

*"In an untapped market there are going to be more opportunities than in the highly developed regions of North America and Europe."<sup>1</sup>*

## CHAPTER FOUR

### INVESTMENT

4.1 The Committee examined whether, notwithstanding the uneven pace of political and economic reforms in the 22 Latin America countries and uncertainty surrounding the effectiveness of some of the reforms, there are nevertheless significant investment opportunities in Latin America which Australian companies could usefully take up.

4.2 The views of the main Australian Government agencies with policy roles in matters connected with such investments were sought.

4.3 DFAT was of the view that opportunities now present to Australian investors as a result of:

- . the economic reform programs in Latin America. Rejection of state intervention and protectionism in favour of free market principles, together with efforts to stabilise the respective economies and address debt and inflation problems, have increased the opportunities for trade and investment throughout Latin America;<sup>2</sup> and
- . efforts towards regional economic cooperation presently being made by Latin America countries, and the regional arrangements emerging. These developments could enhance economic growth in the region and create opportunities for Australian business.<sup>3</sup>

4.4 In Austrade's view, the massive program of privatisation in Latin America provides unprecedented opportunities for investment in a wide range of utilities and in the manufacturing, service and transport industries. These opportunities are made more attractive by the strong push towards economic integration in the region which in the long term could lead to a single Americas market stretching from Alaska to the

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<sup>1</sup> Mr P. Slaughter, Committee Hansard, p. 1073.

<sup>2</sup> Mr R. Woolcott, Committee Hansard, p. 197.

<sup>3</sup> DFAT, submission, Committee Hansard, p. 13.

southern most tip of Argentina. This market would contain a total population of approximately 700 million people.<sup>4</sup>

4.5 In DPIE's assessment, there are opportunities for Australian companies to be involved in minerals-related investments in Latin America. DPIE pointed to Latin America's significant mineral potential and gave examples of Australian companies which have successfully invested in Latin America.<sup>5</sup>

4.6 In contrast, DITAC continues to maintain a conventional, and in the Committee's opinion, an overly cautious and suspicious view of investment prospects in Latin America. DITAC told the Committee that DITAC has:

"... an investment promotion program which is designed to encourage two-way investment between countries."

This program is focussed mainly on Asia, Europe and North America:

"... on the basis that these regions are more likely to be able to provide this sort of investment and with it the associated technology or market opportunities."<sup>6</sup>

4.7 While the majority of the submissions to the Committee focussed on the need for Australian companies to seize the opportunities that are manifestly present in Latin America, DITAC told the Committee that:

"At this stage there is no plan for investment actively prepared for or operating in the Latin American countries".<sup>7</sup>

Asked whether DITAC should not at least have such a strategy, Mr Taylor replied:

"The recent history of the region has seemed to Australian business ... perhaps to contain as many threats as opportunities."<sup>8</sup>

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<sup>4</sup> Austrade, submission, Committee Hansard, p. 311.

<sup>5</sup> DPIE, submission, Committee Hansard, p. 1194.

<sup>6</sup> DITAC, submission, Committee Hansard, pp. 249-50.

<sup>7</sup> *ibid.*

<sup>8</sup> Mr G. Taylor, Committee Hansard, p. 250.

4.8 Even when the Committee pointed out that circumstances in Latin America have changed dramatically in the last few years DITAC remained adamant that:

"Circumstances have changed ... and will continue to change. As we have said, it is our view that there will be consolidation and continuing improvement in terms of the opportunities for business and collaboration"

and, significantly, appears to be not so much at the stage of formulating suitable strategies as acknowledging that:

"I guess that means that we would certainly need to be ready to reassess our investment program."<sup>9</sup>

### **Which Latin American Countries Offer Opportunities for Investment?**

4.9 It was of interest to the Committee to examine whether there were particular countries or sectors cited more often than others in submissions to the inquiry in terms of prospective investment. The submissions made by representatives of Latin American countries in Australia, understandably, focussed on the opportunities available in their respective countries. A number of other submissions emphasised individual countries that are the subject of their special interest, for example, the Australia-Brazil Chamber of Commerce naturally dealt primarily with Brazil. The following table gives an indication of the main countries of investment interest mentioned by witnesses:<sup>10</sup>

<b>Witness/Organisation</b>	<b>Countries</b>
DFAT	Chile, Mexico, Argentina, Brazil
Austrade	Mexico, Brazil, Argentina, Chile, Venezuela, Colombia
Queensland University of Technology	Mexico, Chile, Brazil
School of Spanish and Latin American Studies	Mexico, Venezuela, Chile

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<sup>9</sup> *ibid.*

<sup>10</sup> Further details can be found in the individual submissions.

James MacAonghus	Argentina
Elcom Services	Mexico, Chile
Guy McKanna	Chile, Mexico, Venezuela, Argentina, Brazil
Banco Santander	Brazil, Mexico, Argentina, Chile
CMC (Australia) Pty Ltd	Brazil
Professor Rodney Maddock	Colombia
Austral Computer Systems	Peru
Dr Heraldo Povea-Pacci	Chile
MIM Holdings Ltd	Chile
State Chamber of Commerce (NSW)	Mexico, Argentina, Brazil, Chile
ANZ Bank	Argentina, Brazil, Chile, Mexico, Venezuela <sup>11</sup>
Greg Smith	Mexico
Julius Kruttschnitt Mineral Research Center	Chile, Brazil
Broken Hill Proprietary Co. Ltd	Chile
Mine Site Technologies	Chile
PAZ International Marketing	Brazil, Chile, Uruguay, Argentina
Centre for Housing & Planning	Uruguay, Argentina, Chile

### **Which Sectors Offer Opportunities for Investment?**

4.10 Some witnesses categorised opportunities more in terms of sectors where Australia had particular strengths and might do well in Latin American countries. The following are the main general sectoral investment opportunities brought to the attention of the Committee:

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<sup>11</sup> ANZ Bank, submission, pp. 2-6.

DFAT	-	Livestock and agricultural services Mineral exploration and development Telecommunications Transportation <sup>12</sup>
Austrade	-	Agriculture, mining systems, dairy products, sugar, uranium, coal and energy projects in Mexico; Austrade also recommended serious consideration of opportunities in the Maquiladora industry.  Mining technology and equipment, telecommunications, medical equipment and services and food processing in Chile;  Telecommunications, medical, scientific and mining equipment, breeding rams and genetic material in Argentina;  Automotive components, medical and hospital equipment, scientific and measuring apparatus, information industry products, mining equipment and technology in Brazil. <sup>13</sup>
DPIE	-	Technology, services and investment in the commodities sector, particularly minerals - related investments. <sup>14</sup>
DITAC	-	Telecommunications Forest products <sup>15</sup>
Centre for Housing and Planning	-	Housing Forestry Agriculture <sup>16</sup>

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<sup>12</sup> DFAT, submission, Committee Hansard, pp. 13-229, inter alia.

<sup>13</sup> Mr I. Taylor, Committee Hansard, pp. 358-9

<sup>14</sup> DPIE, submission, Committee Hansard, p. 1194.

<sup>15</sup> DITAC, submission, Committee Hansard, p. 235.

<sup>16</sup> Centre for Housing and Planning, submission, p. 3.

Ambassador of Peru	-	Mining Agriculture Fishing Energy <sup>17</sup>
Mine Site Technologies	-	Mining equipment, products and services <sup>18</sup>
School of Spanish and Latin American Studies	-	Banking Mining Transport <sup>19</sup>
CRI Limited	-	Infrastructure projects <sup>20</sup>
Ansell International	-	Maquiladora projects in Mexico <sup>21</sup>
Western Mining Corporation	-	Mining exploration and development
Elcom Services Pty Ltd	-	Projects connected with the power industry <sup>22</sup>
Professor Rodney Maddock	-	Resource-based industries and infrastructure industries <sup>23</sup>
Ambassador of Colombia	-	Mining Agriculture <sup>24</sup>
Greg Smith	-	Maquiladora industries <sup>25</sup>

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<sup>17</sup> H.E. Mr G. Bedoya, submission, pp. 7-8.

<sup>18</sup> Mine Site Technologies, submission, Committee Hansard, p. 664.

<sup>19</sup> School of Spanish and Latin America Studies, submission, pp. 8-9.

<sup>20</sup> CRI Limited, submission, pp. 2-3.

<sup>21</sup> Ansell International, submission, p. .

<sup>22</sup> Elcom Services, submission, Committee Hansard, p. 928.

<sup>23</sup> Professor R. Maddock, submission, Committee Hansard, p. 406.

<sup>24</sup> H.E. Dr A. Puerto, submission, p. 5.

<sup>25</sup> Mr G. Smith, submission, Committee Hansard, p. 1098.

Broken Hill Proprietary Ltd	-	Mining exploration and development <sup>26</sup>
ANZ Bank	-	Mining Agriculture Transportation Telecommunications <sup>27</sup>
Guy McKanna	-	Mining <sup>28</sup>
Mark Babidge	-	Cattle industry <sup>29</sup>
Ambassador of Mexico	-	Infrastructure projects Energy Telecommunications Petrochemicals Maquiladora industries <sup>30</sup>
Institute of International Studies	-	Agriculture and Mining sectors <sup>31</sup>
Professor Ross Garnaut	-	Mining and exploration <sup>32</sup>
Ambassador of Chile	-	Mining Energy Telecommunications Infrastructure Tourism Fishing Forestry Agriculture Banking <sup>33</sup>

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<sup>26</sup> BHP, submission, Committee Hansard, p. 500.

<sup>27</sup> ANZ Bank, submission, p. 7.

<sup>28</sup> Mr G. McKanna, submission, p. 10.

<sup>29</sup> Mr M. Babidge, submission, p. 8.

<sup>30</sup> H.E. Mr A. Morales, submission, pp. 8-9.

<sup>31</sup> Institute of International Studies, submission, p. 1.

<sup>32</sup> Professor R. Garnaut, submission, Committee Hansard, p. 1461.

