

Latin America

Introduction

- 4.1 For many years the countries of Latin America were almost “undiscovered territory” to Australian industry and consumers. In recent years, however, the rapid and sustained growth in the major Latin American economies has changed that perception.
- 4.2 The countries of Latin America displayed great interest in the inquiry. They signalled a clear intention to expand trade and investment relations with Australia, and were grateful for the opportunity to discuss ways of achieving this.
- 4.3 Australia shares this vision and last year the Minister for Trade, the Hon. Simon Crean, highlighted the importance placed on economic relations with Latin America. In a speech at the Australian Business Club in Peru he said:
- Latin America is a priority area for the Australian Government because we feel that too little has been done in the past to build solid political and commercial relationships here.¹
- 4.4 The Australian Minister for Foreign Affairs, in a speech to the United Nations Economic Commission for Latin America and the Caribbean in Chile, said that:

1 Hon Simon Crean, Minister for Trade, Speech to the Australian Business Club, Lima, Peru, 18 November 2008, p. 2.

Australia's desire to broaden, deepen and strengthen our relationships with Latin America and the Caribbean is the reason I am here tonight. ...

Australia is keen to grasp the opportunity to do more with Latin America at all levels – bilaterally, regionally and multilaterally.

...the Australian Government is looking with fresh eyes and fresh enthusiasm at Latin America and the Caribbean, looking at ways to enhance and deepen our engagement. This desire for deeper engagement is reflected by a number of recent Australian initiatives to work more closely with countries of the region.

Strengthening our relationships with the countries of Latin America and the Caribbean is a high priority for the Australian Government.

The Australian Government now has a new commitment to working much more closely with Latin America and the Caribbean, and the strategy to make that happen into the future.²

4.5 While several of the Latin American economies have similar structures to Australia – strong in exports of primary products – there are enough complementarities to encourage the idea that closer trade and investment relations will be beneficial to all.

4.6 DFAT in evidence to the Sub-Committee commented on the rapid growth of Australia's trade with Latin America and the good prospects for continuation of that trend:

As I am sure you appreciate and would have gathered from your discussions with my Austrade colleagues a few days ago, Latin America is an area full of promise for trade in both directions. There are handicaps involving transport links and the like, but nonetheless trade is growing strongly, albeit off a very low base.

In the last financial year our exports grew by over 50 per cent, which is more than twice the rate of growth of exports from Australia to the world, and also the total value of trade held up very well indeed. I qualify that because our exports to Latin America are still very much based on coal and of course coal values played a big part in that, but nonetheless there is no doubt

2 Hon Stephen Smith, Minister for Foreign Affairs, Speech to the United Nations Economic Commission for Latin America and the Caribbean, Santiago, Chile, 27 August 2009, pp. 1-3 and 5.

that the volume of trade is continuing to grow and I need not expand on what my Austrade colleagues told you.

We see it as being full of promise and it is just a matter of consolidating our start through the Australia-Chile FTA and of course looking at further opportunities to expand our links, not just for economic reasons but for all of the good strategic reasons.³

- 4.7 The Austrade submission to the inquiry noted that although trade with Latin America is growing strongly, it remains modest when compared to major trading partners. However, Austrade said the potential is there for considerable expansion of trade – Latin America has a population of more than 500 million and a combined GDP of nearly \$A 4 trillion:

Australian merchandise exports to the whole of Latin America are roughly on par with countries such as Malaysia, South Africa, Canada and Italy, around \$A 2-3 billion in 2007.

Australian services exports to Latin America were estimated at \$A 906 million in 2007.

Reported Australian investment in Latin America (not including the Caribbean) as at 30 July 2008 was \$A 4,255 billion, although a very large amount of investment in the region is confidential and therefore not included in this figure.

Australia's top three trading partners in the region (2007-08 preliminary figures) are Brazil (total trade of \$1.91 billion); Mexico (\$1.78 billion); and Chile (\$764 million). Coal was Australia's stand-out export to each of these countries. Australia imported mostly end-products such as vehicles, computers, engines and telecommunications equipment.

Austrade was credited by Australian businesses with directly assisting \$1.485 billion worth of sales and investment in Latin America during 2007-08.⁴

- 4.8 Austrade also commented that Australian trade is gaining momentum as the countries of Latin America become less dependent on their economic links with the US. So far, the gains have been broadly in five sectors:

- Mining (technology and services); Agribusiness (products, genetics, live animals); Services (education, consulting, franchising and tourism); Food and beverage (specialised, wine and beer); and ICT (communications, software).

3 Department of Foreign Affairs and Trade, Committee Hansard, 25 November 2009, p. 10.

4 Austrade, Submission 18, p. 5.

- In addition to these five, other major areas of commercial return are continuing to grow, including: renewable energy (hydro - mini, wind); and coal (Mexico, Chile, Brazil).⁵

- 4.9 The difficulties facing Australian exporters stem from the preferences available to their competitors through the existing network of FTAs between the Latin American countries and major trading partners; for example, Mexico's concessions to the USA and Canada through its membership of NAFTA.⁶
- 4.10 This is a particular problem in the agricultural sector. An extreme example occurred when NAFTA came into force. Australia had held 15 per cent of the Mexican beef market, but that share was eliminated when the Australian product faced duties of 20-25 per cent while beef from the USA and Canada received duty free entry.⁷
- 4.11 Other issues affecting Australia's trade prospects include freight costs, shipping schedules and a lack of suitable infrastructure:

The cost of freight, due to distance and unfavourable shipping schedules, affects prices, and the ability of Australian agricultural exports to compete in Latin America. Whilst the shipping schedules are improving, it can be difficult for Australian agricultural exporters to ship in time for "first come, first served" tariff quotas that operate in a number of Latin American countries.

In addition some Latin American countries do not have the infrastructure to efficiently transport and store agricultural products, or ensure that products are able to get to markets quickly. The lack of storage facilities for perishable agricultural products is another barrier to trade in some Latin American countries.

Strong growth in Latin American economies, and the increase in consumption that growth brings, have increased the value of Latin American markets for agricultural products. However, the prices on offer in Latin America for agricultural products have not always been as high as they currently are. Accordingly, Australian agricultural exporters have historically sought to sell in higher value markets such as the United States and Japan.

5 Austrade, Submission 18, p. 5.

6 Department of Agriculture, Fisheries and Forestry, Submission 19, p. 18.

7 Department of Agriculture, Fisheries and Forestry, Submission 19, p. 18.

Consequently exporters to Latin America have had to concentrate their efforts in niche markets.⁸

- 4.12 However, Australia's heightened interest in the region has already resulted in the signing of a new Free Trade Agreement (FTA) with Chile. Discussions are also underway with Mexico; and Australia and NZ recently agreed to seek a resumption of discussions with MERCOSUR.⁹
- 4.13 MERCOSUR is a Customs Union between Argentina, Brazil, Paraguay and Uruguay. Bolivia, Chile, Colombia, Ecuador and Peru are Associate members; Venezuela is becoming a full member; and Mexico has observer status.¹⁰
- 4.14 The Brazilian Ambassador said that restarting the talks would be "very valuable". He said that the Brazilian Foreign Minister had twice discussed this subject with Australia's Foreign Affairs Minister, the Hon Stephen Smith. He added:
- ...MERCOSUR is a customs union and we will always negotiate together. Even though Australia and New Zealand are not, I think it is always useful to have the two on the other side of the table, as we have done in the past. Hopefully, this time we will do so with more success than in previous times.¹¹
- 4.15 Austrade said that there are good prospects also because of Australia's proximity to the rapidly growing Asian markets:
- We are also witnessing an increased interest in Australia within Latin America as a potential springboard for growing business ties with Asia with good prospects for inward investment and partnering opportunities developing.¹²
- 4.16 Australian investment in the region has grown rapidly – Austrade estimated growth of 300 per cent between 2007 and 2008. It said that in that year investment worth \$A 450 million had been undertaken across the region by 30 Australian companies.¹³
- 4.17 The Government of South Australia, which has a strong trading relationship with Latin America, commented on the need for priority to be

8 Department of Agriculture, Fisheries and Forestry, Submission 19, p. 18.

9 DFAT has advised that a meeting of senior officials was held at the time of the Cairns Group meeting in Uruguay. In effect, that meeting has restarted the discussions.

10 Department of Agriculture, Fisheries and Forestry, Submission 19, Footnote 11, p. 18.

11 Ambassador for Brazil, Committee Hansard, 17 March 2010, p. 13.

12 Austrade, Submission 18, p. 6.

13 Austrade, Submission 18, p. 6.

given to access for skilled labour – not only from Latin America but more generally:

The availability of skilled labour will be critical in meeting Australia's full economic and export potential. The Federal Government's recent increase in skilled migration quotas is commended and in support of this, further measures should be taken to decrease the processing time for skilled migrant visas and fast track the skilled recognition process.¹⁴

Argentina

4.18 Argentina shares Australia's views and objectives in a range of areas affecting the trade and investment relationship; it is, for example, a fellow member of the Cairns group. The submission from Argentina noted that, like Australia, it wishes to see the international trading system strengthened and the benefits more evenly spread.¹⁵

4.19 The submission listed a number of visits to Australia by Argentine Ministers and senior officials and similar visits to Argentina from Australia. It commented on the importance of such visits for building up the trade and investment relationship:

These high level exchanges are very important for identifying priority areas where relations can be enhanced and should therefore be promoted and take place at more regular intervals.¹⁶

4.20 The Ambassador, in his evidence to the Sub-Committee, added:

I would like to stress that one of the first areas that should be strengthened in the relationship between Australia and Latin America is political contacts between members of parliament from the executive branch.¹⁷

4.21 He added that Argentina would be delighted to receive a visit from the Prime Minister.¹⁸

4.22 The Council on Australia-Latin America Relations (COALAR) plays an important role in improving relations between Australia and the Latin

14 Government of South Australia, Submission 4, p. 2.

15 Embassy of the Argentine Republic, Submission No. 11, 30 September 2008, p. 1.

16 Embassy of the Argentine Republic, Submission No. 11, 30 September 2008, p. 3.

17 Ambassador of the Argentine Republic, Committee Hansard, 18 March 2009, p. 2.

18 Ambassador of the Argentine Republic, Committee Hansard, 18 March 2009, p. 2.

American region – a role that extends beyond economic issues to also cover areas such as culture, the arts and people to people contacts. Argentina suggested that it would be of great benefit to relations between Australia and the Latin American region as a whole, to expand the activities of the group.¹⁹

- 4.23 Argentina also noted the important roles played by business associations such as: the Australia-Latin America Business Council and the Argentine-Australia Chamber of Commerce in Australia and the Cámara Australiano-Argentina de Comercio in Argentina. These bodies are able to facilitate the expansion of trade and investment links by: developing programs, meetings and seminars; establishing contacts; and by interaction with the peak industry bodies in the two countries.²⁰
- 4.24 Government bodies also play important roles. The Australian Government has Austrade and Invest Australia,²¹ and their efforts are supplemented by the State governments. Argentina particularly mentioned that Queensland has an office dedicated to relations with Latin America and suggested that other States follow suit. The submission also noted that seminars on trade and investment, education, scientific and technical cooperation have already been held in major Australian cities and commented favourably on the welcome assistance and cooperation given by State and Territory governments in staging those events.²²
- 4.25 The Ambassador noted that improving air links between Latin America and Australia, particularly the direct Qantas service between Buenos Aires and Sydney and Aerolíneas Argentina's services via NZ, now make a flight to Argentina from Australia faster than a trip to Europe. In fact, the direct Qantas flight, at approximately 12 hours, is about half the flying time to Europe.²³
- 4.26 The Ambassador was asked about the role played by FEALAC, the Forum for East Asia-Latin America Cooperation. He replied that it was established in 1999 or 2000 and focuses mainly on trade. Argentina considers it a valuable forum because it brings together Australia, Latin America and all the East Asian nations. He said that what the group needs

