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DEFENCE AND TRADE

TRADE SUBCOMMITTEE

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JOINT COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE

Trade Subcommittee

Wednesday, 23 April 2003

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

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, Ms Moylan, Mr Nairn, Mr Prosser, Mr Scott, Mr Somlyay and Mr Cameron Thompson

Senators and members in attendance: Mr Baird, Mr Brereton, Mr Hawker 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 9.03 a.m.

BOYLE, Mr Michael, Head of Business Strategy and Marketing, Export Finance and Insurance Corporation

DONNELLY, Mr Roger, Chief Economist, Export Finance and Insurance Corporation

SMITH, Mr Slater, General Manager Credit Policy and Risk Management, Export Finance and Insurance Corporation

CHAIR—Good morning and welcome to the inquiry into Australia's trade and investment relations with the countries of central Europe conducted by the Trade Subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade. We will be examining our trade and investment relationships with 11 countries—namely, Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, Hungary, Slovenia, Romania, Bulgaria and Croatia. Of importance is, firstly, the future trend of Australia-central Europe trade and investment, secondly, the benefits for Australia as these countries become market based economies, thirdly, the impact of their accession to the European Union on our trade, and, fourthly, Australia's prospects as an alternative trading partner. Further, 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 an expansion of trade and investment.

On behalf of the Trade Subcommittee I welcome representatives from the Export Finance and Insurance Corporation. The subcommittee prefers that all evidence be given in public, but should you at any time wish to go in camera please let us know. Although the subcommittee does not require you to give evidence on oath, I should advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as the proceedings of the respective houses of parliament. The subcommittee has one submission from EFIC, submission No. 1. I invite you to make an opening statement before we proceed to questions.

Mr Smith—Would it be helpful if I recap what EFIC does, as background?

CHAIR—Yes. I think we are familiar with EFIC, but that probably is appropriate.

Mr Smith—Broadly, we have two categories of products which we offer to Australian exporters. The first category is credit insurance, where we protect our policyholders against the possibility that they will not be paid for their exports by their buyers. That covers trade generally up to six months in terms of payment terms that exporters offer their buyers. The second category of products is export finance, where we have a suite of products, which are medium term in nature, which support the sale of capital goods and services on medium to long terms—terms anywhere up to 10 years from the completion of a particular project or the delivery of a particular item of capital goods. Those two suites of products are available for the countries we are talking about today. As the submission recites, the major amount of support we provide in these countries is credit insurance. Facilities are available for our export finance exporters, but they have not been implemented in the four years which we have reviewed. The other thing I would like to say in opening is that we have reviewed our submission as of yesterday, given that the submission was made in October, and we have nothing further to add.

CHAIR—Thank you very much for that. We have only just returned from a trip, so we are still a bit jet-lagged—or I am. My colleagues were with me on the trip—Mr David Jull, who you probably know, and Mr David Hawker. In the last week we were in different locations. We were together as a group going to the Czech Republic, Poland and Hungary then we split into two groups. One group went to Zagreb, Ljubljana and Bratislava and the other went to Sofia and Bucharest—that was David Hawker's group. I have not yet found out how it went; I heard from Foreign Affairs people that it went very well. So we are still in the process of digesting the information; it was particularly interesting.

At a luncheon in Zagreb put on by our ambassador, I was seated very close to a guy who imports a whole lot of meat from Australia and he said that one of their problems is that they have to send the money for the meat ahead of time and then they do not see the meat for a couple of months, which does cause problems in terms of alternative sources from which they could get the meat. He thought the meat was of excellent quality, but he did talk about that. I am not quite sure whether EFIC has a role in that, but I would be interested in your comment, because I know that one of our other colleagues was particularly interested in what he had to say in that regard.

Mr Smith—We do not know whether that gentleman is buying meat from exporters who are insuring with EFIC. We would need to find out who his suppliers were to comment fully. But it is not uncommon for exporters—particularly if they are concerned about payment arrangements—to make sure that the payment arrangements are very secure. In this particular case, I can only assume that the exporter or exporters in question have chosen to supply only on very secure payment terms—in other words, cash before the meat is sold or a letter of credit perhaps where the buyer has to commit funds to his bank before the export can be completed. There could be a role for EFIC there if the exporter or exporters in question decided to depart from those very secure payment terms and seek credit insurance as an alternative.

That would allow the exporter to perhaps relax the arrangements that he has with his buyer and rely instead upon our credit insurance. We would have to assess the buyer and make sure that we were comfortable with the buyer and those payment terms, but that is the nature of what we do. Some exporters choose to either take the risk themselves or use very secure payment terms as an alternative to using our services. The issue there is to try to identify the exporters involved and to make sure that they are aware of what we can do to help them. We can often help exporters expand their business by judiciously offering payment terms which are more attractive to the buyer but still safe for them. That is where we can help.

CHAIR—That is an interesting answer. I will invite my colleagues to join in as well, but one of the things that is of interest is your assessment of the different markets. I understand that you have assessed them according to various risk tables that are in your submission. I myself place them into four groups. I am a bit surprised that you have Slovakia in a different category and Croatia below Bulgaria and Romania. Can you talk a bit about those aspects?

Mr Smith—I might ask Mr Donnelly to answer that question.

CHAIR—Sure.

Mr Donnelly—Our views on risk in the different markets are distilled in the risk grades that you see before you in our submission. I am sorry to take issue with you, but I do not actually see Croatia as below Bulgaria and Romania.

CHAIR—I am looking at the summary and page 19.

Mr Donnelly—Romania is actually, in our view, in a lower category—a category 5 as opposed to a 4. We actually have Croatia and Bulgaria together. I should say that category 4 is a fairly large category and we subdivide it into two tiers, 4a and 4b. We did not want to overcomplicate our submission but, if I take the wraps off that, in fact, Croatia is at 4a versus Bulgaria at 4b. I will tell you a bit about our rating scale. It goes from 1 to 6, with 1 being most creditworthy and 6 being least creditworthy. The border line between 3 and 4 broadly corresponds to what Moody's and Standard and Poor's would call investment grade versus speculative grade or junk grade. As you can see, we have some countries there that are pretty gilt-edged, at investment grade, and some who we would regard as subinvestment grade or, to put it more impolitely, as having what the financial markets would call junk grade status.

CHAIR—It is interesting, for example, that Poland is ranked as a 2 versus Croatia as a 4 and Slovakia as a 3. Clearly, Poland it is quite a big market, but, as I recall, there is 27 per cent unemployment in Poland. I am not quite sure what impact that has on it. I find your listing interesting. Undoubtedly, you have done it on a scientific basis but, from my point of view, it is a bit surprising.

Mr HAWKER—Did you upgrade it?

Mr JULL—Are the sources that you just listed the only ones you use? Are there any others? Do you work in conjunction with the Department of Foreign Affairs and Trade on these things, or do you try to remain completely neutral from any vested interests they may have?

Mr Donnelly—A lot of things are grist to our mill. The three key ingredients that we bake into the ratings are the ones we have indicated in the submission. Firstly, there are the standard indicators of country risk—debt levels, liquidity levels, public finances, inflation, balance of payments, whether or not the exchange rate is competitive. Those sort of things are indicators—and have been in the past across a broad span of countries—of a country's vulnerability to payment problems. Secondly, we bake in some assessment of progress in moving from a command economy to a market economy—the transition progress. To objectify that process we rely heavily upon this document, the EBRD's transition report, which I am sure you are all familiar with. Thirdly, we look at progress towards EU accession. Chair, to partly explain your puzzlement about the Croatian score, if you refer to page 5 of our submission you will see that the last dot point notes that Croatia's rating of 4 balances reasonably good country risk indicators—in other words, they stack up pretty well on debt, budget deficits and things like that—against slower progress with transition. They have not made as much progress as some of the others on the road from a planned economy to a market economy. They have not even begun the EU accession process yet—I believe they are expected to begin talks on that next year. So they are real laggards in comparison with the other 10 countries.

CHAIR—I remember that, as we were briefed, there were four major items which were a problem for Croatia moving towards EU accession which they were addressing. I do not have a

problem; I am just trying to understand it. From what we saw, and my colleagues might want to make some comments, the Czech Republic is moving well in terms of EU accession and in terms of moving towards a market economy, as are Slovenia and Hungary, and I would have thought that Slovakia was in the same league—probably, in terms of what we saw, ahead of Poland. I do not know whether Mr Hawker has any comments about Bulgaria and Romania?

Mr HAWKER—Bulgaria are trying to remove as quickly as they can towards meeting those EU requirements. I was rather interested to note that they are adopting the UK version of financial regulation, which is based on the Australian version. They are clearly attempting to move. I guess you will be monitoring them as they progress.

Mr Donnelly—I think the consensus is that, intentions aside, in terms of actual actions they do lag a long way behind the frontrunners—namely, Slovenia, the Czech Republic and Poland. I think our grades do not really differ too much from your perspective.

CHAIR—No, not hugely.

Mr Donnelly—The grade 2s and 3s are really what Moody's and Standard and Poor's call investment grade. The countries that you perceive are in the van, such as Bulgaria and Romania, have good intentions and some runs on the board but do lag behind. The reality is that they are not going to join the EU until 2007, in round 2.

CHAIR—At the earliest. There is some thought that round 2 might drag on until 2010 or whatever.

Mr JULL—2012.

CHAIR—Yes.

Mr Smith—I would like to make a general point about our gradings, which sometimes I do for lower graded countries—that is, in particular in these countries, we do not find the level at which we have graded these countries to be a barrier to our capacity to do business in them, as the submission says.

