

Government Support for Australian Companies

The Government remains committed to improving the standard of living for all Australians by enhancing Australia's competitiveness in an increasingly globalised economy and by improving market access for Australian goods and services exports. Through trade, we increase our national wealth and create jobs for Australians.

Hon Tim Fischer, MP¹

The Department of Foreign Affairs and Trade

Overview of the Department's Role in South America

- 5.1 The aim of DFAT is to advance the interests of Australia and Australians internationally. 'The aim is the driving force behind our work and underpins the department's goals, priorities, values and culture.'²
- 5.2 The Americas and Europe division in the department carries out the work on South America through the Canada, Latin America and Caribbean section of the Americas branch. One of the objectives of the division is:

To exploit new economic and political opportunities in Canada, Latin America, Russia, and Central/Eastern Europe, particularly through active efforts to improve market access conditions and

1 Foreword by the Hon Tim Fischer, MP, *Trade Outcomes and Objectives Statement 1998*, Commonwealth of Australia, 1998.

2 DFAT, *Annual Report 1998-1999*, Commonwealth of Australia, 1999, p. 19.

through coordination with Austrade in trade and investment promotion.³

5.3 Among the performance indicators on this objective is:

The pursuit of new trade and investment opportunities in major and emerging European economies, and in Latin America.⁴

5.4 In commenting on this performance indicator in its 1998-1999 Annual Report, the department said it was actively supporting the efforts of Australian exporters and investors to establish a greater presence in the market. In support of this statement the department set out its achievements:

- Securing access for Australian beef into Chile and Argentina.
- Securing access for Australian wine into Venezuela and Colombia.
- Securing informal agreements for wheat and carpet grass access into Brazil.
- In cooperation with the Australian Taxation Office, the Department of the Treasury and the Attorney-General's Department, the department made good progress on the preparations for a double taxation agreement between Australia and Argentina. This agreement has now been signed.
- Assisted in securing the commissioning of an Australian-made fast ferry in Venezuela.
- Assisted in expanding the export of education services to Venezuela and Colombia.
- Assisted in expanding opportunities for mining and related services.

5.5 There were two other initiatives in 1998-1999. First the inaugural meeting of the Australia-Chile Bilateral Trade and Investment Commission (BTIC) was held in November 1998. The Commission is designed to improve access for Australian exports and investment and as DFAT notes, the inaugural meeting 'resulted in increased cooperation on trade policy, particularly on WTO services negotiations.'⁵

5.6 The second initiative targeted the Mercosur countries. DFAT working closely with other agencies, negotiated a Declaration on Investment Principles between Australia-New Zealand and the Mercosur countries. The declaration signed on 14 June 1999 aims to encourage a more open and transparent investment environment. This declaration is part of DFAT's current policy of trade facilitation in the region.

5.7 The Australian Government is to be congratulated on the annual publication of TOOS. Now in its 4th year the annual Trade Outcomes and

3 *ibid.* p. 86.

4 *ibid.* p. 87.

5 *ibid.* p. 88.

Objectives Statement process ‘is all about measuring the effectiveness of that joint effort [including Australian exporters] and about setting ambitious, but realistic, targets for the year ahead.’⁶ The Committee sees TOOS as an extremely valuable resource that has clearly identified and profiled a number of markets in South America as important emerging markets for Australian trade and investment – namely, Chile, Mercosur and Peru. Priority objectives are set and the outcomes are evaluated two years on. The process has been a very successful one with clear government targets, a consultative process in place between Commonwealth government agencies and state and territory governments and a transparent reporting process.

5.8 In summary it is worth drawing on the observation of WALABAI on the role of DFAT:

... [it] plays a useful role in assisting Australian companies with their endeavours in South America. The focus of Embassies in latter years on developing business ties and “selling” Australia to business and governments alike is heartily endorsed by this organisation. In addition DFAT in Australia has been found to perform an excellent role, in spite of being apparently understaffed. Not only do they support bi-lateral organisations, who in turn support business, but they provide many useful services in the form of reports and other data.⁷

Representation in South America

5.9 The size of the South American region does present some problems for the department in terms of the best placement of the posts to gain optimum regional coverage. Obviously the ideal situation is a post in each country but that will never be an option, both from a cost and a manning perspective, for any country with posts in South America. There are four DFAT missions in South America:

- Buenos Aires, Argentina (covers Uruguay);
- Brasilia, Brazil;
- Caracas, Venezuela (covers Colombia and Ecuador); and
- Santiago, Chile (covers Peru and Bolivia).

5.10 The DFAT missions are complemented by two consular posts in Lima, Peru and São Paulo, Brazil, both staffed by Austrade.

6 TOOS'99, p. i.

7 WALABAI, Submission, p. 395.

- 5.11 In November 1999, the Australia's heads of mission (HOMs) in Latin America were home for consultations. As part of the process the HOMs agreed:
- ... that Australia's primary interest in Latin America was the strengthening of trade and investment links. While current levels of trade and investment are modest, HOMs were of the firm belief that the region had considerable potential. HOMs aim to devote around two thirds of their time to this objective. In this regard, a collaborative relationship with Austrade is essential. ... It was agreed that HOMs should continue to work directly with Australian business while at the same time being careful not to become involved in commercial decision-making and maintaining even-handedness where several Australian companies were operating.⁸
- 5.12 The Committee would like to acknowledge the excellent work that the HOMs carry out in South America. While the Trade Sub-Committee was in South America it was able to see first hand the hard work that HOMs were putting into advancing Australia's trade and investment capabilities in the region. They are to be congratulated on their work.
- 5.13 The mission in Caracas undertakes an enormous amount of trade work in the absence of trade representation, and is the focal point for trade links into Colombia and Ecuador. The three countries of Venezuela, Colombia and Ecuador cover a vast territory and as members of the Andean Community are the economies of the future in South America. The former Australian Ambassador, Mr Roger Frankel, developed a strong network of business contacts and promoted a greater awareness of and interest in Australia's capabilities in the Andean region at a time when Australia was primarily focusing on the 'big three' – the ABC – Argentina, Brazil and Chile.
- 5.14 As we discuss later in the report under country headings, the Andean countries offer exciting opportunities for Australian business with the advantage to get into the markets when costs are still relatively low.
- 5.15 With the opening of the Austrade post in Lima in June 1999, the post has recently been given the responsibility for trade networking in Colombia and Ecuador. With the identification of Peru as an important emerging market for Australia, and the approval of additional funds by the Department of Finance for the establishment of the Lima consulate, the workload of the post, that includes both trade-related and consular work, is significant even at this early stage of its operations. At best the

Committee feels that the expansion of the post's area of trade responsibility is tokenism and fits nicely into a structural chart but in all practicality it cannot be serviced.

