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JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS,
DEFENCE AND TRADE

TRADE SUBCOMMITTEE

**Reference: Australia's trade and investment relations with Asia, the Pacific and
Latin America**

TUESDAY, 5 MAY 2009

SYDNEY

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

Trade Subcommittee

Tuesday, 5 May 2009

Members: Senator Forshaw (*Chair*), Mr Hawker (*Deputy Chair*), Senators Mark Bishop, Ferguson, Fifield, Furner, Hanson-Young, Johnston, Ludlam, Moore, O'Brien, Payne, and Trood and Mr Baldwin, Mr Bevis, Ms Julie Bishop, Mr Danby, Ms Annette Ellis, Mr Gibbons, Ms Grierson, Mr Hale, Mr Ian Macfarlane, Mrs Markus, Mr Murphy, Mr Oakeshott, Ms Parke, Ms Rea, Mr Ripoll, Mr Robert, Mr Ruddock, Ms Saffin, Mr Bruce Scott, Mr Kelvin Thomson and Ms Vamvakinou

Trade Subcommittee members: Ms Saffin (*Chair*), Mr Bruce Scott (*Deputy Chair*), Senators Ferguson, Forshaw (*ex officio*) and Furner and Mr Gibbons, Mr Hale, Mr Hawker (*ex officio*), Mrs Markus, Mr Ian Macfarlane, Mr Oakeshott, Mr Ripoll and Ms Vamvakinou

Members in attendance: Senators Forshaw and O'Brien and Ms Saffin and Mr Scott

Terms of reference for the inquiry:

To inquire into and report on:

Opportunities for expanding Australia's trade and investment relations with the countries of Asia, the Pacific and Latin America, with particular attention to:

- the nature of existing trade and investment relations;
- likely future trends in those relations;
- the role that these countries might play in advancing the Doha round of multilateral trade negotiations in the WTO; and
- the role of the Government in identifying opportunities and assisting Australian companies, especially those in rural and regional areas, to maximise opportunities in these regions.

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Subcommittee met at 9.59 am

CHAIR (Ms Saffin)—I declare open this public hearing into Australia's trade and investment relations with the nations of Asia, the Pacific and Latin America, which is being conducted by the Trade Subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade. This is the fourth public hearing for this inquiry. Today the subcommittee will be taking evidence from a number of witnesses who are closely involved with Australia's international trade. Their evidence will be valuable because of the importance of widening and improving our trade and investment relations and encouraging business contacts, particularly in the very difficult financial circumstances facing the world today.

The members of the subcommittee are delighted to welcome all the witnesses who will appear before the committee today but especially you, Mr David Mortimer AO, who recently conducted a review of Australia's export policies and programs. This included the Export Market Development Grants Scheme. I understand that we will hear some evidence on that scheme later today. We anticipate that today's discussion of current issues in the trade and investment field will greatly assist in our task of finding ways to widen and improve relationships with the countries included in our reference.

This inquiry is covering a large number of Australia's trading partners, each at its own unique level of development. Trade and investment links with these countries are of growing importance as governments work to overcome the negative effects on trade and investment from the current financial crisis. In our examination of ways to widen and improve those links, we will be seeking to assist Australian companies to make the most of all current and developing opportunities.

Finally I remind 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 order concerning the broadcasting of Senate and committee proceedings.

[10.04 am]

MORTIMER, Mr David Allen, AO, Private capacity

CHAIR—Welcome. Thank you for coming before our committee for the second time. 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. Do you have any comment to make on the capacity in which you appear?

Mr Mortimer—I am appearing in my capacity as chair of the recent export policies and programs review committee.

CHAIR—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. The secretariat has prepared proposed topics for discussion and we have probably 16 questions, and I am not sure we will cover that terrain in the time we have available. Before we proceed to the questions, would you make a short opening statement just to do a bit of a recap on posts the report.

Mr Mortimer—By all means. What we tried to do in the report was to draw to the attention of the Australian community that we are in the centre, if you like, of a rapidly growing part of the world economy, namely the Asian economies, and that the historical tyranny of distance we have been so exposed to is being replaced by a proximity and an opportunity for us to grow and thrive. We also drew the attention of the Australian community through the report to the need over a period of time to have a sustainable export momentum so that we are able to have the capacity over time to manage our external liabilities. We thought export by itself is not simply an objective but the objective is to see that we have a capacity to deal with all our opportunities and problems, including our ability to meet external liabilities in the years ahead of us.

We tried to identify, if you like, four programs under a national investment strategy, and they are contained in the report. Very simply, one was to improve our international competitiveness, and the others were to open up export markets by improving market access, to develop the markets and to introduce some coherence and coordination amongst government agencies within Australia. Those are basically the four pillars that we set our recommendations out on.

CHAIR—Thank you for that. Mr Scott.

Mr BRUCE SCOTT—Thank you for your report and for your appearance here today. I find the report most interesting. I guess as you write these reports the world economic situation has changed and it is very hard to predict where it is going to go. Do you have any thoughts on currently where the global financial systems are and how that might impact on our potential to continue to open up markets and maintain existing markets? I guess where I am coming from is that there is going to be some closing of our access arrangements and there is a real concern there. But how do we as a nation make sure that we can continue the process of market facilitation against the backdrop of the current financial situation?

Mr Mortimer—My first observation would be a very obvious one, that we do have great turmoil in the international markets at the moment and the capital markets in particular. That has come partially as a result of lack of confidence in a variety of institutions, not necessarily Australian but globally. It most certainly seems to be raising the question of protectionism, either directly in terms of tariffs but probably more indirectly in terms of regulations and rules which have the potential to impact on our efforts. What we said in our report remains even more valid today than in September last year, and that is the need to be constructive and proactive in terms of accessing markets and improving access and drawing to the attention of the Australian people the issues that we are battling with, frankly. We are battling with very obvious ones, as you know. I pick up the paper and I see that the United States is now underwriting automobile production in their own country, and that is the start of a disease which could get out of control.

From our viewpoint, I think if we are able to keep a very level head about these things and continue to go on in a business-like way about how we approach market access, along the lines that we have recommended in our review, then we have got good grounds to hope that we will be listened to. We as a country have a terrific historical record in improving market access. There is compelling logic in improving market access. If we continue to pursue that in a fairly articulate and business-like way, as we have done, for example, currently in Doha through the department and the minister, we have a good enough voice to at least warrant the rest of the world paying attention to us. But I have to say that it is a serious concern.

Mr BRUCE SCOTT—You mentioned the American auto industry and how they are going to deal with that. It looks like tough medicine is not necessarily going to be taken, and if that is something that will flow through to other sectors of the American economy it will affect our opportunities under our free trade agreement with the US.

Mr Mortimer—I think that is absolutely correct to the extent that government subsidised business and the old process of renewal is harder to begin and harder to end, and that is a worry. It is a worry for us because we become less competitive. The cost of capital for a General Motors or a Chrysler in this current situation should be increasing rather than decreasing, and our competitive status should be improving. We are not in the car manufacturing business but we are in the car component export business, and it is important to us that we see automobile production continue and that it thrive, and to the extent that we can continue to play in that supply chain then one can be optimistic about it. But there is huge potential for spillover effects, I think. There is a danger in the philosophy once you start subsidising business. My observation on that is that, if business is not renewed, they become lazy and inefficient. Dare I say that the US automobile industry is a great example: they have become institutionalised and they have been reluctant to adapt to changing environment in terms of design and those sorts of things, or if they have adapted they have done so without being close enough to the market and receiving the signals that are there. If they prop up those sorts of things I think it institutionalises resistance to change, and that is a worry.

Mr BRUCE SCOTT—We have the Americas and China, and then you can start to look at India, the Middle East and, of course, Europe. Is there any particular area where there is greater strength and greater opportunity for us during these turbulent times, where we should be putting more emphasis and making sure that we are doing everything we can—having a bilateral approach, if you like?

Mr Mortimer—Again, my focus would be on the Asian sector.

Mr BRUCE SCOTT—When you talk of Asia what area do you mean? South-East Asia? Does it include the subcontinent?

Mr Mortimer—Yes, absolutely.

Mr BRUCE SCOTT—It is just one of those definitional things. We all talk loosely about it.

Mr Mortimer—I think I would regard it in its broadest context. If you narrow it down a bit, you have the T4 group of countries that are trying to put something together. We suggest that we should participate in that if we can. So we may have to start small and grow bigger. The opportunities are very real in places like China. One of the great things that worries me is the sustainability of our education export. It comes back to quality. How do you make sure the quality is right? In difficult times, such as we are currently going through, emphasise quality. Let us make sure that our business philosophy is correct so that we do have sustainability in our export of education, for example.

China is still growing. India is still growing. The flexibility in the emerging economies of Malaysia and Thailand have not gone away. Hong Kong is still growing. So if we can take advantage of their ability to adapt and have win-win situations for those sorts of countries, then I think that would be a terrific thing. It is an opportunity and we should approach it in my opinion.

Senator FORSHAW—I have to confess I have not read the review all the way through, but in preparing for today I have focused on your comments about the EMDG Scheme. Some witnesses will appear today, such as the exporters group, who have raised concerns about this in the past. I understand the recommendations that you make, and you put forward a couple of options. I hope we can get to a position where the current problems that the applicants have with the scheme can be resolved quickly. Presumably, that would require a substantial injection of funding from the government. You put forward two options. Perhaps you could crystallise what you think this committee could recommend to the government. I think it is accepted there is a problem with the large number of applicants and the funding running out, whereas in previous years they were actually handing money back to Treasury.

Mr Mortimer—We worked on the premise that the government was not going to increase the grant quantum. We said, ‘Okay, we’ve still got a problem. Can we make a sensible suggestion to government as to how to fix that problem?’ So we suggested shortening the term and reducing the number of grants from eight to five. We also suggested that it could look at increasing the threshold so that the amount under consideration could go to \$30,000.

Senator FORSHAW—It is currently \$10,000.

Mr Mortimer—Yes. The logic behind that was that we are thinking that \$15,000 and \$10,000 grants have a huge administrative cost. Even though Austrade would argue that they are managing it very efficiently, and no doubt they are, it is a huge cost.

Senator FORSHAW—I do not necessarily want to put you on the spot, but you said, ‘No doubt they are.’ There are people who argue that they are not managing it very well. I have been

through this at estimates in the past, so I do not want to turn it into an estimates type hearing, but are you confident that they could not manage it better?

Mr Mortimer—I think we have actually gotten a mixed response, to answer your question. When we took submissions we got some very positive responses in terms of the way they handle their affairs. Evidence was put forward to us that the cost of the grant management program was extremely low. I cannot remember the numbers, but something like five per cent comes to mind. If that is correct—and we did not look into the validity of that—it sounds like a reasonable effort. Probably more importantly, how that is allocated is a different story. Naturally the population wants to get as much as they can on that money, as frequently as they can and with as few restrictions as possible. I understand that, too, from a business/industry point of view.

My argument against that would be that, if you talking about someone being the recipient of a grant of \$10,000, they are not sustainable as a genuine exporter—if they are not able to put something more significant into it. We felt that, if the government is going to look at how it allocates the funds, the scheme could be made more meaningful and a lot of that noise, if you like, down below could be cut out. That was our logic. I still think that is probably the right way to go, frankly. There will be a lot of pressure on you as politicians to make it more accessible, and I think that has validity, but rather than increasing it you actually have to bulk it up. We are investing \$30,000 or whatever the number is in an export program; what sort of payback are we going to get? The allocated authority has to look at it as a business decision and say, ‘We’re going to put \$30,000 on the table for you, Mr Mortimer, and we expect you to show us what you can do with it.’

CHAIR—To deliver X outcome, and in particular areas you might want to enhance services.

Mr Mortimer—Exactly.

Senator FORSHAW—It would follow that that would lead to a lower number of applications coming in. The way the scheme works is that they spend the money upfront and then seek the reimbursement. What they are complaining about is having a reasonable expectation that they may get access to a certain amount of money. By the time it is delivered the amount they are getting is a lot less.

Mr Mortimer—Half of it.

Senator FORSHAW—Yes, and it is driven in part by more applications than were probably expected at the start of the year.

Mr Mortimer—An exporter who is worrying about \$10,000 is not to export ready.

Senator FORSHAW—There are small exporters, though—it essentially is the small exporters.

Mr Mortimer—Absolutely.

Senator FORSHAW—We can ask the groups later, but is \$30,000 a figure that is based upon—

Mr Mortimer—We attempted to put something which would manage the government's budgetary problem and give some certainty of outcome to the exporters. Should it be \$40,000? I would not die in the ditches for that.

Senator FORSHAW—I appreciate that. I was wondering whether the \$30,000 had a particular reference point.

Mr Mortimer—No, we simply said to ourselves: if we increase it to something of that level, would we have the ability to do away with the uncertainty that you have just referred to?

Senator FORSHAW—Thank you for that.

Mr BRUCE SCOTT—One of your key recommendations was the issue of our international competitiveness, and one of the focal points in that was infrastructure. You also referred to Australia's lost global market share in manufacturing, services, agriculture and resources. What sort of infrastructure are you talking about—ports, broadband? I would just like to hash around that for a moment.

Mr Mortimer—One of the problems that we tried to identify in the report was that all of a sudden we had this buoyant economy, but if you look at the numbers we did not exploit it. Why didn't we exploit it? Because we had problems getting our product to market. We had port congestion, rail congestion and vessels lined up off the coast of Australia waiting to be loaded with our exports. If you are going to be export ready, you have to have that infrastructure in place, you have to be sensible about designing and implementing it and you have to make sure it is going to work. That sort of physical infrastructure—that is, ports, rail and road networks—is to some extent the best kind, because you get a return from it. It actually pays for itself and it is not like future generations of Australians have to pay for it through huge taxes.

Mr BRUCE SCOTT—It is paid for once.

Mr Mortimer—Yes, and that is where I come from on all infrastructure, by the way. Then there is what we referred to as the soft infrastructure, which is the people skills. You might recall we had trouble with people not so long ago. For 12 or 18 months you just could not get skilled people in a variety of sectors. So education is important, and training and skilling our population is very important. So it is a combination of both—soft and hard, as we have said.

Mr BRUCE SCOTT—Should there be more third-party access to rail systems? In other words, should we engage business to get our product out, rather than state government business enterprises running some of these key logistics issues?

Mr Mortimer—You probably know more about it than I do, but there has been a great battle at Newcastle about the various issues up there in terms of additional capacity, who should own it and so forth. I think it is important that, if the public is the investor, it be done on a very commercial basis and the users be asked to properly pay for it. If it is a private investor that does it then it is going to pay for itself, one would assume, based on good business judgement. It is important, then, that everyone has sensible access to it so that it does not become a monopoly.

CHAIR—Unlike Telstra.

Mr Mortimer—Yes, exactly.

Mr BRUCE SCOTT—Sydney airport.

Mr Mortimer—All of the above.

Mr BRUCE SCOTT—But it is a problem, really, when you think about it. You have the public investment but if you get private enterprise into it they have to get a real commercial return up-front and soon—the public can wait longer.

Mr Mortimer—Yes, that is correct.

Mr BRUCE SCOTT—But it is a conundrum, I think, when you look at some of the private sector funded tunnels and things, including in Brisbane and places like that. I think the real financial problem is with how they are funded as much as anything, and then they have to have a commercial return rather than a 30- or 40-year investment return.

Mr Mortimer—That is a problem but I would hope that government investment also looks at getting a return, too. A great example, although it is a private investment, is the M7 around Sydney. The return for that is fantastic. It gets forgotten in the context of cross-city tunnels, the Lane Cove tunnel and other less prosperous investments. There is no reason why in this environment you could not get a good structure that would work for both a public and private sector partnership in those sorts of things. He have to get the return, though. It is no good doing it in something that does not generate return.

Mr BRUCE SCOTT—For government or for the private sector?

Mr Mortimer—For the community, and then you split it. If the private sector can add value then they should be looked at as a contributor. In this environment, whether we like it or not, there is just no capital for the private sector. It is no good pretending anything to the contrary.

CHAIR—It is not there.

Mr Mortimer—That will change. I do not know when, but it will change. It will probably not be as generous as it was a couple of years ago but it will change.

Mr BRUCE SCOTT—So you would still keep a lot of emphasis on the public sector, but they must get a return.

Mr Mortimer—I have an interest in the private sector, so I would not want to say, ‘Let’s forget about the private sector,’ for one minute. What I am saying is in this current environment the private sector certainly needs partnership from the public sector on the capital side of it. But I think it is also important that if investment is going to work it be an investment that generates a positive return for the community so that government can say to the taxpayer: ‘You do not have to worry about it. It is going to be paid for by the returns it is generating.’ You may split the returns between a private and public sector partnership, with the public sector getting the return associated with the lower cost of capital and the private sector perhaps getting the return associated with construction and/or operation. I think you can come up with a formula that

works and I think that will change. There will be a time when the capital makers will be well oiled again and confidence will be returned—and we will all be dead!

CHAIR—No!

Mr BRUCE SCOTT—I hope we are still alive to enjoy it.

CHAIR—It will not be that long.

Mr Mortimer—I do not think it will be either. I do not think it will be that long at all. I am an optimist, to be frank.

CHAIR—Me too.

Mr BRUCE SCOTT—So am I.

Senator O'BRIEN—Some of those responses prompt a question about investment in infrastructure and issues of the national interest. Of course if you want a return from investment and you want others apart from the private sector to put capital in, what priority do we give and what barriers should we put in the way of investment from other entities from other nations? There is obviously a debate about Chinese investment in Australia. If there was a proposed significant investment from, let us say, a Chinese company in some major infrastructure, what barriers, if any, should we put in the way of that investment in the name of the national interest?

Mr Mortimer—I am a pro-foreign investment thinker, and you will notice in our report that we gave a little bit of emphasis to Australia's direct investment overseas. I think that that is going to be one of our big exports in future years, and it already is with \$315 billion of direct investment at the moment. I do not have any problems with the Chinese investing in a toll road—

Senator O'BRIEN—Or a port?

Mr Mortimer—or a port, as long as it is exactly that—an investment—and that the access of our exporters to those facilities is not, if you like, restricted by priorities being given to particular markets, for example. Foreign investment is positive. If we think someone is misbehaving, people like you could change the rules tomorrow. It is really that simple. I am not suggesting that you would ever want to do it but I do not have any problems with China bidding against the US private sector or Australian domestic investors for the ownership of an infrastructure in this country. But I think that you have to have clear rules around that infrastructure so that the return for capital is one thing but the return from the operation and the return from and access for our exporting community is not constrained in any way, shape or form.

Senator O'BRIEN—So if that rate of return is a matter for the business, is there any proposition which would justify government intervention to regulate the rate of return?

Mr Mortimer—It could well be, if it is a monopoly situation, yes.

Senator O'BRIEN—Every port in some way is a monopoly, isn't it?

Mr Mortimer—There is no reason why you are not able to do the same sort of thing that is already done by a government. For example, Australia Post in their letters business, which is regulated by the ACCC much to the frustration of their chairman from time to time, is a monopoly. All of those things can be introduced and can be quite effective. If there were a monopoly, I would be very reluctant to see the private sector running it without a degree of control over their ability to price unreasonably.

Senator O'BRIEN—In terms of electronic commerce, which is well and truly in the news, does the same principle apply—the right to invest subject to the normal issues of trade practices law?

Mr Mortimer—Yes, and I have no problems with that. One of the points that seems to be emerging in this current debate—and again, I do not profess to know the ins and outs of it—is the regulatory rules that were attempted to be introduced by the foreign investor on the potential investment target in Australia. I think that one would have to look closely at sets of rules and guidelines—

Senator O'BRIEN—Such as the Qantas Sale Act which limits the right of foreign ownership, foreign airlines et cetera?

Mr Mortimer—That could well be a way to do it. I was thinking particularly of suggestions that the conditional investment by Chinalco into Rio had quite extensive rules and regulations which were to be imposed on the company. Without knowing a single thing about it, I would certainly want to crawl all over that if I were in government.

Mr BRUCE SCOTT—Could you explain why—sovereign issues or—

Mr Mortimer—No, I think it is more a question of what is realistic to the other investors.

Mr BRUCE SCOTT—The other investors in—

Mr Mortimer—Yes. If you can be seen to be directing benefits away from all of the shareholders to a particular group of shareholders, then you have got a real issue, and that would concern me. Again, in my own broad view, government can control foreigners and their investment in this country if they want to. If someone behaved outrageously—and China is a big brother and it would be a bit hard—you can change the rules. China does. The US has done it. Why should we be different?