<sup>33</sup> Letter from H.E. Mr J. Salazar, to the Committee Secretary, dated 14 February 1992.

## Telecommunications

4.11 The Committee would like to draw particular attention to differing assessments of opportunities in the telecommunications sector. The overwhelming majority of submissions received by the Committee stressed the attractiveness of opportunities existing in Latin America for the supply of telecommunications technology, equipment, parts and services by Australian firms. Submissions to this effect were made by DFAT, Austrade and DITAC, major companies such as ANZ Bank and Banco Santander and by the diplomatic representatives of the Latin American countries. Appearing before the Committee, the National Marketing Manager of Barbican Marine Line, Mr Rick Olmos, singled out telecommunications as the major area of opportunity in Brazil for Australian firms.<sup>34</sup>

4.12 The Committee found the submission from Telecom Australia unexpectedly low-key in this respect. Reference has previously been made (see Chapter 3) to Telecom's assessment that, as its general rule is to invest only in countries forecast to have sustainable GDP growth and long term economic, social and political stability, Telecom was not planning to undertake any activities in Latin America.<sup>35</sup>

4.13 The Committee examined the paper provided by Telecom outlining telecommunications services in the Latin America region. The paper does not appear to support Telecom's assessment that:

"... some opportunities may exist in niche markets of various countries in the Latin America region".<sup>36</sup>

Rather, it signalled that significant opportunities do exist in Latin America. Among the points made:

- the Latin American telecommunications network will grow at a rate of 6.3% per year between 1988 and 1993;
- many Latin American governments have developed plans to accelerate the extent of network digitalisation;
- Mexico is presently aiming to improve its telecommunications infrastructure, including:
  - doubling the number of telephones in Mexico from 9 million to 18 million by 1995;

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<sup>34</sup> Mr E. Olmos, Committee Hansard, p. 1902.

<sup>35</sup> Telecom, submission, p. 1.

<sup>36</sup> *ibid.*



- network development over the next 5 to 10 years at a total cost of between US\$10 and US\$12 billion; and
  - massive cellular mobile expansion with operating licenses granted to Mexican-owned consortia in 8 regions.
- . Brazil plans to add 2 million lines between 1987 and 1990 and reach 16.5 million digital lines and 67% digitalisation by the year 2000;
  - . Colombia plans to reach over 55% digitalisation by 1995; and
  - . most Latin American countries are privatising their telecommunications companies, with privatisation already in place or about to occur in Mexico, Argentina, Chile, Brazil, Uruguay, Paraguay, Venezuela and Ecuador.

4.14 In view of the difference between the assessment by Telecom and by most other witnesses, the Committee sought clarification from Telecom (which has, since providing its submission to this Committee's inquiry, merged with OTC to form the Australian and Overseas Telecommunications Corporation (AOTC)). AOTC informed the Committee in March 1992 that a number of possible overseas opportunities had been identified by its Task Force on expansion of offshore activity, of which one is in the Latin American region. AOTC indicated that evaluation of the items on the commercially sensitive short list is presently underway.

4.15 AOTC has not yet determined whether it will undertake the necessary steps to further evaluate the identified opportunity in Latin America.<sup>37</sup>

4.16 AOTC provided further indication of its thinking on Latin America, which may be summarised as follows:

- . Latin America is a region for "longer term investment". While a "watching brief" should be maintained on telecommunications opportunities:

"... longer term investment development would require considerable on ground exposure to gain the necessary local partner arrangement;"<sup>38</sup>

- . the attractiveness of consultancy and systems sales into the region at the present time is "very low";<sup>39</sup>
- . Latin America is not an ideal market for Australian facility and service providers as there are already several major competitors operating in the region. AOTC

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<sup>37</sup> Letter from Mr I.B. Powell, to the Committee Secretary, dated 20 March 1992, p. 2.

<sup>38</sup> *ibid.*

<sup>39</sup> *ibid.*

cited Telefonica de Espana, Cable and Wireless, AT&T, Siemens Industries, Alcatel, LM Ericsson, NEC and the American Regional Bell Operating Companies as having established themselves successfully in Latin America.<sup>40</sup>

some telecommunications companies (eg. France Telecom, STET of Italy and British Telecom) have become shareholders in recently privatised companies, for example, in Mexico, Argentina and Belize;

the common carriers of Argentina, Belize, Chile, Mexico and Venezuela have already been privatised. Uruguay's network is expected to be privatised this year while those of Brazil, Peru and Colombia are expected to be privatised in 1994; and

AOTC considers that the Europeans and North Americans are less entrenched in Asia, making that the "ideal market place" for Australian facility and services providers rather than Latin America.<sup>41</sup>

4.17 The Committee is encouraged to learn that AOTC has recently won a contract to supply a paperless trading network and software to a major bank in Brazil and has also held discussions in Paraguay and Argentina about possible AOTC involvement in their international and domestic satellite systems.<sup>42</sup>

4.18 On balance, while the Committee is pleased to note AOTC's recent activities in Latin America, it is of the view that AOTC's submission confirms the Committee's impression that Telecom/AOTC has been late in recognising, much less seizing, opportunities in Mexico, Argentina, Belize, Chile and Venezuela. Nor is there any evidence of a clear strategy for the other Latin American countries in which opportunities arising from privatisation and/or rapid modernisation are expected to present themselves in the next three years.

4.19 The Committee notes that although AOTC presently has a dozen Memoranda of Understanding (MOU) with overseas countries ( which are seen as laying the basis for possible on-going agreements on business opportunities) no MOUs have been signed with any country in Latin America.

4.20 AOTC attributes the low level of Australia's participation in telecommunications developments in Latin America to the absence of adequate representation on the ground. The Committee was therefore particularly interested to learn from Austrade in April 1992 that Austrade's Manager, Telecommunications, planned to visit Argentina,

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<sup>40</sup> *ibid.*

<sup>41</sup> *ibid.*

<sup>42</sup> *ibid.*, p. 4.

Brazil, Chile, Mexico and possibly Venezuela in April/May 1992 to assess and report on telecommunications opportunities.<sup>43</sup>

4.21 It is to be hoped that a clearer picture of opportunities and one that might lead to the development of a more aggressive strategy will emerge from this visit. With the stronger Austrade presence in the region recommended in this Report, it should be possible for AOTC to gain a firm foothold and establish itself as an effective participant in telecommunications developments in Latin America.

4.22 As AOTC itself points out, Australia is not without certain advantages over its European and North American competitors. It is not subject to the "Big Brother from the North"<sup>44</sup> connotation that applies to companies like AT&T. According to its own assessment it is a world leader in technologies such as satellite communications which should be well suited to the Latin American countries.

**4.23 Recommendation twelve:** The Committee recommends that AOTC, with the assistance of DFAT and Austrade:

- . establish in greater detail what specific opportunities in the telecommunications sector are likely to be available in Latin America in the next three years;
- . develop cooperative arrangements to ensure that up-to-date information is available to AOTC and that AOTC has access to appropriate on-the-ground assistance; and
- . develop a strategy to establish a more substantial Australian involvement in the telecommunications sector in Latin America. This should include two-way visits by appropriate Ministers to increase awareness in Latin American countries of Australian capabilities in this field.

The Committee further recommends that AOTC include a progress report on this matter in its 1992-93 Annual Report.

## Present Australian Investment and Future Prospects

4.24 The single most comprehensive submission on this subject was that of Austrade, which provided a broad outline of overall Australian investment in Latin America and in some individual countries. The following summary is based largely on

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<sup>43</sup> Letter from Mr I. Taylor, to the Committee Secretary, dated 2 April 1992.

<sup>44</sup> Mr Powell, *op. cit.*, p. 3.

the Austrade submission<sup>45</sup> with additional details extracted from other relevant submissions.

4.25 The Committee could not confidently arrive at a figure for total Australian investments in Latin America. Austrade was able to tell the Committee only that:

"... there is little Australian involvement in Latin America with the important exception of Chile where Australia is a major source of foreign investment."<sup>46</sup>

### *Argentina*

4.26 Austrade describes Australian investment in Argentina as "modest".<sup>47</sup> DFAT is of the view that there may be prospects for investment by Australian mining companies.<sup>48</sup>

4.27 Current Australian investment activities include:

- . TNT's interests in transport;
- . BHP's mineral exploration;
- . Burns Philp's acquisition of a yeast manufacturer; and
- . Business Model Systems' software business in Buenos Aires.

4.28 The Ambassador of Argentina, H.E. Mr Enrique J.A. Candiotti informed the Committee that since the promulgation of Decree No. 2284 of 1 November 1991, the Argentine economy has undergone a "wide deregulation process."<sup>49</sup> The Ambassador drew the Committee's attention to an independent positive assessment of the deregulation of the Argentine economy by an Argentine business law firm, M&M Bomchil. The Ambassador also cited an analysis by the same firm of the Argentine foreign investment regime, which entered into force on 15 September 1989.<sup>50</sup>

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<sup>45</sup> Austrade, submission, Committee Hansard, pp. 328-31.

<sup>46</sup> Austrade, submission, Committee Hansard, p. 313.

<sup>47</sup> *ibid.*, p. 331.

<sup>48</sup> DFAT, submission, Committee Hansard, p. 76.

<sup>49</sup> Letter from H.E. Mr Enrique J.A. Candiotti to the Committee Chairman, dated 31 March 1992.

<sup>50</sup> Both assessments, marked as 'Annex III' and 'Annex V' to the Ambassador's letter, are incorporated in the companion volumes of submissions to the inquiry together with the submission of Mr Candiotti's predecessor, H.E. Mr J. Beltramino.

4.29 The Ambassador told the Committee that all foreign exchange controls in Argentina were eliminated in 1989, and the requirements for prior approval for foreign investments abolished in 1990. Since 1991 there is full convertibility for the Argentine peso at fixed exchange rates, and profits can be paid out in any currency.