- 5.16 With the diplomatic posts devoting two-thirds of their time to strengthening trade and investment links, the focus on how the work is undertaken in the Andean markets needs to be rethought. The consulate in Lima, with a staffing level of one Australian-based and two locally engaged staff, will not be able to service adequately Peru, and both Colombia and Ecuador.
- 5.17 The Committee recognises the growing importance of this part of South America and Australia is beginning to make its presence felt in capturing business opportunities especially in the education market in Colombia. As we have seen visa issue, including the concomitant tyranny of distance, is a major hurdle that must be addressed. The Australian Federal Police have now based an officer in Bogotá, Colombia.
- 5.18 The Committee sees significant rewards that Australia can reap which will be cost effective and cannot be achieved under the present post structure. To put additional resources into Caracas will provide a cluster of services that will allow significant regional penetration particularly in Colombia and Ecuador, as well as Venezuela. The lack of serviceability from Peru for Australia's trade and investment interests will be addressed. The Committee sees it as critical that there be adequate resources to cover these developing markets in the face of stiff competition from other countries and at a time when there is a small window of opportunity for Australia to gain market share.
- 5.19 DIMA originally had an officer based in Caracas but withdrew that position, with Santiago, Chile the only processing post, and as we have seen this is creating severe difficulties for visa applicants in the Andean countries. The Committee believes that DIMA should place an officer back in Caracas. This will assist to resolve the visa issue problem, an issue that the Committee sees will never be resolved satisfactorily with DIMA officers solely located in Santiago.
- 5.20 Furthermore the Committee regards Colombia as a *greenfields* market with significant early entry opportunities for Australian business. By increasing the resources in Caracas to include not only the services of DFAT, but also Austrade, DIMA and DETYA, there will be economies of scale with Australia's trade and investment interests better served in the region. Although one of the responses to this proposal will be a resource-based and funding argument, the Committee nevertheless believes there are sound merits to the proposal that should not be ignored and debated away on financial grounds.

Recommendation 20

The Committee recommends that the Australian Government provide the Australian mission in Caracas, Venezuela, with additional resources to allow an appropriate level of service and support for the development of Australian trade and investment interests in the markets of Colombia, Ecuador and Venezuela.

Canada, Latin America and Caribbean Section, DFAT

- 5.21 On the home front, the work of the Canada, Latin America and Caribbean (CLAC) section in the department is important with the section carrying out some very good work and having built a sound network with the South American ambassadors based in Canberra.
- 5.22 The section has seven staff that compared to staffing levels in other geographic sections in the department rates as good. However there is one thing that needs to be kept in mind. The Australian Government, through the efforts of the former Deputy Prime Minister and Minister for Trade, the Hon Tim Fischer, MP, has raised the profile and importance of South America to Australia's trade and investment. With this increased focus and stated desire to improve Australia's trade and investment performance with the region, comes the requirement to build and maintain skills and knowledge on South America in the department.
- 5.23 Much work has been done over the last couple of years in the area of South America and it is very important to keep the momentum going. A large part of the credit for this is due to the interest of individuals within the CLAC section, the building of skills and knowledge, and the support of the Assistant Secretary of the Americas branch.
- 5.24 The work of the section is significant but the importance of South America in the overall scheme of things within the department is not significant. DFAT does deal with a range of issues in the South America area, such as the environment, arms control and trade policy, however the upshot is the department gives greater priority to other regions. An increase in trade and investment with South America would see the department give greater focus to the region.
- 5.25 What does concern the Committee is the country and regional structure of the section. Not only is the work of the section encompassing Latin America and the Caribbean, it includes Canada too. Keeping abreast of the issues in the Australia-Canada relationship is a large and time consuming task and in terms of importance of work within the department, Canada rates well above Latin America and the Caribbean.

- 5.26 To reflect the focus of the Government's desire to develop trading relations with South America, the Committee sees this effort being facilitated with a realignment of the section. Canada stands alone from Latin America and the Caribbean and should be taken out of the section and placed elsewhere in the Americas branch. Along with this realignment, the Committee would not like to see staff working on Latin America and the Caribbean shifted out of the section to man the Canada desk. Australia's relationship with Canada is a mature one, and the resources need to remain to cope with what will be an increasing work load emanating from South America and between DFAT and Austrade.

Recommendation 21

The Committee recommends that the Canada, Latin America and Caribbean Section of the Americas Branch in the Department of Foreign Affairs and Trade be realigned, with the Canada desk to be placed in another section.

Austrade

Overview of Austrade's Role

- 5.27 The Australian Trade Commission – Austrade – is a business-focused statutory authority within the Foreign Affairs and Trade portfolio. Established by the *Australian Trade Commission Act 1985*, Austrade was designed to build on 50 years of experience gained by the Trade Commissioner Service.⁹
- 5.28 According to the Commission's Annual Report, Austrade is:
- ... dedicated to helping Australian business – especially small and medium enterprises – find export and investment opportunities overseas through the resources of around 100 offices across Australia and the world. Austrade works closely with the Department of Foreign Affairs and Trade (DFAT) to enhance exports, and with the Department of Industry, Science and Resources (DISR) to attract inward investment.¹⁰

9 Australian Trade Commission – Austrade, *Annual Report [1998-99]*, Commonwealth of Australia, 1999, p. 8.

10 *ibid.*

- 5.29 With regard to its work, Austrade says its services are tailored to meet the needs of Australian business ranging from first time to well established exporters. Austrade can help companies who are either seeking general information and advice about exporting, or selecting, understanding and entering new export markets, or expanding existing export markets.¹¹
- 5.30 Furthermore Austrade's Client Service Policy is a framework for Austrade's services and fees, based on clients needs and Government objectives. Austrade describes its service as providing a 100 per cent 'subsidy' to companies seeking general information and advice. As companies become more experienced in a particular market, or their service needs become more complex, then the Austrade level of subsidy falls.¹² However the Committee believes it is more accurate to describe Austrade's service as a free first consultation and charges arise thereafter.
- 5.31 Austrade has the Export Hotline – **13 28 78** – and the Austrade online website – www.austrade.gov.au - that should be the first points of contact for any business interested in exporting.

