Submission No 9

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

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Australian Government

Department of Foreign Affairs and Trade

5 August 2005

Dr Kate Burton
The Secretary
Trade Sub-Committee
Joint Standing Committee on Foreign Affairs, Defence and Trade
Parliament House
CANBERRA ACT 2600

Dear Dr Burton

On 17 June 2005 you wrote on behalf of the Hon Bruce Baird MP to the Secretary of the Department of Foreign Affairs and Trade inviting the Department to make a submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade's Inquiry into Australia's trade and investment relations with North Africa (Algeria, Egypt, Libya, Morocco and Tunisia).

I am pleased to forward herewith the Department's submission to the Inquiry.

Yours sincerely

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Encl.

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Australian Government

Department of Foreign Affairs and Trade

Submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade

Prepared by

Department of Foreign Affairs and Trade

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

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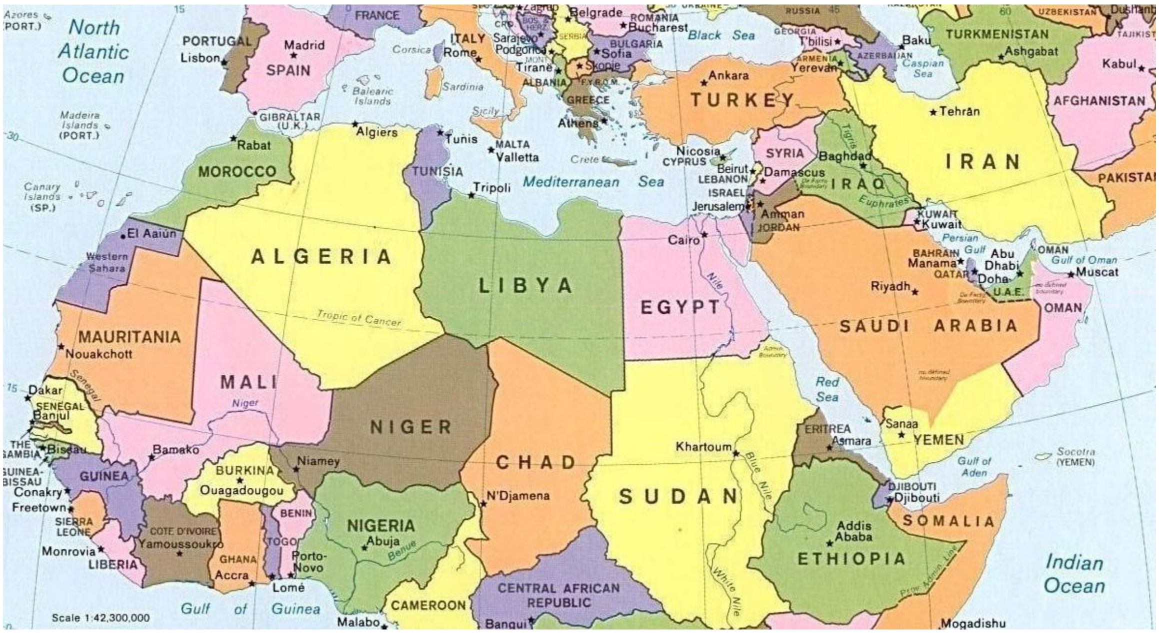

II. Terms of Reference of the inquiry

The Joint Standing Committee on Foreign Affairs, Defence and Trade will examine 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.

III. Overview

The countries of North Africa represent a growing, but relatively untapped, market for Australian merchandise and services exporters and for Australian investment. While economic circumstances differ from country to country, there are some characteristics of the region as a whole that bear implications for Australia's trade and investment interests. Australia has good relations with all of these countries but a continuing effort is needed to maintain and develop commercial links that have been circumscribed in the past by distance and difficult communications and transport links.

A factor common to all countries of the region is the commitment of their governments to undertake wide-ranging macroeconomic and structural reforms in order to modernise their economies, making them more competitive in the global market place. While the pace and impact of the reform programs may not be uniform throughout the region, overall they are producing beneficial results. Part of the dividend of these reforms is the enhanced commitment and ability of governments to invest more in social programs, including health and education. It is in Australia's interests to encourage the reform programs that will deliver improved standards of public and corporate governance and a sustained shift to market-based economics. Such reform will enhance the region's openness and create trade and investment opportunities for Australia.

The combined population of the countries of Algeria, Egypt, Libya, Morocco and Tunisia is more than 155 million. In terms of size alone, this represents a significant market which Australia cannot afford to ignore. North Africa does not offer the prospect of major new markets for Australian exporters on the scale found in the countries of the Arab Gulf states. But opportunities do exist for Australian exporters and investors across a broad range of sectors. Disappointment can be avoided if expectations remain realistic.

Egypt, Morocco and Tunisia are all members of the World Trade Organisation (WTO). Algeria is currently nearing the final stages of its WTO accession process and expects to join the organisation shortly, subject to settlement on several outstanding issues. Libya is in the early stages of its accession process. Australia supported the commencement of the process for Libya's accession.

The geographical location of the countries of North Africa ensures a natural linkage with the countries of southern Europe. This has been formalised to a degree in a number of processes such as the Euro-Mediterranean partnership (otherwise known as the Barcelona process- see box below) which was initiated in 1995 as a means of creating across the Mediterranean region a common area of peace and stability, social and cultural understanding and free trade. More recently the Barcelona Process has been complemented by the European Neighbourhood Policy. With the exception of Libya, all countries that are the focus of this inquiry are parties to the Barcelona process.

The Euro-Mediterranean Partnership and the countries of North Africa

The Euro-Mediterranean Partnership (also known as the Barcelona Process) was launched by a meeting of Foreign Ministers of the European Union and countries of the southern Mediterranean at a conference in Barcelona in November 1995.

*The Partnership comprises the 25 EU member states and 10 Mediterranean partners (**Algeria, Egypt**, Israel, Jordan, Lebanon**, Morocco**, the Palestinian Authority, Syria, **Tunisia** and Turkey). **Libya** has observer status.*

The objectives of the partnership include the definition of a common area of peace and stability through the reinforcement of political and security dialogue, construction of a shared zone of prosperity through an economic and financial partnership and the gradual establishment of a free trade area, and rapprochement between peoples through a social, cultural and human partnership.

The partnership involves a bilateral and a regional dimension. Bilaterally, the EU negotiates association agreements with individual Mediterranean partners. The regional dimension encourages regional cooperation in support of the objectives of the Partnership.

*Association Agreements are in force with **Tunisia** (since 1998), **Morocco** (2000), and **Egypt** (2004). An agreement with **Algeria** (signed in 2002) is expected to be ratified soon. The agreements can vary from one partner to another but they have in common a number of elements. These include provision for political dialogue, commitment to human rights and democratic processes, establishment of WTO-compatible free trade over a transitional period, provisions relating to intellectual property, competition rules and public procurement, economic cooperation, cooperation in social affairs, including illegal immigration, and cultural cooperation.*

According to recent statements efforts are continuing towards the establishment of a Euro-Mediterranean Free Trade Area by 2010.

*The more recent **European Neighbourhood Policy** (ENP) of the EU aims to build on and complement the Barcelona process and create enhanced relationships with Europe's neighbours based on shared values and common interests. Neighbourhood Policy Action Plans will strengthen the Barcelona objectives and provide benchmarks and incentives to improve their implementation. The Action Plans promote shared values such as the rule of law, democracy and human rights*

The Euro-Mediterranean partnership and the association agreements which the countries of North Africa have concluded with the EU undoubtedly underline the close trade relations between the EU and North Africa. However, the countries of the region, while sensibly wishing to take advantage of their proximity to Europe, also wish to avoid over-reliance on the commercial relationship with the EU and are seeking to diversify their trade and investment activity where it makes sense to do so. The impact these agreements can have in encouraging market-based economic reforms, greater transparency and better public and corporate governance, can work towards providing an improved environment in which exporters and investors from other countries, such as Australia, can also benefit.