4.30 Measures taken by Argentina to provide protection to investors include:

- . concluding bilateral treaties with several countries which give their nationals equal status with Argentine domestic investors. These bilateral treaties also establish guarantees against expropriation, provide for free transfer of capital and dividends in the event of dispute and provide a choice of recourse to local courts or international arbitration;
- . a bill presently before the Argentine Congress to modernise the intellectual property regime (of 1864). Under the legislation, investors are granted an absolute right over patents, protection is given for a period of 20 years from time of registration, and copyright protection is given;
- . devising a framework to permit non-bank financial activities, including markets in negotiable instruments, futures and options; and
- . deregulating brokerage fees and eliminating transfer and stamp taxes on securities transactions to promote activity in the established stock market. The Government is presently developing plans to permit greater flexibility in portfolio investments to create a system of rating agencies and to integrate regional stock exchanges.

4.31 The Committee appreciates the very detailed response by the Ambassador regarding the privatisation process in Argentina. Annex VI to the Ambassador's letter, a publication by the Argentine Foreign Ministry's *Center for International Economics*<sup>51</sup> outlines the progress of Argentina's privatisation program since August 1989. Enterprises fully or substantially privatised include:

- . the state telephone company, ENTEL;
- . the Argentine flag carrier, Aerolineas Argentinas;
- . 10,000 kilometres of national roads;
- . majority private sector participation in the development of five central oil fields;
- . the major ship repair facility, TANDANOR;
- . state petrochemical plants (POLISUR, PETROPOL, INDUCLOR, and MONOMEROS VINILICOS); and

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<sup>51</sup> *Centro de Economia Internacional*, No. 14. February 1992.

. most state-owned radio and television stations.<sup>52</sup>

4.32 State enterprises to be privatised in 1992 include companies in the following areas:

- . fuel;
- . electricity;
- . steel and machine tools;
- . chemical and petrochemicals; and
- . public utilities.<sup>53</sup>

4.33 President Menem has announced that full privatisation would be achieved by the end of 1992. By Decree No. 2408 of 12 November 1991, all restrictions on foreign capital participation were removed, including the previous requirement of 51% local participation in consortia arrangements.<sup>54</sup> The Ambassador informed the Committee that Argentina has expressed its interest in entering into an agreement with Austrade along the lines of the ones already existing between Austrade and its Chilean and Mexican equivalents. A draft Cooperation agreement is presently under consideration by the Argentine Foreign Ministry for discussion with Australian authorities.<sup>55</sup>

### *Brazil*

4.34 Australian investment in Brazil is "limited".<sup>56</sup> Current activities include:

- . TNT's Latin America regional cargo network, with headquarters in Sao Paulo;
- . ANZ Bank's office in Rio de Janeiro;
- . BHP's 49% (A\$10 million) investment in SAMARCO, Brazil's fourth largest iron ore producer;
- . Western Mining Corporation's two gold mines and mineral exploration;
- . Davis Gelatine's 60% share in Leiner do Brasil, the largest Gelatine manufacturer in Latin America. On 28 January 1992, Davis' parent company,

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<sup>52</sup> *ibid.*, pp. 19-20.

<sup>53</sup> *ibid.*, p. 21.

<sup>54</sup> Letter from H.E. Mr Enrique J.A. Candiotti to the Committee Chairman, dated 31 March 1992.

<sup>55</sup> *ibid.*

<sup>56</sup> Austrade, submission, Committee Hansard, p. 331.

Goodman Fielder Wattie, announced that it had bought the remaining 40% of the company from its Latin American owners;<sup>57</sup>

- . AUSMINCO's operations (trading);
- . Teletronics (heart pacemakers) manufacturing; and
- . SOLA Brazil (optics).<sup>58</sup>

### *Chile*

4.35 Chile is the main destination for Australian investment in Latin America and the 6th largest location of Australian overseas investment.<sup>59</sup> Australia is presently the third largest foreign investor in Chile, with total investment in July 1991 valued at A\$704.9 million.<sup>60</sup>

4.36 Until the divestment of the Bond Corporation's interests (majority shareholding of the "El Indio" gold mine and Chilean Telephone company) in 1989 Australia was the second largest investor in Chile with investment totalling US\$2 billion.

4.37 Among present Australian investment in Chile are:

- . BHP's 57.5% (A\$643.1 million) holding in La Escondida, the world's third largest copper mine. On 27 February 1992, BHP announced that it was planning to invest A\$250 million in a plant in Chile to produce copper cathodes using new technology developed by BHP. The plant is expected to come on stream in 1994. At the same time, BHP also announced that it had begun a feasibility study into the prospect of increasing the present production capacity of Escondida by 25%.<sup>61</sup>
- . Niugini Mining Limited's 43% (A\$22.6 million) interest in the San Cristobal gold project owned by Niugini's Chilean subsidiary, Inversiones Mineras Del Inca S.A.

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<sup>57</sup> *Australian Financial Review*, 29 January 1992, p. 19.

<sup>58</sup> Austrade, submission, Committee Hansard, p. 331. SOLA is now part of the British Pilkington glass group.

<sup>59</sup> H.E. Mr J. Salazar, submission, Committee Hansard, p. 1360.

<sup>60</sup> *Australian Trade and Investment Development*, DFAT, 15 November 1991, p. 310.

<sup>61</sup> "Escondida to boost output 25% install \$200 million facility", *Australian Financial Review*, 28 February 1992.

MIM's A\$300 million investment in copper mining/processing for the ten years from March 1991.

CRA's A\$32.9 million components manufacturing factory near Santiago to produce mill balls for the mining industry. CRA informed the Committee that its experience in this venture has been a positive one.<sup>62</sup>

TNT's cargo operations through its investments in Aeromar Carga LTDA (A\$1.4 million) and Far East (A\$1.3 million).

SAFCOL Holding's 51% equity in a joint venture with Comercial Cisandina Chile LTDA to operate a pilot plant in Puerto Montt processing canned shellfish.

AKT's pilot plant in Iquique to process high protein fish meal.

AFP Investment's 80% interest (A\$1.3 million) in Gestetner Chile S.A. which distributes office machinery.

Civil Resources Limited's ownership of Perforaciones Westerns S.A., a water-well drilling company worth A\$1.3 million.

4.38 Six Australian companies have offices in Chile, namely Western Mining, MIM, Newcrest, Warman International Ltd, Minipro Engineers and the ANZ Bank.<sup>63</sup>

4.39 Chile's foreign investment law of 1974 is generally regarded as attractive to investors, as it provides very liberal capital transfer rules. Chile's Ambassador informed the Committee that in the last few years, there have been additional incentives to attract foreign capital, for example reduced tax on profits. Other investment incentives are available in Chile such as the granting of special benefits to investors in certain regions. The Ambassador further pointed out that, provided the capital remains in Chile for three years, there is no limit on profit and capital remittances. However there are special provisions to regulate contracts involving oil and uranium operations. As a general principle, only Chile, represented by a public entity, may exploit these resources, although such public entities may enter into operational contracts with both national and foreign private contractors.<sup>64</sup>

4.40 In addition to the main public enterprises already privatised such as Lan Chile Airlines, the telephone and electricity corporations, the Chilean Government is contemplating privatising part of the railway system and the National Port Management Company.<sup>65</sup>

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<sup>62</sup> CRA, submission, p. 1.

<sup>63</sup> Austrade, submission, Committee Hansard, p. 3307.

<sup>64</sup> Letter from H.E. Mr J. Salazar to the Committee Secretary, dated 14 February 1992, p. 1.

<sup>65</sup> *ibid.*, p. 2.



4.41 The other significant recent development pointed out by the Ambassador is the new law authorising the state copper company, Codelco, to enter into joint ventures with foreign companies for mineral exploration and exploitation. The Committee notes that MIM Holdings Ltd has already signed an agreement with Codelco for cooperation in this respect.<sup>66</sup>

4.42 The Chilean Ambassador pointed out that Australian technology is particularly suited to Chilean conditions as both countries are very similar in natural resources, climate and population characteristics. The Ambassador outlined his views as follows:

"... we believe there are opportunities for Australian expertise in biotechnology, agricultural and medical research, computer software, mining and mineral processing, technology and food processing ...

Also, there are opportunities for foreign investors not only in mining, the sector in which the Australian investment is concentrated, but in energy, telecommunications, infrastructure sector (ports, airports, highways, transport), as well as in tourism, trade, fishing, forestry, agriculture and banking.

For these purposes, we have in mind Australian companies that have reached a fairly mature stage in the local marketplace. Medium and small companies will also find opportunities for new developments ..."<sup>67</sup>

4.43 The Committee notes that in the case of Chile, prospects for investment and joint economic ventures would apply also to Chilean investments in Australia. The Chilean Ambassador informed the Committee at a public hearing that:

"It is not only trying to get Australian investment to our country but also to study the possibilities of Chilean investment in Australia because, we have accumulated capital in our country, in our market, that we will have to invest abroad. We are already doing it in neighbouring countries like Argentina, Brazil and Uruguay, and I think it would be very important that Chile invest in Australia, for the same reason that Australians are investing in Chile. So what we would like to talk of is cross-investment, not just Australian investment in our country."<sup>68</sup>

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<sup>66</sup> *'MIM joins with World's Largest Copper Producer in Technical Exchange Agreement'*, Press Release, MIM Holdings Ltd, 6 November 1991.

<sup>67</sup> Letter from H.E. Mr J. Salazar to the Committee Secretary dated 14 February 1992.

<sup>68</sup> H.E. Mr J. Salazar, Committee Hansard, p. 1377.

