



Submission No 4

Inquiry into Australia's Trade and Investment Relations with North Africa (Algeria, Egypt, Libya, Morocco, and Tunisia)

Organisation: Australia Arab Chamber of Commerce & Industry Inc.

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**Joint Standing Committee on Foreign Affairs, Defence and Trade
Trade Sub-Committee**

**Inquiry into Australia's trade and investment relations with five countries
of North Africa (Algeria, Egypt, Libya, Morocco and Tunisia)**

August 2005

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Key Recommendations

- **Increased presence of Austrade staff in the North African region to assist Australia's export efforts**
- **Increased DFAT presence in the North African region**
- **An examination of the DIMIA process of issuing visas to business people wishing to visit Australia**
- **A review of the tax legislation if we are to arrest the decline of Australians working in the region**



The Australia Arab Chamber of Commerce & Industry Inc.

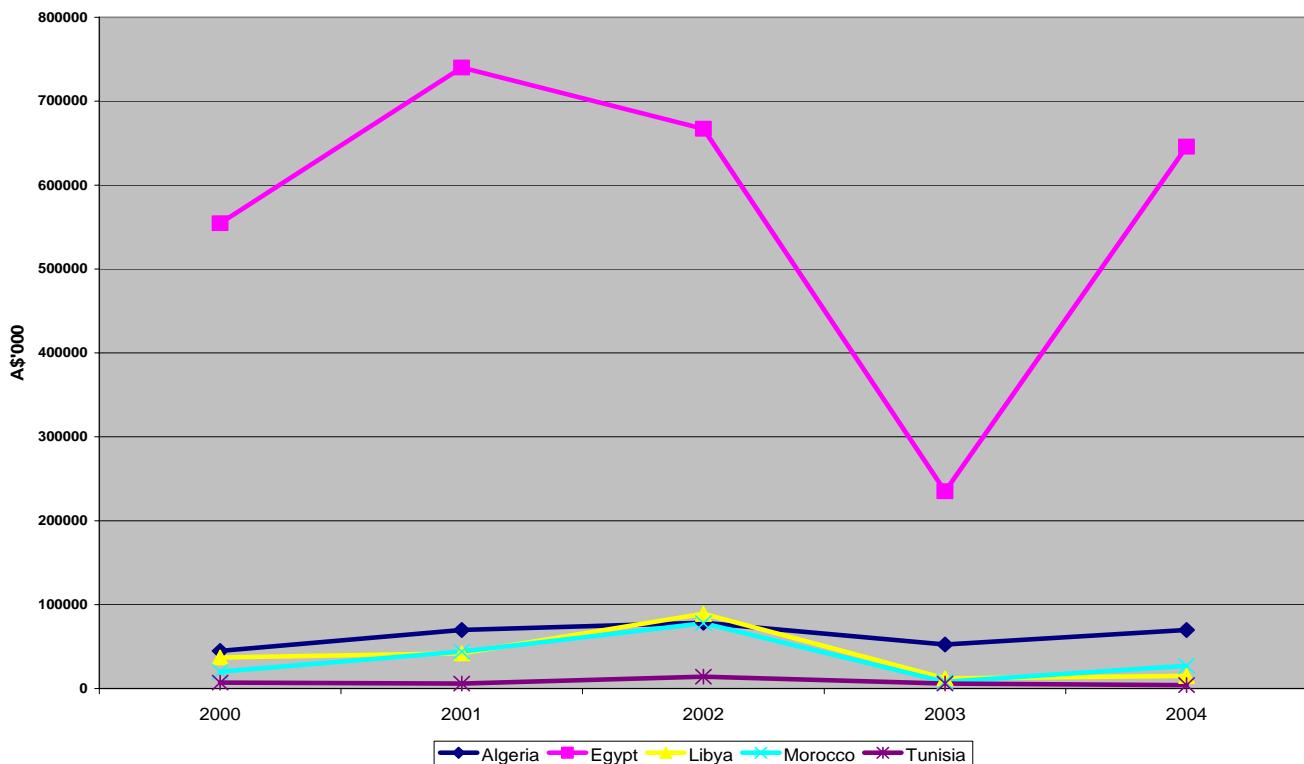
Background:

The Australia Arab Chamber of Commerce & Industry Inc, (AACCI) is the peak body representing Australian private enterprise with commercial interests in the markets of the Arab League countries. AACCI is affiliated to the General Union of Chambers of Commerce, Industry and Agriculture for Arab Countries (GUCCIAA).

