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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**

THURSDAY, 21 MAY 2009

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

Trade Subcommittee

Thursday, 21 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 J 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 Ferguson, Forshaw and O'Brien and Mr Hawker

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.

WITNESSES

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Subcommittee met at 2.02 pm

ACTING CHAIR (Senator Forshaw)—I declare open this public hearing of the Trade Subcommittee of the Joint Foreign Affairs, Defence and Trade Committee. I am the chair of the overall committee and David Hawker is the deputy chair. Unfortunately, the chair of our subcommittee, Janelle Saffin, is unable to be here and I want to put on the record that she apologises. Her electorate is potentially suffering the effects of heavy rains and floods in northern New South Wales and Queensland, so she was not able to get down. I understand that a couple of our other colleagues have also been delayed through travel difficulties today.

The inquiry is into the trade and investment relations with the nations of Asia, the Pacific and Latin America. This is the fifth public hearing of the inquiry. Today we will be taking evidence from a number of witnesses closely involved with Australia's international trade. This morning we had the opportunity to visit the port of Melbourne. That was very worthwhile for the committee. The aim of the inquiry is to recommend to the government ways of widening and improving our trade and investment relations with the countries being considered. We look forward to encouraging more firms into the international trade soon and to promote wider business contacts with our trading partners.

I welcome all the witnesses today. I also just point out to witnesses and the media that there are rules regarding the conduct of proceedings of the subcommittee, as governed by the standing orders.

[2.05pm]

WALLER, Mr Kenneth, Director, Australian APEC Study Centre, RMIT University

ACTING CHAIR—Welcome. Do you have any comments to make on the capacity in which you appear?

Mr Waller—I am appearing as a director of the Australian APEC Study Centre at RMIT University, but the comments I have provided to you in the submission are my comments and I hope they can be accepted in that light.

ACTING CHAIR—Yes, I understand, and we thank you for your written submission. Is it the wish of the committee that the submission be formally accepted as part of the public record of the hearing? There being no objection, that is so ordered.

We prefer all evidence to be given in public, but if there is any matter you wish to raise in a private session you may request to do so and we will consider it at the time. We do not require evidence to be given on oath but, as I indicated earlier, these are formal legal proceedings of the parliament and therefore the same standing orders apply. I now invite you to make some opening comments and then we will proceed to questions from members of the committee.

Mr Waller—I respect fully the standing orders and the openness of this inquiry. I think the openness of discussions of this kind is a very important part of policy formulation. I appeared before this group in an informal meeting in April last year and I made some comments then primarily directed at the role of ABAC, the APEC Business Advisory Council. I was the adviser to the Australian group in ABAC at the time. I am appearing here now, as I said, as Director of the Melbourne APEC Finance Centre at RMIT University.

My written submission is aimed at making the point, in respect of the objectives of the inquiry, that APEC is an organisational group within this region which is a very important part of Australia's external policy framework. In many senses it helps develop the central objectives that this committee is addressing—namely, to open trade and investment opportunities in the Asia-Pacific region, and that includes, as clearly represented in the terms of reference of the committee, Asia and Latin America as well as North America. APEC has 21 member economies, with Australia as a very important driving force within APEC. One of the critical objectives listed in the terms of reference, promoting the WTO Doha Round and seeking to have that established as the next major international initiative to promote trade and investment liberalisation, is central to APEC and therefore I have argued in the paper that one avenue for Australia is to pursue efforts to promote the WTO Doha Round. I think it is a major advantage to Australia to do that. The point I have made in the paper is that one objective in the Uruguay Round and the WTO at the time that was essentially successful in many senses, opening trade and investment globally, has been to Australia's great advantage. I think that is the field that we ought to continue to work in, even though we cannot see immediate prospects for resolution of the Doha Round at the moment, but I think it is still the major international forum we should operate in.

I suggest in the paper that APEC, whilst it pursues that, is also helping to pursue the aspects of openness, trade and investment through various committees and work in the APEC fora. They are essentially looking to examine the many regional bilateral trade agreements and subregional agreements that are occurring right now, as we are all involved in the WTO negotiations. Most APEC economies, if not all of them, are also involved in promoting bilateral agreements, including Australia. It is not just an Australian or APEC thing; this is a phenomenon that is going on globally, and for obvious reason. Economies are looking to open up trade and investment opportunities. We have been successful in Australia in promoting some agreements and we continue to do that. They are difficult at times.

What APEC can do is try to ensure that all the members of APEC that involve themselves in such agreements try to establish agreements which reflect the cardinal principles of APEC—which are multilateral openness, MFN and national treatment. These are critical matters. There is work going on in APEC trying to formulate articles that are apparent in many agreements, to try to conform to those principles. I think APEC is a very useful forum and a discipline that we should pursue. I appreciate that it is not a negotiating body. But it is a body in which more energy is now given to improving the economic policy economies can study, to exchange ideas between economies on what a good policy framework ought to be, including in investment regimes, trade regimes, and structural reform. It is to the longer term benefit of Australia that we participate—and we do it, if I may say so, in a very good way, sometimes leading the pack in APEC in these areas. I think, through these efforts, we are promoting the objectives set before this committee. Those are my major comments.

ACTING CHAIR—I will start off with one question and then we will proceed to other members of the committee. The major event that has happened since this inquiry got underway last year is the global financial crisis. I was wondering if you could comment upon how you see the impact of that with respect to the work of APEC, particularly the chances for the Doha Round to get somewhere. There was a lot of despondency a couple of years ago, as we know. The confidence or optimism seemed to pick up a little in the first half of last year. I know our current Minister for Trade, Simon Crean, has argued that we have to look for the opportunity to enhance trade liberalisation when the world comes out of the recession and the GFC. But, at the same time, we have seen signs of some of the major economies retreating back into potential protectionist policies. How do you see events unfolding now? Particularly, is there any chance that Doha might get somewhere in the course of the next 12 months or more? Just the easy question to start with!

Mr Waller—Let me go to the central part of the question, if I may—the global financial crisis impacting on APEC and its relevance, if I could put it that way. As you will know, as a consequence of the crisis there has been some, in a sense, restructuring of the international architecture, with the G20 now becoming a critical focus. A number of APEC economies are part of G20. What is now going on in APEC to pursue some of the critical issues that have come out of the global crisis? That includes the shortage of credit for global trade—I think this a very critical point of Mr Crean's positioning, presently—and why investment flows have fallen sharply across the globe. Those are matters that, arguably, have to be looked at in a global sense.

I think that APEC, though, is a very important opportunity to bring some of those events into an APEC-regional focus and, in particular, an Asian focus. It is my own personal view that the APEC region, and particularly the Asian part of the region, has lacked the confidence to come

forward with its own views on how it should regulate its financial system and on regulatory reform and change. A lot of the work we do in the centre is to promote regulatory reform and change.

I am arguing elsewhere, in other places, that APEC and the Asian region should now become more impressive in establishing their own views on some of the causes and on how they will regulate their financial system. They do not have to move strongly away from emerging changes that are coming through in international supervision of banks, for example. But APEC ought to stand up now, in the Asian region in particular, to address what it believes are reasonable levels of leveraging by financial institutions and what it believes is the role of hedge funds and securities markets. They may differ from the views of the United States and Europe. I do not think that that is a bad thing. A lot of the causes of the things that we presently see in the crisis have come out of weaknesses in governance and regulatory systems in Europe and North America.

Interestingly, in part response to your question, the financial systems across Asia are looking more resilient. Certainly, they have improved a lot since the Asian financial crisis. I think that is because they have learned lessons and are a bit more prudent in their banking and financial practices, but there is still a long way to go.

APEC is looking very closely at this question of finance to support trade growth in the region. There is a serious shortfall in trade growth and a serious lack of credit to support trade growth. Why is that the case in this region? We need to examine it. APEC is doing some work, and I hope that the centre I work with will be doing some work for APEC on that.

One of the lessons I see in all this is that the Asian economies in particular—and I could include Latin America—are stronger financially, in a relative sense, than they have been. They are standing up quite well to this crisis. They will suffer from the crisis, as we all will, but their financial systems are looking better, partly because of the improving regulatory and supervisory framework in those economies. That does not mean that they will not suffer from a serious downturn in activity; that is already happening. But I think that we will come out of it a bit more mature—I hope we do—and with some views about what makes better regulatory sense for our economies in this region. Australia has a very good regulatory system. It has stood up very well. We have some important messages and experiences to share with the APEC economies.

Mr HAWKER—I would like to follow up with a couple of more detailed questions. When the current APEC membership embargo expires—and you talked in your presentation about the changes that the accessions of China and Vietnam to the WTO have made, which have been very positive, I would suggest—

Mr Waller—Yes.

Mr HAWKER—other countries in the region might be able to join in. Where does Taiwan's future lie in all this?

Mr Waller—Chinese Taipei is an economy in APEC, and it is a very active supporter of APEC, one reason being that it has international recognition as a member of that forum. It is very trade dependent. Taiwan has an open financial system now, and it is suffering a serious

decline in trade exports. A lot of its export base is electronics and computer type systems, and the market for its exports has fallen dramatically in Europe and North America. So it is vitally interested in the recovery—obviously, we all are. But Chinese Taipei is a very active participant in APEC, for the reason I mentioned: it gives it status. It is, clearly, strongly related to China in an economic sense, and I think that the opening economic and financial relationships between China and Chinese Taipei are critically important to Chinese Taipei. I worked in China for four years at our embassy and I see that relationship as complex but strongly improving. As the Chinese economy seems to be recovering, with domestic demand and investment beginning to pick up, I think that that will certainly bring some relief to Chinese Taipei because of its investment links and friendliness with China.

Senator FERGUSON—They have said they are now going to attend the next meeting of the World Health Organisation too. I think that is a breakthrough.

Mr Waller—Yes.

