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DEFENCE AND TRADE FOREIGN AFFAIRS SUBCOMMITTEE

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**JOINT STANDING COMMITTEE ON
FOREIGN AFFAIRS, DEFENCE AND TRADE**

Foreign Affairs Subcommittee

Tuesday, 21 November 2006

Members: Senator Ferguson (*Chair*), Mr Edwards (*Deputy Chair*), Senators Bartlett, Crossin, Eggleston, Hutchins, Johnston, Kirk, Moore, Payne, Scullion, Stott Despoja and Webber and Mr Baird, Mr Barresi, Mr Danby, Mrs Draper, Mrs Gash, Mr Gibbons, Mr Haase, Mr Hatton, Mr Jull, Mrs Moylan, Mr Prosser, Mr Bruce Scott, Mr Sercombe, Mr Snowden, Dr Southcott, Mr Cameron Thompson, Ms Vamvakinou, Mr Wakelin and Mr Wilkie

Foreign Affairs Subcommittee members: Mr Jull (*Chair*), Senator Kirk (*Deputy Chair*), Senators Bartlett, Eggleston, Ferguson (*ex officio*), Hutchins, Johnston, Moore, Payne, Stott Despoja and Webber and Mr Barresi, Mr Danby, Mrs Draper, Mr Edwards (*ex officio*), Mrs Gash, Mr Hatton, Mr Sercombe, Mr Snowden, Dr Southcott, Mr Cameron Thompson, Ms Vamvakinou, Mr Wakelin and Mr Wilkie

Members in attendance: Senators Kirk and Payne and Mr Edwards and Mr Jull

Terms of reference for the inquiry:

To inquire into and report on:

Australia's relationship with Malaysia, with special emphasis on:

- bilateral relations at the parliamentary and government levels;
- economic issues, including trade and investment;
- cultural and scientific relations and exchanges; and
- defence cooperation and regional security.

The Committee will consider both the current situation and opportunities in the future.

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Subcommittee met at 9.29 am

CHAIR (Mr Jull)—I declare open this public hearing into Australia's relationship with Malaysia. This is the third public hearing for this inquiry being and conducted by the Foreign Affairs Subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade. Our focus is on building a relationship that is positive and mutually beneficial. As part of this review we look at the political, strategic, economic, social and cultural aspects of the bilateral relationship, considering both the current nature of the relationship and the opportunities for it to develop.

Today the subcommittee will have a business and services focus. The hearing will commence with representatives of Malaysian students studying here in Australia. The provision of educational services to overseas students is an important area of trade with Malaysia and is valued at over \$1 billion annually. The subcommittee is interested to know whether Malaysian students studying in Australia are finding the experience enjoyable and rewarding, the strengths of the courses and support being provided and what, if any, are the weaknesses.

Malaysia is now Australia's third-largest trading partner in ASEAN and our 11th overall. The latest figures show total merchandise trade between the two countries to be \$9.29 billion per annum, but with a substantial imbalance in favour of Malaysia. While it seems from previous evidence that Australian firms are concentrating on the emerging markets of China and India, it is important not to overlook the opportunities provided by this important ASEAN trading partner.

The subcommittee will be seeking from the Australia Malaysia Business Council and the Australian Services Roundtable insights into the Malaysian market and possible strategies to address the trade imbalance, especially how a future free trade agreement with Malaysia could boost bilateral trade. A further public hearing will be held in Canberra on Monday 4 December, when the focus will be on education and research. Before we proceed, I refer any members of the media who may be observing the public hearing of the need to report fairly and accurately the proceedings of the subcommittee as required by the Senate orders concerning the broadcasting of Senate and committee proceedings.

[9.31 am]

TAN, Mr Mohd Saiful (Sunny), Vice Chairperson, Malaysian Students Council of Australia

TAN, Mr Danny Tze San, Member, Malaysian Students Organisation, University of New South Wales

YONG, Mr Wai King, Webmaster, Malaysian Students Organisation, University of New South Wales

CHAIR—On behalf of the subcommittee, I welcome members of the Malaysian Students Council of Australia and the University of New South Wales Malaysian Students Organisation. Although the subcommittee prefers that all evidence be given in public, should you at any stage wish to give any evidence in private, you may ask to do so and the subcommittee will give consideration to your request. Although this committee does not require you to give evidence on oath, you should be aware that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the chambers themselves. Before proceeding to questions, does anyone wish to make a short opening statement to our committee?

Mr Mohd Saiful Tan—MASCA wishes to thank the committee for inviting us to this public hearing. We look forward to giving useful information to the inquiry.

CHAIR—Perhaps we can start by asking you how you are finding your life in Australia and how your studies are going?

Mr Mohd Saiful Tan—It is pretty much the third year now. Study is getting tougher and tougher, but life is pretty enjoyable.

Mr D Tan—I am also a third-year student. I am finding it pretty good. There is a good balance between social interaction and focus on academic studies. I do like the somewhat multicultural base within the university itself, so there is a lot of chance to interact with different cultures and meet new people. There is a wide variety of curricular activities as well available both inside and outside uni which we can partake in.

CHAIR—Is there anything much you find wrong with the system in Australia?

Mr D Tan—On a personal level, a point I would like to bring up is that student travel concessions are not given to international students. I do find it unfair. Many students have lobbied that since local students are given travel concessions international students should be given them too. As you said, international students form a huge part of Australia's export terms. A lot of us are paying full fees already, so a cut to half the price—I think student concessions are about half the price—would be of great benefit.

CHAIR—What are we talking about? Bus fares?

Mr D Tan—Bus and train fares.

CHAIR—Paying to go into the movies, on trains?

Mr D Tan—Not movie tickets, because movie tickets we get as well. It is mainly for travel. Some people depend on public transport throughout their whole uni life. To travel to and from uni every day, five days a week, costs about \$20 extra per week for some people. So that is a fair bit for the students themselves.

Mr Mohd Saiful Tan—If there is one thing that Malaysian students, particularly, in Sydney are not particularly happy with, that is pretty much it.

Senator PAYNE—May I ask what you are studying?

Mr Yong—Engineering.

Mr Mohd Saiful Tan—Actuarial studies.

Mr D Tan—I am doing commerce and law.

Senator PAYNE—What made you choose Australia?

Mr D Tan—One of the reasons is that it is close to Malaysia. I have personal reasons as well because I have family here—a few aunts and a few uncles. For what it is, I find Australia pretty much up to standard in the global arena.

Mr Mohd Saiful Tan—Education in Australia seems to be very prestigious from Malaysia's point of view. Considering other countries such as the UK and US, Australia seems to have a more favourable exchange rate regime to Malaysia, so it is considerably cheaper, but no less in standard. Personally, there is another reason I came to Australia—that is, when I was seeking overseas education there was a policy by sponsors at the time not to send students to the US. The US was my first choice for actuarial studies; nonetheless, I am here at Macquarie University, and it is a very good university for this course anyway so I am very happy there.

Mr Yong—I think there is an obsession with foreign education in Malaysia. You can clearly see it because employers definitely want people with a foreign education. The thing is that there is this mentality that if it is more expensive it is better. Most people would prefer the UK over Australia. It sounds kind of bad, but Australia is generally seen as a poor man's choice for foreign education. If you had the money, you would probably end up in the UK or the US. So, generally, people get sent to Australia if they cannot really afford the UK but they still have quite a bit of money. It is generally that or, as in the case of one of us, sponsorship deals; scholarships do not really send you to the UK because it is expensive.

Senator PAYNE—Did any of your parents study internationally?

Mr Mohd Saiful Tan—No.

Mr Yong—No.

Mr D Tan—I never asked, but I do not think so.

Senator PAYNE—In your view what sort of job does the Australian educational system do in marketing itself in Malaysia? Did that help you in any way in choosing your universities?

Mr Mohd Saiful Tan—We got plenty of marketing advice about choosing a university from IDP Australia in Malaysia. In Malaysia, Australia is not very well established in marketing its education. Currently, from a government sponsored student point of view, we are experiencing more of a swing of students who were going in a big sense to other countries—they are now flowing into Australia instead of into the US and the UK. From a marketing point of view, Australia is not as established in Malaysia as the UK and the US.

Mr EDWARDS—What sorts of recreational pursuits do you have outside of university?

Mr Yong—Soccer is basically it.

Mr Mohd Saiful Tan—Sport is a big part of life—going out on weekends to the city. I stay up north, which is very far away.

Mr EDWARDS—In general terms, do you think there is a lot of goodwill between Malaysia and Australia?

Mr Mohd Saiful Tan—Yes, pretty much.

Mr D Tan—I would say that goodwill has generally increased since the last change in the political position in Malaysia, especially with the current Prime Minister.

Mr Mohd Saiful Tan—Exactly.

Mr D Tan—He is more of an external person. In that case, yes.

Mr EDWARDS—It is interesting that, over the past 12 months or so, Malaysian tourist visits to Australia have dropped off. There is a campaign called ‘So where the bloody hell are you?’ Have you seen it?

Mr Mohd Saiful Tan—Yes.

Mr D Tan—Yes.

Mr EDWARDS—What sort of an impact is that having in Malaysia? If there has been a drop-off, why do you think it has occurred in tourist visits to Australia from Malaysia?

Mr Yong—It is probably just a question of money, because, as you are all aware, the exchange rate is approximately three ringgits to \$A1. My guess is that people are trying to save money instead of spending it.

Mr EDWARDS—Are Malaysians staying home more?

Mr Mohd Saiful Tan—Yes. The Malaysian government has been encouraging Malaysians to go on holidays within their country; that is part of the main reason. I do not think that much of the reason has been contributed to by the advertisement; there is nothing wrong with that.

CHAIR—And cheap airlines around Asia.

Mr EDWARDS—You spoke about the multicultural nature of the universities in Australia; I assume that is a good thing. Is there any nonacceptance within the universities? Are there any undercurrents or undertones of racism at all?

Mr D Tan—Not within the universities themselves. I would say that everyone at the universities is pretty open and that there are no racist tones whatsoever. You get a minority within society who are like that but not within the universities themselves.

Mr EDWARDS—Could you expand on that a little, because we would be very interested to know whether there are any issues or problems. Is it just a passing thing that occurs in isolated situations or more than that?

Mr D Tan—It is a passing thing. As I said, you might get seven people within a society who want to find problems, and it is easy for them to pick on something like race. If it is race, they want to find fault, especially when they are intoxicated. So race is picked sometimes. But, generally, as you said, it is not a constant thing; it just happens once in a while.

Mr Mohd Saiful Tan—Generally we find that students in universities are pretty open. Some international students are not as open-minded as the Australian students, because they tend to stick together more. From my observation, Australian students are pretty open towards international students.