Representation in South America

- 5.32 Austrade has four offices in South America being located in Santiago, Chile, Buenos Aires, Argentina, São Paulo, Brazil and Lima in Peru. As mentioned previously São Paulo and Lima are consulates and have consular work as well as their trade work.
- 5.33 Over the last two years two important initiatives have been implemented. First, in September 1998 Austrade appointed a Senior Trade Commissioner to South America who is based in Buenos Aires. The second is the opening of the Austrade office in Lima, Peru in June 1999. These initiatives recognise the increasing importance of South America to Australia's trade and investment interests.
- 5.34 It is interesting to outline the charter for the new post in Lima. In its submission to the inquiry Austrade said that the new post will:
- ... pursue opportunities for Australian business to export goods and services. It will help Australia compete with other countries which are targeting South America markets aggressively.
- The Post will also:
- ⇒ Enhance support for the Australian education sector
 - ⇒ Extend [sic] of Austrade's South American strategies for mining and infrastructure to Peru and the Andean region, and

11 *ibid.* p. 9.

12 *ibid.*

⇒ Provide consular services.¹³

5.35 As we have discussed the post is now responsible for covering all trade matters in the Andean region with major question marks over the capacity to service properly this extended charter. At the outset of the inquiry the Committee was told that Austrade had not generally focused enough on education as a growing sector of importance in South America. Education is on Lima's activity list and the capacity of a small post of only three staff is spread thinly and will be strained to service a wider region and identify and cover fast emerging sectors. This is made more difficult when the focus is in a third country and the market is growing exponentially.

Americas Regional Office, Canberra

5.36 Within Austrade's management structure, South America falls under the umbrella of the Americas with the Senior Trade Commissioner, Buenos Aires reporting to the Executive General Manager based in Los Angeles. The Americas covers not only South America but the USA, Canada, and Mexico and there is a regional office in Canberra.

5.37 The staffing of the Americas regional office in Canberra is just two people, covering a large portfolio where there are 14 overseas offices and 96 staff across the Americas region. The North American and South American markets are totally different and with only two staff, a manager and an assistant, the opportunity to build skills and knowledge in a particular region is compromised. Moreover there are expectations of growth in the South American market and the placement of a Senior Trade Commissioner in Buenos Aires is aimed at developing the market.

5.38 While the Committee found the information provided by the regional office to be good there were time delays in its provision, which appeared a reflection of the workload and the need to go to post in South America either to find out or clarify. The regional office is the obvious focal point for contact on South American trade matters. The low level of staffing and difficulty in contacting the officers does not bode well from a public relations perspective and at a time when the charter is to increase business with the region. The Committee sees that it is important for Austrade to examine the resources provided to the Americas regional office to improve its capacity to service and its links with other government agencies.

5.39 Furthermore with the focus of the work taking place overseas, the Committee is concerned that the regional office is not necessarily appraised of developments and has to work to a degree in a vacuum. The Committee is of the view that Austrade needs to appraise its internal

13 Austrade, Submission, p. 228.

information flows to gain better harmonisation between the Trade Commissioners in South America and the Canberra regional office. It is important for Austrade to foster an overall regional approach to marketing trade and investment in South America within Australia. The Americas regional office in Canberra needs to be to the forefront of promoting the South American work of Austrade within Australia.

Recommendation 22

The Committee recommends that Austrade examine the resources provided to the Americas regional office in Canberra and the level of information flow coming from the Trade Commissioners to harmonise more effectively its relationship with Austrade South America.

Information Flow between Portfolio Partners

5.40 Following through on the matter of information, another area where the Committee has some concern is the flow of information between the portfolio partners, Austrade and DFAT. The flow of information between government agencies is a difficult one. Agencies are bound up in their day-to-day work and the question of the *need to know* and the *need to consult and advise* tends to be put off and not addressed. This is not necessarily a criticism of Austrade but when the information flow is between portfolio partners, then it should be on a regular and routine basis as both partners are in the business of promoting Australia's trade and investment interest overseas. Cooperation is a critical element in this promotion.

5.41 It has been recognised there is gap in information flow between the portfolio partners and they have set about to improve this, in the first instance, with an Action Agenda for Latin America. The aim of the joint action agenda is:

... to further improve information flows and cooperation between the portfolio partners with respect to business expansion activities in Latin America. Already in the past twelve months, the Department of Foreign Affairs and Trade and Austrade have undertaken joint activities including the launch of the publication, "Doing Business in Latin America: An introductory [sic] Guide" and the seminar series, "Latin America-expand your horizons".¹⁴

- 5.42 The portfolio partners are to be commended. As part of the Action Agenda the portfolio partners are exploring the option of holding the next annual Latin America Heads of Mission and regional Trade Commissioners meetings simultaneously in a Latin American location in late 2000. The Committee endorses this proposal.
- 5.43 Moreover the Committee would like to see the regularisation of information exchange at the individual post level between the portfolio partners to ensure greater harmonisation, thereby increasing the awareness and knowledge of the potential and available business opportunities and the valuable contacts and networking that have been established.

Recommendation 23

The Committee recommends that Austrade, in consultation with its portfolio partner the Department of Foreign Affairs and Trade, implement an information exchange strategy between the partners to ensure greater awareness and knowledge of potential and available business opportunities for Australia in South America.

