



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS,  
DEFENCE AND TRADE

**Trade Subcommittee**

**Reference: Expanding Australia's trade and investment relationship with the  
economies of the Gulf states**

WEDNESDAY, 7 APRIL 2004

MELBOURNE

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## JOINT COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE

### Trade Subcommittee

Wednesday, 7 April 2004

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

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

**Senators and members in attendance:** Senator Bolkus, Mr Baird and Mr Jull

#### **Terms of reference for the inquiry:**

To inquire into and report on:

Expanding Australia's trade and investment opportunities and relations with Bahrain, Iran, Kuwait, Oman, Saudi Arabia, Qatar and the United Arab Emirates.

**WITNESSES**

**AYAN, Mr Abdullahi Haji (Private capacity)..... 15**  
**ERWIN, Mr Murray Edward, Divisional Manager, Bayside Personnel Australia Pty Ltd..... 1**  
**MOORE, Mr Donald Fraser, Principal, Independent Corporate Solutions, Adesse Group..... 7**



**Subcommittee met at 2.33 p.m.****ERWIN, Mr Murray Edward, Divisional Manager, Bayside Personnel Australia Pty Ltd**

**CHAIR**—I declare open the third public hearing of the inquiry into expanding Australia's trade and investment relationships with the economies of the Gulf States, 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 seven countries, namely Bahrain, Kuwait, Amman, Saudi Arabia, the United Arab Emirates, Qatar and Iran. Of particular interest to the inquiry is, firstly, the nature of Australia's existing trade and investment relationships with the region and likely future trends in these relationships. Further, the committee will be looking at the role of government, particularly of the Department of Foreign Affairs and Trade, Austrade and the Export Finance and Insurance Corp., in assisting Australian companies to win business in the Gulf States. I hope that our inquiry will lead to a better understanding between Australia and the Gulf States and an expansion in trade and investment.

On behalf of the Trade Subcommittee, I welcome the representative from Bayside Personnel. The subcommittee prefers all evidence to be given in public but should you at any stage wish to go in camera then please let the committee know. The subcommittee has one submission from Bayside Personnel, submission No. 3. I now invite you to make an opening statement before we proceed to questions.

**Mr Erwin**—Thank you, Mr Chairman. As mentioned, I am the Divisional Manager of Bayside Personnel. Bayside Personnel is an Australian owned specialist recruitment company. The reason we have made the submission goes to our interpretation of 23AF of the tax act and how it impacts on our business. I am also the Vice-Chairman of the Australia Arab Chamber of Commerce and Industry and have been involved with trading in the Middle East for over 13 years. One of my roles at Bayside Personnel is to manage the international department, which specialises in the recruitment of personnel for the oil and gas industries as well as the health care sectors in the Middle East, predominantly in Saudi Arabia. Since 1991 we have been providing recruitment services to the Middle East, allowing Australian professionals to take up roles in that region. We have a contract with the largest oil company in the world, the Saudi Arabian Oil Co.—which is commonly referred to as Saudi Aramco—as well as with a number of other oil and gas companies and health care facilities throughout the region.

Over the years we have been able to obtain many approved project numbers under 23AF of the act, which has allowed us to compete with recruitment organisations from other parts of the world whose applicants do not have tax obligations to their respective governments. Last year we were surprised by a sudden, unannounced, revised interpretation of 23AF of the act by the Australian Trade Commission. In August last year we sought an opinion from them with respect to our existing contract and the existing project number for our Saudi Aramco contract. They advised us that they would not be able to extend the validity period of that project status, nor would they issue new numbers in respect of that contract. That number expired in December last year and since that time, while we had discussions, we have noticed a marked decrease in recruitment activity for that contract.

We have been recently advised by Saudi Aramco that the project status of a number of Australian employees who have been working out there has been terminated and that they may

wish to terminate their employment status with Aramco. We feel disadvantaged as an industry and as an organisation. We seek the committee's indulgence to review the current interpretation by Austrade of 23AF of the act and to perhaps even look at a broader review of the benefits of removing impediments to assisting professional Australians and decision makers to take up positions of influence in a rapidly-expanding market in the Middle East. I am pleased to make myself available today and to assist the committee with their inquiries.

**CHAIR**—Thanks very much for coming, Mr Erwin. It is quite useful. You probably know that we saw representatives of another company in Sydney this morning who outlined their concerns. We had hoped to talk to Austrade about those when they appeared before us in Canberra, but they were not ready with their official answer. We now have an answer and we will be pursuing it further with them. Are you aware of what the situation is in relation to countries such as the UK? What arrangements do they have? Do they have a similar tax exemption?

**Mr Erwin**—It is our understanding that UK nationals, as long as they are outside the UK for the full tax year, are exempt from tax. They are permitted to return to the UK for periods not greater than 90 days.

**CHAIR**—Do you have a UK arm?

**Mr Erwin**—No, we do not.

**CHAIR**—That is something that we need to pursue. It is always useful if you want assistance in these areas to be able to point to the practices of other countries, especially the UK. It is quite a useful one. How many people have you been involved in placing in the Middle East?

**Mr Erwin**—Over 12 years we estimate that we have placed over there about 1,500 people.

**CHAIR**—How many do you have there at the moment?

**Mr Erwin**—There would be in the order of 300 to 400 people still there.

**CHAIR**—All of these people would be affected?

**Mr Erwin**—Not all. Of course, some people do go out there under different regimes. They might declare themselves non-residents of Australia. But it does affect quite a proportion of them.

**CHAIR**—What categories of personnel do you have?

**Mr Erwin**—Mainly oil and gas professional engineers, as well as health care workers—nursing, medical and allied health professionals.