In terms of outside the university, what Danny said just now is true. Some of my friends have asked me to bring this up regarding seeking a part-time job. A lot of my female friends who are Muslim students wear the scarf and find it particularly difficult to find jobs. A lot of the time, it is because of what they wear and stuff like that, I guess. It is not true for every case, but those cases exist.

CHAIR—Does that mean that Australians do not always have a real understanding of Malaysian culture?

Mr Yong—There definitely is not a real understanding, because a lot of my Australian friends consider all Malaysians to be Malay. It is not a very big deal but it is something that sounds so wrong to me, because the truth is that Malaysia has so many different races in it, too. In Malaysia, we have a bit of a segregation problem in terms of race. Some people take offence if they are referred to as Malay when they are not and stuff like that. A lot of my Australian friends have problems fathoming that not all Malaysians are Malay—that sort of thing. They also assume that we are all Muslim.

CHAIR—If you start playing cricket, that will fix all that up.

Mr EDWARDS—What are the major impediments that you have encountered in Australia in terms of education, campus life and studying in Australia generally?

Mr D Tan—I would say that for Malaysians it is more of a personal barrier because we come as international students and it is difficult to mix with other races. Malaysians tend to be shy because of their Asian origins. One of the things that a lot of Malaysians find hard is to actually break through that barrier and start mixing with other people. There are a lot of activities at university which help Malaysians meet other people and blend in but usually a lot of Malaysians find it hard to have a random chat with someone until maybe a few months later. It is more of a personal cultural thing.

Mr Mohd Saiful Tan—Some Malaysians tend to eventually give up and very much stick within the confines of their own people. Especially when they come in large groups, there is less chance of them mixing around.

Mr D Tan—I would say that quite a fair number of Malaysians, because of the way that they are brought up, prefer the comfort of their own race and after a while they just stick to mixing with Malaysians or other people of Asian descent. That is one of the problems: finding ways to break the barrier between cultures.

Mr EDWARDS—How do you think that those barriers can best be broken down?

Mr D Tan—Seniors play a huge role as well. If Malaysian seniors who are studying here show a good example by mixing with everyone else, there is a good chance that the younger people who come along will mix more as well. If they see someone who is of Malaysian origin mixing successfully with other students, they will say, ‘Why not us as well?’ But if they see most Malaysians clinging to each other, they will tend to follow that clinging pattern.

Mr EDWARDS—Do Malaysians tend to stick within their own company more than students from other countries?

Mr D Tan—I would say not really in that sense. From my point of view, most other races do follow their own group as well when they have the chance, but—

Mr Mohd Saiful Tan—It is not the general case.

Mr EDWARDS—Do you share houses, do you rent, as part of a group, and what are your living expenses—what sort of rent, for instance, would you be paying on a weekly or monthly basis?

Mr Mohd Saiful Tan—I have been staying in university accommodation for three years in a row now. Basically it is a good mix of international students and also some foreign exchange students, from the US especially. In terms of expenses, it is about \$180 a week, inclusive of utilities, and we have a pretty decent place to stay. I am probably looking at moving out next year but I am not sure yet.

Mr D Tan—I live in a three-bedroom shared apartment down in Kingsford with two other people. The apartment costs \$520 a week so we pay about \$160 or \$170 a person. If you factor in food and stuff, I pay about \$200 or \$300 a week, discounting bills.

Mr Yong—I stay in a residential college on campus, where all utilities and food are paid for. My weekly expenses would be about \$300.

Mr D Tan—I want to add that, for Australian standards, I think it is pretty reasonable if you work here—

Mr Yong—Yes, it is.

Mr D Tan—earn the dollars here and spend them here as well. But, because most of us are using ringgit from back home and exchanging it over, it costs a fair bit. As I was saying just now, public transport travel expenses of \$20 a week add up to a lot for quite a few people.

Mr EDWARDS—Do you get to go home very often?

Mr Mohd Saiful Tan—Once a year.

Senator KIRK—Thank you for coming in, gentlemen. You referred to sponsorships or scholarships and I think you indicated that you were sponsored somehow. I am interested to learn more about that—how widely available the scholarships are, who funds them and that kind of thing.

Mr Mohd Saiful Tan—The main sponsorship provider in Malaysia is the public service department under the government of Malaysia. There is another body called Mara. That is also under the government but is specifically for the bumiputra, the aborigines in Malaysia. Those are the two big sponsorship providers besides corporate sponsors such as Petronas and Telekom Malaysia. Usually the rate is pretty standard. Currently it stands at \$650 a month but as of February next year it will be around \$1,300 a month—a twofold increase. The rates are pretty standard and all the sponsors tend to follow the public service department. In terms availability, it is quite open. With Mara it is only for the aborigines. With the public service department it is pretty much for everyone, based on merit—based on the results of your final high school exams.

Senator KIRK—You said it was going from \$650 to \$1,300. Why the doubling?

Mr Mohd Saiful Tan—The rate that is currently being used, \$650, has been unrevised since before the Olympics in Sydney. I guess things have changed a lot since then, especially prices.

Senator KIRK—Absolutely.

Mr Mohd Saiful Tan—It is about time.

Mr Yong—I too am under that scholarship and I think \$650 a month is actually ridiculous. It is impossible to—

Senator KIRK—Is that 650 in ringgit?

Mr Yong—No, Aussie dollars, but even then it is quite low. One thing I must add is that this PhD scholarship that Mr Mohd Saiful Tan is talking about is very widely sought after in Malaysia. Everyone applies straight out of high school. There have been some issues. Everyone applies for the UK, because, as I said before, if it is more expensive, it has to be better. Obviously they cannot give UK scholarships to everyone. There are people who say they preferentially give UK scholarships to the indigenous Malays whereas everyone else is dumped to Australia, Indonesia, Russia, Japan and Korea.

Mr Mohd Saiful Tan—There are some issues to do with that, though not well documented by the government. Some of these issues have been in the newspapers where top students such as those with a Chinese background do not get the scholarships, which is quite weird.

Senator KIRK—How is the allocation of countries worked out? Do they just pick some figures: 100 allocated to the UK, 50 to Australia, 30 to Russia?

Mr Mohd Saiful Tan—They have quotas. I am not sure of the figures, but from my knowledge from the Malaysian Students Organisation in Sydney, a lot of Malaysian students are now in Australia, and that is the trend. They are starting to open up new places in Indonesia, Russia and the Middle East.

Senator KIRK—Is that primarily because the government department is allocating more scholarships to Australia?

Mr Mohd Saiful Tan—I guess so.

Mr Yong—Education in Australia represents good value for money. It is relatively cheap and it is still a foreign degree—and it is good too.

Senator KIRK—Do the majority of students return home to work? What recognition is there of the degrees when you return home?

Mr Yong—I think a lot of Malaysians feel that they definitely can earn a lot more working in Australia than they could earn working back home. Here you can get around \$10 an hour at McDonald's whereas back home you would get only three ringgit an hour, which is \$1. I see people working here at Coles and they can afford a house and a car, whereas if you work in a grocery store back home you would not even be able to afford a house—you would be living on the street or something like that.

Mr Mohd Saiful Tan—Recognition wise, if you get government sponsorship from any of those bodies, you would have to choose courses from universities that are approved by the accreditation board in Malaysia. There is not much of a problem with that, although there have been issues with some medical universities in Russia and so forth. Generally, from the employer's point of view, if you have a foreign degree, you are much better off than those who hold a local degree from Malaysia.

Mr D Tan—On the point of whether Malaysians go back or stay and work here, I would say 60 per cent might go back because their parents want them to or they have ties back home. Some sponsored students would have to go back because they are obliged to go back. A lot of students

would actually like to stay and work here. One of the issues that comes up due to the immigration laws is that if you do not fit into the occupations list, you cannot actually apply to work here in the sense that you cannot get a permanent residency visa. Some students actually tailor their course just to find a job here. That is one of the issues: opening up different courses so that people with different degrees can actually apply for jobs. There has been a huge shift with people who do not have degrees that fall within the occupations list. They actually try and take up vocational diplomas and certificates to actually be eligible to stay and work here. So that is an issue as well.

CHAIR—When you graduate and go back to Malaysia, if some young fellow comes up to you and says, ‘I’ve got a scholarship to study in Australia,’ what advice would you give him?

Mr Mohd Saiful Tan—I would say, ‘Make the best of your experience there.’ Of course, he is going to study but I would say, ‘Don’t always stick to your comfort zone,’ because the main reason you go overseas is to get experience. I would also say, ‘Try to get a part-time job to learn about the work ethic in other countries,’ because it is definitely different from how we work in Malaysia.

Mr EDWARDS—Why did you choose to come to New South Wales? Was it because of particular reasons, like the courses available? Did you have the choice of other states and other universities?

Mr Yong—I had a choice, but UNSW is ranked No. 1 in engineering and that is why I chose it.

Mr Mohd Saiful Tan—I had only three universities to choose from. One of them was in Canberra and one was in Melbourne, but Macquarie University ranked first for my course. Basically it was for course reasons.

Mr D Tan—I like big city life, so I chose Sydney for that reason. UNSW is a good uni as well. It is one of the best unis in Australia. One of the reasons I avoided Melbourne was because of the huge number of Malaysians there.

Mr Mohd Saiful Tan—Partly my reason too!

Mr D Tan—There are roughly 2,000 Malaysians in New South Wales and 6,000 in Melbourne. If you walk through Melbourne—

Mr EDWARDS—It is just like being at home?

Mr D Tan—Yes. You see tonnes of Malaysians and there is a huge possibility that you would just get sucked into a comfort zone and waste your experience here.

Mr Mohd Saiful Tan—Exactly.

Mr D Tan—From what I have heard, many Malaysians in Sydney want to stay on in Sydney, whereas many Malaysians in Melbourne just finish and go back home, so I think there is a different mentality as well.

Mr EDWARDS—I ask the question because, of course, Western Australia is much closer to your home. Too close, is it?

Senator PAYNE—Have you declared an interest, Mr Edwards? Have you told the students that you are from Western Australia?

Mr EDWARDS—No. I just wondered whether—

Senator PAYNE—I think it is only fair—

Mr EDWARDS—I think it was quite a reasonable question and well answered; thank you very much.

CHAIR—Thank you very much for your attendance here today. That was most helpful. If there are any matters on which we might need additional information, the secretary will be in contact with you.

Mr Mohd Saiful Tan—Thank you.

Mr Yong—Thank you.

Mr D Tan—Thank you.

CHAIR—Good luck.

[10.04 am]

CHAN, Mr Wee Keat, National President, Australia Malaysia Business Council

GALLAGHER, Mr John Paul, National Executive Director, Australia Malaysia Business Council

HOWDEN, Mr Justin, Chair, Victoria Chapter, Australia Malaysia Business Council

WILKINSON, Mr Bill, Executive Member, New South Wales Chapter, Australia Malaysia Business Council

CHAIR—The subcommittee welcomes representatives from the Australia Malaysia Business Council's national body and South Australian branch. Although the subcommittee prefers that all evidence be given in public, should you at any stage wish to give any evidence in private you may ask to do so and the subcommittee will consider your request. Although this committee does not require you to give evidence on oath, you should be aware that these hearings are legal proceedings of parliament and therefore have the same standing as proceedings of the chambers themselves. Before proceeding to questions, does anyone wish to make a short statement to the committee?