ACTING CHAIR—It has been a long campaign too!

Senator FERGUSON—A long campaign.

Mr Waller—I think it is good that Chinese Taipei gets into these things. It is a delicate matter, maintaining the relationship with China with its view of Chinese Taipei. I have got to say I think Australia is handling that extremely well. As China becomes more mature in the way it looks at the world and its positioning, certainly in the region, one hopes that it will continue to find an effective working relationship with Chinese Taipei. I think it will. The amount of investment out of Chinese Taipei in southern China, particularly Guangdong, is very strong. It is a very important investment flow.

Mr HAWKER—And are there other countries that might be considered when the opportunity arises?

Mr Waller—When we looked at this at the beginning of Australia's hosting year, 2007, the big issue was whether India should be invited in. That proved to be a difficult point. You need a consensus of view across all the member economies to expand it, and some were not ready to invite India in. When the moratorium on membership ends next year, I think that the issue will be not only whether we should invite India in but also: should Columbia come in, or even Brazil? The arguments are finely balanced. One is that APEC is finding its feet; it takes time for institutions to grow and become really effective. I have argued that to increase its effectiveness it should support unilateral reform within APEC economies. It has taken time, so it is pushing hard to achieve that. When you broaden the membership to some new economies, will they be instantly supportive of doing all of that or will they be a bit reluctant to come along as far as APEC has now come? My sense is that, with his recent re-election in India, Prime Minister Singh will be very keen to continue opening up the Indian economy. I think that is a good sign. My personal view is that it would be good to see India in this relationship.

As for Brazil, we have some very effective members now in APEC in terms of Peru, Mexico and Chile—and of course the United States and Canada. If that group felt strongly that Brazil would make a very serious impact and a positive one then I would go with that view from Latin

America. I think probably it would. But I think we should take advice from those member economies of APEC.

ACTING CHAIR—Do you see a concern arising with the other countries that might think that India and Brazil are not in the Asia-Pacific geographically? I am not suggesting that they should not consider broadening it, but you have got issues within that region where India is, and probably no other country that has anything near the economy and development that is going on in India. But in Latin America, certainly, you have Argentina and Uruguay, and they have their own regional issues. In other words, can you foresee the sorts of issues that have arisen with the EU, where in the end it gets so big that—

Mr Waller—Yes, it can. That is a very important judgment call. My sense is that the issue for Australia is: where do we see our emerging relationships with India? We could continue on the bilateral front. I think APEC is on the front foot now with some important reform initiatives that are going forward. In many ways, I think India would benefit, if I could put it that way, from being part of that group. I would judge this on those grounds—would India and Brazil sign up for what we are trying to do? You would take them on their word. Russia came on board. You see changes going on in Russia which are beginning to open up the economy, and they are positive. We have to, I think, expand our horizons a little bit.

Senator FERGUSON—On the subject of entering Brazil, if Mozambique can get into the British Commonwealth, I think anything is possible. Mr Waller, I think you are much more optimistic about the future trading arrangements of Australia than I am. Having come from a primary producer background in another life and having seen the Cairns Group and the Uruguay Round and the Doha Round, in my view there was very slow progress, if any. I am not too sure that APEC and the WTO are going to move ahead at any faster pace than they have in the past. Is it still the policy of APEC that you have frank and open dialogue but no binding agreements?

Mr Waller—Basically, yes.

Senator FERGUSON—Do you think that is a good policy?

Mr Waller—Yes. It is a question you are always debating when you are working with APEC on APEC matters. The reasoning behind my saying yes is that, in the end, the openness of the dialogue and the no commitment approach—it is all voluntary—is very useful. I think I evidenced this in this note about structural reform programs. What APEC, as an institutional group, is trying to do is promote very good advice that economies can look at and debate amongst themselves and with their own policymakers and leaders: what are the experiences of other members of APEC?; what forms did they take in wanting to go down a reform path?; what were the elements?; and what were the institutional weaknesses that they had to deal with? You cannot get these really established in a commitment. They are, essentially, about how an economy unilaterally moves—things that we have been doing for the last 20 years.

I think the idea of sharing experiences, helping them with building the institutions within APEC and in various economies to help them with those decision-making things and the frameworks they need to deliver, is very useful. I think that is a great, recent development of APEC. As for whether APEC will do something with the WTO, no, it will not. There are 21 ministers and they always say, ‘We recommend to our leaders they do sign the WTO.’

Senator FERGUSON—If I can just interrupt for one minute. The problem I see is that we would all love to have multilateral agreements. That is our first option, the first choice, of, I think, every politician in the place just about. They would much prefer multilateral agreements, but we have not been getting anywhere. So you talk about APEC having open and free discussions over these issues and no binding agreements, yet members of APEC are bilaterally signing binding agreements—

Mr Waller—Yes.

Senator FERGUSON—So there seems to be a conflict there between a body that does not want to have binding agreements and individual members that are moving towards having bilateral binding agreements.

Mr Waller—I agree with you. There is complete irony in this—yet I did say that some of the central work that APEC is doing is to look at all those agreements. Where are the major principles that we all signed up to in the WTO Uruguay Round and before that, in general agreements around tariffs and trade in the forties? We all signed up for MFN and national treatment. APEC is looking at all those agreements and making sure those things are reflected. In a way, if you have got convergence and amendments to those bilateral agreements—and that is a big hope; but let us assume you move some way towards that—you are opening up the prospect of regionalism and for an easy merging of a number of those bilateral agreements. APEC, or some parts of APEC, have proposed an FTAAP, a free trade area of the Asia Pacific, and there is work going on on that to see if that is a feasible thing.

Senator FERGUSON—But how can you do that if you are not going to have any binding agreements?

Mr Waller—In the end, it will not be agreed within APEC. If the 21 economies, or some of them—P4, P6 or whatever—come out of it and set up a binding agreement, it will be an example of APEC having done some work towards assisting in that, and then you have pressure from other members of APEC: ‘Do you want to sign it voluntarily?’ We cannot make people sign agreements. That is the reality. I also said I think Australia’s policy of pursuing rational bilateral agreements, as we are doing, is not incompatible with APEC or the WTO. We have to keep finding ways to expand our trade and investment opportunities.

Senator FERGUSON—I agree.

Mr Waller—We have to do both things: we have to work in the multilateral agreement arena and this one. I think that as a trading nation we have to keep doing that.

ACTING CHAIR—Just following on from that, do you have a comment about the recent FTA that was signed between Australia, New Zealand and the ASEAN group? That indicates at least the possibility of having free trade agreements with a group of countries. They are not all in APEC, but a number of the key economies are. The major ones—

Mr Waller—Yes; they are not all in APEC—Cambodia, for example.

ACTING CHAIR—Yes. That is another variation, if you like, but it has been around for years—the Mercosur group and so on.

Mr Waller—That is right. I was invited to a meeting in Bangkok two weeks ago by the government of Thailand with the secretariat of ASEAN and the OECD. What came out of that meeting which struck me were comments by the foreign minister of Thailand about that agreement and how the investment parts of the ASEAN agreements really are beginning to expand. What ASEAN economy offers to overseas investors outside the ASEAN group into, say, Thailand will be open to that investor right across the ASEAN region. I think that a liberalisation of thinking is happening in ASEAN: ‘We have this agreement now, we have 600 million people in this region: we ought to be doing things differently.’ I think it is a very timely opportunity for Australia and New Zealand to link into that. I see positive things coming from that.

Mr HAWKER—In your submission you talked about some of the work you are doing and some of the programs you want to implement in coming weeks, including ‘the policy framework for food security and trade in agricultural products at a time of rising food prices’ and a few other things. I thought that in your earlier meeting with the committee you also talked about commodity and the strength of commodities. Given that food commodities have risen in price, what do you see developing in that area in particular?

Mr Waller—When we framed that proposal for funding rising food prices was really a very serious international issue and causing considerable concerns in a number of developing economies. The rising food price thing has eased somewhat in agricultural products. In this course, and in addressing the issue of food security, we are trying to impart the idea that openness in markets for food products is really a very important element in ensuring food security for consumers in China and globally and that protectionist policies for agriculture have dangers. We bring in a group of policy makers from the APEC region to talk about what is essentially that matter. But how do they then reflect on this in their own economies? It is about opening investment into agriculture, it is about removing barriers to trade, it is about increasing efficiency and productivity and structural reform to allow those things to happen. These are big issues that we are attempting to discuss. Food security has been on the APEC agenda for some time and it is cast in the terms I have just mentioned. I hope we get some traction to open a much more important debate on food security within the region.

Mr HAWKER—Given the global downturn and the level of protection, particularly in Europe and the United States, do you see any changes occurring there with the meeting of those three points: prices, protection and the downturn?

Mr Waller—I really do not see that happening immediately. The American subsidy and the CAP remains. The Europeans claim to have started serious medium-term reduction of protection in food. We probably have to see this thing come through but keep pressuring for it to happen. I do not see this immediately; I think these are intensively important political differences with the major economies. I think that we have an overarching common problem; that is the global financial crisis and opening markets again, and still arguing to reduce protectionism. But those elements, like fundamental imbalances in major economies, are clearly very hard to move. I do not see any early resolution. I do not know if President Obama will make a difference—I hope he will. I do not know.

Senator FERGUSON—I just want to follow up on the line of questioning I previously had when you were talking about non-binding agreements within APEC. We have already established that Australia is making bilateral arrangements with other countries, some inside APEC, some outside of APEC and New Zealand is doing the same. We are then talking about China and India coming into the whole arrangement. How important in our global trading arrangements is the existence of APEC? If we are making bilateral arrangements, if we are signing some binding agreements which are not part of the principles of APEC and we are signing binding agreements with some countries that are in and some that are out, sometimes jointly, I just wonder when it comes to trading arrangements how important APEC is as a body purely in terms of our trading arrangements.