Services and User Pays Policy

- 5.44 Austrade came in for considerable criticism from a number of witnesses. The issue that raises its head on a regular basis whether one is dealing with Austrade in South America or anywhere else around the world is the user pays approach to the provision of services.
- 5.45 A very successful exporter to the South American market, Nu-Lec Pty Ltd outlined the value of Austrade to the Committee which is worth noting:

I think Austrade plays a very good role until you have actually established your own structure in the market. For instance, if we are trying to go to a new market, we may place some local advertising to attract potential distributors, they make application and there is a survey that we give them. Then rather than our extending the cost and the resources associated with going around and looking at everyone of them, we will often pay Austrade or contract Austrade to go and visit those organisations to make sure they are real, and it gives us an in-market report of those distributors and we will then short-list them. At that point Austrade is not going to help you close business; you have got to go and do that yourself and, provided you recognise that and use it for the service that, I believe, it is very useful for, it does a good

job doing that. Austrade used to actually do it very economically but it is becoming more and more cost conscious all the time so we tend to pay for it these days – but, again, it is worth it.¹⁵

- 5.46 Furthermore Nu-Lec makes the very pertinent point that in order to get value for money you need to give Austrade a clear brief on what you want as ‘you cannot expect them to be an expert in your industry.’¹⁶ The Committee feels that a fair amount of the criticism levelled at Austrade is reflected in the assumption that Austrade should be an expert in all industries.
- 5.47 The one thing that Austrade personnel can provide in each post is an understanding of the market, how business is done and the culture. These innate factors are often not taken into account, and are difficult to measure, when making an assessment of the level of Austrade’s contribution.
- 5.48 However ALABC is critical of the limited time that trade commissioners serve in posts. They maintain that:
- ... one of the problems that goes on is the limited time that commissioners spend, not just in South American posts but elsewhere, and it seems that by the time they build up the network of contacts and understanding off they go. That is a great pity because expertise does require time in a post. Three years is not a long time to get there.¹⁷
- 5.49 The Committee understands that on the face of it this is a valid concern. However there are two points that should be taken into consideration. First, trade commissioners generally have considerable experience in a range of postings and know what it takes to get up to speed in a new country. The second aspect, which is a very important one, is that a post is not one person but functions on a team basis. Locally engaged staff are employed for their skills and knowledge in the market place and provide the backbone of market understanding and have a network of contacts that are not lost when the trade commissioner moves on. The Trade Sub-Committee met locally engaged staff at a number of posts and was impressed by their experience and understanding of the market and how it functions - critical criteria for the promotion of Australian trade and investment interests.
- 5.50 On the issue of value for money, WALABAI brought to the attention of the Committee that on a cost-for-cost basis, the service that Austrade provides
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15 Nu-Lec, Transcript, 24 February 2000, p. 520.

16 *ibid.*

17 ALABC, Transcript, 1 October 1999, p. 226.

can be carried out more efficiently by business associations and at a lower cost. Mr Barker, President of WALABAI informed the Committee that Austrade's standard charge is \$140 per hour. For a business organisation with the strength and success of WALABAI even they could not handle this fee and so they elected to put together a trade mission themselves that was an outstanding success. The association 'has always been able to make appointments, gather market information and indeed conduct business for and with its members at little cost without the help of Austrade.'¹⁸

5.51 In terms of the vital role that governments, both federal and state, have to play in assisting business to develop overseas markets, WALABAI maintains a real problem appears to lie with Austrade in general, and in South America in particular. WALABAI takes the view that Austrade:

... should either be funded by the Australian taxpayer, or should be a true commission generating its own funding. It cannot successfully be both. It is an inequity that Australian businesses, who are themselves substantial taxpayers, then are asked by Austrade to pay exorbitant fees for information that is often sourced from the Yellow Pages. Some quite menial tasks in other areas of business likewise attract similar fees.¹⁹

5.52 Other witnesses shared similar criticism. Mr Ewing, formerly of Edson Mining, said:

What gets me is the fact that BHP can go to Austrade and get the same information I can. They are paying \$140 an hour, if you go to South America, for information from Austrade but I cannot afford that sort of money for the information it is going to give me.

He went on to say:

I do not know if there is some way you can do it on turnover, so that if you are earning less than X dollars perhaps you are not charged \$140 an hour but only charged \$50 an hour or \$40 an hour or something like that. I do not mind the fact that we have to pay a fee for service; that is fine. Our government has to make money like everybody else. I do not have a problem with that but their current charges are, I consider, exorbitant for small companies.²⁰

5.53 Mr Aarons of Keys Trading International Pty Ltd spoke of the reluctance of SMEs to embark on an expensive fee-for-service investigation by Austrade when they do not know whether the outcome will be positive.

18 WALABAI, Submission, p. 395.

19 *ibid.*

20 Ewing, Transcript, 18 November 1999, p. 479.

5.54 Mr Short from the Australia-Brazil Chamber of Commerce (ABCC) says that in trying to meet the challenge of getting SMEs to look at South America, the user pays or cost recovery constraint that Austrade works under really is a significant brake on the enthusiasm of SMEs to investigate those markets. Acknowledging that if one is serious about exporting then one has to be prepared to meet some costs, ABCC says that:

However, the smaller SMEs are not so able to afford those costs and yet it is right at that initial exposure stage that things need to be made easy for Australian SMEs to investigate the next step and to commit some resources.²¹

5.55 A former Australian Ambassador to Brazil, Mr Robert Robertson, raised the issue of Austrade's fee-for-service in evidence, and its deterrent nature. He put forward an interesting suggestion:

With considerable respect for the doctrine of fees for service and likewise respect for Austrade, I wonder whether some sort of concessional rate or some graded rate related to the amount of input that Austrade was having to do following stimulus from the client at this end could be looked at.²²

5.56 It is an issue that over the years has placed Austrade in a negative light with business. As Nu-Lec points out one cannot expect Austrade staff to be experts on all industries. On the other hand if a new entrant to the world of exporting seeks market information from Austrade, the quality of information for the high hourly fee does become an issue especially when the post may have limited industry knowledge. Fee-for-service is a particularly difficult issue to address when government agencies are having their budget allocations squeezed by the Department of Finance and with posts now required to meet business targets, often with the income brought in determining their budget allocation for the next financial year. *This policy approach to finance is not conducive to the charter of promoting Australia's trade and investment interests.*

Recommendation 24

The Committee recommends that Austrade review its user pay cost structure and introduce a concessional fee-for-service rate to assist small to medium enterprises to enter emerging markets.

21 ABCC, Transcript, 3 September 1999, p. 123.

22 Robertson, Transcript, 17 November 1999, p. 407.

Recommendation 25

The Committee recommends that the Australian Government provide an additional budget allocation to assist the introduction of the concessional fee-for-service by Austrade.