Membership of the Arab Maghreb Union, which was established in 1989 and is headquartered in Rabat, Morocco, is another factor common to the countries of North Africa, except Egypt. But the impact of this organisation to help its membership harmonise their economies and promote trade has not reached its full potential. Still, the existence of the Union provides an appropriate political infrastructure for the pursuit of such measures.

In 2004 Morocco concluded a bilateral Free Trade Agreement (FTA) with the United States, a development which, while enhancing Morocco's export opportunities in the U.S. market, is also expected to contribute to the further opening of Morocco's economy to the broader world. Egypt has for several years been seeking to negotiate an FTA with the United States. The U.S. response has been that Egypt must move further down the reform and modernisation process before negotiations can begin.

The countries of North Africa, while broadly sharing similar climatic and geographical conditions, differ in terms of their economic progress and their social and political development. While the economies of some (Algeria and Libya) are dominated by their oil and gas resources, the others need to rely on other sectors such as tourism, agriculture and light industry.

A factor common to all countries of the region is a high birth rate and the social and economic challenges that come from a young population. Providing jobs for the hundreds of thousands of young people seeking to enter the work force each year will remain a challenge. Improved economic growth is needed to tackle high unemployment.

Political factors have affected the economic development of some countries. Algeria experienced a debilitating period of instability in the 1990s and Libya was subject to international sanctions also in that period. Continuing differences between Morocco and Algeria over Western Sahara have, over the years, had a negative impact on the economies of both countries and have hampered economic cooperation between the two. These differences have also contributed to reducing the effectiveness of the Arab Maghreb Union.

Australia's pattern of trade and commerce with North Africa has varied from country to country. Algeria and Libya have emerged as countries of significant interest to Australian oil and gas companies. Egypt, which has the largest population in the region (in excess of 70 million people) has been one of Australia's most important markets for wheat in a trading relationship spanning over 60 years. Egypt is also an important market for other commodities from Australia such as pulses, meat and live animals and increasingly for high tech goods and services. The level of interest in investment in Egypt has also increased. Libya is re-emerging into the world economy and is grappling with imbalances in its economy. Although Libya has a small population (5.5 million), it presents a potentially significant market for Australian farm produce and manufactured goods, as well as services. Algeria, Morocco and Tunisia have traditionally been small markets for Australian exports. While they remain largely within Europe's economic gravitational pull, opportunities for Australian exporters will emerge as these economies continue to develop.

On the services side, Australia is well placed to develop further its education and training links with the countries of North Africa. The high quality of Australia's education sector, cost competitiveness, and the status of English as its mother tongue, will assist Australia in this regard.

Australia and other countries seeking to expand trade ties with the countries of North Africa have found a number of obstacles in their path in the form of tariff and non-tariff barriers. High tariffs, cumbersome customs procedures and unnecessary technical specifications have been a pattern of the trading regimes of these countries. In recent years the trend has been towards streamlining or removing some of these measures but more remains to be done.

Prospects for Australian investors in North Africa are also likely to grow. Australian oil companies have found success in recent years in Algeria, Libya and Egypt. Opportunities are also present for investments in meat processing, grain storage and milling as well as in mining and minerals processing. In some countries further clarification of investment rules is required. Further legal reform may also be necessary to give investors confidence that the laws and regulations governing foreign investment are properly implemented.

A key challenge for Australia in North Africa is the lack of familiarity, on the part of local importers and government authorities, with Australian capabilities in sophisticated manufactures and services. Bridging this knowledge gap is a continuing task for Australian government bodies and the private sector alike.

High-level visits by Ministers and ongoing efforts by DFAT and Austrade play key roles in raising awareness among the countries of North Africa of Australia as a source of high quality goods and services and of market opportunities for Australian exporters in North African markets. The Council for Australian-Arab Relations (CAAR) also has a role to play in building people-to-people links that will assist in the development of trade and investment links between Australia and the region.

Australia's resident diplomatic representation in the region is currently in Cairo where the Ambassador is also accredited to Tunisia and Libya. Australia's Ambassador to France is accredited to Algeria and Morocco. In 2004 Mr Downer and Mr Vaile announced that Australia would open a diplomatic mission in Tripoli as the first step towards establishing an embassy there. Accordingly, a Consulate-General, to be staffed by Austrade, is to open in Tripoli in October this year.

North African countries have also demonstrated an increased interest in being officially represented in Australia. While Egypt has long had an Embassy in Canberra and Consulates in Sydney and Melbourne, other countries from the region, until recently, had not been represented here other than through locally appointed Honorary Consuls. Libya established an Embassy in Canberra in 2003, following the resumption of normal diplomatic relations the previous year. In 2002 Tunisia opened a Consulate-General in Sydney, staffed by a Tunisian-based diplomat. More recently, Algeria has opened an Embassy in Canberra and the Moroccan government has indicated its intention also to establish an Embassy in Canberra.

IV. Economic, Trade and Investment Profiles and Prospects

Algeria

Despite the internal unrest of the 1990s, Algeria's economy has been performing well in recent years. Its achievements in 2004 included a growth rate of 5.4 per cent, continuing modest inflation, and a small decline in Algeria's chronic unemployment levels. In 2005 the OECD expects the Algerian economy to grow by 4.5 per cent. Algeria's favourable economic performance is in large measure due to the contribution of its oil and gas sector, but the government has implemented some important policies designed to reduce reliance on hydrocarbon exports, and bring greater diversity to Algeria's economy.

Thanks to continuing high world oil prices, Algeria has manoeuvred into a relatively comfortable external position. In 2004 Algeria's merchandise exports were worth US$ 33.3 billion while imports were worth US$ 17.6 billion.

The oil and gas sector is fundamental to Algeria's economy. The sector accounts for 36.5 per cent of GDP, contributes 65 per cent of total government revenue and provides 97 per cent of total export earnings. High world oil prices have boosted Algeria's overall economic performance. Algeria's oil production in 2004 was 1.4 million barrels per day (mbd). In 2005 production is expected to reach 1.5 mbd. Natural gas production rose in 2004 by 5 per cent to 144.3 billion cubic metres.

Algeria still faces some difficult social and economic problems. Unemployment remains very high, affecting both urban and rural areas in roughly equal measure. In the 20 to 24 year old age group unemployment is assessed to be 43.9 per cent. The oil and gas sector employs only 3 per cent of the work force. Although dwarfed by the size of the hydrocarbon industry, the construction, agriculture and services sectors are important contributors to the economy. Algeria's manufacturing industry continues to be characterised by inefficiencies and unprofitable state-owned companies. To overcome the difficulties in the industrial sector the government has sought to introduce a modernisation program, including upgrading management skills.

The Algerian government has won the praise of the IMF and OECD for its efforts to modernise its economy and to manage effectively Algeria's oil and gas revenues. The government pursued a four year economic revival plan from 2001-2004 to boost growth and reduce high unemployment levels. It also set up a revenue regulation fund in 2000 in an effort to de-link public spending from fluctuations in hydrocarbon revenues, and has established a medium-term expenditure framework independent of those revenues. At the same time the government has introduced taxation reform in an effort to reduce its dependence on oil and gas revenues.

In August 2004 the Algerian government established a US$ 40 billion economic growth support plan comprising major infrastructure projects focusing in particular on roads, railway construction, airports and sea ports. This should help further to alleviate unemployment and boost Algeria's import requirements, while building communications and transport networks that can support efforts to diversify Algeria's economy.

The government is promoting efforts to privatise inefficient state-run enterprises. 111 state-owned firms were privatised in 2004. The target for 2005 is around 300, although 1,283 companies currently remain under state responsibility.