Mr Waller—My sense is it remains very important in the sense that the intellectual discussion of openness and liberalisation has got to go on. You have 21 leaders, 21 trade ministers, 21 finance ministers and a plethora of committees and senior officials working with those ideas in mind. They may not, in the end, when they come to actual negotiation in the WTO, effect serious change, but I think this discussion that goes on, this examination that continues within the APEC framework is a good one. I said in the notice it is a force for positive development.

Senator FERGUSON—If those same discussions are going to take place at the WTO, why do you need a separate body discussing exactly the same thing?

Mr Waller—I would argue it is not one or the other. I think we have a good grouping of 21 economies that are particularly relevant to us, and those leaders from those economies can meet and do meet. With respect to the agenda in a leaders meeting of APEC, I remember when China ran the APEC leadership, President Bush went there with concerns about 9-11 and he brought in antiterrorism and APEC very immediately focused on that and a lot of other things fell away, I have to say, but he got an effective alliance. The important element of APEC is certainly the economic social discussions, but it is more than that. It is an arena in which Australia has a very effective voice and is respected.

I know the Prime Minister has promoted the idea of an Asia-Pacific community. I think that could well be some time in evolving. I know that ASEAN plus 6 and the other forums in Asia are promoting and are being developed. APEC brings North America, China and Japan together on a series of important issues to Australia. No other forum does that.

Senator FERGUSON—I understand that. I am just not sure of its effect on our trading arrangements or on the future of our trading arrangements. I can see all the other things that APEC does, but I am not sure how effective it is in effectively enhancing our trading arrangements.

Mr Waller—I think, as I repeat myself, the focus on work to find convergence in the various trade and investment arrangements we do enter into meet certain principles and there is understanding within APEC that we should work to do this. I believe that in time that might lead somewhere useful. You may say it is a long shot and it is. A lot of this work is preparing, building steps to something better. It is not an instant result; I accept that.

ACTING CHAIR—I have a couple of other questions. Firstly, I think there was a recommendation in the Mortimer review that Australia should have a national trade facilitation

body. Do you have a particular view on that? I cannot find the specific recommendation, but it has been put forward in this inquiry by other witnesses.

Mr Waller—I think that the work of Austrade, EFIC and now, indeed, the DFAT relationship around the world, are very focused on economic relationships and development. Whether something in addition to those is very important I am not really in a position to judge. I think that when we talk of trade facilitation I should have argued and made the point earlier that much of APEC is very much about what the issues are to facilitate trade. We are looking at finding reductions in transaction costs and we are looking at trying to understand what the barriers are at the border, not just tariff barriers and subsidies but handling fees through ports and these kinds of things. And behind the border, why trade is not being facilitated as effectively as it could be. This is very critical work within APEC. In a sense Australia is putting a lot of energy into that.

It would replicate or support that work with a national body focusing on those matters. I am not so sure whether that would duplicate work. We bring work from a number of agencies, including Customs, trade, Austrade and so on. You would have to look at the costs and benefits in a serious way for that.

ACTING CHAIR—In talking about APEC obviously we have been focusing particularly on Asia and Latin America. What about the Pacific? Is APEC doing much or enough promoting trade and investment and economic development in the Pacific nations? That is of immediate interest to us and increasingly so with some of the difficulties that those small island nation states are facing, whether it is economic or environmental, let alone getting into the politics.

Mr Waller—With the exception of Papua New Guinea—that is the only Pacific member economy apart from the big countries—

ACTING CHAIR—But it is part of the region and trade is—I know we have the Asia-Pacific Forum, but this is about bringing benefits to the community at large.

Mr Waller—We have established, as you mentioned, the Asia-Pacific Forum, and the Asian Development Bank and the World Bank have reasonably effective presences in the Pacific Islands.

ACTING CHAIR—So do some of the countries that we have talked about earlier!

Mr Waller—Yes! I was on the board of the ADB; I used to represent Kiribati, the Solomon Islands and Micronesia on the board of the ADB. I used to go to those islands and I found that I wanted the ADB itself to get deeper involved, and we did to a degree. There probably is not a lot that the Pacific Islands would gain in benefit from APEC that is not already being made available by Australia and New Zealand. I think that is the reality.

Mr HAWKER—Talking about the importance for continuing our involvement with APEC, I was wondering how we measure progress with this?

Mr Waller—The business community of APEC did measure progress in 2004 or 2005 and they came up with a serious assessment of trade growth, investment growth as a result of market liberalisation. Arguably, a lot of those benefits would have come through WTL or other ways.

Measuring change is complex. Australia has recently established in the APEC secretariat the Policy Support Unit. We have put a very talented Australian in charge of that unit. That unit is putting out bids for work and my centre is interested in this work. One of the first pieces of work it has asked for is to measure transaction cost effectiveness. In APEC's second trade facility program members saw a five per cent reduction in transaction costs. This is following a reduction in transaction costs under the first FTAP. It is a hard job to do. How do you measure progress on these matters? We are looking rigorously at economic measurement tools to give APEC a serious set of measures. That is on one matter.

Another matter that is coming through is how to measure change in liberalisation in investment. How are economies opening up their investment regimes to enhance investment flow? The second requirement of this PSU is that we get measures on that. Arguably, these are minor types of measures but they are critically important to see if the elements that are coming out of the various communities of APEC recommending governments to do this, this and this are in effect working. We cannot measure that; we are setting out a discipline for how to measure in these areas. We can measure effectiveness in dealing with the spread of disease. For SARS and other things we set up frameworks to effectively manage those kinds of issues within the APEC region. I do not know if measures have been taken on their effectiveness, but I imagine that if the region is successful on this swine fever you could probably point to some elements of structures that APEC voluntarily established to exchange information flow and to give effect to recommendations that have been made to APEC. It is a constant matter and I think it is a genuinely important area that we have got to keep working on. We are doing very serious work on it.

ACTING CHAIR—Thank you very much for your submission, your attendance here today and your evidence. If the secretariat needs to follow up any matters with you they will contact you. You will also receive a copy of the transcript of evidence for which you can send back any necessary corrections. Just remain for a moment so that *Hansard* can check a couple of details.

[2.54 pm]

SANDILANDS, Mr Peter, Managing Director, Sandilands Export

STOKES, Mr Gregory John Charles, Chief Executive Officer, Barokes Wines

ACTING CHAIR—Welcome. The committee prefers that all evidence be given in public but if at any stage you wish to give any evidence in private you can request to do so and the committee will consider it at that time. The committee does not require you to give your evidence on oath but you should be aware that the hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the parliamentary chambers. I believe that you are also going to address a submission and evidence that was put in by the Australian Institute of Export, which has already been received in written form.

Mr Sandilands—That is correct.

ACTING CHAIR—We have received a company profile of Barokes Wines. Would a committee member care to move that it be formally received as an exhibit.

Senator O'BRIEN—So moved.

ACTING CHAIR—There being no objection, it is so ordered. Would you like to make opening statements.

Mr Stokes—I am here today to speak on EMDG and give the committee an example of what actual difficulties exporters have at the moment on a global basis.

Mr Sandilands—I am a private consultant in relation to the export development grants and I am here to represent the interests of my clients and also the export community. I am also on the national executive of the Export Consultants Group, which is affiliated with the Institute of Export. Two weeks ago Peter Campbell, I believe, gave evidence to the committee in Sydney—I have had detailed discussions with him—and a lot of the issues relating to export development grants were covered at that time, so I do not propose to go into further detail on what he covered, except to say that in the budget last week a further \$50 million was provided to fund the expense in relation to the 2007-08 grant year. Prior to the budget there was \$50 million allocated for expenses in relation to the 2008-09 grant year.

ACTING CHAIR—Would you just clarify that, because Peter Campbell gave evidence before the budget, as you correctly stated, and there has been mention from time to time of the commitment of an extra \$50 million. Now we are talking about two \$50 million commitments here, are we?

Mr Sandilands—There was a commitment prior to the election for \$50 million in relation to the 2008-09 grant year.

ACTING CHAIR—That was from the minister, Mr Crean. I recall that.

Mr Sandilands—At the budget there was a shortfall projected of just under \$50 million for the 2007-08 year, the balance of which is to be paid in June—next month. The budget did approve \$50 million towards the 2007-08 grant year.

ACTING CHAIR—That is what I thought you said but it was a matter of a fair amount of discussion and concern that was raised.

Mr Sandilands—The concern in the export community is that for the 2009-10 financial year, which starts in six weeks time, the budget for the EMDG drops back to \$150 million again. There is a lot of concern in the export community that companies are now having trouble reasonably budgeting for their export market development activities for a year which starts in the very short term.

I did not want to cover a lot of topics that were covered by Peter Campbell but I thought I would take the opportunity to mention three or four actual cases of my clients who have been affected by the potential short funding of future EMDG. Greg Stokes, being one of my clients, has agreed to come in and you can hear first-hand from an exporter about the challenges of that program.

I have notes, which I am prepared to leave for the committee. I have chosen three companies, who have agreed for me to provide copies of any correspondence they have had with the minister leading up to and subsequent to the budget. I thought I would give you a brief overview of those companies: what they are doing and what their concerns are.

ACTING CHAIR—Sorry to interrupt. It is important that we get this detail—I have not been through all the budget papers on this issue. The extra \$50 million for the 2008-09 year gave a total of how much for that year under EMDG? Was it \$200 million?

Mr Sandilands—Yes, \$200 million.

ACTING CHAIR—That is what I thought. And the additional \$50 for the 2007-08 year—the shortfall—was it again \$200 million in total for that year?

Mr Sandilands—Yes, \$200.4 million is the actual figure.

ACTING CHAIR—Now what you are saying is that the budget for the 2009-10 year is back to \$150 million.

Mr Sandilands—Yes. I have here an extract from the budget statement if you would like to take that. It has got the figures for the three years, and future years.