Key Performance Indicators

5.57 There is the view that Austrade's key performance indicators (KPIs) are leading to a numbers game. The WA Department of Commerce and Trade points out that it is important the key performance indicators do not encourage Austrade staff to simply aim for client numbers.²³ There is no doubt that getting client numbers leads to a good result against key performance indicators. The key performance indicators in 1998-99 were:

- Client satisfaction.
- The number of companies assisted into exporting:
 - ⇒ Number assisted through general Austrade advice and assistance.
 - ⇒ Number of new Export Market Development Grants (EMDG) recipients.
- The number of existing exporters assisted into new markets:
 - ⇒ Number assisted through general Austrade advice and assistance.
 - ⇒ Number assisted through the EMDG scheme.
- Export impact:
 - ⇒ Independently verified measure of exports assisted through general Austrade advice and assistance.
 - ⇒ Exports generated by EMDG recipients.
- Outward investment impact.
- Inward investment impact.

5.58 Austrade's performance and activity highlights for 1998-99 are shown in Table 5.1.

Table 5.1 Performance and Activity Highlights for 1998-99

Client satisfaction:	79.5 per cent
Exporters and potential exporters assisted into exporting:	12,00
Companies assisted into exporting for the first time:	1,001
Existing exporters assisted into new markets:	3,457
Export Market Development Grant (EMDG) recipients:	3,023
Companies receiving EMDG grants for the first time:	775
Value of exports generated by EMDG recipients:	\$4.7 billion
EMDG grant applicants:	3,389
Value of exports facilitated by Austrade's global network:	\$6 billion
Outward investment impact:	\$966 million
Inward investment impact:	\$1.1 billion
Calls to the Export Hotline:	56,174
Enquiries through Austrade Online:	269,398
Participants in trade exhibitions and events:	5,900

Source Australian Trade Commission – Austrade, *Annual Report [1998-99]*, p. 27.

5.59 In terms of performance in the South American market the Committee was keen to dissect the information out of the overall performance of the Americas that includes South America. Table 5.2 shows the KPIs for the South American posts.

Table 5.2 1998-99 Key Performance Indicators - South American Posts

Americas Work Units					
	Export Impact	Outward Investment Impact	New Companies to Export	New Companies to Market	Inward Investment Impact
	\$	\$			\$
Buenos Aires	37,170,694	27,000,000	14	138	-
Santiago	17,881,462	2,000,000	10	126	-
São Paulo	23,396,159	2,000,000	8	128	-
Americas Region Total all Posts	1,414,526,310	194,747,295	223	889	45,745,785

Source Austrade, *Exhibit No 51*.

- 5.60 Of the 223 new export clients attracted to the Americas, 14.3 per cent were attracted to South America in particular. In terms of new markets of interest to Austrade's exporting clients, 44.1 per cent of those attracted to the Americas focused on South America – this is a promising result. Rather than bury the figures for South America in the general Americas figures, the Committee would like to see separate reporting for the South American statistics in Austrade's Annual Report. Although the regional reporting essentially follows Austrade's organisational structure except for the South Pacific, the Committee sees it as important to separate the South American statistics given the increasing importance of the market and the drive to improve our trade and investment there.

Recommendation 26

The Committee recommends that Austrade show separately the information on key performance indicators for South America in its Annual Report.

Export Market Development Grants

- 5.61 Under three of Austrade's KPIs, performance is measured on the assistance provided under the EMDG scheme. EMDG is Australia's principal financial assistance scheme for exporters. The scheme is designed to encourage small and medium sized Australian exporters to develop overseas markets. EMDG may reimburse up to 50 per cent of money spent on export promotion, less the first \$15,000.²⁴ The scheme has been limited to \$150 million per annum and was the subject of a review under amendments to the *Export Market Development Grants Act 1997* passed in June 1999. The review was tabled in the Federal Parliament on 17 August 2000 and among the findings it is recommended that the scheme continue for another five years, a cap for limiting funding should remain, and the \$20,000 minimum expense requirement should be reduced to \$15,000. Furthermore there were some changes recommended to activities supported by EMDG.
- 5.62 Austrade provided the Committee with the number of EMDG scheme recipients active in South America. The details are shown in Table 5.3.

24 Austrade EMDG brochure, *Grants at a Glance*.

Table 5.3 Number of Export Market Development Grant Scheme Recipients Active in South America and Export Earnings by Each Country

Country	Number of recipients*	Export \$ (million)**
Argentina	61	11.031
Bolivia	4	0.359
Brazil	74	16.612
Chile	56	17.538
Colombia	11	0.676
Ecuador	1	0.015
Peru	13	1.639
Uruguay	2	0.170
Venezuela	10	0.691

* The number is greater than the total number of recipients active in South America as a whole, because a number of companies are active in many South American countries, so are counted in each separate country, but only one for overall South America.

** A breakdown of the value of grants by market is not possible. While export earnings can be attributed to a country/market, only one grant is paid to a client, and they may be active in many markets, not only in South America but also in Europe, Asia, etc.

Source Austrade, Exhibit No 51.

- 5.63 The scheme has over the years come in for a fair amount of criticism. In relation to the current inquiry it was noted that ‘The amount of paperwork involved in getting the money is horrendous, especially for small business. You have to employ in most cases a consultant or have somebody else to look after it, and that costs money that we cannot really afford.’²⁵
- 5.64 The difficulty for small business was further amplified when the Committee was informed of the difficulties encountered by a business involved in education delivery in seeking confirmation of eligibility for a grant under the EMDG scheme.²⁶ The Committee recognises the inherent problems in managing a public financial assistance scheme and hopes the findings of the review on the assessment process and grants entry will streamline procedures for applicants.

Austrade’s South American Information Program

- 5.65 Austrade has implemented an information program focusing on business opportunities in South America and exposing would-be exporters to the market by putting in place a seminar series *Latin America – expand your horizons*. The Committee commends Austrade on this initiative.

