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DEFENCE AND TRADE

TRADE SUBCOMMITTEE

Reference: Australia's trade and investment relations with North Africa

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

Trade Subcommittee

Tuesday, 2 August 2005

Members: Senator Ferguson (*Chair*), Senators George Campbell, Eggleston, Hutchins, Johnston, Kirk, Moore, Payne, Stott Despoja and Webber and Mr Baird, Mr Barresi, Mr Danby, Mrs Draper, Mr Edwards (*ex officio*), Mrs Gash, Mr Gibbons, Mr Haase, Mr Hatton, Mr Jull, Mrs Moylan, Mr Prosser, Mr Bruce Scott, Mr Sercombe, Mr Snowdon, Mr Cameron Thompson, Mr Turnbull, Ms Vamvakinou, Mr Wakelin and Mr Wilkie

Trade Subcommittee members: Mr Baird (*Chair*), Mr Snowdon (*Deputy Chair*), Senators Eggleston, Ferguson (*ex officio*) and Johnston and Mr Barresi, Mrs Draper, Mr Edwards (*ex officio*), Mr Gibbons, Mr Hasse, Mr Hatton, Mr Jull, Mrs Moylan, Mr Prosser, Mr Bruce Scott, Mr Sercombe, Mr Cameron Thompson, Mr Turnbull, Ms Vamvakinou, Mr Wakelin and Mr Wilkie

Members in attendance: Senator Ferguson and Mr Baird and Mr Wilkie

Terms of reference for the inquiry:

To inquire into and report on expanding Australia's trade and investment relations with the countries of North Africa (Algeria, Egypt, Libya, Morocco and Tunisia), with particular reference to:

the nature of Australia's existing trade and investment relations with the region

likely future trends in these relations

the role of the government, particularly DFAT and Austrade, in identifying and assisting Australian companies to maximise opportunities in North Africa as they emerge.

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Subcommittee met at 9.28 am

CHAIR (Mr Baird)—I declare open the second public hearing of the inquiry into expanding Australia's trade and investment relationship with North Africa conducted by the Trade Subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade. We will be examining our trade and investment relationship with five countries: Algeria, Egypt, Libya, Morocco and Tunisia. Australia currently exports a range of goods to North Africa and the region, including meat, cheese, curd, crude animal and vegetable materials and coal. Egypt is one of Australia's largest markets for wheat exports. In recent years Algeria, Egypt, Libya, Morocco and Tunisia have all experienced strong economic growth. As a result, broader opportunities may exist in these markets for Australian exports. Of particular interest to the inquiry is the nature of Australia's existing trade and investment relationship with the region, likely future trends in these relationships and the role of the government, particularly Austrade, in helping Australian companies to maximise opportunities. We hope that our inquiry will lead to a better understanding between Australia and the countries of North Africa and an expansion in trade and investment.

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WALLACE, Mr Andrew, Acting Manager, Field Crops, Food and Agriculture Division, Department of Agriculture, Fisheries and Forestry

ZEMAN, Ms Slava, Manager, Processed Food Policy Section, Technical Standards Branch, Australian Quarantine and Inspection Service, Department of Agriculture, Fisheries and Forestry

CHAIR—On behalf of the Trade Subcommittee I welcome representatives from the Department of Agriculture, Fisheries and Forestry. The subcommittee prefers that all evidence be given in public, but if you wish to go into a private hearing please let us know. Although the subcommittee does not require you to give evidence under oath, this hearing has the same standing as an appearance before the parliament. I now invite you to make an opening statement and we will proceed to questions.

Dr O'Flynn—This department does of course have an interest in Australia's trade and investment relationship with North Africa and we will be putting in a written submission to this inquiry. We have sought leave to lodge that a little late, but it will be coming shortly. The region is a challenging market for a number of reasons. These include geographic proximity, historical links and preferential trading arrangements with the European Union and the nature of some linkages with the United States. These factors mean that North Africa's trade and investment relationships continue to be strongly linked to Europe, particularly France, Italy and Germany—and, in the case of Egypt and Morocco, with the US. This will continue to disadvantage Australia's food and agricultural suppliers in general, but there are a number of opportunities for gaining additional advantage in the region nevertheless.

Australia's agricultural exports to the region are further constrained at present by high tariffs, discriminatory trading arrangements, technical market access barriers and general difficulties in the business operating environment such as non-transparent import requirements and decision making processes. However, while North Africa is a small trading partner for Australia, representing less than one per cent of our total exports in 2004, it is nevertheless an important market for a number of our industries including wheat, pulses, meat, dairy and, at various times

and in various locations, live animals. I would like to briefly outline the nature of our interests with regard to particular commodities and then go on to the role of the government in pursuing those opportunities.

Wheat is Australia's key export to that region, with Egypt accounting for 97 per cent of our wheat exports to the region. In 2004 Australia supplied about 35 per cent of Egypt's total wheat imports. Wheat is also exported to Morocco, Libya, Tunisia and Algeria, but they are not presently significant purchasers. Australia's major competitors in this commodity are primarily the EU and the US. They are likely to have a freight advantage, given their proximity, high volumes of trade and, in some cases, preferential as well as historic trade linkages.

Purchasing decisions by importers in this region are still primarily price driven, although Australia is making some gains in terms of quality in that market. The overall trend of our wheat exports to the region since 2001-02 has been upward, despite a significant drop in exports due to the drought in 2002-03. We believe it is likely to gain more momentum and become more stable if the industry can gain secure and long-term supply arrangements with the Egyptian government and build on commercial relationships in the private sector.

In addition to grains Australia also exports significant amounts of pulses to Egypt. At \$53 million in 2004, Egypt represents our second-largest market after India for pulses. As is the case with wheat, freight, exchange rates and other export related costs have had a large bearing on Australia's market share in this region.

Another commodity area of considerable interest to this portfolio is livestock, meat and other animal products. At the moment Australia is a relatively minor player in the export of live cattle and sheep, due to South-East Asia being the major destination for our live cattle and the Gulf states for our live sheep. However, from time to time Egypt and Libya have been significant markets for Australian cattle imports. Given renewed interest by the industry in exporting live animals to Egypt, and the potential for growth in exports to Libya, we are currently examining the opportunities in those two markets. The first shipment of cattle since 2003 to Egypt took place earlier this year. We are currently developing memoranda of understanding with those two countries with regard to the development of the livestock export trade.

Exports of meat to North Africa are heavily influenced by market access barriers—such as onerous technical and certification requirements and standards—high tariffs and competitive disadvantages through preferential trading arrangements. Libya is currently a significant market for our frozen mutton. There was around \$10 million worth of that trade in 2004. With the development of stronger government to government linkages with Libya, we are hopeful that that will provide the basis for stronger developing trade. Our exports of frozen meat to Egypt are insignificant compared to those from Europe and reflect ongoing problems with that particular market with regard to standards and other requirements relating to shelf life, cut size, fat content et cetera.

Although the North African region is an important market for dairy products in general terms, it is a minor market for Australia due to its being dominated by other suppliers, notably the European Union. We also suffer from some preferential trading arrangements that operate against us. For example, the EU exports a milk powder to Egypt which faces a zero tariff, where Australian exports are subject to a 20 per cent tariff.

Having outlined our commodity interests in very broad terms, I would like to touch on DAFF's role in supporting food and agricultural industries in the region. Our bilateral relations with Algeria, Tunisia and Morocco could be characterised as low key. But there has been a growing interest in strengthening bilateral relations with Egypt and Libya, particularly in recent years. There have been a number of ministerial and official visits, including one by Minister Truss in 2004. Our department works closely with other government departments, particularly DFAT and Austrade, and through out representatives in overseas markets in the region. We also work closely with industry. A number of industry bodies are very active in that region, as are some of the Australian state governments. We work with them to identify opportunities and impediments and how they might best be overcome. Our role primarily relates to technical barriers such as certification, testing et cetera.

The government announced late last year its intention to establish a food and agriculture trade service and from 1 July this year DAFF has implemented that undertaking by setting up the International Food and Agriculture Service, or IFAS, which is intended to coordinate DAFF's international work with industry and other government bodies. The intention is to develop more clearly defined priorities and strategies for our various international markets and target particular opportunities.

Another significant part of our technical market access effort includes an on the ground presence in key regions. Last year we established a new representative position for our department based in Dubai but covering the Middle East and the North African region. That person has been fairly active in Egypt for example.

CHAIR—So that is just one person. Are they attached to the Austrade offices?

Dr O'Flynn—In Dubai, yes—at present.

CHAIR—And they cover North Africa as well?

Dr O'Flynn—That is right. His particular focus was with regard to the livestock export trade initially, so the initial focus was on the Middle East. But he has been working in Egypt during the first year of his location there.

CHAIR—Has he been across to the other countries we are looking at?

Dr O'Flynn—Not at present—not to any significant extent, anyway.

CHAIR—We will undoubtedly have the opportunity to speak to him in Dubai.