**CHAIR**—What countries are they mainly in?

**Mr Erwin**—They are mainly in Saudi Arabia but also in the United Arab Emirates and Qatar.



**CHAIR**—Do you have any evidence of how they are useful to Australia in developing our trade relationship and our relationship overall with Saudi Arabia, for example?

**Mr Erwin**—It is difficult to quantify. For example, right now we are negotiating with the Saudi Arabian embassy in respect of the training of doctors and biomedical technicians. It was only as a result of the work we have been doing in Saudi Arabia and the personnel we have been sending over there that that has been able to be brought forward. We believe our relationship with Saudi Aramco has resulted in some discussions with regard to universities putting in place some training regimes with Saudi Aramco. You would be well aware, with your background in trade, of how people influence the trade relationship so much. We believe it is quite important to have senior Australians on the ground in these regions to stimulate the trade and influence of Australian products and services.

**Mr JULL**—Would those doctors be trained here or would we be sending personnel over there to train them?

**Mr Erwin**—Those doctors were intending to come out here to undergo further training. They were qualified doctors. They were intending to come out here to get experience in accident and emergency areas.

**Mr JULL**—You also mentioned in your submission that there were spin-offs that we would miss out on if this regime were allowed to stay. I assume that would go to things like the purchase of equipment, but could you give us some examples of areas in which we might lose?

**Mr Erwin**—As I said—and the chairman would be well aware of this with his background with the Trade Commission—we believe that trade is always influenced by the people who are involved on the ground. We obviously have difficulty quantifying some of the things that occur but, for example, we placed a cathodic protection person into a position in Jeddah in Saudi Arabia and we are aware that he was specifying Australian products as part of that contract. Also, when we first took up the Aramco contract we were influential in having them enter into an agreement with a travel agent here in Australia for all their travel requirements. The influence does tend to generate other business once you get that influence going.

**Mr JULL**—So it is a broad cross-section of Australian industry?

**Mr Erwin**—We do not always, as I say, get to hear about what goes on. We place engineers in these positions and we are well aware that they are always talking about Australian products, Australian procedures and other Australian organisations. From our work in the Australian Arab chamber, we are well aware of the networking that has to be done to stimulate trade. Obviously, the more people you have speaking about an Australian product, the better it is.

**Mr JULL**—Can I ask what might seem a funny question. Are you prepared to give us an indication of how you feel Australians are regarded in the Gulf States in terms of their competence and their adaptability to the conditions? Would we be regarded as leading lights there—

**Mr Erwin**—Very much so.

**Mr JULL**—or do we come second behind the Brits and the Americans?

**Mr Erwin**—No. I think that is what is influencing some of the training discussions at the moment. They realise our people are very highly trained and highly skilled and are very adaptable. That has probably been the key to our success over the years. Our staff have always been considered to be very adaptable to conditions.

**CHAIR**—That is a word I hear quite a lot about Australian expats and their usefulness—adaptability.

**Mr JULL**—Here is a broad bow. Do you know of any examples of gulf personnel deciding to send their children to Australia for university or other training because of the reputation we have?

**Mr Erwin**—I could not give you any specific examples, but we are well aware that at the moment a lot of the Saudis particularly are sending their children to the US for their further education. We do know at the moment that there are some great concerns about that and that they are looking elsewhere right now for other areas to which to send their students. We believe, due to the fact that Australians have had a strong influence in the kingdom for some time now, that they realise that we are well educated. They see the product of that and they are looking towards this part of the world. I know a number of trade delegations that go through specifically focus on education and training. I am sure Austrade would be able to verify that.

**Senator BOLKUS**—In your submission you mentioned that this change of interpretation happened essentially without notice. You also mentioned that you had quite a number of people working for Saudi Aramco on contracts. What happened to them? Did some of them decide to come back to Australia because of this?

**Mr Erwin**—Our project number was due to expire in December last year. We had backed up what we believed to be a reasonable time. We had heard rumblings that there were some difficulties, so we thought we had better get back to Austrade and find out. Under normal circumstances we would have simply backed up a couple of months from there and put in a submission for an extension to the project and it would have been granted. That is what was happening for a number of years prior to that. We put in a submission to get an opinion out of Austrade as to what was going to happen. They advised us in September that they probably would not be able to grant an extension, so we had to then notify all the Australian employees that such was the case. It took Aramco until December, because of their legal requirements, to sort through that and in December they announced to all the Australian employees that that was the case. We are only just getting the rumblings from there. I received an email last night to say that quite a number of employees of Aramco were reviewing their circumstances and may well terminate as a result. Obviously, they are not keen on having to cope with the extra tax requirements.

**CHAIR**—Do you know what the prompt was for the review? Was it a Treasury prompt? Was it a question of clarification?

**Mr Erwin**—We do not know. The only official word we received from Austrade was that they do reviews from time to time, that they got legal opinion and that it was felt that they had to review the way they looked at these projects.

**Senator BOLKUS**—23AF was introduced quite a few years ago, wasn't it?

**Mr Erwin**—I believe it was introduced in 1979. It is my understanding that it was in respect of a project for the operation and management of a hospital, which involved personnel—oddly enough. I believe it was Doug Anthony who prompted the legislation. So there was an element of recruitment in the original concept.

**Senator BOLKUS**—It was probably appropriate for a previous era in global trade, but trade has changed enormously in the last 25 years or so. You mentioned the UK provision. Are there any others you would point us to?

**Mr Erwin**—The US similarly have a threshold. There is a certain amount of money that an American national can earn tax free before a certain tax regime kicks in.

**CHAIR**—Are you aware of what that cap is?

**Mr Erwin**—I am not exactly certain.

**CHAIR**—That is another thing we might follow up.

**Senator BOLKUS**—Do they have a residential requirement as well, like the UK, or is it just a financial cap?

**Mr Erwin**—No, I think it is purely a financial cap.

**Senator BOLKUS**—Austrade, in a letter we got in the last 24 hours, said:

The intention of the legislation is to ensure that Australian companies remain competitive when bidding for tenure overseas on certain project types that fall within Australia's national interests.