Mr BRUCE SCOTT—Change the rules halfway through the game?

Mr Mortimer—If behaviour suggests that someone is acting not to the benefit of Australia, and that is the condition on which you have approved an investment, I see no reason why you could not if you had to. We have never had to, to my knowledge.

Mr BRUCE SCOTT—So you have got to get the rules right, otherwise—

Mr Mortimer—I think most foreign investors behave reasonably. That has been our experience to date so we have got no reason to do it. All I am saying is there is always the default if someone does misbehave—you can always change the rules.

CHAIR—We are not powerless.

Mr Mortimer—You have got powers. That is why I am not too nervous about foreign investment in that sense.

Senator FORSHAW—But that would be behaviour in the context of its relation to the investment or trade or whatever. We are not talking about—

Mr Mortimer—No, not political behaviour.

Senator FORSHAW—I think it is important to have that on the record.

Mr Mortimer—Yes, and again I stress that I am not suggesting we adopt that sort of thing. I just have in the back of my mind that if you want to change the rules you can change the rules. If someone is behaving obnoxiously I think you can.

CHAIR—We can respond. In the report it says that ‘exporting firms typically have higher productivity levels than those that sell in the domestic market alone.’ How can we encourage more firms into the export field other than by some of the government schemes and things like that—just in a general way?

Mr Mortimer—One of the things that I think is very valuable is actually telling the public about exporters. There are a lot of people who never think of it. One of the things that Austrade does is attempt to communicate that effectively to exporters or potential exporters who come to them. When we talked to companies I was terribly impressed with the things some of the people who came and saw us are doing, and also terribly annoyed when you hear some of the stories where they can export but they cannot sell in Australia. How dumb is that?

I really think it is an educational program and it starts as early as school; you start telling people about the importance of markets overseas and the importance of being a player in those markets. What does it do? It increases your productivity and it gives you longer production lines. But equally, it challenges you to improve the way you do business which, again, translates into improved productivity.

CHAIR—The deputy chair, Bruce, lives in a particularly rural area and I live in a regional area, and it is often not talked about. Also, the language used in the report is about a trading nation but that is not how we think. That is not in the framework of how we typically see ourselves.

Mr Mortimer—Yes, that is right. One of the things we have suggested is that we should look at a competitiveness-ready type index so that we can actually draw people’s attention when we announce decisions—this is going to affect exports by so much.

CHAIR—Given the new situation in the world economy, which we touched on a little bit at the beginning, how big a threat to Australia's stability in this area is the continuing growth in the net foreign liabilities? I know there is some mention of it in your executive summary.

Mr Mortimer—It is a funny thing. The global financial crisis may actually relieve us a little bit. The world is de-leveraging and a lot of that foreign liability has come from Australian companies leveraging their balance sheets. To some extent it will de-leverage, but I suspect it will also shift to the government sector. It makes our task a little bit more difficult because we have set some parameters there as to what exports should grow to give us that target of one per cent per annum. It is quite a task if protectionism raises its ugly head or if regulation raises its head in terms of stopping this export.

CHAIR—The report also recommends the establishment of a national trade and investment council, an Austrade board and a common framework of objectives for trade and investment. The advantages of the latter are fairly self-evident, but what would be the advantages from the national trade and investment council and the Austrade board?

Mr Mortimer—Firstly, on the national council: I had in mind something that was set up some years ago called the Supermarkets to Asia forum. What I liked about that—and I have got my reasons for not liking it, by the way!—was that from the government side, you had significant decision makers attending. The Prime Minister, the Minister for Trade—four or five key ministers—would attend a meeting, along with a selection of people who had interests in that area, and the business side of it was refreshed. I liked the government interaction. I thought, if you had people who can make decisions on the spot, or at least make the decisions to have it researched effectively and so on, you actually had a chance of making some progress. It was then up to business—and exporters, in this case—to be constructive in terms of what they thought was the sensible way forward for government to review policy. I liked that model. I thought, if we did this—and it does not have to be a time-consuming thing, it can be six-monthly or quarterly meetings, depending on the workload—we would have the ability to resonate immediately with decision makers. People have to prepare for those things—at least, the private sector has to prepare. So that was our thinking there.

In terms of the Austrade board, it is always good to have people challenging other people. You guys in the Senate are experts at that sort of thing. You are challenging people all the time. I think that it is the same with Austrade. At the moment, Austrade report to the minister. I am sure the minister challenges them quite a bit, but it would be better if they had additional input from the sorts of things that Senator Forshaw was referring to earlier. There is nothing worse than having a problem, not knowing the answer and thinking that you are going to be asked about it again. I think there needs to be engagement of constructive dialogue with the community generally. That is just another way of doing it.

CHAIR—In addition to free trade agreements, the report also proposes other bilateral arrangements to improve trade and investment. Would you outline some of the arrangements you had in mind or some thinking around that?

Mr Mortimer—The sorts of arrangements we have got in mind include participation with other parties in investment opportunities, but we are really focusing on getting mutual access to markets.

CHAIR—How important is the proposal you recommended for a coordinating unit in DFAT for all-services negotiations, and what advantages do you see that providing?

Mr Mortimer—Coordination is very important—

CHAIR—Of itself.

Mr Mortimer—We are a federation, and, as you know, you have got every man and his dog opening an office here, there and everywhere. When we looked at that, we said to ourselves, ‘There are some pressures that would perhaps dictate a reluctance to change, but, where possible, we should be seeing some coordination and the bringing together of capabilities.’ Again, all of a sudden, you have people talking to each other, even if they are located in one spot, for example. So coordination is, I think, very important.

CHAIR—It is the key.

Mr Mortimer—Yes.

CHAIR—How important is the work on trade facilitation in improving trade flows and reducing trade impediments? I ask that because, having read a lot about trade facilitation, I do not find any agreed definition. I have looked at the definitions that exist, but there is no agreed definition.

Mr Mortimer—Trade facilitation, of course, includes things like the export marketing development grant and those sorts of things. I think it is critical that we have continual, high-level and positive negotiations on market access. That is the most important thing, in my opinion.

CHAIR—It might be a new definition?

Mr Mortimer—It might be. But by that I mean, if we are talking with China, we want to be able to allow Australian companies to invest in services in China without regulations. We want to be able to invest in services, where there are very clear restrictions in some cases, or, indeed, in a product, where there are invisible barriers. I mention China simply because I know a little bit about it, but it is across the board. It is in Indonesia, it is in Singapore, it is in Australia.

Mr BRUCE SCOTT—You make the proposal that the government should identify high-priority markets—and I know that governments in the past have been reluctant to go down this path—what would be the advantage of that? Is it focusing more on the bilateral, trying to keep the WTO and Doha going? Is a bit more about bilaterals?

Mr Mortimer—Yes.

Mr BRUCE SCOTT—Where there is a high priority.

Mr Mortimer—Yes. The advantage of identifying high-priority markets in the broader sense is simply that that is where you are going to get the first and best pay-off if you get it right. I know what you mean about governments not wanting to pick winners—that is probably a very

fair comment—but I think there are some pretty obvious high-priority markets that we should be working on.

Mr BRUCE SCOTT—Probably most of us have been on delegations in foreign countries and, when talking with your embassy or high commission, you are aware that there is a delegation—a very high-level delegation—of business leaders, government ministers and the department bringing a roadshow, if I can put it that way, into town. Do you think there are advantages in that, in bringing the very senior levels of business into a country where it has been identified as a priority? I know we do some of them but, from my experience of travel, I think we get left behind pretty badly.

Mr Mortimer—I think communication with foreign countries at high level in business is very important. I think it opens access for subordinates to those personnel that make decisions in the particular country. We probably do not do enough of it. It is probably a problem of time, frankly. Someone like me—for what it is worth, as a poor example—we are all time short. You have the same issue. I remember very clearly from my TNT days, when my predecessor in that company, Sir Peter Abeles, went with Bob Hawke and the parliamentarians to China. I think it was in the seventies; I have forgotten. Sir Peter Abeles started an apprenticeship education exchange program with our company. They came to Australia and worked in our Australian operation. It might not have been the best place for them to work; nevertheless, that is what happened. When I went back as a senior executive, and later as chief executive, I would go in to see the ministry of transport, and they would have their support staff there, and someone would say, ‘Oh, by the way, so-and-so spent time in Australia with your company.’ And, all of a sudden, it is easy and they are actually anxious to help you. That is the history of the old Colombo plan. So, I think, the more we do in terms of getting communication between senior decision-makers, the better off we are going to be—every time.

Mr BRUCE SCOTT—I like that apprenticeship program. You have targeted those people who are going to go places in their own country.

Mr Mortimer—Obviously, they were sent by the Chinese decision-makers not by us. We just made a capability available to them. It was extremely beneficial to the company, and we ended up setting up three small businesses in China. All of which were profitable. When I finished up and we sold the company to the Dutch in 1996, they were all profitable. That is very unusual.

CHAIR—Thank you, Mr Mortimer, for sharing with us both your time and your experience.

Mr Mortimer—My pleasure. Good luck with what you are doing.

[10.49 am]

BENNETT, Mr Ian, Senior Manager, International Trade, New South Wales Business Chamber

STEWART, Ms Christine Gibbs, General Manager, International Trade, New South Wales Business Chamber

CHAIR—On behalf of the subcommittee, I welcome you both. 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. Thank you for providing the committee with a copy of your submission. Before we proceed to questions, do you wish to make a short opening statement to the subcommittee?

Ms Stewart—Yes, thank you. First of all, just to put in context some of our remarks so that you know our background and experience, I have been working in the field of international trade and export development for some 20 years, with 15 of those years helping Australian companies to succeed offshore. My colleague Ian has some 30 years in international trade and export development, doing much of the same work that I have been doing. The New South Wales Business Chamber is one of the largest and leading industry associations in Australia. It was established in 1885 and its vision is to champion the development, capability and prosperity of Australian businesses. The New South Wales Business Chamber has a membership of 5,000 full members and approximately 23,000 associate members, 80 per cent of which are small to medium enterprises. Its membership is made up of a diverse range of companies, from sole traders and small and medium enterprises to Australia's largest firms and multinationals. Its diversity is further represented in the industries that it represents, such as in manufacturing, high-tech and scientific services, professional services, minerals and energy, and primary producers. Approximately 28 per cent of our members export.

In the international trade division, we reach and directly work with about 2000 exporting and internationally focused companies each year. We help them to enhance their international competitiveness, provide tailored services to ensure offshore success and build bilateral trade linkages. This work includes assisting Australian companies to develop sustainable export businesses by providing support and assessing market potential, providing strategic advice, developing market entry strategies and identifying business partners offshore. We also assist with offshore business expansion decisions and strategies, including joint ventures, strategic sourcing, outsourcing and investment.

We are the largest provider, under contract with Austrade, of the TradeStart Program in Australia. We provide Australian certificates of origin under the authority of the Commonwealth. Further, we deliver the Enterprise Connect program on behalf of the Department of Innovation, Industry, Science and Research. And not only do we provide services to individual clients but we work with government on industry development programs to enhance global capabilities,

identify opportunities offshore and promote overseas investments. Some of those projects include working on behalf of the Department of Foreign Affairs and Trade; Austrade, as I mentioned previously; AusIndustry; the Department of Infrastructure, Transport, Regional Development and Local Government; the Department of Agriculture, Fisheries and Forestry; and Horticulture Australia. We also work on behalf of foreign governments including the Board of Investment Thailand; Apex Brasil, which is similar to Austrade; Innova Chile; the US states of Ohio, Illinois and Alabama; and the Zhuhai municipal government in the Guangdong provincial government, just to name a few.

That is the background for you of what we do and who we are. We know that Australian companies are operating in an increasingly complex global business environment. While in a way it is easier to do business overseas because of communications advancements, it is also more difficult because of the increased level of competition and shifting trade flows which have redefined how companies can and are doing business, whether or not they are directly engaged globally. The emerging importance of developing economies not only as a source of cheap goods but as true competitors on all fronts, including innovation, advanced manufacturing and services, poses significant challenges for Australian companies and Australia itself.

Layered on top of this is now the global financial crisis, which accentuates the challenges of doing business and, importantly, the lack of available finance for businesses to expand. This is a critical issue which needs to be addressed. Furthermore, given the increased global competition and opening up of markets, there have been substantial shifts in the requirements for companies to be successful offshore. New business models have emerged which demand dynamic and innovative responses from both business and government if Australian companies are to be successful and relevant global players. Doing business is no longer the domain of multinationals as more and more companies internationalise, so today's thinking, programs and policies must move beyond the traditional notion of exporting and support new models that help foster true competitive advantage for Australian firms.

In this, greater attention must be paid to services firms, and assistance to help them internationalise is vital. While there has been a significant improvement in and recognition of this, many services firms still remain begging as major industry development programs cut them out of the loop and exporter services are still largely focused on the manufacturing sector. Services firms, just like manufacturers, need help to be innovative, to improve their productivity and to reach their clients offshore.

Australia is well positioned to take advantage of opportunities in the Asia-Pacific as emerging economies seek specialised services solutions which are in the nascent stages in their home market. The capacity to service global markets is underpinned in Australia by world-class capabilities demonstrated in such sectors as design, financial services, ICT and education. These services and others need to be fostered and grown so Australia can position itself for the future and build a strategy to position itself as a place where the rest of the world comes for world-class services, knowledge-intensive industries and innovative ideas.

Regarding investment, Australia is a small player in the economic world order, with a natural geographic disadvantage, particularly from a commercial point of view, and is located away from major population centres. To better attract major investment and entice foreign investors down under, the states and federal government must develop a unified investment attraction

strategy. Current duplication of resources and disjointed promotional strategies act as a detractor from investment. A team approach is needed to combat much larger economies and produce the best ideas and people available to bring companies to Australian shores. It does not make sense for Australian states to compete against each other when the real competitors are other countries and offshore locations.

Strong engagement with the business community in this process is also vital, as businesses bring the vibrancy to the economy which will attract other like businesses to this country. The New South Wales Business Chamber, as we just heard from David, welcomes the Mortimer review, which suggests that a strong link between business and government is needed to attract investment. Furthermore, we believe the government must do something bold to attract more investment to Australian shores. We are well behind other countries in terms of investment incentives, and our offering falls flat compared to those of our competitors. Just being a nice place to live will not sway the investment decision our way. Real commercial incentives which deliver a return on investment, coupled with a highly targeted strategy, must be developed. The competition for investment is only getting tougher, with developing economies positioning themselves as places to go for innovation, research and world-class skills now competing head on with an Australian offering.

On the issue of free trade agreements, we believe the free trade agreements have been successful in helping Australian firms to better compete offshore, and we have many examples of that. The Australian government should be applauded for continuing to negotiate these without backing away from its commitment to the WTO. However, you have to ask what the advantage is that we are creating when so many bilateral FTAs are being negotiated as well. In negotiating FTAs, therefore, we must seek to target gains where our competitive advantage truly lies and perhaps not be so comprehensive in scope but zero in on those aspects which truly assist Australian industry. This is in terms of both trade and investment.

Lastly, we know this committee is focused on the APEC region. APEC is a diverse and vast region with not many commonalities linking the economies or countries of APEC together. If APEC is to serve a purpose, it should concentrate on a role in, and become a body focused on, trade facilitation. APEC, no doubt, would argue that it does this, but the impact for Australian businesses has been minimal. To date, the Australian government has been slow in truly engaging the business community and, while it has attempted, it has focused on the big end of town and gains for multinationals. This, perhaps, best manifested itself in 2007, when we believe the Australian government lost a huge opportunity to show the benefits which APEC can bring—particularly for SME businesses. So closer consultation and input from the business community is needed and not just input from big business.

CHAIR—Thank you, Christine, for comprehensive and informative opening remarks. I found that very, very useful.

Mr BRUCE SCOTT—Thank you very much for that very comprehensive report. I was interested in your comment about coordination between the states and the Commonwealth. I think you are suggesting that it really works against us to have such a disjointed approach to trade facilitation and export focus. Do you want to expand a bit more on that? Should it be a single body? How would we bring them together? Should it be under the Commonwealth? Is there a mechanism or a model?

Ms Stewart—It just seems to me that a lot of duplication is happening out there and the states do not seem to be cooperating with the federal government and vice versa. The Mortimer review suggested, and I know David was speaking about this, a national trade and investment promotion body or authority. A mechanism like that, which would include both business and government, would be helpful to coordinate efforts. But there are a lot of barriers which need to be broken down, and a lot of issues which would need to be sorted out, for Australia to present to the world as one. I have heard from people who have been overseas with major investment promotions that, when you are in a room and there is a stand for one state, another state, the federal government, and then another state, people just do not know where to go to get the answers. They do not know who to talk to in order to figure out which state they can source products from and where they should be investing their money. So a coordinated approach would certainly help those people looking at our market, but would also serve to reduce duplication of what is happening.

Mr BRUCE SCOTT—Sort of a COAG-type of committee?

Mr Bennett—Let me give you an example. Last week, we had the honour of the Minister of Industry coming down from Thailand with a delegation of 20 people. They were opening the Thailand Board of Investment office in Sydney—or re-opening it. They have 73 states in Thailand, but there was one voice. They have looked at it as a national strategy that some of those provinces will offer better incentives than others and they will help you select the best province where you can get the best return on your investment. As Chris was saying, I know that, while I was up in Queensland, Invest Queensland were blowing in my ear and, when I was in Victoria, Invest Victoria was blowing in my ear. It is really confusing and we do not have Australia Inc. We have a conglomerate and, even in the past when all the chambers used to take delegations offshore, we would have five state chambers taking delegations into Singapore and the Singaporeans did not know who was who in Australia.

Mr BRUCE SCOTT—Who was who in the zoo.

Mr Bennett—That is right. So, obviously, our competitors are seeing this fragmentation. They are offering a single, national solution and they are attracting substantial investment out of Australia to offshore places. There are other reasons other than our fragmentation.

Mr BRUCE SCOTT—If you came together as one, could it be that the states could seal off a differential incentive to come to their state, or is that also fragmenting?

Mr Bennett—No, I think that if there was a front door that you came in and said, ‘I am looking for the automotive industry’, obviously you are not going to go to New South Wales—you would probably go to Victoria or South Australia. If I was coming into the agricultural area, there would be a different doorway and those states could put on the table the best incentives for the potential investor.

CHAIR—So you are talking about having just one doorway?

Mr Bennett—Yes, but inside the doorway there are the options sitting there instead of having five front doorways all competing against each other.

Mr BRUCE SCOTT—One of the argument was always that there is competition to bring people in through the states. If the single door was there would it concentrate on one area or would there be a divestment across Australia? I think that was always the argument that would come back from a lot of the regions in Australia. How do we know we will get a focus in North Queensland, for instance, if they came through one door in Canberra?

Mr Bennett—They would be putting the states' competitive incentives on the table. The investor would know where he is coming to, and once he gets inside he could have a look around to see what is on the table.

Ms Stewart—Probably if the focus was on the investor and not where that person was going to invest then you could really strategically argue why an investor should be in a certain location and therefore you could dilute the arguments that someone said, 'Well, they should be here or they should be there'. If you look at the needs of that investor, it would make sense for some to be in Sydney, North Queensland, Melbourne, Perth or wherever they may be versus other locations because of what they are doing and the primary focus of their business. What the investor needs does not necessarily seem to be taken into account versus each state wants a piece of that investor so they often do not look at it from a strategic point of view.

Mr BRUCE SCOTT—I would like to ask a question about India and APEC. It is important that India be included in APEC? Do you have a view on that?

Ms Stewart—If India adds a benefit to APEC and there is some role that India will play then India can be included in APEC.

Mr Bennett—Geographically it does not look good but practically there is a balance against China.

Mr BRUCE SCOTT—If they were in there, it would be balanced?

Mr Bennett—Yes.

Mr BRUCE SCOTT—And if they are not in there then they are out in another part of the world?

Mr Bennett—That is right, and then you are going to have to join that other forum that runs around the Indian Ocean—which does not have the significance of APEC because you are missing the North American economy and the growing South American economies.

Ms Stewart—To really grow APEC without purpose makes it still vast and diverse but right now there is not a true handle or focus on what it is doing so to add another country without a specific purpose—

Mr BRUCE SCOTT—You need a specific purpose—

Ms Stewart—Yes, to make it work.

Mr BRUCE SCOTT—Rather than just adding complexity and making it even more difficult to manage.

