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DEFENCE AND TRADE

TRADE SUBCOMMITTEE

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Latin America**

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

Trade Subcommittee

Wednesday, 24 June 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 Fitzbibbon, 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 Scott, 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 Murphy, Mr Oakeshott, Mr Ripoll and Ms Vamvakinou

Members in attendance: Senators Ferguson, Forshaw and Furner and Mr Hawker, Mr Murphy, Ms Saffin and Mr Scott

Terms of reference for the inquiry:

To inquire into and report on:

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

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

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Subcommittee met at 11.11 am

CHAIR (Ms Saffin)—I declare open this seventh public hearing into Australia's trade and investment relations with the nations of Asia, the Pacific and Latin America, which is being conducted by the trade subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade.

Today, the subcommittee will be taking evidence from the Ambassador for Chile, the Ambassador for the Philippines, and the Special Trade Representative of the Philippines. Both countries have recently become signatories to trade agreements with Australia, and we anticipate an informative and encouraging discussion of our mutual aims and cooperative efforts in the fields of trade and investment. The subcommittee hopes that the discussion this morning will assist in widening and deepening the already warm relationships between Australia and the two countries represented here today. The subcommittee's inquiry is seeking ways of improving trade and investment relations with the countries covered by its terms of reference and, in doing so, assisting Australian companies to make the most of current and developing opportunities.

Finally, I remind any members of the media who may be observing the public hearing of the need to report fairly and accurately the proceedings of the subcommittee, as required by the Senate order concerning the broadcasting of Senate and committee proceedings.

[11.13 am]

BALMACEDA, Ambassador Jose Luis, Ambassador to Australia, Embassy of the Republic of Chile

CHAIR—On behalf of the subcommittee I welcome you, Ambassador. Although the subcommittee prefers that all evidence be given in public, should you at any stage wish to give any evidence in private you may ask to do so and the subcommittee will give consideration to your request.

Ambassador Balmaceda—Thank you very much for this very kind invitation. I am delighted to be here to share with you the Chilean reality on how we see the possibilities between Australia and Chile.

CHAIR—Although this committee does not require you to give evidence on oath, you should be aware that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the chambers themselves. Before we proceed to questions and discussion with you, do you wish to make a short opening statement to the subcommittee?

Ambassador Balmaceda—Yes. Once again, thank you very much for this invitation. I will try to be as brief as possible. There is no doubt that the relations between Chile and Australia have experienced substantial growth in the last few years, which allows us to define them as ‘mature’. The year 2008 was a historic one, with the first signing of an FTA by Australia with a Latin American country; the creation of a bilateral business committee by the Australian Industry Group and its Chilean counterpart, SOFOFA; the signing of three agreements on education with Universities Australia, the Go8 and TAFE institutions. This will allow us to send to Australia on a yearly basis and for the next 10 years between 500 and 1,000 young professionals to undertake postgraduate studies, as well as the identification of five strategic areas, which led us to sign 27 instruments in recent times, and I am referring to mining, energy, agriculture, wines—our flag product—and education.

As President Obama mentioned in Cairo, education and innovation are the currencies of the 21st century. Therefore, a few days ago we agreed with the board chairman of the CSIRO to establish a CSIRO mineral centre in Chile early next year. The impulse of innovation and education, together with the improvement of our human resources, are an essential axis necessary to achieve the highest level in productive processes with much added value. Chile and Australia share an important number of facts and common views on a large variety of aspects, such as integration in the Asia-Pacific, a development strategy based on exports, abundant natural resources, similar production structures and the conviction that commercial openings, economic growth and living standards—I am referring to employment, human development and other things—are strongly related. Likewise, both countries present themselves as investment platforms in this region.

With regard to the new environment provided by the FTA, assuming that its contents are known by this committee, allow me to briefly refer to the present bilateral situation and areas where we see trade and investment opportunities, cooperation, barriers and challenges. Chile has one of the most open economies in the world, having FTAs with nearly 60 countries, covering more than 90 per cent of the world GDP. We are Australia’s third largest trading partner in Latin

America, with more than 120 companies doing business with us—70 of them based in Chile—and using Chile as a platform to deal with the rest of the region. Chile is the main destination of Australian investment in the region. Australia is our fifth largest foreign investor, with more than US\$3.2 billion, mostly in the mining and energy sectors. According to the current market value, these assets are worth over US\$10 billion.

Two weeks ago Pacific Hydro announced a new investment of US\$450 million in a hydroelectric plant south of Santiago that will create 4,200 jobs in the next two years. Its current assets in Chile and Brazil exceed US\$1.5 billion. Securrency, a company from Melbourne which manufactures some of our notes, announced the opening of a plant in Chile, the first in South America—they have another one in Mexico.

We definitely are a good platform for Australian companies to further extend business in the region, thanks to our new agreement and the large number of FTAs we have with most of the Latin American countries. We would also anticipate using Australia in the same way to expand our business activities in the Asia-Pacific, mainly through the establishment of Chilean companies in this country and joint ventures with Australian counterparts. As a clear example of this reality, three Chilean companies involved in forestry, services for the mining sector and innovation in the environmental field, recently opened branches in this country. With the incorporation of these companies, the total number grew to 11, as well as eight joint ventures.