AACCI members Australia-wide, numbering about 500 businesses, are large, medium and small companies and represent a wide range of industry sectors from traditional primary industry commodities to sophisticated high tech value added products and services. The main objective of AACCI is to facilitate Australian trade and investment with partners in the Middle East and North Africa.

Existing Trade with North Africa

Australian Goods Exports to North Africa 2000 - 2004
Source: DFAT Composition of Australian Trade



Egypt

Australian goods exported to Egypt have traditionally consisted mainly of live animals, dairy, fresh vegetables and confidential items (wheat). These items consistently make up over 85% of the value of Australian exports. The drought in Australia in 2002 -2003 had a severe impact on this volume and adverse pricing policies also effected the wheat sales but the most recent figures show a return to traditional levels apart from the live animal trade.

Algeria

Coal, wheat & cheese traditionally make up the majority of Australian exports to Algeria. Recent growth in this trade has been in the non-bovine exports.

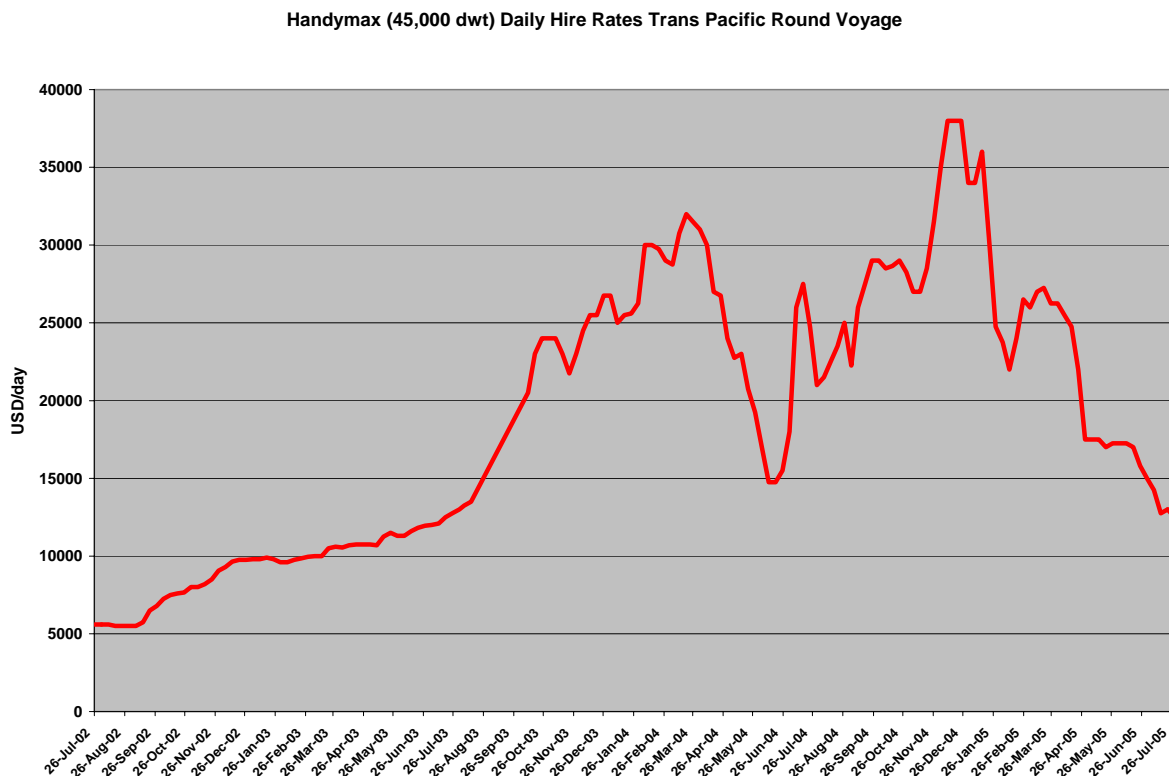
Libya, Morocco and Tunisia

Apart from some wheat shipments & spot supplies of meat, exports to these countries have been minimal.

AACCI members and executives make regular visits to the North African countries and meet with Australian Government officials and local businessmen. From first hand experience and an examination of trade figures, North African trade is done with the geographically close countries of the Mediterranean and Europe. Language, personal familiarity, geographic proximity, ability to procure a visit visa and a past history of trading combine to drive trade in this direction. The US & China are the major non-European trading partners with North Africa.

Freight costs

The following graph gives an indication of how shipping freight charges have risen over the past 3 years. The graph shows costs per day in USD for the charter of a dry bulk carrier.



