

Central Europe visit

Introduction

- 5.1 In April 2003 the Trade Sub-Committee travelled to Central Europe to learn first hand how Australia's trade and investment relationship with the relevant countries could be enhanced.
- 5.2 The group participated in a full and comprehensive program of briefings and meetings with Australian officials and business people, and host country business people, Government officials and parliamentarians.
- 5.3 The group visited Poland, Hungary and the Czech Republic. It then split into two, with one group going to Romania and Bulgaria, the other going to Slovakia, Croatia and Slovenia.
- 5.4 This chapter will briefly overview impressions from the whole trip, then impressions for each country.
- 5.5 The Committee's observations accord with much of the evidence received during the course of the inquiry. While all evidence, including evidence from the visit, is incorporated into the whole report, this section briefly covers particular issues and observations emerging from the visits to each country. The section draws heavily on the official notes of the visit and the personal notes of Committee members involved in the visit.

Australian diplomatic posts in Central Europe

- 5.6 Australian diplomatic posts in Central Europe are in:²¹⁷
- ⇒ Athens (covering Bulgaria)
 - ⇒ Belgrade (covering Romania)
 - ⇒ Budapest (Hungary)
 - ⇒ Vienna (covering Slovakia and Slovenia)
 - ⇒ Warsaw (covering Poland and the Czech Republic)
 - ⇒ Zagreb (covering Croatia)
- 5.7 Australian honorary consuls are in:
- ⇒ Ljubljana (Slovenia)
 - ⇒ Prague (Czech Republic)
 - ⇒ Sofia (Bulgaria)

Overview

- 5.8 When the Committee began its investigations into the trade and investment opportunities in Central Europe there was a view that the opportunities would be limited and that the countries would still be constrained by bureaucracy and central economic planning. Instead the Committee was very impressed with the degree to which these countries had embraced the free market.
- 5.9 The level of economic growth in these countries since the end of the communist era in 1990, the extent of foreign direct investment and the major privatisation programmes all indicated significant trade and investment opportunities for Australia.
- 5.10 While Australian traders and investors in Central Europe encountered during the visit recounted stories of some frustration with bureaucracy, their comments were overwhelmingly positive. From major organisations such as AMCOR, Bovis Lend Lease, QBE Insurance, Cojo Group, Village Road Show, and Harvey Norman to the smaller operations such as the Cheesecake Shops, Cochlear Implants and Health Service consultants the reaction was similar. These companies saw considerable opportunities, some delays in

²¹⁷ DFAT, Submission No 16, p 87.

dealing with government, but rewards for Australian companies doing the groundwork in these economies in transition.

- 5.11 While obviously there are limitations in some market areas with the accession of these countries to the EU, it is believed that in the long run there are greater opportunities for Australian exporters. The reasons for this were:
- The flow of EU infrastructure funding which would begin following accession in May 2004
 - The ability of Central European companies to appeal to a wider market
 - The likelihood of further FDI funds going into manufacturing plants as a result of EU access
 - The pressure from Brussels for compliance in relation to environmental regulations, judicial reforms and anti-corruption requirements
 - The growth of a consuming middle class
- 5.12 The Committee was impressed with the number of young professionals encountered during the program who were running Government organisations, attracting investment and overseeing structural change. Organisations such as Czech Invest would rival investment promotions bodies located in more developed western countries. There was great enthusiasm for the task and the challenge of the economic and structural changes required. It is commonly believed that the relatively freer markets of the Central European countries pre-transition - such as the Czech Republic, Hungary and Slovenia - allowed these economies to respond well to the changes required.
- 5.13 While all the countries represent real opportunities for Australian traders and investors, the visit left the impression on the Committee that the economies of Poland, the Czech Republic, Hungary and Slovenia have achieved the most progress in economic growth in the last 20 years.
- 5.14 This march to enter the EU has been a driving force in reforming their economies. Slovakia in the last few years has moved aggressively to catch up to other Central Europe countries and has successfully attracted some major investment particularly in the auto industry (Citroen).

- 5.15 The committee noted the extent to which countries were competing against one another in the same manner as the Sunbelt States in the USA in the 1970s and 1980s. The trend in Central Europe is towards lower tax rates, especial corporate tax rates. In Hungary the corporate tax rate is 18% and in Slovakia it is 20%. In fact the Slovakian Parliament has before it legislation that would reduce tax rates to 20% corporate, 20% personal (flat), and 20% VAT. See Appendix K for a summary of corporate tax rates for a range of countries.
- 5.16 Despite the central planning backgrounds of these countries labour reform has moved significantly. Union membership is relatively low (30% on average) and individually negotiated contracts, rather than centralised wage fixing, appear to be common. Company managers reported on the strong work ethic, reliability and flexibility of the work force in Central Europe which are obviously important factors in attracting foreign investment. The head of the Goodyear manufacturing plant based in Ljubljana, Slovenia noted that in his experience employing in Slovenia it was like “employing German workers at half the price.”
- 5.17 The level of education and training is high and fluency in English is growing rapidly with English being taught universally. (Replacing Russian and German).
- 5.18 In summary, the impression left with the Committee was that Central European countries visited are undergoing major structural and economic change. They will undoubtedly be a new force in the expanded EU and can be expected to challenge existing EU regulations and approaches. The countries while having strong links with Europe particularly Germany and Austria are also developing strong economic links with the USA.
- 5.19 Trade opportunities in the countries visited in Central Europe cover a wide spectrum. In particular the fact that Central Europe is restructuring bureaucracies more reminiscent of Australia in the 50’s represents great opportunities in relation to our Government: land titling, medical and health services and consulting as well as social welfare structuring. Funding for structural reform in these countries is expected to come from both EU and World Bank sources.
- 5.20 Other opportunities relate to agribusiness given the size of the farming sector and the need for reform; environmental equipment and consulting (again with EU funding); educational exports with currently 3,100 students coming from Central Europe to Australia to study, sporting equipment and hospitality and tourism (both

education and training). The inadequate transport infrastructure in these countries also provides opportunities in areas such as toll-road construction.

- 5.21 The rapid growth of a middle class provides opportunities across a wide range of consumer products, particularly gourmet foods, wine and other food products (depending on EU restrictions). Shopping centres have developed quickly over the last 10 years and a walk through an average shopping mall shows the rapidly developing taste for all things western.