Our trade relations are still modest, yet last year we increased our exports to Australia by 75 per cent, bringing the bilateral exchange to more than A\$1 billion. As you know, the FTA eliminated almost entirely the barriers to trade, which should allow us to increase the flow in goods and services, such as energy—and I am thinking about coal, LNG and renewable energies—mining technology and services, agro-industry, aquaculture, forestry, wines, animal genetics, irrigation and tourism, among others. Particularly important appear to be the financial services sector, in which there is a lot of potential. We need to do more to engage fund managers from both countries in developing business opportunities, and I am thinking about the pension funds. In terms of cooperation related to developing joint research projects in technologies and innovation, there is common ground for sectors such as mining technologies, consulting services, ITC, engineering, agribusiness, renewable energy, and food and beverages, among others.

In the field of innovation, three weeks ago Minister Carr, together with our Minister for Economy and Innovation, agreed to create a think tank in charge of identifying areas of common interest. This will include representatives of the public and private sectors and a member of the research area. Through this strategic collaboration, both countries look at strengthening and developing opportunities for investments and the promotion of competitiveness.

With respect to barriers, Australia's strict biosecurity requirements are affecting our exports to this country. We need to create a mechanism between SAG, which is our national AQIS, and AQIS to speed up the consultation process on sanitary and phytosanitary measures in order to facilitate and promote bilateral trade. This will allow us to gain access for products like avocados, berries, kiwifruit, horses and pork, which are still under consideration. All of these products have very strict quarantine requirements and demand an import risk analysis that takes at least two years to complete.

With regard to challenges, we need to strongly improve the promotion of the new FTA with a common strategy, and I am thinking about the roadshows in both countries; provide the tools to eliminate unnecessary costs and risks for those companies involved; continue efforts to increase our competitiveness through collaboration and innovation that would benefit both countries, as I said before; re-establish a direct shipping service between our two countries, which we are really missing; support the work of the bilateral business committee between the Australian Industry Group and SOFOFA to bring our businesspeople together and to organise delegations that could join ministers' visits. To achieve these goals, the contributions of ALABC, COALAR, Austrade, ProChile and the bilateral chambers of commerce are of great importance.

They can also promote partnerships between companies of both countries, to develop opportunities in co-investments, supply chain integration, joint marketing or strategic alliances, to work together in gaining access to our respective regional markets. It is a fact that this scenario will promote a major flow of researchers, academics, students and journalists in both directions. Chile is also very interested in receiving and sending young professionals to do internships with Australian high-tech companies—a program we are funding through the development agency, CORFO. This is an excellent way to promote the business connections between enterprises in both countries, which are necessary to increase trade and investment flows.

As I mentioned before, 27 instruments between ministries, government entities, universities, research centres and private sector organisations have been signed in the last three years. We should work at implementing them. In terms of investments, I hope that, soon, we will end the negotiations for a double taxation agreement. Besides the FTA, we expect to consolidate strategic alliances in the fields mentioned before and finalise negotiations that will bring together the state of Queensland and our second region. The establishment of a regional office in Chile by the government of South Australia is a valuable contribution to the new bilateral environment. We hope that other states will follow this example.

Finally, we expect that Australia will join the Trans-Pacific Strategic Economic Partnership Agreement, commonly known as the P4—a valid tool, or bridge, to increase trade and investment between Latin America and this region, where Chile and Australia appear to be the best gateways. With Australia being a reference country for Chile, our main goal is to achieve a multidimensional relationship, which will allow us: first, to improve our links in strategic areas of common interest; second, to look to future challenges with a common view; and third, to speed up our development process in order to, hopefully, become the third developed country in the Southern Hemisphere, after Australia and New Zealand.

CHAIR—Thank you, Excellency, for such a comprehensive opening statement. We will now go to questions.

Mr BRUCE SCOTT—Bilateral trade is going to be very important but there is also a bilateral approach, in a way, to the Carbon Pollution Reduction Scheme. Is that currently on the agenda for the government of Chile?

Ambassador Balmaceda—Yes, it is. Obviously, we have been dealing with this problem for quite a long time. The main problem, to be quite honest, is that, because of our energy needs and the lack of natural gas, the Chilean government has decided to use carbon energy, again—to be

able to cope with our development. Obviously, the way we deal with this problem will have an impact on our policy. But, as I said before, this is a problem. We are aware of it. We are a party to the Kyoto Protocol but, unfortunately, we are facing a reality which makes it, at the moment, very difficult to deal with this problem.

Mr HAWKER—Ambassador, thank you very much for that comprehensive briefing and for the very positive view you taking to our relationship. My question is: the free trade agreement has been in place properly, I think, for just over three months—

Ambassador Balmaceda—Since March.

Mr HAWKER—March, yes. Have you got any specific cases where that is starting to increase the trade between our two countries?

Ambassador Balmaceda—Sorry?

Mr HAWKER—Are you seeing some results from that? Now that the free trade agreement has come into effect, can you say, ‘Well, this has definitely got some positive results already’? Have you seen anything that is expanding in our two-way trade?

CHAIR—Are there any tangibles coming out of the free trade agreement?

Ambassador Balmaceda—Any profit?

CHAIR—Any tangibles, any concrete things?

Mr HAWKER—Results?

Ambassador Balmaceda—Any results?

CHAIR—Yes.