4.44 A further avenue suggested by Chile's Deputy Minister of Finance, Mr Pablo Pinara during his visit to Australia in July 1991 is the potential for Chilean and Australian companies to form joint ventures to tackle other markets in South America and in Asia.<sup>69</sup>

4.45 In October 1991, an agreement was signed between Austrade and its Chilean counterpart, Pro-Chile. In essence, the two organisations agreed to:

- . promote trade, investment, joint ventures, technology transfer and industrial collaboration between Australia and Chile;
- . exchange information on market and trade conditions, trade and business opportunities and trade developments;
- . exchange publications of mutual interest;
- . provide advice and support to each others' visiting business people and trade missions;
- . encourage participation in international trade fairs held in the other country;
- . consider on a case-by-case basis the exchange of trainees, with the training programs and the sharing of costs to be mutually determined;
- . meet regularly to review program of actions taken and to identify potential areas for cooperation; and
- . prepare a program establishing the measures required in order to achieve the goals of this agreement.<sup>70</sup>

4.46 On 10 March 1992 the Australian Foreign Minister, Senator Gareth Evans, and the Chilean Minister for Foreign Affairs, H.E. Enrique Silva Cimma, signed a Joint Communique on the State of Bilateral Relations Between the Two Countries. In the parts of the Communique relating to investment the Ministers:

- . expressed satisfaction at the level of major Australian investment in Chile;
- . expressed their hope that this mutual flow would continue and increase in the future;
- . pledged to encourage increased bilateral trade and investment and to support the respective chapters of the Business Councils in both countries; and

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<sup>69</sup> *Australian Financial Review*, 25 July 1991.

<sup>70</sup> *'Cooperation Arrangement between the Bureau of International Economic Relations of the Ministry of Foreign Affairs of Chile and the Australian Trade Commission'*, October 1991.

agreed to promote participation in trade fairs and increase bilateral visits of business and trade representatives.<sup>71</sup>

### *Colombia*

4.47 The most significant Australian investment in Colombia is Davis Gelatine's one-third interest in PROGEL, the largest gelatine manufacturer in Colombia.

4.48 The following description of Colombia's foreign investment policy was provided by the former Colombian Ambassador:

"The new legislation on foreign investment expands the remittance of profits up to 100% of the previous year's registered investment. The profits remittance tax rate will be progressively reduced from 19% to 12% for existing investments and the 12% rate is now applicable to all new investments. Legislation of early 1991 decentralised the administration of Colombia's port system and allows for private investment in this sector. It also deregulated the air cargo transport. There are no areas restricted to foreign investment except for toxic waste disposal and defence. Prior authorisations are no longer required except for mining, financial service and public utilities."<sup>72</sup>

4.49 In March 1992 the present Ambassador of Colombia, H.E. Mr Fernando Navas de Brigard, confirmed that the laws and guidelines introduced in Colombia in January 1991 are substantially unchanged, and in some instances improved:

- foreign investment in Colombia is treated in the same manner as investment by Colombian nationals;
- foreign investment is possible in all sectors of the economy not related to national security or the disposal and elimination of dangerous toxic or radioactive wastes; and
- foreign investors can remit the proven net profits of the previous year, up to 100% of the capital registered for the same year.<sup>73</sup>

Significant public bodies in Colombia that have already been privatised include:

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<sup>71</sup> Joint Communique by Senator Gareth Evans and H.E. Enrique Silva Cimma, 10 March 1992.

<sup>72</sup> H.E. Dr A. Puerto, submission, p. 8.

<sup>73</sup> Letter from H.E. Mr Fernando Navas de Brigard to the Committee Secretary, Committee Hansard, p. 1758.

- . Tequendama Bank;
- . Workers Bank;
- . Commerce Bank;
- . 51% of the International Bank; and
- . the Colombian Automovil Corporation.

The Ambassador assured the Committee that Australian investors would be particularly welcome in Colombia in the following areas: mining, agro-industry, ports and telecommunications.<sup>74</sup> Appearing at a public hearing, the Ambassador further made the point that, a result of the European Community's and the United States' granting of special trade preferences to Colombia in the last year:

"The message for Australia becomes clear. Invest and produce in Colombia and get the benefits of the special trade preference in the EC, United States, Venezuela and the rest of the Andean Pact."<sup>75</sup>

4.50 The only bilateral agreement existing between Australia and Colombia is a Memorandum of Understanding signed on 7 February 1992 between the Colombian Minister for Foreign Affairs, Mrs Noemi Sanin de Rubio, and the Parliamentary Secretary to the Australian Minister for Foreign Affairs and Trade, Mr Stephen Martin. In it, the two countries agreed to, among other things:

- . facilitate and encourage mutually beneficial cooperation in industry, resources agriculture, science, technology, education, culture, sport and tourism;
- . encourage general cooperation in the areas mentioned, through their appropriate national bodies; and
- . consult, at the request of either party, on any matter which falls within the ambit of the Memorandum of Understanding.<sup>76</sup>

### *Mexico*

4.51 Ansell International's plant at Juarez is the only Australian investment in Mexico that has been brought to the attention of the Committee.<sup>77</sup> According to one

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<sup>74</sup> *ibid.*

<sup>75</sup> H.E. Mr Fernando Navas de Brigard, Committee Hansard, p. 1767.

<sup>76</sup> *Memorandum of Understanding on Cooperation Between the Government of the Republic of Colombia and the Government of Australia*, 7 February 1992, Committee Hansard, pp. 1760-1.

<sup>77</sup> 'Mexico touted as leg into US', *The Australian*, 4 November 1991.

account it is the only Australian company operating under a Maquiladora deal. Another company is believed to have applied.<sup>78</sup>

4.52 Austrade describes Australian investment in Mexico as "almost nonexistent."<sup>79</sup> However, it points to two sectors as offering opportunities for Australian companies:

- . the Mexican Government's privatisation plans, which have so far involved 750 out of a total of 1,155 public organisations. Among the companies privatised are the national telephone company, the national insurance company (Latin America's largest insurance company), the two main steel plants and the world's fourth largest copper mine; and
- . the development of Maquiladora or In-Bond industries whereby companies manufacture, assemble and repair foreign goods that are temporarily imported and then re-exported as finished goods.<sup>80</sup>

4.53 The General Manager of Banco Santander believes that Mexico is "on the brink of resurgence".<sup>81</sup> Another submission contains the information that the Mexican Government only owns 269 of the 1,100 companies it held in 1982 when the privatisation program began.<sup>82</sup>

4.54 The most enthusiastic advocate of Australian participation in the Maquiladora scheme to come before the Committee was agribusiness consultant, Mr Greg Smith. Mr Smith pointed out that Maquiladoras are attractive investment propositions as:

- . they may be 100% foreign owned;
- . companies are permitted to import raw materials, unassembled components and production machinery free of duty; and
- . the finished or semi-finished products may be exported, with the United States as the most attractive destination. Up to 50% of what they export may be sold within Mexico.

4.55 According to Mr Smith, the Mexican Maquiladora scheme merits close attention as a "window of access " to the rapidly growing Mexican market. By participating in

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<sup>78</sup> Ansell International, submission.

<sup>79</sup> Austrade, submission, Committee Hansard, p. 331.

<sup>80</sup> *ibid.*

<sup>81</sup> Mr J. Blanco, submission, p. 9. There is some uncertainty over the likely impact of NAFTA, and in particular the impact on Maquiladora industries of the final outcome of negotiations on "rules of origin". Australian businesses interested in Mexico should look into this aspect carefully.

<sup>82</sup> Mr G. McKanna, submission, p. 3.

Mexico, Australian companies would also "obtain significant commercial advantage" in the wider American region<sup>83</sup>. Mr Smith's views on opportunities presented by the Maquiladora industry were supported by Banco Santander<sup>84</sup>.

4.56 In a comprehensive submission to the Committee, the then Ambassador of Mexico outlined the opportunities the following developments present to Australian business:

- . the Mexican Government's policies on trade liberalisation, which have seen tariffs reduced from 100% in 1985, to a present day maximum of 20%. The average rate is 11% and the 5% export development tax on imports has been eliminated;
- . the sale, under the privatisation program of some 780 State enterprises in areas such as mining, steel, agriculture and public transportation offer a range of business opportunities for Australian business. The Mexican Government further intends to privatise the largest insurance company, the railroad car manufacturing company, three steel mills, fertiliser plants, sugar mills and shipyards;<sup>85</sup> and
- . investment in the Maquiladora Industry, which would enable participating companies to take advantage of both competitive labour costs and Mexico's proximity to the United States and Canada, as well as Central and South American markets.<sup>86</sup>

4.57 The Embassy of Mexico informed the Committee in May 1992 that the foreign investment laws and guidelines outlined in Ambassador Morales' submission remain applicable. The Embassy provided a complete list of six categories of activities in which foreign investment is not permitted, is limited or requires authorisation if investment is to exceed 49%.<sup>87</sup>

4.58 Ownership of up to 100% of equity is permitted for activities not included in the list, and no restrictions are placed on the repatriation of capital or remittance of profits once Mexican tax obligations have been met.<sup>88</sup>

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<sup>83</sup> Mr G. Smith, submission, Committee Hansard, pp. 1093-8.

<sup>84</sup> Mr J. Blanco, submission, p. 9.

<sup>85</sup> H.E. Mr A. Morales, submission, pp. 4-5.

<sup>86</sup> *ibid.*, pp. 7-10.

<sup>87</sup> The list is included with the submission by H.E. Mr A. Morales in the bound volumes of submissions to this inquiry.

<sup>88</sup> Letter from Mr J. Chapero to the Committee Secretary, dated 14 May 1992.

4.59 The Embassy also informed the Committee that two significant areas of opportunities for Australian companies have recently emerged in Mexico, namely:

- . the banking sector. The Mexican Government has decided to privatise 15 government-owned banks, with three very recently offered for tender; and
- . the mining sector. The Mexican Government has recently created the Commission for Mining Development, abolished the Mexican monopoly on mining development and allowed foreign participation in up to 34% of the capital of mining enterprises.<sup>89</sup>

4.60 Certainly, the Confederation of Australian Industry (CAI) mission to Mexico (28 April - 4 May 1991) which visited Monterrey, Saltillo, Mexico City and Guadalajara identified significant opportunities for Australian investment in Mexico, including coal, agriculture, transport, telecommunications and privatisation. In particular, the Report of the delegation pointed out that the Mexican Government has targeted electricity generation as a precursor to development of the country's industrial base, as a result of which Mexico's current import of 2 million tonnes of coal a year is projected to rise to over 20 million tonnes by the year 2000.