I suppose you would be arguing that, though that might be the right interpretation, current law should really reflect the intricate nature of the service agreements and the impacts they have on not just one project but projects available generally.

**Mr Erwin**—We have a real problem with the way that Austrade have interpreted the act. We believe that our projects are in fact quite specific in their intent. They have a start and they have a finish. We have to tender for them. We have to compete with offshore organisations. In fact, we basically have to compete on every placement because we are up against recruitment companies from all around the world, particularly from the Western world. We feel as though we are being disadvantaged. The intent of the section was clearly to protect Australian organisations and enable them to be competitive. We have a great problem with why it could not be interpreted in that way for our industry.

**Senator BOLKUS**—I suppose they would say that the projects you are working on are not directly in the national interest. What you are saying is that indirectly the national interest is enhanced by expats working overseas.

**Mr Erwin**—Absolutely. As I say, anybody in the trade area would be well aware of the importance of person-to-person contacts.

**Senator BOLKUS**—That is one level. I suppose the other level is the UK taking a position that allows the non-taxing of their citizens if they work overseas for the duration of the year. That recognises the growing number of people who are now working in places where they are not citizens and not permanent residents. Is that something we need to acknowledge in our legislation, that we are finding a globalisation of human services?

**Mr Erwin**—Absolutely. I was reading an article on a report by Professor Graeme Hugo. I believe the then Minister for Immigration and Multicultural and Indigenous Affairs, Philip Ruddock, made a speech when they launched that report. Minister Ruddock suggested that Professor Hugo's report laid to rest the idea that Australia was disadvantaged by the increased movement of skilled people around the globe. There was great evidence in that report to prove that Australia benefits from skilled professionals seeking positions overseas for a number of reasons, not the least of which is the repatriated salaries that return to Australia.

**Senator BOLKUS**—I am chairing another committee, which is holding an inquiry on the diaspora, and I think Professor Hugo's report is underpinning some of the thought in that. You will not be surprised to know that we have had hundreds of submissions on this taxation point, so it would be good to fix it up through this one. Thanks.

**CHAIR**—Thank you very much for coming in, Mr Erwin. I appreciate the points you are making, and I can see your frustration with the issue. We will have to consider that, especially in the light of what we may hear on our visit to the Gulf States. We leave this weekend, and we are looking forward to the comments from locals. We will have an opportunity to meet a number of expats working in the Gulf States, so we will see where we end up.

[2.55 p.m.]

**MOORE, Mr Donald Fraser, Principal, Independent Corporate Solutions, Adesse Group**

**CHAIR**—On behalf of the Trade Subcommittee, I welcome the representative from ICS. As I mentioned before, the committee prefers all evidence to be given in public, but please let us know if you wish to go in camera. Do you have any comments to make on the capacity in which you appear?

**Mr Moore**—ICS has become part of the Adesse Group. I have been involved in professional executive recruitment internationally for about 11 years. I am also the immediate past president of the Australia Arab Chamber of Commerce and Industry, Victorian Chapter.

**CHAIR**—That is very useful. We invite you to make an opening statement. Because you will have heard the discussion going on before, please feel free to cover widely the issues that were discussed. We will follow with questions as we see appropriate. Please proceed.

**Mr Moore**—There would be a lot of similarities between Mr Erwin's submission and mine, so I will cut the first part down. Essentially, as I said, my company have been placing senior Australian expats into the Middle East particularly since 1994. We have worked very closely with Austrade over that time, and one aspect of that was the 23AF tax exemption for expats. We have in our own right had more than 80 projects approved over that time. Austrade guided us on what projects were appropriate and on what levels of information were required for the submissions, and the results were excellent. We can claim over 300 placements at the senior level in that time period.

Austrade clearly recognised the benefits of having senior Australians participating in decision making—which is my field—in the global economy. In summary, I think they are: creating a good image for Australia, recognising that along with that image our skills and our supply and demand capability forge future discussions on trade and directing that trade back to Australia in whatever form, be it products, services or consulting. As Murray said, the salaries simply return to the Australian economy. Mr John Yeudell, who was the senior trade commissioner of Austrade for many years, did a broad calculation, which most of us now use in our submissions, of a minimum return for an engineer or manager while they are overseas of \$50,000 per annum. We use that calculation in most of our submissions as a guideline.

In November 2002 the application of 23AF was changed suddenly and without notice—which you have heard before—and we can no longer obtain exemptions for most of our projects. Since then ICS has lost many jobs, and I can talk about them in detail. Therefore, I believe Australia has also lost the flow-ons. We are asking the government to review and find a solution which rebalances the competition. We are not saying it has to be 23AF. That is one vehicle; there may be others. We need to put senior Australians with decision-making capabilities back into the global marketplace or we will continue to lose opportunities. We could list some 50-odd jobs, if we had time, in ICS alone that have been lost in the last two years because of this.

I had a very quick look at the Austrade submission from yesterday, and there are two points I would like to bring up. They suggest that 'personnel' and 'development' do not go together and define development as involving a concept of advancing, growing or evolving a program or improving and strengthening a facility. My comment would be that these functions can occur only through the application of knowledge and experience or R&D. It is the senior people—the skilled people—that we place over there who provide this energy and resource to create the development. They say later that the Middle East and the Gulf States are a little different from most Western countries. I would agree, and we could talk a long time about that. The example I would like to put to you is that the area is very family oriented. There are only a limited number of surnames. They go back in ages, thousands of years, and they rule. The Al-Rajih family would control probably 20 per cent of the Saudi economy yet no longer fit the application of the 23AF rules as an eligible employer. I need to tell Mr Al-Rajih that we can no longer place Australians with him, and the likely flow-on effects of that are completely clear. That may do, and I will answer questions.