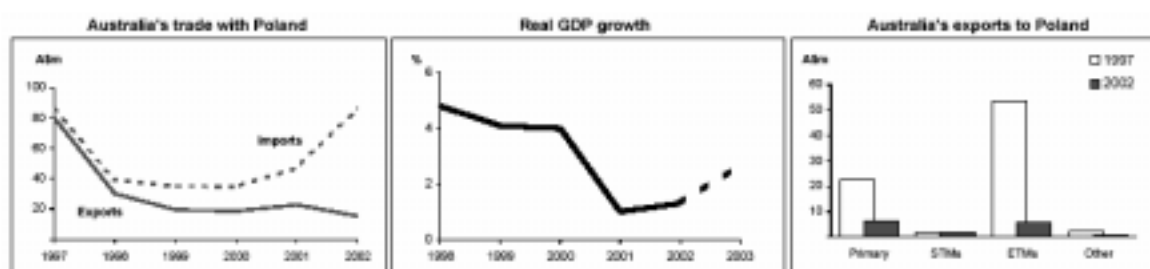
Poland

Key indicators

Population (million)	38.3	GDP per capita	US\$ 5498
Economic overview (YEAR) as % of GDP	Services 63.4 Industry 32.8 Agriculture 3.8	GDP trend growth (%)	2.7 (2003)

Australia's major exports and imports

Australia's Major Exports (2001)	A\$ m	Australia's Major Imports (2001)	A\$ m
telecommunication equipment	27.9	Furniture	5.9
Wool	5.8	electrical machinery	5.7
Leather	3.2	Glassware	4.9
zinc ore and concentrates	3.0	rubber tyres	1.7
Machinery and other mechanical equipment	2.0	prepared seafood	1.7



Meeting Program in Poland

- 5.22 The Committee spent two days in Poland. The visit program started with Australia's ambassador to Poland Mr Patrick Lawless briefing the group on the morning of 7 April. Meetings over the two days incorporated: the European Bank for Reconstruction and Development (EBRD); a roundtable meeting with Australian and Polish business people, followed by a lunch meeting with a larger group of business people and officials. In the afternoon the Committee met with the Polish Business Centre Club and members of the Polish parliament.
- 5.23 Day two of the visit saw the Committee meet with Amcor Rentsch executives and tour their facilities outside Warsaw.

Emerging issues and observations

- 5.24 Poland in many ways represents greater long term opportunities than any of the other countries visited. This is premised on its population

- size (twice that of Australia), the largest of any of the countries visited.
- 5.25 Australian companies are well represented in Poland across a diverse number of activities. These range from AMCOR which has the largest investment of any Australian company in Central Europe, Bovis Lend Lease, the Cheesecake Shop and a number of small importers and service providers including Warsaw branches of Australian legal and accounting firms.
- 5.26 Poland has particular challenges in relation to the high level of unemployment (currently 27%) and the high numbers employed in the agricultural sector. About half of agricultural workers are subsistence farmers who basically only support themselves and their families.²¹⁸ Undoubtedly EU accession will lead to major reform of this sector. Petty corruption and some inflexibility in bureaucracy were commented on by Australian companies represented in Warsaw.
- 5.27 Opportunities exist in relation to e-government, land titling, educational and medical services general consulting services and hospitality and training.
- 5.28 The private sector has developed strongly and the business community provides a direct input into Government lobbying. The extent of private foreign investment in Poland has impacted on the business community in Poland and resulted in progressive reform of both the bureaucracy and structural issues in the economy.
- 5.29 In its visit to the AMCOR plant in Wosz, the Committee was impressed with the success of the plant, the largest Australian investment in Central Europe, the degree of satisfaction by AMCOR executives in negotiating with state and local bureaucrats and the taxation arrangement achieved. Also noted was the need for better road infrastructure between Warsaw and Wosz, perhaps providing opportunities for Australian infrastructure companies.
- 5.30 In summary Poland represents significant trade and investment opportunities for Australian companies, despite problems of some structural inflexibility in the economy.

²¹⁸ Economist Intelligence Unit: http://db.eiu.com/client_access.asp

Trade and investment opportunities

Trade

- 5.31 Australia's major trading partners in Poland include: infrastructure and project management group Bovis Lend Lease; and bionic ear manufacturer Cochlear.
- 5.32 Sectors in which DFAT sees Poland providing export potential include: wine, foodstuffs, meat, sheepskins, processed leather, education, ITC (especially software for managing assets and providing logistical back-up) and waste management technology.
- 5.33 Evidence of an emerging middle class and growing wealth in Poland was seen in the increasing demand for educational services and the population's ability to study overseas. Polish demand for Australian education has grown dramatically in recent years and is now the third largest market for education services, after the Czech and Slovak Republics.
- 5.34 The Australian business representatives, including Ernst & Young, Bovis Lend Lease, Spatial Cadastral Systems and The Cheesecake Shop, gave a generally optimistic appraisal of their experiences in conducting their respective businesses in Poland. According to the representative from Denton Corker Marshall (architects), there is 'terrific potential in Poland'. It was suggested that Australian firms wanting to operate in the county need to be 'proactive', 'learn the rules' and 'get to know how things are done locally'.
- 5.35 The representative from Spatial Cadastral Systems suggested that foreign companies needed to be prepared to work with Polish companies as joint partners. Amcor Polska indicated that Poland's entry into the EU presented a big opportunity, particularly in regard to picking up business in the EU.

Investment

- 5.36 Amcor Polska is Australia's largest investment activity in Poland. It has invested in a plant which packages food, cosmetics and cigarettes. Other investors include Ernst & Young, Bovis Lend Lease, Spatial Cadastral Systems and The Cheesecake Shop.
- 5.37 Areas which DFAT identify as providing good investment opportunities include: road smart technologies, transport and port

handing, environment (land rehabilitation, clean coal technologies, and renewable sources of energy).

- 5.38 The Business Centre Club stressed that Australian companies should aim to establish themselves in Poland prior to accession so that they can then enter the EU as a 'European company'. Although it might be too late for companies to realistically do this in Poland or other acceding countries now, this advice is worthwhile for those subject countries acceding in 2007 and after (Bulgaria, Romania and Croatia).
- 5.39 This important message was reiterated in most of the countries visited by the Committee.

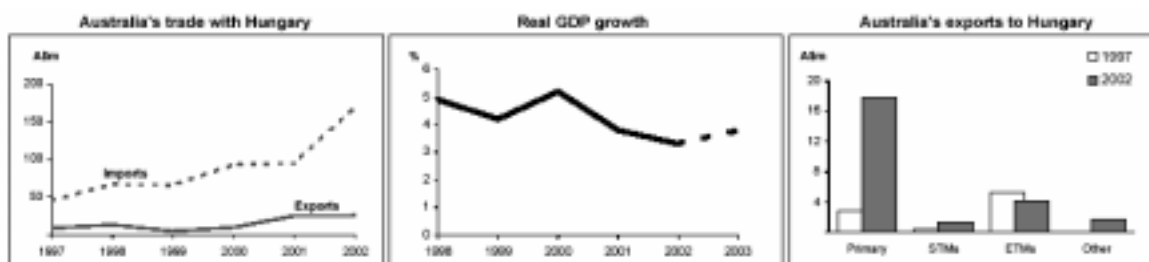
Hungary

Key indicators

Population (million)	10.1	GDP per capita	US\$ 8380 (2003)
Economic Overview (2001 as % of GDP)	Services 62.4 Industry 27.1 Agriculture 4.2	GDP trend growth (%)	3.8 (2003)