4.61 There are opportunities for significant Australian participation in the proposed development of the port of Lazaro Cardenas.<sup>90</sup>

4.62 The General Manager of Elcom Services (now Pacific Power International Pty Ltd), Mr J. Hrdina, who was a member of the same delegation, subsequently made a submission to the Committee and also appeared before the Committee at a public hearing. Mr Hrdina stressed that there are very significant opportunities for export of coal and coal-related technological services for which Australian companies are well qualified to take up.<sup>91</sup>

### *Peru*

4.63 The submission provided by the Ambassador of Peru, H.E. Mr Gonzalo Bedoya, outlined the investment-related reforms implemented in Peru to date:

- . simplification of the tax system;
- . elimination of obstacles to foreign trade, including the reduction of import tariffs to 15% in almost all products;

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<sup>89</sup> *ibid.*

<sup>90</sup> *Report on CAI Mission to Mexico - April/May 1991* in Australia-South America Business Council, submission, Committee Hansard, pp. 1391-9.

<sup>91</sup> Elcom Services, Committee Hansard, pp. 922-44.

deregulation of the foreign exchange and financial markets; and

investment reform with new guarantees and incentives for foreign investment including remission of 100% of profits and capital. Foreign investors also have guarantees given by the World Bank which provides insurance against actions that could deprive investors of control of their property in Peru.<sup>92</sup>

4.64 The Ambassador drew attention to the following specific investment opportunities in Peru:

mining sector - development of Cerro Verde II and Antamina copper deposits, the Bayovat Phosphate project, San Antonio Gold deposits and Zinc Refinery Stage II project;

agricultural sector - irrigation projects such as Chavimochic, Tinajones and Majes, also the possibility of agribusiness;

fishing sector - acquisition and management of fishing vessels and of fish processing factories;

energy and electricity sector - possibility of investing in the Camisea natural gas and Thermal Plant project and in the exploration and exploitation of oil deposits; and

industry sector - possibility of establishment of export-orientated industries in Zones of Special Treatment or Export Processing Zones which enjoy customs, tax, exchange, labour and financial incentives.<sup>93</sup>

4.65 In April 1992 the Ambassador informed the Committee that 14 state-owned companies would be privatised in April/May 1992, including the State Gas company, petroleum company, airline, cement plants, oil refinery, bank, mining companies and public transport. The Peruvian Government has announced that of the 170 companies that it currently owns, 80 will be privatised in 1992. The list of companies includes mining, electricity, shipping, chemical, tobacco, coal, fishing, fishmeal and fish oil, fertiliser, banks, sawmills and manufacturing companies.<sup>94</sup> The Ambassador informed the Committee that Peru's equivalent of Austrade, the Association for the Promotion and Development of Peruvian Exports (PROMODEX), has recently been created. PROMODEX is interested in entering into an agreement with Austrade.

4.66 The Committee also noted a submission by Mr A. McL. Collins of Austral Computer Systems pointing out the long term potential of Peru. Mr Collins sees

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<sup>92</sup> H.E. Mr G. Bedoya, submission, p. 7.

<sup>93</sup> H.E. Mr G. Bedoya, submission, pp. 7-8.

<sup>94</sup> Letter from H.E. Mr Gonzalo Bedoya to the Committee Chairman, Committee Hansard, pp. 1821-6.



scope for cooperating with Peru to develop an Alpaca and Vicuna flock and clothing industry. He submits that, as wool from these animals is very much sought after on the wool markets, alpaca and vicuna wool would complement Australia's traditional merino wool industry.<sup>95</sup> Mr Collins further points out that, as major producers of silver, lead, copper, zinc, iron and gold there are opportunities for coordination of technology, processing and marketing strategies, and for joint ventures between Peruvian and Australian firms.<sup>96</sup>

### *Uruguay*

4.67 DFAT's assessment is that, provided adequate transport links are maintained and Uruguay's economic progress kept up, there is scope for greater trade in a range of products and services, particularly communications, biotechnology, agri-business, research, mining technology and minerals processing.<sup>97</sup>

4.68 Appearing before the Committee as a witness on 12 December 1991, the Charge d'Affaires of Uruguay pointed out that Mercosur (the "Southern Cone" agreement to establish a free trade zone and common market among Argentina, Brazil, Uruguay and Paraguay by 1 January 1995) presents significant opportunities for those Australian companies able to see the benefits. Mercosur would include:

- . 12 million square kilometres, or 60% of the territory of Latin America;
- . a total population of 190 million;
- . a gross domestic product of US\$24 billion;
- . total exports of US\$44 billion and total imports of US\$24 billion; and
- . a labour force of 70 million workers.<sup>98</sup>

### *Venezuela*

4.69 DFAT assesses the major opportunities in Venezuela to lie in the development of Venezuela's natural resources, and identifies in particular the sale of mining equipment, food processing technology, agricultural technology and telecommunications equipment. DFAT also notes opportunities in the petroleum sector, the under-developed mining sector, and those arising from the Government's

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<sup>95</sup> Mr A. McL Collins, submission, p. 7.

<sup>96</sup> *ibid.*, pp. 6-7.

<sup>97</sup> DFAT submission, Committee Hansard, p. 97.

<sup>98</sup> Mr J. Giamb Bruno, Committee Hansard, p. 1528.

privatisation of state enterprises.<sup>99</sup> DPIE told the Committee that Venezuela has invited a number of international oil companies, including Australia's BHP, to discuss possible participation in a program to substantially raise Venezuela's oil production.<sup>100</sup>

## Trailblazers

4.70 The Committee received submissions from some of the Australian companies that have ventured into Latin America. A summary of the individual experiences of a range of companies follows.

### **Broken Hill Proprietary Company Limited<sup>101</sup>**

4.71 BHP told the Committee that, as a resource company, BHP is active in Latin America because the region is rich in mineral resources, the development of which is essential for the long term growth of the company. In 1991, exploration in Latin America amounted to 9% of BHP's gross roots exploration. In addition, BHP looks to Latin America as a growing market for its products and skills.

4.72 All of BHP's three core businesses of BHP Steel, BHP Minerals and BHP Petroleum are active in Latin America. In addition, BHP Engineering's activities support the three other groups.

4.73 All BHP's operations in Latin America are run from BHP Mineral's head office in San Francisco.

### *BHP Steel*

4.74 BHP Steel Group's activities in Latin America commenced in 1988 through its US subsidiary BHP Trading Inc. Subsequently, offices were opened in Brazil, (Rio de Janeiro and Sao Paulo) and representatives were placed in Argentina and Mexico.

4.75 Between June 1990 and May 1991, BHP Steel's trade with Latin America amounted to \$US115 million. Imports to the region, consisting mainly of coke products, amounted to \$US23 million. Exports from the region, of steel and steel-related raw materials, accounted for the balance of \$US92 million.

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<sup>99</sup> DFAT submission, Committee Hansard, p. 98.

<sup>100</sup> DPIE, submission, Committee Hansard, p. 1194.

<sup>101</sup> BHP, submission and Committee Hansard, pp. 505-34.

4.76 So far Brazil and Argentina have been BHP Steel's largest trading partners in Latin America, accounting for 83% of total volume. However, emphasis is shifting to Mexico and Chile.

#### *BHP Petroleum*

4.77 BHP Petroleum holds petroleum exploration licences in Argentina and Guyana, and is exploring opportunities for investment in Bolivia, Chile, Venezuela, Uruguay, Guatemala and Belize.

4.78 BHP is in partnership with Pluspetrol, an Argentine company, and has begun producing oil at South Cucuma Field in northwestern Argentina. BHP Petroleum currently holds interests in 3.8 million net acres (approximately 15000 sq kilometres) in exploration licenses in Argentina.

4.79 BHP Petroleum considers that it has established a solid base for future business activities in Chile, Argentina and Venezuela.

#### *BHP Minerals*

4.80 BHP Minerals has a 57.5% interest in, and manages the La Escondida copper project in Chile. It also has a 49% interest in the Samarco iron ore project in Brazil. In addition, it carries out exploration work in Argentina, Chile, French Guiana, Brazil and Mexico.

4.81 Escondida is by far BHP's (and Australia's) most significant investment in Latin America, with BHP's total investment amounting to A\$1 billion. BHP has announced that it plans to invest in another project in Chile - a plant to produce copper cathodes - and also to increase Escondida's production capacity by 25%.

4.82 BHP's representative outlined to the Committee at a public hearing the fascinating background of BHP's involvement in Escondida.

"The way we got into South America was that some years ago, General Electric owned a company called Utah. General Electric was at that time run by a man called Red Jones. When he retired, a man called Jack Welsh came into GE and he had a view of GE's business that said that he did not like investing in businesses where he could not have influence over the price of the product...

Utah at that time, jointly with Getty Oil, had found the Escondida ore body. Utah owned it. So, in GE's eyes, there was a liability that they had a management who wanted to develop this thing. That happened to be at the same time that GE and BHP started to talk about a

change of ownership for Utah. BHP's view of that ore body was that it represented an opportunity. GE's view, probably, was that it did not represent an opportunity. So BHP acquired Utah, as is well known, and we set about working with that company which was new to us and gradually merging our minerals interests together with their activities.

During the course of this, Getty Oil got out. We effectively bought them out of the prospect and we started to develop the project. It was clearly going to be a very large investment and we were sitting there owning about 100 per cent of it. We felt the need to share the risks as well as the rewards and we sought partners. We were very fortunate in attracting RTZ to join us, as that company has expertise in mining as well as copper. It joined us to the tune of 30 per cent. We were also able to attract some of our customers to provide equity and loan interest, and also the IFC, which is the International Finance Corporation, an offshoot of the World Bank.

