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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 RELATIONS WITH THE GULF STATES"
– February 2005**

Australia's Trade and Investment Relations with the Gulf States

Expanding Australia's Trade and Investment Relations with the Gulf States

GOVERNMENT RESPONSE

The Government thanks the Joint Standing Committee on Foreign Affairs and Trade for the comprehensive enquiry conducted into Australia's trade and investment relations with the Gulf States. The report is a welcome and timely study of Australia's trade and investment relations with the seven Gulf States following the Committee's last report on 'Australia's Relations with the Middle East' in 2001.

The report makes ten recommendations regarding Australia's trade and investment relations with the Gulf States. The Government's response to these recommendations is provided below.

Recommendation 1

The committee recommends that the government give high priority to developing a program of high level visits to the region over the next three years to ensure Australia's profile is substantially raised.

High level visits to the Gulf region are an integral part of Australia's efforts to raise our trade and investment profile in the Gulf region. Federal Ministers visit the region regularly, as do State Ministers. High level visitors to the region in recent months include the Prime Minister, Governor-General, Minister for Trade, Minister for Defence Personnel, and the Minister for Agriculture, Fisheries and Forestry, as well as the Premier of New South Wales. The Government also encourages high level Gulf visitors to Australia, and in this context the visit in March 2005 of the UAE Minister for Economy and Planning and the Minister for Transport with a high level official and business delegation is noteworthy.

Recommendation 2

The committee recommends that the government reconsider the 2002 reinterpretation of section 23AF of the Income Tax Assessment Act relating to income tax exemptions. It should do this with a view to undertaking a more comprehensive cost-benefit analysis of the effect of the 2002 change on the national interest.

Section 23AF of the Income Tax Assessment Act 1936 allows Australian firms bidding for overseas projects that are in Australia's national interest to do so without the cost of having to gross up the wages of Australian workers to cover the Australian tax payable on those wages. This allows Australian firms to compete against firms from other countries that are often subsidised by their respective governments. The Minister for Trade (or his delegate) is authorised under section 23AF to approve eligible projects.

The review in 2002 of Austrade processing and decision-making in relation to Section 23AF applications identified that a number of incorrect approvals had been given. These approvals related to cases whereby Australian labour supply companies were arranging for Australian workers, particularly in the medical services field, to find tax free employment in Gulf states in a way that was inconsistent with the "eligible projects" criteria of s23AF. This did not constitute a reinterpretation of s23AF by Austrade.

Those labour supply companies that had approvals in or prior to 2002 have been contacted and advised that existing approvals would be honoured but that no new approvals would be granted for labour supply projects in the future.

Generally, Australian nationals are required to pay Australian tax on their income earned overseas unless that income is taxable overseas (when section 23AG of the tax act may provide a tax exemption in Australia) or the project on which they are working has been approved as an eligible project under section 23AF. As most Gulf States do not levy income tax, Australians working in the Gulf States should expect to pay Australian tax on income earned in those countries. As matter of equity, Australians working in the Gulf States employed directly or indirectly through labour supply companies should be taxed on the same basis.

It is considered that Austrade officers delegated by the Minister for Trade are exercising powers in relation to section 23AF consistent with the law and the policy intention.

Recommendation 3

The committee recommends that the government continue to pursue memoranda of understanding with relevant Gulf nations, to avoid potential problems with the live animal trade.

Australia is continuing to vigorously pursue Memoranda of Understanding (MoU) on the live animal trade with trading partners in the Gulf and Middle East. Four MoUs have been signed to date, and these cover approximately 70 per cent of the trade in live animals to the Middle East:

- the United Arab Emirates (UAE) on 2 December 2004
- Kuwait on 16 March 2005
- Saudi Arabia on 4 May 2005
- Jordan on the 5 May 2005.

Each of these MoUs contains key provisions or agreement that any animals suspected of carrying diseases would be off-loaded into a quarantine facility for further testing.

An MoU with Eritrea on Cooperation on Agricultural Issues was signed on 29 April 2005 which provides for the provision of technical cooperation and assistance to Eritrea and possible use of a regional quarantine holding facility for live animals. Australia may request to use the Eritrean facility in the event of a rejection of a shipment of live animals from Australia by a third country within reasonable shipping distance of Eritrea and in the absence of a commercial market being found within a reasonable time.

The Australian Government will continue to pursue MoUs with Oman, Bahrain, Qatar and Iran as well as other Middle Eastern states, including Israel, Egypt and Syria. Consideration is being given to additional measures which might be placed on those countries that have not signed MoUs in order to mitigate any risks associated with the trade to those countries.

