appreciate his strong support.

The subcommittee prefers all evidence to be given in public. If you wish to give evidence in camera, which I cannot imagine given the nature of the inquiry, please let us know. Although the subcommittee does not require you to give evidence under oath, I am sure you are aware that these are legal proceedings of the parliament and have the same standing as proceedings in the House of Representatives and the Senate.

The subcommittee has a submission from Austrade, submission No. 18, which was very good. I invite you to make an opening statement. If Mr Amey and Ms Dwyer would like to add to it when Mr Kane finishes, please feel free. Our colleagues are joining us shortly.

Mr Kane—Thank you, Chairman. Through most of our business history with central Europe, trade has really been viable for only a few Australian companies. For most companies in international trade central Europe was a non-event. That applied both in the 1970s and the 1980s, when we did substantial trade with the region, but it was very much in the hands of a few Australian companies. Even as economic and political conditions in the region improved in the 1990s, we still found that this was a region that Australian companies did not take much interest in.

Geography was certainly part of the reason that Australian industry was largely absent from central Europe. Clearly there were more prospective markets closer to home for many Australian companies. However, the long haul to Europe certainly has not stopped us from trading substantially with the western Europeans; in fact, we export about \$20 billion worth of goods and service there each year.

CHAIR—To where?

Mr Kane—To Europe; principally western Europe.

CHAIR—Do you have the totals for the countries we are looking at?

Mr Kane—In merchandise trade terms it is only about \$A250 million on the official record but, through indirect exports, we believe that figure is probably closer to a half a billion dollars.

CHAIR—Is that because they are coming via other places in Europe?

Mr Kane—That is correct; principally through the likes of Germany and Holland. To add to that, there are our service exports, which probably add between about \$A50 million and \$A80 million.

CHAIR—Those are the principal services exports?

Mr Kane—Yes.

CHAIR—Do you include tourism in that?

Mr Kane—Tourism is one of them, but the major one at the moment is education. Services exports—we will talk about it later—are doing very well at the moment in some other sectors, particularly software. Having looked at this problem, we came to the conclusion in Austrade that the basic cause of our absence from central Europe was market failure.

CHAIR—Do you mean their market failure?

Mr Kane—I mean market failure between the two parts—Australia on the one hand and central Europe on the other. We were not on their radar and they were not on our radar. The vision of the decision makers on both sides was really that the trade between our two parts was one for Australian commodities on one side and, on the other side, for manufactured products which, quite frankly, did not have an attractive place in the Australian market. The central Europeans did not really understand the maturing that had occurred in the Australian economy through the 1980s and 1990s; they did not realise how sophisticated our production base had become. On the other side, Australians still carried some very outdated views on central Europe—that they were people who did not pay, were difficult to deal with, were bureaucratic, were communists or former communists and so on. We had a gap which had to be bridged. There were legitimate business concerns, but we think that they were overstated, particularly towards the end of the 1990s.

CHAIR—What were those business concerns?

Mr Kane—That essentially central Europe was too hard to deal with. They were concerns such as, ‘If I go in there and invest or trade, I will have difficulty with payments and the time frames will be too long. I could better spend my time and money elsewhere.’ In 1999, we decided that we had to take some bolder steps to try and fix this, so we decided to upgrade our resources in the region. We upgraded our office in Bucharest, we opened up in Zagreb and Macedonia, and we established a position in Sydney—the position that I occupy. We set about writing a new strategy for the region. We wrote that in the year 2000. We have passed a copy of that to the committee.

CHAIR—Is your job what they used to locate offshore in terms of being the area manager, like Charles O’Hanlon?

Mr Kane—No. My job is akin to that of a trade commissioner, but located back in Australia.

CHAIR—With emphasis on central Europe?

Mr Kane—Absolutely. The emphasis is entirely on central and eastern Europe, with the objective of helping to bridge the gap between Australian business and the opportunities in the region. We saw things improving through the course of the 1990s. A significant number of high-profile Australian companies, such as Amcor, Coca-Cola Amatil, Village Roadshow, Bovis Lend Lease and QBE, invested in the region and, importantly, the Australian ethnic community started investing in their homelands.

CHAIR—Village Roadshow has since sold out. Is that right?

Mr Kane—Largely. They might have one investment left. The Australian ethnic community's investments have become increasingly important. Our submission highlighted one in particular—that by Nick Cojocar, who may have been mentioned in the DFAT presentation today. He made a very significant investment back into Romania. I have discussed it with him and he is particularly delighted that it is now part of his business portfolio.

Importantly, too, through the last four or five years we have had a significant broadening of the Australian business base in central Europe. In addition to those investments that those major companies and the ethnic community have undertaken, we are now seeing a wider group of Australian companies investing there. Our people in Europe have provided me with a listing of the companies that have achieved exports or have undertaken investments in the region over the year to date—that is, since 1 July 2002. These are companies that have achieved their success with the assistance of our people in the region. There are 41 companies on the list, of which 37 have exported and the other four have invested. The sum of the investments is about \$10 million. The value of the exports is \$65 million. Importantly, they cut across a broad section of Australian industry. There is an education service provider on the list.

CHAIR—Is this a list of people who have recently traded?

Mr Kane—These are all people who have achieved their export or investment success in the period starting 1 July 2002—so within the current fiscal year. There are 41 of them altogether. The list includes an education service provider, several people selling beef, kangaroo and other meat, a coal seller, quite a few software success stories—five of those in Poland alone—and people selling products like cosmetics, wine and even clothing and veterinary products. We are achieving a diversity which was not there before, which is really encouraging.

CHAIR—Is that success in the IT area like the success they have had in the UK related to government Internet structuring, IT applications and so on?

Mr Kane—Yes. We have been particularly encouraged by what we see as opportunities in e-government. You might recall that we mentioned when we previously appeared before the committee that we had just had a group of businesspeople go to Germany, the Czech Republic and Poland. That occurred in September last year. That was really encouraging. It is very much related to government work, where the bulk of the activity seems to be occurring. Clearly, these companies and countries want to see an improvement in their ability to deliver services to their citizens, particularly as the EU entry is just around the corner.

CHAIR—Does your trade commissioner based in Prague specialise in the IT area?

Mr Kane—Our No. 2 person in Prague is an IT specialist. However, we have an IT specialist in just about every one of our posts. We have one working substantially on IT in Poland. Considerable resources also go to IT in our Bucharest post.

Our submission went on to talk about the impact of the EU accession. Austrade's view is that the business benefits from an expanded EU membership will vastly outweigh any downsides. The positive factors we see are things like stronger corporate governance, increased political stability and higher growth. The EU itself believes that accession is likely to lead to an average GDP growth across the region that will be between 1.3 per cent and 2.1 per cent higher than would otherwise occur. It is really significant additional GDP growth. Another factor is that many Australian companies are already familiar with EU standards, so they will be working in a market of familiarity.

Finally, the other important factor is the level of EU tariffs versus those of the accession countries. In the main, the EU tariffs are considerably lower than those of the accession countries so, when the countries accede next year, their tariffs will come down to the EU level.

The process of those countries going into the Union brings with it some specific opportunities for Australia. We have already mentioned things like e-government, but other things are especially productive for us, such as health sector reform—Australian organisations like the Health Insurance Commission and IDP Education have already won work in Bulgaria, Croatia and Slovenia. Social security is another area of reform, and IDP has won business in Bulgaria.

Another reform we discussed at the time of our previous submission was that of land administration. Without effective land reform, things like the CAP will struggle to be effectively implemented. Without land reform, you cannot have a good mortgage market; therefore you cannot have people going to their bank and arranging finance to build new businesses. So land reform is particularly urgent and a very large area of work is to be done. It is a project which, for many of the countries, will take 20 years, and the total value across the whole region will be several billion dollars. Starts are being made and work is being done in bite sized chunks, with the assistance of the World Bank in particular.

Some of the other areas which we think will have prospects for Australia—and these come out of not simply the EU accession but globalisation factors like trade liberalisation, foreign direct investment and the adoption of Western lifestyles—include, among other things, education. Already, in excess of 3,000 people per year are coming out of the region to Australia.

CHAIR—From which countries are they mainly coming?

Mr Kane—When DEST look at this, they combine the Czech Republic and Slovakia and call that one. Those combined countries produce more students for Australia than any other country across Europe. There are about 2,000 students coming out of the Czech Republic and Slovakia at the moment, and there are just over 3,000 students in total from Central Europe. The other countries of particular importance at the moment are Poland and Hungary. In DEST's view, the growth rate of about 30 per cent per annum that has been occurring in that market will continue. Their estimate is that by the year 2004, close to 7,000 students will be coming from central Europe to Australia.

CHAIR—Are they going into any particular faculties?

Mr Kane—A lot go into ELICOS—English language studies. In fact, I think the substantial part does. Vocational studies and IT studies are also important.

Other interesting areas are those related to changing lifestyles and changing incomes. This particularly affects wine and food. In Australia we always immediately think of food as being a good prospect for us. In the case of central Europe, our success will be very dependent upon whether we can access the procurement systems of the major supermarket chains that operate in Europe. When the committee undertakes its visit to the region, you will undoubtedly see one or more of the new supermarkets. They are very impressive. One I went to in Warsaw last year was certainly far bigger than any I had seen anywhere in Australia, and their shelves were very impressively stocked. There is a quite different delivery system for consumers who are shopping in central Europe today as opposed to just five years ago.

The most telling change that will come for Australia will be in May next year with EU entry. This will be a signal to Australian industry that central Europe has changed. We hope that Australian industry will gradually see central Europe as being not a separate part of Europe but simply an integral part of Europe. It will no longer be a continent divided in the minds of Australian business. We hope that a lot of the negative perceptions will disappear at that time.

Our submission concluded by suggesting a way ahead and providing some ideas as to how we might address this question of a greater Australian business engagement. We suggested that perhaps a modest Australia brand awareness program could be undertaken. This could be a combination of advertising or advertorials, Australia weeks—we could run those in cities across the region—having journalist visits in both directions and similar activities. We also suggested that as part of this we could direct a program specifically at business. This would take the form of missions in each direction, and perhaps the subsidised participation of Australian companies in trade shows in the region.

What we also think would be very productive, and what we are starting this year, is the bringing of central Europeans across to west Europe, where we are already in trade shows, to let them see a bigger Australian product showing than they would see if Australia were represented in a show within central Europe. For a trade show in central Europe we might attract three or four Australian companies; in western Europe we might attract 10 or 20. If we bring the prospective buyers out of central Europe to those shows, they can see a wider Australian selection of product. We are doing that, for example, at the London wine show in May this year. We will bring people from a number of countries in central Europe across to London.

That is what our submission was about. I will make one suggestion that you may wish to consider. Various ethnic chambers in Australia have certainly been interested in the committee's work. The committee might consider convening a meeting, probably a joint meeting, with the chambers, either before the committee goes to Europe or on its return, to bounce some ideas back and forth.

CHAIR—Are the chambers located predominantly in Sydney or Melbourne?

Mr Kane—They are spread around. They are strong in Adelaide, for example. If they could be invited to a central point, you might find that a useful way either to prepare for Europe or to compare notes when you come back.

CHAIR—Ms Dwyer, Mr Amey, would you like to add to what has been said?

Mr Amey—No.

CHAIR—Are the promotions that you are carrying out at the moment just a limited few trade fairs and not much else?

Mr Kane—No, but we certainly like using trade shows. Trade shows are particularly important in Europe—more so in western Europe than eastern or central Europe at this stage. It is very important in developing trade that we either have our businesspeople travelling from here into central Europe or have the region's businesspeople come to Australia. An example of the latter case is that this year, for the second time, the big CEBIT technology show in Europe is also having an Australian leg.

CHAIR—What do you mean by an 'Australian leg'? Are they coming here to Australia?

