

3.92 Appearing before the Committee at a public hearing, the Department's Senior Scientist, Dr Philip Sluczanowski explained that Australia and Latin America have many natural links resulting from their location along roughly similar latitudes in the Southern Hemisphere. For example, "the topography, currents, species and fisheries management problems of the east coast of Australia and of Latin America are in many cases similar."⁹⁰ Elaborating, Dr Sluczanowski explained that there are many species and biological situations which are common between Australia and Latin American countries. Natural oceanic conditions near Chile and Australia are very similar.⁹¹

3.93 Hence, there is great scope for technological and scientific exchanges between Australia and Latin America and for cooperative research into such fields as fisheries, ecology and natural resources management.⁹²

Telecommunications

3.94 Opportunities in telecommunications services were repeatedly mentioned in submissions and testimony, including those by some Commonwealth agencies⁹³ However, the Committee finds it difficult to reconcile these positive assessments regarding telecommunications prospects with the views of the Department of Transport and Communications and of Telecom Australia (now merged with OTC to form the Australian and Overseas Telecommunications Corporation or AOTC).

3.95 The submission from the Department of Transport and Communications contained only matters pertaining to transport. There was no input from the communications area of the Department. The senior departmental representative explained that the communications area had not felt that it could contribute any material of interest to the Committee.⁹⁴

3.96 In its submission, Telecom stated:

"It could be that some opportunities may exist in niche markets of various countries in the Latin American Region. However, it should be said at this stage that Telecom is

90. Dr P. Sluczanowski, Committee Hansard, pp. 1550-1.

91. *ibid.*, p. 1552.

92. *ibid.*, p. 1551.

93. For example, ANZ Bank, submission, p. 7; H.E. Mr A. Morales, submission, pp. 7-10; DITAC, submission, Committee Hansard, p. 235; and Austrade, submission, Committee Hansard, p. 328.

94. Mr R. Gough, Committee Hansard, p. 286.

not currently planning to undertake any activities in Latin America."⁹⁵

Telecom justified its decision on the basis that:

"... investment in network operations outside the Asia/Pacific region will only be in countries which are forecast to have a good sustainable growth in Gross Domestic Product (GDP), and where the long term economic, social and political outlook could justify the level of capital investment required."⁹⁶

3.97 The Committee is concerned that Telecom's view of the Latin American region may be more relevant to the 1980s rather than the 1990s, and Telecom may be missing valuable export opportunities as a result. The Committee took note of a paper Telecom provided outlining "The Growth of Telecommunications Services in the Latin American Region" and of additional materials provided by Telecom. The Committee is of the view that there are significant telecommunications opportunities in Latin America. These will be discussed more fully in Chapter 4.

Cooperation in Medical Training and Research

3.98 The Committee received two submissions suggesting medical training and research as areas for cooperation between Australia and Latin America.

3.99 The Director of the Paediatric Cardiac Surgical Unit at the Royal Children's Hospital in Victoria, Dr Roger Mee, outlined efforts by the Unit to set up an exchange program with the Fundacion Cardio-Infantil in Bogota, Colombia. The project was an initiative by the Ambassador of Colombia and contacts were made with the assistance of the Ambassador. Dr Mee told the Committee that the congenital cardiac program at the Royal Children's Hospital is one of the biggest and best in the world. Yet, an exchange with the Colombian unit was regarded by Dr Mee as part of a "mutual learning process."⁹⁷

3.100 The second submission was made by Professor Richard Heller, Professor of Community Medicine at the Centre for Clinical Epidemiology and Biostatistics, Royal Newcastle Hospital. The Centre is part of an international clinical epidemiology network (INCLIN) funded by the Rockefeller Foundation. Through it, the University of Newcastle acts as one of five Resource and Training Centres in the world for clinical epidemiology (the other four are in North America).

95. Telecom Australia, submission, p. 1.

96. *ibid.*

97. Victorian Paediatric Cardiac Surgical Unit, Royal Children's Hospital, submission, p. 1.

3.101 Professor Heller urged that funding be provided to the University of Newcastle to enable the Epidemiology Centre to collaborate with similar medical centres in Bogota (Colombia), Rio de Janeiro and Sao Paulo (Brazil), Mexico City, and Santiago and Temuco (Chile) in conducting research into high priority health problems in the Latin America region. It would also enable the Centre to establish training fellowships for Latin America health professionals to come to Newcastle for training.⁹⁸

3.102 A group of Australian residents in Nicaragua pointed out that a ready market in Latin America exists for vaccines and tests developed and produced in Australia, particular as Australia is one of the few countries within the tropical foot-and-mouth free zone that also has a large biological development and production industry. Specific products cited were vaccines against anaplasmosis, babesiosis, ticks, brucellosis, tetanus, anthrax and clostridial anaemia; and bovine and avian tuberculin.⁹⁹

3.103 DITAC informed the Committee that the CSIRO Division of Wildlife and Ecology has an agreement with the Venezuelan Institute of Scientific Investigations on collaborative research. Scientists from the two agencies are presently studying the ecology of the cane toad in its natural habitats in Venezuela and paying particular attention to the identification, isolation and testing of pathogens such as viruses, bacteria and parasites that might be used for the biological control of the cane toad in Australia.¹⁰⁰

3.104 DITAC further informed the Committee that a similar research project is being carried out with the assistance of a Brazilian scientist in Manaus, Brazil.¹⁰¹

Technology Transfer - Who Benefits?

3.105 The Committee was interested to learn from several witnesses that they did not regard technology transfer between Australia and Latin America to be a one-way process. In many instances, the institutions involved considered themselves beneficiaries of technology they would otherwise not have received.

98. Centre for Clinical Epidemiology and Biostatistics, Royal Newcastle Hospital, submission, pp. 1-2.

99. Australian Residents' Committee, Nicaragua, submission, p. 1.

100. Letter from Mr G. Taylor to the Committee Secretary, dated 6 November 1991.

101. *ibid.*

3.106 In a view shared by Western Mining Corporation¹⁰², JKMRC Director Dr McKee said:

"I would argue very strongly that, again as far as the mining industry is concerned, and as far as the mining industry in Chile is concerned, they have a great deal that they can teach us technically. Their engineers and their operations are generally first class. Some of the mining problems that they face and are battling to overcome are much more difficult than people in Australia strike, but are unquestionably going to be problems that Australian mining operations will strike. In an industry such as mining it just makes a great deal of sense in fact to assist the interchange. At least in the mining industry, and as far as Chile is concerned, Australia would gain scientifically a great deal through links with Chile."¹⁰³

Not all the best technology in the mining industry comes from Australia; a lot of it comes from other parts of the world. Linking into that, working with the companies, when we work overseas we work at the mining operations; we learn about those mining operations; we learn about what they do, how they solve particular problems, what developments they are contemplating and so on. We bring those back to Australia. When we talk to our Australian sponsors, we quite simply feel very comfortable in justifying our overseas activities on one ground and that is on the demonstrable technical gains which we have been able to bring back to Australia from overseas."¹⁰⁴

3.107 In his submission, the Chilean Ambassador outlined several instances of scientific and technical cooperation which have brought mutual benefit to Australia and Chile:

- . applied research (blasting technology) at Chilean mines undertaken by JKMRC since 1983 and associated postgraduate and mineral exports exchange visits.
- . close ties between CSIRO's Seed Centre and the Chilean Forestry Research Institute since 1988 aimed at the promotion of Australian seed exports to Chilean private forestry companies;

102. Mr D. Morley, Committee Hansard, p. 493.

103. Dr D. McKee, Committee Hansard, pp. 1142-3.

104. Dr D. McKee, Committee Hansard, p. 1153.

- . cooperation between the Australian Apple and Pear Corporation and its Chilean counterpart on the subject of market access;
- . project being developed between Murdoch University and Universidad de Santiago in the field of aeolic¹⁰⁵ energy; and

