Australian Government
Department of Resources, Energy and Tourism

GPO Box 1564, Canberra ACT 2601
Phone (02) 6276 1000
www.ret.gov.au

ABN 46 252 861 927

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Dr Kathleen Dermody
Committee Secretary
Senate Foreign Affairs, Defence and Trade References Committee
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Dr Dermody

Thank you for the opportunity to provide comment to the *Inquiry into the Indian Ocean Region and Australia's foreign, trade and defence policy.*

Please find attached my Department's submission.

Yours sincerely

Martin Hoffman
Deputy Secretary

Australian Government

Department of Resources
Energy and Tourism

Inquiry by the Standing Committee on Foreign Affairs, Defence and Trade into the Indian Ocean Region and Australia's foreign, trade and defence policy

Submission by the Department of Resources, Energy and Tourism

March 2012

Contents

1. Background to submission

The following submission is made by the Department of Resources, Energy and Tourism in response to the inquiry into the Indian Ocean region and Australia's foreign, trade and defence policy.

The Department of Resources, Energy and Tourism is the key advisor to Government on policy options for Australia's resources, energy and tourism industries and works closely with industry stakeholders and State and Territory governments.

The submission examines Australia's position in the Indian Ocean Rim (IOR) in the context of the Australian resources, energy and tourism sectors.

2. Introduction

The Indian Ocean Rim (IOR) is a made up of a number of countries whose point of similarity is primarily geographic. The IOR consists of diverse cultures and governments, widely disparate stages of economic and social development and a gulf between rich and poor populations. What can draw the region together is a focus on the flow of goods and services across the Indian Ocean itself and the economic benefit that follows.

Australian resources and energy exports to the IOR are dominated by a small number of countries and commodities with the total exports of resources and energy products to the region in 2011 valued at A$26.7 billion. Commodity trade in the region is dominated by metallurgical coal, petroleum, gold and copper. Much of Asia's total LNG demand transits the Indian Ocean and there are a number of potential markets for Australian uranium that are also expected to emerge in IOR countries after 2020.

Trade however is only part of the story. There is the potential for Australian companies to play a significant role in opening up IOR resource provinces through foreign direct investment and through the AusAID Mining for Development program. To enable this to happen however transit routes across the Indian Ocean must be open and safe to ensure raw materials can reach lucrative markets in Asia.

In terms of tourism, IOR countries account for a significant portion of the Australian tourism industry. Collectively, these countries represent 18.6 per cent of all arrivals to Australia and 30.6 per cent of all departures from Australia (2011). Receipts from IOR countries accounted for 19.7 per cent of total international tourist expenditure in Australia in 2011. Continued growth is anticipated, with arrivals from India, Singapore and Indonesia expected to increase significantly out to 2020. In this context, the countries of the IOR are critical to the success of the Australian tourism industry.

Tourism flows between countries play a key role in fostering people-to-people linkages, from which Australia's longer term strategic interests can be pursued. In this sense, tourism is not a peripheral part of Australia's engagement with this region, but front and centre of Australia's broader engagement strategy.

From a resources and energy perspective, this submission outlines the commodities mentioned in more detail, including Australia's position on resources and energy security and some of the factors associated with sea transport and liquid fuel security across the Indian Ocean and opportunities for Australia's strong mining technical services sector. The submission details the Indian Ocean Tsunami warning role Geoscience Australia shares with the Australian Bureau of Meteorology and information on the Australian Maritime Jurisdiction in the Indian Ocean.

In terms of tourism, this submission outlines the size of the IOR countries' contribution to the Australian tourism industry, Australia's potential to leverage the economic opportunities that this relationship presents, the challenges and opportunities associated with these markets and the policy implications that arise from these factors.

3. Resources and energy

3.1 Trade, investment, production and resources in the Indian Ocean Rim

3.1.1 Overall trade and investment

In terms of exports, India accounted for over 50 per cent of exports by value by itself. The next biggest export destinations from Australia were Thailand, Singapore and Malaysia (see Table 1 below).

Table 1: Australian Resources and Energy exports to Indian Ocean Rim Countries (by value 2010-2011)[1]

Country	Export value (A$M)	% of total	Main resources and energy commodity exports
India	14,278	54	Metallurgical coal, gold, copper, petroleum
Thailand	5,275	20	Gold, petroleum
Singapore	3,255	12	Petroleum, gold
Malaysia	2,336	9	Petroleum, refined copper, thermal coal
Indonesia	1,018	4	Petroleum, unwrought aluminium
South Africa	348	1	Metallurgical coal
All others	158	1	
Total	26,670	100	

Overall, in the cases of all the major export destinations except Indonesia, the main resources and energy export commodities are also the highest value Australian exports overall. For Indonesia wheat is by far the largest export from Australia and live animals were similar to aluminium exports.

While some products predominate in the exports to India, Thailand, Singapore and Malaysia, exports to these countries are also characterised by a very wide range of commodity related exports and copper, zinc and aluminium products in particular.

In terms of commodities Australian export trade to the IOR is dominated by metallurgical coal, petroleum, gold and copper (see Table 2 in *Attachment A* on page 24).

Overall, Australia's commodities trade relationship with the IOR can be split into four broad categories:

- Trade with South East Asian nations as part of their ongoing industrial development, including export of crude petroleum and importation of crude and refined petroleum products.
- Commodity exports to the very large and rapidly developing Indian economy, with significant potential for growth across a wide range of products.
- Competition with the Middle East and South East Asia in LNG production.
- Competition with minerals and coal production in Africa, however there are also significant opportunities for Australian firms in African investment in the commodities sector.

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[1] This table does not include exports to non-IOR countries such as Japan and China which are significant markets for Australian seaborne trade traversing the western edge of the Indian Ocean

In term of overall investment, South Africa, India, Malaysia, Singapore and Thailand are the key IOR countries investing in Australia (see Table 3 below), however these countries still only accounted for about two percent of total foreign investment proposals in the mineral exploration and development sector in 2009-10.

Table 3: Summary of 2009-10 mineral exploration and development of foreign investment proposals[2]

Countries	$million
South Africa	39
India	1,443
Malaysia	0
Singapore	193
Thailand	0
Total IOR countries	1,675
China	12,186
Japan	2,011
Other countries	64,936
TOTAL	80,808

South Africa was the main investor from IOR countries from 1998-99 to 2001-02 before dropping to zero in 2002-03 and 2004-05. Foreign investment proposals from South Africa totalled $39 million in 2009-10.

India started investing in the mineral exploration and development sector in Australia in 2008-09 and while still small compared with China, India has rapidly increased its investment and as with exports, is the dominant IOR rim country in terms of investment in Australia.

Malaysia has been an intermittent investor in Australia's mineral exploration and development sector while Singapore has been a modest investor in Australia since 1995-96. In 2009-10, it was had the second highest investment ($193 million) of the IOR countries.

3.1.2 Trade by commodity

Coal

In 2011, metallurgical coal (also known as coking coal) exports to India represented 27 per cent of Australia's total exports to the IOR. India is Australia's second largest metallurgical coal destination after Japan, accounting for 28.9 million tonnes in 2011 which is almost 22 per cent of Australia's total metallurgical coal exports.

India has domestic resources of coking coal, but its quality is poor in comparison with foreign-sourced coking coal. The country also faces ongoing coal transportation challenges. Improvements in infrastructure are needed to satisfy increasing demand for coal imports. India's planned infrastructure improvements include coastal port expansions at Goa and Paradip, and increased coal-handling capability at the port of Mormugao from 6 Mt to 17 Mt by 2014.[3]

[2] Foreign Investment Review Board Annual Report 2009-10
[3] Energy Information Administration 2010 International Energy Outlook – coal http://www.eia.gov/

Forecasts from the IEA indicate that Indian imports are expected to grow to about 56 million tonnes by 2016.[4] Australia would be expected to be favourable placed to meet much of this growth although Mozambique is also expected to become a significant supplier to India by 2016.[5]

According to the IEA[6] India produced 617 TWh of electricity from coal in 2009, with coal making up 74 per cent of its power generation. India is now the fourth largest coal importer in the world and is demand is likely to grow rapidly over the medium term. Non power coal consumption also represents 27 per cent of coal use in India as its economy develops as most of this coal is used for coke production for iron and steel making. The next most common use of coal after this is in cement making which is below 20 per cent of India's coal consumption.