Ambassador Balmaceda—As I mentioned in my presentation, we can see the first results through the establishment of new companies in Australia and through Australian companies in Chile. We expect that in the near future, at least in the case of Chile, we will be able to increase our trade by almost 30 per cent. So the prospects, regardless of the present global financial crisis, are still quite good. According to the information we have been getting through our trade office in Sydney, all the signs are extremely positive in terms of investments and trade and I can mention that in the last three weeks two very important companies—Woolworths and Bunnings—have moved to Chile to look into new business. These are very important signs of a willingness to take advantage of this agreement as soon as possible. Never before has our trade office in Sydney received so many calls from Australian companies willing to get involved in Chile, because they realise—through what I expressed in my presentation—that Chile is not only a very good bilateral partner but a very good platform from which to get involved in other Latin American countries, thanks to our free trade agreement network.

Mr BRUCE SCOTT—The CPRS is a difficult issue for the whole world. That is why I think Copenhagen will be important, because it could create trade distortions unless we have a fairly

unified position. That is why I asked—and I appreciate the difficulty that you will have, as we will have, as will many other countries that want to keep free trade moving forward. How it is implemented is going to, I think—

Ambassador Balmaceda—If you will allow me. Our President Bachelet had a very good meeting with Prime Minister Rudd in the frame of the last APEC Summit in Lima. They agreed to work together on this issue, facing the next Copenhagen challenge. So we expect that both parties will get together as soon as possible in order to look into a possible common position that could involve other Latin American countries, which is something that we have been promoting for quite a long time.

Mr BRUCE SCOTT—I had a question on quarantine. You mentioned the difficulty and the slowness—

Ambassador Balmaceda—Yes, very slow.

Mr BRUCE SCOTT—of AQIS dealing with applications for importation. Have you commenced discussions with the government?

Ambassador Balmaceda—Yes, many times. Actually, I discussed this point with Minister Burke, when I met him for the very first time, then with his deputy and, later on, with the people who are involved in this area—particularly the relationship between Chile and Australia. At the same time I had a very good meeting with the director of AQIS. We had a quite frank discussion about this problem because we have a large number of products on the table. My very first experience with AQIS in Australia was related to the introduction of Chilean table grapes, which took nine years.

CHAIR—So two years is not so long, then!

Ambassador Balmaceda—Unfortunately, yes. When we look at New Zealand apples—

Mr BRUCE SCOTT—Apples from New Zealand.

CHAIR—Two years is definitely shorter.

Ambassador Balmaceda—But, fortunately, I know that AQIS is making a big effort in order to reduce the time. According to the last meeting we had in my residence with the AQIS people, the idea is not to take decisions beyond three years time—which for us is quite a long time. In Chile, we apply an almost similar procedure, but it is far faster than the ones that you apply in Australia.

The answer that I got from the director of AQIS was that he had a lack of qualified people to deal with every single requirement. This obviously plays against the requirements coming from an important number of countries, including Chile, obviously. I do not know—and this is obviously quite an important question to be discussed internally—if the FTA, this new bilateral tool, could serve us to give a little more speed to AQIS's internal procedure. The answer that I got from the director was, in principle, quite positive; at least he promised to look into this possibility. Two days ago, as a matter of fact, I received a letter from him telling me that in the

case of the avocados he will pass this power from the C list to the B list. You have three lists. This is the situation at the moment, and we are quite confident that, if both parties can get together and define a common way, maybe we can speed the internal process. Obviously that will have a very positive impact on our products. We have to stress that, in the case of Australia, you are exporting beef and dairy products to Chile without any problem.

CHAIR—Understood.

Mr MURPHY—Your Excellency, picking up on my colleague's question to you about the problems between SAG and AQIS, you will recall my interest in the transportation of livestock between our countries. We had that delegation from the thoroughbred industry that came out last year. There is this problem at the moment where horseflesh has to go via North America prior to coming to Australia.

Ambassador Balmaceda—Exactly.

Mr MURPHY—Has there been any discussion—in the context of all the problems with agricultural products—about the barriers that are presented by quarantine restrictions?

Ambassador Balmaceda—Yes, of course. I went through every single problem, including the horses. Our trade office in Sydney started receiving many calls from businesspeople who wanted to import horses from Chile directly, not through the United States. Again, as I said before, we are clear that the internal procedures that Australia makes vis-a-vis every single product are extremely similar to the ones that Chile applies. We are as tough in our procedure as Australia. The only problem is the timing. In the case of Chile I do not know the reasons why we work faster, but this is very important for every single country that wants to introduce products into Chile.

Mr MURPHY—I still find it extraordinary that they cannot sort the problems out with SAG. Chile could be the gateway to Latin America for the transportation of all horse flesh, and it is a great opportunity. Just looking out our racing industry in Australia alone, there are tremendous opportunities for importing and exporting our stallions, our brood mares, our foals and our yearlings, because our industry is so good, and your delegation was very impressed with the way we administer racing in all its manifestations in Australia. I think that is something we should be pushing.

Ambassador Balmaceda—Yes.

Mr MURPHY—Argentina and Brazil have horses too. I think we have got to do something. There has to be a will on both sides to get a resolution to it, because if there are problems with our agriculture minister, in terms of some of these barriers brought about—

Ambassador Balmaceda—We would really appreciate if you could help us to look into ways to speed up this process. Almost every three months we send professionals from our equivalent of AQIS to be involved in some AQIS activities because, from our point of view, the personal link between both our authorities is extremely important. The knowledge of our professionals is the very first step to improving the way that we work.