**CHAIR**—We would be interested to know where they are drawing from now. What are the countries that are gazumping us because of a more benign taxing arrangement?

**Mr Moore**—America and the UK-Europe are still fairly major competition. You heard about different pay scales and so forth—and I will not cover that again—and certain political influences, but the truth is that they still draw from those two places fairly significantly. We are currently being underdone when we cannot place people. South Africa has come up quite significantly in the last few months. Their rates on salaries et cetera are lower than ours, but their skill levels are also lower than ours. However, they can fill the gap. We are the preferred window of opportunity. We get a lot of requests individually and through the government. We had a trade mission here two weeks ago from the Ministry of Health in Saudi talking again about training doctors, nurses and administrators by sending people to Australia because of our reputation. We are the flavour of the month, and we need to continue that, continually prove and revalidate the fact that we have the people and the skills to help them. The competition, apart from historic competition, is probably South Africa.

**CHAIR**—They are tax exempt?

**Mr Moore**—In fairness, they have two attributes. Their salaries are lower than ours in terms of standards, although they are catching up, and they seem to be tax exempt once they leave their shores. I am not sure whether there are too many criteria on that. The candidates I have been involved with have never had an issue.

**CHAIR**—What types of personnel are you placing?

**Mr Moore**—We place senior engineers into the technical areas—manufacturing and so on—but we predominantly deal with management positions. The cross-section of areas in recent times includes the agriculture, aquaculture, manufacturing, including aluminium, and banking industries and the Ministry of Health. We also have a foot in the door with a number of the people involved in the Dolphin Energy project, which involves a very large pipeline from Iran all the way down to UAE. That covers what we have been doing in the last 12 months, and pretty well all of those are senior management positions.

**CHAIR**—What are the benchmark type figures you would be placing people at, without identifying specific people?

**Mr Moore**—In terms of salaries?

**CHAIR**—Salary levels, yes.

**Mr Moore**—The minimum would be around \$US100,000.

**CHAIR**—Going up to?

**Mr Moore**—I will say \$US200,000 just to keep it nice and simple. Between \$US100,000 and \$US200,000 would be fairly typical.

**CHAIR**—With tax implications, you could cut that in half.

**Mr Moore**—Correct. Again, as Mr Erwin said, I need to say that there are other mechanisms, such as non-resident for tax purposes and so on, with respect to taxation. There are two problems. The first is that it is not clear whether or not you will get the tax exemption. If you come back two or three years later and resume your job or position in Australia with these global skills in hand, having enhanced what you can do, you may be asked to pay back half of what you thought were savings. The danger in that indecisiveness is clear. The ATO writes on the bottom of its letters the statement, 'Come the time, we will review it again and give you an answer.' The second is that, if you are a non-resident for tax purposes, there are flow-on effects on your rights and authorities within Australia with respect to voting, superannuation funds, property investments and so on. It is a vehicle, but it is not clear-cut and it is not intended for use in the same way that we believe 23AF was.

**CHAIR**—What about legally? Has the responsibility before the law in these countries changed for an Australian expat versus a non-resident citizen?

**Mr Moore**—At the other end it does not make any difference at all.

**Senator BOLKUS**—You mentioned salaries earlier. If the people earning those salaries were working in similar jobs in Australia, what sorts of salaries would they attract here? Are we talking about much higher salaries in the gulf?

**Mr Moore**—You are talking about salaries in the same ballpark, if I could use that expression. What most of the customers do over there is look at the job in Australia or somewhere else and say, 'That's about what it's worth.' There is a little incentive on top to come to a foreign country and settle in. They certainly do not double or anything like that. They are probably within 20 to 25 per cent of the equivalent in Australia.

**CHAIR**—Do they get loadings on top of those salary levels for accommodation and other things?

**Mr Moore**—As a general statement, accommodation and transport are supplied on top of salaries. When you are in Australia they are your costs; when you are over there and displaced, they need to be replaced, so they are on top of salaries.

**Senator BOLKUS**—I was just going to ask about that. Has the tax office thought about fringe benefits tax?

**Mr Moore**—I am not sure of the legal argument on that one.

**Mr JULL**—Delete that from the transcript!

**Senator BOLKUS**—I have two other questions. We are talking about the gulf today, but do you know of any other countries or regions that may be similarly affected?

**Mr Moore**—I do not. My own career and my work with the chamber has pretty well focused me on the Gulf-Middle Eastern countries. The gulf expands out into the Middle East to about 30 individual countries, the majority of which to my knowledge have zero income tax.

**Senator BOLKUS**—You can take this on notice. Is it possible to provide the committee with a list of projects that have been approved in the past but would not be approved now?

**Mr Moore**—I have a print-out. You can have it today.

**Senator BOLKUS**—Great. My last question goes to Mark Vaile's letter of 2 July. I do not know what he is trying to say but in the third-last paragraph he raises two examples that you raised with him. Could you explain to us why you think, in both those circumstances, the old regime should prevail? Why isn't it fair game for tax to be levied?

**Mr Moore**—I will answer in general. I think it applies to those two, from memory. I submitted that letter today simply to show you that we used due process and tried to address this through the current trade minister and that he is very supportive of anything to do with bilateral trade in the Middle East. He has supported the chamber; he has been on visits many times. In this letter he indicates exactly the same thing when he says: 'I will help. I will find a solution.' Unfortunately, that has not been possible. With respect to the bit in the middle of the letter which refers to 'eligible contractor and eligible projects', in most cases my projects are eligible under the current 23AF definition because my senior managers and senior engineers design, build, construct, bring in the equipment and create. That falls fairly well within the definition.