Part of the rationale for all of that was to design the ownership so that we had some security from sovereign risk if things in Chile should change adversely, even though there is no indication that they are changing, or were. If they should change, then we felt that we would have a bit more security if, in doing something adverse to the project, they had to offend such a wide range of countries and important organisations. That led to the structure. Typically, we find that we work with IFC in other parts of the world as well partly for the same reason. But it also suits the World Bank's objectives because it is trying to finance projects which are well managed and have a chance of economic success in order to promote the economic welfare of lesser developed countries. That is the history."<sup>102</sup>

4.83 The Escondida mine began operation in 1990 and is expected to increase Chile's export revenue by at least 6%. Most of the copper concentrate produced is shipped to Europe and Japan, with little or nothing coming to Australia.

4.84 BHP's representative told the Committee that its 900 employees at Escondida are not unionised. According to the BHP representative, although BHP would not object to its employees forming trade unions the workers had chosen not to do so

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<sup>102</sup> Mr J. Ellis, Committee Hansard, pp. 527-8.

because "the best standards of good industrial relations" exist at Escondida.<sup>103</sup>

4.85 BHP stressed that all its experience on the Escondida project to date has been positive. The Government of Chile entered into an investment agreement with the project owners (BHP, RTZ, Mitsubishi and the International Finance Corporation) promising the benefits authorised by the country's foreign investment law and granting the regulatory approvals needed for construction and operation. BHP informed the Committee that the Chilean Government has abided by its commitments to the project.

#### *BHP Engineering*

4.86 BHP Engineering is active in Mexico and Chile and is presently exploring opportunities available in other Latin America countries.

4.87 In 1988, BHP Engineering won a \$US3.8 million contract from SIDERMEX in Mexico to improve the performance of their iron ore and coal mines. The project was financed by the World Bank. An extension contract for \$US1.22 million was signed in April 1991.

4.88 BHP's assessment is that recent change to the Mexican equity investment laws together with the impending North American Free Trade Agreement, will further enhance opportunities for BHP in Mexico.

4.89 BHP Engineering is not as active in Chile as in Mexico. However, it indicated that it was encouraged by Chile's mineral wealth and the success of the Escondida project, and intends to bid for a number of projects in Chile.

#### **Davis Gelatine Consolidated Limited<sup>104</sup>**

4.90 Davis Gelatine (Australia) Co is a subsidiary of Davis Gelatine Consolidated Limited, an Australian company established in 1917 with headquarters in Botany, NSW. Davis is in turn a subsidiary of Goodman Fielder Wattie Limited.

4.91 Davis Gelatine is presently the third biggest gelatine producer in the world and the biggest edible gelatine manufacturer from beef products. Davis has had a long association with Latin America, having sourced raw material from Colombia, Venezuela, Argentina, Brazil, Paraguay, Uruguay and Peru since the mid 1950s. Davis' joint venture involvement started in 1966 when it was invited to become a partner in a joint venture to establish a gelatine plant in Colombia with two Colombian companies - a tanner, Empresa Colombiana de Curtidos (Colcurtidos) and a brewing company, Bavaria S.A. The latter retired from the venture before production started.

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<sup>103</sup> *ibid.*, p. 514.

<sup>104</sup> Davis Gelatine Consolidated Limited, submission, Committee Hansard, pp. 998-1020.

4.92 The company, Productora de Gelatina S.A. (Progel) was set up with Davis providing technological know-how, plant design, engineering support, personnel training, supervision and one-third of the capital.

4.93 The factory was established at the Industrial Park of Juancito, about 20 kilometres from the provincial town of Manizales. Production commenced in late 1969. Davis' Chief Executive told the Committee that the plant was at the time the most modern and technologically advanced in the world. The design was a completely new one originally developed for Davis' plant in NSW but first utilised in the Colombian plant.

4.94 A registered technical assistance agreement provided for annual fees to be remitted out of after-tax profit, and a registered sales agreement provided for Davis to become exclusive agent for export sales in return for a guarantee to place all product surplus in the local market.

4.95 During the development period the present Chief Executive, Mr Alan Norman was Davis' technical executive in Colombia. Mr Norman told the committee that he learnt Spanish during that time and spent six months supervising the final stages of construction and the start-up, in addition to training the General Manager and Technical Manager, both Colombians.

4.96 Thereafter, the management has been in the hands of Colombians, with regular visits by Davis executives.

4.97 Davis reported that its Colombian operation has been highly successful. Among other things:

- . it made a profit in its first year and each year thereafter;
- . dividends have been paid annually;
- . retained earnings have been used to increase the capacity of the plant, now four times the size of the original. This includes the purchase of a small plant nearby; and
- . retained earnings, together with a small increase in Progel's capital, have been used to establish a decaffeinated coffee plant as a 50% joint venture with a German company.

4.98 The success of Davis' joint venture in Colombia led to its establishing a smaller gelatine plant near Ambato, Ecuador in 1982, in a joint venture with Fleischman Ecuatoriana S.A., a subsidiary of Nabisco Brands of USA. This plant has also been very successful.

4.99 In 1987 the company took up a majority interest in a Brazilian gelatine manufacturer, Leiner do Brasil, which has two large factories in Brazil and another in

Argentina. These countries have very large cattle populations and tannery industries which supply raw materials for gelatine manufacture.<sup>105</sup>

4.100 Davis told the Committee that it was very happy with its experience in Latin America and is now a partner in ventures which produce over 60% of the gelatine manufactured in South America.<sup>106</sup>

4.101 The Committee notes Davis' experience that from the beginning (in 1966):

"We found the representatives of the partners to be highly astute, competent and reliable, and friendships were established which have been maintained to this day."

4.102 Davis reported that all of its investments are being run profitably. To achieve this:

"... it has been necessary to make a full commitment to the involvement of our people in the enterprises, to understand the language, the financial practices and the culture of each of the countries, and to provide the best technical, financial and management support. We have found the local management staff to be reliable and able to use sophisticated techniques."

4.103 Davis' Latin American operations are administered from its office in Toronto, with technology and overall control coming from Sydney. Davis' products from its Latin American plants are mainly exported to the United States and Europe.

### **MIM Holdings Limited<sup>107</sup>**

4.104 MIM Holdings Ltd's investments and activities in Latin America have been mainly through its 25% equity in ASARCO Incorporated (United States), a company specialising in the mining and refining of non-ferrous metals, principally silver, copper, lead and zinc.

4.105 Through its equity in ASARCO Incorporated, MIM has the following metals production interests in Latin America: 52.3 per cent of Southern Peru Copper

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<sup>105</sup> *Australian Financial Review*, 29 January 1992, p. 19.

<sup>106</sup> Since then, Goodman, Fielder Wattie has acquired the remaining 40% of Leiner do Brasil, which is now a wholly owned subsidiary. In 1990-91, Leiner had annual sales of A\$65 million compared to Davis' total gelatine sale of A\$177 million. *Australian Financial Review*, 29 January 1992, p. 19.

<sup>107</sup> MIM Holdings Limited, submission, Committee Hansard, pp. 1061-88.

Corporation, and 34 per cent of Mexico Desarrollo Industrial Minero, S.A. These interests are, for MIM, investment only, and involve no direct activities.

4.106 Since 1990, MIM has also operated in Chile through a branch company, Minera Mount Isa Chile S.A., and has appointed a senior Australian company executive as its General Manager. The General Manager is based in Santiago.

4.107 MIM also has other interests in Chile through its 10.4% equity in Cominco Limited (Canada), a company which specialises in mining, smelting, refining, mineral exploration and fertiliser production.

4.108 MIM stated in its submission that one of its major objectives is to increase its copper business through, among other things, acquisition or development of overseas copper mining industries, particularly in Chile.

4.109 In its submission, MIM informed the Committee that it sees investment in Chile as an arm of its international investment strategy to achieve growth in its copper mining business. MIM would most likely achieve this by joint venture development and co-operation with other mining companies.

4.110 Since then, the Committee is pleased to note MIM's press release of 6 November 1991 announcing that MIM and Codelco have entered into an agreement to promote the exchange of technology between the two companies. The agreement allows both parties to exchange "non-sensitive" information relating to technological improvements either company has developed or has become aware of in the field of copper.<sup>108</sup>

4.111 MIM and Codelco will collaborate on, and will both have access to the results of Codelco's testing of MIM's Jameson Cell technology at Chiquicamata, the world's largest copper mine, and at the smaller El Teniente. In addition:

- Codelco is investigating the use of the Isa Process technology (developed by MIM) in a number of copper refining and electrowinning<sup>109</sup> projects at Chiquicamata;

- Codelco will investigate underground mining methods of Mount Isa which may have application to copper deposits found in Chile; and

- MIM will investigate Codelco's initiatives in copper converting and leaching technologies.

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<sup>108</sup> MIM Holdings Limited, Press Release, 6 November 1991, p. 1.

<sup>109</sup> Recovery of a metal from an ore by means of electrochemical processes. *Metals Handbook*, America Society for Metals, Ohio, 1985, pp. 1-15.



4.112 Chile has recently passed legislation to enable Codelco to enter into joint ventures with local and foreign companies for exploration and exploitation of minerals. Hence, the potential exists for MIM to join with Codelco in further business opportunities in Chile.

4.113 Like Davis Gelatine, MIM has a formula that appears to the Committee to be an appropriate management philosophy. MIM informed the Committee that:

"MIM has strengths in the mining and mineral processing industry which can add value to its investments in Chile. It also has advanced technologies which it can transfer to the Chilean mining industry. MIM sees business opportunities arising both from the marketing of its advanced technologies and from opportunities to leverage into mining acquisitions.

MIM sees its business in Chile being managed and run by Chilean staff and labour. It believes that benefits will be derived from having personnel with executive potential trained and experienced in MIM's Australian operations as a forerunner of executive responsibility in its Chilean operations.

MIM proposes to hire suitably qualified Chilean professionals and transfer them to Australian operations for a two year training and development period."