The three top exporters of metallurgical coal worldwide are Australia, the United States and Canada. Australia currently accounts for more than 50 per cent of world trade in metallurgical coal, but amongst the IOR nations Mozambique is expected to emerge as a world scale exporter by 2016 with coking coal of a similar standard to comparable products from the United States and Australia. New projects are being developed in the north west of the country and the ports of Beira and Maputo are currently under construction along with construction and upgrades of existing rail links.[7]

The top five exporters worldwide of thermal coal in recent years are Indonesia, Australia, South America (primarily Colombia), Russia, and southern Africa (primarily South Africa). Indonesia has the potential for significant growth in coal exports. Despite this potential, Indonesia's government has been warning that it plans to restrict coal exports in favour of domestic coal use.

Australia and Indonesia are both in the IOR, however the vast majority of the trade does not pass through the Indian Ocean region as it is exported from Eastern Australian and Indonesia to North Asia. Malaysia is Australia's fifth largest destination with 2.1 per cent of thermal coal exports. Additions to Indonesia's export mining capacity are difficult to predict but in the past Indonesia has been able to expand its mining capacity rapidly.

South Africa is also a significant exporter of coal and while it has historically supplied Europe there are indications that its trade is moving more to India to meet growing demand in that area. Coal mining is expected to continue playing an important role in South Africa's economy even though its coal exports have remained flat over the past few years, primarily as a result of domestic infrastructure constraints.

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[4] International Energy Agency, Coal Medium Term Market Report 2011 p 114
[5] International Energy Agency, Coal Medium Term Market Report 2011 p 82
[6] International Energy Agency, Coal Medium Term Market Report 2011
[7] International Energy Agency, Coal Medium Term Market Report 2011

Tables 4 and 5 (below) illustrate forecast production rates for key coal export countries in both a high Chinese production scenario (HPS) and a low Chinese production Scenario (LPS) in million of tonnes. Chinese production is used as the base as the Chinese domestic market is more than three times the entire international coal trade and therefore has a significant impact on possible outcomes.

Table 4: IEA coal seaborne metallurgical coal forecasts for key producers (HPS) – 2012-2016 (mtce)

Country	2012	2014	2016
Australia	162	170	166
Mozambique	8	13	21
United States	41	37	37
Canada	20	15	13

Table 5: IEA coal seaborne thermal coal forecasts for key producers (LPS) – 2012-2016 (mtce)

Country	2012	2014	2016
Indonesia	248	250	256
Australia	134	134	157
South Africa	65	72	67
Russia	70	68	73
Columbia	64	91	91

Gold and copper

The other dominant product in Australia's trade with the IOR is monetary gold to India, Singapore and Thailand which made up 29 per cent of Australian exports by value (over A$7 billion) in total just to these three countries.

The predominance of the South East Asian IOR countries and India in Australia commodity exports is also demonstrated in the much wider range of minerals exported to these destinations. Australia's exports tend to reflect demand in emerging economies for minerals required for industrial development.

For example after coal and gold, copper represents Australia's next biggest commodity export to India. Overall India is one of Australia's largest markets for copper behind China, but on a par with Japan.

Thailand, Malaysia and to a lesser extent Indonesia, are significant markets for Australian aluminium after north Asia.

Liquid fuels (petroleum and liquefied natural gas)

Australia was a net importer of petroleum in 2010-11. Imports of crude oil (see Table 6 below) were 31,766 million litres which accounted for around 80 per cent of Australia's refinery input.

Table 6: Australian imports of crude oil by source[8]

Country	Million litres
Malaysia	5,930
Indonesia	4,804
United Arab Emirates	4,683
New Zealand	2,566
Vietnam	2,554
Papua New Guinea	1,612
Singapore	497
Saudi Arabia	156
Qatar	42
Other	8,924
Total	31,766

The major sources of crude oil are the Asian region (Malaysia 19 per cent, Indonesia 15 per cent and Vietnam 8 per cent), the Middle East (UAE 15 over cent) and New Zealand and Papa New Guinea 8 and 5 per cent respectively. Thus Australia's top three sources of crude petroleum, accounting for almost fifty per cent of imports, are in the IOR.

Australia also imported 18,772 million litres of refined petroleum products (see Table 7) which accounted for 36 per cent of Australia's total consumption of petroleum products.

Table 7: Australian imports of refined petroleum products by source

Country	Million litres
Singapore	9,471
Republic of Korea	2,013
Middle East	897
United States	400
Malaysia	264
Indonesia	259
New Zealand	9
Other	5,459
Total	18,772

The major source was Singapore at 50 per cent. Other destinations either in the IOR or reliant on the Indian Ocean for trans shipment make up a significant proportion of the remaining sources of supply.

In terms of petroleum exports, Australia is a significant exporter of crude oil to South-East Asia and India although Korea and China are the leading destinations (see Table 8 on page 10). Again, like many other Australian products these exports pass through the IOR. Australia is also a significant exporter of Liquefied Petroleum Gas however the only Indian Ocean destination in 2010-11 was Reunion Island. Over 60 per cent of LPG went to Japan.

[8] Source: BREE, Resources and Energy Statistics 2011, November 2011

Table 8: Australian exports of crude oil and other refinery feedstock 2010-11[9]

Country	Million Litres	% total
Korea	3,798	19
China	3,631	18
Thailand	2,983	15
Singapore	2,631	13
Japan	1,996	10
India	1,522	8
Malaysia	1,022	5
Indonesia	443	2
Total	**19,684**	

Australian currently produces 20 million tonnes of Liquefied Natural Gas (LNG) per annum, the majority of which is exported to countries in North Asia (Japan – 71 per cent, China – 19 per cent, Korea – 4 per cent, Taiwan – 2 per cent).

LNG production is currently sourced from the North West Shelf LNG off the Western Australian coast and from Darwin LNG and transits through the major shipping routes of the Indonesian Archipelago.

Based on current project approvals, by 2017 it is expect that Australian production will be around 81 million tonnes per annum with production centred on a number of LNG hubs including north-west Western Australian (44.5 million tonnes from 4 projects), Darwin (12 million tonnes from 2 projects), the Prelude offshore floating project (3.5 million tonnes and the new coal seam gas-based projects at Gladstone on the eastern Australian coast (20.8 million tonnes from 3 projects).

Current contracts indicate that Japan will continue to be Australia's major customer for LNG with around 50 per cent of contracted LNG. China (26 per cent) will increase in importance along with Korea (8 per cent). Taiwan will also increase its market share (7 per cent) and India will emerge as a new market. Other potential markets include Singapore, Thailand and Vietnam.

Much of Asia's total LNG demand also transits the Indian Ocean. Qatar is currently the world's major LNG producer with capacity of around 76 million tonnes per annum, the majority of which is placed into Asian markets including India, South Korea, Japan, China and Taiwan. Other LNG producers on the IOR include Yemen, Oman and the UAE with many other producers placing volumes into Asian markets and transiting the Indian Ocean including Egypt and Algeria.

Qatar has the potential to significantly increase production but currently has a moratorium on new LNG projects. Recent discoveries off the east African coast (Mozambique especially) have the potential to come into production later this decade.

[9] Australian Bureau of Statistics

Uranium

Asia is Australia's largest region-market for uranium, with sales to this region recently overtaking the US as Australia's largest uranium export market. There are a number of potential markets for Australian uranium that are expected to emerge in IOR countries after 2020.

The majority of forecast expansion in global nuclear energy is forecast to occur in non-OECD countries. With the world's largest economically recoverable uranium resources and with its close proximity to Asia, Australia is well placed to supply the countries of the IOR with future uranium requirements, subject to Australia's longstanding uranium export policy.

The Australian Government is currently considering a change in policy to enable exports of Australian uranium to India, subject to negotiation and ratification of a bilateral safeguards agreement. This change may hold future commercial opportunities for Australia and has been welcomed by India as an enhancement of the bilateral relationship.

Australia is currently finalising a bilateral safeguards agreement with the United Arab Emirates (UAE) which will allow Australian uranium to be used in the UAE's four nuclear reactors, due to come online between 2017 and 2020. Countries such as Vietnam, Malaysia, Bangladesh and Thailand have stated their intentions to introduce nuclear energy, though some plans have been delayed in light of the 2011 Fukushima nuclear incident in Japan.

