
The Parliament of the Commonwealth of Australia

Expanding Australia's trade and investment relationship with the countries of Central Europe

Joint Standing Committee on Foreign Affairs Defence and Trade

September 2003
Canberra

© Commonwealth of Australia 1999

ISBN [Click **here** and type ISBN Number]



Contents

Tables and Graphs.....	ix
Foreword.....	xi
Membership of the Committee - 40 th Parliament	xiii
Membership of the Trade Sub-Committee	xv
Terms of reference	xvii
List of abbreviations.....	xix
List of recommendations	xxiii
 1 Background to the Inquiry	1
Introduction	1
Previous work on Central Europe	2
Inquiry process	2
Structure of the report.....	3
Note on terminology.....	3
 2 Distant relations: Central Europe and Australia	5
Introduction	5
Snapshot: Central Europe	6
Economic indicators for the countries of Central Europe.....	6
Transition: from planned to market economies	7
Snapshot: trade and investment relations between Australia and Central Europe	10
Past trade and investment with Central Europe	10
Transition and its effect on Australian trade and investment.....	11
Investment in Central Europe.....	14

3	Trade and investment environment in Central Europe	15
	Introduction	15
	Overview of Central European economic integration with the EU.....	16
	Macroeconomic convergence and the phasing in of the euro	17
	Prospects for economic growth in Central Europe	18
	The business environment and EU accession	19
	Integration issues	19
	Corruption.....	21
	Trade risk.....	22
	Tariffs and trade barriers	23
	Trade creation or diversion.....	25
	Other reform issues	27
4	Trade and investment opportunities in Central Europe.....	29
	Introduction	29
	Trade in commodities.....	29
	Agribusiness.....	29
	Manufacturing	36
	Mining and minerals sector.....	36
	Trade in services.....	37
	Education Services	37
	Environmental goods and services	45
	Agribusiness services	46
	Government to government and e-government services.....	46
	E-government.....	50
	IT and communications services.....	51
	E-commerce	54
	Health	55
	Financial services	56
	Investment opportunities.....	56
	Financial Services.....	58
	Infrastructure	59
	Property and tourism	59
	Agribusiness.....	60

Manufacturing	60
Mining and minerals sector.....	61
5 Central Europe visit	63
Introduction	63
Overview.....	64
Poland.....	68
Hungary	72
Czech Republic	77
Romania	81
Bulgaria	85
Slovak Republic	88
Croatia	91
Slovenia.....	95
6 Bringing the markets together	99
Trade and investment strategy.....	99
Addressing the ‘market failure’ and enduring misperceptions	99
Working with the multilateral banks	100
Government action	101
Trade representation	101
Immigration.....	103
Government to government relations.....	104
Awareness and market information	104
Trade missions.....	105
E-government mission	106
Trade fairs and related activities	106
Focus in trade strategy	107
Industry specific trade missions	108
Appendix A – List of submissions	111
Appendix B – List of hearings and witnesses	113
Appendix C – List of exhibits.....	117

Appendix D - Chronology of EU enlargement	121
Appendix E - Additional economic indicators	125
Appendix F - Central Europe meat tariffs and tariff quotas	129
Appendix G - Education institutional links with Central Europe.....	131
Appendix H - Visa information: students from Central Europe.....	133
Appendix I - EIU/Pyramid Research e-readiness rankings 2001	135
Appendix J - Central European trade and investment development agencies ..	137
Appendix K – KPMG’s Corporate Tax Rates Survey (selected countries).....	139

Tables and Graphs

Graph 2.1	Central European Countries GDP Growth.....	6
Graph 2.2	Central European Countries Inflation.....	7
Graph 2.3	Central European Countries Foreign Direct Investment.....	8
Graph 2.4	Central European Countries Unemployment Rate.....	9
Graph 2.5	Central European Countries Real Interest Rate.....	10
Graph 2.6	Australia's merchandise trade with Central Europe (region)	11
Graph 2.7	Australia's merchandise exports to Central Europe by country 2001-02	13
Graph 2.8	Australia's merchandise imports from Central Europe 2001-02.....	13
Graph 2.9	Australia's exports to Central Europe by broad category	14
Graph 3.1	Economic convergence following previous EU enlargements.....	16
Graph 3.2	Australian trade with Greece, Ireland, Portugal and Spain.....	25
Graph 4.1	Actual and projected student numbers (4 focus countries).....	40
Graph 4.2	Sectoral breakdown of students (4 focus countries)	41
Graph 4.3	Foreign direct investment in Central Europe	58
Graph series E.1	Consumer expenditures.....	121
Graph series E.2	Import trends	123
Graph series E.3	Telecommunications indicators	124
Table 3.1	Corruption Perceptions Index.....	21
Table 3.2	Freedom House ranking.....	22
Table 3.3	EFIC country risk ratings	23
Table 3.4	Average applied MFN tariffs in the EU and selected accession countries.....	26
Table 4.1	Australian beef, offal, lamb and mutton exports to Central Europe (tonnes shipped)...	30
Table 4.2	Australian wine exports	33
Table 4.3	Wool Exports to the Czech Republic and Central Europe	34

Table 4.5	Total student numbers by country (1994-2000 and projections for 2004)	38
Table 4.6	E-readiness ranking and internet access	52
Table 4.7	Telephone lines per 100 people (see also Appendix E, graph series E.3)	52
Table G.1	Higher education institutional links with Central Europe.....	128
Table H.1	Offshore student visa grants (see graph below).....	129
Table H.2	Visitor non-return rates (see graph below)	130



Foreword

This inquiry, conducted by the Joint Committee's Trade Sub-Committee, represents the first efforts to critically analyse trade and investment opportunities for Australia in the countries of Central Europe.

Not much more than a decade ago these nations were part of the Eastern Bloc of nations with seemingly immutable economic and political ties to the USSR. The collapse of the Soviet Union and subsequent demise of the 'Eastern Bloc' changed the trajectory of the countries of Central Europe.

Where once there were authoritarian political structures and centrally planned economies, there are now flourishing democracies and prosperous market economies. Where once there was grey uniformity of life and industry tied to a paternal master, there is now plurality and vibrancy, striving to join the European Union. Central Europe has clearly changed forever.

Cognisant of the dramatic changes taking place and the opportunities such changes inevitably yield, the Committee felt it was a good time to re-evaluate Australia's trade and investment relations with these nations. It is hoped that in inquiring into the state of these nations and Australia's relations with them, information about opportunities for trade and investment would emerge.

This belief was born out. This report attempts to document those opportunities and make recommendations on how the Australian government can assist Australian investors and industry to capitalize on those opportunities.

The key finding of the inquiry is that there is an 'information failure' between Australia and Central Europe. Australia's economic strengths place it well to assist Central Europe with its transition to modern liberal democracy. Our strengths match Central Europe's needs, and their transition trajectory promises major opportunities. They synergies are there. The potential is there.

The main ingredient missing from this potentially fruitful economic equation is market knowledge of each other, and each others' needs.

If this ‘information failure’ were remedied, existing opportunities will drive much greater trade and investment, to the advantage of both Australia and Central Europe.

This conclusion is the foundation of the report.

The report accordingly recommends a range of measures to increase mutual awareness and mutual understanding of trade and investment opportunities. The suggested measures can be grouped into three categories.

The first involves several awareness raising activities, including general and specific high level trade missions, targeted use of scholarships and the encouragement of institutions links in education.

The second category recommends a range of government measures to address existing impediments to increased trade and investment, including modest changes to visa requirements, changes to trade representation in Central Europe and refocusing the commitment within government departments to support trade and investment with Central Europe.

Finally the report also recommends that Austrade develop a new export strategy for the region, which considers key areas of opportunity for Australian industry – in areas of strong comparative advantage: namely services, agribusiness and manufacturing.

The Committee’s abiding impression from the inquiry, is of the dynamism and resultant opportunities in the countries of Central Europe.

The committee would like to acknowledge the assistance of the Department of Foreign Affairs and Trade and Austrade for their support during the inquiry and the visit. The Committee would also like to acknowledge and thank the officials and business people in the countries visited by Members of the Sub-Committee during the course of the inquiry for their hospitality and assistance. Lastly, the Committee would also like to acknowledge the efforts of the Trade Sub-Committee secretariat in the conduct of the inquiry and preparation of this report.

The Hon. Bruce Baird MP
Chair

Trade Sub-Committee

Membership of the Committee - 40th Parliament

Chair Senator A B Ferguson

Deputy Chair Hon L J Brereton, MP

Members	Senator the Hon N Bolkus	Mr A M Byrne, MP
	Senator the Hon P Cook	Hon G J Edwards, MP
	Senator A Eggleston	Mr L D T Ferguson, MP
	Senator C Evans	Mrs J Gash, MP
	Senator B Harradine	Mr D P M Hawker, MP
	Senator S Hutchins	Hon D F Jull, MP
	Senator D Johnston	Mr P J Lindsay, MP
	Senator J A L Macdonald	Hon J E Moylan, MP
	Senator K O'Brien	Mr G R Nairn, MP
	Senator M A Payne	Hon L R S Price, MP
	Senator N Stott Despoja	Hon G D Prosser, MP
	The Hon B Baird, MP	Hon B C Scott, MP
	Mr R C Baldwin, MP	Hon W E Snowden, MP
	Hon K C Beazley, MP	Hon A M Somlyay, MP
	Hon A R Bevis, MP	Mr C P Thompson, MP

Committee Secretariat

Secretary Dr Margot Kerley

Secretary to Trade Sub-Committee Mr Adam Cunningham

Research Officer Mr Pierre Huetter

Administrative Officer Ms Emma Flynn



Membership of the Trade Sub-Committee

Chair

The Hon B Baird

Deputy Chair

Senator the Hon P Cook

Members

Hon A R Bevis, MP

Senator A Eggleston

Senator A Ferguson (*ex-officio*)

Senator K O'Brien

Hon L J Brereton, MP

Mr D P M Hawker, MP

Hon D F Jull, MP

Hon J E Moylan, MP

Mr G R Nairn, MP

Hon G D Prosser, MP

Hon B C Scott, MP

Hon W E Snowden, MP

Hon A M Somlyay, MP

Mr C P Thompson, MP



Terms of reference

Examine and report on expanding Australia's trade and investment with the countries of Central Europe*, in particular:

- The nature of Australia's existing trade and investment relationships with the countries of Central Europe;
- The future trend of Australia–Central Europe trade and investment including:
 - ⇒ the benefits for Australia as these countries become market-based economies;
 - ⇒ the impact of accession to the European Union (EU) on Australian trade with the economies of the region, including Australia's prospects as an alternative trading partner as EU market domination increases;
 - ⇒ the experience of non-EU countries in accessing trade and investment opportunities in Central Europe.
- The role of Government, particularly DFAT and Austrade, in identifying and assisting Australian companies to capture opportunities in Central Europe as they emerge.

(*Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovak Republic, Hungary, Romania, Bulgaria, Slovenia, and to include Croatia.)

Referred by the Minister for Trade on 12 August 2002



List of abbreviations

ABARE	Australian Bureau of Agricultural and Resource Economics
AEI	Australian Education International
ATC	Australian Tourist Commission
AWBC	Australian Wine and Brandy Corporation
CAP	Common Agricultural Policy
CEC	Central European Countries
CEEC	Central and Eastern European Countries
CEEC-8	Refers to the 8 countries expected to join the EU in 2004: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia.
CEEC-10	Refers to the 10 candidate countries for EU accession in Central and Eastern Europe: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia (CEEC-8 plus Bulgaria and Romania).
CEFA	Central European Fair Alliance
CEFTA	Central European Free Trade Agreement
CMEA	Council for Mutual Economic Assistance – trade grouping involving countries of the former Eastern Bloc
CSIRO	Commonwealth Scientific and Industrial Research Organization

DEST	Department of Education, Science and Training
DFAT	Department of Foreign Affairs and Trade
DIMIA	Department of Immigration, Multiculturalism and Indigenous Affairs
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EFIC	Export Finance and Insurance Corporation
EIU	Economist Intelligence Unit
ELICOS	English language intensive courses for overseas students
ETM	Elaborately transformed manufactures
EU	European Union
EU-15	Refers to 15 existing EU member countries. Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the UK.
EU-25	Refers the current 15 member countries plus the 10 candidate countries (CEEC-10).
FACS	Department of Family and Community Services
FDI	Foreign direct investment
F6	Sixth European Research and Technological Development Framework program
GATS	General Agreement on Trade in Services
GATT	General Agreement of Tariffs and Trade
GDP	Gross domestic product
HIC	Health Insurance Commission
ILO	International Labour Organization

ITC	Information and telecommunications
IMF	International Monetary Fund
MFN	Most favoured nation
MLA	Meat and Livestock Australia
OECD	Organization for Economic Cooperation and Development
OPCV	Overseas Projects Corporation of Victoria
STM	Simply transformed manufactures
UNDP	United Nations Development Program
USTR	Office of the United States Trade Representative
VAT	Value added tax
VET	Vocational education and training
WADIR	Western Australia Department of Industry and Resources
WHO	World Health Organization
WTO	World Trade Organization



List of recommendations

Recommendation 1

The Committee recommends the Government provide funding for more scholarship places for Central European postgraduate students, to assist in raising the profile of Australia and Australian educational institutions.

Recommendation 2

The Committee recommends that:

- DEST develop their capacity to export Australian systems and expertise in educational reform; and
- Future Austrade/ AEI export missions include education and training services organizations, to ensure Australian organizations have the opportunity to export their expertise in education sector reform.

Recommendation 3

The Committee recommends Australia contribute tied funding to the EBRD for small technical assistance projects, to provide Australian contractors with an entry point to and experience with the EBRD.

Recommendation 4

The Committee recommends HIC develop mechanisms which allow other Australian organizations to benefit from HIC's experience and contacts, in terms of bidding for multilateral development project funding.

Recommendation 5

The Committee recommends DEST publicise and encourage collaborative links and research projects with counterpart institutions in Central

Europe with a view to securing funding in the EC's F6 science research funding program.

Recommendation 6

The Committee recommends that Austrade strengthen Australia's trade representation in Hungary.

Recommendation 7

Because of the prominence of the Czech Republic in Central Europe, the Committee recommends the re-establishment of an embassy in Prague, to raise Australia's profile and enhance Australian trade and investment activity in the region.

Recommendation 8

The Committee recommends that Austrade and DFAT strengthen trade representation at the World Bank, to assist Australia organizations access development project funding.

Recommendation 9

The Committee recommends that Austrade and DFAT in consultation with DEST, consider posting a trade commissioner in Brussels to assist Australian organizations access EU commission science research and development project funding.

Recommendation 10

The Committee recommends that visa requirements for students (especially) and citizens (generally) from the five Central European countries acceding to the EU in 2004, should be reassessed. The reassessment should include consideration of the applicability of the Electronic Travel Authority visa system for those countries.

Recommendation 11

The Committee recommends the Australian government complete a full set of basic government to government agreements with all Central European countries.

Recommendation 12

The Committee recommends Austrade organize a range of awareness raising activities in Australia focusing on Central Europe, highlighting emerging market opportunities and the particular requirements for operating in the region. This should include establishing a website focusing on trade and investment opportunities in Central Europe.

Recommendation 13

The Committee recommends the trade minister lead a trade mission to the region to support Austrade's awareness raising activities in Australia and Central Europe.

Recommendation 14

The Committee recommends the Minister for Communications, Information Technology and the Arts gives priority to leading a trade mission to Central Europe focused on e-government and e-commerce services exports.

Recommendation 15

The Committee recommends that:

- Austrade and DFAT undertake greater promotion of Australian business through encouraging Australian participation in Western European trade shows.
- Austrade and DFAT encourage Central European business delegations to attend those trade shows.
- The Australian Tourist Commission ensure Central European countries are included in the Australian Tourist Exchange Program.

Recommendation 16

The Committee recommends Austrade produce a business strategy paper to promote trade and investment with the countries of Central Europe taking into consideration sectors in which Australia has a comparative advantage, including:

- Services:
 - ⇒ e-commerce and related services;
 - ⇒ e-government technology and services;
 - ⇒ government services, higher education and VET, health related technology and related services;
 - ⇒ tourism training;
 - ⇒ land titling;
 - ⇒ agricultural services;
 - ⇒ environment related-services.
- Agribusiness:
 - ⇒ wool (including a targeted trade mission); leather and related products; wine products.

■ Manufacturing:

⇒ automotive equipment; smart card technology; building materials; environmental equipment.

Recommendation 17

The Committee recommends that Austrade facilitate industry-specific trade missions to Central Europe to encourage trade and investment in high opportunity areas.

Background to the Inquiry

Introduction

- 1.1 The Minister for Trade referred an inquiry into Australia's trade and investment relationship with the countries of Central Europe to the Joint Standing Committee of Foreign Affairs, Defence and Trade (JSCFADT) on 12 August 2002. The Sub-Committee of the JSCFADT conducted the inquiry. The formal terms of reference for the inquiry are listed on page xvii.
- 1.2 The original eleven subject countries of the inquiry were reduced in the early stages of the inquiry to eight countries. The three Baltic states of Estonia, Latvia and Lithuania were excluded. The decision was based on two considerations. The first was that the original eleven countries constituted an extremely large group of diverse countries stemming from the Baltic Sea to the Mediterranean. The second was an assessment made by the Committee that the Baltic States were heavily focused, in trade terms, on their relationships with the Scandinavian countries and less inclined to seek out non-EU trade and investment opportunities.
- 1.3 A map showing the eight subject countries is provided on page iii.

Previous work on Central Europe

- 1.4 This inquiry represents the first efforts to critically analyse trade and investment opportunities in the countries of Central Europe. Not much more than a decade ago these nations were part of the Eastern Bloc of nations with close economic and political ties with the USSR.
- 1.5 The collapse of the Eastern Bloc and the subsequent shift towards democracy and market economies has prompted profound change in these societies. This shift is occurring at many levels in their societies as they open up.
- 1.6 Accordingly the Committee felt it was an appropriate time to re-evaluate Australia's relations with these nations as they go through the transition from centralised economies to modern liberal democracies. It is hoped that in inquiring into the state of these nations and Australia's relations with them, opportunities for trade and investment will emerge.
- 1.7 It is hoped that in undertaking this inquiry the Committee can contribute to the process of mutual understanding and in so doing assist both the subject countries and Australia benefit from increased two-way trade and investment.

Inquiry process

- 1.8 The inquiry was advertised in major Australian newspapers in late 2002. The advertisement outlined the inquiry and sought written submissions from the public. In addition, letters inviting submissions were sent to the Central European Ambassadors and Charge d'Affaires; relevant Commonwealth government agencies; state governments; chambers of commerce and business associations; peak bodies; academic institutions; and businesses with interests in Central Europe.
- 1.9 The Committee held its first public hearing in Canberra on 23 October 2002, followed by 2 further hearings in Canberra on 18 and 19 February 2003. The final hearing was held in Sydney on 23 April 2003.
- 1.10 From 7 April to 18 April 2003 seven members of the Committee travelled to the countries of Central Europe for a range of meetings, seminars and site visits involving government and the private sector.