4.114 MIM's Executive General Manager explained to the Committee at a public hearing that it is important in the long term for MIM to make sure that its Chilean staff had spent time in Australia and had "picked up the flavour of how MIM does things."<sup>110</sup>

#### **Western Mining Corporation Limited<sup>111</sup>**

4.115 Western Mining Corporation, Australia's largest gold producer, informed the Committee in its submission that it is currently operating two gold mines in Brazil. It is also actively exploring in Brazil and Chile, and its exploration expenditures in Brazil and Chile were approximately US\$5 million in 1990, or about 5% of Western Mining's exploration budget.

4.116 In Brazil, WMC owns 75% of the Brazilian company, WMC Mineracao Limitada. WMC Mineracao operates two gold mines, Jenipapo and Mara Rosa, both

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<sup>110</sup> Mr P. Slaughter, Committee Hansard, p. 1074.

<sup>111</sup> Western Mining Corporation, submission, Committee Hansard, pp. 477-96

approximately 200 kilometres from Brazil and employs 368 people. Western Mining's Latin American assets represent 1% to 2% of the company's total assets.

4.117 WMC has a staff of 30 in Chile where it is carrying out an exploration program for gold and base metal deposits. The exploration effort is concentrated in the Coihaique region of southern Chile and in the Copiapo area of northern Chile.

4.118 WMC has also studied projects in Uruguay, Bolivia and Argentina, either on a 100% or joint venture basis.

4.119 Western Mining's Director of Finance and Administration explained at a public hearing, how the company came to be involved in Latin America ten years ago, in the first significant activity Western Mining undertook outside of Australia:

"The reasons we went to South America, or particularly Brazil, was through an association with the Aluminium Company of America which had, for many years, substantial operations there. At that stage they perceived that there were opportunities to explore for minerals in Brazil other than what they had traditionally done which was aluminium, bauxite and alumina. Because of our long association with them they recognised that we did have expertise in this area.

We entered into a joint venture with Alcoa and explored in Brazil with them for about five years. By that stage they concluded that they did not want to pursue this exploration activity. They wanted to stick to their traditional aluminium related businesses. We took it over on our own account and have been exploring there since and have discovered one operation and purchased another. As we said in our submission, we are now producing around about 50,000 to 60,000 ounces of gold per annum.

Our exploration has been directed in Brazil to base metals and to gold; most recently gold.

The other area in which we have had an interest in South America is Chile. Our first interest there was some four years ago when we did seek to acquire the operations of a mining company in Chile. We did not make a bid because an Australian company bid ahead of us and higher than us, but it aroused an interest in that country and we subsequently started exploring there two or three years ago and we are exploring again for base metals and gold in Chile. At this stage we do not have any operations in that country. In the other parts of Latin America we have, from time to time, investigated... but we have never

actually set foot on the ground so to speak in a business sense in other countries."<sup>112</sup>

4.120 The Committee was interested to hear that Western Mining's policy is also to employ local people, with a limited number of Australians on assignment (three or four in Brazil, one in Chile).<sup>113</sup>

4.121 Western Mining informed the Committee that its policy is to have the same standards on safety and employee occupational health as it would anywhere in the world, and that, recently, one of the company's mines in Brazil received an award for safety in competition with other mines in that country.

4.122 Western Mining Corporation's operations in Latin America are managed from the company's office in Toronto.

#### **Ansell International<sup>114</sup>**

4.123 Melbourne-based Ansell International is a division of Pacific Dunlop Ltd, and has major manufacturing and marketing activities in latex products and industrial gloves.

4.124 Ansell has two areas of Latin American activity:

- . Marketing of US and foreign sourced products through Latin American distributors, appointed and managed by North American staff in its New Jersey office. Total sales are about \$6 million per year.
- . Manufacture of synthetic rubber gloves in a Maquiladora operation at Juarez, Mexico. The factory employs about 380 people and the operation reports to Ansell's US manufacturing headquarters in Ohio.

4.125 In each case there is no direct contact with Ansell's Australian Head Office, with the operation wholly managed by non-Australian staff in Ansell's subsidiaries in United States. Limited referrals are made to the Melbourne office.

4.126 Ansell informed the Committee that it had no plans to enlarge its activities in Latin America at the present time.

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<sup>112</sup> Mr D. Morley, Committee Hansard, pp. 477-8.

<sup>113</sup> *ibid.*, p. 481.

<sup>114</sup> Ansell International, submission.

### **Barrett Burston (International) Pty Ltd<sup>115</sup>**

4.127 Barrett Burston (International) Pty Ltd is Australia's largest malt producer and one of Australia's oldest companies with origins dating back 125 years. Together with its subsidiary in the United Kingdom Barrett Burston is one of the top ten malt producers in the world.

4.128 Barrett Burston supplies malt to the Australian brewing industry and exports to customers, mainly in the Asian/Pacific area. It has been exporting to the Latin America region for 25 years, mainly to Brazil, Peru, Venezuela and Colombia.

4.129 In 1987 Barrett Burston entered into a joint venture with a company in Latin America involved with the barley growing industry to build a maltings in Uruguay. Barrett Burston provided technical assistance in the design of the plant, and training in Australia for several key operatives. Barrett Burston also provided assistance in the marketing of the product. One plan was to export from Uruguay to Brazil.

4.130 Barrett Burston's experience in that venture was not altogether a happy one, but the reasons were less to do with economics than personalities. Barrett Burston found it increasingly difficult at the construction stage to work effectively with the chief executive appointed by the local company, especially in relation to project costs. In mid 1990, faced with the need to provide substantial additional capital to start production, Barrett Burston elected to sell out of the company. The maltings was bought by a company associated with Brahma, the largest brewer in Brazil (who also bought out the barley company) and is presently operating in full capacity.

4.131 Barrett Burston submitted that the exercise showed that Australian malting technology could be readily adapted for South American requirements and in joint ventures and that there is opportunity for such technology transfer to countries in South America.

### **Biogenesis Limited (Chile)<sup>116</sup>**

4.132 The submission from Biogenesis Limited is interesting not only because it relates to a successful joint venture between a Chilean company and an Australian company, but because the project is located in Australia.

4.133 Biogenesis Limited (Chile) began as a biotechnology company in Chile in 1988. In 1989, two events combined to lead the company to explore an Australian connection:

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<sup>115</sup> Barrett Burston (International) Pty Ltd, submission.

<sup>116</sup> Dr H. Povea-Pacci, submission.

- the company obtained financial support from Corporacion de Fomento de la Produccion (CORFO), the Chilean equivalent of DITAC; and
  - one of the company's members settled in Newcastle, Australia, as a permanent resident and pursued scientific research there. The company decided to explore the feasibility of integrating the approved project in a joint venture with Hunter Antisera, an Australian biotech company based in Newcastle.
- 4.134 The company's reasons for seeking an Australian connection were as follows:
- Australia had a superior infrastructure for carrying out fundamental scientific research and a history of high technology innovative products;
  - Chile on the other hand, had highly skilled professionals and considerably cheaper labour force and production infrastructure than Australia;
  - the economic downturn in Australia had resulted in encouragement being given to high technology industries; and
  - Chile, by contrast had a healthy economy and had considerable expertise in exporting non-traditional value added products to Europe, United States and other parts of Latin America.

4.135 Hence, joint venture arrangements were entered into with Hunter Antisera whereby the scientific stage of the project would be carried out in Newcastle and any new product deemed marketable would be manufactured in Chile.

4.136 At the time the submission was made (June 1991) final research was being carried out on the project.<sup>117</sup> Two other projects have since begun on the same terms.

4.137 Biogenesis Limited submitted that, as its experience demonstrated, partnerships between Australia and Chilean companies could usefully develop along the same lines. This is especially the case if facilitated by official agreements for scientific cooperation, or official encouragement to Australian and Chilean high technology companies to establish communication links.

4.138 The company proposed that Australia could be the "brain" to analyse and produce solutions for major urgent problems emerging in Latin America, and Chile could serve as a base for the industrial application or production of processes developed in Australia.

4.139 According to Biogenesis Ltd, one of the most serious problems emerging in Latin America that could lend itself to such a collaborative venture is waste

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<sup>117</sup> The aim of the project is to obtain sub-products (such as drugs and chemical reagents) from the human placenta.

management. Others are environmental matters, agricultural biotechnology, animal reproduction, forestry, energy, desert management and communications.

## Personnel and Employment Matters

### Industrial Relations

4.140 The Committee is aware of concerns that Australian companies adopt acceptable industrial relations practices overseas. The Victorian Trades Hall Council (VTHC) referred to the former Bond Corporation's "appalling industrial relations practices" in regard to its companies in Chile. VTHC submitted that the Bond Corporation's record in Chile provides a clear example of why the Australian Government should not promote an "open slather" approach to Australian investment abroad, including in Latin America.<sup>118</sup>

4.141 As noted above, BHP, the largest Australian employer in Latin America, told the Committee that its 900 employees in Escondida have so far chosen not to be unionised. In BHP's view:

"Whether in the future it becomes unionised or not will be a matter for our employees. We are certainly not standing in the way of it, but at the moment it is not unionised."<sup>119</sup>

4.142 Interestingly, the Escondida mine was praised by another Australian mining company, MIM, as being "probably the best run operation of its type in the world." MIM's representative told the Committee:

"If people in Australia have the opportunity to visit the BHP Escondida mine, they will see a classic example of how to set up an operation and how to treat people in accordance with the local standards imposing upon [these standards] some values and standards that are derived from Australia and North American practice."<sup>120</sup>

4.143 The VTHC representative told the Committee that he was not aware that the Escondida mine was not unionised. However, VTHC noted that no serious criticisms have been made by Chilean unions in relation to Escondida. Appearing before the

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<sup>118</sup> Committee Hansard, p. 575.

<sup>119</sup> Mr J. Ellis, Committee Hansard, p. 514.

<sup>120</sup> Mr P. Slaughter, Committee Hansard, p. 1084.