Mr Bennett—We can look at Chris's last comment on the last APEC conference here in Sydney. There was a total exclusion of the SME sector. We actually begged, tried, cajoled—

Ms Stewart—Suggested—

Mr Bennett—Suggested having a function of SME businessmen. We offered to provide the venue and everything else but it did not happen. Unless you were a multinational or a multi-million-dollar company then it was a case of 'please, don't talk to us'. The SME sector was totally disregarded and not engaged.

Mr BRUCE SCOTT—Is it the case that the multinationals can look after themselves?

Mr Bennett—Absolutely. They have entree to ministers and governments at all levels whereas the poor little SME was waiting for us to put our voice as a chamber forward.

CHAIR—That is where trade facilitation works.

Mr Bennett—I have been to APEC conferences in Malaysia, Brunei et cetera, and the SME sector were fully engaged—but we totally excluded them in Australia. That did not look good from the outside.

Senator FORSHAW—Maybe you should have engaged *The Chaser* team to assist the SMEs. They would have got in.

Mr Bennett—They got more publicity than the SME sector did.

Senator FORSHAW—Can I just go back to your comments a moment ago, Mr Bennett and Ms Stewart, about federal and state not speaking with one voice. How does it work in your organisational structure, with your state based groups and the regional or other levels of chambers of commerce? You said a moment ago that you would have delegations going overseas from five different chambers of commerce and from five different states or whatever. Have you addressed this?

Mr Bennett—The economic situation has actually reduced offshore delegations substantially.

Senator FORSHAW—One area where I have seen evidence where it seems to me that it works, where you have got a national approach but you have got all the relevant entities from the different states still being able to promote their own particular case, is in higher education, in the university sector. That is more recent in the sense of being an export industry, but I think it is the second biggest now. I went to China, to a big education expo in Shanghai, a couple of years back, and I was amazed at the cooperation that existed amongst the various universities and colleges. They were all there promoting their particular location for foreign students, but they were working very effectively with each other and with the consulate officials and Austrade.

Ms Stewart—They have the structure of Australian Education International, which works well.

Senator FORSHAW—Yes, but business has that structure. You have got state chambers and you have got ACCI.

Ms Stewart—As you can see, the submission that we presented to the committee today was the ACCI submission. We are the New South Wales Business Chamber, so on many issues we let them speak to the federal government on our behalf. The chambers come together on a regular basis in a trade forum or in various forums to discuss those issues and then let ACCI have the voice of that. Sure, there are certain issues which affect New South Wales where we will be lobbying both the state and federal governments, and ACCI will leave that to us often, but by and large we try to be unified through one central voice, which is the Australian Chamber of Commerce and Industry.

Senator FORSHAW—I appreciate that. I suppose I was hearing this criticism or this concern about the lack of national unity, if you like. It is not just an issue for government; it is an issue for business.

Ms Stewart—That is right.

CHAIR—It is an issue for our Federation.

Mr Bennett—You were talking about the major exhibitions overseas. If we went to Food and Hotel Asia, we would find that, in that massive pavilion in Singapore, there will be some state stands but it will be under the banner of Australia Inc., and Austrade will be running that. That is where our support from our members will be—to co-join into that. We are not going to put up a chamber stand. Those days have gone, basically. In the major exhibitions, the major forums, overseas, Austrade has put up a good banner. It makes sense that Australia Inc. actually goes in under that banner. The states are working well with that as well.

Senator FORSHAW—I do not want to open this up to a wider discussion, but I think we have been dragging our feet at government level, both state and federal, in actually making decisions early enough about even Australia's participation in some of these events, as you know.

Mr Bennett—Yes. I agree on that.

Senator FORSHAW—Some states say, 'Maybe we will or maybe we won't attend,' say the expo in Shanghai—which is next year, I think.

I would like to jump to the other end of the spectrum—small business—and mention something I am very familiar with because it happened last week. In the St George and Sutherland Shire area, where I live, there is a business enterprise centre. It is funded by government. They run what they call a China Lunch Room. It is very successful, from what I am told. They keep asking me to go to one. I have not been to one yet.

Ms Stewart—We are involved in that.

Senator FORSHAW—That is what I was going to ask you. How widespread is that across the country? I know that BEC works quite well in an area where there is quite an extensive small business sector—it is about 80 to 90 per cent of all business. They are co-located in their office with AusIndustry. Is that a model that is replicated?

Mr Bennett—It is a fairly unique model.

Senator FORSHAW—Is it? That is what I wanted to find out.

Mr Bennett—That China Lunch Room is now changing direction slightly, which is good because they have been running that on China now for about a year. A lot of people are starting to ask, ‘What about other countries?’ Fortunately we have an India desk and we have a South-East Asia desk, so in the future we are going to put a little segment in that China Lunch Room that will help the entrepreneurs, particularly the Chinese entrepreneurs, to look a little more broadly than just China, and also to let them know that there is someone here to help them go into markets that are foreign to them and where they can still use their international trading talents but look at other opportunities.

Senator FORSHAW—You see that as quite a good thing?

Mr Bennett—Yes.

Ms Stewart—Yes. And all the partners are at the table for that. We help in the planning process and we help in the execution process. It has attracted a lot of people from outside that particular region as well, so it is quite a good example of how bringing all the parties together at one table can work.

Mr Bennett—You actually have three levels of government there.

Senator FORSHAW—Yes. It is specifically focused on small business, as I understand it.

Mr Bennett—Yes.

Senator FORSHAW—That is good. They talk it up, as they should, and I heard good reports. But I thought I would ask you people to verify that because it could be useful for our committee.

Ms Stewart—It is successful.

Senator FORSHAW—I will get some details, Chair, about what the program actually is.

CHAIR—Okay. It sounds of interest.

Senator O’BRIEN—Thank you for your submission today. It is good to have a state focus. Perhaps competitive federalism is alive and well, and I expect it will remain an active participant. I want to ask some questions about the developments in information technology, particularly broadband developments, the importance of those communications formats in the development of trade and any views your organisation has on the potential for Australia to develop in the regions that we are looking at via that mode.

Mr Bennett—It is interesting to see that, particularly in the ‘s’ sector of the SMEs, they are finding that exporting via the internet is becoming a recognised percentage of their income. It is something that works silently, as we know, 24 hours a day. If you are an SME and you have not the salesmen and have not the capability of getting on an aeroplane or going to an exhibition, spending \$20,000 or \$30,000 to do that, why not invest \$5,000 in a good website with a shopping cart? Engage Australia Post or some of the DHLs et cetera and you have a relatively good business model. As long as your IT guy knows how to get you at the top of the list with things like megatags.

Senator O’BRIEN—Via those search engines.

CHAIR—That is the key.

Mr Bennett—The megatags. Everyone wants to be clever—

CHAIR—Everyone is trying to get to the top of the list.

Mr Bennett—and to be on the front page. We ourselves try to get on the front page. It is a growing part of business, and the generation of emerging small business people are much more tech savvy than the established companies and are using this as an international tool. It is growing. It does not really matter where you are in Australia, regional or suburban, it is a tool that should be advanced. Just working on the fact that no matter what it is, if it is a tangible product, you still have to get it on a ship or plane. We are not like the rest of the world, who can put it on a train or a truck. It just goes via a different method, on that plane or boat. So, yes, it is a significant thing and it takes the tyranny of distance out of everything.

Senator O’BRIEN—So it is significant and growing?

Mr Bennett—Yes.

Ms Stewart—Not only for the export process but also in servicing companies in a more competitive way offshore. Many companies are now providing their service’s solutions online so their distributors all over the world can tap into that and be provided with an immediate answer, or one that they can work on without having to be in touch with Australia or without an engineer having to get on a plane and go over to the US to fix whatever is happening. So it is vital. A lot of our regional members complain about the connectivity of their businesses and the frustration that they have. Even here in Sydney they sometimes complain about the connectivity.

CHAIR—It is not just regional and remote.

Ms Stewart—It is not just in regional areas. It is extremely important for a nation like Australia to have a well-developed and world-class information and communications structure.

Senator O’BRIEN—We are constantly told that somehow the internet can render the tyranny of distance much less relevant. Are you saying that, in effect, that is what is happening for at least some of the businesses?

Ms Stewart—Absolutely.

Mr Bennett—Yes.

Ms Stewart—A person sitting in their home in Bondi can be a global business; they can be selling all over the world. I think the company aussieBum, which is a famous example, sell most of their goods on the internet. They have been a huge Australian success story, and that is their primary mechanism for getting their goods and services out there. It is also going to help Australian companies bring down costs over the long run.

Senator O'BRIEN—Have you surveyed your membership to get some information on the level of penetration of those sorts of services and their relevance to businesses? Do you have some statistics that might assist this committee?

Ms Stewart—We did a while ago. I will have to look up those stats. If there is anything of relevance, I will be happy to forward those to you.

CHAIR—That would be useful.

Senator O'BRIEN—I would appreciate that. In terms of dealings with other countries, how important are language skills? I suppose you will say it depends on the market. In relation to this inquiry and the markets we are seeking to penetrate, do you have any particular views you can put to us about that subject—the availability of language skills, the level of education of business entrants in language skills and those sort of issues?

Ms Stewart—I guess it is always handy when you are doing business offshore to have a little bit of language under your belt. But—let's face it—unless you do very intense study over a long period of time you are not going to speak Mandarin, Japanese or whatever it might be very easily. In many schools today they are looking at languages which are probably more relevant in the Australian context than some of the languages that have traditionally been studied. I guess I would say that having a bit of language here and there—'Hello,' 'How are you?' and so on—and understanding the cultural nuances in business negotiations is important. But I think looking at our businesspeople being more skilled in languages would be a difficult task.

Mr Bennett—I have seen an amazing drop in Asian language facilities in many schools. I do not know why people are still teaching Latin—it is beyond me. And French and German still seems—

Senator FORSHAW—It is making a comeback!

CHAIR—It is handy if you are a lawyer—that is all.

Senator FORSHAW—Definitely not for Latin America, though!

Mr Bennett—No. Obviously Mandarin is taught widely, but I see the drop-off particularly in Indonesian and Malaysian languages. I think those are key languages that should have been being taught all the way through. It is not so much the language skills—most businessmen who are going to do business overseas will connect with someone that speaks English—it is the understanding of our cultural way of doing business and how we articulate that in language that is probably still the biggest problem.

CHAIR—The cultural engagement.

Mr Bennett—Yes.

Senator O'BRIEN—So cultural and language skills are important in some sense.

Mr Bennett—Yes. Cross-cultural communication is something that should be learnt. The classic example is when someone asks an Australian for his best price and he gives it, and the whole two hours of negotiations are over. He says, 'You asked me and I gave it to you.' It is the language as well as the culture that goes with the language, and that is only learnt through experience most of the time.

Senator O'BRIEN—Should we be making any formal recommendations about those issues?

Mr Bennett—There should definitely be a redirection back to Asian languages. The last government flew over South-East Asia too often without stopping. Our next-door neighbour, Indonesia, is going to be there tomorrow and the next day and the next day. We do not seem to have enough engagement in South-East Asia, and they are our predominant trading partner. They should be. It is the cheapest and most cost-effective market to go to, and their demographic is increasing in wealth.

Senator FORSHAW—You made some recommendations to the Mortimer review on the EMDG Scheme. I asked David Mortimer, who was here before you, some questions about that. In his report some recommendations were made to government about dealing with critical issues, one being the uncertainty of funding. Do you have any comment to make about his report and recommendations on the EMDG Scheme? Admittedly, he put a couple of options up but he was also quite strong, for instance—I am not sure if you heard him—on recommending that the threshold be increased to \$30,000. What is your reaction to his recommendation?

Ms Stewart—We would disagree with that recommendation. Enough businesses have trouble reaching the \$15,000 threshold, and in fact in the past we have asked for that to be dropped so that the minimum threshold was lower. The EMDG Scheme is very helpful for businesses that are just starting out in export, and in many cases those businesses tend to be smaller, so the assistance they get with the moneys that they get from EMDG is very important in growing their export markets. It is not necessarily something that helps in their cash flow, nor should it be, but it certainly helps them to promote their product more and differentiate their product more in the market and be more confident that they can go out there and do it. There is uncertainty around the payment levels, and we have received many complaints from our members about that, the delay in payment and the payments they are receiving.

Senator FORSHAW—What do you believe is the causative factor in those problems? Is it, as Austrade suggests, that there are too many applications and that funding is capped?

Ms Stewart—The funding has not been indexed for inflation, so the funding pool overall is lower. The government has been out there pushing to double the number of exports and get more companies involved in exporting, so it is doing a good job at that. But at the same time it is not putting its money where its mouth is in a program which has been proven to be very successful in helping those companies to do it.

Senator FORSHAW—David Mortimer did say that he started from the point that there was unlikely to be any increase in the funding level or the cap, which leads you to the conclusion, in part, of increasing the threshold from \$15,000 to \$30,000.

Ms Stewart—But you could perhaps also look at the changing needs of the exporters and the business community to better tailor the program now to look at other areas that the EMDG could claim or be eligible for, or have a reduction here because it is not relevant anymore. So perhaps a more strategic look at the needs of the exporters, particularly in the services sector, where they seem to have the least advantage in claiming that scheme, should be more explored.

Mr BRUCE SCOTT—What is your membership saying about the introduction of an emissions trading scheme?

Ms Stewart—Somebody else in our organisation would be better placed to answer that.

Mr Bennett—It is not a space we live in.

Ms Stewart—We are talking about trade issues. I can get someone else to call you about it, if you are interested, but it is not something that we have been collecting information on.

CHAIR—The chamber submission suggested that Austrade develop a program to assist SMEs in their approach to overseas investment. Do you support this idea? I think the answer is obviously yes, but what role would you see for such a program?

Ms Stewart—We run a program called TradeStart, which I mentioned before, which helps first-time exporters and now also more established exporters get into overseas markets. The focus of that program has changed over the years but one thing that has remained consistent is the impact of that program and the success it has had in helping Australian companies get offshore—and recognising changing business models and recognising that companies need to do different things to compete to be successful in offshore markets. A similar program could be employed to provide the same level of tailored coaching, mentoring and knowledge to get those companies offshore and to look at the different business models that are going to help them. It could be run similar to the TradeStart program, providing that highly tailored advice with one-on-one mentoring to help companies do that and then linking into the Austrade offices overseas to provide some of the finer detail.

CHAIR—Has the global financial crisis changed your views on the major recommendations that the chamber made to the inquiry, particularly with the issues around how the financial crisis has started to generate a reappearance of protectionist sentiment in several major economies? I know it was quite clear and strong in what it recommended about no protectionism when looking at protectionist issues. So there has been no change?

Ms Stewart—No.

Mr Bennett—Probably since that submission went in our currency has dropped—which has given us a competitive advantage. If we look at markets that are not linked to the US dollar, which has stayed higher, and look at markets which are free-flowing then we see that there are competitive advantages that have actually emerged out of the recession for Australian exporters.

CHAIR—Do you think Australia should continue with the tariff reduction and other assistance measures?

Mr Bennett—Absolutely.

Ms Stewart—Yes, I think it is even more critical now in the face of the financial crisis because the sector of the economy or the members that we see doing well are those who export. For instance, because they do not have all their eggs in one basket in the Australian market and they have diversified overseas, we find exporters right now quite buoyant. The dollar, as Ian said, is a big factor in that. But, for instance, we use as one of our indicators the certificates of origin we issue. They are up about 10 to 15 per cent month-to-month on last year. Some of that has to do with the drought in that more agricultural products are being shipped from New South Wales. However we still see exporters keen to expand and putting the money that they can get, because access to finance is a problem, into expansion. They are still out there trying to grow their export markets. They do not seem to be as affected by what is happening as those who are strictly playing in the domestic market.

CHAIR—Just on that issue of finance, and this will probably be the last question, one of the recommendations was about not only EMDG but also the Export Finance and Insurance Corporation. How would you like to see changes made around that?

Ms Stewart—I know EFIC has a new mandate to help companies when they are doing some expansion offshore but to really help companies now their thresholds of who can access their finances or their services need to come down. EFIC still plays in the realm of the medium to large companies, and even sometimes very large corporates, and so a lot of their services are very inaccessible to Australian SMEs. Having said that, I know the Headway program has had uptake with EFIC as people are seeking to get a bigger loan which their banks will not give them. So anything that can help in that area would be good.

Mr Bennett—But basically for three-quarters of the SME sector EFIC just does not have a role. The billboard says it does but when you have a good look inside you see that it does not. That does create the attitude of ‘why is it for them and not for us’.

CHAIR—Given the time, we should finish there but I would like to thank you both for providing the submission that went to the review and also for your opening remarks today and the level of engagement that we have had. I found it very useful.

Proceedings suspended from 11.34 am to 11.52 am

CAMPBELL, Mr Peter, Director, Export Consultants Group

CHAIR—Welcome. 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. This subcommittee does not require you to give evidence under oath, but 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 we proceed to questions, do you wish to make a short opening statement to the subcommittee? I have a copy of a letter here and I understand you may wish to speak to it.

Mr Campbell—I did not supply that. I supplied another document. That is the Mortimer review. I provided Mr Luttrell with a document last week which relates in part to the Mortimer review.

Senator FORSHAW—Is that the document entitled *Australian Institute of Export: EMDG underfunding situation*?

CHAIR—Thank you. I have that. I was not sure which one you wanted to speak to.

Mr Campbell—I can talk to that as well if you wish.

CHAIR—That is fine. You can talk to all of it, by the sound of it. Please proceed with your opening statement.

Mr Campbell—My background is working and assisting exporters to achieve their international trading objectives. I spent nine years with Austrade and its predecessors and have since spent over 20 years advising exporters principally on how to utilise the Export Market Development Grants scheme—the EMDG program—which I understand has been the subject of some of your consideration so far.

The export grant program has been around for over 30 years, and the reason it has survived so long is that, on many occasions—it has been reviewed 14 times in that period—it has proved to be effective. The program works. It achieves its objective of encouraging Australian businesses to seek out new markets overseas for Australian goods and services. The issue with the program at the moment is that it is not able to be as effective as it should be—through funding cuts and a capped system that was applied by the previous federal government when they took office in 1996. Until that time, the program was fully funded. Applicants received a grant based on the level of export marketing expenses they undertook and there was certainty in the program. Since that time, that certainty has been eroded and the program is not as effective as it could be. It is designed to encourage businesses to spend more money on export marketing than they otherwise would, and, as a result of spending more money—increasing their export promotional expenses—they greatly increase their chances of generating sustainable export sales. By taking away the certainty of finance through EMDG, companies are less likely to undertake those marketing activities and will even cut back on their export activities—and it has been shown—with the result that the program is not generating the results it should and Australian companies are not generating the export sales that they would otherwise.

In 1995-96, the previous government instituted some improvements to EMDG but did not provide additional funding. When those improvements took effect, it increased the number of applicants to the program last year. The new government did not increase the funding allocation and, as shown in the document I provided, the outcome was the worst debt payment of grant on record. The way the funding cap is administered is that companies receive an initial payment, a part payment of their entitlement up to a certain amount, and then wait until the end of the financial year before they receive some or all of the balance. Last year, companies that were entitled to a maximum grant of \$150,000 received only \$89,000. These are companies that had spent money on export marketing, as encouraged by the government, and had submitted a claim, being audited, assessed and approved to receive a grant of up to \$150,000 and yet received only 60 per cent of that overall. The impact of that on companies is like having a debtor default on them. The companies receive a document from Austrade. Allow me to show you what the document is. This is called a 'Notice of determination of grant'. That is for one of my clients who received their notice earlier in this financial year—last September. It shows that their company has a provisional grant entitlement. They have received a first payment of \$40,000 but they have no idea what their second payment will be—some or all of the balance—next June. You can see from the timing—I have written on the bottom of the processing of this claim—that that adds to the inefficiency, as well, and that the funding cap causes lengthy delays in the payment of grants to exporters. So this company incurred expenses in 2007-08 and lodged a claim in respect of those expenses in August 2008. The grant was approved in September 2008 for, I think, \$111,000 and they received \$40,000 of the remaining \$70,000. They have to wait until June this year—another nine months—until they find out how much, if any, they will receive of their remaining entitlement. Those kinds of delays contribute to the program not working as effectively as it should.

It has been said of EMDG in the past, and of any government program, that if it does not work then you get rid of it, but if a program is found to be effective then you provide it with the sufficient finance to enable it to do its job. You will have heard from Mr Mortimer, no doubt—and his report shows the benefits of the program—the multiplier that comes from each dollar of grant. Their analysis showed a return of \$13.50 to \$27 for every dollar of grant that is given out. Also previous reviews of EMDG have shown that the government receives at least 40 per cent of every dollar back in taxes. For a start, the grant is taxable. Companies that receive a grant generate export sales. That income is taxable. They employ more people and get to a stage where they may be paying payroll tax. As a result of their success, if they are a manufacturer they increase their purchases of supplies and materials and are paying GST on those purchases. So the export grant has significant multiplier effects and flow-on for the Australian economy as a whole.

