Australian Government
Department of Foreign Affairs and Trade
Austrade

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Submission by Austrade and the Department of Foreign Affairs and Trade

to the

Joint Standing Committee on Foreign Affairs, Defence and Trade

Inquiry into Australia's Trade and Investment Relationships with Countries of the Middle East

15 May 2014

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INTRODUCTION

The Australian Trade Commission (Austrade) and the Department of Foreign Affairs and Trade (DFAT) have prepared a joint submission for the Joint Standing Committee on Foreign Affairs, Defence and Trade inquiry into Australia's trade and investment relationships with Middle East countries. This also draws on input provided by Australian diplomatic missions in the Middle East region. The submission highlights the pattern of Australia's goods and services trade and investment with the region, while also identifying current constraints and opportunities for growing commercial linkages. The submission also outlines current strategies to grow trade and investment relations, and makes a number of recommendations to advance commercial ties, including advocacy for an early resumption of Free Trade Agreement (FTA) negotiations with the Gulf Cooperation Council (GCC), our most significant commercial partners in the region.

The countries examined as part of this submission are: Algeria, Bahrain, Egypt, Iran, Iraq, Israel and the Palestinian Territories, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates (UAE), and Yemen.

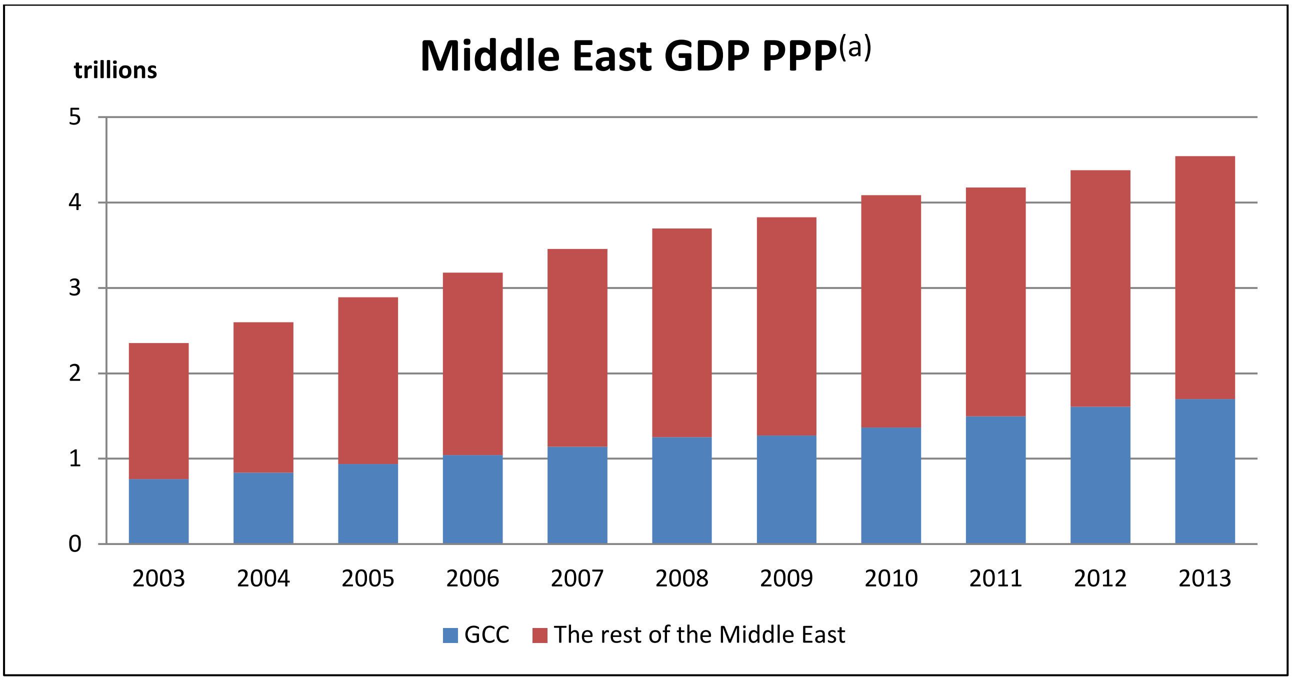
Australia's trade with the Middle East is diverse and growing rapidly, in particular with the Gulf countries. In 2013, two-way merchandise trade with the region was worth $16.2 billion, an increase of 15.2 per cent from the previous year ($12.3 billion of that with the Gulf countries). Two-way trade with our largest regional partner, the UAE, grew by 24.7 per cent to $6.4 billion in 2013. Agriculture, passenger motor vehicles and alumina dominate our exports to the region. Both our exports and imports have rebounded from a post-2008 fall, which was caused in part by the Global Financial Crisis.

Our recent trade patterns with the Middle East reflect the varied nature of the region. Our major trade partners are the wealthy, oil exporting six states of the GCC (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE). The UAE has experienced strong growth following its recovery from the Global Financial Crisis. Saudi Arabia, the 19th largest economy globally and the only G20 country in the region, remains a very significant market for Australia. However, trade with countries where economic activity has been dampened by civil conflict or subject to international sanctions - such as Syria, Egypt, Iraq, Iran, and Libya – has been uneven or has declined.

The Gulf states boast four of the top 10 sovereign wealth funds globally, managing assets of over $2 trillion. Investment in Australia from the Middle East in 2013 was estimated by the Australian Bureau of Statistics (ABS) to be $21.9 billion, although this likely understates the actual amount of investment. Australian investment in the Middle East in 2013 was a low $2.2 billion.

Our trade, investment and community engagement with the Middle East has been enhanced by our growing aviation links and the presence of more than 350 Australian companies in the region. The aviation partnerships between Qantas and Emirates, and Virgin Australia and Etihad, in addition to flights by Qatar Airways, have resulted in 140 flights per week between Australia and the Gulf. These flights are expected to increase in the second half of 2014. Over 60,000 Australians are estimated to be living in Israel, Lebanon, Qatar and the UAE, creating community bridges that support our economic and trade links with the region.

While the IMF expects overall growth in the Middle East to slow to around 3 per cent in 2014, growth in Gulf states is consistently higher and is expected to rise to 4.1 per cent this year from 3.7 per cent in 2013. Looking further ahead, the Middle East region is set for major economic expansion over the next decade with a projected $1.2 trillion public spend on infrastructure, as Gulf states attempt to diversify their economies away from oil reliance and up skill their workforces. This will create an opportunity to grow Australian commercial links, including in education, energy and resources, and infrastructure. Food security is a key priority for these countries.



(a) In international dollars

The growth of the middle class in the region will drive demand for higher end goods and services. A Brookings study projects that the middle class in the region would more than double from 105 million people in 2009 to 234 million in 2030. These new, increasingly young consumers will want to purchase high quality foods, education, tourism and health services that Australia is well prepared to provide. Besides prospects in the high income per capita Gulf countries, there is potential for Australia to develop niche trade opportunities in unique markets such as high tech Israel and emerging Morocco.

The increasing number of international events being held in the region – the UAE is hosting Expo 2020 and Qatar the Football World Cup in 2022 – will provide opportunities for Australian expertise in construction, management and hospitality sectors. Separately, there is an opportunity to attract further investments to assist our own infrastructure expansion in Australia.

Our trade relationship with the Middle East is expected to shift in the coming years towards services. However, food and other commodity exports will remain important, particularly as the Gulf states make investments to further their food security objectives.

Austrade's role

Austrade is the Australian Government's agency charged with export promotion, investment attraction, promotion of international education, and strengthening Australia's tourism industry. Through a global network of offices, Austrade assists Australian enterprises to develop international business, attract foreign direct investment into Australia, and promotes Australia's international education and training sector. Austrade's services and activities are directed to improving productivity, and creating jobs that contribute to the wellbeing of the Australian community.

Austrade helps Australian businesses reduce the time, cost and risk of exporting through valued services. The agency works closely with state and territory governments to attract and facilitate foreign direct investment into Australia. It has responsibility for promoting the Australian international education and training sector in overseas markets and assists Australian education providers with market information and services.

Austrade is responsible for tourism policy, programs, and research. In this context Austrade is responsible for implementing the national long-term tourism strategy, Tourism 2020, to double the overnight visitor expenditure to Australia to between $115 billion to $140 billion by 2020. Austrade does this by working with other Australian Government agencies, state and territory governments, and industry to remove barriers to industry growth and to increase its productive capacity. This supply-side focus helps to create a more competitive Australian tourism industry that is better able to leverage the demand-driven activity that Tourism Australia undertakes to promote Australia as a tourist destination to international markets.

Austrade manages the *Building Brand Australia* program to enhance awareness of contemporary Australian skills and capability and enrich Australia's global reputation through the *Australia Unlimited* nation brand. In consultation with the education sector, Austrade has also developed and delivers the *Future Unlimited* brand to expand awareness of Australia as a high-quality education provider and as a destination for international students. Austrade is also responsible for *Match Australia*, a new sports business program promoting Australia as a destination for business, tourism, and education.

In particular, Austrade helps achieve the Government's priorities and objectives by:

- sharing Austrade's market information and insight;
- promoting and attracting foreign investment;
- increasing demand for education and training;
- promoting agribusiness and food sectors, capitalising on food security demands;
- promoting services, knowledge-based industries, advanced manufacturing, and mining equipment, technology and services; and
- capturing high-value opportunities for Australian businesses.

Austrade's operations in the Middle East are managed from the agency's regional hub office in Dubai. Austrade's network in the region has representation in six locations in four countries – the UAE, Saudi Arabia, Kuwait, with a locally-engaged representative in Morocco. Austrade works closely with DFAT, other Australian government agencies, state representatives, industry marketing bodies, and business chambers to promote Australia's economic interests in the region.

To make the most effective use of available resources, Austrade has aligned its network to prioritise the agency's activities in GCC member states as well as Morocco. These markets offer the strongest alignment between Australian capabilities, market demand, and the capacity to pay for Australia's high-value, high quality goods and services.

In comparison with other countries in the region, these priority markets present a more conducive operating environment for Australian business, including Small and Medium-Sized Enterprises

(SMEs). Many of these markets also have significant earnings from energy exports, enabling them to undertake major investment into their own economies, creating emerging opportunities for Australian businesses. These countries are also increasing investment in education, training and skills, thereby creating opportunities that the Australian education sector is well placed to meet.

Investors from the energy-exporting market in the region, particularly those in the Gulf, are also looking to expand their long-term global investments with the potential to significantly increase their investments in Australia. Austrade is working with key investors from the region, including sovereign wealth funds, to attract new productive direct investment into key sectors in Australia.

DFAT's role

DFAT is represented in the region by posts in 11 locations: Abu Dhabi (covering the UAE and Qatar), Amman, Baghdad, Beirut, Cairo (covering Egypt and Syria), Dubai, Kuwait City, Ramallah, Riyadh (covering Saudi Arabia, Bahrain, Oman and Yemen), Tehran and Tel Aviv. Our post in Paris has non-resident accreditation for Morocco and Algeria, while Rome has responsibility for Libya, and Malta for Tunisia. Heads of Mission work closely with Austrade to coordinate an active whole-of-Government strategy for economic engagement with the countries of the Middle East.

DFAT and Austrade are supported in their trade advocacy at post by senior colleagues from Agriculture, Defence, Immigration and Infrastructure around the region. In Canberra, the Middle East Branch of DFAT works closely with the International Issues Branch of the Growth and Emerging Markets Division of Austrade as well as other government departments to develop policies to foster trade and investment.

This approach has rigorously prioritised Australia's business and investment interests, focussing on GCC member states as priority markets in the region. DFAT is also actively monitoring emerging commercial opportunities in non-Gulf markets such as in Morocco and Israel, and supports Australian businesses through visits and Australian Government lobbying on specific potential contracts.

Most recently DFAT has developed 'economic diplomacy' strategies for various countries and work units. The aim is to bring a greater economic focus to the work of overseas posts, state offices and divisions in DFAT Canberra. The Middle East Branch's economic diplomacy strategy for the region complements and supports Austrade's priorities and promotional work. Key elements of this strategy encompass the recommendations made in this submission.

DFAT also manages and funds the Council for Australian Arab Relations (CAAR), which aims to foster greater cultural understanding with the Middle East region. CAAR provides a number of grant awards each year to individuals and organisations seeking to promote cultural awareness and people-to-people links.

Tourism Australia's role

Tourism Australia is the Australian Government agency responsible for the international marketing of Australia as a leisure and business tourism destination. Tourism Australia's global market strategy is based on the 2020 growth potential of key markets in support of the Tourism 2020 strategy discussed above. Tourism Australia is active in 17 international markets with offices in 11 markets to ensure operational costs are minimised in order to maximise marketing investment around the world.

Tourism Australia's key international markets, in order of greatest growth potential, are: Greater China (China and Hong Kong), North America (USA and Canada), the United Kingdom, New Zealand, South Korea, Singapore, Malaysia, Japan, Indonesia, India, Germany and **the Middle East**. Brazil and Vietnam are categorised as fast emerging markets and Italy and France are high priority amongst Tourism Australia's Rest of World markets.

Tourism Australia works with Austrade and DFAT under the portfolio's economic diplomacy strategy to support the Australian tourism industry to realise the growth potential of these international markets.

COMMERCIAL RELATIONS OVERVIEW

GOODS TRADE

Two-Way Trade

Australia's **two-way merchandise trade to the Middle East** was worth $16.2 billion in 2013, a growth of more than 15 per cent. Of this, the value of our exports was more than $9 billion, a near 25 per cent rise, and our imports amounted to nearly $7 billion, a close to five per cent increase. Looking at a five year trend, total trade in 2013 was 5.1 per cent greater than in 2008. Strong trade growth has resumed in the last three years after a plunge following a 2008 peak, with the latter influenced by the impact of the Global Financial Crisis on key Middle East markets. The pattern is reflective of that for Middle East world trade during this period (see charts on page 10). In 2013, the value of merchandise exports had not yet reached the 2008 high. Up until 2008 there had been an upward trend in both Australia's exports to, and imports from the region.

In 2013, the UAE ranked amongst Australia's top-20 trading partners at number 15, with two-way trade worth $6.4 billion, an increase of nearly 25 per cent. Reflective of the powerhouse economies of the Gulf, Australia's other top regional trading partners are Saudi Arabia (26th) at $2.5 billion, Qatar (37th) at $1.2 billion and Kuwait (39th) at just over $1 billion.

Australia's Merchandise Trade with the Middle East (a)

	Total goods trade (b) 2013 A$000	YOY % change 2012 to 2013	YOY % change 2008 to 2013	Goods exports (b) 2013 A$000	YOY % change 2012 to 2013	YOY % change 2008 to 2013	Goods imports 2013 A$000	YOY % change 2012 to 2013	YOY % change 2008 to 2013
Total merchandise	16,161,465	15.2	5.1	9,166,376	24.9	-3.3	6,995,089	4.7	18.8
Algeria	85,531	..	-74.1	3,780	-13.0	-95.7	81,751	..	-66.3
Bahrain	740,791	..	..	665,303	..	..	75,488	11.8	-64.6
Egypt	496,091	-12.7	30.0	470,469	-8.1	31.0	25,622	-54.1	14.5
Iran	303,346	-33.5	-5.2	277,042	-35.3	35.9	26,304	-5.4	-77.4
Iraq	596,328	261.5	194.2	596,320	261.5	302.6	8	33.3	-100.0
Israel	918,764	1.1	-19.9	227,621	-3.2	-28.1	691,143	2.6	-16.9
Jordan	216,447	13.4	104.4	204,011	12.7	128.7	12,436	24.8	-25.5
Kuwait	1,016,549	4.0	3.6	603,747	17.4	20.6	412,802	-10.8	-14.1
Lebanon	54,243	29.5	33.1	41,020	34.3	45.5	13,223	16.4	5.3
Libya	773,277	-32.6	1396.9	11,763	-58.8	-77.2	761,514	-32.0	..
Morocco	62,480	-6.1	-74.7	33,393	40.9	36.6	29,087	-32.1	-86.9
Oman	468,329	-2.6	-34.8	385,927	-15.7	-45.2	82,402	257.7	496.3
Qatar	1,226,379	7.1	109.7	502,388	0.9	174.7	723,991	11.9	80.2
Palestinian Territories	0	..	..	0	..	..	0	..	..
Saudi Arabia	2,459,103	11.1	-27.3	2,189,667	26.3	-12.2	269,436	-43.7	-69.7
Syria	2,559	-70.2	-73.6	1,273	-82.1	-84.6	1,286	-11.1	-9.4
Tunisia	24,722	18.6	-56.8	5,762	60.3	-22.1	18,960	9.9	-62.0
United Arab Emirates	6,395,880	24.7	2.5	2,626,274	25.9	-33.1	3,769,606	23.9	62.7
Yemen	320,645	14.9	81.7	320,616	14.9	82.3	29	-43.1	-94.9
GCC	12,307,031	21.1	0.1	6,973,306	28.1	-12.7	5,333,725	12.9	23.6

(a) Recorded trade basis.
(b) Excludes some confidential items of trade, except for Saudi Arabia.
Source: DFAT STARS Database based on ABS Cat No 5368.0, February 2014 data.

