



Export Council of Australia

The Voice for Australia's Exporters

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Committee Secretary
Joint Standing Committee on Foreign Affairs, Defence and Trade
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Submission to Inquiry into Australia's trade and investment relationships with countries of the Middle East

The Export Council of Australia (ECA) is pleased to have the opportunity to put forward a submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade in relation to the Inquiry into Australia's trade and investment relationships with countries of the Middle East. ("Inquiry")

A not-for-profit, membership based organisation, the ECA represents exporters and importers of all sizes and across a broad range of industry sectors. As trade is a key driver of jobs, innovation and long term prosperity, the ECA strongly supports this inquiry and hopes it will lead to deeper trade and investment relations with the Middle East.

This submission addresses items a, c and e of the five terms of reference of the Inquiry in varying levels of detail based on existing data and information gathered by the ECA's exporter network.

a) The nature of Australia's existing trade and investment relationships with countries of the region

Australia generally enjoys good relationships with the countries of the Middle East. This is driven largely by Australia's expanding trade with the region as well as common interests, such as regional security.

According to the Department of Foreign Affairs and Trade's (DFAT) *Composition of Trade Australia 2012/13* report, Australia's total exports to the Middle East were estimated at A\$7.89 billion, while Australia's total exports to the Gulf Cooperation Council (GCC), which consists of the United Arab Emirates (UAE), Saudi Arabia, Qatar, Oman, Kuwait and Bahrain, were valued at A\$6 billion. The top Australian exports to the GCC countries include motor vehicles, meat (excluding beef), beef, wheat and live animals. Clearly, as exports of motor vehicles are likely to reduce in the immediate future with the closure of Australian manufacturing, the focus will turn to other existing exports as well as developing trade in the export of services.

The ECA notes that Australia has recently requested that Free Trade Agreement ("FTA") negotiations with the GCC resume following a freeze on all FTAs in 2009 initiated by the GCC. Negotiations between



the GCC and Australian commenced in July 2007 and were quite well advanced prior to the GCC placing a hold on all agreements.

Finalising the FTA would further liberalise trade between the Australia and the GCC countries, which combined have a population of 44.4 million and a collective GDP of US\$1.547 trillion according to DFAT.

Results from a recent study, Australia's International Business Survey 2014 (AIBS 2014), into export activity by the ECA and partners Austrade, EFIC and the University of Sydney, found that the UAE was nominated the 16th most popular market with which respondents are currently doing business. The UAE was the only Middle Eastern country in the top 20 most popular markets, while Saudi Arabia was listed by survey respondents as the seventh most difficult overseas market with which to do business. These results indicate that there is indeed room to grow in terms of our trade and investment relationship with the Middle East and also that a more proactive approach needs to be taken to raise awareness about the opportunities in the Middle East and to educate businesses in how to do business in the region.

c) Barriers and impediments to trade and investment with Middle Eastern countries for Australian businesses, including examination of supply chain costs

AIBS 2014 revealed that exporters most common barriers to trade were local culture, regulations and customer payment. While these barriers are not specific to the Middle East, it can be assumed that these challenges are faced by Australian businesses doing business in the region given the language and cultural differences as well as the physical distance between markets.

In Australia there is a perceived risk of doing business in the Middle East largely based on a lack of understanding of the culture and business practices in the region. As with doing business in any market there is always a degree of risk, however, when business owners and decision makers do not have the knowledge or skills to fully understand a market and how the society operates, they are far more likely to put it in the 'too hard' basket despite the fact that the real risk may be far less than the perceived risk.

The tyranny of distance also acts as a barrier to Australia's trade with the Middle East. Many Australian businesses would tend to pursue export opportunities in markets closer to home before looking further afield. And when they do look further afield, the priority markets tend to be those that share a common language and cultural background. This is evidenced in the AIBS 2014 results where the top four export markets nominated by respondents were, the United States, China, New Zealand and the United Kingdom.

Other barriers some companies face when trying to do business in the Middle East include a lack of transparency, significant hurdles to foreign investment, corruption and restrictions in terms of labour laws.

The ECA is of the view that many of these barriers and impediments may be assisted by the provision of mechanisms to resolve disputes and legal issues that rely more on international legal standards than the domestic laws of either country.

e) The role of government, including DFAT and Austrade, in identifying new opportunities and assisting Australian companies to access existing and potential opportunities in the Middle East.

The Australian Federal and State Governments have the potential to play an instrumental role in assisting companies pursue trade and investment opportunities in the Middle East. Areas where government agencies have the potential to make a significant impact are through facilitating skills development, promoting educational exchange, providing targeted grant funding, and through commercial diplomacy and recognition of qualifications and licensing.