CHAIR—I note in your submission you talked about an MOU on the quarantine issues. It might be good if you could provide us, even as a follow-up, with some additional information about how you see that working and things that you might want in that MOU.

Ambassador Balmaceda—Yes.

Mr MURPHY—It is so frustrating. I remember talking with your predecessor, Fernando, about table grapes. Thank God, that is one achievement, but it just seems that we need to get the right parties together to thrash out these problems, because it is a stupid impediment. Particularly in relation to horse flesh, there is a great opportunity for Australia. There is great interest in the bloodlines in Latin America, and I have talked to a number of people in the industry. Having to go through North America is just stopping the investment and the trade in this area.

Ambassador Balmaceda—Exactly.

Mr MURPHY—Our bloodlines in Australia are some of the best in the world, but you have some pretty good ones too that Australia is interested in. So there are opportunities for both countries and I think we have to push hard on this, whether through this memorandum of understanding—

CHAIR—We can deal with it as one of the recommendations. His Excellency's submission talks about the shipping routes and the problems there. We can certainly discuss it, in terms of the way forward with the inquiry. Obviously that is why you have raised these issues in your submission, Your Excellency.

Ambassador Balmaceda—Yes. As you know, we have fantastic flight connections today. We have three companies, LAN, Qantas and Aerolineas Argentinas, covering the route between Sydney, Santiago and Buenos Aires. These are three fantastic bridges. But, if we want to improve our trade relations, obviously we should try to convince the shipping companies to re-establish. I have been here for three years, and four years ago we had three or four companies providing this service.

We are trying to work out, together with Australia, a new strategy vis-a-vis the shipping companies. I invited my colleagues from Argentina and Brazil to make a joint representation to the shipping companies that are today covering this route in order to re-establish a direct service between Sydney, Melbourne and, for instance, Valparaiso, Buenos Aires and Rio.

Senator FURNER—Thank you, your Excellency, for a comprehensive response on the trade relationships between Chile and Australia. In response to Mr Hawker's question, you mentioned the growth of some businesses, those being Bunnings and Woolworths. Have they already been established in Chile?

Ambassador Balmaceda—We organised two workshops for them. They are very big companies and they wanted to look into Chilean production and see what they could bring to Australia thanks to the FTA. Taking advantage of the FTA, they moved to Chile to look into different products. They went from fruit products to—I am not sure what you call it: 'white product lines'—for example, toilets.

Senator FURNER—In regards to your wine industry, I was in Chile last May, on a holiday before I entered politics, and had the opportunity to sample some of your fine red wine. I wonder if, as a result of the FTA, that has been reciprocated and Australia is now exporting to Chile some of our fine wine.

Ambassador Balmaceda—In the wine field we have been working quite closely with Australia. As a matter of fact, we are now working on a project between your Australian Wine Research Institute, AWRI, which is based in Adelaide, and Vinnova, which is the Chilean counterpart. We agreed to try to define a common strategy to markets like China. As part of that—and coming back to the first results of the new FTA—at the moment we have almost 40 Chilean wine companies already in Australia, which to me is incredible because this is a very difficult market to penetrate.

I have to acknowledge that we are also receiving an important number of Australian wines from companies like Foster's and De Bortoli Wines—I think they are a wine company from Victoria. De Bortoli have already agreed on a joint venture with Undurraga, which is a quite famous Chilean wine producer. So there are clear signs of bilateral involvement in wine production. We are facing the same problems, not only in terms of market but also in terms of climate change. There is a large number of topics on which we expect to work together in the near future, starting from this compromise agreed between AWRI and Vinnova.

If you allow me, I will make a last remark related to the ways to improve relations between Latin America and Australia. This is a major topic on our agenda. We have been working very hard—and I am speaking on behalf of the Latin American ambassadors—in order to bring Australia and Latin America even closer. I think that the Chilean example is a clear one in terms of what Australia can do with Latin America. If you allow me, I will mention some points that maybe you could consider.

CHAIR—Please do, your Excellency.

Ambassador Balmaceda—Firstly, we need to intensify the knowledge of both parties among the business, research and student communities, using entities like Austrade and its Latin American counterparts, COALAR, ALABC and the chambers of commerce. This is very, very important because every time we discuss the relations between Latin America and Australia, the first thing we see is the lack of knowledge, on both sides. Secondly, the FTA with Chile is certainly a solid bridge, with the daily flight connections, as I mentioned before, between Sydney and Santiago and those between Sydney and Buenos Aires.

This strategy should be supported by a major exchange of political authorities, and I am referring to ministers chairing business delegations. We are really missing a major involvement of ministers from the Australian side. As you probably know, Australia receives, every two or three months, a Latin American minister chairing a business delegation—three weeks ago it was the Chilean Minister for Economy and Innovation, in two weeks time it will be the Peruvian Minister of Trade, and 1½ months ago it was a Colombian minister. So we would really appreciate it if we could count on more Australian ministers going to Chile, especially chairing business delegations.

Parliamentarian diplomacy should also be part of it. You are the key players in the definition of the legal rules that will animate this scenario—this is a fact. And we are placing a high priority on the exchange of parliamentarians. In this respect, we really appreciate that the President of the Senate managed to pay a visit to Chile and Mexico last month.