25 Ewing, Transcript, 18 November 1999, p. 476.

26 See Educación Destinos Australia Submission.

- 5.66 The first seminars were conducted around Australia in April 2000 and are planned as part of a three-year push, with the next seminars planned for March 2001. The seminars took a portfolio approach and included key allies with the delivery of key messages such as large diverse market; resilient/recovering economies, sophisticated markets with large pockets of wealth; relatively familiar business environment and window of opportunity. Some 410 persons attended mainly from medium to large enterprises and experienced exporters. The Trade Commissioners had in excess of 400 individual consultations with companies. The success of the seminars and the work put into promoting the positive message about South America as a business destination is to be commended.
- 5.67 As an adjunct to this, the Committee sees the need for greater publicity within Australia of the work that is being carried out in South America by Austrade. Most people would be aware of Austrade but not very many would be aware of the work and strategies being undertaken in South America.
- 5.68 Austrade conducts a range of trade promotional activities relating to the region. Generally though this information either stays in country and/or is passed to people and organisations with specific interests. People out in the wider community, and this encompasses business, are not generally made aware of these activities. The question is should they be made aware? There would be those who would maintain that Austrade's business-focused charter should be reserved for companies only. Certainly Austrade's services are tailored to meet the needs of Australian business. However it is incumbent on Austrade, as the government agency responsible for developing Australia's overseas trade, to take the lead in promoting South America as a market destination within the wider Australian community. Among the advantages of this broader, and social good approach, is that it will:
- raise the awareness of South America in the wider community (just as the Government took the lead in the early years of promoting contact with Asia);
 - expose young Australians and our future business leaders to positive messages about South America;
 - lead to a raising of the profile of South America within the Australian press and the concomitant spin offs;
 - capture more small business to explore and evaluate the benefits of exporting, especially given the potential of South America; and

- foster an understanding within the Australian community of the role and work that is undertaken by Austrade in the promotion of Australia's national interest through overseas trade and investment.

Recommendation 27

The Committee recommends that Austrade implement a publicity strategy to raise the profile of South America within the Australian community as a potential export and investment destination.

Austrade's Strategies for South America

5.69 Austrade has in place a number of strategies for the South American market incorporating action steps for 2000 – 2001, details of these can be found in Appendix F. The strategies are:

- Argentina:
 - ⇒ Agribusiness;
 - ⇒ Marine.
- Brazil:
 - ⇒ Telecommunications and information technology;
 - ⇒ Mining;
 - ⇒ Oil & gas.
- Chile:
 - ⇒ Mining.
- Peru:
 - ⇒ Agribusiness;
 - ⇒ Consumer products;
 - ⇒ Infrastructure;
 - ⇒ Mining;
 - ⇒ Telecommunications and information technologies.

5.70 As part of the portfolio action agenda, there will be a series of business-focused sectoral papers produced for Brazil in the coming months. The papers will highlight opportunities for cooperation in sectors of substantial commercial interest for Australia. The sectors include information technology, telecommunications, auto parts, mining equipment, agribusiness and consumer goods and services. Furthermore

there will be a comprehensive paper produced under the action agenda detailing air and sea freight services for the benefit of businesses.

- 5.71 The Committee hopes that in preparing the Brazil sectoral papers the portfolio partners take heed of the comments by the Australia-Brazil Chamber of Commerce Inc. on the importance of services to Australia's exports and the tremendous demand for services in Brazil. The Committee agrees with the ABCC that Australia's manufacturing capability is hampered by the size of the domestic market and the remoteness from export markets, and that there is strength in its services sector. The Committee would like to see a sectoral paper prepared on services per se.

Recommendation 28

The Committee recommends that the Foreign Affairs and Trade Portfolio, as part of its Brazil sectoral papers series under the Latin America Action Agenda, prepare a paper on the services sector.

EFIC – Export Finance and Insurance Corporation

- 5.72 EFIC is Australia's official export credit agency. In operation for 40 years and established as a statutory corporation of the Commonwealth of Australia under the *Export Finance and Insurance Corporation Act 1991*, it is charged with undertaking four key tasks:
- To encourage and facilitate Australian export trade;
 - To encourage banks and other financial institutions in Australia to finance exports;
 - To manage the commonwealth's aid-supported soft loan program;²⁷ and
 - To provide information and advice regarding insurance and financial products available to support Australian exports.²⁸
- 5.73 EFIC's role 'is to use its insurance and finance products to help increase Australian exports.'²⁹ Moreover:

27 The Development Import Finance Facility (DIFF) is now disbanded.

28 EFIC, Annual Report 1998, *Managing Export Risks*, p. 31.

29 *ibid.* p. 2.

We focus on those exports that banks and commercial insurers may have difficulty covering, because of the size of the transaction or its risk.

That objective has never been more important than over the last twelve months, as the international risk environment deteriorated sharply.

- 5.74 EFIC is self-funding with operating costs covered by the income received from fees and premiums charged to clients and from interest. The Commonwealth Government guarantees all monies payable by EFIC.
- 5.75 The amount of money EFIC can lend is limited by the Act. It also sets a maximum contingent liability for certain contracts entered into and for guarantees that are given. As EFIC points out in its Annual Report, most of its transactions are written on its own Commercial Account where all risks are carried by EFIC. There may be transactions, where size or risk exceed EFIC's operating parameters and these may be written on the National Interest Account, 'where the Commonwealth carries direct liability and receives the associated premium income.'³⁰
- 5.76 In relation to risk, EFIC monitors political and economic risk around the world and ranks country risk on a six point scale where 1 is low risk such as with the United Kingdom and 6 being high risk. EFIC provided the Committee with Table 5.4 that sets out the grade of risk it has assigned to countries in South America.

Table 5.4 EFIC Short Term Country Grades – Selected Markets

Country	Grade	Similarly Graded Markets
Chile	2	Greece, Qatar, Taiwan
Uruguay	3	China, Egypt, Malaysia
Peru	4	Ghana, PNG, Mexico, Turkey
Argentina	4	
Bolivia	4	
Brazil	4	
Colombia	4	
Ecuador	5	Pakistan, Jordan, Bulgaria
Venezuela	5	

Source EFIC, *Submission*, p. 621.

- 5.77 By putting a number alongside a country EFIC says it does not preclude them from doing business. As they put it to the Committee 'It just means it puts us on notice' and 'When we go into that market we take certain

care in what type of transactions and what sort of risks we are prepared to take.’³¹

5.78 Furthermore EFIC examines requests on a case by case basis:

We look at the transaction to see who the players are and what risks we have been asked to take, and we will do the business. In Venezuela, we are helping 10 people at the moment. In Ecuador, we are helping 10. In Colombia, we are helping 11. Throughout South America, we are helping 103 exporting companies. On average, they export to two countries within that region. There are some that are better equipped.³²

5.79 EFIC says that the private market finances the bulk of Australia’s trade to South America with commercial banking networks being well developed in South America and able to handle most of the business. Otherwise, as EFIC points out:

... exporters provide extended payment terms on the own account, other credit insurers take a certain measure of risk, or buyers pay cash or use their own banking arrangements.³³

5.80 EFIC provides credit insurance, and export finance, political risk insurance and working capital. The value of this assistance in both the EFIC businesses, ie export insurance and export finance, are set out in Table 5.5.