Committee, the VTHC representative told the Committee that Chilean unionists he has met in Chile "had no problem at all with the conduct of BHP as an employer."<sup>121</sup>

#### **Terms and conditions of employment**

4.144 The Committee questioned Australian companies operating in Latin America on the terms and conditions under which staff are employed in Latin America. The Committee was also interested to know whether the companies followed similar codes of practice in dealing with staff in Latin America as in Australia.

4.145 BHP and Western Mining told the Committee that lower wages are paid to locally-engaged staff employed in Latin America compared to Australia. This was to ensure that the wage levels would be compatible with, and not in excess of, those existing locally.<sup>122</sup>

4.146 In terms of occupational health and safety:

"We seek to have the same standards on safety and employee occupational health as we would anywhere in the world."<sup>123</sup>

4.147 As noted above (in para. 4.121), the Western Mining representative informed the Committee that one of its mines in Brazil recently received an award for safety in competition with other mines there.<sup>124</sup>

4.148 The Committee took particular note of the high regard in which local staff are held by the Australian companies.

4.149 Only one company made reference to difficulties with locally engaged staff. In its submission Barrett Burston International referred to difficulties in working effectively with the Chief Executive appointed by the local joint venture company in Uruguay in relation to costs control of a project.<sup>125</sup>

4.150 Western Mining Corporation said that it endeavours:

"... to utilise local people where we can, partly because expatriates are extremely expensive and partly because we

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<sup>121</sup> VTHC, Committee Hansard, pp. 575, 603.

<sup>122</sup> Mr D. Morley, Committee Hansard, p. 481 and Mr J. Ellis, Committee Hansard, p. 514.

<sup>123</sup> Mr D. Morley, Committee Hansard, p. 481.

<sup>124</sup> *ibid.*

<sup>125</sup> Barrett Burston, submission, p. 2.

think that is a far better way to operate ... As far as I am aware, the loyalty, the operational aspects and attitudes of the work force are not dissimilar to those in other parts of the world."<sup>126</sup>

4.151 Davis Gelatine told the Committee:

"We cannot speak too highly of the people we have had dealings with in Colombia, both as partners and as customers and suppliers of equipment. They are very fine people."<sup>127</sup>

### Training

4.152 BHP told the Committee that its policy is to place Australian expatriates sent to Latin America in positions which preserve income levels. Supplements might take the form of housing, allowances and language training.<sup>128</sup>

4.153 All three mining corporations - BHP, Western Mining Corporation and MIM - assured the Committee that their staff undergo language and other training preparations prior to going to Latin America.<sup>129</sup>

4.154 The Australian companies presently operating in Latin America broadly appear to be pursuing acceptable industrial relations practices. The Committee would like to stress that there is a continuing need for Australian companies to be good employers of labour overseas in a manner not significantly at variance with Australian standards.

### Staff Exchanges

4.155 One particular aspect of joint venture investments in Latin America that was brought to the Committee's attention, and which could assume greater importance if such activities expand, is the ability of companies to arrange exchanges and transfers of staff easily and simply.

4.156 In its submission, MIM drew the Committee's attention to its policy of hiring suitably qualified Chilean professionals and transferring them to Australia for two-year training and development. This ensures that its Chilean managers and technical

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<sup>126</sup> Mr D. Morley, Committee Hansard, p. 481.

<sup>127</sup> Mr A. Norman, Committee Hansard, p. 1009.

<sup>128</sup> Mr J. Ellis, Committee Hansard, p. 518.

<sup>129</sup> Committee Hansard, pp. 518, 480 and 1074.



personnel are thoroughly trained and experienced in MIM's Australian operations before taking up positions in Chile.<sup>130</sup>

4.157 This appears to the Committee to be an excellent practice. The Committee sought to find out from MIM whether such exchanges were easily accommodated under present immigration regulations. In part, the Committee's concern was triggered by MIM's comment, after outlining its policy, that the company:

"... hopes that Government immigration policies in Australia will recognise these benefits and facilitate such arrangements."<sup>131</sup>

4.158 The Committee was informed by its Executive General Manager, Corporate Development, Mr Peter Slaughter, that MIM had in the past experienced difficulties in bringing foreign staff in on a secondment basis. Mr Slaughter did not indicate that the problem was a significant one. Nevertheless, exchanges such as those carried out by MIM are commendable initiatives which the Committee would like to see unimpeded by excessive bureaucratic requirements.

4.159 For this reason the Committee sought information from the Department of Immigration, Local Government and Ethnic Affairs (DILGEA) as to the ease with which such training could be accommodated under present immigration procedures. The Committee was informed by the First Assistant Secretary of its Temporary Entry, Compliance and Systems Division that there were provisions for the sponsored entry of temporary skilled persons and for occupational trainees, but not for worker exchange or guest or unskilled workers. The kind of temporary entrants sponsored by MIM would fall into the first two categories and would be processed fairly quickly.

"The sort of application you get from a company like Mount Isa Mines is something which is complete and is able to be approved extremely quickly. Generally, you get delays in a company which is inexperienced in this field and you are going back and forth in terms of documentation requirements."<sup>132</sup>

4.160 DILGEA provided information to the Committee indicating that from 1981 to 1992, MIM has sponsored the entry of 21 skilled workers, of whom 14 came in as temporary residents and 7 as migrants. Of the 14 in the temporary residence category, 8 were engineers, earth scientists or specialists; 4 were executives; and 2

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<sup>130</sup> MIM, submission, Committee Hansard, p. 1058.

<sup>131</sup> *ibid.*

<sup>132</sup> Mr M. Sullivan, Committee Hansard, p. 1302.

were on staff exchange arrangements. The average processing time taken for the 3 temporary entrants applications in 1991 was 2.5 weeks.<sup>133</sup>

4.161 The Committee sought further comment from MIM. MIM indicated that it had difficulty reconciling DILGEA's figures with its own records, in part because MIM's records do not differentiate between Australian nationals recruited offshore and nationals of other countries. Also, the DILGEA list:

"... does not tell the full story, possibly because employees recruited overseas by MIM may have been sponsored by MIM Holdings Limited itself, or by any of its subsidiaries, particularly Mount Isa Mines Limited and Collinsville Coal Company Pty Ltd."<sup>134</sup>

4.162 However, MIM was able to confirm that between 1978 and 1987, MIM, Mount Isa Mines and Collinsville Coal brought 76 employees to Australia, about half of whom would have been Australian nationals. MIM further indicated that it expects overseas recruitment to "always be a part of our Human Resources function" and secondments to and from Australia and its affiliates, including in Latin America, to be "an on-going feature of our personnel development program, as well as a necessary adjunct to routine recruitment activities to fill specific vacancies."<sup>135</sup>

4.163 The Committee was interested in MIM's comment that it relies a great deal on DILGEA's readiness to:

"... accept our bona fides and at least lower the barriers if it is not willing to facilitate in a more positive way the movement into Australia of professional staff required to keep our resources industry competitive."<sup>136</sup>

4.164 The Committee is keen to ensure that companies entering or already working in joint venture arrangements in Latin America have access to clear guidelines for entry of temporary skilled workers for familiarisation/training and that such applications are processed quickly and efficiently. The Committee is aware of the very substantial changes that have taken place in entry regulations in recent times and the very extensive and detailed documentation accompanying those changes.

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<sup>133</sup> Letter from Mr T. Havas, Director Ministerial and Parliamentary Business, to the Committee Secretary, dated 26 February 1992.

<sup>134</sup> Letter from Mr P. Slaughter to the Committee Secretary, dated 3 June 1992.

<sup>135</sup> *ibid.*

<sup>136</sup> *ibid.*

4.165 Recommendation thirteen: The Committee recommends that:

the Department of Immigration, Local Government and Ethnic Affairs ensure that it has a set of concise, clear and accurate guidelines that may be applied consistently to the lodging of applications for temporary entry of skilled workers. The guidelines should include all relevant information relating to documentation requirements;

in addition to being generally available, a copy of these guidelines should be sent to relevant individuals and agencies, including heads of Latin American diplomatic missions in Australia, DFAT, Austrade, DITAC and DPIE, industry associations, including the Australia-South America Business Council, and companies identified in this Report as having trading or investment links with Latin America.

### Comment

4.166 From a study of the submissions from individuals and companies who have direct experience of investing and/or entering into joint venture arrangements in Latin America, the Committee came to the conclusion that the following features of these companies and arrangements are worthy of note:

- to date most of the successful investors have been the larger companies such as BHP, Western Mining and Ansell International;
- their operations in Latin America typically came about because of association with North American companies, for example, BHP and Utah, Western Mining and the Aluminium Company of America and MIM through equity in ASARCO Incorporated (United States) and Cominco Limited (Canada);
- some are companies which have had a long history of trading with Latin America, for example, Davis Gelatine, whose joint venture operations evolved from links established over many years.

4.167 Most of the investments and joint venture operations brought to the attention of the Committee during the inquiry appear to have been achieved by the companies concerned without significant Australian Government involvement. It is clear that the larger companies are able to utilise their own resources to carry out market research, establish links and set up operations. This may not be possible for the smaller or medium-size companies.

4.168 With a few possible exceptions, there is a noticeable absence of investment activities in Latin America by the smaller to middle-sized Australian companies. The Committee cannot determine whether this means that there are fewer opportunities for

the smaller companies or that opportunities are just as numerous and attractive but that the smaller companies do not know they exist, are unable to make the right operational contacts or are unable to carry the investment process through to a successful conclusion.

4.169 The Committee is of the view that at this stage of the Australia-Latin America relationship Government agencies must be more pro-active in assisting Australian companies, particularly the smaller to medium size companies, to identify and pursue investment opportunities in Latin America. The recommendations outlined in Chapter Five will assist in achieving this objective.

4.170 The Committee acknowledges that there is a potential downside to Australian investment, namely that the location or re-location of Australian companies overseas may translate into job losses for Australians.

4.171 The Committee notes the counter argument that the profits of such investments nevertheless accrue to Australia through repatriation.

4.172 On balance, the Committee is of the view that it is in Australia's long-term interests for the opportunities for investment available in the Latin American countries to be recognised, publicised and seized by Australian companies.