A very last important remark for you to consider is that Australia is becoming more and more important for our region—a reference country for our region. This is an invaluable asset for Australia, considering we are talking about an environment of 600 million people. So I thought that this very last remark, about the challenges between Australia and Latin America, is there to debate. This is the right momentum—to work together as fast as we can, in order to take advantage, as I mentioned before, of how important Australia is becoming for every single Latin American country. You can see it, not only from the business point of view but from the number of Latin American students that are moving to this country on a yearly basis. I mentioned the case of Chile but you have an important number of Columbian students, of Brazilian students and of Peruvian students, and the number will increase dramatically in the next year. This is something to be considered when you define policy vis-a-vis Latin America.

CHAIR—Thank you, Ambassador. I am sorry; we are out of time. But thank you for those concluding remarks; they were very helpful and instructive. You are right to talk about the relationship and the strengthening of it—we are looking specifically at trade in our inquiry but it requires a strong relationship to have trade as part of it. So we fully appreciate your comments and your appearance here today. I want to thank you on behalf of the committee. If there are any matters on which we might need additional information, and I think that there will be, the secretariat will write to you.

Ambassador Balmaceda—Thank you very much for this kind invitation. As part of what I mentioned before, it would be excellent if sometime during this year the Latin American group could get together with this committee to have an informal and frank discussion.

CHAIR—Yes, that is happening in August. We will do that.

Ambassador Balmaceda—I think it would be very helpful to have a frank and open discussion in a smaller room

CHAIR—Yes, a roundtable. Thank you, Ambassador.

Proceedings suspended from 11.56 am to 12.00 pm

DE LEON, Ambassador Ernesto, Ambassador to Australia, Embassy of the Republic of the Philippines**SANCHEZ, Ms Michelle Fatima, Special Trade Representative and Consul (Commercial), Embassy of the Republic of the Philippines**

CHAIR—I would like to welcome you here today on behalf of the subcommittee. Although the subcommittee prefers that all evidence be given in public, should you at any stage wish to give any evidence in private you may ask to do so and the subcommittee will give consideration to your request. Do you have any comment on the capacity in which you appear today?

Ambassador De Leon—I am the Philippine Ambassador to Australia, and I have been here since 2006.

CHAIR—Although this committee does not require you to give evidence on oath, you should be aware that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the chambers themselves. Before we proceed to questions, do you wish to make a short opening statement to the subcommittee?

Ambassador De Leon—I would, Madam Chair; thank you very much.

CHAIR—Thank you, Excellency. Please proceed.

Ambassador De Leon—To the principal research officer: thank you for getting us in earlier. To the deputy chair, the Hon. Bruce Scott; the Hon. John Murphy; and Senator Mark Furner: before everything else, I would like to thank you for the very successful visit of our parliamentarians for the past two days here in Canberra. In fact, tonight they will be meeting with the Australia Philippines Business Council in Sydney.

CHAIR—Some of us met with them yesterday.

Ambassador De Leon—I would like to thank the distinguished members of the Trade Subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade for allowing us this opportunity to highlight bilateral economic relations between the Philippines and Australia as part of your ongoing inquiry. We welcome this focus on the Philippines and we certainly appreciate the chance to be involved in the process through our earlier submission and through our participation in today's public hearing. We are certainly keen to work with the Australian government in any initiative to enhance economic relations between our two countries, which clearly have much room for growth. In the submission we made last year, we reported our bilateral trade in 2007 to be at US\$1.2 billion. I would like to update the figures and report that in 2008 our total bilateral trade grew by 10 per cent to reach US\$1.372 billion. I wish to clarify that these figures only represent merchandise trade.

The Philippines counts on two important mechanisms by which we can pursue a stronger engagement with Australia. At the bilateral level, we have the Philippines-Australia Ministerial Meeting, or PAMM, which had its inaugural meeting in 2005 in Sydney. In October last year we hosted the second PAMM in Manila with Ministers Stephen Smith and Simon Crean, who co-chaired the meeting with their Philippine counterparts, Foreign Affairs Secretary Alberto

Romulo and Trade and Industry Secretary Peter Favila. The PAMM has become more than just an opportunity to dialogue. It has become an important venue to identify and work on specific courses of action that will encourage greater trade, investment and economic cooperation between the Philippines and Australia.

At the regional level, the ASEAN-Australia-New Zealand Free Trade Agreement, which was signed in February of this year, provides a new avenue by which to approach our economic relationship with Australia. Being a comprehensive single-undertaking agreement, the AANZFTA provides a good framework for complementation and collaboration in specific industries which have traditionally been of mutual importance to our respective economies, such as mining, agribusiness and food processing.

In these sectors in particular, we welcome the AANZFTA's focus on enhanced technical cooperation and addressing market access issues. In mining in particular we are pleased to see good developments, such as the first gold pour of CGA Mining in Masbate, one of our islands, in May of this year and the continued good progress of other projects of Australian industries, such as Indophil in Mindanao, which is a mining success story also for Australia.

We also look forward to new growth opportunities in the services sector, particularly in IT enabled services, education, financial services, health care and tourism. We expect this to be harnessed well as we facilitate services trade in various modes. The tariff advantages provided under the AANZFTA also give us a more level playing field vis-a-vis other countries with bilateral FTAs with Australia and will enable Philippine companies to pursue productive supply linkages with Australian companies in the automotive, transport and electronic sectors.

These initiatives give us much to look forward to in our efforts to expand our trade and investment relations. With the expansion of capacities under the March 2009 air services agreement between the Philippines and Australia, we hope to see greater two-way traffic between the Philippines and Australia for both people and cargo, including those on non-traditional air routes. Thank you very much.