Mr Chan—The year 2007 will be the 50th anniversary of Malaysia's independence. Over those 50 years, real gross domestic product has grown by an average of 6.5 per cent per annum. Within the same period, GDP per capita and current prices grew by seven per cent per annum. The committee is undoubtedly aware that, in 1999, the then Prime Minister, Dr Mahathir, announced that it was Malaysia's aspiration to achieve developed nation status by the year 2020.

Commerce in Malaysia is conducted against a backdrop of key national policy frameworks and blueprint plans that respectively detail the government's vision and implementation strategies. Over the years, three national policy frameworks have been released—the first being the new economic policy for 1997 to 1990, the second being the national development policy from 1991 to 2000 and the third being the national vision policy of 2001 to 2010.

In March this year Prime Minister Abdullah Badawi recast his policy framework to be known as the national mission 2006 to 2020. The national mission has five thrusts—firstly, to move the economy up the value chain; secondly, to raise the capacity for knowledge and innovation and nurture a first-class mentality; thirdly, to address persistent socioeconomic inequities constructively and productively; fourthly, to improve the standard and sustainability of quality of life; and, fifthly, to strengthen the institutional and implementation capacity. The ninth Malaysia plan 2006 to 2010 and the third industrial master plan 2006 to 2020 are the current implementation plans—in other words, the allocation of resources.

Malaysia can be justly proud of what it has achieved. Its ambitions are admirable for the welfare of the Malaysian populace. Australia has developed multifaceted relationships with Malaysia over the past 50 years. Hopefully, it will seek to develop them further over the next 50 years. Malaysia seeks to be globally competitive on its own terms whilst recognising the fierce

competition for foreign direct investment or FDI posed by China and increasingly India in Asia. It is liberalising slowly in the areas of services and investment. The AMBC is confident that the Australian and Malaysian FTA negotiators will be able to be creative and flexible in producing a win-win situation.

Over the next decade the composition of Australia's top 10 merchandising exports will probably vary little from being dominated by raw material for Malaysia's manufacturing sector. However, as the growing Malaysian middle class demands more sophisticated services—for instance, in the information and communications, financial and personal services areas—we are likely to see many new opportunities for Australian businesses and professions. These opportunities will be further highlighted with the Australian Malaysian Eighth Joint Business Conference being organised by AMBC and its counterpart MABC, to be held in Kuala Lumpur next week, on 30 November. We are indeed honoured that Prime Minister Howard will be delivering the keynote address at the lunch for the conference.

My colleagues and I would be pleased to respond to any questions from the subcommittee. May I introduce Justin Howden, who had a background in consumer marketing of food products and trade facilitation with state governments before establishing his own consultancy in the areas of trade, marketing and strategic advice. Bill Wilkinson was born in Malaysia and, after an English education, spent many years working in Malaysia. He is now resident in Australia and has undertaken project management commissions on behalf of Australian and international businesses, establishing a permanent presence in Malaysia.

Paul Gallagher has a consumer goods marketing background and, for the past 20 years, has worked in association management. I was born in Malaysia and have resided in Australia for 23 years. I have tertiary education qualifications from the University of Adelaide and Flinders University. I am a fellow of the institute of chartered accountants in Malaysia and previously was the chair of the South Australian chapter of the AMBC.

CHAIR—Who are your members?

Mr Gallagher—Our members fall into a number of categories. There are the larger enterprises. They are companies and associations, or organisations, if they are government departments—although, admittedly, we do not have any at the present time—that have a turnover of more than \$10 million a year. There are the smaller enterprises, therefore, with turnovers of less than \$10 million a year, and there are a few individual members. We have approximately 136 members at the present time.

There would only be 15 or 16 larger enterprises—companies like BlueScope Steel, IAG, the insurance company, otherwise known to people, as we are still getting used to IAG, as NRMA, and such. The smaller companies include a wide spectrum of organisations that either have Australian or Malaysians principals, because our organisation has a number of people, like Wee Keat, who were born in Malaysia, have established their businesses here and then have become members of the bilateral business council.

CHAIR—I will move on to the free trade agreement which is underway at the moment. From your projections, how is that going and what is it going to do for us in terms of our overall trade?

Mr Gallagher—I would not like to venture into the numbers as far as what the dollars and cents are going to be in the long run. But I do believe that there will definitely be a win-win proposition out of the AMFTA when it is concluded. Your first question was: how is it going? We get regular briefings from Michael Mugliston, the chief negotiator. I learn how it is progressing—and it is progressing slowly; it is getting over a few hurdles. The Malaysian side has, of course, less experience with the areas of services and all of the things related to that. They are a commercial culture that has been very much into exploiting manufactured goods. First of all they went the classic route of cheap labour and building up on that and then they went into more sophisticated products. As you would be aware, they are one of the largest sources of IT components and such.

When you look at their exports, they are value added to a considerable degree. At the bottom end there are things like disks, but at the other end they are a sophisticated utilisation of those in the assembly. Sometimes they are now sourcing components out of cheaper countries, whether it be Vietnam or China, and putting them together. So that has been their background, and they are very comfortable with that.

Whilst the majority of their population now has a service background as far as their contribution to GDP, on the dollar side of things, particularly with the exporting, it is a very small percentage. Over 80 per cent of Malaysia's exports are elaborately manufactured goods. So it is taking them a little bit of time. The Australian side is very good, and that comment is not only in terms of Malaysia. I also look after other countries. I am employed by the Australian Chamber of Commerce and Industry. I have Thailand and Japan as well as Malaysia and did have the Philippines, so I have had some involvement.

One of the experiences that was gained with the Thailand one was learning the importance of that interface between the private sector and government and then the way that we could also be used in 'educating', shall I call it, the Thai side in that case, and it is the same way with the Malaysian side now—gentle, gentle. But of course they appreciate learning what our attitudes are to the rules of origin, the different options and things like that. So that is important, because then they can put it into context as to what might be more acceptable universally rather than what they have always been doing et cetera.

In summary, it is progressing. It is picking up speed now. Originally the aspiration was that it might have been over by June this year. That is not going to be the case. I would suspect that possibly June 2007 is now a more realistic date. I have never asked that question point blank of Michael. He would obviously have his own feel as to that point.

The important thing is to make sure there are no carve-outs. It is important that it be a fully comprehensive agreement, and leave it to the negotiators, who of course always get their own bonding over a lengthy period of time to know just what way they can tweak the system to get the win-win result that both sides seek. Carve-outs are not likely to be sought on our side—they are more likely to be sought on the Malaysian side—but each country has its own sensitivities. That is what we have to say to people to let them know that. As I say, leave it to the negotiators to use that creativity, to use phasings et cetera. The very last resort will be a political decision like Minister Vaile had to make in the US related to sugar and things like that.

Mr EDWARDS—You suggest that it should be left to the negotiators. Do you think those negotiators in drawing up this agreement have sufficient cognisance of the importance of cultural issues relating to both Australia and Malaysia? Do they have the capacity to protect those cultural issues?

Mr Gallagher—I cannot directly answer that first question, to be honest, because I have not found myself in a situation where I have either witnessed or explored that. As far as the others go, they have certainly endeavoured at all times to get out into the community and they are continually seeking to receive contributions, so if somebody wanted to make a contribution I am sure that they would take that on board. My feeling with the negotiating team itself is that they would be very conscious of and sensitive to those matters.

Mr EDWARDS—I want to ask a couple of questions in relation to the business council. Can you tell me what sorts of services you provide to existing members and what sorts of services you would provide to someone who comes along and who wants to get involved in initiating a business in Malaysia? Could you give us a run-through of what sorts of services you provide?

Mr Chan—I always say that AMBC and our counterpart, MABC, really are in the business of connecting people. The relationship that Australia and Malaysia has is a longstanding one and it is a very robust one. I think if you try and then talk within your own network you will always find a tie anyway. Whether or not that is the right tie for the business that you want is perhaps the key issue here.

In terms of AMBC, if a business comes to us and says: ‘We want to go into Malaysia and we want to start a seafood franchise. How do we go about it?’ we would then direct them to the right agencies to start with in terms of what sorts of licences and permits they would need. Secondly, the next level down is to introduce them to a network of people in Malaysia, and we can assist with that as well because MABC, our counterpart in Malaysia, holds very regular networking functions and there are numerous Australian expatriates there. That is one area, and the other area is assisting them in lobbying government to highlight certain problems or issues that they have and to bring them to the notice of the appropriate authorities.

Mr Howden—There is also the opportunity to work on the outbound or inbound side—bilaterally, in both directions.

Mr EDWARDS—You mentioned that the relationship was a robust one. How would you describe the goodwill that exists between Australia-Malaysia, Malaysia-Australia? Is the goodwill evident?

Mr Chan—Yes, the goodwill I think is very evident and I think a lot of it is anchored in the fact that, starting more than 50 years ago, Australia had the Colombo Plan, and from there we now have those graduates of the Colombo Plan—their second and third generations have all been educated here. What more goodwill can you show than by sending your children to a host country to be looked after?

Mr Howden—I think there are about a quarter of a million Australian alumni, aren’t there?

Mr Chan—Yes, that is right. In Malaysia.

CHAIR—I read somewhere that 13 members of the present cabinet received their tertiary education in Australia.

Mr Chan—Certainly there is a very high level. I always like to tell the story—and I hope he does not mind me repeating it—about our current High Commissioner, James Wise, when he first went to Malaysia. He said that, when he was posted there, in the first three months he was busy writing down every time he spoke to somebody who had a connection to Australia. He came back and noted it in his notebook. He gave up after three months because everybody he met in Malaysia had some connection with Australia.

Mr EDWARDS—I have a final question. Are you happy with your relationship with Austrade and the services and assistance they provide?

Mr Chan—Extremely, I have to say. And with the Australian high commission as well. I find that they are willing to listen to the issues we have, they show initiative in resolving issues and they assist us when we take trade missions, whether it is on a national level or a state chapter level. We cannot fault it. Full credit to them.

Senator PAYNE—My question really flows from Mr Edwards's previous question about goodwill. You make a passing observation in your submission about a change in political attitude, you might say, in Malaysia. How important has that been in consolidating the relationship and how would you characterise it?