Mr Kane—There will be a CEBIT Australia. It has previously just been CEBIT Hanover and Australian companies have gone there to exhibit. That process continues, and that is on in March this year. There is now also a CEBIT Australia in Sydney. Plenty of Australian companies will be exhibiting there—more than would go to Hanover. We are going to bring quite a few of our prospective buyers out of central Europe to that show in Australia.

CHAIR—Aren't we likely to see the trend anyway that the traders and so on in the eastern European countries are going to head towards the big fairs, particularly in Germany where there are fairs like Anuga and Interstoff? Perhaps there also needs to be a building up of a support presence in those countries to capture the growth in the EU market.

Mr Kane—Yes. One of the suggestions in the 'way ahead' part of our submission is that we somehow find a way to reduce the costs for Australian companies to participate in these big shows. They are very important in the selling process in Europe, as you would be aware.

CHAIR—How much do they have to pay now? It used to be that they paid nothing.

Mr Kane—In the time when Austrade subsidised 100 per cent, a lot of companies got into trade shows effectively at no cost. That does not apply anymore.

CHAIR—What percentage do they pay now?

Mr Kane—There are some instances where we are, on a trial basis, going back to that old system—and we are running some wine promotions right now. But, in the main, they will pay full price. Typically, to take out a full stand, you could easily pay \$10,000 or \$15,000. When you add to that the cost of flying over there and all the other expenses of participating, for small Australian companies that can be a significant barrier.

CHAIR—What do we provide? If there is an Australian generic stand, do we provide that? Are they getting it at a reduced cost because they can go on the Australian stand?

Mr Kane—Our general practice now is not to subsidise the cost of the stand. If we have an Australian stand, the costs of that will be shared by the Australian participants. As I mentioned, we are trialling a couple of subsidised shows at the moment, both in western Europe. We are not taking a full booth space for each Australian participant; we are taking a very small space and we are bringing in six wine companies into each of them. So the cost is not great to us and it is significantly reduced for the wine companies. The other factor, of course, for Australian companies facing the cost of trade show participation is that a significant number of them can recover a decent slab of their expenses through EMDG.

CHAIR—Yes, I understand that, but I am surprised at the shift away from that. In terms of trade promotion, wouldn't specialised trade shows be the number one means by which you can promote Australian products in the European market?

Mr Kane—At the end of the day, we think it is a mix of things. Trade shows really are important, but there are other ways of getting that connection between the Australian exporter and the prospective buyer.

CHAIR—There is always personal contact and so on, but if they are all there and provide the ready contact—

Mr Kane—There is no denying that trade shows are particularly important in Europe,

CHAIR—Before you arrived, we asked the Department of Foreign Affairs and Trade about how they saw the countries in order of importance in trade and investment terms. Would you like to have a go at the same question? That could help us as we look at our travel program.

Mr Kane—That is a really tough question. My view is that we can generally expect the highest level of business over the next five or 10 years from the countries that have the highest GDPs per capita.

CHAIR—You two work in tandem: that is the same as they said.

Mr Kane—Is that right? Mine was an original thought. If you look down the list, the top ranking ones are Slovenia, Hungary and the Czech Republic. Then you move into the middle ranking ones like Poland and Croatia.

CHAIR—They turned it around a bit—I think they put Poland as number one.

Mr Kane—The next point I was about to make is that you also have to talk about the size of the economies. Poland is clearly the biggest economy in the region. Second in population size and probably about third in GDP overall would be Romania. Romania has been especially important to Australia as a buyer of commodities. We significantly lost that business last year, particularly the supply of coal and iron ore into the Sidex steel mill.

CHAIR—Why was that?

Mr Kane—It was privatised. The new buyer, which was an Indian-UK company, chose to source its raw materials from its established supplier basis, which was in South America and

South Africa. However, we now understand that trade has resumed from Australia and some coal is going back into Romania, and we are very pleased about that.

Senator O'BRIEN—On the question of coal, what infrastructure impediments are there for us to penetrate the eastern European markets with our coal?

Mr Kane—One of the countries that took a trial shipment two years ago was Hungary. This is a tough call, because Hungary is landlocked and the only water access is via the Danube. That means a slow voyage in small vessels. The Bosphorus certainly has some limitations on ship size—I think there is a ship length which is set—and our big vessels cannot get into the Black Sea. So there are those sorts of physical infrastructure issues.

Senator O'BRIEN—Is it basically water or nothing?

Mr Kane—Let us look at the western Europe situation for us. There are 30 million tonnes of Australian coal going into western Europe but it tends to go into the big ports like Rotterdam. If we are to make significant sales in central Europe, we have to find a way to get some big ships into the region. There is interest, for example, in Poland in sourcing coal from Australia, particularly steaming coal. The power stations have been privatised—at least, some of them have—but the issue remains the capacity of Polish ports to handle big ships. Nonetheless, we have shipped coking coal to Sidex for a number of years, so there is some track record there. But if there were deepwater ports and if the Bosphorus were different, we could get a lot more product in.

Senator O'BRIEN—It probably will not be different. You mentioned in your presentation the penetration by Australian veterinary products. What sort of products are we able to get into those markets?

Mr Kane—I do not know the specifics but I do know, for example, that Nick Cojocaru, who I mentioned, is now looking at taking veterinary products from Australia to help with his piggery operation in Romania. I do not know any specifics other than that.

Senator O'BRIEN—Could you get us some information on notice?

Mr Kane—Certainly.

Senator O'BRIEN—What do you foresee will happen with beef and other meat product penetration of the market on EU accession?

Mr Kane—The quotas are quite small. We only achieved an increase in quota of 2,000 tonnes of beef at the time of the last accession, of Austria, Finland and Sweden.

Senator O'BRIEN—Is that the high-quality beef quota?

Mr Kane—Yes, exactly. In the case of lamb, it went up about 1,150 tonnes. Those increased tonnages were obviously important to the people in the trade—the few companies involved—but in the sum of things, they were a very small change for Australia's total meat exports.

Interestingly, at the moment Croatia is probably Australia's biggest beef market in all Europe. About 2,000 tonnes might have gone there in the last 12 months.

Senator O'BRIEN—Manufacturing meat?

Mr Kane—Yes, primarily. Clearly we will try to negotiate the best possible deal based on our prior sales into the accession countries. What the outcome of that will be I cannot predict. I repeat that the European market for beef is very small. Our total beef exports to Europe would be less than one per cent of our international trade.

Senator O'BRIEN—What do you think is the probability of further overproduction of agricultural commodities with the accession, given the agricultural backgrounds of the eastern European countries?

Mr Kane—Frankly, I do not know. It will no doubt partly depend on the final arrangements entered into between the EU and the accession countries, but I am afraid I do not have an answer as to how that translates to production.

Senator O'BRIEN—Finally, there has been talk in your submission of low-level corruption. What sort of an impediment does that pose to us to market penetration in these areas for the future?

Mr Kane—I think it probably has two impacts. If an Australian company steps into the marketplace and is confronted with this, it is quite likely to be pretty offended by having to deal that way. It may have no option but to walk away if that is the only way business can be done. Maybe a bigger impact, though, is the perception that is generally created, which deters Australian companies from entering the region in the first place. That is the one that particularly worries me. If you put that together with views of central Europe as being bureaucratic and old-fashioned, and having payments problems and so on, that adds to the perception: 'It's altogether too hard; I'll go somewhere else.'

Mr JULL—If somebody came up with an example of corruption—something they had to pay to get into a market—and they asked you for advice, what sort of advice would you give them?

Mr Kane—We would tell them they should not pay.

CHAIR—That is on the record, I presume.

Mr Kane—To their credit, Australian companies successfully get into this region without paying bribes. I am very pleased about that.

Mr JULL—There are more difficulties, though, than just straight corruption, aren't there? How big a role does the reformation of company law and banking law play? How are the reform programs going? Can you see any major changes happening with the accession to the EU, or are they just about there?

Mr Kane—In the case of banking, very significant reform has taken place. Perhaps the biggest driver of that is that many of the banks that were previously operating in central Europe have now been purchased by Western banks. So there is that overlay of corporate governance out of western Europe. That is having a significant impact already. Coupled with that, there has been very strong support of reform in the banking sector from the EBRD in particular. The EBRD has undertaken a lot of project finance in support of the reform of the banking sector, so many of the banking assets that have been purchased by Western banks have been in alliance with the EBRD.

Another area where the EBRD is playing an important part in helping through the banking problems is the facility they have whereby they guarantee the performance of a local bank in Europe. They guarantee to the Australian confirming bank that that local bank will perform. So the EBRD underwrites the risk. That then gives the Australian bank the opportunity to go to its exporter and say, 'I can guarantee 100 per cent that you will be paid,' and that is a terrific guarantee. That is provided by the Australian bank in the first instance, but it is underwritten by the EBRD. So banking is definitely on the improve.

Mr JULL—I ask this question quite seriously. It is something I heard when I had some discussions some time ago with a group of businessmen. Is the Eastern bloc mafia a problem for Australian companies in dealing with some of these areas?

Mr Kane—In my experience, there is not much evidence of Australian companies running into any problems with the mafia in central Europe. I think it is fair to say that the mafia is much stronger further east.

Mr JULL—The other thing I was going to mention—we mentioned it with DFAT, and you mentioned it in your intro—was the family investments or the small to medium enterprise investments coming out from Australia now. Did I get that figure right? Did you say that you think it is worth \$50 million?

Mr Kane—No, I said that Australia's services exports were probably in the order of \$50 million. One other point I made was that the four investments into the region undertaken in the last eight months that have been supported by our Austrade people totalled about \$10 million.

Mr JULL—But I guess a lot of these go on that Austrade would never be aware of anyway.

Mr Kane—Of course. Particularly in sophisticated markets, many Australian companies will go in there and do their own thing. They do not need our support. But as the level of sophistication of the marketplace diminishes, that often means that not only do the companies need a special way of being introduced into the marketplace, they often need us as a service provider because the alternative service providers are not strong in the marketplace. I would put central Europe still in the region of not having especially strong service providers of a type that are of interest to Australian companies, so the companies tend to come to us. But, yes, you are quite right; many companies will either export or undertake investments without our support.

Mr JULL—So we perhaps would not have a clue as to how much that was worth to us.

Mr Kane—The investment figures are really hard to find, especially on the relatively small scale that they occur in this region. The Reserve Bank and Treasury figures tend to be in

hundreds of millions as a minimum, whereas in this part of the world you have to get down to the millions and tens of millions to see what is happening. Those figures are just not in the big frame.

Mr JULL—From your experience, are there some countries in the central European group that benefit from this type of investment more than others? It seemed to me that it was particularly strong in Croatia, for some reason.

Mr Kane—From my understanding of the picture—and it is an incomplete one—probably there are more investments back into the region from Romanians and Croatians in Australia than there are to any of the other former homelands. In the case of the Croatians, I guess that reflects the significant number of Croatians in Australia. They, together with the Poles, constitute the two biggest ethnic groups here from that region. In the case of Romania, it is perhaps a spirit of enterprise, but there do seem to be a lot of Romanians now undertaking small investments back at home, in addition to the large one I mentioned of the piggery.

Mr JULL—Would that be because of more recent arrivals? The Czechs who came out here post World War II and into the fifties and sixties are now getting towards retirement age, whereas the others have a closer association.

Mr Kane—It may well be. A lot of the people who left following the Second World War wanted to put Europe behind them once and for all. Perhaps the more recent immigrants have a different view. We are certainly seeing some examples of that.

Mr JULL—Is there any way of or sense in looking at some sort of program to try to pump up this type of investment?

Mr Kane—That very factor was one of the reasons I suggested earlier that the committee might want to get together with the chambers. While we already have quite a significant engagement with the communities, particularly through their chambers, we believe more work can be done in that area. I would certainly endorse that approach.