There are existing commercial opportunities for Australian businesses in the areas such as:

- Tourism
- Professional services (legal and accounting)
- Equine Industry
- Sustainability, including (Including Green Building, Recycling & Water)
- Infrastructure, including road and rail
- Education and training
- Major sports events, including sports products, event management, environmental services, design, planning, engineering, construction and implementation of major sporting infrastructure facilities
- Agribusiness and food security
- Aviation, including infrastructure, aeronautics, maintenance, repair and overhaul (MRO), air traffic control and navigation, ground support and security
- Services, including construction, engineering, architecture, health care, hospitality, education and financial services
- Mining
- Oil and gas

In order to effectively and efficiently assist Australian companies to access existing and potential opportunities in the Middle East the ECA urges the government to take action in the following areas.

Skills development

Australian businesses would benefit from the government's promotion and support for programs that equip business with the knowledge and skills they need to understand individual markets in the Middle East and to successfully do business in the region. Educational programs that cover cultural and business practices are of great value and should be widely promoted. Practical guides to exporting to the Middle East, which cover negotiation skills, pitching strategies and export procedures, can also be of great value to businesses and should be supported and promoted by the government.

Educational Exchange

In 2012, 60,901 students from the GCC countries commenced studying in Australia. While the ECA does not know the exact number of Australian students studying in the Middle East, it can be reasonably assumed that this number is significantly less. In order to further develop cross-cultural awareness and understanding, the government could help fund and facilitate more two-way educational exchanges so that Australians, particularly at the postgraduate level, are encouraged to undertake part or all of their studies in the Middle East. The hope would be that these students would then be able to apply their knowledge of the market in a commercial setting at a later date and continue to expand their network in the region.

Targeted Grant Funding

Another avenue through which the Government could assist Australian companies access existing and potential opportunities in the Middle East is through the provision of grant funding, similar to that provided under the Asian Business Engagement Plan. By making grant funding available to membership based organisations, targeted projects could be designed and implemented independently by organisations with a commercial interest in furthering Australia-Middle East relations.

Commercial Diplomacy

The conclusion of the GCC FTA would be a noteworthy achievement and one that would have the potential to positively impact trade and investment flows between the Australia and the Middle East. The ECA urges the Government to strategically analyse the current situation and take the appropriate steps needed to cement agreements aimed at liberalising trade with the countries of the region. Provisions within such an agreement that improve the ease of movement of business people within the specified jurisdictions would be welcomed.

The promotion of trade and investment by Australia's diplomatic representatives in the region would assist in increasing the profile of Australia and Australia's commercial capabilities to the Middle East's business and political community. Moreover, the ECA would like to see a greater commitment by ministerial and diplomatic representatives to provide physical support on trade missions and for Australian companies involved in tendering for major, often Government funded projects overseas. This level of support is provided by other Governments and has proven to be of great benefit to the companies they assist.

Recognition of qualifications and licensing

At the moment, Australian providers of professional services are disadvantaged by the fact that many EU providers (especially from the UK) have already established operations in the Middle East and are operating successfully. Further, the regime for the provision of licences is not believed to be transparent and acts as a disadvantage to investment by those providers. Notwithstanding the work being conducted as part of the negotiations for the Trade in Services Agreement, the ECA believes that the relationship would benefit from improvements to market access for Australian exporters regardless of progress with the proposed FTA.

Conclusion

The ECA acknowledges that there is a huge amount of potential to boost trade and investment flows between Australia and the Middle East. Australia currently benefits from a positive and growing relationship with the countries of the region but without further action we stand to fall behind other countries that are aggressively pursuing trade and investment opportunities in the Middle East. There needs to be strategic policy setting at both the state and federal level in order for Australia to take full advantage of existing and future commercial opportunities. The ECA appreciates that work has already been done in this regard but implores the government to do more in the areas of skills development, educational exchange, grant funding and commercial diplomacy.

The ECA would be delighted to provide further input and assistance where required.

Sincerely

Lisa McAuley
COO
Export Council of Australia

Appendix 1

Additional barriers and impediments to trade in the Middle East

Drafted in consultation with Links Group of Companies

- Majority local ownership for onshore businesses incorporated in the UAE or Qatar still acts as a major deterrent to some Australian companies.
- Contract enforceability in the Middle East is seen as an area of concern for some Australian companies that are apprehensive about the possibility of having to use an unfamiliar legal process and system. In 2013, the New South Wales Supreme Court signed a Memorandum of Guidance (MoG) with the Dubai International Financial Centre (DIFC) Courts¹, providing a solution to the problem by defining the method of enforcing judgement. Signing a MoG at a federal level could offer significant benefits and further strengthen ties between Australia and the Middle East.
- Some Australian companies fear political instability in the region and perceive this to be a barrier to trade and investment. The UAE is generally seen as a more stable and attractive trade and investment destination in the region, which is evidenced by the fact it is Australia's largest Middle East trading partner.

¹ The DIFC Courts are Dubai's established English language, commercial common law judicial system.