These agreements represent a significant step in meeting the Government response to the recommendations of the Keniry Review ie. having bilateral arrangements in place that provide operational quarantine holding facilities so that animals can be offloaded prior to a final decision being made on the import clearance.

Conclusion of the MoU with Saudi Arabia means the trade in live animals can resume, following the completion of necessary amendments to the relevant orders under the Australian Meat and Live-stock Industry (AMLI) Act.

Recommendation 4

The committee recommends that the government expedite an investment protection agreement between Australia and Iran.

Australia continues to give ongoing attention to the conclusion of an investment protection and promotion agreement with Iran.

Recommendation 5

The committee recommends the Australian government jointly host a symposium to investigate areas of potential technical cooperation between Australia and Iran. The symposium should include the following components:

Mining

Agriculture and agricultural training (including dry-land farming, forestry and vocational agricultural training)

Post harvest technology.

The government will investigate the possibility of such a symposium in the context of the next meeting of the Australia-Iran Joint Ministerial Commission, the timing of which has yet to be agreed.

Recommendation 6

The committee recommends the government consider strengthening Australian trade representation in Kuwait.

Austrade regularly reviews outcomes from its resource commitments to ensure it is getting the best possible return on investment.

The opening of the temporary chancery of the Australian Embassy in Kuwait late last year provided another avenue for Australian industry to access information on opportunities in this market. Austrade's Riyadh office manages our commercial engagement with Kuwait and has already established a close working relationship with the Embassy. In addition, Austrade's Trade Commissioner (Iraq Procurement) is actively involved in pursuing opportunities in Iraq through Kuwait-based entities.

Austrade is presently awaiting the opening of the permanent Embassy facility in Kuwait with the current temporary facility unable to accommodate an Austrade staff member. When established, Austrade will place a locally engaged Business Development Manager within the Embassy, reporting to and under the management of the Austrade Riyadh office.

Given that the Trade Commissioners Riyadh and Iraq Procurement and their staff regularly service this market, we are satisfied that our interim and future arrangements will meet both Australian industry interests and our needs.

As part of our ongoing assessment of return on investment we will continue to monitor and evaluate the benefits of resource commitments to Kuwait.

Recommendation 7

The committee strongly supports the government's plans to develop a strategy for the export of defence related hardware and services to the region. The committee recommends the strategy consider:

- *What specific opportunities exist for the export of defence related hardware and services*
- *How the relevant agencies should cooperate, in terms of resourcing and personnel posted to the region, to optimise defence related exports to the region*
- *The long term export opportunities which would flow from Gulf nationals undertaking military training in Australia.*

Defence Exports Strategy for the Gulf States

Defence and Austrade have a long-standing working relationship, both in Australia and overseas. The agencies have complementary roles in facilitating defence exports in order to sustain strategically important defence industry capabilities in Australia for the support of the Australian Defence Force (primarily Defence), and to increase the number of companies exporting for the national benefit (primarily Austrade).

In recognition of the strong defence export opportunities in the Gulf States, Defence has been working with Austrade, the Department of Industry, Tourism and Resources, and other federal and state agencies on the promotion of defence exports to the Gulf region.

Defence directly assists Australian exporters to gain access to Gulf State markets through providing support for focussed industry missions to the region, and coordinating and supporting Australian defence industry attendance at regional trade shows.

Defence Assistance to Australian Exporters

Direct assistance provided by Defence to Australian exporters to access Gulf markets includes:

- a. facilitating industry missions into the region (most recently in September – October 2004) assisted by a senior Australian Defence Force officer to facilitate access to senior military officers in host countries and interaction with their government and industry representatives;
- b. supporting an Australian defence industry presence at the International Defence Exhibition (IDEX), conducted biennially in the United Arab Emirates. The most recent was held in February 2005 and it was attended by the Chief of the Defence Force and supported by the presence of HMAS Darwin; and
- c. hosting visits to Australia by Gulf State officials to inspect Australian defence products. This may involve granting access to Australian Defence

facilities and demonstrations of in-service equipment. Recent visits have included logistic and training establishments in the Albury-Wodonga area.

Defence Personnel in the Gulf States

The Defence presence in the Gulf Region is an important asset for defence export promotion activities. Currently, there are three Defence Attachés (DAs) located in Iraq, Saudi Arabia (also accredited to Kuwait, Oman, Bahrain and Jordan), and the United Arab Emirates (also accredited to Qatar).

