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DEFENCE AND TRADE

(Trade Subcommittee)

**Reference: Expanding Australia's trade and investment relationship with the
economies of the Gulf States**

WEDNESDAY, 7 APRIL 2004

SYDNEY

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JOINT COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE

Wednesday, 7 April 2004

Members: Senator Ferguson (*Chair*), Mr Brereton (*Deputy Chair*), Senators Bolkus, Cook, Eggleston, Chris Evans, Harradine, Hutchins, Johnston, Sandy Macdonald, O'Brien, Payne and Stott Despoja and Mr Baird, Mr Baldwin, Mr Beazley, Mr Bevis, Mr Byrne, Mr Edwards, Mr Laurie Ferguson, Mrs Gash, Mr Hawker, Mr Jull, Mr Lindsay, Mrs Moylan, Mr Nairn, Mr Price, Mr Prosser, Mr Scott, Mr Snowdon, Mr Somlyay and Mr Cameron Thompson

Subcommittee members: Mr Baird (*Chair*), Senator Cook (*Deputy Chair*), Senator Eggleston, Senator Ferguson (*ex-officio*), Mr Bevis, Mr Brereton (*ex-officio*), Mr Hawker, Mr Jull, Mrs Moylan, Mr Nairn, Mr Prosser, Mr Scott, Mr Snowdon, Mr Somlyay and Mr Cameron Thompson

Senators and members in attendance: Senator Bolkus, Mr Baird, Mr Jull and Mr Nairn

Terms of reference for the inquiry:

To inquire into and report on:

Expanding Australia's trade and investment opportunities and relations with Bahrain, Iran, Kuwait, Oman, Saudi Arabia, Qatar and the United Arab Emirates.

WITNESSES

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Subcommittee met at 8.35 a.m.**MEARES, Mr Denis, Head, Corporate Planning and Performance Branch, Global Strategy and Governance Group, IDP Education Australia**

ACTING CHAIR (Mr Jull)—I declare open this public hearing of the inquiry into expanding Australia's trade and investment relationships with the Gulf States, conducted by the Trade Subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade. We will be examining our trade and investment relationships with seven countries—namely, Bahrain, Kuwait, Oman, Saudi Arabia, the United Arab Emirates, Qatar and Iran. Of particular interest to the inquiry is the nature of Australia's existing trade and investment relationships with the region and likely future trends in these relationships. Further, the committee will be looking at the role of the government—particularly the Department of Foreign Affairs and Trade, Austrade and the Export Finance and Insurance Corporation—in assisting Australian companies to win business in the Gulf States. We hope that our inquiry will lead to a better understanding between Australia and the Gulf States and to an expansion of trade and investment.

I now ask that the subcommittee accept as evidence and authorise for publication the following submission to the inquiry into expanding Australia's trade and investment relationships with the Gulf States: supplementary submission received from Austrade on 6 April 2004, which has been numbered 13.

Senator BOLKUS—So moved.

Mr NAIRN—Seconded.

ACTING CHAIR—On behalf of the Trade Subcommittee, I welcome Mr Denis Meares, who represents IDP Education Australia. The subcommittee prefers that all evidence be taken in public. But should you at any stage wish to give evidence in private, you may ask to do so and the subcommittee will give consideration to your request. Do you wish to make any additional comment on the capacity in which you appear?

Mr Meares—IDP Education Australia, which I represent, is one of Australia's premier marketers of Australian international education.

ACTING CHAIR—Although the subcommittee does not require you to give evidence under oath, I should remind you that these hearings have the same status as legal proceedings of the parliament and therefore have the same standing as proceedings in the respective houses. The subcommittee has one submission from IDP, which has been numbered 4. I now invite you to make an opening statement before we proceed to questions.

Mr Meares—My main comment is that IDP believes Australia has a very strong future in the Middle East and there is the opportunity for us to capitalise on the present situation in the Middle East. If the government supports the initiatives that are already taking place in particular in the Gulf region, Australian institutions will have the opportunity to reap a lot of the benefits that accrue through international education in Australia. We will achieve this by working together in a consolidated effort in the Gulf region at the moment, as students are now looking for opportunities away from traditional markets such as the UK and the United States. Australia

is faced with tremendous opportunities and we need a concerted effort in order to capitalise on them.

ACTING CHAIR—Has this interest evolved because Australia is regarded as a safe destination?

Mr Meares—There are lots of reasons. One reason is the quality of Australian education. Students traditionally look towards the United States and the UK for quality, lifestyle and, to some extent in the past, security. Because Australia is considered to be a relatively safe destination, we now have the opportunity to build on the perception of quality of Australian education, with the added bonus of lifestyle and security to attract that market.

ACTING CHAIR—Is it true that some of our qualifications are not recognised within some of the Gulf States?

Mr Meares—Recognition of qualifications by governments of some countries overseas is a huge issue for Australian institutions and for students wishing to study in Australia. There is a real need for government-to-government work to be done to make sure that all qualifications are recognised and students can take advantage of the opportunities offered here.

ACTING CHAIR—What work in that regard is being done now?

Mr Meares—That is the role of Australian Education International. We have a representative who works in the region; one of her briefs is to work with government to improve the recognition of qualifications.

ACTING CHAIR—Is she getting a good reaction?

Mr Meares—I cannot answer that, to be quite honest.

ACTING CHAIR—You have given us some fairly remarkable projected growth figures, particularly for the United Arab Emirates and Iran. I think you have said that for UAE it is 7.5 per cent and for Iran it is 8.1 per cent. What actual numbers do those figures represent? What percentage of those figures do you think Australia has the chance of attracting?

Mr Meares—The figures in the submission that I have given for Australia reflect demand for international education in Australia. Those figures come from a fairly low base, and so it is a high growth on a low base. But I believe that the opportunities are greater than those figures actually represent because of the opportunities that Australia has at the moment, given that students are looking for alternatives to the United States and the United Kingdom. They are the major destination countries at the moment and the numbers going to them are huge. There are signs that more and more students from the region will be looking for international education. If the situation turns around and they start looking back towards the UK and the US, Australia will miss out on this opportunity. The growth rates, as I say, are from a fairly low base but they represent strong growth. However, the opportunities are greater than those figures actually represent.

ACTING CHAIR—Are those students self-funded or on scholarships, or are they a mixture?

Mr Meares—They are a mixture. We have the opportunity to gain fellowship students who are funded by the government, and government-to-government work in ensuring that Australian qualifications are recognised is very important in this area. Obviously governments will not fund students to come to study in Australia to get qualifications that those governments do not recognise. There is a large number of self-funded students also.

Mr NAIRN—With the recognition of qualifications, are you talking about only university degree level? What about diplomas and certificates?

Mr Meares—I think it goes across all sectors; it is not just in the Gulf region. Recognition of Australian qualifications in the other sectors is a huge issue—and not just recognition of the qualifications but also understanding what Australian institutions, especially in the vocational education and training sector, have to offer. There must be an understanding that we have a very good product and we have a very high standard in some of our vocational education and training colleges, especially in the public sector. There is no great recognition or understanding of those qualifications, because there are very few systems in the world that have the kind of vocational education and training system we have here.

Mr NAIRN—Are organisations like TAFE doing much in the Middle East in trying to get a foothold?