Dr O'Flynn—That would be good. His accreditation at the moment means he is limited to Egypt and the Middle East region.

CHAIR—Right.

Dr O'Flynn—Looking forward to opportunities in the future, we are hopeful that further economic and political reforms in the markets of North Africa as well as some outcomes from the WTO Doha Round of agricultural trade negotiations will help to dampen down some of the

unfair competition to which Australia is subjected in those countries. With the continued dependency on food imports of countries in that region, we believe that there is the potential for Australia's food and agriculture industries to capitalise on further opportunities to increase their presence, particularly in Egypt and Libya.

The government, in particular DAFF, is seeking to facilitate this through some specific bilateral arrangements. These include a proposed trade and economic framework MOU with Egypt; the reopening of Australia's mission in Tripoli later this year, which will hopefully facilitate growth in the bilateral relationship through the presence of government officials; and negotiation of MOUs on the live animal trade with countries in the region—the countries that are under consideration by this committee, Egypt and Libya, but we have been actively involved in the Middle East as well. That has been a very major area of activity for our department. The enhanced representation in the region has also been very beneficial to us, having a person on the ground who can respond quickly to issues arising in the region and also help to develop relationships on the ground. I will stop there. That is a very broad overview. We are happy to provide more information today or in our submission on matters of particular interest to the committee.

CHAIR—Thank you very much, Dr O'Flynn. That was comprehensive and I thank you for it. I am pleased to hear you have somebody on the ground over there. That is undoubtedly going to be very helpful. Hopefully they will be looking more widely at countries other than Libya, Egypt and the Gulf States. In your assessment of North Africa, on a realistic basis do you think that there is potential for Australian agricultural products being exported there or is it going to be a minor market and incidental to what we may be doing in Egypt and the Gulf States?

Dr O'Flynn—In general terms I think it will remain a minor market, but it is an area in which we have to be open to any opportunities that may arise. It is an important niche market from time to time for particular commodities. Historically that has been the case. With regard to the role of government it is a matter of watching very closely developments that might occur, which can be very short term. Opportunities can arise for us out of changes in the competitive position of other countries that might result from changes in government policy or simply changes in supply and demand. There are opportunities there for us to capitalise on those niche markets. In general terms it will remain a fairly small market relative to others of greater significance for us, including those in our own region. Nevertheless, it is not insignificant. I do not know whether any of my colleagues would like to comment on that.

CHAIR—How would you assess the trade importance of agricultural products of the various countries? Which products do you see as being the most significant? Obviously wheat to Egypt will probably dominate, but after that do we take it that livestock is going to be the most significant part? This will help us get a feel for it in terms of our mission which comes up in November.

Dr O'Flynn—Livestock is certainly a significant one that appears to have growth potential. The area of pulses is a significant and potentially growing area for us, as is that of dairy produce. One area that is holding back some growth in all of those commodities is the ongoing problem with technical impediments. That is an area that our department has been devoting a lot of attention to.

CHAIR—By ‘technical impediments’ do you mean veterinary standards and aspects such as that?

Dr O’Flynn—That sort of thing, but I am thinking more particularly of food safety issues—and my colleague Dr Zeman might be able to comment in more detail—and issues relating to certification and testing by importing countries that yield different results to what we might expect. Slava, do you want to go any further on that?

Ms Zeman—No, I think you have covered it. That particular situation relates to Egypt, which is a significant market for dairy products. In 2003-04 we sent about \$21 million, and in 2002-03 nearly \$34 million, worth of dairy products. Occasionally, shipments are not cleared because suddenly Egyptian authorities claim they have carried out microbiological testing and they have certain results—and we have other results. We end up in dispute. We all claim different things. However, on the positive side Egyptian authorities now promise they will restructure their testing departments. They are aware of the problem and they believe this may help with all the issues.

CHAIR—How do you rank the various countries in importance in regard to the export of our agricultural products?

Dr O’Flynn—At present?

CHAIR—Obviously we know where it is at the moment. Egypt is No. 1. In the future, does Libya have the potential to be a major market for us or, in your projections, is Egypt likely to be the most significant and the others modest?

Dr O’Flynn—My assessment is that Egypt will continue to be a major market. We are certainly looking closely at opportunities arising in Libya. The assessment of the other countries is that they are likely to remain behind the other two countries in terms of their potential for us. My two colleagues may wish to comment on that in more detail.

Ms Gordon-Smith—In general terms, our assessment would be to rank the five in this order: Egypt, Libya, Algeria, Tunisia and Morocco. Wheat is already a major element of our dealings with Egypt, and we would expect wheat, livestock and meat also to be major markets for us with Libya.

Senator FERGUSON—When we first mooted this inquiry, it was suggested, I think by Austrade or the department, that they should be ranked: Egypt, Libya, Algeria and Morocco, without Tunisia.

CHAIR—Morocco only just hung in there too.

Senator FERGUSON—That is true.

Ms Gordon-Smith—Even if they are equal fourth, I think they come well down the list.

CHAIR—There is a bit of daylight between those two markets.

Ms Gordon-Smith—Yes.

Senator FERGUSON—You opened your comments by saying that these five countries represented a ‘challenging’ market. Is ‘challenging’ department-speak for ‘almost impossible’, ‘difficult’ or ‘one in which we are unlikely to make any major impact’? I am not sure what you mean by ‘challenging’.

Dr O’Flynn—No, I would not put it as negatively as any of those terms. It is challenging. We face competitive pressures in terms of trade policies, the general proximity of other countries and the possibility of preferential or further preferential trading arrangements being entered into by countries such as the US, who already have some. In those terms, it is a bit of an uphill battle. The more technically related issues that we talked about do offer some opportunities for us to overcome what have been significant impediments to making commercial inroads into those markets. Also, the growth in commercial linkages—not so much on a government-to-government basis—between some of the major industry players such as Pulse Australia and the AWB, with the private sector in those countries, is likely to open up further opportunities in the future which we will then have a role in supporting.

Senator FERGUSON—You also mentioned tariffs. How high are the tariffs? What are the tariffs on motor vehicles and on some of the agricultural products that we try to sell to those countries? Are they high?

Ms Gordon-Smith—Your broader question on tariffs on motor vehicles probably should be directed to the Department of Foreign Affairs and Trade. I do not think that we are in a position to answer that for you now.

Senator FERGUSON—They did not know when I asked them yesterday; I thought you might.

Ms Gordon-Smith—An example we can provide is the situation in Morocco. In the year 2000, there were tariffs as high as 275 per cent on some goods that we would have been interested in seeking to get into Morocco.

Senator FERGUSON—Agricultural products?

Ms Gordon-Smith—Yes, agricultural products.

CHAIR—What ones were they?

Ms McKergow—Can we take that on notice?

Senator FERGUSON—Yes. That would really help us if you could, along with your submission, supply us with a list of the tariffs from those countries.

CHAIR—We were supposed to be hearing from Morocco today, but they have pulled out due to the illness of one of their representatives. But we would be interested in talking to them about that.

Ms McKergow—Do you want a list of the tariffs for just agricultural products?

Senator FERGUSON—Yes—and anything else you would like to put in there. If you could give us the tariff rates for those five countries, it might give us some idea of what we are up against when we go there.

Mr WILKIE—More importantly, could you do the comparison between what they would charge us and what they would charge the EU?

Ms Gordon-Smith—Yes.

Senator FERGUSON—The EU and their other trading partners. What about these ‘non-transparent import arrangements’, which I think was the term you used. What are the non-transparent factors?

Dr O’Flynn—Basically they are the ones that we do not fully understand the details of. We suddenly find we have a problem, and we do not quite understand why.

Senator FERGUSON—Have you got an example of that?

Dr O’Flynn—It relates mainly, again, to the technical issues we were just outlining. It can be a little unclear just what some of the specific requirements of those countries are until we suddenly find that our imports are being impeded. Mr Wallace might be able to add a more specific example.

Mr Wallace—One example would be wheat, with shipments landing and then the importers finding out there are unknown requirements such as needing to do additional chemical treatment or sieving for weed seeds. That increases the cost a lot. It often requires the wheat to be landed at a standard that is higher than would be expected anywhere else, and that is not known before the shipment leaves.

Senator FERGUSON—You talked about, I think, \$53 million of pulses that have been exported to Egypt—is that right?

Dr O’Flynn—Yes.

Senator FERGUSON—I think pulses are what we used to call legumes when I was farming. Is it mostly peas, beans, chickpeas, lentils?

Ms McKergow—I think it is faba beans.

Senator FERGUSON—Used for stockfeed?

Ms McKergow—No, it is mostly for human consumption. We can provide that detail in the submission if you would like.

Senator FERGUSON—If you would provide those details to us.

CHAIR—Salads? What is it?

Senator FERGUSON—No, they are dried. The peas and beans are reaped like a normal wheat crop. They have reached that stage by then.

Mr Gilbert—I can give you a broad run-down of the types. We have got beans, broad beans, chickpeas, faba beans, lentils, lupins and peas.