CHAIR—I understand that in early April in Slovenia there is a cultural investment show to promote Australia. Can you tell us about Austrade's role in that? Is it minimal?

Mr Kane—It is minimal.

CHAIR—How many companies are involved and who is the instigator of that?

Mr Kane—I think this project is largely driven by our embassy in Vienna, which is responsible for Slovenia.

CHAIR—How many companies are involved?

Mr Kane—I am unaware of the number. We can certainly get some information on that for you.

CHAIR—Okay. Thank you to the DFAT witnesses, who I see are going. I do not know if it was anything you said. They are having a walkout.

Mr Kane—Maybe it was the questions.

CHAIR—We have locked you in; it is a security issue. It is an IQ test on the way out. Mr Kane, the way the former Eastern bloc operated was that the government contact was all-important. Is that still a factor in gaining access there? What role do they play? Now that they are becoming more of a free market, is it a whole different ball game?

Mr Kane—In the old days everything was done through the government. You had no choice but to deal with them. While there has been a significant privatisation—up to about 80 per cent of the GDP of Hungary, for example, is now in private hands—

CHAIR—Eighty per cent?

Mr Kane—Yes, I think so.

CHAIR—Is that the highest?

Mr Kane—Yes, I think it is the highest in the region. Having said that, the government remains important. The government has many contracts that it lets in its own right. It is the same as companies dealing with the Australian government. A lot of business is done. So they remain important as a customer in their own right but they also have influence. In particular when we undertook the trade mission to the Czech Republic and Poland on e-government, a key target for us everywhere we went were the national governments because they have the overarching role of providing direction to their industries. Of course, in e-government they would be customers in their own right. There is no doubt that, despite the changes that have taken place in central Europe, there is still a role in business which we do not have in Australia in that people defer to the government in business in a way which does not occur in our society. That is probably a reflection of the history of the last 40 or 50 years and probably will reduce, but for the moment it is still there.

CHAIR—Are there still a lot of government people on the boards of private companies?

Mr Kane—I do not know, but I suspect that is not the case.

CHAIR—Are the government officials still the ones that operated during the older days or has there been a transformation?

Mr Kane—We still see some old-style representatives on the government teams that we see either here or when we visit the region, but I must say that they are probably in the minority these days. You see some extraordinarily young people in very senior government positions in the region. I recall that in Sofia a couple of years ago I met with an assistant minister in the ministry of construction, I think it was—he was 31. There was at the same time a deputy prime minister who was also the minister for finance and he was about 31 or 32 and another assistant minister about the same age. These were extraordinarily young people in very senior positions.

This is occurring right across the region and into Russia. Young, smart people are being given jobs and the representation from governments now is substantially different to the old days.

CHAIR—That is interesting. I understand the World Bank has taken quite an interest in land reform. To what extent are Australian companies in a position to take advantage of this?

Mr Kane—It is a good question. As you will recall from our discussion with the committee in October, we are very interested in this area. We have invested a fair bit of our time and energy in developing the opportunity. We see significant, broad opportunities in the region. For example, the World Bank is putting around \$US25 million into Croatia and about the same money into a project in Bulgaria. Further east it is putting money into the Ukraine and Russia. These are in the main pilot projects or significant first steps in the implementation of national programs. Australia certainly has a very good reputation in this area and it has enjoyed considerable international success in Asia in particular but also in Latin America and Africa. We have had some successes in Europe in the last three or four years but of a pretty small contract size.

We will persist with pursuing this endeavour. We are currently looking to bring some key people out of the region to Australia to showcase our capabilities in this area as a step towards further engagement with them. What I would hope is that, if we can demonstrate to Australian industry that there is real interest in the region in Australia's capabilities, we can then put together an Australian trade mission.

CHAIR—I saw that; it will be early next year.

Mr Kane—In fact we had originally planned for that to take place as early as December 2002 but we have had to put that back a step. We need to do some more selling of the opportunity before we can muster sufficient interest in Australia to take a mission in.

CHAIR—What timing do you see for that?

Mr Kane—If we are able to bring down the prospective buyers, I would see that occurring between now and June. Logically, a mission would then take place following the northern summer, so it would be the third or fourth quarter of this year.

CHAIR—As you outlined the potential, I noticed that the old perennials did not pass your lips—sporting and medical goods, automotive equipment, opals et cetera. Have we moved on? What do they represent for us in those areas?

Mr Kane—Dealing with automotive first, we believe that there is a really good automotive opportunity in central Europe because it has built up such a strong manufacturing capacity with very large investments by the European auto industry in particular. Volkswagen alone has invested nearly \$US5 billion in central Europe, into privatised and upgraded plants. Central Europe also has a very significant cost advantage over western Europe. Clearly, labour is much less expensive there. We think that central Europe holds a really good possibility for Australian industry in terms of a manufacturing base for automotive components.

The difficulty, if it is a difficulty, is that the Australian auto industry is doing particularly well on its exports elsewhere at the moment. As far as investments are concerned, they are currently

focused largely on the United States of America, where they are putting new plants close to their major customers in the US. As far as sales are concerned, when you go down to the smaller Australian component companies they too are focused on the US and Asia. Quite frankly, they are just not in a position in the main to seriously address a new area of opportunity like central Europe. The time will come, though, when I believe they will turn their attention to this region and be more than pleased with what they see.

Regarding other products that you mentioned, like opals, I guess if someone really wants to sell the product they will go in and sell it because there is a rapidly growing middle class of people prepared to invest in these products. I mentioned earlier that we have an Australian company now selling cosmetics. Who would have thought that Australia would sell cosmetics?

CHAIR—It would not be Poppy King any more.

Mr Kane—No, it is probably not Poppy King. Unusual products certainly can be sold in central Europe and it reflects the changing income patterns.

CHAIR—What about sporting goods and medical equipment?

Mr Kane—Regarding medical equipment, Cochlear is a terrific leader in the region. In a sense, Cochlear would be our best representative company in the region in that it has made sales across the region. It is very strong, is extremely well regarded and is a wonderful leader for Australian industry in that part of the world. As for other medical devices, none come to mind for the moment. Regarding sport goods, I cannot recall any that have been made. Liz has just pointed out to me one case related to sporting which features in our submission—Starena, the company from Gosford which has sold the stand-seating for the stadium in Prague. That is a terrific product too.

CHAIR—And mining equipment and food processing?

Mr Kane—It is possible that we will do some work in there, but we need to bear in mind that the mining capability of central Europe is not great at the moment. It is very strong in Poland—they are digging up lots of coal—but in other parts of Europe it is not so strong. Having said that, Australian companies have invested in the region—they have invested in Romania, and they are certainly prepared to invest further east as well.

Mr JULL—Is Mincom still there?

Mr Kane—Mincom has an office in Prague. It is doing business in the Czech Republic. I am not quite sure whether their business has extended into other parts, but I know they are interested in other countries as well.

CHAIR—If we asked you which were the top 10 products and areas of opportunity, what would they be?

Mr Kane—I would look at some of the high technology products—the e-government issue, other IT products, security products and banking products. On the agribusiness side, I would certainly persist with meat products but be aware of their limitations. I would certainly persist

with wine. On the services side, I mentioned earlier the figures for education. We are already doing well. There are about 3,000 students, which is likely to grow to 7,000 by the end of 2004. So education is important. Tourism has some prospects. The tourist numbers are modest at the moment, with about 25,000 tourists from the region coming to Australia. However, I believe tourism is worth at least some modest levels of support.

CHAIR—Will we have the opportunity to see perhaps a couple of tourism people on this visit?

Mr Kane—We will make a note of that and endeavour to get at least one contact in the area.

CHAIR—It is more a case of finding out whether there are any impediments or problems. Does the ATC have an office in central Europe?

Mr Kane—No, not in central Europe.

CHAIR—That makes it a bit more difficult.

Mr Kane—As a minimum, perhaps we could arrange for some tourist industry people to come to—

CHAIR—Who handles it? Is it handled out of Frankfurt?

Mr Kane—Their major office is in London, but they are undertaking a significant upgrade of their representation in Europe at present. I think they have added staff in Frankfurt, Milan and in one other centre in Europe, so they are certainly building up their resources at the moment.

CHAIR—It might be worth while, especially on the first briefing in Warsaw. Do you agree, David?

Mr JULL—Yes.

CHAIR—Anyway, we will leave that to you.

Mr JULL—The big whinge will be about visas, won't it?

Mr Kane—Yes. It is obviously an area of concern.

CHAIR—We can talk to DIMIA about that later. Thank you for coming, for your input and for the professionalism with which you have handled it all. We look forward to having contact, especially as we reach some agreements on our visit and travel and so on. Our resident expert, Mr Jull, will have significant input. We look forward to significant benefits from the trip in terms of recommendations. We will be talking to each other a lot, I would imagine.

Mr Kane—Thank you for giving us a chance to talk to the committee today. We certainly look forward to helping you make the most of the visit.

Proceedings suspended from 12.05 p.m. to 1.35 p.m.

CAMILLERI, Mr Roger, Senior Adviser, Media and Public Affairs, Delegation of the European Commission to Australia and New Zealand

KROPMAN, Ms Ingrid, Research Officer, Delegation of the European Commission to Australia and New Zealand

MAZZOCCHI, Ambassador Piergiorgio, Delegation of the European Commission to Australia and New Zealand

STRICKLAND, Mr Paul, Counsellor, Delegation of the European Commission to Australia and New Zealand

CHAIR—Welcome. The subcommittee prefers that all evidence be given in public but should you at any stage wish to give any evidence in private, you may ask to do so and the subcommittee will give consideration to your request. I imagine, with this type of inquiry, that will not be necessary. The subcommittee has your submission, No. 11. I would like to invite you to make a short opening statement and then we will ask questions.

Ambassador Mazzocchi—Thank you, Mr Chairman, for this opportunity to appear in front of you. It is for us an honour to be able to put forward our views. As you just mentioned, we made a submission with an official document of the European Commission on 30 October 2002. Today, I would like to provide some supplementary reflections on why Australia should not have any reserves or concerns about the envisaged enlargement of the European Union. Let me start by updating the information we provided back in October.

On 13 December, there was a decision to declare the negotiations of accession completed. In other words, there was the decision that 10 of the 13 envisaged candidates are ready to join the European Union because the negotiations have been concluded. One has to be aware that the negotiations covered a huge amount of legislation that has to be adopted by the candidate countries. They had to examine, discuss and accept 85,000 pages of legislation. The authorities of the European Union recognise that these countries are now ready to join. This is expected to lead to the signing of the accession treaty in Athens on 16 April this year. That is the next step. This will be followed by a set of referenda in the different countries, which should lead to the ratification of the Treaty of Accession on 1 May 2004—one year and two months away.

Meanwhile, negotiations will be going on with Bulgaria and Romania and the relations with Turkey will be re-examined in 2004—so these negotiations are still going on. Croatia is expected to introduce a formal application for accession very shortly. It was expected by now but it has been postponed for some months. It is in the pipeline. This is the general updating of what has been happening and the perspectives of the negotiation.

Let me turn very briefly to why Australia should be looking positively to this event. Firstly, the importance of this enlargement is above all political. It consolidates peace and democracy in a set of countries which have been artificially separated from the rest of democratic Europe following World War II. Perhaps this idea has not been put properly to the attention of the public but, since the fall of the Berlin Wall, huge progress has been made by these countries to get all this legislation on board—which is legislation of democratic countries. They have been

moving away from a system which was fundamentally centrally planned to a new, market oriented system. The EU population will be enlarged by about 20 per cent, but in economic terms the EU will increase only by four per cent. If I am focusing on this, it is because there is a large difference in levels of economic development and levels of GDP between acceding countries and present members.

