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DEFENCE AND TRADE

TRADE SUBCOMMITTEE

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

Members: Senator Ferguson (*Chair*), Mr Edwards (*Deputy Chair*), Senators George Campbell, Eggleston, Hutchins, Johnston, Kirk, Moore, Payne, Scullion, Stott Despoja and Webber and Mr Baird, Mr Barresi, Mr Danby, Mrs Draper, 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 George Campbell, Eggleston, Ferguson (*ex officio*), Johnston, Scullion and Webber and Mr Barresi, Mrs Draper, Mr Edwards (*ex officio*), Mr Haase, 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: Senators Johnston and Webber and Mr Baird, Mrs Draper and Mr Wakelin

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 maximise opportunities in North Africa as they emerge.

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Subcommittee met at 10.02 am**GOODE, Mr Phillip Daniel, Manager, International Policy, Dairy Australia****KENNEDY, Mr Lee, Manager, International Liaison Unit, Europe, Middle East and Africa, Australian Trade Commission**

ACTING CHAIR (Senator Johnston)—I declare open this third public hearing of the inquiry into expanding Australia's trade and investment relationships 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 relationships with five countries: Algeria, Egypt, Libya, Morocco and Tunisia. Australia currently exports a range of goods to the North African region, including meat, cheese, curd, crude animal and vegetable materials, and coal. Egypt, in particular, 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: firstly, the nature of Australia's existing trade and investment relationships with the region; secondly, the likely future trends in these relationships; and thirdly, the role of 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 of trade and investment.

On behalf of the Trade Subcommittee I welcome the witnesses. The subcommittee prefers that all evidence be given in public but should you at any stage wish to give any evidence in private—or in camera, as we call it—you may ask to do so and the subcommittee will give consideration to your request.

Mr Goode—I have been asked to appear here by the Australian Dairy Industry Council's chairman, Alan Burgess, because I am the dairy industry's expert on trade with North Africa. I prepared the submission for the ADIC in consultation with a number of dairy companies and two trading companies.

ACTING CHAIR—Although the subcommittee does not require you to give evidence on oath, I should advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the respective houses. The subcommittee has one submission from Dairy Australia, submission No. 10. I now invite you to make an opening statement before we proceed to questions.

Mr Goode—The main issue with dairy trade with North Africa is that Algeria is the largest importer of dairy products in the world, particularly of milk powders. They have a very small dairy industry. They are an oil rich country and they import a lot of dairy products. Most of that comes from Europe. So our biggest concern is to ensure that trade with Algeria is not disrupted in any way.

CHAIR (Mr Baird)—Sorry to interrupt. It took me one hour 40 minutes to drive from Cronulla to the Sydney airport, which is a distance of about 10 kilometres! I only just made the second flight, so I am lucky to be here. Please proceed.

Mr Goode—The main issue is that Algeria is the largest importer of skim milk powder and whole milk powder in the world. Anything that disrupts trade into that market, be it from Australia, New Zealand, the US, the EU or anywhere else, is a problem. We also have a problem in the market in that we see a lot of food aid go in from the US, which is unconscionable. Given that they are able to buy 200,000 tonnes of product, you wonder why they need food aid. They receive export credits on very generous terms from the US. Once again, what we are seeing is basically the US using their aid and export credit programs to get access to what is a very big market.

Another problem with Algeria is that they are shortly to sign a neighbourhood agreement with the European Union and that will effectively mean that 70,000 tonnes will enter from the EU duty free, which leaves 130,000 tonnes for the rest of us to argue about.

CHAIR—What duty do we pay?

Mr Goode—We pay about 5 per cent at the moment. It is not a huge difference but we have a few other problems in dealing with North Africa by virtue of the fact that we are on the other side of the world. We obviously have freight issues.

We also have, as I said, some technical problems with Algeria, Egypt and Libya, in particular, that come about because they have basically set up their import regime focusing on Europe. For example, they will set an arbitrary use-by date for milk powders. Normally, if we are exporting milk powders, the manufacturer will set the use-by date depending on how they have manufactured the product, how it is going to be used, how it is going to be stored and various other things. It can last up to three years. Typically in Algeria they will say, 'It's got to be nine months and we want 80 per cent of that still available when it arrives in Algeria.' That means you effectively have about 1½ months from manufacturing to shipment. We have seasonal production in Australia but that does not mean we can always meet those requirements. If you have tenders that are called at the whim of a government, it is hard to get in there. So there are some technical issues in getting into those markets and there are some broader issues in trade policy. The bottom line is that they are big markets; they are important markets. If we cannot get in there we would like to at least see the rest continue to have access because it is going to ensure that that product does not end up elsewhere in the world. But we would also like better access to those markets.

I would also like to comment that in the case of Libya a lot more trade goes into that country than the statistics suggest. I do not know the numbers because we sell it to the UAE and it gets transhipped on, but we do know that a lot of the product we are selling is sold to people who are onselling it to Libya. The numbers are going to be somewhat larger than what you will see in the statistics. Those are the main points from the dairy industry.

Senator JOHNSTON—I was previously involved in a Senate inquiry into exporting to North America and saw the very broad range of processed dairy products that give us a very good competitive advantage: lactate products et cetera. What is the sort of background research

assistance that the government has given to work out what our industry should be focusing on? I note that we have cheese, condensed milk, infant powder and 15,000 tonnes of liquid milk, or bottled milk, or whatever you want to call it. Is the industry being well served by Austrade and the government in ascertaining on the ground in these North African countries what is our niche advantage?

Mr Goode—I think we need to recognise that North Africa is nowhere near as sophisticated as North America or Japan or some of those other places where we put in lactoferrins and immunoglobulins and some of those milk components which have very high value, even though you might not get much of them from the milk. In that respect, we have not received a lot of information from the government. We at Dairy Australia do regular market surveys of the region. We do not do it ourselves; we get it done by a consultancy company based in London which does it generally for the dairy industry globally. It is a much cheaper way to do it. So we do have a handle on what is happening there. From what we have seen it would appear that they are still very much commodity markets. They are good places to sell milk powders for recombining or for their dairy or bakery industries. They are good places to sell butter for the same sorts of things. They are good places to sell canned cheese or cheese generally. It says cheese curd there, but I think what we are really talking about is cheddar cheese for processing when it says that. All of those things are basically where the opportunities are now. If you are closer to the market you might spend a little bit more time making some specialty cheeses that are used more in the Middle East—some Arab cheeses like akawieh and those white, salty, rubbery cheeses that I do not like very much but they do.

Senator JOHNSTON—Are they difficult for us to adjust to and make?

Mr Goode—They are difficult because they are a fresh product even though they are stored in brine. You are either going to be shipping brine, which is not a very effective thing to do, or you have a fresh product which does not last very long anyway. So, for competitive reasons, from Australia's end we are still looking very much at commodities into those markets. A little bit further east, if you are talking about some of the Middle Eastern markets, there is a bit more sophistication. But that does not seem to be the case in North Africa at the moment.

Senator JOHNSTON—Who are our competitors with these North African markets?

Mr Goode—Europe is the main competitor.

Senator JOHNSTON—What about the New Zealanders?

Mr Goode—New Zealand is big. Europe dominates because of where they are and because of their political and trade policy relationship.

CHAIR—And their historical relationship.

Mr Goode—Yes. They speak French in Libya, Algeria and Morocco. That has to have an impact.

CHAIR—And in Tunisia.

Mr Goode—Yes, also in Tunisia and Morocco, I think. I do not know a lot about Tunisia and Morocco, I must admit. We do a lot more in the bigger markets.

CHAIR—Are we selling anything to the Tunisian market?

Mr Goode—Very small amounts. There is some going in there, but once again—

CHAIR—Why is that?

Mr Goode—It is for the same reasons. You have a cultural and historical relationship with Europe and very high tariffs. Tariffs into Morocco are as high as 250 per cent for some dairy items. There is a neighbourhood agreement with Europe which gets around that, so that has to give you an advantage. So we do not put a lot into Tunisia and Morocco.

Senator JOHNSTON—That is very interesting. So our competitors are the New Zealanders and the Europeans, obviously.

Mr Goode—And the US, but using some of their soft credit in particular.

Senator JOHNSTON—Yes. Do we have WTO issues with Europe? Some of their production is subsidised.

Mr Goode—It is subsidised production.

Senator JOHNSTON—That is an ongoing battle, is it?

Mr Goode—Yes, it is an ongoing battle. What they are putting in is subsidised, but it is within their subsidy commitment under the Uruguay round. The only way we are going to fix that is by working through the Doha round to get rid of them. There is some glimmer of hope that that might happen if the Doha round actually gets to a conclusion.

Senator JOHNSTON—Just touching on the supply chain, do we have any issues at our end and from the government's perspective of things that we need to be doing in terms of making life easier for your exporters?

Mr Goode—There are some issues in North Africa in terms of them not accepting electronic documentation. Those companies that are exporting large quantities of bulk product are now set up to use electronic documentation for their quarantine certificates and everything else. That works great into Japan and Asia, but they do not accept it in North Africa at this stage. That means you have to go through another layer of bringing somebody in to do the manual documentation. It does cost more, and so it should, because there are more man hours involved. The dairy industry has in fact requested that AQIS charge more for manual documentation to places where you can do XDOC, because we are trying to encourage people to use XDOC. In North Africa it cannot be helped. It is the only way to do it.

CHAIR—The focus of this inquiry is really looking at what the government should be doing more of, what we are not doing enough of and what the impediments and issues are that we can address in our discussions with them for those who are going. But we have the broader inquiry

which goes forward to the government. We have clearance, electronic documentation and the question of the tariff levels. What are the other key things that you see we should be doing and that we can make recommendations on?

Mr Goode—We would like to bring down tariff levels so that we are on a par with the Europeans. That is important.

CHAIR—Which is zero, is it?

Mr Goode—It varies. It depends on the nature of the arrangement.

CHAIR—Under this new arrangement.

Mr Goode—They have different agreements with each country, and it is different for each product. But basically it is five per cent or zero; it is low, or much lower than the tariff that the rest of us are paying.

CHAIR—I thought you said we were paying five.

Mr Goode—If we are paying five, then they are paying zero.

CHAIR—I see.

Mr Goode—There is always a differential, is what I am saying.

Mr JOHNSON—We are at a disadvantage.

Mr Goode—That is right. So there is that. There are issues that come up in terms of day-to-day trade. I have noted a couple in terms of Libya in the submission. For example, we will suddenly do testing arrangements that no-one else is hit with. Why do we have to do that? We will suddenly find that Libya has refused to release containers, and that means you have to pay the shipping company for the container as if it were lost. These things are not predictable, but they happen and they happen all over the world. If they happen in Egypt, we have good support from Austrade; we have good support from the Australian embassy in Cairo, and they will go out and help us fix it. If it happens in Libya or Algeria, then it does not work quite so well. We now have representation for Libya out of Malta, which is close but he still has to get across. He has to get an invitation to get into the country to do it. Then he has to find the person to talk to and he doesn't have the contacts.

CHAIR—But you know that we are setting up very shortly the trade post; we are setting up a consul-general.

Mr Goode—That will make a very big difference. In Algiers?

CHAIR—In Tripoli. What is the date, Lee?

Mr Kennedy—We currently have a staff member who has been there since last October. We have our senior trade commissioner from Cairo acting on a temporary basis in the Libyan position establishing the mission.

Mr Goode—He is actually in Tripoli now, is he?

Mr Kennedy—He is in Tripoli now but he will only be there until our permanent officer arrives. We anticipate sending someone later this year or very early next year. It is certainly under way.

CHAIR—I have broken the rules of the inquiry, but you get the information.

Senator JOHNSTON—Your province, Chair.

CHAIR—For those who are going on the visit, it will coincide with the arrival.

Mr Goode—Someone on the spot to fix those issues would be very useful and it sounds like that is being fixed, so that is great. That is the main thing—just keeping on top of the trade and making sure that we do not fall behind. That is watching what the Europeans are doing on the market. Once again, having somebody on the spot will make a huge difference there.