Despite these initiatives, it is generally assessed that more remains to be done in terms of structural reform. Algeria's banking and financial sector requires a major overhaul. More needs to be done to create a business environment that can attract private investment. (Foreign direct investment in Algeria in 2004 was US$ 390 million – down from US$ 620 million the previous year.) Better governance in terms of transparency and predictability of the application of laws and regulations governing commerce and reform of the legal system have been identified as key measures if Algeria is to improve conditions for business.

Algeria's trade is dominated by its close links with the EU. It is currently preparing for the activation of its association agreement with the EU and is undergoing accession talks in Geneva for entry into the WTO. The EU is Algeria's main trading partner, taking 55 per cent of Algeria's exports and contributing 57 per cent of its imports. Algeria also has signed a Trade and Investment Framework Agreement (TIFA) with the United States.

Overall, Algeria's economic prospects are looking positive. The consolidation of political and social stability after a decade of internal conflict will be an important precursor to any sustained improvement in economic performance. While militant unrest appears to be waning, it has not completely disappeared. Continuing high levels of unemployment, particularly in rural areas, will remain a point of vulnerability for the government. Continuing strong world oil and gas prices and the implementation of sound macroeconomic policies, coupled with further structural reforms should place Algeria in a favourable position to achieve further economic gains.

Egypt

In July 2004 President Mubarak signalled an intention to further reform Egypt's economy when he appointed a new government with Ahmed Nazif as Prime Minister. Under the guidance of Egypt's reform-minded team of Ministers responsible for Egypt's economic performance, the government has worked hard to revive confidence in the Egyptian economy. It introduced important reforms to Egypt's tariff system, reducing the number of tariff bands to twelve, and reducing the average MFN tariff rate to around 20 per cent (down from 26.8 per cent). The government has also set about reforming the customs service. At the same time, it has moved to begin to reduce the heavy burden of domestic subsidies it faces, starting with diesel. The financial sector also faces major reforms, including a program of privatisation of some publicly owned banks. The government has also introduced a range of tax reforms lowering both personal and corporate tax. Egypt's first comprehensive competition legislation was adopted in February 2005. The law prohibits price collusion, production-restricting agreements, market sharing and abuse of a dominant market position.

It is generally accepted that there remains some way to go to create an economic environment that is more conducive to business and will ensure high, sustained growth and that the existing reform efforts need to be broadened and accelerated. However, economic conditions have strengthened in recent years and there is cause for optimism for future economic growth. The government wishes to tackle Egypt's continuing high level of poverty and high unemployment (around 600,000 new places in the work force are needed every year to accommodate those seeking to participate in the work force) by increasing economic growth. In 2004 the official unemployment rate was 10.9 per cent.

While Egypt needs an economic growth rate of 6 per cent or more to absorb the number of unemployed, the growth rate since mid-2003 at around 4.5 per cent represents a significant improvement on previous years. The improved growth rate appears to be a result of an increase in export revenues. But foreign investment - a key to sustained increased growth rates - still remains relatively depressed at US$216 million in 2003/2004. By comparison, a decade ago levels of foreign direct investment in Egypt were around the US$2 billion mark. If Egypt can lift the current levels of foreign direct investment, the economy's growth rate is likely to show a sustained increase.

The Egyptian economy is dominated by services, including tourism, public administration and Suez Canal receipts, which account for over 50 percent of GDP. Other important sectors in the Egyptian economy include manufacturing (mainly food processing and textiles) which accounts for just under 20 percent of GDP. Agriculture, while declining slowly in relative importance, still accounts for 16 per cent of GDP and agricultural exports account for about 15 per cent of Egypt's merchandise exports. Although Egypt is marginally a net energy importing country, its oil and gas sector accounts for 9 per cent of GDP. While oil production is in a gentle decline (740,000 barrels of crude oil per day in 2004), estimates of Egypt's natural gas reserves have increased substantially in recent years. Proven gas reserves now stand at 62,000 billion cubic feet, affording Egypt the profile of a potentially middle-sized producer and exporter of natural gas. Natural gas exports are set to become a major foreign exchange earner for Egypt in 2005 as production of Liquefied Natural Gas (LNG) comes on stream. Egypt's gas revenues in 2005 will be in the order of US$200 million. This will increase to US$1.36 billion in 2007-08.

Egypt has traditionally been a net services exporter. Main sources of revenue from the services sector are tourism and the Suez Canal. Suez Canal receipts add well over US$2 billion to the national economy annually. Remittances from Egyptian nationals working abroad are another important source of foreign exchange receipts.

In 2004 Egypt's exports benefited from the depreciation in the national currency the previous year. But its trade deficit in 2004 was, nevertheless, US$9 billion, and in 2005 the gap is expected to widen to US$10.1 billion. Egypt's major exports are petroleum, petroleum products and natural gas, cotton yarn and textiles, aluminium, iron and steel, pharmaceuticals and agricultural products. The main destinations for Egyptian exports are the United States. (which in 2003 took 13.7 per cent of Egypt's total exports), followed by Italy (12.6 per cent), UK (8.1 per cent) and France (4.8 per cent).

Egypt's major imports are intermediate (semi-processed) goods, capital goods and consumer goods. Egypt is a major importer of wheat and other grains and pulses. It also imports meat in significant quantities. Although it has plans to improve local production, Egypt will remain dependent on food imports for many years to come. Main source countries of Egypt's imports in 2003 were the United States (13.5 per cent of Egypt's total imports), Germany (7.6 per cent), Italy (6.9 per cent) and France (6.5 per cent). China is also growing in importance as a source of imports.

On 1 June 2004 Egypt's association agreement with the EU, Egypt's biggest trading partner, came into force. The agreement will assist Egyptian exporters of industrial goods who will have free access to the European market. Agricultural goods from Egypt that do not compete with European product will also enjoy access. The agreement provides for an increase in the amount of EU aid to Egypt, to be applied to the restructuring of Egyptian industry. Egypt's obligations under the agreement include reductions in import tariffs to four categories of goods. They are imports of raw materials and capital goods will be fully deregulated in 2007, those of semi-finished goods in 2010, those of consumer goods in 2013 and those of motor vehicles in 2016.

Egypt has signed a Trade and Investment Agreement (TIFA) with its second biggest trading partner, the United States and continues to push for an FTA. The United States is urging further structural reform in Egypt before it is prepared to negotiate an FTA.

Overall, Egypt's economic prospects are showing more promise now than they have in recent years. The government has demonstrated renewed resolve to implement the structural and macroeconomic reforms it recognises it needs to make. But with those reforms comes some risk of social instability and an adequate social safety net will need to be available for those among the less well-off who may be adversely affected by the reforms. Further work is needed by the government to establish a genuinely business-friendly environment for foreign companies. This includes reform creating a more predictable, open and transparent regulatory environment, with a fair and effective system of dispute resolution.

The government has also been working at a considered pace towards reforms designed to broaden the democratic base of the political system. This may raise in some quarters renewed fears of the rise of Islamic fundamentalists in the political system. The recent terrorist bombing at Sharm el Sheik underlined that a threat from extremists persists although the government will continue to respond vigorously to any group associated with terrorist activity in. President Mubarak, who is now 77, is standing again in 2005 for re-election as Head of State following a recent constitutional reform to allow multiple candidates to compete for that office.

Libya

In recent years international competition for business in the Libyan market has grown rapidly. UN sanctions against Libya were lifted in September 2003. This was followed a year later by the lifting of sanctions that had been imposed by the United States. Following Libya's international rehabilitation (based on its renunciation of terrorism and its programs for the development of weapons of mass destruction) the

Libyan government has made clear its intention to re-integrate into the global economy. The reform process it has embarked upon has been, in some respects, hesitant and piecemeal and largely non-transparent. While the government has committed itself to enhancing the role of the private sector, Libya's economy remains under firm central control.

