

Trade and investment opportunities in Central Europe

Introduction

- 4.1 This chapter will explore the trade and investment opportunities which have emerged through the course of the inquiry. Although it focuses on what activity has occurred to date, the chapter also sheds light on the implications of current trade and investment activities for the future.

Trade in commodities

Agribusiness

- 4.2 Given the historic position Australian agribusiness commodities have occupied in our trade with the countries of Central Europe, together with continuing demand for at least some of these commodities, agribusiness would appear to offer a good short-term and sustainable opportunity to rebuild Australian trade in the region.
- 4.3 The main sectors of interest are meat and livestock; wine; wool; and leather and related products.

Meat and Livestock

4.4 Australia's meat exports to Central Europe can best be described as sporadic. At different times and within different Central European countries Australia has had substantive trade in meats but various factors have conspired to constantly alter the export of different meats to Central Europe. Table 4.1 lists the types and quantities of meats exported to Central Europe.

Table 4.1 Australian beef, offal, lamb and mutton exports to Central Europe (tonnes shipped)

Beef				
	1999	2000	2001	2002
Bulgaria	717	1897		
Croatia	1258	115	138	319
Czech Republic			3.9	44
Hungary	86	1.3	34.3	32
Poland			1.2	0.6
Slovakia	35	52		
Offal				
Bulgaria	119	47	97	33
Croatia	66		16	42
Czech Republic	7	89	422	440
Hungary	131		249	
Poland	2322	656	658	624
Romania			100	35
Lamb				
Bulgaria	717	1897		
Croatia	1258	115	138	319
Czech Republic			3.9	44
Hungary	86	1.3	34.3	32
Poland			1.2	0.6
Slovakia	35	52		
Mutton				
Bulgaria	132	14		
Czech Republic	24			
Hungary		66	15	3
Slovenia	24	20		

Source *Meat and Livestock Australia*⁸⁰

4.5 Meat and Livestock Australia (MLA) explained that Croatia stands as the biggest export destination for beef. Croatia and Poland buy about

⁸⁰ Meat and Livestock Australia, Submission No 14, p 2.

- 1.7% of Australian offal exports. Lamb exports go primarily to the Czech Republic and minor mutton sales go Hungary.⁸¹
- 4.6 A range of tariff and non-tariff barriers add to the challenges of trading with Central Europe⁸² (see Appendix F).
- 4.7 Continued growth and demand for Australian meat and livestock products is anticipated by DFAT. Meat and Livestock Australia (MLA), which does not deal with exotic meats such as kangaroo, is also optimistic about trade in meats with Central Europe.⁸³
- 4.8 DFAT explains game meat exports of kangaroo, offal (beef hearts, livers and tripe), and manufacturing beef trimmings are now experiencing growing demand. Kangaroo meat sales are growing, following its marketing as a healthy alternative to other meats. Australia has been exporting kangaroo meat to Europe for many years, but it is only in the past few years that there have been significant increases in exports to Central Europe.⁸⁴ Countries such as Bulgaria and the Czech Republic are outgrowing more traditional markets for kangaroo meat, such as France, Germany and Belgium.⁸⁵
- 4.9 Prior to the collapse of the large Russian market for processed meats, there was also a good meat trade from Australia into the region to supply the intermediary Central European meat processing industry, largely in Bulgaria. As Russia recovers and the Central European countries grow, DFAT believes this industry and its demand for Australian meats is likely to recover.⁸⁶
- 4.10 MLA points out that pork is the preferred meat in Central Europe with some modest gains possible in this sector.⁸⁷ The Western Australian Department of Industry and Resources (WADIR) points out that Central Europe's production of beef has been falling while pork consumption has been slowly rising,⁸⁸ which suggests there might an opportunity for some growth in exports.
- 4.11 WADIR also points out that Australian producers are recognised for raising stock in natural environments and for using advanced farm management, breeding and processing techniques, in a clean and

⁸¹ Meat and Livestock Australia, Submission No 14, p 3.

⁸² Meat and Livestock Australia, Submission No 14, p 4.

⁸³ MLA, Submission No 14, p 2.

⁸⁴ DFAT, Submission No 16, p 70.

⁸⁵ DFAT, Submission No 16, p 70.

⁸⁶ DFAT, Submission No 16, p 70.

⁸⁷ MLA, Submission No 14, p 6.

⁸⁸ WADIR, Submission No 20, p 36.

disease free environment. Such a reputation in the context of recent food safety concerns in the UK and Europe, clearly 'have given non-European suppliers an edge with which to market Australian meat produce in Europe.'⁸⁹

- 4.12 Overall the Czech Republic is Australia's most valuable market for meat in Central Europe, with exports of tripe, lamb and kangaroo meat valued at A\$1.1m in 2001 and similar levels expected again in 2002.⁹⁰ Kangaroo meat, which is used in sausages, salami, pâté and other gourmet-processed foods, is so popular that supply has not kept up with demand, as restaurants in Prague increasingly include kangaroo meat on their menus.
- 4.13 In terms of the effect of EU accession on Australia's meat trade with Central Europe, Australia's beef and sheep meat exports are currently restricted to 7,000 and 18,650 tonnes respectively. MLA argues that these quotas are a real barrier to increased trade.⁹¹
- 4.14 However, as mentioned earlier in this report, trade developed with countries intending to accede to the EU, prior to their accession (Bulgaria, Romania and Croatia), will earn Australia the right to compensation in some form under GATT provisions.
- 4.15 The Committee agreed with DFAT that this provides Australia with some ability to strategically increase our trade in these commodities with the three countries acceding after 2004. Bearing in mind also that there seems to be some consensus that meat exports are a growth area, the Committee believes that efforts to increase trade in this area will be fruitful for Australian meat exporters.

Wine

- 4.16 Austrade explains wine exports to the region are doing well, although working from a small base as indicated in Table 4.2 (below). Dramatic growth in the exports of wine to the Czech Republic and Poland suggest that there is substantial opportunity for Australian exporters in Central Europe. Austrade believes changing drinking habits due to increasing disposable incomes are opening up these markets.⁹² Australia's strong presence in the Western European wine markets places the industry well for eastward expansion.

⁸⁹ WADIR, Submission No 20, p 36.

⁹⁰ DFAT, Submission No 16, p 69.

⁹¹ MLA, Submission No 14, p 7.

⁹² Austrade, Submission No 18, p 21.

Table 4.2 Australian wine exports

	2001-2002	Increase over previous year
Poland	104,680 litres	103%
Czech Republic	68,844 litres	69%
Croatia	711 litres	(from zero)
Global		23.1% in volume, 24% in value

Source *Australia Wine and Brandy Corporation*⁹³

- 4.17 In addition to the promising figures above, DFAT points out that in the same period, the average value per unit of exported wine was A\$4.79 a litre – a marginal increase over the previous year, suggesting a readiness in some markets to pay more for Australian premium wine.⁹⁴ This increasing taste for international quality wines, as opposed to more traditional local wines, increases Australian opportunities in Central Europe according to WADIR, especially in the Czech Republic, Slovenia and Hungary.⁹⁵
- 4.18 The quality, price, consistency and reliability contribute to the success of Australian wine exports. DFAT believes Australia has many ‘world scale’ wine companies that have a global outlook and established global brands. They believe Australia has a strong ‘brand platform’, upon which to build exports in the region.⁹⁶
- 4.19 Central Europe has not been identified as a top 20 international market opportunity by the Winemakers Federation, but Australian Wine and Brandy Corporation (AWBC) figures suggest that Australia is well placed to increase its market share for wine as the region becomes more affluent.⁹⁷
- 4.20 There are however a few non-market constraints on trade with countries in the region, as DFAT explains.⁹⁸ Poland has a 30% tariff on wine imports. Although Australia has been lobbying hard to reduce the tariff, an economic agreement between the US and Poland to reduce tariffs should also benefit Australia under the WTO’s ‘Most Favoured Nation’⁹⁹ treatment requirements.