Structure of the report

- 1.11 The Department of Foreign Affairs and Trade plays a pivotal role in maintaining and reporting on Australia's trade and investment relationships. Accordingly the exhaustive data provided in DFAT's submission on the countries of Central Europe and their links with Australia, provides substantial background for the report.
- 1.12 In terms of content, Chapter 2 of the report provides a snapshot of Central Europe and Australia's trade and investment relationship with Central Europe.
- 1.13 Chapter 3 will examine the trade and investment environment in Central Europe.
- 1.14 Chapter 4 overviews trade and investment opportunities between Australia and Central Europe.
- 1.15 Chapter 5 covers the visit to Central Europe by the Committee and their observations and impressions.
- 1.16 And Chapter 6 ties the other chapters together in attempting to address the 'market failure' between Australia and Central Europe. Chapter 6 also recommends a range of actions the government might take to address the issue.

Note on terminology

- 1.17 When referring to the eight subject countries of this inquiry, the report will use the term Central Europe. That is, in this report Central Europe will refer only to the eight subject countries and not other countries which may in general be considered part of Central Europe.
- 1.18 Through the report there are references to the CEEC-8 and CEEC-10 (see List of abbreviations for countries they include). These are terms of common usage in one or more submission, which have been used because they describe certain sets of data. Therefore data describing the CEEC-8 are intended to be used as an indicator of similar trends in Central Europe.

Distant relations: Central Europe and Australia

Introduction

- 2.1 Austrade believes Australian trade and investment with Central Europe suffers from a traditional 'market failure'.¹
- 2.2 In Austrade's words "market failure is the core issue. Business people in both Australia and Central Europe were ignorant of the emerging opportunities. The Central Europeans did not understand the maturing and depth of the Australian economy..." and Australia viewed Central Europe broadly as a communist era hangover.²
- 2.3 Although this view was to some degree borne out by the inquiry, the Committee found that there was some trade and investment going on between Australia and the region, and that information between the two markets was reasonable.
- 2.4 The view that the Committee did find inhibitive in terms of trade and investment, was the general perception in Australia of Central Europe as a closed, backward set of societies. This view contrasted dramatically with the dynamic reality on the ground in Central Europe. By the end of the inquiry the Committee were surprised more Australian firms had not taken advantage of the obvious opportunities in Central Europe.

¹ Austrade, Submission No 18, p 5. In economic terms, market failure occurs when a market does not efficiently allocate resources to achieve an optimal level of economic satisfaction. (www.amosweb.com).

² Austrade, Submission No 18, p 5.

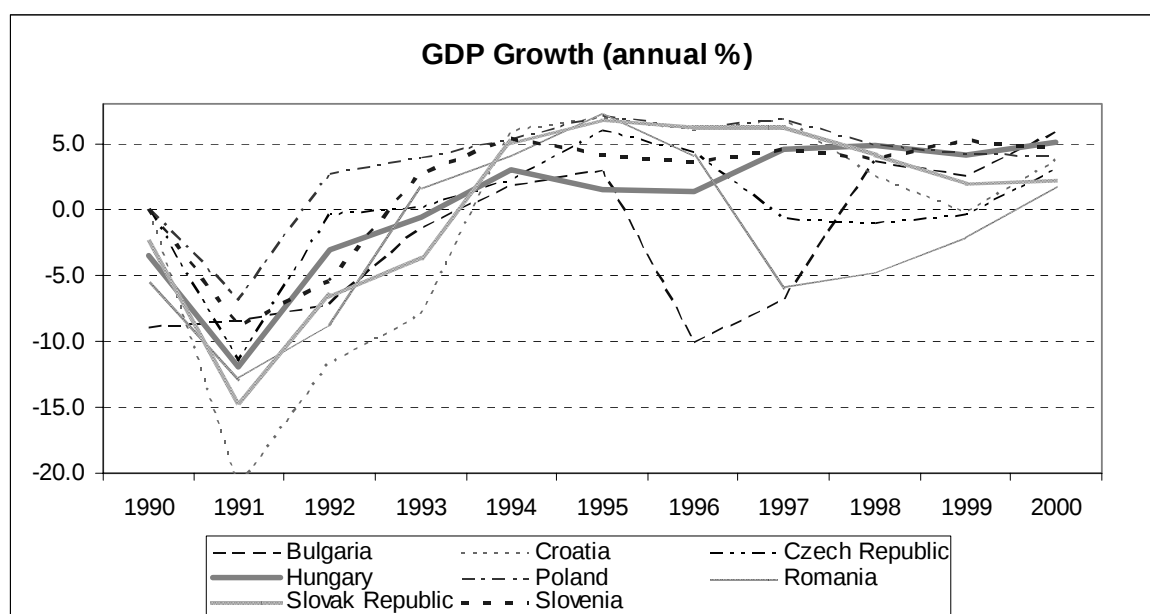
- 2.5 One of the main roles of this inquiry and this report therefore is to address the issue of imperfect information and what Austrade refers to as ‘market failure’. It will do so by recommending measures which will address the lack of understanding between Australia and the region.

Snapshot: Central Europe

Economic indicators for the countries of Central Europe

- 2.6 Since the early 1990s the countries of Central Europe³ have been in ‘transition’ from planned economies under authoritarian control to liberal democracies and market based economies.
- 2.7 In assessing the potential opportunities for Australian trade with these nations, the first step is to gauge their relative success in transition and make an assessment of the potential of these nations.
- 2.8 The following series of economic indicators provides a rough sketch of economic conditions and progress in the countries of Central Europe.

Graph 2.1 Central European Countries GDP Growth⁴



³ ‘Central European countries’ in this report refers to the eight subject countries covered by this inquiry.

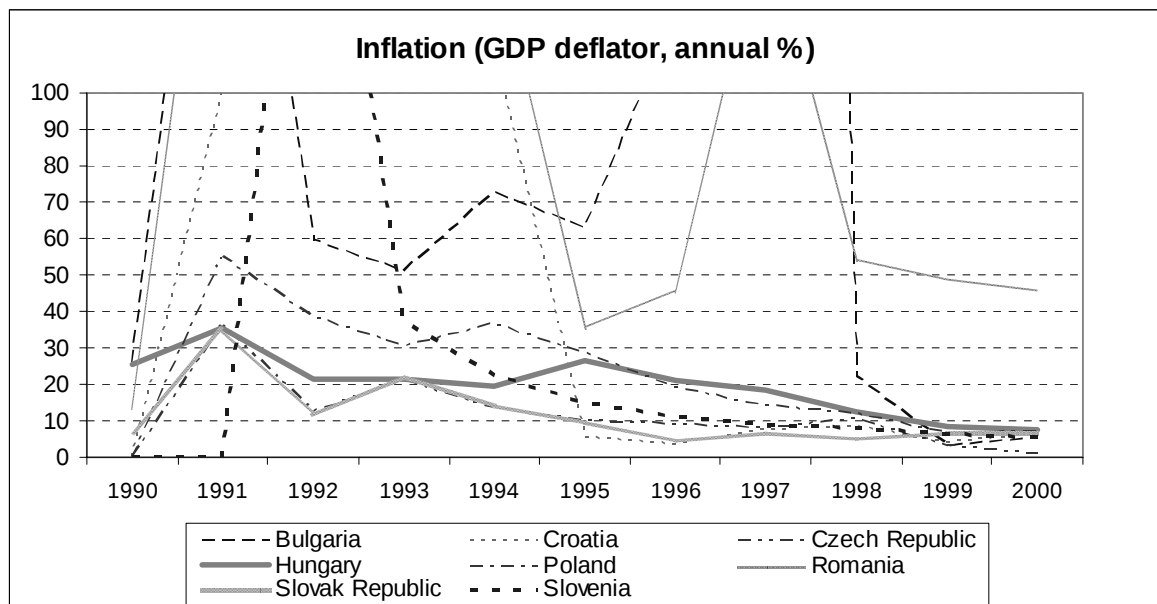
⁴ The data from the following 5 tables and those in Appendix E are from the World Bank’s World Development Indicators 2002 database (WDIs) and has some weaknesses: the figures reach only until 2000 and movements in some of the figures suggest weaknesses in in-country data collection mechanisms. Therefore these tables and the supplementary information in Appendix E are only general indicators of *economic trends*.

2.9 Tables 2.1 to 2.5 (below) provide graphs of key economic indicators for the 8 subject countries of this inquiry.

2.10 The tables, drawn from the World Bank's World Development Indicators, indicate several important points:

- Growth in the transition period has been varied, but generally high and trending up;
- Inflation has been volatile in several countries but stabilizing and trending down;
- Foreign direct investment (FDI) has varied, with Poland, the Czech Republic and Hungary showing outstanding FDI growth;
- Unemployment has varied and is trending up;
- Real interest rates have been steadily and modestly rising (while in Croatia and Bulgaria they have been volatile).

Graph 2.2 Central European Countries Inflation



2.11 Appendix E lists a range of other economic indicators. They suggest several things:

- Information and telecommunications (ITC), and household expenditure are growing;
- Goods and services imports are growing steadily; and
- ITC take-up is growing dramatically

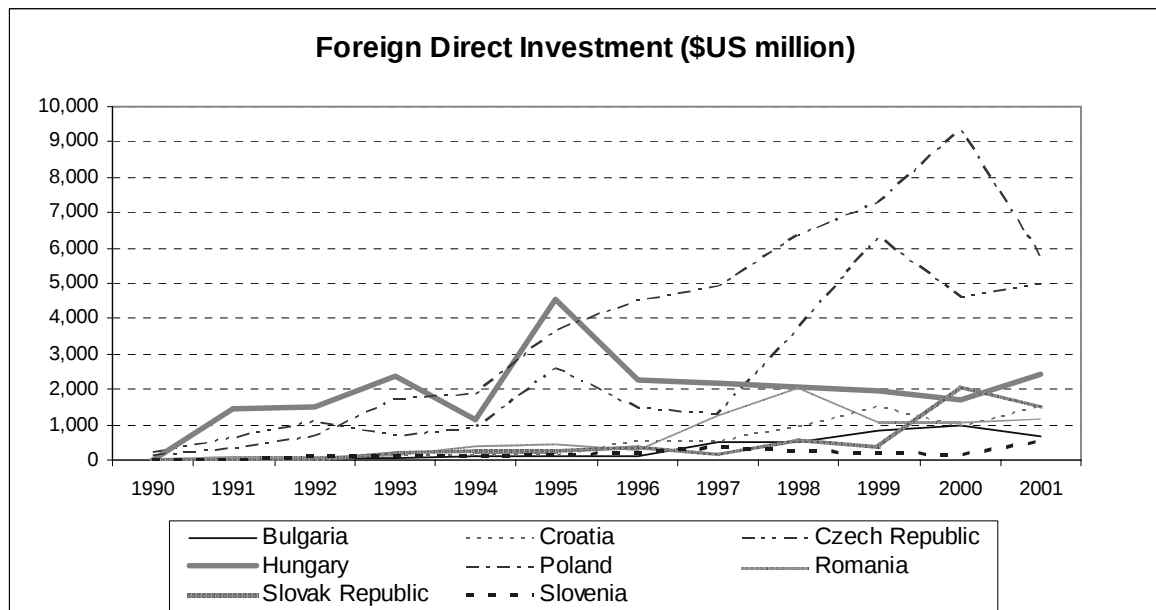
Transition: from planned to market economies

2.12 While most of the Central European economies were implementing some economic reform prior to 1989, the fall of communism brought on a period

of major structural reform. While the process of transformation has been different for every country, all of the Central European countries have been through the following stages of economic transition:⁵

- stabilisation and liberalisation
- privatisation and restructuring
- institutional reforms

Graph 2.3 Central European Countries Foreign Direct Investment



2.13 DFAT explains in its submission that the ease of the transition process was often dependent on the extent to which the individual country's economy was linked to that of the Soviet Union and the Council for Mutual Economic Assistance (CMEA), the type of government elected in the immediate post-communist period, and the extent to which it had the necessary economic and administrative institutions in place.

2.14 In the initial stages, this transition process was facilitated by the provision of funds by, amongst others, the Group of 24 donor countries and the European Bank for Reconstruction and Development. Australia assisted with funding through its involvement with both of these groups.⁶

2.15 In the Central European countries these reforms were substantially motivated by their desire for integration into the European Union (EU). This process began for the larger economies of the Czech Republic, Poland and Hungary in 1991 with the signing of the Visegrad declaration⁷ and

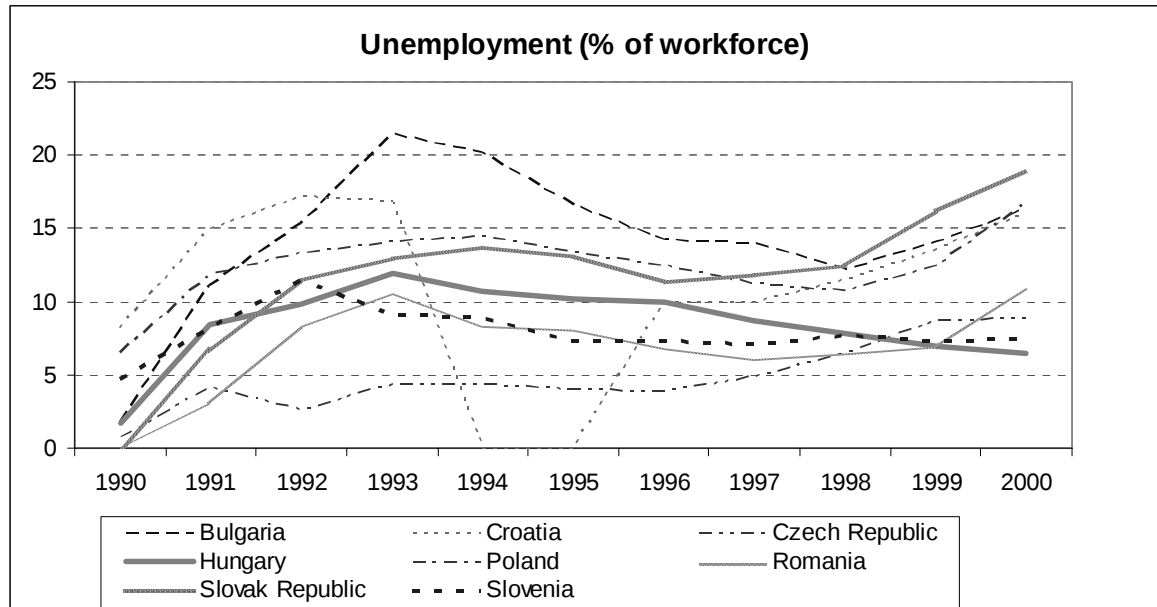
⁵ DFAT, Submission No 16, p 7.

⁶ DFAT, Submission No 16, p 7.

⁷ The Visegrad Four is an unofficial name given to the four Central European post communist countries, the Czech Republic, Hungary, Poland and Slovakia, that was formed in 1991 to work

later the Europe Agreements⁸. The latter were crucial in assisting the Central European countries to identify the economic and political reforms necessary for EU accession.

Graph 2.4 Central European Countries Unemployment Rate



2.16 According to the European Commission,⁹ all the countries covered by this inquiry, with the exception of Bulgaria, Romania and Croatia, will be ready to accede to the EU in 2004, having all made sufficient progress in macroeconomic stabilisation and economic reform to meet EU membership criteria. Bulgaria and Romania are likely to follow in 2007. Croatia has signed a Stability and Association Agreement (SAA)¹⁰ with the EU. It will start accession negotiations in 2004 and has set 2008-10 as a target accession date.¹¹

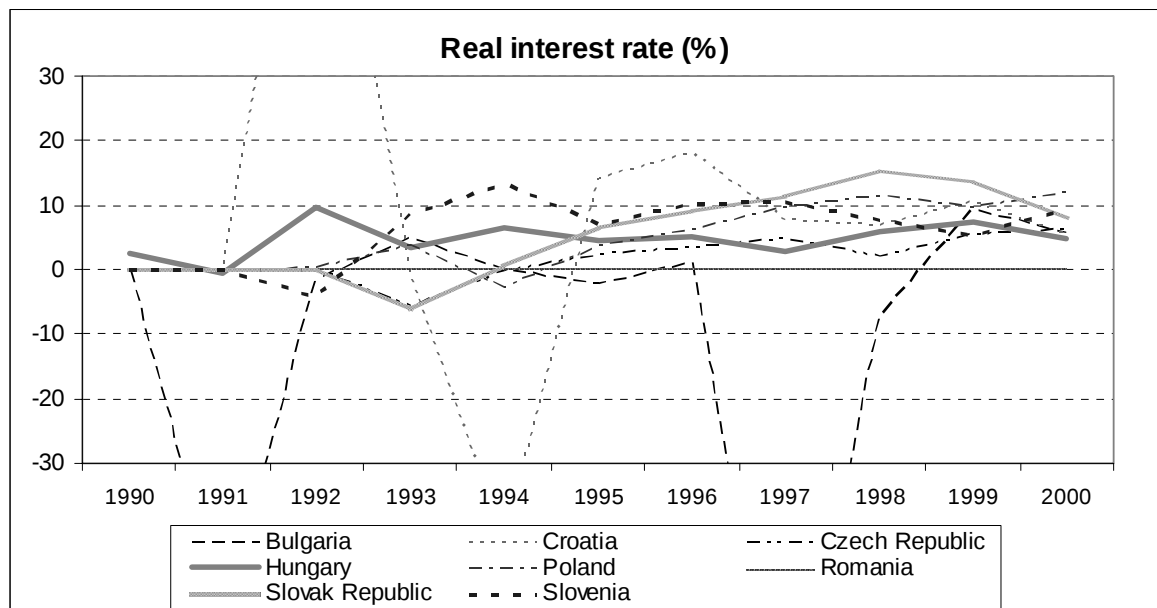
together in a number of fields of common interest.

⁸ The Europe Agreements form the legal framework for association between the applicant countries and the EU. They cover trade-related issues, political dialogue, legal approximation and other areas of cooperation, including industry, environment, transport and customs. Their objective is to provide a framework for the applicant countries' gradual integration into the EU. Europe Agreements have been concluded with Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. Cited in DFAT, Submission No 16, p xi)

⁹ Quoted in DFAT, Submission No 16, p 8.

¹⁰ The SAA between the EU and Croatia, establishes a framework for political dialogue, economic and trade relations aimed at the establishment of a free trade area after a 6 year transition period, followed by negotiations on EU accession.

¹¹ DFAT, Submission No 16, p 15.