3.1.3 Resources and production

The profile for mineral resource and production for IOR countries can be summarised as follows:

- Australia is the dominant holder of mineral resources as well as the largest producer in the IOR for bauxite, iron ore, gold, lead, rutile, zircon, and uranium.

  Other countries with the next most significant resources and production in the IOR for those commodities are India (bauxite, iron ore, lead and lead) and South Africa (gold, rutile, zircon and uranium).

- Australia has the largest resources in the IOR for copper, ilmenite and nickel. However, Australia's production for copper is matched by Indonesia. There is also significant production from Zambia and the Democratic Republic of the Congo (DR Congo), which while strictly not in the IOR, have strong ties to the region. Australia's production of ilmenite is exceeded by South Africa, with India, Mozambique and Madagascar having significant ilmenite production. Australia has ample resources to increase its production for ilmenite, rutile and zircon if the market demand justifies it. Similarly, Australia's nickel production is exceeded by Indonesia, with significant production also from South Africa and Botswana.

- Australia has relatively minor quantities of manganese with the largest resources in the IOR held by South Africa. India also has significant resources. However, Australia is the largest producer of manganese ahead of South Africa and India.

- Australia's phosphate rock resources are relatively minor being exceeded by resources held in Iraq and South Africa. Australia recorded the highest production of phosphate rock in the IOR in 2010.

For a summary of mineral resources and production of major significance for IOR countries see Tables 9 and 10 in *Attachment B* on page 25 and 26.

3.2 Resources and energy security – Australia's position

Australia's approach to energy security has been to continue to reinforce our national interests through promoting the importance of efficient, transparent and effective global energy markets. Australia also considers that global energy security is best served through open, transparent and effective markets and investment frameworks, with minimal government intervention. Such markets provide conditions for appropriately timed, typed and sized investment in production and supply capacity, thereby delivering long run price stability and supply security.

Global energy policy discussions occur in a range of multilateral forums including the IEA, the International Energy Forum (IEF), IRENA, G20, the EAS and APEC. These multilateral forums are generally characterised as part of broader high level platforms for exchange principally between national governments at leader, ministers and officials levels to shape international policy and processes across a wide range of strategic topics and relationships. At the highest level, Australia's engagement in these multilateral forums is shaped by our overarching foreign policy objectives and national interests in economic, security, trade and diplomatic relationships.

For the Department of Resources, Energy and Tourism, these forums provide an opportunity to align with these national objectives and, through participation, contribute to shaping global and regional energy goals within the membership of these groups. Multilateral engagement on energy will become ever more important as our energy markets become increasingly linked and or integrated into the global energy system. This has occurred for oil and is becoming increasingly so for gas.

In an increasing global market it will be important for Australia to understand its international influence and the implications of emerging trends such as global energy diversification, shifting energy demand-supply patterns, increasing adoption of new clean energy policies technologies. Importantly, these multilateral forums ultimately provide an opportunity for national governments to address emerging global issues through collective discussions and mutually beneficial solutions. Global energy demand is now one of those important issues.

3.2.1 Liquid fuel security

The 2011 National Energy Security Assessment (NESA) considered the main factors posing challenges to the adequate, reliable and competitive delivery of energy in each of Australia's liquid fuel, natural gas and electricity sectors. The 2011 NESA assessed that Australia's liquid fuel security was high trending to moderate in the long term. This was due to Australia's access to well-functioning markets for liquid fuels which enabled a high diversity of supply of refinery feedstock and/or petroleum products from a wide variety of international sources.

The 2011 NESA also included a 'shock' scenario which was based on the temporary closure of shipping to and from Singapore and shutdown of Singapore's three major refineries. The interruption was modelled to last for around 30 days, and impacts were assessed under current conditions and then under the tighter global market conditions forecast for 2015-16.

The analysis concluded there was no evidence to suggest that crude oil and refined product markets would not swiftly respond to a supply disruption by eliciting some additional supply, reallocating supply efficiently among users, and reducing the quantity demanded through temporarily higher prices and that there is sufficient alternative supply options for refined petroleum products to adequately deal with a supply disruption at a major supply hub such as Singapore.

3.2.2 Sea transport security

Commodity trade on sea routes through the Indian Ocean is currently a relatively low level issue for Australian commodity producers, but will become more significant in the future with the steady increase in Australian foreign direct investment (FDI) into IOR resources provinces, particularly in eastern Africa and South East Asia. Investments in production in Africa and South East Asia is likely to be intended to service Australia's traditional markets in Asia, which will then require transport across the Indian Ocean. Dependent on the value of these cargoes, they could become a lucrative target for piracy, similar to current LNG shipments from Nigeria.

Sea routes are also an issue for uranium shipments. Access to secure and reliable sea routes is critical to ensure Australian producers are able to transport uranium to converters in Europe and the US. Australian producers require secure and diversified transport options for the carriage of Australian uranium regionally and globally. There have previously been problems with obtaining transit permits for Australian uranium in international ports, notably in South Africa. Ongoing collaboration between governments, including those of IOR-ARC countries, producers and carriers to improve and preserve transport routes for Class 7 goods such as uranium is essential to ensure the competitiveness of Australian uranium producers.

3.2.3 The Indian Ocean Tsunami warning role Geoscience Australia shares with the Australian Bureau of Meteorology

The Australian Tsunami Warning System (ATWS) is a national effort involving Geoscience Australia (GA), the Australian Bureau of Meteorology (BoM), and Emergency Management Australia (EMA) to provide a comprehensive tsunami warning system. One of the policy objectives of the ATWS project is to contribute to the establishment of the Indian Ocean Tsunami Warning and Mitigation System (IOTWS).

The US Pacific Tsunami Warning Centre (PTWC) and Japan Meteorological Agency (JMA) have provided an interim tsunami watch service for the Indian Ocean since the Indian Ocean earthquake and tsunami on 26 December 2004. This interim arrangement remains in place until Indian Ocean countries are able to provide this service themselves.

UNESCO's Intergovernmental Coordination Group (ICG) for the IOTWS endorsed the implementation plan for the IOTWS at its meeting in April 2008. The plan describes a "system of systems" arrangement with six Regional Tsunami Service Providers (RTSP) – Australia, India, Indonesia, Iran, Malaysia and Thailand - providing information on tsunami hazards for all member states in the Indian Ocean rim.

The Australian RTSP is operated by BoM and GA and is called the Joint Australian Tsunami Warning Centre (JATWC). Australia commenced its role as an RTSP on 17 July 2008. Initially this involved forwarding GA's earthquake analysis to other Indian Ocean RTSPs. RTSP arrangements were reviewed by the ICG in April 2009 and again in May 2010. As an RTSP, the JATWC provides Indian Ocean member states with forecast tsunami arrival times and threat levels for predefined coastal zones in all Indian Ocean rim countries.

The 8th Session of the ICG/IOTWS in Melbourne in May 2011, resolved that the RTSPs will become primary providers of tsunami advice after the successful completion of an Indian Ocean tsunami exercise in October 2011. The exercise was successfully completed, however, the PTWC and JMA will continue to shadow the RTSPs until the ICG reviews the performance of the RTSPs at its 9th Session in early 2013 before full operational capability is endorsed.

Only Australia, Indonesia and India, and not the six RTSPs as originally envisaged in 2008, are currently able to provide full tsunami services to all Indian Ocean countries.

GA received $21m funding in 2005/06 over four years to implement the ATWS, contribute to an IOTWS and integrate with the existing PTWC to facilitate warnings to the South West Pacific region. A further $4.7m per annum was allocated in 2009/10 for ongoing operations.

3.2.4 The Australian Maritime Jurisdiction in the Indian Ocean

Australia is responsible for one of the world's three largest maritime jurisdictions. At more than 14 million square kilometres[10] it is twice the area of the Australian mainland. Of this 14 million square kilometres approximately half the area lies within or facing the Indian Ocean. Australia's maritime jurisdiction from the Australian mainland, Heard and McDonald Islands and the Australian Antarctic Territory border the south and south-eastern margins of the Indian Ocean basin.

Fundamental to the Australian maritime jurisdiction are the international and domestic maritime zones from which our jurisdictional borders are defined. They are:

- the continental shelf;
- the exclusive economic zone (EEZ);
- the contiguous zone (CZ);
- territorial sea (TS); and
- the coastal waters (CW).