My first strong point is that, in a globalised world, it is in the interest of Australia that there is stability in this part of the world. These are countries which have moved out of a previous system into a more democratic, more Western type market oriented system and, as I just said, it is of interest to Australia the stability that this development implies. Moreover, I think Australia should have an interest in the evolution of these countries that have a lower level of GDP. From Australia's perspective, these countries will catch up, thereby creating new potential for trade and investment. At present, as I said before, the GDP of these countries is well below 50 per cent of the level of the present 15 members of the European Union. If we look at the precedent of countries like Portugal, Greece and Spain, which had a lower level of income when they acceded to the European Union, there has been a catching-up effect that has been quite rapid. And if you look at the statistics, Australia has benefited in a very significant manner from this catching up in those three countries.

More wealth not only means more stability but also new markets and new opportunities. I also want to stress that a single integrated market with harmonised rules means that trade and investment for operators from Australia, who are already in the market or who want to enter the market, will be considerably easier. In other words, these new countries have to adopt the same rules. Anyone who is familiar with exporting to France, Britain or Germany will find that the same rules apply to the new acceding countries—and for investment the same considerations will apply.

In conclusion, I would suggest that not only will enlargement not be detrimental to Australia but also that Australia stands to gain from this development. In particular, let me mention the fact that these countries will be brought under the joint declaration between Australia and the European Union of 1997, so they will be brought within the same framework. This means they will be brought under the provisions which have ensured that relations between Australia and the European Union have been developing so harmoniously over time. I will stop here and I will be happy to take questions.

Senator O'BRIEN—Ambassador Mazzocchi, one of the significant interests of Australia in trade with the European Union—and indeed with the world—is the European Union's position on agricultural subsidies. You say Australia stands to gain from the enlargement of the community. Can you tell us what that means for Australia in terms of the impact of those subsidies on the new nations and on their agriculture and on the European Union's future position on agricultural subsidies?

Ambassador Mazzocchi—You are certainly touching upon the most sensitive issue of the relations between the two parties. Let me point out, first of all, that these are countries which still have a relatively scattered form of agriculture. This will lead to an increase in the numbers of farmers of the European Union, which will be quite important. I understand there may be almost 50 per cent more farmers, but they are scattered on small properties of a magnitude which has no comparison with what one thinks about here in Australia.

Given the problem and the difficulty of transferring the present system to newcomers, there has been a huge debate going on since the end of the negotiations that will lead to some sort of temporary injection of resources aimed at providing an incentive for rural development which is not about production—in other words, it is about setting up the framework, from schools to doctors to roads and all these kinds of necessities—and which will lead to some sort of freezing of agricultural expenditure over the period from 2006 to 2013. What does this mean? This means that in practice over that period the same amount of budget will be spread over a much larger number of farmers, in view of a reorganisation of farming.

I take this opportunity to stress the fact that this process has been under way since 1990 with the different reforms of the European Union Common Agricultural Policy. This is a sort of follow-up and a move away from trade distorting export subsidies to different forms of intervention that aim at different values which, as I said, include rural development, the environment, animal welfare and food safety. We tend to privilege these values that are being introduced in a way that moves the common agricultural policy away from the traditional approach which consisted of providing incentives to quantity. This process will apply to the new members. The big difficulty at the end of the whole negotiation has been to make them accept the idea that they will not be treated as well as the present farmers. So there is a two-way process of phasing in new members and a process of phasing out of the present subsidies.

Senator O'BRIEN—Does that mean the amount available for subsidies in the current European community will be reduced by the amount allocated to the new countries?

Ambassador Mazzocchi—By the number, yes.

Senator O'BRIEN—The amount, for example, that French farmers will receive will be reduced in proportion to the amount that has been allocated to these countries. Is that how I should understand it?

Ambassador Mazzocchi—From 2006, this is the idea. In other words, the budget will grow by only one per cent per year until 2013, while it will have to satisfy the farmers, who will be increasing by 50 per cent, and 20 per cent for land. So it will be spread more thinly.

Senator O'BRIEN—Will that reduce the production targets where subsidies are based on production targets for the current group of farmers—in other words, to get the lesser amount, they produce less; or will it mean that they have to produce the same amount to get less?

Ambassador Mazzocchi—We are largely moving away from production targets—rather, we are focusing on these other objectives that I was mentioning before—

Senator O'BRIEN—In the new countries or overall?

Ambassador Mazzocchi—Overall. This process has been going on since the beginning of the nineties—which, I must say, is not entirely well recognised in Australia but is really an important feature of the evolution of the European Union. I am not saying that everything is perfect—far from that. You have to take into account the additional element that multilateral rules and the multilateral framework are under negotiation in Geneva. So negotiations concerning the enlargement will take place under the rules of the WTO and, at the same time,

the WTO negotiations are under way on the Common Agricultural Policy as part of the subjects being negotiated in Geneva.

Senator O'BRIEN—At what level will the negotiations about compensation to Australia for the impact of the accession on our trading arrangements with the new countries take place? Will it be through your commission or through each of the countries or through some other body?

Ambassador Mazzocchi—I took part in a previous negotiation based on article XXIV:6 of GATT. Article XXIV:6 says simply that, when you create a new entity and a new common customs area, there are negotiations aimed at ensuring that no-one in overall terms is worse off. These negotiations take place in Geneva in the framework of the WTO. The European Commission negotiates for the European Union on a position defined by the Council of the European Union where member states make their inputs. In due course, the council will be composed of the 15 present members plus the 10 newcomers, and altogether they will give instructions to the commission on how to negotiate in Geneva.

Senator O'BRIEN—Is that by consensus or majority? Forgive me; I just do not understand the—

Ambassador Mazzocchi—That is now a majority decision.

Mr JULL—One of the issues that has come through some of the submissions and hearings we have had already is that of corruption in the central European countries. I was wondering whether you could give us any indication as to how that is being addressed by the respective governments, particularly in light of the impending accession to the EU. Can you give any guidance in terms of that sort of thing and how to eradicate it? Could you give us some sort of report card as to how the countries have gone with their efforts?

Ambassador Mazzocchi—First of all, I need to provide you with some background information on the institutions. It is only with the entry into force of the Treaty of Amsterdam in 1999 that a new portfolio for Justice and Home Affairs has been created in the European Union. In other words, we are still in the process of putting together common legislation in this area. It is in that framework that the activities on immigration, justice and corruption, for instance, will be dealt with. What I want to stress in particular is that you need proper legislation—in other words, by absorbing the existing legislation—and you need to provide the means of developing proper bureaucracies. The word 'bureaucracy' already has a negative connotation. With a proper institutional set-up and with officers able to enforce the legislation we hope that the fight against corruption will, in due course, be successful. Unfortunately, corruption is a feature which is not specific to these countries but is well spread all over the world. We think that, through the process of democracy, through the process of reinforcing the institutional set-up, and to a certain extent through the education which comes with higher levels of income, the situation will progressively improve. This is the best I can offer at present.

Mr JULL—So you cannot give us an indication that the 10 would be going into the EU as what we may call 'clean skins'? Of the 10 that are going in, are you happy that they have done enough in terms of trying to meet the requirements of Amsterdam and the cleaning up of their bureaucracies?

Ambassador Mazzocchi—You have to keep in mind that the European Union has invested a huge amount of money to create a proper civil service in these countries through all forms of education. In part, it was not just the European Union that has been providing this sort of information for civil servants; part of this was carried out through the OECD.

In the OECD there is a service which has the function of defining the best practices in the civil services of the wealthy, Western OECD countries. It has been asked by the European Union to intervene, and it has been entrusted with the task of providing courses and education to improve the quality of the civil servants in these countries. I think it has been quite successful.

Mr JULL—That would have been a pretty drastic move, wouldn't it—virtually having to clean out the previous administration?

Ambassador Mazzocchi—Yes, it has been a huge task, and it is far from finished.

Mr JULL—That was my next question. Are many of the old brigade still in office?

Ambassador Mazzocchi—Absolutely, but it is a process of osmosis somehow: the more you put people in contact with best practice, the more the chances are that best practice will eventually prevail. It is in this spirit that we are trying to create a dynamic which allows the level of the present 15 to bring up the level of the acceding 10, rather than having the level of the present 15 brought down.

Mr JULL—That was something I was going to raise with you. I was in central Europe some years ago, and it seemed to me that, particularly in some countries, accession to the EU was the panacea—that was going to be the time of great celebration when virtually overnight things would change and they would pick up. How smooth will the transition be for the 10? There are still a great number of hurdles that they have to surmount, even though they have met all your requirements.

Ambassador Mazzocchi—Only the future will tell, obviously, but what I can say—from the surveys which have been carried out and from the polls and the studies which have been made—is that there are huge expectations, and perhaps the expectations are larger than anything that may actually occur immediately. Is it going to be a panacea? I do not think so. There is a process of education, which has been very painful for these populations. That has been going on now for perhaps 14 years. At the very beginning there was a sharp decline in their wealth and economic activity. Now that things have taken off, the situation is improving very fast. We have injected huge resources. The beginning may not be as easy as it might appear, because strong adaptation is still required in order for this process of full integration to take place. Some devices—perhaps we could call them 'smoothing devices'—have been introduced. These allow for delayed implementation of certain provisions, in order to avoid a landing which is too hard, and it may prove to be an exercise that requires further painful adjustments.

CHAIR—Following on from Senator O'Brien, I have some questions—again on that easy topic, the CAP. Obviously, there is going to be a significant enlargement of the total agricultural product. Even though the farmers may not be as efficient and may have small farms, the overall quantity of product that comes into the EU is going to be significantly increased—the figures I have heard suggest the increase may be as much as 30 per cent or so. Firstly, in terms of

Australian access, if there is 30 per cent more product, that is obviously going to create some significant problems with selling our own product in the EU market. Secondly, when that is absorbed and they go fully under the EU rules, how will the problems of access that we have had with some commodities such as wine be affected? The EU in the current Doha round is taking a much harder line on geographical indicators, which means that access for Australian wines into the Czech Republic becomes tougher. Obviously, we have had some optimistic projections from the Department of Foreign Affairs and Trade, but these are some of the areas of concern. Would you like to comment? This is not an easy topic, I know.

Ambassador Mazzocchi—This is an area where I may have to ask for help from my colleagues in due course. Let me try to give an answer in summary form first, and perhaps they may then complement what I say. You mentioned an increase in production of 30 per cent under the common agricultural policy. The population of some 75,000,000 people is already eating. They are already producing agricultural products. That is not a differential; the products are already there. These countries will come in and their production will be part of the overall production. However, first of all they have to feed their own population, and that is what they have been doing until now. Therefore, in overall terms I do not really see a huge change in the situation. You must not think in net terms and say, ‘There will be an increase of 30 per cent in production, and so there is going to be an increase of 30 per cent in exports.’ On the contrary, the bulk of this 30 per cent is already being consumed.

CHAIR—But CAP gives them the incentive to continue in business when the market might otherwise have forced their closure. There are also reports that some of the acceding countries have been planting vineyards to beat the accession date, so that they can then receive subsidies.

Ambassador Mazzocchi—Yes, you are perfectly right. As I say, there is the process of transition, whereby they will not accede immediately to the same treatment—it will happen over a very long period. Starting with 20 per cent—or 25 per cent—they will probably go up to 100 per cent and be at full speed in 2013. However, as I said before, a process of rationalisation is expected to take place. In other words, there are initial incentives for them to integrate the main objectives I mentioned before—rural development, food safety, product quality, animal safety and care of environment—and these all require a very substantive change in the traditional methods of production. If you are asking whether it is going to be more difficult for Australia to sell in these countries, my answer is that I do not think it will be. I do not see why it should be more difficult in any way.

CHAIR—If you bring in the strict GI indicators that you are talking about in the current Doha round—which are already fairly strict—then just on our wine alone that becomes a problem.