Mr Meares—Yes.

Mr NAIRN—They are doing a fair bit in places like China, which I understand is not really all that profitable. Have they done much in the Middle East?

Mr Meares—I am not absolutely sure. I think the International Education Division of the Victorian Department of Education and Training has been working in some areas in the Gulf, but I am not absolutely sure of the extent to which it is at present developing training programs or recruiting students.

Mr NAIRN—Is the growth rate for students predominantly for those coming to Australia to study? Alternatively, what is the growth rate for students in their own countries with, for example, the export of actual programs like those of the Wollongong University in Dubai and those sorts of things? Where is the highest rate of growth going to be?

Mr Meares—The opportunities are there for both: for development of offshore programs both through students attending campuses of Australian institutions such as the Wollongong campus in Dubai and also for students travelling to Australia. In the forecasts of growth for the whole of the industry undertaken in 2002 by IDP, we forecast that demand for international education in Australia would grow to 560,000 by the year 2025—that is students travelling to Australia—and there would be another almost half a million students wanting to study Australian programs in our offshore programs through distance education and at offshore campuses. We call that transnational education. The extent to which those transnational programs are taken up will depend largely on the extent to which the qualifications are recognised and the extent to which the local market perceives that the qualification they get in their own country is the equivalent of the one they get by travelling to Australia.

Senator BOLKUS—Is there a degree of demand for reciprocity? Many of the qualifications gained in the countries we are speaking about are not recognised in Australia; I am not referring to qualifications from Australian institutions but to those from maybe other institutions or domestic ones.

Mr Meares—That may be true but it does not fall within my area of expertise. I am not absolutely sure. I think Australian Education International is the one to answer that question. In terms of the travelling student and the full fee paying student, a lot of those students are looking for employment opportunities. The extent to which the qualification will give them employment opportunities either in their own country or in Australia or elsewhere I think is a major factor affecting that demand.

Senator BOLKUS—You have come up with some pretty precise figures: 560,000 and 7.5 per cent and so on. You may have answered this earlier, but how do you come up with those sorts of figures and who do you rely on for that sort of information?

Mr Meares—In 2002 we did some modelling of the future demand for international education working with the Centre for International Economics in Canberra. They did the modelling for us and we provided the industry understanding and expertise et cetera and worked with them. We worked with them on that project in 2002 and then we furthered the project in 2003 where we looked at the types of factors that are likely to impact on Australia's position in the market—the effect of changes in perceptions of quality et cetera and how that might affect demand in the future.

Senator BOLKUS—Are we also talking about an underlying trend in those countries towards a better educated middle class, or is it just the diversion of interest from traditional markets to Australia?

Mr Meares—Both. I think there are opportunities because where there is a growing middle class there is obviously a large number of people who are able to pay full fees for education, and Australian parents are no different in terms of wanting to ensure that their children get the best education that is available, whether that be in Australia or overseas, and they are prepared to pay for it. So that growing middle class obviously offers opportunities. There are also huge opportunities at the moment in the Persian Gulf region for attracting those students who traditionally go to the United States and the United Kingdom.

Senator BOLKUS—Do you break those projections down into different sectors? You mentioned further education as one area.

Mr Meares—No. We are only able to make projections based on higher education because it is the only area in which we have really good data. The data collection in the other sectors is very poor. Australia has the best data collection facilities; actually we have better data than our competitors. But because our competitors do not have the numbers, then it gets quite difficult for us to do any modelling of what future demand might be in those areas.

Senator BOLKUS—I suppose I have a perception that there are a lot of players over there from Australia, particularly in the UAE where you have bodies in the state government, in the federal area and in the private sector.

Mr Meares—That is right.

Senator BOLKUS—There must be some frustrations. Is there a need for greater coordination, or is it better to have all—

Mr Meares—It depends on whom you are talking to. IDP comes from the perspective that we need a concerted effort. We need all of Australian institutions and all levels of government to be working together to create a consistent message about Australia and Australian education and working together to grow the market. We believe that there are opportunities there to grow the market to increase the share of the market that all of the institutions and states et cetera have access to. So we believe that if we work together then everyone will benefit.

Senator BOLKUS—In that context I suppose you would recommend a roundtable sort of approach to consultation. To what degree is there consultation now?

Mr Meares—There are various levels of consultation. Obviously the Department of Education, Science and Training has through the AEI—it involves a certain level of consultation; and the state governments, the Queensland government and the Victorian government in particular, are very active in promoting their own states not just in this region but in all regions in looking at growing the market for their states. IDP works across all states, all sectors, and we are interested in working with all bodies to make sure that we do continue to grow the market. I think there are issues not just within the education sector but with tourism, for example, and the types of messages that the promotion of Australian tourism gives compared with the types of messages that we believe need to be given for education. I think by having greater consultation—and I think it is starting to happen; I think tourism, for example, is working very closely with education to get an understanding of the types of messages that we are giving. But we want to make sure that is happening across all sectors, across all parties.

ACTING CHAIR—Was tourism giving the wrong message?

Mr Meares—Maybe not so much the wrong message for the purposes that they are working for, but for example I was in Malaysia quite recently talking to students who were going to the United Kingdom and I was trying to get a sense of why they were not choosing Australia as their destination country. One of the students made the comment that in Australia it is cool to be a fool. Where is that message coming from? We do not necessarily know that it is coming from any particular source, but anything that is giving that kind of message is not providing the right kind of message for us for international education or Australian education or Australia in general.

ACTING CHAIR—Are you really trying to say that Steve Irwin may not be—

Mr NAIRN—Is it more a cultural thing for the Middle East that education is seen as being much more serious than education in Australia might be seen by some other countries? Is there a difference between countries, or do you think it is a general criticism of the more laid back lifestyle that is promoted in Australian tourism and that it does not translate to sort of formal education in the minds of other nations? Is that true across the board, or are you saying that it is only in the Middle East?

Mr Meares—Absolutely not across the board. Even within the Middle East and the Gulf regions, every country is different. I think we have to be very careful about how we promote education in the individual countries of the Persian Gulf, for example, to make sure that we are tapping into the key drivers of demand in those countries and understanding the individual markets as well as the region.

Mr NAIRN—Perhaps in the promotion that goes out from Australia, education is still not seen as a serious exporter.

Mr Meares—I think there are perceptions of Australia as being very aggressive in the education marketplace and we have been because we have been very successful, especially compared with the United States and the United Kingdom. We do not have the large numbers they have, but we have had huge growth. The United Kingdom, for example, are quite worried about the success we are having, especially in the Asian regions and now as they see us looking at the Middle East and the opportunities there. We are good at what we do, and I believe that we have the same level of quality that most students will be getting if they go to the United States or the United Kingdom. The ivy league universities et cetera will attract a certain group of students and it will be very difficult to perhaps attract them to Australia. But Australia does have equivalent quality to those other countries and getting that message through to students is the important one.

ACTING CHAIR—Are the UK and the US our only competitors, or are there others that we do not hear much about?

Mr Meares—We have lots of competitors. Malaysia and Singapore are up and coming competitors as they set themselves up as education hubs and try and attract students. Malaysia, for example, does have huge opportunities for the Persian Gulf and Middle East region because of the Muslim society. They do recruit students from other Muslim countries who are attracted by the lifestyle there.