The Joint Directive issued by the Chief of the Defence Force and the Secretary of Defence requires DAs, within existing policy guidelines, to provide assistance to representatives of Australian defence industry seeking to market defence products and services.

Under this directive, on-going support to defence exporters is provided by DAs through the timely dissemination of information on market opportunities and facilitation of company access to senior decision-makers. This support has been instrumental in achieving many of the export successes to date. DAs work closely with the representatives of other Departments and agencies in Australian embassies, and provide invaluable support in-country to Australian visitors and trade missions.

Details of Recent Defence Exports to the Gulf States

Table 1 shows recent defence exports and related activities with Gulf countries and reflects what has been reported to Defence by Australian industry. Items that are not controlled for export under Australian Customs Service regulations are included.

Export	Item	Exported to	Date	Value (\$000)
1	3 patrol boats	Kuwait Coast Guard	February 2003	30,000
2	Maritime Training Course	Oman	June 2002	1,000
3	Safety and Rescue Training Course for Special Forces members	United Arab Emirates (UAE)	July 2002	100
4	Radars for missile patrol boats	UAE	late 2004	10,000
5	Apparel	UAE Armed Forces	late 2003	1,500
6	15 portable communication systems equipment for rapid voice and data links deployment	UAE	mid 2004	250
7	Asset Management and Planning System (AMPS) logistics software	Kuwait through Kuwait Ship Repair Company (KSRC)	August 2002	300
8	Fire control systems	UAE (through third party – recon of United States)	late 2002	6,000
9	Data links for missile patrol boat upgrade program	UAE Navy	early 2003	2,000
10	Shelters and underground structures	mainly UAE and limited work in Saudi Arabia	2002-03 and 2003-04	estimated 6,000
11	Security Forces training	UAE	2004	700
12	2 airborne depth sounder surveys	Qatar	2002 and late 2003	4,000
13	Mine avoidance sonar for 6 missile patrol boats	UAE	2004	Approx 10,000
14	10 patrol vessels	Yemen	2003-04	Approx 75,000
15	Coastal surveillance radar	Bahrain	2004	5,000

Table 1: Defence exports and related activities with the Gulf States 2002-04

Australian Military Training of Gulf Nationals

Defence provides military training in Australia for a number of Gulf State defence officials, who are thereby familiarised with Australia, its defence equipment and industry capabilities. Table 2 shows the number of Gulf State nationals trained in Australia and the military training courses they attended for the financial year 2004 - 05.

Course	Gulf Country	Number Trained
Australian Command and Staff Course (ACSC)	Bahrain	1
	Iraq	4
	Kuwait	2
	UAE	2
Australian Defence Force Academy (ADFA)	UAE	2
Combat Officer Advance Course	UAE	2
Defence and Strategic Studies Course (DSSC)	Iraq	1
	Kuwait	1
	Oman	1
	Saudi Arabia	1
	UAE	2
Defence Management Seminar (DMS)	Iraq	2
Maritime Law and Security Seminar	Bahrain	1

Table 2: Military training courses attended by Gulf nationals in 2004-2005

Interaction with Gulf Nationals Alumni

The Australian Defence College (ADC) maintains an Alumni website at <http://www.alumni.adc.edu.au/> to develop and sustain close relationships between graduates and the ADC. Information such as name, rank, service, course and country of origin is readily available on the website. An online forum and email contact details facilitate communication between ex-course attendees and promote an awareness of the ADC's ongoing activities.

Recommendation 8

The committee recommends the Government consider strengthening Australian trade representation in Bahrain.

Austrade regularly reviews outcomes from its resource commitments to ensure it is getting the best possible return on investment.

Austrade's Riyadh office manages our commercial engagement with Bahrain and has established a sound working relationship with the Australian Embassy in Riyadh, which has responsibility for Bahrain. Together with Austrade Dubai and other DFAT posts in the region we are satisfied that Australian industry has access to appropriate levels of Australian government services for Bahrain.

Austrade will keep under review its allocation of resources for Bahrain.

Recommendation 9

The committee recommends that DIMIA consider strengthening its representation across the Gulf region. This should ensure faster processing of visas for key economies in the region in light of the growing opportunities in the Gulf States.

DIMIA regularly reviews its overseas representation to ensure it remains appropriate. It is satisfied with its representation in the Gulf at this time.

DIMIA has put in place processes to give priority to visa applications that are identified as being of significance to Australia's interests. We rely on DFAT and other Australian Government stakeholders to identify these priority cases.