Exports

In 2013, the UAE and Saudi Arabia were Australia's largest export markets, each worth over $2 billion and recording around 25 per cent growth. Australian exports to GCC countries as a whole were also significant at nearly $7 billion, a 28 per cent increase from 2012.

Australia's exports to the Middle East continued to be dominated by alumina, wheat and passenger motor vehicles. The top ten exports products also included meat (excluding beef), barley, beef, oil-seeds and oleaginous fruits, vegetables, live animals (excluding seafood), milk, cream, whey, and yoghurt. These top ten exports contributed close to $6 billion to Australia's economy.

Trade in alumina constituted the bulk of the $2.3 billion trade listed as confidential items in 2013. Australian wheat exports were buoyed by the 261 per cent growth in the trade with Iraq in 2013. Wheat exports remained in strong demand in countries affected by sanctions and civil unrest, including Iran ($214 million), Egypt ($154 million), Yemen ($274 million), and Iraq ($582 million).

The Middle East is a key region for Australian live animal exports (for slaughter and feeder under the Exporter Supply Chain Assurance System - ESCAS), accounting for just over 62 per cent of Australia's total live animal exports. Significantly, in 2013, 98 per cent of Australian live sheep exports, and 13 per cent of cattle exports went to the Middle East. By numbers, this amounts to the export of 1.9 million sheep and nearly 113,000 head of cattle. Current markets with ESCAS-approved supply chains for Australian livestock exports include Bahrain, Israel, Jordan, Kuwait, Oman, Qatar, and the UAE.

Top 10 exports to the Middle East (2013)		
Commodity	**Value (A$000)**	**YoY % Growth**
Confidential items of trade	$ 1,370,717	73.0
Wheat	$ 1,158,449	39.9
Passenger motor vehicles	$ 1,325,954	3.9
Meat (excl beef)	$ 519,852	5.4
Barley*	$ 509,065	#
Beef	$ 168,268	93.5
Oil-seeds & oleaginous fruits	$ 50,482	480.2
Vegetables	$ 256,945	0.6
Live animals (excl seafood)	$ 330,928	-22.7
Milk, cream, whey & yoghurt	$ 189,312	-33.8
Total	**$5,879,972**	

*Figure is from January to August 2013 only due to confidentiality restrictions.
Data not meaningful

Top 10 imports from the Middle East (2013)		
Commodity	**Value (A$000)**	**YoY % Growth**
Crude petroleum	$ 4,253,466	11.1
Fertilisers (excl crude)	$ 546,847	-1.1
Confidential items of trade	*$ 471,885*	*-23.3*
Liquefied propane & butane	$ 361,194	-14.0
Primary ethylene polymers	$ 94,767	-2.5
Aluminium	$ 92,521	78.4
Pearls & gems	$ 90,664	6.9
Mineral manufactures	$ 70,128	-6.4
Plastic plates, sheets & film	$ 46,807	-18.2
Computers	$ 40,492	293.0
Total	**$6,068,771**	

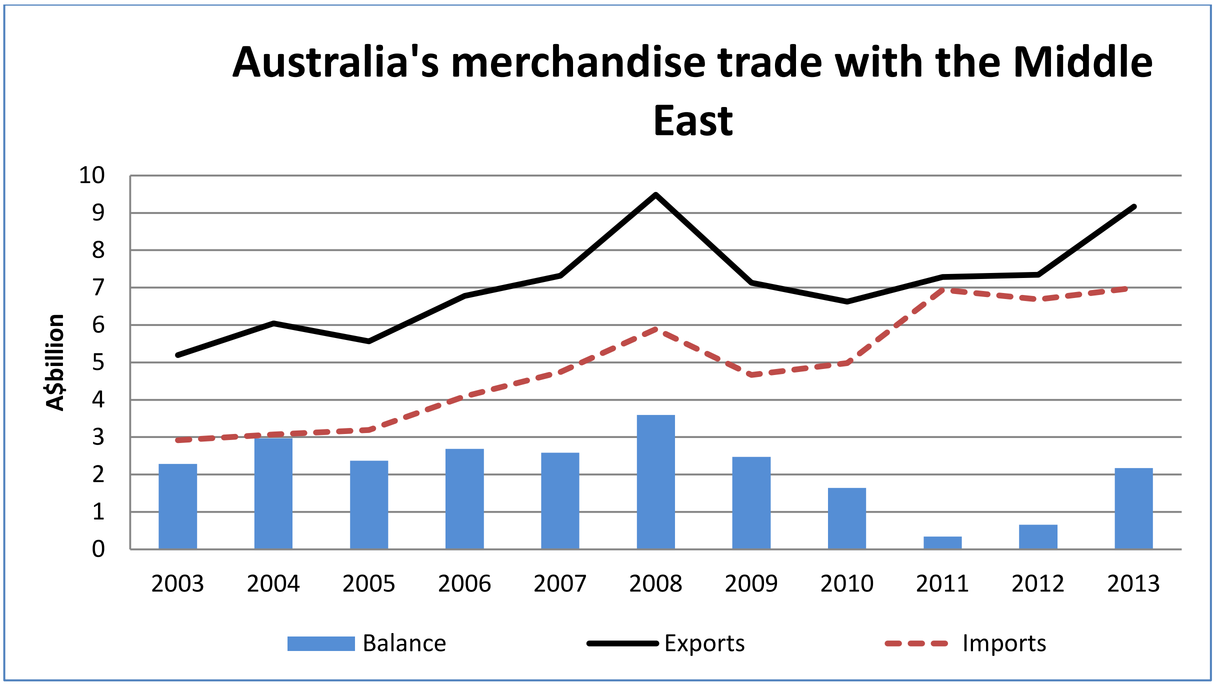
Imports

In 2013, Australia imported $4.2 billion of crude petroleum from the Middle East, which is by far the largest import item. The remaining top ten imports included fertilisers (over $546 million), confidential items believed to be chemicals and fertilisers (close to $472 million), liquefied propane and butane (over $361 million), primary ethylene polymers (nearly $95 million), aluminium (over $92 million), pearls and gems (close to $91 million), mineral manufactures (over $70 million), plastic plates, sheets and film (near $47 million), and computers (over $40 million). Of significance, computer imports from the region grew by 293 per cent, while aluminium imports rose 78 per cent.

By country, Australian imports from the Middle East continued to be dominated by the UAE in 2013. Imports from that country grew by 23.9 per cent to $3.8 billion. The remaining major import countries were Libya ($761 million), Qatar (nearly $724 million), Israel ($691 million), and Kuwait (close to $413 million). Imports from Libya fell 32 per cent, due to the deteriorating security situation. Australian imports from GCC countries were also significant at over $5.3 billion, a growth of nearly 12 per cent.

Sanctions

Sanctions regimes restrict goods trade with several Middle Eastern countries, with the details available at www.dfat.gov.au/sanctions. Affected countries are Iran, Iraq, Lebanon, Libya, and Syria.


Australia's merchandise trade with the Middle East
A$billion
10
9
8
7
6
5
4
3
2
1
0
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
Balance
Exports
Imports


Middle East World Trade
US$billion
2000
1800
1600
1400
1200
1000
800
600
400
200
0
2003
2004
2005
2006
2007
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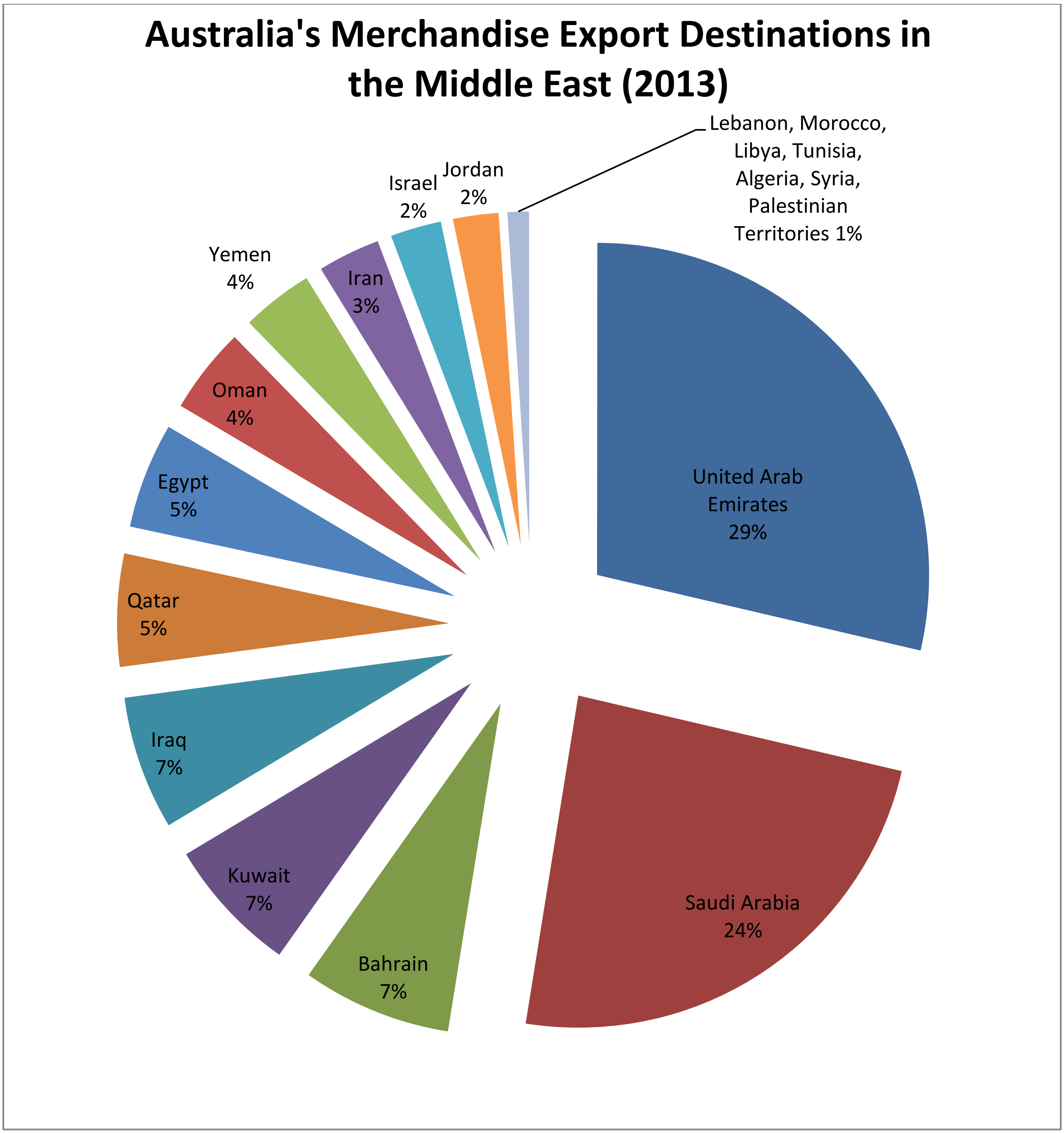
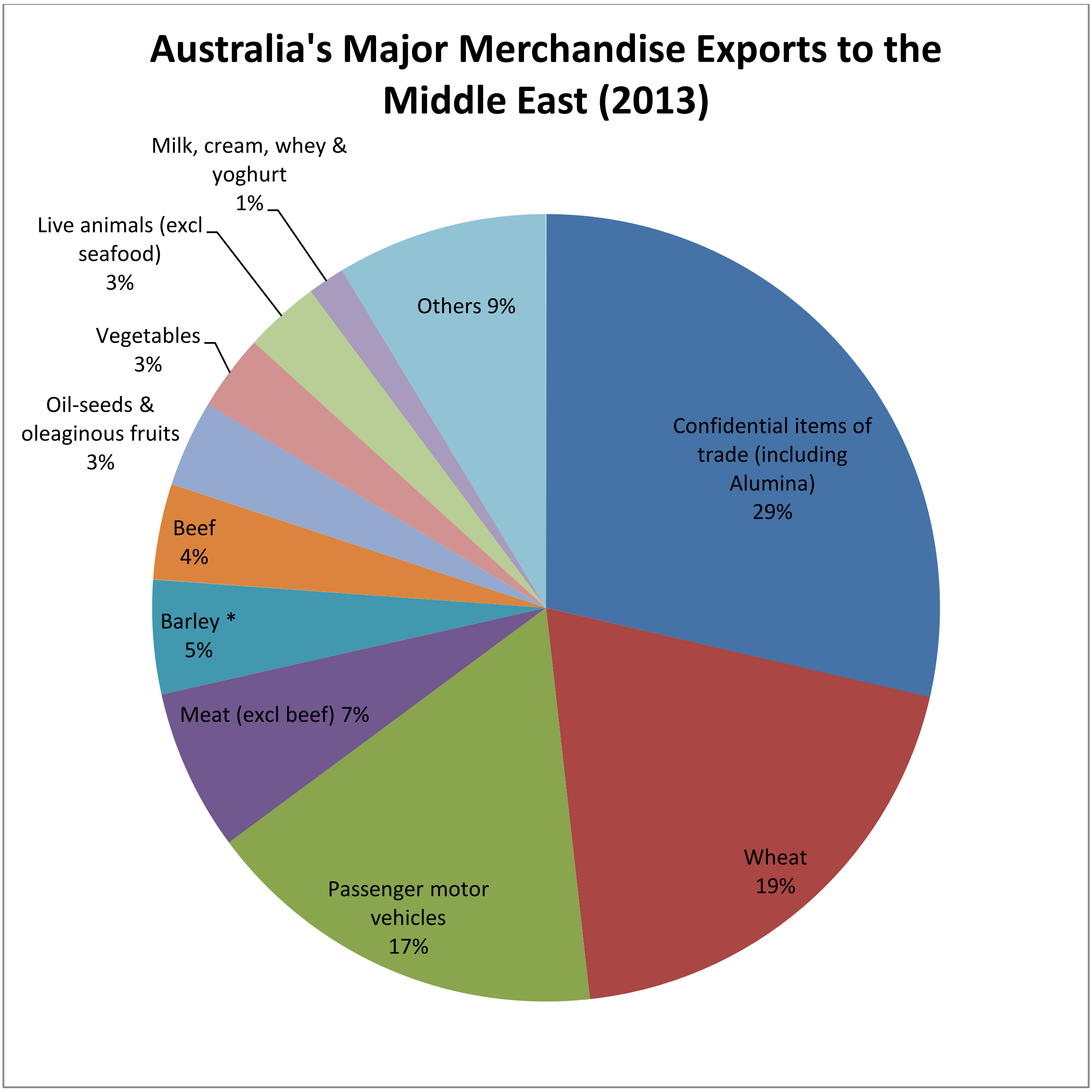
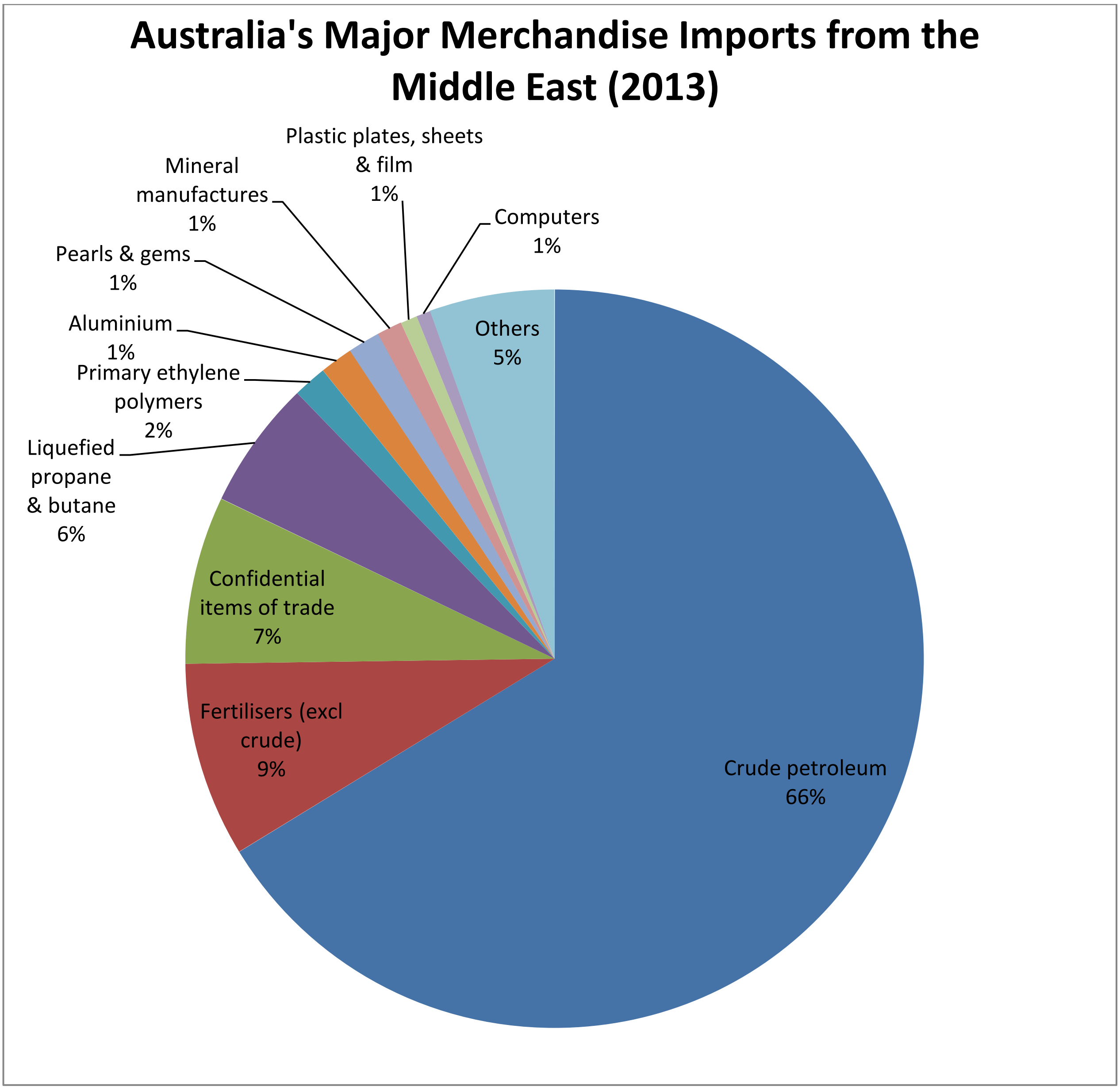
2010
2011
2012
Exports
Imports