Senator FERGUSON—You have got the lot, really.

Mr Gilbert—Basically the lot, yes.

Senator FERGUSON—The other thing you talked about was whether there is a better opportunity for the European Union to access some of these markets. I notice that we export some \$53 million worth of fresh fruit and vegetables to Egypt a year. If we can sell fresh vegetables into Egypt, shouldn't it be possible to tap those other countries with exactly the same product? I just find it strange that we can sell \$53 million worth into Egypt, which is also a country, I think, whose average income is lower than a couple of the other countries.

Ms McKergow—We are preparing our submission. We think the \$53 million for fresh vegetables, what we call horticultural products, may actually include the pulse exports. We are not quite sure. The composition of trade statistics that the department of foreign affairs issue does not necessarily differentiate between pulse and fresh vegetables. So there is a bit of uncertainty over that figure of horticultural exports.

Senator FERGUSON—I would like you to check that out, because that makes an awful difference. It really means there are no fresh vegetables going.

Ms McKergow—Our advice is that there are almost negligible exports of fresh vegetables to that region, so we can clarify that.

CHAIR—We had discussions yesterday with Austrade. There was some suggestion that it was because of Emirates flying in that they were able to fly them through. Is this a myth or not? It would be interesting if you could address that in your submission to us.

Senator FERGUSON—The only other area that I want to talk about is dryland farming expertise. The Western Australian government is now quite heavily involved with Libya, and Kim Wilkie will probably agree. I know that in the early eighties the department of agriculture in South Australia had an exchange program with Libya that went on for a number of years, through to the late eighties, where we were providing people on the ground with expertise to assist them to improve their dryland farming techniques, because I understand the climate and the soil conditions are certainly very similar to those in parts of South Australia. Have you looked at any opportunities that might arise to either exchange or be involved in dryland farming expertise as virtually an educational export to those areas?

Dr O'Flynn—I would have to take that on notice. I do not know the answer to that question myself. Unless my colleagues can answer that in part now, we can certainly include that in our submission as well.

Senator FERGUSON—It was a very significant operation in the eighties.

Dr O’Flynn—I am aware of that.

Senator FERGUSON—Particularly in the case of Libya, there were a terrific number of young farmers who went over there and stayed for six months at a time working on farms with people. Then in 1989 or 1990—whenever it was—it just stopped dead when we ceased to be involved with Libya.

Mr WILKIE—Looking at the DFAT country fact sheet on trade, wheat does not rate a mention.

CHAIR—Which country?

Mr WILKIE—Egypt.

Ms McKergow—It is a confidential item.

Mr WILKIE—Why would the export of wheat be confidential?

Mr Wallace—I do not know why it is confidential, but there is often a six-month window until that data becomes available. So DFAT’s list may not have been updated since the six-month window has passed. If you have any particular data questions, I might have it in front of me at the moment.

Ms McKergow—It is in response to the fact that wheat is our major single exporter and, by releasing the information, you are divulging commercial-in-confidence material on the price that they may have received for the amount of wheat they got. It covers not only wheat but barley, sugar and a few other commodities.

Dr O’Flynn—That has been a bit of a challenge to us in trying to provide meaningful statistics as we prepare our submission because some of the commodities of interest to us appear in trade stats as confidential items for that reason.

Senator FERGUSON—We do know that 97 per cent of our wheat exports to the area go to Egypt, don’t we?

Dr O’Flynn—Yes.

Mr WILKIE—Without putting a figure on it, would it be fair to say then that, of that \$522 million worth of confidential items, a good portion of that would be those products?

Mr Wallace—In 2003-04, it was 2.5 million tonnes of wheat.

Senator FERGUSON—What is the value?

Mr Wallace—Five hundred million dollars.

Senator FERGUSON—It is nearly all wheat?

Mr Wallace—That is right.

Mr WILKIE—It is not obvious on the fact sheet. Would that wheat predominantly be going to that one flour mill or do they spread it right around Egypt? Obviously, there is a very large operation just below the Suez Canal where a lot of our wheat goes. Do we export it to other parts of Egypt as well?

Mr Wallace—The arrangement in Egypt is partially deregulated. Up to 1992 the GASC, as it is known, was a central government buying agency for commodities coming into the country and then it became deregulated and GASC remains as a subsidised wheat-flour producer essentially to subsidise the poorer Egyptians. Then they created a private milling sector. A quasi government company operates in that private sector as well as the Five Star Flour Mill in which the AWB has a 30 per cent stake. There are numerous other private millers as well. The AWB tenders for the GASC sales for the government.

Mr WILKIE—Going back to the Five Star Flour Mill in Egypt, other members of the committee might not be aware that 30 per cent is owned by the Australian Wheat Board, isn't it?

Mr Wallace—That is right.

Mr WILKIE—That is a fantastic operation.

Mr Wallace—The Five Star Flour Mill only buys Australian wheat. It also has large storage facilities there to distribute it to private millers throughout Egypt. I am not aware, but I see no reason why the AWB would not also be selling to other private millers as well, out of pool wheat, I guess.

Mr WILKIE—I am interested in agricultural products in general, and wheat and grain products specifically. Of the exports to the region, how much is exported by each state? Do you have that breakdown available to us? I know that Western Australia, where I come from, exports a lot of produce to that part of the world and I would like to know how that compares to other states. Particularly if I am going over there, it would be nice to have that information if that is possible.

Mr Wallace—I do not have that with me. I guess production would suggest that Western Australia would be a primary exporter to that region. We could hopefully find those statistics.

Senator FERGUSON—But when it comes for sale through AWB, it is sold as a pool, so it does not matter where it comes from; it just takes it from the most logical exporting point.

Mr Wallace—It does.

Senator FERGUSON—It is just Australian Wheat Board wheat. It might be easier for them to export wheat to Egypt from Perth, while it might be easier to export to somewhere else from Brisbane or Sydney.

Mr WILKIE—That is all right; I would just be curious to know the breakdown, even if it is obvious that it comes from Perth because of the location.

Senator FERGUSON—It is just a pooling system.

Mr WILKIE—Yes. There was a suggestion made that part of the problem of exporting agricultural products to the region, particularly on the other side of the Suez Canal, would be the time taken for the ships to get there. Do you have any idea of what sort of time difference there would be in getting ships from Egypt, down at the bottom of the Suez Canal, around to places like Libya and Algeria? Is it only a couple of days or weeks?

Mr Wallace—Sorry, we will have to take it on notice. Obviously it puts it in a much different geographical region when you have the US and the EU coming from the other end.

Mr WILKIE—If it is only a few days then it is really not an issue.

Ms McKergow—I suspect it is only a few days. In terms of my knowledge of export trade, you are still talking about 17 to 21 days to get to Egypt versus some of the other markets around that region, so I suspect it is only a couple of days to get through the Suez Canal, but I cannot say that definitively.

Mr WILKIE—I am curious about the fresh vegetable figure as well. If that figure were accurate, I would be curious to know what state those fresh vegetables are coming from and if they are being flown in or if they are being taken by ship, because fresh vegetables do not last that long. I am just curious.

Senator FERGUSON—Cold storage or something?

Mr WILKIE—Is snap frozen categorised as fresh?

Senator FERGUSON—No, but cold storage is.

Mr WILKIE—Quite a few years ago, in Libya, Gaddafi got onto the idea of having his own sheep and he was growing a lot of lucerne to feed them in feedlots. I am wondering whether that is still a significant way of producing that product in Libya or whether they gave up on it and decided just to import. Does anyone know?

Dr O'Flynn—I do not know offhand. Do you, Fiona?

Ms McKergow—I think they are probably better questions for Meat and Livestock.

Senator FERGUSON—It is something to ask the Libyan ambassador.

Mr WILKIE—We have talked about the free trade agreement negotiations that the EU are conducting in the area. What sort of impact do you think that will have on trade for us? You touched on it a little bit.

Dr O'Flynn—I cannot talk about it in any quantitative terms, but I think that certainly any bilateral agreement with another country that provides preferential access for their exports must have a deleterious effect on our competitiveness. The more of them there are with countries that already have a significant competitive advantage then the more of a challenge it is for us. I guess to some extent those factors may be dampened by a successful outcome from the Doha Round but it might also reduce the extent of subsidised export.

Senator FERGUSON—I have one other brief question, going back to sales of wheat. Do you sell any wheat at all to Libya, Algeria, Tunisia and Morocco? Somebody said that 97 per cent goes to Egypt. If we do not, I am wondering about the favoured nation status they give to the European Union. If we are competitive in Egypt then we should be able to be competitive in these other countries as well.

Dr O'Flynn—I do not have the figures in front of me. We have exported to Morocco, Libya, Tunisia and Algeria in the past three years but not in significant quantities. I do not have tonnages but we can certainly provide that in our submission.

Mr Wallace—I have an indication here. That might help at the moment and we can expand on it later.