CHAIR—I understand that we are planning to convert this into a full embassy, so that kind of helps as well, and upgrading the status.

Senator WEBBER—I want to follow on the questions about Libya. You have alluded to some difficulties. It is news to me as well that we are going to have someone in Tripoli.

Mr Goode—I am glad I am not the only ignorant person here.

Senator WEBBER—Obviously, having someone on the ground will help, but is that going to be sufficient? Could you expand on some of the other difficulties that we have?

Mr Goode—We need somebody on the ground who can solve the problems. As I say, in Egypt we regularly have problems with them bringing in new testing arrangements, with them having unreasonable use-by dates. We have somebody at the embassy who goes in there. Sometimes the guy who is there is lucky and does not have to do it for a year or two, and sometimes he spends half his life working for the dairy industry. That is what happens. In Libya, in many cases the trade is not taking place because of the problems in the past—problems with a bit of on-the-ground intelligence, like when the tenders are going to come up; problems like, when product arrives, suddenly testing it and we don't know why they are testing it or what they are testing it for; and overcoming some of the long-term problems. If we have a use-by date which is unreasonable and clearly favours the Europeans over everyone else then maybe that person can lobby for us, but having someone on the ground to address all of those sorts of things is what we are looking at.

CHAIR—You mean favouring the Europeans because they are closer?

Mr Goode—Because they are closer, the use-by dates do not worry them as much, but also because they do not have seasonal production.

CHAIR—Is it mainly in Libya that these problems emerge?

Mr Goode—Libya, Algeria and Egypt. We do not do much in the other two countries, so we do not have the problems.

Senator WEBBER—In your opening remarks you raised the issue of the US providing food aid, and what have you, as a way of getting in there. Can you expand a bit more on that?

Mr Goode—Rather than food aid, soft credit is what they do more of. There is a little bit of food aid, but very soft credit.

CHAIR—Who, Europe?

Senator WEBBER—The US.

Mr Goode—And under the GSM programs there is soft credit which basically says that you get interest free loans for three years, and at the end of that we will extend it for another three years and will keep extending it until we forget about it, which tends to be how the GSM programs work generally. I have to say that that is being addressed in DOHA Round. Again, if that gets up, what is on the table in terms of credit will go a long way towards helping us. It will bring the US into line if they follow it and do not find a clever way around it.

Senator WEBBER—I was going to say, ‘Yeah, what are the chances of not finding some other tricky solution?’

Mr Goode—Again, what it comes back to is having somebody on the ground who can see what is happening, who can say: ‘The US have just done this. Don’t bother to apply for this tender, because we know about that.’ You put a lot of effort into a tender and then realise that it is all a foregone conclusion because it was going to go to the US or it was going to go to Germany because they had certain testing arrangements in place at that time, or whatever else. We do find, in other countries where we have people on the ground working for us, that they can sometimes pick some of that stuff up in advance.

Senator WEBBER—Does the industry have any view of the potential expansion of the market once we have someone on the ground to fix these problems?

Mr Goode—It is very difficult. I certainly would not be willing to put a number on it. At the moment it is a spot market. If we have excess product and we are willing to sell it a little bit cheaper, we can put it in there. If the world market is tight, we probably will not; we will stick with the markets we need to continue to service, as we have done for the last two years, during the drought.

Looking to the longer term, we would like to develop markets, develop relationships and develop customers as we have in other parts of the world. Given that these are wealthy countries, certainly the larger Australian dairy companies believe that Libya, in particular, has a very large

potential. Also, we know that there is product going through the UAE. We do not know how much, but that is also an important part of the trade.

CHAIR—In terms of the other one, we are going to Morocco and a couple are going on to Tunisia in terms of the visit; do you see much potential in either of those countries?

Mr Goode—Not really. We are starting from a very low base to get in there. If you can achieve some access for us, I am sure that we would go in and have a good go at it, but we are starting from a very low base.

CHAIR—I do not think we are going to achieve too much in two days.

Mr Goode—No.

CHAIR—There are some questions about whether we should be working on those two, because we have two people going during the holy day period. But, in terms of Morocco, it is kind of in the soft end of whether it is worth while or not.

Mr Goode—From the dairy industry's point of view, we would like to see the focus on Egypt, Algeria and Libya.

CHAIR—That is fine.

Mr WAKELIN—On Egypt, I see from your submission that it has dropped back from \$50 million in 2002 to \$24 million in 2004. Was there a fairly long period when you had that value of product going in prior to that period?

Mr Goode—Egypt has been a large market for us for a long time. I have only been in this game for 12 years, and for the first 10 years of that it was one of the markets that we always looked at when we looked at what was happening with our exports—of butter, in particular. There was also a lot of skim milk powder going in there for a long time. Part of the reason it dropped so much was the European neighbourhood agreement. In all honesty, I have to say that part of the reason was also the drought in Australia, which meant that supply was short and we were selling into a less profitable market and that became even less profitable.

Mr WAKELIN—It was tight.

Mr Goode—So it was a \$50 million market for a good 10-year period that I am aware of.

Mr WAKELIN—There was no particular reason. We were dropping off a bit anyway, as we did not have the product?

Mr Goode—We had regular customers we were supplying who were now saying: 'We can get it cheaper from Europe.'

Mr WAKELIN—Going back to Algeria again and the issues of the European Union providing three-quarters of that product and the trade restraints lessening, how does it actually work? Quota-free at 70,000 tonnes—

Mr Goode—That has not happened yet.

Mr WAKELIN—No, but that it will happen. What will that mean? Will the Europeans still try to get in there at over five per cent? They will have a portion of the rest of it basically.

Mr Goode—I would guess that they would continue to supply about 150,000 tonnes into that market. If they are supplying half of that at zero duty—

Mr WAKELIN—So they will sit on that three-quarters but the 70,000 will have the duty free?

Mr Goode—Which will mean that they are selling it cheaper or they are making more profits. Either way, that is not particularly useful to us. My point there was that, if they can afford to give the Europeans zero duty for 70,000 tonnes of product, they really do not need to have duty at all to protect anything and their position in the WTO accession that they need to keep these duties on is, I think, a bit of a nonsense.

Mr WAKELIN—My last question is with respect to the WTO. I am interested in your observations about how that is working. I hear about Doha and the constant saga of these discussions. Do you have a comment about Australia's representation and how we are conducting ourselves within these forums? Are we making progress?

Mr Goode—I can really only comment on the level of consultation with the dairy industry, which has been very good. If there is a negotiating session coming up they will call me and say, 'Has there been any change?' Unfortunately, sometimes a submission I put in a year ago is not my opinion this year—the reason being that the world changes, prices change and there might be more of a priority on this product than that product or someone has invented a new product and we want to see that one pushed a little more as we did not know about it last year. DFAT know that. The people in the WTO accessions area have been working with the dairy industry for long enough to know that it is worth ringing up and asking. After the negotiating sessions, they usually give us a call and say, 'What, if anything, has happened?'

Mr WAKELIN—Has the snail quickened?

Mr Goode—Yes: has the snail quickened? Unfortunately, that is about as good as it gets. I cannot comment on whether or not our negotiators are doing a good job; I can only say that they are toeing the line and when we ask them to focus on a particular item they do that.

Mr WAKELIN—My interest is in the critical point of the relationship between the industry and the bureaucracy and our negotiators. Over the years there has been a different view from industry and the bureaucracy, and I am just fascinated about how that interacts. So you are consulted, but you—

Mr Goode—In terms of WTO accessions, that part of DFAT works very well with us.

Mr WAKELIN—Thanks very much.

Mrs DRAPER—I know that you have talked about testing of the products et cetera, but I would like you to elaborate a little more on the testing regimes, the difference in the actual approach they take, whether or not—and forgive my ignorance on this matter—their technical equipment or whatever for testing is different in each country, what difference that may make and whether they are able to manipulate results for whatever reason. Secondly, you talked in the submission about Libya sometimes holding back a proportion of the selling price—the 10 per cent that was mentioned. They sometimes hold it back, but do you have any instances of when that has not been paid? Does that occur often?

Mr Goode—In terms of the holding back of selling prices, in talking to the traders that have been involved, they basically told me that it happens occasionally but not regularly. They did not report any occasions where they had not eventually had it released; however, it takes time for it to be released—and that is the issue. I am sure I would have heard if there were an occasion when it never got released. In terms of the testing regimes, it is not really a matter of equipment or test methods. Usually, they would ask us to do the tests, and we would provide them before the product leaves Australia.

Mrs DRAPER—Before certification.

Mr Goode—The issue is that, first of all, under the Australian quarantine system, the AQIS system, most places that we export to would accept tests that are done by the company, with proper monitoring of laboratories and all the rest of it. In the case of Libya, it has to be a NATA registered laboratory, which means that companies have to send product somewhere else to get it tested—which adds to time and costs and all those other things. The other issue is that they are sometimes asking for tests which are not a regular test, such as a salmonella or listeria test to a particular level that would not be required elsewhere and occasionally is not required of our competitors. If they would accept the system that we have for the rest of the world, it would make trade a lot easier. That would mean that we would do the standard tests that are required for health and human safety reasons and they would accept the system that is in place and basically accept AQIS certification that if it says it is fit for human consumption it really is.

Evidence was then taken in camera but later resumed in public—

Proceedings suspended from 10.31 am to 10.32 am

CHAIR—In terms of a check list that we should be concerned about, even though you have Austrade and DFAT sitting behind you—

Mr Goode—I am not frightened of them!

CHAIR—Are you happy with the level of servicing from Austrade?

Mr Goode—We have not been in the past, for Algeria and Libya, but I think that has been fixed. I would compliment them on their work in Egypt.

CHAIR—They are doing a good job there?

Mr Goode—Yes.

CHAIR—Have other government departments been of assistance to you?

Mr Goode—AQIS have certainly worked very closely with us to try to overcome the problems as they arise. The difficulty has been, once again, the lack of a person on the ground to go and fix it for us.

CHAIR—What about visa situations? Is anything causing you problems there?

Mr Goode—Egypt is no problem. We do not have many people visiting Algeria and Libya. It is generally done from a distance, through papers.

CHAIR—What about the other way around, when you are trying to bring people here? Do you try to bring people here?

Mr Goode—I have not heard of problems. Usually these meetings happen in Dubai or places like that.

CHAIR—As for things that, in the middle of the night, you wish the government would do something about, is there anything else on your list?

Mr Goode—In the middle of the night I wish the government would do something about the preferential rates with the EU. That would mean a free trade agreement, I think, which is pretty difficult.

CHAIR—With those countries?

Mr Goode—Yes, but particularly with the three big countries.

CHAIR—That is more likely to be achieved in the Doha Round, isn't it?

Mr Goode—Yes, through the Doha Round. It is similar to the credits issues.

CHAIR—We will see what happens in Hong Kong.

Mr Goode—Maybe a little after Hong Kong.

CHAIR—We really appreciate you coming today. It might be worth while at some stage having you come and speak to the committee as a whole about international marketing across the board, rather than just these countries. I think it is an area in which you have a widespread involvement.

Senator JOHNSTON—There is one little thing I am interested to know before we wind up. I apologise for having to leave the room while you were talking. Could you tell us which companies are involved in the export of product?

Mr Goode—Can we have that in camera?

Senator JOHNSTON—Certainly.

Mr Goode—I do not particularly want to name companies. Sorry. I do not want it in *Hansard*, basically.

Evidence was then taken in camera but later resumed in public—

Proceedings suspended from 10.35 am to 10.37 am

CHAIR—We were discussing the volumes. What about Egypt?

Mr Goode—Egypt was a \$50 million market prior to 2002. I do believe those numbers.

CHAIR—But we have dropped substantially.

Mr Goode—We have dropped substantially, partly because of the drought, but largely because of the neighbourhood agreements. So, even when we recover from the drought, those numbers to Egypt are unlikely to recover.

CHAIR—The neighbourhood agreements being with the EU?