3.108 The Committee also noted the proposal by the NSW Department of Agriculture and Fisheries for a technological exchange program to obtain Chilean farming technology¹⁰⁶ and the agreement entered into between MIM Holdings Limited and the world's largest copper producer, Codelco of Chile, to facilitate exchange of technology between the two companies.¹⁰⁷

3.109 Professor Ross Garnaut of the Australian National University was similarly enthusiastic about the mutual benefits derived from technology transfer:

"The Australian technological lead in mining and exploration that has already led to large investments in Chilean mining ventures is likely to continue in more Latin American countries as they make significant changes to their foreign investment regimes... Similarly, investment from the Pacific Latin American countries in Australia's fishing and maritime industries could advantage Australia where those countries have significant experience and technological strength."¹⁰⁸

3.110 One witness who spoke of his positive experience both in exporting farm equipment to Latin America and in importing parts from Latin America is Mr Ian Metherall of Leighlands Pastoral Holdings:

"South America has a rapidly expanding economy, with a large population that must be fed... Agriculture is rapidly becoming mechanised, and there is a large domestic demand for modern farm machinery that is gradually replacing the animal-drawn implements. Farm machinery factories there are thus booming in an industry that is depressed worldwide."¹⁰⁹

105. Wind-borne. The Concise Oxford Dictionary of Current English, p. 16.

106. H.E. Mr J. Salazar, submission, Committee Hansard, pp. 1339-40.

107. *MIM Joins with World's Largest Copper Producer in Technical Exchange Agreement*, Press Release, MIM Holdings Ltd, 6 November 1991.

108. Professor R. Garnaut, submission, Committee Hansard, p. 1461.

109. Mr I. Metherall, Committee Hansard, pp. 548-9.

From my experience of trading successfully with Latin America, I am strongly committed to the view that there is enormous untapped trade potential for Australia with South America. In my field of interest, which centres on agriculture, I believe that there is potential for Australia's crippled farm machinery industry to have a much needed stimulus by sourcing components that are of a high quality at a low unit cost due to the economies of scale achieved by the South American manufacturers, and by sourcing a limited - and I stress 'limited' - range of suitable whole goods."¹¹⁰

3.111 In addition to mining and agricultural technology, energy, telecommunications and medical technology referred to previously, the following were mentioned to the Committee as other areas where technical collaboration could usefully be carried out:

- . food processing
- . agricultural biotechnology
- . animal reproduction
- . forestry
- . environment
- . sea and river biotechnology
- . desert management.¹¹¹

3.112 The Committee had some difficulty reconciling the conviction of many witnesses that there was considerable scope for mutually beneficial technological collaboration with the views of DITAC.

3.113 DITAC told the Committee that it uses the following criteria for assigning relative priority to regions regarding technological cooperation:

- . significance as a source of investment
- . significance as a source of technology
- . significance as a trading partner; and
- . potential to become substantially more important in terms of these criteria.

DITAC's conclusion is that:

"On this basis, Latin America is at this stage a relatively low priority for DITAC."¹¹²

110. *ibid.*

111. Mr A. McL. Collins, submission, p. 7; Dr H. Povea-Pacci, submission, p. 2; Centre for Housing and Planning, submission, p. 2; and Australian Residents' Committee, Nicaragua, submission. pp. 1-2.

112. DITAC, submission, Committee Hansard, p. 234.

3.114 The Committee is of the view that DITAC's criteria appear too restrictive. They seem not to consider the technological benefits that "less technologically advanced" nations could nevertheless bring to Australia in particular areas, nor the prospect for significant downstream sales of related Australian equipment and machinery. The Committee believes that a broad-brush rejection of Latin America as a partner in technological exchange is unjustified and shortsighted.

Science and Technology Agreements

3.115 Several witnesses urged the Australian Government to enter into Science and Technology Agreements with the major countries of Latin America.

3.116 Among those who argued to the Committee in favour of such agreements are Western Mining Corporation, JKMRRC and a number of the Latin American diplomats in Australia.

3.117 The argument put is that the presence of such agreements would facilitate practical cooperation. As an example, the Chilean Ambassador explained that without a science and technology agreement, Chilean companies have to pay extra Chilean import duties on certain services and equipment. An agreement would facilitate the transport of technical equipment and eliminate the need for import duties on equipment such as that paid by the JKMRRC.¹¹³ In effect the companies could have reduced by 10% the tax on services and equipment which they have had to pay in connection with projects worth US\$3 million.

3.118 The Charge d'Affaires of Uruguay also stressed to the Committee the potential benefits to both countries of a formal agreement for cooperation in science, agriculture, mining and other technological areas.¹¹⁴

3.119 To illustrate the point, the Charge drew attention to an instance where a proposal for agricultural cooperation went to a New Zealand company in preference to an Australian Corporation. The key factor in the decision according to Mr Giambruno was the existence of an Agricultural Technical Cooperation Arrangement between New Zealand and Uruguay.¹¹⁵

113. Dr D. McKee, Committee Hansard, p. 1142.

114. Mr J. Giambruno, Committee Hansard, pp. 1530-2.

115. Letter from Mr J. Heath, Overseas Projects Corporation of Victoria Ltd to Mr J. Giambruno.

3.120 Similarly, the Ambassadors of Colombia and Peru stressed to the Committee the importance of bilateral Science and Technology Agreements in providing the framework and serving as catalysts for practical technological cooperation.¹¹⁶ As the Ambassador of Peru, His Excellency Mr Gonzalo Bedoya put it:

"If you have the agreement, you are sending a message to the private sector, telling them, 'If you find something of interest to you, we are here to help you coordinate it, or to back you ...'"¹¹⁷

3.121 The only country with which Australia presently has a Science and Technology Agreement is Mexico. Brazil has been seeking such an agreement since the mid-1970s; more recently, requests have been made by Uruguay, Colombia, Chile and Argentina.¹¹⁸

3.122 DITAC sees little benefit for Australia in signing Science and Technology Agreements with developing countries. According to DITAC:

"... developing countries, including much of Latin America, are often unable to allocate the necessary resources to establish the required scientific infrastructure to match that existing in Australia ... Australia focuses on projects where benefits are maximised. This is usually in the technologically advanced economies of the industrialised nations."¹¹⁹

3.123 One view put to the Committee that the existing Agreement with Mexico has "fallen into disuse."¹²⁰ In 1989-90, Australia spent \$50,000 on the program with Mexico and in 1990-91, the figure was \$13,000 which:

"... put into context, does not buy very many air fares."¹²¹

116. H.E. Mr F. Navas de Brigard, Committee Hansard, p. 1775, and H.E. Mr G. Bedoya, Committee Hansard, p. 1851.

117. H.E. Mr G. Bedoya, Committee Hansard, p. 1852.

118. DITAC, submission, Committee Hansard, p. 237.

119. *ibid.*

120. *ibid.*, p. 92.

121. Mr G. Taylor, Committee Hansard, p. 254.

DITAC is of the view that the fact that the agreement was not in demand:

"... just reflects a view on both sides that there are not any particular areas where they would like to pursue collaborative endeavour."¹²²

3.124 The Ambassador of Mexico agrees that this Agreement "has not been utilised adequately by both countries."¹²³ He suggests that both Australia and Mexico actively promote the Agreement among potential users (for example, Research and Development companies) to demonstrate its benefits. In his view, both Governments should now assign additional economic resources to make it "operational, practical and effective."¹²⁴

3.125 The Committee received a submission which provides information about how one State Government department has fared working in a scientific field overseas on a project financed under the bilateral Agreement with Mexico. The South Australian Department of Fisheries told the Committee how funding provided under the Agreement enabled biologists from the Department to travel to Mexico and Mexican biologists to come to Australia to engage in fisheries research.

3.126 As a result, models for the more efficient management of the Mexican abalone fishery (which had collapsed through overfishing in the early 1980s) were developed. These models were found to be equally applicable to other Latin America countries. Through networking, additional links were established with Chilean biologists interested in similar research. Cooperation between South Australian and Chilean biologists has now been developed to mutual advantage.