Senator FERGUSON—If you could. If it comes in the submission then we can have a good look at it then.

Mr Wallace—The 97 per cent refers to 2003-04. The other three per cent went to Morocco. Morocco tends to be more the durum importer. In 2001-02 it was closer to 85 per cent to Egypt, with the rest of it spread between Algeria, Libya and Morocco.

Senator FERGUSON—Are the other countries buying durum as well?

Mr Wallace—They tend to be more durum importers, which is why the EU tends to have more success into those markets, as well as the cultural aspect.

Senator FERGUSON—Are the European countries big growers of durum?

Mr Wallace—Yes. Australia has an advantage over the EU in the hard wheats, and that distinction is not as great in the durum market. Australia does have high quality durum, but to get that premium it tends to go the Italian market rather than to the North African markets, given that we have fairly small durum production.

Senator FERGUSON—And a fair bit is being used locally now.

Mr Wallace—Yes.

CHAIR—Thank you very much for your time with us this morning. We look forward to your submission. We may be coming back to you to get clarification on some issues. We look forward to meeting your man in Dubai. Does he know that we are coming so that when we do have the briefing he is there? I think agribusiness is going to be a significant part of what we look at.

Dr O'Flynn—We will certainly follow that up. Do you have an exact date of your arrival in Dubai?

CHAIR—I am not sure when we will actually be in Dubai, but I think we are going to be there from about 14 to 25 November. We expect to arrive on Sunday, 13 November and to return on 25 November. Peter Linford, the Consul General and senior Austrade person, is coordinating the program and it will be useful if your man is around.

Dr O'Flynn—We will certainly mention that to him and try to make sure that he is. Also, if you let us know if there are any particular issues other than those you have flagged this morning that you would like to pursue with him, we can try to ensure that he is in the best position to respond.

CHAIR—That would be great. Thank you very much.

[10.15 am]

KAVANAGH, Mr Michael John, Chief Executive Officer, Australia Arab Chamber of Commerce and Industry

CHAIR—Welcome. The subcommittee prefers that all evidence be given in public, but should you at any stage wish to give any evidence in private, you may wish to do so and the subcommittee give consideration to your request. Although the subcommittee does not require you to give evidence on oath, I should advise you these hearings have the same standing as legal proceedings of the parliament. The subcommittee has one submission from the Australia Arab Chamber of Commerce and Industry, submission No. 4. I now invite you to make an opening statement before we proceed to questions.

Mr Kavanagh—The Australia Arab Chamber of Commerce and Industry is the peak body representing Australian private enterprise with commercial interests in the markets of the 22 Arab League countries and, as such, enjoys the support of the Australian government. The Australia Arab Chamber of Commerce and Industry—or AACCI as I will refer to it—is affiliated with the General Union of Arab Chambers of Commerce, Industry and Agriculture, otherwise known as GUACCIA. Through association with high-level bodies in Australia and abroad, our members avail themselves of exclusive opportunities to promote their trade interests. Our participation in trade delegations that are led by ministers or official chamber-to-chamber delegations enables them to optimise their commercial plans and prospects. AACCI members Australia wide are large, medium and small companies and represent a wide range of industry sectors.

CHAIR—How many members do you have?

Mr Kavanagh—We have about 500; it is coming up to 500 now.

CHAIR—Is that just in Australia?

Mr Kavanagh—They are all Australian. They range from BHP, Toyota and Holden Australia down to one-person operations, and everything in between.

CHAIR—And you cover all of the Arab states—is that right?

Mr Kavanagh—We engage in trade between Australia and the 22 countries of the Arab League, of which the five North African countries are, of course, members. Finally, the main objective of AACCI is to facilitate Australian trade with partners in the Middle East and North Africa. That is a very brief presentation of what we do.

CHAIR—We have your submission before us and we are particularly interested in some of the issues that you talk about under the heading ‘Likely Future Trends’, you talk about:

The remoteness of Australia, the high freight rates, the ease of doing business with Europe and the increasing penetration of North Africa by Australia's competitors would indicate that the goods trade with this region will show little or no growth in the near future.

This is not particularly encouraging to us as we head off in this direction.

Mr Kavanagh—Exactly.

CHAIR—Can you elaborate on that? Can you also elaborate on your comment that the future lies more in services and investment?

Mr Kavanagh—From my visits to the region—I do not travel there regularly, but a couple of times a year—

CHAIR—Do you mean North Africa?

Mr Kavanagh—I travel mainly to Egypt. Our members, of course, go to North Africa on a regular basis for business and with trade delegations. The anecdotal evidence I get when I visit there is that North African businessmen are more at home with European buyers and sellers. The geographical proximity of Europe to North Africa, the language, the ease of obtaining visas to travel all tend to impact adversely on Australian goods trade with the region. Of course we have our wheat and the other figures of what we sell there on a regular basis. More and more often though, that trade, apart from Egypt, is becoming spot basis trade. In other words, there will be opportunities for a single wheat shipment, but not for long-term contracts. The Australian Wheat Board is doing a first-class job in Egypt and, to a lesser extent, in Morocco with durum.

The competition is intense, from Canada and from Eastern Europe, for the wheat business. On the other aspect of it, the bilateral trade, which of course we have to be involved with as a chamber of commerce, we find that the freight rates, which I mentioned here, have peaked at the figures I have indicated on the graph. They have dropped back considerably since then but all indications I have are that they are going to increase again. The trade that we get from the region is mainly dry bulk products, such as fertilisers. The cost of shipping it is becoming too high. It is a lot easier for Australian importers to purchase from China and from areas closer.

CHAIR—If you had to estimate where you see the potential, which countries would you say, albeit the reservations you have in the trade?

Mr Kavanagh—In North Africa?

CHAIR—Yes.

Mr Kavanagh—Of course Egypt. We have our best representation there, we have our best opportunities there, we have closer links with Egypt through Egyptian people in Australia, and we have a longer history of trade with Egypt than the other North African countries. I mentioned in my submission the presence of Austrade and DFAT personnel in Egypt and precious little presence in the other countries, although that is changing and of course we welcome that. The opportunities, when they come, are not being identified early enough. For example, when tenders are raised for goods or services in the North African region, the fact that we do not have

a permanent presence in a lot of these countries means that we miss out or we are made aware of tenders a little too late. One example is Algeria, which is going through a period of construction of infrastructure such as roads and, as I mentioned specifically, dams. The Algerian ambassador here in Canberra has passed on some information on tenders for construction of dams, or preconstruction documents and things like that. That has been passed on by us to relevant Australian countries, but the time between when they get the documents and when the documents need to be put into the Algerian authorities is often too short. It is a constant problem. We need earlier notice of such activities.

CHAIR—So the embassy opening in Tripoli—the consul general initially—is going to have some impact on the Austrade office there.

Mr Kavanagh—Of course. That also impacts on Australian businessmen. They are more prepared to travel there if they have a friendly face, for example, from DFAT or Austrade officers. We certainly encourage our members to make use of Austrade officers wherever they can.

CHAIR—What about the visa issue?

Mr Kavanagh—Again, from anecdotal evidence and from my discussions with Egyptian businessmen and chambers of commerce throughout the region, they have problems getting visit visas to Australia. They are often complaining about the lack of bilateral trade with Australia, and the trade figures show that it is vastly in Australia's favour. We always answer them, 'How many of you have visited Australia to try and do some business?' Of course no-one has. They often fall back on the visa issue being too difficult or too long, that it is easier to go to Paris or European countries.

CHAIR—Do you know, by comparison, for Algerians going to Paris, what length of time it is to get visas et cetera?

Mr Kavanagh—I cannot tell you exactly the time, but they complain constantly about the difficulty.

Senator FERGUSON—The department says 11 days.

CHAIR—For us.

Senator FERGUSON—Yes.

Mr Kavanagh—Yes.

CHAIR—Which is long. They have to send it off to Cairo.

Mr Kavanagh—Some of those countries do not permit their nationals to send visas by post, even certified mail.

CHAIR—Is that right?

Mr Kavanagh—Not all of them.

CHAIR—That is interesting to note.

Senator FERGUSON—I have read through your submission and when we started out on this inquiry we were not quite sure where we were heading. We have to stop and wonder at some stage if we should be putting the effort as a government, or as a committee, into countries other than Libya and Egypt. The trade is small and it seems as though we start with a bit of a handicap with investment opportunities because of their relationship with Europe and their trading arrangements with some of these countries. Do you think it is a waste of time worrying about Tunisia, Algeria and Morocco?

Mr Kavanagh—For goods trade, I hate to say it, but yes I do. I think the effort could be put elsewhere. With countries like Algeria, there are better returns for Australia in services trade.

Senator FERGUSON—Which sorts of services do you think?

Mr Kavanagh—The discussions I have had ranged from fisheries to mining, oil and gas of course and all the subcontracting areas of the oil and gas industry, such a software. We have a member in Western Australia who is actively exporting software for the oil and gas industry, even into Saudi and Russia.