19 Embassy of the Argentine Republic, Submission No. 11, 30 September 2008, p. 3.

20 Embassy of the Argentine Republic, Submission No. 11, 30 September 2008, p. 3.

21 In 2008, Invest Australia became part of Austrade.

22 Embassy of the Argentine Republic, Submission No. 11, 30 September 2008, pp. 3-4.

23 Ambassador of the Argentine Republic, Committee Hansard, 18 March 2009, p. 2.

is participation at a higher level, especially by Australia and New Zealand.²⁴

Trade and Investment

- 4.27 At present Australia's trade with Argentina is small: total two-way trade of \$A 667million in 2008-09. Under the impact of the Global Financial Crisis, that total fell to \$A 569 million in calendar year 2009. Coal is by far Australia's largest export item, making up more than a third of the total. However, 35 per cent of exports are classified as confidential and details are not available.²⁵
- 4.28 Imports from Argentina are similarly dominated by animal feed, which is almost exactly one-third of the total. Other large items are: goods vehicles, leather, and fixed soft vegetable oils and fats.²⁶
- 4.29 Australia has substantial investments in Argentina, totalling \$A 2,016million in 2008. For the same year Argentina's investments in Australia were estimated at \$A 255million.²⁷ Australia's main sectors of interest were: mining, agribusiness, entertainment, port management, freight equipment and workers' compensation insurance.²⁸
- 4.30 A Parliamentary Delegation visiting Argentina in 2008 noted that there were a number of other sectors showing promise for Australian investment: environmental management, wine, construction and building materials, and high-tech machinery. In the services area there were additional opportunities in: distance education, vocational training, tele-medicine, teaching English as a second language, and post-graduate studies. The Delegation also saw good prospects for tourism.²⁹

Strengthening Trade and Investment

- 4.31 In its submission, Argentina reported that its economy had been growing continuously at a rate of about 8 per cent a year since 2003. Added to this
-

24 Ambassador of the Argentine Republic, Committee Hansard, 18 March 2009, p. 11.

25 Department of Foreign Affairs and Trade, Fact Sheet – Argentina, <http://www.dfat.gov.au/geo/fs/arge.pdf>, accessed 3 February 2010 and 8 October 2010.

26 Department of Foreign Affairs and Trade, Fact Sheet – Argentina, <http://www.dfat.gov.au/geo/fs/arge.pdf>, accessed 3 February 2010.

27 Department of Foreign Affairs and Trade, Fact Sheet – Argentina, <http://www.dfat.gov.au/geo/fs/arge.pdf>, accessed 3 February 2010.

28 The Parliament of the Commonwealth of Australia, Report of the Official Parliamentary Delegation to Colombia and Argentina from 9-24 August 2008, June 2009, p. 27.

29 The Parliament of the Commonwealth of Australia, Report of the Official Parliamentary Delegation to Colombia and Argentina from 9-24 August 2008, June 2009, pp. 27-28.

advantage is its skilled and highly qualified labour force, which allows it to produce high quality products at very competitive prices. This labour force is supported by a good education system and the highest rate of school attendance in Latin America, on a par with OECD countries.³⁰

- 4.32 The Ambassador told the Sub-Committee that while Argentina had been an industrial country for a long time, with a high rate of technical education, its wage rates are comparatively low. This makes Argentine manufactured products quite competitive. A particular advantage is that the cost of land is still comparatively cheaper than in competing countries.³¹
- 4.33 The Argentine Government is keen to see the development of more joint ventures between Australian and Argentine companies. It mentioned a number of current cooperative ventures that have achieved success in diversifying production, and in serving both their own markets and assisting one another to become established in third markets.³²
- 4.34 In his evidence, the Ambassador gave the example of two competing companies, Capilano from Australia and Honeymax from Argentina, which transformed from the world's largest competitors to joint venture partners. He said that there is considerable scope for similar arrangements and suggested that in the present drought conditions, investment by Australian farmers in the agricultural sector of Argentina could be an attractive prospect. He commented, however, that when raising capital most farmers in Argentina would be slow to look for a joint venture arrangement. The usual method, he said, was to sell some of their land.³³
- 4.35 The Ambassador also suggested that there is scope for cooperation between Australia and Argentina in the fields of: genetically modified (GM) crops - combining Australia's research with Argentina's practical experience; and in nuclear energy research.
- 4.36 When asked about the role of nuclear energy in Argentina, the Ambassador commented that nuclear power had been a part of Argentina's energy mix since 1950. He said that there are two reactors at present, a third is being built, and a fourth is planned. All of these were built by Argentina itself; so far there had been no problems and the waste had been managed successfully. In fact, most of the countries using

30 Embassy of the Argentine Republic, Submission No. 11, 30 September 2008, p. 4.

31 Ambassador of the Argentine Republic, Committee Hansard, 18 March 2009, p. 6.

32 Embassy of the Argentine Republic, Submission No. 11, 30 September 2008, p. 5.

33 Ambassador of the Argentine Republic, Committee Hansard, 18 March 2009, pp. 2-3 and 8.

nuclear energy had not had any serious problems – for example, Germany, Korea and France. The accident at Chernobyl, he said:

...was probably not just due to nuclear energy, but to administrative problems in the structure of the government at the time.³⁴

- 4.37 Argentina is also looking for investment in the oil and gas industries and is keen to cooperate with Australia in the development of wind and solar energy technology.³⁵
- 4.38 Other areas that are showing promise are in processed foods, such as fish, chocolates, groceries and canned foods, and in mining of copper and gold.³⁶
- 4.39 Argentina, along with other Latin American countries, has put a lot of effort into building links with Australian universities. Seminars on Latin America have been presented in all of the major Australian universities. In Argentina's case, its universities are free and of a high standard; consequently most students from Argentina studying in Australia are post-graduates.
- 4.40 The Ambassador commented that:
- Universities in Australia need to be better known abroad. They have to offer a few places, through scholarships or through grants, so that students from our countries will come here and spread by word of mouth the quality that you have in Australia.
- It is quite clear that the big advantage you have is that the universities here are very good. English is the language in which everybody wants to get a postgraduate degree. On the other hand, you compete with universities in the United States and Britain, which are better known because they are older.
- Where quality is concerned, from what I gather, you have no reason to envy them, but you have to become better known. These exchanges would certainly contribute to that.³⁷
- 4.41 An issue raised by the Ambassador, and by several other Latin American Ambassadors, concerned the delays and difficulties faced by people seeking to obtain a visa to visit Australia. The Ambassador said that this is

34 Ambassador of the Argentine Republic, Committee Hansard, 18 March 2009, p. 11.

35 Ambassador of the Argentine Republic, Committee Hansard, 18 March 2009, p. 10.

36 Ambassador of the Argentine Republic, Committee Hansard, 18 March 2009, p. 8.

37 Ambassador of the Argentine Republic, Committee Hansard, 18 March 2009, p. 3.

an obstacle to the development of the tourism industry between our countries. He said that Argentine nationals visiting Europe do not require a visa and the difficulties involved in getting a visa to Australia are a deterrent to potential students and tourists.³⁸

- 4.42 He said that Argentina did not expect that visas would be waived but instead sought simpler and less expensive processes to obtain one. For example, the use of electronic visas would make it unnecessary for people to travel long distances simply to find out whether a visa would be granted. He quoted his own case: if resident in his home town of Tucuman in the North-West of Argentina, he would have to travel 1,300 km to Buenos Aires to apply for a visa. Some countries in Latin America do not have an Australian Embassy; consequently their citizens have to travel to Argentina, Chile or Brazil to apply for a visa.³⁹

Brazil

- 4.43 In its submission to the inquiry, the Brazilian Embassy noted that although the Australian and Brazilian Foreign Ministers have visited the other country, so far neither the President of Brazil nor the Prime Minister of Australia had done so.⁴⁰
- 4.44 The submission commented that, during the visit of the Brazilian Foreign Minister to Australia in 2008, agreement had been reached that a plan of Action should be prepared to guide the development of an enhanced partnership between Brazil and Australia. During the Australian Foreign Minister's visit to Brazil in August 2009, the two ministers agreed to place the plan before the President and the Prime Minister as soon as possible.⁴¹
- 4.45 In his evidence to the Sub-Committee, the Brazilian Ambassador said that the two Prime Ministers had accepted invitations for reciprocal visits and he expected the Plan of Action to be signed during one of those visits.⁴²
- 4.46 He added, however, that Brazil was anxious to see other agreements – such as the planned agreement on science and technology – signed as soon

38 Ambassador of the Argentine Republic, Committee Hansard, 18 March 2009, p. 5.

39 Ambassador of the Argentine Republic, Committee Hansard, 18 March 2009, p. 5.

40 Embassy of Brazil, Submission 41, p. 1.

41 Embassy of Brazil, Submission 41, pp. 1 and 6-7; Department of Foreign Affairs and Trade, Submission 40, p. 17.

42 Ambassador for Brazil, Committee Hansard, 17 March 2010, p. 13.

as possible. The technical aspects of a revised Transport Agreement have been completed and it only awaits political acceptance.⁴³

- 4.47 There have also been a number of visits by other ministers, former ministers and senior officials. In addition, a Bilateral Political Consultations Mechanism was established in 1990 to act as a “forum of analysis and exchange of views” on matters of mutual interest. The last meeting of this body was in 2008.⁴⁴
- 4.48 Australia and Brazil have shared interests and cooperate in several forums. They are both members of the Cairns Group of agricultural exporting countries; they participate with NZ, Argentina, Paraguay and Uruguay in the MERCOSUR-CER dialogue; and they are members of the Forum for East Asia-Latin America Cooperation (FEALAC).