Libya's current economic performance is favourable, and its external position, thanks to continuing strong world oil prices, remains robust. The IMF estimates that in 2003 Libya's GDP grew by 9 per cent. Non-oil activities contributed only 2.2 per cent to the overall growth figure. In 2004 real GDP growth was estimated to be around 4.5 per cent, the decline reflecting a drop in the growth of oil production.

More than a decade of international isolation and the effects of the government's brand of socialist policies have worked against Libya's capacity to switch to a more market-based economy. Inefficient state-owned companies abound, and the pool of managers familiar with the demands of market economics is small. Some progress in the government's reform program has been made, but international observers have noted a lack of uniform commitment on the part of the government to push ahead quickly with its reform program.

Legislative changes have been made to encourage domestic and foreign investment in Libya. A new tax law has been introduced, and customs duty exemptions enjoyed by publicly-owned enterprises have been scrapped. There has been a reduction in tariff rates and a new banking law giving greater independence to the Central Bank in the formulation and implementation of monetary policy is being prepared. A privatisation plan was initiated in January 2004 involving the sale of 360 entities.

More remains to be done. The IMF has suggested the need for the careful planning and sequencing of reform policies. In the short term there is a need to develop market-based monetary instruments and reform the banking system. Prices need to be liberalised and the existing system of subsidies reformed. Budgetary management also need to be strengthened. After these initial reforms, the IMF proposes vigorous implementation of the government's privatisation program, and continuation of efforts to build a sound business environment. Efforts are required to increase the non-oil tax base by reducing exemptions. The consolidation of official spending through the elimination of extra-budgetary operations has also been recommended. The government has announced significant customs reform from August 2005 with the abolition of most import tariffs and the removal of most customs duties.

Given the long recent period of Libya's international isolation, the authorities prefer a measured pace for the implementation of reforms. Priority for reform appears to have been given to the oil and gas sector. Libya's aim is to achieve the production of 3 million barrels of crude oil per day by 2010. Libya has succeeded in attracting substantial foreign interest, including from Australia, in the development of its abundant hydrocarbon reserves. To date there is no sign that Libya is ready to implement a comprehensive plan for reform of its agriculture sector. Australian companies with interests in this sector may need to be patient.

Libya's pattern of trade points to a strong relationship with the main economies of the EU - that is Italy, Germany, France and Britain. But the lifting of UN and US sanctions has opened the door to US companies which have been precluded from doing business with Libya for over a decade. In the coming years, competition for Libya's business will intensify, but overall opportunities will continue to grow also.

Looking at future prospects, economic growth will remain strong, underpinned by high international oil prices. The Libyan government's commitment to economic reform has been clearly stated and there is no sign that it will revise the broad direction it is now heading in. Practical difficulties in implementing the reforms are substantial. Delays and disappointments are likely to be encountered in the short to medium term.

Politically, Libya has shown little interest in any internal reform. The official political philosophy argues that Libyans enjoy true democracy through the country's committee system, which, it is said, provides for popular participation in decision-making. In reality, however, the country remains under the tight control of the Head of State, Colonel Muammar Ghaddafi and his advisers.

Morocco

Morocco has come to be regarded as something of an exemplar among the countries of North Africa for its commitment to political, economic and social reforms that have transformed the country into one of the most open and progressive in the Arab world. Morocco's economy performed well in 2003 and 2004, underpinned by policies that have created improved conditions for business and for investment.

In 2002 the government launched a series of reforms to modernise Morocco's economy and society. Major changes have taken place in the country's legal and fiscal framework. An improved investment climate was achieved through the adoption of the Investment Charter which guarantees the right to invest, the right to transfer profits, and the right to transfer capital gains under certain conditions. The banking and financial sector has been reformed.

Deregulation of key sectors has been an important element in the government's approach to liberalising the economy. Deregulation of the electricity sector is planned for 2005. Reform of railways management and the ports and shipping is also on the agenda. Maroc Telecom was privatised in 2004. A new employment code was introduced in June 2004 to provide a framework for the conduct of industrial relations in a more open environment.

Poverty reduction remains a key objective for the government. More than 25 per cent of the rural population are estimated to be living below the poverty line. IMF and OECD reports suggest that the authorities have made gains in addressing the social and economic factors underpinning poverty. Unemployment in 2004 was 10.9 per cent, representing a slight fall over the previous year.

Overall, there is broad recognition that the government has made significant advances towards better governance, democratisation, improvements in social services, and modernising the economy. Conclusion of a Free Trade Agreement (FTA) between Morocco and the United States in March 2004 reflects the distance that Morocco has travelled towards achieving an open, market-based economy and democratic society.

The May 2003 terrorist attacks in Casablanca caused little adverse reaction in the business sector and, if anything, induced the government to maintain the pace of its reform programs.

Morocco's real GDP rate of growth in 2004 was 3.5 per cent compared to 5.6 per cent growth the previous year. The variation in the growth rate reflects Morocco's continuing reliance on its agriculture sector and the vagaries of climate. The primary sector employs 45 per cent of the total active population and 60 per cent of the total female active population. Agriculture usually represents between 12 and 17 per cent of GDP, depending on rainfall.

The mining and energy sector performed well in 2004. Production of phosphate and phosphoric acid increased by 9.5 and 16.4 per cent respectively based on strong international demand. This growth rate may not be repeated in 2005, given a decline in world wide demand for fertilizer. Morocco has discovered only negligible hydrocarbon deposits to date. It produces 1,000 barrels of oil per day (compared to Algeria's 1.2 million barrels per day). Its proven reserves of oil are 300 million barrels. Its proven natural gas reserves are also modest at 665.4 million cubic metres (compared with Algeria's 4.739 trillion cubic metres).

The industrial sector (whose main elements comprise food processing, chemicals and textile and leather goods) experienced a slowdown in 2004. But Morocco's FTA with the United States may bring about a revival in the textiles and leather goods sector.

Tourism is important and has continued to perform strongly. In 2004 there was a 16 per cent increase in the number of tourists visiting Morocco. The figure is now 5.5 million per annum.

The government faces a difficult task in balancing its budget with decreasing revenues (from lower customs duties, and a slow-down in the privatisation program) and continuing heavy demands on the public purse from its poverty alleviation policies. Lower spending on wages and subsidies has meant that the government was able to reduce the budget deficit for 2004 to 5.4 per cent of GDP. Inflation remained low at 2.3 per cent in 2004.

France and Spain are Morocco's major trade partners. Seventy-five per cent of Morocco's exports go to the EU. The United States is a destination for about 4 per cent of Morocco's exports. Morocco is running a trade deficit that is largely the result of high world oil prices. However, the Moroccan economy finished in 2004 with a current account surplus of 1.3 per cent of GDP helped by a sharp rise in revenue from tourism and from repatriation of funds from Moroccans living abroad.

Morocco has continued to make progress on trade liberalisation issues in accordance with its WTO and other obligations. In October 2003 Morocco signed an agriculture agreement with the EU which increased Morocco's tomato export quotas over four years to 220,000 tonnes. Under the same agreement, Morocco committed itself to import European wheat. In 2004 Morocco also concluded FTAs with Egypt, Jordan, Tunisia and Turkey which is consistent with its wish to diversify its foreign trade and protect itself against any slowdown in the European economy.

Prospects for further economic advances in Morocco remain good. Under King Mohamed VI the authorities are committed to the further modernisation of both society and the economy. Democratic institutions continue to be strengthened, and open, competitive economic and business conditions continue to be encouraged. The government remains firmly committed to a reform program designed to promote human development and economic growth, reduce the vulnerability of agriculture to drought and improve public governance. Continued economic growth and sound macroeconomic policy underpin the growth of a more sizeable middle class in Morocco. This community, bolstered by large numbers of European tourists which visit the country annually, is creating new market opportunities.