Australia's major exports and imports

Australia's Major Exports (2001-02):	A\$ m	Australia's Major Imports (2001-02):	A\$ m
Wool	9.9	Toys, games and sporting goods	68
Insecticides, herbicides	1.1	Computers	24
Measuring and controlling equipment	0.4	Motor vehicle parts	14
Pumps for liquids	0.63	Electrical machinery	13
Perfumery and cosmetics	0.29	Nitrogen-function compounds	5.2
Specialised machinery	0.26	Rubber tyres	3.2



Meeting Program in Hungary

5.40 The Committee spent two days in Hungary. On 9 April after an initial briefing with Ambassador Leo Cruise, the Committee met with the Hungarian Parliamentary Committee on Economic Affairs followed by a lunch meeting with several Hungarian members of parliament. In the afternoon the Committee met with representatives of the Hungarian Employers and Industrialists Association. In the evening the Committee attended a reception at the Ambassador's residence along with various Hungarian dignitaries including the Deputy Foreign Minister. Day two saw the Committee meet with the Trade Division of the Hungarian Foreign Ministry and the Hungarian Chamber of Commerce and Industry.

Emerging issues and observations

- 5.41 Hungary has been one of the fastest growing economies in Central Europe since the fall of the communist government in the early 1990s. Hungary was in fact the number one Central European economy in terms of foreign direct investment for the first half of the 1990s. Currently private capital accounts for 80% of the economy.
- 5.42 In 2003, just under 4% economic growth is forecast for Hungary. The Hungarian economy has been undergoing fundamental reform for the past 12 years. Former Easter Bloc countries represented 50% of Hungarian trade in 1990, but with the fall of communism led to the collapse of socialist heavy industry in Hungary. The share of Soviet trade in the communist period was 30%, and now it is less than 2%.
- 5.43 Since that time there has been US \$25 billion in foreign direct investment. Hungary now has a US \$4.5 billion trade surplus with the EU. At the end of the 1980s Hungary's trade volume was US \$6.5 billion but by 2002 it was US \$36 billion. Part of the reason for the success in seeking foreign investment is the competitive advantage of Hungary's wage level, which is approximately 1/6 of Australia's wage levels. There are concerns within Hungary that this advantage will shift to the Ukraine and Romania where wage levels are respectively 1/10 and 1/4 the wage level of Hungary. China is also attracting significant new investment in industries where Hungary was previously competitive.
- 5.44 The reasons given by the Hungarian foreign office for the level of foreign investment were:
- Stability
 - Liberalisation of corporate law
 - Bi-lateral trade agreements
 - Level of corporate tax, which at 18% is the lowest in Central Europe
 - The level of Hungarian education
 - The competitive salary levels
 - The English language capability of Hungarian graduates

- 5.45 In the early 1990s Hungary was the leader in foreign investments. In the second half of the 1990s investors discovered Poland and in the last 3 years the Czech Republic has been gaining on Poland.
- 5.46 Productivity growth in Hungary for the last few years has been greater than 10%. Last year growth was 3.5%. The stated aim of Hungary is to lead economic growth in the former Easter Bloc. Investment promotion has been particularly targeted to the electronic and car manufacturing industries.
- 5.47 The challenges for Hungary with EU accession are related to infrastructure, particularly railways and highways, the need to upgrade IT capability and capital access.
- 5.48 Unions in Hungary have seen a decline in their role over the 12 years of transition. During this period the economy has not been substantially affected by strikes.
- 5.49 In this rapidly growing economy opportunities are obvious for Australian companies both for export and investment. The strong presence in Australia of migrants from Hungary contributes to Australia's image, and access in this country. Opportunities exist for e-government providers, operatives in the tourism industry, environmental sector, infrastructure providers particularly in relation to road and railways, and educational institutes seeking offshore students. The environmental equipment relates to water purification, sewage systems and air pollution.
- 5.50 The Committee considers that Australia's representation is insufficiently focused on taking advantage of emerging trade and investment opportunities, particularly in regard to Hungary's impending accession to the EU. The Committee believes therefore, that a more dynamic and strengthened trade and business focus would enhance Australia's trade and investment relationship with Hungary.

Recommendation 6

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

Trade and investment opportunities

Trade

- 5.51 Australia's major trading partners in Hungary include: Cochlear, the supplier of ear implants; Jurox, a veterinary products supplier; wool supplier GH Michell; Griffiths and Beerens chainsaw manufactures; and timber floorboard suppliers, Boral.
- 5.52 Infrastructure development was clearly an issue for Hungary. Road and rail infrastructure, and information technology were all areas in which Hungary needed to invest to lift its economic potential, providing potential for Australian expertise and exporters.
- 5.53 Tourism, an area in which Australia has much expertise, is likely to experience considerable growth in Hungary in coming years, according to the EBRD. Australia's experience in the area, coupled with our highly developed education and VET sector is well placed to capitalize on this expected growth.
- 5.54 Hungary still has some way to go before accession in meeting EU environmental standards. Australia's comparative strength in the field of environmental management places Australian firms well to exploit this opportunity. It was suggested to the Committee by the Hungarian Parliamentary Committee on Economic Affairs that Australian companies wanting to win environment business will need to set up in Hungary to have a chance of achieving significant results.
- 5.55 Hungary's agricultural production was considered efficient by world standards, having once been part of the Cairns group of nations within the WTO. Consequently Hungary was likely to be pushing for reform of the CAP once it accedes to the EU. Common interests in this regard might prove useful for relations in the future.
- 5.56 The Foreign Ministry indicated that IT is well developed in Hungary and that Hungarian IT companies are very competitive with a strong export focus. It was suggested that IT and administration (e-business and e-government) were opportunities for service sector investments.

Investment

- 5.57 There are four major Australian investors in Hungary: QBE in insurance; car headlight manufacturer Hell-Stanley Holding Pty Ltd; compact disk case manufacturer Proloc Central and Eastern Europe; and accommodation provider Sydney Apartment Hotel.
- 5.58 As was the case in other countries in the region, the Hungarian Parliamentary Committee on Economic Affairs stressed the importance of foreign businesses investing in Hungary prior to accession to the EU. In the case of agricultural products, it was indicated to the Committee that there will not be much scope to offer Australia special access after Hungary's accession to the EU.

