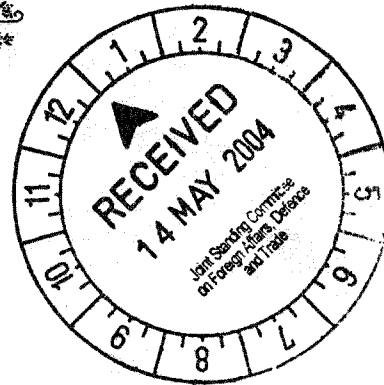


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**Joint Standing Committee on Foreign Affairs,
Defence and Trade**

**GOVERNMENT RESPONSE
TO THE COMMITTEE'S REPORT**

**“EXPANDING AUSTRALIA’S TRADE AND INVESTMENT
RELATIONSHIP WITH THE COUNTRIES OF CENTRAL
EUROPE” - August 2003**

Australia's Trade and Investment Relationship with Central Europe

Expanding Australia's trade and investment relationship with the countries of Central Europe

GOVERNMENT RESPONSE

The Government thanks the Joint Standing Committee on Foreign Affairs, Defence and Trade for the comprehensive inquiry conducted into Australia's trade and investment relationship with Central Europe. The report is a welcome and timely study of Australia's trade and investment relationship with eleven European countries, eight of which are about to join the European Union.

The report makes seventeen recommendations regarding Australia's trade and investment relationship with Central Europe. The Government's response to these recommendations is provided below.

Recommendation 1

The Committee recommends the Government provide funding for more scholarship places for Central European postgraduate students, to assist in raising the profile of Australia and Australian educational institutions.

The Government considers that scholarships and fellowships assist in raising awareness of Australia as a destination for students, and can assist the export of education services. With the recent establishment of the Endeavour Programme (one of the international education initiatives arising from the 2003 Federal Budget), the Government has reviewed the Australia-Europe Scholarships and made a number of enhancements to the scheme. While in the past the Australian Government offered a very small number of scholarships to Croatia, Hungary and Slovenia, the new Endeavour Australia-Europe Postgraduate Student Awards, to be offered from 2005, will see awards opened up to candidates from all of the European Union Member States.

As all of the Central European countries covered in the inquiry, with the exception of Croatia, will be joining the European Union in 2004 or are applicant countries, the new Endeavour Australia-Europe Postgraduate Student Awards will provide greater access to scholarships for Central European postgraduate students. Students from Croatia will also remain eligible to apply for scholarships under the new Endeavour Australia-Europe Postgraduate Student Awards.

Another component of the Endeavour Programme is the new Endeavour Postgraduate and Postdoctoral Research Fellowships. These fellowships will enable postgraduate students or postdoctoral fellows to undertake short-term research in Australia. A number of these Endeavour Postgraduate and Postdoctoral Research Fellowships will be offered to students from Europe each year, creating more opportunities for postgraduate students from Central Europe to undertake research in Australia.

Recommendation 2

The Committee recommends that:

- *DEST develop their capacity to export Australian systems and expertise in educational reform; and*
- *Future Austrade/AEI export missions include education and training services organizations, to ensure Australian organizations have the opportunity to export their expertise in education sector reform.*

The Government will continue to explore actively new methods to showcase more effectively Australia's domestic education system and leading reform agenda. The Department of Education, Science and Training (DEST) currently host overseas delegations on a near weekly basis to this end. New capacities are being developed within existing resource constraints.

A recent development along these lines is the establishment of a State and Commonwealth working group, with private sector representation, to look at strengthening the international engagement of the Vocational Education and Training (VET) sector. This will include a focus on the export of expertise to other countries.

The Government is actively working with Australian "e-learning" providers to capitalise on Polish government projects aimed at upgrading Polish teachers' skills and providing students from Poland's rural areas with equal access to education.

Australian Education International (AEI) will continue to work closely with Austrade in developing proposals for and conducting outbound trade missions to Central and Eastern Europe. Future Austrade/AEI export missions will continue to include Australian education and training providers, ensuring that Australian organisations have the opportunity to export their expertise in education sector reform.

Recommendation 3

The Committee recommends Australia contribute tied funding to the EBRD for small technical assistance projects, to provide Australian contractors with an entry point to and experience with EBRD.