ACTING CHAIR—Do we have an obligation then to provide any special facilities for Muslim students?

Mr Meares—Of course. We have an obligation to provide special facilities for any student from any culture who is coming here and to make sure that they feel comfortable in our society by being provided for their needs, in the same way as anyone who is paying for a service wants to have all of their requirements catered for.

ACTING CHAIR—What are we doing about that now?

Mr Meares—I think most institutions do that very well. They have halal food and they have prayer facilities et cetera. In some institutions I think it is an area of total mystique—and I think that is an area that the industry is looking at improving, but it is quite good. But in terms of competitors, Australia has opportunities in places like Malaysia because we have so many campuses of Australian institutions in Malaysia. So in a country like that, we have opportunities. If Australian education is profiled highly enough in the Middle East and Australian education in a country such as Malaysia can be just as attractive or perhaps even more attractive to some students in coming to Australia for their education so the third country would prove that kind of

process could work in our favour. Then there are also countries like Germany, the Netherlands, France et cetera that are starting to offer full degree programs in English to tap into the international education market because they understand that they need to teach those programs in English if they are going to attract students.

Senator BOLKUS—You refer to the capacity to pick up women students. Are you finding—or is it too soon to make any assessment—that the recent changes to laws in France may in fact be a reason why people might divert their students from France to countries like Australia?

Mr Meares—I think it is too soon to tell; maybe it will have a large influence but at the moment we do not know.

Senator BOLKUS—A large number would be going to France though?

Mr Meares—Yes, but I am not too sure of the source regions. I think in some of those countries it is not necessarily just students who are travelling to those regions but people who live there.

ACTING CHAIR—You specifically spell out Saudi Arabia as one country where we are not performing.

Mr Meares—Yes, I think that is because we have not really gone strongly into Saudi Arabia.

ACTING CHAIR—Why not?

Mr Meares—I am not too sure of the history. I think the United Arab Emirates was the starting point. A few institutions went into the UAE through the 1990s. The setting up of the University of Wollongong campus at that time was probably one of the first forays into that market. That has gradually extended opportunities among the Gulf States, probably largely because of the large expatriate Indian and Pakistani population within that region who are looking for opportunities outside the region—and Australia has been able to capitalise on those. Beginning those kinds of markets has expanded to opportunities being available for local students from those regions as well.

ACTING CHAIR—Does IDP do any follow-up on our graduates?

Mr Meares—We are starting to. We do not have data on our graduates, but we understand the absolute importance of maintaining contact with our graduates and looking at using them to gauge satisfaction with Australian education—using them to help us with promotion. Obviously we have huge opportunities in terms of tracking our graduates who have been very successful with their Australian qualifications and using them to help us to promote the opportunities that an Australian education offers.

ACTING CHAIR—My colleagues have heard me say this before, but I was amazed to discover that three very senior people within the government of Iran have Australian PhDs.

Mr Meares—They are exactly the type of people we need to tap into; we have to ensure that their success can be used to promote an understanding of the quality of Australian education.

ACTING CHAIR—What about alumni associations?

Mr Meares—We work with alumni associations in most countries; in some countries they are quite small. We recognise that they are a huge opportunity.

ACTING CHAIR—Is such an association the responsibility of the university itself?

Mr Meares—Sometimes alumni associations are run specifically by institutions. But IDP works with groups of alumni of Australian graduates in some countries; we have been very successful with that in Malaysia, for example.

ACTING CHAIR—Is there any advantage in the government being involved in that?

Mr Meares—I am not sure. Whether or not it requires government involvement, I think there should be government involvement in that area in looking at the potential and providing support where it is needed.

CHAIR—Good morning. I must apologise but I was detained by traffic. I am interested in your comments about problems that exist. To what extent are visas a problem in bringing students to Australia?

Mr Meares—Visas have been a big problem for the last three or four years, since the changes to the classifications in some countries. Obviously the ease of getting a visa affects the attractiveness of the country as well as perceptions of acceptance and security et cetera in the country. If a student from another country finds it difficult to get a visa to study in Australia, they are likely to turn elsewhere. There are perceptions at the moment because Australia compared with its major competitive countries has the most expensive student visas.

CHAIR—What is the cost?

Mr Meares—It used to be about \$120, I believe, and I think it has gone up to about \$300. I am not absolutely sure of the numbers, but quite recently the cost has doubled or tripled. The perception that creates in the minds of our target market is very important, especially when the cost is absolutely minimal in some other competitor countries.

CHAIR—But how does our success rate in getting visas through compare with that of our competitor countries?

Mr Meares—I have no data; I cannot comment.

CHAIR—Were the countries ranked regarding their student potential for Australia?

Mr Meares—Saudi Arabia, because of its sheer size, has huge potential and there will be growth. It has a larger population than the other Gulf countries and there is opportunity for huge growth. Large numbers of students from those countries are going to other countries. The issue of diversity for Australian institutions comes into play here. For example, at the moment the Chinese market is going through the roof. Institutions will reach the stage of having to say, 'No more Chinese students.' Chinese students as well will reach the stage of saying, 'We don't want

to go to these institutions because they only have Chinese students. If we are to go to an institution offering an international education, we want to go to a truly international university with a diverse student population.’ In countries such as Qatar et cetera, even though the numbers might be small, they do offer that diversity, and the level of internationalisation and the benefits of international education improve as a result of that.

CHAIR—So after Saudi comes UAE?

Mr Meares—At the moment UAE is our strongest market.

CHAIR—After that?

Mr Meares—Oman; again the numbers drop right off, probably because of the actual size of the market.

CHAIR—I had lunch yesterday with the former Iranian trade commissioner and his wife, who were based in Dubai. They thought that in the longer term Iraq offered amongst the best potential—but obviously that is not quite the case at the moment.

Mr Meares—No, of course.

CHAIR—Do you have any views on that?

Mr Meares—We see pictures of all countries on television, and with Iraq we get the perception of poverty et cetera. But behind that there is also huge wealth. The middle class in Iraq will be looking for opportunities. Certainly, as soon as things settle down in Iraq, people will start looking outwards for opportunities, including opportunities for their children. It will take a long time to rebuild Iraq’s infrastructure, especially the education system. In rebuilding it, they will probably be coming from a negative starting point and there will be people with the money to pay for an international education as well as, I think, the government who will be looking for scholarships and fellowships for students and for opportunities to send people abroad. That can be a very big area.

CHAIR—We had the demographics in these countries outlined for us last time. There has been a dramatic shift in the number of people who are aged less than 20; I think it is something like 50 per cent.

Mr Meares—Exactly, and that must be translated through to the education system. With the demographics of a teaching group in a university, for example, you need an equivalent number of older people with education to provide education for the number of people coming through. If the country’s infrastructure is not providing that education, people have to look elsewhere for it.

Mr NAIRN—I just go back to the potential of Saudi Arabia. Looking at the current numbers, Saudi Arabia is quite low whereas population-wise it ought to be a lot higher.

Mr Meares—Yes.

Mr NAIRN—We have some other problems trade-wise with Saudi Arabia, particularly in the agriculture area. Is it an inherent problem, rather than any particular issue with education, that needs to be addressed there?