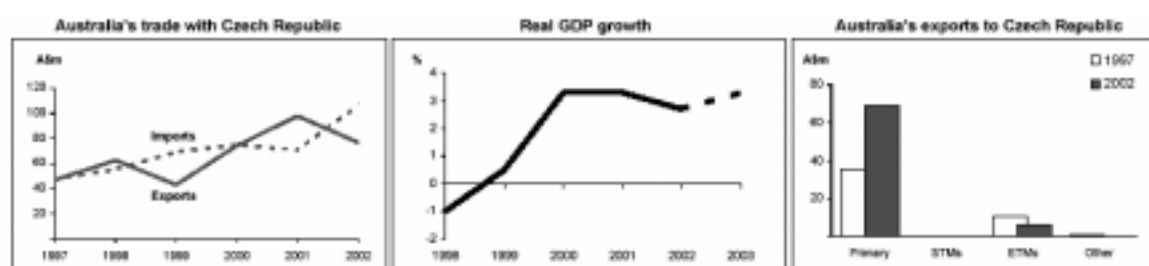
Czech Republic

Key indicators

Population (million)	10.3	GDP per capita	A\$ 9150 (2003)
Economic overview as % of GDP	Services 58.0 Industry 30.2 Agriculture 3.8	GDP trend growth (%)	3.3 (2003)

Australia's major exports and imports

Australia's Major Exports (2001)	\$ m	Australia's Major Imports (2001)	\$ m
wool	82.5	Glassware	6.6
medicaments (including veterinary)	4.2	Tractors	4.3
other food products	3.4	computer parts	4.1
confidential items	1.6	wood simply worked	3.4
machinery and transport equipment	1.1	organo-inorganic compounds	3.2



Meeting Program in the Czech Republic

5.59 The Committee had one full working day in the Czech Republic. After an early breakfast meeting with Ambassador Patrick Lawless and Petr Vodvarka of Austrade, the group met with the Prague office of the EBRD, followed by a meeting with Australian companies in Prague and Czech importers of Australia products. Members of the Czech Chamber of Deputies hosted a lunch meeting for the group, which was followed by meetings with the Chamber's Economic Affairs and Foreign Affairs committees. In the evening the Committee met with senior officials from the Czech Republic's 'one stop shop' investment agency Czech Invest.

Emerging issues and observations

5.60 The Committee was most impressed by the visit to the Czech Republic. Czech Invest was the most notable of the investment promotion agencies who presented to the Committee during the visit

to Central Europe. Young, dynamic and articulate, the officers of Czech Invest provided an outstanding presentation on the achievements of the Czech Republic since democratisation and liberalisation began in the early 90's.

- 5.61 The track record of the Czech Republic in relation to foreign direct investment has been dramatic. In fact since the passing of the former Eastern Bloc, the Czech Republic has attracted over \$50 billion in foreign direct investment.²¹⁹ In the last year alone FDI has totalled US \$8.4 billion which was double that of Poland.²²⁰ The major areas of investment are financial services, transport, communication, automotive and electronics. In the automotive sector the joint venture with Toyota/Peugeot is worth \$1.5 billion.²²¹
- 5.62 Surveys of companies which have invested in the Czech Republic report their reasons for investment are (in descending order): an inexpensive workforce; an educated and skilled workforce; good investment incentives; geographic location; stability of environment; available workforce; and generally low costs. The only negative on the surveys indicated that the investing companies found the bureaucracy more cumbersome than expected.²²²
- 5.63 In terms of key indicators investment and trade variables, the Committee learned that the level of corporate taxation in the Czech Republic in 1995 was 46%, but was now 36%. In 2005-06 the government plans to reduce it by a further 3%. The average wage in the Czech Republic is less than US\$500 per month. Approximately 15–18% of the workforce has a tertiary qualification, and traditionally these are concentrated in the information technology and engineering areas.
- 5.64 Czech Invest provides investment incentives in a number of areas including: tax incentives, job creation grants, training and retraining grants, and land transfer at marginal prices. Incentives can provide up to 50% of the total cost of the project. And in the Czech Republic, unlike Poland, economic incentives are not apportioned by economic zone, but can be received in any part of the country.
- 5.65 The strong impression the Czech Republic left with the delegation was that it was the leading transition country in Central Europe. This

²¹⁹ JSCFADT Visit to Central Europe Notes.

²²⁰ Mr Robert Hejzák, Czech Invest, JSCFADT Visit to Central Europe Notes.

²²¹ JSCFADT Visit to Central Europe Notes.

²²² JSCFADT Visit to Central Europe Notes.

lead, on several criteria, and the Czech Republic's geographic position suggests that it will be the dominant economic power in the region. A number of Australian companies such as Brambles and Cochlear have experienced great success in the Czech Republic.

- 5.66 The Committee believes that Australia should capitalize on the Czech Republic's progress by strengthening its representation in Prague. The Committee believes establishing an embassy in Prague will lift Australia's profile in the region and enhance Australia's trade and investment activity in 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.

Trade and investment opportunities

Trade

- 5.67 There are currently several major Australian exporters working in the Czech Republic: Mincom is supplying software to the mining industry and public utilities; Brambles is supplying and servicing forklifts in various sectors; and Cochlear is supplying ear implants.
- 5.68 The Committee believes the best opportunities for Australia are in IT, agri-business, consumer goods and education. There are approximately 1,500 Czechs who come to Australia for tertiary study making it Australia's primary sources of education exports in Central Europe. The preferred disciplines are hospitality, IT and commerce related courses.
- 5.69 Education agents in Prague believe there are areas of improvement needed to assist the development of the education market. These are:
- ⇒ Recognition of Czech universities to enable students to do part of their degrees in Czechoslovakia.
 - ⇒ Simplification of student visa applications. The visa processing issue is discussed in Chapter 4. It also currently takes 8–12 months for student visas to be issued.
- 5.70 In the agri-business sector, wool represents 70% of exports from Australia. Meat, especially beef, veal and lamb are all exported from

Australia. Australian game meat – kangaroo, donkey, crocodile, ostrich and quail - have also established a small market in the Czech Republic. There are currently 15–20 Australian wines on the market served at restaurants and available in supermarkets.

- 5.71 Other markets of interest are lamb, natural cosmetics, hospitality and tourism. Prague has become a major tourism capital with over 8 million visitors annually, staying on average 3 days.
- 5.72 The Committee was impressed with the scale of the automotive industry in the Czech Republic. The Czech Republic is clearly a hub of European automotive engineering, producing half a million cars annually. The existence of this mature industry might be able to provide Australia with some opportunities in terms of automotive parts – an area in which Australia is strong. An Australian firm is currently negotiating the supply of leather for car seats for Czech manufacturer Skoda.
- 5.73 Rising disposable incomes also mean there is an increasing demand for health care services. Again Australia is a world leader in health care reform providing opportunities to sell expertise in this area.
- 5.74 One particular example stems from Cochlear’s success in the Czech Republic. Cochlear believes the Czech health system is in need of a range of improved health provision systems, like the early detection of hearing disorders – an area in which Cochlear dominates.

Investment

- 5.75 Major investments in the Czech Republic include Village Cinemas, and Seabird Aviation, which is undertaking a major joint venture with a Czech aviation company.
- 5.76 DFAT assesses investment opportunities to exist in: the energy sector; infrastructure (road and rail construction, particularly after the floods of late 2002); coal gasification; IT, smart card applications; automatic industry; wine; meat; and education.