These zones underpin every regulated activity that occurs in the Australian jurisdiction including the exploitation of natural resources, environmental protection, maritime border control and the allocation of resources between the Commonwealth and Australian States.

GA ensures that data on the limits of Australia's maritime jurisdiction are made available in a readily usable form that contributes to maritime security by helping to identify transgressions within our limits. Australia's approach in achieving the goals of certainty in our limits and active distribution of this data represent world's best practice.

The work to define and refine the limits of Australia's maritime jurisdiction is ongoing. It represents a long term commitment by GA to produce information in conformity with Australian and international law. GA's work also supports implementation of the *Seas and Submerged Lands Act 1973* and Australia's international relations through the Attorney-General's Department, and the Department of Foreign Affairs and Trade respectively.

[10] This figure includes the Australian maritime jurisdiction adjacent to the Australian Antarctic Territory

GA developed a successful defence of Australia's continental shelf submission which secured an additional 2.56 million square kilometres of seabed jurisdiction - 1.8 million kilometres located in the Indian Ocean. Of equal importance is the work defining the outer limits of Australia's other maritime zones, the EEZ, CZ, TS, CW.

Underpinning the definition of Australia's maritime limits is high quality geoscience data. Detailed data about the location of the coastline, the shape of the seafloor and the geology of the rocks beneath it is necessary to determine the limits of Australia's maritime jurisdiction zones; support decisions regarding the efficient use of resources within the jurisdiction and manage the environment over which we are responsible.

GA undertakes programs that address all these issues; ranging from collaborative projects with State agencies to map the coastline relevant to the definition of Australia's limits, to multipurpose marine science surveys that capture information relevant to defining Australia's maritime limits and simultaneously gather information about the marine resources and environment of the areas under investigation.

Significant work remains to finalise the limits of Australia's jurisdiction. In the Indian Ocean two areas of continental shelf remain outstanding, requiring additional scientific programs to satisfy the relevant body - the Commission on the Limits of the Continental Shelf - of their merits. The outstanding areas are the Williams Ridge near Heard Island and the Joey Rise adjacent to West Australia's North West Shelf, totalling over 80,000 square kilometres.

Securing these areas will require a program of three as yet unfunded marine surveys, and the development and defence of a revised continental shelf submission to finish the successful work previously completed in 2008. GA believes that leveraging Australia's investment in the new marine scientific research vessel, *RV Investigator*, funded under the Super Science Initiative to acquire this data would represent efficient use of Australian Government resources. Such a program is considered desirable as it will secure all Australia's entitlements under international law.

3.3 Mining technical services

Australia has a strong mining technology and services (MTS) sector which, while not strongly export-oriented at present, has developed a small, lucrative market presence in other mining economies including in the Pacific and in South America.

The value of the sector in 2008-09 was around $8 billion, with exports of about $2.5 billion in that year (ABARE)[11] albeit without a strong market focus with most exports being relatively opportunistic, and based primarily on personal relationships and Australian connections rather than on strong market development.

Consistent with this, further market development for MTS is likely to be on the back of Australian mining companies investing in new resource provinces in South East Asia and Africa, further highlighting the positive flow-on effects for Australia of secure seaborne shipping routes across the Indian Ocean.

[11] ABARE's definition of the sector is more restrictive than Austmine's, which values the sector at around $12 billion. ABARE looks at companies whose sole market target is the mining sector, while Austmine includes companies which are able to supply and/or service multiple sectors (eg, earthmoving). ABARE's definition also does not include offshore hydrocarbon extraction.

4. Tourism

4.1 IOR countries' contribution to the Australian tourism industry

Tourism is important to the Australian economy, contributing $34.6 billion in Gross Domestic Product (GDP), 2.5 per cent of Australia's total GDP (2010-11). Tourism is Australia's largest services export earner, accounting for $24 billion in exports in 2010-11, which equates to around eight per cent of total exports. The tourism industry employed over 500,000 Australians in 2010-11 (this is around one in every twenty employed Australians). Continued growth is expected for Australia's tourism industry, with total inbound economic value from tourism activity forecast to grow by 3.4 per cent each year between 2010 and 2020.

Australia has strong bilateral tourism relationships with a number of IOR nations, particularly India, Indonesia, Malaysia, Thailand and Singapore. Australian Bureau of Statistics (ABS) data shows that Singapore and Malaysia were Australia's sixth and seventh largest inbound tourism markets in the December 2011 quarter. Indonesia, Thailand, Singapore, and Malaysia were Australia's second, fourth, eighth and ninth largest outbound tourism markets, respectively, in the December 2011 quarter (see *Attachment C* on page 27 for 2011 arrivals and departures data for the IOR countries).

Figure 11 (on the left below) shows IOR visitation as a proportion of all arrivals to Australia between 2006 and 2011 and Figure 12 (on the right below) shows the IOR region as a destination for Australians travelling overseas between 2006 and 2011.[12]

Figure 11

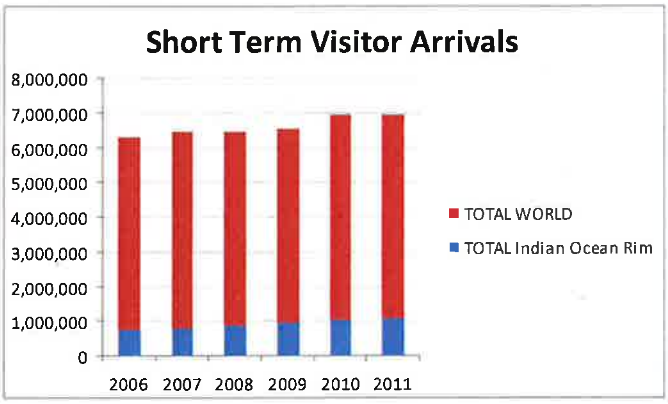
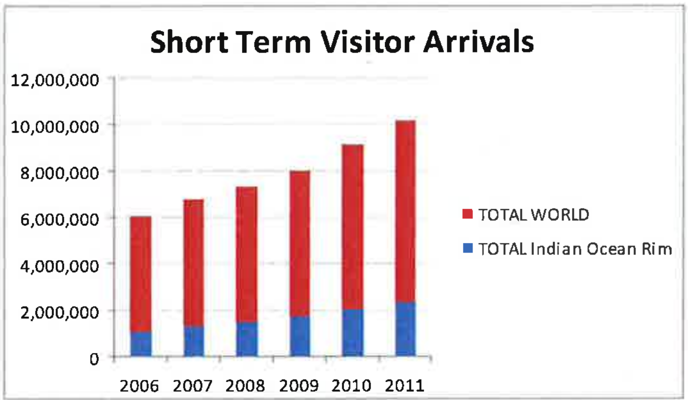


Figure 12



The importance of the IOR countries to Australia's tourism industry is forecast to grow over the next decade. Arrivals from India and Indonesia are expected to grow by eight per cent and 7.5 per cent respectively out to 2020, while arrivals from Singapore and South Africa are forecast to increase at an average annual growth rate of 2.5 per cent and 4.7 per cent respectively out to 2020.

IOR countries are also increasingly competing with Australia as a tourism destination. South Africa is already a strong competitor for visitation from Europe and the USA, while Singapore and Malaysia are growing competitors for Chinese outbound tourism. Given Australia's status as a long-haul destination for most markets, and the increasing competition presented by nations such as South Africa, it is important that the industry is positioned competitively to address this.

[12] Figures 11 and 12 sourced from ABS Overseas Arrivals and Departures

4.2 Key Indian Ocean Rim market opportunities

Given its close geographic proximity to the IOR, and established relations with many countries in that region, Australia has a competitive advantage in attracting visitors from IOR countries.

Education tourism is an important market for Australia, and further growth is anticipated. In 2011 there were 82,292 international students from the IOR who listed 'education' as the main purpose of their travel to Australia. Education tourism is especially economically important, as it often stimulates repeat and 'Visiting Friends and Relatives' visitation. International students generally stay longer than other tourists, and are more likely to make a trip to regional Australia during their stay.

Singapore, India and Indonesia are notable education tourist markets for Australia, with 19,523; 16,500; and 13,856 education arrivals in 2011 respectively.