Mr Meares—I cannot answer that question. I would need to talk to our representatives in the area. My own experience in this work has been that, whenever I have been to that region, it has always been: ‘We’ll leave Saudi because it’s too difficult at the moment.’

Mr NAIRN—So there is some difficulty, because one would expect the rate for Saudi Arabia to be a lot higher. I am sure the opportunities are there, but—

Mr Meares—Whether or not we can tap into them is another matter.

Mr NAIRN—That is the issue.

Mr Meares—They are exactly the kinds of understandings that need to be developed. The numbers tell us that, yes, it should be higher; but work needs to be done with people who understand the region and the particular country to see whether those opportunities can be realised.

CHAIR—Should the government be doing other things? Our report will be on the Middle East and in particular the Gulf States. From your perspective, is there anything in particular that you would like to see the federal government doing to assist with the further expansion of education marketing opportunities?

Mr Meares—I would like to see it doing absolutely anything that could be done to enhance perceptions of the quality of Australian education—that we do have education of a very high quality, that there are opportunities for our graduates and that Australian qualifications are recognised in all countries. So I would like to see that sort of work being done.

CHAIR—How do you envisage achieving the objective you have just outlined: the promotion of our standards and quality?

Mr Meares—IDP itself is doing some work in that area at the moment. We have an ‘Excellence in Australia’ campaign where we have looked at the fields of excellence in Australian institutions. We are producing literature which focuses on the high standards of Australian expertise in biotechnology and film and television. We are producing marketing collateral that focuses on that quality.

CHAIR—You produce that?

Mr Meares—Yes, we produce that.

CHAIR—But, in government terms, what about a publication, a newsletter?

Mr Meares—Centres of Excellence, for example, that the government is investing in I think will help. I suggest there should be activities such as that. But there must be—and I think we have alluded to this in our submission—consistency with the messages that we give about

Australia, stressing the sophisticated levels of technology and the high levels of excellence we have in a broad range of areas. I think that is really important because it creates the impression of an intelligent and sophisticated nation, and our education system obviously underpins that. Anything at that level will help.

CHAIR—Just to tie you down specifically, what would you see that taking the form of? It is fine to say that, but is that objective reached through publications going to universities or would it be achieved via the Australian Information Service? By what means do we promote it?

Mr Meares—I think some of the end-country trade delegation stuff helps, such as having in-country exhibitions that really highlight—

CHAIR—Education exhibitions?

Mr Meares—Not necessarily education. We can demonstrate excellence in technology or other areas and have education coming in to support that, showing that what Australia is doing in medicine et cetera is underpinned by the education system which is allowing that to happen. I think having different sectors working together and demonstrating excellence can help.

CHAIR—But there are expos and education trade fairs?

Mr Meares—Yes.

CHAIR—Where are they held?

Mr Meares—I think there is one next month. They travel around each country. IDP has a travelling educational road show that goes from Dubai, Qatar, Kuwait, Oman and Saudi.

CHAIR—My colleagues and I will be drawing up recommendations; would you like to see more resources put into some of these?

Mr Meares—At the moment the education road shows and trade fairs are funded by the educational institutions themselves. I think they have fairly limited resources; they are obviously trying to spread their resources globally. It is quite expensive for them to operate in some regions. The government may have the opportunity to come in with funding that allows Australia and that high level of quality of excellence to be showcased in conjunction with the educational aspects of it. In that way we can have a kind of umbrella under which I suppose we can hang not just education but other areas that we are looking at developing here.

CHAIR—What you have said is very useful. My colleagues and I have no further questions of you at this stage, but we may come back to you later. We appreciate your attendance and your giving evidence today and we wish you success in the future. We obviously have not been on our visit yet. It is early days but we may come back to you with questions following our visit. We will send you a copy of the *Hansard*; if you have any queries or think that something is not quite accurate, please come back to us.

[9.17 a.m.]

DONNELLY, Mr Roger, Chief Economist, Export Finance and Insurance Corporation

SMITH, Mr Slater John, General Manager, Export Finance and Insurance Corporation

CHAIR—On behalf of the Trade Subcommittee, I welcome representatives from EFIC, the Export Finance and Insurance Corporation. The subcommittee prefers that all evidence be given in public; but should you at any stage wish to go in camera—which is probably unnecessary, considering the nature of our inquiry—please let us know. I invite you to make an opening statement, at the end of which we will proceed to questions.

Mr Smith—As the subcommittee is probably aware, EFIC's charter is to supplement the financial support available from the commercial markets. The overall message in our brief submission is that EFIC has the appetite for these markets, but on the whole we believe that the commercial markets currently appear to be satisfying exporters' needs. As a result, EFIC is currently a marginal player in the Gulf States. This is quite different to the early and mid nineties for example, particularly in Iran where EFIC was instrumental in helping exporters get paid during that country's financial difficulties of those times, which have now passed. As I have said, our submission is brief and we will be happy to take questions.

CHAIR—Your experience has improved significantly since former times. What is the overall success rate of being paid? Is it upwards of 90 per cent?

Mr Smith—It is very high. We do not have the numbers on the overall success rate of being paid because we have only ever been involved in that part of the market where exporters are perceived to be a sufficient risk in being paid to seek our assistance. On top of that, as the submission states, our business of providing short-term credit insurance to Australian exporters has been divested to the private market because of the perception that the private market was able to do all of the business that EFIC had been doing in that sector. We have no reason to believe that the private market is not providing as much cover as EFIC had always covered. But in terms of success rate, the reason that we were providing credit insurance cover was that if there were faults then EFIC would pay out under insurance. To that extent, there was no—and I do not believe there remains any—particular country risk involved in being paid in these markets, but there are individual transactional risks related to the quality of the individual buyers who from time to time go bankrupt or refuse to pay, just as they do in any other country.

Senator BOLKUS—In terms of the mechanics of that, what does it actually mean? Did you have a budget for short-term financing? Has that now been transferred to GERLING? You also say that you expect the private market capacity will be able to pick up what you used to do before. How do you come to that conclusion? Has a certain level of funds been allocated towards it?

Mr Smith—We were always off budget in the government sense. We were a self-funding organisation. We provided insurance policies to Australian exporters who paid us premiums and

we paid insurance claims out of those accumulated premiums. We were not a cost to government in that sense.

The way in which we satisfied ourselves or the government satisfied itself that the private market could do this was that we entered into an alliance with GERLING NCM and, during that alliance period, we retained the business of selling credit insurance and operating credit insurance for Australian exporters and GERLING NCM reinsured all of EFIC's activities. So whatever risks we took, GERLING NCM stood behind them. We gauged the quality of their capacity to do so. We also gauged their capacity to underwrite business that EFIC chose not to underwrite for what we considered prudent reasons—'prudent' being our assessment of the overseas risks and the impact of those overseas risks on our relatively small balance sheet.

During that alliance period GERLING NCM reinsured or took on its own book 99.98 per cent of all of the business that EFIC underwrote. On that basis, we and the government were satisfied that GERLING NCM could do as good a job as we could. In fact, one of the reasons for going into the alliance and consummating it as a sale was that the international flavour of GERLING NCM—its IT spend, its sheer size—was probably likely to provide Australian exporters with a better service overall than we could as a small player in an individual country with a small footprint.