Now we are in a situation with the global financial crisis that, I would have thought, would make full funding of EMDG even more relevant and critical. It is recognised that one of the reasons for the delay in recovery from the Great Depression is that international trade was stifled. Much has been said about the need to ensure that international trade continues and is enhanced and barriers to international trade are removed. The export grants scheme has been shown over the last 30 years to be the main and most effective way of encouraging Australian businesses to take their products to the world. When the EMDGS, as the main form of assistance, is working in a counterproductive way by actually discouraging companies from going overseas, then the program is not achieving its objectives and Australia is suffering as a result. The other irony from the funding cap is that claims this year of up to \$40,000 are paid in

full. Claims in excess of \$40,000 get that first \$40,000 and then wait until the end of June for the balance, which will be reduced if the program is not fully funded. This means that the companies that are spending more money, that are undertaking more export marketing activities which are risky and expensive are being penalised by having their claims reduced.

Last year, companies that were entitled to receive \$150,000 received only \$89,000. That meant \$61,000 of grant they did not receive. The grant rate is 50c in the dollar for expenses, so that is \$130,000 of export marketing expenses that these companies incurred in promoting their products or services overseas. They submitted them in a claim to Austrade, and the claim was audited by Austrade. Those expenses were assessed and approved as eligible and then no funding or support was provided. Having a funding cap generates a lot of inefficient work from Austrade's perspective in that they audit approved expenses that are never allowed for payment because of funding. To put it into perspective, the program was running in '96 at about \$210 million. When the new government was elected—

CHAIR—Was that in 1996 or 2006?

Mr Campbell—In 1996 it was running at just over \$200 million—\$210 million per annum. The current budget for this year is \$150 million and for the next financial year it will be increased to \$200 million. But, in forward estimates for years beyond that—of course, we are looking forward to the coming budget to see what will be announced—it goes back to \$150 million.

Senator FORSHAW—Was it capped at \$150 million in 1996?

Mr Campbell—In 1997, after the Liberal government were elected, they reduced access to the program and reduced expenditure items and put in a cap of \$150 million. Before that, as an open access scheme, it was running at just over \$200 million. Last year, when we had the worst net payout in history, the annual budget was \$156.8 million, but, for the current year, the budget has dropped to \$150 million. The current government are saying that the underfunding is the responsibility of the previous government, which did not provide sufficient funding in forward estimates.

CHAIR—Was that 2007-08?

Mr Campbell—That is right—and the current year 2008-09. But, to be honest, the business community does not accept that answer. They see that the current government is the current government. They have the ability and the finance to be able to fully fund the program if they believe. We appreciate the government's commitment to improving the program, which they have done through amendments which will take effect for the current year for claims lodged in the next financial year, but at the moment the exporters are on their knees through the funding experience last year and what may be this year.

The Minister for Trade announced in February that exporters may receive only 30 per cent to 50 per cent of their second-stage entitlements. So, in the current year, the minimum payment for grants has dropped from \$70,000 to \$40,000, and companies may receive only 30 per cent to 50 per cent of anything after that. That is no way to encourage people to go overseas and try to find markets. From my experience, dealing with exporters in a wide range of business, what

companies want is certainty. If the funding is there, they will go to extra trade shows, they will take more people on overseas trips, they will send more samples overseas, they will appoint more promotional officers overseas and they will engage Austrade more often to do more market research and business matching for them. Export marketing is expensive and risky and, if they do not have the certainty that the finance is there, they will not undertake those additional marketing activities and the program will not achieve its best results.

CHAIR—Thank you. That was quite an opening statement. Mr Scott, would you like to begin questions?

Mr BRUCE SCOTT—Yes. Thank you, Peter, for your time today. Were you suggesting in your opening comments that an open regime is better than a capped one? Will it better meet the demand that may be out there and the opportunities that would exist? In other words, are we being restricted because of the cap and perhaps people thinking, ‘I won’t get anything out of this’?

Mr Campbell—Yes. I spoke to a company last week and they told me that they were undertaking a range of marketing activities. They asked what they would be entitled to receive and I could not tell them. I said that if they put in a claim this year—or come July for the current financial year—because they had spend a couple of hundred thousand dollars, ‘You will get what the minimum payment will be but we don’t know what that will be because the minister sets that in July, and I don’t know how much more than that you will get because the funding cap prevents us from knowing exactly what your return will be.’ The company said, ‘So I’ve spent this money on export marketing but you cannot tell me anything that I will receive back from a program that is going to be funded at \$2-00 million?’ And I could not tell them.

I appreciate that there are concerns around the costing of programs getting out of hand, and the Department of Finance and Administration and Treasury are always concerned about government expenditure and I suspect that those departments would have encouraged the imposition of the cap at that time and would continue to do so. However, the program has been seen to be more effective with that certainty of finance and when companies knew that, if they spent money on eligible export marketing activities, it would be reimbursed in accordance with the rules of the program. But, having said that, the program would not necessarily cost much more than has been allocated for it anyway.

As a result of changes to access to the program, in the 10 years of the funding cap under the previous government, in six out of 10 years, claims were paid in full. Under the current government, we are looking at none from two, which is quite disappointing. As Mortimer expressed in his report, there is no guarantee that the additional funds provided for the next financial year will be sufficient either, which will again diminish the benefit of the improvements that the new government has introduced to the program.

Mr BRUCE SCOTT—As a result of this, are we losing any industries from Australia, thinking that they are better going to where there is a manufacturing opportunity? Do you see any evidence of that?

Mr Campbell—Not really. What will happen is that businesses will not be as successful as they might be. Mortimer’s review found a multiplier of \$13.50 to \$27 for every dollar of grant

that was paid out. Last year the program was underfunded. It needed an estimated \$28 million to pay all grants in full. That \$28 million, working on a multiplier of \$13.50—at the bottom end of Mortimer's scale—was approximately \$380 billion of export sales that was denied to Australia as a result of underfunding.

In specific answer to your question: it is possible for Australian companies to continue to claim the EMDG if they are manufacturing offshore, provided they can demonstrate a significant net benefit to Australia from their activities and from being allowed to claim under the program. There are companies that will be so discouraged by the funding cuts and the reduction in their grants that they will look at ways of taking their businesses offshore. It is not a rampaging wave but there are certainly companies that I know of anecdotally that have said that they have been let down by the government. As I said, it is equivalent to a debtor defaulting on them. Companies receive this notice of determination of grant, they stick it up on the wall and they wait until the end of June and they expect the balance of their entitlement. When they do not get it, it is like somebody owing them money that does not come through. And there are companies that have looked overseas as a result of that.

Senator FORSHAW—Thank you, Peter, for coming along. I want to go to a couple of issues that you have raised in your submission in terms of the history. Until 1996, when it was an uncapped scheme, what was happening with the total amount that was being expended on the EMDG? Was it constantly growing at a small rate or was it—

Mr Campbell—It was growing but at a small rate. One of the ways that the cost of the scheme is managed or can be managed other than by a funding cap is by adjusting the access to the program. So, at times when the program's cost was increasing, changes were implemented to restrict the growth in the cost of the program. These included, for example, introducing a minimum expenditure threshold. Early in the 1990s, New Zealand was removed from the program. At the moment you can claim for export promotion to any market other than New Zealand—and, more recently, Iran.

CHAIR—And there are different reasons for both.

Mr Campbell—That is right. At other times, the maximum grant has been adjusted. It has gone from \$150,000 to \$200,000. It was actually \$250,000 in the early 1990s and it is now, for claims for 2007-08, \$150,000. So, in real terms, the value of the grant has gone down.

Senator FORSHAW—When those sorts of changes were made, were they able to be understood and accepted by industry, so that it did not actually impede upon how much they ultimately received? In other words, was it done in a way that the exporters were aware that the changes were happening?

Mr Campbell—Yes. The changes to the parameters usually resulted from a review of the scheme, and stakeholders had the opportunity to participate in the reviews and the results of the reviews were always made available. So there were no surprises there. There were changes to access that would have disadvantaged people, but—

Senator FORSHAW—But they were prospective changes?

Mr Campbell—Yes. Whereas, at the moment, it is just a big question mark.

Senator FORSHAW—You mention in your submission that, in six out of the 10 years since 1996, they did not spend the entire allocation and the funds were returned to government.

Mr Campbell—That is correct.

Senator FORSHAW—You would be aware that this is matter that has been pursued at estimates hearings in the past. What was the total amount that was not spent, that was potentially available for the scheme and presumably would have been identified in forward estimates? I think they would have been. How much did you or the industry miss out on?

Mr Campbell—I do not have that figure at hand but I can provide it to you later. As you will see in the chart I gave you, for 2003-04, the previous government had had three years in a row where they did not have enough money to pay grants in full. There are two ways of responding to that: you either increase the budget or you restrict access. They tightened up the scheme quite severely. That diminished demand for the program. I think in that year the spend was around \$120 million. So in that year there was just under \$30 million of revenue returned to the government. If that had been available last year all the claims would have been paid in full.

CHAIR—The \$8 million.

Mr Campbell—Yes, that is right. It is almost the exact amount.

Senator FORSHAW—That goes back to some questions that I asked previously.

Mr Campbell—I think previous reviews following estimates hearings have recommended that any unpaid funds be rolled over into the following year's budget. That is why last year's budget was \$156.8 million. With that fully expended, the base budget of \$150 million is applied to the current financial year.

Senator FORSHAW—My recollection is that, with the change of government in 1996, EMDG was one of the only schemes that was kept. For instance, the DIFF scheme was abolished, as were a number of others.

Mr Campbell—Yes, the International Trade Enhancement Scheme and the Innovative Agricultural Marketing Program. EMDG survived—

Senator FORSHAW—Yes, but with a cap.

Mr Campbell—but its funding was cut by 25 per cent and a future cap.

Senator FORSHAW—The Mortimer review made some recommendations. David Mortimer gave evidence here earlier today, and I asked him about this. You are familiar with those recommendations. To be fair, he indicated that he has proposed, for instance, an increase in the threshold of \$30,000. He took it that the funding amount was fixed. He was not considering what the impact would be if more money were put into the scheme. Could you comment on the response of your organisation and also the industry to the Mortimer review proposals?

Mr Campbell—The Export Consultants Group that I represent is an association of almost 100 consultants across the country, with approximately 2,000 active EMDG stakeholders and exporters. There are aspects of Mortimer's recommendations which we feel are excellent; but, as you say, they were working on the process that additional funding was unlikely to be achieved. But the point that Mortimer made was that certainty of finance was critical to the effectiveness of the program. If I may quote from the executive summary to Mortimer's review:

... the Review considers it imperative that the issue of funding uncertainty be resolved as it unnecessarily diminishes the value and public repute of the scheme.

The funding cap and uncertainty about the grant substantially negate the objective of encouraging exporters to commit their own additional resources to export promotion. Clearly, Mortimer saw as a priority arranging certainty of finance. The way you do that is either by increasing the budget or by restricting the number of companies that can claim the grant so that the smaller number that is left can get full entitlement.

Another aspect of his recommendations is to increase the minimum threshold to \$30,000. That would be a reversal of one of the changes that the government introduced since its election. It has actually reduced the minimum threshold from 15 to 10. I would personally support a \$30,000 minimum threshold because that shows that the companies that are claiming the grant are making a significant contribution to export marketing. It is more than just a trip or two. These companies are making a commitment and taking a risk. I believe once that \$30,000 threshold is met they should get 50 per cent of all their expenses.

CHAIR—The Australian Chamber of Commerce and Industry said that, because they represent SMEs, they did not support that recommendation.

Senator FORSHAW—A lot of your clients are small.

Mr Campbell—A lot of them are. Again, I am looking at ways—

Senator FORSHAW—That is a personal view, is it?

Mr Campbell—It is a personal view based on: how can the scheme be effective in an environment where we have unlimited funding?

Senator FORSHAW—That is Mortimer's view.

Mr Campbell—Yes. Where Mortimer says that the two options are either increased funding or restricted access to the program, my preference is to increase funding.

Senator FORSHAW—Yes.

Mr Campbell—If there needs to be a funding cap, then it should be set so high that the spending will not reach it. But even then, as I suggest, the operations of a funding cap are inefficient. As I have shown, companies have to wait up to a year after they have spent their money and almost a year after they have lodged their claim before they receive payment for it.

Senator FORSHAW—One final question: it is going to go from \$150,000 to \$200,000—

Mr Campbell—Yes.

Senator FORSHAW—Governments need certainty—as much as you can get that at the moment, which is pretty small. Do you have a figure that we would need to commit to, say, over the course of the next four years in the forward estimates, that would guarantee that companies would get their 50 per cent?

Mr Campbell—Before the last federal election, the Australian Industry Group recommended a \$300 million budget. There is the shortfall of \$28 million, so \$185 million would have done it last year. I think a similar amount would be effective this year. I think \$250 million would be a good figure.

Senator FORSHAW—And keeping any surplus.

Mr Campbell—Yes, keeping any surplus and rolling it over. Mortimer's report was submitted last year. He recognised that the current year funding for EMDG was unlikely to be sufficient to pay grants out in full. That was confirmed by the minister in February when he said that a 30 to 50 per cent payout is likely. Mortimer recommended that this be addressed. I felt that was one of his strongest recommendations. The government should provide supplementary funding so that the grant recipients in this current year get their grant entitlements in full. That is a recommendation from the Mortimer review that we hope the government adopts.

CHAIR—And it is one you support.

Mr Campbell—Yes. And that the government recognise that ability and act on Mortimer's recommendation to ensure the current grant recipients receive their full entitlement.

Senator O'BRIEN—I am just a little confused. If \$150 million generated a shortfall of \$28 million, and \$200 million is the expansion of the program—

Mr Campbell—Why isn't that enough?

Senator O'BRIEN—then on historical evidence that would be enough. The other aspect of the question is: isn't this expenditure effectively tax deductible against the revenue, if any?

Mr Campbell—Are the expenses that companies incur that they claim a grant for tax deductible?

Senator O'BRIEN—Over and above the grant, obviously. One assumes the grant becomes income in some form.

Mr Campbell—The expenses the companies claim for a grant are tax deductible and are included as expenses in their accounts. But the grant they receive is taxable income. The reason why the \$200 million may not be sufficient next year is that last year the government legislated to put into effect announcements made by the trade minister as part of the Labor Party's trade policy launch to effect improvement to EMDG. So the federal government has increased the

maximum grant. The changes that will apply next year will lead to the potential maximum grant being increased from \$150,000 to \$200,000. The minimum expenditure threshold has been reduced from \$15,000 to \$10,000. There is a turnover limit of companies that are able to claim the grant. It is currently \$30 million, and the government has increased that to \$50 million. A lot of these steps are reversing provisions that the previous government made to its initial criteria.

These changes bring it back to how it was after the 1996 amendments by the previous government. The government has also reintroduced a new expenditure category for the registration of patents and trademarks overseas, which is very welcome. It has increased the number of years that companies can claim grants from seven to eight. So there have been a range of improvements and enhancements to the program that have been introduced and that will apply to claims lodged next year. That is where the additional \$50 million is expected to go. But as the program looks to be \$25 million to \$30 million short this year, the additional \$50 million may not be sufficient to pay out all claims in full. There are many companies that are desperate to receive their full entitlement. We know that many of our clients have written to the government and to their local MPs, and particularly to the trade minister, by letter or email, expressing concern that they do not know how much their grant entitlement will be or how much they will receive and that they are unlikely to receive their full entitlement.

I got a call this morning from a company in the central tablelands. It is interesting that the export grant encourages business activities in areas that you would not normally anticipate, even in regional areas that have traditionally had a dependency on farming and agricultural activities. The company that contacted me today is a commercial design business that is located in the central tablelands. They are spending money overseas and looking to claim export grants, and again I had to tell them that there was no certainty as to what they would receive based on their expenses.

Senator O'BRIEN—That is known upfront, of course.

Mr Campbell—It is.

Senator O'BRIEN—Prudent businesses plan on the basis of that.

Mr Campbell—That is right, and the Minister for Trade, in some of his replies to companies, advises them not to factor the export grant into their market planning. But that is contrary to the original intention of the program, which was to provide a certainty of finance to encourage companies to spend more. That is the thing—if it is just a reimbursement of the expenses companies are normally undertaking then it is not particularly effective. The role of EMDG was to encourage companies to undertake additional marketing activities to increase their chances of export success.

Senator O'BRIEN—Given a \$50 million increase, you are suggesting that there will still be a shortfall next year in the current trade environment.

Mr Campbell—That is true. The thing is we do not know.

Senator O'BRIEN—The airlines are saying a lot fewer businesses are travelling.

Mr Campbell—That is right. That has reduced.

Senator O'BRIEN—That aspect might cut across your estimation.

Mr Campbell—That is correct. I know that Austrade are informally surveying companies to see whether their expenses are higher or lower than last year, whether they are spending more on patents and trademarks, whether the global financial crisis has affected their marketing activities. It may well be that the money could be sufficient, but we do not know, and again companies will not know until the end of June next year what their payout will be.

One of the frustrating things with the operation of the cap is that the government and Austrade often know. For example, in those six years when there were sufficient funds, they knew by January or February. After the lodgment of claims has ceased and they have reviewed all the claims, they can tell whether there are going to be sufficient funds. Companies still have to wait till June before they get paid their second entitlement.

CHAIR—That is a bit of a gap.

Mr Campbell—Yes. There are areas where the operations of the program could be improved.

CHAIR—You said that the EMDG funding is not inflationary. Would you elaborate on that, please. I think it is the one point you have not touched on in the opening remarks.

Mr Campbell—There are a range of economic reasons why the program should be improved, and inflation is one of them. Most of the expenses that are eligible for a grant relate to overseas marketing costs, so the money is spent overseas and does not contribute to inflationary spending in Australia. But also, at a time just over a year ago when we were in a high-inflation environment where inflation was a major concern, again we saw that as justification for fully funding EMDG. At a time of high inflation you want to increase the component of your GDP that comes from international, rather than domestic, activity, because if money is being spent overseas and is generating revenue overseas which is coming back to Australia there is only very marginal inflationary impact on the domestic economy as a result. So by increasing your export revenue you are increasing your GDP with no inflationary activity in Australia.

One of the other points I made in my submission made reference to the Henry test, which is something I was reading a lot about that professed to look at government programs in terms of their contribution to productivity. The Mortimer review and previous reviews have shown that there is a productivity benefit to EMDG, and Mortimer, as much as they could estimate, said that there was a net benefit improvement to the Australian economy as a result of the EMDG without taking into account the unmeasurables, which were all positive as well.

CHAIR—I have a couple of quick last questions. I realise we are nearly out of time. I have a general one about trade facilitation. How important is trade facilitation to the task of improving Australia's trade balance?

Mr Campbell—Trade facilitation in terms of the work that Austrade would do or in terms of free trade agreements?

CHAIR—Just in general. It has been coming up a lot in our inquiry. There are two definitions of ‘trade facilitation’. Everybody talks about it, but there does not appear to be an agreed definition. It is primarily looking at what government can do to assist businesses into the trade market. I note that you said in your submission that the EMDG Scheme is vital infrastructure.

Mr Campbell—Well, it is. The government has talked about enhancing infrastructure. Exporters view the EMDGS as infrastructure for exporting. It provides a framework that companies can use to take their products overseas. There are a range of other activities that the government does. A previous witness spoke to you about the TradeStart program, which is delivered to small exporters. In my over 30 years of dealing with exporters, I have seen an evolution of Australian industry. It is much more outward looking, and the range of products and services that are exported has expanded enormously. There are barriers to entry and international barriers to trade, but Australian businesses have largely overcome them. They have used EMDGs to a large degree to help them do that but they have also used Austrade’s offices overseas and other government services to enable them to get a leg up. One of the benefits of the Mortimer review was that it looked at what other countries were doing. That is something that the Australian government should do to see that the support it is providing Australian businesses is comparable with our trading partners and to make sure that our companies have the best opportunities to go overseas.

CHAIR—I would like to thank you, Peter, for your attendance here today. If there are any matters about which we might need additional information, the secretariat will write to you.

Senator FORSHAW—Chair, if you have that total figure of how much was handed back—

CHAIR—Yes.

Senator FORSHAW—We could make those inquiries through—oh, you have it.

CHAIR—Tas has a note that Peter will give us those figures.