In reviewing this recommendation, the Government has considered:

- the potential for such funding to assist Australian contractors to secure larger untied projects by gaining experience and a higher profile at the EBRD; and
- whether it represents the most effective use of funds compared to other funding demands for Australian business and trade interests.

Currently, the Government does not believe that contributing tied funding to the EBRD is justified on either ground. There is already considerable scope to use the EBRD as a means to increase the involvement of Australian companies in the economies of borrowing countries. Australian companies are presently eligible to access EBRD contracts, and some EBRD Technical Assistance Funds (TAF) are not 'tied' to particular countries (i.e., can also be accessed by Australian companies).

In 2002-03 officials from both the Australian Government and the EBRD held a number of meetings with Australian companies and business groups to raise awareness of contracting opportunities at the EBRD. Austrade and DFAT will continue efforts to generate interest by Australian business in accessing existing opportunities presented by the EBRD in Central Europe.

The Government will also continue to monitor the level of activity by Australian organisations in pursuing the available untied portion of the EBRD Technical Cooperation Fund. Austrade will continue to assess key projects, such as the Central Europe "Turn Around Management Program", to this end. Should the Government identify significant cases of failed attempts by Australian companies to access untied EBRD technical assistance funds for projects with significant procurement and investment opportunities, the case for the provision of tied funding to the EBRD will be reassessed.

This recommendation also relates to Recommendation 8 concerning the World Bank. All eight countries covered by the Committee's report have either or both EBRD or World Bank offices. The Australian Government, through its network of overseas posts, maintains good links with the EBRD and awareness of its activities.

Recommendation 4

The Committee recommends HIC develop mechanisms which allow other Australian organizations to benefit from HIC's experience and contacts, in terms of bidding for multilateral development project funding.

The Health Insurance Commission (HIC), which has extensive experience and a proven record in winning World Bank contracts, will work to capitalise on the expertise generated by these successes. This will include assisting Austrade's marketing efforts as appropriate.

Recommendation 5

The Committee recommends DEST publicise and encourage collaborative links and research projects with counterpart institutions in Central Europe with a view of securing funding in the EC's F6 science research funding program.

The Government will apply its extensive work programme to promote Australian researcher involvement in the European Union's 6th Framework programme for Research and Technological Development to this recommendation. This work programme includes promoting awareness of science and technology collaboration through information sessions held throughout Australia on the 6th Framework programme and how Australian researchers can become involved. Awareness was also raised through the Networking for Excellence conference held in Canberra from 13-14 November 2003, which included speakers from a number of European nations.

The Government is further seeking to facilitate directly researcher linkages by agreeing with the European Commission (soon to incorporate seven of the countries of this inquiry) on a series of small, strategically-focused science and technology workshops for Australian and European researchers in identified areas of technology. To encourage research linkages more widely through Europe, DEST has provided \$150,000 over three years to the Forum for European-Australian Science and Technology cooperation (FEAST), which aims to increase scientific and technological links between Australia and Europe.

Links and research projects with counterpart institutions in Central Europe will also be facilitated through the Government's funding program for collaborative science and technology activities through the Competitive Grants element of the Innovation Access Program – International Science and Technology (IAP-IST), which supports the additional costs associated with international science and technology activities. This includes the EU Framework Fund of up to \$750,000 per annum and the Strategic Policy element of the IAP-IST, which supports Australian involvement in bilateral and multilateral consultations and strategic forums.

DEST research funding, and that provided under the Framework programme, is provided competitively on the basis of excellence. Consequently, to apply successfully for funds, research projects should be undertaken by researchers able to demonstrate excellence in their field.

Recommendation 6

The Committee recommends that Austrade strengthen Australia's trade representation in Hungary.

Austrade is relocating its Budapest office and two staff to new premises in the city in mid November 2003. Austrade is currently reviewing its Central European strategy. Allocation of staff resources is always dependent on the demand for assistance by Australian exporters and the comparative prospects for new and existing export growth across Central European countries, as well as economic and political issues local to Hungary. Austrade will keep under review its allocation of resources to operations in Hungary, in particular during the formulation of its new business strategy for Central Europe.

Recommendation 7

Because of the prominence of the Czech Republic in Central Europe, the Committee recommends the re-establishment of an embassy in Prague, to raise Australia's profile and enhance Australian trade and investment activity in the region.

The Government has recently reviewed Australia's overseas representation and made a number of changes to strengthen Australia's ability to promote our national interests in a changing global environment.