Senator BOLKUS—You distinguish between short-term credit insurance and export finance, which you call medium term. Could you explain to us the difference in categories?

Mr Smith—EFIC had two core businesses. One we have just been talking about, which is short-term credit insurance. We defined that as insurance for the nonpayment of exports on payment terms of normally up to 180 days and occasionally up to 360 days. Medium-term finance products are greater than 360 days; they are usually well over two years. There our major line is to provide finance or to support finance being provided to overseas buyers of Australian capital goods and services. We also provide support for performance bonds and guarantees required by overseas buyers of Australian goods and services to ensure that they are protected from the nonperformance of the Australian contractor. We also provide a working capital guarantee, which is a guarantee of an exporter's bank where the exporter has difficulty in finding the necessary finance to undertake a particular contract. Those latter product lines that I have described are what we loosely pool in our medium-term finance area. That is the part of the EFIC business that we have retained as an ongoing entity owned by the Australian government whilst we have divested the short-term credit insurance business.

Senator BOLKUS—I have some questions about individual countries. I am intrigued by your ratings for the UAE and Iran. In the rest of your submission you talk glowingly about trade and support for investment in both those countries. Your ratings set higher fees and charges in respect of both the UAE and Iran, although you talk about the working capital guarantees being overwhelmingly dedicated to business in Iran. Why do you come up with different ratings in these two cases to those, for instance, of the OECD?

Mr Smith—Mr Donnelly, our chief economist, might be best placed to answer that question.

Mr Donnelly—The ratings that we, the OECD and the ratings agencies, for that matter, come up with are supposed to reflect the relative default risks, and clearly to all of us Iran is a bit of an

outlier. Then there are some smaller, I suppose, differences of opinion about the Gulf States. Iran has been rated more poorly by all of us because of weaker economic and financial fundamentals. I suppose geopolitical risk, political and demographic factors are also baked into that rating. They certainly are in our case and I know that they are in the case of the ratings agencies.

Senator BOLKUS—What about the UAE and Kuwait?

Mr Smith—We rate the UAE two notches higher than Iran.

Senator BOLKUS—At 3?

Mr Donnelly—Yes, which is two notches higher than 5.

Senator BOLKUS—You rate both one notch higher than does the OECD?

Mr Donnelly—I acknowledge that a number of the emirates—for instance, Dubai—are very financially strong and stable. There are however seven emirates and not all of them are financially strong and stable. In that 3 rating I was trying to capture the fact that, when you average it out, it comes out at a 3. Really the degree of difference is minor there. In fact, you cannot even say there is concordance whereby our 2 rating corresponds to the OECD's 2 or our 3 corresponds to its 3. That is roughly the case, but it is not an important difference. You have this group of countries at the 2 to 3 level, which in ratings agency parlance would be called 'investment grade countries'—they are safe for widows and orphans. They are not absolutely gilt edged but they are low-investment grade. They are not speculative grade. Speculative or junk grade status is reserved for Iran. I think that is the important thing to keep in mind. All of us are of one mind on that important distinction.

Senator BOLKUS—The OECD would probably take into consideration the United Arab Emirates as well, and so it comes back to a value judgment.

Mr Donnelly—I acknowledge that the United Arab Emirates—in particular the stronger emirates, such as Dubai—are very strong and stable. There have been difficulties the past though with some of the smaller emirates that do not have as many petrodollars. Sharjah has not paid as a government entity and it has had fiscal difficulties; there is not a great deal of transparency in the data on its policies and politics, and I think that is all baked into the rating as well.

CHAIR—What extent of default have you been involved in?

Mr Donnelly—As Slater has said, the good thing at present is that all these economies are tied to the oil price cycle. At the moment times are good: oil prices are high, and so they are enjoying windfall revenues. However, we have to recognise that there are some vulnerabilities about these economies and there have been difficulties in the past. Slater has alluded to the fact that, after the Iran-Iraq war, Iran went on a borrowing and spending binge. It utilised short-term debt. It had an ideological aversion to getting indebted to Western countries on a long-term basis and so it was all short-term debt. Oil prices fell in 1994 and it faced enormous debt rollover problems. It could not roll over the debt. It defaulted and had to reschedule a lot of debt. That caused a lot of creditors, banks and exporters, financial pain. That is one problem I would allude to.

Even Saudi Arabia, in my opinion, does not have cutting-edge fiscal management. When its petrodollar revenues decline in line with an oil price slump, it will run up fiscal arrears as a tool of fiscal management. If you are selling widgets to a Saudi ministry, you might suffer payment arrears when there is an oil price downturn. That will be resolved eventually, but it is something that needs to be borne in mind.

Mr Smith—Iran was one of Australia's largest wheat markets at the time it had those difficulties, and EFIC spent a lot of time with the Central Bank of Iran making sure that Australian wheat exporters got paid. A great deal of effort was taken in doing that. I think Australia and Canada were the only two countries that Iran did not bilaterally reschedule its debt with during those times.

Mr NAIRN—On an individual contract basis, what sort of dollars do you get involved in with your medium-term finance support?

Mr Smith—We can get involved in very large ones. The extent of our involvement is driven by the amount of Australian participation in the particular project. You might have a \$1 billion project, but Australian participation might be \$80 million or \$90 million in terms of the subcontracts that it can become involved in. I guess our average contract range—and not just with these states—would be between \$5 million and \$100 million. As I say, project sizes can often be a lot higher, but the Australian participation is on a subcontract basis.

Mr NAIRN—Do you have a minimum?

Mr Smith—Technically we do not have a minimum. When an overseas borrower wants to enter into medium-term finance arrangements, relatively high legal costs can be involved in putting that kind of transaction together because of the international nature of the arrangement. The transactional costs of doing small deals for loans of up to five years or more probably work against the smaller ones. That is why I say that practically our loans tend to start at around \$5 million.

Mr NAIRN—Do you have a maximum time period that you allow for a contract?

Mr Smith—Our maximums are generally driven by the OECD rules which govern the kinds of financial arrangements that we support. Typically they provide for a 10-year repayment maximum after the completion of a particular contract or project that is being financed; depending on the sector, in some cases it may be longer. Ships, for example, can attract terms of up to 12 years after their delivery, and some other sectors have longer terms. However, generally speaking, a 10-year repayment period is about the maximum.

Mr NAIRN—Presumably your ratings are indicative, or do you have fixed charges and various things based on those ratings? Within the UAE, for instance, where there are seven emirates, you say that some are better than others. If it is a contract out of Dubai, for instance, and the client has a certain track record, would a lower risk rating effectively apply within that contract? Do you apply those sorts of flexibilities?

Mr Smith—We price the risk as best we can as against our perception of the individual transactional risk. That being said, the OECD rules I have mentioned do link the OECD ratings

to the minimum premium that those markets can attract. There is no upper limit. For example, if Bahrain is rated as a 3 by the OECD, that sets a minimum premium benchmark which we can apply to a transaction in Bahrain; if the risk is assessed as requiring a higher return than that minimum, we would do so. But it does set a minimum, and that is designed to drive out the concept of subsidies within the OECD.

Mr Donnelly—It is pricing regardless of risk just to clinch the deal.