CHAIR—But, for example, is the difference between the Czech Republic and Slovakia—one being grade 1 and one being grade 3—reflected in a higher cost for insurance premiums?

Mr Smith—Marginally, yes.

CHAIR—Having been there, one would be surprised at that. They have a bill before their parliament which sets out a taxation system of 20, 20, 20. That is a rate of 20 per cent personal taxation—a flat tax with no incremental steps at all. I am sure there would be a lot of people in this country who might approve such a move! Corporate tax is 20 per cent, and then VAT is 20 per cent—I am sure that people would not enjoy the latter too much! But in their aggressive pursuit of market economies and privatisation they seem to be right up there, in our assessment.

Mr Donnelly—We only bake these competitiveness factors into our ratings insofar as they affect payment risk. Bear in mind we are not trying to look at the beauty parade of competitiveness here—

CHAIR—No.

Mr Donnelly—or attractiveness for FDI; we are doing something completely different. They are valid yardsticks, but not for us, however. We are measuring payment risk, trade payment risk in particular. So those competitiveness factors are only baked in insofar as they affect payment risk. To be more concrete about what I am saying, if we feel that a country is falling short of international best practice for legal protection of property rights—which means that, in the event of a payment difficulty, it is unlikely that we could chase that delinquent debtor through the court system and get redress—then that is a black mark against the payment risk score they get from us. If they have very good norms for the protection of creditors, including foreign creditors, and so forth then they are marked up. That is how those sorts of competitiveness factors, those investment attractiveness factors, are baked into the rating.

Mr JULL—Does corruption come into your calculations at all?

Mr Donnelly—Qualitatively. If we judge that the payments culture is poor and there is no respect for honouring obligations then, yes, it could conceivably go in—and we try to be explicit about that. So there are a bunch of qualitative as well as quantitative factors that get thrown into the pot.

CHAIR—Could you tell us why Poland would have such a generous rating? Certainly, they are joining the EU and are attracting a lot of foreign investment, but there were factors that made me think that they were behind the eight ball in moving to a market economy compared to, say, the Czech Republic or Hungary.

Mr Donnelly—The first point I want to make is that they have only just recently been upgraded.

CHAIR—Is that right—was their rating a 3 before?

Mr Donnelly—Correct. We do note somewhere in our submission that in fact we have two sets of ratings: for the short term and for the medium to long term. Poland actually attracts a split rating—a 2 in the short term and a 3 in the medium to long term. A rating of 2 says this is a country that does not suffer from any external liquidity problems, where foreign exchange is not scarce and the public finances are in reasonably good shape for the next 12 months, so it is unlikely that you are going to strike a payment problem that is traceable to a balance of payments crisis or fiscal problems, such as the country running up fiscal arrears, like the Saudis do periodically, or the Papua New Guinea government. You are not going to strike those sorts of problems. You might strike a payment problem, but that would be for similar reasons to a problem in western Europe—countries go bankrupt, industries suffer downturns; those sorts of typical market factors, as opposed to systemic factors. In the medium to long term, yes, there are some concerns about competitiveness, public finances and so forth that could result in higher risk in the medium to long term.

CHAIR—They have not only this very high level of unemployment but also a huge number of people—several million, as I recall—who are employed in the farming sector with very small farms, many of them just subsistence farms. So I wondered what the imposition of the cap would mean to them. I am a little surprised that they are up there with a 2 rating but I suppose it is encouraging. David, did you want to make a comment on that?

Mr HAWKER—Just that I think your points are valid. The point was made that there are a couple of million farmers there, three-quarters of whom do not really register because they are not trading as such.

Mr Donnelly—Yes.

CHAIR—They support themselves, and perhaps a neighbour, which is interesting.

Mr Smith—They are certainly not buying from Australia!

CHAIR—It is different to what applies in David Hawker's electorate. Is Slovakia likely to shift up to a rating of 2? Again, what are the factors for why it lags behind the Czech Republic? There was a view in our group that they were more aggressive in their marketing than perhaps any of the others in a way.

Mr Donnelly—Since the Iron Curtain fell, the tendency has been for all of these countries to move up in our ratings scale.

CHAIR—How far does it go down?

Mr Donnelly—To 4 and 5. Romania has really been the only one that has remained stuck in the same spot over the past 12 years. In our view, they are prone to macro-economic crises that could cause foreign exchange difficulties. That could wallop some of our clients.

CHAIR—Is that in line with what you saw, David?

Mr HAWKER—Yes, it would tally that they seem to have taken longer. I got the impression that Bulgaria was trying harder and was certainly more determined to go down the path of meeting the discipline of the EU. As you said before, it is a matter of whether or when they get that in place.

Mr Donnelly—I will go back to your question about Slovakia and whether we expect the tendency for future ratings moves. We think, as they move closer to EU norms and further along the road from plan to market—and we see all of these countries moving along this road—there will be more upgrades than downgrades. We expect Slovakia to join the Czech Republic at some point. When the Iron Curtain fell, they inherited a worse legacy than the Czechs in all the rust belt industries.

Mr JULL—To put it crudely, they stuffed up their privatisation. They had some pretty funny leadership there. They were really about four years behind the Czechs, weren't they?

CHAIR—Yes. From what we understand, there was also a concentration of companies in Prague to the detriment of Slovakia. Bratislava is now trying to recover in a way, so you do notice the difference there. Going back to Croatia, it would help us, as we are evaluating the different countries we visited, to get your perspective on that country.

Mr Donnelly—Macro-economically, they are looking relatively good. Structurally and in terms of legal and regulatory best practice, they tend to be a bit of a laggard. It is the mix of those two factors that result in them getting a rating of 4. If they could only lift their game more—which they are doing, and it will happen in time—on the legal and regulatory structural side, that would be reflected in upgrades in our ratings.

CHAIR—The legal side would be a key aspect—the reform of the judiciary—because everyone seemed to admit that they need major reforms in that area, so it is not surprising. There was also a question of corruption too, wasn't there? But they are dependent on the tourist sector, which is also recovering. They are about 70 per cent of what they were, as I recall.

Mr HAWKER—What do these risk ratings mean in practical terms for someone who wanted to export to these different countries?

Mr Smith—To put our premiums in perspective, we charge premiums as quite a tiny percentage of the total export value that is being insured. Across the whole book, our average premium rate is between 0.2, 0.3 and one per cent.

Mr Boyle—It is about 0.3.

Mr Smith—So it is a very small marginal cost to an exporter to insure with us. The impact of the differentials between country ratings upon that insurance premium is very small. In fact, those premiums are affected not only by the country rating but also by the terms under which the exporter is trading.

CHAIR—Could we have a practical example? What would be the difference between \$100,000 worth of exports going to the Czech Republic and another lot going to Romania?

Mr Smith—I do not have that in my head, but we could forward it to you. We would have to assume exactly the same payment terms. We would have to assume that the risk for the individual buyer was exactly the same as well.

CHAIR—If it is, as you said, 0.2 per cent then you are really looking at pretty small beer on that, aren't you?

Mr Smith—And the country differential, given everything else being equal, would be very small beer. But we will have a look for you.

CHAIR—So it would be \$200 or \$300, or something like that, on \$100,000?

Mr Smith—I think it might in fact be less than that. But we will forward you an example.

CHAIR—Thank you.

Mr JULL—Do you work in conjunction with DFAT and the Trade Commission at all, or are you completely stand-alone?

Mr Smith—We are completely independent in terms of our assessment, in terms of the risks that we decide to accept. Our minister is the Minister for Trade. Under our legislation, he is unable to direct us in relation to any particular transaction. He can direct us in relation to the general future of EFIC and the class of transactions, but we make up our own minds on the risks that we take.

Mr JULL—Would Austrade ever come to you for advice?

Mr Smith—We work closely with Austrade and DFAT in the pursuit of our task of supporting exports, and Austrade is one of the major referrers of business to us right across the world. Particularly in the difficult markets that we do not know as well as those we do know very well, we use Austrade—and we use DFAT on a transactional basis if we need to find out more about the regulatory environment or perhaps even sometimes about the particular buyer. If we visit these markets we spend time with the post and the local Austrade people, for two reasons: firstly, we try to tell them a bit more about what we do so that they can be our ambassadors in that market when it comes to credit risk and, secondly, to get a better understanding from the people on the ground with an Australian interest in mind. We do that in a general sense. We do not visit these markets very often, as the submission says. Australia does little business in these markets and proportionately we do probably more in these markets than we do in terms of our average percentage of Australian trade. Nevertheless, we do put our resources where they are most needed, and at the moment they are not required very much in these markets at all. We are happy to work with Austrade and with DFAT.

Mr HAWKER—Do you ever knock back people who are trying to export to these markets?

Mr Smith—We knock back people in a general sense. I could not give you the circumstances here of where we have actually said no in any of these markets over the last four years. It is something that we did not look at.

CHAIR—Overall, what percentage gets knocked back?

Mr Boyle—It is not very big.

Mr Smith—It is a very tiny percentage.

Mr Boyle—It is two or three per cent.

CHAIR—I will have to send you the letter I got yesterday from a constituent who is fairly upset about being knocked back by EFIC—it just happened to coincide. It was not regarded as being in central Europe, and there may be very valid reasons for that.

Mr Smith—We would be happy to advise you on that. A higher percentage of people who get knocked back write to MPs.

Mr JULL—That is not just the case for EFIC!

CHAIR—It relates to wars as well!