Mr Goode—Yes.

CHAIR—Thank you very much. We appreciate your input.

Mr Goode—Thank you. I or one of my colleagues would be very happy to talk about broader issues with the committee in the future, if necessary.

Evidence was then taken in camera but later resumed in public—

[11.35 am]

JONES, Mr David Maxwell, Manager, Market Support Services, Meat and Livestock Australia Ltd

CHAIR—On behalf of the Trade Subcommittee I welcome our next witness. The subcommittee prefers evidence to be given in public, but if you wish to be heard in private, as some other witnesses today have, please let us know. Do you have any comments to make on the capacity in which you appear?

Mr Jones—I represent Meat and Livestock Australia as the regional manager for the Middle East, where I have been based for the last 10½ years.

CHAIR—I am sure you have appeared before these committees before.

Mr Jones—It is my first, actually.

CHAIR—Is that right? Although we do not require you to give evidence under oath, these proceedings have the same standing as proceedings before the parliament. We have a submission from you, but I invite you to address the committee and outline your successes and failures, obviously with particular emphasis on what more the government can do for you, looking specifically at Austrade, representation, some of the barriers to trade and what types of recommendations we could make which might assist you in selling more Aussie meat to North Africa.

Mr Jones—First of all, I want to thank the committee for the chance to share with you some opportunities that we think we have in the region. It is a wonderful example of democracy in Australia, so thank you. The North Africa region is important to the Australian meat and livestock industry. We see some small opportunities, but they are opportunities that we can develop. As I say, I have been based in the region for the last 10½ years, and Australian meat and livestock is highly regarded there. Australia is seen as a supplier of safe, healthy livestock and meat. I digress slightly: people in the region say to me, ‘You are blessed with a good, clean country, good agriculture and strict quarantine, and we are blessed with some oil. Therefore, why not let trade take place?’ However, we do face some challenges in the region. There are some trade impediments there and, of course, negotiating with government representatives can be challenging at times and sometimes these negotiations lack transparency. We see the region itself as primarily a sheepmeat area for us, certainly with opportunities for live sheep.

CHAIR—Live?

Mr Jones—Live sheep, yes. It is fortunate we have some representatives here from Western Australia. I know the industry very well. Western Australia can play a key role not only in livestock but in meat, because it is that much closer to Africa. Maybe I should be careful I do not offend people from the eastern states! There are some great opportunities, but we do seek the assistance of the government because we have worked very closely in the past with government. We actually lobbied to get the agriculture counsellor, Dr Kiran Johar, based in Dubai. In the

short time he has been there, he has been a great asset and we have had some fine examples of working together.

A lot of the trade development and negotiation between governments takes place through relationships, and the involvement of government departments does help, because that is the way they operate in that part of the world. If they trust you—and they trust Australia—it goes a long way in helping to develop trade. We are faced with major challenges throughout the world. We have the Brazilians coming on board charging low prices for sheepmeat. The Chinese are now emerging as a competitor; therefore, we have to be seen to differentiate our products, and our relationships go a long way in that regard.

CHAIR—So not beef?

Mr Jones—Not really. Egypt has been a major market for live cattle, but unfortunately the change in the currency rate and so on have made it uncompetitive. So it is not so much beef. There are other factors: we have some attractive markets elsewhere and the prices that are being paid in this market make it uncompetitive at this stage. And they do enjoy sheepmeat in that part of the world. Of course, livestock is important too, and it is part of their culture, their heritage and so on. The live animal is slaughtered locally. That practice has been going on since long before Australia was settled, and it will continue. So, no, it is not beef so much. Obviously, we are looking for opportunities.

I want to share this with you. I was talking to an exporter from the countryside in New South Wales the other day and he said it is so important that we have these other markets that we can send our products to. Once you flood another market with your products, the price just plummets, which means they pay a lower price for the sheepmeat. I will give you an example of the value of the trade. In terms of other products, maybe it is not that large, but it is between \$30 million and \$40 million worth of trade. In mutton alone, it equates to about 250,000 sheep.

CHAIR—Which are the major markets of that \$30 million to \$40 million?

Mr Jones—We see the major markets as being Libya, Algeria and Egypt. I have visited Libya. I was fortunate to go there with the Hon. Mark Vaile on the first visit there. I have had a great opportunity to see how the relationship has since developed. I believe Australia is opening up an office and so on, and I have been there three or four times since. But we still do not know the key government contacts there. If a trade impediment should take place tomorrow, who do we approach? In Saudi, I know, and in Dubai, but there is that worry.

CHAIR—What is the reason for that? Are they difficult to access?

Mr Jones—It is a complex system there. As you know, we do not have an embassy there.

CHAIR—Are you talking about Libya or Algeria?

Mr Jones—I am talking about both countries actually.

CHAIR—We are actually establishing a trade consulate general in Libya in the next few weeks.

Mr Jones—I congratulate you on that. I know it is only a couple of years since we developed some relationships with them and Libya are opening up to the world, which is a really positive sight to see and that will go a long way in helping them develop relationships. In my work in the past, we have had a good, close relationship with the ambassadors, DFAT and the first secretaries, and I take this opportunity to say that the work that the former first secretaries have done—certainly in some markets—has been excellent. As you know, it depends on the people there. Some people are more enthusiastic than others.

Going back to the issue here: we are very keen for trade to develop. We have an office in Bahrain. MLA is committed, and we have been there for maybe 25 or 30 years. We have an office in the region. More importantly, we are the only meat and livestock industry organisation in the region. The Americans, the Brazilians and the Europeans are not there, so we are seen by many governments and trade people as a key contact. Therefore, on behalf of the industry, we are committed. But we cannot do everything. We have a couple of people there, so we do depend upon a lot of assistance from the government both here in Canberra and in our overseas markets.

CHAIR—What were you about to say about mutton exports when I cut you off?

Mr Jones—Mutton of course comes from older sheep. It is the equivalent of about 250,000 sheep a year in carcass weight. About 9,000 tonnes of mutton goes to the region, which, as I say, is equivalent to that many sheep. So it is important for us.

Senator JOHNSTON—Is that predominantly live sheep?

Mr Jones—No. That is in a carcass form.

Senator JOHNSTON—Frozen.

Mr Jones—I wanted to relate it to how many live sheep it equated to. The live sheep trade is a bit more challenging in North Africa.

Senator JOHNSTON—Are the 250,000 all halal?

Mr Jones—Yes. Every sheep that is slaughtered in export premises in Australia is halal. We have a very good reputation there. It must be halal. I will talk a little about the livestock trade and then come back to the meat trade. Egypt at one stage was one of our most important markets for live cattle. I believe it peaked at about 180,000 at one stage. That is into Egypt itself. We do suspect at the time that some of it was going over the border to their friends next door, but that was fine. Mainly due to the change in currencies that market has gone right away. For those of you who have not been to the region, it is arid, there is desert and they do not have many agricultural areas. The Nile, as they say in history, is the lifeblood of the country. We see some future opportunities. However, the bureaucracy in Egypt—impediments to trade, standards and regulations—is confusing. Some of our exporters look elsewhere for their products.

CHAIR—Why did we lose the market in Egypt?

Mr Jones—Mainly because of currency changes. The price of our cattle got too expensive for them.

Mr WAKELIN—What sort of alteration to the currency?

Mr Jones—There was something like a 20 per cent devaluation in their currency. A lot of people in Egypt are on low incomes. The currency changes made it uncompetitive and then they started sourcing cattle from Sudan, much to the angst of some of their health departments because of the foot-and-mouth disease they have in Sudan and so on. But at the end of the day they have to keep their people's stomachs full otherwise you get revolutions. That is basically it. In past years we have had good relationships with the Egyptian veterinary organisations and they have had a good understanding of protocols on the livestock side. When the price is right on both sides then we will see trade resume but we still need the government contacts there to help us through. We see that as being a big asset.

Regarding livestock trade to Libya: as you may be aware, it cannot take place now because after the *Cormo Express* incident and the Kiran report a new MOU would have to be developed with Libya before trade could take place. For example, quarantine stations would have to be put in place and so on. All of that can take a long time.

Senator JOHNSTON—Is it happening, though?

Mr Jones—No. No livestock trade is taking place.

Senator JOHNSTON—Are we doing what we need to do to get the same protocols as we have with Saudi Arabia to fix the problem?

Mr Jones—No, we are not doing that.

Senator JOHNSTON—Why are we not doing that? Is it a government issue?

Mr Jones—Yes. Importers want it to take place. I have spoken to exporters here. I visited an exporter in South Australia about three months ago and he showed me a thick pad of papers of standards and protocols he has to go through to get trade to take place for Libya. They can source the livestock but—

Mr WAKELIN—Created by the Australian government?

Mr Jones—Yes. I can understand why they have done it. Australia is highly regarded for our regulations and for AQIS, but countries like Brazil, China and even America take shortcuts with the halal and so on. So in one sense we are doing the right thing and in another sense it is impeding some of our trade. There is a fine balance, I know.

CHAIR—We have Austrade people observing this. I am sure they will take note of that. We would want AQIS to do the right thing, but where it becomes unnecessary red tape is the question, and that I cannot answer.

Mr Jones—The key points that I want to make are: North Africa we see as primarily a sheepmeat market for us, offering some prospects and opportunities of growth in the long term. There may be some niche markets for beef but, as I explained to you, beef is a bit expensive.

CHAIR—Morocco and Tunisia?

Mr Jones—Morocco has a 239 per cent tariff.

Senator JOHNSTON—Why is that?

Mr Jones—To try to protect their small industry. The bit of trade we have done was through their military or government department where they allow tenders and they can bypass that tariff. However, that comes about once every three or four years so it is highly protective. To get livestock in there you have to go through the Suez Canal and there are huge additional costs for doing that. We have healthy livestock, clean meat and fantastic systems but then you have the Suez Canal and on top of that the 239 per cent tariff.

CHAIR—That is what—mainly Algeria, Libya, Egypt?

Mr Jones—Yes. Egypt has a large population. Libya is a new country. It has great opportunities. I have been there. It has huge, vast wealth. They don't have any modern supermarkets or developments. Libya has a small population, about five or six million people. They are hungry for new food products. Hopefully, the wealth will be distributed and that will mean some opportunities for us.

CHAIR—Do you have an idea of the size of the live market into Libya if it were to develop?

Mr Jones—No, I don't. I would have to examine it. But again, they would like to have some of our sheep.

Senator JOHNSTON—They are mutton eaters.

Mr Jones—At 30,000 a month—

Senator JOHNSTON—But that is not lamb; that is mutton.

Mr Jones—That is mutton.

Senator JOHNSTON—Which is what we would be happy to sell, because the Americans won't have that.

Mr Jones—Yes; we need to differentiate, and that is where Australia can differentiate.

CHAIR—With Algeria it is population size, is it?

Mr Jones—Yes. Algeria in the last couple of years has developed as a nice emerging market for our mutton and some lamb. Again, we do not have any government contacts there. It is mainly French speaking, I believe. That is handled through Austrade, Paris.

CHAIR—Yes, it is.

Mr Jones—So again, we see some opportunities with these two to develop relationships. In the region we spend something like \$2 million in marketing. A delegation is coming here. We want to invest in the trade and develop it. The region will always be a net food importer because they do not have the agriculture we have. Therefore, in the long term we see some opportunities.

Senator JOHNSTON—They have the cash. They have reasonably robust economies, with their oil production.

Mr Jones—Yes, and there is still some government control there. For the countries to improve, that cash, that wealth, will have to be distributed. As I understand it, that is going to happen. They are talking about having a rail link from North Africa right through, I believe. That is going to help their communication strengths.

CHAIR—A rail link where?

Mr Jones—I believe—I don't know—it is from Algeria right through to Alexandria. We are talking five or 10 years away, but there are some big investments. You need people to build that rail system. You need money. They need to be fed. And fortunately they like sheep meat, and we have that. A key area is securing market access. We do the right thing here. If you don't in many of the countries—not true democracies—at a flick of a thumb they can just stop trade overnight, which happened in Saudi Arabia a couple of years ago. So by securing the access it is going to help us. The tariff barriers in some of those countries make it difficult to do any trade whatsoever.