Mr JULL—This may be a little naive but, for the record, is there much difference in doing business between the various emirates or, indeed, the various Gulf States? Would a company selling to Dubai face the same difficulties as somebody selling to Teheran?

Mr Smith—Yes is the short answer. For example, we do not have as much experience in Dubai, but it is a more sophisticated Westernised country in terms of being able to do business. The financial system in Dubai is much more sophisticated; the international banks are all there. Dubai has been created almost as an international trading area; it has been designed to be easier to work and do business in. Comparatively, on the other hand, Iran is a regulatory nightmare and it can be difficult to understand the systems in Teheran. International banks do not operate there as much. Getting the different levels of ministerial approvals for projects, for example, can be difficult. It is a more opaque market in which to do business.

Mr JULL—But in Iran does a company do business with an Iranian company or, in fact, does it have to get through a government shield?

Mr Smith—A business-to-business deal has to be done and, depending on the nature of the transaction, government regulations will be superimposed over that. How you get paid will be driven by the Iranian banking system. The typical method of being paid is to establish a letter of credit. In Iran the regulations governing the availability of credit have loosened a lot since the early 1990s. At that time the Central Bank of Iran imposed a myriad of regulations in trying to dry up the easy availability of credit which existed at the end of the war with Iraq—and Roger alluded to that earlier. So, whilst things are getting easier, a different cultural attitude exists towards the application of regulations and how they are protecting civil society and so on that to a certain extent does not exist in Dubai.

Mr Donnelly—Plus the commanding heights of the economy are dominated by the state sector. You have 530 state-owned enterprises that absorb 60 per cent of the budget. In the recent election a lot of the reformists were kicked out and the conservatives came back in. There is no equation that says that conservatives equal lack of economic reform; a lot of them are explicitly pragmatic in the way they go about things. But that is another factor to bear in mind with Iraq.

Mr JULL—Does the sophistication of Dubai apply also to the likes of Qatar and Sharjah?

Mr Smith—At different levels. We do not do much business in Qatar and so we cannot profess to being at all expert about it. Sharjah again is a smaller economy and less sophisticated, but some of the Dubai flavour of doing business has certainly come about there. For example, in the seven emirates a lot of the commercial rules are the same.

CHAIR—What is the average rate of acceptance of applications for insurance that come to you from the Gulf States?

Mr Smith—As I have said, we have divested the short-term credit insurance and so we do not have that data anymore. For the medium-term business, we are not writing a large number of transactions in any of those states. We entertain all of them and, although I do not have the data in front of me, I do not think we have rejected any on risk. We often support negotiations that an exporter might be having. The eventual availability of EFIC finance is dependent upon the success of the exporter winning the business and we support them at the tendering stage. But I do not know of any recent transactions which we have rejected on the grounds of risk. As I have said in our submission, we have more appetite to do business in all of those countries than is being used.

CHAIR—Do you see these ratings improving for the countries; and, if you do, which countries in particular?

Mr Donnelly—I think they are pretty evenly balanced. All of these economies are subject to risks both upside and downside. Certainly I do not perceive any upward or downward drift in trend terms. Iran has improved over the past decade simply because it has repaid that enormous debt overhang of the past that we have referred to. It went on this borrowing binge, as I say, after the Iran-Iraq war. It has, with great difficulty, repaid all that debt. It has a pretty healthy-looking balance sheet nowadays. Of course it has other problems that weigh it down, but that is one trend I perceive. It could go better but again it could go worse because, frankly, there are some medium-term challenges that Iran has to face.

All of these other economies face challenges, particularly Oman and Qatar where the oil is running out and they have to diversify. Both these economies are diversifying to gas and they are doing it quite successfully. My fingers are crossed that they are actually going to maintain their strong ratings and perhaps get even stronger. Qatar is positioned to become the biggest LNG supplier in the world and Australia's competitor.

Mr Smith—I think it is important also that these ratings reflect our medium- to long-term risk. We are not looking at the ability of these countries to pay their debts in the next six to 12 months; we are looking at anything from five to 15 years, if you add the project completion time to the 10-year term that we were talking about earlier. We are looking over the horizon. So a factor we need to consider also is the impact of politics on a country's ability to run its economy efficiently.

CHAIR—Are you also working with Australian companies that supply to Iraq?

Mr Smith—We do a lot of work on Iraq but not in Iraq at the moment. The issue for Iraq at the moment is its capacity to absorb the kind of credit we can support. There is nothing there at the moment in terms of institutional frameworks et cetera. We have an arrangement with the Coalition Provisional Authority to support trade credits that the Trade Bank of Iraq might issue with the ECPA's support. That has not been used yet; neither has it been used with any other export credit agency around the world. But we are doing a lot of preparatory work and a lot of advisory work for the government in terms of how we might support business as things settle down and a more reasonable credit framework begins to emerge.

CHAIR—Coming back to Senator Bolkus's questions on the ratings, does EFIC see it as likely, for example, that the UAE will move to a 2?

Mr Donnelly—Yes. Certainly we bear in mind that there is a chequerboard of risk amongst the emirates. It is a confederation, not a federation; there is no strong central government. You have to look at the individual emirates such as Sharjah versus Dubai. As I say, the smaller ones, by and large, are higher risk because they are not as well provisioned with petrodollars or entrepot trade as is Dubai. It is certainly quite feasible that we could upgrade them. These grades are under review all the time. We do comprehensive reviews twice a year and we will regrade even in between times if we feel it is necessary.

Senator BOLKUS—I would like to put a couple of questions on notice. Can I have some detail on your overall annual budget? We are talking here, for instance, about \$23 million a year on average over the last five years being allocated to the Gulf States. I would like to get an idea of your annual budget, the level of applications you might get per region—not just this region—and the level of acceptance of those applications and the level of commitment to different regions around the world. It seems to me that you are saying a combination of high risk and non-usage of risk insurance and sufficient finance available otherwise from international commercial sources might mean that you decide you do not need to focus a little more on this region. I would not mind getting some international comparisons with where EFIC's money goes to.

Mr Smith—Certainly. I will just preface what in due course we will send you. We are a niche player and we exist to complement the private market, and so we always attempt to establish whether or not our activity will be in that market gap. That market gap is not static; it moves around all the time, which is why we used to do more business in Iran than we do now, for example. Typically our largest exposure is in South-East Asia. Our major exposures at present for the business we have done recently would be based on the Philippines and Sri Lanka. We have a large overhang of exposure in Indonesia and China. We operate in the areas of the world where you would expect Australian capital goods exporters to be operating and winning business where commercial finance might not be as easily available as in other places.

Senator BOLKUS—I suppose that is in part what worries me. You mention Sri Lanka. To me, there would be all sorts of inherent risks involved in Sri Lanka, similar to those in some of the Gulf States. It is a question of whether the market is leading away or whether EFIC is in step with the market. I suppose that is what I am concerned about.

Mr Smith—I do not think we are leading people into places.

Senator BOLKUS—That is right. It may very well be that people are finding different export and import type opportunities in the Gulf in different ways, but I am a bit concerned that perhaps you are not focusing as much there as are others.