Senator FORSHAW—We can pursue it with the department if necessary, but if you have it handy that would be good.

CHAIR—Thank you very much. Bruce, would you like to move that it is the wish of the Trade Subcommittee that it receives as evidence and authorises for publication the submission from Peter Campbell, representing Export Vision, to the inquiry into Australia’s trade and investment relationships with the countries of Asia, the Pacific and Latin America?

Mr BRUCE SCOTT—I so move, chair.

CHAIR—There being no objection, it is so resolved.

[12.35 pm]

MACE, Mr Peter John, General Manager, Australian Institute of Export

MURRAY, Mr Ian Crawford, Executive Director, Australian Institute of Export

CHAIR—On behalf of the subcommittee, I welcome you both here today. 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 we proceed to questions, do you wish to make a short opening statement to the subcommittee?

Mr Murray—We have put together a presentation that you have been given a copy of.

CHAIR—Yes.

Mr Murray—If I could spend five minutes just telling you a little bit about the Australian Institute of Export and some of the issues that we think are important in relation to international trade, I think that would start the proceedings quite well.

CHAIR—It would; you are most welcome to. Please proceed.

Mr Murray—I should point out that my role is executive director. My background is in marketing, so I have brought someone with me who knows more about the financial aspects of international trade. In terms of trade facilitation, the financial aspects are, of course, critical. We are an organisation that was founded just over 50 years ago. Our main role has always been about, to use your words, trade facilitation. We will talk about that after.

CHAIR—Good.

Mr Murray—We do have our opinion, but we talk about it as the trade process. We are interested in what takes place after the order is written: how people finance their business, deliver their product, make sure they get repeat orders and those sorts of things. It is very much about managing the money and managing the process. We have offices right around Australia and we have TradeStart officers—that is the Austrade program—in seven locations throughout the country.

CHAIR—Where are they?

Mr Murray—We have one in New South Wales; it is pity the senator is not here, because it is in Sutherland. We have one in Sutherland—

CHAIR—You will just have to excuse him for a few minutes.

Mr Murray—and we have officers in Ballarat, Bendigo, Mildura, Geelong, south-east Melbourne and west Melbourne. The concentration is mainly in Victoria.

Mr BRUCE SCOTT—Nothing in Queensland?

Mr Murray—Nothing in Queensland, though we would love to have them in Queensland. We have a very strong presence in Queensland and a very good relationship with Trade Queensland. But when the next round comes around, which is in the middle of next year, we will certainly be pitching for more than one in Queensland.

CHAIR—That will keep the deputy happy.

Mr Murray—We are all about keeping people happy. Briefly, I have three things to talk about regarding the institute. Peter has obviously spoken to you about the Export Market Development Grant Scheme at some length.

CHAIR—Yes.

Mr Murray—He knows a lot more about it than I do, with the exception that we represent, I guess, the people who are more likely to be recipients of the export market development grant, so we have a pretty good feel as to how the export population at large feels about the program and about some of the issues we are facing now. On the last page, there are some of the issues that we believe are important to exporters. Some of those do touch on the trade facilitation side of things.

Education and training is our major role. We probably get 20 per cent of our revenue from education and training, and, again, it is on the export process. We go right from face-to-face and online training on the export process through to a graduate program which allows people to do an advanced diploma, a graduate certificate or a graduate diploma with us. That interfaces with universities, and people can come on to do postgraduate or MBA qualifications as a result of an articulation with our programs. So education is important.

We have what we called export services—that is, we represent 100 people, of whom Peter is one. Peter has his own business in export markets development grant consulting. There are another 99 of him, and we represent them in the fact that they have a code of practice with Austrade and we work with them in managing that code of practice. So they are part of our organisation in that sense.

We also have the TradeStart offices that we talked about. They are very important to us, and we are very strong supporters of TradeStart; we think it is a program that really has not cost the government an enormous amount of money but has been highly successful. You can ask me questions about that as we proceed.

We reach about 10,000 to 12,000 exporters. We have a publication which reaches 45,000 businesses, of which 10,000 or 12,000 are exporters. We have a thing called the *Australian*

Export Handbook that we produce, and here is a copy for your office. Anything you wanted to know about trade facilitation is in that book.

CHAIR—Ian, if you do not mind, could I just ask you a question about that.

Mr Murray—Sure.

CHAIR—I was very interested in what you do with education. I am sorry to stop you, but I want to raise it here: when I read that it had 600 pages, I thought, for someone in business, 600 pages seems a lot just to look through, but is that what is necessary? Maybe after I have a look at it it will make more sense, but I wondered: do you have an idiot's guide? As someone with a background in education I thought, 'Six hundred pages?' Sorry; maybe you want to come back to it, because I did interrupt you.

Mr Murray—No, I am happy to talk about it. I will start off by simply saying that, from an exporter's point of view, particularly a new exporter, being a provider of something within Australia is a fairly simple process. There are essentially three players: there is you, someone who is buying and probably someone who is financing. They are essentially the three areas of business. Once you get into international business, depending on what it is—for example, if it is a perishable, all of a sudden you have got AQIS issues, Customs issues, trade finance issues, foreign exchange issues, insurance issues—you have got a whole range of things that you really need to understand to do it effectively. I guess what the 600 pages do is show you what processes you need to understand and what elements of the processes you need to understand to do it effectively. Our argument is—and it is a cliché, but it is a good one—that an export transaction really has not taken place until the money is in the bank, and, when you are dealing with China or, I guess, any country, for that matter, things like intellectual property and those sorts of issues need to be at least understood. The 600 pages take you through case studies and a whole range of activities. We have also got a short guide, which is just the check points.

CHAIR—The idiot's guide!

Mr Murray—You would be surprised that, when we do courses and we ask people questions about their foreign exchange management policy, they just look at you, as much to say, 'Well, what's that?' When we mention Incoterms to them—FOB versus CIF versus whatever form of transactions take place—their eyes cloud over.

CHAIR—It is a new language.

Mr Murray—And they have got to understand because, if they are shipping a perishable to China and the boat gets stopped at the wharf, they should know who is responsible; is it them? That could be many thousands of dollars.

CHAIR—I see.

Mr Murray—That is why it is 600 pages. It is a good marketing tool too: 600 pages sounds good!

CHAIR—Very good. Thank you.

Mr Murray—So we do that. Also, within that exporter services area, we have a lot of people associated with the institute who are knowledgeable about the process, and people can come to us and ask us questions and we can steer them in the right direction. Again, one of the important issues is that there are a lot of different people doing similar things, and the poor old exporter out there sometimes does not really understand who they should be talking to, and because we are a federation we can push them in the right direction, which is what we do.

And then we run what is the glitz part of the business; we run events. We run the export awards in New South Wales. We work with the state government very closely in doing that. We also run a thing called the Australian Export Heroes Awards, where every year we locate and reward six people for being individuals who have made an outstanding contribution to exporting.

CHAIR—They get good media coverage.

Mr Murray—It is fabulous. It is fantastic. It rewards people, from the unsung hero from Shepparton who started selling apples in 1945 to Rod McGeogh, who took the Olympic Games overseas and brought a tremendous amount of tourism revenue to the country. We do that every year, and it is a very valuable project. We also have a lot of networking events. The events that we run—and we run them with a whole range of partners—are all based upon people walking out of the room and saying, ‘Yes, I learnt something from that.’ Again, they focus on the process. So if we do an event on China it is not, ‘This is China; it has a huge population;’ it is, ‘If you’re going to China this is how you make sure you get paid’—which people would prefer to know about rather than the population.

CHAIR—That is right. They can look that up.

Mr Murray—That is what we do. I have given you a couple of tables on the Export Market Development Grant program because, working with the consultants, we are very aware of their situation. But we are very aware of the situation in terms of the export community, and it is undoubtedly the most important program that the government runs. It certainly soaks up more budget than anything else that the government runs. Most of the studies—in fact, all of the studies—that have been done demonstrate that it has been a success. Our research, even though one would find it fairly rudimentary, is about talking to exporters and asking them how important it is to them. Rather than econometrics or some form of economics that can demonstrate the effectiveness or ineffectiveness, we tend to talk to people to see what their impressions of the Export Market Development Grant are. Those tables, I think, will indicate to you that as far as the small-to-medium sized exporter is concerned it is a very important program. Even according to the last table, which asks, ‘If you had not had the Export Market Development Grant program would you have gone into export?’ the largest proportion would, but 23 or 24 per cent of people said that, if they did not have it, they would not have gone into export at all.

CHAIR—They probably could not have done it.

Mr Murray—If you quantify that number over 10 years, there are a hell of a lot of companies that would not have been exporting if you had not had it, so we are very cognisant of it.

Mr BRUCE SCOTT—That was going to be my question. More said they still would have exported, but 23 per cent would not. Would they be new entrants or new businesses rather than established businesses in that 23 per cent? In other words, would the 74 per cent be more likely to be reasonably well established businesses in Australia?

Mr Murray—Probably.

Mr BRUCE SCOTT—Is that the new generation of them?

Mr Murray—To some extent the export market development grant gives people confidence. It reduces the risk because some of the money they are expending is going to be refunded. You would imagine that the companies that fit into the 23 per cent, those companies that see what they are doing as having a greater degree of risk or perhaps that their financial position is not as strong as the companies that fit into the other group.

Mr BRUCE SCOTT—What about Commonwealth-state relations? States have trade offices and the Commonwealth has trade offices. Is there duplication of effort? Does it impede growth? Could we do better? What would the report card look like?

Mr Murray—In my opinion, yes, it could be done better. We address this in our seven submissions to the Mortimer report. One of them was about waste. The feeling was that better communications between the states and the Commonwealth in what they offer would be an advantage to everybody. That is not to say that what they are doing is not good; it just means that if they do it in a more cohesive way it could probably be better. From our point of view, the more representation we have overseas, the better. We support the export community and, if Western Australia wants to have seven, eight or 10 people offshore helping someone, so be it. That is terrific.

CHAIR—It is good of itself.

Mr Murray—But we believe that there is probably a better way of coordinating it between the different parties. It ranges from state to state. Some states are better than others at building the relationships between the two groups. As you may read in the Mortimer report, I outline which ones are probably the better ones. New South Wales is actually is very good. In New South Wales Austrade and the state government work very closely together. They do in Queensland, too. But there are places where I think the two bodies could be brought together to be more cohesive.

Mr BRUCE SCOTT—I have a question about the APEC business visa. Does that help at all to facilitate business moving around the APEC region?

Mr Murray—APEC is our market. At the end of the day, all of those things that are going to support doing business in that region are going to be worthwhile. Our feeling—Peter might want to add to this—is that, by and large, now and into the future those countries that are represented within APEC are always going to be our major trading partners.

Mr BRUCE SCOTT—Do you want to expand on that? When we look at APEC it goes from the Americas, north and south, right around the Pacific Rim. Is there any particular region in

there? For instance, is South America somewhere we are ignoring at the expense of looking with more focus into China or Japan, which is our largest trading partner? Is it North America?

Mr Mace—I think the Australia-Chile Free Trade Agreement has put South America well and truly on the agenda for a lot of exporters. The mining companies are obviously there currently and doing quite well, but I think behind that will come other exporters. Firstly will be services to mining, and then we will look at other Australian companies in the services industries in particular. I think we can use Chile as a beachhead to get into other countries in Latin America. There was a recent visit by the Colombian trade minister, and I think that created a lot of interest. It was very positive.

CHAIR—We met him. It was very beneficial.

Mr Mace—So I think there is scope there. I also think a lot of our immigrants have come from some of these countries in South America and Asia and have connections back home, so they are using those connections to start trade. At this stage they are probably at the smaller end of company size but, as they grow and develop, they can become larger companies. I think the focus away from the traditional markets of the US and Europe is well underway. We need to keep a balance, but I think pushing the Asian region and Latin America is a good thing for the government to be doing. I think the free trade agreements we now have entered into and are looking to negotiate are a positive move in that direction to create the linkages, if nothing else. We talk to ministers on both sides. They get to know each other. They get to understand some common problems and, hopefully, at the end of that there is an agreement signed that can move us forward. Even if not, there is a lot of dialogue underway with those countries, with the right people in trade on both sides.

Mr BRUCE SCOTT—You have direct air linkages to South America now.

CHAIR—Yes, with the Qantas. The first Qantas flight opened.

Mr BRUCE SCOTT—Did that go to Chile or Argentina?

Senator O'BRIEN—It goes to Chile via Auckland, I think.

Mr Murray—Peter recently ran an event on Chile and we got a very strong response.

CHAIR—Lots of interest?

Mr Murray—Yes; much stronger than we would have had two years ago. So the interest is there. I think the exporters at this point in time, because of the international difficulties, are looking beyond the traditional areas where they were a couple of years ago anyway.

CHAIR—They can sense some market opportunities there.

Senator O'BRIEN—I am looking at the magazine you have just given us, which touches on information technology issues about which we asked questions of earlier witnesses. Given that you are at least in part about training businesses to deal with export issues, how importantly does

your training program treat information technology as a mechanism to access trade opportunities?

Mr Murray—Very positively. On the rudimentary side, a lot of companies now become accidental exporters through the electronic medium, because they have websites and people are attracted to their websites. They then find they have an export transaction. We work very closely with companies that have physically gone out and said, ‘We are going to use this medium to drive our international trade.’

Senator O’BRIEN—Are there many of those?

Mr Murray—They are growing and some of them have been very successful.

Mr Mace—Looking at TradeStart has been a great opportunity to bring some of the small companies through. A lot of the IT companies are often referred to as ‘born global’ in that they have to look at a global market from day one. This market is not big enough for them, and our TradeStart operative down in the Sutherland Shire, for instance, had a company that came in and their first export sale was into the US to the value of \$37 million.

Mr Murray—Not a bad kick-off.

Mr Mace—It was a very good start. They come out of a little incubator in the Sutherland Shire called the SSHED, which the Sutherland Shire puts together. They bring in companies which have their own skills and desires, but the SSHED puts around those the management disciplines to make sure they understand how to run a company properly, look at a balance sheet, get funding and organise the company. They also get to interface with other companies in that same environment, so that has been a very successful enterprise down there. From that we have had a number of New South Wales award winners and some great successes overseas from companies who have participated.

CHAIR—It is supported by the shire council. Do they get money from state or federal governments?

Mr Murray—I think they probably get money from both, but it was part of the AusIndustry funding to begin with and it is a very good example of how government at all levels work together to achieve a really good outcome. To touch on what Peter said, we are probably getting more response from IT based companies in things like our export awards than we had six or eight years ago. They are really interesting companies. People are doing linguistics or software for the financial planning industry and are very successful with it.

Mr Mace—An example is Appen, last year’s state winner which became the national winner. They do a lot of speech work in the IT sector and they went on to be the national winner last year.

Senator O’BRIEN—What do you mean speech work?

Mr Mace—They work with a lot of the IT companies offshore, Microsoft, Siemens et cetera. They do voice recognition software. They are working with defence people overseas and it is a business that started on the kitchen table. They are very successful.

Mr BRUCE SCOTT—Has the paperwork been reduced? One of the things we always hear about is that, with 100 pages to fill in, businesses are out the door, giving up before they even start. That is an exaggeration, but you know what I mean. The process and the length of time for assessment has been problem.

Mr Murray—Peter Blanchard is going to speak to you this afternoon. Senator O'Brien was touching on that subject when we were talking about IT. All those processes you have to go through to make a transaction we call trade facilitation, and we often use the explanation that there is a lot of paperwork and there are a lot of people clipping the ticket along the way. Whether it is customs brokers, freight forwarders or Customs, getting through all the different groups—and Peter will be able to explain it a lot better than I can—is a very costly exercise not just here but all around the world. It is a big opportunity for government to be able to have a good, close look at how it can be improved and how the electronic medium can be used more effectively to do that. If we can do that, we can be far more internationally competitive in what we do and will save an enormous amount of money. It has changed a little bit now, but it is ludicrous to think that even with a certificate of origin you had to get a piece of paper and travel halfway across town to get someone to stamp and sign it.

CHAIR—It had to be physically done, didn't it?

Mr Murray—That has been the situation up until recently. There is an online process now, but it could still be done a lot more effectively and a lot more cheaply than it is being done. That is just one example and there are a lot of other examples like that.

CHAIR—I have read some of the comments you have made in some of the submissions. In a legal sense, a whole lot of IT or electronic communications are sometimes ahead of what government is doing in terms of their processes, because a lot of that is accepted.

Mr Murray—Peter Blanchard is very knowledgeable on it, and I think he is seeing you this afternoon. I am on his board. Their role is to look at trade facilitation and the trade process area and particularly look at it from a point of view of where IT can be used to better improve the process.

Senator O'BRIEN—I was going to ask you about that accidental exporter comment. What sort of surprises would they have run into, suddenly finding that somebody had ordered their product—whatever it was—in another country and what hoops did they then have to jump through that they were not expecting?

Mr Mace—I guess the obvious one is for someone exporting a small item. They will get an order from overseas, they might be able to work through a Visa or other credit card to get payment through and they will pop down to Australia Post, put it in the bag and address it to an overseas destination where it will arrive at the border. At the border they will promptly look for an invoice to get it in the country, and there is no invoice so it gets blocked there. There is this lack of understanding of what you need to do to get through that barrier at the other end. I guess

that is one of the obvious ones. Beyond that, they need to make sure that they are declaring the product correctly for any duties and tariffs at the other end. If they misrepresent the product, apart from getting the duty wrong, they can be up for a fine. So there are a range of issues, and we think that is where the education side of export is so important for the new or emerging exporters, to make sure they have the knowledge to do things right in the first place and to not get caught.

Mr Murray—There can be a positive side to it. We have one client who advertised in Australian dollars and was paid in US dollars, so he was quite happy.

CHAIR—It is not always negative. I would like to ask some questions about trade facilitation. How important is trade facilitation to improving Australia's trade balance?

Mr Murray—I would say it is critical because it is one of the big hurdles that nobody really is addressing. Austrade do a wonderful job on the marketing side and open up a lot of areas of opportunity. They have good people overseas and they have good advice. In the final event, the hardest part of the process is getting people to go through and understand the process so they are able to do it effectively and to take away the fear and demystify the process. If more people understand it and how to do it effectively and some of the barriers can be taken away in terms of cost, it will make a big difference to the number of people exporting and the amount that people in fact export.

Mr Mace—One of the terms of reference was: what support can be given to rural and regional industries? That is an area that we struggle to get out to. We do programs out there. Often, as a not-for-profit organisation we enlist the support of state governments and we have worked closely with DSRD and with Business SA in South Australia to get the programs out to regional centres. We have developed—and there is a copy in there—an online course that we run. Being available online it gives companies in regional areas an opportunity to come in and do that education. We think there is more that can be done. Because they are dispersed, it is hard for them to get away from their day-to-day role to spend a day or two doing a course. We are looking for new ways to try and reach them and help them get that knowledge so they can be successful exporters. The freight side of getting it from the country down to the city is another challenge they have: how to move it from the farm gate down to a port and successfully offshore.

Mr BRUCE SCOTT—Have you looked at local government as a gateway into these communities? A lot of our councils, particularly in Queensland, and in other states too to some extent, have been amalgamated so they are more like a regional council than a local council. They could be—I do not know if you have looked at it or even thought of it—a way of getting into those communities. Those local council areas are certainly desperate to bring in new investment and value-add to what they produce in the area.

Mr Mace—The funding for that online course came from DOTARS, so they recognised the concern there. We ended up having an initial grant cut down by half, but we still got the job done and we got that out there. I think you are right that more could be done with local governments. We are talking to a few, but that tends to be on a one-on-one basis and probably more through our TradeStart officers in regional centres who will have a good relationship with them. At the moment, for instance, we are looking at one for Geelong in Victoria—again, initiated by our

TradeStart people there. I think there is a lot more that could be done through those local councils.

Mr BRUCE SCOTT—I will raise it with mine anyway.

Mr Murray—We have a project we are talking about doing in Townsville with a council there. But, just to reinforce Peter's point, they have been spasmodic; there has been nothing really uniform about working with councils. Can I ask a question?

CHAIR—Yes.

Mr Murray—When you are talking about trade facilitation, I would imagine you are talking about the finance side of it as well.

CHAIR—Yes.

Mr Murray—There has been a recent study conducted by EFIC—their GRI, global readiness index, study—that identifies the fact that getting finance for export growth is deemed to be a very important and difficult task.

CHAIR—A major obstacle.

Mr Murray—It is a major obstacle.

CHAIR—That is what we have been hearing, even today—it has already come up as one of the major obstacles.