Tunisia

Tunisia, with a population of 9.9 million, has a diverse economy which has responded well to the government's programs of reform and living conditions have been raised comparative to other regional countries. The most important sectors for Tunisia's economy are agriculture, mining, energy, tourism and manufacturing. Overall, the Tunisian economy performed well in 2004 and economic growth rates of over 5 per cent are expected for 2005 and 2006, with tourism and export receipts expected to perform strongly. Inflation also rose to 3.5 per cent but a gradual decline is expected in 2005 and beyond.

The authorities have made progress on a number of reform fronts. A privatisation program has been in progress for some years, the tax structure has been simplified, and some attempts have been made to improve business conditions and attract more private investment. However, significant challenges remain. Tackling unemployment continues as a major priority for the government. In 2004 unemployment was estimated at 14 per cent and high levels of youth and graduate unemployment are a continuing problem. The important agriculture sector is subject to climatic variations that can adversely affect its performance. The government is keen to modernise this sector, improving farming methods with the application of modern technology systems. Tunisia's textile, clothing and footwear (TCF) sector is in difficulty. This sector contracted by 1.5 per cent in 2004. Competition for Eastern Europe and Asia means that Tunisia's position as the fourth largest supplier to the EU is likely to slip. In 2003 17 TCF factories were closed, costing 8,000 jobs although the industry still employs around 280,000 workers. It represents one third of Tunisia's total manufacturing effort, 42.4 per cent of its exports and 6 per cent of GDP.

The end of the ten-year transitional program of the WTO Agreement on Textiles and Clothing (under which all quantitative restrictions applied to imports of textiles and clothing were to be phased out by 1 January 2005 – see box below) will result in a significant reallocation of production from higher cost producers, such as the US and EU (which were the main appliers of quantitative restrictions) to more competitive economies, such as India and China. Within the next 5 to 10 years, the OECD estimates that 50,000 Tunisians will lose their jobs in the TCF sector. To help cushion Tunisia and its neighbours from the effects of the termination of the agreement, the EU has implemented free circulation of raw textiles in all Mediterranean developing countries. Tunisia has also implemented some structural reforms within the sector to shore up its competitiveness.

The WTO Agreement on Textiles and Clothing

Egypt, Tunisia and Morocco all have large textiles and clothing sectors which are significant export earners. Libya and Algeria have smaller textiles and clothing industries. All of these countries will be affected by the termination on 1 January 2005 of the 10-year transitional program of the WTO Agreement on Textiles and Clothing.

Up to the end of the Uruguay Round, textile and clothing quotas were negotiated bilaterally and governed by the rules of the Multifibre Arrangement (MFA). The MFA allowed for the application of selective quantitative restrictions where surges in imports caused or threatened to cause damage to the industry of the importing country. On 1 January 1995 it was replaced by the WTO Agreement on Textiles and Clothing which set out a transitional process for the ultimate removal of these quotas.

As of 1 January 2005 textiles and clothing have now been fully integrated into GATT rules.

In 2004 the WTO estimated that the end of the transitional period under the Agreement on Textiles and Clothing would increase China's share of the European textile and clothing import market from 10 per cent to 12 per cent. India's share would similarly increase from 9 per cent to 11 per cent. (Source: African Economic Outlook 2004/2005: Country Studies, p. 453, OECD, Paris, 2005.) North African countries, which have traditionally relied on Europe as their main textiles and clothing export market, are now in competition with these countries.

Recent performance in other sectors has largely been positive. Agriculture and fisheries experienced real growth in 2004 of 9 per cent and contributed 14 per cent of GDP. Manufacturing sectors that performed well were food processing, chemicals and mechanical and electrical manufacturing. Tourism performed well in 2004. The number of tourists grew by 17.3 per cent. Absolute numbers reached 6 million.

As customs revenues have declined (a result of reform of the customs service and the tariff regime) the government has been working to modernise the taxation system. At the same time the government has had some success in reducing spending.

Although the government has undertaken some measures to reform Tunisia's trade policies and practices there is substantial scope for further action. In 2003 the average tariff level on a most favoured nation (MFN) basis was 28.6 per cent and even EU imports faced an average tariff of 24.3 per cent. Tunisia still has a long way to go in opening up its services sector, despite its WTO commitments.

The government is seeking to promote Tunisia as a regional hub for commerce. Tunisia's trade profile is heavily oriented towards Europe. In 2004 the EU accounted for 81 per cent of Tunisia's exports and 71 per cent of its imports. Tunisia has other free trade agreements with Turkey, Egypt, Jordan and Morocco, and a Trade and Investment Framework Agreement (TIFA) with the United States.

Tunisia is a net importer of oil. Its domestic production supplies only 46 per cent of its annual requirements. High world oil prices have not helped in the management of Tunisia's trade deficit which in 2005 is expected to reach 9.6 per cent of GDP.

The government's reform agenda has in large measure been directed to attracting greater levels of private and foreign investment. Efforts have been made to reduce business costs, but more needs to be done to promote regulatory transparency and fair competition. Barriers to entry into the services sector, including the banking and financial sectors, still abound. The government has developed industrial zones and improved the road, distribution and data transmission networks to support local and foreign investment. Improved data transmission services have been established.

High among the government's social policy priorities are improvements to the national education and health systems. Focus has been on the quality of the education system and the relevance of its links to the labour market. In 2004 Tunisia's education budget was increased to 6.8 per cent of GDP.

Tunisia's longer term economic prospects appear positive. Although some sectors of the economy are likely to continue to be problem areas for the authorities (eg TCF), Tunisia's diverse economy and the long term strategies the government is implementing for structural and macroeconomic reforms should continue to ensure good economic performance. Over-reliance on trade relations with Europe when allied with weak domestic demand in the euro-zone may induce Tunisia to look beyond Europe for economic partners.

Political reform and democratisation are not in prospect in Tunisia. The government of President Zine al-Abedine Ben Ali continues to maintain tight control of the political system and has often been the target of complaints from human rights groups. Domestic and international pressure for political change will continue. While political tensions may emerge from time to time, Tunisia is likely to remain reasonably stable.

V. Australia's Existing Trade and Investment Relations with North Africa

The pattern of Australian trade and investment links with the countries of North Africa is dominated by Australian farm exports (grains, pulses, live animals and meat and semi- and processed foods) and by Australian investment in those countries of the region possessing oil and gas reserves – see box below. Overall the pattern of merchandise trade is heavily in Australia's favour. Morocco sometimes maintains a balance of merchandise trade with Australia but the volumes of trade in both cases were not large.

Australian Oil and Gas Companies in North Africa

A number of Australian oil and gas exploration and production companies are engaged in significant operations in North African countries.

***BHP Billiton** has currently two major developments in Algeria – the Ohanet wet gas development – in which **Woodside Energy Ltd** is among the joint venture participants and the Rhourde Oulad Djemma (ROD) integrated oil development. The Ohanet gas project involves the development of four gas condensate reservoirs in the Ohanet region which is around 1300 kms south east of Algiers. Gas production commenced in October 2003. The ROD development comprises development of the ROD oilfield and five satellite fields. Production commenced in October 2004. In 2004 BHP Billiton successfully bid for two further blocks in Algeria.*

***Woodside Energy** Ltd has interests in Algeria (with BHP-Billiton), Libya as well as Mauritania. Woodside's Algerian joint venture interests with BHP Billiton are described above. In Libya Woodside has major (onshore) exploration interests in the Sirte Basin and the Murzuq Basin in West Libya with the National Oil Corporation of Libya and other joint venture partners. In January 2005 Woodside and joint venture partners acquired four additional offshore blocks.*

***Oil Search Limited**, which is active in Papua New Guinea, has sought to complement its position in PNG by developing interests in the Middle East (Yemen) and North Africa (Egypt and Libya). Oil Search was awarded an interest in Egypt's East Ras Qattara block where it has performed some seismic work and is scheduled to drill one well in 2006. In Libya Oil Search was successful (in 2005) in bidding for an offshore block.*

***Santos** is investing over $70 million in a joint exploration venture with its U.S. partner, Devon, in the Gulf of Suez in Egypt.*

*In 2004 two Australian companies (**Pancontinental Oil and Gas** and **Cooper Energy BVI**) and a British company (Afrex) signed a deal with Morocco to explore for oil in an offshore zone in the Mediterranean. The contract provides for a 12-month exploration licence.*

The hydrocarbon sector aside, some other examples of Australian investment are to be found in the region, including mining or minerals processing, but there appears to be no discernible trend reflecting sustained interest by Australian investors in the countries of North Africa. As indicated, while the trends are positive, some further work needs to be done by all these countries to improve transparency in the treatment of foreign direct investment and demonstrate that business conditions, investment laws and judicial processes constitute a fair environment in which foreign businesses can operate. In general, it remains widely recognised that the region still has some way to go before it can present itself as an attractive target for foreign direct investment.