Mr Smith—It is good if Australian companies, without our help, are winning business in the Gulf. In our view, there is nothing wrong with that because it means they are able to access commercial finance. It means that the Australian taxpayer is not under threat—because, whilst we operate on a self-funding basis, we are government guaranteed. We often try to find commercial partners to partner us in particular deals. We sometimes write a deal and then, after the project is built, offload it to the private market where, once we have led the way in doing the

deal, this capacity emerges. We have done a lot of that in Sri Lanka, for example; we have actually established the exposure under initial transactions with Sri Lanka and then have found commercial reinsurers to take some of it off our books. Wherever possible, we try to minimise our exposure and even out that concentration of risk that sometimes being a niche market gap player we find ourselves with. That is one of the dangers of operating EFIC—that, if you put on your door a shingle which says ‘I am only going to do high-risk markets,’ you do sometimes get a concentration of risk which you have to try and shift through the balance sheet.

Senator BOLKUS—We will take that into account.

Mr Donnelly—I have one comment on risk. Senator, I think you said before that you perceived high risk being one of the reasons we do not do as much business in the Gulf as we otherwise could.

Senator BOLKUS—I am pointing to some of the statements in your submission.

Mr Donnelly—The point I would make is that, from a risk viewpoint, a lot of these economies are quite creditworthy. The import of rating them 2 to 3 indicates that, although they are not quite in the top drawer triple A, they are strong economies. So risk really is not the constraint on our doing business, as Slater mentioned before.

Mr Smith—We like to operate in Iran around the grade 4 to 5 risk area. On analysing our book, we feel that we are operating in that market gap where I have been talking about our average risk rate being between 4 and 5.

CHAIR—We have no further questions of you at present. We appreciate your coming today. You will be sent a copy of today’s transcript. After we have been on our visit we may come back to you with any issues in relation to finance et cetera that emerge. Thank you.

[9.55 a.m.]

McDONALD, Mr Brian John, Director, Promesse Pty Ltd

CHAIR—On behalf of the Trade Subcommittee, I welcome the representative from Promesse Pty Ltd. The subcommittee prefers that all evidence be given in public. But should you at any stage wish to give any evidence in camera—which, as you would know, is probably unlikely—let us know. Although the subcommittee does not require you to give evidence under oath, you would be aware that these proceedings take the same standing as debates before the parliament. We have received one submission from you. Would you like to make a brief opening statement? We will then proceed to questions.

Mr McDonald—Yes. What has prompted my appearance before the subcommittee is a change in the way Austrade administer section 23AF of the Income Tax Assessment Act. Our advice from Austrade is that perhaps in the past the act has been interpreted too liberally and used for things that are not really appropriate, and so they are changing the policy. In effect, that means Australians working for either Australian companies or government authorities in the Gulf region will be subject to Australian tax. Certainly, from our point of view and that of people we know in the industry, people will not work there if they have to pay Australian tax, because the salaries over there are set essentially on a tax paid basis. There are a whole lot of other complexities to this issue, but that is it in a nutshell.

Mr JULL—I have some experience with that issue in as much as I have constituents who have written to me, I might say, in the strongest of terms regarding it, including a director of nursing who has gone to Saudi and who says exactly what you say. Are we talking about big numbers of Australians who are over there at the moment?

Mr McDonald—It is difficult to give an accurate number, because we are only part of the health care sector and the health care sector is only part of the total. I believe that the Australian Arabic Council or the Chamber of Commerce and Industry has estimated that the number of Australians working in the Gulf region is 9,000 and foreign exchange earnings are of the order of \$450 million, maybe half a billion—but these numbers are very rubbery, so do not hold me to them. We are only a relatively new company so in our case the numbers are relatively small—fewer than 100.

Our point is that the impact of these people is quite disproportionate to the actual numbers. Firstly, the health care sector itself is fairly sensitive. Generally the people we send are highly qualified, like the director of nursing you have mentioned. There are nurse educators, people who run home and health care systems and that sort of thing. Most of our people work in Saudi Arabia as opposed to the other Gulf States, and their impact is quite substantial. Obviously after finding out about this change in the tax treatment, we were morally if not legally obliged to tell our people over there that this was happening. Unfortunately that created a bit of a furore, to put it mildly. We spent the next several weeks trying to calm everybody down, including the Saudi health care authorities, who were concerned that their senior staff would leave.

One of our major clients is a health care authority called the National Guard Health Affairs; it is one of the top three health authorities in Saudi. It looks after the health and welfare of the National Guard and their extended families and friends. Half of their nurse educators in their major flagship hospital in Riyadh are Australians. So, if Australians leave en masse, the impact on them will not be good, to put it mildly. Although it is difficult to quantify the numbers—and these numbers compared with those in other markets are probably relatively small—the impact on our relations with the Saudis would be quite significant. In fact, the chief operating officer of the National Guard hospital in Riyadh told me that he was going to talk to his senior people about making representations to the Australian government about this. Whether or not he has I do not know, but that is what he told me. The interesting thing about that is that his boss reports directly to Crown Prince Abdullah, who basically is the ruler of Saudi Arabia, and so he goes straight to the top.

Mr JULL—But it is true to say that it is not only Saudi that takes Australian medical personnel and that they are pretty well distributed throughout the Gulf region?

Mr McDonald—That is right; absolutely. We also supply people to the UAE, Oman and Qatar.

Mr JULL—But not to Iran?

Mr McDonald—No. Interestingly, we received a communique just last week from someone with the Iranian government saying they wanted to come out and talk about that. So that seems to be—

Mr JULL—A potential market?

Mr McDonald—Yes.

Mr NAIRN—Who is actually paying these personnel? Is Promesse paying them?

Mr McDonald—No. At this stage we act as a recruiting agent. The people in Saudi Arabia are paid by National Guard Health Affairs as a health authority.

Mr NAIRN—So they are employed by that health authority?

Mr McDonald—That is correct.

Mr NAIRN—I just do not understand how the Australian tax office gets involved.

Mr McDonald—That is a good question. I am not a tax expert but I have been involved in enough conversations about this in recent times to give you a rough idea.

Mr NAIRN—What period are the contracts for? Presumably they would be for at least six months.

Mr McDonald—Generally they are for a year but, as far as the Gulf countries are concerned, they like people to stay longer. Some contracts are for two years and on the rare occasion they

are of shorter duration. If there is a real shortage, they might offer people a shorter contract of perhaps six months.

The way the tax works, as I understand it—and I have received advice about this from reputable people—is that if you are a resident of Australia for tax purposes, and that has a special meaning, there are two situations. Section 23AG applies to most people working overseas in countries like the UK, the US or whatever. But there is a provision in that section which says it does not apply to people who work in countries where they do not pay tax.

I understand the reason for that provision was to prevent abuse through tax havens. That provision of the tax act has been there for a long time. I think people recognised that there were other circumstances where a blanket provision did not really work. So section 23AF was introduced in 1980 to cover instances where, in the national interest, people who were working overseas would not otherwise qualify and so they could be granted tax exempt status as a special case on a case-by-case basis. About 10 years later, an amendment was made to the act which broadened it and specifically included the development of medical facilities. I cannot really comment on the legal advice that Austrade has received that says the original intention of that act was not for the supply of personnel. We are not disputing whether that is right or wrong; what we are saying is that—

Mr JULL—We will have one gigantic public relations stuff-up on our hands if we are not careful.