Mr Murray—It comes up in our programs. Because we are running education and training courses we are talking to people on a pretty regular basis about this whole aspect of doing business and it is constantly coming up in discussion.

CHAIR—Anecdotally, I have been told or read that even when people have a successful business in the domestic market and then want to move into export, it is still 'speculative' as to what they are going to achieve and they find it very difficult to get the finance. If they were doing it domestically they might get the finance, but not for going into the export market.

Mr Murray—And if it gets into what could be loosely described as the too-hard area, you are just not going to go into export at all; particularly if the house is paid for and everyone is comfortable, exports then becomes a big challenge.

CHAIR—That leads to my next question. What are the most important changes in trade facilitation that are still needed in Australia? If you can just give us some—finance, coordination?

Mr Murray—It is all of those.

Mr Mace—On the finance side, the economic downturn has had an impact on financing of trade, which I guess we are aware of. That has demonstrated itself through a demand for letters

of credit, which were going out of vogue. People were very keen to trade open account and while things were going good the payments came through, and I guess the additional work of putting the paperwork into letters of credit and making sure everything was correct was avoided. But, with the downturn, people are now looking for some security of payment, so they have become a lot more popular. All the banks are telling us they are seeing an upswing in the number of clients using letters of credit as a payment mechanism. They again need to be secured, so they need some finance to back up those letters of credit.

Credit insurance is the other option. If you are trading open account you will probably look for credit insurance. Again, with the amount of defaults, the insurance companies are telling us that those defaults are double or treble what they were 12 months ago and so lines are being cut, premiums are going up and some countries are really off limits now to credit insurance. I guess that has toughened things up for exporters, so it has made it harder for them to strike a deal with their counterparty. They would like payment upfront in Australian dollars, obviously, and that is not always possible. I guess they are struggling to find the finance mechanisms to make sure their sales are met.

There is no negativity on the Australian banks. I think they are doing a good job in terms of what they are doing. It is probably more from the other side, where some buyers overseas had used lines with banks that were not secured and, with the downturn, those banks are now saying, 'If you want those lines to continue, we'll now need some security in place to back those up.' That means that letters of credit cannot come through as frequently as they used to.

CHAIR—You would have seen the Mortimer recommendations. They have recommended establishing a national trade and investment council. What would be the main benefits of creating, say, a national trade facilitation body, given that if that existed it could play that role?

Mr Murray—The Minister for Trade under the previous government, Warren Truss, had a Trade Advisory Council. I think those sorts of bodies are very valuable, particularly if the make up is universal so you do get the voices of people who truly represent all sectors of the export community. What I mean by that is not to just load it with people at the top end, who have got very few problems, to be honest with you, in comparison to people at the bottom end. You need to make sure that those bottom end people—the small to medium size exporters—who are really going to be where our growth comes from, are well represented and that the government can get a real understanding of what their needs and requirements are, as opposed to those of people from the top end of the export community.

To answer the point you made before about if you had to prioritise; in terms of trade facilitation, if the government can address the financial aspects, as indicated in the GRI statement done by EFIC, I still believe—and we probably have got a bias in this area—that there needs to be a greater emphasis placed on education and training. One of the reasons that so few companies export is the fact that they probably have a fear of exporting because they do not understand it well enough. If they understood it better I think more people would be inclined to do it. Another area is in this cost of trade facilitation, which I think is, to use the expression, 'the elephant in the room'. I do not really understand what it means, but it sounds good! It is a big area of cost and it is an area that needs to be looked upon as an opportunity for reducing cost and getting a more streamlined approach to the way people do things.

These are all somewhat similar, but the final thing is getting the governments working in a more cohesive way to deliver some of those things. Some of those trade facilitation things are created by federation and unless they work together they are not going to be able to address them.

CHAIR—That was very useful. You mentioned a little bit about the EMDG Scheme and you talked about the shortfall in 2007-08 in your submission. Do you want to provide any more details or make any more comment on that?

Mr Murray—There is going to be a shortfall of somewhere between \$40 million and \$50 million this year and this means that two things can happen. Number one is that people might just stop spending for the future, which we do not want to happen. This comes to the second thing, which is we believe there needs to be certainty in a program, and if the certainty is not there people will then move away from spending the sort of money that they need to spend to do their marketing of international business effectively. It is as much about the heart as it is about the head, to be honest with you. I think the money is an issue—of course it is—to people. We can demonstrate that people without an EMDG would not be able to survive in the export community. But it is also about giving them confidence to continue spending.

CHAIR—It is.

Mr Murray—And we are hoping!

CHAIR—Confidence is a lot in a whole range of things, but particularly in that area; having that confidence and providing it for the business. Do you have any comments about the Mortimer recommendations for the scheme; the monetary amount—the \$30,00 as opposed to the \$10,000?

Mr Murray—As I said, Peter Campbell—the previous witness—was probably more qualified to answer that.

CHAIR—He did it rather forensically, didn't he?

Mr Murray—Yes, he does. He has a long history and goes right back with the EMDG to the time when he was at Austrade. We were happy with most of the elements. The only one that we would not support is reducing the number of years.

CHAIR—That is useful to know. Thank you Ian and Peter for your attendance today, it was very helpful to the committee. If there are any matters on which we might need additional information the secretariat will write to you. The secretariat will also send you a copy of the transcript of your evidence on which you can make any necessary corrections to errors of transcription.

Proceedings suspended from 1.15 pm to 2.15 pm

BLANCHARD, Mr Peter, Chief Executive Officer, Tradegate Australia Limited

CHAIR—Thank you, Peter, for coming. On behalf of the subcommittee I welcome you. 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. Thank you for your submission. Before we proceed to questions, do you wish to make a short opening statement to the subcommittee?

Mr Blanchard—Yes, I do. Very briefly, Tradegate is an unusual organisation. We were formed out of a government inquiry 20 years ago by the entire trade and transport chain—that is, exporters, importers and all of the service providers in between, such as customs brokers, freight forwarders et cetera. They loaned us money to enable us to do our job. As a result of what we have done and because of our broad membership base in that regard, we get involved in a lot of different day-to-day operational issues about moving around data that supports the movement of the physical good. If one imagines I have to ship some cargo from point A to point B, there will be a bill of lading, an invoice, a packing list or something that has to move with those goods to go to the next party. We get involved with the information associated with the physical movement of the good. We are not involved in the actual physical movement of the good.

The chart to my left is an example of the import-export process in the Port of Melbourne.

A chart was then shown—

Mr Blanchard—It could be any port in Australia or, for that matter, pretty close to any port in the world. It would be broadly the same. I think it is fair to say that any business analyst, policy adviser, engineer or process developer who designs such a process would either fail their course or be roundly condemned as incompetent for designing such a process. Yet this is the reality of everyday work for people in the international trade and transport chains. It is not sexy, it does not grab any headlines and, as a result, it rarely, if ever, makes it onto the radar of policymakers and politicians. But let me say that even this bowl of trade spaghetti, if I can use that expression, is not complete, as many of the 41 agencies of government that have involvement with international trade are not there. Forty-one state and federal agencies in Australia have some impact on international trade.

CHAIR—Yes, I read that.

Mr Blanchard—It is Customs data. As a trading nation, it is in our interest that the import and export of goods and services be as cost effective and as timely as possible. To achieve this, we need to have a national approach to what I call trade facilitation. It is not an easy subject. It takes a long time because we are often dealing with governments—not only our own governments but overseas governments, because it takes two to tango in this space. It does take time. I have provided some information in my submission about some of the statistics and the data that are available. Customs did some telling work on how, as I said, 41 agencies of

government collect 7,640 pieces of information on 275 paper forms and an undetermined number of online forms. This is red tape gone mad.

Of those data elements, when you harmonise and bore it all down, we need only 637—that is, we have over 90 per cent duplication. That is where the costs are. They are hidden, because no one party bears all of that cost. Of course, not everyone is using all of those agencies at any one time. The actual cost is horrific. The *Lloyd's List DCN* only came out last Thursday. The headline was 'Box fee storm brewing'. That was on the front page. What was it about? It was about the potential of Quarantine increasing their fees from \$33 per import box to \$47 per import box. In Australia, if you make an import declaration, you pay \$50 to Customs—at a total of \$165 million per annum.

CHAIR—Just to make the declaration?

Mr Blanchard—That is just to make the declaration. I have not done anything yet; I have just put in the information. Quarantine charges \$33. Between the two agencies—

Mr BRUCE SCOTT—Customs and Quarantine?

Mr Blanchard—it is \$300 million per annum.

Mr BRUCE SCOTT—That is for imports?

Mr Blanchard—That is for imports.

Mr BRUCE SCOTT—Is that nation wide?

Mr Blanchard—It is nation wide. That is for two agencies. Then you have a whole raft of other costs, such as for any permit to import or export. The Wine and Brandy Corporation permit to export is \$24 to \$33. Multiply that by the number. We want people to trade; we want people to be successful in the export market. At the same time we want people to be successful importers, because we as a country rely on that. But we are burdening these people with costs. Eventually you and I pay those costs. If we added it all up—and I do not know that anyone has ever done the sums, because of the complexity—we would be well north of \$500 million. If two agencies alone are \$300 million, you could possibly extrapolate to say the cost is \$1 billion.

Mr BRUCE SCOTT—This is to import or to import and export?

Mr Blanchard—It is to import and export. That is why, when we look at things, we look at operational issues. We look at how this information can be moved more quickly electronically so that I would not have to get the information—as there is often an attached email and I have to print out the form and then key that information into my system—because it already exists somewhere else. As I put in the information we provided, the UN—I think it was the UN—

CHAIR—I read the information.

Mr Blanchard—and others have noted that the number of duplications of commercial documents, let alone government documents, is astronomical. That is why, essentially, we are

saying that there should be a trade single window so that we can submit this data once. We should put it into one place so that any agency that needs it can go and get the data. Why should we have to sit there and send it any number of times? Dangerous goods is another issue. We have to report three or four times.

CHAIR—To whom?

Mr Blanchard—The port authority, AMSA, the stevedore, Transport and the consolidator. That is five times, depending upon which state you are in. That is what Sydney might have to do. They are some of the issues that I feel need to be brought to the committee's attention. I know it is not directly within the terms of reference, but this goes across all of our trade. No matter how successful we are on the commercial deal, at the end of the day if I want to export or import I have to make this happen on a daily basis.

CHAIR—That is for everybody? That does not change? That is the system?

Mr Blanchard—This is essentially for containerised goods. Bulk is a little bit different. Bulk wheat, bulk iron, bulk coal et cetera are a little bit different because there are not as many parties. But there are the same issues.

Senator O'BRIEN—AQIS and Customs are in there?

Mr Blanchard—Yes.

Senator O'BRIEN—You said a number of agencies were not, so I thought I would ask.

Mr Blanchard—The Wine and Brandy Corporation, for example, is not there. The Therapeutic Goods Administration is not there.

CHAIR—But the core ones?

Mr Blanchard—The core ones are. I would encourage the committee—whether you can do it within the terms of reference or this inquiry or in a separate subject matter—to look at this subject on a national basis. I believe that it would make life a lot easier for everyone.

Senator O'BRIEN—On the fees that you talked about as to Customs and AQIS, I think successive governments have supported the concept of somewhat of a user-pays system with some subsidy from the taxpayer. Are you saying that should go and it should be all taxpayer funded?

Mr Blanchard—User pays is a difficult one. I will fess up: I believe in user pays, but user pays where you have a choice.

Senator O'BRIEN—You cannot have a choice on quarantine, can you?

Mr Blanchard—That is exactly the point I believe, Senator. If I am a road user and there is a toll road or a normal road I have a choice: do I pay the money because it is going to save me time and money or do I take my time? I have a choice but if I am importing and exporting I do

not have a choice. I have got to use Customs and, depending upon what my produce is, I have to use Quarantine. They are decisions taken by government in, one would hope, the better interests of the whole community of this nation. So why should a particular segment of the community have to pay that whole of community or whole of nation cost that is being imposed? That is the question that I ask. Port authorities are another good example, and I appreciate it is a state issue. Port authorities are set up as a quasicorporates and basically what they are doing now is maximising profits. They are making tens of millions of dollars in dividend payments to the government when they are supposed to be facilitating trade. Why are they in government hands? Why should the traders of the community have to subsidise other people when government is making the decision on behalf of everyone?

Mr BRUCE SCOTT—The other thing is that we do not know if the cost of AQIS or Customs is the true reflection of the actual cost.

Senator O'BRIEN—It is less than the actual cost.

Mr Blanchard—I accept that absolutely, Mr Scott.

Mr BRUCE SCOTT—It is user pays but what are you paying for?

Mr Blanchard—I have not looked at the Customs budget for a while. I know that last year they estimated 3.25 million import duties. At about \$50 a pop that is about \$165 million, but I do not know whether that is all of Customs' costs or not. But it is a lot of money; it is an awful lot of money.

Senator O'BRIEN—If you want to debate that point, let us look at quarantine and an importer who brings in a product that is the subject of a quarantine charge. One assumes that the cost is passed on to the consumer who buys the product.

Mr Blanchard—Yes.

Senator O'BRIEN—Is that user pays then? They use the product.

Mr BRUCE SCOTT—Would you say that again?

Senator O'BRIEN—Say I bring in a shipment of prawns from South-East Asia that have been suitably processed to pass our quarantine test. I submit them for examination and they are examined on the risk based analysis that Quarantine apply. If they determine that they can be admitted, I get to sell those prawns and I pass the cost on. Woolworths or the local fish shop sells the prawns to Madam Chair and others and they pay that cost. Is that user pays?

Mr BRUCE SCOTT—Is it the same as importing Canadian salmon into Tasmania—sorry, Australia?

Senator O'BRIEN—Absolutely not, because you would not be able to pass that cost on!

CHAIR—All right.

Mr BRUCE SCOTT—Sorry, Madam Chair.

CHAIR—It is a slight diversion but it is all relevant to trade.

Senator O'BRIEN—But the real question remains.

Mr Blanchard—I am not saying I have the answers here by any stretch of the imagination. What I am saying is I think we need to reassess user pays in the context of trade facilitation, and I do not put it at anymore than that. That might take a couple of hours or that might take a couple of months or whatever it might be, but I think we need to assess this. If we really want to be a more successful international best-practice trading nation, then I think we should have this on the agenda for examination, discussion and some sort of review.

Mr BRUCE SCOTT—AQIS fees go up 40 per cent on 1 July to the exporter.

Senator O'BRIEN—And AQIS certify—that is one of their roles. They certify that a product complies with another nation's requirements.

Mr Blanchard—That is true.

Senator O'BRIEN—So it is a service.

Mr Blanchard—Let me say that some elements of AQIS do substantially better than some things that I am aware of overseas, so by no means am I trying to be negative or to denigrate anyone.

CHAIR—You are just making the point about trade facilitation and looking at the whole user-pays issue and the infrastructure that government can provide.

Mr Blanchard—Correct. That is right.

Senator O'BRIEN—Which is a separate issue from paperwork and the so called red tape in its true sense.

Mr Blanchard—It all comes out of that. Each agency is saying, 'We need a form with a certain amount of information on it to enable us to either undertake risk assessment or satisfy ourselves that this complies with whatever the requirements are.' Invariably that is a piece of paper and someone has got to look at it. I take my hat off to Customs despite the fact that they stopped the waterfront for three weeks when they went to their new \$200 million system. The fact of the matter is that 99.99 per cent of all imports and exports are done by Customs electronically. So they have set up the profile to enable it to be done electronically and their profiling says, 'This one is a problem so I'll flick that one to one side and I will have a person look at that before I go and release it or do whatever else is required.'

CHAIR—Because if exporters do not have to fill in so many forms or can fill in one common form for a common dataset somewhere then there is a cost saving in terms of time alone.

Mr Blanchard—That is right. One assumes that there is a cost saving to the nation. So exporters win and also governments win, so we do not need some of these costs. I think that is one of the issues. It is how we have ‘competition’ between government agencies in such a way and as best we can so that the costs continue to fall, and I appreciate the difficulties: we cannot really have another Customs, because that would not make any sense, but we have to have an environment where there is pressure to reduce costs.

CHAIR—I understand.

Mr BRUCE SCOTT—Is there any evidence that trade and border security requirements are being used as a non-tariff barrier?

Senator O’BRIEN—Here or elsewhere?

Mr BRUCE SCOTT—Here or elsewhere.

Mr Blanchard—It is a very difficult one. I am unaware of any specific instances. All we do know is that we now have an extra layer of things that have to be done. We had to have the maritime security cards, which were a cost to people in doing those. Depending upon the extent to which you go you have to get extra things to do to get access to the terminals now, so there is a degree of cost. I am not sure that there is a non-tariff barrier being applied in that regard.

Mr BRUCE SCOTT—So there is quite a bit of all of those security and compliance issues and they are in the chart, aren’t they?

Mr Blanchard—Yes.

Mr BRUCE SCOTT—It is a piece of art.

Senator O’BRIEN—Yes.

Mr Blanchard—I wish I had done it myself but I didn’t.

CHAIR—We cannot stop looking at it, you see. Our eyes keep going back to it.

Senator O’BRIEN—The question that I want to pursue arose from earlier in the day over an issue that we touched upon with witnesses about a small exporter setting up a website to sell CDs of I and Senator Forshaw singing songs or doing something like that and trying to export them overseas. That might be a bad example. We would go broke!

Mr Blanchard—No, a No. 1 hit no doubt!

Senator O’BRIEN—I cannot speak for his talent but I know mine would not pass.

Mr BRUCE SCOTT—You would have to pay a facilitator on that one.

Senator O'BRIEN—My question is this. Can you give us an idea of what we would experience as new exporters and give us your views as to how well prepared Australian businesses are for this experience?

Mr Blanchard—I can only talk about anecdotal evidence that has come to me from some of our customers and members. Generally, people who have used Austrade speak highly of the experience. In my own dealings with Austrade, they have been most helpful in considering things, looking at different introductions et cetera. Bear in mind also that Austrade are more on the marketing side—that is, finding the market and introducing you to the purchaser—and then they stand back and allow the normal business processes to take over.

What we are seeing in Australia today is that a lot of exporters are now using specialist freight forwarders, either a specialist in a particular region—for example, a specialist in China—or a specialist in a particular commodity—for example, wine. They might use wine or fresh fruit and vegetables or whatever else the case might be. So they tend to outsource quite a lot of things now, particularly when it comes to the shipping side and some of the Customs things and so forth, but there are still obviously a large number that do things themselves. I think we are as well prepared as others are.

One of our problems—talking to people in Hong Kong, for example—is that we get an introduction into a company and they say, 'Well, your volume's too small.' We might only need 20,000 glasses. When they are making glasses, for example, for Europe and the United States and they are talking hundreds of thousands in a production, we are talking 20,000. So we still have the challenge of smallness. That is becoming less of an impost than it was, say, 10 or 15 years ago, because our country is growing.

But one of the things that we do well here—and in my view it is a strength of our size—is that we are an extremely sophisticated marketplace, so we tend to demand things at the top end of the range. We have breadth of coverage; we do not have depth of coverage. The best example I can think of—and it is in financial services—is that, in the United States, for example, until perhaps the last few months, if you wanted to do margin lending you would have a choice of 600 companies to go and do margin lending; in Australia, five. If you wanted to do derivatives, in the United States there would be 600 different companies; in Australia, five—the same five that do margin lending. So we have breadth of application in our expertise but we do not have the depth in competition because of the market size. The advantage that is to us is that we can offer a full service, which is a competitive advantage. I do not have to go to 15 different companies to fill out my product range; I can go to one because we have expertise. And that is something I do not think we have necessarily marketed terribly well.

Senator O'BRIEN—Is that an issue for us as traders?

Mr Blanchard—I think it is an opportunity.

Mr BRUCE SCOTT—What about the global market, and should we be going to America for this?

Mr Blanchard—I do not think so. I actually have a very bullish view of Australia both in the current environment and long term. I have been involved in manufacturing, in fast-moving

consumer goods, in the automotive industry, in electronic payments and in superannuation, and I can see nothing in this country that would be what I would call an inhibitor, apart from us. I have very, very bullish views. I have every confidence in the youth of this country and their ability to do things and to compete. I think what we are seeing today is the end of the generation where we grew up under very high tariffs. It is really the 1990s and coming into 2000. I think that one of the reasons we are doing reasonably well is that we made all those hard decisions—and they were painful. I was involved with the car industry then, and it was brutal. But we had to make those decisions. It was not just a tariff cut—we had to look at our quality; we had to look at our just-in-time manufacturing; we had to look at the ability of our importing, of our marketing and of all those things.