ACTING CHAIR—Thank you. I promise not to interrupt again.

Mr Sandilands—That is fine. I am happy to clarify it now rather than later.

The first company I have chosen is one called Global Ears, which is a Melbourne based company that has developed a patented process for recycling exhausted air through air compressing equipment. The company has spent a considerable amount of money in travelling to

give technical presentations to industry overseas. I think that 98 per cent of all their earnings in 2007-08 were export and 100 per cent of the current year are exports. The company actually won an export award in November-December last year. There is a letter there from the finance director expressing his concerns to Mr Crean about the lack of funding and the impact it is going to have on their ongoing marketing activity. He was happy for me to talk today and provide copies of that correspondence, which I have here. Would you like copies of those now?

ACTING CHAIR—Yes, could I have a motion that these documents be accepted as exhibits.

Senator O'BRIEN—So moved.

ACTING CHAIR—There being no objection, it is so ordered.

Mr Sandilands—The second company is named the Australian Turntable Company, which is based in Bendigo. They started off making turntables for trade fairs and showrooms for automotive purposes. They have now increased to making them for driveways, for dining rooms in expensive, high-rise apartments so that people can get a good view no matter where they sit around the table, and, more recently, in the Middle East they are using them for whole floors of high-rise buildings in Dubai and Iran in the building industry.

They are a very successful exporter and they have now started another company called Environmental Villages, which is sustainable housing. Included in those papers is some background to their activities. They are building a new park in Bendigo and they anticipate employing another 100 to 150 people in the next 12 to 18 months. Most of their work will be involved in EMDG. Paul Chapman, who is the CEO of both companies, is concerned that the tapering down of refundable grants in EMDG in the future will seriously impact on his ability to promote. It will be an expensive promotional exercise because the sustainable housing is a totally new concept and it will take a lot of travel, trade shows and technical exhibitions to penetrate the overseas markets.

The third company is a Tasmanian company, Roar Film, who are based in Hobart. They have developed an online education program. The CEO is a guy called Craig Dow Sainter, who actually relocated to London last year for 12 months to kick-start the project into the UK. As a result of that 12-month appointment, which was funded under the EMDG through overseas representation, the company is now selling into 37 per cent of all UK schools—in 12 months. They have now set up a full-time promotional office in London and hope to have 50 per cent of those schools at the end of this financial year.

He is concerned of course that with the threat of no full funding of EMDG he will not be able to support the office in the UK in the next financial year. Again, there is correspondence between Craig Dow Sainter and Mr Crean in the exhibit.

The last case is one that I mentioned before—Barokes—who have developed a patented product for wine in a can. I think that over 90 per cent of the company's turnover is now export, and I thought it was probably desirable to have an exporter himself advising on the problems of getting into export markets and on the impact that EMDG has had in the past and how it will continue to impact on the company's business.

Mr Stokes—Just to give you an idea of the sort of thing that I will be talking about, we have got a left-field product anyway so we are pushing it uphill as we go. As background, we have developed a unique process and a product. We started in 1996 and it took five years to develop and three years to patent. We have patented the process in over 40 countries now and we are in 30 countries' markets. I have just come back from The Hague where we spent two days against 10 barristers on order to hold the patents in Europe, and we did. It is something unique to Australia. Australians invented this. We are exporting not only the product globally, we are also now starting to export the technology as well.

There are three parts of our business. The first part is the product. As you can see, there are different ranges. Those products around the world have won 28 medals in wine shows globally, which is a big thing for the wine industry. The private labelling, the second part of our company, has started to kick in with Australian Vintage, which was the old Semeon McGuigan. So the second-largest wine producer in Australia licenses the technology to put wine in the can and has now taken that to the Canadian market. Ninety-seven per cent of our sales come from overseas—only three per cent in Australia.

The third part of the business since the win at The Hague to maintain the European patent will come from licensing of the technology to overseas can manufacturing companies and fillers and wineries. We had 10 against us on the day and we were able to get over the arguments of the lot of them. What that means, coming back to Australia, is that, for example, Rexan produce 55 billion cans a year and will be clipping the ticket on everything that is produced to put wine in the can, because they will need the licence, the technology, so those funds come back to Australia.

The private labelling is where wineries are licensed and have their wine come to Australia to be packaged. I am talking to Dynasty, which is the second-largest winery in China after Great Wall. We are in discussions with them to send us their wine, to package it in Australia and then ship it back to them in cans so that they can take it out to the world. That is an example of the private labelling side. So you have got the can manufacturing with the canners using the technology. You have got wineries having us private label and value-add in this country and we are sending it back out, and you have got our product sales occurring on a global basis.

One example of a country that shows what we have been able to do with the support of EMDG has been Japan. Japan is probably one of the hardest markets to take a new product into because it is so finicky about packaging and they have got so many regulations to work with. Since 2005 when we opened the market and started moving a case or two into the market, we now ship four containers per month. We now ship over 200,000 cans into the marketplace. I have established an office with two personnel over there primarily with the marketing and promotion function to support the distributor. We have now gone up to 10,000 outlets and from last month we have captured up to 2½ thousand 7-Eleven stores. The convenience market in Japan alone is 50,000 stores and the vending market in Japan is five million units. So you have got five million vending machines—that is the potential. We use the EMDG for marketing and promotion and to support that office in Japan so that they can go out and support what the importer-distributor is doing in relation to sales.

We just did a promotion in spring, which is the last three months in Japan, and that has resulted in the expenditure of around \$60,000 or \$70,000 which we have put into the marketing

side of it. The importer has put in more but we put in that amount for the market. Normally I would then look at what EMDG was to pay at the end of the financial year because, again, I need to do an autumn promotion in about August or September. So I use that funding to continue that marketing and promotion of what was generated here, and move it on to autumn.

To give an idea of what that small amount of money can do in actual sales, we have increased by about a third each year. Going into the next financial year it will be about 36 containers for the \$3.6 million or thereabouts going into it. Given another shot in the arm in August and December, that can easily move up to 48 containers. So when you start to talk those sorts of volumes you are really on the radar screen and starting to pick up the size of the market.

Japan is important for us because we have only really tapped five per cent of the market with what we are doing with those sorts of volumes going into the country. That leaves 95 per cent of the market as greenfields. The fortunate thing is that we have got the four kings in Japan, the brewing companies—Sapporo, Kirin, Asahi—all buying from our distributor. That gives people an idea: if the companies do not like doing that—because kings do not buy from peasants—they won't buy. But they currently do, and that is what has happened with the product. It is Australian wine in Australian cans, produced in Australia, and it has been elevated. We have got the freshness and flavour and the quality, and that is what we want to maintain.

It is important for me to know that there is stability in what is coming in through my back door to support what I am going to do out my front door, and the EMDG is one of those core assets that allows me to expand the marketing and open that marketplace and to support that office in Japan. I use that as an Asian example—I can go further but I will keep it to Asia—but we are also doing America, Canada, Europe and the UK. I just want to put across that it is difficult to compete. The wine industry in France gets €360 million to compete against us, to do what we do. They drop the value of their wine. They sell it at a loss because the government supports that loss to maintain their 47 per cent marketplace in the Japanese market. That is how it is. So we are pushing it uphill against something like that.

Senator O'BRIEN—And the French complain about the WET tax here!

Mr Stokes—Yes. We will get some reality to them—exactly right! That is why they have maintained that 47 per cent presence in Japan. But we have got an opportunity in Australia to claw some of that back and put our products in. We only make up four per cent of that marketplace for the wines that we produce, and we have got 2½ thousand wineries. So we have got to open these markets to support those 2½ thousand wineries' production levels and employment levels, and this is a primary market to do it—let alone what I am doing in China and what we will do in India. All we are after is stability and certainty about what can come in to help us support that. We are not asking for much. We will spend over \$800,000 in marketing over the next 12 months.

Mr HAWKER—Can you explain what the patent is?

Mr Stokes—I get that all the time. There are three elements of the patent. People have been trying to put wine in a can since 1936. The largest companies around the world, including Amcor that tried to knock it off in the first place, tried to until we beat them in court in 2003.

It concerns the wine parameters and the specifications of wine. Wine is an aggressive product over a long period of time. If you put Coca-Cola into a can, about six months is the maximum time before it will try to attack the lining of the can. Because wine has sulphur, sulphates, nitrates, copper and all those aggressive elements, it will continue to try to get out the environment that it is in. We have patented the specs of the wine to build a wine that does not try to eat into the lining. The next thing we did was create a lining for the interior of the can that did not affect the notes or flavour or have any detriment to the wine itself.

So you have, firstly, the wine specifications or parameters; secondly, the lining of the can; and, thirdly, the filling specifications. The filling specifications make up the third element of the process. We have created an exact equilibrium in the can. That means that under heat and cold it expands and contracts at exactly the same rate. Therefore, I can ship it in a dry 20-footer in 50 degrees into India and at 20 degrees below into Canada in the same containerised form. The lining, the wine and the headspace all expand and contract at exactly the same rate. The patent is the process of those three elements put together. That is what we have been able to patent.

About 95 per cent of the wine made today is in a can. That was not the case 10 years ago when I did it. Now, 10 years later we are thinking how we can go to a more friendly and better wine for you. That was what we were able to patent.

Mr HAWKER—Do you actually make all of your own wine or do others make it for you under your formula?

Mr Stokes—Others will make it under our formula. At the moment we have seven wineries that work with us around Australia that all participate and rely on us to take out this technology overseas. We have the white built in the Hunter, the rose built in South Australia and the red built in Victoria.