The industry is investing producer funds through the levy from the countryside there. We are trying to invest it wisely. We certainly seek the support of the Australian government; we want to work closely with the Australian government. I personally have played an active role with the new agriculture counsellor, Kirin Johar, based in the area. I have taken him around and introduced him to the contacts that I know. That has gone a long way. It gives the right signals in the region. Also, since our activities in the region, we have had a lot more parliamentarians come through. I have been there 10 years and, in the past, they have bypassed the Middle East. It is wonderful to see, I think, the Prime Minister came to Dubai recently. That gives such strong signals to the region. When you see the newspapers over there, the Brits get in there, the Europeans are there, the French, and now thankfully Australians are there. All of that helps with this. They see Australians as being the friendly people. We are not bombastic or pompous; we are fresh and new. I add that for the record. That is all I have to say.

CHAIR—I think it is appropriate to have Mr Wakelin start the questioning. We have more farmers in this area.

Mr WAKELIN—Where is the main competition? I thought I heard China mentioned.

Mr Jones—China is the emerging dragon, they say. They have a huge population but they have large numbers of livestock. They have something like 200 million sheep. A lot of sheep are in the countryside so they do not have a proper constructive modern agriculture organisation as we have. I was reading somewhere that it is the policy of the new Chinese government now. They want to distribute the wealth in the countryside by having a similar production system to

us. I believe we sold them some merino genealogy, which is fantastic. They are now supplying the same type of products to our markets, certainly in the Gulf.

Mr WAKELIN—That is a 100-year-old debate in Australia.

Mr Jones—Like for like, I would see China on the sheepmeat and livestock side as being a competitor.

Mr WAKELIN—What is the size of that market in totality?

Mr Jones—For Australia?

Mr WAKELIN—No, the total market—do we have an estimate of the value of that total market?

Mr Jones—For agricultural products or for meat?

Mr WAKELIN—For meat and livestock.

Mr Jones—I am afraid I do not have an estimate.

Mr WAKELIN—That is fine.

Mr Jones—We would be only supplying about 10 to 15 per cent. It would vary in other markets but it is huge. They enjoy meat; they enjoy livestock traditionally, and we have that

Mr WAKELIN—What is the protective regime endeavouring to protect? For example—this is quite bizarre to me—a bovine tongue frozen has a 34 per cent tariff, bovine liver frozen is 239 per cent. What is the difference to our customers between a frozen tongue and a frozen liver? I do not know whether you would know—someone from Austrade might—but there is quite a remarkable difference between the tariffs. Do you have any suggestions?

Mr Jones—I would only have a guesstimate.

Mr WAKELIN—I do know that if it is for military purposes in one or two of these countries, there is a zero tariff and we have been able to benefit from that.

Mr Jones—In Morocco that is correct, yes.

Mr WAKELIN—That is a little while back now.

Mr Jones—There is a current tender for sheepmeat, which I believe a couple of exporters are negotiating at the moment. When it goes in via the military, there is no tariff.

Mr WAKELIN—That is right.

Mr Jones—I believe some of that filters through—

CHAIR—But isn't that cosmetic? Have you seen any non-European suppliers to the Moroccans?

Mr Jones—I have been to Morocco a couple of times and seen in the marketplace some of the meat which has been imported via the military. At the end of the day, people along the chain are making various amounts of money.

CHAIR—Of the countries supplying the military, are there any non-European countries?

Mr Jones—South America.

CHAIR—So there is potential for us to get in.

Mr Jones—Yes.

Mr WAKELIN—That is a very important point. It reminds me of foot-and-mouth disease and other disease issues. Does that country have any particular problems with such issues?

Mr Jones—The region itself is covered with foot-and-mouth disease and its meat will not be admitted into some countries.

Mr WAKELIN—So that is not an issue.

Mr Jones—That is right.

Mr WAKELIN—Can I come to the *Cormo Express*, the vessel that created all the pain and suffering for this country's cabinet and beyond. You mentioned the blockages and that MOUs are needed to open trade. You have just come into contact with such a situation recently. It is a huge and extensive subject. I remember the weeks of anguish as we chased this ship all over the oceans of the world, it seemed. Do you see any way through that?

Mr Jones—As you know, the trade has now resumed to Saudi Arabia, and it will continue. *Cormo* is not part of this inquiry, but the trade will continue there, providing we give the Saudi Arabians what they ask for, which is healthy young sheep. If we part from that, then—this is not part of the inquiry—

Mr WAKELIN—The question really was about not being able to put product in there without an MOU—

Mr Jones—Into Libya, yes.

Mr WAKELIN—It seems to me that it is a huge issue for us.

Mr Jones—It is not an impossible issue. It is just a matter of two sides getting together.

Mr WAKELIN—The question is: what do we have to do first to get to an MOU so that we can get product in there? That is my point.

Mr Jones—We need to start talking with the appropriate authorities there to develop the MOU. It is not impossible.

Mr WAKELIN—This is not just for you; this is for our own authorities, our own government people, as well, isn't it?

Mr Jones—That is correct.

Mr WAKELIN—I think we have opportunity later to see what our organisations are doing. But clearly—

Mr Jones—Maybe it just needs a bit more push from our side, the industry side, to say to government, 'Could we please develop an MOU,' and then for actions to take place.

Mr WAKELIN—It seems to me that there is plenty of room for work there.

Mr Jones—Yes.

Mr WAKELIN—I will quickly move on. Where do we source our cattle from in Australia? What is our main source?

Mr Jones—Mainly from the northern states.

Mr WAKELIN—The Northern Territory.

Mr Jones—Yes.

Mr WAKELIN—And mainly to Egypt?

Mr Jones—There is a bit of trade taking place at the moment—it had dropped off dramatically—mainly to Egypt. There is a fair bit going to Saudi Arabia. But for what we are talking about here, apart from Egypt, there is none going anywhere else in these countries.

Mr WAKELIN—I have two more questions. There is the issue of currency that we touched on earlier. Did you say about a 20 per cent—

Mr Jones—I would need to check it out, but there is a huge change in the value of their currency and that has made it impossible for us.

Mr WAKELIN—Where is your office in the Middle East?

Mr Jones—It is in Bahrain. We are under review and are looking to move to Dubai. We are looking at some costs there because that seems to be the place to be.

Mr WAKELIN—How do you service those markets?

Mr Jones—By a lot of travel. I travel about 200 days a year. I emphasised in my introduction that the one-to-one relationship goes a long way. You get to see ministers and director-generals, if they know that you are not going to be a pain and that you are not coming with negative messages all the time. You should go there in the good times.

Mr WAKELIN—That is why the diplomatic services are an important leg-up.

Mr Jones—Yes, they are very important.

Senator JOHNSTON—I notice that offal and other niche products have probably got a very good chance of going into the North African market, because of the customary requirements of the people there. Secondly, they are not sought after by our major trading partners in this area. We have a substantial levy regime in Australia. How much, as a percentage, are we investing in R&D to develop our offal and the presentation of our offal in those markets?

Mr Jones—What a fantastic question.

CHAIR—An offal question!

Mr Jones—Offal, as you know, is the heart, liver and all the nice stuff, which makes you strong. It has lots of protein. That is the ad over with! MLA is investing quite a lot. I do not know the actual figures, but I was with a section of our organisation yesterday that is looking at developing new products and so on. The offal that they are looking for is the feet from the cattle, or the trotters, as they call them. In regions like South America they can produce them a lot cheaper than we can, so we need to do some more R&D to see what machinery and instruments to get, because people on low incomes need those products.

You have prompted me; we do need to do some more work in those areas. The carcass is a product that contributes to a lot to the cost efficiency. So an exporter can get X dollars from that. Put it this way: we see the world as a huge butcher shop, and we now need to send some low-value products to, say, South Africa, offal, as I said, to North Africa, and our quality products to the USA and elsewhere.

CHAIR—Japan.

Mr Jones—Yes, and Japan, of course, because Japan as a market for lamb is growing beautifully. And I believe 36,000 tonnes of lamb are going to the USA. We do need to mix it up make it profitable for our exporters and we need feedback to producers. That is something that is on the record. We do need to look a bit more closely there.

Mr WAKELIN—I have been in some meatworks. It is quite remarkable where all these bits and pieces go in terms of how every bit seems to end up in a box somewhere. How are our meatworks coping with this?

Mr Jones—I may be careful in the way I state this. I congratulate the government as they moved to have these new tier 1 plants. We used to have export premises and premises that would supply the domestic market. If you were export registered, you only went to the export one. The domestics were not allowed in there, which kind of created a monopoly in some areas. By

allowing this tier 1, there was a new standard to go into markets. Especially in the Middle East, it has been useful for us. It has helped us compete a bit more with our competitors. That has helped to encourage some of those plants to upgrade. Some people may not want to hear that, but I have been at the coalface there, and it has kept us competitive with, say, China in some areas.

CHAIR—Mr Jones, we really appreciate your input today. It was quite a fascinating review, and I think it is probably worth while for us to talk to you later in terms of the overall world market. It is a while since the committee has had an update. We tend to be focused on individual markets as trade commissioners come through from different areas. I think it would be good to have inquiries into particular products in which we have such a significant chunk of our export total.

Mr Jones—I welcome that opportunity. Generally the meat and livestock industry is a valuable source of income for Australia. It is \$14 billion. Of that, \$4 billion are exports. We are highly regarded out there but, by deuce, we have to be smarter.

Proceedings suspended from 12.10 pm to 1.17 pm

Evidence was then taken in camera but later resumed in public—

[2.17 pm]

ABUDHER, Mr Bashir, Charge D’Affaires, Libyan People’s Bureau

CHAIR—Welcome. The subcommittee prefers that all evidence be given in public but if you would prefer at some stage to go in camera please let us know. Although the subcommittee does not require you to give evidence under oath, we remind you that this hearing has the same status as proceedings of the parliament. I now invite you to make an opening statement, after which we will proceed to questions.

Mr Abudher—I appreciate the invitation. I am here to promote the relationship between Australia and Libya. We are happy that our relationship is developing. We are trying to push it forwards, not backwards. With the help of Woodside, the petroleum sector is now at a good stage. Next week we are expecting a visit to Australia from a high-level delegation from Libya’s agriculture sector. A memorandum of understanding was signed by the Western Australian minister for agriculture in 2002. With regard to the education sector, we have a lot of Libyan students in Sydney, Melbourne, Wollongong and Western Australia. I have tried to prepare a good program for the delegation, which includes ministers and the chief of the parliament of Libya. They will probably meet with Colonel Gaddafi as well.

CHAIR—Excellent.

Mr Abudher—We are just now finishing the Ramadan vacation or holiday and probably in one day we will get an answer.

CHAIR—Fine. Thank you for coming.

Mr Abudher—My pleasure.

CHAIR—We are appreciative of your time. We are looking forward to our visit to Tripoli. One of the key reasons that we are making a visit is that it is an important area. As you know, we are establishing our trade office in Tripoli and, hopefully, it will become a full embassy there. So we regard it as being important. We want to establish the trade links. We know that Woodside have been particularly active and we know that BHP has shown an interest. BHP is our largest Australian company. So we see Tripoli as being significant. I met with Colonel Gaddafi’s son when he came here, and I had lunch with him. It was the youngest son, I think, who lives part of the time in Italy. I do not know whether there will be an opportunity to meet up with him when we are there. It would be good, as I have met him.

Mr Abudher—So you would like to meet Mr Saadi Gaddafi also.

CHAIR—Yes, that would be great.

Mr Abudher—There is plenty of time to cooperate. Libya has decided to open a commercial office in Sydney, which will be finished soon.