The Government acknowledges the case for extending current representation in Prague to a full-scale Embassy and will consider this at its next review of global representation and within the budgetary constraints which exist at that time.

Recommendation 8

The Committee recommends that Austrade and DFAT strengthen trade representation at the World Bank, to assist Australian organizations access development project funding.

The Government recognises the opportunities that World Bank development project funding presents to Australian business and effectively deploys its existing overseas network to this end. Assisting Australian organisations win World Bank tenders in Central Europe has been a key activity of Austrade staff and will continue to be a part of Austrade's overall strategy of assisting companies win business in the region.

Austrade has staff in Sydney and Washington dedicated to assisting Australian firms identify opportunities in World Bank procurement activity. Austrade assists Australian companies win World Bank financed projects by providing technical advice and marketing assistance. Austrade staff in Australia provide advice on World Bank processes and procedures. Staff in Washington, through interaction with World Bank task managers, signal early warning of upcoming projects, provide assistance for Australian companies visiting the Bank headquarters and advice on strategic marketing.

Austrade staff in the market of the borrowing country actively monitor project development of Bank financed projects, advise Australian organisations of opportunities through the project development cycle, provide assistance to companies to market to the borrowing country's implementing agencies and to the World Bank's local missions. Austrade led a business delegation to the Bank headquarters in November 2002 and hosted a visit to Australia in February 2003 by its senior staff.

As noted under recommendation 3, all eight countries covered by the Committee's report have either or both EBRD or World Bank offices. The Australian Government, through its network of overseas posts, in particular through the Embassies in Warsaw, Budapest, Athens, Belgrade, Vienna and Zagreb, Consulates in Sofia, Prague, Bucharest, Ljubljana, and trade consultants in many Central and Eastern European countries, maintains links with the World Bank and awareness of its activities. It also provides ongoing support to Australian business.

Australia's membership of the World Bank allows Australian firms to compete for contracts to supply goods and services financed by the World Bank. Decisions on the supply of goods and services to World Bank financed projects are usually made in the borrowing countries by their executing agencies under guidelines agreed by the World Bank. In addition, the Bank finances some

contracts for project preparatory work by consultants from its own resources or from donor contributed funds. The World Bank's procurement guidelines use international competitive bidding principles, with some preference for local suppliers

- In 2002-03, procurement payments to Australian companies from the World Bank totalled US\$101.0 million (A\$172.9 million), of which US\$65.0 million (A\$111.3 million) is an estimate of procurement payments to Australia under adjustment lending.

Australia has a strong record of winning World Bank contracts, notably in consultancy services. Mechanisms used to meet both Australia's aid and export interests include co-financing of World Bank projects or through an Australian trust fund or a fund contributed to by several countries. For example, in 2002-03 Australia contributed approximately A\$20 million towards co-financed and trust fund activities. In the top three countries for award of consulting services in 2001, Australia has consistently won more value in procurement contracts than national contributions to the World Bank.

Recommendation 9

The Committee recommends that Austrade and DFAT in consultation with DEST, consider posting a trade commissioner in Brussels to assist Australian organizations access EU commission science research and development project funding.

As part of a package of new initiatives to support and expand Australia's international education industry, the Government recently announced the establishment of a new Education, Science and Training Counsellor position in Europe. This position, which will be based in Brussels, is in addition to the current counsellor to the OECD based in Paris. The new counsellor in Europe will work to strengthen Australian international linkages in education, science and innovation and to optimise strategic opportunities for Australian education providers within Europe.

Among other tasks, the counsellor will be responsible for helping to improve our science and technology relationship with key European partners, including the European Union (soon to include seven of the countries of this inquiry) and subsequently Australian involvement in the 6th Framework programme. Austrade will keep under review the potential to place a trade commissioner in Brussels.

Recommendation 10

The Committee recommends that visa requirements for students (especially) and citizens (generally) from the five Central European countries acceding to the EU in 2004, should be reassessed. The reassessment should include consideration of the applicability of the Electronic Travel Authority visa system for those countries.

Agreed. The Government continues to keep under review the visa requirements for all accession countries in particular.