Trade and Investment

- 4.49 Trade between Australia and Brazil was accelerating rapidly until the onset of the Global Financial Crisis (GFC). In 2008, two-way trade grew by 70 per cent to \$A 3 billion and Australia’s merchandise exports rose by 82 per cent to reach \$A 1.5 billion. Brazil is Australia’s largest trading partner in Latin America.⁴⁵ The GFC, however, took its toll in 2009. Exports from Brazil to Australia fell by 65 per cent in the first three quarters of that year and Australian exports to Brazil fell by 20 per cent.⁴⁶
- 4.50 The pre-GFC growth was achieved despite the basic similarities between the structures of the two economies; it demonstrated a phenomenon that is repeated in trade links with other Latin American countries. Despite the fact that they compete in many areas, such as agricultural exports, Australia and the countries of Latin America are finding enough synergies to reward their cooperation.
- 4.51 Australia’s main export product to Brazil is coal, valued at \$A 1.14 billion in 2008-09. Other large export items are crude petroleum, fertilisers, and measuring and analysing equipment. Imports from Brazil consist mainly of aircraft and spacecraft and their parts, animal feed, equipment and parts for civil engineering, and pig iron.⁴⁷

43 Ambassador for Brazil, Committee Hansard, 17 March 2010, p. 14.

44 Embassy of Brazil, Submission 41, p. 2.

45 Department of Foreign Affairs and Trade, Submission 40, p. 42.

46 Embassy of Brazil, Submission 41, p. 3.

47 Department of Foreign Affairs and Trade, Submission 40, p. 42.

- 4.52 There are still some restraints on the growth of trade and investment between Australia and Brazil. Neither market is well understood in the other; distance is still a problem, requiring improvement of transport links; and various complex regulatory requirements still cause difficulties.⁴⁸
- 4.53 These problems have slowed, but not stopped, closer engagement between the two economies. Australian investment in Brazil is growing and the Department of Foreign Affairs and Trade (DFAT) submission listed a wide range of sectors where Australian firms are already operating, or where opportunities exist. Among these sectors were: mining and its related services, education, agri-business, information technology, biotechnology, transport and infrastructure, telecommunications, banking and insurance.⁴⁹
- 4.54 There was a lean period in 2006 and 2007, with no direct Brazilian investment in Australia, but some significant indirect investments – Vale acquired AMCI Holdings; and JBS acquired SWIFT, an American company, and this gave it control of Australian Meat Holdings. An important step in the relationship came when Virgin Blue added 20 Brazilian Embraer aircraft to its fleet.⁵⁰
- 4.55 To assist in consolidating these gains, the existing Trade and Investment Agreement needs to be updated, which would be a positive step. However, Brazil’s membership of MERCOSUR prevents the negotiation of a bilateral free trade agreement. To overcome that difficulty, Australia and NZ are considering reconvening the CER-MERCOSUR Dialogue, and expanding its agenda to include trade facilitation, investment and behind-the-border issues.⁵¹
- 4.56 Despite the difficulties, positive action is being taken by the two governments to deal with these problems:

For example, an Australia-Brazil Air Services Agreement is ...ready for signature; negotiations are under way for a science and technology agreement; and negotiations have begun on an Enhanced Partnership Agreement to strengthen *inter alia* bilateral trade and economic links across a range of sectors.⁵²

48 Department of Foreign Affairs and Trade, Submission 40, p. 42.

49 Department of Foreign Affairs and Trade, Submission 40, p. 42.

50 Embassy of Brazil, Submission 41, p. 4.

51 Department of Foreign Affairs and Trade, Submission 40, p. 43.

52 Department of Foreign Affairs and Trade, Submission 40, pp. 42-43.

- 4.57 The Australian business community would like to see a Double Taxation Agreement, but major differences in the two taxation systems have prevented that so far.⁵³ The Brazilian submission to this inquiry also suggested that such an agreement would be valuable.⁵⁴
- 4.58 An area of strong growth has been the influx of Brazilian students at Australian universities. The Ambassador said the numbers had increased rapidly during his posting to Australia – from 8,000 three and a half years ago to 20,000. He pointed out the potential for tourism in the families of these students visiting them.⁵⁵
- 4.59 The increasing number of students and the potential for tourism can have a positive influence on transport links – there is the incentive of a growing customer base to encourage the introduction of more flight connections between Australia and Brazil.

Strengthening Trade and Investment

- 4.60 Brazil has proposed the establishment of a range of consultations between the two governments. The most important of these, and the core of the proposed Plan of Action, would be regular consultations at ministerial and senior official levels. Brazil has suggested that these should be wide-ranging and include discussions on: trade and investment; climate change and the environment; development cooperation (including discussions with East Timor and Mozambique); agriculture; mining and energy (including bio-fuels); science and technology; education; sports and culture.⁵⁶
- 4.61 The aim is, the Brazilian submission said, “...to establish new patterns for the bilateral relationship and to discuss outstanding items on the international agenda”. The submission also proposed the establishment of a priority list for future actions on: energy and mining; trade and investment (including a bilateral Trade and Investment Monitoring Group); sport; science and technology; education; and tourism.⁵⁷
- 4.62 The proposals included ministerial consultations every two years, alternately in Brazil and Australia, or at any opportunity provided by attendance at international meetings. This would involve the ministers

53 Department of Foreign Affairs and Trade, Submission 40, p. 43.

54 Embassy of Brazil, Submission 41, p. 11.

55 Ambassador for Brazil, Committee Hansard, 17 March 2010, p. 17.

56 Embassy of Brazil, Submission 41, p. 6.

57 Embassy of Brazil, Submission 41, pp. 6-7.

responsible for foreign affairs and trade. A similar pattern of meetings between senior officials was also suggested.⁵⁸

- 4.63 A further proposal was for an Australia-Brazil Dialogue, with a similar meeting pattern. It would involve the ministers and senior officials responsible for the main agenda items and, where relevant, business representatives, academics and civil representatives.⁵⁹
- 4.64 The Brazilian submission acknowledged the shared interests of Brazil and Australia in trade and investment and suggested also a bilateral Trade and Investment Monitoring Group. It proposed that this group would:
- ...explore possibilities for trade and investment promotion and identify ... opportunities in both countries; it could also explore measures in facilitating trade and investment flows.⁶⁰
- 4.65 The topics initially suggested included: customs cooperation and harmonisation of trade statistics. As an adjunct to the activities of the proposed group, Brazil suggested the formation of an Australia-Brazil Business Council.⁶¹
- 4.66 Other proposals put forward in the Brazilian submission included:
- Developing a Science and Technology Agreement to foster future co-operation in a wide range of research areas. Brazil also suggested the conclusion of Memorandums of Understanding between relevant scientific research bodies in the two countries;
 - Formation of a Consultative Committee on Agriculture, with the aim of promoting mutual understanding and providing a forum for discussion of agricultural and trade related issues. The submission also proposed a Working Group on Sanitary and Phytosanitary Matters – as a supplement to the Memorandum of Understanding on Sanitary Matters, signed in 1998. An important part of this arrangement would be to work towards mutual recognition of Sanitary and Phytosanitary measures and regulations;
 - Strengthening existing co-operation on mining and energy and deepening the dialogue on renewable energy, particularly bio-energy;
 - Establishment of a dialogue on Climate Change;

58 Embassy of Brazil, Submission 41, p. 7.

59 Embassy of Brazil, Submission 41, p. 7.

60 Embassy of Brazil, Submission 41, pp. 7-8.

61 Embassy of Brazil, Submission 41, pp. 7-8.

- Identification of further co-operative opportunities under the Memorandum of Understanding on Co-operation in Education and Training. The submission noted that in August 2009, 15,000 Brazilian students were enrolled in Australian education institutions;
- Improving air services. Currently there is no direct flight between Australia and Brazil. The submission noted that Qantas has shown some interest in extending its direct flight to Buenos Aires on to Brazil.⁶²

4.67 The Ambassador told the Sub-Committee that business people in Brazil consider “a tax treaty and a facilitation of visas” as the two most important issues for them.⁶³

4.68 For the countries of Latin America, visas pose an important problem. Brazil (unlike Uruguay, for example) requires visas but this is due, in large part, to a strict principle of reciprocity – if a country requires Brazilians to have a visa, then citizens of that country require a visa to enter Brazil.⁶⁴

4.69 Although there is an Australian embassy in Brazil that issues visas, the size of the country still imposes costs and delays on people from outlying areas applying for Australian visas. The Ambassador said that there is “interest in improving facilities for visas, but there are barriers on both sides and also there is the question of reciprocity”.⁶⁵

4.70 On transport, the Ambassador said:

If you have more transport then, of course, you have more trade and investment. But the reality is that business people will not do things unless something is already happening.⁶⁶

Chile

4.71 Chile and Australia have built a strong relationship that was enhanced by the completion of a Free Trade Agreement (FTA), which entered into force on 6 March 2009. The two countries have similar economies, strong in

62 Embassy of Brazil, Submission 41, pp. 8-10.

63 Ambassador for Brazil, Committee Hansard, 17 March 2010, p. 14.

64 Ambassador for Brazil, Committee Hansard, 17 March 2010, p. 15.

65 Ambassador for Brazil, Committee Hansard, 17 March 2010, pp. 15-16.

66 Ambassador for Brazil, Committee Hansard, 17 March 2010, p. 17.

mining and agriculture, and they share common interests in international trade forums.⁶⁷

- 4.72 Both countries are members of the Cairns Group and of APEC, and work together to promote liberalisation of trade and investment in the Asia-Pacific region. They also cooperate in the WTO to keep agricultural trade reform as a priority in the Doha Round. In its submission Chile encouraged Australia to join the P4 Group, now called the Trans-Pacific Partnership, and that has now occurred.⁶⁸
- 4.73 Australia and New Zealand are planning to resume talks with MERCOSUR (the Customs Union between Argentina, Brazil, Paraguay and Uruguay) and Chile is an associate member of that group. Chile is also an associate member of the Andean Group (Colombia, Ecuador, Peru and Bolivia).
- 4.74 Chile's economy has grown strongly in recent years. It had growth rates of 4.3 per cent in 2006, 5.1 in 2007 and 3.4 in 2008. Fuelled by record world copper prices, the Chilean government was able to reduce its external debt from 45.8 per cent of GDP to 35.6 per cent between 2004 and 2008 – CODELCO, the Chilean Copper Company and the largest company in Chile, is state-owned.⁶⁹
- 4.75 The Government of Chile is anxious to develop the relationship, and the Ambassador indicated a number of goods and services of particular interest: coal; LNG; renewable energy; mining technology and services; agro-industry; aquaculture; forestry; wines; animal genetics; irrigation; and tourism. He noted particularly Chile's desire to interest fund managers in opportunities in the financial services area, "...in which there is a lot of potential".⁷⁰

Trade and Investment

- 4.76 The FTA is expected to have a substantial effect on trade between Australia and Chile. It immediately eliminated tariffs on 97 per cent of merchandise trade, and by 2015 that will be the case for all merchandise

67 Department of Foreign Affairs and Trade, Chile Country Brief, http://www.dfat.gov.au/geo/chile/chile_brief.html, pp. 1 and 4, accessed 6 July 2010.

68 Department of Foreign Affairs and Trade, Chile Country Brief, http://www.dfat.gov.au/geo/chile/chile_brief.html, p. 1, accessed 6 July 2010 and Embassy of Chile, Submission 26, p. 2.

69 Department of Foreign Affairs and Trade, Chile Country Brief, http://www.dfat.gov.au/geo/chile/chile_brief.html, p. 3, accessed 6 July 2010.

70 Ambassador for Chile, Committee Hansard, 24 June 2009, p. 3.

trade. In addition, the Agreement provides for the liberalisation of services and investment and for access to government procurement markets.⁷¹

4.77 One Chapter of the FTA opens the way for enhanced cooperation between Australia and Chile in trade related matters. DFAT commented:

Chile was particularly interested in having this Chapter in the FTA because it regards Australia as an economic model for Chile to follow and as a potential partner in innovation and technology, in areas such as mining operations and viticulture.⁷²

4.78 Carrying this idea further a Memorandum of Understanding (MOU) on agricultural cooperation was signed in August 2009. A similar MOU on mining and related services has been operating since November 2006.⁷³

4.79 The Ambassador for Chile, in his evidence to the Sub-Committee, said that "Chile is the main destination for Australian investment in the region". He added that over 120 companies were involved in business with Chile and 70 of them had bases in Chile; they are "...using Chile as a platform to deal with the rest of the region".