CHAIR—The purpose of our visit is to look particularly at the trade and investment opportunities for Australia. I wonder whether you have some ideas of your own as to what they could be. What areas do you see for opportunities? I know that we have already had some suggestions from our mineral companies about the great opportunities. Woodside is very active, as you know, in your country in minerals exploration and so on. So we see that as being an area. We see exports of lamb, perhaps, and wheat as well. We have just had the Wheat Board talking to us.

Mr Abudher—Agricultural products and machinery also.

CHAIR—Agriculture and machinery?

Mr Abudher—Yes. We are looking at wider agriculture and farming. We need the help there, and also with drylands and how to irrigate land that has salt water.

CHAIR—Yes, desalination. I think that is important in terms of the dryland farming.

Mr Abudher—The climates of Western Australia and Libya are a bit similar.

CHAIR—Yes. Senator Johnston is from Western Australia, so he is undoubtedly someone who could ask some good questions.

Senator JOHNSTON—I am not sure that I have any questions on that subject, but one of the things we are keen to see is Libya joining the WTO. How is that coming along? Where are we at and is there anything we can do to help you in that regard?

Mr Abudher—Yes. I am not well equipped, and we need to talk about Australia helping us to join the World Trade Organisation as soon as possible. Libya is now an open country for a lot of investment. We need a lot of projects with regard to infrastructure. The tourism sector is very important to us because we have a lot of tourist sites.

CHAIR—The tourism sector is really growing, isn't it?

Mr Abudher—Yes. It has been upgraded now and we have a lot of tourists, especially from Australia, Italy and Germany, and even from Japan.

CHAIR—It is mainly down to those Roman ruins, isn't it? I have just forgotten the names.

Mr Abudher—Leptis Magna is the Roman ruins. Cyrenaica is not far from the Egyptian border.

CHAIR—It is really starting to take off there. How many visitors would you get a year now in Libya? How many international visitors?

Mr Abudher—From Australia to Libya?

CHAIR—That would be interesting if you have that, but also the overall numbers.

Mr Abudher—We have now issued around 1,500 tourist visas from Australia to Libya.

CHAIR—What is the overall number of international visitors to Libya each year?

Mr Abudher—I do not have an exact number. I will provide some statistical numbers.

CHAIR—It is interesting—Australia is at 5.2 million, so we can compare what is happening, and then you have countries like France that get around 70 million a year.

Mr Abudher—I learnt today that Australia gets 5.4 million tourists.

CHAIR—Yes, it has probably gone up since the last time I looked. I see that there are more and more tours including visits to Libya, particularly to look at the Roman ruins there.

Mr Abudher—The ancient Roman civilisation, Greek civilisation, there are caves from all the ages in the desert, and oases. There is plenty of choice for tourism: to the north and the south, the desert—a lot of things.

CHAIR—Yes, and a lot of Australians in the tourism industry travel, so tourism consultancy is a real possibility—investment advice.

Mr Abudher—And the first partners for economic exchange were Italy, Germany, Spain and Great Britain, and now it is the United States, of course, because oil companies are going back to Libya—Texaco, Mobil, Shell and British Petroleum. Many are coming back to Libya—Woodside also is in the west of Libya. They have a huge project looking for gas and there are oil fields to the north. There is a joint Libya-Sicily gas pipeline project. They will go to Italy for a network to distribute gas.

Mrs DRAPER—Australian dairy and wheat exporters are very excited about Libya and see Libya as a potential growth market for them, but some of their concerns would be around the administration and trying to work out the different levels of departments and government infrastructure. Can you elaborate or tell us a little bit more about the administration process for importing and things like that and how that will develop into the future?

Mr Abudher—A few years ago big partners with us for importing dairy, milk and cheese products were Canada and New Zealand. But livestock, lamb and meat from Australia are what we are looking for now, particularly with Western Australia, and to increase the number of dairy products going to Libya. What we are looking for is products for a very empty market, and it looks like there is a market for Australian products.

CHAIR—The dairy people appeared before us this morning and they were saying that there was a bit of a lack of transparency when you are dealing with the market in terms of access. I do not know whether you have any comments on that. Suddenly there are quarantine restrictions or testing requirements in place that make it difficult to export.

Mr Abudher—But there are good experiences in Libya also. All taxes and tariffs were cancelled, except for on cigarettes only. Now there are no tariffs at all.

CHAIR—I noticed that tariffs were removed on 3,500 goods.

Mr Abudher—Yes.

CHAIR—But locally produced products are protected. Is that right?

Mr Abudher—The local production is a fairly small amount. It does not cover all the market.

CHAIR—What would be included in that?

Mr Abudher—All products. You mean from—

CHAIR—No, the ones that still have the tariffs on them.

Mr Abudher—All goods have no tariffs—only cigarettes.

Senator JOHNSTON—Only cigarettes.

Mr Abudher—Yes, but on other goods, no—they are free of tax.

CHAIR—That is a big encouragement.

Mr Abudher—Very big. It is a challenge and a good decision from three months ago. It is a good opportunity to open the Libyan market to goods from anywhere.

CHAIR—Was that controversial when it was done?

Mr Abudher—Not when we did it. Very soon it will be.

CHAIR—I notice that Australia imported \$43 million worth of crude petroleum from Libya in the last financial year.

Mr Abudher—Chemical products or crude oil?

CHAIR—Crude oil. Before that, there was nothing. How did that emerge? Was it because of the improvement in relations between the two countries?

Mr Abudher—It was in the Woodside business setting. The oil and chemical products are good quality, especially the engine oil for cars and heavy oil for big machines. It is the right standard and quality for Italy and Great Britain, giving the ability to export chemical products such as PVC for plastics and some—

Senator JOHNSTON—Is that the commencement of Woodside's production from their new facility?

Mr Abudher—Yes. It is the contract between the oil board and Woodside.

CHAIR—I understand that Libya is taking some measures to liberalise its trade and economy. There is the example of the tariffs; are they doing other things as well in terms of liberalisation of the economy?

Mr Abudher—Yes.

CHAIR—What in particular?

Mr Abudher—Investment is being opened up to companies, individuals and countries. For example, if any Australian company decided to open a business, hotel, resort or something like that, it would get 25 years without any fees charged on its investment. It is very attractive.

Senator JOHNSTON—A rent-free lease on the property for 25 years?

Mr Abudher—Yes. We also have good relations with Malta; the Corinthia Towers resort is a very good example. If someone visits Libya now they see that the infrastructure is growing very fast. A lot of businesses have come from the Emirates, Switzerland and Italy and, of course, we are looking for businesses to come from Australia as well. There are really good opportunities.

CHAIR—I notice that flights are still reasonably difficult to get in and out of Libya. We are going from Algiers to Tripoli; I think we have to go via Rome.

Mr Abudher—Rome is fairly close to Tripoli. Just an hour and a half, or something like that.

CHAIR—It was a surprise that we have to go that way. What is the reason for the lack of communication with some of your neighbours?

Mr Abudher—We have good communication with Tunisia, Egypt and all our neighbours. We have good business with the African continent, with the Pan-African countries. Libya is looking to make a free zone in Musrata, which is 200 kilometres east of Tripoli, through which we can transfer goods from Europe to Libya and then into African countries. I think it would be a good investment if the Australian government were to take the chance in the transportation sector—airports and planes.

Senator JOHNSTON—Australia is opening a new trade office in Tripoli.

Mr Abudher—Yes. There are a couple of employees there, preparing for the consulate-general in Tripoli.

Senator JOHNSTON—Is your government pleased about that?

Mr Abudher—Yes, of course. We are looking for a fully staffed embassy.

Senator JOHNSTON—What benefits do you think are going to flow in terms of trade relationships from the fact that we will have a presence in Libya? What do you anticipate is going to be the benefit?

Mr Abudher—It will be open wide for investment for Australian business. We are happy if Australian colleagues help us to fix and construct infrastructure, tourism and—

Senator JOHNSTON—What about minerals—minerals development, oil and gas development?

Mr Abudher—Of course, yes.

Senator JOHNSTON—What else—transport infrastructure?

Mr Abudher—Yes, aeroplanes, airports—

Senator JOHNSTON—What about education?

Mr Abudher—Yes, education.

Senator JOHNSTON—Do many of your people go from Libya to Europe to be educated in England and France?

Mr Abudher—Yes, a lot of students go to Britain, the United States and Canada, those with an English background. Australia is a bit far compared with the distance—

Senator JOHNSTON—So generally you would agree with the proposition that it is quite an exciting time for Libya in terms of trade and development—

Mr Abudher—Yes.

Senator JOHNSTON—and emerging from the sanctions?

Mr Abudher—Yes.

CHAIR—I think that covers it for today. I see a man with you whom we know well and we can continue to liaise also with your consul general whom we have been speaking to. We are very much looking forward to the visit and it will be a very significant part of our visit to the region. I know that our foreign minister is particularly interested in developing our relationship.

Mr Abudher—Yes, and the decision to establish an Australian embassy in Libya has been made already and we are now looking forward to a fully staffed embassy. It will be great.

CHAIR—Yes. I think we are going to see a lot more Australian tourists there. I notice that they are starting at the five-star end with ‘Captain’s Choice’ tours there and I am sure that we will see a lot more. Thank you very much for coming here today. We look forward to meeting with your people in the future.

[2.47 pm]

AMARI, Mr Ammar, Consul General, Consulate of Tunisia

CHAIR—Welcome. The subcommittee prefers that all evidence be given in public, but if at any stage you wish to go in camera you can advise us of that. I now invite you to make an opening statement, after which we will proceed to questions.

Mr Amari—Let me start by conveying the apologies of our ambassador to Japan who, until two days ago, was planning to come to this hearing. Unfortunately he had something very important that he had to attend in Japan, so he could not make it.

CHAIR—That is fine. We understand. He has come here before.

Mr Amari—It was not my intention to make a statement. I would like to say just two things. I have conveyed to the committee secretary some information about Tunisia which might be useful to you, Chair, and to members of the committee. I have brought another copy so that anyone who is interested can have a look at it. This document contains information about the promotion of human rights and democracy in Tunisia, the electoral process, the fight against extremism, the Tunisian approach to solidarity, educational reform, the status of women—it is very interesting for women to read about the status of women in Tunisia—economic and social development, the information society, media, foreign policy, key economic and social indicators and a selection of web sites where you can find any information you want about Tunisia. Another thing: when I am talking about trade, you see that I do not want to provide a lot of information. This document will give you the whole picture of the full Tunisian foreign trade interests in 2004. It is very small and I provide the committee with it.

CHAIR—Thank you very much.

Mr Amari—Since the mission is a trade mission, I thought that it would be interesting to give two examples. One is our trade relations with the European Union, since Tunisia was the first country in North Africa to sign as an associate member with the EU since 1995. Here I also have—

Senator JOHNSTON—Is this the Cupertino agreement?

Mr Amari—Yes. This is the EU relationship with Tunisia. One other example—I tried to pick something which is not far from Australia—is Japan. So business opportunities in Tunisia for Japanese companies have been presented, but recently an investment seminar took place at Nagoya in June 2004. This is the economic cooperation realised through the Japan Bank for International Cooperation, JBIC. This is about the economic cooperation between Tunisia and Japan. I provide you with this, and this also concerns the Tunisian foreign trade in 2004. I thought by giving this information it will help.

CHAIR—That would be great.

Mr Amari—Certainly there is another thing, which is the overview of the investment environment of Tunisia, because investment is also very important. This is something which has been presented again by my Minister of Development and International Cooperation to the Nagoya Chamber of Commerce and Industry. It was presented lately, in June 2005. So I provide the committee with all this information.

Let me just make a few observations more or less about the potential relationship of Australia with the North Africa region in general. Maybe later on I will be more specific about Tunisia, but I think that there is potential for increased Australian trade relations in the future with the whole region of North Africa. In assessing Australia's trade activities in the area in general, it is found to be very much lower than that of any other region—the European Union, for example, or Asia. The implication of that to Australia is, first of all, about being too far from the region. Even the people should know each other and should learn from each other.