Graph 2.5 Central European Countries Real Interest Rate

- 2.17 In contrast to the communist era, integration into the world economy through membership of international organisations such as the World Trade Organisation, the International Monetary Fund and the World Bank, has been a priority for the Central European countries. All are now members of the WTO and IMF. The Czech Republic, Hungary, Poland and Slovakia are members of the Organisation for Economic Cooperation and Development (OECD).¹²

Snapshot: trade and investment relations between Australia and Central Europe

Past trade and investment with Central Europe

- 2.18 DFAT notes Australia has traded with the Central Europe region for many years. This trade has never been large in comparison with our other trading partner regions, but it has been valuable for some individual sectors of the Australian economy,¹³ such as wool, coal and meat.
- 2.19 Prior to 1989, Australia's trade with the Central European countries reached moderate levels, particularly with the larger economies such as Romania, Poland and the then Czechoslovakia. During the 1980s, exports to the region were valued at approximately A\$250 million per year and

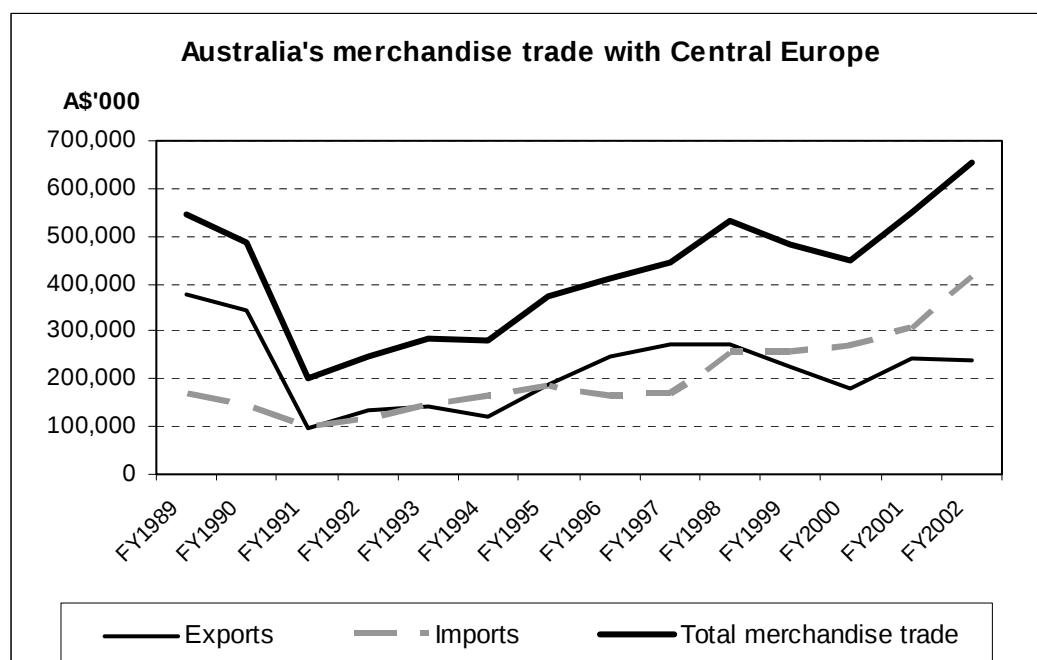
¹² DFAT, Submission No 16, p 8.

¹³ DFAT, Submission No 16, p 5.

consisted mainly of wool and coal. In 1988, two-way trade with Central Europe peaked at A\$505 million.¹⁴

- 2.20 Trade fell away sharply from 1989 and only began to pick up again slowly after 1992 (Graph 2.6¹⁵).
- 2.21 As is clear from Graph 2.6 in the late 1980s Australia enjoyed a large trade surplus with Central Europe, while in the last few years the reverse has been the case.
- 2.22 For numerous reasons, Central European involvement with international financial and trade organisations, such as GATT and the WTO, prior to the collapse of communism was difficult and relatively limited.¹⁶

Graph 2.6 Australia's merchandise trade with Central Europe (region)



Transition and its effect on Australian trade and investment

- 2.23 Australian exports to Central Europe have yet to return to the level they reached prior to 1989. In the immediate post communist period (1989-91), the region experienced a deep recession which was associated with restructuring of the Central European economies.¹⁷ The highly inefficient

¹⁴ DFAT, Submission No 16, p 6.

¹⁵ The trade figures used here and in the following graphs in this chapter include all of the countries covered by the present inquiry, with the exceptions for FYs 1989-90, 1990-91 and 1991-92 of Croatia and Slovenia, which, prior to 1991 were part of the Socialist Federal Republic of Yugoslavia; and Estonia, Latvia and Lithuania, which prior to 1990-01, were included in figures for the USSR.

¹⁶ DFAT, Submission No 16, p 7.

¹⁷ DFAT, Submission No 16, p 9.

planned economies, when opened up in the early 1990s, contracted dramatically setting off a series of events culminating in a major recession.¹⁸

- 2.24 Australia, which had been a major supplier of textiles and raw materials, was badly affected by the slump in the domestic manufacturing sector as the subsequent demand for its products dropped. Total Australian exports to the region dropped from A\$344.7 million in 1989-90 to A\$97.5 million in 1990-91.
- 2.25 The economic situation in Central Europe improved in 1992, as a result of liberalizing reforms.¹⁹ Tighter monetary policy brought down inflation and competitive private enterprises emerged, leading to increased exports. Australian merchandise exports to the region started to grow in 1992, rising from A\$132.2 million in 1992 to A\$273.9 million in 1998.
- 2.26 Australian trade diversified during this period to include services. By 1999, services exports to the region equalled A\$60 million.²⁰
- 2.27 The second major decline in Australia's trade with the Central European countries was prompted by the 1998 Russian financial crisis. Central European manufactured exports to Russia dropped dramatically, as did the linked demand for Australian manufacturing in-puts, such as iron ore, coal and wool.²¹
- 2.28 Trade increased in 2000-01 and 2001-02. Despite this renewed growth in exports, total merchandise exports to the region in 2002 were just over half the 1988 levels.
- 2.29 Until Central European manufacturing industries are fully restructured and demand increases, it is unlikely that exports of Australian commodities will return to the levels of the 1980s. In some cases, economic restructuring may mean that some manufacturing or heavy industries in the Central European countries may never regain their former levels.²²
- 2.30 Additionally as the Central European countries go through economic transition, DFAT feels Australia may well face new competition to supply Central European markets in the traditional commodity areas.²³

¹⁸ DFAT, Submission No 16, p 9.

¹⁹ DFAT, Submission No 16, p 9.

²⁰ DFAT, Submission No 16, p 9.

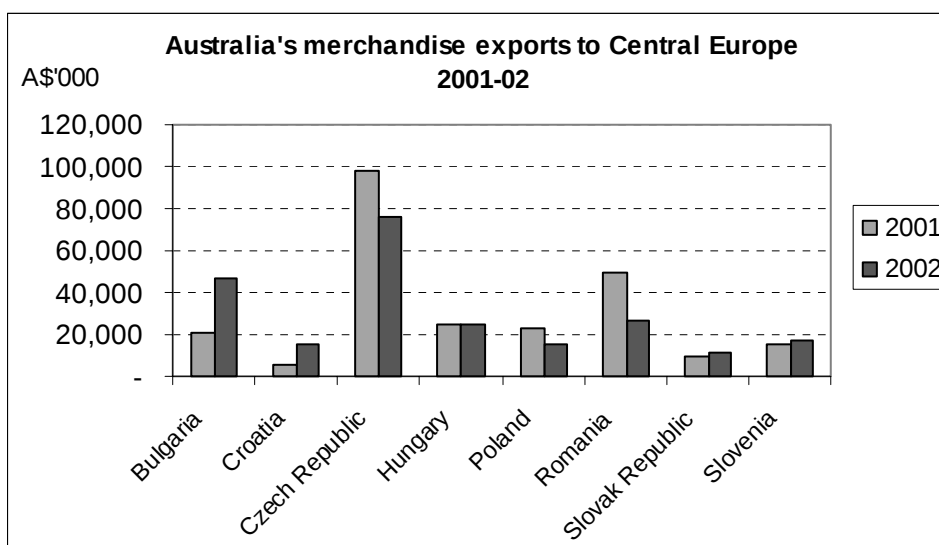
²¹ DFAT, Submission No 16, p 9.

²² DFAT, Submission No 16, p 10.

²³ DFAT, Submission No 16, p 10.

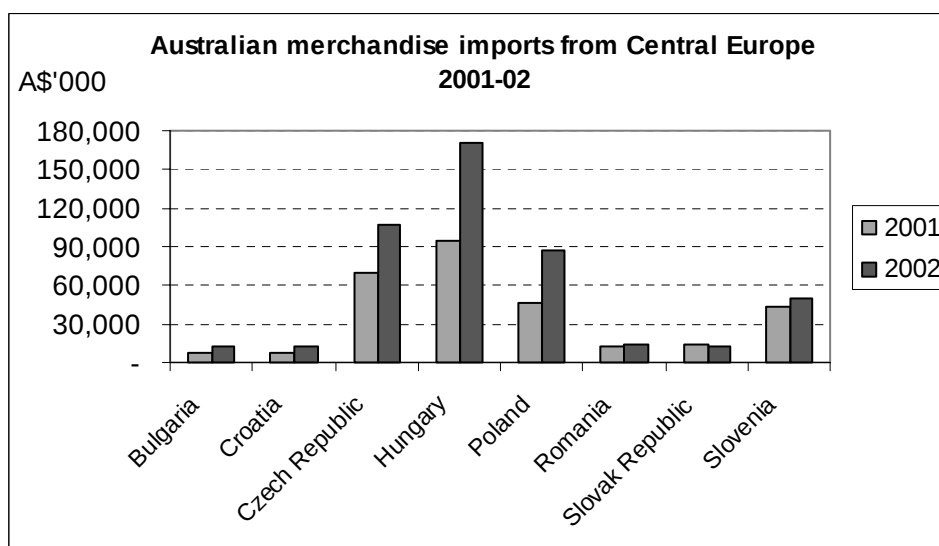
- 2.31 Balancing this negative trend however, is the diversification of Australian exports to Central Europe (see Graph 2.9),²⁴ based on the increasing sophistication of their economies.
- 2.32 Clearly Australian Simply Transformed Manufactures (STMs) and Elaborately Transformed Manufactures (ETMs) have grown and stabilized to some degree through the 1990s, as have 'other exports'.

Graph 2.7 Australia's merchandise exports to Central Europe by country 2001-02



Source DFAT, Submission No 16, p 10.

Graph 2.8 Australia's merchandise imports from Central Europe 2001-02



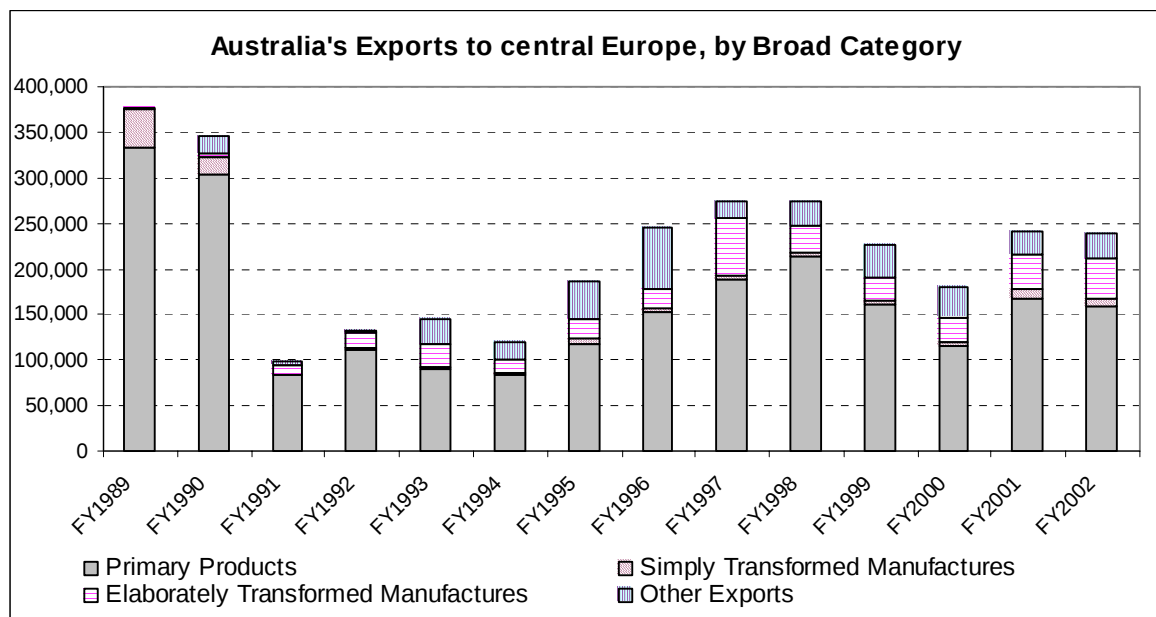
Source DFAT, Submission No 16, p 10

²⁴ DFAT, Submission No 16, p 11.

Investment in Central Europe

- 2.33 Investment in Central Europe during the communist era was almost non-existent because of the government imposed restrictions on all inflows.²⁵
- 2.34 DFAT makes several points about how at the beginning of the transition period, investment in Central Europe was widely seen as risky and cumbersome. A perception which has diminished only slowly.

Graph 2.9 Australia's exports to Central Europe by broad category



Source DFAT, Submission No 16, p 10

- 2.35 It also notes that Australian investment levels have picked up since the mid-1990s with the implementation of further reforms and restructuring in the context of EU accession.²⁶
- 2.36 Australian foreign direct investment in Poland totalled A\$113.6 million by the end of 2001 and is concentrated in areas such as manufacturing, services, infrastructure and mining. In the Czech Republic, total Australian foreign direct investment has reached A\$112 million.²⁷

²⁵ DFAT, Submission No 16, p 7.

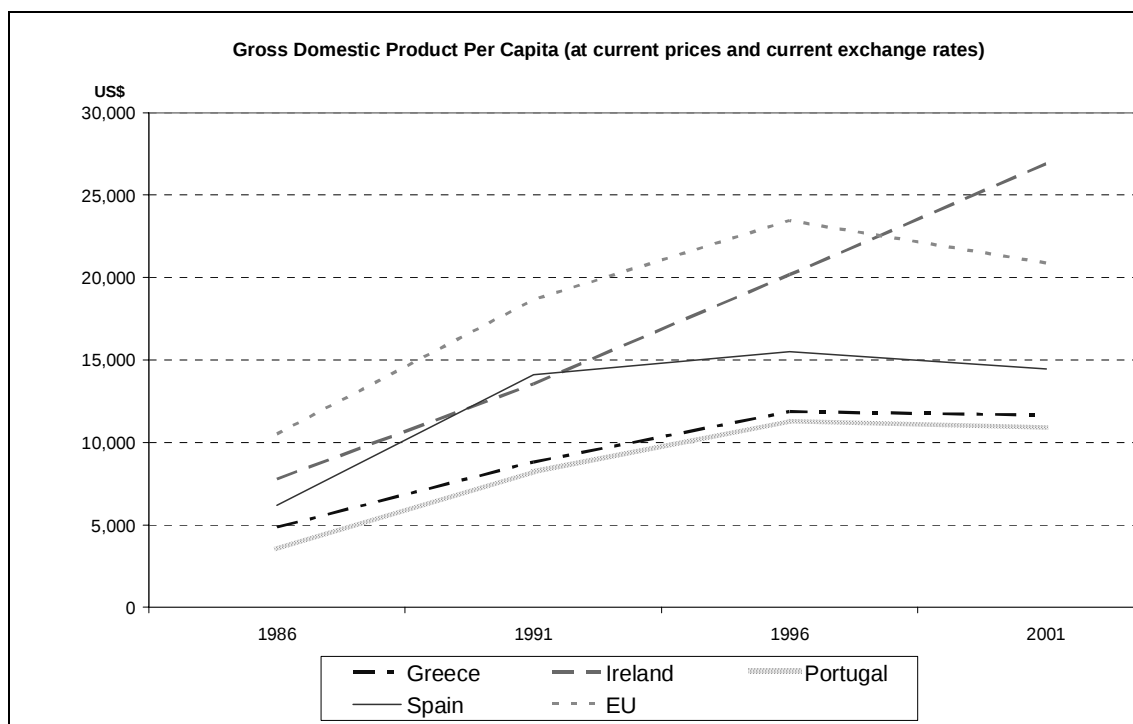
²⁶ DFAT, Submission No 16, p 11.

²⁷ DFAT, Submission No 16, p 11.

Trade and investment environment in Central Europe

Introduction

- 3.1 The addition of just under 75 million Central Europeans to the EU's market of more than 377 million (totalling 452.7 million), will most likely lead to rises in economic activity and living standards throughout the enlarged EU.
- 3.2 DFAT argues the main effects of the accession of the five acceding countries subject of this inquiry will be manifested through:
 - strong market growth, including an emerging middle class
 - a steady improvement in the business environment
 - the phasing in of the euro in the countries starting in 2004
 - the adoption of European standards and institutional mechanisms
 - implementation of the Common Agricultural Policy (CAP), with its associated implications for market access
- 3.3 For a practical indication of what economic effect EU enlargement might have, previous enlargements are instructive. Ireland, Greece, Spain and Portugal's economies grew substantially after their accessions in 1973, 1981, 1986 and 1986 respectively (see Graph 3.1).

Graph 3.1 Economic convergence following previous EU enlargements

Source OECD National Accounts, Main aggregate Volume 1 1960-1993 and OLISNet online

- 3.4 In that same period of time, trade between Australian and Ireland, Greece, Spain and Portugal has also risen substantially (see Graph 3.2 below).
- 3.5 The Committee feels that the expansion of acceding countries' economies, and expansion of trade between Australia and those acceding countries, will be repeated with the countries of Central Europe upon their accession.
- 3.6 This belief underpins the inquiry, this report's analysis and its conclusions.

Overview of Central European economic integration with the EU

- 3.7 DFAT states that substantial economic integration between the EU and Central Europe has already occurred. The speed and depth of further integration will be a major influence on economic progress and prospects for the countries of Central Europe.²⁸

²⁸ DFAT, Submission No 16, p 49.

- 3.8 The Europe Agreements established free trade in industrial products over the current transition period. Consequently industrial products from Central Europe have had virtually free access to the EU since the beginning of 1995, with restrictions in only a few sectors, such as agriculture and textiles. In addition, the Agreements contain provisions for liberalisation of the movement of services and capital.²⁹
- 3.9 Approximately 70 per cent of Central European exports go to the EU and 60 per cent of imports come from the EU. Central Europe shows the fastest growth of trade with the EU and now accounts for around 12 per cent of total EU trade, up from 4 per cent in 1992.³⁰
- 3.10 On the financial side, two thirds of net capital flows into Central Europe in the 1990s originated from EU member states. These flows, while important for the recipient countries, represented less than 1 per cent of EU gross fixed investment.³¹
- 3.11 Total FDI flows into the CEEC-10³² countries have been nearly 4 per cent of GDP on average. As a result of privatisation, nearly half of the FDI flows have been directed to non-tradeable sectors such as financial institutions and public utilities (telecommunications).
- 3.12 In the tradeable sector, relatively labour intensive sectors such as textiles, clothing, electrical machinery and the motor vehicles sector have attracted around 20 per cent of FDI flows.³³

Macroeconomic convergence and the phasing in of the euro

- 3.13 DFAT believes that EU candidate countries will go through a period of 'macroeconomic convergence' starting in 2004. In this period candidate countries will be required to adopt certain fiscal standards, such as inflation controls, fiscal balances, certain levels of public debt, and exchange rate stability.³⁴
- 3.14 These will eventually flow into full monetary union, participation in the euro area, and full application of economic policy coordination and surveillance procedures.³⁵

²⁹ DFAT, Submission No 16, p 49.