Senator FERGUSON—What about road construction?

Mr Kavanagh—ISS, which is International Software Solutions in Perth.

Mr WILKIE—Do you have any idea where they are based? Which electorate they are in?

Mr Kavanagh—I can let you know.

Mr WILKIE—That would be great.

Senator FERGUSON—What about infrastructure or building, like Multiplex and people like that? What are the chances of them getting a leg in there?

Mr Kavanagh—The opportunities are there. The opportunities are for dams; there are several dams being built in Algeria. There are hundreds and hundreds of miles of freeway to be built in the country. The ambassador here is—

Senator FERGUSON—I know he is keen on it.

CHAIR—The Algeria ambassador, yes. He was here yesterday.

Mr Kavanagh—He is very keen on getting some Australian companies—

Senator FERGUSON—They have an east-west and a north-south one.

Mr Kavanagh—Exactly, that is right. GDH is a big Australian company with a presence in Qatar and other Middle Eastern countries; they are interested. I passed it on to them. Some of the others are not so interested, I think because it is easier to do business elsewhere. It takes one company, such as GDH, to move in there, do something well, do it successfully and get paid for it and the others follow.

Senator FERGUSON—But you think that for all other areas their traditional links with southern Europe and the rest of Europe make it easier for them.

Mr Kavanagh—It makes it a lot easier. They have the language.

Senator FERGUSON—French?

Mr Kavanagh—Yes. And they have the proximity. That is not to say that we should not be trying. For example, the Egyptians are sending out a fisheries delegation later this year. I met them in Cairo in April and talked to them about the opportunities in Australia for deep-sea fishing technology, and they are very keen to come and explore that further these niche areas where Australia has the expertise.

Senator FERGUSON—What about a dryland farmer?

Mr Kavanagh—I heard you mention dryland farming before. I am taking a delegation up to the Middle East in November, a week or so before yours, to Abu Dhabi, Dubai and possibly into Saudi. I talked to the Western Australian government dryland farming people a few months ago and they are very keen to come. The Arab countries are saying yes to agriculture and, of course, to dryland farming.

Senator FERGUSON—When you go on a visit like that, do you take only departmental people or do you take farmers with you as well?

Mr Kavanagh—Just the departmental people. I leave it up to them whether they would find it worth while to bring along a farmer. That would probably be a good idea; I had not thought of that.

Senator FERGUSON—You may have heard me talking about the exchanges we had with Libya in the eighties when there were an enormous number of South Australian farmers who went up there on six-month stints. They were living in small towns and working on farms up along the coast of Libya, where the climate is very similar to ours. One of the reasons that Tunisia is involved is that the ambassador from Tunisia to Australia, who is based in Japan, was down here. When we had a meeting and he said that Tunisia was very interested in an exchange of scientific information in relation to agriculture—the equivalent to our CSIRO, that sort of information. That was one of the reasons he pleaded with us to include Tunisia in the list of countries we visited because he thought that that was an area where they could benefit from our information which they cannot benefit anywhere else. There is no equivalent dryland farming country.

Mr Kavanagh—To the credit of the Western Australians, they have even published their brochures et cetera in Arabic—a very good move.

Mr WILKIE—Kim Chance has been very good as to that.

Senator FERGUSON—Western Australia has the geographical advantage too of its closer proximity and direct flights.

CHAIR—Mr Kavanagh, do you speak Arabic?

Mr Kavanagh—A little.

Senator FERGUSON—You talked about sections 23AF and 23AG of the tax act in your submission. Can you explain that to me?

Mr Kavanagh—A lot of our members who are involved with putting expatriates into the region feel that they are being disadvantaged by the current tax regulations as they stand.

CHAIR—We addressed that in our last inquiry.

Senator FERGUSON—That was the double taxation issue.

CHAIR—It was where they went to regimes with no tax. In the past they had not been taxed in Australia but there was an Austrade ruling which said that they were actually liable for tax in Australia. Of course that was a big disadvantage for those going into these areas so we actually said, as a recommendation in our last report, that it should be reviewed.

Senator FERGUSON—Mr Kavanagh, when you referred to just AF and AG, I was not quite sure. So that is what you were referring to?

Mr Kavanagh—Yes.

Mr WILKIE—Mr Kavanagh, I asked the agriculture department this question, but really from a business perspective it is probably more relevant to you. I refer to the EU's free trade agreement and Egypt buying a lot of Australian wheat. Given that the agreement is going to mean that customs duties on any products will be phased out over 12 years and, while right now Australian wheat is probably more expensive, they are buying it anyway because they want that quality. When do you think the reduction in tariffs is going to get to a point where they are going to say, 'Hang on, irrespective of quality the cost is such that we need to buy it from the EU'? Do you think that is a factor?

Mr Kavanagh—It is a factor. It has happened before. If you look at the graph in the submission I put in, you see the figures for 2003, and of course there are some drought figures there. AWB have told us that the massive drop then was also because the pricing arrangements were not in favour of their business.

CHAIR—Was it not also, as they have mentioned to us, that the deregulation of the Egyptian currency made Australian goods more expensive?

Mr Kavanagh—Yes, less attractive—exactly.

Senator FERGUSON—Their pound just about halved in value, didn't it? I know it was a lot.

Mr Kavanagh—Yes, it was a big devaluation. They are not prepared to walk away from the market because they have a permanent presence up there. Yes, it will come to a stage where the price advantages of the European product will outweigh the product advantages that we have.

Mr WILKIE—Given the reductions over the 12-year period, do we have any idea of where they are staggering reductions?

Mr Kavanagh—Of where?

Mr WILKIE—I see the customs duties are going to be phased out over 12 years. Do we know what sort of process they are going to look at for phasing them out? Are they phasing them out equally over each of the 12 years?

Mr Kavanagh—That I am not sure of. I can take that on notice.

Mr WILKIE—If it comes in blocks, we will be able to predict when it will get to a stage when it is not going to be competitive.

Mr Kavanagh—Yes. Obviously, it will reach a stage where it becomes more attractive to buy the European product.

CHAIR—When are you going to be in the Middle East? What are the dates?

Mr Kavanagh—At this stage we are looking at the week commencing the 7th.

CHAIR—So it is a possibility that we might overlap in Dubai. If you are there it would be good to actually get you in to talk to the committee in Dubai as to what you have found and what your experience was.

Mr Kavanagh—Sure.

CHAIR—That would be on the way through. Anyway we are still working out our final program. If there is a possibility, you would undoubtedly liaise with Peter Linford. It would be good to learn from you.

Senator FERGUSON—Where are you based, Michael?

Mr Kavanagh—Here in Canberra. We have executive officers in each state capital and then we have a national committee of honorary directors.

CHAIR—Are you pushing Qantas to start flying to Dubai or are you looked after by Emirates?

Mr Kavanagh—We are looked after by Emirates. We are also looked after by Gulf Air. Gulf Air are one of the sponsors of the trade mission and it is very attractive.

CHAIR—They are a good airline.

Senator FERGUSON—Michael, the other thing is the successful export of Australian motor vehicles to the Middle East, particularly to Dubai and the Gulf States. Do you think that we are missing out on any opportunities in the five countries that we are visiting?

Mr Kavanagh—In the automobile area?

Senator FERGUSON—Yes.

Mr Kavanagh—You would have to say yes. But then if you look around the streets of Cairo, for example—

Senator FERGUSON—Not a lot of cars?

Mr Kavanagh—There are a lot of cars but there are not a lot of—

CHAIR—New cars.

Mr Kavanagh—There are not a lot of undamaged new cars!

CHAIR—Do they ship second-hand ones over from Europe?

Mr Kavanagh—Yes, and a lot of Japanese cars. The market is much more attractive in the Emirates and Saudi—the money is there and the distributors are there.

Senator FERGUSON—But even they had to start from somewhere.

Mr Kavanagh—Yes, of course they did.

Senator FERGUSON—I am thinking not necessarily about Egypt—Libya and Algeria actually have a higher per capita income than Egypt, don't they?

Mr Kavanagh—Yes, they do.

CHAIR—Still, it is not huge.

Mr Kavanagh—It is not huge.

Senator FERGUSON—But it is better.

CHAIR—Compared with Qatar and so on.

Senator FERGUSON—Once the average increases, there are generally a few at the top.

Mr Kavanagh—That is right. You might get one or two shipments in there, and you would sell those to the middle classes who could afford it; but there are a lot more people who cannot afford it per head.

Senator FERGUSON—The trouble is that, if the market is not likely to increase to a reasonable size, it costs more than it is worth to get in there.

Mr Kavanagh—That is right. You were asking before about steaming time between Port Suez and North African ports. It is about two or three days from the Red Sea into the Mediterranean ports, but you have canal fees and insurance fees. It becomes expensive, which is why Port Suez is more attractive.

CHAIR—Are there any piracy issues there or is that with smaller boats?

Mr Kavanagh—No, I don't think so.