3.127 The Department's representative, Dr Philip Sluczanowski, told the Committee that South Australia (and by extension Australia) has benefited technologically from the project with Mexico in a very real way.¹²⁵ Dr Sluczanowski explained to the Committee that, in the case of abalone, a harvesting size that allows the industry to extract the maximum amount of meat also allows for very few abalone eggs to be produced. In Mexico the abalone fisheries were over-exploited and the industry largely destroyed. Data collected from Mexico and knowledge gained as to what level of abalone egg production was unsustainable enabled South Australia to change its abalone harvesting size requirement in a way that resulted in a 5% reduction in meat yield in return for a 30% increase in egg production, thus ensuring the continuing

122. *ibid.*

123. H.E. Mr A. Morales, submission, p. 25.

124. *ibid.*

125. Dr P. Sluczanowski, Committee Hansard, pp. 1560-1.

viability of the abalone industry.¹²⁶ As Dr Sluczanowski said in subsequent correspondence:

"Scientific exchange gains information for Australia necessary for its own management purposes more efficiently than carrying out all the research locally. Also, learning from others' mistakes is one of the best ways of avoiding the financial consequences of over exploitation."¹²⁷

3.128 The South Australian Department of Fisheries' abalone project with Mexico provides an example of how a relatively modest outlay¹²⁸ can result in significant scientific and commercial gains as well as open up further, valuable opportunities for collaborative ventures. The Committee appreciates the benefits the project has brought to Australia and would wish Australia to reciprocate.

3.129 The Fisheries Department was enthusiastic about its experience under the Bilateral Science and Technology Agreement with Mexico on three counts:

- . the scientific cooperation with Mexico;
- . the resulting scientific exchange with Chile; and
- . possibility of further import of technological expertise from the Department by other Latin American institutions.

Elaborating at a public hearing, the Department's representative told the Committee that the project with Mexico led directly to the holding of an international conference on abalone in La Paz, Mexico; a book jointly edited by the Senior Biologist, South Australian Department of Fisheries, Dr Scoresby Shepherd, and a Mexican scientist, Dr S.A. Guzman del Proo; and possible cooperation between South Australian and Latin American abalone producers to market their abalone catches in Asia.¹²⁹ On the basis of the Fisheries Department's experience, the representative concluded that:

"... bilateral agreements for cooperative research offer the

126. *ibid.*

127. Letter from Dr P. Sluczanowski to the Committee Chairman, dated 20 March 1992, p. 1.

128. Total DITAC funding for the abalone project carried out by the South Australian Department of Fisheries and Mexico is A\$27,224 for the period June 1988-February 1990. Letter from Dr P. Sluczanowski to the Committee Chairman, dated 20 March 1992, p. 2.

129. Dr P. Sluczanowski, *Committee Hansard*, p. 1556. The book referred to is titled *Abalone of the World*, Blackwells, Oxford, 1992.

best way of fostering cooperative research and provide training for scientists in Latin America."¹³⁰

3.130 The South Australian Department of Fisheries further recommended that formal agreements be signed with other Latin America countries in order to facilitate development of relations now occurring on an ad hoc basis by interested individuals and institutions.¹³¹ Its representative confirmed that the exchange of Mexican and Australian fisheries experts, ideas and techniques would not have happened without a formal agreement.¹³²

3.131 In questioning the value of formal Science and Technology Agreements, DITAC argued that the absence of such agreements does not prevent parties such as the CSIRO from applying for support for projects in Latin America on the same basis as for projects in non-Latin American countries.¹³³ In the Committee's view, this misses the point.

3.132 While such agreements may have little impact in North America or Western Europe, they can have real impact in Latin America. In particular they appear to play an important role in the planning and budgetary processes of some of the Latin American countries. The Chilean Ambassador explained that

"... from our point of view, when we elaborate official budgets, for instance, or we allocate resources, we have to have a legal platform on which we can take these decisions, so we give a lot of importance of signing agreements like a cultural exchange program agreement or a technological cooperation agreement."¹³⁴

3.133 Moreover, as indicated previously, the Committee is not persuaded by the arguments of DITAC and DPIE that there is no technological benefit for Australia in having such agreements.

3.134 Testimony from expert witnesses indicates that agreements are increasingly being signed between private companies and other companies or government agencies in the Latin American countries. For example, Davis Gelatine entered into a 'registered technical assistance agreement' in Colombia which enabled Davis Gelatine to supply technology to the operation in Colombia and to be registered with the Colombian Government. The agreement provided that Davis Gelatine would provide

130. South Australian Department of Fisheries, submission, Committee Hansard, p. 1544.

131. *ibid.*, p. 1545.

132. Dr P. Sluczanowski, Committee Hansard, p. 1561.

133. Mr G. Taylor, Committee Hansard, p. 240.

134. H.E. Mr J. Salazar, Committee Hansard, p. 1367.

technical assistance whenever required, and to make one or two technical visits a year. In return, a certain percentage of profit could be remitted to Davis Gelatine to cover not only the cost but the intellectual property transferred.¹³⁵

3.135 The Committee believes that bilateral Science and Technology agreements can have a positive effect on Australian's relations with Latin America and that worthwhile projects of mutual benefit are likely to eventuate under the umbrella of such agreements.

3.136 To ensure that the agreements are fully utilised, the Committee urges both the Australian and Latin American governments to publicise their existence as widely as possible. In this respect, the Committee found it illuminating that the only project carried out under the bilateral agreement with Mexico should have arisen from a chance meeting between the prime mover, Dr Scoresby Shepherd and Mexican biologists at an international conference. It was fortuitous that, in seeking sources of funding, Dr Shepherd knew of the existence of the agreement with Mexico.

3.137 Recommendation six: The Committee recommends that the Australian Government:

- . **pursue without delay any expressions of interest in bilateral science and technology agreements by the governments of the major Latin American countries with a view to negotiating and signing such agreements; and**
- . **keep relevant organisations and companies, including those identified in this Report, informed of assistance available under such agreements as they come into effect.**

Downstream Sales

3.138 The Committee received compelling testimony to the effect that technology transfer and sale of equipment and machinery often go hand in hand.

3.139 The Managing Director of Elcom Services certainly equated the provision of engineering skills with increased sale of Australian coal and mining equipment.¹³⁶ Similarly, the Director of JKMRRC confirmed the nexus between sale of technology and sale of related Australian products and services.¹³⁷

135. Mr A. Norman, Committee Hansard, pp. 1019-20.

136. Mr J. Hrdina, Committee Hansard, p. 932.

137. JKMRRC, submission, Committee Hansard, p. 1128.

3.140 Dr McKee elaborated on this when he appeared before the Committee:

"... there are a number of examples. The first one is in mining and processing related software... As a result of that involvement of our people with that software capability and technology, that software has subsequently been sold in Chile. It is a direct result of the engineers there seeing the things being used, realising the power and the effectiveness of it and, subsequently, purchasing it.

A research program which we are undertaking at the El Teniente mine, which is a very large underground copper mine south of Santiago, has involved very detailed measurements of the conditions of the rock underground. The instruments which we used to do that - and, in fact, we took them with us - were Australian derived. Those are now being sold to that mine."

3.141 Generally, it was JKMRC's experience that:

"... if, as a result of exposing Chilean companies and individuals to technology, they see the opportunities and, by and large, as the technically advanced operations that they are, they are in the market for such things, they buy."¹³⁸

Dr McKee pointed to the activities in Latin America of Japanese companies who have:

"... invested a great deal of money into the research activities in the Chilean mining industry, particularly in the smelting and environmental areas. There is no doubt that their objective is to open up market opportunities."¹³⁹

3.142 The Committee found the evidence of Dr Philip Sluczanowski of the South Australian Department of Fisheries in this respect of particular interest. Asked if sale of Australian technology will, as a general proposition, lead to the downstream sale of Australian equipment and products, Dr Sluczanowski said:

"I will answer the question in reverse by saying that unless that contact happened initially, it is very unlikely to sell anything, but whether it will is a matter of commercial competence as much as technical competence."¹⁴⁰

138. Dr D. McKee, Committee Hansard, pp. 1140-1.

139. *ibid.*, p. 1147.