The first medals we won were in Singapore in 2004. There were 150 bottles and two cans. There were French, Italian and Spanish judges. We got a silver medal and got commended. The French judge came out at the end and saw the bottles and the cans and said, ‘Sacre bleu, what have I done?’ I said, ‘What do you mean, “What have you done”? You have judged the product not the package.’ He said: ‘But this is blasphemy. You cannot do this to the wine industry, you Australians.’ I said: ‘Hang on, all we have done is make wine convenient and portable. We did the cask and now we have done the can. You guys do the bottle, sure. Sit at a restaurant and drink it. But if you want to take a can to a barbecue, a picnic, down the beach or into the bush, what are you going to take it in? You are better off taking it in something that is fully recyclable, easy to transport and quick to chill.’ I had the same thing from producers all over the world.

ACTING CHAIR—I could not help but think about the ad—wine in a can, brilliant!

Mr Stokes—That is it.

ACTING CHAIR—We have not had a chance to look at the exhibits that you have provided, including the letters to the minister. I am trying to remember the evidence of Peter Campbell. There was certainly the issue of the lack of certainty and the fact that when they get to the second instalment of the payment it was a lot less in percentage terms, and that was governed by the amount of money in the pool and the number of applications. The budget papers say \$150

million. What is the association looking for? Presumably, more money in the scheme. If so, how much? But also there is the issue of how it is allocated so that recipients are not in the position of thinking they are going to get X dollars and then getting a lot less.

Mr Sandilands—The \$200 million we believe is going to be fairly close to for 2008-09 as a payout figure. I think the Austrade estimates were about \$48.8 million or \$49 million, so the \$50 million that has come out most recently for 2008-09 is going to be pretty close.

ACTING CHAIR—That was my recollection of the earlier evidence.

Mr Sandilands—If there is \$1 million or \$1½ million left from that, it should be rolled over into the following years. For the 2008-09 year where the \$200 million has been allocated, there is some uncertainty as to what the cost of the scheme will be. The amendments that have come into place have increased the maximum grant to \$200,000. That has allowed our patents which have not been allowed in the past. They have reduced the qualifying threshold from \$15,000 to \$10,000, which are all going to be costs to the scheme.

There are two factors that probably cause uncertainty as to the amount of the spend. One is that for 2008-09, the performance test is being reintroduced so companies that have had more than two grants are now subject to an export earnings test. For companies that are coming in from years 2007-08, their maximum grant is five per cent of export earnings received, which is a fairly hard test. While the potential maximum grants of \$200,000 are up, those companies would have to have in excess of \$4 million worth of earnings to get those grants. The second unknown is the effect of the global recession where we know a lot of my clients have reduced their travel in the last 12 months because of the uncertainty and the climate. Also the markets have been more conservative. The impact of those two means that there is a lot of uncertainty as to the cost.

ACTING CHAIR—Can you just remind me, what was the recommendation of the Mortimer review on that threshold which, you were saying, was 15 to 10?

Mr Sandilands—Ten, that is right. That was a part of the Mortimer review.

ACTING CHAIR—I recall we had some evidence from somebody who said it should either stay at 15 or even go up.

Mr Sandilands—One of the main recommendations of the Mortimer review was to fully fund the scheme so that there is certainty in the exporter's minds when they are budgeting. I think there was also a recommendation—which I am not in favour of, of course—to consider reducing the maximum number of grants to five. That was something for consideration rather than a firm recommendation, but it is something that I do not like to highlight too often. For the future years, we really do not know. It would be interesting in the 2008-09 year to see where the spend goes there because the impact of those changes will be more certain.

Senator O'BRIEN—Should we be continually promoting a business into the same markets rather than promoting that business to expand into other markets or for others to explore new markets, in the vein of the question of potential limitation of grants to a certain number over a period of time?

Mr Sandilands—Brett may be more able to answer this, but I believe that there is a lot of cost in getting into a market and a substantial ongoing cost to retain the market because there is more competition coming from, for example in the wine industry, Chile and Argentina and places like that. Because of the tyranny of distance, they are more competitive and their labour rates are a lot cheaper. There has to be ongoing promotional activity to show that Australian products are either better or to maintain market share. While I understand the arguments to limit it to certain number of grants in respect of a market, it is still very expensive to maintain market share.

Senator O'BRIEN—But surely the profitability of a market would determine whether you continued to pursue it or not. If it is profitable then it is worth continuing to invest in. Surely that is how a business would make that judgement.

Mr Sandilands—It does, but the cost of marketing in those countries is still substantial. You have to either visit there or have somebody on the ground to promote and participate in trade fairs. If you are not at a trade fair for two or three years, people say, 'Isn't that company in business anymore?' So you have got to keep going there. Going to the trade fair, it is often difficult to quantify whether you can tie up a direct benefit, but, if you do not go, you potentially lose your market share overnight.

Mr Stokes—I think that that is a key point especially dealing in the Asian market where it is based on relationship as opposed to what we are normally used to dealing with in a western marketplace. Relationships take longer to build; therefore it is not like just walking into a market like we could in this country, New Zealand or Europe and saying, 'I have a product; do you want to buy it?' and off we go. And then, after the next three years, we will start to turn a profit.

In particular, what we found in Japan, and are starting to find in China now, as well as India, is that it will take you five years to develop your business before you start getting the profitability back into your books. That is because it has taken the first two years for them to trust you, to go further with you and to put their money up, as well as yours, to start the market off. Then you start to market it. The heavy end of it is those first couple of years. As you get down the back end, when you start to pick up and expand your marketplace and put more money into the marketplace, if you were to rejig it, you would rejig it lighter at the front and heavier at the back because of the relationships in Asia. Whereas if I were talking to you about America I would do the opposite—put it upfront, and then tail it off after five or eight years. It really does depend. I do not think there is a blanket formula that would do Asia, Europe and America. In particular, I think if you look in Asia, building that relationship takes five years, not three. That is why I would say that if you tailed it off after five, you are just starting to get into your business and having it kick off.

Mr Sandilands—In relation to the question, I do a lot of work in Tasmania. I spend about a week to a month down there during the lodgement period. I have always done a lot of work in the apple industry—or what was an apple industry there, because unfortunately there is not much of it left. There was an ongoing argument there with a lot of traders, the exporting companies, when the eight-year period came up and the new markets came in for a while. A lot of the growers then started doing a lot of their own marketing, instead of going through the traders. They were able to access EMDG only for maybe two or three years. The point was made then by the exporters, and also by the exporter associations, that there are only so many apples that can be exported out of Tasmania. The companies that had gone to the trouble—had the infrastructure

in place and the market secured—were being penalised by other people that had come in and only supplied for short time and disappeared. Then Tasmania ended up losing those markets—not purely for that reason. They always argued that the open-ended access scheme was probably better in the long term for a whole industry, rather than having people come in and out of this scheme over a long period.

Senator O'BRIEN—People going out of apples and into cherries is the other dynamic in that.

Mr Sandilands—That is right.

Senator FERGUSON—I am interested in your promotion of wine in a can. In some of the overseas markets it is difficult enough to get them to accept buying Australian wines. I am talking about some of the older markets—the Taiwanese think that if you do not have a French wine—

Mr Stokes—You haven't got one.

Senator FERGUSON—You haven't got one. And then you are adding another concept of putting it in a can as well. Have you had any success in breaking into those markets which are traditionally difficult for Australian wine marketers?

Mr Stokes—We do. We actually sell wine to the French.

ACTING CHAIR—They are saying, 'Sacre bleu!'

Mr Stokes—Yeah, that is right. They will boo me one day. We sell it to the French and we also sell it into Spain. We have not cracked Italy at the moment because they are liable to kill people who want to put wine in a can. But how we have approached the traditional markets has been in the licensing of the technologies. Rather than force Australian wine down their throat, if I am talking about the old world markets, what I will say to the wineries—like I did at the London Wine Fair a week ago—is that in order for wine to expand on a global basis, you need to capture a new generation because there is a generation going past that is used to it in a bottle. The generation that is coming through will accept quality, convenience and 'now' products, as opposed to storage products and cracking a bottle of the 2001 or '98 vintage. To open the door, what I have been able to do with them is to say: 'Okay, what we will do is take our product into the marketplace as Australian wine in a can and see whether this concept works with your generation. In tandem with that, we will take a hand in glove approach with you and we will look at putting a French wine in a can, so we can private label a new license technology from me.'

That is what we are currently doing with the Chinese, even though it is not a traditional market. The Chinese send us wine, we package it here and then send it back. We are looking at the facilities of doing European wine because the Japanese now say to us, 'Australian wine in a can—fantastic. It is working very well. Now—can you put Spanish, Italian, US and South African in?' So we are looking at the South Africans sending us wine, packaging it and then sending it straight off to our markets in Asia. We are addressing the old world with the use of the convenience of a new generation, plus a partnering approach with them for the technology they

can license from us. We are still clipping the ticket in this country, even into the traditional old-world marketplace.

Senator FERGUSON—What percentage are you selling in Australia?

Mr Stokes—Only three per cent of the market. In Australia there are 200 outlets—we put it into the Stamford hotels—into the minibars—we put it on Qantas to Japan and back. It becomes a solution as opposed to just a product: the weight-to-fuel ratio on a can in the air as opposed to a bottle in the air means savings for fuel and carbon footprint. We also put it into five-star hotels—the western hotels in China, Hong Kong and Japan. They put it into their minibars because it is tamper-proof. Anybody who takes a can of wine out of there cannot do anything to it. Once they crack it they cannot reseal it, it is already gone. Plus, they double stack and are quick to chill. That is why the hotels pick it up.

They are part of the leverage. I start at the top end—the expensive end—when I go into a market. If you talk to any maitre d' or sommelier or anybody that is in the industry they will all scoff until they actually taste it and change their minds as to where this thing can actually work. We sell this into restaurants and people turn around and say, 'What are you doing with a can of wine in a restaurant?' In the day trade, at lunchtime, they crack a bottle and sell a glass. The bottle will sit there for a day or two and be stale and bugged. So if you want to buy wine by the glass—especially the sparklings—they will crack a can, give you the glass, and they have less wastage on it. The aspect we approach in the traditional market is that the product is a solution to a problem that you have as opposed to putting something down your throat.