Australia's Merchandise Export Destinations in the Middle East (2013)
Lebanon, Morocco, Libya, Tunisia, Algeria, Syria, Palestinian Territories 1%
Jordan 2%
Israel 2%
Iran 3%
Yemen 4%
Oman 4%
Egypt 5%
Qatar 5%
Iraq 7%
Kuwait 7%
Bahrain 7%
Saudi Arabia 24%
United Arab Emirates 29%



Others includes: fruit and nuts; telecom equipment and parts; edible products and preparations; vehicle parts and accessories; office machines; cheese and curd; computers; coal; wool & other animal hair; aluminium; and paper & paperboard.

* Barley figure is January to August only due to confidentiality restrictions.



Others includes: telecom equipment and parts; floor coverings; refined petroleum; insecticides, herbicides and disinfectants; plastic tubes, pipes and hoses; glassware; electrical machinery and parts; medicaments (incl veterinary); other primary plastics; tubes and pipes of iron or steel; and inorganic chemical elements.

SERVICES

Australia's recorded global exports of services were worth $52.8 billion in 2012-13. Of this amount, services exports to the GCC and Israel were worth $1.2 billion, and comprised over 2.3 per cent of Australia's total services exports.

Services data is only publicly released from the ABS for around 35 countries. We were able to access some data for Bahrain, Israel, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE for the 2012-13 period, but the level of detail is affected by confidentiality requirements. 2013 calendar year services data has not yet been released (we have used 2013 data elsewhere in the report where it is available). Services trade data does not include services provided by Australian branches or subsidiaries in the Middle East. This is registered as investment in ABS statistics.

In the statistics available, our major services two-way trade partners were: the UAE ($2.8 billion), Saudi Arabia ($487 million), Qatar ($331 million), Israel ($160 million), and Bahrain ($13 million).

Exports

In 2012-13, Australia exported $526 million of services to the UAE, $444 million to Saudi Arabia, $86 million to Qatar, $55 million to Israel, $54 million to Kuwait, $32 million to Oman, and $9 million to Bahrain.

According to available data, the major services exported to the seven countries listed above are:

- Transportation ($330 million), including passenger and freight transport by air and sea;
- Travel services ($625 million), which captures expenditure by travellers visiting Australia;
- Other business services ($152 million), comprising Research and Development services, professional management and consultancy and technical and trade services;
- Intellectual Property ($23 million);
- Government services ($12 million); and
- Financial services ($4 million).

The most reliably available data is for travel and transportation services. For this reason, the balance of services trade appears to be in the favour of the Gulf countries and Israel. However, over 350 Australian companies operate in the Gulf, including major providers of construction, financial and professional services (such as Habtoor Leighton Group, SMEC, GHD, ANZ and Woods Bagot). Data on construction services and other business services is limited, and we would expect that if that data were available it would reflect a much more balanced two-way services trade between Australia and the Middle East.

Imports

Based on the available data, Australia's major services imports from the Gulf and Israel in 2012-13 were transportation ($2.25 billion), travel ($397 million), other business services ($53 million), and government services ($16 million). Of these figures, the standout figure is that of over $2 billion worth of transportation services purchased from the UAE. This reflects the substantial number of passenger flights between Australia and the UAE operated by Emirates and Etihad, as well as Emirates' dedicated freight services between Australia and the UAE.

Although construction, finance, other business services, and manufacturing services are important Australian export industries in the Middle East, little data is available regarding the value of their exports. Accordingly, we have provided analysis on services for which the most statistical data is available, namely education and travel services.

Education

Australia’s education engagement with the Middle East has grown rapidly over the last 10 years, although only Saudi Arabia features in the top 10 importers of Australian education services by student enrolments.

Enrolments of Middle East Students in Australia in 2013

Nationality	Higher Education	VET	Schools	ELICOS	Non-award	Total by nationality
Saudi Arabia	**4,991**	**676**	**29**	**4,308**	**348**	**10,352**
Iran	**2,561**	**197**	**62**	**386**	**44**	**3,250**
Kuwait	**804**	**218**	**2**	**385**	**296**	**1,705**
Lebanon	**333**	**334**	**5**	**221**	**19**	**912**
United Arab Emirates	**603**	**106**	**4**	**158**	**31**	**902**
Jordan	**265**	**253**	**1**	**251**	**8**	**778**
Oman	**471**	**52**	**0**	**161**	**49**	**733**
Libya	**544**	**17**	**1**	**125**	**3**	**690**
Iraq	**278**	**1**	**1**	**361**	**5**	**646**
Egypt	**173**	**321**	**3**	**84**	**5**	**586**
Israel	**85**	**125**	**6**	**27**	**21**	**264**
Bahrain	**84**	**10**	**1**	**11**	**8**	**114**
Qatar	**28**	**9**	**0**	**15**	**3**	**55**
Palestinian Territories	**25**	**10**	**0**	**11**	**0**	**46**
Syria	**25**	**5**	**2**	**6**	**3**	**41**
Morocco	**18**	**4**	**0**	**2**	**10**	**34**
Yemen	**17**	**1**	**0**	**4**	**0**	**22**
Algeria	**5**	**2**	**0**	**3**	**2**	**12**
Tunisia	**5**	**2**	**0**	**2**	**0**	**9**
Middle East Total	**11,230**	**2,218**	**111**	**6,494**	**834**	**21,151**
Global Total	**231,186**	**135,151**	**17,838**	**114,603**	**28,154**	**526,932**

International student enrolments in Australia from the region have increased from 5,000 in 2003 to over 20,000 in 2013. In value terms for the 10 years to 2012-13, the value of education exports grew ten-fold, from $71 million to almost $700 million. This strong growth in student numbers has not been uniformly experienced across the Middle East, and enrolments from the Middle East as a whole have declined by around 15 per cent since 2010 due to competition from other countries, the strong Australian dollar, and domestic education policies that have encouraged students to attend branch campuses of foreign universities in their own countries, rather than study abroad. Middle East

Embassies have also commented that they consider Australia's visa processes more onerous than those of other education providers.

Some Middle East countries are increasing expenditure on education, particularly higher education, to meet the needs of their increasingly young populations. Particularly notable is the increase in spending by Saudi Arabia, Qatar, and Oman. Demand for vocational education and training is also growing, as governments seek to reduce their dependence on foreign labour, address domestic skill shortages, and tackle growing unemployment. Some countries in the region are taking steps to improve participation by women in social, economic and political development, providing yet further opportunity for Australian educational institutions.

Australian companies are not only involved in recruiting students, but in many cases they have also fostered relationships with governments and locally-based educational institutions. Many Australian institutions are engaged in the delivery of in-market education programs, engagement with government scholarship programs, and research collaboration. Australian universities have more than 100 international agreements with partner institutions across the Middle East covering student and academic exchange, and research collaboration.

The Department of Education administers the Australia Awards Endeavour Scholarships and Fellowships, as well as several student mobility programs that facilitate student and academic exchange with the Middle East. Between 2007 and 2014, 128 students from the Middle East were awarded Endeavour Scholarships.

Australia's ability to tap into international scholarship programs established in the Middle East will be important to increasing our market share. The largest and most high-profile of these is Saudi Arabia's King Abdullah Scholarship Program, which was established in 2005. The King Abdullah Program funds approximately 125,000 students to study overseas annually. Other countries with substantial scholarship programs are the UAE, Libya, Qatar, Oman, Kuwait, and Iraq.

While national scholarship programs have driven up international student enrolments, they have also introduced significant variability into the recruitment process. The Global Financial Crisis and the Arab Spring aftermath have impacted negatively on individual scholarship programs as well as the ability of self-funded students to finance their overseas study. Enrolments from countries that have experienced major upheaval - such as Libya, Egypt, and Syria - have declined sharply in recent years.

As an alternative to paying for students to study abroad, several Middle East countries are attracting foreign education providers to establish operations in their markets. Already the UAE and Qatar are recognised as global education hubs – there are now 37 foreign universities established in the UAE, 10 in Qatar and three in Bahrain. Australian universities have been part of this trend. Wollongong University opened one of Australia's first overseas campuses in Dubai in 1993, and now enrols more than 4,000 students annually in its Wollongong Dubai campus. Murdoch University also opened a Dubai campus in 2008. The Australian College of Kuwait has 2,500 students.

Australian TAFEs, in partnership with local providers, are also successfully delivering programs in a number of Middle East markets. Five TAFEs deliver programs in Kuwait, four in the UAE and one each in Bahrain, Qatar, Iran and Saudi Arabia. Together these institutions deliver more than 70 courses to almost 4,000 students. There are also two Australian schools in the UAE – Victorian International School of Sharjah and the Australian International School.

Maintaining engagement with governments across the Middle East will be critical in reinforcing Australia's image as a world class provider of education services. However, government-sponsorship, people-to-people links, and purchasing power also have a strong impact on the market.

Travel

Australia's two-way travel services trade with the Middle East was worth $1.7 billion in 2012-13. This was a modest decrease from 2011-12, primarily due to a halving in the value of travel services exported from Egypt to Australia in the two years from 2010-11 to 2011-12 (from $122 million to $64 million), reflecting the downturn in Egypt's tourism industry resulting from political and security issues in that country.

The balance of travel services trade with the Middle East is in Australia's favour: in 2012-13 we exported $930 million of travel services and imported $729 million. Australian exports of travel services to the Middle East in 2012-13 were up from $919 million the previous year. Modest decreases in our exports to Egypt, Israel, Syria, and Saudi Arabia were more than offset by minor increases in exports to the UAE, Kuwait, Qatar, and Iran.

Australian travel services exports to all Middle East countries were led by Saudi Arabia ($349 million), the UAE ($150 million) and Iran ($144 million). In our smallest travel markets, Australia exported only $1 million each to Yemen, Tunisia, and Algeria.

Travel services include business travel, education-related travel, and other personal travel services. Just under half of Australia's global travel services exports are for **education-related travel services**. However, in the Middle East market, education-related travel exports account for over two-thirds of our travel-related service exports ($682 million from total travel services exports of $930 million in 2012-13). This reflects the relative importance of our education trade services with the Middle East. Given the high per capita income of the Gulf states, and the strong people-to-people links with Lebanon (approximately 76,450 people born in Lebanon are living in Australia), Egypt (36,533), Iraq (48,169) and Iran (34,454), the relative dominance of education-related travel reflects an underdeveloped tourism services trade with the Middle East.

The value of Australia's exports of education-related travel services in 2012-13 was an increase of nearly 95 per cent compared to the value of these exports in 2007-08. This was primarily due to an increase in exports to Saudi Arabia to $330 million from $143 million in 2007-08.

Australia's top education-related travel services export destinations in the Middle East

Country	Value of 2012-13 education-related travel services exports (million)	Value of 2007-08 education-related travel services exports (million)	Percentage change (%)
Saudi Arabia	330	143	131
Iran	128	48	167
Libya	49	5	880
Kuwait	38	5	660
Lebanon	25	20	25
Iraq	21	3	600
Jordan	20	16	25
Oman	19	16	19
UAE	18	25	-28
Egypt	16	42	-62
Israel	9	15	-40
Bahrain	4	7	-43
ME Total	**682**	**350**	**95**

Tourism

In the Middle East, Tourism Australia's focus is on the UAE and Saudi Arabia, and its target customer is the high spending Gulf national, aged 35-54 years, travelling with family and friends residing in the UAE (Dubai and Abu Dhabi) and Saudi Arabia. The UAE delivered 34,000 visitors to Australia for the 12 months to end of March 2014, an increase of 20 per cent on the previous 12 month period (ABS data revised in March 2014). Data provided by the Department of Immigration and Border Protection indicates that approximately 15 per cent of these arrivals, around 5,000 people, are UAE nationals with expatriate residents making up the majority of visitors.

Tourism Australia's strategy for the Middle East is to maximise the growth opportunity in this region through the ongoing execution of the 'There's nothing like Australia' global campaign, with specific executions targeting the high spending UAE and Saudi Arabian nationals, in partnership with the States & Territories, particularly Tourism & Events Queensland (TEQ), and commercial partners, such as airlines.

Each year Tourism Australia invests almost $4.5 million in partnership with Middle Eastern airlines, a figure that is matched by them to promote travel to Australia. Tourism Australia has three year promotion agreements with both Etihad and Emirates Airlines that commenced in 2012. In 2013, for example, Tourism Australia partnered with Etihad Airways, Tourism Victoria and TEQ in the UAE, Saudi Arabia, and Qatar promoting holiday packages and flights into Brisbane and Melbourne.

In addition, Etihad Airways is a key partner in the delivery of Tourism Australia's flagship travel distribution event this year – The Australian Tourism Exchange, taking place in Cairns 11-15 May 2014. Tourism Australia have partnered with Qatar Airways when they launched their services to Australia, and are currently in discussions with them on ongoing partnership activity globally. The agency also works with Singapore Airlines and Malaysian Airlines in this market and will continue this partnership approach with airlines and state and territory partners in 2014-15.