Mr Smith—When we knock people back, we try to explain why—it is because the risk is too great. That is actually a service that EFIC provide. We save exporters from losing money by telling them that they should not be exporting to a certain buyer, particularly on the terms that they are proposing. Some of them do not appreciate that but, largely, it is a service that is quite appreciated. We are used to credit check a buyer before funds are committed, and that is a very positive thing.

CHAIR—One of our committee members was particularly interested in the assistance given by the European Bank of Reconstruction and Development, the EBRD. How does their role in export insurance coincide or overlap with yours?

Mr Smith—We have tried to work with EBRD, particularly on the project finance side; we have stayed close to them. We see Australia's director from time to time, and we have visited them in London when we have been over there. They have a program which is independent of ours in the sense that they have funds which they use to finance projects. When they do that the procurement rules of course are not directed towards any particular country, so it is open procurement competition. They do have what they call a 'cofinancing area' where export credit agencies can actually put funds alongside EBRD funds to supplement the finance available for a particular project. The other multilateral banks have that too. It is often difficult to make that work because you are putting our procurement guidelines, which are dedicated towards Australian exports, alongside open procurement guidelines. It is often very difficult to make that happen unless it is plainly obvious for a particular project that a piece can logically be carved out for Australia, in our instance. As a consequence of that, we have never been able to actually participate in an EBRD financed project. They are a source of information; we do compare notes from time to time, but I cannot say that our intentions have ever come to fruition.

CHAIR—Who fits into category 1? Is it the leading European countries, US and Canada and so on?

Mr Donnelly—Basically, topnotch OECD countries such as Singapore.

CHAIR—Some of these are now OECD countries as well.

Mr Donnelly—I was speaking loosely and inaccurately. It is the western European countries, US, Canada and Singapore. They are regarded as top-drawer in our view. Basically, it is where you can strike payment problems because of individual buyer and industry problems and not because of systemic or country problems.

CHAIR—Is your assessment influenced a lot by Standard and Poor's ratings and your own review of their economic data?

Mr Donnelly—No, I would not say it was heavily influenced by Standard and Poor's. We have a process of benchmarking our ratings against what other people do. In fact, it is at the insistence of our board that we benchmark, and we are called to account when our grades diverge or are seen as out of line with what other people are doing. Often I am called upon to explain why that is, and I have to think of why. You have to remember that we are rating a

somewhat different category of risk from that of Moody's, Standard and Poor's, and Fitch. They are rating the risk of not collecting on a bond; we are rating the risk of not collecting on a trade credit instrument. The two things move in sympathy but, in the event of a foreign exchange crisis, sometimes priority in foreign exchange allegation goes to the trade creditors rather than the bondholders or vice versa. So there is a need to look at the two categories of risk differently. We do benchmark, and it is an established part of our process. We look at the quantitative and the economic data, and we look at the softer qualitative data too.

CHAIR—How do your ratings of the countries that we visited—in terms of eastern Europe—differ from, say, those of Canada or similar institutions? I do not know whether Canada have their own EFIC. As they have their own version of Austrade, which is a very similar body to ours, then I would imagine that they probably do have one.

Mr Donnelly—Each of the OECD countries has its own export credit agency and, by and large, most of them have their own internal ratings systems and would pretty much line up with what we are doing. There would be some wrinkles in there but I think they do line up. In addition, all of the OECD export credit agencies sit around the table and run an OECD ratings model, so an additional—

Mr Smith—This is for the medium-term.

Mr Donnelly—This is for medium-term risk—thanks, Slater. For medium-term risk they also assign ratings to these countries, so this would be an additional point of reference for you, if you go to the OECD web site. In fact, I can provide you with the corresponding OECD ratings.

CHAIR—Thank you. Our aim is to provide some kind of guide to potential Australian traders and investors. If you had a table or a room full of Australian exporters who were considering the possibilities of central Europe, what would you be saying to them on what you know about the markets? Where would you say they should be directing their attention?

Mr Donnelly—We say, 'Pay attention to our risk grades when you are looking at risk.' This is presumptuous of me to say but obviously, as a business person, you need to be balancing risk against opportunity, and what our risk grades do not talk about is market opportunity. We say, 'Go in with your eyes wide open. Do not necessarily rule out any of these markets.' I do not think any of the grades I have provided here are really flashing red warning lights. I think Romania and Bulgaria—particularly Romania at grade 5—do flash some amber warning lights in terms of paying attention to the risks.

CHAIR—How far do you go down again?

Mr Donnelly—To a rating of 6.

CHAIR—Who is in 6, just out of interest?

Mr Smith—The Solomon Islands.

Mr Donnelly—It includes countries that are basically insolvent—fiscally insolvent, externally insolvent—and that are often already in deep payment difficulties. That includes a lot

of sub-Saharan African countries and so forth. As I said, we say: 'Pay heed to our grades when looking at the risk but balance opportunity against risk.'

Mr Smith—We would be asking them a few questions as well, such as whether, in terms of the opportunities they are pursuing, credit is an issue that makes them uncompetitive. We also ask about other issues. We would be interested to see how we could best support people winning contracts there, but the question that I would have, given what we do there—which is very little but more than we do in other countries—is: what are the competition issues for Australia? There are some obvious ones of proximity and the disadvantage of Australia being all the way over here whilst they have western Europe on their doorstep—an export to these countries means putting something on the back of a truck and driving it down the freeway. It is a little bit difficult for Australia to compete with that in some areas.

CHAIR—Would you expect that, when these countries go into the EU, you are likely to see them move to a rating of 1—or is that likely to be over a few years?

Mr Donnelly—That is going to be a long, drawn-out process. Probably the point that will signal them getting closer to a rating of 1 is not when they join the EU but when they join EMU. Remember that all of them are obliged to join EMU; there is no opt-out clause like the UK got when it joined the EU. So when they achieve the Maastricht criteria then they are approaching that top-drawer credit status and they would probably go into the 1 category.

CHAIR—What is the estimate of how long that is going to take for some of the countries in category 2, for example?

Mr Donnelly—For the first wave that are acceding in 2007, if it happens then, two to five years after that.

Mr JULL—It was interesting that at the same luncheon in Zagreb we heard that McDonald's are now importing only Australian beef into their operation.

CHAIR—You were speaking to them, weren't you?

Mr JULL—Yes. They are importing Australian beef to Croatia. It seemed to me that you never know what is around the corner in terms of those opportunities.

CHAIR—They were talking about the high quality of it, and that they were particularly impressed with it.

Mr JULL—I suppose the secret is in how long you maintain the contract. There are other forces that are moving over there at the moment. But I nearly fell off my chair when she started telling me how much they were bringing in.

CHAIR—Is there anything further that the witnesses would like to say at this point?

Mr Smith—I do not think so.

CHAIR—Given the nature of the inquiry, I think your comments have been particularly interesting and useful. It would have been nice to have had one of you along, actually.

Mr Smith—It would have been nice to have been asked!

CHAIR—We would have been happy to have you along. So you do not actually travel through these countries?

Mr Smith—We have not for some time.

CHAIR—I suppose you do not need to.

Mr Smith—I have been to Hungary, but it was years ago. We do not do enough business there to warrant travelling there. If there was a prospect of significant business, we would be over there.

Mr Donnelly—On my occasional trips to London, I always make a point of going into the EBRD headquarters and talking to our director and some of the country experts.

CHAIR—We had one who was sick, but the first one, in Poland, was extremely good in terms of their assessment of the country. It was very impressive.

Mr Donnelly—There is a lot of expertise in that building.

CHAIR—Yes, I imagine there is. As my colleagues have nothing further to ask, we would like to thank you for coming today, and for your input. Hopefully, you will have more work out of the area. It seems to me that they are poised to make a significant breakthrough in market and trade opportunities, especially going to the EU. It will be interesting to see which ones break out of the stalls the fastest. I suspect it will be the three we visited in our first week, more than any—particularly the Czech Republic. We will see. Thank you very much.

[9.56 a.m.]

BARNARD, Dr Peter, General Manager, Economics Planning and Market Services, Meat and Livestock Australia

McCALLUM, Mr Andrew, Manager, Trade Policy, Meat and Livestock Australia

CHAIR—Welcome. As you know, the subcommittee prefers all evidence to be given in public. Should you wish to go in camera, please let us know. Although the subcommittee does not require you to give evidence under oath it is, nevertheless, a committee of the parliament with all the privileges, responsibilities et cetera of such a committee—I am sure you are quite familiar with that. The subcommittee has one submission from Meat and Livestock Australia, submission No. 14. I now invite you to make an opening statement. Please feel free to speak as you wish on these markets and their short- and long-term potential, and then we will proceed to questions.

Dr Barnard—Hopefully, you are all aware that Australia is the largest red meat exporter in the world. We are the largest beef exporter and the second largest sheep meat exporter. Last year, our beef exports, with associated coproducts, were worth about \$5 billion and our sheep meat exports, with associated coproducts, were worth just a tad less than \$2 billion, so it is a major export industry for Australia.

Our major export markets for beef and, increasingly, sheep meat are in the Pacific rim—countries like the United States, Japan, Korea, Taiwan and Canada. Nevertheless, last year we exported to over 100 countries worldwide and every one of those countries is important to the industry. In comparison with our total export business, exports to central Europe are relatively small. In 2002, according to the records of the Department of Agriculture, Fisheries and Forestry, we exported 2,261 tonnes of beef to eastern European countries. We also exported about 2,000 tonnes of offal and some very small amounts of sheep meat to the region. Trade to the region tends to be uneven and it varies depending on the region's economic circumstances, including what is happening in Russia, what is happening with European Union beef stocks and the use of their beef refunds, most of which tend to be directed—

CHAIR—Why does it depend on what is happening in Russia?