'Eligible contractor or eligible employer' is usually the problem that I have. As I mentioned, Al-Rajihi are not a government and not a legislative arm of the government, nor are they a medical facility. Within reason, they meet the basic agreements on 'eligible employer'. However, as a family group, they report through to the king and they influence the politics and economy of the country. As a merchant family they control 20 per cent of the Saudi economy, yet they are ineligible under the definition circa 1979 as an eligible employer. My biggest problem is with the definition of eligible employer.



**Mr JULL**—Just for the record, Mr Moore, could you spell out the sorts of areas in which you have been placing these personnel? We have picked up that you are into health, construction and oil.

**Mr Moore**—A little bit—oil is Mr Erwin's patch at the moment. Quick examples of the areas we are involved in are agriculture and aquaculture. The Al-Rajihi family have a very large poultry farm over there, producing 500,000 birds a day. It extends our scale by two to 2½ times in Australia. The Australian managers have the skills and the wherewithal to transfer their knowledge and do well in that environment, and they have done. The production manager, breeder house manager, broiler house manager and the R&D manager are all Aussies and were all recruited through my company.

**Mr JULL**—Are they, incidentally, buying breeding stock from Australia?

**Mr Moore**—There are discussions on that. One of the flow-on benefits of this is that these Aussie managers look back. We have had research assignments through the universities. We have had some of our chemical products bought over there because our cleaning agents are more environmentally friendly, do a good job and are reasonably cheap. A number of flow-on benefits have occurred already, so it would not surprise me if they bought breeding stock from Australia. They have had the avian flu go through those regions and we have not, so there are possibilities in that area.

**Mr JULL**—I will declare a vested interest. I have chooks in my electorate and I know people are looking at going into that business.

**Mr Moore**—Al-Rajihi have one of the largest poultry farms in the world, and they would look at Australia with a very friendly perspective at the moment. Of the four managers that have been there for two years, two are not renewing their contracts because of the tax exemption. They sought legal advice, professional advice, and that is their decision. We are going to lose 50 per cent of our influence in that one company. Riyadh Bank is another alternative. We have put in the head of risk management. It is a brand-new department. The Saudis are just catching up on insurance, superannuation et cetera. There is an Australian heading up that division. He has since come back to Australia and will take back with him three or four other people—if we can get the sign-offs on the money side of it—including statisticians and brokers. That creation of a new division within Riyadh Bank, the second largest bank in Saudi, was driven by Australian skills and experience. Those are two good examples.

**Mr JULL**—Basically your placements are in the Emirates plus Saudi?

**Mr Moore**—Saudi and the Emirates are our two biggest customers. We also do placements in Qatar, Bahrain and a few miscellaneous other places. Saudi and UAE traditionally are the largest two markets.

**Mr JULL**—Have you tried Iran?

**Mr Moore**—The answer for me is no. There is another discussion to be had, which I could have with my chamber hat on, on whether we should or should not, on how quickly we could do that and under what circumstances. Today ICS focus predominantly on those middle-section

markets. They have the largest understanding of Australia's supply-demand needs and capabilities. In relation to banking, 10 years ago when I went over there on my first visit they said: 'Do you have banks in Australia? How can I place an Australian manager in my bank? I don't know what you're capable of.' In 10 years that has changed to the point where in almost every bank in Saudi, and in most in the UAE, there are senior Australian managers. We are very welcome. At the peak with Riyadh Bank I placed 15 people on a major IT project who changed the host computer and all the network on the run. They trusted that to an Australian project team, and we never let them down. Ten years of being there, of having decision makers there, of doing the right thing, of sharing our skills and experiences have resulted in an image of being able to place Australian bankers and do interchanges. We have the reputation.

**Mr JULL**—I will ask a question I asked the previous witness. Do you have any evidence of the personnel you are dealing with out of Saudi or the Emirates deciding to send their children to Australian institutions as a result of the standards we have?

**Mr Moore**—The general answer is not specifically. That is a very personal thing. The Ministry of Health have come here before. The Minister of Higher Education and the Minister of Education from Saudi visited last year. I took Minister John Thwaites on a trade mission in October 2002, where he met all these people and opened a lot of doors. The follow-on from that saw contracts signed for training, Saudi students coming here and business professionals coming here. That is well documented by the Victorian government, the DIIRD, and by Austrade. I cannot name family names but I can tell you absolutely that the missions occurred and the transfers occurred.

**CHAIR**—Are there the same taxation arrangements in UAE as there are in Saudi? Is there no personal taxation?

**Mr Moore**—Correct.

**CHAIR**—Does that apply all through the gulf?

**Mr Moore**—As a general statement, in most of the gulf region that is the situation, especially in the GCC, where they have common agreements, so it is clearly not exempt.

**CHAIR**—Are you aware of the extent to which the UK is placing people in these areas as well? Is it extensive?

**Mr Moore**—The answer has to be a little historical and then relate to today. The UK, of course, had ownership or control—whatever word you want to use—of UAE until the late seventies, eighties or something like that, so there is a very strong British influence there. Traditionally they placed most of the people and we fought against them. The work that Murray, a few others and I have done, and the trade business in the last few years, has opened the gaps for Australia to put people in. The terrorism and other political situations around there have benefited us. We are still seen as neutral and friendly. The UK have suffered a bit and the US have suffered a lot. Whilst they have the historic ties—and I guess Saudi goes back to America more than UK—that requirement to service the industry has dropped off dramatically in both of those regions and we should have picked up the slack. We have done it to an extent. Had this not jumped in the way—in fairness, in concert with the US dollar balancing out a little bit, which

has been another element of the problem—then we would have filled the gap to a much higher extent.