140. Dr P. Sluczanowski, Committee Hansard, pp. 1563-4.

Long Term Harm?

3.143 The Committee also addressed the question whether, if Australia were to embark on the route of selling technology and technological services, we would in the longer term be cutting our own throats by helping other countries to become more competitive in a range of areas in which we presently have a competitive edge, such as agriculture and mining.

3.144 The Committee put the question to DITAC and to a number of witnesses - MIM Holdings, BHP, Mine Site Technologies and Elcom Services. The overwhelming response from all four organisations was in favour of technology transfer. In summary, the following points were made:

- . Technology is not static. Most technology is available somewhere in the world. If we do not sell it, it will be sourced from elsewhere, and we will have lost any return we might have derived from the sale. As BHP put it most succinctly:

"If we did not do it, someone else would. There is no monopoly on good mining expertise ..."¹⁴¹
- . Technology transfer brings you goodwill, equity involvement and a flow-on down the production chain of sale of equipment, further sale of technology, and sale of associated products.
- . Being the first supplier often results in repeat business.
- . The earnings from the sale of technology, products and equipment enables Australian companies to further develop technology and maintain a technological edge.¹⁴² The domestic Australian market alone is too small to sustain many of the Australian companies engaged in developing new technologies.

141. Mr J. Ellis, Committee Hansard, p. 532.

142. Mr G. Taylor, Committee Hansard, pp. 241-2; Mr P. Slaughter, Committee Hansard, pp. 1085-6; Mr G. Zamel, Committee Hansard, p. 680.

Which Latin American Countries Offer Opportunities for Trade?

3.145 Various witnesses have described some Latin American countries as offering more immediate prospects than others. From the evidence provided to it, the Committee is not in a position to cite definitively specific countries in Latin America as being more worthy of attention than others, or to rank countries in this regard.

3.146 In summary, the following countries have been mentioned most often in regard to opportunities: Chile (the most open market in Latin America for foreign investments and exports); Mexico (development program for coal-fired power stations, potential for Australian export of technology, coal and engineering services); Brazil (largest population and hence largest potential market in Latin America); Colombia (enormous mineral, oil and gas prospects); Venezuela (rich in coal and oil).

3.147 The Chamber of Commerce of New South Wales submitted that efforts should focus on a number of Latin American countries which have a level of "economic development similar to Australia"¹⁴³ and with which Australia can form cultural, trade, investment and manufacturing pacts. The Chamber did not consider the Central American countries to be of great potential for the immediate future. They listed the following as priorities:

- Mexico (APEC)
- Argentina (rural)
- Brazil (commodities and manufactured exports)
- Chile (investment potential)
- Uruguay (banking and rural).¹⁴⁴

3.148 In its oral evidence, DFAT cited Mexico, Chile, Argentina and Brazil as the main areas of opportunity.¹⁴⁵ However, DFAT's draft document on Trade Development lists only Mexico and Chile as priority markets.¹⁴⁶

3.149 Austrade assessed the main opportunities to be in the larger economies of Mexico, Brazil, Chile, Argentina, Colombia and Venezuela¹⁴⁷ and considered Chile

143. State Chamber of Commerce (NSW), submission, Committee Hansard, p. 892.

144. *ibid.*

145. Committee Hansard, p. 223.

146. *Australian Trade and Investment Development*, Department of Foreign Affairs and Trade, 15 November 1991, pp. 26-7.

147. Austrade, submission, Committee Hansard, p. .

and Mexico to be two good examples of Latin American countries which are restructuring their economies and making strong economic progress.¹⁴⁸

3.150 The President of the Australia-Brazil Chamber of Commerce considers that:

"there is no dominant trading partner necessarily within that jurisdiction of South America."¹⁴⁹

The Committee has no doubt that, in addition to the major economies niche markets exist in various countries, and no country should be dismissed in terms of trading opportunities. As an example, PAZ International Marketing pointed out that trade may presently be small in the case of Uruguay, but there are substantial opportunities in various fields, including computer software and meat processing.¹⁵⁰

Tariff and Non-tariff Barriers

3.151 The Committee was not well-placed to carry out a detailed study of tariff and non-tariff barriers to trade with Latin America. A few submissions referred to tariff barriers as an impediment but little detailed information was provided to the Committee.

3.152 DFAT pointed out that, at the present time, the average tariff rates for a number of those countries are higher than Australia's present rates, but that a lot of the Latin American economies are moving out of very protectionist regimes to much more liberal approaches.¹⁵¹

3.153 Austrade remarked that generally there are high tariffs and in many cases there are import quotas which constitute barriers to trade. However, the signs are that, with the move towards liberalisation in those economies, those barriers are coming down. The Latin America countries presently being targeted by Austrade are reducing their tariffs and removing quota restrictions.¹⁵²

148. Mr D. Hunter, Committee Hansard, p. 341.

149. Mr J. McGruther, Committee Hansard, p. 651.

150. PAZ International Marketing, submission, p. 3.

151. Mr S. Deady, Committee Hansard, p. 228.

152. Committee Hansard, p. 352.

3.154 According to Austrade, tariffs would range from 25 percent to 100 percent on a lot of items, whereas Australia's average tariff rate is around 10 percent. Most Latin American countries are moving down to 15 to 20 percent tariffs.¹⁵³

3.155 At the Committee's request DFAT provided details of the "request lists" prepared by the Australian Government to put to the Governments of Brazil, Mexico and Argentina in the context of the Uruguay Round of GATT negotiations. These "request lists" are intended to identify regulations, laws and arrangements that disadvantage Australian traders. They provide the basis on which bilateral negotiations can proceed, with the objective of achieving reciprocal removal of such barriers.

3.156 The Committee was struck by the very short list of barriers identified as affecting Australian trade with the three Latin American countries. It is not clear to the Committee whether there are indeed very few tariff barriers that affect Australian traders or whether there is very little information available about the barriers that do exist.¹⁵⁴

3.157 The most comprehensive picture of barriers to trade in individual countries is available for countries which have undergone the GATT Trade Policy Mechanism review. In Latin America, only Chile and Colombia have been reviewed. Argentina is presently being reviewed while Brazil, Bolivia and Uruguay are due for review later in 1992.¹⁵⁵

3.158 All aspects of trade policies and practices constituting barriers to trade, (including trade policies and practices by sector) in Chile and Colombia are described in the GATT documents.¹⁵⁶ These should provide a useful guide to Australian traders interested in investigating opportunities in those countries.

3.159 As discussed in Chapter 2 of this Report, the Committee is well aware of the extensive deregulation and restructuring that is taking place in the Latin American countries. In some cases, such as Chile, the reduction in tariffs is clear and straightforward. In the case of several of the other Latin American countries, the Committee has been left with the impression that significant reductions in several important areas have yet to take place. Because the level of interest in these areas to date has been either low or non-existent, little appears to be known by either the government agencies or the private sector about the extent to which barriers, both tariff and non-tariff, might act as a disincentive were Australian companies to look seriously at Latin American markets.

153. Mr I. Taylor, Committee Hansard, p. 353.

154. For example, there is no mention of the Brazilian freight tax. See paras. 3.191 to 3.196.

155. Letter from Ms R. Thompson to the Committee Secretary, dated 11 February 1992.

156. The relevant GATT Reports on Chile are C/RM/S/14A and C/RM/S/14B, and on Colombia are C/RM/S/4A and C/RM/S/4B.

3.160 The Committee sought the assistance of Latin American representatives in Australia for up-to-date information regarding the tariff situation in the respective countries. Much detailed information was provided. The Committee is of the view that the documents should be widely available for consultation by those seeking to trade with Latin America. For this reason, the documents will be incorporated with the other submissions received by the Committee in the companion volume to this report and will be publicly available. The following is a summary of the information received on tariffs:

*Argentina*¹⁵⁷

3.161 The Ambassador of Argentina, H.E. Mr Enrique J.A. Candiotti, told the Committee that the Argentine Government has taken "significant measures to remove restrictions on both imports and exports." Mr Candiotti said that these measures:

"... show a clear movement towards free and open trade, in keeping with the Argentine policy commitment to seek its economic vitality in competitive interaction with the outside world."¹⁵⁸

Among other things, import quotas (which in 1987 covered 62% of goods coming into Argentina) have been "sharply reduced" since 1989 and are now entirely eliminated, except for automobiles. The quota on automobiles is presently being reconsidered. Tariffs have been reduced from their former "prohibitive levels" and now average 11.8%. All non-tariff barriers affecting imports into Argentina have been dismantled by the Deregulation Decree No. 2284/91.