Mr Chan—It has been very important. In the context of business, I think that no matter what the political leaders say to each other and how robust their discussion is, business underneath it all continues to flourish. With the change in the political leadership, so to speak, I think the attitude of the Malaysian government to Australia has not changed; it has always been good. It is just the public perception of it. I guess that as a consequence of Prime Minister Badawi's visit to Australia last year, which was highlighted in the media, from the AMBC's point of view we certainly have seen an increased interest in Malaysia. That has certainly been very helpful, but again it is just a perception of the increased goodwill. In actual fact the goodwill is already there. The policies of the Malaysian government regarding its investment in Australia and likewise has not changed; it is still the same. That is our perspective.

Senator PAYNE—Our previous witnesses were representatives of international Malaysian students in Australia. I am not sure if you were here for the earlier part of their evidence, but their responses to questions from some members of the committee—and I stand to be corrected—I would characterise as having been that most Malaysians would prefer to be able to send their children to Britain for their education. But it is very expensive and so a large number end up here. One of the students described that as the poor man's option basically. When we asked them what level of promotion or marketing was done by Australian educational institutions to attract students, their response I think was a little diffident. I was not persuaded that there was a massive campaign. What is the council's engagement with educational institutions and what do you think Australia could do to shift itself from poor man's choice, or second choice if you like, to top-of-the-line?

Mr Chan—My perception is that traditionally Malaysians send their children to the UK if they can afford it. It is probably because Malaysia used to be a colony and we are in the

Commonwealth, so there are the historical ties there. As for being a second or poor man's choice, there was an element of that but increasingly that is no longer the issue.

As for Australian universities and tertiary centres promoting the activities over there, I actually think they do particularly well in trying to gain market share. In the context of trying to gain market share against what the UK, Canada and New Zealand are doing, I think Australia is doing particularly well. With the help of Austrade and the Australian high commission, they do a very good job and put on a good show each year with what they present to the public over there.

On what the AMBC is doing to engage and work with education sectors, I can speak from experience as a previous chair of the South Australian chapter. We have what are called the Merdeka Awards—Merdeka meaning independence—and we provide three awards every year. We recognise the three most outstanding students studying in South Australian tertiary centres. They are picked by a panel headed by a former Governor of South Australia, Sir Eric Neal, and consisting of very prominent people—Professor David David, Michael Abbott QC, Frances Nelson QC and Dr Patricia Crook. To that extent, we are trying to build it into a prestigious award that will get the message across that it is worthwhile coming and getting the recognition.

As to other states taking tertiary education centres to Malaysia, I think that is being done anyway on a yearly basis—certainly with trade missions from South Australia. We definitely encourage them and we have been on a number of those missions with the education centres.

Mr Howden—That is certainly the case in Victoria. Some of our members are universities and are very active in the promotion there. But, I guess to some degree, if you are not in that particular target market you would not know their promotion. So there is that element that may have been at play with the responses earlier from the students. But our members are very active up there.

Senator PAYNE—It is an interesting contrast—I was going to comment on that. As students who have obviously made a pretty firm decision to relocate to study, I found quite curious their observations about how Australia was going about that in their home market. One imagines that lots of their friends and family members are coming behind them who are also going to have to make the same sorts of education decisions. I thought their perceptions were interesting. I was not sure if they were accurate, and what you say is quite right: if you are not in the market and you are not seeing it happen, your views will be different.

Mr Chan—That is right. On another point, you say that the three appearing before you were a representation of the international students of Malaysia in Australia. I would make the observation that they are all from a Chinese background. To be more comprehensive, you might want to have all three main races before you to give their points of view, because I think the point of view of a Chinese raised Malaysian student and one of Muslim background might be a little different.

Senator PAYNE—True, although it says something about the leadership of the relevant student organisations as well. It becomes a catch 22, doesn't it—a circular argument.

Mr Chan—That is right; I understand.

Mr Howden—As the Victorian chapter of the council, we have historically not focused on the student groups. In the last 12 months we have made a very strong thrust in inviting students in to all the networking functions and to any of the events that we have organised. We have had up to 20 or 30 students out of 50 to 60 attendees at some of our functions, and they have come up at the end and basically said, ‘This is fantastic; I didn’t know this was available.’ Leading on from the comment that one of the students made that we tend to fit into the comfort zone, they have been very happy about getting out and meeting business people and university academics—people outside their comfort zone. That has been very strongly responded to and we hope that is going to continue in the future, but it can only pay dividends.

Senator PAYNE—It sounds like a good initiative. The students this morning—although, as you say, they were from one ethnic group—covered three very different disciplines of engineering, actuarial studies and commerce/law, and two universities in Sydney at least. So I think that sort of approach would only be welcomed by students, particularly if you give them a drink and something to eat.

Mr Howden—And a discounted price, that is right!

Senator KIRK—Thank you very much for your submission, gentlemen. I am interested in what was raised in the South Australian submission by Professor Tan. It mentions the council’s role in developing professional linkages and mutual professional recognition between Australia and Malaysia. I am aware that there are some problems in the recognition of professions across the two countries. Could you elaborate on that a bit more for us and indicate to the committee where you think the Commonwealth could assist in freeing up the difficulties that are present.

Mr Chan—Professor Tan was probably speaking from a medical point of view, because he is in that profession. Certainly, if you are a doctor and you want to practise, you have to go through our equivalent of the AMA. Professor Tan highlighted this with a number of ministers on their visits here and also on his visits over there. The government’s response has always been, ‘It is not the government that is holding you back; it is your own professional associations and professional bodies.’ We recognise that, but we argue that governments should also be involved in putting enabling legislation in place so that can happen. That applies to the medical profession and also very much to the legal profession. We are cognisant of the fact that in Malaysia there are sensitivities where the legal profession is concerned. I am not sure whether the committee is aware that in the East Malaysian states of Sabah and Sarawak, even if you are a Malaysian lawyer and you are practising on the mainland, you are not automatically allowed to practise law there. You have to go through another process. Those are the local sensitivities that we have to take into account in trying to negotiate within the FTA our access to the services industry over there.

Senator KIRK—Are you aware if this is a matter that will be addressed in the FTA?

Mr Gallagher—That is our belief, yes.

Mr Chan—We certainly raised it during the Australia-Malaysia Joint Trade Committee meeting held in Adelaide earlier this year between Minister Vaile and Minister Rafidah. They both acknowledged that it is an issue which they have to work through. That is why, from a

business point of view, we are very strongly encouraging that there are no carve outs—do not carve it out; just put a time limit on when you will revisit it and resolve it.

CHAIR—The national body submission mooted that Australia could become a significant supplier of processed halal food to Malaysia and an investor in downstream processing and marketing, food producing systems and technologies and vocational and educational training. However, in submission No. 9, Peter Kulich, the Economic Development Officer for the Baw Baw Shire, said that there is some uncertainty over what the definition of halal is. That is a real problem in developing this trade between Australia and Malaysia. Do any of your businesses get into this area? Have you made your mind up as to whether there is a future in halal trading?

Mr Chan—I believe that there are significant advantages for Australia if we can work through all the issues. There certainly are issues. The experiences of the past 12 to 18 months have shown that, when the halal certification of a number of processes in Australia were revoked. Subsequently, a number of them were reinstated. What that highlights is that there seems to be some confusion about the definition of halal. Halal is kosher in layman's terms, but it is the process of the killing that is subject to controversy. I think both governments are very much focused on trying to find a solution to it. They went on at great length at the 12th JTC meeting in Kuala Lumpur about it. There were very specific and quite gory details on how you slaughter. From the business council's point of view, we remain convinced that they are trying to resolve the issue.

CHAIR—There are some quotes about it. An interesting one is in Mr Kulich's submission, where he says that sometimes this can be used as a trade restriction. He mentioned the case of a cheese factory which was closed down because they were using an alcohol based flyspray.

Mr Gallagher—This is just illustrating that it is the total process, right through to shipping, the whole routine. There is plenty of scope. The problem was that—if my memory serves me right—there were 18 or 19 abattoirs and, by the time the JAKIM people had gone through, and about six months later, all but one of them found themselves no longer on the register and with no explanation. That coincided with just before the 12th JTC, so clearly it was top of the agenda items at that time. What is sought, of course, is transparency and some consistency in explanations as to why. Just an issue like that can be a problem. There is also within Malaysia a little bit of difficulty within the Islamic world between Malaysia's belief that its standards should be regarded and accepted by everybody and the Saudis, of course, being the home of Mecca et cetera, feeling, 'It should be ours.' So there is a little bit of a problem there that you end up having too.

Answering your earlier question: do we see a prospect? The answer is yes. But, right from the word go, this is a document—and I am more than happy to leave it with the secretariat—that the two councils prepared back in 2002. We took a mission up there that coincided with the joint business conference and had a food flavour. We explored this issue of halal because, only just beforehand, the Malaysian government in the eighth plan had identified that they would like to see themselves as being a halal hub—'hub' is one of those words that I detest that gets overused! So we thought: 'Well, Australia's got all the "clean green", but we don't want to be just seen as a supplier of raw materials. We've got training; we've got equipment; we've got the whole catastrophe, and ultimately what we'd like to do, of course, is to get into joint ventures so that we're going the full way and benefiting from it.' So the business councils were challenged to

come up with something by Minister Effendi as he made his keynote address. Within three months, as is the way of business, we did. That is the area that was provided to all the ministers on both sides, and the issues have been worked through on the Malaysian side.

Mr Howden—I will just add too, from Victoria's point of view, that as you know we have a very strong food and beverage processing sector, and certainly they are very oriented to Malaysia and the halal hubbing—much as Paul might not like the term—out of Malaysia for the Middle East and into Africa. It is certainly very high on our members' agenda in the food and beverage side.

Mr EDWARDS—I just wonder whether Malaysia benefited in any way from a relocation of business or a relocation of focus from Thailand following the coup there.

Mr Chan—Anecdotal evidence that I have heard is 'No,' because businesspeople who are used to trading and dealing with Thailand just—

Mr EDWARDS—Take it in their stride?

Mr Chan—Yes, they take it in their stride; it does not affect them.

Mr Gallagher—I look after the Australia Thailand Business Council, and that has definitely been the case. It was just 24 or 48 hours of uncertainty and, whilst we might have been disappointed that the democratic institutions and all those things that we thought were behind us were behind us, for business nothing has changed.

Mr Wilkinson—There is a difference between these two countries. I have just recently conducted a feasibility study for an Australian manufacturer that is looking at both Thailand and Malaysia, and I have done this before. I have set up factories from A to Z for foreign countries in Malaysia. We have looked at those regions, and there is a strong difference between Thailand, Malaysia and Indonesia. Part of my job is to educate the people who employ me about what those countries are about. A lot of them actually start off not really knowing that there is much difference, and therein lies one of the problems—this is my personal opinion, not that of the AMBC. I think maybe because of Australia's long association with Indonesia and its proximity—for example, in Malaysia you do come across people just lumping Indonesia in with Malaysia et cetera—people are not really fully au fait with the fact that there is such a strong infrastructure there, that it is that much more developed, that everyone speaks English, that safety is good, that health is perfect et cetera.