Visa requirements for students

The changes to the overseas student program in July 2001 substantially reformed the visa

requirements. A key reform was the development of objective and transparent criteria for assessment of immigration risk presented by students from different countries and education sectors. These are known as Assessment Levels. These Assessment Levels reflect factors such as the extent to which students' visa status becomes unlawful, fraud in visa applications and cancellations for breaches of visa conditions or not meeting course requirements. The higher the Assessment Level, the greater the minimum evidentiary standards a student visa applicant has to satisfy.

There are five different assessment levels, the lowest being Assessment Level 1 (i.e. lowest risk) and the highest is Assessment Level 5 (i.e. highest risk).

DIMIA, in consultation with the Australian export education industry, is currently undertaking a review of the methodology used to assess risk for each education sector and country in considering student visa applications. Once a new methodology has been developed, it will be applied to data on student visa outcomes following the 1 December 2003 fine-tuning changes to student visa requirements.

Currently Student visa applications by citizens of Central European countries are assessed against Assessment Level 2 or 3 requirements, as follows:

- Czech Republic – Assessment Level 2 for the Schools, Vocational Education and Training, Higher Education, Postgraduate Research and AusAID/Defence sectors; Assessment Level 3 for the Independent ELICOS and Non-Award sectors;
- Hungary – Assessment Level 2 across all sectors;
- Poland - Assessment Level 2 across all sectors;
- Slovenia – Assessment Level 3 across all sectors;
- Slovakia - Assessment Level 2 for the Schools, Vocational Education and Training, Higher Education, Postgraduate Research and AusAID/Defence sectors; Assessment Level 3 for the Independent ELICOS and Non-Award sectors.

DIMIA recently announced a number of changes to the student visa program as a result of the Review of the 2001 Student Visa Reforms. These changes will provide greater flexibility for Assessment Level 3 applicants including those from Central Europe. For many prospective students it will be simpler and easier to meet requirements for a visa.

Consideration is also being given to expanding the availability of Internet lodgment to all students offshore. Internet lodgment, and where appropriate electronic processing and decision making, provides a range of benefits including easier access to DIMIA services by clients.

Electronic Travel Authority (ETA)

The ETA is currently available to passport holders of 34 countries and locations. A range of objective criteria is used in deciding whether the ETA should be extended to additional countries. Given the difficulties in withdrawing ETA from any country, a decision to grant ETA cannot be taken lightly. A major consideration in determining ETA eligibility is that visitors from any proposed country should represent a very low immigration risk, particularly in terms of refusal rates, non-return rates and Protection Visa rate, document security and fraudulent documentation.

With accession of a number of countries to the European Union the Government will keep under close scrutiny immigration developments and visa risks to manage any changes to current visa processing arrangements. While the proposed countries do not at this time meet all the essential assessment criteria for consideration of ETA extension, the Government is keeping this under review. In the interim, the Government will continue to examine alternatives and more streamlined service delivery arrangements for those countries that have shown significant improvement against these criteria.

Correction

Paragraph 4.51 of the Report states that the Czech Embassy raised concerns about visa requirements for its students and that Czech students were required to fill in Form 48R instead of Form 48. This is not correct. Forms 48R and 48 relate to tourist visas, not student visas. Students complete Form 157A *Application for a student (temporary) visa (subclass 570-576)*.

Paragraph 5.69 states that it takes 8-12 months for student visas to be issued. This also is not correct as most student applications are processed within 1-2 months.

Recommendation 11

The Committee recommends the Australian government complete a full set of basic government to government agreements with all Central European countries.

As these countries progressively join the European Union (most in May 2004), many of the issues previously covered by government-to-government agreements will operate at the Australia-European Union level. Some existing bilateral agreements (mainly trade related) will, in fact, need to lapse as the Central European countries accede to the EU. Where EU membership does not impinge on bilateral government-to-government agreements, the Government will continue to prioritise launching of negotiations of new agreements consistent with demand on the Australian side, the strength of the relevant bilateral relationship, and other merits of the individual case.

Recommendation 12

The Committee recommends Austrade organize a range of awareness raising activities in Australia focusing on Central Europe, highlighting emerging market opportunities and the particular requirements for operating in the region. This should include establishing a website focusing on trade and investment opportunities in Central Europe.

A number of planned Government activities address this recommendation. A significant awareness-raising event is planned for 2004, when Austrade will be conducting a series of seminars around Australia to promote business opportunities arising from the accession to the EU of eight countries of the covered by the Inquiry.