Senator FERGUSON—You probably heard the questions when we were asking about fresh fruit and vegetables in Cairo. Do you know whether there is any fresh stuff—

Mr Kavanagh—I suspect it is as you said: it is more the legumes that are included in that fresh—

Senator FERGUSON—I am surprised they put it under fresh food, because it is all dried.

Mr Kavanagh—I have seen Australian fresh fruit and vegetables in the Emirates.

Senator FERGUSON—That is flown in?

Mr Kavanagh—It is flown in chilled containers.

Mr WILKIE—So Port Suez is at the southern end?

Mr Kavanagh—Yes, it is underneath the Suez Canal. They have also developed a private port there, run by private companies in Egypt, which is apparently working very well.

Mr WILKIE—Are the fees for the shipping going through the Suez based on the tonnage of the ship?

Mr Kavanagh—I believe it is based on the tonnage of the ship, yes—deadweight.

Mr WILKIE—So it is quite a significant cost.

Mr Kavanagh—It is a substantial cost. With the steaming time also taken into account, when you are paying about \$US40,000 or \$US50,000 a day to charter your ship, if you are waiting for access to the canal, it adds up.

Mr WILKIE—Do they tend to wait very often?

Mr Kavanagh—Not as much as with some other canals, like Panama.

Mr WILKIE—Is it a 12-hour—

Mr Kavanagh—I could find out. You are probably looking at something like \$US150,000 to get your ship around into the North African ports.

CHAIR—Thanks very much for coming here today. You are obviously experienced in this market. Thank you for your honest input. We may come back to you to get other information. It may be useful if we touch base if we are in Dubai at the same time.

Mr Kavanagh—I look forward to it.

[10.39 am]

FADEL, Mr Kamal, Representative, Western Sahara Polisario

O'NEILL, Mr Nicholas Kevin Francis, President, Australia Western Sahara Association

CHAIR—Welcome. Your submission today is on the cusp of relevance to this particular inquiry. Our focus is basically on our trade relations with the area but, because that may impact on the relations between Australia and these countries, we thought it appropriate to speak to you. The subcommittee prefers that all evidence be given in public, but should you at any stage wish to go in camera then please request that of the committee and we will consider your request. Although the subcommittee does not require you to give evidence on oath, please remember that this hearing has the same legal standing as proceedings of the full House. We invite you to make a formal statement and, following that, we will proceed to questions.

Mr O'Neill—Mr Baird and members of the subcommittee, thank you very much for the opportunity to give this oral presentation today and hopefully to engage in questions. Mr Chairman, we appreciate the point you make but, nevertheless, we think that what we wish to say is relevant to one of your terms of reference—namely, the role of government—in particular, DFAT and Austrade—in identifying and assisting Australian companies to maximise opportunities in North Africa as they arise. It would be our submission to you that you need to appreciate the political circumstances because they have a very real effect on the situation.

I have 10 copies of the pamphlet *30 Years is Enough*. I will hand it out to members of the subcommittee because I think it is important that you see where we are talking about—there is a map—and have it in context. If you open the first page of the pamphlet you will see where Western Sahara is. It is placed south of Morocco, on the Atlantic coast of North-West Africa, and is surrounded on the south and most of the east by Mauritania, with a small border with Algeria in the north-east. It is part of what is known as the Greater Maghreb, which includes all of the countries in your terms of reference except Egypt, Western Sahara and Mauritania.

Because of the invasion of Western Sahara by Morocco in 1975 and the ongoing refusal of the Moroccans to allow the UN processes to occur—to allow the referendum on self-determination—there is some problem between the member states of the Greater Maghreb area, and Western Sahara is not being given the opportunity to become a nation in its own right, which appears to be the desire of the people. But everyone is entitled—as we well understand from our own colonial experience in Papua New Guinea and the recent experience in East Timor—to have the right of self-determination. That is being denied and it causes problems.

As we suggest in our submission, it has an impact. There is also a recent publication, a book by Toby Shelley, called *Endgame in the Western Sahara: What Future for Africa's Last Colony?*, which was published in 2004. On page 11 of that book, Shelley quotes Marc Grossman, an undersecretary of state for political affairs in the United States government, during a visit to Algiers in 2004:

There he said, 'Greater regional economic cooperation would facilitate the political resolution of the conflict over the Western Sahara'; settlement of the issue would, in turn, attract foreign investment to the Maghreb, he stated. The issue could only be understood by taking into account both economic and security questions, he continued, adding that US investors would be more attracted to the Maghreb if Morocco, Algeria and Tunisia settled their differences.

The big area of difference is the issue of Western Sahara. So it is acknowledged by people other than us that this unresolved question is having a serious impact on trade, not only between the members of the Greater Maghreb but also between entrepreneurs from other countries. That is really the nub of what we are seeking to say.

It is also important to appreciate that, despite Morocco's claims, no nation recognises Morocco's claim to sovereignty over the Western Sahara. The International Court of Justice, at the request of the then King of Morocco, Hassan II, gave an advisory opinion on the question of sovereignty and held that neither Morocco nor Mauritania had had sovereignty over Western Sahara at the time of the Spanish occupation. Indeed, the history, which is set out in other books, shows that there has never been sovereignty either by Mauritanian or Moroccan authorities over Western Sahara. That is another reason for the desire of the Saharawi people to have the right to self-determination.

That is a key element of our presentation, but I also wanted to point out that there are some very real issues of relevance to Australian interests in Western Sahara. It is a very dry place. I had the honour of being part of a delegation that went there in April of last year. We went and visited the camps in Tindouf and we saw the way the people of the Western Sahara, the Saharawi people, were organised. There is in fact a government operating—a government-in-exile, if you like, but it is a government for about 160,000 to 165,000 people in the camps. We have also been into the Western Sahara, into the liberated zones, and seen what it is like. It makes Australian deserts look almost fertile in comparison. It is quite an extraordinarily dry place.

Nevertheless, there is an abundance of natural resources. The fishery zone offshore is certainly one of the best fishery zones in the Atlantic and is a very valuable resource which would, for an independent Western Sahara, be a substantial source of income. There are proven deposits of phosphate—a matter of considerable interest to Australia. I am the son of a farmer, so I know about superphosphate, having put a fair amount of it in the ground in my youth. There is a huge area of it—up to 90 square miles in one place, at a place called Bou Craa. Also, exploration for oil and gas is continuing, particularly in the offshore areas of Western Sahara. These resources are, if you look at the map, mostly in the north-western area of Western Sahara. In the Atlantic Ocean, in the economic zone and fishery zone, the law of the sea covers that sort of issue.

What we wish to point out is that these resources are the resources of the Saharawi people, but there are very real concerns about the exploitation of them by the Moroccan authorities. It has, as we have pointed out, been made clear by Hans Correll, the legal counsel, and the United Nations Undersecretary-General for Legal Affairs that further exploration and exploitation activities which proceed in disregard of the interests and wishes of the people of Western Sahara would be in violation of international law principles applicable to mineral resource activities in non-self-governing territories.

We see that point as needing to be fully appreciated by any Australian companies that are seeking to operate in this area. It is the overall hope that, when the referendum occurs and

matters settle down, trade between Australia and the other countries of the Greater Maghreb area, including Morocco, can be developed. We are not suggesting that there is any problem between the Moroccan people and the Australians. The problem is the attitude of the Moroccan government towards the Western Saharans and its refusal to operate according to UN principles and according to the resolutions that are renewed every year in the UN for the referendum on self-determination to occur.

One of the things that have been happening since May of this year is a renewed series of abuses of human rights of the Saharawi people in the occupied zones of Western Sahara. People have been demonstrating peacefully, and a number of them have been arrested and tortured. Some have disappeared and people have been imprisoned for long periods for exercising what we would see as normal civil and political rights. In fact, there would be no possibility of a Saharawi doing what I am doing, either in Morocco or talking to a delegation outside the country, if they were in the occupied zone.

What is more, Morocco is refusing to allow external organisations and people to come in. They have refused to allow in parliamentarians, both national and regional, from Spain. They have refused Norwegians and other people. Eight delegations have tried to come in to see what is going on and they have all been refused. Some have got as far as Laayoune Airport—Laayoune is the capital of the Western Sahara—but there is a refusal to allow any external scrutiny of what is going on.

We put it to the committee that it would be inappropriate, at this stage of the relationship between Morocco and the Western Sahara, for there to be any encouragement of Australian companies to deal with Morocco, because it would send an incorrect message about what Australia is all about. We believe in the human rights of everybody. We strongly support the idea of self-determination for people who have been colonised. That has been demonstrated in our history.

There is also a very real risk that there would be an exploitation of Western Saharan resources in any trade with Morocco at this time. Not only is that a form of theft, to put it fairly strongly, but it could also create real difficulties for any Australian companies that got involved in this after the referendum and the resolution of the issues. One would assume that there would be a Western Saharan government of Saharawi people. The question would then arise whether those arrangements would be recognised. That could place Australian companies in some difficulties.