DIMIA acknowledges the growing opportunities in the Gulf States and has an ongoing commitment to improving access to visa services and processing times.

Since March 2003, nationals from the UAE have been able to lodge tourist visa applications electronically through the DIMIA website. This facility was extended to nationals of Kuwait in March 2004 and then Oman, Bahrain and Qatar in April 2005. This system provides clients with an efficient and simple way of lodging visitor visa applications.

In addition to the above, from May 2004, DIMIA has engaged a business partner in Dubai to operate a visa application collection service. This has resulted in streamlined processing and assisted the post in Dubai to better manage visitor visa processing during the peak for visitors from the Gulf (May to August). We continue to look for opportunities to expand our partnership arrangements – and, in this regard, we anticipate the establishment of a call centre for Gulf clients commencing later this year.

Recommendation 10

The committee recommends the government consider strengthening the resources of the Australian Tourist Commission and Invest Australia in the Gulf region, to raise their profile and capitalise on current opportunities.

In recognition of tourism opportunities from select Gulf countries, Tourism Australia has already strengthened its resources to capitalise on current opportunities in key tourism source markets. Within its current budget parameters and strategic approach, Tourism Australia is already undertaking relevant and appropriate promotional activities to boost tourism from targeted Gulf Countries.

In the Gulf region, Tourism Australia concentrates its marketing efforts in Bahrain, Kuwait, Qatar, Oman, Saudi Arabia and the UAE, as these are the countries that provide the most opportunity for tourism and can be influenced in the most cost effective way by our marketing efforts.

For the current financial year, Tourism Australia has nearly doubled its marketing spend in the Gulf countries from \$392,000 to \$775,000 to capitalise on tourism

opportunities in that region. While the Gulf countries represent a small inbound tourism market, the number of arrivals into Australia increased by 25 percent in 2004. Importantly, the key opportunity for Australia is the length of stay, spend, dispersal, and group sizes for this market.

Tourism Australia employs two Dubai-based trade development representatives and a Bahrain-based PR representative to undertake activity in the region and to provide in-depth market insights into how best to target consumers and the local travel trade.

In the Gulf countries, Tourism Australia's integrated marketing approach aims to create a stronger brand presence for Australia and build intent for travel among the target groups of extended Arab families and expatriates. Tourism Australia also undertakes activity for the tourism trade to help strengthen the distribution system for Australian tourism product and broaden the understanding and knowledge of Australia.

Tourism Australia's recent increased marketing focus includes:

- Conducting consumer research to improve understanding of the travellers in the region and how to best target them;
- Launching an outdoor billboard and print advertising campaign to attract travellers from the Gulf countries to holiday in Australia (April to June);
- Coordinating the Visiting Journalists Program and media relations to generate publicity to promote Australia;
- Publishing Traveller's Guides in English and Arabic – publications which provide information on Australia and holiday experiences appropriate for the market;
- Working with the Department of Immigration, Multicultural and Indigenous Affairs (DIMIA) on a campaign to promote the new E-visa and develop a consumer brochure;
- Developing a dedicated consumer website for visitors from the Gulf countries;
- Participating in the Emirates Holiday Show;
- Coordinating consumer promotions;
- Coordinating travel trade education programs and events to promote Australian travel trade including:
 - Yinala;
 - Arabian Travel Market;
 - Gulf Countries Roadshow;
 - Sales calls to travel agents in Gulf countries;
 - In-store promotional displays for travel agents;
 - Dedicated Australian collateral including maps and Traveller's Guides; and
 - Trade/operator partner programs.

The introduction of E-visa – an improved visa processing service which allows applicants to apply for visas online for nationals from Bahrain, Kuwait, Oman, Qatar and the UAE - has been an important development for the promotion of Australia in the Gulf region. Previous delays in visa processing in this market made promotional efforts challenging.

Tourism Australia is confident that within its current budget parameters and strategic approach it is already maximising opportunities to grow tourism from select countries within the Gulf region, in keeping with the Joint Standing Committee's recommendation.

Under Invest Australia's current strategic plan, Global Returns, the National Strategic Framework for Attracting Foreign Direct Investment, the Gulf region is serviced by staff in the Sydney office on an individual request basis. Recently some additional commitment has been made to raising Australia's profile in the Gulf states through the production of promotional material in Arabic.

Invest Australia's activities are currently under review. A major aspect of the review is the consideration of new markets for investment promotion. The Middle East has been specifically nominated for consideration in this context. The government's response to this review is expected to be released in 2005-06.