CHAIR—Thank you, Your Excellency.

Mr BRUCE SCOTT—Thank you, Your Excellency. It was a very pleasant lunch and I hope your Speaker and the delegates enjoyed question time yesterday.

Ambassador De Leon—Indeed. We are very happy.

Mr BRUCE SCOTT—I hope it was not reminiscent of your parliament! Thank you for your presentation. With the ASEAN-Australia-New Zealand Free Trade Agreement, this really is an exciting time for all of us in this region. In relation to sharing expertise to harmonise certificates for agricultural products, have you started any discussion with the government on harmonisation of quarantine issues and labelling issues?

Ambassador De Leon—Yes, we have. In fact, AQIS is engaging more and more with the Philippines in bringing our agricultural output up to international standards.

Mr BRUCE SCOTT—They are actually working with you in the Philippines?

Ambassador De Leon—Yes, they are, with specific funding.

Mr BRUCE SCOTT—Funding from?

Ambassador De Leon—From Australia.

Mr BRUCE SCOTT—That is interesting, isn't it?

CHAIR—Yes, it is.

Mr BRUCE SCOTT—That is underway now?

Ambassador De Leon—Yes, it is. It is underway.

Mr BRUCE SCOTT—In relation to the two-way trade which has been growing strongly through 2007, has there been much effect because of the global financial situation on our two-way trade and investment?

Ambassador De Leon—There is no remarkable movement. Do you want to put some details on that, Michelle?

Ms Sanchez—The majority of the Philippines' exports—60 per cent in fact—are in the electronics sector, so this is where we see more of the reduction in exports. So it has had some effect on our trade with Australia in this regard. It is in this particular industry that we see some reductions. A few companies in the Philippines have closed down and the overall demand for electronic products has softened. According to the industry, the industry has bottomed out for the past few months, so we are hoping to see some recovery. There have been some rehires, also, in the Philippines in this particular sector.

Mr BRUCE SCOTT—This is probably a more general issue about the economy of the Philippines. Has there been—as with so many countries around the world—a big impact on your domestic economy because of the financial situation?

Ambassador De Leon—Not exactly. We have industries going, although there is unemployment, of course. Still, our GDP is recording positive growth but not as much as we had last year.

Ms Sanchez—We have managed to avoid recession in the Philippines—our first quarter GDP was about 0.4 per cent. The reduction actually came in consumer spending, I think because of the GFC. A lot of people were a bit conscious about new spending. What the banks have seen is an increase in deposits. They have recorded a 16 per cent increase in deposits, so they are thinking that people may be spending less but saving more. We have also seen a shift of foreign investments, financial investments, from outside the country back into the Philippines. So these are good developments that we can probably look forward to.

In terms of our international trade, even if our exports have seen a bit of a reduction there has also been some reduction in imports because of the softening of the electronics sector. So the overall contribution of net trade to GDP has been positive.

Mr BRUCE SCOTT—Can I ask about air traffic routes and your national airline flying to Australia. How do you see that under the new agreement and where we are at now?

Ambassador De Leon—We are looking at filling up the non-traditional destinations. Even with, not exactly our flag carrier, but some other Philippine airlines that would fill up from, say, Davao to Darwin. That would be filled up as part of the air agreement to increase the number or the volume of seats between the Philippines and Australia, and it is happening.

Mr BRUCE SCOTT—In terms of education and students coming to Australia to study, are you seeing growth in that area as an export?

Ambassador De Leon—Not as much as Australia would expect, possibly, but the awareness is developing in the Philippines as to the quality of education in Australia, especially with the efforts of your ambassador, Rod Smith. Rod and I are closely coordinating on this to ensure that the Philippines becomes more and more aware of the competitiveness of Australian education. Traditionally we have been looking at the United States for education, but now, since about 10 years ago, we are taking a very serious look at Australia for our students.

Mr MURPHY—I will just pick up on that. Is there a big demand for education services in Australia coming from your country?

Ambassador De Leon—Not yet. But the awareness is developing more positively.

Mr MURPHY—Okay. What does your government do to entice Australian companies to invest in the Philippines?

Ambassador De Leon—Basically, the first thing that comes in, really, is the mining activity. As far as the Philippines is concerned, mining accounts for 65 per cent of all Australian investment. The reason is that we have had a mining law since 1995. We are exactly following the provisions of that law, although there are still some inconsistencies and some areas where we can improve. I personally feel the Philippines would look at a growing industry, as far as mining is concerned, between Australia and the Philippines. We are able to cite two particular firms, CGA and Indophil, as success stories for mining activity in the Philippines, although there are some others like Xstrata and BHP which are still struggling on so many different areas of concern. It is more of a corporate decision, by and large. There are success stories; there are struggling companies. One Australian company had a liquidity problem. But overall I think the mining industry is moving.

Mr MURPHY—There is much in common between your country and our country, because you have lots of minerals and we are one of the leading mining nations in the world. Have BHP Billiton shown any interest in the Philippines?

Ambassador De Leon—They have. In fact, they are in Davao del Sur with a local partner and they are at the level of developing their working arrangements with a local partner.

Mr MURPHY—There was something else raised with the Chilean ambassador: quarantine issues. Are there any quarantine issues between our two countries in terms of agricultural products or livestock?