Dr Barnard—A lot of the beef is further processed into sausages and so on—

CHAIR—In Russia?

Dr Barnard—No, in eastern Europe, and it used to be sent on to Russia. That certainly used to be the case in countries like Bulgaria in the mid-nineties, where we did quite a bit of business and they further processed the product. A lot of that further processed product was then on-sold to countries like Russia.

Clearly, it also depends on what is happening with Pacific rim beef markets and how interested exporters are in seeking out alternatives. To give you an example of the uneven flow

of exports, in 1998 beef exports to the region totalled 17,000 tonnes, and there is an enormous difference between that 17,000 tonnes in 1998 and the 2,000 tonnes that we exported last year. As I said, most of the beef is further processed. It tends to be lower valued cuts—forequarter cuts and trimmings for use in hamburger patties, sausages and so on. Some traders specialise in the region. I do hope that if you are in Melbourne you get the chance to talk to Jack Hines, whom some of you may know. He is one of the traders who specialise in the region.

CHAIR—We are not visiting Melbourne. This is our last hearing today so you will need to tell us.

Mr JULL—Is he the fellow who started opening up what they called the ‘exotics’ in the Czech Republic?

Dr Barnard—He might have done a bit of business in the exotics. He has certainly concentrated in that region for at least the past decade, and possibly longer. The major market last year was Croatia—virtually 90 per cent of the business we did into eastern Europe last year was to Croatia.

CHAIR—It is not surprising. I thought it was just a bit of an aberration—we ran into some people who were meat importers there. It was interesting because they were enthusiastic and vocal.

Dr Barnard—The reason we did most of the business to Croatia is that the entry of EU beef is prohibited because of the disease status of European Union beef. Also, it excludes South American beef for the same reason—not BSE but for FMD in South America. That has certainly opened up opportunities in Croatia.

CHAIR—With respect to Croatia—and I did raise this with the EFIC people before—the main importer in Croatia was complaining that he has to pay up-front and then it is another two months until he gets the meat. He thought that was discriminatory as opposed to what happens if he buys it up the road. He asked us what we could do about it. I raised it with EFIC. It is worth while knowing that that guy, who seems to bring in a lot of meat, was concerned about that.

Dr Barnard—We have had a problem in attracting EFIC interest in the region. I think that is true. I am pretty sure that has been raised with me in the past by some exporters. I can chase that up if you like.

CHAIR—Yes.

Dr Barnard—From an exporter’s point of view they want to make sure that they do get the money before they load the ship.

CHAIR—Apparently that company is big. It is the biggest in Croatia, so it was a bit surprising. This was one arm of it. It is basically for you guys to follow up, rather than something in the report as such.

Dr Barnard—As you would have seen from being over there, they are basically pork eaters. Pork consumption levels are typically around 40 kilograms per person compared with about 20 kilograms per person in Australia. Beef consumption levels are often in the single figures—less than 10 kilograms. There is negligible sheep meat consumption—typically less than one kilogram per person in most of those countries. Certainly, as incomes grow we see the possibility of increased exports to the region. A lot will depend on what happens when a lot of those countries join the EU, and whether we get increased quota into the EU. You are aware, I hope, that Australia has a 7,000 tonne beef quota into the EU, which we talk about as being a good barbeque and that is about all. It is going to be hard to service those countries after they join the EU if that quota remains at the present level.

We did establish an office in Europe, based in Frankfurt, about five years ago. That office is unique in that the bills are paid 50 per cent by exporters and 50 per cent by producers. Most of MLA's activities are funded by producers, but the exporters were particularly keen on us opening up an office in Europe, so they are paying half the bills. That office has two functions. One is, of course, to focus on European Union access problems. The other function, which was explicitly stated on the commencement of that office, is to try to develop the trade into eastern Europe.

As I indicated to you off the record prior to the commencement of this hearing, it has not been an easy task. But we do run promotions from time to time in Europe and we have had some modest success in featuring Australian sheep meat, mainly, in stores in eastern Europe. The issues that the meat industry faces over there include commercial matters such as uncertainty over payment. There are issues about the market access conditions applying to those markets; they tend to be reasonably strident and, often, fairly opaque. There are licensing schemes and all the rest of it.

Mr HAWKER—Can you expand on that a bit?

Dr Barnard—It is often hard to track down exactly what the border protection measures are. You can spend a period of time looking at them, as we have done, and you run into tariff quota arrangements in a number of those markets with relatively small quotas. Those who are members of the WTO—and not all central European countries are members of the WTO—often have high bound rates in their schedules, which means that they can alter their access conditions at any time, and they have done so in the past. They license importers to bring in the product, and it is often hard to work out why the licences are distributed in the way that they are distributed.

Mr HAWKER—Do you think corruption might be a problem?

Dr Barnard—The other big issue is the fact that the majority of these countries are scheduled to join the EU at some stage over the next five or so years. That brings about problems in terms of the current EU access arrangements. It also means that they are increasingly aligning their standards to EU standards, which are pretty tough for meat imports. They are unique amongst import regulations around the world. You have to track the product right from the farm to the abattoir. In fact, you have to be an EU registered producer on a farm to send your cattle to an EU registered abattoir, and then the product can go into the EU after it has been EU inspected. There is no other market that insists that farms get registered as well as

abattoirs. That is a potential major future impediment to supplying those markets. We are happy to answer any questions that you might have.

Mr JULL—As you say, there have been some successes. I looked at your table on the Czech Republic, and the growth of the offal market there is, frankly, pretty impressive.

Dr Barnard—I neglected to mention offals in my opening statement. We export a couple of thousand tonnes of offal to those markets, and they are a reasonably valuable outlet for those products. They do tend to consume offals in greater proportions than other people around the world. We used to send a lot of offal to the European Union, but that trade has virtually collapsed since the outbreak of BSE due to the safety problems presented by that.

Mr JULL—What other substantial markets are there for offal?

Dr Barnard—We sell quite a bit in Asia. The Asians are certainly big offal eaters as well and we sell a lot of offal to places like Taiwan. Some goes to China and other Asian markets.

Mr McCallum—The largest market in the region would be the CIS; we sell nearly 12,000 tonnes to that market.

Mr JULL—What I was really leading to was this: do we always understand these markets? I notice that you made some criticism of producers not understanding or comprehending what the Hungarians were all about. Does there need to be some sort of education campaign on the specific requirements of the central European market?

Dr Barnard—I doubt whether you have to go back to producer level; it is possible that more work could be done at an export level. But, as I said before, you always have to be careful about doing that because there have been exporters that have invested in those markets over a long period of time—mostly brokers, I might add, so they are not abattoirs but people involved in the trade, and I can speak from personal experience here—and they get particularly upset if they think a body like Meat and Livestock Australia or the Australian government is giving a leg-up to other exporters that have not put in the same sort of investment over a long period of time.

Mr JULL—Do you get involved in the exotics? For example, are you involved with kangaroo meat?

Dr Barnard—No, we are not.

Mr HAWKER—Is there a reason why you are not?

Dr Barnard—Only that our charter refers specifically to beef, sheep meat and goat meat.

Mr HAWKER—It is clear from some of the evidence we have received that supply cannot keep up with demand.

CHAIR—It seemed that there was quite a bit of interest—whether it was just a talking point, I do not know.

Mr JULL—Particularly in the Czech Republic.

Mr HAWKER—Is it possible that you will get involved in that if it is a growing market?

Dr Barnard—I think you will find that our company memorandums and the legislation that currently applies to the levy stream we get refer specifically to the three meats that I mentioned.

Mr HAWKER—Would there be value in expanding it?

Dr Barnard—Potentially. As I indicated, we do have a guy over there, so clearly there is huge investment in just having someone on the ground full time in Frankfurt. There might be the scope for him to be involved with the promotion of other products. There is a reasonably close relationship between beef exporters and sheep meat exporters. Historically you often had the two species being killed in the same abattoir. There is probably less relationship between those two species and some of the exotic species.

Mr HAWKER—If there is a growing demand for meat—and, as you say, you have someone on the spot—then why not try and exploit that further?

CHAIR—Anyway, we leave you with that thought. Having just completed our visit, we are impressed at the enthusiasm with which these countries are embracing the new market economies. The potential for exports and investment is there, but it seems that the CAP is the overwhelming problem in trying to get our meat, which is very often our largest export, into particular markets. We think of our enthusiastic importers in Croatia—what happens to them if Croatia goes into the EU? Fortunately for us, it is going to be a few years—maybe not until 2012—before they do; there are a number of issues that they need to address first. I suppose this is a difficult question, but what is our scope for enlarging our quota within the CAP for Australian product? Is it enhanced because of the problems with European beef, or can we expect a further hard line on this? Would we be better off recommending that we put our resources into Asia—China, for example—or wherever? It may be an interesting market but perhaps it is not for us.

Dr Barnard—We basically see two possibilities of increasing our quota into the European Union. One is through the WTO processes and the other is through EU accession processes. When Finland, Austria and Sweden joined the European Union, we got both extra beef quota and extra sheepmeat quota. It was around 2,000 tonnes of extra beef quota, which is a reasonable percentage increase—from 5,000 tonnes to 7,000 tonnes.

CHAIR—But how much meat did we export to those countries and did that increase equate to the amount that was already going in?

Dr Barnard—It did, essentially. Indeed, that is one of the reasons that we were particularly interested in trying to stimulate exports to those eastern European countries.

CHAIR—Right, because if there is nothing going in, then—

Mr McCallum—We will not get the compensation.