I can remember talking to people and saying, ‘What would you have to do if we had zero tariffs?’ Some people said, ‘I wouldn’t do anything; I’d be out of business.’ I would say: ‘No, no—wrong assumption. What would you actually have to do, assuming you’re in business at zero tariffs?’ People then had to sit down and work out what they would do, how they would cut costs, improve the quality and improve their marketing et cetera. And I think we have done a lot of that.

CHAIR—In the eighties.

Mr Blanchard—We export—and I am sure Ian Murray would have mentioned this earlier—some of the extraordinary things we produce in this country, like these flavoured straws. They are just extraordinary, just brilliant. Instead of a normal straw and flavoured milk, you flavour the straw, so when you have a normal drink of milk the flavouring comes from the straw. They have got a deal going with McDonalds and they are exporting it all around the world.

CHAIR—I have never seen one.

Mr BRUCE SCOTT—I remember them as a kid. They were around in my day, in the west of Queensland.

Mr Blanchard—I thought, ‘I wish I’d thought of that.’ So there are a lot of innovative and clever people. And this is the frustrating bit. This is where we get frustrated.

Senator FORSHAW—I remember the free milk.

CHAIR—I remember the free milk. We had that where I grew up.

Mr Blanchard—Exactly. So did I.

Senator O’BRIEN—So you are saying that the way around this is to have facilitating businesses that will form the bridge between the manufacturer and the potential exporter and their markets.

Mr Blanchard—I am not sure I would go quite that far.

Senator O’BRIEN—I thought that was what you suggested people were using to find their way through the maze.

Mr Blanchard—They are using facilitators, because people have expertise, obviously, that they build up over time. But I think here we need to look at trade facilitation, and government and industry working better together to reduce costs. Now, you cannot reduce your costs to zero. That is the first furphy we have got to get over. It is never going to be costless, but we can lower our costs to make sure we are competitive. And we have to look at what constitutes best practice around the world. Look at Singapore: it is a country that is about the size of Sydney, it does not have its own water supply, it has absolutely no natural resources and yet it is the No. 1 port in the world by a country mile. Thirty million containers a year go in and out of that place. But it is an open port. Hong Kong is the same. It has no resources, it has virtually no land in terms of the island, it is home to the equivalent of a third of the Australian population and it has been an exporting powerhouse for a number of years. So it is doable. Even in Australia, I think—and correct me if I am wrong—our exports and imports are about 50 per cent of our gross domestic product.

Mr BRUCE SCOTT—Can ask you something about the internet and e-commerce. There is a bit of a debate now, of course, as to whether we roll out broadband, or high-speed internet, I believe it should be called. Is the fact that we do not have that or that there are limited areas of high-speed internet an impediment to our competitiveness? Is there not enough competition in the market? There are a whole lot of questions to do with that.

Mr Blanchard—A couple of issues arise out of that question. First of all, there are areas where people struggle to get access—and, Mr Scott, it is not just in rural Australia, let me tell you.

Mr BRUCE SCOTT—I did not say it was.

Mr Blanchard—No, but that is the general perception. I can go down to Port Botany and I cannot get fast internet. One street away, I can get fast internet but in others I cannot, so I have to go for technology called x.163, which is about 10 times the price of normal internet activity. So there are pockets where the exchanges that have not been updated throughout. Darwin is another one, and people import and export out of Darwin; we have customers up there. So that is an issue.

The second issue is speed. Generally, industry try to deal with data, not documents. Let me explain what I mean by that. I sent an email with the submission to the secretary. That is an attachment; it is a document. It is human readable. A machine cannot process it. So I have got to take that document, if it is a form, read it, understand what it says and key the information into another system. That has a relatively large footprint in terms of the amount of data. If I do it electronically, using technology such as EDI, for example, which has been around for 30-odd years, if it was a one-megabyte file, that might come down to 128 kilobytes.

Senator O'BRIEN—What does EDI stand for?

Mr Blanchard—Electronic data interchange. It is just a machine-to-machine exchange of information, without human intervention. For example, I send you a purchase order and it would hit your system automatically. You would not have to touch it and your system would be able to process that information. That is why Coles and Woolworths have been doing it for years. In a business sense, dealing with this sort of process here, we try to deal with data and not documents

because of cost, time, savings and the volume of information. Customs have 3.25 million import declarations a year and over one million export declarations a year. An import declaration might have 500 line items. If you are an importer waiting for Customs to clear your cargo and you give it to them on a paper form with 500 line items, then you will wait a fairly long time before they can make an assessment as to whether there is a risk in terms of this information. It is similar to quarantine. That is why we tend to talk about data and not documents.

Where the demand for broadband, if I can use that expression, is coming from are movies—that is, the household part of the market, YouTube and all those sorts of things, which suck a huge amount of bandwidth, enormous amounts of bandwidth. That does not mean to say that industry would not use it. I might be an engineer or a surveyor and I might take a little video film and want to send that to a customer or client. Rather than trying to describe or take photographs of something, I might be able to show them. So it is not black and white, if I can use that expression. I do not think we are necessarily disadvantaged at the moment, if that answers your question.

Mr BRUCE SCOTT—Yes, but by international comparison—

Mr Blanchard—We are not up the top, but we are not last. We are probably in the top 30 or 40. Generally, from some of the data that I have supplied, we tend to be around that 20 to 30 mark, which means yes, we can do some work to improve.

CHAIR—Can you tell me about the main improvements in electronic commerce technologies in the last few years? What are they and are they applying across the export market? You just talked about data and documents, and I understand the difference between them.

Mr Blanchard—Australia has actually made a huge amount of progress on the international trade side—imports and exports. We would be up there, relatively speaking. Customs did push hard and have done some good things. Quarantine, as the recent inquiry found, need to spend a couple of hundred million dollars getting their systems in place to catch up. There would be other agencies too that would have the same sort of thing. For example, there is a little Queensland company, the Bone Bank, which is one of the agencies of the Queensland Department of Health, that actually exports bones for hip replacements into New Zealand. It is a fascinating little business. The way you apply for the permit is that you fill in a form and fax it off to the Department of Health, who then fax back the permit.

CHAIR—That is quick. That seems pretty straightforward.

Mr BRUCE SCOTT—Where do you get the bones from?

Mr Blanchard—Cadavers.

CHAIR—Dead bodies.

Mr Blanchard—In terms of their marketing, people are using the internet more, and they are starting to use it more in terms of their transaction processes.

Senator FORSHAW—They are real bones?

Mr Blanchard—Yes.

CHAIR—Forget the bones! Let us move on, please, Committee.

Mr BRUCE SCOTT—Sorry; we are here to learn as well as inquire.

CHAIR—You are distracting us, Peter!

Mr Blanchard—Sorry!

CHAIR—We are here to learn and we learn something new every day.

Mr BRUCE SCOTT—We did just then!

CHAIR—We did, and there is a book about it that you can read! Peter, in your submission you talk about the World Bank. You said it ranks Australia as the 34th easiest country—or the most difficult, whichever way you look at it—for trade access. Why do you think we are at that particular ranking? When you look at the rankings, that does not seem to be a great ranking.

Mr Blanchard—The World Bank undertakes a number of attributes.

CHAIR—Is it the World Bank or IFC? I read ‘World Bank’ but I know IFC do some of them too.

Mr Blanchard—The World Bank. For example, Australia is not an open port. Singapore, Hong Kong or other countries have much greater ease of access. We do have—

CHAIR—Because they use a checklist for this.

Mr Blanchard—Yes, they do. And we do have quarantine restrictions which are tough—I am not saying they are not—but it is for good reason. We do have high tariffs on certain products—textiles, clothing, footwear and cars, for example, are about the only set now.

Senator O’BRIEN—I would not call them high, not compared to other countries. India would kill us, wouldn’t they?

CHAIR—What—the tariffs?

Mr Blanchard—True. And it has come down. But there are things—

CHAIR—But you are saying that these are the things that give us the ranking—

Mr Blanchard—These are things like that in terms of ease of access.

CHAIR—Yes. And they make recommendations with all of that too, if we get a copy of the report. Can you talk a little bit about what the other most important changes in trade facilitation are that are still needed.

Mr Blanchard—One of the things I think we could usefully look at at the moment are, for example, things that the UK and Sweden have done with their SITPRO, which is the trade procedures board in the UK and Sweden. It is a joint industry-government thing, and they actually look at a range of different issues about whether they can improve and make life easier—those sorts of things. For example, I know an issue dear to Ian’s heart is certificates of origin. At the moment Australia is all paper based. So, if I am an exporter and I need a certificate of origin, either for government requirements or for commercial requirements, I generally have to fill in a form, fax it or take it down to the chamber of commerce, get it stamped, get it back and then somehow get it overseas. But some countries now can do that electronically. So, as part of our free trade agreements and other things, we can look at being able to do this all electronically with digital certificates and digital signatures so the data can go across and be processed automatically. Because that is to the advantage of an exporter. If I can get my cargo cleared faster at the other side, I can get paid. It is pretty basic commercial sense. That is our interest here. That is the purpose and why you do these things.

CHAIR—So that would clearly assist trade facilitation, then would assist the exporters and importers.

Mr Blanchard—The other thing, I think, that we have been particularly poor at in Australia, relatively speaking, is adopting, supporting, promoting international standards at a government level. You do it at a—

CHAIR—Just give a little bit more on that.

Mr Blanchard—For example, generally in Australia, retail, automotive, wholesale, and international trade and transport will use an electronic standard called UN/EDIFACT, which is done by the European Commission. That is effectively computer code, but it means a machine can read a piece of information that I send it. Australia is one of only two countries in the world that does not have an official accreditation with the UN on use of these standards.

CHAIR—Is there a reason? Obviously, there is—

Mr Blanchard—I cannot answer that question. I do not know.

Senator FORSHAW—What is the other one?

Mr Blanchard—The UK. You have got Australia, which is the only non-European, non-North American country that headed up UN/EDIFACT. In fact, one of my staff was the only non-European, non-North-American that did so. UN/EDIFACT has been going since 1987. Tradegate used to be the head of delegation, when we did have government support. We relinquished that after three or four years, in early 2000. There has been nothing since.

Mr Blanchard—The benefit is that we get a chance to have an input to the standards that are developed. For example, with a standard for a purchase order, an invoice, a packing list or whatever, we get the chance to have our input and to say, ‘We need this piece of data.’ It might be that that piece of data is linked to Customs or something but, if it is not there, our software then becomes a little bit more expensive than it needs to be in terms of us being able to trade electronically in a global sense.

Over the years since we have been involved, Australia has been very, very highly regarded because of our input. We do punch well above our weight. We have led the transport development working party for a number of years. That is starting to fall away now because we are not getting government support. I am not saying that the government has to throw billions at this point, by any stretch of the imagination. At one point in time, I think it was in the mid-1990s, the federal government in, I think, the 1997-98 budget actually announced that they were going to endorse the UN/EDIFACT standard but nothing ever came of it.

CHAIR—How important is trade facilitation to improving Australia's trade balance?

Mr Blanchard—In the grand scheme of things, it might be a couple of percentage points, depending on what the costs are. For two agencies at \$300 million, what is the total cost? No-one knows. If we added up all of the different permits and the costs and the way we issue them, if we could save \$100 million a year, that is still \$100 million and we can become more competitive and it can go into the right areas rather than being wasted.

CHAIR—How important is the proposed international trade single window?

Mr Blanchard—I think very. There are 25 ports around the world have been doing this since the 1980s.

CHAIR—Twenty-five?

Mr Blanchard—Yes. Little ports like Singapore, who decided to do it in 1984. When the number of containers entering Singapore was two million per annum, they thought, 'How are we going to cope with the paper?' so they went to a single window.

CHAIR—How would it work?

Mr Blanchard—At the moment, I have to send a manifest to Customs and a manifest to the port authority. Whether or not I am in Australia, they are different.

CHAIR—Different manifests and different information?

Mr Blanchard—They are different. So, instead of just being able to send one file, I have to send a couple to different port authorities too. Now I have the situation where I have additional costs. I should be able to put a total file into a single window and whoever needs to get that information can access it.

CHAIR—So that would be a trade facilitation activity?

Mr Blanchard—Yes, that would be a trade facilitation activity.

CHAIR—Can you comment on the progress, if any, that has been made, say, in the last decade in reducing paper work and fees applicable to trade transactions? Are there any areas?

Mr Blanchard—It would be unfair to say that there has been none. There have been some. There have been some funny ones too, where we have seen people go to electronic and the price

has fallen and then miraculously the price has come back. So there are some differences there. Again, I am not saying that you can ever totally eliminate the cost, but I do believe we need to make sure that we understand the totality of this problem and see how significant it is in terms of the national economy and whether we can take one per cent, two per cent, five per cent, 10 per cent or whatever off the total cost.

CHAIR—What do you think can be done to reduce the trade transaction costs for the agri food products?

Mr Blanchard—I am not an expert on the agri food side of it. I understand that there are certain things that one has to do, but I cannot really give you an answer because I just do not have the expertise.

CHAIR—I want to ask about the second-trade facilitation program with APEC. Can you comment about that and about the main thrust of it?

Mr Blanchard—A lot of it is big ticket things like investment rules and things of that nature. I am not saying that they are not important, but I do not get involved in those things because they do not affect the day-to-day operation or transaction. We have done things in there—for example, Customs. Customs did a lot of work in that area and met Australia's contribution under that exercise. So we were able to meet our requirements. But there are other agencies where we could probably do some work as well. As I mentioned, there is more work to be done with health and quarantine, even though they do work closely with Customs in a certain regard.

CHAIR—I think we have probably covered the field, but I do want to ask one last question. Again, my question is to do with APEC. Can you comment about any progress made with the project on accepting certificates of origin as electronic data signed with a digital certificate?

Mr Blanchard—To the best of my knowledge, Australia is not involved in that activity. I believe that Singapore will now accept a certificate of origin. Taiwan will accept a certificate of origin, as will Korea. Korea will sign a digitally signed certificate of origin to Taiwan customs and they will process it and I know France is doing the same thing with Taiwan customs. But I do not know what role Australia is playing in that regard.

CHAIR—What would be the main benefit of creating a national trade facilitation body? Firstly, would you agree that that would be helpful?

Mr Blanchard—I think it would be helpful because it would be a communications channel. At the moment, there are obviously trade facilitation activities taking place—because of APEC and we read reports that Department of Foreign Affairs and Trade have submitted et cetera—but I would go so far as to say that, if I asked any member of the parliament, they probably could not tell me if they have a policy on it, what it is, where to find it or anything else. I reckon that I could ask just about any member of the business community and they would give me the same answer. All I am saying is that I think it would act as a focal point to bring this to the surface. We might need it for only five or six years and then it could go. It might naturally fit within an existing agency, but I do not know. I think by putting it there, it would be on the agenda and we could measure ourselves in a very public way on progress and improvement.

CHAIR—Thank you, Mr Blanchard, and thank you for bringing the work of art. I think that will stay in our minds long after anything that we might have read. I would not be so bold as to say that I hope we can change that. But we can certainly think about that and give it seriously consideration.

Mr Blanchard—A single window means you have only one point and all these particles can collect in that point and all the data is there.

CHAIR—And it does work in other places, as you say.

Mr BRUCE SCOTT—Does the blue box at the bottom eventually connect to—

Mr Blanchard—Yes; bank to bank.

CHAIR—You just have to follow it, Bruce, and you will get there.

Mr BRUCE SCOTT—It is a bit like snakes and ladders.

CHAIR—It is, but you do get there. Mr Blanchard, thank you for your attendance here today and for your submission. If there are any matters on which we might need additional information, the secretariat will write to you.

[3.07 pm]

KHALIL, Mr Peter, Associate, Hawker Britton

HOBGOOD-BROWN, Mr Kevin, Group Executive and General Counsel, Sino Gold Mining Ltd

CHAIR—On behalf of the subcommittee, I welcome you both. 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. I thank you for your submission and for the conciseness and clarity of it. Do you wish to make a short opening statement to the subcommittee?

Mr Hobgood-Brown—I would like to make a short statement. I thought that, in order to put our comments and some of our learnings in context, I would give you just a couple of minutes on my background and the background of our company. I first worked in China in 1983, where I was on the law faculty of Beijing University, teaching international law courses, and I worked in the Beijing office of my law firm. I have had other postings over the last 25 years in Beijing and Taipei. I have just completed three years as the National Chairman of the Australia China Business Council, which is Australia's peak business body focused on China, and now I am the Group Executive and General Counsel for Sino Gold Mining.

Sino Gold is, we think, Australia's largest investor in China in terms of dollars actually invested on the ground. We have been operating in China since 1996. We have two operating goldmines in China, which we have developed ourselves with Australian technology, one of which is the second-largest operating gold mine in China. We employ over 1,500 people, so it is a sizeable operation, and we probably provide employment to another 2,000 or 3,000 people in China in connection with the contractors and service providers to service our sites.

We have learned over the years that, although China is not an easy place to do business for Australian companies, it is a place in which you can be very successful—and some of the keys to our success, I think, will come out this afternoon. We have stuck with it. We have been patient. We have run into lots of walls but we have found ways to negotiate our way around those walls and have developed very successful operations in China.

I think that some of the key messages that we would like to deliver to your deliberations are that China is undergoing a massive transformation that is unprecedented in world history in terms of speed and scope. This means that the China that we are talking about today will not be the China that we are talking about next year or five years down the road. It makes it all the more challenging to get a real grip on what our national strategy should be for China. The reform process which has been going on for 30 years in China is very dynamic. China is just as pluralistic as Australia in terms of having competing factions, competing ideas, competing parts

of the country, and we can play a role—in fact we do play a very constructive role, I think—in China's domestic reform process.

We think our experience as a company in investing in China is really a manifestation of a maturing relationship between Australia and China. We are seeing a wave of Chinese investment into Australia. It is a bit ironic that two or three years ago we would sit around with our Chinese counterparts in Beijing and Shanghai and say, 'We have got a great trading relationship but when is the investment going to start?' That is when you really develop a mature, stable, fully integrated economic relationship, and we are starting to see some of that happen now.

As we look around the world at the economic opportunities for the future of this country, we think that China holds one of the greatest potentials for us. But, when we look around and consider some of the challenges that we face, there are a lot of things that we should be doing domestically to make ourselves more competitive that will help not only our relationship with China but also other countries in Asia as well. Having a comprehensive free trade agreement would be at the top of the list. Language training in our secondary schools and universities is something on which we could work a little bit harder. And one of the themes that we have been pushing in the business community for many years now is a greater cultural awareness of how China operates and how its business community operates. I submitted a short paper, which has a little bit more elaboration on some of these points, so I will limit my comments to these few introductory observations and be happy to answer any questions. Thank you.

CHAIR—Thank you for your opening statement. It was helpful to set the scene.

Mr BRUCE SCOTT—Thank you, Kevin and Peter. It was most interesting to hear of your operation in China. In the current economic climate—and maybe it is nothing to do with the economic climate—is there a mood in China to slow down the reform and put up the tariff barriers, particularly with their own resources? You are a company operating in their resource space. And we have got the opposite situation—I will get to Rio Tinto in a minute. I would be interested in your comments.

Mr Hobgood-Brown—There is always that element. We have been, I think, fighting protectionist measures for as long as we have been in China. China did not have a mineral resources law until about 13 years ago. There was not even a legal structure for what we are doing until relatively recently. We have seen in the resources sector in China a similar process to what has taken place in other areas of reform, and that is a couple of steps forward and then maybe a step back. I think this is to be expected as people adjust to change. The government has a longstanding track record of trying new things out in small, incremental steps and learning from that experience. They might pull back a little bit. I think that the overall direction has been forward in terms of the reform process.

Gold, for some reason, is quite an emotive topic. Whereas there are other elements in the resources industry in China that are quite happy to open, for some reason gold seems to be a little bit more emotive and we constantly run into people, both in government and out of government, who say gold opportunities should be limited to Chinese companies. We think we have been able to demonstrate over the last 10 years that opening up to companies like ours is the way forward because we have got excellent safety records, excellent environmental standards, industry-leading community development programs and we operate profitably. We are

getting gold out of the ground under some very, very difficult geological circumstances—not easy mining circumstances—which adds to the national wealth of China. We cannot sell that gold overseas. It stays in the country, by law. So we think that we have got some very powerful arguments to counter some of those protectionist measures, but it is very much part of the national debate.

Mr BRUCE SCOTT—Are there small businesses from Australia that are operating within your gold mining operations? In other words, are we getting some business opportunities because you are there?