Tourism Australia supported Austrade's Australia Unlimited programs and participated with tourism trade events in this market, such as the Riyadh Travel Fair in Saudi Arabia. This type of activity will be ongoing in 2014-15, and will include the relaunch of the Aussie specialist online training program for local travel agents, helping to improve the skills and knowledge of agents to more effectively sell Australian tourism products.

Potential exists to increase tourism visitors from the region, with Tourism Australia estimating the market will be worth over $1 billion to the Australian tourism industry by 2020.

The on-line visa to Australia available for GCC nationals is internationally competitive, providing for multiple-entry for three months' stay, validity of two years, and approval within 24 to 48 hours. With over 13,800 Gulf students studying in Australia, family visits provide an extra incentive to Gulf nationals considering a holiday in Australia.

INVESTMENT

Investment is a vital engine of growth in the Middle East, helping to reduce poverty and create jobs amid significant change. For many countries in the region, it is a means to diversify economies and introduce a structural safeguard against overdependence on dominant resource sectors. For other countries, it is increasingly a reflection of demographics. Comparatively young populations have precipitated an urgent need to improve workforce skills and create new opportunities. Expanded investment programs are seeking to draw in expertise and foster dynamism, whether to capitalise on existing wealth or to fuel development following crisis and conflict.

In some parts of the Middle East region there are already significant domestic and outwards investment flows. Ambitious domestic infrastructure programs, from Morocco’s extensive housing and rail projects to major infrastructure projects planned across the Gulf, are boosting economic activity. The GCC continues to rise as an international financial, investment and trading centre, through both its own sovereign wealth and role as a safe haven for funds flowing from unstable economies in the region. It is looking to invest resource income funds in foreign assets, including to achieve food security objectives. Historically, the region’s closest economic ties have been with Europe. But the Middle East is also turning to Asia. China is likely to become the Gulf’s most important economic partner by 2020, according to an Economist report.

Investment in Australia

Official ABS investment data does not capture the full extent of investment flows between the Middle East and Australia, including due to transactions through third countries. In recent years there has been significant investment in Australia by UAE, Qatar, Kuwait, and Saudi Arabia interests. According to ABS data, in 2013 there was a total of $21.9 billion in investment from the region in Australia. ABS data indicates that largest proportion of Middle East investment in Australia in 2013 came from the UAE, which totalled an estimated $17.2 billion (making them our 13th largest investment partner overall). The UAE has mainly invested in infrastructure and natural resources projects. ABS data had Saudi Arabia’s investment into Australia amounting to $4.49 billion in 2013.

Australia has a reputation in the region for stable returns from long-term investment. There is a major opportunity to accelerate the existing growth, and to focus investment into priority areas. To date, **sovereign wealth funds** are the most significant investors. They have traditionally been passive, primarily undertaking portfolio investments and real estate purchases, with this handled by foreign and regional investment managers. However, sovereign wealth funds are increasingly interested in investment in complex infrastructure assets, including due to the long-term, stable returns, and comparatively lower risks.

Government-related enterprises are a related category of investor, with strategies that typically aim to build international partnerships and strategic alliances aligned with national economic and political objectives. In the case of GCC interests, they are looking to Asia and Australia to grow industries that are not present domestically. These may include food and agriculture, as well as energy efficiency and green technologies. **Gulf-based central banks**, too, are investing their petrodollars in foreign assets, mainly as cash and in government debt, as a means to stabilise their currencies against undue fluctuation. **High net worth individuals and family offices**, and **private companies** are also large investment players.

Sovereign Wealth Funds – Gulf Cooperation Council

SWF Institute Ranking 2014 – By Assets under Management			
World Ranking	**Sovereign Wealth Fund**	**Assets US$ billion**	**Country of Origin**
2	Abu Dhabi Investment Authority	$773.0	UAE
3	SAMA Foreign Holding	$675.9	Saudi Arabia
6	Kuwait Investment Authority	$410.0	Kuwait
10	Qatar Investment Authority	$170.0	Qatar
18	Investment Corporation of Dubai	$70.0	UAE
21	International Petroleum Investment Company	$65.3	UAE
23	Mubadala	$55.5	UAE
40	Emirates Investment Authority	$10.0	UAE
41	State General Reserve	$8.2	Oman
42	Mumtalakat Holding Company	$7.1	Bahrain
47	Oman Investment Fund	$6.0	Oman
51	Public Investment Fund	$5.3	Saudi Arabia
59	RAK Investment Authority	$1.2	UAE
Undisclosed assets			
	Abu Dhabi Investment Council	n/a	UAE
Source: Sovereign Wealth Fund Institute			

Sovereign Wealth Funds – Other Middle East and North Africa

SWF Institute Ranking 2014 – By Assets under Management			
Ranking	**Sovereign Wealth Fund**	**Assets US$ billion**	**Country of Origin**
16	Revenue Regulation Fund	$77.2	Algeria
20	Libyan Investment Authority	$66.0	Libya
22	National Development Fund of Iran	$58.6	Iran
33	Development Fund of Iraq	$18	Iraq
61	Palestine Investment Fund	$0.8	Palestinian Territories
Source: Sovereign Wealth Fund Institute			

Austrade's investment attraction activities in the region are primarily focused on Gulf sovereign wealth funds, particularly those located in the UAE, Kuwait, and Qatar. The Kuwait Investment Authority (KIA), for example, is the sixth largest sovereign wealth fund global, with total assets under management of US$410 billion. KIA says it has over US$7 billion invested in Australia. Major family and government interests in Kuwait and neighbouring countries show a strong interest in further investment in Australia. Social and economic infrastructure, agriculture, tourism-related assets, and energy supply are key sectors being targeted in Australia.

A key focus of investment has been **agriculture and food security**. GCC states are investing heavily in securing reliable supplies of high quality food. Qatar, especially, has been a regional source of investment in Australia's agriculture sector. Hassad Food, owned by the state's sovereign wealth fund, targeted Australia with its first overseas investment in 2009, and its investment holdings (which include meat and grain processing) here now total around $400 million. Hassad's Australian subsidiary now employs over a 100 full-time staff and owns 14 properties in Australia, totalling 286,000 hectares of pastoral and cropping land.

Further investments in Australian food and agriculture from the Middle East are projected, to meet food security objectives. Domestic legislation limiting water usage for grain and fodder has underscored this in the important Saudi market. The risk of price shocks, and weak food bowl investments in Africa, have accelerated the agenda. Saudi investors such as Arasco, a milling firm, and Saudi Agriculture and Livestock Company (SALIC), hold interests in meat and grain. The Al Jabri and Al Khalaf Groups have also invested in sheep farms across West and South Australia.

Australia's **resources and energy** sector has also attracted significant interest from the region. The Kuwait Foreign Petroleum Exploration Company has stakes in a number of oil and gas fields and is a partner in the Wheatstone Liquefied Natural Gas (LNG) project in Western Australia. Qatari engineering, procurement, and construction company Petroserv made a major investment in LNG services with its acquisition of a 49 per cent stake in Brisbane-based firm Bothar Boring and Tunnelling in June 2013.

Chemical and mineral processing is also a large component of Middle East investment interest. Saudi-based Cristal is a world-leading producer of titanium dioxide and other titanium chemicals. Through subsidiaries, it operates two mineral sands mines in the Murray Basin and one in West Australia, as well as separation and processing plants. Qatari interests have also invested in iron ore and have expressed interest in broadening their resources investment. Another major Gulf investment vehicle, the Abu Dhabi Investment Council, focuses more on petrochemicals and, together with consortium interests, has recently bought Royal Dutch Shell's downstream Australian assets for approximately $2.4 billion. Additionally, Emirates Global Aluminium, which has the fifth largest smelter in the world, sails over 100 vessels of alumina from West Australia to the UAE each year.

Middle East interests are well-represented in consortia managing **infrastructure assets** in Australia. The Abu Dhabi Investment Authority (ADIA), which is believed to be the second largest sovereign wealth fund in the world, has invested in groups that hold leases over port facilities in Brisbane, Sydney, and Port Kembla. Its local subsidiary, Tawreed Investments, has also entered a consortium to buy Queensland Motorways with a $7.05 billion investment. ADIA's activity has helped attract interest from other funds. Dubai-based DP World recently acquired P&O Ports and operates four terminals in Australia.

Tourism infrastructure investment activity by Gulf institutional investors is expected to continue to remain high, with appetite in the region for tourism-related investment. Besides these hotel investors, there are also some well-established real estate developers in the Gulf, with international experience in mixed-used developments. The Gulf's major airlines are interested in Australia's tourism sector, with Emirates Airlines investing directly into the Wolgan Valley Resort eco-tourism project. ADIA is also the largest hotel owner in Australia, acquiring 31 properties from the Accor chain, for around $800 million, in 2013. A real estate venture by the Investment Corporation of Dubai (which has a portfolio that includes Emirates National Oil Company and Emirates Airlines) has seen it take up an equity interest in the One&Only Hayman Island resort, due to be re-launched in July 2014.

Gulf-based sovereign wealth funds have also shown increasing interest in investing in emerging areas of innovation, including in **advanced manufacturing and services**, advanced materials, health, as well as research and development. This suggests there is potential to attract investment beyond traditional areas like agriculture or resources. For example, the UAE-based Mubadala fund has an investment portfolio spanning multiple sectors including aerospace, semiconductors, renewables, financial services, healthcare, ICT, infrastructure, real estate, and utilities. Its global partnerships include international majors such as Airbus, Boeing, General Electric, Siemens, Cleveland Clinic, Shell, Total, and The Carlyle Group. Mubadala is understood to be preparing an investment committee report on Australia, following a visit in February 2014.

Australian Investment in the Middle East

The total stock of Australian investment in the Middle East is small, and is directed mainly at the Gulf. In 2013, the total amount recorded in ABS data was $2.21 billion, though, as noted above, this does not necessarily reflect all investment transactions. Of this amount, the data indicates $1.3 billion was invested in the UAE, due in part to its resource wealth and investment appetite. Of the other investment destinations, $618 million was invested in Israel and $171 million in Egypt. Smaller amounts were recorded for Qatar ($42 million) and Oman ($24 million).

The mining sector is a particular focus for Australian investment interest in the Middle East. Centamin operates the Sukari gold mine in Egypt, while Gippsland Limited is pursuing Egyptian tantalum and tin projects. Terramin Australia is conducting a feasibility study of a lead and zinc project in Algeria. Kasbah Resources is exploring tin and gold projects in Morocco, while Celamin is conducting phosphate, lead, and zinc scoping studies in Tunisia. Alara Resources is examining gold and copper opportunities in Oman, and zinc, gold, and copper in Saudi Arabia. Woodside Petroleum continues to examine a stake in the major Leviathan offshore gas project in Israel, and planned oil and gas project tenders in Lebanon have also attracted interest.

COMMERCIAL CHALLENGES

Challenges for Australian Trade and Investment in the Middle East

Business Environment

Distinct from more traditional European and North American markets, the Middle East is unfamiliar terrain for many Australian businesses. The region's distance from Australia, as well as perceptions of the security environment and cultural differences, have made some wary of entering the market, even when significant opportunities exist. Views of Middle East countries as being conservative and authoritarian are common, but do not appreciate the diversity of the region, nor its complexity. A belief that such differences cannot be bridged not only acts as a disincentive for potential exporters but may slow Australia's engagement with a vital source of foreign investment.

The business environment of the Middle East does contain structural and practical differences from Australia that some Australian interests can struggle to navigate. Whilst some countries, such as Qatar, Israel, and Oman, have introduced systemic reforms to attract commerce (resulting in high competitiveness ratings, according to the World Economic Forum), others in the region are lagging behind. Factors such as bureaucratic inefficiency, policy instability, lack of infrastructure, levels of workforce skill, and centralised or opaque decision-making are cited as hindrances to business.

Understandably, countries in the region recovering from political upheaval or conflict, and those struggling with the spill-over effects of such turmoil, are less able to draw in foreign business. Yemen, Iraq, Libya, and Egypt, among others, remain difficult places for Australian (and other foreign) businesses. Limited access to financing and unstable local markets, as well as more direct impacts from corruption and poor security, are concerns. Despite this, in some instances there may be potential gain from early entry into these recovering markets that outweighs current risks. On a practical level, rising real estate costs and often elaborate processes for business registration can slow expansion and diminish investment appetite. These obstacles can sometimes be mitigated through market research and by engaging local expertise.

Differing legal regimes present some challenges. Application of Sharia law introduces an element of incompatibility that some Australian companies may find difficult. Litigation, in particular, has been highlighted as a particularly challenging area. In some Middle East countries, the lack of corporate bankruptcy laws, contract laws that appear to favour local interests, and reliance on debtor's courts to pursue claims, pose a risk for some businesses. Some Australian companies operating in the UAE, for example, have experienced non-payment or project delays due to disputes with local contractors. Conversely, rules about personal liability for corporate losses, and criminalisation of behaviour such as defaulting on cheque or bill payments, may cause potential investors to be reticent.

Market Access Barriers

There are a range of tariff and non-tariff barriers across the region that can impede Australian trade and investment. Most key tariffs in the GCC are at 5 per cent, however significant benefits would accrue to Australian business in critical sectors if tariffs were removed under an FTA. Such a successful negotiations outcome would also ensure that Australian business would not be disadvantaged by tariff changes and FTA agreements that may benefit our key competitors in these markets. Tariff rates remain high in Egypt, and a planned new schedule in Iraq would see rates rise in sectors of interest from the current 5 per cent. Some North African markets also set high tariffs for Australian meat imports.

Non-tariff barriers are also reported to be significant in some Middle East markets. Meat and Livestock Australia has raised concerns over maximum entry age and shelf life limitations for meat in Egypt and parts of the GCC. In particular, short expiry dates for chilled vacuum-packed meat are considered the single biggest obstacle to growth in beef and lamb exports to the region. These restrictions jeopardise the viability of container exports of these products. Expansion of this timeframe would provide a major opportunity for Australian farmers. Other barriers include high insurance costs for shipping, and onerous pre-shipment container inspection requirements for Iraq. Industry has also expressed concerns about excessive document legalisation fees – levied by container – for some GCC destinations. Phytosanitary requirements have been raised as an issue, and growth in certain Middle East markets has reportedly slowed by technically onerous importer labelling regimes.

Regulatory constraints are also claimed as an impediment to Australian business. This has particularly affected food imports to the region. In the UAE, the lack of a centralised regulatory framework for imports can result in delays and added costs for Australian exporters, who are also required to pay large fees for certification of documents and other administrative services. Such transaction costs, and resulting impacts on transit time and shelf life for fresh produce, can reduce the competitiveness of Australian goods. Licensing regimes in Saudi Arabia are also cited as an area of concern for Australian trade, with registration required by both the exporter and importer on every item sold in the Saudi market. Introduction of new freight capacity between Australia and hub countries in the Gulf has addressed some logistical issues, but efforts to provide food and agricultural goods are still complicated by regulatory burdens.

As part of a push to workforce indigenisation, several Middle East countries (such as Saudi Arabia and the UAE) impose local partner requirements on foreign business. Finding an appropriate commercial counterpart has proved difficult for Australian business in some sectors. Additionally, a minimum number of national employees may be mandated. Training is often needed, with the costs typically borne by the company. Whilst businesses can benefit from local knowledge and insight, the related financial burden inevitably has a deleterious effect on the bottom line of companies.

Other Impediments

A lack of Australian brand awareness and historical loyalties to other markets may be hindering growth in the services sector. This is particularly evident in education, where Australian courses in the tertiary and vocational training sectors do not receive recognition given to higher profile US and UK providers. Recipients of scholarships from Middle Eastern governments may be required to enrol at universities in certain countries based on perceived course quality. In the case of the UAE, nine Australian universities are currently listed by the government as destinations for state-funded coursework, compared with 50 in the UK and 174 in the US. This reflects, in part, low awareness and regional visibility of Australia's education sector offerings. This is despite the longstanding local presence of providers such as the University of Wollongong and Murdoch University, which have campuses in Dubai.

