



Australian Government

Austrade

**Inquiry into the Economic and Security
Challenges facing Papua New Guinea and the
Island States of the Southwest Pacific**

**Austrade's Submission to the
Senate Foreign Affairs, Defence and Trade
Committee**

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1. Introduction

Australia has had a trade facilitation presence in the Pacific since the late 1940s. When Austrade was created as a statutory authority under the *Australian Trade Commission Act 1985*, this presence in the region continued, reflecting the on-going importance of the Pacific region to Australian business.

This submission seeks to assist the Committee's consideration of some of the economic issues outlined in its terms of reference, particularly as they affect trade and private sector development of the Pacific region.

2. Austrade's Role

The Australian Trade Commission (Austrade) is the Australian Government's trade and investment development agency assisting Australian businesses contribute to national prosperity by succeeding in trade and investment, internationally, and promoting and supporting productive foreign investment into Australia.

Austrade exists because there is market failure by the private sector to provide a range of practical assistance measures, both in Australia and in key export markets around the world, to help Australian companies develop their export capabilities and find opportunities overseas.

Austrade

- delivers services that assist Australian businesses initiate, sustain and grow trade and outward investment;
- promotes Australia as an inward investment destination and, with the States and Territories, supports the inflow of productive foreign direct investment;
- administers the Export Market Development Grants (EMDG) scheme;
- undertakes initiatives designed to improve community awareness of, and commitment to, international trade and investment;
- provides advice to the Australian Government on its trade and investment development activities; and

- delivers consular, passport and other Government services in designated overseas locations.

Austrade operates through a global network of offices, with representatives overseas in over 110 locations in more than 60 countries. Across Australia, Austrade operates 18 offices and a network of 50 Trade Start offices including 8 Export Hubs, in partnership with public and private sector ally organisations.

3. Austrade’s Presence in the Pacific

Austrade’s Pacific Region is managed by the Senior Trade Commissioner in Auckland, who is also the General Manager, Pacific Markets and Australian Consul-General, Auckland.

Austrade operates from three locations in the Pacific (excluding New Zealand):

- Port Moresby – which has responsibility for Papua New Guinea and the Solomon Islands. Austrade’s Port Moresby office comprises one A-based Senior Trade Commissioner and four locally engaged business development staff.
- Suva – which has responsibility for the Fiji Islands and the smaller Pacific islands (Samoa, Tonga, Tuvalu, Kiribati and Niue). Austrade’s Suva office comprises one A-based Trade Commissioner and three locally engaged business development staff.
- Noumea – which has responsibility for New Caledonia, and nominally for Vanuatu and French Polynesia. Austrade’s Noumea office is staffed by one locally engaged Country Manager, so Austrade’s ability to effectively service these additional countries is obviously limited.

Staffing of Austrade’s presence across the Pacific is as shown in the following table:

Location	A-based Staff	Locally Engaged Staff	Totals
Port Moresby	1	4	5
Suva	1	3	4
Noumea	-	1	1
Totals	2	8	10

4. Pacific Investment Commissioner

The Australian Government’s Pacific Investment Commissioner is a joint initiative of AusAID and Austrade. The position’s operational expenses were initially funded by AusAID for two years with the position managed by Austrade.

The role of the Pacific Investment Commissioner is to facilitate new, sustainable Australian private sector investment into, and joint ventures with, the developing countries of the Pacific. The objectives of this role are to help stimulate private sector

growth to contribute positively to economic development, employment and skills growth, improved general living standards, and reduced reliance on aid funding in aid recipient countries across the Pacific. Geographically, the position focused on opportunities mainly in the larger economies of Papua New Guinea, Fiji, Vanuatu and Samoa, but also covered the Solomon Islands, Tonga, Kiribati, Cook Islands, Tuvalu and Nauru.

As a region, the Pacific is Australia's largest aid recipient and this role complements the broader framework of Australia's Pacific Regional Aid Strategy.

Funding for this position ended on 13 August 2008, and the position therefore has lapsed. Discussions are continuing with AusAID as to whether further funding will be provided to reinstate the position (ideally as one element of a wider strategic, integrated 'trade-aid' proposal for the Pacific, and for which additional funding will be needed.).

(The first Pacific Investment Commissioner appointee, Mr Bob Carmichael, was previously an Austrade Trade Commissioner with three overseas postings as Counsellor-level Trade Commissioner in Seoul, Manila and Jakarta. Mr Carmichael was appointed Pacific Investment Commissioner in August 2006.)

5. Commercial Importance of the Pacific to Australia

The importance of the Pacific as a destination for Australian export businesses is evidenced by the fact that PNG, Fiji and New Caledonia all appear in the top 20 export destinations for Australian companies (see Table 1). This is based on the number of Australian companies doing business in each country.

While there are almost twice as many Australian companies doing business in New Zealand than in our next most popular market (USA), countries like PNG have attracted more Australian companies than any of our ASEAN markets, except Singapore. And there are more companies doing business with Fiji than with South Korea or Taiwan.