We do have another handout which is from Corporation Watch which sets out some of the present difficulties caused by the occupation of Western Sahara and looking for oil in the Western Saharan area. There is a side bar in that document which sets out the history in a very nice way and a very straightforward way. What it points out towards the end is the plans for the resolution which have been worked out largely by James Baker, who was, as you would know, President George Bush Sr's Secretary of State. The Baker plan has been worked out in a way that would give the opportunity for a referendum on self-determination to occur but for a time period when Morocco continued to be responsible for the foreign affairs and defence of Western Sahara and a process of disengagement which takes into account Morocco's needs not to lose face in order to get out of Western Sahara with appropriate dignity.

One of the interesting things that has occurred in the last 24 hours is that President George Bush II, if you like, has by decree appointed John Bolton as United States representative to the United Nations. Bolton was one of the people involved in developing the Baker plan, so it will be quite interesting to see whether he seeks to take this matter forward in the UN in his new position as United States representative to that organisation. Those are the comments I wish to make. Kamal Fadel, as the Polisario representative, may wish to add to and expand on some of the things I have said.

Mr Fadel—I will be brief. I want to thank you very much for the opportunity. As Nick mentioned, we understand that Western Sahara does not have at the moment a lot of trade relations with Australia. Nonetheless, we see that it is a very important issue in the Maghreb and I think this inquiry is looking at Australia's relations with that part of the world. We have definitely noticed in recent years an increase in economic and trade relations between Australia and the Maghreb countries, particularly Mauritania, Algeria and Libya, in the areas of mineral resources: oil, gas and other mineral resources, like gold in Algeria, where Australian companies are interested in that area. This is the case in Morocco too and to some extent in Western Sahara, because there is a small company called Baraka Petroleum which is based in Perth that has recently signed a memorandum of understanding with Morocco which included some offshore areas of Western Sahara. We have been talking to them and they have understood that what they did was not legal and they gave us assurances that they will get out of Western Sahara at this stage and they will not trade with Morocco in relation to Western Sahara.

In this area, particularly oil and gas, the Saharawi government is also taking it seriously. We have had a relationship with another Australian oil company based in Perth called Fusion Oil and Gas. We have signed an agreement with them to look into the area of oil and gas and give us some reports about the potential but also with a view that we will have better relations in the future.

Nick has covered all the main points I wanted to raise today. I do not believe that one can look at the Maghreb countries and region and not see Western Sahara. We believe that the Maghreb is six countries and not five. The Maghreb Union has Morocco, Algeria, Tunisia, Mauritania and Libya. That union, which is an idea probably based on the European Union, has not developed or progressed, mainly because of the issue of Western Sahara. Unless there is a fair and lasting resolution of the issue of Western Sahara there can be no development or progress or better relations amongst the Maghreb countries. That affects trade, the economy and everything—and their relations with the outside world, too.

We believe that a resolution of the issue of Western Sahara will contribute to the improvement of relations amongst the countries of the Maghreb but also economic and trade relations of the members of the Maghreb Union with the outside world, including Australia. We think that Australia can play a role in this sense through encouraging Morocco to behave—to respect United Nations resolutions and to cooperate with the UN and the African Union in order that there is a speedy resolution of the conflict in Western Sahara. Also, in regard to what is worrying us immediately, Australia in its bilateral relations with Morocco should tell them to stop abusing human rights, torturing people, putting people in prison and people disappearing in the occupied areas of Western Sahara.

We were not very happy about Australia abstaining at the UN General Assembly in December last year on a resolution that was put forward to support United Nations efforts to organise a referendum. We would like to see Australia helping in that way and encouraging a speedy resolution through the organisation of the referendum. We believe that at this stage Austrade and AusAID could also play a role in looking at the humanitarian side of the issue and assisting refugees and also providing scholarships to Saharawi students in order for them to be ready for independence and the reconstruction of the country—and that could be of some help to Australia. I will stop there and answer any questions you may have. Thank you very much.

CHAIR—What you would like Australia to do is to support resolutions in the UN on the question of Western Sahara. Also, do I take it that you do not want to see Australian companies active in the Western Sahara region, because you see their operating in mineral prospecting as an illegal activity if approval is given by Morocco?

Mr O'Neill—If it is given by Morocco. But as Kamal has pointed out, the SADR—the government of Western Sahara; the government-in-exile if you like—has begun dealing with companies who are interested in exploring for oil and gas in the offshore area and is willing to enter into what are effectively licensing agreements with them. We would certainly be encouraging Australian companies to go down that line. I understand that Baraka is one such company. Is that right?

Mr Fadel—Yes.

CHAIR—Our role is trade development. This is not just a straight foreign affairs issue when we are discussing internal relationships with the Western Sahara. Nevertheless, we take on board the issues you have raised. It certainly gives us appropriate background when we visiting there.

Senator FERGUSON—You say that there are 165,000 Western Saharans in the camps. What is the total population currently of Western Sahara, including the areas that are occupied, as you stated, by Morocco?

Mr Fadel—It is very difficult to give a specific number, because of the fact that Western Sahara is divided into areas: one is occupied by Morocco and one is under the control of Polisario. Since Morocco's occupation there has been no census of the population in the occupied areas. The estimate is that it could be under one million. We also have refugees in Mauritania, in the southern area of Morocco, in Algeria and in the Western Sahara. Quite a few people left for Europe to live in Spain, France and other areas.

Senator FERGUSON—If there are 165,000 currently living in the western part of the region, are the people living in the other part of the region all Moroccan or are some of them from Western Sahara?

Mr Fadel—There are Western Saharans.

Senator FERGUSON—If they are part of your grouping and they are not counted in the 165,000, who do they support? You have this large, shaded area on the map, which you say is occupied by Morocco. I would like to know how many people live there. It could be a significant majority of the people that are currently living in the Western Sahara.

Mr Fadel—Yes, definitely. The people in the occupied areas are Saharawis. The refugees left in 1975, when Morocco invaded from the North, and only some people managed to flee the towns and cities of Western Sahara. So you might find that a family has a father who left for the refugee camps, but a mother who has been living in the occupied areas for the past 30 years. The fact is that Morocco refuses to allow the referendum to take place because it knows that people will vote for independence, including the people who are living in the occupied areas. So there are Saharawis who live in the occupied areas—a significant number—but there are also settlers who moved from Morocco into the occupied areas. They were encouraged by Morocco to go to Western Sahara with incentives: not having to pay taxes and priority over the Saharawis in getting jobs. In the last two or three months there has been an amazing change in the occupied areas in the sense that there have been continuous demonstrations against Morocco demanding independence and self-determination, which have been suppressed by the Moroccans. That shows that the people in the occupied areas are for independence and support the Polisario.

Senator FERGUSON—You say you want a speedy resolution. This has been going on for 30 years now.

Mr O'Neill—That is because Morocco has been refusing—

Senator FERGUSON—I know. But what makes you think there will be a speedy resolution? What makes you think Morocco is going to change its mind?

Mr O'Neill—If pressure is not kept up on Morocco they will not change their mind. But there is a steady building of pressure on them to resolve this issue. In the 'real world' I suppose one would say that if the Americans applied the appropriate pressure then it would occur, and there are good signs about that. There is continuing pressure from that source. The United Nations has just appointed a new special envoy after the absence of an envoy for a number of years. There are signs elsewhere of the continuing pressure.

The Saharawis have not given up. They surprised everyone, if you like, with their determination in the 1970s, and that has continued for 30 years. There has not been the disappearance of people. People are living in the camps and are staying there in the hope of returning. They could have dispersed throughout the world at this stage, and none of them are seeking to do that. They are not seeking refugee status elsewhere in the world. The people within the occupied area are very strongly standing up to the Moroccan authorities and are prepared to face the consequences. What we have seen in the last few months, as Kamal has pointed out, is a renewal of this. There is an immense amount of bravery and determination, and it is quite surprising. They are not going to go away even though, as we readily acknowledge and as our pamphlet says, '30 Years is Enough'.

It is not that they are at breaking point. This matter has to be resolved so that the relationships between Morocco, Algeria and Libya in particular can improve so that trade and development in the Greater Maghreb can go ahead—from the outsider's point of view, too. It is really slowing down the whole process of the improvement of life for everyone in the Greater Maghreb, including and in particular Morocco. Moroccan resources are, frankly, being wasted in having a huge number of troops and other security forces in the Western Sahara. It is costing them a million dollars or more a day just to maintain their forces there, and that is taking away from the

development of the 30 million Moroccans who live within the acknowledged borders of Morocco.

Senator FERGUSON—I suppose you could say the same thing about the United States, which has hundreds of thousands of people overseas. That is costing their taxpayers a lot of money too. Yet you say that if America would put pressure on Morocco it might help to solve the conflict. Half the world would be up in arms because the Americans were interfering in Morocco.

Mr O'Neill—No, I do not think it would work that way. It would work through the United Nations process.

Senator FERGUSON—I thought you said the United States.