They tend to lump it together but the reality is quite different. One of the big differences between Thailand and Malaysia for a business looking to go up there is a simple thing—that is, it is extremely hard, unless you have had a lot of experience in the region, to do business in Thailand because of the language. No-one speaks English; all of the literature is in Thai. The Thai legal and accounting systems are based on their own traditional systems, whereas in Malaysia they have developed out of the Western accounting and legal professions. That is more attractive. We look at all of these, and there are pluses on both sides. There might be a strategic reason to be in Thailand because it has 60 million people as opposed to 25 million in Malaysia for your market if you are marketing there.

But this particular company I was looking at, for example, was looking to export around the region and also back here. One of the reasons they were considering that was because of the cost of Chinese imports into Australia. The plus side for Australia is that it is a very close call. The reality is that the cost of manufacturing, because this is quite a technical process, is not that much different. The labour aspect is a very small percentage here, so that would be a big plus in terms of Thailand and Malaysia. There are all these things that we look at, but one of my points is that there is a strong difference between Thailand and Malaysia and Indonesia.

One of the challenges for Australian business is to educate them, if we are talking about Malaysia, as to what Malaysia is really about. They see it on TV, they read things, but it is still staggering for them. When a client arrives in Malaysia for the first time their eyes open wide and they say: 'This is marvellous. I just expected to be watching my back.' You still have to guide people through, it is still a learning process, but I think it works both ways. Coming back the other way, the Malaysians have the advantage that, a lot of their people having been educated here, they probably have more knowledge of the day-to-day environment in Australia whereas businesspeople going back the other way—there are obvious exceptions—do not. I think that is one of the challenges.

CHAIR—As there are no further questions, I thank you very much indeed for appearing before the committee today. It has been most helpful. If there are any matters on which we might need additional information, the secretary will be in touch.

Proceedings suspended from 10.43 am to 10.56 am

HAWES, Mr David Charles, Group General Manager, Government and International Relations, Qantas Airways Ltd

McKEON, Ms Jane Margaret, General Manager, Government and International Relations, Qantas Airways Ltd

CHAIR—I welcome representatives of Qantas. Although the subcommittee prefers that all evidence be given in public, should you at any stage wish to give any evidence in private, you may ask to do so and the subcommittee will give consideration to your request. Although this committee does not require you to give evidence on oath, you should be aware that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the chambers themselves. Before proceeding to questions, do you wish to make a short opening statement to the subcommittee?

Mr Hawes—Thank you. The remarks I will make by way of lead-in—clearly we have had an opportunity to review our rather brief submission on this issue—acknowledge the recognition we have in Qantas regarding the importance of Malaysia as a trade and economic partner of Australia, the long history of the relationship between the two countries and the significant further potential that still exists to develop that relationship, and that, under the circumstances of it being in our top 10 travel markets, it does seem odd that Qantas, Australia's leading national airline, is not flying there. We do not even have, as we do in the case of Korea, which is the only other one of the top 10 to which we do not fly, a code-share relationship with a carrier from the other end. There are good reasons for that, as the situation currently stands. That is probably something we would be happy to respond to questions on.

CHAIR—It was your commercial decision to pull out the Qantas services. You said in your submission that there was some rejigging of your intentions. I think in the submission you said that in December this year you hope Jetstar might begin servicing into Malaysia. Can you give us an update on what the Qantas attitude is?

Mr Hawes—There are no plans at this stage for Jetstar to enter the Malaysian market but, as indicated in our submission, Malaysia is among a range of markets being evaluated by Jetstar for the further expansion of international operations. They commence on Thursday of this week with a flight to Bangkok. That is the first step of an international rollout that includes Bali, Honolulu, Vietnam, Osaka, Bangkok and Phuket. It was only recently announced—only last week—that Nagoya is to be added to their international offering from Australia.

Jetstar are taking into the fleet a number of Airbus A320-200 aircraft for the first stage of those operations and will build eventually to about six of those aircraft. But, starting in the middle of 2008, all being well with Boeing, we will begin to take delivery of the Boeing 787 Dreamliner. They will take the first 10 of the 65 aircraft that Qantas has ordered. Jetstar do have international expansion plans kicking off and further markets are being evaluated. Malaysia is certainly one of those. But there is no indication yet as to timing or which port and so forth.

CHAIR—You indicated in your submission that about 50 per cent of the traffic between Malaysia and Australia was in fact tourist traffic. Where does that go? Is it principally to Western Australia?

Mr Hawes—I do not think I can answer that.

Ms McKeon—I think it is quite evenly spread around the major capital cities. Malaysian Airlines operates to five points in Australia, so I think that traffic flow is a reflection of that.

Mr Hawes—The densest would be Sydney, however.

Ms McKeon—That is correct.

CHAIR—So they do spread out? It is not that traditional old market that they have?

Mr Hawes—No, they are operating 49 services a week to Australia. They are using the maximum of their entitlement under the bilateral agreement. As Jane indicated, they are flying to the four restricted ports but also to Adelaide, so they have spread themselves around, and that has been part of their significant and rapid growth in the nineties in Australia.

Mr EDWARDS—David, you would be aware of the article that was in the *Australian Financial Review* back in September pointing out that Malaysian tourism to Australia had dropped. But, talking in a broader sense, there is a view that the ‘Where the bloody hell are you?’ campaign in Asia is not working. Can you give us a view about that. Also, do you have any understanding of the campaign that the Malaysian government is running to get people to travel throughout Malaysia rather than going overseas? And what responsibility do you think industry has, including Qantas, to finance and run these campaigns itself, instead of leaving it up to government?

Mr Hawes—Taking the three questions in order: my understanding is that Tourism Australia’s ‘Where the bloody hell are you?’ campaign has been quite successful in registering an interest, in terms of website hits and the like, in many of the target markets. The issue in some of them has been conversion—in other words, to convert the interest that it has generated into actual travel decisions.

Mr EDWARDS—Is that true in Asia as well?

Mr Hawes—In parts of Asia, yes. I am not sufficiently knowledgeable or up-to-the-minute to comment on all of those things but, generally, my understanding is that in Asia, as in many parts of the world, an awareness has been created by that campaign. The challenge is to then convert the awareness and the initial interest shown by people into travel decisions. That is less successful in some markets than in others.

I am not aware of the domestic campaign in Malaysia other than in general terms. The motivation I think would not be dissimilar to the encouragement we give to people here promoting taking a holiday and short breaks. Domestic tourism is a very significant income generator; it is good for the economy and so on, as is well evident. We have tourism promotion in Australia. I do not know the extent to which they have boosted that in Malaysia, but I could

imagine that there would be very good reasons, given the infrastructure that is there, for them to seek to do that.

On the question of funding and the responsibility of the industry and the government, or where the government might be encouraged, I think it is a shared Australian objective here to recognise the benefits—the economic benefits, the trade benefits and wider advantages—to be gained by boosting international tourism to Australia in what is after all an increasingly competitive marketplace. We are an end of the line destination in that game. In some markets, that is the attraction—that is part of the mystery and the attraction, but you have to promote it. In other markets it is a disadvantage that we are so far away. All the more reason, therefore, why you provide that umbrella boosting.

I do not think industry would sit back and say, ‘The government has got to do it all,’ but we recognise that there is an umbrella advantage of the badging of an Australian brand, Brand Australia. Qantas, particularly in the markets where we are actively engaged, works very closely with Tourism Australia in those campaigns and do a number of things as an airline to assist in further publicising Australia by bringing journalists out for Australian programs and the like and various other ways of supporting Australian tourism exchange. It is very much a function of working together.

CHAIR—I would be the last one to throw a dead cat onto the table in terms of the future of tourism, but sometimes I wonder whether or not we have been too smart and too good for our own benefit. Malaysia has been a significant provider of tourists and the numbers are down. How much can be attributable to the fact that you now have casinos all around Asia, including Singapore, you have a Disneyland in Tokyo and Hong Kong, you have some pretty upmarket resorts being developed and then you have the advent of the low-cost carriers, where you can fly around Asia from tourist spot to tourist spot for \$30, \$40, \$50 or \$60? Are you confident that we can maintain a tourist market, particularly out of areas like Malaysia, and does the advent of Jetstar International pose a threat? What I am really asking is : can you compete with some of those low-cost Asian carriers?

Mr Hawes—Can Jetstar Asia or Jetstar?

CHAIR—Jetstar International.

Mr Hawes—To go back a little to your propositions or observations, you are absolutely right in a number of respects in that it is becoming increasingly competitive. The lower cost of air travel being provided by traditional carriers, the advent of low-cost carrier operations and the competitive bidding between various resorts and attractions is part of the mix that means that you cannot sit back and say, ‘We have always got a good batch of tourists coming here from a range of source markets and we can count on that into the future.’ What it says is that you have to be aware of the segments in which you are competing, pitching to those various segments and knowing who your competitors are. While there may be people attracted to shorter term visits or shorter hops within Asia or going to casinos and the like, other things that we can offer here may be strengths and attractions for other segments of the market. A number of the people from Malaysia own property in Australia. They hop up and down to Perth and along the coast there, or to Queensland, with increasing frequency.

One of the things we also know about intra-Asia travel is that it is—and this is a figure I heard last week—an \$80 billion market of some 500 million passengers and it is expected to increase by 50 per cent over the next four years. So the market itself is growing. If we can hold our share or, better still, increase our share of a growing market, there are significant opportunities yet to be achieved or to avail ourselves of. But you cannot take it for granted, and if it is slipping back one has to analyse why—where are people going, what are they looking for—and see if we can restructure ourselves a little better.

Jetstar International, Qantas's international arm of our low-cost or value based offering, has a cost base which is around 40 per cent lower than that of Qantas. So our strategy is now based on two brands: Qantas and Jetstar. We are working very hard within Qantas to reduce our cost base and achieve efficiencies and encourage productivity across the group. We are benefiting the traditional Qantas airline and product but at the same time growing, from a clean sheet of paper, a new airline and doing that in a way in which we can achieve a much lower cost base than we could by seeking to work the traditional Qantas cost base down. It is our very great hope and belief that Jetstar International will be able to compete in a number of those markets where Qantas itself has not been able to compete with the home based carriers from a number of Asian markets that have a substantially lower cost base or do not work off the same commercial discipline that we work from. So Jetstar, we believe, will grow rapidly and significantly into a number of these markets within our region.

Initially, the markets that we have referred to are ones that are predominantly, with the exception of Osaka and Nagoya, Australian outbound markets—Australian leisure-seekers going abroad. But the future wave of their expansion is more likely to focus on important inbound markets, either ones from which Qantas has withdrawn or that are less profitable. So we are very much hoping that Jetstar will succeed. It is being well supported within the group by the assets that are dedicated to it. And, as I mentioned, the first 10 of the brand new, highly efficient 787 Dreamliner aircraft are being put to Jetstar, and that is an indication of the backing that it has within the company. It will compete really with the Qantas brand for capital, based on the sorts of returns and potential that it offers.