⁹³ Australian Wines Approved or Export, Australian Wine and Brandy Corporation (AWBC), in DFAT, Submission No 16, p 70.

⁹⁴ DFAT, Submission No 16, p 70.

⁹⁵ WADIR, Submission No 20, p 38.

⁹⁶ DFAT, Submission No 16, p 70.

⁹⁷ DFAT, Submission No 16, p 71.

⁹⁸ DFAT, Submission No 16, p 70.

⁹⁹ “Under the WTO Agreements, countries cannot normally discriminate between their trading partners. Grant someone a special favour (such as a lower customs duty rate for one

- 4.21 EU accession will probably assist Australian wine exporters as most CE countries will have to harmonize their trading regimes with the EU. As the Australian Bureau of Agricultural and Resource Economics (ABARE) points out, it is a market with which Australian producers are already familiar and successful in, and trade barriers for wine are modest.¹⁰⁰
- 4.22 DFAT also points out that EU accession will require anti-monopoly legislation in Central Europe, which will likely improve opportunities for Australian exporters to sell wine there.¹⁰¹

Wool

- 4.23 Central Europe has been a traditional export market for Australian wool. In the 1980s, the markets of Central Europe and the Commonwealth of Independent States (CIS) together bought 10-20 per cent of Australia's total wool production. However, by 2001, this major regional market had declined to represent only 3 per cent of Australia's global wool exports.¹⁰²
- 4.24 The Czech Republic has consistently been Australia's strongest market in Central Europe over the 1990s with Australian wool exports valued at A\$82.5 million in 2001, out of total exports to the region of A\$112.8 million. The value of wool exports can fluctuate dramatically in response to short-term shifts in price or in supply and demand.¹⁰³ The wool export figures for the Czech Republic, and Central Europe, for the years 1997 through 2001 are in Table 4.3.

Table 4.3 Wool Exports to the Czech Republic and Central Europe¹⁰⁴

A\$ million	1997	1998	1999	2000	2001
Czech Republic	34.5	54.8	31.8	66.2	82.5
Total - Central Europe	57.6	86.9	48.0	86.7	112.8

Source DFAT, Submission No 16, p 71

of their products) and you have to do the same for all other WTO members", http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm (13 June 2003).

¹⁰⁰ World wine market: barriers to increasing trade, ABARE, p 2.

¹⁰¹ DFAT, Submission No 16, p 71.

¹⁰² DFAT, Submission No 16, p 71.

¹⁰³ DFAT, Submission No 16, p 71.

¹⁰⁴ Note that the figures in Table 4.2 are from AFFA (Submission No 25) and they differ from the DFAT figures. Clearly they have different parameters, but were worthy of inclusion because they convey some idea of the dimensions of the wool trade with other Central European countries.

- 4.25 DFAT suggests that another key influence on demand for wool in Central Europe stems from the restructuring and privatisation of the textiles industry in those countries. Many inefficient state-owned enterprises have been closed or privatised. Others do not have the capital to purchase raw materials.¹⁰⁵
- 4.26 A further challenge for the wool sector in Central Europe is the increased competition from alternative fibres.¹⁰⁶
- 4.27 Bearing in mind Australia's long history of wool production, DFAT suggests in their submission that Australian expertise in terms of export management strategies and innovative processing technologies (wool and cotton) in the industry, might be exportable to Central Europe.¹⁰⁷
- 4.28 The Committee felt this suggestion had merit and believes the export of industry related services and technologies is an area worthy of investigation. Accordingly it would like to encourage the wool industry, DFAT and Austrade to develop a targeted trade mission to investigate opportunities in this area.
- 4.29 The Committee felt that Australia's traditional strengths in other agribusiness areas provided export potential as well. Accordingly the Committee believes that expertise export opportunities should be pursued in a range of areas, such as: wool and cotton; meat and livestock (including exotic meats); wine; and leather and related products.

Leather and related products

- 4.30 Austrade believes Australia's strengths in the production of processed leather, especially in the automotive areas (leather seats and trimming), are likely to provide Australia some opportunities in Central Europe.¹⁰⁸ DFAT is also optimistic about Australian leather sale potential, believing it is likely to become a 'key supplier' in Central Europe of high quality tanned bovine leather.¹⁰⁹
- 4.31 Already there are some processed leather sales to Poland. Skoda, which absorbed massive investment from Volkswagen during the 1990s and comprises a large part of the Czech Republic's automotive

¹⁰⁵ DFAT, Submission No 16, p 71.

¹⁰⁶ DFAT, Submission No 16, p 71.

¹⁰⁷ DFAT, Submission No 16, p 71.

¹⁰⁸ Austrade, Submission No 18, p 22.

¹⁰⁹ DFAT, Submission No 16, p 89.

capability, is currently negotiating with an Australian firm for seat and trimming leather.¹¹⁰

- 4.32 The Committee noted when visiting Slovakia that it has also recently brought substantial foreign investment into its automotive industry, mainly from Citroen-Peugeot.¹¹¹ The Committee believes similar opportunities are likely to develop for Australia in leather products in Slovakia.

Manufacturing

- 4.33 DFAT believes there will inevitably be increased consumer affluence (see Chapters 2 and 3) and enhanced market opportunities for companies able to meet local demands. Australian firms have been successful in the manufacturing sector, and Central Europe is clearly a growth area.¹¹²
- 4.34 A diverse range of Australian companies have been successful in exporting manufactured products to Central Europe. They include:
- Cefrank Engineering Pty Ltd - developers and manufacturers of medical and industrial gas equipment
 - Cochlear Limited – producer of the cochlear implant systems for the hearing-impaired
 - Minelab Electronics Pty Ltd - designer and developer of metal sensing technology for use in de-mining equipment
- 4.35 DFAT is optimistic about the opportunities that have arisen from the extensive privatisation programs undertaken by the Central European governments as they move to reform. They are restructuring to update their manufacturing sectors and, through new management, are seeking to diversify their sources of supply.¹¹³

Mining and minerals sector

- 4.36 The closing down of and restructuring of existing mining operations in Central Europe has contributed to a shortfall in domestic supplies

¹¹⁰ Austrade, Submission No 18, p 22.

¹¹¹ JSCFADT Visit to Central Europe Notes.

¹¹² DFAT, Submission No 16, p 83.

¹¹³ DFAT, Submission No 16, p 83.

of some raw materials, providing some export opportunities for Australia.¹¹⁴

- 4.37 Coal has been a successful export commodity to the countries of Central Europe. For example, in 2000-2001, significant shipments of coal were made to Bulgaria (A\$16.9m), Romania (A\$13.5m) and Hungary (A\$5.8m). Iron ore has also found a market, with A\$11.1m worth shipped to Romania, along with A\$8.9m worth of other ores, in the same period.¹¹⁵
- 4.38 DFAT explains Australian firms have also secured a number of contracts for the extraction and processing of minerals in Central Europe. Australian companies have a strong reputation for innovative research and development of a range of mining and related technologies. They also lead the world in environmental impact assessment and management, as well as occupational health and safety technologies.¹¹⁶

Trade in services

- 4.39 As mentioned earlier in the report and as exemplified in graphs in Appendix E, Central Europe is experiencing dramatic increases in its imports of goods and services (roughly doubling since 1995). Australia, being a strong and ambitious services exporter, is well placed to capitalise on the growth in service imports based on the comparative strengths in certain sectors.
- 4.40 The Committee felt from evidence collected and from what was learned during the visit to Central Europe that services exports provide a tremendous opportunity for Australia, particularly in education, health, e-government and e-commerce.