Mr O'Neill—I did, but the United States would operate through the United Nations. No doubt they would be indicating to the present king of Morocco that it was time now to move on, but they would do it through the UN processes. The referendum has to occur. The referendum does offer the opportunity of independence, integration into Morocco or a form of semi-autonomy, with Morocco responsible for defence and foreign affairs. There are three possibilities in the referendum. It is not yes or no to independence. That is a key part of the Baker plan and one of the reasons it is sensible for Morocco to allow it to occur. Of course it is possible, although extremely unlikely given what has occurred, that the people of the region would vote for integration into Morocco. They will almost certainly vote for independence, which is the reason that Morocco will not allow it to occur. There are quite a few Moroccan citizens who have moved in since 1975 but it is generally believed that even they may not be all that enthusiastic about reintegration.

Senator FERGUSON—That is not an unfamiliar pattern of transmigration. We have the same thing in Irian Jaya, West Papua. The Indonesians have moved in there and now outnumber the local people. I would not want you to think I am not sympathetic to your cause, but I am saying that we have to be practical about it. There is a list on the back of this pamphlet of what you expect members of the federal parliament to do. Members of the federal parliament have priorities too and in many cases other issues much closer to home that we are concerned about take priority.

Mr WILKIE—Does Australia recognise SADR as a legitimate government of Western Sahara?

Mr O'Neill—No, it does not. The Republic of South Africa, Kenya and many of our neighbours to the north do. Australia does not recognise Morocco as sovereign, either. There is no recognition from Australia's point of view of a sovereign government there.

Mr WILKIE—What about the US?

Mr Fadel—No. There are about 76 countries, mainly African and Latin American, and the Saharan Republic is a fully fledged—

Mr WILKIE—That is my next question. I would like the names of the 76 countries that do recognise SADR. Right now what is the position of the US?

Mr Fadel—The position of the US is that it does not recognise Morocco's occupation of the Western Sahara. It does not recognise the Saharawi Republic. It recognises the Polisario as one of the parties in the conflict, the independence movement. It tries to take a neutral position on the conflict because of past relations with Morocco, particularly on the idea of trade. The representative of the United States mentioned clearly that, on the idea of trading with Morocco when it includes the Western Sahara, America does not recognise Morocco's sovereignty on Western Sahara.

Mr O'Neill—It is at page 4 of our submission.

Mr WILKIE—We do not have a copy of your submission here.

Mr O'Neill—We can read it to you.

Mr Fadel—It says:

The United States and many other countries do not recognise Moroccan sovereignty over Western Sahara and have consistently urged the parties to work with the United Nations to resolve the conflict by peaceful means.

On the free trade agreement between Morocco and the United States, Robert Zoellick said:

The FTA will cover trade and investment in the territory of Morocco as recognised internationally, and will not include Western Sahara.

Mr WILKIE—That was going to be one of my next questions. If the US are neutral—

Mr O'Neill—But do not forget they are active—

Mr WILKIE—but are prepared to sign a free trade agreement with Morocco—

Mr O'Neill—But there are two aspects to that. First of all—

Mr WILKIE—But can I finish?

Mr O'Neill—Sorry.

Mr WILKIE—If you want the United States to bring pressure to bear on Moroccans, what sort of message is it going to give when they are prepared to sign a free trade agreement with them?

Mr O'Neill—But not including Western Sahara. They do not recognise Morocco's sovereignty of Western Sahara. They have made it clear both politically and in terms of the free trade agreement between Morocco and the United States that it does not include Western Sahara, that it includes only Morocco as recognised by all other countries.

Mr WILKIE—They did not go to the extent of saying, ‘Until such time as you sort this out we are not going to sign a free trade agreement.’ It is a way of squibbing it, isn’t it?

Mr Fadel—This issue has been on the United Nations agenda since 1965. The UN has passed resolutions on this issue. It is a decolonisation issue. It is a non-self-governing territory and it has to be resolved through a referendum of self-determination. The position of the United States is important, but it is not the only factor that will change the whole issue. Signing a free trade agreement with Morocco and not including Western Sahara and stating that publicly is a way of exerting pressure and saying, ‘We’re not going to deal with you in Western Sahara.’ That excludes a large part which Morocco thinks belongs to it which has great potential in terms of fishing, phosphate, other mineral resources and oil. If the United States is telling Morocco, ‘We will sign a free trade agreement with you but it does not include Western Sahara,’ I think that is a message, a signal.

Mr WILKIE—What did the European Union’s agreement do? Did that recognise Morocco’s right over Western Sahara? I am not being unsympathetic.

Mr Fadel—I understand.

Mr WILKIE—What are other countries doing? It is fair enough to say that Australia needs to be doing more, but what are other countries doing? Did the European Union put any stipulations on their free trade agreement?

Mr Fadel—Not as far as I am aware. The European parliament has been very strong on this issue in terms of saying that it has to be resolved through—

CHAIR—But there are no sanctions; it is only rhetoric at this stage?

Mr Fadel—Yes.

CHAIR—I was just saying to the chairman of the main committee that, as far as I am aware, the vote for the Moroccan free trade agreement was a record. When I was in the US in April they were commenting on it. They got even more votes than for ours, which until that time had held the record. If people had had reservations then, as Mr Wilkie said, you would have thought there would have been some issues. From our point of view, during the rest of the inquiry people were not saying that they see a great opportunity for trade with Morocco. But we will see. We have yet to visit there. If we have the opportunity we may raise the issue, but it is predominantly a trading activity.

Senator FERGUSON—And Mauritania is not part of our inquiry, either.

Mr O’Neill—No, but it is part of the greater Maghreb.

Senator FERGUSON—It is but we are not including it.

Mr O’Neill—Yes.

CHAIR—There is some suggestion we should, but we are not.

Mr O'Neill—I have one further comment about the African Union issue. Morocco is the only country in Africa not a member of the African Union and it is because of the Western Saharan issue. Some of the other countries recognise SADR as the legitimate government of the Western Sahara but none of them recognise Morocco, and Morocco is outside the African Union, which is a great shame in many regards. Morocco being outside shows the tension that this issue has caused within the African Union.

Mr Fadel—I have a short comment, and a question for you. What I want to underline is that it has been 30 years since Morocco's occupation. If we look at history—for example, East Timor, South Africa, Eritrea or Namibia—no matter how long it takes, justice finally takes its course. Where there is a just cause and the people believe in it, the United Nations supports it, the international community supports it and the International Court of Justice supports it, there is no way for Morocco to stay there indefinitely.

CHAIR—I understand there were some questions before as to the Americans not taking stronger action because of the question of the stability of the monarchy. Thanks very much for your input today. We are now 20 minutes over and we must press on. I am certainly sympathetic to the cause and certainly believe it deserves attention. Thank you for drawing it to our attention.

Mr Fadel—I want to ask a couple of questions. Is it possible for any member of the delegation to visit the area, particularly the refugee camps?

CHAIR—No. We are on a very tight time frame. We only have about a day and a half in Casablanca.

Mr Fadel—I know time is a problem, but the other question is this: is it possible to look at trade and the economic issues without thinking about the political situation of the regions?

CHAIR—Yes, it is possible.

Senator FERGUSON—You have to remember that when we are dealing with trade, historically, disputed territories have never been a barrier to trade—or even occupied territories. We traded with the Soviet Union for 50 years.

Mr WILKIE—We traded with Iraq while we were having a war with them.

Senator FERGUSON—We traded with Iraq. We have traded with a lot of people. There is a separation of politics and trade. Whether we like it or not, it is a fact of life that countries consider in many cases trading issues to be different.

CHAIR—There are a lot of them. I am chairman of Amnesty and also on the human rights committee. Senator Ferguson is involved there. There are issues around the world. If we did not trade with countries because of human rights abuses or because of disputed territory, that would create problems. So you trade, but you also take the opportunity to talk.

Senator FERGUSON—You talk as well.

CHAIR—With China, for example, we have a separate human rights dialogue with them. Nevertheless, you have a good cause and a good reason to be here. We support what you are saying. We take it on board. We are not dismissing it by any means. Thank you for coming today.

Mr WILKIE—I would appreciate getting the list of countries that have signed. I would be interested also in knowing where Baraka Petroleum are located in Perth. I want to see if they are in my electorate. I might be able to go and see them.

Mr Fadel—Okay.

CHAIR—Thanks very much for coming.

Resolved (on motion by **Senator Ferguson**):

That the document entitled ‘Western Sahara’ and presented by the Australia Western Sahara Association be taken in evidence and included in the committee’s record as exhibit No. 2.

Resolved (on motion by **Senator Ferguson**):

That the document entitled ‘Mixing Occupation and Oil in the Western Sahara’ presented by the Australia Western Sahara Association be taken as evidence and included in the subcommittee’s record as exhibit No. 3.

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

That this subcommittee authorises publication of the transcript of the evidence given before it at public hearings on 1 and 2 August.

Subcommittee adjourned at 11.25 am