4.80 As an example of Australian investment, the Ambassador referred to an announcement by Pacific Hydro in June 2009, of a new hydro-electric plant to be built south of Santiago. The value of the project was US\$450 million and over two years it will create 4,200 jobs. He noted that the company's investments in Chile and Brazil were valued at over US\$1.5 billion.⁷⁴

4.81 DFAT's submission suggested two broad areas where the FTA should play a very important role in increasing trade and investment:

- energy (coal, LNG, renewable energy), agriculture (dairy, meat, ovine and bovine genetics, production technologies) and food and beverages including wine; and
- mining and energy technology and services, engineering and consulting services, franchising services, education and training, information technology, tourism and infrastructure.⁷⁵

71 Department of Foreign Affairs and Trade, Chile Country Brief, http://www.dfat.gov.au/geo/chile/chile_brief.html, p. 4, accessed 6 July 2010.

72 Department of Foreign Affairs and Trade, Chile Country Brief, http://www.dfat.gov.au/geo/chile/chile_brief.html, p. 4, accessed 6 July 2010.

73 Department of Foreign Affairs and Trade, Chile Country Brief, http://www.dfat.gov.au/geo/chile/chile_brief.html, p. 1, accessed 6 July 2010.

74 Embassy of Chile, Submission 26, p. 3.

75 Department of Foreign Affairs and Trade, Submission 40, p. 17.

4.82 DFAT, reinforcing what the Ambassador had said about Australian companies operating in Chile, noted that many Australian companies have opted to use Chile as a base for their operations in South America. Chile's "relatively open business environment" has made this a viable option. The department noted that when allied with this situation, the FTA:

...could help in promoting Australia's strategic economic and wider engagement with South America.⁷⁶

Strengthening Trade and Investment

4.83 The submission from Chile indicated that one of the factors restricting the expansion of the trade relationship is a lack of direct shipping services. The Ambassador told the Sub-Committee that only a few years ago there had been three or four companies providing shipping services. He said that he had taken the initiative to seek restoration of suitable shipping links:

We are trying to work out, together with Australia, a new strategy vis-à-vis the shipping companies. I invited my colleagues from Argentina and Brazil to make a joint representation to the shipping companies that are today covering this route in order to re-establish a direct service between Sydney, Melbourne and, for instance, Valparaiso, Buenos Aires and Rio.⁷⁷

4.84 Another issue, raised by several of the Latin American countries, is the slow resolution of quarantine issues. The Chilean Ambassador commented that his first experience of this problem "...was related to the introduction of Chilean table grapes, which took nine years".

4.85 The Ambassador said that the rules as presently applied were affecting Chile's exports to Australia and he suggested closer cooperation between the quarantine authorities in our two countries:

We need to create a mechanism between SAG, which is our national AQIS, and AQIS to speed up the consultation process on sanitary and phytosanitary measures in order to facilitate and promote bilateral trade. This will allow us to gain access for products like avocados, berries, kiwifruit, horses and pork, which are still under consideration. All of these products have very strict

76 Department of Foreign Affairs and Trade, Submission 40, p. 17.

77 Ambassador for Chile, Committee Hansard, 24 June 2009, p. 8.

quarantine requirements and demand an import risk analysis that takes at least two years to complete.⁷⁸

4.86 The Ambassador added:

But, fortunately, I know that AQIS is making a big effort in order to reduce the time. According to the last meeting we had in my residence with the AQIS people, the idea is not to take decisions beyond three years time – which for us is quite a long time. In Chile, we apply an almost similar procedure, but it is far faster than the ones that you apply in Australia.

The answer that I got from the director of AQIS was that he had a lack of qualified people to deal with every single requirement. This obviously plays against the requirements coming from an important number of countries, including Chile, obviously. I do not know – and this is obviously quite an important question to be discussed internally – if the FTA, this new bilateral tool, could serve us to give a little more speed to AQIS's internal procedure.

The answer that I got from the director was, in principle, quite positive; at least he promised to look into this possibility. Two days ago, as a matter of fact, I received a letter from him telling me that in the case of the avocados he will pass this power from the C list to the B list. You have three lists. This is the situation at the moment, and we are quite confident that, if both parties can get together and define a common way, maybe we can speed the internal process.

Obviously that will have a very positive impact on our products. We have to stress that, in the case of Australia, you are exporting beef and dairy products to Chile without any problem.⁷⁹

4.87 On a similar theme, the Sub-Committee asked the Ambassador about the quarantine situation that forces horses coming to Australia from Latin America to go via North America. The Sub-Committee asked whether there had been discussions on that problem and the Ambassador responded:

Yes, of course. I went through every single problem, including the horses. Our trade office in Sydney started receiving many calls from businesspeople who wanted to import horses from Chile directly, not through the United States.

78 Ambassador for Chile, Committee Hansard, 24 June 2009, p. 3.

79 Ambassador for Chile, Committee Hansard, 24 June 2009, pp. 6-7.

Again, as I said before, we are clear that the internal procedures that Australia makes vis-à-vis every single product, are extremely similar to the ones that Chile applies. We are as tough in our procedure as Australia. The only problem is the timing. In the case of Chile I do not know the reasons why we work faster, but this is very important for every single country that wants to introduce products into Chile.⁸⁰

- 4.88 The Sub-Committee remarked that the racing industry offers tremendous opportunities for the import and export of horses, particularly stallions and brood mares, and that Chile could be the gateway to Latin America for this trade. The Ambassador said:

We would really appreciate if you could help us to look into ways to speed up this process. Almost every three months we send professionals from our equivalent of AQIS to be involved in some AQIS activities because, from our point of view, the personal link between both our authorities is extremely important. The knowledge of our professionals is the very first step to improving the way that we work.⁸¹

- 4.89 The Ambassador said that he would like to offer some suggestions on ways that trade and investment between Australia and Latin America could be improved. He commented that, in this, he spoke also on behalf of the other Latin American Ambassadors:

Firstly, we need to intensify the knowledge of both parties among the business, research and student communities, using entities like Austrade and its Latin American counterparts, COALAR, ALABC and the chambers of commerce. This is very, very important because every time we discuss the relations between Latin America and Australia, the first thing we see is the lack of knowledge, on both sides.

Secondly, the FTA with Chile is certainly a solid bridge, with the daily flight connections, as I mentioned before, between Sydney and Santiago and those between Sydney and Buenos Aires.

This strategy should be supported by a major exchange of political authorities, and I am referring to ministers chairing business delegations. We are really missing a major involvement of ministers from the Australian side.

80 Ambassador for Chile, Committee Hansard, 24 June 2009, p. 7.

81 Ambassador for Chile, Committee Hansard, 24 June 2009, p. 7.

As you probably know, Australia receives, every two or three months, a Latin American minister chairing a business delegation – three weeks ago it was the Chilean Minister for Economy and Innovation, in two weeks time it will be the Peruvian Minister of Trade, and 1½ months ago it was a Colombian minister. So we would really appreciate it if we could count on more Australian ministers going to Chile, especially chairing business delegations.

Parliamentarian diplomacy should also be part of it. You are the key players in the definition of the legal rules that will animate this scenario – this is a fact. And we are placing a high priority on the exchange of parliamentarians. In this respect, we really appreciate that the President of the Senate managed to pay a visit to Chile and Mexico last month.

A very last important remark for you to consider is that Australia is becoming more and more important for our region – a reference country for our region. This is an invaluable asset for Australia, considering we are talking about an environment of 600 million people. So I thought that this very last remark, about the challenges between Australia and Latin America, is there to debate. This is the right momentum – to work together as fast as we can, in order to take advantage, as I mentioned before, of how important Australia is becoming for every single Latin American country.

You can see it, not only from the business point of view but from the number of Latin American students that are moving to this country on a yearly basis. I mentioned the case of Chile but you have an important number of Columbian students, of Brazilian students and of Peruvian students, and the number will increase dramatically in the next year. This is something to be considered when you define policy vis-à-vis Latin America.⁸²

Colombia

- 4.90 Colombia, like its neighbours, is keen to expand its trade and investment relationship with Australia. The Colombian Ambassador spoke to the Sub-Committee about the efforts Colombia is making to overcome the security
-

82 Ambassador for Chile, Committee Hansard, 24 June 2009, pp. 9-10.

problems that have plagued the country in recent years. He said that the President of Colombia told an APEC summit meeting that the country is concentrating on building trust and safety in Bogota and the other main cities.⁸³

- 4.91 The Ambassador said that his country had extensive coal reserves; Columbia is the fifth largest coal exporter in the world. The Colombian industry is interested in cooperation with Australian companies on the introduction of clean coal technology in Colombia.⁸⁴
- 4.92 Trade and Investment Queensland has been very active in pursuing investment links with Colombia. Former Premier Peter Beattie, as the Queensland Trade Commissioner to America, has supported the idea of greater investment in Colombia, particularly in infrastructure projects.⁸⁵
- 4.93 To assist in developing these technologies, Colombia welcomes overseas investors. Foreign investment in 2007 totalled US\$9billion and the priority areas were infrastructure, education and training.

Trade and Investment

- 4.94 The Colombian submission noted that its exports to Australia had a peak of US\$21.1 million in 2004 and then declined a little. In the period 2004–7 they ranged between US\$16.3 and 17.2 million. Coffee is one of Colombia's most important exports and other sectors showing promise were: other agriculture; household goods; goods for offices, hotels and hospitals; pharmaceuticals; and metal products. By 2009, according to DFAT figures, that trade had grown to A\$30 million and coffee, at A\$17 million, was over half of that.⁸⁶
- 4.95 Australia's exports to Columbia have also grown substantially in recent years. The Colombian submission recorded levels of US\$24.5 million in 2006 and US\$27.2 million in 2007. In 2009, DFAT indicated that exports had reached A\$57 million, with nickel ores and concentrates making up 38.6 per cent of the total.⁸⁷

83 Ambassador for Colombia, Committee Hansard, 28 November 2008, p. 13.

84 Ambassador for Colombia, Committee Hansard, 28 November 2008, p. 12.

85 Ambassador for Colombia, Committee Hansard, 28 November 2008, p. 12.

86 Embassy of Colombia, Submission 5, p. 1 and Department of Foreign Affairs and Trade, Colombia Fact Sheet, <http://www.dfat.gov.au/geo/fs/comb.pdf>, accessed 26 July 2010.

87 Embassy of Colombia, Submission 5, p. 1 and Department of Foreign Affairs and Trade, Colombia Fact Sheet, <http://www.dfat.gov.au/geo/fs/comb.pdf>, accessed 26 July 2010.