Education Services

- 4.41 Education services provide substantial opportunity for Australian exporters to Central Europe. DFAT, Austrade, WADIR and DIMIA explained in their submissions that the strengths and selling points for Australian exporters include:

¹¹⁴ DFAT, Submission No 16, p 84.

¹¹⁵ DFAT, Submission No 16, p 84.

¹¹⁶ DFAT, Submission No 16, p 50.

- ⇒ Australia's perceived high education standards
- ⇒ world standard facilities and teaching resources
- ⇒ wide recognition and acceptance of Australian qualifications
- ⇒ competitive tuition fees (relative to the US and UK) and low cost of living, which combine to offer good value for money
- ⇒ Australia's attractive lifestyle and the perception that it is a safe environment
- ⇒ the freedom for students to travel or work,¹¹⁷ as well as study¹¹⁸
- ⇒ preferential treatment of former overseas students wishing to migrate to Australia in the skilled migration program¹¹⁹
- ⇒ Australia's multicultural environment

Table 4.5 Total student numbers by country (1994-2000 and projections for 2004)

Country	1994	1995	1996	1997	1998	1999	2000	2004
Bulgaria	10	14	18	24	29	40	51	
Croatia	6	12	14	18	18	21	20	
Czech Republic & Slovakia	651	801	1063	1063	1233	1527	2194	4200
Hungary	39	54	65	64	125	197	259	600
Poland	37	48	71	96	222	333	560	2100
Romania	8	6	9	14	14	21	19	
Slovenia	4	18	29	22	17	21	20	
TOTAL	755	953	1269	1301	1658	2160	3123	6900

Source: DEST submission¹²⁰

4.42 This general view is supported by education trade statistics. Between 1994 and 2000, Australian Education International (AEI)/Austrade figures indicate the vast majority of overseas students from Central Europe came from the Czech and Slovak republics (recorded together), Poland and Hungary (see Table 4.5). The impressive figures for 2004 in the final column and in Table 4.5 and Graph 4.1 are projections.¹²¹

¹¹⁷ Student visas entitle students to work up to 20 hours per week or longer during holiday times. DIMIA, Submission No 22, p 9.

¹¹⁸ The UK has recently changed its student visa arrangements to allow students to work, in order to compete with Australia, Chairman's notes. JSCFADT Visit to Central Europe Notes.

¹¹⁹ DIMIA, Submission No 22, p 9.

¹²⁰ DEST, Submission No 7, p 4, statistics from 'Overseas Student Statistics Collection 2000, AEI/Austrade projections'.

¹²¹ DEST, Submission, No 7, p 4.

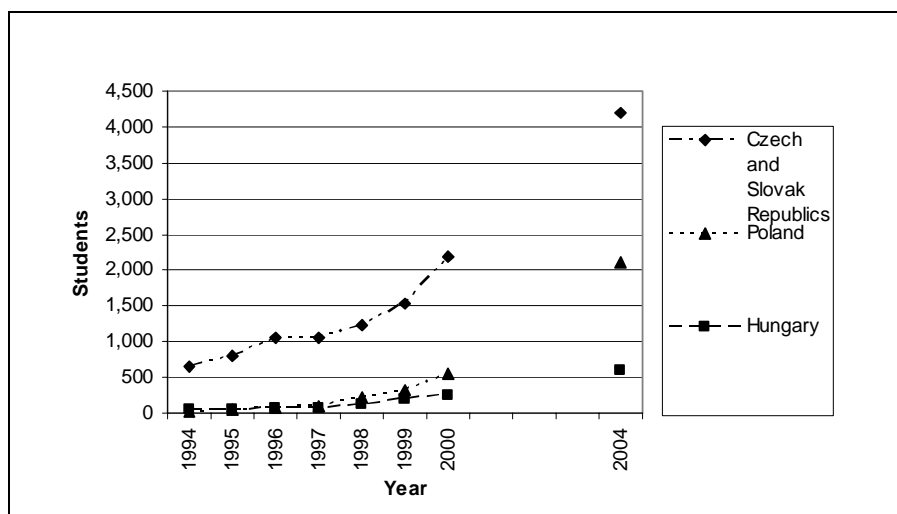
- 4.43 AEI has named the Czech and Slovak Republics, Poland and Hungary the four 'focus countries for education marketing and promotion activities'.¹²² Both DEST and WADIR believe these four countries provide the best opportunities in the ELICOS and VET sectors.¹²³
- 4.44 Through an AEI/Austrade agreement, Austrade Europe is undertaking a number of initiatives in the four focus countries to develop the market for VET and ELICOS. These initiatives are aimed at better informing students in the focus countries of the value of studying in Australia, and include activities such as:
- Liaising with the agent network and the delivery of student and agent seminars
 - Compiling and disseminating market intelligence to the Australian industry and market stakeholders as required.
 - Nurturing media contacts and alumni
 - Distributing information on developments in Australia to the European Education Network database
 - Providing a quarterly listing of student fairs to be put on the Department's AEI website
 - Assisting in developing proposals for and conducting outbound trade missions to East Europe involving the Czech and Slovak Republics
 - Participating in trade fairs.¹²⁴

¹²² DEST, Submission No 7, p 2.

¹²³ WADIR, Submission No 20, p27.

¹²⁴ From DEST, Submission No 7, p 2.

Graph 4.1 Actual and projected student numbers (4 focus countries)



Source DEST, Submission No 7.

Sectoral Breakdown

- 4.45 On a sectoral basis 97% of Czech and Slovak students are concentrated in English Language Intensive Courses for Overseas Students (ELICOS) and Vocational Education and Training (VET) sectors, as are 93% of Polish students and 90% of Hungarian students (see Graph 4.2).
- 4.46 This concentration in ELICOS and VET for the four countries listed above contrasts markedly with the sectoral breakdown for other countries. For the 'all overseas students' category, only 36% of students are in ELICOS and VET. For the 'all Europe' category, 54% of students are in ELICOS or VET.¹²⁵

Higher Education

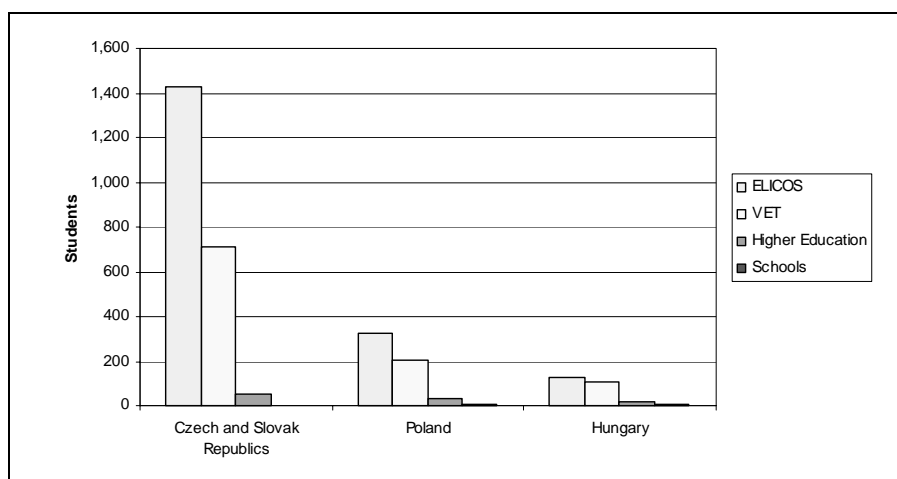
- 4.47 2001 saw around 218 Central European students studying at Australian public universities. This included students from Bulgaria (27), Czech Republic (47), Hungary (32), Poland (45), Romania (23), and Slovakia (45), plus unspecified numbers from other Central European countries with fewer than 20 students in Australia. By far the majority are studying management and commerce (125). The next most popular course is information technology (25 students).¹²⁶

¹²⁵ DEST, Submission No 7, p 6.