Mr Hobgood-Brown—Absolutely. Our flagship mine, in Guizhou province, was designed by an Australian mining engineering company. We had a whole variety of different construction services who came in and helped us construct that project. We have had Australian professionals working on our site on the management team from the beginning and today we constantly have a stream of Australian experts—in safety, environmental sciences, water management, mining technology, mine management—who are assisting on that site. You might wonder how the investment of dollars from here into China helps our industry. Basically it helps develop export capabilities for Australian service providers in the mining and resources area who otherwise might have a hard time cracking into that market.

Mr BRUCE SCOTT—Could I ask the question about Rio and the Chinese interest in our resources. Do you hear any comment in China about the current debate? Is that something that is really only at a government level?

Mr Hobgood-Brown—Oh, no. This is a very hot topic in the popular press. Certainly we get questions about it as we travel around the country.

CHAIR—I am sure you do.

Mr Hobgood-Brown—Part of the question is: Australia has been the leader in terms of breaking down trade and investment barriers over the last 20 years. I think we can always take the high road because we have helped consistently establish that breaking down trade and investment barriers is the way to help develop economies.

We have a very good track record, we have a very good reputation now, but much of the attention on how Australia is handling some of the inbound investment issues is really at a very high superficial level in China—just as some of the issues are dealt with in the press here—so people ask: ‘What’s going on? We thought you guys were free traders, so what’s the issue here?’ I would say that the questions we get about that transaction in particular are: ‘What does it all mean?’ and ‘What is really going on here?’ I think nationally we have a challenge ahead of us to make sure, where we make legitimate public policy decisions, those decisions are communicated above the clatter and clutter in the media.

Mr BRUCE SCOTT—You mentioned an ability to speak Chinese—Mandarin.

CHAIR—Or Cantonese.

Mr BRUCE SCOTT—Do you see that as a very positive thing that we could be recommending for our education system?

Mr Hobgood-Brown—Absolutely.

Mr BRUCE SCOTT—The reasons why?

Mr Hobgood-Brown—Just look at it in reverse: over last 10 or 15 years we have had a number of Chinese leaders come here to Australia, for a whole variety of official and unofficial meetings, and anytime they have been in a gathering and spoken some English, people go crazy—they love it. Why do they love that? Because it shows that those leaders understand something about our culture, that they can communicate directly, and we feel like we form a bond. One of the reasons Prime Minister Rudd has been so well received in China is that he is the only world leader who speaks Chinese. This allows him to communicate directly, and people feel like he understands a little bit more about China than the average foreigner.

Take our graduates who are graduating from some of the best universities in the world: they are competing for jobs in a changing global economy. China will be a major player, however you think the international economy is going to develop, so the ability to speak Chinese is a competitive advantage. It means that we will have Australians who can go out into the outlying areas of China, in places like where we develop our mines, and be able to operate independently. That is a huge competitive advantage.

Mr BRUCE SCOTT—I have a question to do with the currency alignment. We talk of free markets and free trade. The currency is not freely traded, as we know. Is that an impediment to our push for a free trade agreement? Should that be part of an agenda?

Mr Hobgood-Brown—I think it probably should be part of a long-term agenda. I have to say that I have always been a little bit baffled by the currency discussion; it is far more complex than I understand. But what I do know, and I have been working in international trade and investment for the last 25 years, is that one person's impediment by a high-valued currency is another person's opportunity. You see that in our national discussion here: when our dollar goes up and down it benefits different sectors of the market. I think the key message in trade negotiations is that China has to play fair; they have got to be as transparent as possible with regard to their currency. But, look, 10 years ago during the Asian economic crisis, China was one of the saviours because they had a rock-solid currency that was not freely traded. So I think we have to be a little bit moderate in what we demand that they do.

Senator FORSHAW—Thank you for your submission and for coming along today. You operate in the part of China that is not on the seaboard which in recent years has been seen as the driving force of the Chinese economy. Could you comment upon the experiences your company has had in dealing with local or regional government representatives as compared to dealing with the Chinese government in Beijing? You are producing a product that clearly is extremely important to the national government and the national economy of China. But, in terms of the areas where you are operating, the China that a lot of people talk about has the booming, wealthy part and the still struggling western parts, with that increasing divide.

Mr Hobgood-Brown—There is no doubt about it; in a macro sense, the gap in economic prosperity and development between the coastal cities and the interior of the country is still very large, and a lot of work has been put into infrastructure programs to try and even out that imbalance. We have found over the last 10 years, and more in the last five years, that the receptiveness of local and provincial governments away from Beijing, Shanghai, Guangzhou to investors such as us has changed dramatically. We find that, because fewer international companies get out to some of these areas, when we show up and demonstrate that we have a real desire and capability to create some economic activity that will benefit the broader community, people have been extremely receptive.

Particularly over the last couple of years, when you sit down with local county and municipal officials, their eight to 10 principles of operation read like a manual of good government. We would be delighted to have any of our local communities operating to those standards here.

CHAIR—Confucianism carries those principles. Good government has a whole section.

Mr Hobgood-Brown—Exactly. There are things such as: ‘We’re here to deliver services and you’re a service receiver, so tell us what we can do to help.’ We should be accountable. We should be transparent. We have found that there is a real fundamental shift that is occurring right across China in the way local government operates, which has all been very positive, and in their receptiveness to what we might bring to their community. I believe that we help contribute because we come in as people who expect to be part of the community for the next 25 or 30 years. We try to deliver the right messages and then follow that up with action.

This is the greatest area of opportunity for Australian companies. If you talk to our diplomatic representatives in Beijing and the Austrade people, they say, ‘Get out of Beijing, get out of Shanghai; go to Sichuan, go to Guizhou province.’ Minister Ferguson was just up in Heilongjiang in the north-east. These are areas where they do not get a lot of visitors from Australia and they certainly do not get a lot of high-level diplomatic or ministerial level visits. The opportunities are immense and there is far less competition for those opportunities.

Senator FORSHAW—Are you still able to get worthwhile support from the embassy and Austrade? We have consulates in Shanghai, Beijing and Guangzhou. I notice you recommend that we should increase that number, which is a whole other topic. How does your company manage getting access to support from the embassy and Austrade in distant locations?

CHAIR—Do you need it?

Mr Hobgood-Brown—We do need it, and we have asked for it several times over the last 10 years. I would say that, without exception—no matter who has been ambassador or who has been running Austrade—we have had excellent support. I think that it is important for us to remember here that such support means a little bit more in China than perhaps it might mean in our society. When the embassy sends a high-level person to a meeting or when they send an inquiry through to their responsible counterpart Chinese organisation to say ‘What is going on?’, this sends a message that somebody is looking and that we as a country want our organisations to be treated fairly and to receive a fair go. Without that support, it would be much easier to either fall through the cracks or have the bureaucracy take advantage of you. I have not looked recently to see what other countries are doing around China. It is such a vast country. However,

if you look at how many consulates we have around the United States, for example, we should be looking at a similar scale in China.

Senator FORSHAW—I just have a couple of other quick questions. Does Sino Gold have operations in other countries?

Mr Hobgood-Brown—No, just China.

Senator FORSHAW—Following on from that: I think you mentioned Taiwan. If you did not, I read it somewhere in a submission. Would you care to comment on what is happening there? We are aware that there is a new government in Taiwan which seems more disposed to building bridges once again with the mainland and to trade and investment. Our inquiry is focusing upon Asia generally. Do you have any observations that might assist us in terms of how you see that developing and whether there may be investment opportunities for Australian companies who may be able to work with the Taiwanese administration and with the mainland as well?

Mr Hobgood-Brown—Yes, I would be happy to. Our company does not have operations in Taiwan, but I have worked there before. I lived in Taiwan in the early nineties.

Senator FORSHAW—I think you mentioned that earlier.

Mr Hobgood-Brown—Australian companies do a reasonably good job in Taiwan, but I think Taiwan is overshadowed often by the opportunity in the mainland, particularly as the mainland's economy has diversified over the last 15 years. Australian companies, when looking at where they are going to use their limited resources, tend to go to the mainland. But there are great opportunities in Taiwan. I think one of the things that we as a country have been able to do in both places is demonstrate that our One China policy has been longstanding and clear. We have always adhered to that principle, so there is just no argument about that issue. We have treated everybody fairly and we have been a constant voice for moderation and dialogue. I think everybody has been pretty heartened by the change in tone in cross-straits dialogue over the last year. Certainly the fact that Taiwan will now participate in the World Health Assembly is a huge, symbolic breakthrough.

CHAIR—It is a huge step forward, isn't it?

Mr Hobgood-Brown—I am sure that it is the policy of our government to encourage that further.

Senator FORSHAW—Thank you. I appreciate that.

Senator O'BRIEN—I was interested in your take on the Chinese situation given the global financial crisis, particularly outside of Beijing and Shanghai, as you encourage us to look.

Mr Hobgood-Brown—We have noticed very clearly that, when they pulled the starting lever for their economic stimulus package, things happened immediately. As you travelled in remote parts of the country, all of a sudden road works, bridge repairs and all kinds of long-term infrastructure were being pursued. There has always been lots of that activity over the last 10 years, but clearly China has been able to get things going quite rapidly.

We have noticed that there is quite a positive business attitude in some of the outlying provinces—‘Things will get better’ and ‘Things are getting better.’ As we know, confidence has a lot to do with creating business activity, and China seems to have been able to create a certain level of business confidence. I noticed this morning, when reading my various papers, that one of the big investment houses is now predicting China’s growth at 8.6 per cent for the balance of 2009, which—if it happens anywhere close to that—will be a huge achievement.

Senator O’Brien—The rail system was planned to be the subject of a continuing substantial upgrade. Has that continued or has it been interrupted?

Mr Hobgood-Brown—I do not have any personal knowledge of China’s rail industry. I do know a few colleagues who are in the rail industry, and they seem to be just as busy as ever.

Senator O’Brien—The anecdotal evidence that was published in the newspaper is that air quality has improved with the crisis. Is that true?

Mr Hobgood-Brown—Certainly the last two times I have been in Beijing there were more clean blue sky days than I have come to expect.

Senator O’Brien—You can see blue?

Mr Hobgood-Brown—That is right. But look: Chinese consumers are demanding better results. That is very, very clear. Their own government is very attuned to these expectations. People just will not tolerate grey skies and heavy metals in the water.

Senator O’Brien—Are there reasons we should focus on the situation with employment and the state of the economies of locations more remote than Beijing and Shanghai?

Mr Hobgood-Brown—Some of those regional economies are actually quite large and quite strong. If you look in the south-west part of the country—Sichuan province by itself, for example, if you looked at it independently, would rank right up there with many of the western European countries in terms of both population and GDP. I think that there is the scale and there are the opportunities for Australian exporters and service providers, because you have very strong regional economies. Even Chinese companies moving from the north-east to the south-west will face some challenges in adapting their operations, so I think it is a good competitive environment for us.

CHAIR—My first question is double barreled. What difficulties do resource based companies face in becoming established in China, and what reforms are needed in the regulation of the mining industry that you are working in—that Sino Gold operates in? We will then ask questions arising from your answer.

Mr Hobgood-Brown—Among the challenges, I think that the clarity and transparency of the approval process for obtaining exploration and, subsequently, mining licences and project approvals could have some very significant improvements. We have learned a lot over the years, but at the start of any of these application processes we have a great deal of uncertainty about what the issues are going to be and where the problems are likely to arise. There are significant

practical differences from province to province. If you learned one thing in Guizhou it might be difficult to apply that to what you are doing in inner Mongolia.

CHAIR—Like New South Wales and Queensland.

Mr Hobgood-Brown—Or something like that.

Mr Khalil—Or Tasmania!

CHAIR—Except that it is on a big scale.

Mr Hobgood-Brown—That is right. Transparency and clarity in the bureaucratic process could improve. We also think that, as I was saying earlier, the resistance to protectionist measures is going to be a bigger issue over the next year or two. Informally we hear that perhaps international companies will be limited in the stake that they can take in a gold-development operation. Trying to engage in the discussion process and to contribute to the public debate so that we roll back the protectionist efforts will be a big challenge.

CHAIR—In terms of the environment you work in, because they often get couched in debates here and they come into the trade area, there are the labour regulation issues. How do you as an international company operate? What do you work to? What laws are there? How do you respond?

Mr Hobgood-Brown—We have not found it to be a problem. The labour law is pretty good by international standards. I have worked in other parts of Asia as well and other countries have really arcane, burdensome, politically popular labour laws and regulations that create an enormous burden on a business enterprise. We do not find that in China. We think that the law is pretty fair and balanced and we have not found that it has been a problem for us. From a personnel and HR perspective, we would operate on the same basis that we would in Australia or any other country in terms of our policies.

CHAIR—It is a written labour law, is it?

Mr Hobgood-Brown—Yes. There is actually quite a detailed bureaucracy that has developed along with the law.

CHAIR—Your submission suggests that there are many opportunities for Australian service providers. From your experience, which service areas offer the greatest potential?

Mr Hobgood-Brown—Taking off my mining hat for a moment and since I was a service provider in legal services for 25 years, professional services are just outstanding. There are loads of opportunities for Australian trained accountants, architects, design engineers, quality surveyors and legal professionals. We do have some licensing issues and market entry issues right now and those have been part of the discussion on the free trade agreement. Financial services is another one—there are huge opportunities there—and, as we all know, some of our banks and insurance companies have been making some inroads in China.

We have already done pretty well with education, but we could do even better. There is a lot from a regulatory point of view that can be done there. And then of course there is tourism. It is perhaps a little bit difficult right now to talk about tourism during a global economic crisis, but this is part of our future and China will be one of our biggest markets. Those are just three or four broad categories where we do pretty well right now. But we could do much better in the future if we remove some of the behind-the-border issues in China that prevent us from hitting our stride.

CHAIR—We could do that by way of the FTA particularly with those licensing issues around the services sector and the legal area and all of those sorts of things.

Mr Hobgood-Brown—It is very important.

CHAIR—Within the Chinese business community is there support, or is there a debate or discussion, about the Australia-China FTA?

Mr Hobgood-Brown—I would not say that it gets a lot of commercial discussion in China. I am familiar with some of the industry bodies that have been engaged by our government in China in the FTA process as a matter of building confidence so that people understand what we are all about and what we are asking. But I would say that the level of business participation in that process is far less in China than it is here.

CHAIR—You use the words ‘China savvy’ and how many companies are not China savvy. How can Australian companies be assisted to be better prepared for entry into the Chinese market given that they may not be China savvy? What role can government play?

Mr Hobgood-Brown—I think that government has a role in education in pushing the message that, whether it is China or Japan or the US or the UK or any other place, you have got to prepare yourself, and to prepare yourself for China is a bit different and a bit more involved than entering the UK market or the US market. For instance, if you look at our corporate institutions here in Australia, which of them has a Chinese member on the board of directors—none. We checked recently and we could not find one, at least on the public records.

CHAIR—Even when you were looking for one.

Mr Hobgood-Brown—Yes.

CHAIR—Fortescue?

Mr Hobgood-Brown—They might now! But, seriously, at all levels of corporate life you need to have some level of China expertise in order to develop a China strategy. If you go to our large corporates, plenty of their senior leaders have spent time in the US, the UK, Europe or other parts of the world. We really need to make more of a concerted effort to develop similar China expertise at all levels of our organisations.

CHAIR—Before, Senator Forshaw was talking about our diplomatic representation and you were saying that, no matter how long it is for, it is good to have that access and we need it. From

what I gather, your observation was that it would be better if it was broader and in more of the provinces.

Mr Hobgood-Brown—I do understand that we have budget constraints and things like that—you never have a blank piece of paper—but it should be part of our ongoing strategy to, over a number of years, open more consulates around China. Not only would more of our own citizens go up there to do things; the reality is that your diplomatic representation is often your front door to that part of the world, and we have a great diplomatic corps.

CHAIR—It is important in China, isn't it, that we are represented, and not so much here? I do understand that difference and how important it is to be seen there. That interest that is shown can really help facilitate business entry.

Mr Hobgood-Brown—Absolutely.

CHAIR—Senator Forshaw, you have some questions arising; I can feel it!

Senator FORSHAW—I was actually thinking, Mr Hobgood-Brown, when you made a comment about Chinese people and boards or whatever, that if it is good enough for News Limited it is probably good enough for everybody! People will work that out. I was just going to ask you about stock exchange. What is the position with Sino Gold listing and the development of a fully-fledged open stock exchange in China? That is an integral part of the ability to have open investment.

Mr Hobgood-Brown—Well, China is not there yet. I would say they have gone from a standing start to a pretty impressive share-trading system in a very short period of time. We are listed in Australia and Hong Kong. We are the only Australian company listed in both places. I find it surprising that we are the only Australian listed company with a secondary listing in Hong Kong. Ideally, at some point in the future we want to be listed in China as well. All of our operations are in China.

Senator FORSHAW—Do you have a sense of how long it will be before there is a comparable stock exchange or stock market in China? What prompted me to think of this were your comments about how there have been developing links over a number of years now, particularly with the legal profession. I am aware that we have had many lawyers and judges regularly go to China to help to draft new elements of a legal system and also to help in the development of a stock market or stock exchange, which is what prompted me to ask the question about where that may have got to.

Mr Hobgood-Brown—It is hard to predict when those markets will be open to foreign listed companies. The domestic market is incredibly vigorous, and at various times the Shanghai stock exchange outperforms everybody in the world and then drops down below everybody else in the world. It can be quite volatile. But there is a lot of money in it. The Chinese leadership is appropriately cautious about the way they develop the market.

Just as an anecdote, when I was first working in Taiwan in the late eighties, Taiwan's stock market had not been around for very long and was newly open to retail investors. You could not get a taxi in those days because every taxi driver had parked his or her cab so that they could be

in the brokerage houses watching their investments double and treble in value. Then the whole thing collapsed in a heap, and there were political scalps to pay for it. It was an example of some of the natural growing pains that can occur. China wants to avoid experiences like that.

Senator FORSHAW—At the end of the day, stock markets are creatures of a totally free market, which is not always appreciated.

Mr Hobgood-Brown—Yes. They have been very important domestically, because publicly traded companies in China, as they do elsewhere in the world, have corporate governance and accounting rules that are far more transparent than has ever occurred in China in the past. There is a recognition that, not only is it a contributor to the efficient use of capital, but it has some real operational benefits that flow through to the economy.

Senator FORSHAW—My recollection goes back a few years to when the Australian legal profession, in particular, was working with China in the development of corporate governance in order to get some unity and a modern system in that regard.

CHAIR—Were you involved in that area? You said that you worked in legal services.

Mr Hobgood-Brown—I have participated in some of those exchanges that the senator was referring to. Many of us who have worked in China over the years have put in our two cents worth for the drafting of laws. Much of what I did at Beijing University for 3½ years was teach courses on these topics. There is no doubt about it: the top leadership in China understands that they need to build institutions with objective and transparent regulatory systems in order to create the kinds of economic results that they want. They are not there yet, but they are getting there.

CHAIR—A lot of work has been done. Sometimes people do not realise the developments that have taken place in the society and the economy. We tend to think back to Mao's time and not to the developmental process. That comes through clearly in your submission.

I have one other question, which you touched on, and that is the global financial crisis and how it gives rise to protectionism issues in both China and Australia. How has the GFC damaged, thwarted or impeded China's progress towards an integrated and competitive economy?

Mr Hobgood-Brown—It has probably slowed things down a little. As I mentioned earlier, it probably does increase the domestic debate about how fast they are going and where they want to end up being. Will it derail China's reform process? I do not believe so. I think the upside to our current international situation is that China will step forward and be a much more active and positive participant in the international economy. China should be there. You do not want them not being at the table. You want them at the table, and you want to engage them and make them part of the solution. I have been very pleased at the debate that has occurred with regard to the G20 and China's contribution to the IMF and so forth.

CHAIR—China is the second biggest contributor to international peacekeeping within the Permanent 5. These are big developments.

Mr Hobgood-Brown—Very positive.

CHAIR—Thank you very much for your submission and presentation here today. If there are any matters on which we might need additional information, the secretariat will write to you. The secretariat will send you a copy of the transcript of your evidence on which you can make any necessary corrections to errors of transcription.

Mr Hobgood-Brown—Good luck with your inquiry.

CHAIR—Thank you. I would like to thank Hansard staff for supporting us today and, in their absence, thank all the witnesses for their assistance at the hearing. I also thank the staff, Tas and Sam.

Resolved (on motion by **Senator Forshaw**, seconded by **Senator O'Brien**):

That this committee authorises publication of the transcript of the evidence given before it at public hearing this day.

Subcommittee adjourned at 3.55 pm