Tourism Australia (TA) is the statutory authority responsible for marketing Australia overseas. TA has offices in India, Malaysia and Singapore, and works to raise Australia's profile in these countries (and the broader region). TA has identified India, Indonesia, Malaysia and Singapore as having high growth potential and the Middle East – namely the United Arab Emirates (UAE) and Saudi Arabia given they are financial hubs – as also showing growth potential (see *Attachment D* on page 28 for more information on these countries).

Bangladesh, Iran, Kenya, Madagascar, Mauritius, Mozambique, Oman, Seychelles, South Africa, Sri Lanka, Tanzania, Thailand and Yemen are all 'Rest of the World' markets for TA, and are not key markets under its long-term growth strategy to 2020.

4.3 Challenges in fully leveraging the tourism opportunities presented by the IOR countries

In order to capitalise on projected growth from the IOR region, the Australian tourism industry must ensure it has a product offering that is enticing to potential tourists; a labour force with the skills to meet the needs of visitors from the region and adequate air capacity to ensure tourists from the IOR region can access our shores.

The Australian Government is addressing these issues in partnership with state and territory governments and industry through *Tourism 2020*. Launched in December 2011, *Tourism 2020* is an update to the *National Long-Term Tourism Strategy* (the Strategy) and integrates the Strategy's reform agenda with the growth aspirations of the 2020 Tourism Industry Potential.

Tourism 2020 seeks to provide the industry with the tools to compete more effectively in the global economy and to take advantage of the opportunities that Asia presents. By 2020, *Tourism 2020* seeks to achieve $115 to $140 billion in overnight spend, hold or grow market share in key markets, grow the tourism labour force and increase accommodation capacity, increase international and domestic capacity and improve industry quality and productivity.

To achieve these outcomes, the Australian, state and territory governments and industry are committed to addressing the following themes

- Growing demand from Asia;
- Building competitive digital capability;
- Encouraging investment and implementing regulatory reform;
- Ensuring the tourism transport environment supports growth;
- Increasing the supply of labour, skills and Indigenous participation; and
- Building industry resilience, productivity and quality.

Tourism 2020 addresses the following challenges to Australia's success in attracting international visitors from the IOR:

To attract international visitors from the IOR, *Tourism 2020* addresses the areas of product, labour and skills, market access and investment. The challenges associated with these areas are summarised below.

Product quality

As competition for international tourists intensifies and destinations realise the economic potential of tourism activity, it is important that Australia maintains a high quality product offering suitable for visitors from the IOR region. Australian industry cannot become complacent or over-reliant on established tourism product and experiences and innovation in tourism development is essential. Language skills and cultural awareness appropriate to those visiting from the IOR region are essential.

Tourism 2020 addresses this challenge through a number of measures, including the TQUAL Grants program which supports new and high quality product development. Other initiatives being progressed through the Industry Resilience Working Group (one of eight working groups formed to implement *Tourism 2020*) include developing tools for tourism businesses to undertake more effective business and risk planning, and overseeing the expansion of the Australian Government's Enterprise Connect program to tourism businesses.

Labour and skills

An element of ensuring Australian product appeals to visitors from IOR countries is ensuring workers in the tourism industry have the necessary language skills and cultural awareness to cater for these markets. A significant increase in labour and skills supply in the tourism industry is required in order for Australia to meet the 2020 Potential.

Tourism 2020 is addressing this impediment through identifying labour and skills 'hot spots' in which serious labour supply shortages are being experienced. The Labour and Skills Working Group is also encouraging Indigenous participation in the tourism workforce and developing online tools for tourism businesses to help them find appropriate employees for their businesses. This will help businesses better service IOR markets by providing a pool of skilled labour to ensure visitors from these markets are well catered for.

Market Access

Ensuring there is adequate access for tourists from the IOR region to get to Australia is key to Australia reaching its 2020 tourism potential. Given Australia is a long-haul destination for this region, ensuring regular, direct air access is crucial.

This is being addressed through the Tourism Access Working Group (TAWG), formed to progress *Tourism 2020*. TAWG is implementing a number of measures to secure market access, including encouraging airlines to utilise regional airports and facilitating increased levels of international and domestic airline seats on a sustainable basis. RET also participates in regular air services negotiations. By opening up the market and simplifying air access into Australia, these measures will make Australia a more attractive destination, particularly when competing with shorter haul destinations.

Investment: IOR countries as a source of tourism investment

In addition to playing an important role in supplying tourism visitors, IOR countries can also play a role in funding the development of tourism infrastructure needed to attract visitors of the future.

Total investment in the tourism industry in real terms has increased since 1997 however the industry's share of total investment across the Australian economy has declined.

To meet the Tourism 2020 potential of $140 billion in overnight visitor expenditure by 2020, Australia will need significant investment in supply-side infrastructure to support expected industry growth of between 4.8 per cent and 6.7 per cent annually to 2020.

To achieve this potential, Australia will need an additional 40,000 to 70,000 rooms, including short-term accommodation in metropolitan areas, regional areas and areas of high natural amenity.

RET is working with TA and Austrade to create a whole of government approach to attracting foreign investment in the tourism industry by making it an investment priority.

Presenting the Australian tourism investment case to Asia-based investors will be a core activity for the newly created Destination Development team within Tourism Australia.

As the whole of government Investment Attraction Program is in its infancy, there is limited data available on which countries within the IOR will be a strong source of investment for the Australian tourism industry.

India, Malaysia and Singapore have been identified as growing markets for inbound travellers, with each country expected to generate over $1.3 billion in tourist expenditure by 2020. As such, these countries would be likely target markets for the investment attraction work. In reviewing the applications made to the Australian Foreign Investment Review Board, India, Malaysia, Singapore and Thailand were ranked amongst the top investors in the tourism industry since 2005.13 The investment attraction program will also be exploring investment leads in the Middle East, including in Oman and the United Arab Emirates.

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[13] Foreign Investment Review Board (2005-06 to 2009-10), *Annual Reports*

South Africa may also present investment opportunities. Although it has not been identified as a potential source of investors for the tourism industry, it has been ranked in the top 20 countries in term of foreign investment in Australia since 2005, including in the services and real estate sectors.

It is unlikely that the other countries in the IOR will be targeted for foreign direct investment, as many are developing countries and are more likely to be recipients of outward investment by Australians.

4.4 Aviation access

A network hub is comprised of a large number of flights that are synchronised and scheduled to feed travellers from all points of origin into a major airport or 'hub', from which the traveller can take connecting flights to their final destination. As an end-of-line destination, Australia relies heavily on strategic aviation hubs, and the commitment of 'hub carriers' to the long-term development of travel, trade and tourism.

Singapore, Thailand, Malaysia, India, Indonesia and the UAE represent strategic hubs for African, European, Asian and Middle Eastern tourists visiting Australia due to their close proximity (see *Attachment E* on page 32 for more information on these countries).

5. International engagement

The disparate nature of countries in the IOR means regionally-based resources, energy and tourism cooperation is a challenge. Countries within the region have very different products, capacity, strengths and weaknesses, making collaboration difficult. They are also some of the poorest countries in the world and display great diversity when it comes to races, religions, cultures, political systems, economic conditions and interests.

Australia has been a member of the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC) since it formation in 1997. The Department of Resources, Energy and Tourism has had minimal engagement with IOR-ARC on resources, energy and tourism issues.

From a tourism perspective, the Department of Resources, Energy and Tourism considers its membership of the United Nations World Tourism Organization (UNWTO) and the APEC Tourism Working Group (TWG) to provide better platforms for engagement with IOR nations.

Membership of the UNWTO allows Australia to engage with almost all IOR countries, including: Bangladesh, India, Indonesia, Iran, Kenya, Madagascar, Malaysia, Mauritius, Mozambique, Oman, South Africa, Sri Lanka, Thailand and Yemen. The APEC TWG's objective is to foster economic development in the Asia-Pacific region through sustainable tourism. Australia engages with IOR countries Indonesia, Malaysia, Singapore and Thailand through this forum.

6. Free Trade Agreements

Free Trade Agreements (FTA) can play a useful role as part of a wider strategy to build a more open global environment for trade and investment; provide greater certainty and better protection to traders and investors; and identify common ground for further strengthening trade and investment ties. In turn, this activity can help to advance Australia's energy and resources trade and investment interests internationally and amongst the diverse economies in the IOR.