Dr Barnard—We are unlikely to get the compensation. As you can see, our major export market in the region last year was Croatia, which is not one of the countries entering the European Union early. So, unfortunately, I think that the chances of increasing our EU quota through accession are relatively small. We have put a lot of effort into the WTO area. Of all the world beef and sheepmeat markets, the EU is the one that causes us the most heartache. It is just ridiculous that we, as the largest sheepmeat producer in the world, have a quota into the European Union of 18,650 tonnes, while New Zealand—our cousins across the Tasman—have 227,000 tonnes. There can be no equity in that at all.

Again, we were tremendously disappointed by the Harbinson text. Harbinson is the chairman of the agricultural committee of the Doha Round negotiations. At the end of March he released his proposals for agricultural market liberalisation in the Doha Round. Those proposals would give us not one extra pound of sheepmeat access into the EU—not one extra pound—and very limited increases in beef access into the EU. That is why we have been stridently opposing—

CHAIR—It is a little wide of what we are on about here, but why has New Zealand been so successful compared to us?

Dr Barnard—It is a historical artefact. It goes back to the early seventies, when the United Kingdom went into the EU—

CHAIR—Britain went in on 1 January 1973.

Dr Barnard—and New Zealand, for various reasons, was able to negotiate a better deal not only on meat but also on dairy and a range of other commodities.

CHAIR—Measuring the ability to increase our quota significantly, where would you sit on a scale of zero to 10?

Dr Barnard—On the thin end of that scale. Nevertheless, you have to keep on trying on these issues. You have got to regard them as long-term propositions and you have got to brace yourself for plenty of disappointments along the road. But I think if we keep on knocking on the door long enough, eventually that CAP system will go.

CHAIR—Does it suggest that perhaps we should now be trying to work on the countries that are lining up for EU accession but for whom it is going to take a while, such as Croatia, Romania and Bulgaria, and then looking at Bosnia and Herzegovina, Serbia, Montenegro, the Ukraine, Uzbekistan and so on—

Mr HAWKER—Turkey.

CHAIR—to provide a basis, or are the rewards not necessarily commensurate with the effort that would be involved? Would it be better to put our overall efforts into the markets we know are going to have better returns?

Dr Barnard—I think it requires a mix of strategies. Certainly, the strategy is sound that you work on those markets that are going to join the EU over the medium term and try to promote exports and trade with those countries. From the point of view of the red meat industries, that

certainly is a sound strategy. I think the government can do a number of things. Obviously, through Austrade you can help us to secure a place for Australian product in those markets and, through organisations like AQIS and DFAT, you can help us to secure better SPS protocols and so on with those countries. Perhaps there is some scope to promote exports through the quota systems that are operated by AFFA. This matter is still being considered by our industry, but I personally have been a long-term advocate of allocating the increased quota we would get into the EU, as a result of accession, to those companies that have developed business into the acceding countries. Suppose we got an extra 2,000 tonnes as a result of a brace of those eastern European countries joining the EU; I think it is worthy of consideration that a policy position be developed that those exporters that have developed a business share in that 2,000 tonne extra EU quota.

CHAIR—If you are involved in that as well, how many countries does your office in Frankfurt cover?

Dr Barnard—It covers the entire region. It covers Russia, all of eastern Europe—

CHAIR—As well as western Europe?

Dr Barnard—Yes.

CHAIR—How many people do you have there?

Dr Barnard—Just one.

CHAIR—So he is kind of like Superman.

Dr Barnard—Yes. Part of the rationale for establishing our office was leverage on the Australian government representatives that are in the region. The Australian government has an agriculture and vet counsellor in Brussels and Austrade offices across the region. The head office is in Frankfurt. We have collocated with that head office in Frankfurt and use those Austrade people pretty extensively in their networks for trying to stimulate trade, but it is a difficult job.

Mr JULL—The relationship with Austrade is pretty good.

Dr Barnard—Yes.

Mr JULL—Who works off who? Do you work off each other, or do you tend to heavy them more than they go out seeking stuff for you?

Dr Barnard—My understanding—and I was intimately involved in establishing the office and I have been intimately involved in its operations—is that it is a two-way relationship. Austrade does get in touch with us as opportunities arise in those markets, and we can supply them with a list of suitable people to meet those opportunities. Likewise, we feed them information about the capability of the Australian industry to supply.

CHAIR—Do you think we should be putting more resources then into places such as Frankfurt? My experience in New York was that you guys were very effective. So should we be putting more resources into it?

Dr Barnard—By ‘we’ do you mean Austrade, or do you mean the meat industry?

CHAIR—The meat industry.

Dr Barnard—It is already receiving far more resources than the current trade would—

CHAIR—I understand. On the other side of it, do you think that Austrade are putting enough resources into it?

Dr Barnard—It is impossible for me to comment, because I really do not know the relative weightings of the Europe Austrade operations versus other regions around the world.

CHAIR—You could look at strictly on the basis of how much we export now and ask, ‘Is it justified?’ and you probably could not justify any of them on that basis, but the potential is another question.

Dr Barnard—Yes.

Mr JULL—Excuse my ignorance, but does all the export beef have to go through you, or are there wildfire deals on the side?

Dr Barnard—We are involved simply in promoting meat sales overseas and in trying to stimulate the trade through reducing access barriers and so on. We are not involved in selling meat at all; that is done by individual commercial entities.

Mr JULL—Except that you spray the intelligence if you have got it.

Dr Barnard—Yes.

Mr HAWKER—In both Romania and Bulgaria—and I have not had time to crosscheck this—there were concerns raised about the fairly offhand approach from AQIS in dealing with some of the local authorities.

CHAIR—I think, in Poland there were questions raised about AQIS at a roundtable.

Mr HAWKER—Have you had any experience there? Is there a need for some sharpening up?

Dr Barnard—I might hand over to Andrew on this one. Let me say that AQIS face the same sorts of problems we face in having one person covering the entire region. They have a vet counsellor in Brussels who covers that entire region. They have got to list their priorities, as we have got to list our priorities. I am aware that there were some issues in the past that we do not think were addressed as quickly as they might have been, but I understood that that was being addressed and we were much happier over the last 12 months.

Mr McCallum—That is right. In fact, there is now a memorandum of understanding between Australia and Poland on veterinary issues, for example. The whole range of technical issues regarding procedures is going to continue to grow in terms of how it is all going to work. Peter referred to it before; we are unsure how some of these issues apply. So the role of AQIS to work in consultation with industry to monitor, and indeed to address, what is going on is going to be critically important as everything moves forward, particularly as those countries accede to the EU and try to embody their current regimes of import procedures in the EU. So there is a role there of monitoring and intelligence by which AQIS, DFAT and Austrade can help industry, and vice versa, to make sure that those markets are maintained.

Mr HAWKER—One importer in, from memory, the Czech Republic was very unhappy—

CHAIR—Poland, wasn't it—at the roundtable?

Mr JULL—The bloke who—

CHAIR—took nine months.

Mr JULL—Yes.

Mr HAWKER—That was in Prague, I think.

CHAIR—Anyway, it does not matter—

Mr HAWKER—It was in Prague. He was very unhappy with the delays in getting responses. There was a similar case in Bulgaria, I think, where the same sorts of complaints were levelled at us, which we could not respond to, other than to take note.

CHAIR—It was on a Tuesday; it must have been Bulgaria!

Dr Barnard—I will take that on notice and talk to our office tonight to see whether there are any current issues in that regard. I will also ring a couple of the exporters and see if they know any issues.

Mr JULL—Certainly in this case in Prague, Austrade were jumping up and down and saying they were going to sort it all out. We did not hear the outcome of it.

CHAIR—There seemed to be a real problem as to why nothing had been done. I think that is interesting. From your perspective from talking to producers about this market—we are coming back and saying that these markets are growing rapidly and moving to much freer markets and that there is the growing middle class, consumerism, changing tastes et cetera—what would your advice be to the producers: keep on with your current markets? Are the problems with the CAP and enlarging the CAP too great to see it as any type of significant market?

Dr Barnard—My advice would not be that. Clearly, we would not be investing in an office over there. We did not think there was potential to both address the CAP over a period of time and to expand. I think there are always going to be relatively small opportunities, but I think there is certainly the opportunity to further expand trade in eastern Europe. The decision to

invest resources in the region in order to secure those outcomes has been taken by the meat industry as a whole. I think our major markets are always likely to be around the Pacific rim. We are a worldwide operator, and I think that is the way Australian business now has to approach trade. You just have to take opportunities as they arise. Certainly, as incomes rise in eastern Europe, and as the retail and fast food sectors expand, there will be some opportunities there.

Mr JULL—The advent of the big supermarkets has given some opportunities. Didn't the exotic importer from Prague sell his kangaroo and crocodile meat, and lamb, through Tesco or somebody? That was his outlet.

Dr Barnard—Worldwide, for a period of time there have been global food service operations, like McDonald's, Burger King and so on. But now we are increasingly seeing global retailing operations, with Tesco, Carrefour, Costco from the United States, Wal-Mart and so on spanning the globe. I think the relationships we are able to develop with those countries in Asia, in North America and, to some extent, in the European Union—and their interests in a quality product and consistency in the product they are selling—will offer some opportunities for us.

Mr JULL—The wine industry seems to have gone that way, although one of the things raised with us was that the figures we had in terms of the eastern European bloc were not necessarily true figures, because a mob like Tesco would bulk-buy the wine in London, and it would be distributed out of there to some other point in Europe. Does that happen with meat?