Obtaining accurate and meaningful data on Australia's investment relationships with the countries of North Africa is not easy due to confidentiality considerations. The following tables (based on data from the Australian Bureau of Statistics) provide a broad-brush glance at inward and outward investment levels in the period 2001-2004. The figures relate to all sectors, including hydrocarbons.

Table 1: Australian Investment in North Africa (figures include Sudan)
Table shows number of transactions and A$ value of investment levels (A$ millions)

	2001		**2002**		**2003**		**2004**	
	Trans-actions	Levels	Trans-Actions	Levels	Trans-actions	Levels	Trans-actions	Levels
Total	**36**	**285**	**21**	**270**	**42**	**212**	**213**	**362**
Direct	np	np	np	np	np	np	np	np
Portfolio	1	np	1	np	1	np	np	np
Other	np	np	np	np	np	np	np	np

np – not published

Table 2: Investment by North African Countries in Australia (figures include Sudan)
Table shows number of transactions and A$ value of investment levels (A$ millions)

	2001		**2002**		**2003**		**2004**	
	Trans-actions	Levels	Trans-Actions	Levels	Trans-actions	Levels	Trans-actions	Levels
Total	**112**	**113**	**97**	**18**	**49**	**66**	**62**	**4**
Direct	np	0	0	0	0	0	0	0
Portfolio	0	0	0	0	0	0	0	0
Other	np	113	97	18	49	66	62	4

np – not published

The total value of Australia's merchandise exports to the region in 2004 was A$762 million – see Tables 3 and 4 below. Although this figure is dominated by Australia's wheat exports to Egypt, it nevertheless underlines that the North African market place is one where Australian exporters can do business and are doing business. Moreover, it is clear there is scope for further growth.

Table 3: Australia's Merchandise Trade with Algeria, Egypt, Libya, Morocco and Tunisia (figures in A$'000) – Summary

	2000	**2001**	**2002**	**2003**	**2004**
Total Exports	668,469	902,386	923,343	309,255	762,421
Total Imports	57,469	56,826	116,245	48,609	59,949

Table 4: Australia's Merchandise Exports to Algeria, Egypt, Libya, Morocco and Tunisia (figures in A$'000) - Summary

	2000	2001	2002	2003	2004
Algeria	44,812	69,699	78,318	52,385	69,555
Egypt	554,395	739,954	667,208	235,168	645,788
Libya	33,750	40,048	87,904	9,314	14,375
Morocco	28,950	47,471	76,513	6,918	29,261
Tunisia	6,561	5,214	13,400	5,471	3,443

Table 5: Australia's Merchandise Imports from Algeria, Egypt, Libya, Morocco and Tunisia (figures in A$'000) – Summary

	2000	2001	2002	2003	2004
Algeria	5,257	2,038	55,313	7	15
Egypt	15,560	12,993	27,449	14,912	34,545
Libya	0	2	6	0	0
Morocco	33,154	37,700	27,621	29,044	20,150
Tunisia	3,499	4,093	5,855	4,645	5,239

Snapshots of existing Australian trade and investment interests in individual countries of the region are set out below.

Algeria

Australian exports to Algeria in 2004 were valued at almost A$70 million. Australia's principal merchandise exports to Algeria are meat, coal, dairy products and grains. In 2004 Australia's imports from Algeria were negligible (A$15,000). Australia did, however, purchase significant quantities of liquefied propane from Algeria in 2000, 2001 and 2002. Imports of liquefied propane in 2002 were worth A$55.1 million.

Occasional difficulties have emerged in the past over quarantine rules regarding the import of Australian cheese but the number of such issues appears to have decreased in recent years.

As previously indicated, BHP Billiton and Woodside have major investments in Algeria's hydrocarbon sector.

Egypt

Australia and Egypt have a long standing trading relationship built on Australian wheat and other food exports. Egypt is also a major market for Australian pulses. In recent years Australian exporters of manufactured and high technology products have had increasing success in the Egyptian market. After a poor year in 2003 (reflecting the impact of drought in Australia and a depreciated Egyptian currency), Australian exports to Egypt in 2004 grew steeply and were valued at just under A$646 million. In the same year Egyptian exports were valued at A$35 million – a substantially better performance than in other years. Egypt's main exports to Australia are refined petroleum, floor coverings, textiles and furniture.

The visit to Australia of the Egyptian Minister of Supply in May 2004 underlined the strength of Australia's position as a supplier of high quality wheat to Egypt. The Egyptian Government and AWB Ltd entered into negotiations for a long-term wheat supply agreement. It is understood that differences over the pricing and tendering formulae have, to date, prevented conclusion of the agreement. One element of the draft agreement foreshadowed additional AWB investments in Egypt.

The figures for Australia's exports to Egypt in 2001 and 2002 were even higher than for 2004. In those years Australian live cattle exports to Egypt earned in excess of A$100 million per annum. After 2002 a combination of factors, including price rises and drought, combined to render this trade no longer viable – at least for the immediately foreseeable future. Had it continued, Australian exporters may have considered investing in live animal management and meat processing infrastructure at a Red Sea port.

Overall, Australia has a productive and cooperative trading relationship with Egypt. Australia has welcomed the tariff cuts that were introduced in September 2004. But we remain concerned about the remaining tariff and non-tariff barriers that exist, particularly in relation to customs procedures and product standards and testing. Complex and often opaque and unpredictable regulatory systems remain an impediment to business and discourage trade and investment flows.

In the context of its obligations under the General Agreement on Trade in Services, Egypt has recently made an offer of new commitments relating to air transport services (computer reservation systems, aircraft repair and maintenance services) and insurance services. These are welcome but Australia has encouraged Egypt to look at offering commitments in professional services (legal, mining, scientific and technical, urban planning, landscape architecture), banking services, pipeline transport, construction services, air transport and management consulting. Like other countries in the region, Egypt has been cautious in opening its services sector to foreign competition.

While traditionally Egypt has not been a destination for Australian investment, there are significant potential opportunities for investment, especially related to the mining and resource processing sectors. In particular, Egypt's rising gas production may provide investment opportunities in energy intensive resource processing.

Perhaps the highest profile investment has been the construction by AWB Ltd and its partners of the Five Star Flour Mill at Adabiyeh on the Red Sea.

There have also been several investments in the mining sector.

The Australian company, Centamin Egypt Ltd, announced that it had discovered high quality gold deposits in Egypt in June 2005 and is developing a strategy to extract the gold involving potential significant investments.

The Perth-based mining company, Gippsland Ltd and the Egyptian Mineral Resources Authority signed an agreement in January 2005 whereby Gippsland Ltd will purchase 320,000 pounds of tantalum concentrate per year over four years when commercial mining operations commence at the Abu Dabbab mine in south eastern Egypt in 2006. Gippsland Ltd has 50 percent equity in the mine.