¹²⁶ *Students 2001: Selected Higher Education Statistics*, Department of Education, Science and Training from DFAT, Submission No 16, p 72.

4.48 These figures suggest that while Australian universities have entered into a number of agreements with counterpart institutions in Central Europe (see Appendix G), these agreements have not yet resulted in significant numbers of university students studying with Australian education providers.

Graph 4.2 Sectoral breakdown of students (4 focus countries)



Source DEST, Submission No 7.

4.49 There are no clear solutions to this difficulty. These countries have elite university systems at which students do not pay fees. Studying at university paying full fees in Australia therefore is not financially attractive. At the undergraduate level there is no clear route to attracting more Central European students to full fee paying courses in Australia.

Visa issues

4.50 The Department of Immigration, Multicultural and Indigenous Affairs (DIMIA) provided a range of information related to visas for students (see Appendix H). The graphs confirm two trends: that the number of visas granted to students from Central Europe is growing; and that the visitor non-return rate from Central Europe is falling. Both indications bode well for exports of education. The latter because at some stage it will prompt an easing of visa conditions,¹²⁷ facilitating further growth in visa grants.

4.51 The Czech Embassy raised a concern about visa requirements for its students. They noted that Czech students were required to fill in the '48R' form instead of the less onerous '48' form. The '48R' had

¹²⁷ DIMIA, Transcript, p 145.

additional requirements for bank statements of prospective students. The Committee heard that a sample problem with this requirement was that many Czech people do not yet trust banks enough to deposit their money with them, making it difficult for those applicants to complete the '48R' properly.¹²⁸ Ambassador Sladek suggested that easier visa conditions would facilitate more students.¹²⁹

- 4.52 DIMIA explained that the supplementary information required through the more onerous '48R form', had lowered Czech non-return rates and improved approval rates. Therefore DIMIA believes changes to the requirements for Czech students are unlikely to change in the short term.¹³⁰ This issue is discussed further in Chapter 6.
- 4.53 Upon accession to the EU visa requirements of Central European countries will harmonize with the EU. Undoubtedly this will greatly increase opportunities for study in Australia as all necessary education agreements with the EU are in place.¹³¹ It will also provide some competition from English speaking providers of similar services such as the US and UK, and other Western European providers such as Germany.
- 4.54 Over time therefore, DFAT believes, visa application procedures will become easier for Central Europeans but Australian providers will have to face stiffer competition.¹³²

Market information on Australian education

- 4.55 Considering Australia's comparative advantages in the field of ELICOS and VET are very strong, DFAT and Austrade believe the key challenge for Australian education exporters is to provide market information on Australian education to Central Europe.
- 4.56 The Committee agrees with this assessment and believes a higher profile for Australian education providers is likely to draw many more students to Australia. Accordingly the Committee would like to promote a coordinated effort to improve market knowledge of Australian education services in Central Europe through several means detailed below.

¹²⁸ JSCFADT Visit to Central Europe Notes.

¹²⁹ Czech student visa applicants were required to fill out form 48R, rather than form 48 which had less onerous information requirements.

¹³⁰ DIMIA, Transcript, p 140.

¹³¹ DFAT, Submission No 16, p 72.

¹³² DFAT, Submission No 16, p 72.

Encouraging international links

- 4.57 Australia education institutions have established a number of links with institutions in Central Europe. The Committee believes that increasing the range of institution to institution links between Australia and European educational institutions will lift the profile of Australian education in Central Europe (see Appendix G for existing educational links with Central Europe).
- 4.58 During the course of the inquiry, the Committee formed the impression that areas in which opportunities would be greatest for education exporters, would be tourism, commerce and Master of Business Administration courses.
- 4.59 The Committee arrived at this position partly from specific knowledge within the Committee on Australia's educational export strengths, but also based on the preferences of other education exports markets. The Committee believed that the more traditional, academic and elite institutions of Western and Central Europe were, broadly, less flexible than Australian institutions. Accordingly they were unable to shift with new demands in education, into areas such as tourism, commerce and MBAs.
- 4.60 Therefore the Committee believes that educational links should be encouraged generally with the countries of Central Europe. And they should be encouraged more specifically in those areas in which Australia's competitive advantage is greatest – tourism, commerce and MBA programs.

University scholarships

- 4.61 The Committee believes that Australian university scholarships directed towards Central European students is another way to increase awareness of Australian education.
- 4.62 Accordingly the Committee believes Australian universities should offer more scholarship places for Central European postgraduate students.

Recommendation 1

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

Research links

- 4.63 Building research links between institutions in Australia and Central Europe could also add to Australia's profile in the region. A specific recommendation about research links and EU research funding is included below under 'IT and communication services'.

Education industry related services

- 4.64 Central European governments are also reforming their education sectors. Australian organisations have actively bid to provide consultancy services in government management of state education and curriculum development for life-long learning in further education institutions or schools.¹³³
- 4.65 In Romania, the Department of Education, Science and Training (DEST) secured a World Bank-funded a multi-year contract to develop a standards-based system of vocational education and training. The Occupational Standards and Assessment Component is part of a wider project to develop the skills and knowledge of the Council of Occupational Standards and its Technical Secretariat in the methods of preparing new occupational standards and assessment methods for 300 occupations. The project required a combination of policy, management and technical expertise to reform the infrastructure of the vocational education and training system.¹³⁴
- 4.66 DFAT believes potential also exists for Australian government departments and agencies supplying education and training-related services supporting the restructure of major operations. For example, the Overseas Projects Corporation of Victoria (OPCV), which provides project management, consultancy and procurement services for international projects, has recently designed and delivered a

¹³³ DFAT, Submission No 16, p 78.

¹³⁴ DFAT, Submission No 16, p 78.

‘progressive training strategy’ as part of a World Bank-funded Romanian Mine Closure and Social Mitigation Project.¹³⁵

- 4.67 Accordingly the Committee believes that any Australian missions to Central Europe to sell Australian education services should include organizations expert in government education reform.

Recommendation 2

The Committee recommends that:

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

Environmental goods and services

- 4.68 While Australian companies have expertise in waste-water treatment, water quality monitoring, instrumentation and renewable/green energy, few major projects in these sectors have so far been secured in the Central European countries.¹³⁶
- 4.69 DFAT believes various factors will contribute to high demand for environmental related services and technology in Central Europe in the coming years. They will stem mainly from weak or absent environmental or health protection standards during the communist era. The Committee believes these negative remnants from the old order coupled with the necessarily rapid transition to EU standards through the accession process, and Australia’s strong record in these areas, place Australia in a good market position in this area.¹³⁷
- 4.70 As DFAT points out however, tangible market success will not be easy.¹³⁸ Accession arrangements, such as ‘twinning’, between the EU and acceding countries will inevitably favour the EU or accession country firms. Other such transition arrangements do similar things,

¹³⁵ DFAT, Submission No 16, p 78.

¹³⁶ DFAT, Submission No 16, p 74.

¹³⁷ DFAT, Submission No 16, p 74.

¹³⁸ DFAT, Submission No 16, p 74.

essentially requiring EU funded transition activities be spent on EU firms or firms partnered with EU organizations.¹³⁹

- 4.71 The Committee believes however, that Australian firms have a great deal of expertise to offer in this area and should not be deterred from pursuing opportunities. Examples of several successful services exports are detailed below.