Australian energy and resources industries in particular benefit not just from improvements in trade and investment enhancing commitments, but also from the platform these arrangement provide for constructive dialogue and pragmatic cooperation on issues of commercial importance to both the large companies and small-and-medium enterprises that make up these sectors. For example, FTAs can contribute to Australia's export oriented energy and resources industries in terms of measures and actions to facilitate the efficient and effective transport of goods and delivery of services into and out of markets.

For tourism to date FTAs have had limited impact on tourism outcomes for Australia with aviation services the most relevant area for tourism in most agreements.

Australia has bilateral and regional FTAs in force, or under negotiation, with IOR economies including India, Indonesia, Malaysia, Oman, Singapore, Thailand and the UAE.

Table 2: Australian commodity exports to IOR countries 2009-2011[14]

Commodity	2009 ($m)	2010 ($m)	2011 ($m)
Non-monetary refined gold bullion (99.5 per cent or higher)	8,663	8,622	7,790
High rank metallurgical coal (hard coking)	6,034	4,941	6,358
Petroleum oils and oils obtained from bituminous minerals, crude	2,565	3,898	4,769
Copper ores and concentrates	767	1,195	1,347
Unwrought refined copper cathodes and sections of cathodes	663	454	1,063
Semi-soft coking metallurgical coal and PCI coal	1,208	854	1,009
Unwrought aluminium, not alloyed	955	572	556
Bituminous coal (eg. Steaming coal) (excl. metallurgical coal)	763	355	545
Oil and preparations, obtained from bituminous minerals (other than crude), containing by weight 70% or more of petroleum oils or oils obtained from bituminous minerals	226	239	355
Unwrought refined lead	305	213	332
Refined gold bullion (99.5 per cent or higher)	8,663	8,622	7,790
Metallurgical coal	7,242	5,794	7,367
Petroleum products	2,791	4,136	5,124
Copper ores and concentrates	767	1,195	1,347
Unwrought refined copper cathodes and sections of cathodes	663	454	1,063
Unwrought aluminium, not alloyed	955	572	556
Unwrought refined lead	305	213	332

[14] Note that this table is in nominal dollar values. IOR countries included in this table are Australia, Indonesia, Singapore, Malaysia, Thailand, Bangladesh, India, Sri Lanka, Iran, the United Arab Emirates, Oman, Yemen, Kenya, Tanzania, Mozambique, South Africa, Madagascar, Mauritius, Pakistan and Myanmar

Table 9: Available data on mineral resources and production from countries with significant resources in the IOR

Commodity	India	Indonesia	South Africa	Other African countries	Other IOR*	Total IOR excluding Australia	Australia	Australia as % of Total IOR	China	World Total
Bauxite										
Resources Mt	900	ND	ND	ND	ND	**900**	6000	667%	830	28 000
Production kt	*18*					***18***	*69*	*383%*	*44*	*211*
Copper				**Zambia** / **DR Congo**						
Resources Mt	ND	28	ND	20 / 20	ND	**68**	86	126%	30	640
Production kt		*872*		*690* / *343*		***1905***	*870*	*129%*	*1190*	*16 200*
Iron Ore					**Iran**					
Resources Mt	7000	ND	1000	ND	2500	**10 500**	34 500	329%	23 000	191 000
Production Mt	*230*		*59*		*28*	***317***	*430*	*136%*	*1070*	*2400*
Gold					**Papua New Guinea**					
Resources t	ND	3000	6000	ND	1200	**10 200**	8410	82%	1900	51 800
Production t		120	189		68	**377**	*260*	*69%*	*345*	2510
Lead										
Resources Mt	2.6	ND	0.3	ND	ND	**2.9**	34.7	1197%	14	88
Production kt	*95*		*50*			***145***	*710*	*490%*	*1850*	*4200*
Ilmenite (as TiO_2)				**Mozambique**	**Madagascar** / **Sri Lanka**					
Resources Mt	85	ND	63	16	40 / ND	**204**	104.9	51%	200	655.4
Production kt	*420*		*1120*	*350*	*150* / *40*	***2080***	*691*	*33%*	*600*	*5379*
Rutile				**Mozambique**	**Madagascar** / **Sri Lanka**					
Resources Mt	7.4	ND	8.3	0.48	ND / ND	**16.18**	23.5	145%	ND	47.6
Production kt	*20*		*130*	2	6 / *12*	***170***	*430*	*253%*		*727*
Zircon										
Resources Mt (ZrO_2)	3.4	ND	14	ND	ND	**17.4**	25.61	147%	0.5	58.11
Production kt (Zircon)	*31*	*60*	*390*			***481***	*540*	*112%*	*140*	*1244*
Manganese (contained metal)										
Resources Mt	56	ND	150	ND	ND	**206**	73	35%	44	612
Production kt	*1.0*		*2.9*			***3.9***	*3.68*	*94%*	*2.6*	*14.2*
Nickel				**Botswana**	**Madagascar**					
Resources Mt	ND	3.9	3.7	0.49	1.3	**9.39**	20.7	220%	3.0	72.8
Production kt		*232*	*41.8*	*32.4*	*7.5*	***313.7***	*170*	*54%*	*77*	*1580*
Phosphate Rock					**Iraq**					
Resources Mt	6.1	ND	1500	ND	5800	**7306**	492.1	7%	3700	65 000
Production kt	*1240*		*2500*		ND	***3740***	*2.6*	*0.1%*	*68 000*	*176*
Uranium**				**Malawi**	**Pakistan**					
Resources kt	55.2	4.8	195.2	13.6	ND	**268.8**	1158	431%	115.9	3506
Production kt	*0.4*	*0*	*0.583*	*0.67*	*0.045*	***1.698***	*5.889*	*347%*	*0.827*	*53.663*

Source: Geoscience Australia and United States Geological Survey. Notes: ND = No data. * Indian Ocean Region countries included in this study – Australia, India, South Africa, Indonesia, Zimbabwe, Zambia, Botswana, Malawi, DR Congo, Tanzania, Kenya, Uganda, Somalia, Ethiopia, Yemen, Saudi Arabia, Oman, United Arab Emirates, Iraq, Iran, Pakistan, Bangladesh, Myanmar, Thailand. ** Uranium resource and production for Australia from Geoscience Australia data; resource data for other countries from OECD/NEA IAEA Uranium 2009: Resources, Production and Demand; production for other countries from World Nuclear Association, March 2012

Table 10: IOR Countries – Coal resources, production and consumption for 2010

COAL	Australia	China	India	Indonesia	Japan	Pakistan	Thailand	South Africa	Zimbabwe	Other Africa	Middle East	World
Resources Million tonnes	81100 (9.4%)	114500 (13.2%)	60600 (7.0%)	5529 (0.6%)	350 (<0.01%)	2070 (0.2%)	1239 (0.1%)	30156 (3.5%)	502 (0.1%)	1034 (0.1%)	1203 (0.1%)	865638 (100%)
Production Million barrels of oil equivalent	235.4 (6.3%)	1800.4 (48.3%)	216.1 (5.8%)	188.1 (5.0%)	0.5 (<0.01%)	1.5 (<0.01%)	5.0 (0.1%)	143.0 (3.8%)	1.1 (<0.01%)	0.8 (<0.01%)	1.0 (<0.01%)	3731.4 (100%)
Consumption Million barrels of oil equivalent	43.4 (1.2%)	1713.5 (48.2%)	277.6 (7.8%)	39.4 (1.1%)	123.7 (3.5%)	4.6 (0.1%)	14.8 (0.4%)	88.7 (2.5%)	0 (0%)	5.7 (0.2%)	8.8 (0.2%)	3555.8 (100%)

Note: Proportion of world totals shown in brackets
Sources: Geoscience Australia, Australia's Identified Mineral Resources 2011; Statistical Review of World Energy 2011; BP Coal Annual Survey 2011