One of Austrade's principal activities is to inform both Australian exporters and Central European buyers of opportunities and Australian industry capability respectively and, in so doing, reduce the information gap which may have contributed to comparatively low levels of trade. Austrade continues to support the promotion of Central Europe as a trade destination and has a Central Europe Regional Adviser focused on this region.

In addition, Austrade conducts awareness raising activities in Australia promoting trade with the region through a variety of means. Austrade utilises the Austrade website, media stories about successful exporters to the region, provides business updates from Austrade chief economist, distributes a Central Europe "E-zine" and places Central European news in the monthly 'Export Update' magazine, which reaches thousands of companies, Embassies and Chambers of Commerce.

Visits by Trade Commissioners and Business Development Managers (BDMs) based in Central Europe promote emerging opportunities and methods of doing business in the region. In 2004, staff from each Austrade post in the region will conduct information sessions, exporter meetings and business matching to inform and assist exporters to engage with Central European markets.

An active inbound and outbound mission program provides support to Central European Ministers, officials and business delegations visiting Australia, and encourages Australian business to visit and do business in Central Europe. To help raise the profile of the region, Austrade has recently invited several hundred Australian companies to networking events in conjunction with ministerial delegations from Poland, the Czech Republic and Romania (possibly in early 2004). Over the last twelve months Austrade has conducted two business missions to the region covering education and e-government. DFAT also encourages visits by Central European Ministers, officials and business delegations and provides assistance to such delegations in planning their programs.

Recommendation 13

The Committee recommends the trade minister lead a trade mission to the region to support Austrade's awareness raising activities in Australia and Central Europe.

The Minister for Trade will look for an appropriate opportunity to visit the region. Decisions on specific destinations will be influenced by the extent and level of business interest in participating in an accompanying delegation.

Recommendation 14

The Committee recommends the Minister for Communications, Information Technology and the Arts gives priority to leading a trade mission to Central Europe focused on e-government and e-commerce services exports.

The Australian Government recognises the ICT sector and related e-government developments in Central Europe as a priority for commercial export development. The organisation of an e-government mission to Poland and the Czech Republic in October 2002 yielded positive results as has an Austrade funded consultancy assignment to assist the Romanian and Bulgarian governments develop an e-government strategy. In line with this, appropriate opportunities for Ministerial led missions to the region to support export growth and profile Australia's ICT capabilities in both the public and private sectors will continue to be monitored and assessed.

Recommendation 15

The Committee recommends that:

- *Austrade and DFAT undertake greater promotion of Australian business through encouraging Australian participation in Western European trade shows.*
- *Austrade and DFAT encourage Central European business delegations to attend those trade shows.*
- *The Australian Tourist Commission ensures Central European countries are included in the Australian Tourist Exchange Program.*

The Government recognises the value of trade exhibitions in achieving trade outcomes, especially in Europe where trade fairs are a traditional forum for doing business, and will continue to use a variety of channels to promote trade fairs to Australian business. In addition to the wealth of information about trade fairs provided in the events section of the Austrade website, Austrade will continue to market specific trade exhibitions in its monthly newsletter 'Export Update'. Austrade will also continue to advise appropriate companies directly of upcoming trade fairs in their industry.

In the 2003/2004 year, Austrade will provide significant support for 30 trade fairs in Western Europe, selected on the basis of identified opportunity sectors and demand from Australian business. While trade fair activity is most vigorous in Western Europe, Austrade takes every opportunity to achieve outcomes for Australian companies in Central Europe. This is achieved both by introducing Central European buyers and decision makers to Australian companies at Western European exhibitions, and by supporting appropriate trade fairs actually taking place in Central Europe.

In 2002 Austrade assisted the Polish/Australia Chamber of Commerce with a significant promotion of Australian wines at "Polagra", Poland's largest agribusiness trade fair, and in 2003 Austrade organised an Australian stand at the Warsaw English Language Fair.

Central European buyers and decisions makers have been introduced to Australian companies at trade fairs such as the 'Enviro 2002' (Melbourne), the London Wine and Spirit Fair 2003 and DSEi Defence Fair 2003 (London).

Future events where Austrade will facilitate business matching between Australian companies and Central European buyers include MEDICA 2003 (Dusseldorf), the Birmingham Gift Fair 2004, London International Wine and Spirit Fair 2004 and the ITS World Congress 2003 in Madrid.