CHAIR—Dare I say ‘bananas’?

Ambassador De Leon—Michelle would like to give some details on that.

CHAIR—Right to the heart!

Ambassador De Leon—Before going to that, I would like to go back to mining. One advantage that we have between Australia and the Philippines is that, although we are both rich in so many minerals, what we have is technology from Australia and access in terms of geographical distance to the market in the Philippines. Say you are looking at China as an export destination for your mining material or mining output; your technology would simply look at the Philippines as the source and move it out very quickly. That is the advantage of the bilateral relations between the two countries. Michelle can jump to the quarantine issues.

CHAIR—Ms Sanchez, before you answer I would like to welcome Senator Forshaw to the meeting.

Senator FORSHAW—Thank you, chair. I apologise for being late; I had other matters on. But we have had a chance to meet the delegation and to see you this morning.

Ambassador De Leon—Thank you very much, Senator.

Ms Sanchez—The ambassador mentioned earlier that we have been working closely with AQIS to get food exports into Australia. On a general level we have been able to get food exports in. We work closely with AQIS, making sure that our exporters comply with labelling requirements and any other specific standards or specific requirements that Australia would have for food products.

The only sticky issue right now is with Philippines bananas. We have been wanting Australians to try Philippines bananas for 20 years. You may be aware that the IRA was issued in November and the final policy determination was issued on 3 March, so I guess Australia is now waiting for the Philippines to respond to that. The operation is to start working on a work program. Our Department of Agriculture is consulting the stakeholders. There have been some areas of the IRA that the Philippines is not entirely in agreement with. We are waiting for that and also to see what the Senate inquiry results will be tomorrow, which is hopefully when the report will come out.

Ambassador de Leon—Your Senate inquiry.

Mr BRUCE SCOTT—It is not my report, but the senators’. What is the inquiry about, bananas?

Senator FORSHAW—I cannot talk to you about it.

Ms Sanchez—We can go off the record.

Senator FORSHAW—If I was aware of it, I could talk to you about it.

Senator FURNER—Neither of us is on that committee.

Senator FORSHAW—Between now and tomorrow I will become much more aware. It is a different committee. It is a Senate committee.

Mr BRUCE SCOTT—Is there an issue with chicken and other products?

Ms Sanchez—I think it is meat products. We have also been having difficulty with our ice cream products, anything related to meat products and dairy also. We have been trying to export ice cream to Australia and the problem there is with the lifting of the foot and mouth disease classification of the Philippines, which has to be done with the OIE in Paris. That is something we are working on now. Hopefully we will get off the list this year, which would solve some of our dairy and meat related problems also.

Senator FURNER—Correct me if I am wrong, but either last night or it might have been yesterday afternoon when we had an opportunity to meet with the delegation, I heard that the government was considering moving down the path—possibly next year—of a stimulus package. Is that correct?

Ambassador de Leon—The stimulus package for our economy?

Senator FURNER—That is correct.

Ambassador de Leon—It has started, actually. We are implementing it in phases.

Senator FURNER—Are you able to expand on what might be in that package and what sort of initiatives are being delivered?

Ambassador de Leon—It is actually more about infrastructure. We have not followed some of your approaches to a stimulus package, like giving direct dollars, but we have encouraged our small industries to invest more in infrastructure.

Senator FURNER—I see. Is there any severe degree of protectionism in respect of the package?

Ambassador de Leon—No, nothing.

CHAIR—Ambassador, as a follow-up to your discussion to do with the ASEAN-Australia-New Zealand Free Trade Agreement, you were talking about how that set a path for a new avenue—I think you said—of an economic relationship with Australia. You cited some specific industries. Have there been any discussions between Australia and the Philippines on possible areas of cooperation under the agreement or looking at an economic cooperation program? Or is it too early?

Ambassador de Leon—I am not aware of many details, but what we know is that, on the level of the framework, the Philippines is in it and we are ready to engage with Australia.

CHAIR—So it is just a work in progress.

Ambassador de Leon—That is right.

CHAIR—Correctly, you identified it as a good vehicle.

Ambassador de Leon—It is.

CHAIR—It certainly is.

Ms Sanchez—There are also certain areas, like services for instance, where we are looking to pursue further discussions with Australia and then hopefully come up with some cooperation agreements. These are really in the area of the supply of nursing and healthcare professionals to Australia from the Philippines. We are also looking at tradespeople and other skilled workers to come from the Philippines to Australia. That is part of the package that was bilaterally discussed between the Philippines and Australia under the AANZFTA.

CHAIR—That is interesting. You also train people in that area from the region in large numbers, as I understand it.

Ms Sanchez—Yes. There has also been a lot of interest from Australian universities—nursing schools, for instance—to work with universities in the Philippines. A lot of registered nurses who come to Australia from the Philippines have to go through bridging courses for both English proficiency and clinical work. We are trying to get Australian universities to link up with their Philippine counterparts so that our nurses get a higher standard of training, which hopefully would be acceptable here.

CHAIR—Things like cross-credentialing and so on.

Ms Sanchez—Yes. We are talking about bridging courses and twinning programs.

Ambassador De Leon—Even at the state level, what we are looking at is for the activity to be more economical. Rather than taking the Philippine nurses, say, to Melbourne to do bridging courses, maybe we can get the technology from Melbourne to the Philippines and just get one or two heads to give out the standards and make sure that they are able to take the bridging courses right there at less of an economic cost for everybody. This is now at the state level.