Attachment C

IOR countries – Arrivals and Departures – 2011

Source: Australian Bureau of Statistics – Overseas Arrivals and Departures

Country	Arrivals - 2011	Departures – 2011
Bangladesh	7,351 (+13.8)	13,378 (+10)
India	148,191 (+6.8)	191,427 (+15.7)
Indonesia	140,372 (+13.3)	877,830 (+18.8)
Iran	8,538 (+14.1)	9,680 (+31.7)
Kenya	2,956 (-0.3)	10,096 (+41)
Madagascar	99 (+41.1)	669 (+69.8)
Malaysia	241,181 (+1.8)	257,904 (+5.3)
Mauritius	7,378 (+1.5)	12,348 (+11.1)
Mozambique	344 (+15.1)	1,324 (+66.8)
Oman	2,353 (-10.1)	1,789 (-27.9)
Singapore	318,546 (+3.4)	288,212 (+11.1)
South Africa	64,370 (+3.5)	76,354 (-11.4)
Sri Lanka	17,148 (+3)	44,962 (+17.5)
Tanzania	1,040 (+33.2)	6,589 (+30.9)
Thailand	85,421 (+1.5)	552,529 (+23.3)
United Arab Emirates	45,001 (-7.7)	41,391 (+9.3)
Yemen	37 (-79)	112 (+45)
TOTAL	1,090,326	2,386,595

Attachment D

India

India is one of the fastest growing outbound travel markets in the world, with the UNWTO predicting 50 million outbound travellers by 2020. In 2011, Indian visitation to Australia reached over 148,000, an increase of 6.8 per cent on the previous year. In 2011, Indian tourists contributed around $952 million to the Australian economy.

TA is focused on maintaining and growing its share of this travel market by developing a strategic plan to help achieve India's Tourism 2020 potential. This plan will be delivered by June 2012. The India travel market, albeit still emerging, could be worth as much as $2.3 billion to the Australian tourism industry by 2020.

TA's long-term approach to the India travel market will focus on key areas such as developing the agency's understanding of the Indian traveller, a geographic expansion plan, quality Australian experiences including trade development, and aviation development. In relation to the latter, there are currently no non-stop services to Australia, which presents a major challenge for Australia in capitalising on forecast growth in this market.

Indonesia

The continued political and economic stability of Indonesia has translated to consistent outbound travel growth in the past two years. In 2011, Indonesian tourists contributed approximately $666 million to the Australian economy.

Reaching the potential of the Indonesian market requires not only growing the existing Family segment with more Pribumi (native Indonesian) travellers, but also engaging the emerging segment of young professionals/ business owners/ self-employed, aged between 25-34. This young, emerging segment forms part of a significant proportion of Indonesia's population. They are growing in affluence and global outlook, and are savvy online media users.

Key challenges for Australia's development of the Indonesian market include current low visibility of Australia as a tourism destination and limited use by Australia of different media channels. In 2011-12, TA aims to increase destination visibility with improved imagery and consider a greater mix of media which includes more online media usage, for more effective reach amongst both Family segment (existing) and 25-34 year old Professionals/ Business owners/ Self-employed segment (emerging future).

TA will also continue to leverage existing trade and airline partnerships, and explore new non-traditional partnerships through our trade contacts. To continue building Australia's presence in market, Tourism Australia will also participate in key consumer events such as the Astindo Consumer Fair in Jakarta, and initiate a travel mission, the Indonesian Sales Mission, for Australian suppliers to meet with key travel agencies and tour operators from key cities such as Jakarta and Surabaya.

For Business Events, TA will continue to work with Convention Visitors Bureaux partners in growing our market share, including amongst the 25-34 year old segment travelling on company-sponsored incentive trips. This provides Australia an opportunity to start building affinity with this segment.

TA is also looking to establish in-market representation and obtain creative/ media agency support in Indonesia.

Malaysia

Malaysian outbound travel has benefitted from the intense competition between legacy carrier Malaysia Airlines and low-cost carrier Air Asia and its long-haul subsidiary AirAsia X. Many Malaysians now find air travel affordable and consider travelling overseas, within their region and beyond. Australia has seen a 50 per cent increase in arrivals since AirAsia X launched its first Australian flight to the Gold Coast in November 2007, and at the same time, an increase in Malaysia Airlines' flights to key Australian gateways. Malaysia's arrivals have been growing at a steady pace since that time.

To realise the growth potential of the Malaysian market to 2020, TA will focus on growing the Professionals/ Business Owners/ Self-employed segment aged 25-34 years with high disposable income – and who travel frequently as couples or with friends. This segment is part of a significant 63 per cent of the current population aged below 35. They are increasingly entrepreneurial, and eager to travel overseas for holidays. Some have already travelled beyond the region for long-haul holidays to North Asia, the US and Europe. This segment looks forward to experiencing new destinations. They also appreciate destinations perceived to have unique experiences.

The key challenge is to change the target segment's perception that Australia lacks unique and new experiences. TA will address these challenges by ensuring interest remains positive by using "There's Nothing Like Australia" assets, to highlight the myriad of different experiences Australia offers, not only in the cities but also in the regions.

TA will continue to leverage the strong Business Events trade partnerships already in place, to effectively target the corporate end users in conjunction with Convention Visitors Bureaux.

Singapore

Having a high level of disposable income has made Singaporeans see annual overseas holidays as a fact of life. Australia, being the nearest Western destination with Perth just five hours away, receives up to 84 per cent (to the year ending December 2010) of repeat Singaporean visitors every year. Generally, there is high awareness of Australia in the market, due to the proliferation of Australian food and lifestyle brands, and strong presence of Australian arts and culture, with a significant Australian community.

TA's key target segment for Singapore is the Young Adult aged 20-34, earning at least US$4,000 monthly and who prefers Free and Independent Travel (FIT). This segment is expected to be a key contributor to Singapore's economic viability. They are adventurous and constantly looking for new holiday experiences, so Australia's key brand messages of Adventure, Nature and Immersion will underpin communication to this segment. Tourism Australia will continue to emphasize Australia being the closest Western destination, and its advantage of diverse holiday experiences in close proximity to cosmopolitan cities.

The substantial growth of social media and word of mouth activities in the market will be a core focus of TA's Singapore activities in 2011-12. Young Adults in Singapore are proactive consumers of social media as well as significant contributors in their own right. TA will use existing and new Friends of Australia, Aussie Specialist Agents and consumers themselves to increase the attractiveness of Australia as a tourism destination in the market. Traditional media such as television, print and radio will be used to send consumers to in-depth messages and advocacy programs and to promote offers that provide a compelling value proposition.

Australia's strong appeal will ensure it is top of mind for companies that use travel incentives to motivate their staff. TA's goal for Business Events in 2011-12 is to increase the number of corporate end users engaged through its business events agent and partner convention bureaux, and increase the number of pitches for corporate end users to consider Australia. This includes pitching for multi-market incentive trips amongst corporations with regional or global offices based in Singapore.

United Arab Emirates (UAE)

TA focuses mainly on two key markets in the Middle East: the UAE and Saudi Arabia. These two markets are key financial hubs and are the best growth prospects for increased arrivals from the region.

At least 80 per cent of UAE's population consists of expatriates, a large proportion of whom are Australian or British nationals. As such, expatriate arrivals for both the UAE and Saudi Arabia account for over 80 per cent, a high percentage of which are returning Australians. UAE and Saudi nationals contribute less than 20 per cent of total arrivals but spend more than other visitors. TA's target segment is the affluent, well-travelled, Gulf Arab national family with young children, residing in UAE or Saudi Arabia.

A key challenge in the market is the lack of insight on our key target segment's motivators, holiday planning and booking habits. The second key challenge is the continued lack of destination knowledge amongst the local travel trade, which limits the travel agents to an 'order taker' role as consumers know more about the destination and instruct most aspects of the trip planning and booking. In addition, the Ramadan fasting month (which moves forward 10-11 days every year) has crossed into the traditional peak outbound summer travel period since 2009, impacting long-haul travel from the region out to 2014. Trends observed in recent years have shown Gulf nationals' reluctance to travel long-haul during Ramadan, preferring short-haul, regional destinations such as Egypt, Syria and Jordan. Even mid-haul destinations that were once popular options such as Muslim-majority Malaysia, have failed to entice Gulf nationals with offerings designed to help Muslim travellers observe Ramadan while on holiday.