Senator FERGUSON—What has been your experience with the EMDGs?

Mr Stokes—With EMDG you get most of your funding up front and it tails off to the end. But depending on the market you go into, you are better off with less up front and tailing out bigger. That is when you get your spend up, when you get your feet on the ground; you are better off getting either a longer period of time or a focus of the funding at the back end when you really are spending.

Senator FERGUSON—And you cannot get that now?

Mr Stokes—No, it goes the opposite way. It goes down.

Senator FERGUSON—It does go the opposite way. There is no flexibility whatsoever?

Mr Stokes—No, we are on about a 25 per cent claim that we can get at the moment I think. We will probably get \$800,000 in marketing this year, so it is dropping away. As my costs are going up, my EMDG support is dropping away.

Mr Sandilands—Your maximum grant for the next two is going to be five per cent of your export earnings received.

Mr Stokes—And that is crazy. Given that three parts of the business are going to be kicking in and all those three are money earners, all those three will come back in and get taxed. It does not help it.

ACTING CHAIR—Do you see any market in Australia, and how would it compare cost-wise?

Mr Stokes—The market in Australia will be for the technology. The wineries come to us now; we do it for four wineries at the moment. They see what we are doing overseas—they are not concentrating on Australia; there is some wine in a can coming into Australia—they license the technology to get us to private label their wine in the cans under their labelling then they take it out on the overseas market. That is for the Australian wineries and it gives them an edge that no other country has got. This is a patented product and process that other countries cannot copy but which Australian wineries can tap into to ship their wine into new markets. We have created a monopoly for a wine in a can that Australians can access. That is what we need to promote. I do not do enough marketing and promotion because I do not have all the funds to do three aspects of the business. But if I did, that is where I would be concentrating.

ACTING CHAIR—What was the argument against patenting?

Mr Stokes—How do you patent wine in a can? It is like patenting wine in a bottle.

ACTING CHAIR—Okay.

Mr Stokes—They said that the can was another packaging medium, like the cask and like the bottle. However, because we do other things, those three particular aspects joined together work. What the can manufacturers say is, ‘Hang on, I produce a can and I can put anything I want into it.’

ACTING CHAIR—So the argument was not that it contravened some other patent but that it simply should not be the beneficiary of a patent. It is packaging.

Mr Stokes—I had a doctor of IP stand up and say, ‘They simply shouldn’t get it,’ after 30 arguments.

Senator FERGUSON—What is the size of the can, 250 millilitres?

Mr Stokes—That is 250.

Senator FERGUSON—How much does a can of your premium shiraz sell for in Australia?

Mr Stokes—In Australia, about \$4.99.

Senator FERGUSON—A can?

Mr Stokes—A can. It is two glasses of wine.

Senator FERGUSON—It is two glasses.

Mr Stokes—That is pretty good. If you look overseas, in Japan I sell that for 400 yen.

Senator FERGUSON—It is cheap.

Mr Stokes—It is. Given what this thing can do, because it is a mass volume product, therefore the wineries are shipping mass volumes of wine. If you turned around and said, ‘I want a particular sav blanc,’ or a particular variety that limited the amount that I could access, then I could not do it. One of my problems going into Japan is that the first time I sat down with the Japanese they said: ‘Listen, mate, what volume can you do? If we’re going to do this, within the next five to seven years we expect to ship 35 million cans into this country. Before we sign the contract, have you got the stuff to supply to be able to do this?’ We can, because those volumes give a cost reduction. Cans are cheaper than glass, plus they are the only package that is fully recyclable—it comes as a can and comes back as a can. They can be transported at a lighter weight, so at a smaller cost. They do not have to be refrigerated, so they are not upside down in boxes in a refrigerator like we shift our wines now.

Senator FERGUSON—They do not break.

Mr Stokes—They do not break. Bottles cannot be transported easily. They take two-and-a-half hours to chill, whatever you want to do with them. Importantly, a bottle of wine is competing with 10,000 other wineries in any market that you take a bottle of wine into.

Senator FERGUSON—I take it that when you put the wine into a can the finished product, when it is opened, will not be any different. In other words, if you put a bottle down to age, some people say that it improves over time. Some wines are made to drink straight away. Mine have never had much of a chance to age, actually.

Mr Stokes—Good.

Senator FERGUSON—But just say that you got a bottle of—

ACTING CHAIR—Except the ones that you buy that are already aged.

Senator FERGUSON—But if you were to put an absolute premium quality wine—say a bottle Henschke’s Hill Of Grace—and put it into cans, could you guarantee that the quality of that wine would remain the same.

Mr Stokes—I get a seven per cent maturation rate over five years.

Senator FERGUSON—Seven per cent.

Mr Stokes—That is 1½ per cent a year.

Senator FERGUSON—But what it means, though, is that before you put it into the can it has to have matured. That is the problem for a winery.

Mr Stokes—That is right. But there is another side for a winery. When you are talking Henschke, you are talking about an ultra category.

Senator FERGUSON—I am. I am talking about an ultra.

Mr Stokes—Of the five categories, what we mainly ship are the premium and the superpremium. That is what normally goes into it. We have now had a request that next spring we put an ultra into the Japanese marketplace. The ultra will be at a far higher selling price and the ultra will have a little bit more character; it will need to mature. What it means is that I will have to allow a little bit more head space to increase the maturation rate. That is what we can do with the product. We can control what that wine does in the can, which is something that has never been able to be done before.

Senator FERGUSON—You are only really talking about export markets. In the domestic market, a container of wine at 250 millilitres is what some people want.

Mr Stokes—It is. Here, you will pay between \$7 and \$10 for a glass of wine, wherever you go.

Senator FERGUSON—That is correct.

Mr Stokes—Where it will come from in this market is when Wolf Blass start putting wine into a can, which they will. It will be the wineries that will put it into a can, and they will take it out to the market—because Australians need somebody else to tell them it is a good idea. So, if it is a big winery, with a name that people can recognise, as opposed to us, then they will have the confidence to try wine in a can, and that is when it is worth the marketing budget. I spent over \$1½ million in Australia in marketing to try and wake up people at bus shelters and everywhere we put the advertising. There was a lot of tasting of the product but, because it was a brand that was unknown, the concept was unsure. So the concept works, but it needs to have a brand behind it to actually do it.

Senator FERGUSON—So it is the big four that ought to be doing it.

Mr Stokes—Too right. Oh, yes. Mildara Blass will do it, but they will do it through Foster's in America first—and they are the six wineries that we are talking to over there. So, again, what they will do is the same as what Australians do: they make it work somewhere else and then come back to Australia and say, 'What a great idea.'

Senator FERGUSON—Sorry, Peter; we are concentrating on wine!

Mr Sandilands—That is all right. I am quite happy about that!

ACTING CHAIR—We are about to break for afternoon tea, which will be coffee; it will not be a wine-tasting!

Mr Stokes—I will send you a case—no, we don't want that!

ACTING CHAIR—No. I had better say now, on the record, thanks but no thanks! Are there any further questions? No. Even though it is from a government document, we should identify and accept as an exhibit table 3.2.7 of the Austrade budget statement which you presented, if someone could move that.

Senator O'BRIEN—So moved.

ACTING CHAIR—Carried. Thank you very much, gentlemen, for your attendance. It has been a very interesting discussion, particularly with your new product but also in following up on the EMDG scheme issues. You will be provided with a copy of the transcript and you can check that for any errors and make any necessary corrections. Please check with the Hansard reporters on your way out in case they need to ask you any questions. Finally, if there are any further matters that the committee need to follow up on, we will be in touch with you. Thanks once again. We are going to take a short break of 10 minutes to get a cup of coffee and then proceed to our next and final witness for today.

Proceedings suspended from 3.42 pm to 3.56 pm

GEORGIADES, Mr Andros, Creative Director and Co-owner, Merchantwise Pty Ltd

ACTING CHAIR—Welcome. Thank you for coming along this afternoon. Do you have any comments on the capacity in which you appear in today's hearing?

Mr Georgiades—I am co-founder of the company Merchantwise, which participates in the Export Market Development Grants Scheme.

ACTING CHAIR—We have a publication regarding your company. We will formally accept that as an exhibit. That is so moved by Senator O'Brien. That motion is carried. We prefer that all evidence be given in public, but if there is any particular matter that you wish to discuss in private at any time just make that request and we will consider it. We do not require you to give evidence on 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 respective chambers. I now invite you to make some opening comments, and then we will proceed to questions and discussion.

Mr Georgiades—I will start by giving you a little bit of context as to my journey. I believe I am one of the smaller group of EMDG participants that export a service. I will give you an idea of how that came about, and that might lead to some questions. In the early nineties I started with the Walt Disney Company as a creative manager. In that time I worked in four or five different countries over a six-year period, and I guess I got the taste for international business and cultural sensitivities. In 1999, I left the Walt Disney Company with a couple of ex-Disney colleagues and started a company, Merchantwise. Our primary goal at that point was to provide services back to the Walt Disney Company. Within the first four or five years, we probably had about 40 per cent revenue from different arms of the Walt Disney Company. You probably do not know this, but there are quite a few aspects of the Walt Disney Company in this market, and we did provide services to them. At one stage, I noticed that there was a centralisation initiative started from the US, and, a lot of it was pulled back into two markets, the London and the US markets, so that dried up for us.

In 2006, I got on a plane and started to tee up some meetings with potential partners, ranging from the England and Wales Cricket Board to numerous Disney divisions. It was a bit of a stretch for them to seek services on the other side of the globe. I was trying to work out a competitive advantage and I was successful—as you can probably see in the exhibit—in that we won the contract to develop the branding for The Ashes series just about to come up. We also got a trial with Disneyland Paris to provide creative services. These guys generate enormous amounts of marketing collateral and advertising. It is a huge pie and trying to convince them that we could service them better than the French was not an easy task, but I managed to get a trial happening. There are definitely some advantages, and now they get better performance and pricing than they used to out of France.