**CHAIR**—In terms of placement of expats, where is the country ranking? Is the UK No. 1 and then the US?

**Mr Moore**—Again, it is a little country specific. I would have to say the UK-Europe as a generic region would still beat us hands down. America still has specialists, by definition, and they are streamed and very tight in what they know, but they are very clever people and they tend to get some of those jobs as well. In terms of straight-out volume, I would have to say the UK-Europe as a region would still beat us.

**CHAIR**—I think we have the force of the argument. Are you aware, as well, of what precipitated this review? Were there complaints of inequity from people operating in other areas?

**Mr Moore**—No, certainly not from on the ground, through the chamber of commerce, through my network connections. There were no issues at that end; it was a government initiated response. Why? We honestly do not know. It was a review at a point in time. We agree that the black-and-white letter of the legislation circa 1979 does not fit all of our projects. This is not the point we are making. We are saying that in 25 years a relationship, an expectation, a mentoring, has occurred through Australia on what is applicable and what is not, in the national interest. Every project has to validate that and a lot of other things—and we do—and then be approved. After 25 years it just went bang, overnight; they were all rejects. That is the problem we have. Hence we are asking for a solution and we would be very happy to work with you in the top end group to come up with a solution, but it really is hurting that much.

**Senator BOLKUS**—Has anyone given any indication of what this measure may mean to revenue, what it might be worth?

**Mr Moore**—There are difficulties through individuals, through the chamber, through Austrade. We have been trying to measure, with some form of accuracy, the services, consulting, IP content of trade and the rate of growth of that element. The answer is that nobody has done it successfully yet. Figures that we individually put through to Austrade almost a year ago would show, even in our small sector, multimillions of dollars, if you include the salaries coming back to Australia. But it is a very difficult thing to measure at the moment. The system is not in place. It has been built on product bias, modified a little bit when our motor vehicles went over there and were very successful as elaborately transformed manufactures but nevertheless a product. You can count them—one, two, three—so it did not upset the guidelines. The measurements are accurate until you get to the services area and then it becomes a guess until a system is put in place to measure that accurately, forecast and assist.

**Senator BOLKUS**—Sorry, I think you might have interpreted me as saying, ‘What has been the cost to revenue of the increase in opportunities?’ but I was thinking more in terms of the actual tax measure itself. How much is that intended to raise for revenue by levying the tax?

**Mr Moore**—I guess the calculation is something that can be done outside the meeting, but we would be doing 50 or more placements a year. They are \$US100,000-odd salaries, so maybe

\$A120,000 salaries. Whatever the tax rate, these guys are going to be in the top end. We could do the calculation but I would only be guessing at the moment.

**Senator BOLKUS**—We might get a figure from Treasury.

**Mr Moore**—Sure, but understand that this is the forward part of it and the easy calculation.

**Senator BOLKUS**—Yes.

**Mr Moore**—The benefit of having Australian decision makers there is the difficult bit to measure, and we acknowledge that. As individuals and chamber members, we would certainly like to help in any flow-on from this discussion.

**CHAIR**—That is very useful. Thank you very much, Mr Moore. We appreciate your input. We will be looking forward to further input when we are there; we leave this weekend on the visit.

**Mr Moore**—If the chamber can assist with your visit in any way, please just ask. We have all the connections over there that can get you to the meetings and so forth. I am sure the government do, as well, but you have an open offer from the chamber.

**CHAIR**—Thank you very much; that is appreciated.

[3.24 p.m.]

**AYAN, Mr Abdullahi Haji (Private capacity)**

**CHAIR**—On behalf of the Trade Subcommittee, I welcome you to the public hearing. As I have said before, we prefer all evidence to be given in public. Should you want to go into camera at any stage then please let us know. In this case I do not think that will be necessary. The subcommittee has one submission from you, submission No. 7. Now I would like to invite you to make an opening statement, and we will follow it up with questions.

**Mr Ayan**—Thank you very much, first of all, for inviting me to the hearing. Most of the ideas I had are expressed in the submission. If you would like to ask me further questions with regard to that submission, I will be pleased to respond to them to the best of my ability.

**CHAIR**—We understand that you have some ideas about the way we go about our trade activities with the Gulf States and how that could be improved. Perhaps you could outline your views of which of our practices and approaches might not be appropriate and how they could be improved.

**Mr Ayan**—My submission was basically about cross-cultural communication between Australian businesspeople and Middle Easterners. My personal view is that that is an area of weakness of Australian businesses, so I think there is a need for us to develop strategies whereby we can operate more effectively in the Middle East by way of developing better communication skills with the people in the Middle East. It is probably known to many people that the Middle East is a very distinctive area in terms of the manner in which it does business. Business quite often is done in very culturally specific ways. For example, if you want to find out information in the Middle East, if you develop problems in the Middle East, if you want to enter the market in the Middle East, if you want to have good relations with business counterparts in the Middle East, it is absolutely necessary that you have an understanding of cross-cultural communication. The minimum condition that you should have is to avoid acting in a way which can offend the businesspeople in those countries.

**CHAIR**—Could you give us some specific examples as to how we may not be working in the best interests of Australia's trade?

**Mr Ayan**—For example, one of the cultural codes that Middle Easterners use in their business relationships between themselves is the code or the principle of *wasta*, which is very important. The principle of *wasta* is quite similar to what we in Australia call lobbying, but it is a culturally grounded principle. It means that if you want to do business with someone, if you want to influence someone, if you want to overcome certain barriers to your business in that particular environment, you use *wasta*. It enables you to remove those obstacles by establishing links and networks and understanding cultural concepts and structures within that society. If you have a problem, you do not go directly to the person you have a problem with; you go through the back door, as here when you employ a lobbyist. What you do there is find out what relationships that person has or what tribal group that person belongs to and, through those, you can smooth over the snags that you may have at that particular time.