Visa processes and travel restrictions represent another hurdle for Australian business. Business visa applicants for Middle East destinations are often required to be vouchsafed by local partners. This makes it difficult for new entrants to the market to conduct scoping activities outside of official delegations. Australia is subject to more visa restrictions than some trade competitors. Business representatives from Australia seeking to visit Saudi Arabia, for example, are eligible for a single-entry 30 day visa, whereas multiple-entry one year visas are available for US and UK business.

Single-entry restrictions, in particular for air travel hub locations, make it difficult to lower costs by combining visits to a number of countries across the region.

Given the personal (and status-conscious) nature of business in the region, and close ties between government and commercial interests, companies places importance on Government support. Australian business sometimes says limited official representation in the region is an obstacle. Of note, the Qatar Government and business has frequently cited the lack of an Australian embassy in Qatar as a key impediment to an expansion of commercial links. The lack of a permanent Australian diplomatic presence in North Africa outside Egypt is also bemoaned by these governments. Sector-specific functions like education and tourism promotion are largely handled remotely from outside the region. Whilst business councils offer opportunities to network and develop links between Australia and the Middle East, many are fragmented and represent narrow interests.

Obstacles Cited by Middle East Interests in Trade and Investment with Australia

A range of regulatory and operating environment issues in Australia have been cited by Middle East trade and investment interests. Just as Australian business can struggle to understand the nuances inherent to the Middle East, investors from that region may be less familiar with the Australian commercial landscape than Asian or European competitors.

Sovereign wealth funds – key investors in Australia – have raised concerns about Australia's taxation and the regulatory environment. Some of these relate to different tax structures, especially given corporate incentives and a lack of income tax provisions in the Gulf. With much investment from the Middle East focused on commercial and agricultural property holdings, investors query the implications of different ownership categories, and capital gains losses on private, equity-type investments. Withholding tax payable on Australian dividends is also claimed as imposing effective limits for foreign interests. Sovereign wealth funds have also queried Australia's approach to sovereign immunity. Whilst the principle is accepted in practice, the rules governing exception from tax for government monies are subject to some limits. Investors with significant, existing portfolios in Australia are always keen to know whether to expect increased scrutiny by the Foreign Investment Review Board, though mooted changes to the threshold level have been met with some enthusiasm. Nine countries in the region have expressed interest in negotiating a double taxation agreement with Australia. Whilst such agreements may not produce a direct tax benefit to Australia, they may foster the broader commercial relationship. There have also been a number of requests to negotiate Investment Promotion and Protection Agreements with Australia, with only one in place with a regional country to date (Egypt).

Investors from the Gulf have expressed concern at the absence of a longer-term finance (debt) market in Australia, as banks typically lend for seven-year terms and refinancing often occurs early in the asset life cycle, increasing risk and cost. News of the Australian Office of Financial Management's 20-year bond issue, however, has been positively received.

In the renewable energy sector, Masdar, a UAE investment group, has said it will put on hold any investment pending changes to the carbon tax and Renewable Energy Targets Review. It has indicated concerns that this may jeopardise the commercial basis of such projects in Australia.

Middle East Embassies in Canberra have also periodically raised concerns about Australian visa requirements, including for business and student visas. They have cited the length, complexity, and onerous requirements of visa applications.

COMMERCIAL OPPORTUNITIES

The complementarities between Australia and Middle East markets provide a range of opportunities for our trade and investment. The Gulf states are net food importers, while Australia is a net food exporter. Australia is a globally recognised leader in energy renewables at a time when many of the Gulf states are investing in renewables to create more sustainable communities. The region is set to host major global events that will require the engineering, construction, and project management skills that Australia offers. The rapidly expanding air links between Australia and the region (147 flights from July 2014**)** will open up growing connectivity between people and businesses and lead to further trade.

An FTA with the $1.7 trillion economies of the GCC has the potential to spur a transformational growth in trade and investment ties with these countries. Removing tariff and other barriers would likely spur significant growth in commercial linkages. The entry into force in April 2014 of the Australia-UAE *Agreement on Cooperation in the Peaceful Uses of Nuclear Energy* also provides Australian suppliers the opportunity to bid for contracts to supply uranium for the UAE's civil energy program, which is set to commence in 2017. Any future easing of sanctions currently imposed on regional countries could also offer opportunities, including in the significant market of Iran.

Agricultural Commodities and Food Security

With one of the highest population growth rates in the world and limited productive agricultural capacity, there is scope to increase food and agriculture exports to the Middle East. The Australian brand is well known in the region as representing clean, safe, and reliable product. Australia continues to supply meat into the retail, hospitality, and food ingredients sector across the Gulf, particularly in Saudi Arabia, where there has been a 470 per cent increase in chilled beef exports year-on-year. Australian companies are active in large-scale tenders for commodity and bulk products across meat, dairy, and grain. Three Australian companies last year won the tender to supply red meat worth US$40 million to the Moroccan Royal Armed Forces, bringing the total awarded contracts to US$52 million.

In 2013, Australia's agricultural exports to the Middle East region were $4.25 billion ($2.4 billion to GCC markets), accounting for 10.7 per cent of Australia's total agriculture exports, with growth of 19.6 per cent on the previous year. The UAE is a regional food hub, importing over 85 per cent of its own food, and re-exporting over 60 per cent of food imports to the region. The growing food processing industry in the Middle East, and in particular in the UAE, is the largest consumer of Australian agriculture commodities, incorporating mainly grains and livestock. Growth in air freight capacity as a result of the Qantas-Emirates partnership is a structural change to Australia's food and beverage export capability.

Gulf markets are accelerating their plans for staple food production and source diversity. There is increasing interest in investing in Australia's agricultural and food sectors to help avoid the risk of acute price shocks and food insecurity. Concern about food security is being driven by the disappointing performance of food bowl investments in East Africa and the increasing global demand for staple, quality foods. Australia is one of the few low risk, reliable, food safe, and high volume exporting countries available for GCC countries to invest in, and their current interest is heightened because of this.

Live Animal Exports

The Middle East is expected to regain its prominence as a major market for our livestock exports, particularly for sheep and cattle. Competition from suppliers in North Africa, political developments in the region, the introduction of our ESCAS system, and the high Australian dollar have all contributed to the short term decline in livestock exports over the last four years. Kuwait is Australia's largest market for sheep, accounting for 43 per cent of all trade. Access to new markets and Australia's more competitive livestock are expected to increase exports in the medium term. In April 2014, Minister for Agriculture Joyce announced the recommencement of live animal exports to Bahrain under the ESCAS regime, while in March 2014 he also announced the resumption of the trade with Egypt.

Infrastructure

The Gulf states are prioritising infrastructure development, with an emphasis on transportation, housing, education facilities, and healthcare. For example, the Saudi Government has allocated US$120 billion for social infrastructure, including schools, universities, and hospitals. Infrastructure projects also include the US$22.5 billion Riyadh Metro and the 900 kilometre Saudi land-bridge. Elsewhere, freight and passenger rail has become a 'nation building' mandate across much of GCC. Requiring an estimated US$106 billion investment, the proposed GCC rail network will connect Oman, UAE, Saudi Arabia, Qatar, Kuwait, and Bahrain by 2017. The strategic imperative of a rail link between GCC and Oman is noteworthy given it will allow oil exports to bypass the Straits of Hormuz. The UAE alone is developing a 1,500 kilometre network, at an estimated cost of US$11 billion. Similar climatic conditions in the region match Australia's long-haul and bulk handling rail capability. Kuwait's five year National Development Plan will spend US$107 billion on upgrading infrastructure and improving the efficiency of the oil industry. Libya is also inviting foreign companies to bid for major infrastructure contracts to rebuild its cities damaged by the civil war.

Automotive Components

Vehicle exports to the GCC in 2013 totalled $1.1 billion. Saudi Arabia is the largest single export market for Australian made vehicles, with other key markets including the UAE, Oman, and Kuwait. This trade will disappear as Australian automotive manufacturers wind down operations in Australia. Work will need to be undertaken to maintain and potentially expand exports of automotive parts and aftermarket products to the region.

Saudi Arabia has expressed interest in developing its own car industry, to which Australia could supply automotive components. The Australian Automotive Aftermarket Association attends Automechanika Dubai every year, and has indicated a desire to assist manufacturers to access the Saudi market.

In Morocco, the low duty zone in Tangier has provided incentives for global car suppliers to establish operations that serve the European market. Renault, with the construction of a second assembly line by 2014, will increase capacity from 200,000 to 340,000 vehicles per year. Toyota is also considering new operations in Tangier, providing further opportunities for automotive components.

Services

Australian design, engineering, and construction companies are already well represented in markets of the Gulf, contributing to the Dubai Metro, Dubai Airport, sewerage treatment plants, water desalination, hotels and buildings, master planning, and gas and power plant design. The UAE's strategy to position itself as a business and financial hub is creating potential for Australian firms. Opportunities exist in finance and banking, business services, legal services and consultancy.

Growth in the hospitality industry in the region, particularly in the Gulf, will provide opportunities for design, engineering, construction, food and beverages, and in particular tourism training. Under the UAE's *Tourism Vision for 2020*, Dubai is looking to double the 10 million tourists received in 2012 to 20 million per annum by 2020. Dubai currently has 85,000 hotel rooms and is aiming to provide 140,000–160,000 by 2020.

The UAE, Bahrain, Qatar, Kuwait and Saudi Arabia all have growing interest in sports and major events creating demand for services and related tourism and infrastructure projects. Qatar's successful bid to host the FIFA World Cup in 2022 has propelled a US$100 billion construction boom, including 12 stadiums, 90,000 hotel rooms, and a new airport. The UAE will host the World Expo 2020 and is also considering bidding for the Asian Games 2019, FIFA Youth Games, and the 2024 Olympics. Oman is promoting high value tourism through its Vision 2020. Expecting a sixfold increase in arrivals by 2020, the Muscat International Airport will be upgraded and a range of residential and resort projects are also planned.

Education

There are extensive opportunities for education providers to pursue in the Middle East, with young populations driving growth in demand for education. A number of markets in the region, such as Saudi Arabia, are developing their vocational education and training sector to reduce the dependence on foreign labour, address domestic skill shortages, and tackle growing unemployment as they look to transition their economies away from oil dependence. In the most recent round of tenders for new vocational training colleges, Aviation Australia won a large contract to manage the Saudi Aviation College of Excellence.

The development of education systems in the region presents opportunities for Australian education providers to engage beyond traditional recruitment activities. There is potential to expand their level of engagement in the establishment of partnerships in curriculum design, qualifications framework development, quality assurance systems, and program delivery.

Across the region there is also significant investment in key industries such as logistics and transport, sustainable energy, agriculture, and building and construction. This investment relies on the availability of a skilled and educated workforce that is aware of global trends and developments. Many of these industries are in areas in which Australia has comparative strength. Australian education providers are well placed to assist and partner with in-market industry, education, and government in ensuring local skills capabilities are sufficient to support industry expansion.

Governments across the region also recognise the growing importance of increasing the research and development capabilities of their universities and research institutions. In March 2014, 22 Arab countries agreed to a regional strategy for science, technology, and innovation. Regional cooperation assists research collaboration, allows for the transfer of research outcomes and encourages local innovation. Australian institutions already engage in research collaboration with a number of institutes in the region and there will be increased opportunity to collaborate in specific areas of mutual benefit such as dry-land farming and agriculture, sustainable energy, and green building and construction.

STRATEGIES

Austrade and DFAT have in the past year intensified efforts to facilitate greater trade and investment with the Middle East region. A key vehicle has been supplementing business services and advocacy in the Middle East region via an annual regional promotion initiative - ***Australia Unlimited MENA*** (Middle East and North Africa). This event showcases Australia's capabilities in key trade and services sectors of interest, and promotes Australia as a premier investment and tourism destination. This year, to give the promotion added reach and prominence, Minister for Trade and Investment Robb opened and participated in the *Australia Unlimited MENA 2014* program in the UAE on 13-14 April 2014 and in Saudi Arabia on 16 April 2014. This was the largest Australian promotional campaign to be hosted in key Middle East markets and showcased Australian capabilities in education, agriculture and food, resource and water management, urban development, sports, and tourism. The campaign included associated events in Muscat, Kuwait City, and Rabat.

In conjunction with the Australia Unlimited program in April 2014, Austrade and DFAT also arranged the **Council for Australian Arab Relations sponsorship of 'Food Water Energy Nexus' policy seminars** in Abu Dhabi and Riyadh. These seminars brought together Saudi, Emirati, and international experts to discuss issues that are a challenge to Australia and the region. The seminars helped promote Australian expertise in these sectors, with a view to facilitating new commercial opportunities.

Mr Robb's visit - the first by a Trade Minister to the Gulf since 2008 – was also aimed at building momentum towards restarting **FTA negotiations** with the GCC. Mr Robb's visit also provided an opportunity to finalise the 2012 Australia-UAE *Agreement on Cooperation in the Peaceful Uses of Nuclear Energy*, which opens a new market for Australian uranium producers.

Australia's **education services** to the Middle East are facing increasing competition from the United States, Canada, New Zealand, the United Kingdom, and Ireland. During his April 2014 visit to Riyadh, Minister Robb supported 27 Australian education institutions at the International Exhibition and Conference on Higher Education, a major global education exhibition. This initiative followed recommendations from an outreach seminar organised by Austrade and DFAT in September 2013, with participation by major Australian education providers and state agencies. The objective was to better coordinate approaches to attract tertiary students from the Middle East to Australia. Austrade and DFAT are actively working with education providers to reinforce Australia's reputation as a quality provider of higher education, both in Australia and in-market.

During his April visit, Mr Robb also concluded a *Memorandum of Understanding on Higher Education, Vocational Education and Training and Research Cooperation* with the UAE, and the Government is negotiating a similar MOU with Qatar. The MOUs help reinforce Australia's status as a preferred educational provider to Emirati and Qatari students.

The business culture of the Middle East values **high level ministerial engagement** in promoting trade, and DFAT and Austrade have sought to facilitate increased ministerial contact. Recent visits by Australian ministers - highly valued by the host governments – have included: Prime Minister Abbott to the UAE in October 2013; the visit by Minister for Trade and Investment Robb to the UAE and Saudi Arabia in April 2014; the visit by Minister for Foreign Affairs Bishop to Jordan and Lebanon in April 2014; and that by Minister for Agriculture Joyce to Saudi Arabia and Bahrain in April 2014.

Focusing on the important food market, in February 2014, Austrade hosted Australia's involvement at ***Gulfood 2014***, the world's largest annual food and beverage show. Over 150 Australian companies attended and there were 58 Australian exhibitors, an increase of 65 per cent over the previous year. Austrade collaborated with state representative offices and Meat and Livestock Australia to deliver business briefings at this event. Austrade also supported a Victorian state government-led trade mission to coincide with *Gulfood*, including through events and buyer matching in Muscat, Abu Dhabi, Dubai, and Riyadh. DFAT Heads of Mission supported these events.

Austrade and DFAT are working actively to facilitate visits and meetings with sovereign wealth funds and high net-worth individuals to **promote investment**. This resulted in the recent visit to Australia by representatives of Mubadala (with US$55.5 billion assets under management) and another planned visit in 2014 by the major Abu Dhabi Investment Authority.

Increased **aviation services** between Australia and the region has flow-on benefits for Australian businesses and tourist operators. Seeking to take advantage of the major increase in direct flights between Australia and the Gulf, Tourism Australia is working to promote tourism from the Middle East to Australia. Not only do increased air links mean easier movement of people, they also provide transport for a wider range of time-critical agricultural produce and high quality foods. This is an area of opportunity for Australian businesses, which is being supported by the Australian Government.

Austrade is actively promoting Australia as a source of professional and infrastructure services and smart technology to support the Gulf's aspirations to host **major events**. Australia's hosting of the **Asian Football Confederation Asian Cup** in January 2015 is a key business opportunity for Australia, and will attract high-wealth individuals and business people from the Middle East. All six GCC countries have qualified along with Iraq, Iran, and Jordan from the region. Coinciding with the Cup, the *Match Australia Program* will promote Australian businesses' capabilities in major event services and infrastructure. It will provide an opportunity for businesspeople from the region to explore business and trade synergies with Australia. One area of particular potential is to use the event to promote investment into tourism-related infrastructure in Australia.