Customs duties have been simplified into five categories, and reduced to the following levels:

- Capital Goods 5%
- Intermediate Goods 13%
- Consumer Goods 22%
- Automobiles 22%
- Electronics 35%

Exporters are no longer required to surrender or convert their foreign currency earnings. The old system of export taxes and subsidies has been "nearly eliminated", and a "more automatic less bureaucratic system" of administering the VAT drawback on exports adopted.

157. Based on letter from H.E. Mr E. Candiotti to the Committee Chairman, dated 31 March 1992.

158. Letter from H.E. Mr E. Candiotti to the Committee Chairman, dated 31 March 1992, p. 2.

3.162 Mr Candiotti provided the Committee with a table showing the trend of Argentina's tariff system from 1976-91. Mr Candiotti further provided extracts from Argentine Decree No. 2657/91 showing tariffs applied by Argentina in areas of Australia's trade interest, including import duties for medical, scientific, agricultural and mining equipment, communication and processed food. Both documents are incorporated with the submission made by the previous Argentine Ambassador, H.E. Mr J. Beltramino and are available for reference.

Brazil

Brazil's tariffs are in the process of being reduced. The Ambassador of Brazil, H.E. Mr M. Cortes drew the Committee's attention to the most recent developments in Brazil's economic reforms. Since March 1990, Brazil's strategy has been to reduce tariffs and to eliminate non-tariff barriers. Brazil's new tariff laws establish a gradual reduction of import duties to an average level of 20% (duties vary from 40% down to zero). The whole process of tariff reduction is expected to be concluded by July 1993. In 1991, 6.3% of all imports (in value terms) entered Brazil without tariffs, and 13.6% were granted duty exemption.¹⁵⁹

3.163 At the end of the tariff adjustment plan in July 1993 Brazil will have the following scale of import duties:

Computer hardware and software	40%
Trucks, cars and motorcycles	35%
Selected fine chemicals, shelled wheat, pastries, TV sets, VCRs and sound equipment	30%
Medical and scientific equipment, mining machinery, ground engaging tools and communications systems	20%
Products along the production chain which incorporate inputs benefiting from zero tariff	15-10%
Products which were already under this level of import duty in 1990	5%

159. Supplement No. 05, *Portrait of Brazil*, in letter from the Ambassador of Brazil H.E. Marcos Henrique C. Cortes to the Committee Secretary dated 15 April 1992.

Products offering a clear comparative advantage, with a high freight cost, without any equivalent made in Brazil, or commodities with small added value.¹⁶⁰ 0%

3.164 Import permits are required. However, import licensing, according to the Brazilian Ambassador, is a "practically automatic procedure."¹⁶¹ Prior official authorisation is required for the importation of products for quarantine, health or public safety reasons.¹⁶²

*Chile*¹⁶³

3.165 The Ambassador of Chile H.E. Mr J. Salazar, informed the Committee that "Chile has become the most open market in Latin America for foreign exports and investments."¹⁶⁴ Chile's across the board tariff of 15% was reduced to 11% at the end of 1991. Three productive sectors continue to be exempted (wheat, beet and oil seeds) subject to certain conditions. A limited number of products, mainly from the textile sector, continue to be subject to surcharges ranging from 5% to 15% to prevent subsidies and dumping.¹⁶⁵ On other trade barriers the Ambassador said that:

"There are no import restrictions or non-tariff barriers in Chile. Although an import licence is required before shipping, they are quickly obtained. Compliance with formalities is only necessary for statistical purposes (registrations at the Chilean Central Bank)."¹⁶⁶

*Colombia*¹⁶⁷

3.166 The Ambassador of Colombia, H.E. Mr Fernando Navas de Brigard informed the Committee that Colombia is "one of the least protected economies in the

160. *ibid.*

161. *ibid.*

162. *ibid.*

163. Letter from H.E. Mr J. Salazar to the Committee Secretary, dated 14 February 1992.

164. H.E. Mr J. Salazar, submission, Committee Hansard, p. 1328.

165. H.E. Mr J. Salazar, submission, Committee Hansard, p. 1328, and letter, 14 February 1992.

166. Letter from H.E. Mr J. Salazar, 14 February 1992, p. 1.

167. Letter from H.E. Mr F. Navas de Brigard, to the Committee Secretary, dated 5 March 1992.

world."¹⁶⁸ The following up-to-date information regarding tariff and non-tariff barriers in Colombia was provided by the Ambassador.

3.167 Present tariffs on imports into Colombia are based on Decree No. 2095 of 6 September 1991. Four tariff levels apply:

Goods not produced in Colombia, tobacco and liqueurs	0%
Goods used in manufactures that are also produced in Colombia	5%-10%
Goods for final consumption	15%

3.168 Two categories of motor vehicles are subject to higher tariffs, namely cars (75%) and jeeps (50%). 40% of major imports presently enter Colombia duty free. The Ambassador informed the Committee that import licensing was abolished by Decree No. 2095. Voluntary restraint agreements are non-existent in Colombia and any prohibition on imports is limited to those subject to national security and anti-narcotic considerations.

*Mexico*¹⁶⁹

3.169 In the words of the then Ambassador of Mexico, His Excellency Mr Alejandro Morales, the Mexican Government:

"... has evolved from being one of the most closed economies in the world only a few years ago to one of the most open foreign trade regimes."¹⁷⁰

3.170 Whereas in 1985 the maximum tariff was 100%, all import tariff categories required import permits and "the refusal to import any article produced in Mexico was systematic," in 1992:

. only 2% of Mexico's tariff categories require import permits;

168. Letter from H.E. Mr F. Navas de Brigard to the Committee Secretary, dated 5 March 1992, p. 2.

169. H.E. Mr A. Morales, submission, pp. 4-5.

170. *ibid.*, p. 4.

- . the maximum tariff is 20%; and
- . average tariff is 11%.¹⁷¹

3.171 The Committee was informed that Mexico's 5% export development tax on imports has been eliminated and the overall benefits of Mexico's liberalisation "have been very positive".¹⁷²

3.172 The Embassy of Mexico confirmed to the Committee in May 1992 that the tariff information contained in Ambassador Morales' submission is substantially unchanged. According to the Embassy, since 1988 (when Mexico joined GATT), Mexico has moved rapidly to reduce tariffs, abolish import permits and remove other non-tariff barriers.

3.173 Mexico presently has 11,607 tariff items with tariffs ranging from 0% to 20% as follows:

- . 288 items (or 2.5%) are duty free;
- . 80 items (or 0.7%) have a 5% duty;
- . 5666 items (or 48.8%) have a 10% duty;
- . 3249 items (or 28%) have a 15% duty; and
- . 2324 items (or 20%) have a 20% duty.¹⁷³

3.174 It would be of interest to Australian exporters to note that Mexico's tariff on medical and scientific equipment, agricultural and mining equipment, communication equipment and processed food is 10%. The highest tariff (20%) is placed on goods produced by the automotive and textile industries.¹⁷⁴

3.175 Import licences are required for 250 items, all in areas considered sensitive by the Mexican Government. These include firearms, explosives, certain types of pharmaceutical products, farm commodities and heavy machinery and equipment. The import of pharmaceuticals and substances containing narcotics is prohibited.¹⁷⁵

*Peru*¹⁷⁶

3.176 The Ambassador of Peru, H.E. Mr Gonzalo Bedoya, informed the Committee

171. *ibid.*

172. *ibid.*, p. 5.