We had a trial in 2006. Our revenue for 2006-07—our first year—was \$273,000 just from that client alone. The year after, it grew to \$331,000, and this year we are expecting half a million dollars worth of revenue from that one client. Disney you think of as one client, but actually it is

30 clients. They have 30 departments—they all make their own decisions and they all have their own budgets. We work with 12 of them, so we think there is definitely room to grow.

One thing you should know about this is that they have three to four other service providers, and all you get is on their vendor list; you do not get work given to you. Every job they do is open to all three or four—and I am not sure which number it is—to present for that job, if they know about it. We did 131 jobs for them this financial year to date and, I think, in the last three years we have grown from zero to 40 per cent of their entire business. To do this I had to put on a new business development manager, which comes at a very high cost. The French are very expensive people to hire. Their government system requires quite a lot of non-salary aspects to the remuneration. I recently put on a designer in London because there are a bunch of clients who needed changes done during their day, and a London designer can actually access our files and make changes during that day. So it has been quite a significant investment.

The first thing I started was with Austrade. A lot of well-intentioned people at Austrade were unable to provide me with any meaningful help. That was somewhat disappointing. I ended up needing to do that groundwork myself.

ACTING CHAIR—Was that Austrade here in Australia?

Mr Georgiades—Both.

ACTING CHAIR—Where were you utilising Austrade services overseas?

Mr Georgiades—France. I was trying to find out from Austrade what my liabilities would be in employing a French person, what my options were, how much would I have to pay if they got sick, would I be liable—these are the sorts of questions you want answered before you put your name on a dotted line. I was unable to get any of that information. I actually signed a contract with a person blindly because the opportunity was passing. But, needless to say, there is some merit in actually finding this stuff out yourself. It is part of the fact-finding mission and the due diligence you need to pursue to conduct a successful business. I have the same personnel on board today, and she is doing very well.

EMDG-wise, I put my first claim in probably in 2002, based on some small activities. I probably wish I did not do that, because I wasted one of my eight opportunities and got a couple of thousand dollars back. Now, it is a very beneficial program to me. If I knew I had to fund the whole process on something so speculative myself, when a large part of my business had dried up and my funds were highly limited, I suspect I may have played it more safely. So, as a big fan of the EMDG Scheme, knowing that my risk was mitigated probably encouraged me to go and try something that had a low chance of coming off. Fortunately, the results were very good.

In my first year of EMDG, I was audited by somebody who came and slashed my claim by 50 per cent, and that was due to this person not understanding my business. We can talk more about that—it is an interesting story that was found out later. I guess from my perspective the EMDG program is wonderful. Some of the personnel act as policemen, not facilitators. I would like someone to partner me in this program, to assist me to maximise the yield out of my grant and to encourage me to do more things, not to police and chop at it after the fact. But, needless to say, I am a big fan of the program. It has really helped our business.

Today I am only talking to you about our creative services. We also have a brand management and a research division, which I am not going to touch on because it messes the story. It is just the creative services at the moment that we are participating in. Does that give you a good idea of where I am at?

ACTING CHAIR—Yes. What year was it when you first applied?

Mr Georgiades—The very first year?

ACTING CHAIR—The one where you said you had it slashed by 50 per cent.

Mr Georgiades—That was 2006-07.

ACTING CHAIR—And that was your first application?

Mr Georgiades—Yes. I calculated the numbers on doing the business on 50 per cent. There was partial ignorance on my part—I probably should have put a contingency in there for this type of activity, but since then I have worked with an agent called Exportise, and they have gone back and assessed it and have determined that that was a wrong assessment.

ACTING CHAIR—Have you had any involvement with an exporters group? I think there is a small exporters group.

Mr Georgiades—No.

ACTING CHAIR—We have had some evidence from their representatives in regard to the EMDG Scheme.

Mr Georgiades—I guess I am here to be an advocate for the program. The scheme is valuable. It is necessary.

ACTING CHAIR—So are they, but they have drawn attention to certain issues of concern to them.

Mr Georgiades—I do not think anything is perfect. I do not expect perfection. The fact that this scheme is out there to encourage small businesses like mine to become medium businesses and hopefully one day big businesses is a great thing.

ACTING CHAIR—The Australian Institute of Export is the organisation that appeared.

Senator FERGUSON—Are you likely to be affected by any possible shortfall in funding?

Mr Georgiades—It is an interesting topic, because being capped at \$40,000 means effectively that, if you spend \$80,000 you can get your \$40,000. I think this year I will be putting in \$170,000, and for the difference between \$80,000 and \$170,000 I am likely to get a small percentage in the dollar. I had notes, but this is all up here. One of the areas for improvement from my point of view is that, firstly, once you have hit \$80,000 and you receive your \$40,000

back, where is the incentive after that? It does not help this country to do a lot of 80 grand deals or to spend \$80,000.

It is what I do next that matters. The potential to service all theme parks around the world out of one studio and turn it into a \$5 million yield is where I would like to go. I do not have the funds to start to pitch to all of these opportunities and the export grant is not going to help me do that, because I am likely to get 10 per cent, 20 per cent or 30 per cent in the dollar for anything over \$80,000. So one of my suggestions is to have a different sort of calculation that rewards continual growth. The interesting thing is that I am the sort of person, as an entrepreneurial personality, who will go on and do things if I can.

Senator FERGUSON—Could you have got to where you are today without an export market development grant?

Mr Georgiades—In 2006 I got on a plane because the Australian market was not providing the sort of business growth that I was looking for and I did not have the money. I was in debt; my business was in debt. All businesses are in debt to some degree—it was how much debt I went into. I was starting a young family. There are a lot of factors in this. I probably would have taken a more conservative approach and might have tried to do it more by letter and email, but the reality is that most of these people are not going to do business with a stranger until they have seen your face. I was spending a fair bit on flights, wining and dining, creative directors—there are a lot of steps in winning these things over. You are an underdog. People cannot get over the time zone difference. The reality is it has turned out to be a great asset to them because they spend all their day trying to work out what their feedback and briefing is, and we work overnight so by the time they get back into work it is waiting for them, as opposed to a local company. There are clearly advantages; you just have to communicate them—it is not easy.

Senator FERGUSON—So do you think you would have got there or not?

Mr Georgiades—I always think I am going to get somewhere; I just think it would have taken a long time. I would have done it more slowly because I could not have funded it as quickly. I would not have put on a new business development manager. That business development manager costs me about \$13,000 a month—big dollars for us. I could not afford to put her on.

Senator FERGUSON—On your comments about Austrade, is it because you think that Austrade did not have the expertise to give you the answers that you wanted or do you think that they simply did not think that was their role?

Mr Georgiades—I am not sure.

ACTING CHAIR—Or is it that you were not big enough?

Mr Georgiades—My initial thought—and it is purely speculative—is that there were probably some pretty serious people needing their time, talking multimillion-dollar opportunities, and at that point I was a zero-dollar opportunity. Prioritisation is necessary with limited resources, so I am certainly not bitter or angry about it.

Senator FERGUSON—But their job is to help the zero-dollar people. The ones with billions can help themselves.

Mr Georgiades—Yes. I was disappointed.

Mr HAWKER—Has there been any change since then?

Mr Georgiades—I have never tried to go back. I do not actually need them now. If I started on a new initiative—and I would love to start new initiatives; at the moment, my hands are pretty full capitalising on the initiatives that I have already started—

Senator FERGUSON—They would not be your first port of call?

Mr Georgiades—No.

ACTING CHAIR—Are there many other Australian companies that you are competing against overseas for this sort of work?

Mr Georgiades—No.

ACTING CHAIR—So you see it as fairly specialised and unique. Are you competing against much bigger enterprises or against small or medium sized businesses in this market?

Mr Georgiades—For the Disneyland Paris business specifically?

ACTING CHAIR—Maybe that, but presumably you are looking to grow your business. I am trying to get a sense of what sort of—

Mr Georgiades—Yes. It is pretty tough, because there are a million graphic design companies out there. London is very credible. Australia is very highly regarded in design. London has a plethora of really credible agencies, and I have learnt not to try to compete against them. I have learnt to try to find niche opportunities to leverage my Disney history. I was quite senior in the Disney organisation in Asia-Pacific. People know my name, so I have leveraged the Disney history. Disney is so broad; most people have no idea what Disney is into. They have got companies that do not even have Disney in the name. There is such a world out there that I could leverage just through my history—my resume, effectively—on the creative level that I have tried to go where they cannot. Companies like ECB—we have a consumer product expertise and now companies building brands are starting to think about how they can extend the revenue streams more broadly than the core opportunity, into maybe apparel or other types of consumer products or licensing their brand name. That is an expertise that Disney gave me. So I do not compete against those people.

Senator O'BRIEN—I was going to ask about how you leverage work. Obviously, you have partially answered that. How do you go beyond the Disney organisation on an international basis and what is the relevance of EMDG to that extension?

Mr Georgiades—Certainly the time zone is a problem. It is less of a problem than mentally people accept it as being. These days with electronic file transfer and email—people are

emailing work to the building next door or even within an office—it becomes somewhat irrelevant. Educating people that it is not a problem means I have to do free work quite often: ‘Let me to do this work for you for a month for free.’ Most people are happy to take up the offer. That is something I would like to be doing—

Senator O’BRIEN—Are you pitching to the marketing arms and marketing consultants?

Mr Georgiades—Finding the right people is pretty tough. There is a lot of groundwork. I certainly do not get on a plane to Europe until I have really started a good dialogue by email. I try to ascertain that I have the right people. Even then I get it wrong. Some people think they have the influence but they don’t. That is a risk. You try 10 and probably three of them are actually in a position to make a decision.