Table 1: Number of Australian Exporters by Export Destination:

Country	Number of Exporters 2005-06	Number of Exporters 2006-07	Value (\$m) 2005-06	Value (\$m) 2006-07	Change (%)
1. New Zealand	17394	17815	8746	9434	7.9
2. USA	9253	9316	9783	9804	0.2
3. Singapore	6397	6538	4234	4638	9.5
4. UK	5486	5668	7790	6146	-21.1
5. Hong Kong	4984	5116	2898	3038	4.8
6. China	3815	4257	18131	22807	25.8
7. PNG	3823	3987	1396	1524	9.2
8. Malaysia	3412	3586	2539	3103	22.2
9. Japan	3634	3564	31083	32629	5.0
10. Fiji	3505	3176	460	383	-16.7
11. Germany	2550	2637	1417	1444	1.9
12. Indonesia	2532	2582	3983	4240	6.5
13. Thailand	2544	2541	4229	4256	0.6

Country	Number of Exporters 2005-06	Number of Exporters 2006-07	Value (\$m) 2005-06	Value (\$m) 2006-07	Change (%)
14.Canada	2351	2398	1698	1768	4.1
15.South Korea	2300	2314	11732	13098	11.6
16.Taiwan	2318	2239	5907	6189	4.8
17.South Africa	2038	2226	2209	2316	4.8
18.UAE	1771	2004	1647	2392	45.2
19.India	1806	1994	7406	10095	36.3
20. New Caledonia	1550	1722	307	312	1.6

Source: ABS Cat 5368.0.55.006 and unpublished data, includes multiple destination exporters.

There are many reasons for the high number of Australian companies doing business with the Pacific. These include:

- the historical, where Australian companies were the closest suppliers for much of the early development needs of the region, and stayed on, establishing an on-going business presence;
- adoption of Australian standards in many Pacific countries, which largely guarantees that Australia will be a more natural or convenient supply source;
- involvement through the Australian (or other) aid program, where many companies have been encouraged to supply, build or develop their business in the region in response to a specific national development need, and have continued to do business with the host country;
- the many small and medium-sized Australian companies that have started doing business internationally by first selling to the markets of the Pacific, often described as ‘nursery’ markets by virtue of the nature and scale of demand of goods and services – in this sense these markets are collectively of strategic importance to Australia well beyond what absolute trade statistics might suggest;
- large Australian companies, including banks, have established a presence in the market through acquisitions, mergers or joint ventures as a way of continuing to expand their core business beyond Australia; and
- Australia is often the Pacific regional HQ for multinationals that supply the region, so the breadth of trade is immense.

It is worth noting that while the commercial involvement of Australian companies in PNG and New Caledonia continued to grow between 2005-06 and 2006-07 (by about 4% for PNG and 11% for New Caledonia), there has been a noticeable decline in the number of Australian companies involved in the Fiji market (about 9%). Predictably, that decline has been followed by a significant drop in the value of Australia’s export business with Fiji (almost 17%). This is a reflection of the decline in economic activity and business confidence due to political instability, with opportunities diminishing and Australian companies looking elsewhere for more stable markets in which to do business.

6. Current Pacific Strategy

In *Papua New Guinea*, Austrade's strategy is to increase bilateral commercial activity by:

- Focusing on high-potential sectors of opportunity for Australian capability. These include resources, industrial, building and construction, education and food and beverages sectors.
- Increasing buyer visits to Australia.
 - For example, during 2007-08, Austrade Port Moresby facilitated visits to Australia by 15 PNG organisations from a range of sectors, including transport, building and construction, health and medical. These visits resulted in \$1.8m in new business for Australian companies.
- Increasing the identification of market opportunities and seeking to match those opportunities with Australian companies with supply capability.
- Continuing to attract active involvement by Australian companies in exhibitions and promotions in PNG that have prospects to deliver commercial outcomes.
- Working closely with any future Pacific Investment Commissioner (see 4, above) to identify projects in PNG that might be of interest to potential Australian investors or joint venture partners.
 - For example, in April 2008, Austrade ran advertisements in *The National* and the *Post Courier* newspapers in PNG seeking expressions of interest from local companies in joint venture projects and investment from Australia. A total 133 responses were received and over 40 of these companies were subsequently interviewed by the Senior Trade Commissioner and the Pacific Investment Commissioner to qualify their business proposals for follow-up with potential Australian partners.

In *Fiji*, Austrade's strategy continues to build the commercial relationship, despite bilateral political differences, and focus on:

- The main sectors of opportunity for Australian capability, ie food and beverages, mining, building and construction and the diverse needs of the tourism industry.
- Diversifying geographically and sectorally into areas that are more resilient and less prone to economic/political shocks, eg multilateral aid projects, pharmaceuticals and education.
- Working closely with major companies in key import sectors that align with Australian capability, to identify opportunities for Australian companies.