DFAT and Austrade are working closely with the Department of Agriculture to promote the **live animal export** trade across the Middle East. In those countries where exports have stalled, we are working with the Department of Agriculture to secure the agreement of relevant governments to resolve outstanding obstacles to resume the trade.

DFAT and Austrade will intensify engagement efforts with the various **Middle East business councils** in an effort to identify options for a more coherent and targeted business approach to the region. We will make use of DFAT's **Special Visitors Program** to introduce influential Middle Eastern business and government leaders to Australia.

With Australia's **development assistance** program now focussing on the Indo-Pacific region, the only remaining aid program in the region is for the Palestinian Territories. This program will continue to promote economic growth and institution building in the Palestinian Territories, with a view to assisting them become a viable state as part of a two-state solution to the Israel-Palestinian issue. Over time, it is also hoped these developments will present additional opportunities for Australian business. Separately, there are opportunities for Australian aid providers to win contracts with emerging international aid donors Qatar and the UAE.

RECOMMENDATIONS

While trade and investment linkages with the Middle East, particularly the Gulf area, are expanding rapidly, there remains potential for significant growth. This includes contributing to, and taking advantage of, opportunities presented by major economic transformation and investment programs in some key countries in the region. As noted above, in the past year there has been a reinvigorated focus by Austrade and DFAT in promoting expanded commercial relations with the Gulf, which included the visit by Trade and Investment Minister Robb to key markets the UAE and Saudi Arabia, the first visit by an Australian Trade Minister for some years. There are a range of initiatives underway which we propose to continue to advance - such as advocacy for, and negotiation of an FTA with the GCC – and which anticipate key events like AFC Asian Cup in 2015. Some additional proposals require further consideration, including Australian Government education and tourism work in the Middle East. Both Austrade's priorities and/or DFAT's Middle East Branch's economic diplomacy strategy include the major recommendations listed below. The key recommendations are:

1. A resumption of FTA negotiations with the GCC

An FTA has the potential to facilitate a transformative growth in trade and investment with GCC countries, an area with strong growth prospects and large investment capacity. Tariff elimination would allow Australian primary producers to remain competitive and would reinforce Australia's standing as a valued supplier, particularly given the GCC is increasing its focus on food security issues. Discussions have begun with GCC Governments and officials about a possible resumption of talks. This will remain a priority for Australian Government engagement with GCC counterparts.

2. Continued Promotion of Sovereign Wealth Fund and other Investment in Australia

Austrade and our Gulf diplomatic missions have been active in encouraging sovereign wealth funds to invest in Australia, and there have been some substantial new investments in recent years. During his April 2014 visit to the UAE and Saudi Arabia, Trade and Investment Minister Robb met key sovereign wealth funds and conveyed the message Australia was open for business and encouraged them to consider opportunities, including in northern Australia. As a result, a number of these funds and key personalities are interested in additional visits and investments in Australia. Austrade and DFAT will need to continue to work, including with State governments, to organise appropriate programs and promotional events. Ongoing briefings in market by senior Government officials, both Federal and State, on specific investment opportunities and updates on investment regulations and taxation issues will remain important.

3. Further Middle East-specific Commercial Promotion and Advocacy Activities

Given strong competition from market competitors, having a specific trade and investment promotion agenda for key markets in the Middle East will remain very important. Austrade's *Australia Unlimited* commercial promotion program held in the region in 2013 and 2014 has usefully showcased Australian capabilities in key sectors. The participation of Mr Robb in 2014 helped ensure high-level and media attention in the UAE and Saudi Arabia. We believe this promotion is an excellent vehicle for advertising Australia's commercial strengths and building business linkages, and plan for it to continue. Facilitating Australian involvement in the *Gulfood* promotion is also another high quality and effective initiative that will be continued. Last year DFAT and Austrade staff based in Abu Dhabi, Dubai and Riyadh conducted a series of GCC trade and investment promotion seminars across state capitals in Australia with the aim of increasing awareness of opportunities in this region. This attracted quite a lot of interest, and a similar activity is planned for October this year.

Looking forward, the AFC Asian Cup championship in Australia in January 2015 presents a unique opportunity to promote business links. Austrade's *Match Australia* initiative, which brings together business and sports promotion, will be particularly relevant. A promotion strategy for this key event will be developed. Further ahead, Dubai's hosting of Expo 2020 and Qatar's hosting of the 2022 Football World Cup finals will present a range of opportunities.

During April 2014 visits to the region, Trade and Investment Minister Robb, Foreign Minister Bishop, and Agriculture Minister Joyce have promoted Australia's commercial interests. This was a very valuable emphasis on the significance of the Middle East, and was appreciated by regional governments. Continued Ministerial engagement will continue to be important to advance Australia's commercial interests with the Middle East, where such high-level relationships are often key to securing commercial outcomes. In particular, the possibility of advocacy to support a number of large potential investment projects in North Africa and the Levant will be kept under active consideration.

4. Consideration of Australian Government Education Representation in the Region

While Australian education institutions and providers have made inroads into the region, with several having established a presence in the UAE and Kuwait, further opportunities exist, especially in technical and vocational training. Government-sponsored scholarships across the Middle East send students to Australia, however numbers from some countries have fallen in recent years. More work is also needed to promote the quality of Australian courses to decision-makers, local institutions, and potential students.

Having a dedicated education representative based in the region will support increased engagement in education, research and training, and facilitate stronger government and institutional linkages. Many of the education, research and training opportunities in the Gulf stem from the ability of the Australian Government to develop and maintain strong relations with governments in the region. Government decision-making in the region directs scholarship numbers, helps to catalyse institution-to-institution linkages, and provides leadership for the broader community's education choices.

Our posts in the region believe a specific Department of Education resource based in the region would go some way toward addressing many of the issues noted above and to ensure Australia received a greater amount of Government-directed education business. The resource would also assist in building collaboration and research linkages between Australian institutions and the region, increasing recognition of Australian qualifications, and creating flow-on benefit to bilateral trade and investment. There was previously a Department of Education position in Dubai, and this was withdrawn in July 2010. Given the ongoing significance of the Middle East region, including for inwards student numbers, we recommend that consideration be given to re-establishing a Department of Education position based in the Middle East. This is subject to new resourcing being made available.

5. Tourism Australia to Continue Marketing in the Middle East

Tourism Australia should continue its partnership approach to marketing Australia as a leisure and business tourism destination for visitors from the Middle East, in line with the potential value of these markets as identified under the Australian Government's Tourism 2020 strategy. Partnerships with the States and Territories, airlines, travel trade, and collaboration with Austrade and DFAT will continue to strengthen the impact of tourism promotional activities and the economic diplomacy agenda in the region. Tourism Australia could continue to assess the potential for expanding tourism promotion in the region, including around education-related travel and major events.

6. Austrade and DFAT to continue to work with State Governments and Business Councils to present a more Unified and Coherent Approach to Promoting Australia's Commercial Interests in the Region

In recent years there have been many commercial promotion and business trips to the region by State and Local government representatives and business councils. There has been some good coordination with State Governments on major promotion events such as *Australia Unlimited* and *Gulfood*. However, feedback from the region, including from our diplomatic missions, suggests more could be done to present a unified and strategic team Australia approach to commercial promotion. In particular, some visits by business councils have not been well planned and coordinated, including with our diplomatic missions, and have created discordant messaging. These instances have not helped advance the general reputation of Australian business in markets. A key issue is the plethora of councils often working at cross purposes with each other, and prompting confusion in some markets where there is one peak commercial body. There is an opportunity for more discussions with councils about developing a more strategic approach towards the Middle East.

7. Examination of Australia's Diplomatic Footprint in the Middle East

Having a diplomatic mission based in important markets is often central to expanding commercial links and garnering a share of host Government business. Subject to budget issues, continued consideration could be given to expanding Australia's diplomatic footprint in the region.

COUNTRY SUMMARIES

ALGERIA

Commercial Relations Overview
Annual two-way merchandise trade between Australia and Algeria in 2013 was over $85 million, a major increase from $4 million in 2012. Of this amount, almost $82 million comprised crude petroleum exports from Algeria. There is negligible investment in either direction. Few Australian companies are active in Algeria.

Challenges and Opportunities
Challenges for investors include restrictive foreign investment rules, a centrally-controlled economy and opaque governmental decision-making. Algeria ranked 153 of 189 nations on the World Bank's Ease of Doing Business index in 2013. Significant changes to the business environment are unlikely in the near future.

There are also security concerns, particularly outside the capital Algiers. These came to the fore during the January 2013 crisis near In Amenas, in which terrorists targeted a gas facility. DFAT advises Australians not to travel to most of Algeria's border areas because of high security risks.

A major oil and gas exporter to Europe, Algeria does offer prospects in the resources sector.

BAHRAIN

Commercial Relations Overview
Bahrain has a population of around 1.2 million people and a GDP of around $30 billion.

Two way trade with Bahrain in 2013 totalled $740 million, up 237 per cent from 2012. Australia is Bahrain's 8th largest import source, totalling more than $75 million in 2013, a near 12 per cent increase from 2012. Australia's exports increased to $665 million in 2013, with alumina, meat, live animals and dairy products dominating the trade. Confidential items of trade account for a significant portion of exports. Australia's major import from Bahrain is aluminium. Few Australian companies maintain an office in Bahrain, typically working instead from regional offices in Saudi Arabia or the UAE. In 2014, there were 74 Bahraini students enrolled in Australian education institutions.

Challenges and Opportunities
The livestock trade was suspended in August 2012 (due to the *Ocean Drover* incident, in which Bahraini authorities expressed concern over the health of a shipment of Australian sheep). The trade resumed in March 2014, and the market presents a major opportunity. Prior to the 2012 suspension, Australia had exported around 400,000 sheep per year to Bahrain. Bahrain ranked 46 on the World Bank's Ease of Doing Business index in 2013.

Bahrain is an extremely water-stressed country, and is working to develop more arable land, improve productivity, and optimise available water resources. This also presents opportunity for Australian business.

EGYPT

Commercial Relations Overview

Two-way merchandise trade with Egypt totalled $497 million in 2013, a decline of nearly 13 per cent from the previous year. Of this, over $470 million represented Australian exports, a decline of just over 8 per cent from 2012. Exports mostly included food and agricultural products (primarily wheat). Australian imports totalled nearly $26 million, a fall of over 54 per cent from 2012. Australian imports included floor coverings, clothing and road motor vehicles. A small number of Australian companies are active in Egypt, including resources companies Centamin and Gippsland.

As the region's most populous country, with a significant middle class, Egypt has the potential to be a much larger market for Australian exports. Longstanding structural and regulatory barriers are a disincentive for investors. The turmoil of the last three years has also been a deterrent for investors. Future growth in trade and investment with Egypt will depend largely on improved security and political stability. Trade and investment opportunities are expected to become somewhat clearer following presidential elections in May 2014 and parliamentary elections later in the year. A recent welcome development was the announcement on 20 March 2014 that Australian and Egyptian officials agreed to recommence the bilateral livestock trade under ESCAS requirements. The livestock trade had been suspended since 2012 (cattle) and 2006 (sheep).

Egypt is the only Middle Eastern country with which Australia has concluded an Investment Promotion and Protection Agreement. The Agreement entered into force in 2002.

Challenges and Opportunities

Political and security concerns represent the most significant impediment to trade. Investor confidence will also depend on the Egyptian Government undertaking a program of economic reforms. Some Australian companies have faced difficulties in securing regulatory approval from the Egyptian authorities. Egypt's tariffs generally remain high. Egypt is also considering adopting a ban on the use of hormone growth promotants for chilled and frozen meat imports. Egypt ranked 128 of 189 nations on the World Bank's Ease of Doing Business index in 2013.

Resumption of the live animal trade is a significant opportunity for Australian exporters. A possible visit to Australia by the Chairman of the Egyptian General Organisation of Veterinary Services would aid dialogue on live exports. Subject to political developments in Egypt, agriculture, education and mining could also offer opportunities in sectors of Australian expertise.

IRAN

Commercial Relations Overview

Australia imposes UN and autonomous sanctions on Iran. Australia's trade and investment relationship with Iran has declined but is not inconsequential. In 2013, two-way trade amounted $303 million, a decline of 33 per cent from 2012. Trade is dominated by Australian wheat exports, which amounted to $277 million in 2013, a decrease of more than 35 per cent from 2012. Imports accounted for over $26 million, a 5 per cent decline from 2012. Key imports from Iran are floor coverings, fruit and nuts. There is negligible investment in either direction. There are some recorded service exports, with around 900 student and 9,000-10,000 visit visas issued in recent years.

Iran's population of over 75 million is well-educated and its sophisticated private sector comprises around 30 per cent of the economy. Iran has the world's fourth largest proven oil reserves and the world's second largest natural gas reserves. Once the third-largest exporter of crude oil, international sanctions saw Iran' crude oil exports drop to 1.5 million barrels per day in 2012. Most of Iran's gas reserves are undeveloped. Iran is likely to remain a major exporter of oil and petrochemicals, as well as manufactured and intermediate goods within the region.

Challenges and Opportunities

Iran remains under UN and autonomous sanctions (Australia, the US, and EU) due to international concerns about its nuclear program. Some of these cover financial transactions with Iran and its oil and gas industry. International banks are wary of Iranian transactions. An interim six month Joint Plan of Action was agreed between Iran and the P5+1, and both sides are seeking to negotiate a comprehensive agreement on the nuclear issue before the deal expires on 20 July. Should sanctions be lifted or further eased, Iran will still face significant economic reform challenges, including corruption, and an opaque decision making environment. In 2013, Iran ranked 152 of 189 nations on the World Bank's Ease of Doing Business index.

Trade and investment opportunities will largely depend on a successful resolution of the nuclear issue. Iran will continue to be an importer of finished goods, particularly machinery, industrial inputs, food items and travel and educational services. The Australian Government is in discussion with the Iranian Government to finalise health protocols that would allow for the export of Australia livestock to Iran.

Due to the application of sanctions against Iran, the Australian Government does not currently undertake trade promotion activities with Iran.

IRAQ

Commercial Relations Overview

In 2013, two-way merchandise trade was $596 million, up 261.5 per cent from the previous year. This trade was dominated by Australian wheat exports, which amounted to $596 million in 2013, an increase of over 261 per cent from 2012. No significant import trade was recorded. We are working to broaden agriculture trade through acceptance of certification requirements for export to Iraq of live animals (cattle, poultry, goats and sheep), boxed meat and genetic material, as well as encouraging trade in other produce, such as rice.

Several Australian businesses have representation in Iraq in oil construction, heavy engineering, grains and provision of medical services. A number of Australian companies do business in Iraq without a local presence: at least two importing dairy and beef, and one delivering training and English testing services.

Iraq’s security environment has deteriorated since early 2013, and interest from Australian companies declined as a result. Scope for increased agricultural trade with Iraq was highlighted, however, by the February 2014 visit to Baghdad by Victorian Minister for Agriculture and Water, Peter Walsh. The constraints in operating in Iraq have not deterred all foreign investment. Some (mostly large) businesses have chosen to bear this risk in order to stake a claim in the market at an early stage.

Challenges and Opportunities

Significant obstacles to trade and investment include the security environment, dilapidated infrastructure (telecommunications, transport and power) and a private sector dominated by state-owned enterprises. Iraq's state-led approach has fostered complex bureaucracy and regulation, corruption, and poor business practices. Investors are critical of the Iraqi legal system and complicated business visa regime. Banks are seen as poorly governed. In the agriculture sector, pre-shipment inspection certificate requirements present difficulties for exporters. In early 2014, the Iraqi Government announced that a revised tariff schedule would be introduced. This will lead to eventual tariff increases on some products from the current flat of 5 per cent. Meat tariffs will increase to 10 per cent and cheese to 15 per cent. In 2013, Iraq ranked 151 of 189 nations in the World Bank’s Ease of Doing Business index. The Government is seeking to improve conditions for foreign companies, but this will be a long process.