Mr EDWARDS—Will the growth of Jetstar come at a cost to Qantas?

Mr Hawes—Qantas is a group, Qantas is a company, Qantas is a business—but it has got two flying brands now. Your question was about the cost to Qantas: hopefully it will make the Qantas group stronger, more profitable, more viable and more competitive in the international marketplace. It may be that in some markets Qantas is doing less flying than it has done; but this is a chance to ensure more viable flying in some markets, to enable re-entry and to grow more strongly in some markets where, over time, Qantas itself, without this initiative, might have risked being whittled away by foreign competition.

Mr EDWARDS—So basically Qantas will look at cherry-picking, at the plum markets, and with a reduced-cost structured Jetstar try to compete in those bigger people markets?

Mr Hawes—It is partially so. The way I would describe it is that we would seek to provide a better match of our products and services to those markets in which we are competing, recognising that there will always be markets like Los Angeles, London or Hong Kong, where you have a very good mix of premium and leisure travel. In markets which are predominantly

leisure markets, people are looking for a different product offering and are prepared to travel on a reduced product offering compared to the traditional Qantas mainline product knowing that they are paying less for it. This is where Jetstar is stepping into relatively new territory—going into longer haul markets as a leisure carrier, not one- or two-hour hops but eight-hour territory. That is reflecting a belief on our part that we can compete, that there is the market out there for those sorts of services, in the knowledge of who we have to compete against. You say ‘cherry picking’, but it is more a case of acknowledging that there would be markets for premium travel, bearing in mind that even those aircraft have a large number of seats that are taken up by leisure travellers. The markets that are predominantly leisure travel markets are the ones that Jetstar will be looking to compete in.

Mr EDWARDS—Will that market that you are talking about with Jetstar remain increasingly competitive for some time? If so, can you see a time when that increasingly competitive market will reach the stage where it just cannot go any further, and where will Jetstar be then?

Mr Hawes—Strongly entrenched, we would hope, in those markets. It is coming in with a very competitive cost base and a very competitive product offering. While we have spoken of it as being a leisure carrier, it is even from the outset offering what it is calling StarClass, which is an upgraded product for those who are prepared to pay a bit more for the knowledge that they will be sitting in a seat equivalent to, I think, a domestic business class seat—not the Skybed that you would find in business class on Qantas—and that things like meals, blankets, pillows and so forth come with the ticket price. For those travelling in the leisure class, those are variables. They are add-ons if people wish to pay for them. They can do that when they book or they can choose to do it on board. Even then it is acknowledged that there is a potential differentiation in the product offering.

Senator KIRK—I was interested the Singapore-KL route. It is the most regulated or restricted, I think you mentioned, in the world or certainly in the region. You mention in your submission that there have been some discussions at the ministerial level. You say:

... while Ministers on both sides have acknowledged a need to free up the market, substantive talks are yet to take place.

I wonder whether you could give us any update on that if there has been any progression.

Mr Hawes—We are referring there to Singaporean and Malaysian ministers, not Australian ministers. I can only note that there was some recent media commentary on this which, if I recall correctly, suggested the problem may have been on the Malaysian side. There was an acknowledgement that eventually they might move to free up this route somewhat, but not necessarily straightaway; it would require a little bit more time. In context, that suggested that Singapore may have been amenable to examining the prospects for allowing more carriers from either side onto the route but that the Malaysians were being a little bit more cautious.

Senator KIRK—I take it from reading your submission that that was the main obstacle or the main barrier that Qantas saw in terms of carrying on the services from Australia to Kuala Lumpur—the expense of that sector?

Mr Hawes—Yes, but it is not a simple issue to compete in a sector like that with the incumbent airlines for local traffic—that is, traffic that is simply wishing to move between

Malaysia and Singapore or Singapore and Malaysia. Seeking to do so from flights that originate in Australia and which move into that market a couple of times a week means that you do not have the frequency of operation to compete with carriers that are locally based and that are running multiple services a day. You do not have an offering that can compete on an hourly basis. We have an investment in a Singapore based carrier that uses Singaporean traffic rights, Jetstar Asia. That is a potential candidate to operate on that route. That is not operating to Malaysia at all. It is flying to a number of regional markets ex Singapore within a couple of hours flying. That is a market which, in our view, has significant potential to grow. But, for the moment, Malaysia is off limits to it because the agreement between Malaysia and Singapore is for only one carrier from each side.

But in terms of the cost of operation on that route, that is contributing to the reasons for Qantas withdrawing from the Malaysian market. We had an add-on from Singapore and we also had an add-on from Jakarta at various stages and circumstances were such that on the last figures we saw on the break-even seat factor it meant that you would have needed to fill about 114 per cent of seats on an aircraft just to break even. It was not sustainable to keep operating in that way. Coming back to the comment that I made at the outset, we are aware of the importance of Malaysia as a trading partner and an economic partner and the tourism potential and so forth. Analysing it as Qantas, we cannot see that we can make it work. Analysing it as Jetstar, potentially we see that there could be something in that.

CHAIR—Qantas would be keeping an eye on the FTA negotiations with Malaysia.

Mr Hawes—Yes.

CHAIR—Do you have any great interest in that—to the extent that you had an interest in the Singaporean one?

Mr Hawes—Only that boosting trade and economic activity between two countries is good for business and good for travel and, in theory, good for airlines. That is the business that we are in.

CHAIR—There has been no suggestion that Malaysia Airlines might like to operate from Sydney to the west coast of the United States under the FTA?

Mr Hawes—Not as yet, no. To get back to the question of the FTA, the view that Qantas has long advocated is that air services liberalisation should not be automatically assumed in or wound into FTA negotiations as such. You have agreements between air services regulators and ministries capable of reaching that objective. It is like a bicycle: you can ride it as far as you like. You do not need an FTA in order to be able to do that. Our FTA with the United States—such as it is—does not assume that we will arrive at that point. We would not argue that the same should not apply if we had one with the UAE or the Gulf Cooperation Council, either. Yet we can envisage getting to virtually the same arrangements—as we have almost done with the UK in lifting all capacity limits recently, and there is no talk of an FTA between Australia and the European Union that I am aware of.

Mr EDWARDS—How many passengers will the 787 aircraft that you spoke about carry?

Ms McKeon—About 300. They are medium sized aircraft.

Mr EDWARDS—Where would you envisage them operating out of in Australia: all Australian states or mainly Sydney-Melbourne?

Mr Hawes—Initially I believe Sydney-Melbourne for the international operations of those aircraft, but I do not think anything would be excluded in the longer run. Clearly you would be looking at markets that could viably sustain an airline with a 300-seat aircraft, but in inbound leisure markets—for example Brisbane, the Gold Coast—a lot of people would be putting their hand up wanting to work with Jetstar in relation to the potential tourism there. Anyway, we will see that long before the advent of the 787. We are seeing it now in relation to their international start-ups with the Airbus 330s.

CHAIR—Thank you very much for your attendance here today. If there are any matters we need additional information on, the secretary will be in touch.

[11.27 am]

GAILEY, Ms Lynn Elizabeth, Federal Policy Officer, Media, Entertainment and Arts Alliance

CHAIR—Welcome. Although this subcommittee prefers that all evidence be given in public, should you at any stage wish to give any evidence in private you may ask to do so and the subcommittee will give consideration to your request. Although this committee does not require you to give evidence on oath, you should be aware that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the chambers themselves. Before proceeding to questions, do you wish to make a short opening statement to the subcommittee?

Ms Gailey—Our primary concern with respect to any consideration of the relationship between Australia and Malaysia reflects our concern with the negotiations for a free trade agreement between the two countries. Our concern is that Australia's cultural industries are appropriately protected in any such agreement. In our view that was adequately addressed in the Singapore-Australia Free Trade Agreement, but rather unfortunately compromised in the United States-Australia Free Trade Agreement. We would like to see any further trade agreements that are entered into reflecting the provisions that are contained in the Singapore-Australia Free Trade Agreement.

CHAIR—Does that cover things like pirated DVDs and CDs?

Ms Gailey—It includes issues of piracy, but more importantly our concerns are the capacity of government to be able to support any of our cultural industries in any way it considers appropriate now and in the future, notwithstanding what new delivery platforms might be introduced in coming years.

CHAIR—Wasn't Malaysia one of the pirate capitals of the world?

Ms Gailey—It is.

CHAIR—It still is?

Ms Gailey—It still is, along with China and along with a large number of countries actually. Malaysia is considered to be one of the hubs of piracy and it provides a lot of pirated material out of South-East Asia and out of Asia more generally—although I understand that more recently there appears to have been a shift where Malaysia is now becoming not the huge producer but a kicking-off point. There is a lot of pirated material coming in from China to Malaysia and then being exported out of Malaysia to other parts of the world. Malaysia has taken piracy incredibly seriously but it does remain one of the centres of highest activity of piracy in the world.

CHAIR—Even Australian artists have found themselves coming out on pirated CDs.

Ms Gailey—It is an issue everywhere. I was at a conference in the Philippines a month or so ago with a number of delegates from around Asia and all of the directors there were able to go down and buy pirated copies of their own films within about five minutes of where we were having the conference. So it is an issue across Asia.

Senator PAYNE—That would make you feel good!

Ms Gailey—One of them did say, given the amount of pirated material, that it would be rather humiliating if you were not pirated.

Senator PAYNE—I want to ask you about appendix A of your submission, which is your first contribution to the scoping study on the Australia-Malaysia Free Trade Agreement process. You have a table which sets out the balance of trade in cultural goods and services between Australia and Malaysia. When I first looked at the figures in the totals I was surprised. It is an ABS table. I was struck by the fact that under the definition of cultural goods—and therefore reflecting an extraordinary disparity in the balance of trade—radios and TVs are included. I assume that means that every physical radio or television set produced by a Malaysian corporation is included. Just out of interest, does your organisation remonstrate with the ABS about that?

Ms Gailey—I am actually going to a meeting with the ABS tomorrow because the way in which data is collected—I am sure this is something you all encounter regularly—is often not terribly helpful.

Senator PAYNE—It is not really a reflection of cultural exchange, is it?

Ms Gailey—That is a perfect example. It makes it incredibly difficult to establish meaningful data for ourselves or for anybody else.

Senator PAYNE—It begs the question: are those radios and TVs really used for the dissemination of, shall we say, culturally sound material?

CHAIR—When you take the value of radios and TVs imported from Malaysia off our total imports, it does not leave much to play with. There is not much happening in the arts, is there?