Ambassador Mazzocchi—Yes. Let me move then to the second point—but in all fairness, since what I am saying will be on the record, I do not want to mislead or show ignorance. It is true that the common treatment will prevail and these newcomers will be absorbing the same rules as the rest of the 15. In that sense, there may be a change, and this will be the subject of the actual negotiations which will take place in Geneva following the enlargement. From the procedural point of view, I am just repeating what I said before.

CHAIR—Sure.

Ambassador Mazzocchi—Concerning wine, you choose my preferred product. This is exactly the product that I always quote to Australians, when they say something about the common agricultural policy. Wine is Australia's success story. Australia has become the largest exporter of wine to the European Union. This has happened over a relatively short period—less than 10 years. Australia has outpaced all the other big producers of wine, such as Argentina, South Africa and Chile. It is a success story.

CHAIR—It is the quality.

Ambassador Mazzocchi—Yes, you can say that it is the quality. Now the question of the geographical denominations or indicators is a process which is controversial. For instance, there are questions, about tokay. Hungarians say that tokay is a traditional product of Hungary. Even Italy, France and Germany which have all been producing tokay, have to give up the use of this term. But you see Australia is a relatively junior producer of wine. You would not like to see producers in other parts of Australia using the term 'Coonawarra'—

CHAIR—Surely this is an argument that could be made—

Ambassador Mazzocchi—You would not want Europeans to be putting wine on the market which they said was Coonawarra.

CHAIR—It is a little different.

Senator O'BRIEN—Tokay is a grape variety and Coonawarra is a region.

Ambassador Mazzocchi—Yes, tokay is also considered a region.

CHAIR—Part of the problem, as wine producers I am sure would say, is that Australia, having been settled by Europeans who then used the names with which they were so familiar at home, now faces a penalty for applying the nomenclature which those people were so familiar with in their countries of birth. However, I am sure you have been over this before, so let us move on. We heard evidence from DFAT this morning that Poland is now focusing on maximising the payments they get under the CAP. Could that be an issue that might distort the future of the CAP—and the payments made? What is the overall impact of that going to be?

Ambassador Mazzocchi—Poland is one of the acceding countries. Poland was the most active negotiator when it came to accession terms and the treatment of the agricultural part of the negotiation of the enlargement. It is, in addition, the largest agricultural country of the acceding group, measured both by population size and by area.

In practical terms, Poland has 40 million people. The initial injection of funds that has been obtained for the beginning of the process is aimed essentially once again to reorient the agricultural set-up of these countries and, in particular, Poland, towards the objectives that I mentioned before. Those are not production objectives but objectives aimed at rural development, environment—these countries have huge problems with environment—animal welfare, and quality and safety of the products. So I think that for the time being they are concerns that should not be of major concern for Australia, in spite of the fact that for Australia agriculture remains a rallying cry when one comes to debate with the European Union. In our

relations, agriculture is smaller and smaller. Now we are talking of a very small part of the overall picture in agriculture.

Mr Camilleri—I want to add a couple of points to what the ambassador was saying. You have to remember that the EU is essentially not an agricultural exporter in the way that Australia and the United States are. Its exports generally come on the margin of domestic production. It is usually quite a small percentage of its product that is exported. The main agricultural product is consumed within the EU. That is the same for the accession countries at the moment. There are no notable exporting nations among them. Given the reforms and given the greater efficiency that the present 15 member states of the EU are putting into the east European countries, you would expect some efficiencies in agriculture to come through, and perhaps production will marginally increase within the central and eastern European countries.

Essentially, in terms of what you were asking before about Poland trying to maximise its payments, the point is that the EU has put a ceiling on its CAP spending. Within that ceiling it has allocated or negotiated with each country a specific package for each nation depending on its particular circumstances. Obviously each nation will try to maximise its benefits under the EU scheme but, in overall terms, the CAP ceiling is in place until 2013. In terms of the overall community budget it is a declining budget.

CHAIR—It is a declining budget after a fairly significant lift. Up to 2007 it keeps going up exponentially. Is it from 2013 that it is capped?

Mr Camilleri—As a percentage of the community budget, though, it is declining, and traditionally it has been for over 25 years. The CAP used to take over 70 per cent of the community budget.

CHAIR—How much will that increase from 2004 at the accession to 2007?

Mr Strickland—It is certainly not exponential. It rises from euros43 billion in 2003 to euros46 billion in 2006, and after 2006 it is frozen.

CHAIR—And then it goes up by minus one per cent?

Mr Strickland—By one per cent each year.

CHAIR—One per cent or minus one per cent?

Mr Strickland—One per cent. It is allowed to rise by one per cent each year.

Ambassador Mazzocchi—Which does not cover expected inflation.

Mr Strickland—Precisely.

CHAIR—Is it inflation minus one per cent or a one per cent increase?

Ambassador Mazzocchi—It is a flat one per cent increase. In other words, whatever the inflation or the deflation is, it will be one per cent nominal.

CHAIR—Could I have that figure for 2002? Was it euros43 billion?

Mr Strickland—The figure I have for 2003 is euros43 billion, rising to euros46 billion in 2006. The figure for 2000 was euros38 billion or euros39 billion—something like that. If you look over the longer period, certainly from 1999 or 2000 until 2006, the rise has been anything but exponential. In fact, it has been a relatively slow increase, certainly if you compare it with previous decades. As the ambassador has said many times this afternoon, this expenditure is capped from 2006, rising by only one per cent in the years following, up to 2013.

CHAIR—What was it, for example, in 1990 for the decade before?

Mr Strickland—I am afraid I am unable to tell you, but we can get back to you if you need the figure.

Ambassador Mazzocchi—As a complement to that information, I mentioned the payments which were to be obtained by Poland, for instance, at the beginning of the accession period, and the following sorts of activities are expected to be covered by the payments: rural development measures EU financed; early retirement of farmers; support for less favoured areas or areas with environmental restrictions; afforestation of agricultural land; specific measures for semisubsistent farms; setting up of a producers group; and technical assistance and special aid to meet EU standards. You see, they are not related to production; they are simply catching up, and making the activities of these farmers more—

CHAIR—Efficient.

Ambassador Mazzocchi—efficient. Early retirement of farmers is leading to greater efficiency, and support for less favoured areas or areas with environmental restrictions is more efficient at the end of the day; the farm is less precarious. But it is the sort of movement that we want to encourage. It is not production.

CHAIR—I am not saying that this is a wrong thing. Obviously we are looking at it from Australia's viewpoint, what it is likely to be and what opportunities we will have, and the DFAT recommendations remain optimistic. Obviously there are going to be concerns and these will be argued out in the appropriate forums, but we are just getting your perspective on it. I know, Your Excellency, that you need to be diplomatic in terms of the various countries but, if you could project forward 10 years, which of the eastern European countries that are going to be acceding would you expect to be the leading economic performers?

Ambassador Mazzocchi—That is a very difficult question. I would rather look backwards. Czechoslovakia used to be one of the most advanced countries before the end of the war. Some of these countries have had a huge growth in industrial activity, which is probably going to be revitalised. But making a guess right now as to who will be the winner is like picking stocks on the stock exchange. The internal dynamics of each country will have its own specificities, which are quite different from—

CHAIR—If we talk about the present, the three strong countries would be Poland, Czechoslovakia and Hungary. Is that right?

Ambassador Mazzocchi—Right—the Czech Republic in particular and certainly Hungary. Poland has the agricultural element, which is still quite important, while countries like Hungary really do not have any significant element of agriculture. It is relatively minor in the overall activity of the Czech Republic.

CHAIR—I have a question about transport. We have been trying to organise our way around by air and we have found that flights were recommended that would take us back to Frankfurt and then to another place in eastern Europe. Do you expect there to be quite a bit of reform in the area of transport as well? I am referring to road, air and rail links.

Ambassador Mazzocchi—This is certainly an area in which these countries stand to benefit a lot. Countries like Portugal and Spain have benefited in a remarkable manner from the resources for infrastructure.

CHAIR—That was also the experience of Ireland. There was road construction with the EU sign going on everywhere when I was there.

Ambassador Mazzocchi—Absolutely. Spain was a very peripheral country compared with the rest of Europe, but now the motorways and railways have been developed in an amazing manner. The same applies to Portugal. The underlying idea is that integration into the whole system of Europe requires well-developed infrastructure. The contribution of the European Union in that area is likely to be seen by the population.

CHAIR—I understand. As we look at where we should be putting our resources, we are obviously making an assessment—as one would with the stock market. The bottom line is that this must be a good thing for Europe, both on a political basis and for the economy. A strong economy means a strong trading partner with Australia. One question I had written down here relates to the general area of land reform. Do you expect that to be an extensive process taking a number of years?

Ambassador Mazzocchi—The problem of land reform is not specific to the acceding countries. For instance, that problem still exists in Italy and Ireland, where the succession system has been going on for centuries and has produced a scattered distribution of property. With the earlier retirement of farmers over time, there is certainly going to be some sort of concentration, but it is a long-term process. This issue is totally different from the acquisition of property, which has been settled in ad hoc transition clauses in certain countries because they have had traditions of not allowing foreigners to own land in the country.

CHAIR—Thank you very much for giving evidence today. We found it useful, and we will undoubtedly be having further discussions as time goes by. I hope all goes well with your enlarged area of responsibility.

Ambassador Mazzocchi—Chairman, on behalf of my colleagues, I thank you very much for the opportunity to come and see you today.

CHAIR—I have one final word for Mr Strickland: sorry about the soccer!

Mr Strickland—I think it was good for football.

[2.35 p.m.]

BURNS, Mr Craig, General Manager, Trade Policy, Market Access and Biosecurity, Department of Agriculture, Fisheries and Forestry

MADDEN, Mr John, Manager, Europe Section, Trade Policy, Market Access and Biosecurity, Department of Agriculture, Fisheries and Forestry

QUIRKE, Ms Sharna, Executive Officer, Europe Section, Trade Policy, Market Access and Biosecurity, Department of Agriculture, Fisheries and Forestry

JOTZO, Mr Frank, Research Economist, Australian Bureau of Agricultural and Resource Economics

CHAIR—On behalf of the Trade Subcommittee, I welcome representatives from AFFA and ABARE. The subcommittee prefers you to give all evidence in public, as you know, but if you wish to go in camera—which I cannot imagine being the case—please let us know. Please bear in mind that these proceedings are regarded as proceedings of the parliament. Would you like to make a brief opening statement?

Mr Burns—Thank you for the invitation to participate today. The Department of Agriculture, Fisheries and Forestry has reasonably limited engagement with the countries that are the subject of your inquiry. Our engagement is mainly in the area of technical market access and market maintenance activities where appropriate—for example, through AQIS. Our submission to the committee has drawn on the department's experience with the countries of central and eastern Europe. With regard to agriculture, our level of trade with central Europe is reasonably small. Our exports are mainly limited to the lower value products and to date have been erratic and inconsistent.

CHAIR—What are they in particular? You might outline them.

Mr Burns—They vary from year to year, but traditionally the main ones have been various cuts in the red meat sector and, separate to that, sheepmeat. Offal is a significant export from time to time and probably the most consistent. Wool is significant, although it is less than three per cent of our total exports. Dairy is limited to only about \$100,000 worth, and that is mainly cheese to Hungary. Wine is currently about 0.7 million litres, but that is low when you think that we are exporting 434 million litres in total. For individual producers, I would imagine wine is a significant market, but in comparison to our overall exports it is not very significant.

CHAIR—What about wine?

Senator O'BRIEN—That is what he just said.

CHAIR—Sorry, I thought you said milk.

Mr Burns—No, wine.

CHAIR—So it is 700,000 litres of wine?

Mr Burns—Yes.

CHAIR—And what is our total?

Mr Burns—I do not have a figure in dollar terms, but it is probably listed in our submission. We can get that to you.

CHAIR—Just as a comparison, what percentage is it overall of our wine exports?

Mr Burns—It is less than one per cent.