³⁰ Figures from DFAT, Submission No 16, p 49.

³¹ DFAT, Submission No 16, p 49.

³² See Glossary for explanation of CEEC-10 and CEEC-8, at the beginning of this report.

³³ DFAT, Submission No 16, p 50.

³⁴ DFAT, Submission No 16, p 53.

³⁵ DFAT, Submission No 16, p 53.

- 3.15 Candidate countries *will not* adopt the euro at the time of accession. They will be required to participate in the Exchange Rate Mechanism (ERM) for at least 2 years which will allow their national currencies to fluctuate within a band around the euro. They will also be required to coordinate economic policies with other member states and adhere to the provisions of the Stability and Growth Pact³⁶ and the statutes of the European System of Central Banks (ESCB).³⁷
- 3.16 DFAT states in its submission that macroeconomic convergence and the phased introduction of the euro will provide for stability and fiscal certainty.³⁸ And once the euro is adopted the negative effects on trade of exchange rate fluctuations will be mitigated.

Prospects for economic growth in Central Europe

- 3.17 As discussed in Chapter 2 and above, prospects for economic growth in Central Europe are very good.
- 3.18 Over the period 1997 to 2001, most candidate countries achieved rates of economic growth above the EU average of 2.6 per cent. Despite the global slowdown, average real GDP in Central Europe still grew at 4.3 per cent in 2001. GDP per capita measured in purchasing power reached (for the CEEC-10) 39.3 per cent of the EU average in 2001.³⁹
- 3.19 DFAT quotes a European Commission study which found that the average annual growth rate of the CEEC-8 countries could increase by between 1.3 and 2.1 percentage points annually, if reform momentum is maintained.⁴⁰
- 3.20 There is also an expected modest positive increase to EU-15 GDP of about 0.7 of a percentage point, on a cumulative basis, over the next decade.⁴¹ This will undoubtedly flow through to Central European countries.

³⁶ DFAT, Submission No 16, p 54.

³⁷ DFAT, Submission No 16, p 54.

³⁸ DFAT, Submission No 16, p 54.

³⁹ DFAT, Submission No 16, p 50.

⁴⁰ DFAT, Submission No 16, p 50.

⁴¹ DFAT, Submission No 16, p 50.

- 3.21 More broadly, the World Bank's Global Economic Prospects Report projects that Central Europe's output growth is expected to accelerate from 2.3% in 2002 to 3.1% in 2003 and 4.3% in 2004.⁴²
- 3.22 The report explains that economic activity is expected to be driven by increased import demand from the EU and by intensification of the EU's accession process⁴³. In the longer term the World Bank forecasts that Central Europe's second decade of transition will be easier than the first, although their trade dependence on the EU could slacken this economic progress if the EU's recovery is weak.⁴⁴
- 3.23 Interestingly, the CEEC-10 have made significant economic progress in the last five years but only small gains in convergence with EU living standards. More substantive convergence with the EU on living standards will be a medium to long-term phenomenon. Even under optimistic growth assumptions, it could take the CEEC-8 group of candidate countries over 20 years to achieve 75 per cent of average EU per capita GDP.⁴⁵
- 3.24 The impending eastward enlargement of the EU is similar to previous enlargements discussed at the beginning of this chapter. One major difference is that Central Europe has a lower starting point than their Mediterranean and Irish predecessors. Accordingly, necessary reform and adjustment within the transition process is much greater. DFAT believes therefore, that continued growth and development is dependent on continued reform.⁴⁶

The business environment and EU accession

Integration issues

- 3.25 The majority of Central European countries have only just achieved market economy status and are still consolidating many structural reforms⁴⁷. DFAT believes they will continue for some time to be marginally more difficult markets to operate in, compared with more

⁴² World Bank, Global Economic Prospects and the Developing Countries, p 18.

⁴³ World Bank, Global Economic Prospects and the Developing Countries, p 18.

⁴⁴ World Bank, Global Economic Prospects and the Developing Countries, p 165.

⁴⁵ DFAT, Submission No 16, p 50.

⁴⁶ DFAT, Submission No 16, p 50.

⁴⁷ DFAT, Submission No 16, p 51.

established market economies. This is especially the case with Bulgaria and Romania.⁴⁸

- 3.26 The 2002 European Commission report on enlargement⁴⁹ assessed the CEEC-8 candidate countries as fully functioning market economies which have reached a high level of alignment with the *acquis communautaire*.⁵⁰ This includes having made considerable advances towards ensuring adequate administrative and judicial capacity.
- 3.27 In a number of areas, such as transport, telecommunications, energy and justice and home affairs, important elements of new EU legislation have or will be adopted shortly. Accordingly they have been assessed as ready for EU accession in 2004. Interestingly the Committee was mid-way through their visit when the 10 acceding countries signed the Accession Treaty in Athens on April 16, 2003.⁵¹
- 3.28 Bulgaria and Romania plan to accede to the EU in 2007. In the last year they have made considerable progress towards meeting the Copenhagen criteria⁵² for EU membership.
- 3.29 DFAT explains that one of the EU's priorities is to ensure the integrity of acceding markets. For the Central European countries this will require improvements in the effectiveness of regulatory authorities such as competition authorities, telecommunication, energy and transport regulators and implementation of suitable information technologies.⁵³
- 3.30 There is a corresponding desire in the EU to ensure appropriate environmental; health and safety; and general social service standards are reached in acceding countries.⁵⁴

⁴⁸ DFAT, Submission No 16, p 50.

⁴⁹ Towards the Enlarged Union. Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries. Brussels, 9-10-2002. COM(2002)700.

⁵⁰ All legislation adopted under the treaties establishing the European Union, including regulations, directives, decisions, recommendations and opinions. Upon accession of a country to the EU, its existing national legislation needs to be harmonised with the *acquis communautaire*.

⁵¹ European Commission Treaty of Accession information page, http://europa.eu.int/comm/enlargement/negotiations/treaty_of_accession_2003/index.htm

⁵² The criteria agreed by the European Council at Copenhagen in June 1993, setting out the political, economic and legal conditions that the EU candidate countries are required to meet before they can join the EU. DFAT, Submission No 16, p xi.

⁵³ DFAT, Submission No 16, p 52.

⁵⁴ DFAT, Submission No 16, p 52.

Corruption

- 3.31 Various sources indicated corruption remains a problem in the region.⁵⁵ The Committee when visiting Central Europe realised quickly that it was a much smaller problem than they had anticipated in most of the countries. The Committee was left with the impression however, that corruption was a more significant problem in Bulgaria and Romania.
- 3.32 Corruption has declined in most candidate countries through various efforts over recent years. These include measures such as: the establishment of anti-corruption bodies, greater transparency in public procurement procedures and public access to information.⁵⁶
- 3.33 Transparency International's Corruption Perceptions Index supports the claim that there has been some reduction in the level of perceived corruption in several candidate countries in recent years, including Hungary, Poland, the Czech Republic and Romania (Table 3.1).

Table 3.1 Corruption Perceptions Index⁵⁷

Country	Global Ranking	2000	2001	2002
Slovenia	27	5.5	5.2	6.0
Hungary	33	5.7	5.3	4.9
Poland	45	4.1	4.1	4.0
Bulgaria	45	3.5	3.9	4.0
Croatia	51	3.7	3.9	3.8
Czech Republic	52	4.3	3.9	3.7
Slovak Republic	52	3.5	3.7	3.7
Romania	77	2.9	2.8	2.6

Source Transparency International: *Corruptions Perception Index*

- 3.34 Although progress has clearly been made with corruption in Central Europe, Table 3.1 indicates that not all countries have improved.
- 3.35 The Committee felt that although corruption was an issue of concern, the evidence examined throughout the inquiry suggested that corruption did not diminish the opportunities available.

⁵⁵ DFAT, Submission No 16, p 52.

⁵⁶ DFAT, Submission No 16, p 52.

⁵⁷ Relates to perceptions of the degree of corruption as seen by business people and risk analysts, and ranges between 10 (highly clean) and 0 (highly corrupt). Source: Transparency International.

- 3.36 In terms of political and civil freedom Table 3.2 demonstrates clearly the progress and trends in these two freedoms since the early 1990s. Although the Freedom House ranking has no direct link to trade and investment opportunities, free societies are inevitably more inclined towards, and more able to combat corruption. In this indirect sense Central Europe's improving freedom rankings reinforce the Committee's views on the receding risks of corruption.

Table 3.2 Freedom House ranking

Year	Bulgaria	Croatia	Czech Rep.	Hungary	Poland	Romania	Slovakia	Slovenia
1990-91	3,4,PF	-	-	2,2,F	2,2,F	6,5,NF	-	-
1991-92	2,3,F	3,4,PF	-	2,2,F	2,2,F	5,5,PF	-	2,3,F
1992-93	2,3,F	4,4,PF	-	2,2,F	2,2,F	4,4,PF	-	2,2,F
1993-94	2,2,F	4,4,PF	1,2,F	1,2,F	2,2,F	4,4,PF	3,4,PF	1,2,F
1994-95	2,2,F	4,4,PF	1,2,F	1,2,F	2,2,F	4,3,PF	2,3,F	1,2,F
1995-96	2,2,F	4,4,PF	1,2,F	1,2,F	1,2,F	4,3,PF	2,3,F	1,2,F
1996-97	2,3,F	4,4,PF	1,2,F	1,2,F	1,2,F	2,3,F	2,4,PF	1,2,F
1997-98	2,3,F	4,4,PF	1,2,F	1,2,F	1,2,F	2,2,F	2,4,PF	1,2,F
1998-99	2,3,F	4,4,PF	1,2,F	1,2,F	1,2,F	2,2,F	2,2,F	1,2,F
1999-00	2,3,F	4,4,PF	1,2,F	1,2,F	1,2,F	2,2,F	1,2,F	1,2,F
2000-01	2,3,F	2,3,F	1,2,F	1,2,F	1,2,F	2,2,F	1,2,F	1,2,F
2001-02	1,3 F	3,2 F	1,2 F	1,2 F	1,2 F	2,2 F	1,2 F	1,2 F

Source Freedom House country ratings⁵⁸ (F=free, PF=partly free, NF=not free)

- 3.37 DFAT however advises that companies should remain cautious in their entry strategies. Such strategies may involve establishing a working relationship with a reputable distributor or business partner upon entry, to assist in treading delicately through such initial obstacles.⁵⁹

Trade risk

- 3.38 Another indicator of the business environment in Central Europe in perceived trade risk. Australia's Export Finance and Insurance Corporation (EFIC) provides a country risk analysis on which to base its credit insurance service.

⁵⁸ The characters representing scores for each year are, from left to right, political rights, civil liberties, and 'freedom' status. Each of the first two is measured on a one-to-seven scale, with one representing the highest degree of freedom; "F," "PF," and "NF" respectively stand for "free," "partly free," and "not free." <http://www.freedomhouse.org/ratings/index.htm>

⁵⁹ DFAT, Submission No 16, p 53.

- 3.39 Table 3.3 details the ‘trade risk’ EFIC has deemed each Central European country to carry based on three criteria: credit worthiness, progress in transition from command to market economies and progress towards EU accession.

Table 3.3 EFIC country risk ratings

	Risk Rating (1-low, 6-high)	Transition scores (% complete)
Bulgaria	4	72.3
Croatia	4	72.7
Czech Republic	2	82.6
Hungary	2	87.5
Poland	2	83.4
Romania	5	69.2
Slovakia	3	76.9
Slovenia	2	77.1

Source EFIC, Submission No 1, p 4.

- 3.40 On the measure listed above the Czech Republic, Hungary, Poland and Slovenia are the best performers. Slovakia scored a 3 rating. Bulgaria and Croatia scored a 4 rating, and Romania was deemed to carry the highest risk.

Tariffs and trade barriers

- 3.41 DFAT and USTR⁶⁰ detail a range of barriers to trade with Central Europe. Although some of the barriers are substantial for different sectors in different countries, the Committee believes again that opportunities outweigh the costs. They are still clearly important and worthy of consideration.

The Common Agricultural Policy

- 3.42 The Common Agricultural Policy (CAP) provides EU primary producers a mix of production subsidies, guaranteed prices, and export subsidies that significantly increase their returns.⁶¹
- 3.43 In 2001-02, Australia exported A\$116.3 million in agricultural products to the Central European countries. As these countries

⁶⁰ Office of the United States Trade Representative (<http://www.ustr.gov/reports/nte/2002>).

⁶¹ DFAT, Submission No 16, p 54.

become members of the EU, they will integrate their tariff structures with the EU's and participate in the CAP.⁶²

- 3.44 Australia is seeking improvements in market access in agricultural negotiations in the WTO Doha Round which constitutes an external pressure on CAP reform.⁶³
- 3.45 EU enlargement is also adding to internal pressures to reform the CAP. The cost of EU agricultural support was 35 per cent of the value of total EU agricultural production in 2001 (compared to 21 per cent for the United States and 4 per cent for Australia).⁶⁴
- 3.46 CAP programs also account for 90 per cent of the amount spent on direct export subsidies in world agricultural trade. The amount spent on the CAP was EURO 40.5 billion in 2000, accounting for around 43.9 per cent of EU expenditure.⁶⁵
- 3.47 DFAT believes the agricultural protection provided under the CAP will serve to inhibit growth prospects in some agricultural exports to these markets as well as distorting our agricultural trade with third countries.⁶⁶

Industrial products

- 3.48 For industrial products, DFAT believes there will be a reduction in average applied tariffs in most of the acceding countries following accession. This will provide a range of benefits to Australian exporters in seeking to enter these markets.⁶⁷ They will include: further savings in exporting to those countries because of the potential for greater economies of scale in shipments, simplification of official dealings and lower transaction costs in dealing with the EU.⁶⁸
- 3.49 However, exporters will still be at a disadvantage relative to EU countries because of the EU's common external tariff.⁶⁹

⁶² DFAT, Submission No 16, p 54.

⁶³ DFAT, Submission No 16, p 54.

⁶⁴ DFAT, Submission No 16, p 54.

⁶⁵ DFAT, Submission No 16, p 55.

⁶⁶ DFAT, Submission No 16, p 55.

⁶⁷ DFAT, Submission No 16, p 58.

⁶⁸ DFAT, Submission No 16, p 58.

⁶⁹ DFAT, Submission No 16, p 58.

Non tariff barriers

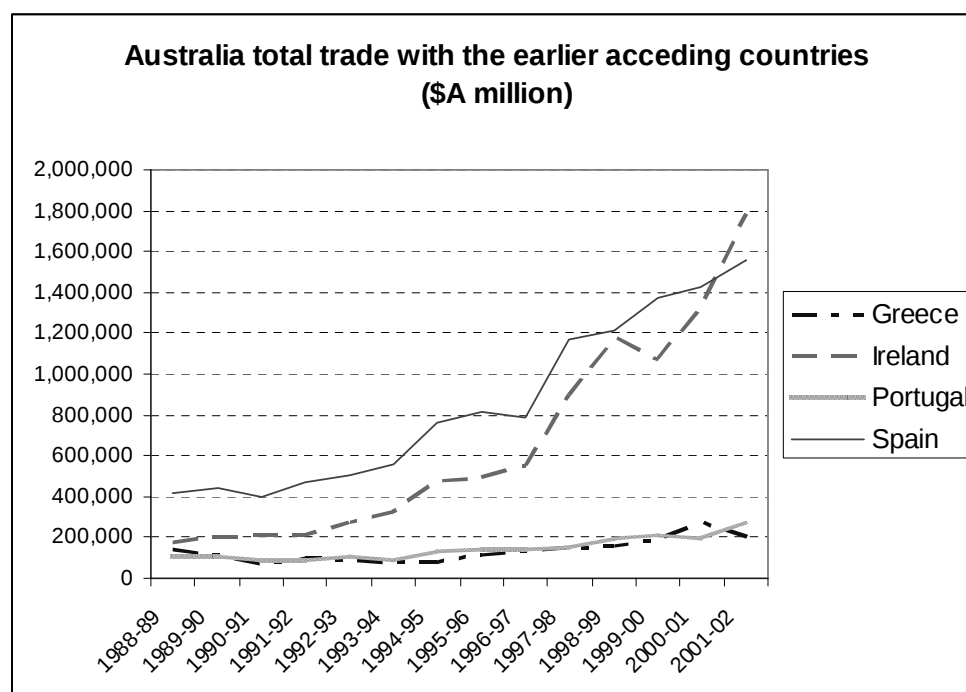
3.50 There are also trade challenges in the areas of standards, testing, labelling and certification. While harmonizing standards with the EU is an objective of all of the accession countries, some US exporters have complained about the lack of transparency and complexity surrounding standards and certification issues.⁷⁰ These concerns apply equally to Australia.

Trade creation or diversion

3.51 A key issue in any changing economic situations for Australia, is whether enlargement, leading to a single market approaching 453 million people, will lead to improved trading opportunities (trade creation) or loss of trading opportunities (trade diversion).

3.52 Although this is a common debate revolving around trading agreements involving preferential trade, such as the proposed Australia-US free trade agreement, the Committee is certain that further Central European integration with the EU will create trade as it did with earlier accessions to the EU. See Table 3.2.

Graph 3.2 Australian trade with Greece, Ireland, Portugal and Spain



Source Australian Bureau of Statistics

⁷⁰ DFAT, Submission No 16, p 62.

Getting a 'foot in the door' pre-accession

- 3.53 During the Committee's visit to Central Europe, officials and business people in a number of countries stressed that Australian companies wishing to invest or trade should establish themselves in the region *before* accession. Several people believed that entering the markets in certain sectors post-accession might be more difficult (see section on agribusiness opportunities in Chapter 4).
- 3.54 While time might already be too short for those countries acceding in 2004, Croatia, Romania and Bulgaria - who will not join the EU until at least 2007 – still do provide opportunities in this regard.
- 3.55 The Committee believes the negotiation process surrounding this aspect of accession may provide Australia opportunities. This is discussed further below.