173. Letter from Mr J. Chapero to the Committee Secretary, dated 14 May 1992.

174. *ibid.*

175. *ibid.*

176. Letter from H.E. Mr G. Bedoya, to the Committee Chairman, dated 1 April 1992.

that the present average tariff in Peru is 17%. A 15% tariff is imposed on 90% of Peru's imports and a 25% tariff on the other 10%. The Government of Peru hopes to reach a flat tariff of 15% in 1992. However, this is subject to present negotiations involving members of the Andean Group, of which Peru is a member. The Andean Group favours a common external tariff in four levels - 5%, 10%, 15% and 20%.

3.177 The Committee sought information regarding the level of tariffs applying in some specific areas of interest to Australia, and was informed that the levels are as follows:

Agricultural equipment	15%
Medical and Scientific equipment	15%
Mining equipment	15% and 25%
Transport and Communications equipment	15% and 25%

3.178 The Ambassador said that there are no non-tariff barriers affecting imports into Peru. All non-tariff barriers existing before December 1990 were abolished on that date and the whole aim of Peru's structural reforms is to achieve a market economy.

*Venezuela*¹⁷⁷

3.179 The Charge d'Affaires of Venezuela, Mr Mareo A. Requena, informed the Committee that, as at March 1992, four tariff levels apply to imports into Venezuela - 5%, 10%, 15% and 20%. The average tariff applying to imports is 9.1%. Fifteen items enter Venezuela duty-free, mainly medical and agricultural equipment. The lowest tariff (5%) applies to basic raw materials and feedstocks, and to goods not produced in the Andean region. By the year 1994, Venezuela's tariff rates would be from 5% to 15%, with the highest tariff level set at 15%.

3.180 Tariffs applying to some areas of particular interest to Australia are:

Agricultural	5% and 10%
Communications	5%
Medical and Scientific	5% and 10%
Mining	5% and 10%
Transport: Automobiles costing US\$15,000 or more	25% and 40%

177. Letter from Mr M. Requena, to the Committee Secretary, dated 1 April 1992.

Public transport vehicles	5%
Trucks	10%

3.181 Venezuela presently prohibits import of the following items - motorcycles of more than 250cc, vehicles older than the current year, and matches.

3.182 On non-tariff barriers, Mr Requena informed the Committee that Venezuela has been reducing import restrictions. Some 2,400 items were affected by import restrictions in 1989. By the end of 1992, less than 50 items would be affected. Mr Requena informed the Committee that the restrictions are generally as follows:

- Medicines and insecticides - there are sanitary requirements for niche products, which must also be registered.
- Chemicals related to psychotropic drugs - permits are required for their importation; use is also controlled.
- Defence-related items - permission required from the Defence Ministry.

3.183 Recommendation seven: The Committee recommends that the Australian Government, through Austrade and other representatives stationed in Latin America:

- closely follow reductions in tariff and non-tariff barriers in the Latin American countries;
- ensure that this information is quickly and widely made available to Australian companies that may have an interest in the relevant product areas; and
- identify remaining tariff and non-tariff barriers that might be included in future representations by the Government.

Liability Conventions

3.184 A possible legal problem brought to the attention of the Committee by the NSW State Chamber of Commerce relates to carriage of goods to and from various Latin American countries, where Australian cargo owners can be disadvantaged where loss or damage occurs during:-

- Sea-Carriage, where the relevant Latin American country is not a signatory to any of the Hague Rules, the Hague Visby Rules or the SDR protocol;

Carriage by Air, where the relevant Latin American country is not a signatory to the Warsaw Convention or any of the amending protocols. The Warsaw Convention only applies where both ends of the journey occur in countries applying the Convention.

3.185 Both issues are important in terms of liability conventions.¹⁷⁸ The Committee sought the assistance of the Latin American diplomatic representatives in Canberra, DFAT, and two shipping companies, as to whether non-ratification of international liability conventions has been cited as a problem.

3.186 DFAT informed the Committee that the Hague Visby Rules provide for a marine cargo liability regime concerned with responsibility for loss or damage to seaborne cargo while the Warsaw Convention provides for liability limits for air carriage of passengers and cargo. DFAT provided the Committee with a list of the Latin American countries which are parties to the agreements, commenting that overall Latin America's adherence to the conventions is "patchy".¹⁷⁹ The Committee notes however that some Latin American Governments are parties to some Protocols that Australia has not signed.

3.187 The Ambassador of Chile informed the Committee that Chile is not party to the Hague Rules, Hague Visby rules or the SDR Protocol on sea carriage. However, Chile has ratified the Warsaw Convention 1929 and Protocol of 1955. In Chile's view settlement of trade or investment disputes is not a problem as, on 9 July 1991, the Chilean Congress approved the association of Chile to the World Bank's International Centre for the Settlement of Investment Disputes. Chile also has investment insurance agreements with a number of countries which provide further safeguards to investors. The Ambassador pointed out that foreign investment legislation in Chile grants the same guarantees to both Chilean and foreign investors.¹⁸⁰

3.188 The Committee also put the question to representatives of Mitsui OSK Lines and Barbican Marine (Agencies) Pty Ltd, the two shipping companies that provide direct shipping services between Australia and Latin America. Both companies informed the Committee that concern regarding liability problems due to non-ratification of international conventions had never been raised with them before.¹⁸¹ The representative of Mitsui OSK Lines said that companies could find it more difficult to operate if some Latin American countries do not ratify international liability conventions.¹⁸² Mr Hayward subsequently explained that from the point of view of

178. State Chamber of Commerce (NSW), submission, Committee Hansard, pp. 894-5.

179. Letter from Mr I. Wilcock to the Committee Secretary dated 21 April 1992. The full list is included with the DFAT submission in the bound volumes of submissions to this inquiry.

180. Letter from H.E. Mr J. Salazar to the Committee Secretary dated 28 November 1991.

181. Mr E.L. Hayward, Committee Hansard, p. 1881 and Mr E. Olmos, Committee Hansard, p. 1907.

182. Mr E.L. Hayward, Committee Hansard, p. 1881.

the ship owner, the Hague Rules "offer a fair and practical resolution" to the two extremes of excessive exposure to liability for carriage of cargo, and no liability at all.¹⁸³

3.189 The Committee is keen to see that legal safeguards are in place and any legal liability disincentives removed in order to maximise the attractiveness of Latin American countries as trade and investment partners. On the basis of the evidence before it, the Committee is not in a position to evaluate the extent to which the failure of some Governments to ratify the various rules, Convention and Protocols on legal liability acts as a disincentive to greater commercial interaction between Australia and Latin America.

3.190 Recommendation eight: The Committee recommends that the Department of Foreign Affairs and Trade and the Attorney-General's Department canvass with the business community the value of wider adherence to international transport liability conventions, with a view to taking up matters relating to international transport liability with Latin American Governments as necessary.

Freight Tax

3.191 BHP brought to the attention of the Committee the difficulties that a freight tax imposed by Brazil on items shipped between the two continents creates for BHP.

3.192 Invited at public hearing to elaborate on the impact of this Brazilian freight tax, BHP's representative explained that:

"What it means is that it is much more difficult for us to sell coal to Brazil than for the Americans to sell coal to Brazil. Brazil is a large consumer of imported coals, because it has no coal of its own and it has a large steel industry."¹⁸⁴

The American coal shippers have had an advantage over us because of the way in which that particular form of protection works, because of their proximity versus our distance."¹⁸⁵

183. Letter from Mr E.L. Hayward to the Committee, dated 3 June 1992.

184. Mr J. Ellis, Committee Hansard, pp. 509-10.

185. *ibid.*, p. 510.