CHAIR—Okay.

Mr Burns—In dollar terms, our total wine exports are 434 million litres, which is \$2.07 billion. As we are only exporting 700,000 litres to the region, it is low.

Senator O'BRIEN—It is about two per cent.

Mr Burns—Yes. Offal is 1.7 per cent of our exports and generally regarded as one of the things that has been the most consistent. If that is high in comparison to other exports we have there, that demonstrates that overall our levels of agricultural exports to the region are low.

CHAIR—And they fell dramatically after the centrally planned economies moved on to market economies?

Mr Burns—I think it has fluctuated. There have been years when it has been significant and years where we have exported very little. I am guessing here, but I imagine that it is a function of what the returns are in other markets at the time. It is not a priority market for industry.

CHAIR—What is your projection in terms of where it is likely to go?

Mr Burns—It is difficult to say. When the EU expands and these countries become members, we expect that there will be economic growth for the countries. Under normal circumstances, you would expect that to increase demand for products generally. Rising incomes have traditionally meant increases in demand in, for example, the red meat and dairy sectors. Whether that creates opportunities for Australia to capitalise on this is another matter. Essentially, it comes down to a decision for industry as to whether they think that the returns there warrant the effort in comparison to what the returns might be in other markets.

CHAIR—What about the question of the Doha Round in terms of geographic indicators? Do you see that having much of an impact overall for us in areas such as wine and cheese or would it be minuscule?

Mr Burns—That is a good question. It is an issue that we are watching very closely in the Doha negotiations. Of course, products like Bulgarian yoghurt are often cited as examples in the geographical indications debate. There would be certain wine varieties originating in Hungary

for which they would be looking for protection. But wine is a separate issue when you are talking about geographical indications, because there is already coverage there. Certainly, when it comes to meat and dairy products, we have traditionally argued against the extension of geographical indications to those products and we will continue to do so.

Mr JULL—How good is the Australian industry at playing these markets? Is our low penetration just a fact of life or is it a fact that we have never really gone and sought them anyway and we could probably do a bit better if we tried a bit harder? If we are going to try a bit harder, how do we do it?

Mr Burns—I would not like to make that judgment on behalf of industry. It is their call—I would think that, if they thought the access was there and it warranted the effort, they would be doing it. Whether that would get easier or harder once these countries join the European Union is a decision that they will have to make.

Mr JULL—What has happened with the wool study? The wool innovation people were having a look at what they might do to go back in.

Mr Burns—As I understand it, there has not been an outcome to that study yet, so we are waiting to see.

Mr JULL—So it is still going, but it is ongoing?

Mr Burns—As far as I know, yes.

Senator O'BRIEN—I am interested in your response to questions about what we have done to promote the market for the red meat sector. Can you tell us what resources MLA have applied to this market?

Mr Burns—I could not answer that, I am sorry.

Senator O'BRIEN—Can you get that information?

Mr Burns—Yes.

Senator O'BRIEN—For those countries who could possibly be members of the European Union next year, we are talking about a population of 60 million and of 90 million in 2007. What strategy has AFFA considered to maximise our penetration of those markets, given our poor performance to date?

Mr Burns—Really, that is a call for DFAT who, in conjunction with Austrade, are the lead agencies, obviously, for promoting trade. We lend support to that strategy particularly through AQIS and through negotiating, where appropriate, memoranda of understanding or arrangements for facilitating trade.

Senator O'BRIEN—Is that because somebody has gone and established potential markets and you are responding to that?

Mr Burns—We would be responding to requests from industry, for example, who might be citing examples of difficulties through technical barriers and so on. Where appropriate, we would be going in to try to negotiate with the relevant authorities for a memorandum of understanding or whatever is required to access those markets.

Senator O'BRIEN—In terms of the impact of accession by the states seeking membership of the European Union, we were told this morning that, under article XXIV:7 of the GATT, we are able to negotiate compensation for any impact on our trade caused by the accession. What involvement, if any, does AFFA have in that process? What work, if any, has been done to date?

Mr Burns—That is true, and indeed that was the case when Finland, Austria and Sweden joined. We had those negotiations to look at areas where we would possibly lose and maybe gain compensation, so that is a process we have to go through. I understand that we have been building up to this situation over quite a period of time and, with DFAT, we have been gathering data on what the existing exports are and putting together a strategy. I have not seen a product of that work to date, but that does not necessarily mean that DFAT has not been further advanced than I am aware. That is, obviously, an issue that DFAT takes the lead on. Our role is very much one of providing data and liaising with industry, where appropriate, to provide that data.

Senator O'BRIEN—AFFA have a quota management unit, so presumably you would be focusing on the EU high quality beef quota and the potential to expand that quota in proportion to the size of the market we are being excluded from. Is that how it would work?

Mr Burns—The way it normally works is that we liaise with industry, and find out what has been going in so far and what industry thinks the potential would be. We feed that information in and develop a list of priorities, and then we sit down with the EU and negotiate all of that. It is done on a bilateral basis, but of course it has to be consistent with the GATT. It is very much an exchange and offer process. We will have priorities and, at the end of the day, whether those priorities all get up or whether we have a fallback position is something we would have to address at the time.

Senator O'BRIEN—I am thinking of the beef sector because there has been a lot of debate about the beef sector over the last 12 months. Because of mad cow problems in Japan our producers have needed to seek new markets. Korea is one market that the MLA has done a lot of work in. Given the potential for accession and the issue of access for the future, I am just wondering if there has been any prioritisation with the eastern European market to ensure that that is in the mix for the purposes of the compensation negotiations.

Mr Burns—I have not seen anything from industry on that so far. We would expect that the MLA would be the first port of call for us to put together that sort of priority listing.

Senator O'BRIEN—But should they initiate that or should someone be saying to them, 'These are the issues that are going to arise. How are we responding to them?' Who is managing that process?

Mr Burns—It is a joint process. Both ourselves and DFAT have ongoing consultations with the MLA, the Cattle Council and others on where their priorities are on a range of trade issues. There have been many other issues that we have been dealing with the MLA and others on in

recent times, and we have not got around to this one as a priority. We have been focusing on other issues.

Senator O'BRIEN—In terms of the potential for wool trade, which countries are the major consumers of our wool in the eastern European community?

Mr Burns—Not surprisingly, it is those countries that have been the most successful in their economic growth. The Czech Republic is the highest. The value of exports there in 2001-02 was \$70.3 million. In Hungary it was \$10 million; then it drops back to the Slovak Republic, \$5.3 million; Latvia, \$5.2 million; and then they trail off. So the total for central Europe was \$98 million worth in 2001-02. Again, we would expect that, as economic growth takes place, demand for wool would increase—but, again, it is an issue of where that is sourced.

Senator O'BRIEN—It is the case for most of the higher value agricultural products that we produce that, as the impact of membership of the European Union takes effect and there is greater affluence, we would have greater potential, but if we are restricted now, that restriction continues potentially. That is why I am interested in any proactive consideration of the issue within AFFA. Are you saying that not a lot of work has been done on that?

Mr Burns—It is still, in a sense, early days. We do not have a timetable for engagement with the EU on the compensation negotiations, so we have not done the work on that. That is not to say that background work is not already available. But, to my knowledge, we have not sat down and talked to DFAT about the strategy for that as yet.

CHAIR—Mr Burns, without wishing to be unduly provocative, your title is 'General Manager, Trade Policy, Market Access and Biosecurity'. Mr Madden and Ms Quirke's titles also include the words 'trade policy and market access'. I have not heard too much in terms of what your plans are to try and provide a bit of access for Australian agricultural products. Following on from the questions put to you by the good senator, I have not heard anything in terms of a strategy. You seem to be so removed from it all, yet your titles say 'market access'. It is all right to wipe your hands and say, 'If the private sector want to put money into it, fine.' But what are you doing about it? Where is your priority input to us in terms of saying, 'These are the products which we think we have the potential to sell to eastern Europe in the next 10 years?'

This committee is about looking at trade opportunities. All you have provided is a rather sad list of where we have failed to get anything. There might be reasons why. If we are all not wasting our time, we can go back to our electorate offices and do it. Is there any real potential? And what are your people doing? This is what your titles say you are supposed to be doing. Unless I am wrong, 'market access' says what it is. This is about eastern Europe. We have not been doing terribly well there. What is your organisation doing to outline opportunities and prioritise? What barriers have we got to remove? Do we need trade missions? I understand that you do not have the primary responsibility, in terms of Austrade and DFAT, but it says here that this is part of your title. So I am a little confused as to why nothing has been said. We could go down to ABS and get the statistics. I wonder whether you would like to comment on that.

Mr Burns—It is a good question, but our priority in this process is the multilateral agenda and the Doha negotiations. These countries have traditionally had very high tariffs. Our priority at the moment is to try to negotiate tariff reductions through the Doha process. If you look at the fact that these countries will be members of the EU in 2004, the current proposals before the

European Union in terms of the mid-term review of the common agricultural policy exclude details on market access. Therefore, our priority is to try to negotiate tariff reductions in the Doha process. At the moment, we are looking at formula cuts et cetera on how countries would have to reduce their market access. When we get to a point where we have sufficiently advanced those negotiations, we will then be breaking that down and looking at individual countries. But in terms of a short-term strategy, our priority is definitely looking at what we can do in the Doha negotiations to reduce those tariffs generally.

CHAIR—For the EU?

Mr Burns—More broadly, for everybody.

CHAIR—I understand.

Mr Burns—But certainly with the EU that is a priority. Given that these countries will be part of the EU, that has to be the approach that we take. We would not be going in for individual tariff negotiations with the Czech Republic, for example, right now.

Senator O'BRIEN—That would be a waste of time, obviously. I share your view that Doha is the main game so far as trade negotiations are concerned. My questions were directed towards the position that we take into the EU given that the Doha Round is probably unlikely to shift issues, such as our high quality beef quota, significantly. So, going into the post-accession negotiations about compensation, if we have not maximised market penetration before accession then the Europeans no doubt will say to us, 'You were not there. Why should we increase from 7,000 to 9,000 or 11,000 tonnes, or whatever the claim is, because you are not in the market? You are just sending offal and kangaroo meat and that is not contemplated within that quota.' That is the point of my questions. Are you saying that AFFA does not drive that at all and that it is entirely the responsibility of MLA, or does AFFA have some responsibility in that regard?

Mr Burns—We have a responsibility to liaise with other people who have got an interest in that, including MLA, the Cattle Council and the Sheepmeat Council and whoever else that might be, and to feed that into the process. AFFA is not in the business of negotiating on trade policy issues but we are in the business of negotiating on technical market access issues, particularly through Biosecurity Australia and AQIS. We do that and, for example, our veterinary councillor in Brussels, as appropriate, will travel to these countries and negotiate when there are difficulties and when there are priorities.

CHAIR—Coming back to the original point, I understand your priorities in terms of Doha, but who is calling the shots? Your primary responsibility to the Commonwealth is in terms of agricultural products. Where do you see it going—although you are negotiating—in terms of where the priority should be put? As you project forward, where do you see the opportunities for us and what we should be doing beyond the Doha Round? I understand, though, that the Doha Round is the primary responsibility of the department of trade, not you. Where should we be putting our priority in terms of a market such as eastern Europe where we have done so poorly in the past?

Mr Burns—Are you asking where we see central and eastern Europe stacking up in comparison globally?

CHAIR—Yes. Where do you see the opportunities in terms of the primary product and where do you see it going? If you are sitting there and have been involved in the negotiations then you must have some views. Given all that, what do you see happening in terms of central Europe and what do you see as being the areas that the emphasis should be on in terms of marketing?