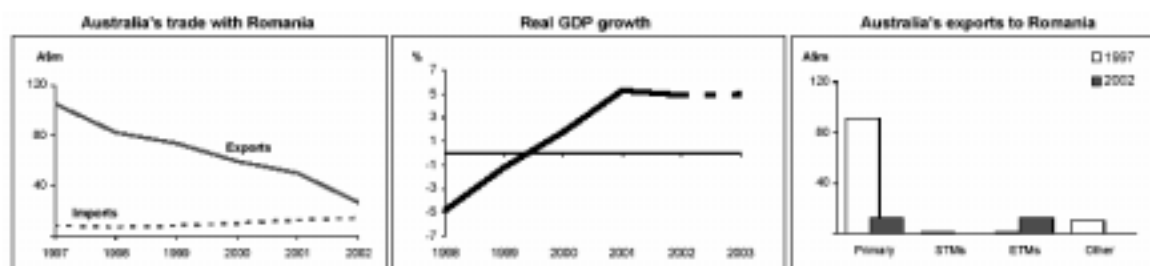
Romania

Key indicators

Population (million)	22.1	GDP per capita	US\$ 2420 (2003)
Economic Overview (2000) as % of GDP	Services 45.5 Industry 27.6 Agriculture 11.4	GDP trend growth (%)	5 (2003)

Australia's major exports and imports

Australia's Major Exports (2001)	A\$m	Australia's Major Imports (2001)	A\$m
Coal	13	Clothing	3
Iron ore	11	Footwear	11
Other ores	9	Taps, cocks, valves	1
Plastic plate, sheet, film and strip	5	Furniture	1
Specialized machinery	1	Toys, games, sporting goods	1



Meeting Program in Romania

- 5.77 The group that visited Bulgaria and Romania comprised Senator Alan Ferguson, Senator Alan Eggleston and David Hawker MP.
- 5.78 The program in Romania comprised two full days. On the morning of April 14 the group met with the Deputy Minister of Public Works, Transport and Housing, the Foreign Affairs Minister and officials from the Ministry of Foreign Trade. The Chair of the Foreign Affairs Committee of the Romanian Parliament hosted a lunch meeting for the group. In the afternoon the group met with the Minister for Communications and IT. The Committee also held a roundtable meeting with Australian business people.
- 5.79 On Tuesday 15 April the Committee met with Romanian Parliamentarians, including the President of the Committee for Economic Policy Reform and Privatisation, the Head of the Romania-

Australia Friendship Group, the Vice President of the Committee of Budget and the head of the IT Committee. This was followed by meetings with the First Vice-Governor of the National Bank of Romania, and the Romanian Prime-Minister, Mr Adrian Nastase

Emerging issues and observations

- 5.80 The Committee observed that transition in Romania seemed to be moving marginally slower than in some of the other Central European countries although growth was very strong. Romania was not due to accede in 2004 although preparations were clearly on track for a 2007 accession.
- 5.81 Australian businesses in Romania, such as Transgold, Securancy, PriceWaterhouseCoopers and Comtim,²²³ provided a positive perception of the business environment in Romania. They indicated that they had not encountered any significant corruption. Comtim in particular highlighted opportunities in the agriculture sector and also in environment.
- 5.82 Government representatives sought to assure the Committee that Romania's economic fundamentals were sound and consistently improving. Growth is clearly strong but inflation and unemployment had not been reduced as much as hoped. The Committee acknowledged however, that Romania's larger population and potential balanced some of the difficulties.

Trade and investment opportunities

Trade

- 5.83 An opportunity is available to Australian producers in Bulgaria, Romania and Croatia with regard to the CAP. Any trade developed before accession with these three countries will increase Australia's export quotas upon accession. Thus these three countries provide good opportunities in agriculture.
- 5.84 However, there were some difficulties in this area. As was the case in Poland, Romanian agriculture remains an unreformed sector employing a large proportion of the workforce. It was on the

²²³ Comtim had been a major state owned enterprise which has been successfully privatised and bought into by Australia investors.

government's reform list but had to date been a politically difficult sector to reform.

- 5.85 Another area due for reform was public administration. The bureaucracy was relatively unreformed and inward looking. Commitments by the Romanian government to reform the public sector may provide opportunities to export Australia expertise in these areas.

Investment

- 5.86 Australia's main investment activities in Romania include: a joint gold-mining venture by Esmerelda with a local firm; an investment in a Bucharest Business Centre by Australian firm Forum, and agribusiness investments by APT in genetics, wool and grains.
- 5.87 One outstanding example of successful Australian investment in Central Europe is Romania's biggest pig farming venture, Cojo Group of Melbourne. Over a very short period Cojo Group has become Romania's largest pork producer supplying roughly a third of the Romanian market.
- 5.88 DFAT sees additional trade and investment opportunities in food and agribusiness; infrastructure; IT and energy; and services. The Committee was also made aware of opportunities in the minerals sector, particularly iron ore and mineral sands.
- 5.89 As was the case in other countries visited by the Committee, Australian investors were advised to enter the Romanian market before accession. Officials from the Ministry of Foreign Trade suggested that Romania's late accession to the EU presents an opportunity for Australian business to establish and develop investments in Romania now and enter the EU in three to five years time.
- 5.90 Romania is planning massive improvements to its transport infrastructure much of which will involve private/public partnerships. There was to be investment in three major European transport corridors that run through Romania:
- Corridor No.4 from the Black Sea Coast to Western Europe
 - Corridor No.9 from Bulgaria/Turkey/Greece to Eastern Europe; and
 - Corridor No.7 from the Black Sea Channel to the Port of Rotterdam.

5.91 Therefore investment will be sought in road, rail, aviation, water and urban transport infrastructure. The scale of the investments involved is significant, for example the Railway Corridor 4 upgrade required an investment of \$US 4 billion. The Romanian government will also pursue investment in large scale housing projects. Assurances were given to the group that local investment will not be favoured over foreign investment and that all government projects are open to Australian companies through the government's tender process.

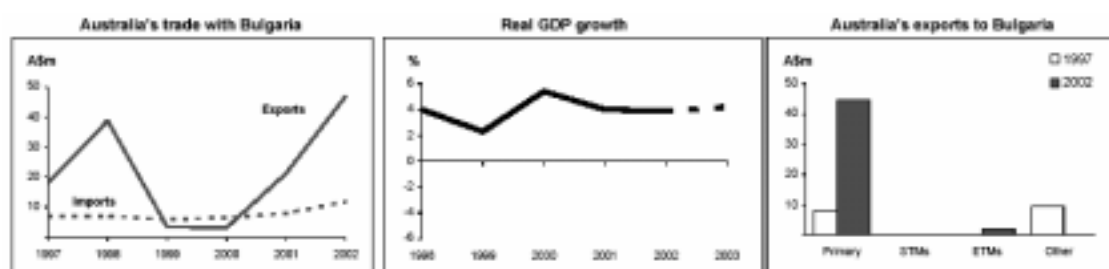
Bulgaria

Key indicators

Population (million)	7.9	GDP per capita	US\$ 2675 (2003)
Economic overview (2001) as % of GDP	agriculture: 14% industry: 29% services: 58%	GDP trend growth (%)	4.2 (2003)