**CHAIR**—Do you think that there are ways that we could improve treatment of halal food exports?

**Mr Ayan**—We are having some problems in relation to halal food exports. As I mentioned in my submission, these problems primarily stem from the structures and the performance of the halal monitoring and certification organisations in Australia. These are basically Australian Islamic societies that monitor and certify halal food. Those problems are not only structural but also operational and about resources. The people who are managers of these organisations have minimum education; they have very little understanding of halal itself. They do not know, in terms of management, how to operate the system. There are also allegations of corruption. You would be aware, for example, of the 1982 royal commission into the meat industry. Part of that report dealt with the halal food industry and has pointed out some of the operational problems in the Islamic societies. It has also pointed out some of the issues which may be characterised as corruption within those organisations.

AQIS and AUS-MEAT I think are currently conducting a review of the halal systems. The problem with that review is, first of all, that it is not a conventional review. It does not, for example, look at how the system works at the present time, what are the problems with it, and what are the solutions for it. What it does instead is just look at solutions. You cannot present solutions without actually having delineated the problems themselves. That is a very odd way of looking at the problems. They should have set out what the problems were and how the system has failed at the present time and then dealt with it in a review on what needs to be changed. The other problem with the review is that it did not have any representation from the Islamic organisations themselves and it did not have any representation from the Muslim community. One of the outstanding recommendations in that review was the establishment of a new organisation called, from my recollection, Australian red meat halal industry committee, which will oversee the Islamic societies themselves.

One of the strange things about that is that there are six industry organisations—AQIS and AUS-MEAT—and then DFAT and DIMIA have observer status. The interesting thing is that an Islamic organisation monitors and certifies halal and yet the majority of that committee are industry associations. The problem with that is the way our customers in the Middle East are going to see that. Halal is an Islamic concept. It is the preserve of Muslims to certify and monitor halal. What we have is an organisation with a minority—

**Senator BOLKUS**—Mr Ayan, sorry to interrupt you, but isn't it a fact that we are already exporting halal approved meat products to the Middle East? There must be something going right.

**Mr Ayan**—Yes, we are very successful at it.

**Senator BOLKUS**—So what is the problem? We are very successful and there is a halal branding or whatever of the product, so what are you worried about?

**Mr Ayan**—What we are worried about is that the manner in which the trade should be done should be best practice.

**Senator BOLKUS**—Yes, but the customers obviously accept it as being good practice because they are buying the products.

**Mr Ayan**—The problem is that if some of these issues are known by these people then it is going to create a lot of problems. We do not have to wait for the problem to occur.

**Senator BOLKUS**—They are not idiots, Mr Ayan. They are very bright. They do send people over here, they do check the abattoirs out themselves and they do make sure that they are controlled properly. Are you sure you are on the right track on this one?

**Mr Ayan**—I am on the right track on this one.

**Senator BOLKUS**—Are they then on the wrong track? Are the customers of the importers from Arab states on the wrong track when they approve the system that is going on here?

**Mr Ayan**—The reason the review was conducted was that the government itself was not quite happy with what was going on.

**CHAIR**—You are talking about 1982, though.

**Mr Ayan**—No, I am not talking about 1982 but the review which was done just a couple of months ago. The reason that review was done was recognition by the government that things are not okay.

**Senator BOLKUS**—Things may not be perfect, but they seem to be working pretty well.

**Mr Ayan**—Why conduct a review then?

**Senator BOLKUS**—Because you are always looking for something better. You should be looking for something better when it comes to the trade business. The competition is pretty intense. Why wouldn't you be looking for the next level?

**Mr Ayan**—There would be an acknowledgment by the industry and by the government that the current situation is not a satisfactory one. I put it to you that was the reason for the current review. The other problem with the current review is that in Australia we do not license these Islamic organisations, we do not register them. What happens is that Islamic authorities overseas register and accredit these organisations in Australia and say to us, 'These are the people who are going to represent us in terms of monitoring and certification of halal food.' What is happening now is that all the roles and responsibilities which have been exercised in the past by halal authorities are going to be taken over by AQIS and AUS-MEAT. There must be something wrong for that to be happening, for those roles being changed from what they were in the past. The major concern is that non-Muslim organisations cannot have control over halal food. If that is known—and customers overseas are convinced that is the case—in the longer term it is going to be disadvantageous for Australia.

**Senator BOLKUS**—We had better get some follow-up evidence on that, I think.

**Mr Ayan**—I have submitted a report to the industry organisations, particularly to AUS-MEAT, as to the Islamic organisations that monitor and certify halal food. I have proposed a reform of these organisations as well. Some of the measures in the review are partly those that I have recommended to the industry myself.

**CHAIR**—So are you mainly concerned about the takeover by AQIS of this accreditation program per se?

**Mr Ayan**—I am concerned about the consequences of what we are doing.

**CHAIR**—So you think what is happening now in terms of accreditation of companies is a reasonable approach but you are concerned about future possible changes?

**Mr Ayan**—Yes. For example, what I proposed was that, instead of having that industry organisation with a majority of industry members, we have an independent organisation called ‘Australian Halal Standards Organisation’. There is no reason why that kind of organisation cannot work very closely with AQIS and AUS-MEAT. There is no reason why we cannot, but we need to give it a measure of independence from industry organisations. Of course the industry organisations are the ones the Islamic societies monitor and certify in the first place. There is a conflict there.

**CHAIR**—Are you involved in the trade yourself?

**Mr Ayan**—No, I am not.

**CHAIR**—What is your interest in it?

**Mr Ayan**—My interest is an academic one. I taught Middle Eastern studies and I taught Islamic and Arabic cultures at universities. I taught at the University of Melbourne for three years and I taught at RMIT for three years. I have also always been interested in the relationship between culture and trade. In recent times I was consultant to some of the halal certifying organisations. I have a company called Aus-Halal, which provides labour hire services to some abattoirs.