I am talking about the fact that it has been almost three years now since Tunisia opened an official office. For me, it has been three years being the consul general and I feel very privileged to be the first consul of Tunisia in Australia. This was after three terms in the United States—I spent 17 years altogether going back and forth between New York and Washington. I feel very privileged. Even my colleagues in the Ministry of Foreign Affairs look at me as a very privileged diplomat in being the first Consul General of Tunisia in Australia.

CHAIR—Welcome.

Mr Amari—Now everybody is watching Australia very carefully. Whenever there is a mention of the name 'Australia' everybody will watch the TV and things like that. Saying that leads me to a very important point, which is about the diplomatic representation of Australia in North Africa. You have just learned this about Libya now, but all African countries are represented from Cairo—Algeria, Libya, Morocco, Tunisia, plus Sudan. They are all represented from Cairo.

People, even my people back home in Tunisia, tend to think that Tokyo is next door to Australia. From any destination in Europe, Tunisia is only a 2½-hour flight. From Rome it is only a 45- or 50-minute flight. Tunis to Cairo is a four-hour flight. This is one of the most important things. In order to secure long-term export earnings from the expanding market which is North Africa—and you have seen the example of Libya, which is now expanding—I think the diplomatic representation should be looked at very seriously.

Talking about Tunisia, there are a lot of opportunities, in my view. I want to start with tourism, because you might be surprised that it is one of the main sources of income in Tunisia. In the plane coming from Sydney this morning I was reading an article that said that—I think—last year you received around 5.5 million tourists.

CHAIR—Yes, that is right.

Mr Amari—You have a population of 20 million, without talking about the territory. Tunisia has a population of 10 million. We received last year six million tourists—that is, half of the population.

CHAIR—What is the No. 1 source of these? Which country is the major source?

Mr Amari—Europeans in general.

Senator JOHNSTON—Germans, French and Italians?

Mr Amari—Yes, Germans, French and Italians, and you would be surprised that they come from the Balkan countries and China also.

Senator JOHNSTON—What are they coming to see?

Mr Amari—Everything. If you look, for example, to history, Tunisia has 3,000 years of history; it has Carthage.

Senator JOHNSTON—So they come to see the old ruins, the castles and all of that sort of thing?

Mr Amari—Yes, the castles and everything. If you like the beach, we have one of the best beaches. People tend also to come for the therapy of the water, the sea water. That area is expanding in Tunisia, and a lot of Europeans come to Tunisia for a cure. The other thing is education, and I think in the field of education also there are a lot of opportunities. I am talking about Tunisia's postgraduate students in places besides Europe. We used to have a lot studying in the United States. Now there are fewer because the United States do not give any more scholarships. There is a lot of cooperation between us and Canada, for example. We have no fewer than 10,000 students in Canada, for example.

Senator JOHNSTON—Are you looking to come to Australia with those students also?

Mr Amari—If there is an opportunity.

Senator JOHNSTON—There is a huge opportunity.

Mr Amari—I have been talking to Monash University. I met the dean of Monash University, and I see a lot of opportunities. Besides education, one of the most important things—and our main income—is agriculture. In agriculture and the field of research I think there are a lot of opportunities, bearing in mind the fact that we see a lot of similarities between some regions in Tunisia and Australia—mainly southern Australia. We can gain a lot from the Australian experience in that field.

CHAIR—Thank you very much. I will ask my colleagues to join me with questions. I notice that in the last 12 months or so your economy has taken off and you have had a GDP growth rate of over five per cent. Is that right? What is that due to? What is the expansion due to?

Mr Amari—It is due mainly to political stability; that is very important. Also, we have a social system which is very good. As a matter of fact, you will see that one of the main topics in the information I have provided to you is national solidarity. For example, education in Tunisia is free and the accessing of education is compulsory. Education is free from kindergarten, through primary school and up to university. Not only that, but those who are attending

university and coming, for example, from a middle-class family get an allowance. They can subsidise their housing and everything. Since our independence in 1956, we have devoted almost one-third of the budget to education and social security.

CHAIR—I understand that, within Tunisia, you have a strict separation of religion and the state. Is that right?

Mr Amari—Yes.

CHAIR—You have a secular state?

Mr Amari—It is in the constitution that no political party should be established on the basis of any religion. It is clear in the constitution. Since 1990 we were the ones who fought extremism, maybe before anyone else. We kept warning, even in the international fora, about extremism.

CHAIR—How you have done it is interesting as a model. How you achieved that is a subject about which we could probably talk at some length at a dinner party. Would the people who run the country be seen as political moderates? How would you classify them?

Mr Amari—We are a very moderate country and a very open society.

CHAIR—Your economy is based on energy and tourism, isn't it?

Mr Amari—And agriculture.

CHAIR—What would be the biggest sector?

Mr Amari—I might classify tourism as one of the main sectors.

CHAIR—Do you have the same resource base as some of your surrounding countries? Do you have oil and natural gas?

Mr Amari—Yes, but it is mainly for local consumption. We export a part of it.

Senator JOHNSTON—How does your currency compare to euros?

Mr Amari—The currency is the dinar so it is—

Senator JOHNSTON—Is it 1½ dinars to a euro?

Mr Amari—Yes.

Senator JOHNSTON—That would go a long way to explain why you get tourism.

Mr Amari—It is more or less \$A1.20.

Senator JOHNSTON—That is comparable to Singapore. Following on from the chairman's comments, you had a drought and your economy went through a little bit of a dip.

Mr Amari—Yes. I think we had five consecutive drought years.

Senator JOHNSTON—We are familiar with that, unfortunately. What sort of agriculture do you have? Wheat?

Mr Amari—Yes.

Senator JOHNSTON—Beef, cows and sheep?

Mr Amari—Yes.

Senator JOHNSTON—Corn?

Mr Amari—Citrus.

Senator JOHNSTON—You export citrus fruits to Europe?

Mr Amari—Yes, we export oranges to Europe and even to the Gulf States.

Senator JOHNSTON—We were wondering where our oranges were coming from when we were in Dubai; they were from Tunisia.

Mr Amari—Dates.

CHAIR—I notice that you have quite high tariffs on imported goods, particularly meat. Of course, we are interested in exporting meat to that area. Do you see tariffs coming down in the future?

Mr Amari—I think so. I am not sure, but I think Tunisia is importing meat from Australia. Our ministry of health was recently discussing a health certificate for importing meat into Tunisia from Australia and New Zealand. I have been involved with them in this matter. We mainly import meat during drought years.

CHAIR—What is the tariff on meat at the moment? Are you aware of that? It is probably a bit hard to ask you, as Consul General, what the tariff on meat is.

Mr Amari—Do you mean the price?

CHAIR—No, the tariff.

Mr Amari—It depends. We have a very special code of investment and I think it gives a lot of incentives. But I am not quite sure about tariffs as far as meat is concerned.

CHAIR—I hear it is reasonably high. We are obviously interested in exporting lamb to that area—as well as wheat for pasta.

Senator JOHNSTON—And couscous.

Mr Amari—We import wheat from the United States.

Mrs DRAPER—I was very interested to hear that, with a population of only 10 million, you get six million tourists per year. In Australia we have a great shortage of skills and apprentices in the hospitality and retail sectors. How does your country deal with such a great influx of visitors in terms of its infrastructure? Do you have a lot of problems with visas for business people, students or tourists coming to Australia?

Mr Amari—Thank you very much for these questions. They are very pertinent. Firstly, we have a very developed tourism industry and we have schools. We are also helping a lot of African countries, gulf countries and even our brothers from Libya in building hotels and training people to work in the tourism sector. So we have very skilled manpower and not only in tourism. There are a lot of other opportunities where there is skilled manpower from Tunisia. Your second question concerning visas is very important. For the time being, an Australian who goes to Tunisia can get his visa at the airport.

Senator JOHNSTON—To come into Tunisia?

Mr Amari—An Australian who goes to Tunisia can get his visa at the airport—at the point of arrival—although, since we opened the office here, I always advise Australians to get their visa from the consulate, because people are very tired after a long trip and they have to queue to get a visa. The facade of each country is its airport and your first impression about a country is how you have been treated at the airport.

Senator JOHNSTON—That is a very good point.

Mr Amari—Sometimes there will be three or four aeroplanes arriving at the same time and you have to queue to get your visa. You also have to get to the other side of the airport to get local currency so that you can pay for your visa. So why not pay for it here in Australia? As we say in French, it is a 'cauchemar'.

I will tell you something that happened last year. We had a business delegation going to Asia. They contacted me and said, 'Part of this delegation is very much interested in going to Australia.' I told them that they were very welcome and that we would be more than pleased to have them. I arranged a lot of meetings for them. I arranged many things for them in Sydney. And the week before, I spoke to the gentleman in contact with me and asked him, 'Did they get their visas?' He said to me, 'No. We thought that you were going to arrange that at the airport.' I said, 'Listen, forget it. No Australian visa is issued at the airport.' I am going to go back again to the diplomatic representation: for a Tunisian to come to Australia he has to go to Cairo to get his visa.

Senator JOHNSTON—Or Rome or Paris or somewhere like that.

Mr Amari—Usually the embassy in Cairo covers Tunisia. So it is very difficult.

Senator JOHNSTON—Yes, it is very difficult. That is an important fact, and we need to know about that. Did you say that these were businesses people?

Mr Amari—Yes. It was very difficult. It happens not only to business people. It happens to officials who are attending conferences and things like that. For example, they are invited by some organisation in Australia, and it is very hard to get visas.

Senator JOHNSTON—Is it hard to get a visa, or is it just inconvenient?

Mr Amari—It is inconvenient.

Senator JOHNSTON—But, if you have applied, actually getting the visa is okay?

Mr Amari—Yes. I understand that Tunisia can be covered by, for example, Rome, Malta and other areas in Europe.

Senator JOHNSTON—It is just inconvenient.

Mr Amari—Yes, because it is not on our way. If you are coming to Australia you do not go to Cairo and from Cairo to here. You go through Europe.

CHAIR—That is right and an important point.

Senator JOHNSTON—We are pleased to hear you complain about that, because it is important.

CHAIR—Yes. We will take it on board in our comments in our report. I notice that, with some of the trade agreements you have, special preferences will be given to some of our competitor countries in relation to wheat, and we would like to have the same tariff rates that apply to us apply to our competitors in the markets. I think we are interested in that. I do not know whether you have any comments at this stage.

Mr Amari—I think it would be a good opportunity for that to be raised with a Tunisian official by the delegation to Tunisia.

CHAIR—Okay. With what country is Tunisia's major trade? Would Italy be No. 1?

Mr Amari—It is France, Italy, Germany and less here.

Senator JOHNSTON—When you gained independence, was that from France or Italy?

Mr Amari—Yes, from France.

Senator JOHNSTON—Excuse my ignorance.

Mr Amari—France will come first, second is Italy and third is Germany, and so on.

CHAIR—So we do not rank in the top 20 imports or exports.

Mr Amari—No.

CHAIR—That is why need to have the delegation.

Senator JOHNSTON—I think we are number 63, or something like that.

Mr Amari—Yes.

Senator JOHNSTON—That is a bit ordinary, isn't it?

CHAIR—For both exports and imports France is first, Italy is second and then Germany.

Mr Amari—Yes.

CHAIR—That is very interesting. Libya also?

Mr Amari—Yes, the Arab countries including Libya.

CHAIR—So if we did not have an embassy in Tunis, what would be the best other city to have it in?

Mr Amari—The closest one, because it is more convenient.

Senator JOHNSTON—Tripoli?

Mr Amari—Why not?

CHAIR—We are establishing an embassy in Tripoli, as you know.

Mr Amari—I raised this issue with DFAT when I came here, and I proposed Malta. Why not Malta? You have an embassy in Malta.

Senator JOHNSTON—Then you can do them both.

Mr Amari—Yes. A Tunisian can swim to Malta.

Senator JOHNSTON—Just for a visa.

Mr Amari—Yes. Because from some parts of Tunisia on a clear afternoon you can see Malta.