Dr Barnard—No; the operation still tends to be quite decentralised. That is changing over time, but it is not unusual to get regions of these stores buying, rather than it being coordinated by their head office, even within a country. That is now changing, and they are developing and implementing uniform and universal buying policies. But certainly, in the meat industry there is not much of what you described about the wine industry.

CHAIR—Thank you for appearing today. You will be sent a copy of the transcript, which you can check for accuracy. We do not have your organisation under scrutiny; we are more trying to understand the market per se. Thank you for your input. We appreciate it very much.

Dr Barnard—Thank you.

Proceedings suspended from 10.35 a.m. to 11.06 a.m.

**JOHNSON, Mr Simon Charles, Director, International Trade and Investment Services,
Western Australian Department of Industry and Resources**

CHAIR—On behalf of the Trade Subcommittee I welcome the representative from the Western Australian Department of Industry and Resources. The subcommittee prefers that all evidence be given in public, but should you at any time wish to go in camera then please let us know. Although the subcommittee does not require you to give evidence on oath, I should advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as the proceedings of the respective houses of parliament. The subcommittee has one submission from the Western Australian Department of Industry and Resources, submission No. 20. I invite you to make an opening statement before we proceed to discussion and questions.

Mr Johnson—From the Western Australian point of view, we recognise that there are some great opportunities for Australian and Western Australian business in central and eastern Europe. In September 2001 our Minister for State Development, Small Business and Tourism, the Hon. Clive Brown, launched a paper entitled, ‘Opportunities for Western Australian business in central and eastern Europe’. The purpose of this document was to outline seven key markets that we thought had the best opportunities for Western Australian business to access in that region. They were Russia, Romania, the Czech Republic, Hungary, Poland and the Ukraine; I think I have got them all there. That was followed up by a visit to Poland by the Hon. Clive Brown that year.

We are now in the process of going back to that report, streamlining it, amending it and giving it increased focus. The initial report was very broad but we are now in the process of focusing it more. We are looking at this not as a quick fix-it but as something that we will be working on for several years. We see this as a five-year project. We take a long-term view as far as this region is concerned. That is my opening comment. I am open to any questions and general discussion.

CHAIR—Thank you. Of those countries you mention, did your minister go to just Poland?

Mr Johnson—Yes, he has been only to Poland.

CHAIR—I am interested as to why you left out some of the countries that are going into the EU at the same time as Poland, the Czech Republic and Hungary—namely, Slovenia, Slovakia, Estonia, Latvia, and Lithuania. We did not visit the last three of those countries, but we did visit Slovakia and Slovenia.

Mr Johnson—Our initial focus was to concentrate on countries that Western Australia had the strongest trade links with. Really, those were the countries that we focused on. But in our review we are looking at other markets. A market that we are looking at with some interest is Bulgaria. We also have a keen interest from within the Croatian community to take a closer look at Croatia. It could be that we might drop one or two of the other markets. It is very difficult to focus on a huge range of markets in one go. As far as the Baltic countries are concerned,

generally speaking we have not focused on them, because the trade volumes, at this moment in time, are fairly limited.

CHAIR—We did not actually visit there, for much the same reason. The senior trade commissioner in Frankfurt said their orientation is very much to the Scandinavian countries. You talked about established trade links. Are you suggesting that there are already existing trade links with those countries you identified, or do you see potential in those?

Mr Johnson—Both, actually. The trade links with those countries at the moment are, by other market standards, still small. But we see that there is some great potential there. We are beginning to see a keen interest in, for example, the education market. We have an office in London, and they are increasingly focused on eastern Europe for the education and training sector, and we are getting one or two Western Australian companies that are looking to establish a presence in eastern Europe. We have, for example, one small biotechnology company that is establishing a joint venture in Prague. We see a lot of opportunity in the long term more than in the immediate term.

CHAIR—We certainly congratulate you on looking at the markets. It is not an area that Australia as a whole has focused on a great deal, and that is of course because, historically, the trade levels have not been high, particularly in the last 10 years. But the growth in those markets and the way in which they are embracing the free market—a number of them are going into the EU—shows potential for the future. Education is certainly one area that we identified on our visit there as being full of potential—as is the biotech area. Other than those two areas, what other areas of exports are you focusing on?

Mr Johnson—When we did our report, we really covered the whole gamut, from defence through to the marine industry—which, of course, has limited scope in the countries that we listed—agriculture and agribusiness. We feel that, maybe with the exception of defence, there are opportunities in all those sectors. But they will all be moving at different paces in different markets.

One or two of the Western Australian wine companies are beginning to set up a presence in Poland. We want to explore that further. We are very keen to look at opportunities in the mining area. I know that in some countries in eastern Europe the Australian mining industry is not held in particularly high regard, but we feel that there are a lot of opportunities there. I think the turn around in the Russian Federation poses some great opportunities. We are fortunate that our director in London is a Russian speaker, so we see opportunities there as Russia becomes more stable and more consistent in its trade.

It really goes back to what I said in the very beginning: we look at this very much as a long-term plan and not a short-term plan. We will be revising our initial report and reviewing it, more or less on an annual basis, and we will move where we see the best opportunities. We will work closely with our office in London, with Austrade and with other agencies that are involved in that market.

CHAIR—Certainly, we saw evidence of Western Australian wines being sold into several of those countries and being well received. Were you also looking at investment opportunities in those countries? Has there been any Western Australian investment, to your knowledge?

Mr Johnson—There has been a little bit of Western Australian investment in those markets but still on a very small scale. Western Australia is made up of predominantly small to medium size companies—that is our main client base, as far as this particular agency is concerned—and many of those companies are not really in a strong position to start investing in Europe. We also see great opportunities in working through third countries. We feel that some of the more established EU members, through partnerships, pose some great opportunities for Australian and Western Australian companies to take a stronger, more active role in eastern central Europe.

To give you an example, we have a sister state relationship with Tuscany, and Italy is a country that is very heavily involved in eastern central Europe. One of the things we are discussing with them is the possibility of Western Australian and Tuscan companies working in a collaborative way to access opportunities in eastern central Europe. That is an idea at this stage—there is nothing formal and nothing being progressed and developed—but we would see the investment angle in that way, certainly in the initial stages, rather than as direct, one-to-one investment.

Mr HAWKER—Mr Johnson, thank you. I commend you on your submission. It is very detailed and very impressive. My first question is: how do you see your role vis-a-vis linking in with the work that the Commonwealth is doing with Austrade?

Mr Johnson—We have a very good and close working relationship with Austrade; in fact, we are most probably one of their best customers. We would work very closely with Austrade—and we have done so. For example, when we launched the initial study, one of the keynote speakers was the Austrade senior trade commissioner from Prague. He was able to take a specific market and detail the opportunities that existed for Western Australia. So we do work closely with Austrade and we will continue to do so.

Mr HAWKER—More specifically, what are your priorities? Do you try to look for opportunities for Western Australia first and foremost, or are there opportunities where you see Austrade should be involved and which therefore there may have benefits beyond just Western Australia?

Mr Johnson—I would say that Austrade's coverage of eastern Europe at the moment is fine; it is good. Our main focus, being a state government agency, is of course working closely with Western Australian companies and getting them into that market. We do that through our own links—through our own office in London—and through the services of and cooperation with Austrade as well as DFAT.

Mr HAWKER—Is there duplication or a risk of duplication here?

Mr Johnson—No, I do not think there is, because we have a very good working relationship with Austrade and, generally speaking, when we go into a market it is done on a collaborative basis. We would let them know that this is a market that we are working with. To give you an example of the sort of cooperation we have—although it is a different market—the Premier went to the Middle East and made a state visit to Dubai. We opened up an office, and the whole itinerary and program was developed with very close cooperation between DFAT, Austrade of course and us. It was most likely one of the most successful trade missions that we have ever

had, if not the most successful. It was certainly the largest—there were 92 people. We see that sort of cooperation as something we will continue to do.

CHAIR—Your agent general in London, Rob Fisher, is also a former trade commissioner, isn't he?

Mr Johnson—That is correct. And he was based in Russia—hence, our Russian connection.

Mr JULL—I would like to clear up one thing: have you taken defence industries out of the equation now?

Mr Johnson—Our main involvement in the defence area is in the Navy shipbuilding industry, and we feel that the opportunities at this particular time are fairly limited for the reasons that we are talking about. First of all, many of the countries are landlocked. Second, the pressure, I would suggest, being placed on many of those countries for procurement from western Europe and the United States would make it difficult for us to break into that market. That is not to say that we would completely abandon it, but at this stage it will not be the prime focus.

Mr JULL—But the shipbuilders are still interested. The reason I say that is in Croatia there seemed to be very great excitement at the prospect of being able to buy a couple of shipyards of dubious financial status as joint ventures with Australia. But the things they were citing, for example, were ferries in the Adriatic.

Mr Johnson—On ferries, we should split the defence from the shipbuilding industry. Certainly, as far as high-speed ferries and that side of our marine industry goes, we would continue doing that—no problem at all. I am talking specifically about the defence and the military side. Yes, you are right. In fact, when you look at our state trade with that region you often see peaks and that is invariably when a ferry has been sold into that market. So there are opportunities there and they have been successful in selling ferries and craft into that market—and that would continue for sure. That is distinct from the military side.

Mr JULL—Taking you up on part of your submission, you were talking about the clustering of firms in terms of going in. Could you expand on that. Do I read into that a situation where, say, if you went into cooperation with Tuscany—or, concerning the wine industry, with a major distributor there or something like that—you might look at clustering a few Australian firms? Is that the concept you are looking at?