- 4.96 Despite these improvements there is still plenty of scope for growth. In 2009 Australia ranked as number 55 on Colombia's list of principal export destinations, with only 0.1 per cent of the total. Similarly, Australia was 37th on Colombia's list of import sources, with 0.2 per cent of the total.⁸⁸

Strengthening Trade and Investment

- 4.97 In November 2009 Australia and Colombia signed a Memorandum of Understanding on Strengthening Bilateral Trade and Investment. The MOU expressed the intention of the two countries to facilitate and strengthen trade and investment between them, and to coordinate their efforts to reduce barriers to bilateral trade and investment.⁸⁹
- 4.98 The MOU said that the two countries would seek to achieve these aims by strategic cooperation in all suitable sectors. Sectors particularly mentioned were: agribusiness, education services, energy, legal services, resources (including services and equipment), infrastructure, information technology and telecommunications.⁹⁰
- 4.99 Other provisions of the MOU covered the promotion and protection of investment and the importance of maintaining transparency in the laws and regulations on trade and investment. There was also a provision establishing a Committee on Trade and Investment; to meet one year after the signing of the MOU. The Committee is to: promote the aims of the MOU; monitor the development of trade and investment relations and identify and promote opportunities to expand them; and discuss policy issues and trade and investment matters of common interest.⁹¹
- 4.100 The submission from the Embassy requested that Australia revise and, where possible modify, visa requirements and procedures. Particularly to facilitate travel for investors and businesspeople.⁹²
- 4.101 Like other Latin American countries Colombia noted the importance of increasing two-way visits by high ranking government officials and senior businesspeople as a means of improving trade and investment relations.⁹³

88 Embassy of Colombia, Submission 5, p. 1 and Department of Foreign Affairs and Trade, Colombia Fact Sheet, <http://www.dfat.gov.au/geo/fs/comb.pdf>, accessed 26 July 2010.

89 Memorandum of Understanding on Strengthening Bilateral Trade and Investment between Australia and the Republic of Colombia, Geneva, 29 November 2010, pp. 1 and 3.

90 Memorandum of Understanding on Strengthening Bilateral Trade and Investment between Australia and the Republic of Colombia, Geneva, 29 November 2010, p. 1.

91 Memorandum of Understanding on Strengthening Bilateral Trade and Investment between Australia and the Republic of Colombia, Geneva, 29 November 2010, pp. 2-3.

92 Embassy of Colombia, Submission 5, p. 6.

93 Embassy of Colombia, Submission 5, p. 6.

Mexico

4.102 Mexico stands in a unique position in Latin America; not only closely linked with the other Latin American economies but also a member of NAFTA, the free trade agreement between the USA, Canada and Mexico.

4.103 Australia, as part of its commitment to widening economic relations with Latin America, signed a Memorandum of Understanding in December 2009 to “...formalise political consultations between the Mexican Ministry of Foreign Affairs and the Department of Foreign Affairs and Trade”. In announcing the signing of the MOU, DFAT noted:

The agreement will create a forum for Mexican and Australian officials to discuss freely the bilateral and global issues, including climate change, free trade and nuclear non-proliferation, confronting both nations and to develop solutions to the challenges they pose.

Australia and Mexico are both active members of the G20 and, on climate change, the Copenhagen Commitment Circle. Australia cooperates closely with Mexico in a range of multilateral fora, including the United Nations, the World Trade Organization (WTO), the forum for Asia Pacific Economic Cooperation (APEC), the Organization for Economic Cooperation and Development (OECD) and the Forum for East Asia Latin America Cooperation (FEALAC).

Bilaterally, Mexico continues to be Australia's second largest trading partner in Latin America. Total two-way merchandise trade in 2008-09 was valued at A\$2.2 billion.⁹⁴

4.104 The Mexican Embassy, in its submission to the inquiry, reported that Mexico also had 11 other free trade agreements, with a total of 44 countries. It also noted that Mexico’s geographical position, linking the Pacific and Atlantic Oceans, and connecting also to both North and South America, “makes it an ideal hub for worldwide production and trade”.⁹⁵

4.105 The submission also said that Mexico can offer the advantage of a unique strategic manufacturing base – close to its NAFTA partners, the United

94 Department of Foreign Affairs and Trade, *Strengthening Political Cooperation with Mexico*, Media Release, 7 December 2009.

95 Embassy of Mexico, Submission 14, p. 3.

States and Canada, and also to the rapidly-growing countries of South America, especially the giant economy of Brazil.⁹⁶

Trade and Investment

4.106 Bilateral trade between Mexico and Australia has increased substantially in recent years. From a very low base in 1991 trade grew steadily and tripled between 2000 and 2005. That trend continued until the disruptions of the GFC interfered. In 2006, Australia's exports to Mexico totalled A\$891 million, but in 2007 and 2008 the total was A\$735 million for each year. Australia's imports from Mexico, however, defied the effects of the Crisis and continued to grow: A\$1,077 million in 2006, A\$1,161 million in 2007, and A\$1,406 million in 2008.⁹⁷

4.107 DFAT described Australia's trade and investment relationship with Mexico as:

...modest ...given the size of its economy, which is one of the ten or so largest measuring GDP on a purchasing power parity basis.⁹⁸

4.108 In November 2006 the two governments signed a Memorandum of Understanding to establish a Joint Experts Group to "examine the bilateral economic relationship and means of enhancing it". One of the findings in that study was the fact that the scope of the trade relationship is generally understated:

One of the most significant outcomes of the JEG meetings was a clearer understanding of the true state of the bilateral trade relationship. A joint examination of each country's trade statistics revealed that the Australia-Mexico merchandise trade flows are perhaps more than 50 per cent greater than the two countries' export statistics would indicate.

The true state of the trade relationship is obscured by the fact that much of it passes through the US, and hence its true origin or destination is not immediately apparent to Australian and Mexican statisticians. This is especially true in relation to the volume of Mexican exports to Australia, which were revealed to be far higher than the Mexican side believed, indicating that

96 Embassy of Mexico, Submission 14, p. 3.

97 Embassy of Mexico, Submission 14, p. 8 and Chart 4, p. 9; and Department of Foreign Affairs and Trade, *Australia's Trade with the Americas 2008*, Tables 2 and 3, p. 25.

98 Department of Foreign Affairs and Trade, Submission 40, p. 16.

Australia was a far more important export market for Mexico than it appeared at first glance.⁹⁹

4.109 The two countries do have in place several agreements that offer potential for bilateral cooperation. There is a Trade and Investment Agreement, signed in 1997, which established a Joint Trade and Investment Commission. An Investment Protection and Promotion Agreement was signed in 2007, and other agreements and memorandums cover energy cooperation, education and training.¹⁰⁰

4.110 When the Joint Experts Group reported to the two governments in July 2009. It proposed:

...revitalising the Joint Trade and Investment Commission and holding an early high level meeting of the Commission as the first step in building the bilateral economic relationship.

4.111 Referring also to the idea of a bilateral Free Trade Agreement, the report said that:

...while negotiation of a comprehensive bilateral FTA had the potential to deliver the most economic benefit, it would be prudent to wait until circumstances developed in both countries to enable the political decisions necessary for negotiating a high quality agreement.¹⁰¹

4.112 Mexico's submission indicates that the Mexican Government also sees opportunities for both countries to expand trade relations:

...there are plenty of opportunities for improvement in these trade relations: tariff and non-tariff barriers to certain commodities and other goods and services still exist. It would be in the interest of both Governments to work towards eliminating these barriers ...to positively increase trade relations, which can in the end benefit both countries.¹⁰²

4.113 The report of the Joint Experts Group agreed with that assessment, commenting:

...the Australian-Mexican relationship is in good shape, with trade and investment increasing, but there are potential synergies and

99 Australia-Mexico Joint Experts Group on Strengthening Bilateral Economic Relations, Joint Report, July 2009, Executive Summary, pp. 5-6.

100 Department of Foreign Affairs and Trade, Submission 40, p. 16.

101 Department of Foreign Affairs and Trade, Submission 40, p. 16.

102 Embassy of Mexico, Submission 14, p. 3.

advantages in closer economic relations that have not yet been fully exploited.

In particular, Australia and Mexico can do more to take advantage of each other's strategic and trade positions – proximity to, and integration with, the US and Latin American markets in the case of Mexico, and to East and South-East Asian markets in the case of Australia. Increased cooperation between the two nations could help to create certainty for traders and investors.

Along with the strong financial frameworks and investment rules already shared by Australia and Mexico, further integration could allow businesses to take advantage of improved economies of scale to target third country markets where in-country links are strongest. Given the size of our two economies and their complementary trade profiles the signs for further significant growth in bilateral trade are very promising indeed.¹⁰³

- 4.114 On the question of a possible FTA with Mexico, however, the Group felt that more time is needed:

...the Australia-Mexico Joint Experts Group report was finalised earlier this year. The report considered a number of alternatives of which an FTA was one.

The conclusion of the group, which comprised members from both the Mexican and Australian sides, was that now was not the right time to progress towards an FTA with Mexico. There just was not the support within the business communities in both countries to pursue one and certain sensitivities would need to be overcome.

Having said that, in the longer term I have no doubt that the commercial relationship with Mexico will expand considerably. We have a very robust trading relationship with Mexico and a burgeoning investment relationship too, I believe.¹⁰⁴

- 4.115 Although Australian investment in Mexico has grown in recent years, it still represents a minor share of the total. About four-fifths of FDI in Mexico comes from three countries: the USA, Spain and Canada. Mexico is keen to see that situation change, and commented that “there are still

103 Australia-Mexico Joint Experts Group on Strengthening Bilateral Economic Relations, Joint Report, July 2009, Executive Summary, pp. iii and 5.

104 Department of Foreign Affairs and Trade, Committee Hansard, 25 November 2009, p. 13.

ample opportunities for Australian companies... to invest in Mexico and take advantage of the vast range of benefits that are involved".¹⁰⁵

4.116 Mexico's economy is growing rapidly and it has benefited from FDI through: an increase in technological capacity; an increase in the skill level of the labour force; and enhanced national productivity and competitiveness. Almost half of new FDI received in 2007 went to the manufacturing sector. In response, Mexico launched a National Infrastructure Plan to guide and encourage infrastructure development.¹⁰⁶

4.117 An essential part of that plan was "to make it easier to participate and invest in a wide range of projects in Mexico". To achieve this, Mexico has introduced a regulatory framework for foreign investments. It sets out the rights and obligations of foreign investors, and establishes a safe and orderly environment for their investments; with the added incentive of high yields on the funds invested.¹⁰⁷

4.118 Mexico's submission estimated Australia's FDI in Mexico as US\$135 million in 2007. Between 1999 and 2008 the total was US\$216.8 million; only 0.89 per cent of total FDI in Mexico. However, the submission was very positive about the available opportunities:

...there are still ample opportunities for Australian companies to join in the prevailing tendency of both large multinationals and medium-sized companies to invest in Mexico and take advantage of the vast range of benefits that are involved.¹⁰⁸

4.119 One example mentioned by the Mexican Ambassador in her evidence was the ongoing reform in the energy sector:

Most of the structural reforms that the President set out to approve at the beginning of his administration have now been passed by congress and set in motion. The most recent one – and an important one for investment – is the reform of the energy sector.

PEMEX, Mexico's national oil company, has not been privatised, but the reforms have begun the process of modernisation and of strengthening the company ...to make it a more competitive and efficient international player, which also promotes renewable sources of energy.

105 Embassy of Mexico, Submission 14, p. 4.

106 Embassy of Mexico, Submission 14, p. 7.

107 Embassy of Mexico, Submission 14, p. 15.

108 Embassy of Mexico, Submission 14, p. 4.

For this, investments from home and abroad are now welcome, in exploration, extraction and refining of petrol and other energy resources. This could be very attractive, for example, to Australian companies that specialise in services, exploration and the equipment that this field requires.¹⁰⁹

- 4.120 The Ambassador also suggested that there are opportunities for cooperation and joint venture arrangements in the motor vehicle industry:

...I think this is a source of opportunity for countries like Mexico and Australia because we are producing different kinds of components for the car industry. As for our trade balance, we are exporting engines to Australia and you are exporting all sorts of parts for the car industry to Mexico.