**CHAIR**—Are you aware of contracts we have missed out on as a result of inappropriate halal procedures in Australia?

**Mr Ayan**—No, I am not aware of that. What I am aware of are instances in which the system has failed because it was not upheld to the letter. For example, I am aware that a consignment of meat went to the United Arab Emirates and the customer rejected it because it was not certified by the proper authority.

**Mr JULL**—A few years ago I was involved in a foreign affairs committee inquiry on our relationship with the Middle East. One of the submissions that we received—and I think it was from a group in Melbourne—concerned our incapacity to communicate with the Middle East. One of the examples that was cited was the Internet. One of our disadvantages was that we really had not utilised the Internet properly by using Arab languages, Arab script and that type of thing. Is that a fair criticism of Australia’s operation in terms of trade or have moves been made in the



last couple of years to try to overcome that situation? Or, ultimately, are there enough people in the Middle East now who speak English and recognise English so that we do not have to worry?

**Mr Ayan**—I do not think that we can say that we do not have to worry. It is possible to have an English as well as an Arabic translation in there. It is very important to have both of them there. But it is very true that a lot of Middle Easterners do speak English and are able to access information on the Internet in English. There are also a lot of businessmen and traders who can only speak Arabic. It would be quite helpful if, in addition to English, there were also an Arabic script in there. I do not think it is a very significant barrier in the scale of things.

**Mr JULL**—It could be significant, though, in educating our young people on both sides of the Indian Ocean to try to establish future relationships or something like that.

**Mr Ayan**—You see, Arabs can be easily impressed with a country that is using its own language to access that market. It is quite impressive. It is very flattering. They think of it quite positively if a country tries to do that and, certainly, it is quite helpful if that can be done.

**Mr JULL**—I do not want to tie up the whole thing with the meat game, but in your submission you talk about the difficulties we had last year with a shipment of live sheep and being involved in a dispute over the treatment of them. Could you expand on that a little?

**Mr Ayan**—The first time I delivered a paper on that was, I think, some time in 1987. I also wrote an article at that time in the *Financial Review* regarding that particular matter and, more broadly, the cultural dimension on trade. The problem with that trade is that we have no information whatsoever as to why it happened. There is an acknowledgment, an acceptance, that Australia did not know why this happened. Malcolm Fraser at that time also wrote an article, I think in the *Age*, and his view was that the problem was scabby mouth and that we had to inoculate these animals against that. His outlook was: we have to give the customer what the customer wants. My view is that it was a failure, as I say in my submission, of cross-cultural communication, as well as a failure of commercial intelligence. We did not know 17 years ago what went wrong. We do not know now what went wrong. It is a very unsatisfactory situation, because there is an acknowledgment that we do not know.

One of the reasons I emphasise cross-cultural communication is that it can deal with those kinds of issues. Australians were chasing an official protocol. An official protocol does not protect you from those kinds of things. A verbal understanding and a cultural understanding can be as good as—and sometimes probably even better than—having an official protocol. If you establish your networks and if you understand how to operate in that particular environment, you will be able to gather the information as to why the sheep have been rejected. We do not know now, but cross-cultural communication will enable you to access decision makers at least to find out why. Once you find out the reason, you can do something about it. One of the other issues in relation to Australia is the opposition by some animal liberationists to exporting live sheep to the Middle East—

**Senator BOLKUS**—That had nothing to do with the original contract for the shipment, and the main exporters were of Middle East background. I am a great believer in cross-cultural communication, but I think you need to be focused in your facts.

**Mr Ayan**—I do not quite understand, Senator.

**CHAIR**—There are some questions that we obviously need to explore, as a background issue. As we leave on our visit next weekend, we will be very interested to see whether this is an issue that is raised with us, because we will be seeing those people in the Gulf states that do the importing, and it is important we understand whether this is a real factor. You put forward a thesis to us. We will test that and determine whether it is an appropriate way to go.

**Mr Ayan**—But I do not agree with the senator.

**Senator BOLKUS**—You are not alone.

**CHAIR**—Not everyone agrees with the senator.

**Mr Ayan**—If the point the senator is making is that cross-cultural communication has nothing to do with the shipment—

**Senator BOLKUS**—No, I said I am a great believer in it. What I am saying is that I do not think your examples justify the claim in this case, and it is a matter of cross-cultural communication. Those who organised the shipment that Mr Jull talks about—look at their backgrounds, look at their connections and look at their trade operations—are from the Middle East. They are culturally of the Middle East. They know the Middle East.

**Mr Ayan**—That is right.

**Senator BOLKUS**—You might have a good point to make, but I am saying your example is not the appropriate one.

**Mr Ayan**—I am talking now about the government. As far as the government are concerned, if they want to find out the reasons why shipments are rejected, it is possible to find out. That is the point I am making. The government can find out those things by way of cultural communication.

**Senator BOLKUS**—I accept that.

**CHAIR**—Senator Bolkus has a commitment elsewhere, but Mr Jull and I are on the visit and we will follow up your comments. Thank you very much for coming today—

**Mr Ayan**—Can I make one last point?

**CHAIR**—Sure.

**Mr Ayan**—I have been having discussions also with Deakin University regarding the issue, because my paper is related to cross-cultural communication. I cannot avoid that, because that is what it is in relation to. In my submission, I have made the point that I think it is imperative that Australia establishes an institution whereby the businesspeople can acquire cross-cultural communication skills so that they can operate more effectively in Middle Eastern markets. I have

talked to Deakin University, and there is a general acceptance by them that if they are able to attract funds from business and from government to establish that centre then they will do so.

**CHAIR**—That is very useful. Thank you very much for that, and thank you for coming in today.

**Mr Ayan**—My pleasure.

Resolved (on motion by **Senator Bolkus**, seconded by **Mr Jull**):

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

**Subcommittee adjourned at 3.51 p.m.**