Mr Johnson—That is one way of looking at it. It is mainly looking at opportunities. I suppose a good example would be the education sector. In Perth we have an organisation called the Perth Education City and that comprises 19 education institutions, including the five universities that we have over here. It is a cluster of exporters that are involved in universities, ELICOS, business management training and vocational training and we would get them as a group to go into these markets. That is what we mean by a cluster—a group of like-minded companies that can cover an industry and take it into the market. We have done that quite successfully in South-East Asia, China and, more recently, the Middle East.

Mr JULL—That was my next question: where else do you do that? You also talk about doing that possibly in the EU.

Mr Johnson—The EU is so big. It is a bit like the United States and even Japan and China. For Europe, we tend to focus on certain markets and then take companies to the markets where they are best suited, if that makes sense. The markets that we would focus on mainly in the EU—and not exclusively, I hasten to add—would be the United Kingdom, Italy and Germany. Those are the markets we tend to look at closely, but that would not preclude a company in Western Australia that was interested in selling gas equipment into Norway. The same thing has applied to eastern central Europe. We have decided that we would like to focus on seven markets and do that properly. If you take it onto the European development bank, it will have 27 markets. So we have decided to focus on seven at this stage. We are quite flexible in moving that around but we feel it is much better to be more focused than spreading ourselves too thinly.

Mr JULL—That relates to the other thing you mentioned, which was the promotion of specific industry sector alliances as a means of promoting trade. Are there any further examples of what we could do there that might be of assistance?

Mr Johnson—Alliances work particularly well in the food and agricultural area, where a primary producer or producer of technologies can work closely with end users in key markets. We have done that quite successfully in markets like Taiwan, in the Middle East again and also in South-East Asia. We would look at developing that system with like-minded organisations in Europe—companies that would be interested in buying Western Australian or Australian products and that we can, not only on a purely buying or selling basis but as a partner, work with in a collaborative way to develop and produce products or services that meet their needs. To me it is a very logical and good client focused way of doing international business. It also locks in those relationships much more strongly than if it were just done on a straight agency basis. If you are working in a collaborative way to develop products, new ideas and initiatives and you have a partner on the other side who can market them, you have a very strong way of marketing and selling your products.

Mr JULL—You were also interested in the concept of a ‘brand Western Australia’.

Mr Johnson—We have brands. For example, our tourist commission have a brand that they use. One of the comments we have had pertaining to the education sector, for example, is that one of the real frustrations is that Western Australia is not known; it is just not part of the equation. We do not have the icons that, for example, Sydney has with the Opera House and the bridge, which are automatically synonymous with Australia. There is the need, and we are getting this feedback from industry, to brand Western Australia. Certainly, on the education side that is what we intend to do. We are fairly well advanced in developing that. That branding can then be extended to other sectors and other industries, which it would be made available to.

CHAIR—What is the main way that you plan to develop the market for Western Australia? Is it planned that you will have trade missions there, or will you participate in specialised trade shows in the EU and attempt to get into some of the newly accessing countries from central Europe? What is the plan to develop the market?

Mr Johnson—The first step is to create within Western Australia awareness of the opportunities in eastern and central Europe. To some extent we are only at the beginning of that. We have had, as I mentioned, Clive Brown visit Poland. That was successful and it created a lot of interest. We have to take our time in making sure that the opportunities that exist are broadcast strongly to Western Australian businesses.

We are very keen to work with Austrade and DFAT on missions and exhibitions they might have in those particular markets, provided they focus on the areas we are particularly interested in. We have found that focused missions are beneficial. We have already had one in the education sector go through central and eastern Europe. That proved to be very successful and it needs to be followed up. The first stage is creating a stronger awareness of the opportunities that exist in these markets. As the countries that have been admitted into the EU move towards membership, that is going to create greater interest in and awareness of these markets, and we are positioning ourselves so that we can cater for and work with that.

We are very keen to look at stand-alone exhibitions, although we have found that general awareness of Western Australia on its own has limited value in markets where we are not very well known. We are looking at awareness as our first goal, and then we will be moving into the market in a more aggressive way in partnership with our office in London and with Austrade and other agencies.

CHAIR—Was it the Premier who led the visit to Poland?

Mr Johnson—No, it was our Minister for State Development, Clive Brown.

CHAIR—Were education, training, biotech, defence, marine and agribusiness the areas identified during the visit to Poland or was it specifically different in Poland?

Mr Johnson—Those are the sectors that we felt had the strongest opportunities. The visit was quite short—only a couple of days. We had a very good meeting with the chamber of commerce, and certainly the ambassador, whose name I cannot recall, was very helpful and very supportive. We need to get back into that market. You can do a visit, and that is great, but if you do not follow it up then it just makes life harder. We are very keen to get back into Poland and other markets as quickly as we can. At the moment we are doing it through our London office.

Mr HAWKER—You mentioned six or seven countries you were focusing on in particular. Some of those countries are working on getting access to the EU and some, like Russia and the Ukraine, are probably quite a long way away from that, whatever their plans are. Are you handling those two types of country differently, or are they just all lumped together?

Mr Johnson—Again, that is part of our review. We chose those seven countries initially but, as you rightly pointed out, some are joining the EU and some are not, and they will have to be handled differently. That is part of the review that we are now going through—how we handle those markets, whether the markets that we initially chose are still the right ones and we whether should be focusing on another markets, dropping other markets or just adding another country or two. That is in the process we are going through at this very moment. Of course, once that is done we would be very happy to forward a copy of that to you so that we can keep you informed as to what our plans are.

Mr HAWKER—I am sure that would be greatly appreciated. Are you able to give any indication at this stage about what your possible findings could be?

Mr Johnson—Yes. First of all, we need to focus on fewer sectors. We need to market the opportunities more aggressively, and that is where we will work closely with Austrade and DFAT so that we can create a much stronger awareness of the markets that exist in there. We have to focus on much more detailed entry strategies for the specific markets. As I said, this is an ongoing process and an ongoing review, but those are the main things that will come through. I think we will add Bulgaria into the mix; we seem to be getting quite a lot of interest in Bulgaria. There is also a lot of interest in Croatia, mainly from local businesspeople. There are, for example, plans to set up a bilateral business council between Australia and Croatia, and we would obviously support that. So I can see that Croatia could become a market we focused on more. But, at this stage, the trade to the former Yugoslav countries is fairly small from our point of view.

CHAIR—So Slovakia and Slovenia are not necessarily in your proposals at this stage?

Mr Johnson—Slovenia is, and at this stage Slovakia is not.

CHAIR—In terms of the future and your own studies, what do you see as the main economic challenges of dealing with those countries?

Mr Johnson—The ability to pay would be the short answer to that. Certainly, we need to keep in context that, first of all, there has to be an awareness of Australia as a supplier of goods and services. I think they are very European- or US-centric—quite understandably and for obvious reasons. We need to become a much stronger player and create much greater awareness that Australia has got a lot to offer these countries. We have also to bear in mind that certainly in the agribusiness sector—an area that we have a great strength in—we would have strong competition. But the ability to pay and creating stronger awareness are the two main things that we have to focus on.

CHAIR—Thank you very much, Mr Johnson. I appreciate your input. We are very interested in the fact that Western Australia alone seems to be taking a particular interest in the current eastern Europe or the former Eastern Bloc. We recognise the challenges and the opportunities in these markets just from having been there. I know that, with his experience, your man in London, the agent-general, will undoubtedly do a great job for you. We look forward to reading what findings you have and where you go in the future. We will be producing our report in the next couple of months and I am sure you will find that of interest as part of an ongoing experience of that part of the world.

[11.42 a.m.]

LAJOVIC, Mr Dusan Sava, Chairman, Impact International Pty Ltd

CHAIR—On behalf of the Trade Subcommittee, I welcome Mr Lajovic. What is your role within Impact?

Mr Lajovic—I started Impact. My family had been involved in the same business in Yugoslavia. We lost the lot. Then by chance I met the managing director of Colgate on a plane. I describe that in my book. He said, ‘What do you know?’ So I told him what gives. He said, ‘I think you should see me.’ Ever since that we have been going.

CHAIR—That is great. The subcommittee prefers that all evidence be given in public, but should you at any time wish to go in camera then please let us know. Although the subcommittee does not require you to give evidence on oath, I should advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as the proceedings of the respective houses of parliament. I invite you to make an opening statement regarding your interests in those countries we have been examining. We will then proceed to questions.

Mr Lajovic—I started Impact in 1958 in Sydney. In 1961 I went to the Philippines because Colgate wanted somebody to make tubes there for them. The same thing happened then in Malaysia. It was 1961 in Malaysia and 1964 in the Philippines, or something like that. Wherever they wanted somebody to make tubes, I went there. Then with the communists, Yugoslavia disappeared. After a while I fought back and I got our family business back in Yugoslavia.

CHAIR—Was that difficult?

Mr Lajovic—Oh, yes. It was very difficult. In the beginning they offered me peanuts—half a million marks. I thought it was better to have half a million marks and five per cent and be in it, and then fight. And I fought and I now have 92 per cent. I fought and paid money; I invested about \$A6 million in it. In our business the market is where you have a big population—Australia has a population of 20 million. When I started in 1958 there were seven producers. I am the only one left now. I am concentrating on Europe from Ljubljana, where we employ about 150 people. Our turnover is about \$A22 to \$A23 million per year. We export mostly. Our consumption for Slovenia is less than 20 per cent. The rest is exports—to the whole of Europe. We are trying now to attack Russia.