CHAIR—Is that right?

Mr Amari—Yes, and Sicily.

CHAIR—That is something that we will need to bear in mind when writing our report.

Mr Amari—I have one last comment, if you do not mind. As I told you we will be hosting this very important World Summit on the Information Society. It is testimony to our country by the international community and we are very proud of organising it in Tunisia. As well as all members of the United Nations, it will include the private sector and civil society. The latest information I have is that we are expecting around 18,000 participants at the summit. This is the main concern for the delegation. I think it is good that they will be nonpartisan observers at the conference and see part of the summit. Apart from that, we will do everything we can. It is very unfortunate because they will have only Monday and Saturday. In Tunisia on Friday they work a half-day until one o'clock and then on Saturday there is only half a day. This is our holiday. We work a half-day Friday and a-half day Saturday and we have the whole day off on Sunday.

CHAIR—Yes, I know. It is a problem.

Mr Amari—So we will try to do everything we can. Back home my people are lucky because they have five days vacation—Thursday, Friday, Saturday, Sunday and Monday. Before coming here this morning due to the time difference, I have been talking to my people back home on the phone to get some appointments for you.

CHAIR—That would be great. Mr Kennedy will be involved in that as well. Thank you very much for coming today. We appreciate that. I have never been to Tunis and I would like to go. We look forward to the comments from our colleagues from Western Australia when they visit there the week after next. We appreciate you coming and we will take a strong interest in Tunisia.

[3.21 pm]

KANTSLER, Dr Agu Jan, Director, Exploration and New Ventures, Woodside Energy Ltd

CHAIR—On behalf of the trade subcommittee, I welcome the representative from Woodside. As you know, the committee prefers all evidence to be given in public but, should you wish to go in camera in terms of commercial confidentiality, as another major company asked today, please let us know; that is fine with us. Although the committee does not require you to give evidence under oath, it still has the same standing as proceedings before the parliament. The subcommittee has one submission from Woodside, submission no. 12. I now invite you to make an opening statement, and then we will follow up with questions.

Dr Kantsler—The North African region is of quite significant importance for Woodside—as is the whole Maghreb region—with our interests in Mauritania, Algeria and Libya. We have a total of—

CHAIR—We started off with putting Mauritania in our inquiry and then it got cut out.

Dr Kantsler—I understand that. It is important to us because that is the part of the Maghreb that has the greatest level of direct investment by Woodside. Total investment in the region for us is now in the vicinity of \$US1 billion—

CHAIR—Is that right?

Dr Kantsler—with the largest share of that going to Mauritania, so far, followed by Algeria, and then Libya, last of all, but Libya is still in the exploration phase, whereas our investments in Mauritania and Algeria are in the development and production phases respectively. We do hope that this will be an area of significant growth for the company, particularly in oil production but, given the proximity of the area to Europe, trade in natural gas is also a very realistic opportunity for us. Recent bidding, however, suggests that the integrated companies—those that have a downstream marketing presence in Europe—can probably afford to be more aggressive on the bidding, forgo margin in the upstream and take margin in the downstream. So it is becoming a very, very competitive area but, nonetheless, it is one that is extremely important to Woodside.

CHAIR—And is gas the number one in terms of your—?

Dr Kantsler—I think we would say that Woodside is long on gas, given that of our proven and probable reserves of 1.3 billion barrels of oil equivalent, the vast majority—about 69 per cent—is gas, and only 31 per cent is oil and natural gas liquids. That puts us at a little bit of disadvantage in a market place where oil is trading at \$60 a barrel. So we would like to address the relativity of those two components in our product mix. Behind the 1.3 billion barrels of oil equivalent that Woodside has there is about another 2.4 billion barrels of gas and natural gas liquids which are not in the market place yet and for which we get no credit. If you think about it, we have another 2½ billion barrels of oil equivalent gas standing behind that 1.3 billion. So you can see that the need for our company is to explore for, find and develop more oil to get a

more balanced product mix. And finding oil in Australia is a relatively difficult task so we need to go overseas to look for it.

CHAIR—Is the exploration predominantly taking place in Libya, or is it taking place in all three places?

Dr Kantsler—We have a very extensive exploration program in Mauritania this year, and Libya as well. We have about the same level of direct investment in both—probably in the order of \$US80 million to \$US100 million. Our share of each of the programs in each country would be about 50 per cent.

CHAIR—How do you find doing business in those countries? Mauritania is not strictly in the area of this inquiry but it would be interesting to listen to how you find doing business there. What are the problems you encounter and what would you suggest we can do?

Dr Kantsler—The bureaucracies of Algeria and Libya are probably the easiest to deal with—Sonatrach in the case of Algeria; and the National Oil Company, the NOC, in Libya—simply because both of those countries have had an oil and gas industry for about 50 years; since the end of World War II. They have a whole bureaucracy, infrastructure and government which is quite used to dealing with the international oil and gas industry. So that makes the process relatively straight forward. They have rules to follow. It is fairly easy for us to understand those rules and it is pretty straight forward to compete and do business.

In Mauritania, a country which has had no previous success in the oil and gas industry, we are dealing with a government and bureaucracy which have had no previous experience with the international oil and gas industry. They have no infrastructure and it is therefore considerably more difficult.

CHAIR—But you find your interchange with the bureaucracy itself works well?

Dr Kantsler—In Mauritania?

CHAIR—No, in Libya and Algeria.

Dr Kantsler—Particularly in Libya, yes. The NOC is very well organised. They have very capable people. The vast majority of them were trained by the American companies before the industry was nationalised in the late seventies. They were very well trained by Exxon Mobil, in particular, and by all of the US companies. So you find they are quite switched on. They are very commercially minded. It is just like dealing with anyone in Australia.

CHAIR—What are the down sides of dealing with these countries?

Dr Kantsler—The downside in Libya is that the rest of the bureaucracy is very slow to work. As you can imagine, in a lot of developing countries public servants are underpaid. Things tend to take their own time to happen. You need to be very well organised in terms of getting your approvals and you need to have local people who know their way around the system. By that I mean that they really need to know what the rules are to help you get all the permits and things you need to get the business done in the time frame in which you want it done. We were

extremely fortunate that we were able to hire an ex-NOC gentleman, even before we were awarded our EPSA3 agreement.

Senator JOHNSTON—What does NOC stand for?

Dr Kantsler—It is the National Oil Company. An EPSA is an exploration production sharing agreement. With our general manager there, who has a great deal of charisma and a great deal of linguistic ability in that he was able to learn Arabic in 18 months, we find that we are making more progress, frankly, than companies who have been there for 20 years.

CHAIR—What is the destination for your oil and gas?

Dr Kantsler—Do you mean where it is sold? Gas goes almost entirely to Europe. One way is by pipeline, now that the Greenstream project is finished by ENI, the Italian company. It goes to Sicily and then on to Italy and into the European market. There is a very old LNG plant which was built by Exxon Mobil in the 1960s. It only runs at about one-third capacity at the moment because of the previous restrictions on the import of material. I have to give a full credit to the Libyans. They have kept that thing running, and the bit of it that is running runs really well and they know it backwards and forwards. All of that product goes to Spain. Gas is destined mostly for the European market, but they do consume quite a bit internally for the normal high-energy uses: cement manufacture, steel manufacture and power generation. Liquids, on the other hand, go virtually anywhere in the world, as they would from just about any source in the world. A lot of it ends up in Europe, but a lot of it will go to the Far East and Japan as well.

CHAIR—Do you have many competitors in the exploration area?

Dr Kantsler—We were doing very well when we negotiated the EPSA3 agreement, which was just as the period of ILSA sanctions was coming to the end. We managed to get in first ahead of the pack there.

Senator JOHNSTON—That is a 30-year agreement?

Dr Kantsler—That is a 30-year agreement in the case of exploration success where we go into development and production, but the exploration period only lasts six years. If we find nothing, we do not declare any commercial reserves, we give up all the acreage and that is the end of the agreement.

Senator JOHNSTON—How old is that now?

Dr Kantsler—We are about two years into it now.

Senator JOHNSTON—How many holes have you drilled?

Dr Kantsler—We are just importing two new rigs and we expect to be on location on the first well in January or February, but we have 13 wells to drill in that EPSA3 agreement. We have four wells to drill offshore in our EPSA4 agreement.

Senator JOHNSTON—You would be pretty optimistic, wouldn't you?

Dr Kantsler—We are hopeful. The EPSA3 agreement that we negotiated—that was a three-year negotiation—is not a bad agreement. There are no barnstorming prospects in that acreage, but we do expect to find things in the 30 to 50 million or even 100 million barrel range, which is all good business.

Senator JOHNSTON—This is the Berkine basin?

Dr Kantsler—In Libya, we are mostly working in one that is called the Murzuq basin, which is down in the south, and one up in the north called the Sirte. The Berkine is in Algeria, but it is just across the fence.

Senator JOHNSTON—What is the track record of both of those areas?

Dr Kantsler—Both have very large reserves of oil and gas.

Senator JOHNSTON—Proven?

Dr Kantsler—Yes. Discovered to date has been about 35 billion barrels of oil for each country—Algeria and Libya. Algeria is very well endowed with gas. I am just doing a very quick calculation. It is about 80 billion cubic metres per year. This is 2.8 trillion cubic feet per year. Libya, similarly, has about 35 billion barrels of oil and gas proven. The pundits would say from their analysis that there is about another 35 billion yet to be discovered. I think that is a bit optimistic, but that is what the United States Geological Survey and a variety of other scientific organisations have put forward as being yet to find.

Senator JOHNSTON—That sounds a very beneficial agreement. How did you beat your competitors to that agreement, and can you disclose to us—and, if not, feel free to say so—the up-front cost of getting into that agreement?

Dr Kantsler—The EPSA3s were done purely by negotiation. As I said, it was extremely fortuitous that just in the period when Libya was trying to regain its international legitimacy, we were exploring ways of doing business there through negotiation.

Senator JOHNSTON—Whom do you use for that? You came in cold. Did you just walk up, shake hands and say, ‘Here we are; let’s go’? What was your methodology?

Dr Kantsler—We know people that have access to senior figures in the Libyan government and we were able—

Senator JOHNSTON—So it was a strategic approach.

Dr Kantsler—It was a strategic approach, so we were able to make contact with Shukri Ghanem, the Prime Minister. We were able to make contact with Saif Gaddafi, the son of the leader, and at the time we were able to establish contact with Dr Zlitnei, the chairman of the national oil company. In a quite complex round of negotiations, which were both commercial on our side and diplomatic on the Australian government side—

Senator JOHNSTON—So the Australian government was there assisting you?

Dr Kantsler—Yes. When we asked them to get involved they got involved. Minister Vaile led a trade mission there in 2002, which had a hugely beneficial impact as well. When the agreement was made by both governments to open representative offices in each other's countries that gave our negotiations a pretty good push along.

Senator JOHNSTON—That is important. So 45 per cent—you are the operator. What did it cost you to get that deal done?

Dr Kantsler—All up the cost would probably be about \$US5 million with travel, accommodation, research. That is over three years.

Senator JOHNSTON—But there is no up-front buy-in price.

Dr Kantsler—Not in those deals, no. They were negotiated.

Senator JOHNSTON—So the inspiration is the earned interest. So it is virtually a farm-in type agreement. Build the 13 holes and pay the—

Dr Kantsler—No, you put your money down. You do the work, and the government has the right to back in for 50 per cent. The EPSA4s, on the other hand, are competitive bidding—a very similar system to what you have in Australia, except that in Australia we bid work programs.

Senator JOHNSTON—Like a tender.

Dr Kantsler—Yes. The person who has the biggest work program wins the block. In Libya the work program is fixed and the signature bonus is fixed. What you bid is a profitability factor, so the person that is willing to go to work for the least amount of money is the one that wins.

Senator JOHNSTON—You have not got one of those; you have got the four.