I think there is a great opportunity now to create joint ventures for strategic alliances with these companies to export, not just to our big market, which is the United States, but to all the markets in the world.¹¹⁰

- 4.121 When asked by the Sub-Committee about the advantages offered by Mexico as an investment destination, the Ambassador responded:

I think we have a lot of comparative advantages that we can offer to international companies. Mainly we have a stable economic and financial establishment in Mexico. Our macroeconomic financial strength is there. We have an investment grade granted by institutions such as Standard & Poor's and Moody's that shows we are in very good shape. We have been qualified as BBB+ by them.

As I have mentioned, Mexico is one of the most open economies in the world. We have a network of trade and investment agreements... We have a strategic geographical location as well. We are close to major markets. We border the world's largest economy. We have shores on two oceans. We connect well within Latin America, not just with North America.

We have the ability to form clusters around different factories to provide input to the big companies as well. We have a highly qualified and competitive labour force that has been trained since our NAFTA agreement has been in place for 15 years. We have an investment friendly environment and we are politically stable. All

109 Ambassador for Mexico, Committee Hansard, 11 March 2009, p. 2.

110 Ambassador for Mexico, Committee Hansard, 11 March 2009, p. 3.

these factors give Mexico an advantage compared with other countries in the world.¹¹¹

- 4.122 The Sub-Committee asked about the scope for increasing trade in animal products and live animals and the Ambassador replied:

I think there is a lot of scope to increase both ways. Mainly, we are buying cattle and dairy products from Australia, but we are also selling some dairy products to you as well. So it is a two-way trade now. What we want to increase more is cooperation – technical and scientific cooperation in the field of agribusiness.¹¹²

- 4.123 The Ambassador referred also to the opportunities that exist for trade in other products, such as processed foods:

I think that processed foods are also very important in our trade balance and there is a lot of scope to advance this relationship. You probably know that Mexico is exporting Corona beer to Australia and it is very popular here. We would like to export more tequila, for example, and processed food – in cans, mainly.

But there are plenty of opportunities in many different areas, for example: in engines, as I mentioned; in telecommunications; in software; in media games and medicaments. All of these areas are part of our trade balance with Australia.

Mexico is one of the largest trading partners of Australia in Latin America, with US\$1.5 billion in trade. I think what we need to do is to create and promote more awareness of each country – what we have and how we can complement each other...¹¹³

Tourism and Airline Services

- 4.124 Tourism and the availability of flights between Australia and Mexico were also discussed and the Ambassador indicated that she was very interested in the introduction of direct flights between Mexico and Australia:

It would change our lives, really, because we would have more tourism and more business people. We are working hard. We have in place an MOU on air services that established a co-share flight between Qantas and Mexicana that started working in 2006. Now we have almost finished the negotiation of an air transport

111 Ambassador for Mexico, Committee Hansard, 11 March 2009, p. 4.

112 Ambassador for Mexico, Committee Hansard, 11 March 2009, p. 6.

113 Ambassador for Mexico, Committee Hansard, 11 March 2009, p. 6.

agreement that will allow more exchanges between different airlines from Mexico and from Australia – because now you have Virgin airlines in place.

From Mexico we have a lot of connections to Central and South America and the Caribbean as well, so if they could fly from here to Mexico City or another city in Mexico – Guadalajara, Acapulco or Cancun – they could connect with flights that come from the United States as well. This should be a point of negotiation between the airlines.

There are plenty of opportunities. Do you know that many of the people I talk to want to go to Mexico but they do not want to go through the United States because they need a transit visa to go there? Mexico is now one of the largest tourist destinations in the world. It ranks as the eighth most popular tourist destination in the world. We had 21 million visitors in 2007.

It is a big industry in Mexico but of those tourists only 33,000 were Australians, so we would like to have more. I am sure that some of them are travelling to the United States and crossing the border, but we would like to have more tourism in the wonderful parts of Mexico.¹¹⁴

Phytosanitary Issues

4.125 As with several other Latin American countries, Mexico has concerns about the application of Australia's phytosanitary arrangements. Mainly, the concerns are focused on the length of time taken to have agricultural products assessed. When asked about the number of products awaiting risk assessment, the Ambassador said:

This is an issue that we have been dealing with for several years. There are several products. One of them is avocado, which is very important for the bilateral relationship. We requested a risk analysis for avocados ...several years ago and we are still on the waiting list.

We also have other problems. Citrus fruits are very important for our bilateral agenda, and they are pending to be analysed. We have [had] some analysis done for other products – such as grapes, plums, melons, broccoli, et cetera – but they are not being included in the protocols yet.

114 Ambassador for Mexico, Committee Hansard, 11 March 2009, pp. 6-7.

We have all these different products that could be included in the protocol list and we are wondering why we could not negotiate them as a package. We need to negotiate product by product.

We have been trying to do this for several years, and I think one of the solutions could be to have a phytosanitary agreement in place between Mexico and Australia. We also provide opportunities for products from Australia, such as livestock, meat, dairy products, or wines, which are important sectors in this country.¹¹⁵

4.126 When questioned further, the Ambassador added:

We are exporting avocados to the 50 states in the United States, to Japan and to Europe. So, we are certified. We cannot export those to Australia, which is very inconvenient, not just for consumers. You could have avocados here, when you do not produce avocados here, because our seasons are different.

...our entity in Mexico – which is called SENASICA, which is part of our agricultural ministry – has been working, since long ago, with AQIS here. But no results have been in place.¹¹⁶

Paraguay

4.127 The Export and Investment Network in the Ministry of Industry and Commerce in Paraguay (REDIEX) noted that two-way trade between Australia and Paraguay is very low at present. However, as Paraguay is a member of MERCOSUR, it also commented that trade with that group more than doubled between 2003 and 2007:

Australia's imports from MERCOSUR countries increased from US\$440 million to US\$980 million; and exports rose from US\$360 million to US\$890 million.¹¹⁷

4.128 By 2009 trade with Paraguay was growing and exports reached A\$1,468,000, an increase of 7.2 per cent over 2008; imports in 2009 totalled A\$920,000, an increase of 41.5 per cent over 2008.¹¹⁸

115 Ambassador for Mexico, Committee Hansard, 11 March 2009, pp. 4-5.

116 Ambassador for Mexico, Committee Hansard, 11 March 2009, p. 5.

117 Export and Investment Network, Ministry of Industry and Commerce, Paraguay, Submission 7, p. 2.

118 Department of Foreign Affairs and Trade, Paraguay Fact Sheet, <http://www.dfat.gov.au/geo/fs/prgy.pdf>, accessed 6 July 2010.

- 4.129 REDIEX said that, while the figures for current trade between our countries are very small, it had identified “plenty of opportunities” in the trade with the MERCOSUR group. Through these avenues it believed that trade and investment with Paraguay could be increased.
- 4.130 One of the advantages held by Paraguay, the submission said, was its central location in South America. Paraguay has borders with Argentina, Bolivia and Brazil and is close to Uruguay, Chile and Peru.
- 4.131 The Government of Paraguay is actively seeking FDI and the submission from REDIEX indicated that the main sectors are: agribusiness, food and beverages, tobacco, chemical industries, communications, commerce, financial institutions, insurance and banking. The submission added that:
- We are actively prospecting for eventual investments oriented to producing and developing biomass for bio-fuel production. We also identify a great investment potential for Australian companies to diversify production and outsourcing in sectors like cattle ..., the dairy industry, the mining sector, agrochemicals, electro-intensive industries and infrastructure.¹¹⁹

Peru

- 4.132 Diplomatic ties between Australia and Peru were established in 1963. Since then the relationship has been firmly established on a range of shared interests and goals. Trade liberalisation, encouraging investment and regional cooperation are high priorities. The two countries have worked together in both multilateral and regional forums, particularly in APEC.¹²⁰
- 4.133 Australia and Peru both place considerable importance on the outcome of the Doha Round. Reform of agricultural protection regimes is foremost among their goals and both are members of the Cairns Group, which Peru joined in 2007.¹²¹
- 4.134 Peru has FTAs with MERCOSUR, the United States, Canada, Singapore and Chile, and an agreement with Thailand. It is also seeking to negotiate FTAs with Mexico, the EFTA countries,¹²² China and a partnership
-

119 Export and Investment Network, Ministry of Industry and Commerce, Paraguay, Submission 7, p. 4.

120 Embassy of Peru, Submission 16, Covering Letter, p. 1.

121 Embassy of Peru, Submission 16, Covering Letter, p. 2.

122 EFTA includes Switzerland, Norway, Iceland and Liechtenstein.

agreement with the European Union. Peru also has negotiations in view with Central America and Korea, and has joined the Pacific Partnership negotiations. Peru has indicated to Australia that it would welcome negotiations for an FTA with this country.¹²³

- 4.135 When asked what type of agreement Peru would be seeking, the Ambassador said that, like Australia, Peru was interested in WTO-plus agreements – i.e. an agreement that goes beyond WTO commitments. Peru wants:

...comprehensive, high-quality agreements. They will not be ... limited to the trade liberalisation of goods but, on the contrary, go further into financial services particularly investments. Investment and trade are very much related. We would like to see flows of trade and investments, which in the future could stimulate new investment and trade opportunities.¹²⁴

- 4.136 The Ambassador said that Australia and Peru have cooperated closely in APEC, especially since Peru hosted the APEC meetings in Lima in 2008 following Australia's turn as host. He also commented that the two countries share a strong commitment to trade liberalisation at all levels and have worked well together in efforts to see a suitable outcome from the Doha Round.¹²⁵
- 4.137 The Ambassador recalled that at the end of the Lima summit the President of Peru strongly advocated free trade as the best way of overcoming the GFC. Peru recognises the value of free trade and improved market access in the fight against poverty. The Ambassador noted that despite its rapid growth in recent years, Peru still had 39 per cent of its population living below the poverty line. He said, however, that they had managed to reduce that figure by five per cent in the last two years and nearly nine per cent since 2005.¹²⁶

Trade and Investment

- 4.138 In its submission the Peruvian Embassy showed that trade growth between Australia and Peru was very strong in the five years between 2002 and 2007. Australia's imports from Peru rose from US\$35 million in 2002 to US\$98 million in 2007; exports to Peru also grew strongly in that

123 Embassy of Peru, Submission 16, Covering Letter, p. 2 and Committee Hansard, 28 November 2008, pp. 3-4.

124 Ambassador for Peru, Committee Hansard, 28 November 2008, p. 8.

125 Ambassador for Peru, Committee Hansard, 28 November 2008, p. 3.

126 Ambassador for Peru, Committee Hansard, 28 November 2008, p. 4.

period, from US\$25 million to US\$67 million. The overall growth in total trade between 2002 and 2007 was 176 per cent.¹²⁷

- 4.139 The figures for 2009, even though expressed in A\$ instead of US\$ and despite the effects of the GFC, indicate that the growth trend has continued. In 2009, merchandise trade with Peru totalled A\$248 million; imports from Peru were A\$139 million and exports to Peru A\$109 million. Australia's main imports from Peru were zinc ores and concentrates and animal feed. Our main exports to Peru were powdered milk and cream and specialised machinery and parts.¹²⁸
- 4.140 Prior to the GFC Peru's economy had been growing strongly. GDP growth was 7.6 per cent in 2006, 8.9 per cent in 2007 and 9.2 per cent in 2008. Despite a drastic slowdown to almost zero growth during the crisis, the forecast for 2009-10 is for growth at around 7 per cent.¹²⁹
- 4.141 The submission from Peru indicated that government revenues are solidly positive, inflation has been contained at a low level and the exchange rate has been stable. The economic overview produced by DFAT commented:
- President Garcia's economic policies have been characterised by fiscal discipline, inflation targeting, a managed float of the currency and investment in infrastructure and social programs.¹³⁰
- 4.142 The Ambassador for Peru, in evidence to the Sub-Committee, noted that the government's fiscal position is sound and in surplus (about 3 per cent was expected for 2008).
- 4.143 Peru offers attractive conditions for investors. Its legal framework is based on equality, freedom and non-discrimination. National treatment is offered to foreign investors. It also has 32 agreements on investment that provide stability for the investors. The World Economic Forum ranked Peru as the most receptive Latin American country for foreign investment and the World Bank ranked it second in Latin America for protection of investment.¹³¹
- 4.144 Independent providers of credit rankings have assessed Peru at Investment Grade. This assessment has come from: Standard and Poor's,
-

127 Embassy of Peru, Submission 16, p. 1.

128 Department of Foreign Affairs and Trade, Peru Fact Sheet, <http://www.dfat.gov.au/geo/fs/peru.pdf>, accessed 6 July 2010.