Iraq's agriculture sector presents significant opportunities for export of Australian produce and technological innovation. The country relies on food imports including wheat, meats, rice and oils. Australian meat and other products are highly regarded by Iraqis for their quality but also due to concerns over genetic modification of food from other markets. A lack of infrastructure and processing facilities (such as grain storage) led the Iraqi Grain Board to seek further Australian participation in tenders. Officials have pointed to veterinary services, slaughterhouses, meat/poultry processing and agriculture machinery as sectors requiring investment.

Australian education qualifications are highly regarded by Iraq (particularly in agricultural and environmental science studies) and there is an opportunity to secure more scholarship students as the Government further expands its scholarship program. With plans to increase oil output (assuming the country’s infrastructure keeps pace), Iraq’s oil sector offers downstream opportunities for Australian business.

ISRAEL

Commercial Relations Overview

The Israeli economy has a GDP of about $290 billion (around the 50th largest economy in the world, one-sixth of Australia's) and a population of approximately eight million. Total merchandise trade with Israel was worth $918.8 million in 2013. Exports totalled only $228 million, a 3.2 per cent fall from 2012, while imports amounted to $691 million, a steady 2.6 per cent rise from 2012. Major exports include coal, live animals, and aluminium. Imports from Israel include pearls and gems, computers and related manufactured goods, telecommunications equipment, and plastic products. There is also defence related trade between the two countries.

Israel has a dynamic economy and a vibrant high-tech sector. It has strong credentials in defence, communications, information technology, medical and biotechnology, and engineering. It is credited with a culture of entrepreneurship and innovation and has a very high level of research and development spending (around 5 per cent of GDP). Its tertiary education system is considered to be strong, and an expanding oil and gas sector promises significant economic gains. Energy sector services and commercial research and development cooperation offer significant potential for our trade relationship.

Challenges and Opportunities

Australian trade with Israel can encounter relatively high transportation costs for Australian products, making lower added-value sectors (including many food exports) uncompetitive. Israel has a heavily regulated agriculture sector with entrenched barriers to trade, although it has recently lifted duties on some dairy and meat products, and is considering some tariff reductions for live animal trade (currently worth $78 million a year for Australia). Australia and Israel do not have a double taxation agreement, and Israel has sought one. In 2013, Israel ranked 35 on the World Bank's Ease of Doing Business index.

Australian companies are very well-placed to meet the capability needs of Israel's emerging energy industry. Discussions continue over a possible major investment by Perth-based Woodside Petroleum in Israel's Leviathan oil and gas field. If concluded, this would be a catalyst for a significant expansion in the commercial relationship. Other key opportunities include continued growth in livestock exports (cattle and sheep), research and development cooperation (in environmental technologies, cyberspace, biotechnology and agro-business), and inwards investment from Israeli technology companies.

Partnerships between Australian and Israeli companies are increasing in a number of sectors. Toll Energy, a major Australian logistics supplier to the oil and gas industry, recently signed an agreement with an Israeli company to represent them in Australia. Israeli companies such as Netafim (irrigation equipment) and Checkpoint (software) also invest in Australia. Research collaboration is strong, with Israeli technology firm AORA Solar working with the University of South Australia. Israel's Technion has also partnered with the University of Sydney on computing development projects. DFAT and Austrade will continue to promote the capability of Australian oil and gas sector firms. Austrade facilitated a visit to Israel by Australian energy industry leaders in June 2013. We will highlight opportunities for further research and development collaboration and will continue to seek agriculture sector liberalisation, including for niche areas where Australia has a competitive advantage, such as the live animal trade.

JORDAN

Commercial Relations Overview

Bilateral trade with Jordan centres on food items and live sheep. In 2013, total two-way merchandise trade was worth $216 million, up 13.4 per cent from 2012. Australian exports accounted for $204 million, a near 13 per cent increase from 2012, and are dominated by meat, live animals, and beef. Jordanian imports amounted to $12 million, a rise of nearly 24 per cent from 2012, and included salts of inorganic acids and metals, plus crude fertilisers.

Jordan is a small, relatively open economy and possesses features attractive to business, including a stable political situation, reliable infrastructure and a well-educated workforce. But exogenous shocks and structural issues have impacted on Jordan's economic performance. Its economy has been affected by the Syrian conflict and the burden of hosting Syrian refugees.

Challenges and Opportunities

Bureaucratic hurdles and poor business practices continue to present impediments to private sector activity. In 2013, Jordan ranked 119 on the World Bank's Ease of Doing Business index. To effectively do business in Jordan, companies need strong local relationships. Distance and the relatively small number of dual nationals can make securing these relationships challenging for Australian businesses, and the opportunities offered by Jordan's small economy are limited by regional standards. Australian companies have generally focussed on larger regional markets.

Nonetheless, opportunities for Australian business do exist and Jordan's economy is open and trade-focused by regional standards. There are prospects for Australia to expand in the sectors of education, high-end food, adventure tourism, construction and energy. Australia also has much to offer Jordan in dry-land farming and water management techniques, although these sectors remain dominated by donor funds.

Australia could increase the number of Jordanians studying in Australia (778 students in 2013). Jordanians generally undertake their bachelor degrees domestically and seek further studies overseas. Australian universities remain relatively unknown, and would benefit from stronger links with local universities, which allocate scholarships by institution.

Jordan is looking to diversify its energy portfolio to include LNG, renewable energies, and nuclear energy. Contracts already exist for some of these sources, but others, including renewables, could be expanded further. Jordan's own energy reserves, including oil shale, gas, and uranium, remain largely untapped, and opportunities exist for mining companies and mining sector service providers.

KUWAIT

Commercial Relations Overview

Two-way merchandise trade between Australia and Kuwait was $1.02 billion in 2013, up close to 5 per cent from the previous year. This figure is understated, as it does not include Australian products transhipped via the regional centre Dubai. Over $602 million of exports were recorded, an increase of over 17 per cent from the previous year. Imports totalled close to $413 million, a near 11 per cent decline from 2012. Australian exports are currently dominated by motor vehicles, agricultural products (livestock, wheat, meat, fruit and vegetables), processed food items, education, and tourism.

Imports from Kuwait are almost entirely petroleum products and fertilisers. The Kuwait Investment Authority (KIA, the Kuwaiti Government's sovereign wealth fund), has around US$7 billion invested in Australia. There is an additional approximately US$1 billion in private sector investment.

Challenges and Opportunities

Complex bureaucratic processes constitute the most significant impediment to business. Prequalification and registration procedures can be onerous. Kuwait ranked 104 of 189 nations on the World Bank's Ease of Doing Business index in 2013.

Approximately six per cent of the world's oil reserves are located in Kuwait, and petroleum exports account for nearly half of GDP and 70 per cent of export revenue. GDP growth projections for Kuwait are dependent on international oil prices, and therefore vary widely. Continued growth is expected in non-oil sectors of the economy, driven primarily by private consumption and faster implementation of Government infrastructure projects. In 2013, Kuwait recorded a budget surplus of US$46 billion on revenues of US$120 billion. The Government may need to tighten spending, especially on subsidies and social support, in the future.

Australia will likely remain a favoured destination for Kuwaiti investment, both sovereign and private. The KIA has held investments in Australia for several decades, largely in real estate and the oil and gas sector.

There are substantial business opportunities for Australian companies in the Kuwait economy – notably in the energy sector (professional services and related equipment), non-oil infrastructure (e.g. construction and management of transport facilities, hospitals, housing and educational institutions), knowledge-based industries, higher education and vocational training, agribusiness and food security, environmental management, advanced manufacturing, tourism and other services.

As Kuwait is a high-income, consumer-oriented market, there is scope for growth in exports of higher value consumer items. Australia is a trusted Defence partner, having contributed to the liberation of Kuwait, and defence and security spending offers opportunities for Australian contractors.

LEBANON

Commercial Relations Overview

Two-way merchandise trade in 2013 was worth $54.2 million, up 29.5 per cent from the previous year. Australian exports accounted for just over $41 million, an increase of nearly 35 per cent from 2012. Major exports included beef, wheat, vegetables, and vehicle parts and accessories. Lebanese imports amounted to over $13 million, a rise of more than 16 per cent from 2012. Major exports included prepared or preserved fruit, prepared or preserved vegetables, and other edible products.

Our people-to-people links are strong. The latest Census in 2011 recorded 76,451 Lebanon-born residents, with around 400,000 people having Lebanese ancestry. There are between 20,000 and 25,000 Australian citizens living in Lebanon. However, the strong people and cultural ties are yet to extend to deeper and broader trade and investment ties.

Challenges and Opportunities

Political instability continues to be a significant commercial constraint. Foremost is the conflict in neighbouring Syria, which affects all sectors, most notably the trade in goods and services (around 40 per cent of Lebanese trade previously transited through Syria), and the once-booming tourism sector. The World Bank estimates that the Syrian conflict will reduce Lebanon’s 2014 growth by 2.9 per cent of GDP, with a revised forecast of 1.5 per cent.

The Lebanese economy suffers from structural problems that undermine investor confidence. The investment climate is dampened by complex licensing and customs procedures, import taxes, and weak intellectual property rights. Lebanon ranked 111 of 189 nations according to the World Bank’s Ease of Doing Business index in 2013, and the country is yet to fully accede to the WTO. Lebanon is one of the most indebted countries in the world - public debt stood at 120 per cent of GDP in 2013.

Commercial opportunities between Australia and Lebanon do exist, and the extensive contacts amongst the Lebanese-Australian community could be better utilised to expand trade and investment links. Merchandise trade, health, tourism, banking and education are areas with scope for increased investment. In 2011, the Bank of Beirut invested US$420 million and launched the Bank of Sydney. Earlier this year, the University of Canberra signed an Inter-University Cooperation Agreement with the Lebanese University.

Secure Parking Corporation, Murray-Goulburn, and Meat and Livestock Australia have all recently invested in Lebanon. Lebanon has plans to exploit its offshore oil and gas reserves, estimated to be worth US$140 billion. There are potential trade benefits for Australia once exploration begins, with Santos pre-qualified to bid for the offshore exploration contracts as a ‘non-operator’, meaning it will invest in, rather than operate, the granted licences.

LIBYA

Commercial Relations Overview

Australia's two-way merchandise trade with Libya was valued at $773 million in 2013, a decline of nearly 33 per cent. The $761 million of imports to Australia was comprised almost exclusively of crude oil, although imports fell 32 per cent from 2012. Exports to Libya amounted to nearly $12 million, a 59 per cent decrease from 2012. There is negligible investment in either direction. The Australian Consulate-General in Tripoli suspended operations in 2011 and closed permanently in 2013 because of the security situation.

Challenges and Opportunities

Libya has the world's fifth largest oil reserve, which has generated an estimated $60 billion for the national sovereign wealth fund, the Libyan Investment Authority (LIA). Ongoing oil blockades have seen a large reduction in Government revenues, forcing the use of LIA funds to underwrite basic budgetary allocations. Trade and investment opportunities will depend on the resolution of the political and security situation in Libya. Libya ranked 187 of 189 nations on the World Bank's Ease of Doing Business index in 2013.

Libya is subject to a UN Security Council arms embargo and targeted UN and Australian autonomous travel and financial sanctions on designated individuals and entities associated with the former Qaddafi regime. Australia's autonomous sanctions are kept under review to ensure legitimate trade is not obstructed. Aside from legal limitations on business with Libya, the volatile political and security environment is a major challenge for Australian businesses. DFAT advises Australians not to travel to Libya because of high security risks.

Libya has substantial needs in the infrastructure, education and training, food and agriculture sectors, all areas in which Australia has commercial expertise. Australian companies are bidding for infrastructure contracts in Libya.

Libya has also expressed an interest in the resumption of live animal imports from Australia, which have been suspended since 2012. The Australian Embassy in Rome, which covers Libya, is continuing dialogue with the Libyan authorities on this issue.

MOROCCO

Commercial Relations Overview

Two-way merchandise trade was worth $62 million in 2013, a decline of 6.1 per cent. Exports amounted for just over half of this trade at $33 million, an increase close to 41 per cent from 2012. Imports totalled $29 million, a decrease of over 32 per cent from the previous year.

One growth area has been meat, with the grant to Australian companies by the Moroccan military of their entire meat tender, worth at least $43 million. Negotiations continue over the possible sale of Australian patrol boats, with some maintenance and technology transfer. Possible investments in Morocco include $200 million for construction of the world's largest tin mine, $220 million in offshore hydrocarbon exploration, and $35 million in agricultural production (berries).

Morocco's economy is relatively open, industrialising rapidly and integrating with Europe as an off-shore manufacturing centre. It has significant mineral and agricultural resources. The Moroccan economy is growing at around four to six per cent of GDP. Its infrastructure and tourism development plans are extensive, and it is a regional leader in clean energy, and is increasing its agricultural competitiveness.

Challenges and Opportunities

Market access barriers, including high tariffs (up to 254 per cent), are an obstacle to trade. Livestock export is hampered by the lack of an agreement on the acceptance and handling of live animals. Morocco ranked 87 on the World Bank's Ease of Doing Business index in 2013. The Moroccan Government and private sector also see the opening of an Australian Embassy in Rabat as a vital step to increase Australia's stake in the market (Australia is the only G20 country without an embassy in Rabat).

Australian expertise is being sought in horticulture, agricultural training and research, education, mining, and aquaculture. Australia and Morocco face similar climatic conditions and challenges to agricultural production. Agwest International is assisting the Moroccan Government to implement its Green Morocco Plan to modernise the agricultural sector. The Moroccan Agricultural Ministry may undertake a study tour to Australia in 2014. DFAT proposed the idea of a Moroccan mining-focused roadshow in Australia, following completion of Morocco's revised mining code. There are some education links, and Morocco is interested in greater cooperation in this sector. Australian airlines are looking to better service the Moroccan market by offering code-share services on their respective alliance partners.

Austrade, and the Australian Embassy in Paris, which covers Morocco, will continue dialogue with Morocco on commercial opportunities. Austrade has identified Morocco as a priority country in North Africa and employs a locally-engaged staff member in Rabat. Austrade organised a business networking event in Rabat in December 2013, which led to a local proposal to establish a bilateral business council. Austrade will take this proposal forward in discussions. A Green Building Seminar was organised by Austrade in April 2013 in Rabat, showcasing Australian expertise. The Moroccan Housing and Urban Development Minister intends to lead a mission to Australia in December 2014 to explore Green Building cooperation.

OMAN

Commercial Relations Overview

Australia's two-way merchandise trade with Oman in 2013 was worth $468 million, a decline of 2.7 per cent year-on-year. Exports totalled close to $386 million, a decline of nearly 16 per cent from 2012. Passenger motor vehicles were the largest value export last year, though this trade will end with the planned closure of the Toyota and Holden manufacturing facilities in Australia in 2017. Agricultural products, such as meat and wheat, are another major export category. Confidential items of trade also account for a significant portion of exports.

Imports accounted for over $82 million, an increase of close to 258 per cent from 2012. This was largely due to imports of fertilisers, worth $66 million in 2013. Education links are growing, with 503 Omani students enrolled at Australian institutions in 2014.

Australian companies are active in Oman across a range of sectors:

Habtoor Leighton Group has won a $32 million contract to build an aluminium coil coating plant in Sohar, Oman. Construction is expected to start in May 2014, and be completed by mid-2015.

Austal is a preferred supplier for high speed ferries to Oman's National Ferries Company. Austal will train 40 Omani personnel over two years at its base in Perth.

Worley Parsons employs 600 people in Muscat and is focused on hydrocarbon development projects.

Alara Resources Limited, an ASX listed company specialising in mineral exploration and development, has set up an office in Oman and has successfully applied for a licence to explore for copper and gold.

Challenges and Opportunities

Oman has a GDP of around US$82 billion in 2013. Oil related activity continues to dominate the economy, but reserves are depleting. In 2013, Oman ranked 47 on the World Bank's Ease of Doing Business index.

The Omani Government is embarking on an ambitious economic reform agenda aimed at diversifying the economy away from oil and educating and training Omanis. Oman is encouraging Australian investment in Oman to support its economic development, particularly in the agribusiness, aquaculture and mining sectors. There are good prospects for Australian education service providers, including in vocational education and training.