Dr Kantsler—We have four large blocks offshore that we won in the first of those exercises earlier this year. We were the first company to take a punt on the price of oil not staying in the band that it had historically been in, so we were roundly chastised by our bigger brothers in the international oil and gas industry after that.

Senator JOHNSTON—Now your margins are much bigger and you are looking good.

Dr Kantsler—We are looking as though we were extremely smart at the time; however, in the most recent exercise, which only finished a month ago, we were soundly beaten by the Japanese, Chinese, Indians, Indonesians and even some European countries. They are working for extremely low margins.

Senator JOHNSTON—They have learnt the rules.

Dr Kantsler—But all of that information is public. It is a very transparent process that the Libyans are running now.

Senator JOHNSTON—That is very interesting.

CHAIR—What about your company—Ohanet, is it called?

Dr Kantsler—The Ohanet project.

CHAIR—You are working with Sonatrach—is that right?

Dr Kantsler—That is a very different sort of agreement. That is a deal negotiated by BHP—

Senator JOHNSTON—It is a joint venture with BHP.

Dr Kantsler—The negotiations for that would have started back in the late nineties, and that is a risk service contract. That was a deal done when margins in both the oil and international gas industry were a lot lower. BHP negotiated a fixed rate of return, and the rate of return was fixed at 16 per cent. We have a 15 per cent share in that project. That was one of a number of deals we did at that time to get a footprint in the country. BHP have done a wonderful job of executing the project. It is over \$US1 billion of investment. It runs fabulously well. It was developed extremely well but, unfortunately, with the increase in the price of oil and natural gas liquids, on a monthly basis we earn our revenue in the first week and everything else goes to Sonatrach. You have to imagine that international prices were a lot lower when this deal was struck.

Senator JOHNSTON—It was a totally different environment.

Dr Kantsler—It is a gas plant that produces 750 million standard cubic feet of gas per day, which is quite large. That is a big project. Along with that gas comes 60,000 barrels a day of condensate and natural gas liquids. The idea then was that Sonatrach would get the gas for free, and we would get our 16 per cent rate of return out of the liquids. We would own or have the rights to the bulk of those liquids in order to get that 16 per cent rate of return. As it turns out, with prices being where they are, Sonatrach is making a lot of money out of this particular deal, but it provides us with a very steady cash flow and we are achieving 16 per cent. That is better than bank interest.

CHAIR—So it has been an interesting relationship with Sonatrach, would you say?

Dr Kantsler—Sonatrach are very tough negotiators. They give away nothing. They are very experienced. They know their economics better than you and I do, and they know the game backwards and forwards. With the new oil minister having established the new hydrocarbon law, we are moving now to a system where Sonatrach has less power and more things will be open for competitive bidding. There will be open access to things like pipelines in the future and you will be able to achieve the international gas price for any gas sales. So the scene there is changing but it is nonetheless extremely competitive because they bid as well on a profitability based factor. In fact, there are two factors but I will not go into the technicalities of that.

Senator JOHNSTON—I will talk about sovereign risk and the ease of establishing infrastructure in these countries. I think Libya is the jewel in your crown, from what you have described to us. Even though you have got the solid foundation in Algeria with your partnership with BHP, Libya is obviously where you are looking to do your best work, I think. Correct me if I am wrong.

Dr Kantsler—We are hopeful but we are still in the exploration stage.

Senator JOHNSTON—Yes, it is still early days. The sovereign risk element must play a big part in your evaluation of how you are going to go in some of these countries—Libya obviously being bold enough to get in there on the emergence from the UN sanctions and all of that. What sort of infrastructure did you confront? Did you have to build your own rails, pipes, water—the whole deal?

Dr Kantsler—In the Sirte Basin, there is quite a lot of oil and gas infrastructure. There are a lot of pipelines already. It is a country that at one stage was producing over three million barrels per day.

Senator JOHNSTON—Do you get to use that infrastructure?

Dr Kantsler—Yes, you get access to that.

Senator JOHNSTON—The government mandates your entitlement as a licence?

Dr Kantsler—Yes. You can imagine that, with NOC in there as a partner with 50 per cent, they want to make money just as badly as we do so they will provide pipeline access and capacity.

Senator JOHNSTON—So that is the advantage.

Dr Kantsler—Yes. They need to export to make money as well. In terms of sovereign risk, Libya, believe it or not, is a very stable and safe country. Regarding Algeria, if you go into Algiers, you would want to have some serious security at night just to make sure that nothing happened to you. In Libya, you can walk around as though you were in Canberra. It is not a big deal. That is personal risk. Aon, the very large European insurer, has Libya, I think, as its fourth or fifth safest destination for investment in that particular region.

Senator JOHNSTON—That is interesting. That is an important fact. So Aon has rated all of these north African countries in terms of priority? If we wanted to see how they all rate and stand up, that would be—

Dr Kantsler—Yes, you could get that information from Aon without too much difficulty.

CHAIR—I notice that you are not planning exploration in Tunisia or Egypt, yet they are supposed to have hydrocarbon reserves. Are there reasons for that?

Dr Kantsler—We would love to operate in both countries, quite frankly—Tunisia especially, as I said, because it has a very broad based, well-organised economy and a very stable government. But, in Tunisia, the volumes of oil and gas are lower just because the country is smaller and they have produced a lot of it already. In our industry we talk about a creaming curve. Typically most of the large oil and gas fields are found fairly early on in the piece. This happens everywhere in the world. You just go up and up and then the curve starts to flatten out. We are really in that flat piece right now. There has not been a major oil and gas discovery for some time. So where we are going into a country where we are really looking for things in the,

say, two million to 10 million barrel range and we have to share that with others, it starts to become too hard. It is what I would call salami slicing. As a company, we have to replace now about 70 to 80 million barrels of oil equivalent production per year. If I have to do that in four million barrel slices, I just have to have too many assets, too much spread, too many people, too much equipment—

Senator JOHNSTON—No economies of scale.

Dr Kantsler—to do that. So we just made a decision that that was now a province for the smaller companies and we would concentrate on the bigger fish, even if that means taking a little bit more exploration or political risk.

Senator JOHNSTON—The same as in mineral exploration.

Dr Kantsler—Yes.

Mrs DRAPER—In terms of diminishing returns, as you have outlined, if you are going to be slicing up, how are the smaller companies able to afford to do that to get so many million barrels that are not worth while for companies such as yours?

Dr Kantsler—The host governments are quite smart. They understand now that the game is mopping up a lot of the smaller oil and gas fields, so they do make it quite easy for smaller companies to come in. The costs of working onshore are not particularly huge. If you could raise \$20 million in capital, for example, you could get out there, shoot 1,000 kilometres of two-dimensional seismic data and drill up to three or four wells, and that would give you a pretty good crack at the business.

We were just talking about Egypt. Egypt have a much larger oil and gas industry. Historically they have had quite significant reserves of oil, but their daily oil production is now in fairly steady decline. The gas business is becoming quite significant for them. Out in the deep-water part of the Nile delta they have found some fairly significant gas deposits and in the Western Desert they are also beginning now to add up quite a significant amount of gas. Numbers like 35 trillion to 50 trillion cubic feet of gas roll off my tongue pretty easily. That is about a third of what we have on the North West Shelf. So it is not as large a resource as we have, but there they are only a couple of hundred kilometres from the market whereas here in Australia we have to export several thousand kilometres. So it is a pretty good game to be in there.

CHAIR—I do not suppose you plan to be in the market in these countries for 30 years or so. Do you think that is based on when you see the oil reserves declining—then you will be out of there?

Dr Kantsler—I think the reality is that in 20 or 30 years time our business will become a little harder, unless we can come up with some new ideas on how to get some of the more difficult oil and gas out of the ground, and that may well become feasible. I think the company will have to reinvent itself in other ways—get into other energy products or choose to go into dog food. We will have to deal with that at the time, but right now we still think there is plenty of opportunity to grow in the oil and gas sector.

CHAIR—I notice that you talk about the 12 blocks being offered by Polisario. There is the question of the Moroccan government and what claims they would have on that.

Dr Kantsler—You are talking about the Western Sahara. We have stayed out of that offshore acreage for two reasons. One is that the political situation is still not clear. The question is whether the Saharawis will have jurisdiction over it or the Moroccans will claim it.

Senator JOHNSTON—So sovereignty is in the balance?

Dr Kantsler—That is right, and until it is resolved, we do not think it is appropriate for us to try and make a call one way or the other, whereas a lot of other players in the industry would say: ‘Possession is nine-tenths of the law. Even if it goes the other way, you were there, so you will have to come to some practical resolution.’ We would rather not do that. That is an easy decision for us, because we had a look at all of the data and we think technically it is still relatively high risk. One of the problems you have in that part of the world, if you can turn your mind to geology for a moment, is that there are no big river systems bringing sand out into the sea, and historically that has not happened either, so there is no reservoir out there. It is quite a difficult province to work.

CHAIR—How much does the social and political unrest affect you in Algeria?

Dr Kantsler—In Algeria the oil and gas industry is mostly located—I am talking about all of the upstream exploration and production part of the industry—quite a long way into the interior, whereas the unrest by the Berbers is typically in the mountain range between the coastline and the interior. The oil and gas industry has been kept quite secure by the Algerian security forces for many years. But by and large I think Algeria is slowly getting on top of the civil unrest issues that it has had to deal with. The number of incidents has, I think, been falling year by year and I think they are now down to a relatively small number of Berbers that they are trying to accommodate.

Senator JOHNSTON—How many personnel have you got in Algeria?

Dr Kantsler—We operate our interests there on a fly-in, fly-out basis. So our guy works out of London, goes in for two weeks, stays at the Sheraton, has an office there and a room—

Senator JOHNSTON—So there would be joint venture meetings with BHP and he flies in for that; they are the operator. So you have not got any permanent broad staff there?

Dr Kantsler—That is right. We only have non-operated interests there, but we are interested in bidding for new opportunities, and we are prepared to operate there, if necessary.

CHAIR—Where do they fly in from?

Dr Kantsler—They fly in from London. Sometimes the meetings are held in Hassi Messaoud, and you can actually charter in from Europe directly to Hassi Messaoud as well.

CHAIR—And what about your comment that the Libyan political process is somewhat unchanged? You do not necessarily see it as opening up and meeting the expectations that we all hope for?

Dr Kantsler—I am not really in a position to comment meaningfully on the Libyan political process. My reading of it would be that it is quite stable at the moment. The Colonel, for all his faults, has operated a fairly stable government for quite a long period of time. There is not a lot in the way of organised opposition. One of the questions we had, before we made our investment, was what was likely to happen if there were to be a change in leadership? We pondered all the advice we could get at the time from people who studied these things, and the best advice was that, regardless of how it went, the next government would probably be something that looked something like the one they have got; maybe there would be some different players, but it would not look that different and would probably operate in roughly the same way. My own personal comment is that, as the rules around entry for foreign firms become more liberal and as we see more foreign investment in the country, there has to be a change in the political process. That has just got to happen.

CHAIR—There being no further questions, I thank you very much for coming today. We certainly recognise the significance of your company in North Africa. I think you are one of the companies that encouraged us to press ahead with the inquiry and wondered why we were delaying, as it was originally planned that we would go there in April. But we are off in a week's time, so we will look forward to meeting your representatives there.

Dr Kantsler—I think you will enjoy it. It is a fascinating part of the world. I do not know whether you will have the opportunity to go to the BHP villa in Algiers; that used to be the Australian embassy at one time.

CHAIR—They are nodding behind you.

Dr Kantsler—Architecturally, it is a really magnificent building. If you get the chance to pop in there, it is well worth a look. Indeed, in Libya, Leptis Magna and Sabratha are wonderful ruins. They are very, very well preserved. There is opportunity for Australian business there, right across the board—in education, agriculture, infrastructure, services; it is wide open. And we have no political baggage.

CHAIR—No. That is very interesting. Thank you again for your attendance here today. You will be sent a copy of the transcript and if you have any problems with that, come back to us. We appreciate your coming today.

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

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

Subcommittee adjourned at 3.55 pm