These bulk costs are also reflected in container rates and have effected shipping rates across the world in a similar manner. The increases have been bought about by an enormous demand for shipping by China, the general ageing of the world's fleets, the long turnaround time for new vessels to be built and seasonal factors such as the North Atlantic wheat trade. Whilst the market has weakened in the past 3 months, it is expected to bounce back over the USD30,000/day level as the market tightens up again due to the following:

1. Vessel supply and demand is tight in all sectors of the freight market.
2. There are a large number of owners and operators who have taken on expensive vessels in the peak of the market. These companies will be losing massive amounts of money in the current market and it will only be a matter of time until some of them fall over. Once the operators start to go out of business the freight market will tighten up significantly and rates will move upwards.
3. There are a large number of over aged vessels that have been fixed for long and short periods at high rates. These vessels suffer the most in a poor market and this pressure will only increase the problem described in pt 2 above.
4. 1, 3 and 5 year period rates remain higher than spot rates indicating that owners expect the market to improve.
5. Chinese demand for iron ore has been subdued over the past 3 months but their steel production has been at record levels indicating that they are using up their existing stock piles. It is only a matter of time until the Chinese need to import large volumes of iron ore again and this will lift rates significantly

Record high freight rates make Australian exports increasingly uncompetitive in a market as geographically remote as North Africa. Additionally, they make North African exports of bulk fertiliser expensive on the spot Australian market causing importers to seek supply nearer to home.

Likely Future Trends

The remoteness of Australia, the high freight rates, the ease of doing business with Europe and the increasing penetration of North Africa by Australia's competitors would indicate that the goods trade with this region will show little or no growth in the near future. The major commodity export from Australia, wheat, will continue to be sold to Egypt, assuming returns to growers can be maintained and Morocco will remain an important buyer of Australian durum. Algeria, Tunisia and Libya will remain spot buyers at best as competition from Canada and European Russia remains intense.

Obviously if the future of Australian trade with North Africa does not lay in goods exports, it must be in services and investment. Of the 5 North African countries, Algeria and Libya have access to income from their oil and gas industries and Egypt is likely to do so if its export markets for natural gas can be developed. Sustained high oil prices in recent years have enabled these countries, especially Algeria and Libya to embark on programs of infrastructure development. Economic reforms in both countries have helped to take advantage of opportunities in international trade.

The opportunities for Australian companies lie in the transfer of technology to support infrastructure development in the region. Civil works, such as highways, bridges and dams can and should attract Australian tenders. Notice of such tenders, and the ability of Australian companies to respond in timely and appropriate manner, depend, of course on an Australian presence in the region. Other areas of opportunity for Australian service providers include Education, Communications, Health and ICT. Visits made by ACCI personnel to Egyptian fishing and mining authorities are likely to lead to transfer of technology between Australia and Egypt. The Egyptian Embassy in Canberra has been particularly helpful in fostering communications and business matching between Egyptian institutions and potential Australian partners.

The role of the Australian Government

DFAT & Austrade

With only one 'local' DFAT and Austrade office, Cairo, and the balance run from Paris, the Australian Government presence in North Africa is underwhelming. The move to transfer Austrade responsibility from Europe to Dubai is welcomed as is the move to employ more on-ground personnel. The move to open a Consulate and appoint an STC in Libya, with responsibility for Algeria, Morocco and Tunisia is also welcomed.

AACCI members, who rely on Austrade as their on-ground support, tend to limit their visits to Egypt with the occasional spot shipment reaching the other North African countries. Apart from some dairy and meat trade, there are certainly no major regular shipments to these destinations. For Australian exports to have any chance of entering these markets in substantial numbers, more Australian Government support in terms of appropriate people on the ground is required.

DIMIA

The difficulty North African nationals face in obtaining business and tourist visas to Australia is a constant source of annoyance to them and detrimental to their efforts to engage in trade with Australia. Whilst it is recognised that security plays an important part in issuing visas, the fact other countries, such as New Zealand, the UK & the US, can do it a lot faster than Australia is not lost on our potential trading partners.

ATO

The matter of Section 23AF of the Income Tax Assessment Act continues to impact on the competitiveness of some of our members in North Africa. The presence of Australian contractors in foreign countries generally has a number of tangible benefits such as:

- Specifying/buying Australian products & services
- Providing commercial contacts and promoting tourism in Australia
- Repatriation of earnings

Whilst S23AG now covers some of these situations we feel that the current administrative arrangements may be erroneously focusing on some sense of fostering personal benefit in the interpretation of the Act, rather than resting where it should on a vigorous buttressing of the international competitiveness of Australia and Australian firms.

AACCI urgently seeks the Committee's active support in defending and promoting the original spirit of the legislation.