As such, minimal growth is expected from the UAE and Saudi Arabia until 2014-15. TA's 2011-12 market strategy for the Middle East will be to maintain Australia's profile and brand presence by supporting the marketing efforts and activities of the main beneficiary State Tourism Organisation (STO - Tourism Queensland, which receives most Gulf arrivals due to the popularity of the Gold Coast area and its varied offerings for the whole family), Regional Tourism Organisation (RTO- Gold Coast Tourism) and other STOs with interest in the market. These activities include cooperative advertising, consumer promotions, media and trade familiarisations, and an in-market Road Show. TA will continue to encourage trade participation in the Aussie Specialist Program to improve the local travel trade's knowledge and motivation to sell Australia.

Attachment E

Aviation access with key IOR countries

India

India is one of Australia's fastest growing inbound markets, but direct aviation access to Australia remains a challenge with no non-stop services. All air services between Australia and India are consequently indirect, with a number of Asian carriers operating through homeland hubs. Singapore Airlines operates services from India to Australia via Singapore, Thai Airways operates via Bangkok and Malaysia Airlines operates via Kuala Lumpur. For several years, Air India has expressed a desire to conduct direct flights to Sydney or Melbourne, however no services have yet commenced.

In February 2012, Qantas announced it would be withdrawing service to Australia from India. The withdrawal of Qantas's Mumbai services will impact Australian tourism through reduced competition and available capacity.

Direct access remains a challenge for the Indian market and attracting direct nonstop services from India to Australia is a priority for TA. TA is working with relevant STOs and Australian airports to attract new services.

Whilst establishing a new nonstop direct service remains a strategic priority in the medium to longer term, TA's immediate focus is on working with existing airline partners such as the Singapore Airlines Group (Singapore Airlines, Silk Air and Scoot) to grow arrivals from India using the existing hubs across South and South-East Asia. Access via an existing hub is also beneficial to dispersal to more destinations within Australia.

Strong aviation growth is expected from Singapore, Malaysia and Indonesia to Australia, which will further improve access to Australia for Indian tourists via those hubs.

Indonesia

In the past, capacity growth has primarily benefited Australians travelling outbound rather than Indonesians travelling to Australia, as the majority of growth is focused on Bali rather than Jakarta and Surabaya. Recently, this appears to be changing.

The key aviation challenge is to fill the increased capacity with more inbound than outbound tourists during low travel periods, and to meet the high inbound demand from Indonesia during the peak travel periods of Lebaran (a Muslim holiday that marks the end of Ramadan), the mid-year school holidays and Christmas.

Currently, carriers such as Garuda Indonesia, Indonesia AirAsia, Qantas, Jetstar, and Virgin Australia operate direct services between Sydney, Melbourne, Brisbane, Adelaide, Perth and Darwin, and destinations in Indonesia.

There is currently a maximum of 143 flights per week from Indonesia to Australia. Of these Garuda Indonesia operate 44 flights, AirAsia operates 28 flights, Jetstar (which Qantas code shares on) operates 30 services and Virgin Australia operates 37 services. Qantas has four services (not code sharing) each week. Strategic Airlines (Air Australia) provided four services per week but on 17 February 2012 the airline was grounded indefinitely.

Despite an increase in seat capacity between Australia and Indonesia in December 2010, airlines of both countries are close to their maximum capacity utilisation. Further air services discussions with Indonesia are a high priority.

Malaysia

Kuala Lumpur represents a hub for inbound passengers from Asia and Europe travelling to Australia. Prior to the global economic downturn and Influenza A H1N1 outbreaks, Kuala Lumpur International Airport was growing significantly as an international aviation hub. The airport plays a significant role in accessing key Asian markets with highly competitive airfares on its extensive network of Asian routes.

The Malaysian inbound market is predominantly served by Malaysia Airlines (MAS). MAS currently operates 53 services per week to Australia. It is the fourth largest carrier in Australia and is a significant carrier of European traffic to Australia. AirAsia X operates 19 services per week to Australia.

AirAsia X offers a valuable opportunity to grow Australia's tourism by providing low-cost links between Australia and Asia with services between Kuala Lumpur and Perth, Melbourne and the Gold Coast. Recently announced services to Sydney will start in April 2012.

Airlines of Malaysia are currently using almost all available capacity to major Australian airports. To facilitate further growth for Malaysian carriers, an increase in capacity is required. The Australian Government has prioritised the need for negotiating an Air Services Agreement with Malaysia as high.

Singapore

Singapore is an important overseas aviation hub for Qantas and a hub for passenger traffic from the United Kingdom, Europe, Middle East, China and India. Qantas currently operates 45 flights per week to Singapore, many of which continue beyond Singapore to Europe. Emirates, Air France (code share only), Etihad and British Airways also operate flights via Singapore. Qantas uses Changi Airport as a base for its regional low-cost carrier, Jetstar Asia. Tiger Airways operates seven services per week from Singapore and Perth. There are no restrictions in capacity between Singapore and Australia. Singapore will be the base for Scoot Airlines, which is expected to commence flights to Sydney by mid-2012.

Air France has a code share arrangement with Qantas. British Airways, Ethiad and Emirates fly their own planes to Australia.

South Africa

Airlines which operate services between Johannesburg and Perth and Sydney include South African Airways (South Africa's national flag carrier), Air New Zealand and Qantas. There are currently 32 flights between South Africa and Australia per week.

In 2011, Australia had 65,000 visitor arrivals from South Africa which is an increase of 4.9 per cent compared to 2010. Between 2007 and 2011, the total number of visitor arrivals from South Africa increased by 3.5 per cent. Inbound arrivals from South Africa are forecast to increase to 99,000 visitors by 2020, which represents a 4.7 per cent growth in arrivals per year.

Qantas and South African Airways are the dominant airlines on the routes with over 75 per cent of all South African tourists entering Australia on these airlines in 2010. The remainder of visitors from South Africa fly through Dubai or Singapore to Australia.

V Australia commenced a Melbourne-Johannesberg service from March 2010, in the lead up to the FIFA World Cup. The airline ceased flights to South Africa in February 2011 because it proved to be unprofitable and V Australia did not envisage a significant increase in its market share in the future.

Cape Town and Johannesburg airports are major international gateways for flights to and from Eastern and Southern African countries. South Africa is also a minor hub for European traffic. South African Airways services routes to and from Europe, North America, the Middle East and Asia.

Air capacity for both countries under the current Memorandum of Understanding signed in 2008 is adequate to support future growth (if required), therefore the priority for negotiating a new agreement is low.

Thailand

Bangkok is an important hub for European and Asian traffic to Australia, with Thai Airways being Australia's seventh busiest carrier transporting visitors to and from Australia.

Qantas operates seven services each week between Sydney and Bangkok, which then continue on to London. Jetstar also operates services between Australia and Thailand: three services per week between Melbourne and Bangkok; and three services between Sydney and Phuket. Thai Airways operates 42 services each week between Bangkok and Perth, Brisbane, Sydney and Melbourne.

Additional capacity was negotiated in July 2008 between Australia and Thailand which will be adequate for future growth.

United Arab Emirates

The airports of Dubai and Abu Dhabi are major hubs for European and Middle Eastern visitors to Australia. Although the United Arab Emirates itself is not a large source market, its geographic position is important for facilitating growth in Australian tourism. Emirates Airlines operates 70 services per week from Dubai to Sydney, Melbourne, Brisbane and Perth. Etihad Airways operates 21 flights per week to Sydney, Brisbane and Melbourne.

The Enhanced Regional Package (ERP) was included in the Memorandum of Understanding of 2010 that allows all designated UAE airlines to operate unlimited capacity into Australian points other than the gateway points (Melbourne, Sydney, Brisbane and Perth).

RET supports an increase in seat entitlements for Emirates in future Air Services Negotiations to facilitate the airline's expansion plans for Asia and Australia.

Dubai's aviation sector also benefits from its liberal open skies policy and the Emirates' geographic location within eight hours flying time of most major destinations and two-thirds of the world's population. These factors, along with the provision of top-flight infrastructure, have attracted over 150 airlines that provide service to 220 destinations around the world, and that directly connect Dubai to 55 cities of more than 10 million inhabitants. As a result, according to the International Air Transport Association, the UAE is the most "connected" country in the world, largely due to Dubai's thriving aviation sector.

The Government of Dubai is currently constructing a mega airport which is expected to be completed within 15 years. When completed, it will be the biggest airport in the world with five runways, four terminal buildings, and capacity to handle more than 160 million passengers and 12 million tonnes of cargo per year.