Mr Burns—In terms of the individual countries, one of the issues we have been very keen to identify is the potential for them to undertake internal reform in their own systems. We have been advocates of domestic reform in their agricultural subsidies and land reform et cetera. We have been working through, for example, the OECD non-member economies work to look at how that can take place and we have been encouraging it. In conjunction with what we have been doing through the multilateral process, our strategy has been really to work with other like-minded countries to try and encourage reform in these markets in the hope that, as those markets reform and their economies and demand expands, the opportunities will emerge and our industries can take up those opportunities.

Senator O'BRIEN—One of the reasons I asked the question is that we have before us an extract—and I now have the original—of a publication produced by the Trade Development Division of the Department of Foreign Affairs and Trade with input from Austrade. A number of Commonwealth agencies provided assistance, particularly AFFA, the Department of Industry, Tourism and Resources and the Department of Transport and Regional Services. Page 115 of the document, entitled *Australia's trade outcomes and objectives statement 2002*, says:

As several Central European countries prepare for EU accession, Australian exporters must get their foot in the door to avoid being cut off from sales through the EU meat quota system.

Are you saying that AFFA has done no special work in that regard?

Mr Burns—It depends what you mean by 'special work'. We are consulted in the preparation of those sorts of documents and those strategies. We liaise with industry on what they have been doing and what they intend doing and we feed that information into DFAT. We have not, in honesty, been going around trying to disagree with industry about their approach to those markets and trying to change their view. But their view is reflected in that document.

Senator O'BRIEN—Changing their view would seem to be the focus of this document—telling Australian exporters to get their foot in the door to avoid being cut off from sales through the EU meat quota system.

Mr Burns—There is a group called the red meat access group which meets regularly. Representatives of industry, DFAT and AFFA attend and we talk through those issues. Through that process, these markets have emerged as not a high priority for industry.

Senator O'BRIEN—I understand they are not a high priority in the sense that there are much bigger markets. Obviously the highest priority markets are Japan and the United States. But we have seen recently some pressure on both of those markets—Japan because of the mad cow scare and the United States because of market shifting from Japan to the United States. We are also going to see pressure from South American countries on the US market and possibly from Canada as well. The reason I am asking the question is the reason that I started with—that is, we are going to be negotiating next year some time, I expect, about how we should be compensated for restrictions on our market access. Are you telling this committee that AFFA has not pursued

this issue in the context of the potential for future negotiations and the potential impact on Australia's EU high-quality beef access?

Mr Burns—No, I would not say that we have not pursued it. What we have done is reflected the priority that has been fed back to us in terms of that. With the exports that we currently have to those countries, we would expect that, in the negotiations with the EU, that access would be, at the very least, maintained. If it were not maintained, we would be looking for compensation elsewhere. As you know, we have a very small meat access quota to the EU, and that will be a high priority—there is no doubt about that—in order to gain an expansion in that quota. My answer is really that it is that EU quota and getting an expansion in that EU quota that will be the priority. Whether that product ends up in Poland or Belgium—

Senator O'Brien—That is the point, isn't it? The point is that, if you can expand the quota, it does not matter which country you send the exports to in the future. So it is actually a potential to expand the quota irrespective of what you can achieve elsewhere?

Mr Burns—Yes. There is no doubt that expanding the size of that quota in the EU is a high priority for AFFA.

Senator O'Brien—That is why I am wondering why no-one appears to be pressing the potential to encourage exporters to move into the market—not because they are going to expand the quota now, but because the quota may be able to be expanded later because of that penetration.

Mr Burns—That is a very relevant point.

Senator O'Brien—I do not know whether you can ask the MLA to tell us what they have done or whether we should bring the MLA before us to ask them.

Mr Burns—We can contact the MLA and give you information on that. It is true that, whilst the exports of red meat have fluctuated for individual markets, in total for those countries red meat exports have increased since 2000. When we negotiate with the EU, we would be looking at a representative period—

Senator O'Brien—Are you counting kangaroo as red meat?

Mr Burns—Bovine only, I am told. No doubt there will be some disagreement between the EU and us about what that representative period is—

Senator O'Brien—We can bet on that.

Mr Burns—and the extent to which those increases in the exports will be taken on board. But, yes, it is definitely a strategy to increase the size of that quota and we will be drawing on that sort of information.

Senator O'Brien—I am just concerned about whether we are missing an opportunity and whether the industry is awake to the opportunity. With due deference to AFFA, the industry tends to be focused on where the best price is without necessarily being strategic about where

the best future opportunity is. A lot of businesses tend to have a short-term focused open process when the market opportunities are down closed. Our meat processing sector has been a bit like that, with a few exceptions. I guess what you are suggesting is that you agree with that interpretation of how our market functions. If that is the case, don't you think we need to drive it a bit harder?

CHAIR—Exactly. Market access, trade policy—I have not heard any of that come out of you guys. You need to see it from our perspective: it just seems like a whole bureaucratic attitude of saying, 'Don't involve us.' If we are looking at this market, you are not putting up anything for us to work with.

Mr Burns—I will take that point. With respect, the feedback we get from industry is that they do not see it as a priority in comparison with other markets.

CHAIR—That is not surprising, when we have heard what your response is. You are also meant to be encouraging them and saying, 'Look at this.' Here is a whole group of countries that are going into the EU and it is as if it does not matter. Ms Quirke, your job is trade policy and market access. What are you doing in this regard to encourage exporters to get into this market?

Ms Quirke—I work under the direction of my manager, Craig Burns.

CHAIR—I am asking you to speak. You are here as a spokesperson, so please answer in your own right.

Ms Quirke—I think it is difficult to ask a farmer, a producer, to send his meat to a region where he is not going to get value for money compared with another region. I guess that is picking up on your short-term focus, but that is why; farmers want to get the most that they can get at that time, and that means they are going to send it to Asia or another location and not to the EC.

Senator O'BRIEN—It will not be the farmers who send it, it will be the meat processors. The meat processors could well have been encouraged by a suggestion that, if ultimately quota increases, their role in increasing the quota would be represented in a share of the quota.

Mr Burns—Senator, as you know, we liaise closely through the overseas posts and we have feedback from them in terms of opportunities. There are Austrade offices in many of these countries, and they are constantly trying to identify opportunities and give us feedback. I guess I would come back to the point that we are doing a lot of work in terms of trade strategy and identifying opportunities, but the consistent feedback has been that, whilst there are some opportunities in these countries, they are limited. I take the point that there is a valid strategy in increasing the size of the exports so that we have a negotiating coin, if you like, when we talk to the EU. That is a highly relevant point.

Senator O'BRIEN—In terms of our dairy exports, I note that we are not doing very much in that regard. What are the impediments, post-accession, for the expansion of our dairy exports into the region, given the probability of greater affluence and possible ability to purchase more of our higher-value commodities?

Mr Burns—It is very much the same scenario as what we were talking about for red meat. We will be negotiating with the EU in terms of their access quotas. If anything, on dairy it is even more difficult because of the proximity of such large production—overproduction, if you like—in the European Union, and the extent to which they will be able to sell product in there at much lower cost than we would.

Senator O'BRIEN—There are different sectors of the dairy market. Let us assume we are not going to be selling them powdered milk, mozzarella or any of the lower-value production issues but some of the higher-value soft cheeses and the like with which we tend to penetrate markets on the basis of quality, not just price. Are we going to have to fit those into a quota structure for the future?

Mr Burns—Yes. It is exactly the same process. We say, 'This is what we want,' based on performance and expectations in the market.

Senator O'BRIEN—So we do not have much hope of building our quota out of this compensation negotiation either.

Mr Burns—Again, it gets back to what we can negotiate with the EU in the Doha process.

Senator O'BRIEN—It is a different thing. I am talking about one set of negotiations which are specific irrespective of Doha.

Mr Burns—But our hope would be that in the Doha process we can negotiate a general expansion, if you like, in opportunities. Then in the accession negotiations we would be looking for access within whatever, be it a quota or whatever, to increase our exports for those niche cheeses, for example.

CHAIR—Thanks, Mr Burns. I do not know how we finish up on that. I understand what you are saying about the priority of the department being in those areas where you have experienced success before. It is obviously going to be market driven as to where people see the opportunities. But from our perspective it would be good to have a market review in terms of the significant change that is occurring with the accession of those countries which have had traditionally high tariffs going into the EU. You are negotiating in terms of the Doha round reductions et cetera. That is going to be interesting in itself. It would be good to hear from AFFA, even though you are not predominantly responsible, about the products that you think have got the most potential in those markets and the reasons for it. If you basically think we have got no hope then we are all wasting our time. Maybe you can say that if you think it.

But I would like to see a short paper, from all those people involved in market access and trade policy, just looking at the next 10 years following the accession of these countries into the EU. What does that mean in terms of our primary export commodities and where do we see it going? What changes would need to occur for us to capitalise on that so that we have got something to go on in terms of our market report? If there is little potential even given the changes that are likely to occur, we should reflect that in our report and perhaps our report should say, 'You are much better off putting your resources elsewhere.' This is a trade inquiry. You are the people whose policy says market access, and I would like to see a little bit of reflection of that in terms of what we get. Thank you for coming here today.

Mr Burns—I would just add that ABARE is undertaking a study at the moment, and I could hand over to my colleague for some details. ABARE has been looking at projections and potential, but that study is not finished yet.

CHAIR—That would be good. We are simple parliamentarians—well, I am—who, as we do our report, need to be guided in this area. As agriculture is one of the key planks of our exports, we need some advice in terms of your assessment. We look forward to the paper from you. Perhaps we could have another session when you return. Thank you.

[3.21 p.m.]

GALLAGHER, Mr Michael, Acting Deputy Secretary, Department of Education, Science and Training

STEVENS, Mr Robert Andrew, Acting Branch Manager, International Cooperation, Department of Education, Science and Training

CHAIR—On behalf of the Trade Subcommittee, I welcome the representatives from the Department of Education, Science and Training. The subcommittee prefers that all evidence be given in public. But should you at any stage wish to give any evidence in private, you may ask to do so and the subcommittee will give consideration to your request. Although the subcommittee does not require you to give evidence under oath, I am sure that you are aware that these are legal proceedings of the parliament. The topic we are discussing is trade with eastern Europe. The subcommittee has a submission from DEST—No. 7. I invite you to make a short opening statement before we proceed to questions.

Mr Gallagher—Thank you for the opportunity to consider the matters with you. We have a strong interest in a sustainable education export industry for Australia. We have seen considerable growth in that area in the last several years. At present, we are fairly reliant on Asian markets for the majority of overseas students—of the order of 80 per cent is sourced from Asia. So it is in our interest to diversify the countries from which we source students and the fields and levels of study and to provide opportunities for Australian providers to deliver services in other countries or through online services.

Our interest in eastern Europe is in the context of seeking to diversify Australia's international educational engagement. We also have an interest in our scientific relations with Europe. Having said that, while there is potential in eastern European countries that are of concern to the committee, that potential is not yet realised to a level that warrants the sort of investment that we are making in other European, North American and Asian countries.

The scientific capability of the eastern European countries at the moment is not to a standard that attracts our top researchers to collaborate. The number of students from these countries who are seeking to study in Australia remains small. We have arrangements with Austrade to market Australian education services into Europe, including targeting Hungary, Poland, Czechoslovakia, the Czech lands and the Slovak Republic. We have a modest number of scholarships but as yet the total number of students—and we have given that to you in an attachment—is still modest. In summary, we see potential and we have an interest, but at this stage it is a slow developing market for us.

CHAIR—I think we have had it before, but could you just outline the numbers we have had at the universities here?

Mr Gallagher—In terms of student numbers?

CHAIR—Yes. The Czech and Slovak republics were No. 1, were they?

Mr Gallagher—Yes. We estimate that in 2000 the Czech and Slovak republics had about 2,194 students, which is by far and away the largest single source country. Our estimates for the year 2004 are that that will double to about 4,200. The next largest is Poland which, in the year 2000, had 560 students and by 2004 we expect that will quadruple to about 2,100. Hungary in 2000 had 259 students and we expect that will reach about 600 by 2004.