Mr McDonald—Yes, certainly that. Secondly, I think there is a very good case for saying that the Gulf countries are a special case.

CHAIR—Why is that?

Mr McDonald—It is true that expatriates who work there do not pay tax, but it is not as though they are working in the Channel Islands or places like that.

Mr JULL—Life is not fun, fun, fun, is it?

Mr McDonald—No; but nobody pays tax. Saudi citizens themselves do not pay tax. On top of that, the salaries are set on a tax paid basis to attract people. I have with me some graphs and other material to show you. My material relates to nurses, but I am sure that it applies across the board. The governments in the Gulf States are not stupid. They are trying to get the best expertise from around the world and they will pay the minimum amount they possibly can to attract these people.

In my opinion, the provisions specifying how section 23AF works are quite unclear. There are issues like the national interest, which includes things like goodwill to Australia, and the idea of the pay being set against international standards so that there is a sort of international competitive standard. The sort of archetypical project that Austrade would like under 23AF would be a World Bank contract or tender for which an Australian company bids and wins the contract against international competition. Under those circumstances, the employees of that Australian company working in the Gulf would be exempt under section 23AF. That is archetypically what they would like.

Mr NAIRN—How does it compare with, say, the Brits? British doctors and nurses would be some of our competitors for these positions, wouldn't they?

Mr McDonald—Yes.

Mr NAIRN—What happens with an English nurse or doctor going to Saudi Arabia?

Mr McDonald—I am not exactly sure about British law.

Mr NAIRN—If it is anything like it was 25 years ago, I do not think they pay tax.

Mr McDonald—For sure, nobody pays tax over there; if they had to, they would not go. I do not think there is any question about that. How they get around it or if special arrangements are made for them, I do not know.

Mr NAIRN—If the English law is the same as it was 25 years ago, that is the case: you are not subject to income tax in Britain if you are working in excess of six months or something like that in any of these sorts of countries.

Mr McDonald—With Australia there is another twist on this. If you are a nonresident for Australian tax purposes, you are not subject to tax either. Being a nonresident is a question of interpretation or, as the tax office says, 'fact and circumstance', and there is case law related to that. But we have been advised that the basic test is that a person has to intend to leave the country and establish a permanent place of abode overseas. The evidence for that is that they have some sort of contract of two years or more duration.

The silly thing about all this is that people will attempt to gain non-resident status; whether or not they should I do not know. But if people want to work there and there is no tax interpretation in any other way, they will leave Australia permanently—which would hardly be the outcome we are trying to achieve. From our point of view—and I know that the Austrade people on the ground in Saudi Arabia think the same because I have discussed it with them many times and they have been very helpful with what we are trying to do—one way to broaden the whole exposure and scope of the projects and so on is to put people on the ground there. We have just been in negotiations to put in a guy who is a very experienced pathology lab scientist; basically he sets up labs and things like that. When he sets up a lab, one obvious factor is where will he get his equipment from and who will his contacts be?

CHAIR—Does this type of exemption apply anywhere else in the world, apart from specific projects such as the World Bank and IMF?

Mr McDonald—I believe that it covers the whole of the world, but it is probably only important in places like the Middle East. Austrade could certainly advise you on that because they are the people who grant the things; but I believe it is worldwide.

CHAIR—It is a concern. How many of your people will be affected by this?

Mr McDonald—We probably have fewer than 100. I believe you are scheduled to meet this afternoon with people who are in the same industry as me. As they have been established longer

than we have, they probably have quite substantial numbers. We are just in the health sector and I think those people cover other fields as well. If when you are over there you could meet with people from the Saudi Ministry of Health, they could give you a pretty good idea of what the issue is.

CHAIR—Undoubtedly we will be meeting and talking about these issues with quite a number of expats over there, and obviously taxation is high on everyone's agenda—it certainly has to be paid. But I understand the impact that this issue would have. I suppose the question is whether somebody working as an expat in Cambodia or wherever attracts it while somebody who works in the UAE does not. It goes to the question of equity.

Mr McDonald—That is right.

CHAIR—Obviously it is important in trying to develop markets. Also I suppose the difference goes to whether or not personal income tax is paid in that country. As part of the double tax agreement, if you pay tax in one country then you would not pay it back here. It only kicks in because they do not have tax in that country. Anyway, that is something we will keep our eye out for in terms of this visit to just see what people are saying and what impact there will be.

Mr McDonald—A comment made to me by the chief operating officer of the National Guard hospital was, 'We've been trying hard not to tax expatriates. But if the Australian government wants us to tax them, all right, we'll pay them 30 per cent more and tax them 30 per cent and they'll end up the same. We'll have a bit of an administration cost, but then the problem will go away.'

CHAIR—That is a nonsense we could get into rather than look at the specifics of where tax is not applied.

Mr NAIRN—It would be very difficult for them to do that; they have a problem in that they do not employ only Australians.

Mr McDonald—Exactly.

Mr NAIRN—That is why I asked the question about our competitor countries. I think we need to get a bit of advice and find out what other countries do under their law.

CHAIR—Perhaps our secretary can get information on what is happening in other countries. That is something we can ask about as we go around.

Mr McDonald—I have one final comment. From our point of view, this is not just about finding someone a job, which can sometimes be extremely beneficial for both Australia and the government involved. For example, one project we were involved in was the building of a new hospital by the Abu Dhabi Health Authority in a very rapidly growing town on the coast. Where did they get the people to set that up properly? We supplied all the senior staff. We helped to establish that hospital. Assessments and procedures were put in place—all the extra stuff that goes with people who know what they are talking about and who have experience. Those people were employed by that health authority. That sort of thing will no longer apply; we will not be

able to do that anymore. We are trying to do that sort of thing first and then move on to, as I said, the broader provision of services.

CHAIR—Your predominant activity is providing personnel in the medical area?

Mr McDonald—Yes.

CHAIR—Is the Middle East your major area?

Mr McDonald—Yes, it is the only area; we are specialising in the Middle East.

CHAIR—I thought you might be bringing people from the Middle East back here for treatment too.

Mr McDonald—Actually when I say the Middle East, I mean it both ways. One officer from the Ministry for Health in Saudi said that he was part of a delegation just recently which went and advised various educational institutions. He said that, from their point of view, they want to do it both ways. Some people they need to send to Australia to be educated, and in the area of health care it is particularly doctors. As I said before to Senator Bolkus, the interesting thing that Saudis are saying is that they do not want soft courses. They have just spent a fortune sending people to Germany who have come back, according to him, knowing nothing. They are very keen to have higher standards.

CHAIR—We have heard that before.

Mr McDonald—On the other hand, some people want to do the training in house. For example, I do not think the Saudis will send females out of the country. The UAE and Oman are probably different, but I do not think Saudi will do that. In the health care area, the female population have to be looked after by females. So there is a huge requirement for well trained female staff, and that has to be done inside the kingdom. It is a two-way street.

CHAIR—We have no further questions of you at this stage. We thank you very much for coming. We will send you a copy of the *Hansard* and you can let us know whether it has any inaccuracies.

Resolved (on motion by **Mr Jull**, seconded by **Mr Nairn**):

That the subcommittee authorise the publication of evidence taken by it at public hearing in Sydney this day.

Subcommittee adjourned at 10.20 a.m.