In the oil and gas sector Santos Ltd announced in July 2004 that it would invest approximately A$70 million in a joint eight-well exploration venture in the Gulf of Suez. The venture contains exploration opportunities for oil and gas. Another Australian company, Oil Search Ltd, has a 49.5 per cent interest in the onshore East Ras Qattara block.

P&O Ports has secured the rights to become a 60 per cent shareholder in a new company that will operate a new multi-million dollar shipping terminal in Sinai.

Magnesium International Ltd has announced that it is negotiating with the Egyptian authorities to build and operate a magnesium smelter at the privately owned modern Sokhna Port on the Red Sea.

Australia and Egypt have over the past two decades signed a number of framework agreements designed to support and expand the bilateral trading relationship. These include an Agreement on Trade (18 February 1988), a Memorandum of Understanding (MOU) on Electrophoretic Testing of Exports of Australian Grains and Pulses to Egypt (1 March 1997), an MOU on Air Services Arrangements (10 June 1997), and MOU on Mutual Cooperation on Trade Promotion (14 June 1998), and an Agreement on the Promotion and Protection of Investments (3 May 2001). A draft MOU on Live Animal Trade is currently under consideration and a draft Trade and Economic Framework has also been mooted.

Libya

Libya promises to be a market of substance for Australian merchandise and services exports following the normalisation of relations in 2002. In 2004 Australia exported merchandise to Libya worth A$14.4 million. That year Libyan exports to Australia were zero. Australia's main exports to Libya in recent years have been meat, grains, other foods, civil engineering equipment, telecommunications equipment and measuring instruments. Australia's meat exports to Libya have increased significantly over the past 9 months. Toyota is planning to export Australian-made Camry vehicles to Libya.

A large private sector delegation accompanied the Minister for Trade, Mr Vaile, to Tripoli in 2002. Other official trade delegations have visited Libya including one led by the Western Australian Minister for Agriculture, Forests and Fisheries. A smaller group of senior business representatives accompanied the Minister of Defence in a visit to Libya (and Egypt) in April 2005.

Australia participated in the Tripoli International Trade Fair in 2004. Although the Australian pavilion was modest it attracted significant interest from Libyan businesses. It is understood that a number of Australian participants secured contracts during the course of the Fair. Australia participated also in the 2005 Tripoli International Trade Fair, although on a smaller basis.

Western Australian Government technical reports on ways to re-generate Libya's agriculture sector have not yet been acted upon by Libyan authorities, although the Libyan authorities have acknowledged this sector has some priority.

As indicated, Woodside Energy Ltd has been very successful in acquiring significant onshore and offshore acreage in Libya for oil and gas exploration and production. It is understood that Woodside and its partners are now the second-largest holder of exploration acreage in Libya.

The opening in October 2005 of an Australian Consulate-General in Tripoli, as the first step towards establishing an Embassy, will assist in the further development of the commercial relationship.

Morocco

In 2004 Australia's exports to Morocco were valued at a little over A$29 million. Principal items exported were cheese, crude animal and vegetable materials, electrical equipment, machinery and transport equipment, toys and sporting equipment and grain. Morocco's exports to Australia were valued at over A$20 million. They included prepared seafood, fertilizers, integrated circuits, pottery and textiles and clothing.

As indicated, in 2004 Morocco signed a deal with two Australian companies (Pancontinental Oil and Gas NL and Cooper Energy BVI Ltd) and a British company (Afrex) to explore for oil in an offshore zone in the Mediterranean. The contract provides for a 12-month exploration licence.

Tunisia

As with Morocco, Tunisia's economy is heavily intertwined with its European neighbours. Accordingly, the level of commercial activity with Australia is small, although scope exists for further development. In 2004 Australia exported merchandise to Tunisia worth A$3.4 million. Principal items were cheese and curd, inorganic chemical elements and grain. Tunisian exports to Australia were valued at A$5.2 million and included fruit and nuts, vegetable fats and oils, motor vehicle parts and clothing and textiles.

VI. Trends and Opportunities

The direction of the countries of North Africa towards economic and reform and the gradual opening of their economies will offer new opportunities for Australian exporters and investors, as may their wish to diversify trading partners.

For those Australian exporters who have a quality product at a competitive price, the markets of North Africa may provide some opportunities. Austrade, in conjunction with DFAT and other agencies, has identified a number of focus sectors as its priorities for Australian business. These sectors, which vary from country to country, are shown in Table 6 below. Identification of these sectors does not preclude support for activity in other sectors but it does indicate where the best opportunities may lie.

Table 6: Focus Industry Sectors for Australian Business – Current Austrade Priorities

Industry	Industry sectors	Market
Agribusiness	Food and beverages Live animals Bulk commodities	Egypt, Libya Morocco, Algeria Tunisia
Education & Training	Joint collaborations with institutions English language tuition Specialist technical/vocational courses e.g. training in tourism, travel and hospitality e-learning	Egypt Libya
Healthcare and Medical	Medical and pharmaceutical	Egypt Libya
ICT	Telephone communications technology – both land and mobile IT solutions/consultancy in electronic banking and security	Egypt Libya
Infrastructure	**Building & Construction** - Construction equipment, building materials, windows, doors, bathroom furnishings - Tourism sector - hotel fit-out	Libya Egypt
	Oil, gas and petrochemicals - Technology transfer, - Equipment e.g. process plants, piping, Instrumentation, electrical equipment, air conditioning communication, cathodic protection	Libya
	Transportation Air transportation, railway technology, road construction and technology, port and cargo handling	Libya
Tourism	Hotel fit-out, equipment, food and beverage, training in hospitality sector	Egypt Tunisia Libya

The region will continue to import Australian farm produce. As noted, Egypt is one of Australia's largest wheat markets and is also likely to continue to purchase large amounts of pulses from Australia. Other countries in the region, with the possible exception of Libya, are more likely to have an increased interest in Australian farm produce (eg dairy, sugar, grains, and meat) where there is a world shortage or a decline in local production. Price sensitivity will remain a factor. Overall, agribusiness will remain a key sector for the development of Australian exports across the region.

Libya shows potential as a market for Australian meat. There is also a demand in Libya for camel meat and for breeding camels. As knowledge grows within Libya of the quality and variety of Australian farm produce, interest in importing from Australia may also grow. The reforms taking place within Libya are likely, over time, to provide for higher levels of affordability to imports of consumer goods.

Economic and climatic conditions may permit a resumption of live cattle exports to the region. Australian meat exports to the region may also grow if other suppliers (eg Brazil) become less competitive.

Education and training have been identified by Austrade as a focus sector for both Egypt and Libya. But opportunities will grow for Australian education and training services to other countries in North Africa as the countries of the region are directing increased intention to ensuring that their education systems are in step with the requirements of their economies. Australia is a major exporter of education services although this export industry has yet to penetrate the North African region in any significant way. DFAT, Austrade and Australian Education International (AEI) officials have begun to promote Australian education services in Egypt and Libya. The steady (if small) increase in student numbers from those countries (see box below) provides a useful reflection of the impact of such promotional work. Despite its distance, Australia is broadly seen as a desirable and cost-effective source of education and vocational training.   Further promotional work in these countries, and elsewhere in the region, including by individual Australian universities and training colleges, is likely to result in an increase in education export earnings from the region. AEI is planning a major exhibition in Tripoli in January 2006.

Table 7 sets out the modest growth in student numbers from North Africa.

Table 7:   Education and Training in Australia – Students from North Africa

(Figures include ELICOS, Tertiary, School and Vocational Education and Training)

	May 2002	**May 2003**	**May 2004**	**May 2005**
Algeria	7	7	11	5
Egypt	119	124	146	187
Libya	48	54	71	65
Morocco	14	13	16	17
Tunisia	4	6	6	8

Australian companies specialising in engineering services to the oil and gas sector are operating in some countries in North Africa. Opportunities for these companies are likely to grow in Egypt, Algeria and Libya as the hydrocarbon sectors in these countries develop further.