Table 5.5 Exports Supported by EFIC in South America – July 1996 to December 1999

\$millions	1996/97	1997/98	1998/99	Dec 1999	Total
Credit Insurance	81	46	82	42	251
Export Finance	37	30	31	0	98
Total	118	76	113	42	349

Source EFIC, Submission, p. 615.

5.81 EFIC’s export credit insurance provides cover for non-payment by foreign buyers arising from either country or commercial risks. EFIC informed the Committee that its insured volume (ie exports supported) in South America amounted to \$251 million for the period July 1996 to December 1999, representing some 1.1 per cent of total volume. EFIC noted that this proportion was in line with Australia’s exports to the region.³⁴

5.82 The distribution of this credit insurance assistance in South America is set out in Table 5.6.

31 EFIC, Transcript, 24 February 2000, p. 505.

32 *ibid.*

33 EFIC, Submission, p. 615

34 *ibid.*

Table 5.6 Geographic Distribution of Credit Insurance Assistance

\$millions	1997	1998	1999	Dec 2000	Total
Brazil	54.2	15.3	30.5	19.5	119.4
Chile	6.0	12.4	17.5	3.9	39.8
Argentina	13.1	7.0	12.9	6.7	39.7
Venezuela	2.8	3.8	3.9	5.5	16.0
Peru	2.8	1.9	6.3	3.0	14.0
Colombia	0.9	4.3	5.7	0.6	11.6
Other	0.6	1.8	4.9	3.3	10.7
Total	80.5	46.4	81.8	42.5	251.1

Source EFIC, *Submission*, p. 616.

5.83 The sectors that are important to EFIC in the provision of credit insurance are steel, coal and minerals, that account for a third of EFIC's credit insurance in South America. This is followed by equipment and consumer durables at 22 per cent and chemicals at 19 per cent. Hides and skins represent 11 per cent of EFIC's credit insurance, closely followed by food and beverage at 10 per cent. It is important to note that in the South American market, the volume of business generated by small companies is only about 5 per cent of exports supported by EFIC. This is in contrast to EFIC's global pattern. In commenting on this, EFIC says:

However, amongst our clients, companies exporting to South America tend to be larger. We presume this is because access to the South American market has been difficult and more likely to attract larger companies. Less than 3% of our volume in South America was generated from the small business sector.³⁵

5.84 EFIC elaborated further at a public hearing making the point that if an exporter is involved in South America they also tend to be involved in other regions and with this they have quite a lot of experience and commitment to being involved as exporters. It is this commitment by business to being an exporter that the Committee sees as critical to growing trade and investment with a 'new' region like South America.

5.85 With regard to export finance, political risk insurance and working capital, direct loans are provided to buyers and guarantees to banks lending to buyers of Australian equipment and services. EFIC provides terms of up to 10 years following completion of the related commercial contract. Furthermore EFIC provides political risk insurance to Australian investors offshore and to banks lending to international projects that involve

Australian interests.³⁶ Table 5.7 shows new loan and political risk insurance facilities that were signed for the period 1997 to 1999.

Table 5.7 New Loan and Political Risk Insurance Facilities Signed – South America

\$millions	1997	1998	1999	Total
Mining	258	0	0	258
Fast Ferries	23	0	31	54
Agricultural equipment	4	0	0	4
Total	285	0	31	316
Exports supported*	37	30	31	98

* The Alumbreira project resulted in direct exports of about \$40 million from 1997 through 1998. Additional benefits from the project, including ongoing dividends and capital growth, accrued to Australia as a result of the project. In addition, while certain fast ferries, valued at \$64.8 million, were purchased by South American companies with EFIC assistance, the vessels are being used in Europe and do not register as exports to the region.

Source EFIC, *Submission*, p. 617.

5.86 The Committee was keen to find out whether it was easier to provide financial assistance to conduct trade in the South American market than in the European market. In relation to credit insurance EFIC told the Committee that it is easier to do business in Europe than Latin America as the impediment is access to reliable credit information. The information channels are not as well developed in Latin America as they are in Europe for this kind of information.

5.87 On the issue of interest, EFIC informed the Committee that:

Typically, the banks will help the mineral resource sector, which represents a large volume and lower risk. The cost varies from facility to facility. It is difficult to give you an exact rate, but they are very competitive. Australian trade receivable finance is generally very competitive with overseas.³⁷

5.88 EFIC finance is seen as expensive finance by business. Mr Kevin Ewing reported that EFIC is really expensive money so much so that his former company made the decision not to use it. He pointed out that:

If you get a confirmed LC with a recognised bank to finance a big project and then you go to EFIC and say, 'Please give me some money,' or, 'Help me with the money [and] Talk to my bank to say that this is a good risk,' by the time you pay EFIC and then you borrow the money from the bank, I think you are paying two or three per cent on top of whatever the banks wants to charge you,

36 *ibid.* p. 617.

37 EFIC, Transcript, 24 February 2000, p. 499.

and the bank puts its own risk on it as well. It is too expensive to borrow that way.³⁸

- 5.89 Besides being seen as expensive finance, EFIC finance is not easy to arrange. Nu-Lec Pty Ltd, exporting to 52 countries around the world, has tried on several occasions to use EFIC finance but without success. They gave the example of a particular case in Malaysia where the local distributor had not taken out exchange cover, with the distributor's contract in Malaysian ringgit, and his contract with Nu-Lec in Australian dollars. As Mr Sullivan commented he tried 'to get EFIC involved and to go directly to the end user – T&B, the utility – to do a deal and just could not put it together.'³⁹ He added that he thinks EFIC provides a useful service but Nu-Lec has not been able to get it together with them.
- 5.90 EFIC informed the Committee that it has taken a number of steps to position itself in the South American region. These include:
- Ongoing underwriting of risk in the region. EFIC remains open to taking risk in the region;
 - Introduction of new products and services, such as bank guarantees. The guarantee facilities have allowed us generally to work more closely with commercial banks active internationally;
 - Visits to the market and participation in regional trade shows. EFIC periodically visits the market taking advantage of trade shows that create critical mass of Australian interest;
 - Better coordination with key allies, notably Austrade and DFAT. We participate in Austrade regional meetings in the region where appropriate and routinely exchange information with DFAT about the market; and
 - Collaboration with other ECAs, and commercial insurers, with a view to supporting exports from Australia which form just part of a large project.⁴⁰
- 5.91 The matter of participation in regional trade shows is addressed in the next section.
- 5.92 EFIC carries out excellent economic analysis of countries and their evidence to the Committee showed the quality of their analysis of South American economies and the factors that are affecting the development of those economies. Although EFIC does exchange information with DFAT on the market, this information is not necessarily getting to the desks dealing with the various countries and regions. This is the case in relation to the Canada, Latin America and Caribbean section in DFAT. The Committee wishes to see better coordination between and within the two
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38 Ewing, Transcript, 18 November 1999, p. 476.