129 Embassy of Peru, Submission 20, pp. 2-3.

130 Embassy of Peru, Submission 20, pp. 6-7; Department of Foreign Affairs and Trade, Peru Country Fact Sheet, Economic Overview, p. 1, http://www.dfat.gov.au/geo/peru/peru_brief.html, accessed 6 July 2010.

131 Embassy of Peru, Submission 20, p. 2.

Fitch and DBRS.¹³² The Ambassador for Peru, in evidence to the Sub-Committee, noted that in 2008, Peru joined the OECD Investment Committee. He also commented that foreign companies have the right to:

...invest in all economic activities, with free transfer of investment capital, freedom to purchase stock and so on. On top of that, foreign companies are entitled to sign a 10-year stability agreement with the government.¹³³

4.145 Peru has the aim of becoming the leading export nation in Latin America and has multiplied the value of its exports by four times in the last five years, boosting employment. The Ambassador said that import duties were reduced to give Peru's industries "more access to new capital, goods, equipment and technology, creating a virtual circle by encouraging more exports".¹³⁴

4.146 He noted that Australia is already supplying machinery and technology to the Peruvian mining industry and added:

Our economies are very much complementary, but there are other areas [where] Australia can expand trade and investments in Peru, as in agribusiness, infrastructure, water, financial services and energy, just to cite some examples.¹³⁵

4.147 The Ambassador said that more political dialogue and reciprocal diplomatic representation would be very helpful in attaining these aims. He added that the Government of Peru and the business community have praised the announcement by Australia that its embassy in Peru would be reopened in 2010. The additional transport links enabled by the conclusion of talks on a bilateral air services agreement would be of additional assistance.¹³⁶

4.148 The Sub-Committee commented that the air services agreement is a crucial part of our relationship. The Ambassador responded that tourism is becoming very important, and that about 23,000 Australians visited Peru in 2007; that figure, he said, is growing at 10 per cent a year. Another rapidly growing area in the relationship is education services. The Ambassador said that from less than 300 students studying in Australia three years ago, the total has now grown to over 1,200. That growth, he said, will be assisted by better air services, particularly if a direct service

132 Embassy of Peru, Submission 20, pp. 2 and 8.

133 Ambassador for Peru, Committee Hansard, 28 November 2008, p. 3.

134 Ambassador for Peru, Committee Hansard, 28 November 2008, p. 4.

135 Ambassador for Peru, Committee Hansard, 28 November 2008, p. 4.

136 Ambassador for Peru, Committee Hansard, 28 November 2008, p. 4.

can be established. At present there are no direct flights and the most direct services are via New Zealand or the direct flight to Buenos Aires.¹³⁷

4.149 The Peruvian students are mostly privately funded and are concentrated mainly in Sydney, Melbourne and Brisbane; though spread over a wide range of institutions. Many of them work up to 20 hours per week to finance their studies and other expenses. The Sub-Committee noted the need for an agreement on mutual recognition of qualifications.¹³⁸

4.150 The Ambassador told the Sub-Committee that the universities in Australia and Peru were working on closer ties:

There is also an ongoing collaboration between Australian and Peruvian universities, which is to be highlighted. We are working on developing more institutional links, cooperation links, between the universities themselves and working closely in promoting the location opportunities from both sides as well; we would also like to see some Australians going to Peru.¹³⁹

4.151 The Ambassador commented that tourism would be assisted if an agreement could be reached on a “working holiday” scheme. He said that similar schemes were already in place between Australia and several other countries and seemed to work well.¹⁴⁰

Uruguay

4.152 Economic relations between Australia and Uruguay have been slow to develop, mainly because of distance and the geopolitical circumstances they face. Uruguay has had an embassy in Canberra since the 1960s and currently also has a Consulate General in Sydney. The Ambassador for Uruguay observed, however, that Australia has never had an embassy in Montevideo.¹⁴¹

4.153 In his submission to the inquiry, the Ambassador noted that these problems have limited high level visits, and he commented:

...our region rarely appears on Australia’s international agenda and this is even more apparent regarding the Atlantic coast

137 Ambassador for Peru, Committee Hansard, 28 November 2008, pp. 5-6.

138 Ambassador for Peru, Committee Hansard, 28 November 2008, p. 7.

139 Ambassador for Peru, Committee Hansard, 28 November 2008, p. 7.

140 Ambassador for Peru, Committee Hansard, 28 November 2008, pp. 7-8.

141 Embassy of Uruguay, Submission 42, p. 5.

countries of MERCOSUR, which have not benefited from Australia's increased focus on Asia-Pacific integration.¹⁴²

4.154 Uruguay, like several other Latin American countries, has expressed satisfaction that the Australian Government has indicated its intention to widen its economic relations in the region.

4.155 In giving evidence to the Sub-Committee, Ambassador Fajardo commented that while it was good that Australian Ministers took advantage of multilateral meetings, such as the Cairns Group, to visit Latin America, it would be even better if they could make focused visits:

...I think it is also good when ministers say "Okay, I'm just going to spend one week or a week and a half in South America and we are going to visit three or four countries". Then the Prime Minister says, "I'm going to have a Prime Ministerial visit to two, three or four countries".

These things would be very important and, in the framework of some kind of strategy where we are going to keep on focusing on South America, I think that this would be very useful.¹⁴³

4.156 The submission from Uruguay noted that in 2004 the country began an "extraordinary phase of growth". Inflows of foreign capital reached unprecedented levels and economic growth was sustained at an average of 6.7 per cent between 2004 and 2008. Although that rate dropped to 2 per cent in 2009, during the GFC, Uruguay was able to avoid a recession. Indications are that growth will improve to 4-5 per cent this year.¹⁴⁴

4.157 Uruguay was one of the founding members of MERCOSUR and the Secretariat and Parliament of the group are both located in Montevideo. Through its membership of MERCOSUR Uruguay enjoys free trade agreements with Paraguay, Brazil, Argentina, Chile, Bolivia, Peru, Ecuador, Colombia and Venezuela. Uruguay also has an FTA with Mexico, under a waiver arrangement with MERCOSUR.¹⁴⁵

4.158 To these advantages, Uruguay adds a strategic geographic position close to the most affluent areas in South America. The immediate area around Uruguay generates approximately 73 per cent of Brazil's GDP, 71 per cent of Argentina's and 60 per cent of Chile's.¹⁴⁶

142 Embassy of Uruguay, Submission 42, p. 5.

143 Embassy of Uruguay, Submission 42, p. 10.

144 Embassy of Uruguay, Submission 42, p. 2.

145 Embassy of Uruguay, Submission 42, p. 3.

146 Embassy of Uruguay, Submission 42, p. 3.

4.159 Uruguay has established a very attractive regime for foreign investors:

Domestic and foreign capital are treated equally and both...can receive the same incentives. There are no limits for foreign capital in companies. Foreign investors may carry out any type of activity under the same conditions as local investors. In certain industry sectors, foreign investors can perform activities under public concession agreements.

There are no limits on capital repatriation or profit transfer and no permits are required. The currency exchange market is free and has no limits on foreign currency trading. Investments can be made in any currency.

The tax system is neutral with respect to foreign investment. No prior authorisations are required to make investments, except for environmentally-related permits.¹⁴⁷

4.160 The submission from Uruguay also commented that, according to the World Economic Forum's Global Competitiveness Report for 2008-09, Uruguay has the best intellectual property (IP) protection in South America. Uruguay uses international IP standards, and copyrights, brand names and patents are protected by law.¹⁴⁸

Trade and Investment

4.161 Trade between Australia and Uruguay has been small so far and investment levels are also limited. Australian exports grew from A\$18.1 million in 2006 to A\$21.78 million. The GFC, however, produced a decline to A\$10.1 million in 2009. The main products were leather, wool and raw hides and skins.¹⁴⁹

4.162 The story with imports from Uruguay was similar, except that the decline showed itself earlier, in the figures for 2008. In 2006, Australian imports from Uruguay totalled A\$15.5 million, in 2007 A\$25.4 million, but in 2008 only A\$15.8 million. In 2009, the total started to rise again and reached A\$18.2 million. The main imports were preparations for making non-alcoholic beverages, articles of iron and tanning substances.¹⁵⁰

4.163 Both economies are strong in the production and export of agricultural products. Despite this they have regularly co-operated in the Cairns

147 Embassy of Uruguay, Submission 42, p. 3.

148 Embassy of Uruguay, Submission 42, pp. 3-4.

149 Embassy of Uruguay, Submission 42, p. 6.

150 Embassy of Uruguay, Submission 42, p. 6.

Group and in the Doha negotiations. The Uruguayan submission commented, however, that there are factors operating against greater market penetration:

- Australia's very strict AQIS and bio-security regulations; and
- the distance that separates the two countries.