Senator PAYNE—No, and that was really where I was going. We have the table and it has this massive \$369 million amount for radios and TVs, but if you take that away then really we are looking at less than \$10 million on either side in cultural exchange. What does your organisation think about that? Also in that submission is the observation that touring companies, particularly in relation to musicals I think, do not spend a lot of time in Malaysia; they tend to go to Singapore as the alternative. Is that in relation to censorship issues or are there other factors at play there?

Ms Gailey—In relation to the musicals, that is primarily a decision that is made by the producing companies and the presenters. What tends to happen, as I understand it, is that you will get people who will do an ‘event trip’. They will fly from KL to Singapore for the weekend. It is much the same way as when the *Lion King* was in Melbourne, and there was a relationship with, I think, Qantas and people flew from New Zealand to see the *Lion King* and spend the weekend in Melbourne. Because a lot of the musicals have high ticket prices, there is a lot of

event holiday packaging. A lot of people think that there is not too much to be gained by playing Singapore and Kuala Lumpur. They do one or the other; they tend to do Singapore.

It is true that the amount of trade between the two countries is small. It has been a bit of a mystery to us as to why Australia does not push sales more aggressively into Asia, particularly into countries where English is a national language, as in India, or where it is in common usage, as in countries like Malaysia. I would really like to see that. Obviously the demographics in the South Asian countries are beginning to change with rising middle classes. Malaysia is not the best example, obviously, but with rising middle classes across Asia it would seem to us that at the moment more could be done from Australia's side of the table to push audiovisual programming into those territories.

Senator PAYNE—It also seems to me that there is the potential for exploring a cultural market similar to the exhibition that was held in the National Gallery earlier this year, which was called *Crescent Moon: Islamic Art and Civilisation in South-East Asia*. It was a representation of textiles and visual arts, basically, and their development—ancient, in many cases—from our nearest neighbours. Apparently it attracted quite a large audience at the National Gallery, of which I was one. In terms of Australia's development multiculturally and the growing interest in those sorts of areas in Australia, it seems to me that there is potential there, particularly with Malaysia, particularly given the English language connection and particularly given the Commonwealth connection.

Ms Gailey—I agree, and I think there is the potential to do the reverse: to take more work from Australia overseas. There was a very interesting commentary in the last couple of months about Japan's perceptions of Australia and looking at the decline in tourism from Japan. It was on the back of a very large art exhibition that was mounted in Tokyo. It was saying that at the moment Australia is being marketed too heavily to Japan as a location for wedding ceremonies, koalas and beaches, that there was little understanding of Australia and its cultural output and that with sophisticated markets like Japan there was a far greater need for Australia to be marketing itself substantially differently from the way the country has been marketed in recent years. I think that applies just as equally in cities like Kuala Lumpur.

Senator PAYNE—The other aspect of enormous potential which we have also heard about this morning is the number of Australian alumni in Malaysia, many of whom I am sure graduated from institutions in Australia with degrees in and around the arts, broadly speaking. I would imagine that there is a capacity to capitalise on that as well.

Mr EDWARDS—Firstly, I want to congratulate you on what I thought was an excellent submission. I want to come back to the issues you raised in your opening statement this morning. On page 5 of your submission you say:

The Alliance believes that in accordance with rising international concerns about the treatment of cultural industries in FTAs, it is now more than ever appropriate that Australia join the International Network on Cultural Policy ... and lend this country's support to current UNESCO initiatives to develop an international instrument on cultural diversity that quarantines cultural industries from all trade agreements.

I can understand your broad interest in trade agreements. But, firstly, can you expand on what is the rising level of international concerns; secondly, is Australia lagging in helping to develop this international instrument on cultural diversity and, if so, what should we be doing?

Ms Gailey—The submission I made to this committee was in fact a previous submission. Since that submission was written, UNESCO has voted on the instrument for cultural diversity. Regrettably, Australia chose to abstain, so the government has made its position clear in that regard. I understand that decision was made on technical grounds rather than on the broad principle.

A number of countries have signed that agreement. Obviously, Australia is not currently one of them. At the time of the vote there were only two countries that voted against the agreement—Israel and the United States. There were four that abstained. If my memory is correct, they were Australia, Nicaragua, Honduras and Liberia. Conversely, you can see that the majority of countries were supportive of this. In large part the concerns have been driven by this: as the media has changed, as there has been a proliferation of delivery platforms and as there has been an increasing dominance by American programming worldwide, there have been increasing concerns that governments are able to do whatever they believe is most appropriate to enable their own local audiovisual industries to grow.

Whether it is by way of quotas at the cinema as in South Korea or whether it is by way of what we have been doing in Australia with content standards for television or whether it is by way of any means that countries consider appropriate—Malaysia has some cinema taxes; and it is done differently around the world—the concern is that trade agreements not become a means whereby you remove your capacity to assist your local industries. That is particularly so for those countries that are barely off the starting blocks, such as poor countries. I think it is true to say that the impetus for this was probably driven by Canada, followed by many of the Francophone countries. Regrettably, at this stage I understand there were technical reasons to do with the way in which some of the agreement was drafted that caused Australia to abstain, but we would be hopeful of a reconsideration of that.

CHAIR—In your submission you mention Malaysian production companies making bids in Australia for work. On page 34 you say that Malaysian production companies have been increasingly looking offshore for work and that companies have been quoting for work in Australia.

Ms Gailey—That is increasingly common in terms of where work is located, and Australia seeks to establish itself as an attractive place for offshoring as do increasing numbers of countries around the world.

CHAIR—How much of that Malaysian work has come down here?

Ms Gailey—No, it is more about work going the other way.

CHAIR—Sorry; yes, that is so. How much have the Malaysians coming here got?

Ms Gailey—Not significant amounts at the moment but increasingly so as these things do move fast; it is astonishing. India, for instance, has turned itself around since 2000 in terms of

the amount of offshore work that it is taking onshore in postproduction and visual effects. That is for a number of reasons. India has much lower labour costs. Also, with technology changing it is possible to be sending material overnight and having it returned to you the following morning. That part of the work which does not need to be physically sent can be emailed, worked on overnight and then returned the next day. India has gone ahead in leaps and bounds. Malaysia is coming along. There has been a lot of government pushing towards making Kuala Lumpur a media centre. But at the moment there is more work going from here to India than there is going to Malaysia, but there is a certain amount going in commercials.

CHAIR—How much is coming back the other way? And I should state an interest: I have the Warner Bros Studios in my constituency on the Gold Coast. But they get a bit out of Hollywood; Hollywood pinches a few of our technicians, particularly in the digital-audio area. I suppose it is part of globalisation, it is a bit of a two-way street—or are you concerned that we are getting swamped?

Ms Gailey—I think it is always a balancing act to ensure that you have a viable local industry, because the offshore work cannot be relied on and things like a change in the value of the dollar can stop work, particularly television production, coming here—just like that. Large-budget feature films are not quite so price sensitive. At its essence our industry here has to be viable in order to attract work from offshore and we need to make sure that we are not relying on that offshore work to be the industry.

CHAIR—Right.

Ms Gailey—Does that answer your question?

CHAIR—Yes, I think it does. There are other factors, too, aren't there? For example, the talent—apparently at Fox Studios in Sydney there is a very good sound effects system set up and Hollywood are borrowing that all the time. So what you are saying is right: they will churn out some noise that Hollywood have not been able to perfect; up she goes on the satellite, straight into Hollywood, and Bob's your uncle.

Ms Gailey—The shame about some of that, though, is that we are jobs for hire. We are not keeping the copyright, which is a bit of a shame, and licensing it to them. But it is true the sound facilities at Fox are excellent, and we get a lot of work from China coming here to do the mixes for their films.

CHAIR—But you are still basically concerned about the Malaysian attitude, which is what this committee is all about.

Ms Gailey—Our main concern is just that we do not throw the baby out with the bathwater because we were not thinking about it. And you are right: the balance of trade in cultural industries is very small—but that does not mean it is always going to be the case, and we just want to make sure that with any free trade agreement we build in the same kinds of protections that we did in the Singapore-Australia Free Trade Agreement.

Senator KIRK—I wonder if you could elaborate on that: what are the protections in the Singapore-Australia Free Trade Agreement that you would like to see replicated in the Malaysian one?

Ms Gailey—Did I not put that in the submission? I seem to spend my life writing this stuff! There are very good exemptions in the annexes to the Singapore free trade agreement that carve out the government's capacity to support, in any way it considers fit, now and into the future, any mechanisms of support for cultural industries, and it defines the cultural industries in that reservation. It is technology neutral and platform neutral so that it accommodates any new delivery platforms that might be introduced or invented and come into use.

Senator KIRK—Thanks.

Ms Gailey—I can certainly get you the wording if it is not here.

CHAIR—I thank you very much indeed for your attendance here today. If there are any matters on which we need additional information, the secretary will be in touch. Once again, thank you very much indeed.

Ms Gailey—Thank you for your interest.

Proceedings suspended from 11.49 am to 12.00 pm

KOTLOWITZ, Mr Danny, Legal Counsel, Regulatory and Competition, Telstra Corporation

PERIES, Mr Kavan, Head of Global Solutions, Telstra International, Telstra Corporation

CHAIR—On behalf of the subcommittee I welcome representatives from Telstra. Although the subcommittee prefers that all evidence be given in public, should you at any stage wish to give any evidence in private, you may ask to do so and the subcommittee will give consideration to your request. Although this committee does not require you to give evidence on oath, you should be aware that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the chambers themselves. Before proceeding to questions, do you wish to make a short opening statement to the subcommittee?

Mr Peries—We are pleased to have this opportunity to appear before you and make a brief summary of the submission we made to the inquiry. We have also made a number of submissions to the Malaysia-Australia free trade discussions. This is a summary of all those submissions. I represent a business unit called Telstra International, which is one of the fastest growing business units in Telstra. We have over 20 officers onshore and about 400 employees based offshore. Our key focus is to grow in the Asia-Pacific region. We have officers in India, China, Singapore, Hong Kong and all the major tier 1 and emerging countries. Basically, we provide communications services to multinational corporations as well as to the emerging global service providers who have not built their own infrastructure offshore. In a nutshell, that is what we do. You might be surprised to know that a number of independent market research agencies such as Gartner and IDC have consistently rated Telstra as the No. 1 IP backbone provider, especially in the Asia-Pacific. That is something we are really proud of.

We recognise that Malaysia is a key market in South-East Asia. There are a number of multinational corporations who have based their manufacturing sides, R&D facilities, back offices, data processing centres et cetera in Malaysia. We also see a trend in the number of large Singaporean corporations moving their back office operations across the border to gain the benefit from cost efficiencies. The other interesting trend that we see is that a number of Asia-Pacific decision makers who are responsible for their ICT budgets are beginning to base themselves in Malaysia, including people like Dell, DHL et cetera. Increasingly they are making decisions for the Australian market as well. So it is quite important that Telstra be as close to them as possible and that Telstra build relationships in those markets. That is why Malaysia is beginning to become important to us. Also, as I said, a number of multinational corporations are based in Malaysia. Most of them are Fortune 500 type of companies. I can rattle off a list of impressive names: Microsoft, Sony, BMW, BP, Dell, DHO. They all have their manufacturing or R&D centres based in Malaysia.