3.193 The Committee took up BHP's concerns with the Department of Primary Industries and Energy (DPIE). DPIE confirmed that Brazil imposes a 25% tax on the freight cost component of imports. This means that distant suppliers from countries such as Australia are disadvantaged. DPIE told the Committee that the disadvantage to Australia is about US\$1.50 per tonne of coal compared to coal supplied by the USA.¹⁸⁶

3.194 The Committee also put the question of freight tax to representatives of Mitsui OSK Lines and Barbican Marine (Agencies) Pty Ltd. The shipping companies were aware of the freight tax in connection with the generally high level of taxes that have been imposed by the Brazilian Government. However, Australian exporters have not specifically raised with them the problem of the Brazilian freight tax.

3.195 Nevertheless, the Committee notes that the average export value of Australian coal in 1990-91 was A\$52.84 per tonne.¹⁸⁷ This means that on average a freight tax of A\$2 would increase the cost of Australian coal by 4%. The Committee would be keen to see this disadvantage to Australian exporters eliminated.

3.196 Recommendation nine: The Committee recommends that the Australian Government make representations to the Government of Brazil to remove Brazil's freight tax or to amend it so that it does not discriminate against goods shipped over long distances.

Customs

3.197 Several submissions mentioned that, in their view, Australian Customs should not insist on all export documentation being in English. The former manager of Bond Corporation's businesses in Chile told the Committee that export documentation should ideally be in English and Spanish/Portuguese in order to speed up the clearance and payment of goods bound for Latin America.¹⁸⁸

3.198 The Committee sought the views of some witnesses in this regard. The Australia-Brazil Chamber of Commerce informed the Committee that Customs documentation requirements had never been raised with the Chamber as a problem.¹⁸⁹

186. Letter from Mr A. Smart to the Committee Secretary dated 17 December 1991.

187. Joint Coal Board, *Annual Report 1990-91*, p. 7.

188. Mr M. Babidge, submission, p. 6.

189. Mr J. McGruther, Committee Hansard, p. 351.

3.199 Another problem relating to Customs clearance was brought to the Committee's attention by Professor Rodney Maddock. Professor Maddock told the Committee that:

"Australia, through our Customs groups, actually makes it very hard for those countries. Anything which comes into Australia from those countries always gets opened and is delayed in the ports and containers are always delayed. So effectively our anti-drug policy is penalising the economies of those countries at the moment."¹⁹⁰

3.200 The Committee sought to find out from companies dealing with Latin America whether that was their experience. The President of the Australia-Brazil Chamber of Commerce informed the Committee that that problem has never been brought to the attention of the Chamber either generally or within its membership.¹⁹¹ The General Manager, Steel Trading of CMC (Australia) and a member of the Australia-Brazil Chamber of Commerce, Mr Aitken told the Committee that in his experience the opposite was true. CMC had never had any undue delays on goods imported from Brazil.¹⁹²

3.201 In response to questions put at a Senate Estimates Committee hearing in April 1992, the Australian Customs Service (ACS) said that it had no record of having received any formal complaint about containers from some Latin American countries being subject to stricter searches than containers from other regions.

3.202 The ACS further stated that, in line with its general "risk management" approach to the identification of containers for examination, cargo which originates in, or is transhipped through, narcotic producing countries such as certain countries in South America, South East Asia and the Middle East "cannot be ignored" for risk assessment purposes.¹⁹³

3.203 It is in this context that some containers from Latin American countries are examined. The ACS made the point that containers from other "high risk" countries are also examined. Further, not all containers from Latin American countries are targeted for Customs examination, only those considered to be "high risk".¹⁹⁴ The ACS gave the assurance:

"Examination of cargo for community protection purposes

190. Prof. R. Maddock, Committee Hansard, p. 422.

191. Mr J. McGruther, Committee Hansard, p. 647.

192. Mr K. Aitken, Committee Hansard, p. 647.

193. Senate Estimates Committee 'A', Additional Information, Volume II, April 1992.

194. *ibid.*

is undertaken in such a way as to minimise delays to the importer."¹⁹⁵

The question of the route used to import cocaine into Australia is discussed in paras. 8.61-8.63 of this Report.

3.204 On the basis of the evidence before it on this matter the Committee is unable to reach a firm conclusion about the extent of the problems. The Committee would however be concerned if there were undue delays in the clearance of goods from any Latin American country.

3.205 Recommendation ten: The Committee recommends that the Australian Customs Service continue to maintain a high level of scrutiny of inbound goods that may pose a drug risk, and at the same time take steps to ensure that goods from Latin America are processed as quickly as possible.

Export Finance

3.206 Financing of trade with Latin America appears to have been a source of difficulty for several Australian exporters. To that extent, the reservations of some potential traders in Australia have some basis in fact. There clearly have been practical difficulties in the past with certain aspects of doing business in Latin America. For example, even a witness who is very keen to promote trading links with Latin America and is very well disposed to the region admitted to the Committee that:

"In terms of payment of letters of credit, there have been - and I can speak from experiences - difficulties in getting payment over the years."¹⁹⁶

3.207 However, in his view the situation today is a vast improvement on the situation five or ten years ago. A similar view was echoed by others. Mr Charlton referred to finance-related difficulties that MIM had experienced in exporting coal to Argentina. In his view "financial arrangements are always much more difficult with Latin American countries than Asia or Europe."¹⁹⁷

3.208 MIM subsequently elaborated on this point. It informed the Committee that in

195. *ibid.*

196. Mr G. Smith, *Committee Hansard*, p. 1109.

197. Mr R. Charlton, *Committee Hansard*, p. 1063.

its view, the main problems associated with financing of trade to Latin America are as follows:

- . trade finance through EFIC is very expensive;
- . EFIC considers trade finance on a shipment-by-shipment basis;
- . the trader cannot obtain 100% coverage through EFIC as EFIC presently assumes only 90% of the risk. The remainder has been assumed by a bank; and
- . banks are generally unwilling to support extended trade finance. Only one Australian bank is presently willing to support coal exports to Brazil.¹⁹⁸

MIM suggested that EFIC should reduce its premiums and assume 100% of the risk. MIM further suggested that the Australian Government should establish with the Brazilian Government a mechanism to enable Australian exporters to receive payment more promptly.¹⁹⁹

3.209 On the other hand, others have had very positive experiences. For example, although Mr Aitken agreed that "it is far more expensive to fund [business] to South American than fund it into Europe or into Japan,"²⁰⁰ he also pointed out that Brazil's trade debt history has been very good:

"There is a proven track record on trade debt. Problems of delays in payment caused by the Government some five or six years ago have not recurred. In recent history, in all our exports to Brazil we have been paid on time."²⁰¹

It was essential, in Mr Aitken's view, to distinguish between public sector debt, where Brazil has had problems, and trade debt, where it has not.

3.210 At present, the only Australian banking presence in the region is that of the ANZ Banking Group's representative office in Rio de Janeiro. Companies that administer their Latin American operations from offices in North America, such as Western Mining Corporation, generally have little need for the services of Australian financial institutions in their operations.²⁰²

198. Letter from Mr P. Slaughter to the Committee Secretary, dated 3 June 1992.

199. *ibid.*

200. Mr K. Aitken, Committee Hansard, p. 653.

201. *ibid.*, pp. 658-9.

202. Mr D. Morley, Committee Hansard, p. 494.

3.211 Others, generally the smaller companies such as Leighlands Pastoral Holdings, depend on the ANZ's representative office for services relating to letters of credit and for other financial transactions.²⁰³

3.212 The Australia-Brazil Chamber of Commerce informed the Committee that it considers an Australian banking presence in Sao Paulo to be vital to facilitation of trade and investment finances. This should be a direct banking office and not agency representation.²⁰⁴ In its submission, the Chamber suggested that the Commonwealth Bank could be prompted to take such an initiative.²⁰⁵

3.213 The President of the Chamber, Mr McGruther told the Committee at a public hearing that conversations with representatives of Australia's big four banks over a number of years have convinced him that the banks have confused Latin American sovereign debt (poor) with trade debt (good).