PALESTINIAN TERRITORIES

Commercial Relations Overview

Most goods entering and leaving the West Bank and Gaza come through Israel or Jordan. Therefore, the exact volume of bilateral trade between Australia and the Palestinian Territories is difficult to measure. Australian company Sunrice is the major provider of medium grain rice to the West Bank market. Australian livestock – mainly cattle and sheep – has been imported into Gaza. However, in October 2013, following an incident of animal cruelty in Gaza, the livestock trade was largely suspended.

Challenges and Opportunities

Political instability and security issues in the Palestinian Territories have been a long-standing deterrent for Australian investors. The movement restrictions on people and goods make the West Bank and Gaza complex and difficult operating environments for businesses. The Palestinian Authority needs to undertake reforms in order to reduce red tape for investors in the West Bank. In Gaza, Hamas is the de facto government and Australian investors operating in the environment would need to be aware of obligations under Australian law regarding financial dealings with terrorist organisations.

The Office of the Quartet’s Representative has identified projects in key sectors in the Palestinian economy that could attract Australian investors, particularly in agriculture. However, progress in the peace process is required for these projects to become viable. Palestinians are well-educated and entrepreneurial. Australian companies could become active in sectors such as agriculture and tourism. The sizeable Palestinian community in Australia is an obvious link to the Palestinian market, with some Palestinian Australians already investing in the economy.

The Australian Government’s aid program aims to promote institutional reform and economic development. This includes efforts to make the Palestinian economy more accessible for investors.

QATAR

Commercial Relations Overview

Australia's trade with Qatar recorded a 7 per cent increase in two-way merchandise trade in 2013 to reach $1.2 billion. Australian exports totalled over $502 million in 2013, an almost 1 per cent increase from the previous year. Australian exports are dominated by live animals, motor vehicles, meat and wheat. Imports accounted for over $724 million, an almost 12 per cent increase from 2012. Imports are almost entirely LNG products and fertilisers.

It is estimated that 4,500 Australians reside in Qatar and the number of Australians visiting Qatar (approximately 12,000-14,000 in 2013) is expected to increase. This will be aided by the opening of Doha's new international airport in April 2014 and Qatar Airways' entry into the Oneworld Alliance in October 2013.

Challenges and Opportunities

Complex bureaucratic processes and slow decision-making affect those operating in Qatar. Tender processes are slow and have been raised as an issue by Australian companies trying to operate in Qatar. Qatar ranked 48 of 189 nations on the World Bank's Ease of Doing Business index in 2013.

Qatari law requires foreign businesses to have a local partner and limits foreign equity holdings to 49 per cent. However, with the permission of the Minister of Business and Trade, foreigners can own 100 per cent equity in the fields of agriculture, industry, health, education, tourism, energy and mining, consultancy services, technical services, information technology services, cultural, sport and entertainment services, and distribution services. Qatar Airways is looking to expand its Australian routes to include Sydney. However, there is no further capacity under our current bilateral air services agreement.

Qatari and Australian business have complained about the lack of Australian diplomatic representation based in Qatar. As with most of the Gulf, successfully engaging in Qatar relies on personal relationships. Recent experience has dictated that it is very difficult to nurture these relationships to the necessary level from afar.

Qatar will continue to present significant commercial opportunities. It is the richest country in the world per capita (US$110,000), with recent steady GDP growth of around 6 per cent per annum. Qatar's main economic driver remains its LNG sector. Major investments are planned for the 2022 FIFA World Cup and to achieve Qatar's National Vision 2030, with these two drivers estimated to be worth $285 billion in Government spending. Accordingly, there are major prospects in the infrastructure and construction industry.

Demand for Australian live animal exports, food, and meat products will continue to grow. Opportunities also exist to increase the number of Qataris studying in Australia and in the areas of rail, tourism and hospitality, sports management and agriculture.

SAUDI ARABIA

Commercial Relations Overview

Saudi Arabia is Australia's second-largest trading partner in the Middle East, with $2.5 billion of two-way merchandise trade in 2013, an increase of 11 per cent from 2012. Of this, Australian exports were valued at $2.2 billion, a 26 per cent rise from 2012, and imports amounted to over $269 million, a fall of nearly 44 per cent from the previous year. Major exports included motor vehicles, barley, beef and wheat. Major imports included fertilisers, refined petroleum, ammonia and glassware.

Australian design, engineering and construction companies are well represented, including Aconex, Habtoor Leighton, Modelcraft and SMEC. Worley Parsons is part of an international consortium contributing to the Riyadh Metro project. Major Australian agriculture and food companies have agents in-market but no direct representation. Office solutions company Servcorp's Saudi operations are expanding.

Saudi Arabia is the eighth largest source country of international students in Australia and comprises the largest student group from the Middle East. In 2013, there were 10,352 enrolments by Saudi students in all sectors. Saudi students contribute an estimated $500 million annually to Australia. Australian education providers are active, both in recruitment as well as developing partnerships and collaborations with Saudi institutions.

Challenges and Opportunities

Saudi Arabia is the only major market in the Middle East where ESCAS requirements for livestock exports have not been implemented. Consequently, livestock exports were halted in August 2012. Maximum entry age and maximum shelf life requirements for vacuum-packed chilled meat exports from Australia are a challenge for our industry. In 2013, Saudi Arabia ranked 26 on the World Bank's Ease of Doing Business index.

Saudi Arabia is the region's largest economy with a 2013 budget surplus of $55 billion. Food security is a key concern for Saudi Arabia, and Australia is well placed to assist. There is scope to increase trade in barley and wheat, and cement Australia's place as a long-term grain supplier. Infrastructure and transportation sectors received US$17.3 billion in the 2014 budget. Major projects include roads, railways and sea ports, as well as upgrading regional and international airports.

In 2014, Saudi Arabia allocated US$56 billion to education and training, including almost US$6 billion to fund 185,000 students studying abroad. Australia is an eligible destination under the King Abdullah Scholarships Program. Vocational education and training could be a growth area. The Technical and Vocational Training Corporation has called for tenders to develop and deliver curricula for domestic institutes. In April 2014, Aviation Australia was awarded a tender to deliver vocational training in the aviation sector at a College of Excellence in Riyadh.

Tourism Australia estimates the Middle East tourism market, including Saudi Arabia, will be worth over $1 billion by 2020. Saudi arrivals have increased due to greater brand recognition, more flight connections, easier tourist visa regime and a perception that Australia is welcoming to Muslim tourists. But there is potential to do more on promotion. Growth in Saudi Arabia's domestic tourism industry provides opportunities for tourism and hospitality sector training.

SYRIA

Commercial Relations Overview

Syria has not historically been a significant trading partner for Australia. In 2008-09, Australian exports to Syria rose to $30 million, although this was a temporary fluctuation. Imports have been consistently negligible (less than $2 million). Two-way trade in 2013 was $2.6 million, a 70 per cent fall from the previous year. Australian exports amounted to just over $1 million, a fall of more than 82 per cent from 2012. Imports similarly declined to just over $1 million, which is an 11 per cent decrease from 2012. Exports are dominated by milk, cream, whey, and yoghurt. Imports from Syria are dominated by spices, vegetables and vegetable oils, and fats.

Since the Syrian civil war began in 2011, Syria’s economy has largely collapsed. In recent years good economic data on Syria has not been available, but some estimates had the economy contracting by 20 per cent in 2012, and it will have continued to deteriorate since then.

Challenges and Opportunities

Australia does not maintain a diplomatic presence in Syria and we advise Australians not to travel there. Because of the ongoing conflict, international (including Australian) sanctions, and our grave concerns at the Syrian regime’s violence against its own citizens, the Government does not promote trade and investment opportunities between Australia and Syria. In 2013, Syria ranked 165 of 189 nations on the World Bank’s Ease of Doing Business index.

TUNISIA

Commercial Relations Overview

Two-way merchandise trade relationship with Tunisia was worth $24.7 million in 2013, up 18.6 per cent from the previous year. More than half of total trade comprised Australian imports of Tunisian textiles, amounting to nearly $19 million, rising 10 per cent from 2012. Australian exports totalled close to $6 million, a 60 per cent increase from 2012. Major exports include foodstuffs and medical devices. Investment levels are negligible in either direction.

Tunisia's revolution in January 2011 coincided with an economic slowdown in the European Union. The twin shocks resulted in a recession in 2011 although the economy is slowly recovering. Tunisia has struggled to bring its modest oil, gas and mining production, as well as manufacturing, back to pre-2011 levels. Tourism remains a major economic sector and is performing well. The EU is Tunisia's largest market with a 70 per cent share of exports.

Challenges and Opportunities

Tunisia's uneven transition towards democracy and concerns over security continue to hamper foreign investment. To stimulate investment, Tunisia is developing a new investment code, which will aim to increase transparency and reduce trade barriers. Australian companies have cited bureaucratic hurdles such as slow decision-making as an obstacle. Tunisia was placed at 51 of 189 nations on the World Bank's 2013 Ease of Doing Business list, the highest business ranking of any North African country.

Tunisia offers some opportunities for Australian business in sectors such as mining, agribusiness and water management. Tunisia has significant mineral deposits and is among the world's top five producers of phosphate. Australian company Celamin is pursuing a phosphate mining project in central Tunisia. Other ASX-listed companies are active in extractive and energy sector exploration and development in Tunisia. These include ADX Energy, Cooper Energy, and Oil Search. Tunisia opened an Embassy in Canberra in 2011 and is interested in Australian expertise in agriculture, minerals, and resources.

UNITED ARAB EMIRATES

Commercial Relations Overview

Australia's merchandise trade with the UAE increased more than 25 per cent year-on-year in 2013 to nearly $6.4 billion, making the UAE our 15th largest merchandise trading partner, and largest Middle East partner. Australian exports amounted to $2.6 billion in 2013, an increase of more than 25 per cent from the previous year, with the UAE Australia's 13th largest export market. Exports were dominated by alumina, motor vehicles, meat, canola, and edible foodstuffs. Australian imports totalled close to $4 billion, a near 25 per cent increase from 2012. Imports were largely comprised of petroleum products.

In 2013, Australia's investment in the UAE was $1.3 billion according to ABS data. Total UAE investment in Australia in 2013 was estimated at $17.2 billion according to ABS data. The Abu Dhabi Investment Authority (ADIA), the world's second largest sovereign wealth fund, became Australia's largest hotel owner in late 2013, acquiring 31 Accor-branded hotels. It has also invested in ports and the Queensland Motorway project. Other UAE sovereign wealth funds also have assets and are examining other investment opportunities in Australia.

There are over 16,000 Australians residing in the UAE, and more than 350 registered Australian companies. The Australian Government has an Embassy in Abu Dhabi and an Austrade-managed Consulate-General in Dubai. NSW, Victoria, Queensland and Western Australia also have trade offices in the UAE.

Challenges and Opportunities

The UAE ranked 23 of 189 nations on the World Bank's Ease of Doing Business index in 2013. However, it received lower rankings for resolving insolvency, enforcing contracts, protecting investors, and obtaining credit. Foreign businesses must have a local partner, and foreign equity holdings are limited to 49 per cent. Businesses have experienced difficulties related to the lack of corporate bankruptcy laws and reliance on debtors' court to pursue claims. The UAE lacks specific construction contract law, and companies have experienced difficulties in resolving payment disputes.

Perceived impediments in Australia also limit UAE investment. UAE investors are concerned by withholding tax payable on Australian dividends, capital gains tax for private equity-type investment and tax implications of using different ownership structures. As a result, the UAE continues to request Double Taxation and Investment Protection and Promotion Agreements.

The cessation of Australian car manufacturing in 2017, along with the flow on effects on car parts producers, will impact on bilateral trade figures from 2017. The UAE had been a major market for Australian cars. The future of Australia's alumina exports will depend on new investment in the Port of Bunbury to raise the capacity of transport vessels. Emirates Global Aluminium visited Western Australia in May 2014 to review the port's operations.

Trade and investment with the UAE is expected to continue to increase in coming years. With the resurgence in Dubai's economy and the continued diversification of the UAE's economy away from the hydrocarbons industries, there will be a number of opportunities for increased trade. We have identified education, investment, food and agriculture, and urban development as key growth areas for the bilateral trade relationship. Dubai Expo 2020, with an expected UAE expenditure of around US$9 billion for infrastructure projects, will present significant opportunities for Australian construction and services companies.

The recent major growth in bilateral aviation links – through the Qantas-Emirates and Virgin Australia-Etihad partnerships – has contributed to a growth in tourism numbers. There are 126 direct flights per week from the UAE to Australia, which will increase to 133 from July 2014. 269,000 Australians visited Dubai in 2013, a year-on-year increase of 39 per cent. The expansion of flight and cargo capacity offers opportunities to further diversity into high-quality food and other time-critical exports.

Australia and the UAE concluded a *Memorandum of Understanding on Higher Education and Vocational Education and Training* in April 2014, to support our active promotion of institutional collaborations and growth in Emirati enrolments.

YEMEN

Commercial Relations Overview

In 2013, Australia's two-way merchandise trade with Yemen increased from the previous year by nearly 15 per cent to $321 million. Wheat sales continued to dominate Australia's export trade with Yemen, which accounted for $274 million of the $321 million exports, a rise of close to 15 per cent from 2012. Imports were negligible at $29,000, a decline of over 43 per cent from the previous year.

Australian business has a very limited presence in Yemen due to the security situation in the country.

Challenges and Opportunities

Political instability and poor physical security in Yemen are the major barriers to trade and investment. Currently, the Australian Government recommends that citizens do not travel to Yemen, particularly given the threat of kidnapping. Until the security situation improves, there is little scope for increasing our trade and investment relationship. In 2013, Yemen ranked 133 of 189 nations on the World Bank's Ease of Doing Business index.

The Australian Government, as a member of the UN Security Council, continues to support Yemen to overcome the political, economic and security challenges it faces. The recently-concluded National Dialogue Conference offers hopes for political transition and reform of the country's institutions, although progress is expected to be slow. A newly-established UN sanctions regime may, in future, target certain individuals and assets. Understanding these arrangements will be important for any company seeking to do business in Yemen.

Australia will continue to engage through its chairing of the Indian Ocean Rim Association, of which Yemen is also a member.

GULF COOPERATION COUNCIL (GCC)

Commercial Relations Overview

The GCC encompasses six countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. Its mandate includes a range of economic initiatives, including the aim of establishing a common market. GCC countries have a combined population of some 46 million, and are among the world's richest nations per capita. The GCC is the main forum for international engagement on trade relations with the Gulf.

Australia and the GCC share a significant economic relationship. In 2013, two-way merchandise trade with GCC countries was nearly $12.3 billion. Of this, exports were worth $6.9 billion, an increase of nearly 28 per cent from 2012. Imports rose by 13 per cent to $5.3 billion. In recent years, the GCC has been Australia's largest market for passenger motor vehicles, with exports of $1.4 billion in 2013. This has been overtaken by food and agriculture products (meat, grains and oils), which totalled $2 billion in 2013. Gulf-based sovereign wealth funds have also invested substantially in Australia.

Challenges and Opportunities

Australia commenced FTA negotiations with the GCC in 2007. Following four rounds of negotiations, the GCC suspended all its FTA negotiations in 2009 to undertake a review of its FTA policy. A statement from the GCC Foreign Ministers' meeting on 4 March 2014 noted that the GCC had approved the resumption of free trade negotiations with its trade partners, where no disputes or issues were evident. Minister for Trade and Investment Robb has advocated a recommencement of FTA negotiations with GCC officials, and dialogue is continuing.

GCC imports of food are projected to grow to about US$49 billion in 2020, according to the Economist Intelligence Unit. Whilst some 400 food items and industrial inputs are tariff-free, most imports from non-GCC countries attract a tariff rate of 5 per cent. An FTA would eliminate barriers for Australian food exporters and put them on a more equal footing with competing countries. It would also facilitate GCC investment in Australia's agricultural and agribusiness sectors, a key area of interest for Gulf-based sovereign wealth funds.

With several major events planned for the Gulf, including Expo 2020 and the Football World Cup in 2022, opportunities also exist for Australian companies in construction, engineering, renewable energy and green build sectors. There is potential also to expand education and tourism links with GCC countries.

The April 2014 visit by Minister Robb to the UAE and Saudi Arabia supporting Austrade's annual major commercial promotion - Australia Unlimited MENA – promoted an expansion of trade and investment links in these areas of opportunity.