Agribusiness services

- 4.72 The Romanian Embassy informed the Committee that Romania has major plans to develop its agriculture, an area in which Australia is a world leader. The plans include: procuring and developing irrigation equipment; rehabilitating land; upgrading industry structures; developing agricultural tourism; and reforestation of degraded land.¹⁴⁰
- 4.73 Romania's plans in this area provide opportunities for the export of Australian agricultural technology and expertise, while also providing opportunities for Australian investors¹⁴¹. See Recommendation 3.

Government to government and e-government services

- 4.74 As the Central European countries approach EU accession and undertake economic, political and social reform, opportunities for new markets will arise for Australian providers of social, health, welfare and economic services.¹⁴²
- 4.75 Commonwealth and state government departments and agencies, such as the FaCS International Unit of the Department of Family and Community Services (FaCS), the Department of Education, Science and Training, the Health Insurance Commission (HIC) and the Overseas Projects Corporation of Victoria Ltd (OPCV), have secured a diverse range of tenders to assist Central European governments develop new administrative systems and approaches.
- 4.76 The pattern for developing this market is generally to secure an initial consultancy contract, 'followed by project management, and sometimes with either systems sale or at least an intellectual property

¹³⁹ DFAT, Submission No 16, p 75.

¹⁴⁰ A longer list is included in Embassy of the Republic of Romania, Submission No 9, p 75.

¹⁴¹ DFAT, Submission No 16, p 71.

¹⁴² DFAT, Submission No 16, p 77.

licence'.¹⁴³ This view is supported by comments by Acumen and appears to reflect the pattern of HIC's success in winning contracts.¹⁴⁴

- 4.77 The reform processes in Central Europe in such areas as health, welfare, education and employment discussed individually elsewhere in this report, will provide opportunities for some time.¹⁴⁵
- 4.78 Capitalizing on such opportunities will require the cooperation of the relevant Australian public institutions, which usually own the intellectual property and have the expertise to undertake such projects.¹⁴⁶

FACS International

- 4.79 DFAT believes the Department of Family and Community Services (FaCS) provides a good example of the export potential of Australia reform experience. FaCS International has worked in recent years with Bulgaria and Romania (and in 1992 in Hungary and Poland), to provide assistance in the areas of social security administration; systems development; support and training; poverty assessment; policy assessment and reform; organisational reform and capacity building; and project preparation and assessment.¹⁴⁷
- 4.80 From 1998-2001, FaCs International worked in Romania to deliver the Automation of the Ministry of Labour and Social Protection (MOLSP) project, providing advice on the design of a modern, national information technology system for social insurance, social assistance, employment and management information. This built on earlier projects (1992 and 1993) reviewing MOLSP organisation and administrative frameworks and MOSLP reports and analyses to identify restructuring requirements for the reform process.¹⁴⁸
- 4.81 In 1999-2000, FaCS International worked with IDP Education Australia in Bulgaria to deliver the World Bank-funded Social Security Administration Project, providing the National Social Security Institute (NSSI) with assistance in registry administration,

¹⁴³ DFAT, Submission No 16, p 77.

¹⁴⁴ This example will be discussed in more detail in Chapter 6. Acumen Alliance, Submission No 12.

¹⁴⁵ DFAT, Submission No 16, p 77.

¹⁴⁶ DFAT, Submission No 16, p 77.

¹⁴⁷ DFAT, Submission No 16, p 77.

¹⁴⁸ DFAT, Submission No 16, p 77.

benefits administration, and contributions and compliance administration.¹⁴⁹

- 4.82 Clearly FaCS' success provides a good model for other government agencies.

Acumen Alliance

- 4.83 DFAT explains that private suppliers of professional services to Government have also been successful in the region. Acumen Alliance, a management consulting firm, has recently completed a World Bank project in Bulgaria. The project's objective was to strengthen existing financial management processes and practices within the Bulgarian Ministry of Health, with the aim of improving corporate governance and financial management. The project had great significance since the National Health Insurance Fund (NHIF) was the first agency in Bulgaria to adopt accrual accounting practices.¹⁵⁰

Land titling

- 4.84 Another area which most Central European countries need to reform is cadastre or land titling - an area in which Australia is a leader. Austrade estimates that work needed to address these issues will take up to 15 years and several billion US dollars to implement.¹⁵¹
- 4.85 As with other areas, success will require effort and have to deal with Western European competition. Austrade views that major challenges for Australian suppliers is to overcome local supplier restrictions and deal with the different criteria applying in each country.¹⁵²

Multilateral project funding

- 4.86 Acumen Alliance followed up in its public hearing¹⁵³ on an issue initially raised by Austrade.¹⁵⁴ The issue was accessing multilateral development bank funding for projects in Central Europe - most specifically the European Bank for Reconstruction and Development (EBRD).

¹⁴⁹ DFAT, Submission No 16, p 77.

¹⁵⁰ DFAT, Submission No 16, p 79.

¹⁵¹ Austrade, Submission No 18, p 21.

¹⁵² Austrade, Submission No 18, p 21.

¹⁵³ Acumen Alliance, Submission No 12.

¹⁵⁴ Austrade, Submission No 18, p 25.

- 4.87 Where projects are (at least) co-financed by the EBRD, Austrade explains, international competitive bidding rules will apply, providing opportunities for Australian suppliers.¹⁵⁵
- 4.88 One problem which Acumen Alliance stresses however, is that the selection procedures are heavily weighted towards organizations which have previously undertaken EBRD contracts.¹⁵⁶ Accordingly, Acumen Alliance and Austrade recommend a slightly different ‘foot in the door’ strategy, involving providing minor technical assistance funding to the EBRD *tied to Australia service providers*. That is, Australia would fund an amount of EBRD technical assistance projects conditional on Australian contractors being used.
- 4.89 Once completed this project experience will better position Australian firms, in terms of EBRD funding processes, to tender for more and bigger projects.
- 4.90 The Committee feels that such a ‘toe in the multilateral door’ strategy is worthy of consideration. If successful on a small scale, the Committee would recommend it be extended.
- 4.91 DFAT notes in terms of strategy, early notification of available funding programs and good relationships with the relevant decision-makers in the EBRD will be critical to positioning competitive Australian contractors.¹⁵⁷ This issue is discussed further in Chapter 6.

Recommendation 3

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

Health Insurance Commission

- 4.92 All evidence suggests that the outstanding example of successful bidding for multilateral development projects is Australia’s Health Insurance Commission (HIC). Its success has been ongoing since the late 1980s.¹⁵⁸ The Committee feels its practical experience in bidding processes and contacts within the multilateral banks could be shared as much as possible with other Australian organizations in the hope that it might assist others undertake similar work in relevant fields.

¹⁵⁵ Austrade, Submission No 18, p 25.

¹⁵⁶ Acumen Alliance, Submission No 12.

¹⁵⁷ DFAT, Submission No 16, p 79.

¹⁵⁸ HIC, Submission No 13.

- 4.93 Accordingly the Committee feels some effort should be made to capitalize on HIC's experience, and believes Austrade or HIC itself should research mechanisms which might allow the exchange of ideas and experience to occur.

Recommendation 4

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

E-government

- 4.94 DFAT believes the implementation of an e-government strategy is a clear priority for all Central European countries as a mechanism to reduce costs, and improve internal processes and allocation of public resources.¹⁵⁹ The driver for this strategy is the incentive to improve government administration, particularly in the lead up to EU accession.
- 4.95 Austrade staff in the region found that governments also recognise that accessing government procurement and services online produces a more ITC literate population and a more efficient economy.¹⁶⁰ The OECD has indicated that for the transition economies of Central Europe, internet access is the key parameter for the success of e-government.¹⁶¹
- 4.96 While Central Europe may be a latecomer to developing e-government strategies, its governments have the advantage of looking around the world at tested technologies and solutions. Austrade believes Australia's ranking close to the top of the table in the delivery of government services online has provided a platform for international sales, including into Central Europe.¹⁶²
- 4.97 In order to stimulate the business opportunity, Austrade organised an e-government mission to the Czech Republic and Poland during October 2002. Austrade says the preliminary outcomes are

¹⁵⁹ DFAT, Submission No 16, p 80.