"I honestly believe that it is well worth a bank having a good hard look at it. I do not quite know why I would be selling that to a bank, but there is a good opportunity for banks there."²⁰⁶

3.214 The Committee wrote to all major Australian banks at the beginning of the inquiry, inviting submissions. Only the ANZ Bank responded with a submission. While the submission provided an excellent background account of Australian business opportunities in Latin America, with specific references to opportunities in Argentina, Brazil, Chile, Mexico and Venezuela, no mention was made of opportunities in financial services. No mention was made of ANZ's representative office in Rio de Janeiro, or of the scope for Australian banks to establish themselves in the region.

3.215 Export finance for traders in Latin America appears to be primarily provided through the Australian Government's export credit agency, previously Austrade's Export Finance Insurance Corporation (Austrade-EFIC), now an independent corporation.

3.216 As at 30 June 1990 Austrade-EFIC supported exports to Latin America worth A\$ 92 million. This represents between 1.4% and 1.6% of total Australian exports supported.²⁰⁷

203. Mr I. Metherall, Committee Hansard, p. 565.

204. Australia-Brazil Chamber of Commerce, submission, Committee Hansard, p. 626, and Mr J. McGruther, Committee Hansard, p. 634.

205. Australia-Brazil Chamber of Commerce, submission, Committee Hansard, p. 624.

206. Mr J. McGruther, Committee Hansard, pp. 660-1.

207. DITAC, submission, Committee Hansard, p. 236 gives a figure of 1.6%. Austrade gives a figure of 1.4%, Austrade, submission, p. 23. Australian exports to Latin America represent 1% of total Australian exports. It is evident that EFIC supports a proportionately higher

3.217 The figures for Austrade-EFIC credit insurance for the individual countries of Latin America provided by Austrade varied significantly from those provided by DITAC.

According to Austrade:

"Chile is the major export market insured by Austrade-EFIC accounting for 57% of Latin American exports covered. This is followed by Argentina (12%), Peru (11%), Mexico (8%) and Brazil (6%)."²⁰⁸

According to DITAC:

"In descending order of importance Brazil (31%), Peru (26%), Argentina (23%), Mexico (11%) and Chile (8%) account for 99% of the Austrade-EFIC supported trade to Latin America."²⁰⁹

3.218 While there were discrepancies in the data for individual countries, both authorities agreed that virtually all the current business supported is of a short-term nature. According to Austrade the only medium and long-term support for Latin America exports dates back to transactions entered into in earlier years.

3.219 The Austrade submission made it clear that in their view "a cautious underwriting approach is required" when assessing short term credit insurance in Latin America. In approaching proposals:

"... endeavours are made to contain exporters' exposure through restrictions on cover such as secured payment terms, extended waiting periods for claims and country ceilings."²¹⁰

3.220 Notwithstanding these restrictions, the EFIC representative at public hearings put the view that:

"Austrade and its board have been fairly adventurous in the credit risks that we have taken there."²¹¹

percentage of exports to Latin America than would have been the case if EFIC support were linked directly to market share. The Committee considers that the nature of the market, at this stage, in the countries of Latin America fully justifies a relatively higher level of EFIC support for such trade.

208. Austrade, submission, Committee Hansard, p. 332.

209. DITAC, submission, Committee Hansard, p. 236.

210. Austrade, submission, Committee Hansard, p. 332.

211. Mr Moore, Committee Hansard, p. 349.

3.221 EFIC also expressed satisfaction that there had been no defaults on the sales they had supported. Moreover, in their view sales in the past year of \$11.5 million worth of oats and barley to Peru, \$33 million worth of coal and salt and some iron and steel in Brazil, \$19 million in Chile and \$10 million in Argentina would not have been made without EFIC backing:

"... because the exporters concerned and their financiers, the banks, were not prepared to take the credit risks in those particular countries."²¹²

3.222 From the evidence put to the Committee it seems that private companies see EFIC's performance somewhat differently.

3.223 Several witnesses said that they would like to see greater flexibility in Austrade-EFIC's approach to credit arrangements to serve the needs of businesses trading with Latin America.

3.224 MIM gave an account of their experiences with EFIC. According to MIM a major part of their negotiations with Latin American companies is about payment arrangements. This is time consuming as under EFIC's present policy, the finance for every shipment must be negotiated separately.²¹³ All the banks that the company has dealt with have had ceiling limits on their risk in Brazil. They have to negotiate risk protection cover with EFIC. The limits placed in turn on EFIC's risk protection make arrangements for the shipment more difficult.

3.225 MIM cited coal sales to Argentina as another example:

"This is a relatively small market for Australian coal, but one which MIM would like to penetrate. One shipment of coking coal - 35 000 tonnes - was sold to Argentina in 1986. The documentation requirements were extremely complex because of requirements from the Argentinian Government, and trade finance, as for Brazil, was difficult to negotiate. Once again, there is great scope for inter-Governmental agreements to facilitate trade between the two countries."²¹⁴

3.226 The General Manager of CMC gave a further illustration of the problem:

"If you go to EFIC today and ask for a funding package for that zinc transaction I talked about, which is 17 shipments of 1,000 tonnes each, you cannot get a guarantee from

212. *ibid.*

213. M.I.M. Holdings Limited, submission, Committee Hansard, p. 1058.

214. *ibid.*, p. 1059.

EFIC that you are able to insure that cargo through to the end of that contract because it goes out for a period of 12 months. Sorry, it is 1,000 tonnes for the first six months and 2,000 tonnes a month after that. You cannot go to EFIC and say, 'can I please have insurance for the full-term of that contract' because, firstly, it is a very large amount of money and, secondly, they are not prepared to look a long distance ahead.²¹⁵

3.227 The Australia-Brazil Chamber of Commerce made a plea for the EFIC mechanism to be broadened and the limits extended if export to Latin America is to be stimulated.²¹⁶ MIM implied that while the individual banks may have their own reasons for having ceiling limits, greater cooperation by EFIC with the individual banks would help Australian exporters.²¹⁷

3.228 The General Manager of CMC suggested that Australia could sell more coal if Australian companies were prepared to offer financial terms to the Brazilians, either by providing their own credit line or having access to credit lines.²¹⁸ Said Mr Aitken,

"I think what the Government must do is encourage that, try to get closer to that particular problem and if we can, work with the various authorities to make sure that we can develop a longer term market into that region.

If you come back to critical areas of trade, one is identifying the products that you can sell. I think Austrade has attempted to do that. Someone must take the lead role and I see government taking the lead role. They then should, as I said before, speak to the Australian companies that are interested to develop that business. Then the role of the Government, I believe, is to put into place or assist putting into place, some financial facility that makes that possible.²¹⁹

3.229 The Committee agrees that the current approach by banks and EFIC to trade with Latin America is unsatisfactory. Business should be encouraged to develop long-term strategic plans for their trading activities there.

215. Mr K. Aitken, Committee Hansard, p. 657.

216. Australia-Brazil Chamber of Commerce, Committee Hansard, pp. 656-7.

217. Committee Hansard, pp. 1061-2.

218. Mr K. Aitken, Committee Hansard, p. 655.

219. *ibid.*, p. 656.

3.230 From evidence presented to the Committee it seems that Australian traders in a number of commodities are discouraged by irregular demand for their product. Latin American buyers are frequently regarded as spot buyers or price-buyers. Under these circumstances, occasional sales may eventuate, but strong permanent links are difficult to establish. An inescapable conclusion reached by the Committee is that financing arrangements are a key element. Improvements in financing are essential if reliable long-term markets are to be developed.

3.231 Recommendation eleven: The Committee recommends that EFIC examine financing problems faced by companies dealing with Latin America, taking account of the rapid political and economic changes that have taken place in that region in recent years. The Committee further recommends that EFIC review its existing rules and procedures with a view to facilitating the provision of credit for companies trading with Latin America. In particular, EFIC should look to:

- . providing more medium and long term credit to such companies; and
- . eliminating the need for companies to apply for insurance on a shipment by shipment basis.