Australian mining expertise will also remain of interest to regional countries. Foreign participation in the mining sectors of most of these countries is still in its infancy so there is scope for growth. Similarly there is also scope for consultancy work to recommend strategies for the development of these sectors.

Australian expertise in arid-region agriculture will continue to be in demand in the countries of North Africa. Project and farm management and the application of modern technology to farming, animal husbandry and water management are all skills that will be in increasing demand as the region expands its efforts to develop its agriculture sectors. Projects funded by the international financial institutions or by development assistance partners may also offer opportunities for the application of Australian expertise.

The countries of North Africa have plans for the development of their coastlines for tourism. Some, including Morocco, Tunisia and Egypt, have already developed significant export earning capacity from the tourism sector and further development is planned. In the case of Libya, development of this sector is only beginning. Investment opportunities for Australian tourism operators, construction companies and hospitality sector management and training services may emerge. Egypt and Tunisia are the current focus for Austrade in this sector. Increasing numbers of Australians each year seek to visit sites in North Africa associated with Australia during World War II (particularly El Alamein and Tobruk). Niche opportunities may emerge from this trend.

There may also be synergies to be explored involving tourism in coral reef areas. For example, companies that have developed systems for the protection of coral reefs in tourist areas may find opportunities in Egypt's south Sinai coast and Red Sea resort areas.

Development of the tourism sector will have spin off effects for the construction and transport sectors. Austrade considers that Libya and Egypt in particular offer opportunities that should be considered by Australian businesses.

As the region responds to the EU's wishes for the restraint of illegal migration, producers of fast patrol boats may be well placed to supply the coast guards and navies of regional countries, although strong competition could be expected. Similar opportunities may also develop for the export of light or micro-light aircraft for coastal and pipeline surveillance. As regional stability develops further, opportunities may, in time, arise for the export of Australian defence equipment.

The ongoing reform of North African economies will assist Australian exporters find niche markets for both high tech goods and services. Opportunities for the export of information technology systems and software to fill demand created by restructuring and modernisation of financial and banking sectors, industrial modernisation, and the improvement of health and education services, may also be found. The export of Australian merchandise and services in the healthcare and medical sector has been identified as a key focus for Austrade in the Egyptian and Libyan markets.

VII. Role of the Australian Government in Assisting Companies Maximise Opportunities in North Africa

Ministerial and other high-level visitors play a key role in promoting Australian trade and investment interests in the region. In recent years the Minister for Trade visited Egypt and Libya in 2002 and held high level talks with both governments, designed to give impetus to the further development of bilateral trade and commercial relations. The Minister for Foreign Affairs visited Libya in 2004 and the Minister for Defence visited Egypt and Libya in 2005. The Minister for Agriculture, Fisheries and Forestry visited Egypt in 2004 as did the Governor-General in 2002 for the opening of the Alexandria Library. Such personal contacts can be a vital element in the further development of our economic relationships.

Australia's diplomatic relations with the countries of North Africa are managed by the Australian Embassies in Cairo and France. The Australian Embassy in Cairo is accredited to Egypt, Libya and Tunisia, while the Embassy in France is accredited to Algeria and Morocco. Austrade has an office in Cairo which currently covers Egypt and Libya and Austrade's efforts in Algeria, Morocco and Tunisia are currently supervised from Dubai. The Austrade office in the Consulate-General in Tripoli, due to open in October 2005, will cover Libya, Algeria, Morocco and Tunisia. DFAT and Austrade cooperate closely throughout the region in increasing opportunities for Australian business.

As is normal practice, the Government keeps under review the size and level of Australia's official representation in any region. With the planned opening of representation in Tripoli, it is likely that Australia's interests in North Africa will be adequately catered for the foreseeable future.

Market development is a key focus of Australia's missions accredited to North Africa. Posts provide advice to exporters on current and local issues and are active in establishing and developing contacts with a range of political, commercial and regulatory authorities in countries of accreditation. Posts also make representations on behalf of exporters or investors to resolve impediments to trade or investment. Through contacts with Australian business they can identify areas of difficulty and take steps to help resolve them. Posts can provide access to local policy makers and officials. Building awareness of Australia's capabilities and of any opportunities the region offers Australia is another key aspect of post roles. Posts are able to draw on their knowledge of local interests and conditions to promote Australia in the local community and in so doing, raise awareness of Australia as a supplier of wide range of goods and services.

The Department of Foreign Affairs and Trade in Canberra and state offices, in close consultation with Austrade and other agencies plays a role in providing advice to Australian business on developments in the countries of North Africa, particular opportunities or in addressing trade and market access issues through bilateral or multilateral mechanisms.

A key activity that Austrade undertakes in markets where there are emerging opportunities for Australian business is the establishment and operation of an

Australian pavilion at international trade fairs. Austrade has performed this function with significant results in Libya in recent years.

A number of other Australian Government agencies also contribute to promoting Australia's trading opportunities in the region. These include the Department of Agriculture, Fisheries and Forestry and the Australian Quarantine and Inspection Service, which, for example, assists Australian Embassies with technical advice and support the process of assisting meat processing facilities in Australia to obtain halal certification (a requirement that is essential for the export of Australian meat to Muslim countries).

The Council for Australian-Arab Relations (CAAR), an advisory body which is funded by the Australian government, but independent of it, was established in 2003 to promote trade and other links between Australia and the Arab world. CAAR has an important role in helping to build links between Australia and the Arab world that will help to maximise trade opportunities in that region, including North Africa. DFAT provides secretariat services for the Council. CAAR's activities related to North Africa have included sponsoring the (separate) visits of two Australian journalists to Egypt and Libya, and the ongoing work undertaken by its Chairman, Mr Brendan Stewart, establishing people-to-people links in professional, education and industry circles. Among the countries visited to date by Mr Stewart as CAAR chairman are Egypt, Libya and Morocco.

VIII. Conclusion

Globalisation is making linkages between geographically distant regions such as Australia and North Africa easier through both improved communications and knowledge and the liberalisation policies of the North African countries which broaden economic opportunities.

Politically, the countries of the region face a number of challenges in the near term. Many face pressure for further political reform both from within and internationally. Australia enjoys warm diplomatic relations with all of the countries of North Africa. There are no political impediments to the further development of trade and investment relations between Australia and these countries.

Australia already has substantial - and expanding – trade links with Egypt. Australian companies have also invested there in minerals and resource processing. Australia has done well in oil and gas investment in Libya and export opportunities are promising. Prospects for developing further trade and investment opportunities in both countries are good. Australian oil and gas companies have also invested significantly in Algeria. As that country’s financial and economic circumstances improve new export opportunities may emerge there. Morocco and Tunisia do not present the obvious export opportunities of the other countries in the region. However, opportunities for Australian businesses there will grow as economic reform proceeds.

Europe and to a lesser extent, the United States, will continue to dominate these countries’ trade patterns. But Australian companies, with the support of the Australian Government will find business where there is a wish on the part of these countries to diversify their sources of supply, and where Australian exporters can find opportunities. Those finding success in these markets will need to be active and determined. They will have quality merchandise that can be marketed competitively. The countries of North Africa will continue to look to Australia as a provider of farm produce. While ongoing efforts will be made to promote Australia as a source of high tech products, the challenge remains for Australian business to show the region what it can provide beyond the traditional farm commodities.

There are good prospects for a gradual increase in the level of trade and investment between Australia and North Africa as each side comes to know the opportunities that exist in the other’s market. While several countries in the region possess substantial hydrocarbon deposits, overall opportunities in North Africa may not prove to be as bountiful as experienced, for example, in Arab Gulf region. Measured expectations for increased trade and investment flows between Australia and North Africa are well merited. Continuing cooperation between the Australian Government’s organisations responsible for supporting Australia’s export trade, and the private sector will remain a key ingredient for success.