¹⁶⁰ Austrade, Submission No 18, p 18.

¹⁶¹ Austrade, Submission No 18, p 18.

¹⁶² Austrade, Submission No 18, p 18.

encouraging, with a number of the participants already planning return visits before the end of the year.¹⁶³

- 4.98 Although there is little or no activity in this area between Australia and Central Europe, FaCS, HIC and Acumen Alliance provide some guidance on how such opportunities might be pursued. A 'toe in the multilateral door' strategy might be useful in the e-government area as well.

IT and communications services

- 4.99 The major component of Australian ITC exports to Central Europe is telecommunications equipment, with Slovakia as the biggest market (A\$855,000 in 2000-2001), followed by Hungary (A\$262,000) and Slovenia (A\$55,000).¹⁶⁴
- 4.100 WADIR believes Australia's developed ITC marketplace provides the base for a strong ITC goods and services export industry. It also believes that the impending liberalization of most Central European telecommunications sectors will see prices drop and demand for ITC goods and services rise. This rise is likely to prompt growth in e-commerce.¹⁶⁵
- 4.101 Australia's comparative advantage in this area is clear. The Economist Intelligence Unit (EIU) currently ranks Australia 2nd in e-readiness (2001). See Table 4.6. Australia's National Office for the Information Economy (NOIE) places Australia 3rd, after the United States and Sweden, in terms of performance in the information economy, with 52 per cent of households having access to the Internet at September 2001.¹⁶⁶
- 4.102 The EIU¹⁶⁷ ranks the Central European countries at the lower end of 'e-readiness'. Four countries are in the 'e-business followers' category (see Appendix I). Two others are in the 'e-business laggards' category in contrast to Australia which is an 'e-business leader'. Croatia and Slovenia were not included in the ranking.
- 4.103 Details of the proportion of the population accessing the internet in some Central European countries, and comparisons with the US and

¹⁶³ Austrade, Submission No 18, p 18.

¹⁶⁴ DFAT, Submission No 16, p 80.

¹⁶⁵ WADIR, Submission No 20, p 29.

¹⁶⁶ The Current State of Play: Australia's Scorecard' National Office for the Information Economy, April 2002. (www.noie.gov.au)

¹⁶⁷ Economist Intelligence Unit Viewswire (on-line - <http://www.viewswire.com>)

the UK are set out in the table below. Appendix E also contains information on various 'technology take-up' indicators; telephone lines, personal computers, internet users, internet servers, TV sets and mobile phone use.

Table 4.6 E-readiness ranking and internet access

	e-readiness ranking (2001)	internet users per 100 people, 2001	estimate of internet users per 100 people, 2002
USA	1	70.7	75.5
UK	3	48.2	53.0
Australia	2	31.63 (1999)	
Czech R.	27	26.4	38.3
Hungary	28	21.2	33.7
Poland	30	13.4	18.3
Slovakia	32	11.3	16.1
Bulgaria	48	12.4	19.0
Romania	52	4.5	6.6

Source EIU country e-readiness reports 2001-02¹⁶⁸

Table 4.7 Telephone lines per 100 people (see also Appendix E, graph series E.3)

	telephone lines per 100 people in 2001	estimate of telephone lines per 100 people in 2002
USA	60.5	58.4
UK	60.9	63.2
Australia	52.76 (2000)	
Czech R.	41.4	42.9
Hungary	39.2	40.2
Bulgaria	38.3	39.6
Poland	29.2	31.2
Romania	24.0	39.0
Slovakia	18.7	19.9

Source EIU country e-readiness reports 2001-2002.

4.104 DFAT believes several current characteristics of Central European markets suggest where opportunities might lie. Firstly IT technical skills in the region are reasonably cheap. This makes it cost-effective to establish partnerships with local enterprises.¹⁶⁹ Secondly, local industries are beginning to grow. And thirdly each country has good access to third markets, either through Central European Fair Alliance

¹⁶⁸ Cited in DFAT, Submission 16, p 80.

¹⁶⁹ DFAT, Submission 16, p 81.

(CEFA)¹⁷⁰ or the EU. This provides a cost effective base for expanding into Europe more widely.

- 4.105 These advantages, combined with Australia's strengths in software development mean that there is potential for collaboration between Australian and Central European firms. Since collaboration is most likely to be in the area of research and development, linkages between technology parks and other R&D organisations, such as universities and the CSIRO, will be critical.¹⁷¹
- 4.106 In the communications sector, Central Europe needs professional services and equipment to build network infrastructure, both private and public.¹⁷² WADIR believes that with privatisation and the introduction of competition, the demand for more competitive infrastructure by users and carriers is increasing, providing an expanding market for potential Australian suppliers and investors.

Science research funding

- 4.107 DFAT suggests that research collaboration with Central European countries could benefit Australia through the Sixth Research and Technological Development Framework program (F6). This research and development fund will be available to some non-EU applicants and applicants collaborating with EU members. The fund will spend around A\$30 billion in research and development activities in the period 2002-06¹⁷³ (For existing research links see Appendix G).
- 4.108 In line with earlier recommendations on utilizing education scholarships and institutional linkages to improve the profile of Australian education in Central Europe, the Committee believes a 'foot in the door' strategy could also apply to collaborative research funding.
- 4.109 Collaborative research work undertaken with Central European institutions (especially the five subject countries acceding in 2004) now, will entitle the Australian collaborators access to the European Commission's (EC) science research funding through the Sixth

¹⁷⁰ Trade fair organisers in Belgrade, Bratislava, Budapest, Graz, Klagenfurt, Ljubljana, Munich, Novi Sad, Prague, Sarajevo, Vienna and Zagreb have joined forces to form the Central European Fair Alliance (CEFA). CEFA members work together in the areas of marketing and public relations, exchanging know-how and participating in joint training activities. In DFAT, Submission No 16, p 81.

¹⁷¹ DFAT, Submission No 16, p 81.

¹⁷² WADIR outlines a range of telecommunication activities in the Czech Republic, Hungary and Slovenia, WADIR, Submission No 20, p 28.

¹⁷³ DFAT, Submission No 16, p 82.

Research and Technological Development Framework Program (F6 program).¹⁷⁴

- 4.110 The Committee believes this provides another opportunity for Australia science research institutions to access overseas research expertise and funding, while again raising the profile of Australian research and education institutions in Central Europe. Recommendation 12 discusses further the issue of government support for EU access.

Recommendation 5

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

E-commerce

- 4.111 Australia's high rankings in e-government readiness, e-business readiness, and high levels of business to consumer and business to business e-commerce, clearly positions it to export goods and expertise in these areas. This is especially so considering Europe's relatively slow take up of new technology and e-commerce.
- 4.112 There is however, little evidence of spontaneous trade in this area between Central Europe and Australia. WADIR lists several areas in which it sees opportunities: smart card technology, internet applications, multimedia systems, and hardware and software development.¹⁷⁵ DFAT and Austrade see similar potential but note the lack of current trade in the area.¹⁷⁶
- 4.113 Wireless telephony markets are growing dramatically in Central Europe. WADIR believes small niche Australian firms willing and able to partner with larger wireless hardware suppliers will be able to operate effectively in the region.¹⁷⁷
- 4.114 The Committee believes from the evidence and impressions from the visit to Central Europe, this is an area of great opportunity. Australia's leading position in these areas and the growing ITC

¹⁷⁴ DFAT, Submission No 16, p 82.

¹⁷⁵ WADIR, Submission No 20, p 29.