Australia's major exports and imports

Australia's Major Exports (2001)	A\$ m	Australia's Major Imports (2001)	A\$ m
Coal	32	Cheese and curd	5
Wool	12	Preserved fruit and preparations	1
Woven cotton fabrics	1	Clothing	1
Rawhides and skins (except furs)	1	Power generating machinery	1



Meeting Program in Bulgaria

- 5.92 The group (Mr Hawker MP and Senators Eggelstone and Ferguson) spent two days in Sofia. April 16 involved meetings with the Minister of State Administration, the Chairman of Kremikovtzi Corporation and the Deputy Minister for the Economy. A working lunch was held with representatives of the Australian and international business community. A dinner in honour of the visit was hosted in the evening by the Deputy Minister for Foreign Affairs.
- 5.93 On April 17 the group met with the Chairman of the Bulgarian Foreign Investment Agency, the Deputy Chairman of the Bulgarian National Assembly, the Chairman of the Economic Policy Committee and the Deputy Minister for Agriculture and Forestry.

Emerging issues and observations

- 5.94 One initial observation of the group was that Bulgarian links with the UK were quite strong.

- 5.95 Bulgaria has made substantial efforts to attract foreign investment in recent years and has introduced a competitive company tax regime. Its company tax rate has dropped from 35% to 20.5% and is likely to be reduced to 15%. VAT is 20%. And the government is also considering tax holidays targeted to promote certain industries, like tourism. In terms of fiscal fundamentals, Bulgaria has the lowest budget deficit in the region, which gives it some flexibility in its transition.
- 5.96 Bulgaria's Foreign Investment Agency was to become a 'one stop shop' investment agency similar to Czech Invest, to assist foreign investors (see Appendix J for website addresses). The Committee noted the talented leadership of the agency in the form of its chairman, Mr Pavel Ezekiev, and believe his leadership augers well for Bulgaria's future efforts to attract investment.
- 5.97 The Committee was assured that administrative, judicial and taxation reform was continuing.
- 5.98 Bulgaria is proud of its multicultural nature, having a Moslem minority of over 1 million. There are no ethnic tensions and like Australia, Bulgaria is keen to utilize this diversity.

Trade and investment opportunities

Trade

- 5.99 Australia's main trade activities in Bulgaria are in education and health. IDP Education has won various contracts to assist with reform of certain public sector entities through training. HIC has also won contracts for reform of the Bulgarian health sector.
- 5.100 DFAT sees opportunities for Australian exports in beer and wine, naval defence related products and agricultural expertise.

Investment

- 5.101 Australia's main investment activity in Bulgaria has been QBE's investment in the Bulgarian insurance sector. QBE International Insurance Ltd invested \$2.7 million in Bulgaria in 1999 and maintains an office in Sofia.
- 5.102 Bulgaria, like other Central European countries, has an outdated land law system. This is both an impediment to land reform and an

opportunity for Australia which has a very effective and innovative land law based on 'Torrens Title' system.

- 5.103 Bulgaria is also interested in developing renewable energy resources for domestic and export use. It has significant hydro-power potential and Australia's expertise in the area may prove an investment opportunity.
- 5.104 Another area of potential cooperation is in e-government, based on Australia's considerable experience in this area.
- 5.105 In terms of agriculture there are certain similarities with Australia which suggests that Australian expertise might well be useful to Bulgaria and therefore provide opportunities. The Ministry of Agriculture noted that there was a need to update the relationship between Australia and Bulgaria in the agriculture and veterinary areas. Bulgaria was interested in drawing on Australian expertise in areas such as animal breeding, forest fires and land salination and would like to develop technical cooperation in the area of quarantine methods.
- 5.106 DFAT believes there are opportunities for Australians to invest in large privatisations in Bulgaria. Banks, utilities and telecommunications are sectors in which privatisation is scheduled.

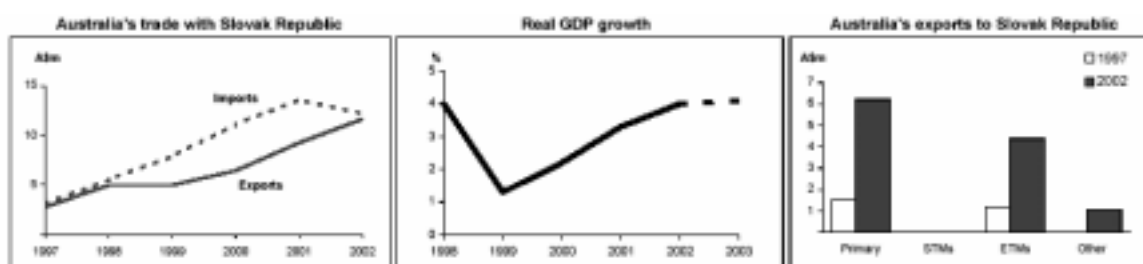
Slovak Republic

Key indicators

Population (million)	5.4	GDP per capita	US\$ 5700 (2003)
Economic overview (2001) as % of GDP	agriculture: 5% industry: 34% services: 61%	GDP trend growth (%)	4.1 (2003)

Australia's major exports and imports

Australia's Major Exports (2001)	A\$ m	Australia's Major Imports (2001)	A\$ m
Wool	6.4	Computer parts	6.4
Computers	0.9	Nitrogen-function compounds	1.4
Telecommunications equipment	0.85	Glassware	0.94
Confidential items	0.38	Footwear	0.91
Measuring and controlling instruments	0.3	Rubber tyres	0.8



Meeting Program in the Slovak Republic

- 5.107 Group two, comprising the Hon Bruce Baird MP, the Hon Geoff Prosser MP, the Hon David Jull MP and Cameron Thompson MP, spent two days in Bratislava.
- 5.108 On 14 April meetings were held with several committees of the National Council for the Slovak Republic, the Ministry of the Economy, the Vice-President of the National Council and the Slovak Foreign Ministry.
- 5.109 On 15 April meetings were held with the National Bank of Slovakia and the Committee on the Economy, Privatisation and Enterprise of the National Council. A lunch meeting was held with QBE and other Australian business interests in Romania. In the afternoon the

delegation met with representatives of the Slovak Investment and Trade Agency (SARIO).