Regional bias in trade

- 3.56 The pattern of trade for Central European countries has a strong bias towards regional free trade partners. The main reason for this is efforts towards regional integration and EU-integration in the early 1990s by Poland, the Czech Republic, Slovakia and Hungary, a grouping otherwise known as the Visegrad Four.⁷¹
- 3.57 Australian companies also face higher tariff barriers in exporting to Central European candidate countries than the EU itself. See average applied MFN tariffs in Table 3.4.

Table 3.4 Average applied MFN tariffs in the EU and selected accession countries

Country	Date of Trade Policy Report	Average applied tariff on agricultural products	Average applied tariff on non-agricultural products	Simple average applied rate
		(%)	(%)	(%)
European Union	Jun 2002	16.1	4.1	6.4
Slovenia	Apr 2002	16.0	9.5	10.8
Slovakia	Oct 2001	13.2	4.3	6.1
Czech Republic	Sep 2001	13.4	4.3	6.1
Poland	Jun 2000	34.2	11.1	15.9
Romania	Sep 1999	33.9	16.2	19.8
Hungary	Jun 1998	na	Na	11.6

Source DFAT, Submission No 16, p 59.

⁷¹ The Visegrad Four agreed to establish the Central European Free Trade Agreement (CEFTA) in 1992, with Bulgaria, Slovenia and Romania joining in 1998. As a result of CEFTA and the Association (or Europe) Agreements signed with the EU, there is now a strong bias in the region's trade towards each other and the EU.

- 3.58 And although Central European countries' external tariffs will be harmonised with the EU common tariff after accession, countries outside the EU will still be at a disadvantage in the expanded EU, due to the newly functioning free trade arrangements within the EU.

WTO and compensatory market access

- 3.59 When Central European countries accede to the EU, Article XXIV:6 of the GATT will require the EU to compensate Australia for its losses as a result of those countries adopting the 'common external tariff'.⁷²
- 3.60 This point is particularly important because it gives Australia an opportunity to build up agricultural trade in pre-accession Central European countries such as Bulgaria, Croatia and Romania (see Chapter 4 for relevant sectoral opportunities).
- 3.61 A similar compensation process will take place in services trade under the terms of Article V:5 of the GATS.⁷³ DFAT states it will be important that Australia is involved closely in this process to protect its access to European markets and to lobby against the expansion of agricultural subsidies.
- 3.62 DFAT expects that preceding accession, the EU will initiate a WTO related process with its trading partners to discuss the implications of enlargement on their trading interests. This process should begin in 2004.⁷⁴
- 3.63 The Committee believes that strong diplomatic efforts are warranted during the course of negotiations between the EU and acceding Central European countries. The Committee also suggests that these efforts be focused on ensuring agricultural subsidies are not enlarged, and generally maintaining Australia's agricultural market access to the EU and Central Europe.

Other reform issues

Privatisation

- 3.64 Privatisation of parts of the CEEC-10 economies has been widespread since 1997. Privatisation strategies are currently focused in sectors

⁷² DFAT, Submission No 16, p 59.

⁷³ DFAT, Submission No 16, p 60.

⁷⁴ DFAT, Submission No 16, p 60.

such as the utilities, transport, tourism, education and energy, and are accompanied by efforts to restructure these industries.⁷⁵

Land reform

- 3.65 Land reform and the creation of functioning, modern property markets are prominent outstanding issues in many CEEC-10.⁷⁶ This is hindering land and housing market development. It could also limit the ability of candidate countries to benefit fully from support systems under the Common Agricultural Policy and the EU's various structural and regional support funds.⁷⁷

Banking

- 3.66 While most CEEC-10 countries now have a more efficient and stable banking sectors, capital markets and private equity markets are relatively underdeveloped.⁷⁸ The financial sector contributes little to the financing of investment in what should be a growing private sector.⁷⁹

⁷⁵ DFAT, Submission No 16, p 53.

⁷⁶ DFAT, Submission No 16, p 53.

⁷⁷ DFAT, Submission No 16, p 53.

⁷⁸ DFAT, Submission No 16, p 53.

⁷⁹ DFAT, Submission No 16, p 53.

Trade and investment opportunities in Central Europe

Introduction

- 4.1 This chapter will explore the trade and investment opportunities which have emerged through the course of the inquiry. Although it focuses on what activity has occurred to date, the chapter also sheds light on the implications of current trade and investment activities for the future.

Trade in commodities

Agribusiness

- 4.2 Given the historic position Australian agribusiness commodities have occupied in our trade with the countries of Central Europe, together with continuing demand for at least some of these commodities, agribusiness would appear to offer a good short-term and sustainable opportunity to rebuild Australian trade in the region.
- 4.3 The main sectors of interest are meat and livestock; wine; wool; and leather and related products.

Meat and Livestock

- 4.4 Australia's meat exports to Central Europe can best be described as sporadic. At different times and within different Central European countries Australia has had substantive trade in meats but various factors have conspired to constantly alter the export of different meats to Central Europe. Table 4.1 lists the types and quantities of meats exported to Central Europe.

Table 4.1 Australian beef, offal, lamb and mutton exports to Central Europe (tonnes shipped)

Beef				
	1999	2000	2001	2002
Bulgaria	717	1897		
Croatia	1258	115	138	319
Czech Republic			3.9	44
Hungary	86	1.3	34.3	32
Poland			1.2	0.6
Slovakia	35	52		
Offal				
Bulgaria	119	47	97	33
Croatia	66		16	42
Czech Republic	7	89	422	440
Hungary	131		249	
Poland	2322	656	658	624
Romania			100	35
Lamb				
Bulgaria	717	1897		
Croatia	1258	115	138	319
Czech Republic			3.9	44
Hungary	86	1.3	34.3	32
Poland			1.2	0.6
Slovakia	35	52		
Mutton				
Bulgaria	132	14		
Czech Republic	24			
Hungary		66	15	3
Slovenia	24	20		

Source Meat and Livestock Australia⁸⁰

- 4.5 Meat and Livestock Australia (MLA) explained that Croatia stands as the biggest export destination for beef. Croatia and Poland buy about

⁸⁰ Meat and Livestock Australia, Submission No 14, p 2.

- 1.7% of Australian offal exports. Lamb exports go primarily to the Czech Republic and minor mutton sales go Hungary.⁸¹
- 4.6 A range of tariff and non-tariff barriers add to the challenges of trading with Central Europe⁸² (see Appendix F).
- 4.7 Continued growth and demand for Australian meat and livestock products is anticipated by DFAT. Meat and Livestock Australia (MLA), which does not deal with exotic meats such as kangaroo, is also optimistic about trade in meats with Central Europe.⁸³
- 4.8 DFAT explains game meat exports of kangaroo, offal (beef hearts, livers and tripe), and manufacturing beef trimmings are now experiencing growing demand. Kangaroo meat sales are growing, following its marketing as a healthy alternative to other meats. Australia has been exporting kangaroo meat to Europe for many years, but it is only in the past few years that there have been significant increases in exports to Central Europe.⁸⁴ Countries such as Bulgaria and the Czech Republic are outgrowing more traditional markets for kangaroo meat, such as France, Germany and Belgium.⁸⁵
- 4.9 Prior to the collapse of the large Russian market for processed meats, there was also a good meat trade from Australia into the region to supply the intermediary Central European meat processing industry, largely in Bulgaria. As Russia recovers and the Central European countries grow, DFAT believes this industry and its demand for Australian meats is likely to recover.⁸⁶
- 4.10 MLA points out that pork is the preferred meat in Central Europe with some modest gains possible in this sector.⁸⁷ The Western Australian Department of Industry and Resources (WADIR) points out that Central Europe's production of beef has been falling while pork consumption has been slowly rising,⁸⁸ which suggests there might an opportunity for some growth in exports.
- 4.11 WADIR also points out that Australian producers are recognised for raising stock in natural environments and for using advanced farm management, breeding and processing techniques, in a clean and

⁸¹ Meat and Livestock Australia, Submission No 14, p 3.

⁸² Meat and Livestock Australia, Submission No 14, p 4.

⁸³ MLA, Submission No 14, p 2.

⁸⁴ DFAT, Submission No 16, p 70.

⁸⁵ DFAT, Submission No 16, p 70.

⁸⁶ DFAT, Submission No 16, p 70.

⁸⁷ MLA, Submission No 14, p 6.

⁸⁸ WADIR, Submission No 20, p 36.

disease free environment. Such a reputation in the context of recent food safety concerns in the UK and Europe, clearly 'have given non-European suppliers an edge with which to market Australian meat produce in Europe.'⁸⁹

- 4.12 Overall the Czech Republic is Australia's most valuable market for meat in Central Europe, with exports of tripe, lamb and kangaroo meat valued at A\$1.1m in 2001 and similar levels expected again in 2002.⁹⁰ Kangaroo meat, which is used in sausages, salami, pâté and other gourmet-processed foods, is so popular that supply has not kept up with demand, as restaurants in Prague increasingly include kangaroo meat on their menus.
- 4.13 In terms of the effect of EU accession on Australia's meat trade with Central Europe, Australia's beef and sheep meat exports are currently restricted to 7,000 and 18,650 tonnes respectively. MLA argues that these quotas are a real barrier to increased trade.⁹¹
- 4.14 However, as mentioned earlier in this report, trade developed with countries intending to accede to the EU, prior to their accession (Bulgaria, Romania and Croatia), will earn Australia the right to compensation in some form under GATT provisions.
- 4.15 The Committee agreed with DFAT that this provides Australia with some ability to strategically increase our trade in these commodities with the three countries acceding after 2004. Bearing in mind also that there seems to be some consensus that meat exports are a growth area, the Committee believes that efforts to increase trade in this area will be fruitful for Australian meat exporters.

Wine

- 4.16 Austrade explains wine exports to the region are doing well, although working from a small base as indicated in Table 4.2 (below). Dramatic growth in the exports of wine to the Czech Republic and Poland suggest that there is substantial opportunity for Australian exporters in Central Europe. Austrade believes changing drinking habits due to increasing disposable incomes are opening up these markets.⁹² Australia's strong presence in the Western European wine markets places the industry well for eastward expansion.

⁸⁹ WADIR, Submission No 20, p 36.

⁹⁰ DFAT, Submission No 16, p 69.

⁹¹ MLA, Submission No 14, p 7.

⁹² Austrade, Submission No 18, p 21.

Table 4.2 Australian wine exports

	2001-2002	Increase over previous year
Poland	104,680 litres	103%
Czech Republic	68,844 litres	69%
Croatia	711 litres	(from zero)
Global		23.1% in volume, 24% in value

Source *Australia Wine and Brandy Corporation*⁹³

- 4.17 In addition to the promising figures above, DFAT points out that in the same period, the average value per unit of exported wine was A\$4.79 a litre – a marginal increase over the previous year, suggesting a readiness in some markets to pay more for Australian premium wine.⁹⁴ This increasing taste for international quality wines, as opposed to more traditional local wines, increases Australian opportunities in Central Europe according to WADIR, especially in the Czech Republic, Slovenia and Hungary.⁹⁵
- 4.18 The quality, price, consistency and reliability contribute to the success of Australian wine exports. DFAT believes Australia has many ‘world scale’ wine companies that have a global outlook and established global brands. They believe Australia has a strong ‘brand platform’, upon which to build exports in the region.⁹⁶
- 4.19 Central Europe has not been identified as a top 20 international market opportunity by the Winemakers Federation, but Australian Wine and Brandy Corporation (AWBC) figures suggest that Australia is well placed to increase its market share for wine as the region becomes more affluent.⁹⁷
- 4.20 There are however a few non-market constraints on trade with countries in the region, as DFAT explains.⁹⁸ Poland has a 30% tariff on wine imports. Although Australia has been lobbying hard to reduce the tariff, an economic agreement between the US and Poland to reduce tariffs should also benefit Australia under the WTO’s ‘Most Favoured Nation’⁹⁹ treatment requirements.

⁹³ Australian Wines Approved for Export, Australian Wine and Brandy Corporation (AWBC), in DFAT, Submission No 16, p 70.

⁹⁴ DFAT, Submission No 16, p 70.

⁹⁵ WADIR, Submission No 20, p 38.

⁹⁶ DFAT, Submission No 16, p 70.

⁹⁷ DFAT, Submission No 16, p 71.

⁹⁸ DFAT, Submission No 16, p 70.

⁹⁹ “Under the WTO Agreements, countries cannot normally discriminate between their trading partners. Grant someone a special favour (such as a lower customs duty rate for one

- 4.21 EU accession will probably assist Australian wine exporters as most CE countries will have to harmonize their trading regimes with the EU. As the Australian Bureau of Agricultural and Resource Economics (ABARE) points out, it is a market with which Australian producers are already familiar and successful in, and trade barriers for wine are modest.¹⁰⁰
- 4.22 DFAT also points out that EU accession will require anti-monopoly legislation in Central Europe, which will likely improve opportunities for Australian exporters to sell wine there.¹⁰¹

Wool

- 4.23 Central Europe has been a traditional export market for Australian wool. In the 1980s, the markets of Central Europe and the Commonwealth of Independent States (CIS) together bought 10-20 per cent of Australia's total wool production. However, by 2001, this major regional market had declined to represent only 3 per cent of Australia's global wool exports.¹⁰²
- 4.24 The Czech Republic has consistently been Australia's strongest market in Central Europe over the 1990s with Australian wool exports valued at A\$82.5 million in 2001, out of total exports to the region of A\$112.8 million. The value of wool exports can fluctuate dramatically in response to short-term shifts in price or in supply and demand.¹⁰³ The wool export figures for the Czech Republic, and Central Europe, for the years 1997 through 2001 are in Table 4.3.

Table 4.3 Wool Exports to the Czech Republic and Central Europe¹⁰⁴

A\$ million	1997	1998	1999	2000	2001
Czech Republic	34.5	54.8	31.8	66.2	82.5
Total - Central Europe	57.6	86.9	48.0	86.7	112.8

Source DFAT, Submission No 16, p 71

of their products) and you have to do the same for all other WTO members", http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm (13 June 2003).

¹⁰⁰ World wine market: barriers to increasing trade, ABARE, p 2.

¹⁰¹ DFAT, Submission No 16, p 71.

¹⁰² DFAT, Submission No 16, p 71.

¹⁰³ DFAT, Submission No 16, p 71.

¹⁰⁴ Note that the figures in Table 4.2 are from AFFA (Submission No 25) and they differ from the DFAT figures. Clearly they have different parameters, but were worthy of inclusion because they convey some idea of the dimensions of the wool trade with other Central European countries.

- 4.25 DFAT suggests that another key influence on demand for wool in Central Europe stems from the restructuring and privatisation of the textiles industry in those countries. Many inefficient state-owned enterprises have been closed or privatised. Others do not have the capital to purchase raw materials.¹⁰⁵
- 4.26 A further challenge for the wool sector in Central Europe is the increased competition from alternative fibres.¹⁰⁶
- 4.27 Bearing in mind Australia's long history of wool production, DFAT suggests in their submission that Australian expertise in terms of export management strategies and innovative processing technologies (wool and cotton) in the industry, might be exportable to Central Europe.¹⁰⁷
- 4.28 The Committee felt this suggestion had merit and believes the export of industry related services and technologies is an area worthy of investigation. Accordingly it would like to encourage the wool industry, DFAT and Austrade to develop a targeted trade mission to investigate opportunities in this area.
- 4.29 The Committee felt that Australia's traditional strengths in other agribusiness areas provided export potential as well. Accordingly the Committee believes that expertise export opportunities should be pursued in a range of areas, such as: wool and cotton; meat and livestock (including exotic meats); wine; and leather and related products.

Leather and related products

- 4.30 Austrade believes Australia's strengths in the production of processed leather, especially in the automotive areas (leather seats and trimming), are likely to provide Australia some opportunities in Central Europe.¹⁰⁸ DFAT is also optimistic about Australian leather sale potential, believing it is likely to become a 'key supplier' in Central Europe of high quality tanned bovine leather.¹⁰⁹
- 4.31 Already there are some processed leather sales to Poland. Skoda, which absorbed massive investment from Volkswagen during the 1990s and comprises a large part of the Czech Republic's automotive

¹⁰⁵ DFAT, Submission No 16, p 71.

¹⁰⁶ DFAT, Submission No 16, p 71.

¹⁰⁷ DFAT, Submission No 16, p 71.

¹⁰⁸ Austrade, Submission No 18, p 22.

¹⁰⁹ DFAT, Submission No 16, p 89.

capability, is currently negotiating with an Australian firm for seat and trimming leather.¹¹⁰

- 4.32 The Committee noted when visiting Slovakia that it has also recently brought substantial foreign investment into its automotive industry, mainly from Citroen-Peugeot.¹¹¹ The Committee believes similar opportunities are likely to develop for Australia in leather products in Slovakia.

Manufacturing

- 4.33 DFAT believes there will inevitably be increased consumer affluence (see Chapters 2 and 3) and enhanced market opportunities for companies able to meet local demands. Australian firms have been successful in the manufacturing sector, and Central Europe is clearly a growth area.¹¹²
- 4.34 A diverse range of Australian companies have been successful in exporting manufactured products to Central Europe. They include:
- Cefrank Engineering Pty Ltd - developers and manufacturers of medical and industrial gas equipment
 - Cochlear Limited – producer of the cochlear implant systems for the hearing-impaired
 - Minelab Electronics Pty Ltd - designer and developer of metal sensing technology for use in de-mining equipment
- 4.35 DFAT is optimistic about the opportunities that have arisen from the extensive privatisation programs undertaken by the Central European governments as they move to reform. They are restructuring to update their manufacturing sectors and, through new management, are seeking to diversify their sources of supply.¹¹³

Mining and minerals sector

- 4.36 The closing down of and restructuring of existing mining operations in Central Europe has contributed to a shortfall in domestic supplies

¹¹⁰ Austrade, Submission No 18, p 22.

¹¹¹ JSCFADT Visit to Central Europe Notes.

¹¹² DFAT, Submission No 16, p 83.

¹¹³ DFAT, Submission No 16, p 83.

of some raw materials, providing some export opportunities for Australia.¹¹⁴

- 4.37 Coal has been a successful export commodity to the countries of Central Europe. For example, in 2000-2001, significant shipments of coal were made to Bulgaria (A\$16.9m), Romania (A\$13.5m) and Hungary (A\$5.8m). Iron ore has also found a market, with A\$11.1m worth shipped to Romania, along with A\$8.9m worth of other ores, in the same period.¹¹⁵
- 4.38 DFAT explains Australian firms have also secured a number of contracts for the extraction and processing of minerals in Central Europe. Australian companies have a strong reputation for innovative research and development of a range of mining and related technologies. They also lead the world in environmental impact assessment and management, as well as occupational health and safety technologies.¹¹⁶

Trade in services

- 4.39 As mentioned earlier in the report and as exemplified in graphs in Appendix E, Central Europe is experiencing dramatic increases in its imports of goods and services (roughly doubling since 1995). Australia, being a strong and ambitious services exporter, is well placed to capitalise on the growth in service imports based on the comparative strengths in certain sectors.
- 4.40 The Committee felt from evidence collected and from what was learned during the visit to Central Europe that services exports provide a tremendous opportunity for Australia, particularly in education, health, e-government and e-commerce.