Senator FORSHAW—Are there any particular visa or taxation issues that may arise? I know some Latin American countries have raised the issue of double-taxation difficulties. Also, sometimes there are delays or difficulties in obtaining working visas. Is that something that the Philippines has any issues with?

Ambassador De Leon—From what we understand, it is really difficult for our nationals to be able to hurdle that 457 visa because of the standards required. But if they are your standards then they are your standards.

Senator FORSHAW—It is often raised by other countries. It does not mean that we accept that there is a problem but it is important to hear your view.

Ambassador De Leon—We quite understand that. That is why we are looking for ways for, say, nurses on 457 visas to hurdle the requirements in a way that is less expensive for them. We are looking at specific trades capability. I think even your VETASSESS and TAFE are looking at our own TESDA in the Philippines to crank in the technology right there in the country, rather than letting the guys come here and spend a lot of money to qualify. We are looking at some technical approaches on that at the state level.

Senator FORSHAW—I thought I would give you the opportunity to raise that.

CHAIR—I have some questions to do with the Doha Round. First, do you think that the Doha Round will come to a substantial outcome? Second, do you think that free trade agreements, like the ASEAN-Australia-New Zealand one, weaken the chance of that happening?

Ambassador De Leon—We still pin our hopes on the Doha Round. That is as much as I can tell you.

CHAIR—Understood. Thank you.

Mr BRUCE SCOTT—I have a question to do with visas. This is probably electorate based, but I have a large number of 457 visa holders working in my constituency from the skilled to the unskilled areas—and I do not like using the word ‘unskilled’ because people in what you may call the trade area are still skilled people; for example, they may be working in a saw mill with technical equipment. Have you been made aware by some of your nationals about the potential difficulties that they may have in getting their visas renewed?

Ambassador de Leon—Yes, what is happening in very particular cases is that some employers stop employing because of economic difficulties. That is the reason we have our labour attache in Australia trying to bridge the activities of these 457 visa holders to be able to move onto another job. Since earlier this year, there have been a few instances where some Filipinos on 457 visas were terminated by their employers. We are becoming aware of the need to bridge them for the next 28 days so they are still supported by their employers until they are able to find other employment. There are also cases where a few have had to go back to the Philippines because they were not able to find any other subsequent employment.

Mr BRUCE SCOTT—Is the labour attache here in Canberra?

Ambassador de Leon—Yes, he is here in Canberra.

Mr BRUCE SCOTT—I would like to make an appointment with him because I have a significant number in my electorate. I have very, very low unemployment, which is quite rare in Australia at the moment—

Ambassador de Leon—If you wish—

Mr BRUCE SCOTT—less than 1.5 per cent unemployment and I am in that resource-rich, coal seam methane area of the Surat Basin. What is happening there is quite extraordinary; it is a bit like the North West Shelf. I do not want to bring just constituency issues up here, but I know

that the workers from the Philippines are very much valued. I guess we would all be concerned about a 457 worker from the Philippines who could not get another job and how they are treated.

Ambassador de Leon—If you would prefer I could ask the labour attache to call your office.

Mr BRUCE SCOTT—That would be very, very helpful. I am here and I can come back in the middle of July.

Ambassador de Leon—I have your card so I will let him make an appointment with you.

Mr BRUCE SCOTT—Please do.

CHAIR—It is important in relationship building, isn't it?

Mr BRUCE SCOTT—Yes, it is, very much so.

CHAIR—Ambassador, I have one final question. In several areas of your submission you talk about exchanges of business missions and participation in trade fairs. Have there been any discussions with Austrade about possibilities in this area of cooperation? I imagine there would be, but for the record I would like to know a little bit more about that.

Ambassador de Leon—There are and I would like Michelle to elaborate on that.

Ms Sanchez—I try to work closely with my counterpart in Manilla, Ross Bray. He is the Australian trade commissioner there. We recently organised a trade mission from the Philippines to Australia as part of a Philippines IT services roadshow. That is another sector that we are constantly promoting from the Philippines. This included participating in the CeBIT fair, which is the largest technology event in Australia. It was the first time that the Philippines participated in that fair and the response from the participants—the business delegation—was very good. We are looking at doing that on a yearly basis.

In the past we have also done missions with food exporters from the Philippines to look at Australia as a market. One of the areas we would like to work on now is a reciprocal mission. We had exporters of automotive parts and components from the Motor Vehicles Parts Manufacturers Association of the Philippines visit Australia last year, Melbourne in particular. They had a dialogue with their counterpart, the Federation of Automotive Parts Manufacturers, and we are now looking at inviting FAPM for a reciprocal mission to the Philippines. It is really focussed on specific areas where we want to show that there are opportunities for more trade between Australia and the Philippines.

CHAIR—On behalf of the committee, thank you for your attendance, your submission, your statements and the open discussion that we were able to have. If there are any matters on which we might need additional information the secretariat will write to you.

Ambassador De Leon—On the part of the Philippines, we are indeed very thankful and honoured that we were able to participate in this public hearing. We look forward to more interaction with the subcommittee, even on an informal basis, to be able to pursue and enhance the trade relations between the Philippines and Australia. Thank you very much.

CHAIR—We can certainly follow that up. Thank you very much.

Resolved (on motion by **Mr Murphy**):

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

Subcommittee adjourned at 12.36 pm