The other interesting trend that we see is that there is a number of home grown Malaysian MNCs that are beginning to expand offshore—people like Malaysia Airlines, Telekom Malaysia, Hicom, who made the proton car, Maybank, Star Cruises, Genting et cetera. Even though their headquarters are in Malaysia, Telstra has to have a presence close to them in order to influence their decision-making process.

One of the things that really concerns us is the sorts of limits that the Malaysians have put on foreign direct investment in telecom companies. That is one of the key points we make in our submission. Currently, it is at 30 per cent. But we are aware of a number of instances where there have been special cases for foreigners to invest up to 61 per cent, provided that they sell back to 49 per cent after five years. We are aware of one high-profile case where Telenor of Norway invested in a small mobile company called DiGi.Com about five years ago. Now the time is up for them to sell back, so we are watching with great interest how they are going to sell down to—and whether they want to sell down to—49 per cent after having made a successful investment in a very rapidly growing mobile market. So that is one of our key concerns.

Contrasting with that, in Australia there are no FDI limits on telecom operators. Look at SingTel Optus: 100 per cent owned by Singaporeans. Look at Hutchison: owned by Hong Kong Hutchison. Look at Vodafone. Look at AAPT: owned by Telecom New Zealand. No limits have been put on them to enter the Australian market. That is why we made the submission that in Malaysia there should be 100 per cent foreign ownership allowed in telecom companies—perhaps not in the incumbent, the old Telekom Malaysia, where there is still a significant Malaysian government holding.

The other issue that I want to bring to your attention is another market access limitation that the Malaysians have put on foreign operators. You are usually required to obtain a national facilities licence if you intend to lay fibre optic cable inside the country, set up a cable landing station, a satellite ground station or even a mobile network—a transceiver, transmitter: the usual mobile apparatus. No foreign operator has been allowed to acquire a significant shareholding in this type of licence other than the previously mentioned Telenor of Norway, and we reckon that that is a prohibitive market limitation attempt by the Malaysia authorities. We are in discussions with the Malaysian regulators to understand whether that is part of the government policy or whether they actually apply that on a case-by-case basis, because, at the time of the Asian financial crisis, when we were having discussions with the regulators, we were informally advised that they would prefer the foreign entrants to get access to their local operators in order to preserve their value at that particular time, when Malaysia and all the other South-East Asian countries were under financial stress.

The other issue that we made mention of in our submission was the 30 per cent quota that they have set aside for the bumiputras. We recognise that they have a sovereign right to have policies to address historical disadvantages in the society, but, again, it imposes an additional cost on us. Also, we have to go and find an appropriate local partner who is qualified in the eyes of the government to take that 30 per cent quota, so that is another additional administrative hurdle that we have to overcome.

Having said that, there are some positives as well. We enjoy very strong bilateral relationships with Malaysian carriers, with all their major carriers, in particular with the old incumbent, Telekom Malaysia. We have joined with them to provide voice and data services between the two countries and elsewhere as well. Also, we recently signed an MOU. That was signed by a joint venture of Telstra, Reach, to build a 20,000-kilometre submarine cable between Malaysia and the US west coast. That cable would touch Hong Kong and other parts of Asia. So there has been a series of positives in our relationship with Malaysia. Again, as I said, we have a close dialogue with the Malaysian policymakers. Only yesterday we both met with the Chairman of the Malaysian Communications and Multimedia Commission, in Sydney. So we are quite

positive in terms of the opportunity in Malaysia, and, if some of those administrative hurdles can be overcome, I think we will make a rapid decision to go and set up a sales and support office in Malaysia.

CHAIR—Thank you very much for that.

Senator PAYNE—I will start off generally around the question of the developing FTA. You make some observations in your submission about your engagement in the consultation process. Are you generally happy with that side of things?

Mr Peries—Mr Kotlowitz is the one who has been engaged in that process.

Mr Kotlowitz—I think in terms of the Malaysian FTA it has been a positive process. We have been afforded good access by Foreign Affairs and Trade. We have been consulted regularly. We were invited and did send someone to an industry meeting that was associated with the FTA negotiation earlier this year in Malaysia. To the best of our knowledge it is quite unusual for the private sector to be invited along. We were the only Australian carrier to send representation. On the Malaysia FTA we think Foreign Affairs and Trade have done a good job. Nonetheless, the feedback we are getting is that with the issue of chief concern to us, the foreign equity investment caps, apparently we are not making much headway. With all the best will in the world, if the Malaysians do not yield on that, we will be left with our problems.

Senator PAYNE—You would not be the only Australian corporation, though, with concerns in that area.

Mr Kotlowitz—We acknowledge that. We understand that there are other areas, services areas in particular, where there are limitations. So we think it needs to be an across-the-board movement by Malaysia. But, particularly in respect of telecoms, we see around the region other countries moving to far more permissive foreign equity caps. Even Vietnam in its WTO accession protocol is allowing up to 65 per cent in some areas. So the Malaysian situation is anomalous. We are not the only ones lobbying on it. The Asia Pacific Carriers Coalition, which is a loose affiliation of international carriers, of which our Reach joint venture is a member, sent a letter in May comparing a range of South-East Asian countries and saying to the Malaysian authorities, ‘You have to lift your game here.’ A large part of the concern is the discretionary nature. We know that you can get up to 61 per cent, and Reach in fact has a presence in Malaysia—

Senator PAYNE—And then sell down?

Mr Kotlowitz—Yes. Reach got its licence in 2004. Reach is facing its moment of reckoning in 2009. That is one of the reasons why we are watching the Telenor situation very carefully.

Mr Peries—Having said that, the licence that Reach got is not one of the licences that I referred to in my opening statement, the network facilities licence, which allows you to lay cable. Reach has a lower class of licence called a national service provider licence, which means that you have to go and buy access capacity from other local providers.

Mr Kotlowitz—It only entitles you to resell. I suppose it is the equivalent of a carriage service provider status in this country, which of course does not require a licence if you are only reselling. You are only required to obtain a carrier licence if you actually operate facilities.

Senator PAYNE—What is your view from Telstra's perspective of the next steps in relation to the development of the Australia-Malaysia FTA?

Mr Kotlowitz—We understand that the current blockage is that Malaysia is simultaneously negotiating a free trade agreement with the United States. The experience of South-East Asian countries on bilateral negotiations—and I think the Vietnamese were the first to realise this because they concluded their BTA with the US some time back—is that, once you make a concession to one OECD country, you end up having to make a concession to all of them, and therefore it seems that Foreign Affairs and Trade in Australia generally is being held hostage to the USFTA process. We are waiting to see what transpires, other than these letters and lobbying activities that are ongoing, and meeting Dr Shafie yesterday and saying to him, 'It is a bit of a strange situation that you have a formal 30 per cent foreign ownership cap and beyond that it is in the hands of the minister or whoever grants the—'

Mr Peries—To be fair, the policy makers seem to recognise that Malaysia seems to be getting stranded in a host of other nations that have freed up their telecoms markets. Particular mention was made yesterday by Dr Shafie about Indonesia, which now provides 100 per cent foreign ownership across the board, except in certain instances. So I think they have recognised that fact, but the action does not seem to follow.

Senator PAYNE—Some might observe that it has significant political implications for them.

Mr Kotlowitz—I think that is right and that now may not be the best time for the Malaysian government to make concessions on foreign ownership. But if we come back in six months time and some of the current internal tensions have been addressed, we might find them more willing to move.

Mr EDWARDS—What is the key to unlocking the blockage, in your view?

Mr Kotlowitz—We think that Telekom Malaysia are increasingly pursuing an investment portfolio offshore and are starting to encounter the kinds of obstacles that we are very used to encountering. They now have investments in 13 South-East Asian countries. We think that as they begin to experience the same problems that we have experienced, because Telekom Malaysia is significantly owned by Malaysian government interests, that will launch a series of bilateral moves with all those countries to lower investment thresholds. We see enlightened self-interest on the Malaysian side as being the likely trigger for movement.

Mr Peries—But that might be a long-term thing.

Mr EDWARDS—I had some discussions the other day with a businessman who has been involved in Malaysia in a big way for a long time. He suggested to me that in recent years he has seen an evaporation of the goodwill that used to exist in Malaysia towards Australia. He could not put his finger on why this is. Do you share the view that there is a decreasing amount of goodwill between Malaysia and Australia? If so, why would that be?

Mr Peries—At the business level, I have to say that I have not experienced that at all compared to, say, Singapore, Thailand or Indonesia. My experiences have been positive. I have lived in Malaysia and have worked for other companies as well. The Colombo Plan is always held up as a positive development. Many have longstanding relationships with Australia through that and subsequent education of their children. I cannot say that there has been negativity.

Mr EDWARDS—I actually would have discounted his view, but he has been there for a long time and runs a big business.

Mr Peries—We get numerous teams from Malaysia who come and try to learn how we have done things here. When Telstra was going through the deregulation process, we had teams of Malaysians coming and sitting with us, trying to understand how that whole process was taking place and what the competitive response was from Telstra's side. We had numerous teams that came a couple of years back. They were trying to understand how we have a big wholesale and retail split within Telstra, because they have similar competitive pressure. So it has been a learning process from what we have done, at least in the telecoms field.

Mr EDWARDS—Could it simply be that Malaysia is keener to address an FTA with the United States than it is with Australia?

Mr Kotlowitz—I think it is an order of precedence question. They understand their concessions made to the United States will have a far bigger impact on the economy and therefore they want to get that right before getting on to Australia—at least this is what we are told by our interlocutors at Foreign Affairs and Trade.

Mr EDWARDS—Are many of the people you deal with in your industry Australian educated?

Mr Peries—Yes. Australian and British.

Mr EDWARDS—Most of them would be tertiary graduates.

Mr Peries—They are.

Mr EDWARDS—Is there any technical education that goes on for Malaysian students within Australia that you know of? Does Telstra bring in students?

Mr Peries—No, we do not.

Mr Kotlowitz—Obviously we have some graduate programs. If a Malaysian student were to apply then they would be considered similarly to everyone else, but we—

Mr Peries—It is very rare. I cannot recall any such case in the last five to 10 years.

CHAIR—There being no further questions, I thank you very much indeed for your attendance today. Is it the wish of the Foreign Affairs Subcommittee that the document 'Framework on Malaysia-Australia halal cooperation in food production and marketing—a business perspective' from the Malaysia Australia Business Council be incorporated in the Foreign Affairs

Subcommittee's report as an exhibit for the inquiry into Australia's relationship with Malaysia?
There being no objection, it is so resolved.

Subcommittee adjourned at 12.21 pm