Education Services

- 4.41 Education services provide substantial opportunity for Australian exporters to Central Europe. DFAT, Austrade, WADIR and DIMIA explained in their submissions that the strengths and selling points for Australian exporters include:

¹¹⁴ DFAT, Submission No 16, p 84.

¹¹⁵ DFAT, Submission No 16, p 84.

¹¹⁶ DFAT, Submission No 16, p 50.

- ⇒ Australia's perceived high education standards
- ⇒ world standard facilities and teaching resources
- ⇒ wide recognition and acceptance of Australian qualifications
- ⇒ competitive tuition fees (relative to the US and UK) and low cost of living, which combine to offer good value for money
- ⇒ Australia's attractive lifestyle and the perception that it is a safe environment
- ⇒ the freedom for students to travel or work,¹¹⁷ as well as study¹¹⁸
- ⇒ preferential treatment of former overseas students wishing to migrate to Australia in the skilled migration program¹¹⁹
- ⇒ Australia's multicultural environment

Table 4.5 Total student numbers by country (1994-2000 and projections for 2004)

Country	1994	1995	1996	1997	1998	1999	2000	2004
Bulgaria	10	14	18	24	29	40	51	
Croatia	6	12	14	18	18	21	20	
Czech Republic & Slovakia	651	801	1063	1063	1233	1527	2194	4200
Hungary	39	54	65	64	125	197	259	600
Poland	37	48	71	96	222	333	560	2100
Romania	8	6	9	14	14	21	19	
Slovenia	4	18	29	22	17	21	20	
TOTAL	755	953	1269	1301	1658	2160	3123	6900

Source: DEST submission¹²⁰

4.42 This general view is supported by education trade statistics. Between 1994 and 2000, Australian Education International (AEI) / Austrade figures indicate the vast majority of overseas students from Central Europe came from the Czech and Slovak republics (recorded together), Poland and Hungary (see Table 4.5). The impressive figures for 2004 in the final column and in Table 4.5 and Graph 4.1 are projections.¹²¹

¹¹⁷ Student visas entitle students to work up to 20 hours per week or longer during holiday times. DIMIA, Submission No 22, p 9.

¹¹⁸ The UK has recently changed its student visa arrangements to allow students to work, in order to compete with Australia, Chairman's notes. JSCFADT Visit to Central Europe Notes.

¹¹⁹ DIMIA, Submission No 22, p 9.

¹²⁰ DEST, Submission No 7, p 4, statistics from 'Overseas Student Statistics Collection 2000, AEI / Austrade projections'.

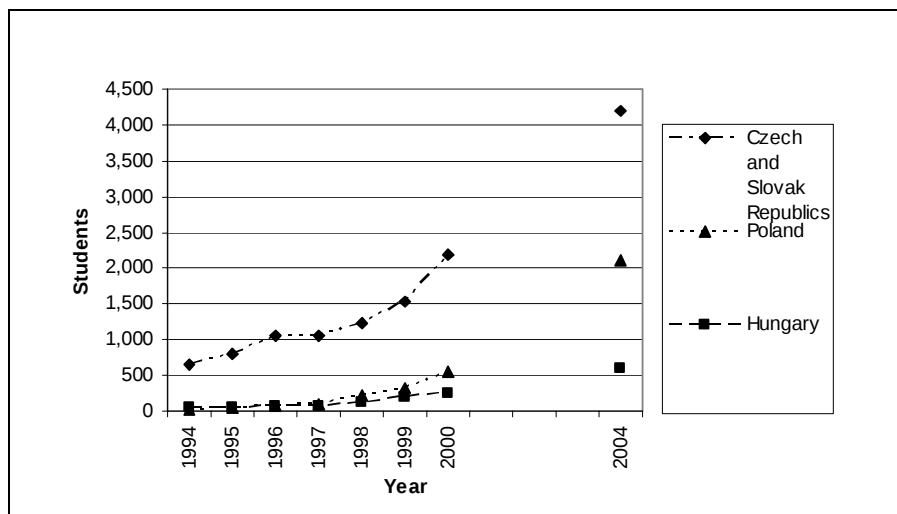
¹²¹ DEST, Submission, No 7, p 4.

- 4.43 AEI has named the Czech and Slovak Republics, Poland and Hungary the four ‘focus countries for education marketing and promotion activities’.¹²² Both DEST and WADIR believe these four countries provide the best opportunities in the ELICOS and VET sectors.¹²³
- 4.44 Through an AEI/ Austrade agreement, Austrade Europe is undertaking a number of initiatives in the four focus countries to develop the market for VET and ELICOS. These initiatives are aimed at better informing students in the focus countries of the value of studying in Australia, and include activities such as:
- Liaising with the agent network and the delivery of student and agent seminars
 - Compiling and disseminating market intelligence to the Australian industry and market stakeholders as required.
 - Nurturing media contacts and alumni
 - Distributing information on developments in Australia to the European Education Network database
 - Providing a quarterly listing of student fairs to be put on the Department’s AEI website
 - Assisting in developing proposals for and conducting outbound trade missions to East Europe involving the Czech and Slovak Republics
 - Participating in trade fairs.¹²⁴

¹²² DEST, Submission No 7, p 2.

¹²³ WADIR, Submission No 20, p27.

¹²⁴ From DEST, Submission No 7, p 2.

Graph 4.1 Actual and projected student numbers (4 focus countries)

Source DEST, Submission No 7.

Sectoral Breakdown

- 4.45 On a sectoral basis 97% of Czech and Slovak students are concentrated in English Language Intensive Courses for Overseas Students (ELICOS) and Vocational Education and Training (VET) sectors, as are 93% of Polish students and 90% of Hungarian students (see Graph 4.2).
- 4.46 This concentration in ELICOS and VET for the four countries listed above contrasts markedly with the sectoral breakdown for other countries. For the 'all overseas students' category, only 36% of students are in ELICOS and VET. For the 'all Europe' category, 54% of students are in ELICOS or VET.¹²⁵

Higher Education

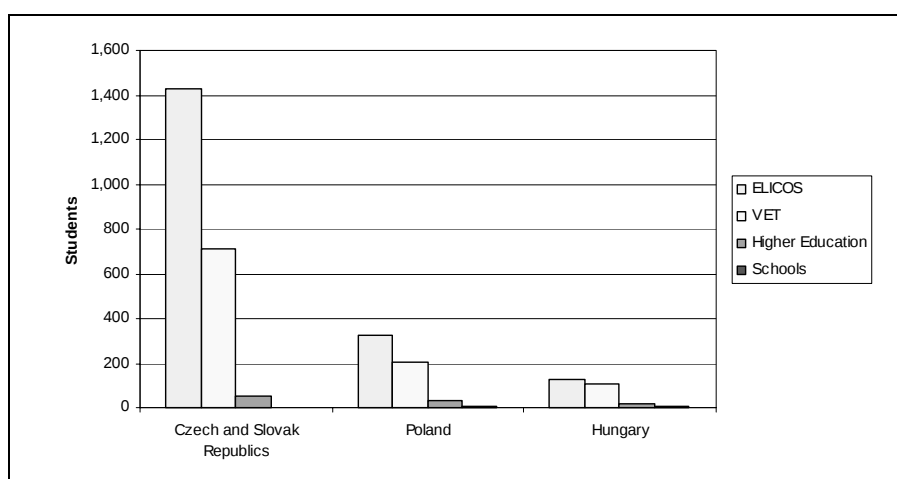
- 4.47 2001 saw around 218 Central European students studying at Australian public universities. This included students from Bulgaria (27), Czech Republic (47), Hungary (32), Poland (45), Romania (23), and Slovakia (45), plus unspecified numbers from other Central European countries with fewer than 20 students in Australia. By far the majority are studying management and commerce (125). The next most popular course is information technology (25 students).¹²⁶

¹²⁵ DEST, Submission No 7, p 6.

¹²⁶ *Students 2001: Selected Higher Education Statistics*, Department of Education, Science and Training from DFAT, Submission No 16, p 72.

- 4.48 These figures suggest that while Australian universities have entered into a number of agreements with counterpart institutions in Central Europe (see Appendix G), these agreements have not yet resulted in significant numbers of university students studying with Australian education providers.

Graph 4.2 Sectoral breakdown of students (4 focus countries)



Source DEST, Submission No 7.

- 4.49 There are no clear solutions to this difficulty. These countries have elite university systems at which students do not pay fees. Studying at university paying full fees in Australia therefore is not financially attractive. At the undergraduate level there is no clear route to attracting more Central European students to full fee paying courses in Australia.

Visa issues

- 4.50 The Department of Immigration, Multicultural and Indigenous Affairs (DIMIA) provided a range of information related to visas for students (see Appendix H). The graphs confirm two trends: that the number of visas granted to students from Central Europe is growing; and that the visitor non-return rate from Central Europe is falling. Both indications bode well for exports of education. The latter because at some stage it will prompt an easing of visa conditions,¹²⁷ facilitating further growth in visa grants.
- 4.51 The Czech Embassy raised a concern about visa requirements for its students. They noted that Czech students were required to fill in the '48R' form instead of the less onerous '48' form. The '48R' had

¹²⁷ DIMIA, Transcript, p 145.

additional requirements for bank statements of prospective students. The Committee heard that a sample problem with this requirement was that many Czech people do not yet trust banks enough to deposit their money with them, making it difficult for those applicants to complete the '48R' properly.¹²⁸ Ambassador Sladek suggested that easier visa conditions would facilitate more students.¹²⁹

- 4.52 DIMIA explained that the supplementary information required through the more onerous '48R form', had lowered Czech non-return rates and improved approval rates. Therefore DIMIA believes changes to the requirements for Czech students are unlikely to change in the short term.¹³⁰ This issue is discussed further in Chapter 6.
- 4.53 Upon accession to the EU visa requirements of Central European countries will harmonize with the EU. Undoubtedly this will greatly increase opportunities for study in Australia as all necessary education agreements with the EU are in place.¹³¹ It will also provide some competition from English speaking providers of similar services such as the US and UK, and other Western European providers such as Germany.
- 4.54 Over time therefore, DFAT believes, visa application procedures will become easier for Central Europeans but Australian providers will have to face stiffer competition.¹³²

Market information on Australian education

- 4.55 Considering Australia's comparative advantages in the field of ELICOS and VET are very strong, DFAT and Austrade believe the key challenge for Australian education exporters is to provide market information on Australian education to Central Europe.
- 4.56 The Committee agrees with this assessment and believes a higher profile for Australian education providers is likely to draw many more students to Australia. Accordingly the Committee would like to promote a coordinated effort to improve market knowledge of Australian education services in Central Europe through several means detailed below.

¹²⁸ JSCFADT Visit to Central Europe Notes.

¹²⁹ Czech student visa applicants were required to fill out form 48R, rather than form 48 which had less onerous information requirements.

¹³⁰ DIMIA, Transcript, p 140.

¹³¹ DFAT, Submission No 16, p 72.

¹³² DFAT, Submission No 16, p 72.

Encouraging international links

- 4.57 Australia education institutions have established a number of links with institutions in Central Europe. The Committee believes that increasing the range of institution to institution links between Australia and European educational institutions will lift the profile of Australian education in Central Europe (see Appendix G for existing educational links with Central Europe).
- 4.58 During the course of the inquiry, the Committee formed the impression that areas in which opportunities would be greatest for education exporters, would be tourism, commerce and Master of Business Administration courses.
- 4.59 The Committee arrived at this position partly from specific knowledge within the Committee on Australia's educational export strengths, but also based on the preferences of other education exports markets. The Committee believed that the more traditional, academic and elite institutions of Western and Central Europe were, broadly, less flexible than Australian institutions. Accordingly they were unable to shift with new demands in education, into areas such as tourism, commerce and MBAs.
- 4.60 Therefore the Committee believes that educational links should be encouraged generally with the countries of Central Europe. And they should be encouraged more specifically in those areas in which Australia's competitive advantage is greatest – tourism, commerce and MBA programs.

University scholarships

- 4.61 The Committee believes that Australian university scholarships directed towards Central European students is another way to increase awareness of Australian education.
- 4.62 Accordingly the Committee believes Australian universities should offer more scholarship places for Central European postgraduate students.

Recommendation 1

The Committee recommends the Government provide funding for more scholarship places for Central European postgraduate students, to assist in raising the profile of Australia and Australian educational institutions.

Research links

- 4.63 Building research links between institutions in Australia and Central Europe could also add to Australia's profile in the region. A specific recommendation about research links and EU research funding is included below under 'IT and communication services'.

Education industry related services

- 4.64 Central European governments are also reforming their education sectors. Australian organisations have actively bid to provide consultancy services in government management of state education and curriculum development for life-long learning in further education institutions or schools.¹³³
- 4.65 In Romania, the Department of Education, Science and Training (DEST) secured a World Bank-funded a multi-year contract to develop a standards-based system of vocational education and training. The Occupational Standards and Assessment Component is part of a wider project to develop the skills and knowledge of the Council of Occupational Standards and its Technical Secretariat in the methods of preparing new occupational standards and assessment methods for 300 occupations. The project required a combination of policy, management and technical expertise to reform the infrastructure of the vocational education and training system.¹³⁴
- 4.66 DFAT believes potential also exists for Australian government departments and agencies supplying education and training-related services supporting the restructure of major operations. For example, the Overseas Projects Corporation of Victoria (OPCV), which provides project management, consultancy and procurement services for international projects, has recently designed and delivered a

¹³³ DFAT, Submission No 16, p 78.

¹³⁴ DFAT, Submission No 16, p 78.

‘progressive training strategy’ as part of a World Bank-funded Romanian Mine Closure and Social Mitigation Project.¹³⁵

- 4.67 Accordingly the Committee believes that any Australian missions to Central Europe to sell Australian education services should include organizations expert in government education reform.

Recommendation 2

The Committee recommends that:

- **DEST develop their capacity to export Australian systems and expertise in educational reform; and**
- **Future Austrade/AEI export missions include education and training services organizations, to ensure Australian organizations have the opportunity to export their expertise in education sector reform.**

Environmental goods and services

- 4.68 While Australian companies have expertise in waste-water treatment, water quality monitoring, instrumentation and renewable / green energy, few major projects in these sectors have so far been secured in the Central European countries.¹³⁶
- 4.69 DFAT believes various factors will contribute to high demand for environmental related services and technology in Central Europe in the coming years. They will stem mainly from weak or absent environmental or health protection standards during the communist era. The Committee believes these negative remnants from the old order coupled with the necessarily rapid transition to EU standards through the accession process, and Australia’s strong record in these areas, place Australia in a good market position in this area.¹³⁷
- 4.70 As DFAT points out however, tangible market success will not be easy.¹³⁸ Accession arrangements, such as ‘twinning’, between the EU and acceding countries will inevitably favour the EU or accession country firms. Other such transition arrangements do similar things,

¹³⁵ DFAT, Submission No 16, p 78.

¹³⁶ DFAT, Submission No 16, p 74.

¹³⁷ DFAT, Submission No 16, p 74.

¹³⁸ DFAT, Submission No 16, p 74.

essentially requiring EU funded transition activities be spent on EU firms or firms partnered with EU organizations.¹³⁹

- 4.71 The Committee believes however, that Australian firms have a great deal of expertise to offer in this area and should not be deterred from pursuing opportunities. Examples of several successful services exports are detailed below.

Agribusiness services

- 4.72 The Romanian Embassy informed the Committee that Romania has major plans to develop its agriculture, an area in which Australia is a world leader. The plans include: procuring and developing irrigation equipment; rehabilitating land; upgrading industry structures; developing agricultural tourism; and reforestation of degraded land.¹⁴⁰
- 4.73 Romania's plans in this area provide opportunities for the export of Australian agricultural technology and expertise, while also providing opportunities for Australian investors¹⁴¹. See Recommendation 3.

Government to government and e-government services

- 4.74 As the Central European countries approach EU accession and undertake economic, political and social reform, opportunities for new markets will arise for Australian providers of social, health, welfare and economic services.¹⁴²
- 4.75 Commonwealth and state government departments and agencies, such as the FaCS International Unit of the Department of Family and Community Services (FaCS), the Department of Education, Science and Training, the Health Insurance Commission (HIC) and the Overseas Projects Corporation of Victoria Ltd (OPCV), have secured a diverse range of tenders to assist Central European governments develop new administrative systems and approaches.
- 4.76 The pattern for developing this market is generally to secure an initial consultancy contract, 'followed by project management, and sometimes with either systems sale or at least an intellectual property

¹³⁹ DFAT, Submission No 16, p 75.

¹⁴⁰ A longer list is included in Embassy of the Republic of Romania, Submission No 9, p 75.

¹⁴¹ DFAT, Submission No 16, p 71.

¹⁴² DFAT, Submission No 16, p 77.

licence'.¹⁴³ This view is supported by comments by Acumen and appears to reflect the pattern of HIC's success in winning contracts.¹⁴⁴

- 4.77 The reform processes in Central Europe in such areas as health, welfare, education and employment discussed individually elsewhere in this report, will provide opportunities for some time.¹⁴⁵
- 4.78 Capitalizing on such opportunities will require the cooperation of the relevant Australian public institutions, which usually own the intellectual property and have the expertise to undertake such projects.¹⁴⁶

FACS International

- 4.79 DFAT believes the Department of Family and Community Services (FaCS) provides a good example of the export potential of Australia reform experience. FaCS International has worked in recent years with Bulgaria and Romania (and in 1992 in Hungary and Poland), to provide assistance in the areas of social security administration; systems development; support and training; poverty assessment; policy assessment and reform; organisational reform and capacity building; and project preparation and assessment.¹⁴⁷
- 4.80 From 1998-2001, FaCs International worked in Romania to deliver the Automation of the Ministry of Labour and Social Protection (MOLSP) project, providing advice on the design of a modern, national information technology system for social insurance, social assistance, employment and management information. This built on earlier projects (1992 and 1993) reviewing MOLSP organisation and administrative frameworks and MOSLP reports and analyses to identify restructuring requirements for the reform process.¹⁴⁸
- 4.81 In 1999-2000, FaCS International worked with IDP Education Australia in Bulgaria to deliver the World Bank-funded Social Security Administration Project, providing the National Social Security Institute (NSSI) with assistance in registry administration,

¹⁴³ DFAT, Submission No 16, p 77.

¹⁴⁴ This example will be discussed in more detail in Chapter 6. Acumen Alliance, Submission No 12.

¹⁴⁵ DFAT, Submission No 16, p 77.

¹⁴⁶ DFAT, Submission No 16, p 77.

¹⁴⁷ DFAT, Submission No 16, p 77.

¹⁴⁸ DFAT, Submission No 16, p 77.

benefits administration, and contributions and compliance administration.¹⁴⁹

- 4.82 Clearly FaCS' success provides a good model for other government agencies.