¹⁷⁶ Austrade, Submission No 18, p 18.

¹⁷⁷ WADIR, Submission No 20, p 29.

uptake in Central Europe supports the notion of a 'market failure' in this area (as discussed in Chapter 1). The failure is due to the lack of information on opportunities on both sides (discussed further in Chapter 6).

Health

- 4.115 DFAT explained that Australia has a strong track record of innovation and reform in health services delivery, developed over the last 20 years. As the Central European countries approach EU accession their health service delivery standards will have to be raised dramatically. The wave of reform in the sector has and will likely continue to need to import relevant expertise.¹⁷⁸
- 4.116 Australia's Health Insurance Commission, a star performer in Central Europe, has found a strong market for its services, providing clients with a range of services including: health insurance implementation; health finance policy development; health data and health information business analysis; legislative advice; organisational development; information management; IT systems development; prescription management;¹⁷⁹ hospital restructuring;¹⁸⁰ administrative procedures; and training. DFAT stresses the success is likely to continue.¹⁸¹
- 4.117 Currently, HIC is undertaking projects in Bulgaria (health information standards project); Slovenia (adapting and improving the reimbursement sector in the health sector); and Croatia (reform of the pharmaceutical sector), all funded by the World Bank.¹⁸² Examples of HIC activities in Central Europe include:
- a Strategic Information Technology Plan to Support Social Security Reforms in Hungary (1990-91);
 - a Health Sector Financing Study in Romania (1997-98);
 - a Study of Fiscal Sustainability and Efficiency in the Health Sector in Slovenia (1999); and

¹⁷⁸ DFAT, Submission No 16, p 77.

¹⁷⁹ JSCFADT Visit to Central Europe Notes.

¹⁸⁰ JSCFADT Visit to Central Europe Notes.

¹⁸¹ DFAT, Submission No 16, p 77.

¹⁸² HIC, Submission No 13, p 2.

- and assessment of the organisational capacity of the Croatian Institute for Health Insurance (1994);¹⁸³

4.118 As the Central European countries grow economically and incomes rise (see Appendix E for import and consumption trends), demand for effective health care services will grow. Australia is well placed to capitalize on this demand by positioning itself well with Central European governments and the World Bank.

Financial services

- 4.119 Financial services is another area of potential for Australia exporters, as exemplified by Financial Network Services (FNS), a privately-owned Australian developer and supplier of banking services.¹⁸⁴
- 4.120 FNS was successful in 1998 in tendering for the supply of a banking system and associated services for the Slovenian-Government owned bank, Nova Ljubljanska Banka (NLB).
- 4.121 FNS now has as a customer the largest bank in the Balkans, with more than one million customers, and a domestic branch network of 15 regional branches and some 90 branches and agencies.

Investment opportunities

- 4.122 Total foreign direct investment (FDI) in the region in calendar year 2000 was US\$23.1 billion¹⁸⁵ (see Graph 4.3). Until recently, most FDI was concentrated in Poland (US\$14 billion 2001)¹⁸⁶ and the Czech Republic (US\$4.6 billion in 2000).¹⁸⁷ Hungary also received significant foreign investment flows (approximately US\$2 billion in 2000).¹⁸⁸ More recently, however, FDI has increased in countries such as Slovakia, Croatia and Bulgaria.¹⁸⁹
- 4.123 DFAT details that FDI in Central Europe, however, comes largely from West European countries. Germany, Austria, France and the

¹⁸³ DFAT, Submission No 16, p 78.

¹⁸⁴ DFAT, Submission No 16, p 76.

¹⁸⁵ This figure includes several Balkan and Baltic countries not included in this inquiry. DFAT, Submission No 16, p 62.

¹⁸⁶ Mr Zoladkiewicz, Transcript 19 February 2003, p 150.

¹⁸⁷ DFAT, Submission No 16, p 62.

¹⁸⁸ World Bank, World Development Indicators 2002.

¹⁸⁹ DFAT, Submission No 16, p 62.

Netherlands are by far the largest investors in the region, with investments concentrated in Poland, the Czech Republic and Hungary. Greece and Cyprus are the fourth and fifth largest investors in Bulgaria investing US\$313 and US\$230 million over the period 1992-2000. In addition to Austria, Germany and France, both Italy and Switzerland have invested over US\$100 million in Slovenia to date.¹⁹⁰

- 4.124 Australian investment in the region, though low, has picked up since the mid-1990s. Australian FDI in Poland, totalled A\$113.6 million at the end of 2001 and was concentrated in areas such as manufacturing, services, infrastructure and mining. In the Czech Republic, total Australian FDI in 2001 was A\$112 million, with Australian companies investing in information technology, industrial services, the health sector and entertainment.¹⁹¹
- 4.125 The Committee believes, from evidence taken during the course of the enquiry, that Central Europe provides very good opportunities for Australian investors. The following section covers the areas in which investment has already taken place and where opportunities are most prevalent.

Note on trade and investment promotion agencies in Central Europe

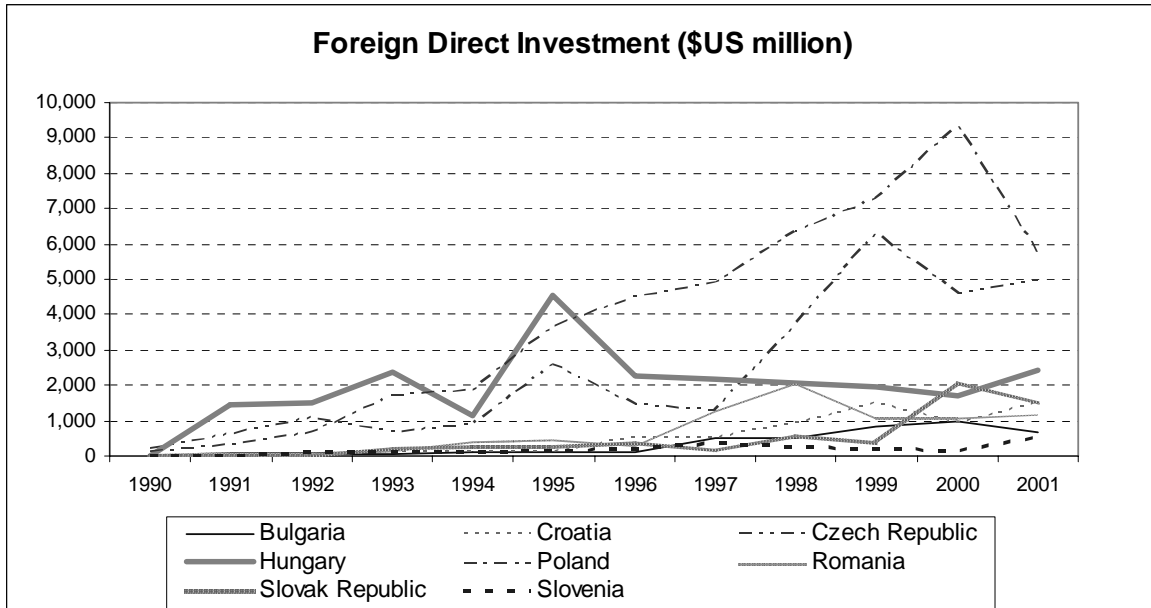
- 4.126 Before detailing what investment opportunities have emerged during this inquiry, the Committee would like to highlight the effort Central European governments are putting into trade and investment promotion.
- 4.127 Several of this inquiry's subject countries have established trade and investment promotion agencies and a range of other incentive measures to attract trade and investment (see Appendix J for relevant websites).¹⁹² The Committee suggest that those considering pursuing opportunities in Central Europe should be aware of these facilities and utilize them where appropriate.

¹⁹⁰ DFAT, Submission No 16, p 62.