The Government encourages participation in the Australian Tourist Exchange Program (ATE) from those Central European tourism operators who fulfil the criteria set for international delegates. These criteria include:

- Buyer target numbers based on the type of agency, source market and seller preferences;
- The Australian Tourist Commission's (ATC) market prioritisation
- The ability of international delegates to pay for registration.

The ATC's assessment process ensures the event provides Australian tourism businesses with international buyers that can deliver the greatest potential benefits – and the greatest return on investment for Australia and for the international delegates themselves.

Unfortunately, the ATE has attracted limited participation from Central European delegates in the past. In that regard, the ATE as a stand-alone event might not necessarily be the best vehicle for engaging the Central European market.

In addressing this recommendation, the ATC will assess the need for Australia to establish a presence in Central European markets, based on their potential in the medium to longer term, at the upcoming Industry Advisory Panels and internal planning forums. Once the market potential for Central European countries has been identified, the ATC will develop a plan, part of which may include participation in the ATE by selected operators.

In addition to the ATE, the Government uses opportunities presented at other trade shows to engage Central European markets. For example, Central European representatives have shown considerable interest in Australia at Internationale Tourismus Börse (ITB), the world's largest travel industry event, which is held annually in Berlin. The event provides an important opportunity to promote Australia as an exciting travel destination to the overseas travel industry and European travellers.

The ITB also provides a forum for Australian tourism operators to meet and do business with key European buyers. In 2003, 50 Australian tourism companies showcased Australia to the European travel market at this event

The ITB brings together more than 9,000 exhibitors from 180 countries. It involves a trade show component for tour operators in Europe, as well as a public exhibition with thousands of consumers visiting the Australian stand (which was set up in conjunction with New Zealand in 2003). It also attracts around 123,000 attendees, made up of 65,000 trade visitors and 58,000 members of the general public.

A number of travel industry representatives from Central Europe have previously visited Australia's ITB stand, which has generated some good business with Australian tourism companies. Unlike ATE, the event does not require an invitation from the ATC and is a more cost effective option for international delegates.

Recommendation 16

The Committee recommends Austrade produce a business strategy paper to promote trade and investment with the countries of Central Europe taking into consideration sectors in which Australia has a comparative advantage, including:

- *Services:*
 - ⇒ *e-commerce and related services;*
 - ⇒ *e-government technology and services;*
 - ⇒ *government services, higher educating and VET health related technology and related services;*
 - ⇒ *tourism training;*
 - ⇒ *land titling*
 - ⇒ *agricultural services;*

⇒ *environment related-services.*

- *Agribusiness:*
 - ⇒ *wool (including a targeted trade mission); leather and related products; wine products.*
- *Manufacturing:*
 - ⇒ *automotive equipment; smart card technology; building materials, environmental equipment.*

Austrade welcomes the contribution made by the Committee to the identification of business sectors where Australia has a comparative advantage in the Central Europe market. The accession to the European Union of seven countries which are covered by this report in either 2004 or 2007 has already prompted considerable demand in the services relating to the sectors noted in this recommendation. Austrade expects these to grow into 2004 and consolidate in the 1-3 years following accession.

In response to these changes, Austrade has commenced a re-evaluation of its operations in Central Europe to address the structural change in markets. The result will be a revised business strategy that will reflect new areas of market information, business matching and promotional activity. This process will be enhanced through individual business plans for each post and the Central European specialist in Austrade's Client Advisory Services unit.

Recommendation 17

The Committee recommends that Austrade facilitate industry-specific trade missions to Central Europe to encourage trade and investment in high opportunity areas.

Trade missions are a valuable method of bringing groups of Australian companies to potential buyers or distributors in foreign markets. They feature prominently amongst the tools Austrade uses to assist companies enter foreign markets and are frequently industry specific.

Austrade has recently conducted two trade missions to Central Europe. In late 2002, Austrade introduced eight technology companies providing e-government solutions to ministries and businesses in Germany, the Czech Republic and Poland. In March 2003, Australian Education International (AEI)/Austrade conducted a mission of English language and Vocational education providers to the fast growing Polish and Czech markets. Two follow-up missions to Hungary and Slovakia are planned for March 2004

Austrade regularly reviews its strategy for the Central Europe region and initiates missions where potential exists. Future missions in the planning stages include ICT missions in banking and finance and land-titling.