Acumen Alliance

- 4.83 DFAT explains that private suppliers of professional services to Government have also been successful in the region. Acumen Alliance, a management consulting firm, has recently completed a World Bank project in Bulgaria. The project's objective was to strengthen existing financial management processes and practices within the Bulgarian Ministry of Health, with the aim of improving corporate governance and financial management. The project had great significance since the National Health Insurance Fund (NHIF) was the first agency in Bulgaria to adopt accrual accounting practices.¹⁵⁰

Land titling

- 4.84 Another area which most Central European countries need to reform is cadastre or land titling - an area in which Australia is a leader. Austrade estimates that work needed to address these issues will take up to 15 years and several billion US dollars to implement.¹⁵¹
- 4.85 As with other areas, success will require effort and have to deal with Western European competition. Austrade views that major challenges for Australian suppliers is to overcome local supplier restrictions and deal with the different criteria applying in each country.¹⁵²

Multilateral project funding

- 4.86 Acumen Alliance followed up in its public hearing¹⁵³ on an issue initially raised by Austrade.¹⁵⁴ The issue was accessing multilateral development bank funding for projects in Central Europe – most specifically the European Bank for Reconstruction and Development (EBRD).

¹⁴⁹ DFAT, Submission No 16, p 77.

¹⁵⁰ DFAT, Submission No 16, p 79.

¹⁵¹ Austrade, Submission No 18, p 21.

¹⁵² Austrade, Submission No 18, p 21.

¹⁵³ Acumen Alliance, Submission No 12.

¹⁵⁴ Austrade, Submission No 18, p 25.

- 4.87 Where projects are (at least) co-financed by the EBRD, Austrade explains, international competitive bidding rules will apply, providing opportunities for Australian suppliers.¹⁵⁵
- 4.88 One problem which Acumen Alliance stresses however, is that the selection procedures are heavily weighted towards organizations which have previously undertaken EBRD contracts.¹⁵⁶ Accordingly, Acumen Alliance and Austrade recommend a slightly different ‘foot in the door’ strategy, involving providing minor technical assistance funding to the EBRD *tied to Australia service providers*. That is, Australia would fund an amount of EBRD technical assistance projects conditional on Australian contractors being used.
- 4.89 Once completed this project experience will better position Australian firms, in terms of EBRD funding processes, to tender for more and bigger projects.
- 4.90 The Committee feels that such a ‘toe in the multilateral door’ strategy is worthy of consideration. If successful on a small scale, the Committee would recommend it be extended.
- 4.91 DFAT notes in terms of strategy, early notification of available funding programs and good relationships with the relevant decision-makers in the EBRD will be critical to positioning competitive Australian contractors.¹⁵⁷ This issue is discussed further in Chapter 6.

Recommendation 3

The Committee recommends Australia contribute tied funding to the EBRD for small technical assistance projects, to provide Australian contractors with an entry point to and experience with the EBRD.

Health Insurance Commission

- 4.92 All evidence suggests that the outstanding example of successful bidding for multilateral development projects is Australia’s Health Insurance Commission (HIC). Its success has been ongoing since the late 1980s.¹⁵⁸ The Committee feels its practical experience in bidding processes and contacts within the multilateral banks could be shared as much as possible with other Australian organizations in the hope that it might assist others undertake similar work in relevant fields.

¹⁵⁵ Austrade, Submission No 18, p 25.

¹⁵⁶ Acumen Alliance, Submission No 12.

¹⁵⁷ DFAT, Submission No 16, p 79.

¹⁵⁸ HIC, Submission No 13.

- 4.93 Accordingly the Committee feels some effort should be made to capitalize on HIC's experience, and believes Austrade or HIC itself should research mechanisms which might allow the exchange of ideas and experience to occur.

Recommendation 4

The Committee recommends HIC develop mechanisms which allow other Australian organizations to benefit from HIC's experience and contacts, in terms of bidding for multilateral development project funding.

E-government

- 4.94 DFAT believes the implementation of an e-government strategy is a clear priority for all Central European countries as a mechanism to reduce costs, and improve internal processes and allocation of public resources.¹⁵⁹ The driver for this strategy is the incentive to improve government administration, particularly in the lead up to EU accession.
- 4.95 Austrade staff in the region found that governments also recognise that accessing government procurement and services online produces a more ITC literate population and a more efficient economy.¹⁶⁰ The OECD has indicated that for the transition economies of Central Europe, internet access is the key parameter for the success of e-government.¹⁶¹
- 4.96 While Central Europe may be a latecomer to developing e-government strategies, its governments have the advantage of looking around the world at tested technologies and solutions. Austrade believes Australia's ranking close to the top of the table in the delivery of government services online has provided a platform for international sales, including into Central Europe.¹⁶²
- 4.97 In order to stimulate the business opportunity, Austrade organised an e-government mission to the Czech Republic and Poland during October 2002. Austrade says the preliminary outcomes are

¹⁵⁹ DFAT, Submission No 16, p 80.

¹⁶⁰ Austrade, Submission No 18, p 18.

¹⁶¹ Austrade, Submission No 18, p 18.

¹⁶² Austrade, Submission No 18, p 18.

encouraging, with a number of the participants already planning return visits before the end of the year.¹⁶³

- 4.98 Although there is little or no activity in this area between Australia and Central Europe, FaCS, HIC and Acumen Alliance provide some guidance on how such opportunities might be pursued. A 'toe in the multilateral door' strategy might be useful in the e-government area as well.

IT and communications services

- 4.99 The major component of Australian ITC exports to Central Europe is telecommunications equipment, with Slovakia as the biggest market (A\$855,000 in 2000-2001), followed by Hungary (A\$262,000) and Slovenia (A\$55,000).¹⁶⁴
- 4.100 WADIR believes Australia's developed ITC marketplace provides the base for a strong ITC goods and services export industry. It also believes that the impending liberalization of most Central European telecommunications sectors will see prices drop and demand for ITC goods and services rise. This rise is likely to prompt growth in e-commerce.¹⁶⁵
- 4.101 Australia's comparative advantage in this area is clear. The Economist Intelligence Unit (EIU) currently ranks Australia 2nd in e-readiness (2001). See Table 4.6. Australia's National Office for the Information Economy (NOIE) places Australia 3rd, after the United States and Sweden, in terms of performance in the information economy, with 52 per cent of households having access to the Internet at September 2001.¹⁶⁶
- 4.102 The EIU¹⁶⁷ ranks the Central European countries at the lower end of 'e-readiness'. Four countries are in the 'e-business followers' category (see Appendix I). Two others are in the 'e-business laggards' category in contrast to Australia which is an 'e-business leader'. Croatia and Slovenia were not included in the ranking.
- 4.103 Details of the proportion of the population accessing the internet in some Central European countries, and comparisons with the US and

¹⁶³ Austrade, Submission No 18, p 18.

¹⁶⁴ DFAT, Submission No 16, p 80.

¹⁶⁵ WADIR, Submission No 20, p 29.

¹⁶⁶ The Current State of Play: Australia's Scorecard' National Office for the Information Economy, April 2002. (www.noie.gov.au)

¹⁶⁷ Economist Intelligence Unit Viewswire (on-line - <http://www.viewswire.com>)

the UK are set out in the table below. Appendix E also contains information on various 'technology take-up' indicators; telephone lines, personal computers, internet users, internet servers, TV sets and mobile phone use.

Table 4.6 E-readiness ranking and internet access

	e-readiness ranking (2001)	internet users per 100 people, 2001	estimate of internet users per 100 people, 2002
USA	1	70.7	75.5
UK	3	48.2	53.0
Australia	2	31.63 (1999)	
Czech R.	27	26.4	38.3
Hungary	28	21.2	33.7
Poland	30	13.4	18.3
Slovakia	32	11.3	16.1
Bulgaria	48	12.4	19.0
Romania	52	4.5	6.6

Source EIU country e-readiness reports 2001-02¹⁶⁸

Table 4.7 Telephone lines per 100 people (see also Appendix E, graph series E.3)

	telephone lines per 100 people in 2001	estimate of telephone lines per 100 people in 2002
USA	60.5	58.4
UK	60.9	63.2
Australia	52.76 (2000)	
Czech R.	41.4	42.9
Hungary	39.2	40.2
Bulgaria	38.3	39.6
Poland	29.2	31.2
Romania	24.0	39.0
Slovakia	18.7	19.9

Source EIU country e-readiness reports 2001-2002.

4.104 DFAT believes several current characteristics of Central European markets suggest where opportunities might lie. Firstly IT technical skills in the region are reasonably cheap. This makes it cost-effective to establish partnerships with local enterprises.¹⁶⁹ Secondly, local industries are beginning to grow. And thirdly each country has good access to third markets, either through Central European Fair Alliance

¹⁶⁸ Cited in DFAT, Submission 16, p 80.

¹⁶⁹ DFAT, Submission 16, p 81.

(CEFA)¹⁷⁰ or the EU. This provides a cost effective base for expanding into Europe more widely.

- 4.105 These advantages, combined with Australia's strengths in software development mean that there is potential for collaboration between Australian and Central European firms. Since collaboration is most likely to be in the area of research and development, linkages between technology parks and other R&D organisations, such as universities and the CSIRO, will be critical.¹⁷¹
- 4.106 In the communications sector, Central Europe needs professional services and equipment to build network infrastructure, both private and public.¹⁷² WADIR believes that with privatisation and the introduction of competition, the demand for more competitive infrastructure by users and carriers is increasing, providing an expanding market for potential Australian suppliers and investors.

Science research funding

- 4.107 DFAT suggests that research collaboration with Central European countries could benefit Australia through the Sixth Research and Technological Development Framework program (F6). This research and development fund will be available to some non-EU applicants and applicants collaborating with EU members. The fund will spend around A\$30 billion in research and development activities in the period 2002-06¹⁷³ (For existing research links see Appendix G).
- 4.108 In line with earlier recommendations on utilizing education scholarships and institutional linkages to improve the profile of Australian education in Central Europe, the Committee believes a 'foot in the door' strategy could also apply to collaborative research funding.
- 4.109 Collaborative research work undertaken with Central European institutions (especially the five subject countries acceding in 2004) now, will entitle the Australian collaborators access to the European Commission's (EC) science research funding through the Sixth

¹⁷⁰ Trade fair organisers in Belgrade, Bratislava, Budapest, Graz, Klagenfurt, Ljubljana, Munich, Novi Sad, Prague, Sarajevo, Vienna and Zagreb have joined forces to form the Central European Fair Alliance (CEFA). CEFA members work together in the areas of marketing and public relations, exchanging know-how and participating in joint training activities. In DFAT, Submission No 16, p 81.

¹⁷¹ DFAT, Submission No 16, p 81.

¹⁷² WADIR outlines a range of telecommunication activities in the Czech Republic, Hungary and Slovenia, WADIR, Submission No 20, p 28.

¹⁷³ DFAT, Submission No 16, p 82.

Research and Technological Development Framework Program (F6 program).¹⁷⁴

- 4.110 The Committee believes this provides another opportunity for Australia science research institutions to access overseas research expertise and funding, while again raising the profile of Australian research and education institutions in Central Europe. Recommendation 12 discusses further the issue of government support for EU access.

Recommendation 5

The Committee recommends DEST publicise and encourage collaborative links and research projects with counterpart institutions in Central Europe with a view to securing funding in the EC's F6 science research funding program.

E-commerce

- 4.111 Australia's high rankings in e-government readiness, e-business readiness, and high levels of business to consumer and business to business e-commerce, clearly positions it to export goods and expertise in these areas. This is especially so considering Europe's relatively slow take up of new technology and e-commerce.
- 4.112 There is however, little evidence of spontaneous trade in this area between Central Europe and Australia. WADIR lists several areas in which it sees opportunities: smart card technology, internet applications, multimedia systems, and hardware and software development.¹⁷⁵ DFAT and Austrade see similar potential but note the lack of current trade in the area.¹⁷⁶
- 4.113 Wireless telephony markets are growing dramatically in Central Europe. WADIR believes small niche Australian firms willing and able to partner with larger wireless hardware suppliers will be able to operate effectively in the region.¹⁷⁷
- 4.114 The Committee believes from the evidence and impressions from the visit to Central Europe, this is an area of great opportunity. Australia's leading position in these areas and the growing ITC

¹⁷⁴ DFAT, Submission No 16, p 82.

¹⁷⁵ WADIR, Submission No 20, p 29.

¹⁷⁶ Austrade, Submission No 18, p 18.

¹⁷⁷ WADIR, Submission No 20, p 29.

uptake in Central Europe supports the notion of a ‘market failure’ in this area (as discussed in Chapter 1). The failure is due to the lack of information on opportunities on both sides (discussed further in Chapter 6).

Health

- 4.115 DFAT explained that Australia has a strong track record of innovation and reform in health services delivery, developed over the last 20 years. As the Central European countries approach EU accession their health service delivery standards will have to be raised dramatically. The wave of reform in the sector has and will likely continue to need to import relevant expertise.¹⁷⁸
- 4.116 Australia’s Health Insurance Commission, a star performer in Central Europe, has found a strong market for its services, providing clients with a range of services including: health insurance implementation; health finance policy development; health data and health information business analysis; legislative advice; organisational development; information management; IT systems development; prescription management;¹⁷⁹ hospital restructuring;¹⁸⁰ administrative procedures; and training. DFAT stresses the success is likely to continue.¹⁸¹
- 4.117 Currently, HIC is undertaking projects in Bulgaria (health information standards project); Slovenia (adapting and improving the reimbursement sector in the health sector); and Croatia (reform of the pharmaceutical sector), all funded by the World Bank.¹⁸² Examples of HIC activities in Central Europe include:
- a Strategic Information Technology Plan to Support Social Security Reforms in Hungary (1990-91);
 - a Health Sector Financing Study in Romania (1997-98);
 - a Study of Fiscal Sustainability and Efficiency in the Health Sector in Slovenia (1999); and

¹⁷⁸ DFAT, Submission No 16, p 77.

¹⁷⁹ JSCFADT Visit to Central Europe Notes.

¹⁸⁰ JSCFADT Visit to Central Europe Notes.

¹⁸¹ DFAT, Submission No 16, p 77.

¹⁸² HIC, Submission No 13, p 2.

- and assessment of the organisational capacity of the Croatian Institute for Health Insurance (1994);¹⁸³

4.118 As the Central European countries grow economically and incomes rise (see Appendix E for import and consumption trends), demand for effective health care services will grow. Australia is well placed to capitalize on this demand by positioning itself well with Central European governments and the World Bank.

Financial services

- 4.119 Financial services is another area of potential for Australia exporters, as exemplified by Financial Network Services (FNS), a privately-owned Australian developer and supplier of banking services.¹⁸⁴
- 4.120 FNS was successful in 1998 in tendering for the supply of a banking system and associated services for the Slovenian-Government owned bank, Nova Ljubljanska Banka (NLB).
- 4.121 FNS now has as a customer the largest bank in the Balkans, with more than one million customers, and a domestic branch network of 15 regional branches and some 90 branches and agencies.

Investment opportunities

- 4.122 Total foreign direct investment (FDI) in the region in calendar year 2000 was US\$23.1 billion¹⁸⁵ (see Graph 4.3). Until recently, most FDI was concentrated in Poland (US\$14 billion 2001)¹⁸⁶ and the Czech Republic (US\$4.6 billion in 2000).¹⁸⁷ Hungary also received significant foreign investment flows (approximately US\$2 billion in 2000).¹⁸⁸ More recently, however, FDI has increased in countries such as Slovakia, Croatia and Bulgaria.¹⁸⁹
- 4.123 DFAT details that FDI in Central Europe, however, comes largely from West European countries. Germany, Austria, France and the

¹⁸³ DFAT, Submission No 16, p 78.

¹⁸⁴ DFAT, Submission No 16, p 76.

¹⁸⁵ This figure includes several Balkan and Baltic countries not included in this inquiry. DFAT, Submission No 16, p 62.

¹⁸⁶ Mr Zoladkiewicz, Transcript 19 February 2003, p 150.

¹⁸⁷ DFAT, Submission No 16, p 62.

¹⁸⁸ World Bank, World Development Indicators 2002.

¹⁸⁹ DFAT, Submission No 16, p 62.

Netherlands are by far the largest investors in the region, with investments concentrated in Poland, the Czech Republic and Hungary. Greece and Cyprus are the fourth and fifth largest investors in Bulgaria investing US\$313 and US\$230 million over the period 1992-2000. In addition to Austria, Germany and France, both Italy and Switzerland have invested over US\$100 million in Slovenia to date.¹⁹⁰

- 4.124 Australian investment in the region, though low, has picked up since the mid-1990s. Australian FDI in Poland, totalled A\$113.6 million at the end of 2001 and was concentrated in areas such as manufacturing, services, infrastructure and mining. In the Czech Republic, total Australian FDI in 2001 was A\$112 million, with Australian companies investing in information technology, industrial services, the health sector and entertainment.¹⁹¹
- 4.125 The Committee believes, from evidence taken during the course of the enquiry, that Central Europe provides very good opportunities for Australian investors. The following section covers the areas in which investment has already taken place and where opportunities are most prevalent.

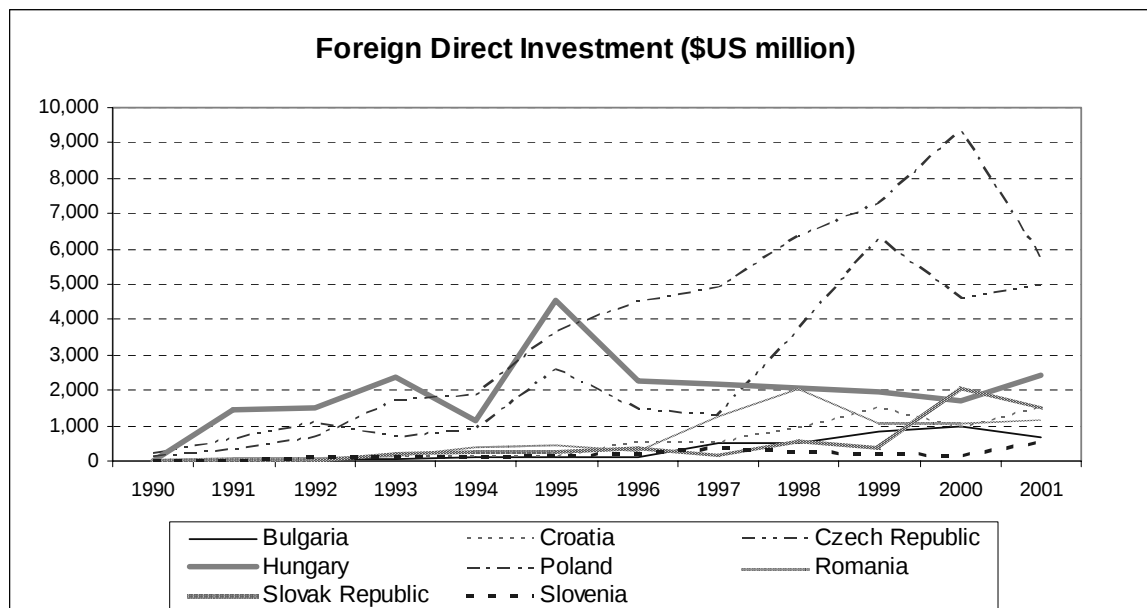
Note on trade and investment promotion agencies in Central Europe

- 4.126 Before detailing what investment opportunities have emerged during this inquiry, the Committee would like to highlight the effort Central European governments are putting into trade and investment promotion.
- 4.127 Several of this inquiry's subject countries have established trade and investment promotion agencies and a range of other incentive measures to attract trade and investment (see Appendix J for relevant websites).¹⁹² The Committee suggest that those considering pursuing opportunities in Central Europe should be aware of these facilities and utilize them where appropriate.