Emerging issues and observations

- 5.110 Slovakia lagged behind the other Central European Countries in terms of foreign investment and economic growth during the 1990s, although this changed after 1998. FDI is currently averaging US\$1 billion a year. This shift was triggered by a change in Slovak leadership and the adoption of the more aggressive investment promotional regime, similar to the other Central European countries.
- 5.111 Slovakia now stands poised implement an aggressive reformist tax regime, with plans to introduce a '20/20/20 tax' - (20% corporate tax, 20% personal flat tax and 20% VAT). Currently the rates are: corporate 25%, personal 15–38% and VAT 20%. This change is expected to further increase FDI inflows.
- 5.112 Members of the committee were impressed by the professional young people they encountered in Slovakia – government ministers, senior bureaucrats, heads of government agencies, promotional bodies, and private sector groups. The transformation of the former centrally planned economies into dynamic market economies was impressive. The rapid growth of shopping centres, supermarkets, and entertainment complexes show the transformation of Slovakia into an economy which represents a great opportunity for Australia, in the longer term trade.
- 5.113 The Committee noted the progress of the Slovakian privatisation programme, which is now 50% complete. It covers gas, telecommunications, petrol, oil, and transport. Banks are already completely privatised.

Trade and investment opportunities

Trade

- 5.114 Slovakia is very keen to develop its tourism industry and looks to mature, innovative tourism destinations, like Australia, for expertise and ideas. Again Australia is viewed favourably by Slovakia as an advanced economy in an exotic location. Opportunities for Australians exist in both the provision of tourism infrastructure but also tourism expertise such as tourism training.

- 5.115 DFAT see opportunities for Australian exports in the areas of Australian leather; minerals and other raw materials; and uniquely Australian products such as beer, wine game meat, education services and tourism.

Investment

- 5.116 Australia's main investment activity in Slovakia was the acquisition by QBE insurance of Slovenska Investicna Poistovna. It is now the largest insurance company in Slovenia and plans to use Slovenia as a hub for entering southeast Europe.
- 5.117 The areas in which Slovakia is particularly seeking investment include the following: automotive; electronics; IT and software development; engineering; and tourism.
- 5.118 Opportunities for Australia also exist in infrastructure development (particularly in rail, roads, bridges, sewerage) tourism, ecology plants and e-commerce.
- 5.119 Slovakia offers substantial incentives to investors by offering tax credits of up to 50% of total investment. A range of grants are also provided for newly created jobs and the retraining of employees.

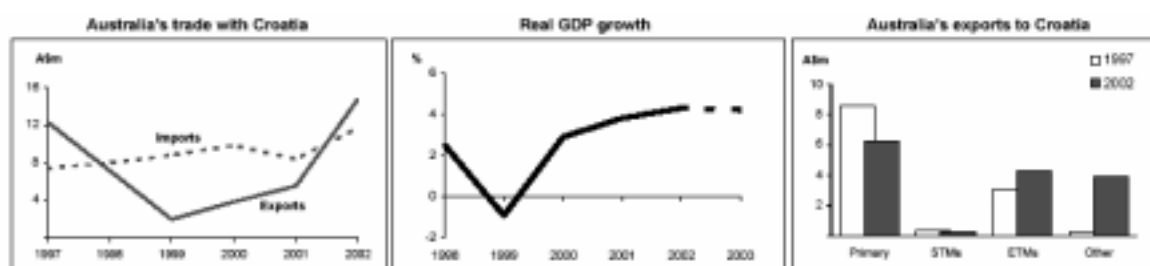
Croatia

Key indicators

Population (million)	4.437	GDP per capita	\$US 6097 (2003)
Economic Overview (2002 as % of GDP)	agriculture: 9% industry: 33% services: 58%	GDP trend growth	4.2 (2003)

Australia's major exports and imports

Australia's Major Imports (2001)	\$ m	Australia's Major Exports (2001)*	\$ m
Other food products	1.54	Raw hides and skins (except furskins)	0.49
Cereal preparations	1.13	Other metal household equipment	0.42
Meat prepared and preserved	0.74	Miscellaneous chemical products	0.35
Clothing	0.70	Ships, boats and floating structures	0.34
Preserved vegetables	0.47	Bovine meat	0.30



Meeting Program in Croatia

- 5.120 Group two had one full day of meetings in Croatia on 15 April. In the morning the group met with the Andreja Stampar School of Public Health; the Ministry of Justice, Administration and Public Health; representatives of Ministry of the Economy which included representatives from the Ministry of Foreign Affairs, the Ministry of Tourism, the Croatian Chamber of Commerce and the Croatian Privatisation Fund; and the Minister for the Economy.
- 5.121 In the afternoon the group met with members of the Parliamentary Foreign Affairs Committee and the Croatian-Australian Parliamentary Friendship Group. A business lunch was held in honour of the visit. It was attended by an array of government officials and business people. In the evening the group attended a business roundtable with Croatian and Australian business people.

Emerging issues and observations

- 5.122 Croatia is not one of the Central European countries to join the EU next May, but is nevertheless focussed on gaining accession in 2007-08. Difficulties in accession appear to revolve around three issues listed below. Croatian MP's assured the Committee they are confident of overcoming these issues.
- ⇒ Reform of the judiciary;
 - ⇒ Return of refugees;
 - ⇒ Support of war crimes tribunal in The Hague.
- 5.123 Tourism up to 1995 was zero, but this year Croatia is expecting a 10% growth. Just before the Committee arrived in Zagreb, an Australian of Croatian background purchased a five star hotel in Split, on the Dalmatian coast. Most tourists to Croatia are from Central Europe, but Germany is still the biggest Western European tourist source.
- 5.124 The tax rate in Croatia includes a progressive personal tax (15, 25, 35 and 40), corporate rate of 20% and VAT 22%. There is political pressure to reduce these rates.
- 5.125 The level of FDI in Croatia is about half that of the Czech Republic. In 2001 FDI in Poland was approximately \$8 billion and in Croatia it was \$1.5 billion.
- 5.126 Investment is basically in telecommunications, banking and retail. The major investors are Germany, Italy, Austria and the US.
- 5.127 Health services represent a strong area for Australian exporters. Croatia has adopted the 'Australian anti-smoking Campaign'. As a result it is claimed 90,000 people have stopped smoking.
- 5.128 Ten Croatian surgeons went to Australia to study emergency services. It is expected there will be a further group going later in the year. The Croatians are involved in a major programme of restructuring hospitals.
- 5.129 Australians have been involved in health insurance reform. HIC is preparing a specific reform strategy for the Croatian Government. Australian health consultants have been involved in programs intended to control for over-prescribing, fraud control and manage health services feedback information.
- 5.130 Land registration programmes also represent opportunities for Australian land titling or cadastre. Croatia has undertaken a land registration programme to reform longstanding land practices. The

whole programme will take roughly 15 years to complete. The programme is worth 26 million euros, financed by the World Bank.

- 5.131 The Committee considered particular Australian trade opportunities to be: livestock (beef and sheep); Atlantic tuna; wine; and tourism.
- 5.132 In Croatia the tourism industry provides US\$7–9 billion of total income, 13% of total employment, 10.6% of GDP and 40.3% of total exports. Tourism is the leading export and there have been significant privatisations in the tourist sector already, particularly in hotels. As a result of the growth of the tourism sector, wine sales are similarly likely to provide opportunities for Australia exporters.
- 5.133 The Committee believes opportunities exist for infrastructure development, particularly toll roads and rail. They noted also that 20% of the budget is allocated to war reconstruction. 400,000 homes were damaged during the conflict in the 1990s. Other opportunities exist for environmental products, service providers (accountants, lawyers), hospitality services, health services, e-government and assistance with bushfire prevention. Privatisation of Croatia's shipbuilding yards represents opportunities for Australian ship or ferry builders. Yachts are one of Croatia's few luxury ETMs.