39 Nu-Lec, Transcript, 24 February 2000 p. 519.

40 EFIC, Submission, p. 622.

agencies to ensure this valuable economic information is available to the DFAT country desk officers. If this information is not provided to the regional desks in Austrade then it should be made available to them too.

- 5.93 EFIC like Austrade is a statutory body but being wholly located in Sydney it tends to be seen as operating solely on its own rather than being an important arm of the Government's policy to promote trade and investment for Australian businesses. The Committee hopes that EFIC will be seen as an important player in the process of assisting Australian business to capture opportunities in South America as they emerge.
- 5.94 On 23 June 2000 the Minister for Trade, the Hon Mark Vaile, MP, announced that the Government will be reviewing recent private market developments in export finance, insurance and guarantee services, and the Government's role in the provision of these services through EFIC.
- 5.95 The review is being conducted by DFAT with the assistance of an Inter-Departmental Steering Committee and written submissions have been invited from all interested parties. The review is due to be completed by November 2000.

Overseas Promotion of Australia by Government Agencies

- 5.96 Participation in international fairs, trade shows and expositions are regarded as an integral part of the portfolio of marketing Australia overseas as a smart country, with expertise and capability and with the capacity to produce and provide quality product and services.
- 5.97 The Committee voices its disapproval of the way in which Austrade and EFIC have not necessarily promoted Australia well in this regard.
- 5.98 While in Argentina the Trade Sub-Committee visited EXPOCHACRA 2000 an agricultural expo that is based on the 'agricultural field day' concept. EXPOCHACRA is the biggest agricultural expo in South America, and the largest open air event in the world, that takes in more than 400 exhibits, runs for four days and attracts in excess of 150,000 people. It is unique in that unlike other 'agricultural field days' it has working as well as static displays where farm machinery is seen at work in the field.
- 5.99 The expo began in 1992 and became an international event four years ago. Countries that have participated via official entities, chambers of commerce or companies include Germany, Austria, Australia, Canada, Spain, USA, France, Italy, Israel, New Zealand, South Africa and Sweden.

- 5.100 This year there were no Australian companies exhibiting at EXPOCHACRA but Austrade did have a stand in the International Pavilion. Members of the Trade Sub-Committee were less than impressed with the standard of Austrade's stand. This was the only point of contact for EXPOCHACRA visitors to Australia and when the Trade Sub-Committee visited the stand it was not staffed.
- 5.101 What is particularly disappointing is that one part of the TOOS'97 priority objectives for Mercosur was assistance to the agribusiness sector and a desired outcome was participation in the Austrade pavilion at EXPOCHACRA 1997 by agribusiness companies. Any goodwill that may have been built on the 1997 participation is diminished when there was little quality and effort put into the Austrade stand this year.
- 5.102 The Committee has been told throughout the course of the inquiry of the importance of building networks over time and a commitment to doing so. The quality of presentation of Australia and its capabilities in overseas markets is paramount and the Austrade stand at EXPOCHACRA 2000 reflected poorly on Australia.

Recommendation 29

The Committee recommends that Austrade improve the quality of its presentation at international fairs and expositions to ensure that Australia is properly promoted.

- 5.103 On the same issue EFIC was specifically asked to elaborate on participation in trade shows and the Committee was particularly disappointed in the reply. EFIC in its written submission said it has an ongoing program of participation whereas on examination that is far from the case. In their own words:

Two years ago we participated in a trade show in Chile called EXPOMIN, which was related to the mining industry. We did that specifically because it was South America, we did it specifically because it was the mining industry and we did it specifically because of the opportunities that exist particularly in Peru, Chile and Argentina in relation to the mining industry. That trade show is coming up again in May of this year. We have actually made a conscious decision not to participate this year, because the time, energy and expense that we put into it two years ago has not paid

off in opportunities for Australian companies to increase their exports. It was not cost productive.⁴¹

- 5.104 It is a long slow process to build business in a new region and it has taken more than a decade and a half to build markets in Asia. South America will be no different. Clearly EFIC, as Australia's official export credit agency, does see its role as one of a team, along with Austrade and DFAT, in developing trade and investment opportunities for Australia in South America. EFIC's exposure in South America, compared to other export credit agencies from Germany, USA, Japan, France Spain, Canada Italy and the UK, is miniscule, some 0.7 per cent of the Berne Union. The focus by EFIC on their bottom line rather than taking a long term approach to the benefits of trade show participation is extremely disappointing.
- 5.105 It is easy to see why Australia is not seen as a country to which one would look to do business with when one of its major government agencies takes a narrow and short term approach to the market place. What is of further concern is that, with the opening of the Austrade office in Peru in June 1999 and mining being a major Austrade strategy not only in Peru, but in Chile, Brazil and Mexico, EFIC chose not to participate in EXPOMIN 2000 based on cost productive reasons. The Committee would have thought the reasons for their participation two years ago would be even stronger for participation this year thereby assisting in building a profile for Australian business in the region.

Recommendation 30

The Committee recommends that EFIC actively participate in trade shows in South America focusing on the benefits over the long term rather than taking the short term outcome approach to participation.

- 5.106 The Committee wishes to raise the awareness of all government agencies, including DETYA and DIMA, to the need for quality and professionalism in presentations at international fairs and expositions to ensure that the portrayal of Australia is positive. The promotion of Australia may well involve attendance at international events over a number of years to sell Australia's message.

41 EFIC, Transcript, 24 February 2000, p. 505.