¹⁹¹ DFAT, Submission No 16, p 62.

¹⁹² Submission No 9 by the Embassy of Romania provides a comprehensive list of public entities due to be privatised as part of Romania's ongoing national privatisation and development plan. Various examples are included in the following section under relevant headings.

Graph 4.3 Foreign direct investment in Central Europe



Source World Bank, World Development Indicators

Financial Services

- 4.128 Australian financial service providers, particularly in the banking and insurance sectors, have the technology and systems to make an impact in Central Europe, and several have been active in the region in recent years.¹⁹³
- 4.129 Privatisation of the banking and finance sectors is already well underway in most of the Central European countries, and is likely to continue in the lead-up to EU accession.¹⁹⁴ Countries in the region have an awareness of Australia's successful privatisation experience in the sector, and opportunities should continue to arise.¹⁹⁵
- 4.130 DFAT believes Australian companies can benefit from securing a commercial foothold in the countries acceding *after 2004*, before they gain entry (probably 2007 for Bulgaria and Romania).¹⁹⁶ They also warn that prospective buyers should consider the adequacy of each market's prudential supervision regime. It is expected that this situation will improve after EU accession.¹⁹⁷

¹⁹³ DFAT, Submission No 16, p 76.

¹⁹⁴ DFAT, Submission No 16, p 76.

¹⁹⁵ Embassy of the Republic of Poland, Transcript, FADT 148.

¹⁹⁶ DFAT, Submission No 16, p 76.

¹⁹⁷ DFAT, Submission No 16, p 76.

- 4.131 QBE provides a good example of the financial services opportunities in Central Europe. Since 1997 the Australian firm QBE has expanded dramatically in Central Europe. It acquired part of Atlasz Insurance in Hungary, the Slovak Slovenska Investicna Poistovna (SIP), and a controlling interest in ADOR Makedonija of Madeconia. QBE's Central European operations now comprise offices in London, Budapest, Sofia, Kiev, Kosice, and Skopje.¹⁹⁸

Infrastructure

- 4.132 Central Europe's status as a transition region provides major investment opportunities in infrastructure.
- 4.133 Poland plans to privatise 17 power generation plants, 33 wholesale electrical power distributors and 19 power and heat generation plants. It also plans to dramatically upgrade its road system with EU and other foreign investment.¹⁹⁹
- 4.134 Slovenia is looking to privatise its energy sector and airports, and is working on attracting investment for a major upgrade to facilities at Port Koper, Slovenia's 'maritime window to the world'.²⁰⁰
- 4.135 The Croatian government's biggest oil and gas company INA will be privatised in the short term, as will the remainder of its mobile phone sector.²⁰¹
- 4.136 Planned major energy and gas projects in Romania require large investments.²⁰² Romania also has major plans to improve its environmental protection capabilities while upgrading its standards and regulation in anticipation of EU accession.²⁰³ The Romanian government also foresees the need for foreign investment in its plans to upgrade its road, rail (including urban subways), maritime and airport networks, and telecommunication systems.²⁰⁴

Property and tourism

- 4.137 Considering the growing economies and consumption of Central European economies tourism is likely to be a growth industry,

¹⁹⁸ DFAT, Submission No 16, p 76.

¹⁹⁹ Ambassador Wieclaw, Transcript 19 February 2003, p 149.

²⁰⁰ Mr Bertoneclj, Embassy of the Republic of Slovenia, Submission No 3, p20.

²⁰¹ Ambassador Ibler, Embassy of the Republic of Croatia, Transcript 19 February 2003, p 116.

²⁰² Embassy of Romania, Submission No 9, p 73.

²⁰³ Embassy of Romania, Submission No 9, p 76.

²⁰⁴ Embassy of Romania, Submission No 9, p 80.

reflected in the increasing numbers of Central European students undertaking tourism training in Australia (Chapter 4). In terms of investment opportunities though, Croatia appeared to offer the best opportunities.

- 4.138 Croatia's Adriatic coast provides great opportunities for Australian investors. The ports of Rijeka, Ploce and Split are trade 'free zones' in which Croatian Ambassador Ibler believes the processing of Australian sheep and beef imports could occur. Such a 'free zone processing' arrangement exists and provides a good model for other Australian exporters and investors.²⁰⁵
- 4.139 Croatia's history with tourism to the Adriatic Coast also provides opportunities for investment in tourism and related activities. Croatia's natural assets need foreign investment and expertise to attract high value (or high spending) tourists. Australian investors have already bought into hotels in this area and the Croatian government is working to encourage the development of golf courses in the area.²⁰⁶ Ambassador Ibler cited the 'Billabong' bar as a good example of Australian entrepreneurial spirit and Croatian opportunities coinciding for mutual benefit.²⁰⁷

Agribusiness

- 4.140 The only country in which agribusiness appeared to offer investment opportunities was Romania. The Romanian Embassy detailed Romania's major plans to develop its agriculture, an area in which Australia is traditionally very strong. The development plans include: procuring and developing irrigation equipment; rehabilitating land; upgrading industry structures; developing agricultural tourism; reforestation of degraded land; developing animal husbandry; developing the food industry; land reclamation; jointly developing agricultural technology; and agriculture infrastructure projects.²⁰⁸

Manufacturing

- 4.141 Several Australian companies have already successfully invested in several countries of Central Europe in different sectors, such as

²⁰⁵ Ambassador Ibler, Embassy of the Republic of Croatia, Transcript 19 February 2003, p 117.

²⁰⁶ Ambassador Ibler, Embassy of the Republic of Croatia, Transcript 19 February 2003, p 117.

²⁰⁷ Ambassador Ibler, Embassy of the Republic of Croatia, Transcript 19 February 2003, p 118.

²⁰⁸ Embassy of Romania, Submission No 9, p 75.

Amcor Polska in Poland, Lajovic Tuba Embalaza in Slovenia and Cochlear in the Czech Republic.²⁰⁹

- 4.142 In the case of Poland, Ambassador Wieclaw pointed out that 25 or 29 industrial enterprises in the defence and armaments production sector will be privatised, in an effort to upgrade technology in anticipation of having to meet NATO standards (to which Australia already complies).²¹⁰
- 4.143 Poland is also working towards privatising parts of the aircraft and motor vehicle industries. Four of the largest Polish chemical plants are seeking international investors.²¹¹

Mining and minerals sector

- 4.144 In terms of investment opportunities in the mining and minerals sector, prospecting and extraction are constrained by depleting resources and outdated equipment.²¹² As a consequence, the region is not a priority market for the larger Australian corporations focused on minerals extraction.²¹³
- 4.145 The Australian mining industry also took a blow to its image in Central Europe in recent years,²¹⁴ when an Australian-Romanian joint venture mining company (Aural Gold Mine) spilled cyanide into the Tisza River in early 2000.²¹⁵ The Australian government has worked to overcome this by instituting a voluntary Minerals Industry Code for Environmental Management. Australia has also been actively engaged with industry and the United Nations Environment Programme in the development of an International Cyanide Management Code.
- 4.146 The Romanian government plans a major rejuvenation of aspects of the mining industry, including mines, commercial structures of mines and the rehabilitation of degraded land.²¹⁶

²⁰⁹ JSCFADT Visit to Central Europe Notes.

²¹⁰ Ambassador Wieclaw, Transcript 19 February 2003, p 149.

²¹¹ Ambassador Wieclaw, Transcript 19 February 2003, p 149.

²¹² DFAT, Submission No 16, p 84.

²¹³ DFAT, Submission No 16, p 84.

²¹⁴ DFAT, Submission No 16, p 84.

²¹⁵ <http://www.zpok.hu/cyanide/baiamare/News/austfeb10.htm>

²¹⁶ Embassy of Romania, Submission No 9, p 74.