In the beginning I was thinking of supplying slugs. I will show you a slug. From that you make a tube. This one I am holding is the first that we produced; that is why I have it. In the beginning I was trying to supply slugs, as I did to the Philippines and Malaysia and so on, and create exports for Australia. Many years ago I supplied coin blanks—about 60 tonnes. That was in 1966 or 1968, I think. Then I supplied 7,000 tonnes of aluminium to Indonesia to make coin blanks. Our industry here is not viable without exports.

Our Slovenian operation covers Europe, as I said, and we are trying to get into Russia. In one way it is good because we combined six companies together with R&D. We have our own research program on a new can, which is my patent in the manufacturing sector. The production facilities will firstly be in Slovenia. That new can—I am an optimist; I have to be a salesman—is something which will replace, I think, spiral winder cans. Spiral winder cans are a big security business. It is all Australian technology; it all comes from Sydney.

CHAIR—Have you found it difficult to operate in Slovenia?

Mr Lajovic—In the beginning, yes.

CHAIR—What year was it that you established your plant in Slovenia?

Mr Lajovic—In 1996. As I said, I got 500,000 marks, which is five per cent of the company. The rest I bought slowly until I got up to 99 per cent. The people are very happy with me. They work hard and make good products. Whenever an Australian delegation comes we have a place for the Australian flag.

CHAIR—We saw the flag; we were very impressed by the flag. Did you buy the shares from other employees there?

Mr Lajovic—Yes, I bought some shares from other employees and from the state. I did exchange some real estate. We had quite a lot of real estate; we still have some that we have not got back yet. The rest I just bought. People are happy. I had the good fortune that when I got into it I got involved with the Catholic bank. The right people—anticommunist people. On the understanding that they got 29 per cent, I got 60-odd per cent. When I had the money I bought them out.

CHAIR—Do you have plans for expansion?

Mr Lajovic—Yes. We are expanding all the time. When we started, we had only two products: aluminium tubes and aluminium aerosols. Then I followed that with plastic tubes, plastic extrusions and laminated tubes, for which we make the laminate in Sydney and ship it on. One thing which I am very proud of is that this is a tube made out of our laminate in Switzerland. Nobody previously was able to make a lamination with holograms. We were awarded a prize for that.

CHAIR—Are you planning to set up other plants in central Europe, or is it going to be Slovenia?

Mr Lajovic—No, I think I will concentrate on Slovenia, because we have plenty of land there and we have fantastic people—they really work hard—and we are covering Europe from there.

CHAIR—What problems do you find in your Slovenian plant?

Mr Lajovic—Sometimes we have little problems. The communists are sometimes still in their positions and they do not issue some permits or something like that, but it does not matter; we just do it the same way.

Mr JULL—Petty bureaucracy is a problem.

Mr Lajovic—Under communism bureaucracy was incredible. It was a lot better than ours!

Mr JULL—But it is still there to a degree?

Mr Lajovic—Yes.

Mr JULL—Is corruption still there to a degree?

Mr Lajovic—Yes, corruption is still there. But I must add one thing: Slovenia is a good starting point. Slovenia is near Italy, Austria, Hungary and Croatia. Most people in Slovenia speak four languages, including English, Italian and German, because they are neighbours. It is like the distance between Parramatta and Sydney—you are in another country.

CHAIR—Do you go over there regularly?

Mr Lajovic—Yes, I go at least once a year but I am in regular contact with them because the more we expand the more I can export from here, which is good, because I get good prices. Nobody else can do that.

CHAIR—Are you shipping much from Australia?

Mr Lajovic—Not yet. We produce some laminate material in Australia and ship it to Slovenia to be converted into laminate tubes. We also ship laminate material to an international company in Germany for them to convert into laminate tubes.

Transport cost does not really influence the price of our product because we ship in bulk. Rolls of 800 millimetres in diameter and 800 millimetres in width cost \$2,500. What does matter is import duty into the European market which varies between 10 and 15 per cent.

Mr JULL—We were looked after by Mr Victor Baraga, our Australian consul.

Mr Lajovic—Yes; he is my friend.

Mr JULL—I understand that he has a connection with the company too. I think he is one of your directors.

Mr Lajovic—Yes.

Mr JULL—So there is a fair bit of contact between him and Australia. I must say that he looked after us very well indeed, thank you very much.

Mr Lajovic—He is a good man. He was the agent for a Yugoslav trading company 12 or 14 years ago. Then I picked him up and he became associated with me. We have a fifty-fifty trading company. This company's trade between Australia and Slovenia is about \$22 million—not a lot but it is growing.

Mr JULL—What sorts of things are you trading in? Can we ask that?

Mr Lajovic—Yes. From Australia we export meat, wool—not a lot of wool—and aluminium, and we export back aluminium products and a lot of chemicals.

CHAIR—To where, Slovenia?

Mr Lajovic—Yes.

CHAIR—So it is meat, aluminium—

Mr Lajovic—Aluminium from here.

CHAIR—And wool.

Mr Lajovic—And from Slovenia to Australia we export mostly pharmaceuticals, and that is growing, especially now with deregulation coming into effect—the generics. We hope that will grow to \$5 million or \$6 million. We are doing that mainly with the Sigma people in Melbourne.

Mr JULL—Mr Baraga mentioned that to us. Do you ever use Austrade?

Mr Lajovic—Yes. Austrade has helped me a few times and served me very well. Through Austrade I had good contacts in Hong Kong a few years ago, and also in Japan. In Europe there was another Austrade man—I have forgotten his name.

CHAIR—Which country?

Mr Lajovic—He is the general manager of Austrade in Europe.

CHAIR—That is Charles O'Halloran.

Mr Lajovic—Yes. He is a good man.

CHAIR—Yes, he is a good guy.

Mr Lajovic—He knows; I do not think he is in error. So, yes, Austrade was quite good.

Mr JULL—In your submission you suggested that the Austrade representatives should be in Ljubljana rather than Zagreb. Is there a specific reason for that? If you moved the Austrade people from Zagreb to Ljubljana you would probably also have to move the Australian embassy from Zagreb to Ljubljana.

Mr Lajovic—The situation is this: Slovenia is better accepted by its neighbours than is Croatia. Croatia is a lot bigger than Slovenia but it is not as well accepted. Hungary and Italy would rather deal with Slovenia than with Croatia.

CHAIR—Which central European countries do you think have the most potential for the future, on economic grounds?

Mr Lajovic—For exports from Australia?

CHAIR—Yes.

Mr Lajovic—Who is more flexible. Europeans are sometimes not like that. I think the French would be the most flexible.

CHAIR—I am talking about central Europe in particular, which is the subject of our inquiry.

Mr JULL—The old eastern states.

Mr Lajovic—Slovenia is accepted everywhere.

CHAIR—Which other ones would you nominate?

Mr Lajovic—Germany.

CHAIR—We are talking about the former Eastern Bloc.

Mr Lajovic—I would go for Poland or Czechoslovakia. The Czechs have been very well organised for a long time. When Hitler got Czechoslovakia in 1939 he got half of his armaments. The Hungarians are good. The Hungarians have one advantage. They had a big Jewish population before the war, and the Jewish population from America are coming back to Hungary—not all of them, but some.

CHAIR—To live there permanently?

Mr Lajovic—Yes.

CHAIR—To reinvest?

Mr Lajovic—Yes.

CHAIR—What about some of the others like Slovakia?

Mr Lajovic—I do not think Slovakia has much. The Czech Republic, with Prague, is always ahead. If I may compare: Czech Republic, Slovenia and on the other side Slovakia or Croatia. That is the comparison.

CHAIR—What about Romania and Bulgaria? Where do they fit in?

Mr Lajovic—With Bulgaria, as with a lot of old communist states, it is very hard to teach them how to trade properly. They always think money on the table is the only value. Bulgaria has not got much to export except, if I am correct, perfume—rose oil—

CHAIR—In the second week of our trip, Mr Jull and I went to Slovakia, Croatia and Slovenia and Mr Hawker went to Romania and Bulgaria. In the first week we all went to Poland, Hungary and the Czech Republic. So Mr Hawker would be aware of that.

Mr Lajovic—Ex-Yugoslavia had forces that were a lot more liberal than the rest of it. Slovenia was always ahead because we are more educated and so on.

Mr HAWKER—With your trading company—you are talking about agricultural products like meat and wool—what scope is there for expanding those products into the area?

Mr Lajovic—I talked to Mr Baraga about this for a long time. World trading essentially depends on what you can supply the next day—not waiting for five or six weeks. Sometimes in our case we have to airfreight things. If you have meat and wool stores in, say, Koper serving middle Europe, that would be a big advantage, especially for small quantities—small people who buy stock, but you get a good price.

CHAIR—Have you considered the implications of Slovenia going into the European Union?

Mr Lajovic—I think it is all for the better. The remaining communists realise that they are finished.

CHAIR—That is right. But in terms of, for example, exporting meat, you will be subject to the restrictions on the amount that we can sell overall into the EU.

Mr Lajovic—I do not know what restrictions there are. I do not know anything about meat. But I know in our products there are no restrictions. There are no duties and no restrictions.

CHAIR—That is good. Thank you very much for coming today. We congratulate you on the success of the company and what you have achieved. I think it has been outstanding. We were very pleased to see the Aussie flag flying above a successful company. And the honorary consul in Slovenia is on your advisory board.

Mr Lajovic—That is right.

CHAIR—He is quite an impressive guy.

Mr Lajovic—I will do anything for Australia.

CHAIR—That is great. You have done a great job. Thank you for coming today. We really appreciate it.

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

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

Subcommittee adjourned at 12.04 p.m.