Trade and investment opportunities

Trade

- 5.134 The Ministry of Justice welcomed Australian interest in land registration reform and noted that an Australian company (Land Equity) and the Western Australian Government were pursuing World Bank projects on cadastral reform.
- 5.135 The Ministry of Agriculture conceded that agriculture is inefficient and awaiting reform. Once again Australia agricultural expertise might provide opportunities for investment and exports. Additionally, as with Bulgaria and Romania, Croatia's late accession (at best after 2007) will provide for Australian opportunities to raise quotas before accession, in order to get CAP concessions upon accession.
- 5.136 The World Bank has been funding numerous health projects in Croatia including one in which Australia's Health Insurance Commission is involved. In addition, a group of Croatian doctors and nurses will undergo emergency care training in Melbourne funded by the World Bank. Such project will provide other opportunities in the

health sector which might be of benefits to other Australian firms. The Ministry of Economy noted that the success of the Health Insurance Commission in Croatia highlights Australian expertise in the medical services sector.

- 5.137 The Committee noted that Croatia is likely to be a substantial user of high speed ferries in future years, an area in which Australia is an industry leader. Unfortunately there were many idle communist-era shipyards still in existence. The Committee believed the growing demand and under-utilized skills could be matched with Australian investment and expertise to capitalize on the growing economy.
- 5.138 The Ambassador identified the IT and communications, e-government, boat/ferry building, food, consulting services, land reform and administration and infrastructure as sectors providing opportunities for Australian investors.
- 5.139 DFAT and Austrade see further export potential in various other areas including: cadastre; environmental protection; judicial reform; beef; frozen fish; pharmaceuticals' wine; and high speed ferries.

Investment

- 5.140 Australia's investments in Croatia involve the following: food processing company Olma; joint venture fish farming and processing firm Kali Tuna; retail textile sales firm Tekstil; hotel operator Lljirja; gas bottle-filling equipment manufacturer Cefrank; pharmaceutical producer Herbos Dijagnostik; paging services provider Sono; ear implant manufacturer Cochlear, health sector service provider HIC; mine detector retailer Minelab; solar panel producer Solahart; and leather luggage manufacturer Student Australia.
- 5.141 DFAT identifies infrastructure and tourism on the Adriatic coast as areas in which further investment is warranted.

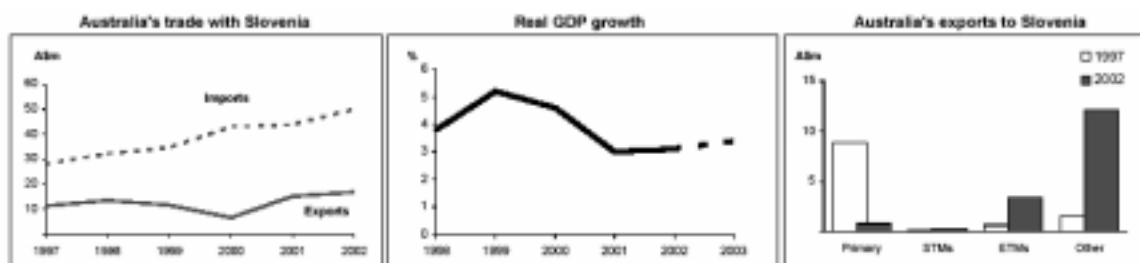
Slovenia

Key indicators

Population (million)	2	GDP per capita	US\$ 13622 (2003)
Economic Overview (2001) as % of GDP	Agriculture 3% Industry 41% Services 56%	GDP trend growth (%)	3.4 (2003)

Australia's major export and imports

Australia's Major Exports (2001-02)	A\$ m	Australia's Major Imports (2001-02)	A\$ m
Furniture	0.9	Rubber tyres	11.8
Computers	0.6	Household type equipment	4.4
Specialised machinery	0.6	Aluminum	2.6
Cotton	0.5	Pumps for gas	2.1
Raw hides and skins (excluding furskins)	0.4	Medicinal & pharmaceutical products	2.1
Includes confidential items of A\$15.7m, 75.8 per cent of total exports.			



Meeting Program in Slovenia

- 5.142 Group 2 had a full day of meetings in Slovenia on 17 April. The group held meetings with the Trade and Investment Office (TIPO), representatives of the Slovenia Foreign Ministry, representatives of the Slovenian Parliament.
- 5.143 A working lunch was held for the group involving Australian, Slovenian and other international business people. In the afternoon the group met with the management and visited the site of an Australian firm in Slovenia and a representative of the Slovenian Chamber of Commerce.

Emerging issues and observations

- 5.144 The Committee noted that Slovenia appeared to be the most liberal of the former Easter Bloc states, suggesting that it has the least distance, economically, to travel down the transition path. The effects of this are visible in the wealth levels of Slovenia, its general vibrancy and the cosmopolitan feel of Ljubljana.
- 5.145 Slovenia has had a softer transition to a market economy than most of the other Central European countries. The privatisation programme has been built on consensus and has therefore progressed slower than in other countries.
- 5.146 Slovenia developed a voucher privatisation system through which every citizen is issued with an allocation of shares. Citizens then choose in which companies they wish to invest their allocation. Its worth noting Slovenia's overall level of privatisation is not particularly high relative to its neighbours.
- 5.147 Slovenia is clearly trying to position itself as a progressive and central hub with Western and Central Europe. It was also conveyed to the Committee by the Parliamentary Commission that they would like to see an increase in trade and investment from Australia.
- 5.148 Slovenia has also worked hard to become 'investor friendly'. Australian organizations operating in Slovenia, such as the retailer Harvey Norman, believe Slovenia has succeeded on this count.
- 5.149 The corporate tax rate in Slovenia is 25%. Personal tax rate ranges from 20% to 50% and there is a 25% capital gains tax. If shares are held for longer than 3 years there is no tax.
- 5.150 One of the negative comments regarding Slovenia's economy relates to the small size of its banks and the absence of foreign banks.

Trade and investment opportunities

Trade

- 5.151 The Parliamentary Commission, with whom the Committee met, highlighted opportunities for trade in the areas of e-government, consulting services in banking and insurance, education services, tourism and agribusiness.

- 5.152 DFAT advised that opportunities exist in the high-tech sector; ecological services; applications and products; new media and telecommunications; sheep skin; sugar and education services.

Investment

- 5.153 Australia's main investment activities in Slovenia are in Harvey Norman and Tuba. Harvey Norman opened a furniture retail store in late 2002. Tuba, a subsidiary of Impact International Pty Ltd had been Australia's largest direct investment in Slovenia since 1994.