- Facilitating buyer visits to Australia around major trade events.
- Organising in-bound business missions to Fiji, including with State Governments and the Australia Fiji Business Council.
 - For example, in April 2008, Austrade organised a ‘Real Estate to Resorts’ business mission to Fiji, which focused on opportunities for supply of innovative products and services to the building and construction industry. Nine companies participated and sales to date amount to over \$430,000.
- Working closely with the Pacific Investment Commissioner to identify potential business partners for possible joint ventures and investment from Australia.

In *New Caledonia*, Austrade’s focus is on:

- The major import sectors of mining, engineering, building and construction, food and beverages, agribusiness and education.
- Working closely with known local importers in mining, power, construction, wholesale and supermarket sectors to identify opportunities for Australian companies to bid to supply their needs.
- Facilitating business missions from Australia (including in co-operation with the Queensland Government and the bilateral business council).
 - For example, in March 2008, 15 Australian companies participated in the annual Austrade-organised Mining Mission to New Caledonia, which comprised industry meetings, site visits, networking functions and individual appointments. Within three months of this visit, six companies had won \$9.8m in new business, with more under negotiation.
- Arranging for buyer visits to Australia around major trade exhibitions, such as Agquip (agriculture), AIMEX (mining equipment), and Fine Foods (food and beverages).

Arguably the greatest ‘market gap’ for Austrade services in the Pacific, and in turn where Austrade has the potential to offer the most significant trade facilitation and development value to Australian companies in the region, is in New Caledonia. This is because of the cultural, language and regulatory differences relative to the scale of export and investment opportunities.

7. Delivering Results for Australian Business

In the four years from 2003-04 to 2007-08, Austrade has almost trebled the number of companies it has helped to achieve export success in the Pacific (ie from 94 to 256). During this same time, the value of those Austrade-assisted export sales has grown from over \$60m to more than \$111m.

As desirable as it is for Austrade to continue to facilitate the growth of Australia's exports to the Pacific, in the longer term it is not sustainable without significant private sector growth and investment in the region. There is the affordability issue as to whether local companies in the Pacific can continue to bring in imported goods, and there is the willingness of Australian exporters to continue to supply small or declining markets, with all the diseconomies of scale that entails.

There is a pressing need in much of the Pacific for practical, hands-on assistance, guidance and financial reimbursements to encourage local companies to pursue export opportunities, similar to what is provided for Australian companies to pursue international business opportunities. The market failure in Australia that led to various assistance measures to get Australian companies focused on offshore opportunities is even more evident in the Pacific, and needs to be addressed urgently if the private sector in the region is to play its part as the engine for sustainable economic growth and employment.

8. Issues for Australian Business

Although growth in major world markets has more recently been slowing, generally the issue with the Pacific for Australian business is one of opportunity cost. There are widespread opportunities in China, India and the Middle East, and the challenge for Austrade is to convince Australian companies, against the significantly higher profile and in some cases 'hype' surrounding many other larger, often more distant markets, that many opportunities in the comparatively smaller markets of the Pacific are commercially attractive and worth pursuing. This is generally not an issue for companies that have done business in the region, but is a potential barrier to new entrants.

In addition to market size limitations, there is the issue of the business image of the Pacific. Today, in a highly competitive world where attractive business destinations offer opportunities through expanding infrastructure, increasing consumer affluence and prosperous and growing markets, the image of the Pacific lags. Business perceptions of the Pacific are more likely to be of small businesses often linked to the prosperity of the tourism sectors in the region, and often with an overlay of economic challenges and political instability. Such image is also reinforced by the media reporting, which rarely reports good news business stories from the region.

In addition, there are relatively high costs for telecommunications, air travel is comparatively very expensive and untimely, especially within the region, and shipping services can be infrequent, with limited destinations.

Despite all this, competition is increasing. China in particular has been actively courting the Pacific commercially, offering soft loans and tied aid, and aggressively

bidding on infrastructure related projects and in seeking to secure commercial rights or at least preferential access to natural resources including marine resources (such as fishing rights). New Zealand consolidators are also active in the South Pacific, often offering Australian products or services as part of their offering.

The reason Austrade has a presence in Port Moresby, Suva and Noumea is to help Australian companies identify, pursue and secure worthwhile business opportunities in these markets, and encourage them to see the role the Pacific can play in an international business strategy. Given the results that these offices have assisted committed Australian companies to achieve in the Pacific region, the investment of resources on behalf of the Australian Government has so far proven worthwhile and demand for the services of Austrade in these markets continues to grow.

9. Conclusion

Austrade is in the Pacific for the long-haul, and will continue to identify potential business partners and opportunities for Australian business to further strengthen the already close commercial ties that exist. However, Austrade's actual presence in the Pacific region will of course be guided by overall organisational resourcing levels, demand for the products, services and investment from Australia, and the response from the Australian business community to that demand.

The private sector in the Pacific region has the potential to make a substantial and lasting contribution to the economic and social development of the region, and to the bilateral relationships between Pacific countries and Australia. However, policy frameworks conducive to business and investment growth in the Pacific are needed – and in order for the export and investment sector to develop, hands-on, practical assistance from Australia is now both essential and urgent.

Austrade,
Canberra