Added to these is a scarcity of transport linkages; a problem that affects much of Australia's trade with Latin America.¹⁵¹

- 4.164 Transport is affected both by the distance involved and the lack of direct shipping. Air links have improved in recent years and LAN Chile, Aerolíneas Argentinas and Qantas all fly direct to Sydney from Buenos Aires – from Montevideo to Buenos Aires is only half an hour. Air New Zealand may also have flights to South America soon.¹⁵²

Strengthening Trade and Investment

- 4.165 The Government of Uruguay is keen to attract new investments from Australian companies. Uruguay's submission draws attention to the opportunities that exist for joint ventures, particularly in the agribusiness sector. Australia can offer cutting edge technology and considerable knowledge and experience to such ventures. An additional attraction of joint ventures in Uruguay is that the products produced would also have access to the markets of the other MERCOSUR partners.¹⁵³
- 4.166 The mining sector in Uruguay also offers opportunities in both exploration and development. The traditional base of extraction of non-metallic minerals has now expanded to take in exploration for gold, diamonds and iron ore. Australia has much to offer in the skills and technology applicable to these products.¹⁵⁴
- 4.167 In 2009, Uruguay launched a licensing round, entitled "Uruguay Round 2009", for offshore gas and oil development. Although BHP Billiton was engaged in the early negotiations, it did not sign an exploration contract.¹⁵⁵
- 4.168 Uruguay has a particular interest in co-operation with Australia on research and development in the agricultural sector. The National Agricultural Research Institute of Uruguay (INIA) "has already concluded

151 Embassy of Uruguay, Submission 42, p. 6.

152 Embassy of Uruguay, Submission 42, p. 12.

153 Embassy of Uruguay, Submission 42, p. 6.

154 Embassy of Uruguay, Submission 42, p. 7.

155 Embassy of Uruguay, Submission 42, pp. 7-8.

several agreements with Australian institutions: the Victorian Department of Primary Industries; the company Phytogene; the University of Western Australia; and the University of New England/the Agricultural Business Research Institute.¹⁵⁶

- 4.169 For example, Uruguay has been working with the Victorian Department of Primary Industries on projects seeking to develop stronger and more drought resistant pastures.¹⁵⁷
- 4.170 The Ambassador also mentioned the opportunities that exist for Australian investment in livestock, dairy and crop production in Uruguay. He reminded the Sub-Committee that Uruguay has had years of co-operation with both Australia and New Zealand in the wool industry. He commented that another growth area is plantations of eucalypts.¹⁵⁸
- 4.171 Uruguay's submission proposes that:
- Both countries should actively explore the possibilities for joint research and development activities, making use of best practices in this field and encourage, facilitate and support the development of direct contacts and co-operation between government agencies and organisations, universities, science and research centres, private sector firms, etc.¹⁵⁹
- 4.172 In common with several other Latin American countries, Uruguay is concerned about the difficulties involved in obtaining a visa to visit Australia. Uruguay does not require Australians to have either a tourist or a business visa. Uruguayans, however, "...need visas to travel to Australia or even to transfer through an Australian airport".¹⁶⁰
- 4.173 The Uruguayan submission noted that to visit Australia, whether for business or on holiday, any Uruguayan citizen must send their passport, application form and payment of a non-refundable fee of \$105, by courier to Buenos Aires. This is a time-consuming and expensive exercise and the submission added that it had discouraged many Uruguayans from applying.¹⁶¹
- 4.174 The consequence has been a loss to the tourism industry, another limiting factor on the development of business contacts, and a source of

156 Embassy of Uruguay, Submission 42, p. 8.

157 Ambassador for Uruguay, Committee Hansard, 17 March 2010, p. 11.

158 Ambassador for Uruguay, Committee Hansard, 17 March 2010, p. 11.

159 Embassy of Uruguay, Submission 42, pp. 8-9.

160 Embassy of Uruguay, Submission 42, p. 9.

161 Embassy of Uruguay, Submission 42, p. 9.

aggravation for Australians of Uruguayan families. The latter is a factor of some importance, because more than 10,000 Australian citizens were born in Uruguay and it affects them and their extended families directly.¹⁶²

4.175 When asked how serious a problem this is for Uruguayan visitors, the Ambassador said:

I could spend my hour here talking about that issue. I am pretty sure that most, if not all of my Latin American colleagues would agree, because they all face most of these restrictions. ...If you want to really move relations, at all levels, to another level, I think that considering fundamental reform of the visa relationship with Latin American countries would be fundamental.

By that, I do not mean getting rid of visas. You have visas with everyone. The difference is that with certain countries you have electronic visas. It is one thing to do the application in the comfort of your chair on your computer and another thing to do the procedure which you mentioned.

That affects both business and tourism. And tourism, of course, is a service. It is dollars that come into here.¹⁶³

4.176 The Ambassador also raised another visa problem that he found difficult to understand:

An example of what I would consider to be the absurdity of one area of the visa requirements is what I mentioned in Queensland. ... 'We could have a comfortable flight to New Zealand, then fly out to Brisbane and take the flight to Singapore' But then you would say, 'On the other hand, we need a visa.' Why? For transit!

But you don't exit the transit lounge. ... You do not go through Customs. You do not enter the country.

There are not going to be loads of Uruguayans coming in transit, but that is just an example. ... The Argentines do not need a transit visa. They are right across the river.

But much more important than that example, is that we cannot get electronic visas for students. ... Given that you try to export educational services, you should make it a little easier.¹⁶⁴

162 Embassy of Uruguay, Submission 42, p. 9.

163 Ambassador for Uruguay, Committee Hansard, 17 March 2010, p. 4.

164 Ambassador for Uruguay, Committee Hansard, 17 March 2010, pp. 4-5.

4.177 The Ambassador also spoke about arrangements for working holidays. He said that Uruguay has an arrangement with NZ that allows Uruguayans to visit and work for six months. They do not need visas to enter NZ either as tourists or on business. The Ambassador referred to a recent Australian study:

...about the consequences for the economy, beneficial or not, of the program Australia does have, and it came out that people leave more money here ... than the money that you might lose ... in having this program.¹⁶⁵

4.178 Ambassador Fajardo was referring to a report by the National Institute of Labour Studies at Flinders University. The report, *Evaluation of Australia's Working Holiday Maker (WHM) Program*, referring to working holiday makers, found that:

They contribute more to total expenditure than they do to earnings, and thus on balance make a small contribution to increasing the demand for Australian workers. In this sense, the WHM is more a tourism export program than a labour supply program.¹⁶⁶

4.179 The other main issue raised by Uruguay concerned reciprocal visits by Ministers and senior officials. The Ambassador said that such visits, and those by parliamentary delegations could help to raise the profile of the Latin American nations in Australia – he indicated that a visit by the Prime Minister would be most welcome. He said:

These official visits send signals both in South America and in Australia to people, to the economic agents. Latin America is not always on the radar in Australia. ...¹⁶⁷

4.180 The Ambassador indicated that there is considerable scope for expanding trade and investment relations and referred to the close interaction between NZ and Uruguay:

I used the example of New Zealand because it is a reality that a small country has hundreds of millions of dollars of investment ...that it and we are getting benefit from. If New Zealand can do it, there could be opportunities in a lot of areas here, not only in the

165 Ambassador for Uruguay, Committee Hansard, 17 March 2010, p. 5.

166 National Institute of Labour Studies, *Evaluation of Australia's Working Holiday Maker (WHM) Program*, Flinders University, Adelaide, 27 February 2009, Executive Summary, p. 1.

167 Ambassador for Uruguay, Committee Hansard, 17 March 2010, p. 6.

mining sector, which is the natural sector to consider, but also in the agribusiness sector.

The South Island of New Zealand is full of Uruguayans – agriculture students and people who have just graduated – who go for the experience, for the English and to gain some practical experience.¹⁶⁸

- 4.181 While referring to Uruguay's relationship with NZ, Ambassador Fajardo said that he felt that restarting talks between CER and MERCOSUR "would be very important". He said that he had been "trying to move it along" and added:

I am also the ambassador in Wellington so I have been busy trying to send ideas there and back home and trying to move it along, because I think it is very important.

Obviously we are not going to rush forward and sign an FTA with CER any time soon, but there is a lot more that can be done in that framework and I think it also sends an important message.

As I said ... the countries on the Atlantic coast of South America sometimes feel a little left behind and left out of the Australian world focus – although not the New Zealand focus.¹⁶⁹

- 4.182 Ambassador Fajardo continued:

I have tried to encourage both in DFAT and in MFAT some kind of ministerial declaration. Initially the reaction was, 'No, that is too much.' I said that we need something that will relaunch the dialogue.

If I sit there and relaunch the dialogue, no-one is really going to pay that much attention. But if ministers say they are going to relaunch the dialogue and focus on trade facilitation and so on, I think more people will notice. We want people to notice. We want economic agents to notice it.

We want people to say, 'Okay, Australia is now focusing more on South America, focusing more on the Atlantic coast countries and focusing on Mercosur.' I think it would be useful...

Ministers have said that we have got to do this. I hope it takes place. I do not know if it is going to be ministerial. There has not been too much interest in having it at ministerial level because it

168 Ambassador for Uruguay, Committee Hansard, 17 March 2010, p. 6.

169 Ambassador for Uruguay, Committee Hansard, 17 March 2010, p. 3.

creates obligations. I think we should encourage that kind of obligation.¹⁷⁰

- 4.183 The Ambassador said he had proposed an MOU between Uruguay's trade promotion agency and Austrade, but had been told that it was not necessary. He added that Uruguay had also suggested a bilateral trade and investment framework agreement:

It is trade and investment. We are not going to be negotiating tariffs. This is not a free trade agreement or any other kind of trade agreement in that sense. It is a framework agreement, which establishes that we are going to get together and talk about things that could improve trade and investment without touching tariffs, because there are a lot of non-tariff barriers which make a big difference: bio-security, labelling, fumigation... There are a lot of things that could increase trade.

Plus there is transparency: what are the regulations, how can we improve investment, what are the requirements? And it creates a certain obligation to meet once a year, and that is going to encourage the visits, the delegations, that you were talking about.

Ambassador Fajardo added that in response to the request for a framework agreement, Australia has proposed an MOU on trade and investment instead.¹⁷¹

Recommendation 9

The Sub-Committee considers that the introduction of electronic visa applications would be an excellent, and inexpensive, way to assist in improving trade and investment relations with the countries of Latin America. It would have valuable spin-off benefits for the tourism industry and would also facilitate business travel to Australia.

170 Ambassador for Uruguay, Committee Hansard, 17 March 2010, pp. 3-4.

171 Ambassador for Uruguay, Committee Hansard, 17 March 2010, pp. 7-8.

Recommendation 10

The Sub-Committee recommends that the Government review the processing of applications by skilled migrants and, where appropriate, seek ways to fast track the recognition of their skills.

Recommendation 11

The Sub-Committee also recommends that urgent attention be given to achieving mutual recognition of university qualification between Australia and the countries of Latin America. This would assist the efforts of Australia's universities to attract post-graduate students, who might otherwise go to American or British universities. It would also assist tourism through attracting the relatives and friends of such students to visit Australia.

Recommendation 12

Allied to the previous recommendation, the Sub-Committee recommends the adoption of a "working holiday" scheme for visitors from Latin America. At present, visitors from 27 countries can access such arrangements, but of the Latin American countries only Chile is included in that list.¹⁷²

Recommendation 13

All of the Latin American Ambassadors indicated how much they appreciated visits by Ministers, particularly at the head of business delegations, and by Parliamentary representatives. The Sub-Committee recommends that increased priority be assigned to visits such as these to the countries of Latin America - in line with the Government's declared intention to engage more closely with Latin America and the Caribbean.

172 National Institute of Labour Studies, *Evaluation of Australia's Working Holiday Maker (WHM) Program*, Flinders University, Adelaide, 27 February 2009, Short Summary, p. 1 and Department of Immigration and Citizenship, <http://www.immi.gov.au/visitors/working-holiday/visa-options.htm>, accessed 7 October 2010.

Recommendation 14

That COAG make improved cooperation between the Commonwealth and the States, and between the States themselves, a high priority - to achieve higher levels of efficiency in the transport and logistics supply chains, provision of infrastructure, and trade facilitation.