Consumer products was the division I was in at Disney. There are plenty of companies like Hit Entertainment, Nickelodeon, Warner Bros. It is a subcreative field. If it were, as you were saying, just the general design field that would be different. It is just so big and competitive.

I did meet with an Austrade person in London. There was an Australian guy my consultant in London teed up a meeting with. He was a pretty serious player. I was pretty impressed that he made time to talk to us. He was not able to help by teeing up meetings with his contact bases, but he gave us good advice. Good advice is fantastic. I will take good advice any time I can get it. What would really be helpful is some groundwork: ‘Here are some people I have contacted. I am a credible person so they took my call and I have teed up a meeting.’ I am sure that happens at a higher level.

ACTING CHAIR—What you were seeking from Austrade in France was not—

Mr Georgiades—Initially?

ACTING CHAIR—Yes, it was not necessarily information that was specifically and unique to the French laws. It is disappointing. I have heard those reports from other parts of the world too. They often say they do not have the resources or the interest in a particular area with smaller business. I want to ask you about the Ashes.

Mr Georgiades—Please do. It is topical at the moment.

ACTING CHAIR—Tell us what that involved and how you got that.

Mr Georgiades—I have made subsequent trips and got other business. I just put those two examples in because they were good ones to win. I have been known to knock on doors with my folio under my arm. That is how I got my job at Disney in California. I do that today.

ACTING CHAIR—What were you actually doing for the Ashes?

Mr Georgiades—I walked in there—

ACTING CHAIR—To whom?

Mr Georgiades—I went to the England and Wales Cricket Board. I teed up an appointment. Somebody saw me and referred me to somebody else. I told them, ‘I do all this type of work.’ They said: ‘That is quite interesting because that is something we are not doing well at the moment. Would you like to tender?’ They put out a global tender for the business.

ACTING CHAIR—The business was specifically what—branding, you said?

Mr Georgiades—It is to develop the logo mark.

Senator O’BRIEN—It is the images for the Ashes series.

Mr Georgiades—The visual you see there came from my office. So they had nothing. They had the event and they had the name. What does this look like? It needs a mark of some kind to represent it in all its communications. They wanted advertising templates and television super graphics. They needed a consumer products program, an apparel program. What did the tickets look like? These events generate so many pieces. Just for the ticket I might be charging them \$500 to produce the artwork. And once you have the business it is a 12-month exercise.

Senator FERGUSON—They are going to charge you that much to go to the cricket too.

Mr Georgiades—They have to pay me. I have an association with the Australian Cricket Board and they were aware of the work I was doing with them. It is interesting that the British are farming out the creative work to an Australian company when they are actually competing against the Australians.

Senator O’BRIEN—They engaged a Tasmanian bowling coach for a previous English Ashes, so they are pretty used to taking skills from here.

Mr Georgiades—So it is on par.

ACTING CHAIR—That was the problem, was it?

Senator O’BRIEN—It was. Troy Cooley is his name.

Senator FERGUSON—You mentioned the production of a style guide?

Mr Georgiades—Yes.

Senator FERGUSON—Can you give us an example of a style guide. What does it actually mean?

Mr Georgiades—I am a bit disappointed. I left in the car some examples because I did not know whether they would be appropriate. A style guide is a user’s manual. When you produce this stuff, generally it goes off to people in China, India and all over the world for some manifestation of this brand. It is effectively an instructional tool kit. They are quite thick manuals that say: ‘This is how you use it in this instance. If you want to generate apparel behind it, here are a bunch of design elements. They should be used with these colours, to these scales, for these applications.’ So it is an instructional tool kit.

Senator FERGUSON—How many people do you employ?

Mr Georgiades—I employ 30 people. I think I mentioned before that we now have a designer in London. We have our new business development in Paris. I have a consultant in New Zealand and a business consultant in London as well.

Senator FERGUSON—And the rest are here?

Mr Georgiades—And 28 are in this office. The beauty of growing an international business is that I can double my business, put on half the number of people again through economies of scale, do 95 per cent of it out of an office in Melbourne and probably put key people in local markets. The beauty of the electronic age is that data moves fast. You can get it around the country pretty fast.

ACTING CHAIR—Have you come across evidence of other schemes similar to EMDG in the countries that you are working in or trying to get work in, which are used there for their businesses?

Mr Georgiades—Generally, no.

ACTING CHAIR—We know, for instance, that some of these countries provide a lot of protection and a lot of support to a whole range of other industries. We were talking about some of them earlier: wine or agriculture. I was just interested in whether you had seen any in the services area.

Mr Georgiades—I have not personally. My father said to me last night actually that the French embassy had approached him and asked him if he would be willing to meet with a French product company that does the same type of stuff. Obviously, the embassy is doing some soliciting of relationships.

ACTING CHAIR—I was also interested from the perspective of how hard it is for you to break into the market. Obviously, it is a lot of hard work, as you said, but are their barriers that you are coming up against because of particular programs or protectionist policies?

Mr Georgiades—Not that I know of. The Walt Disney Company, being an American company, is quite internationalised. There are a lot of English speakers.

ACTING CHAIR—I understand.

Mr Georgiades—So it might be a bit different in that scenario.

ACTING CHAIR—So you will be applying for an EMDG grant. Have you applied for the current year, 2008-09?

Mr Georgiades—At the end of the financial year 2008-09 I will put in a submission. This year the new budget 100 per cent guarantee of the remainder made a huge difference for me. I think I spent \$140,000. I was expecting \$40 million minus my agent's commission. That means

there is suddenly a \$30,000 upside for my bottom line and so that makes a huge difference for me.

ACTING CHAIR—It is good to hear that things are going well.

Senator O'BRIEN—If there are any additional ideas you have about improvements for Austrade that come to you then it may be that you want to send us email that we can put into evidence to supplement the evidence yet given here today.

Mr Georgiades—Do you mean specifically in regard to Austrade?

Senator O'BRIEN—Well, you said you had a problem with Austrade. You have made a not insignificant criticism of their capacity to assist you so at some stage no doubt we will be asking Austrade to address that. I am giving you the opportunity to elaborate further or come up with any suggestions you have. I think that is the fair thing to do.

Mr Georgiades—I would make one comment about the new EMDG system coming up. There is currently some sort of formula, and I do not fully understand it. I guess I just want to say that, as it has been explained to me, it seems like it is a sliding scale of weaning applicants or participants off the program. That makes complete sense to me—you do not want to get to your final application and have your business fall over. The thing that I wanted to make a comment about is that if I were to start a new initiative now—a big idea like trying to globalise this singular opportunity with France—I am going to be coming to the end of my scheme. So that helped me get that opportunity off the ground but there will be nothing left for me to do anything else. It is sort of a one-hit opportunity—unless you try to get it in your fourth year or something, but these things take quite a number of years. So somehow extending for legitimate opportunities is something that I would be interested in.

Senator O'BRIEN—I asked a question of a previous witness about whether we should suggest that after a time you should not get any more for a particular market and direct people to expand into other markets rather than continually promote the exchange with a market where they may have maturity.

Mr Georgiades—I would rather have three years. If I was getting weaned off my current opportunity now over the next 12 months then that is doable—you should be able to manage your business in such a way that you do not need that support. But then I would like it freed up to start again with something else—because that is how I grow my business: you capitalise on one opportunity and you move on to the next and then the next. That is how things grow in my business.

Senator FERGUSON—You may have heard our previous witness say that he would like a bit more flexibility. He needs the help at the back end of his approach not at the front.

Mr Georgiades—In later years?

Senator FERGUSON—Yes, it is about building up the relationship. This was the guy with wine in a can. I do not know whether you heard any of his evidence or not but he just said that he needs it at the back end not the front end.

Senator O'BRIEN—He knows you?

Mr Georgiades—So for him building the relationship is a small cost and actually—

Senator FERGUSON—Yes, it is once he gets to the fourth or fifth year that he actually needs the boost.

Mr Georgiades—With this new formula that will be very tough for him because it virtually gets tougher as go.

Senator FERGUSON—There is no flexibility to do that.

Mr Georgiades—I was thinking about the auditors as a resource that gets put into it. I would rather them be my partner and be empowered to say, 'Here's your opportunity. Let's tailor this program.' They could be authorised to submit it and get it endorsed or ratified or whatever. Certainly one size does not fit all. When I was listening to the other gentleman's submission I realised his business is so different to mine. How do you have the same program to cover us both?

ACTING CHAIR—It may be as simple as the difference between the service industry and others.

Senator O'BRIEN—EMDG operates in the tourist sector.

ACTING CHAIR—Yes, but I am thinking about when it starts to taper and whether you front end load it or back-end load it.

Senator FERGUSON—It just seems that there is a rigid program with a set of criteria—and sometimes you need criteria that can be changed to adapt to certain circumstances in a different project.

ACTING CHAIR—I think it is something we can certainly follow up with the department and Austrade.

Senator FERGUSON—I think so.

ACTING CHAIR—Because we are dealing with two entirely different ends of the spectrum here. But the scheme clearly works for both.

Mr Georgiades—Any help is better than no help. Nothing is perfect and it is helpful. It could be more helpful, of course, like everything.

ACTING CHAIR—Without wanting to simplify it too much, it is designed to support industry with certain costs in terms of export marketing. A lot of those types of marketing costs are not dissimilar from one industry to another but they can occur at different times and have different impacts depending on how you grow your business. There being no further questions I thank you for appearing before us today. We wish you good luck. We will be watching the Ashes

with more interest, particularly now that the team was picked yesterday. We appreciate you attending our hearing today.

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

That this subcommittee authorises publication, including publication on the parliamentary database, of the transcript of the evidence given before it at public hearing this day.

Subcommittee adjourned at 4.31 pm