Mr JULL—Why is there so much success with the Czech and Slovak republics?

CHAIR—Good agents, probably.

Mr Gallagher—Partly good agents but there is also a very strong education tradition in those countries. Aspiration for educational attainment is one of the drivers—I think that explains a bit of it—but also more aggressive marketing and better linkages within the country.

CHAIR—What areas are these students in predominantly? Was it DFAT which said that they were predominantly IT and English? Is that English as a second language?

Mr Gallagher—Yes, it is English, business and IT, and particularly vocational education. English language—what we call the ELICOS sector—is fairly attractive. Australia is seen as providing an English language environment for these other studies. I do not have a breakdown, but we could get you that if you are interested. We could give you a breakdown by subject.

CHAIR—When you say ‘vocational’, what do you mean—technology courses?

Mr Gallagher—Non-degree certificates and diplomas in hospitality, tourism, business and technology.

Mr JULL—There certainly seems to be a lot of interest from the Czech Republic in what we are doing in Australia with our hospitality courses. There are quite a few Australian chefs and hotel managers working in Prague.

Mr Gallagher—I am not across the detail of that.

Mr JULL—I was there a couple of years ago. The Radisson Hotel seemed to be run by the Australian Mafia. They held management and executive positions in the place. They talked about our hospitality courses.

CHAIR—These are the forecasts which are pretty robust. Are you involved in participating in fares in these countries? Do they have such things as looking at the opportunities offshore and so on? Do they have special fares or are they just the result of individual agents operating?

Mr Gallagher—We have an organisation within our department called Australian Education International, which is the government’s arm for facilitating educational exports. We have counsellors in a number of countries. Where we do not have counsellors, we engage Austrade on our behalf. We have contracted Austrade in Europe to market Australian education. They have quite a sophisticated program, including agent network liaison, seminars for prospective students, seminars for agents, market intelligence to Australian providers, the development of

alumni networks, the listing of student fares and assistance in trade missions. That is an example of the range of things that they are involved in.

CHAIR—The cost of sending your son and daughter to Australia—the fares, the cost of tuition and accommodation et cetera—must be reasonably large. I presume that in the former Eastern bloc these days there must be people with considerable affluence who are able to afford it.

Mr Gallagher—One of the reasons why the numbers are still modest is that demand follows economic growth and the distribution of that wealth into the middle classes that cannot access the education they want in their home country or in adjacent European countries or North America and seek to come here. Australian education, in terms of total package costs, is very price competitive, as well as having reasonably high quality perceptions. The average cost of an undergraduate course in Australia to an overseas student for tuition would be about \$A10,000, and the average cost of living is about \$A10,000, so you have about a \$A20,000 package per annum, which is euros10,000. If you look at the tuition fees in North America, you are talking that amount for tuition alone.

CHAIR—So it is a cost of advantage. That is an interesting point.

Mr Gallagher—The total package is quite price competitive, and we are perceived to be better than fair average quality.

CHAIR—How does it compare with the cost of someone wanting to do commerce going to the University of Prague?

Mr Gallagher—I think that is free to the student—if you are a Czech student.

Mr JULL—How does the initial cell start? How is this market being developed? Is it done principally through trade fairs? I know you have a pretty extensive web site, but do you trace how people get hooked into Australia?

Mr Gallagher—I think that would vary country by country in terms of which is the most public mechanism. Broadly, there is generic promotion about Australia, some of which is generic education promotion—such as study in Australia, so it is quite a program. Some of it is bolstered by Austrade's own marketing and by ATC's marketing of Australia as a destination, so there is a lifestyle attraction that interacts with the attraction of our education system. And then there is direct marketing into where the potential demand is. So when you take a country and look at different regions within that country where there is a demand for education, the issue you have in countries where, say, higher education is free is that they tend to be elite systems. If you do not manage to get the academic results to get you into a place in an elite system and you want to access higher education and you have the means, then that is the group to be targeted for study abroad. Some market segment analysis has been undertaken and some targeting of those regions where there looks to be a bit of pay-off, some generic promotion into that region, trade fairs and development of agent networks. The alumni connection is important. If there are, for instance, Australian chefs operating in Prague, the ability of getting the Australians together and identifying linkages into that community become an important part of the overall message.

CHAIR—Are there trade fairs in eastern Europe where you could promote Australian education opportunities? I do not think I got an answer to that.

Mr Gallagher—We do participate in trade fairs, yes. Austrade will put on an education fair. IDP Australia, which is the marketing arm for the universities, similarly will be involved in those.

CHAIR—When you look at the widening of the EEC—there are new access countries—do you foresee that this is going to represent greater opportunities for educational exports?

Mr Gallagher—The answer is yes, but slowly and over time. We would hope that a formal agreement with the EU would facilitate that as part of the more flexible mobility arrangements for students within the European Community. There are things that we are doing that will, hopefully, make Australian awards more recognisable within the European Union. There is a Lisbon convention and a Bologna declaration that relates to putting a supplement on the certificate that you get from an educational institution. They call it a ‘diploma supplement’, but it can be for a degree, certificate or diploma—whatever is the qualification is. Australia is a signatory to that convention. We are piloting the testamur and diploma supplement with a number of universities and the Canberra Institute of Technology at the moment in Australia with a view to better showing the relationship of an Australian qualification to a European qualification. The more we can work that way and develop a better reputation for our capabilities in science, technology and the social sciences, the more that reputation will spread across eastern Europe.

The other things that underpin our ability to sell education and training services are the scientific and managerial capabilities that we have. We are exporting legal services and construction services into these countries and helping their reconstruction effort. In turn, that is creating an impression in those countries that we have mixes of skill sets that are attractive. We think that, over time, that will generate a high level of demand for our vocational system as well as our higher education system. I think we will be a lot slower to take off on the research side; to develop excellence in research really takes a much longer period. Being a small country, we need to be fairly selective in terms of the engagements we have. So I think research collaboration will be more modest and slower.

CHAIR—You have talked about the American comparison. How do our fees compare with fees charged in British, French and German universities, et cetera?

Mr Gallagher—Most European countries do not charge fees. The British do, but that is pretty much the exception; the Netherlands are now starting to; the French, constitutionally, cannot; and the Germans are having a massive debate about it and, even were they to charge fees, they do not have what we have in terms of a HECS type system which can provide an alternative to an up-front barrier to participation. So there is a huge debate within Europe.

CHAIR—Do the Schengen agreements, where people can move around freely in Europe, also apply to attending universities in each other’s countries?

Mr Gallagher—Yes. For instance, a policy statement on higher education has just been issued in the UK. They have decided that they will deregulate their fees up to a cap of £3,000, and they will support that with a loan system a bit like HECS—an income-contingent loan

system. That loan has to be available to any European student on the same basis that it is available to an English student under the European Union arrangements. In terms of the opportunities for European students to access higher education, they can either do that free within another European country or they can do it at a fee within Britain on the same basis as a British student, including accessing the loan. When it comes to comparability with the UK, we are even more price competitive—because of the exchange rate—than with the US. If you were to study in London, the living costs would be even more prohibitive.

CHAIR—So, come May 2004, students from Slovakia can go and study in Germany for a relatively small up-front fee without any problems. Is that right?

Mr Gallagher—That is my understanding, but I am not sure about the up-front fee. I do not think there is an up-front fee.

CHAIR—Will that create major problems with people trying to do their courses in prestige German universities?

Mr Gallagher—The admissions decisions are with the universities. They will take students on academic merit; once they reach their quota, they are full. That is what constitutes the demand for us—the turn-away rate.

CHAIR—Does that mean that the standard of our students is lessened?

Mr Gallagher—We are not taking the elite students, and that is an issue for us. That is another reason that you would not want to rush in to some of these new markets and just take whoever is able to pay. Australia needs to protect its quality reputation and ensure that we are getting students who are fit to complete courses at the standards that we expect.

Mr JULL—Do the states have any involvement in this?

Mr Gallagher—Yes. Some states are more aggressive than others. We are working collaboratively with the states at the moment on their education marketing. To be frank, there is a bit of room for improvement in terms of national coordination. The Queenslanders are quite aggressive, as are the Victorians. They tend to have education marketing units with either the department of state development or the department of education. They will market their schooling system and they will often attract students into the senior years of secondary school with a view then to articulating to a degree program. They market both their government and non-government sectors. The universities tend to market themselves rather than be marketed through the states. The state marketing is pretty much just the schooling and TAFE systems. Those two states, particularly, are quite aggressive. Western Australia has a marketing of Perth as a destination. There is an Education Adelaide, which is probably the least developed of all of them; it has targeted some countries, including Europe.

Mr JULL—I was interested in the table you provided us which showed students by destination of study. New South Wales and Queensland did pretty well and the others came behind. It would appear that South Australia and the ACT did not have too much luck in attracting anybody. Is there any specific reason for that, or does everybody just hate Adelaide and Canberra?

Mr Gallagher—There was a review undertaken of the international marketing in South Australia. There were quite a few criticisms levelled at the lack of proaction by the South Australian institutions in terms of marketing themselves. Much of their action has been focused on Asia and North America, but they have not penetrated the European market. That is why these figures are particularly low. South Australia, in general, has lower figures than the other states. Were you to look at other countries, particularly Asia and North America, you would find that the figures for the ACT would be much higher, but its European numbers are lower.

Senator O'BRIEN—What proportion of the students that we receive from these countries are focusing on the vocational education sector?

Mr Gallagher—I would have to give you some details later. But, reading from a chart that is in front of me, of the 2,200 students from the Czech and Slovak republics in the year 2000, about 650 were VET students.

Senator O'BRIEN—Is that mostly hospitality students?

Mr Gallagher—There would be some business and IT students, but there is a fair chunk of hospitality students in there. In Poland, the number was 600-odd, with 200 coming from the VET sector. In Hungary, the numbers were pretty even, with about 100 from higher ed and 100 from VET.

Senator O'BRIEN—Are those students permitted to engage in work experience training in Australia?

Mr Gallagher—If you come to Australia on a student visa, you are exempted from the work experience component of the competency based training arrangements.

Senator O'BRIEN—You are exempted from the component—

Mr Gallagher—The work experience component.

Senator O'BRIEN—I suppose we should ask DIMIA whether there is a prohibition.

CHAIR—It has been changed in recent days. Unfortunately, the DIMIA rep is not in attendance.

Mr Gallagher—Work experience is different, though. You are allowed to have part-time work, which may or may not be related to the course you are doing, of up to 20 hours a week. But you are talking about the work experience component related to the competencies for which you are being trained. If you are on a student visa, it is possible under the current arrangements to do a hospitality course and the training package and be assessed against the training package entirely in the college, with no experience in a kitchen.

CHAIR—Usually they go out and spend time in various—

Mr Gallagher—They may, of their own arrangements.

CHAIR—But it is all part of the course. I do not think there is any problem with them doing it. The problem is with the year after the one at the college. When the students have finished their course, they often want to stay on for a year. That has been the problem. But now DIMIA has agreed to allow them to stay on for a year.

Mr Gallagher—Regarding the issue Senator O'Brien was asking about, it is possible to get a certificate as a chef without having had any experience in an industrial kitchen, because of the work experience exemption.

CHAIR—The colleges usually have fantastic kitchens in which to do the work experience.

Mr Gallagher—That is the point. But it is college based rather than industry based.

Senator O'BRIEN—That is a shift, but it might be the same in a hotel management course.

Mr Gallagher—It is the same thing. You have simulated environments in the colleges, not real commercial environments. If there is a criticism, that is where it lies.

CHAIR—Thank you very much. That was quite focused and very useful.

Resolved (on motion by **Mr Jull**, seconded by **Senator O'Brien**):

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

Subcommittee adjourned at 4.01 p.m.