¹⁹⁰ DFAT, Submission No 16, p 62.

¹⁹¹ DFAT, Submission No 16, p 62.

¹⁹² Submission No 9 by the Embassy of Romania provides a comprehensive list of public entities due to be privatised as part of Romania's ongoing national privatisation and development plan. Various examples are included in the following section under relevant headings.

Graph 4.3 Foreign direct investment in Central Europe

Source World Bank, World Development Indicators

Financial Services

- 4.128 Australian financial service providers, particularly in the banking and insurance sectors, have the technology and systems to make an impact in Central Europe, and several have been active in the region in recent years.¹⁹³
- 4.129 Privatisation of the banking and finance sectors is already well underway in most of the Central European countries, and is likely to continue in the lead-up to EU accession.¹⁹⁴ Countries in the region have an awareness of Australia's successful privatisation experience in the sector, and opportunities should continue to arise.¹⁹⁵
- 4.130 DFAT believes Australian companies can benefit from securing a commercial foothold in the countries acceding *after* 2004, before they gain entry (probably 2007 for Bulgaria and Romania).¹⁹⁶ They also warn that prospective buyers should consider the adequacy of each market's prudential supervision regime. It is expected that this situation will improve after EU accession.¹⁹⁷

¹⁹³ DFAT, Submission No 16, p 76.

¹⁹⁴ DFAT, Submission No 16, p 76.

¹⁹⁵ Embassy of the Republic of Poland, Transcript, FADT 148.

¹⁹⁶ DFAT, Submission No 16, p 76.

¹⁹⁷ DFAT, Submission No 16, p 76.

- 4.131 QBE provides a good example of the financial services opportunities in Central Europe. Since 1997 the Australian firm QBE has expanded dramatically in Central Europe. It acquired part of Atlasz Insurance in Hungary, the Slovak Slovenska Investicna Poistovna (SIP), and a controlling interest in ADOR Makedonija of Madeconia. QBE's Central European operations now comprise offices in London, Budapest, Sofia, Kiev, Kosice, and Skopje.¹⁹⁸

Infrastructure

- 4.132 Central Europe's status as a transition region provides major investment opportunities in infrastructure.
- 4.133 Poland plans to privatise 17 power generation plants, 33 wholesale electrical power distributors and 19 power and heat generation plants. It also plans to dramatically upgrade its road system with EU and other foreign investment.¹⁹⁹
- 4.134 Slovenia is looking to privatise its energy sector and airports, and is working on attracting investment for a major upgrade to facilities at Port Koper, Slovenia's 'maritime window to the world'.²⁰⁰
- 4.135 The Croatian government's biggest oil and gas company INA will be privatised in the short term, as will the remainder of its mobile phone sector.²⁰¹
- 4.136 Planned major energy and gas projects in Romania require large investments.²⁰² Romania also has major plans to improve its environmental protection capabilities while upgrading its standards and regulation in anticipation of EU accession.²⁰³ The Romanian government also foresees the need for foreign investment in its plans to upgrade its road, rail (including urban subways), maritime and airport networks, and telecommunication systems.²⁰⁴

Property and tourism

- 4.137 Considering the growing economies and consumption of Central European economies tourism is likely to be a growth industry,

¹⁹⁸ DFAT, Submission No 16, p 76.

¹⁹⁹ Ambassador Wieclaw, Transcript 19 February 2003, p 149.

²⁰⁰ Mr Bertoneclj, Embassy of the Republic of Slovenia, Submission No 3, p20.

²⁰¹ Ambassador Ibler, Embassy of the Republic of Croatia, Transcript 19 February 2003, p 116.

²⁰² Embassy of Romania, Submission No 9, p 73.

²⁰³ Embassy of Romania, Submission No 9, p 76.

²⁰⁴ Embassy of Romania, Submission No 9, p 80.

reflected in the increasing numbers of Central European students undertaking tourism training in Australia (Chapter 4). In terms of investment opportunities though, Croatia appeared to offer the best opportunities.

- 4.138 Croatia's Adriatic coast provides great opportunities for Australian investors. The ports of Rijeka, Ploce and Split are trade 'free zones' in which Croatian Ambassador Ibler believes the processing of Australian sheep and beef imports could occur. Such a 'free zone processing' arrangement exists and provides a good model for other Australian exporters and investors.²⁰⁵
- 4.139 Croatia's history with tourism to the Adriatic Coast also provides opportunities for investment in tourism and related activities. Croatia's natural assets need foreign investment and expertise to attract high value (or high spending) tourists. Australian investors have already bought into hotels in this area and the Croatian government is working to encourage the development of golf courses in the area.²⁰⁶ Ambassador Ibler cited the 'Billabong' bar as a good example of Australian entrepreneurial spirit and Croatian opportunities coinciding for mutual benefit.²⁰⁷

Agribusiness

- 4.140 The only country in which agribusiness appeared to offer investment opportunities was Romania. The Romanian Embassy detailed Romania's major plans to develop its agriculture, an area in which Australia is traditionally very strong. The development plans include: procuring and developing irrigation equipment; rehabilitating land; upgrading industry structures; developing agricultural tourism; reforestation of degraded land; developing animal husbandry; developing the food industry; land reclamation; jointly developing agricultural technology; and agriculture infrastructure projects.²⁰⁸

Manufacturing

- 4.141 Several Australians companies have already successfully invested in several countries of Central Europe in different sectors, such as

²⁰⁵ Ambassador Ibler, Embassy of the Republic of Croatia, Transcript 19 February 2003, p 117.

²⁰⁶ Ambassador Ibler, Embassy of the Republic of Croatia, Transcript 19 February 2003, p 117.

²⁰⁷ Ambassador Ibler, Embassy of the Republic of Croatia, Transcript 19 February 2003, p 118.

²⁰⁸ Embassy of Romania, Submission No 9, p 75.

Amcor Polska in Poland, Lajovic Tuba Embalaza in Slovenia and Cochlear in the Czech Republic.²⁰⁹

- 4.142 In the case of Poland, Ambassador Wieclaw pointed out that 25 or 29 industrial enterprises in the defence and armaments production sector will be privatised, in an effort to upgrade technology in anticipation of having to meet NATO standards (to which Australia already complies).²¹⁰
- 4.143 Poland is also working towards privatising parts of the aircraft and motor vehicle industries. Four of the largest Polish chemical plants are seeking international investors.²¹¹

Mining and minerals sector

- 4.144 In terms of investment opportunities in the mining and minerals sector, prospecting and extraction are constrained by depleting resources and outdated equipment.²¹² As a consequence, the region is not a priority market for the larger Australian corporations focused on minerals extraction.²¹³
- 4.145 The Australian mining industry also took a blow to its image in Central Europe in recent years,²¹⁴ when an Australian-Romanian joint venture mining company (Aural Gold Mine) spilled cyanide into the Tisza River in early 2000.²¹⁵ The Australian government has worked to overcome this by instituting a voluntary Minerals Industry Code for Environmental Management. Australia has also been actively engaged with industry and the United Nations Environment Programme in the development of an International Cyanide Management Code.
- 4.146 The Romanian government plans a major rejuvenation of aspects of the mining industry, including mines, commercial structures of mines and the rehabilitation of degraded land.²¹⁶

²⁰⁹ JSCFADT Visit to Central Europe Notes.

²¹⁰ Ambassador Wieclaw, Transcript 19 February 2003, p 149.

²¹¹ Ambassador Wieclaw, Transcript 19 February 2003, p 149.

²¹² DFAT, Submission No 16, p 84.

²¹³ DFAT, Submission No 16, p 84.

²¹⁴ DFAT, Submission No 16, p 84.

²¹⁵ <http://www.zpok.hu/cyanide/baiamare/News/austfeb10.htm>

²¹⁶ Embassy of Romania, Submission No 9, p 74.

Central Europe visit

Introduction

- 5.1 In April 2003 the Trade Sub-Committee travelled to Central Europe to learn first hand how Australia's trade and investment relationship with the relevant countries could be enhanced.
- 5.2 The group participated in a full and comprehensive program of briefings and meetings with Australian officials and business people, and host country business people, Government officials and parliamentarians.
- 5.3 The group visited Poland, Hungary and the Czech Republic. It then split into two, with one group going to Romania and Bulgaria, the other going to Slovakia, Croatia and Slovenia.
- 5.4 This chapter will briefly overview impressions from the whole trip, then impressions for each country.
- 5.5 The Committee's observations accord with much of the evidence received during the course of the inquiry. While all evidence, including evidence from the visit, is incorporated into the whole report, this section briefly covers particular issues and observations emerging from the visits to each country. The section draws heavily on the official notes of the visit and the personal notes of Committee members involved in the visit.

Australian diplomatic posts in Central Europe

- 5.6 Australian diplomatic posts in Central Europe are in:²¹⁷
- ⇒ Athens (covering Bulgaria)
 - ⇒ Belgrade (covering Romania)
 - ⇒ Budapest (Hungary)
 - ⇒ Vienna (covering Slovakia and Slovenia)
 - ⇒ Warsaw (covering Poland and the Czech Republic)
 - ⇒ Zagreb (covering Croatia)
- 5.7 Australian honorary consuls are in:
- ⇒ Ljubljana (Slovenia)
 - ⇒ Prague (Czech Republic)
 - ⇒ Sofia (Bulgaria)

Overview

- 5.8 When the Committee began its investigations into the trade and investment opportunities in Central Europe there was a view that the opportunities would be limited and that the countries would still be constrained by bureaucracy and central economic planning. Instead the Committee was very impressed with the degree to which these countries had embraced the free market.
- 5.9 The level of economic growth in these countries since the end of the communist era in 1990, the extent of foreign direct investment and the major privatisation programmes all indicated significant trade and investment opportunities for Australia.
- 5.10 While Australian traders and investors in Central Europe encountered during the visit recounted stories of some frustration with bureaucracy, their comments were overwhelmingly positive. From major organisations such as AMCOR, Bovis Lend Lease, QBE Insurance, Cojo Group, Village Road Show, and Harvey Norman to the smaller operations such as the Cheesecake Shops, Cochlear Implants and Health Service consultants the reaction was similar. These companies saw considerable opportunities, some delays in

²¹⁷ DFAT, Submission No 16, p 87.

dealing with government, but rewards for Australian companies doing the groundwork in these economies in transition.

5.11 While obviously there are limitations in some market areas with the accession of these countries to the EU, it is believed that in the long run there are greater opportunities for Australian exporters. The reasons for this were:

- The flow of EU infrastructure funding which would begin following accession in May 2004
- The ability of Central European companies to appeal to a wider market
- The likelihood of further FDI funds going into manufacturing plants as a result of EU access
- The pressure from Brussels for compliance in relation to environmental regulations, judicial reforms and anti-corruption requirements
- The growth of a consuming middle class

5.12 The Committee was impressed with the number of young professionals encountered during the program who were running Government organisations, attracting investment and overseeing structural change. Organisations such as Czech Invest would rival investment promotions bodies located in more developed western countries. There was great enthusiasm for the task and the challenge of the economic and structural changes required. It is commonly believed that the relatively freer markets of the Central European countries pre-transition - such as the Czech Republic, Hungary and Slovenia - allowed these economies to respond well to the changes required.

5.13 While all the countries represent real opportunities for Australian traders and investors, the visit left the impression on the Committee that the economies of Poland, the Czech Republic, Hungary and Slovenia have achieved the most progress in economic growth in the last 20 years.

5.14 This march to enter the EU has been a driving force in reforming their economies. Slovakia in the last few years has moved aggressively to catch up to other Central Europe countries and has successfully attracted some major investment particularly in the auto industry (Citroen).

- 5.15 The committee noted the extent to which countries were competing against one another in the same manner as the Sunbelt States in the USA in the 1970s and 1980s. The trend in Central Europe is towards lower tax rates, especial corporate tax rates. In Hungary the corporate tax rate is 18% and in Slovakia it is 20%. In fact the Slovakian Parliament has before it legislation that would reduce tax rates to 20% corporate, 20% personal (flat), and 20% VAT. See Appendix K for a summary of corporate tax rates for a range of countries.
- 5.16 Despite the central planning backgrounds of these countries labour reform has moved significantly. Union membership is relatively low (30% on average) and individually negotiated contracts, rather than centralised wage fixing, appear to be common. Company managers reported on the strong work ethic, reliability and flexibility of the work force in Central Europe which are obviously important factors in attracting foreign investment. The head of the Goodyear manufacturing plant based in Ljubljana, Slovenia noted that in his experience employing in Slovenia it was like “employing German workers at half the price.”
- 5.17 The level of education and training is high and fluency in English is growing rapidly with English being taught universally. (Replacing Russian and German).
- 5.18 In summary, the impression left with the Committee was that Central European countries visited are undergoing major structural and economic change. They will undoubtedly be a new force in the expanded EU and can be expected to challenge existing EU regulations and approaches. The countries while having strong links with Europe particularly Germany and Austria are also developing strong economic links with the USA.
- 5.19 Trade opportunities in the countries visited in Central Europe cover a wide spectrum. In particular the fact that Central Europe is restructuring bureaucracies more reminiscent of Australia in the 50’s represents great opportunities in relation to our Government: land titling, medical and health services and consulting as well as social welfare structuring. Funding for structural reform in these countries is expected to come from both EU and World Bank sources.
- 5.20 Other opportunities relate to agribusiness given the size of the farming sector and the need for reform; environmental equipment and consulting (again with EU funding); educational exports with currently 3,100 students coming from Central Europe to Australia to study, sporting equipment and hospitality and tourism (both

education and training). The inadequate transport infrastructure in these countries also provides opportunities in areas such as toll-road construction.

- 5.21 The rapid growth of a middle class provides opportunities across a wide range of consumer products, particularly gourmet foods, wine and other food products (depending on EU restrictions). Shopping centres have developed quickly over the last 10 years and a walk through an average shopping mall shows the rapidly developing taste for all things western.

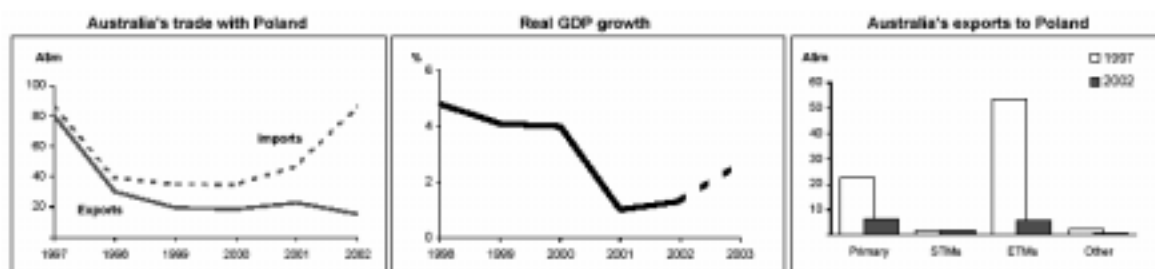
Poland

Key indicators

Population (million)	38.3	GDP per capita	US\$ 5498
Economic overview (YEAR) as % of GDP	Services 63.4 Industry 32.8 Agriculture 3.8	GDP trend growth (%)	2.7 (2003)

Australia's major exports and imports

Australia's Major Exports (2001)	A\$ m	Australia's Major Imports (2001)	A\$ m
telecommunication equipment	27.9	Furniture	5.9
Wool	5.8	electrical machinery	5.7
Leather	3.2	Glassware	4.9
zinc ore and concentrates	3.0	rubber tyres	1.7
Machinery and other mechanical equipment	2.0	prepared seafood	1.7



Meeting Program in Poland

- 5.22 The Committee spent two days in Poland. The visit program started with Australia's ambassador to Poland Mr Patrick Lawless briefing the group on the morning of 7 April. Meetings over the two days incorporated: the European Bank for Reconstruction and Development (EBRD); a roundtable meeting with Australian and Polish business people, followed by a lunch meeting with a larger group of business people and officials. In the afternoon the Committee met with the Polish Business Centre Club and members of the Polish parliament.
- 5.23 Day two of the visit saw the Committee meet with Amcor Rentsch executives and tour their facilities outside Warsaw.

Emerging issues and observations

- 5.24 Poland in many ways represents greater long term opportunities than any of the other countries visited. This is premised on its population

size (twice that of Australia), the largest of any of the countries visited.

- 5.25 Australian companies are well represented in Poland across a diverse number of activities. These range from AMCOR which has the largest investment of any Australian company in Central Europe, Bovis Lend Lease, the Cheesecake Shop and a number of small importers and service providers including Warsaw branches of Australian legal and accounting firms.
- 5.26 Poland has particular challenges in relation to the high level of unemployment (currently 27%) and the high numbers employed in the agricultural sector. About half of agricultural workers are subsistence farmers who basically only support themselves and their families.²¹⁸ Undoubtedly EU accession will lead to major reform of this sector. Petty corruption and some inflexibility in bureaucracy were commented on by Australian companies represented in Warsaw.
- 5.27 Opportunities exist in relation to e-government, land titling, educational and medical services general consulting services and hospitality and training.
- 5.28 The private sector has developed strongly and the business community provides a direct input into Government lobbying. The extent of private foreign investment in Poland has impacted on the business community in Poland and resulted in progressive reform of both the bureaucracy and structural issues in the economy.
- 5.29 In its visit to the AMCOR plant in Wosz, the Committee was impressed with the success of the plant, the largest Australian investment in Central Europe, the degree of satisfaction by AMCOR executives in negotiating with state and local bureaucrats and the taxation arrangement achieved. Also noted was the need for better road infrastructure between Warsaw and Wosz, perhaps providing opportunities for Australian infrastructure companies.
- 5.30 In summary Poland represents significant trade and investment opportunities for Australian companies, despite problems of some structural inflexibility in the economy.

²¹⁸ Economist Intelligence Unit: http://db.eiu.com/client_access.asp

Trade and investment opportunities

Trade

- 5.31 Australia's major trading partners in Poland include: infrastructure and project management group Bovis Lend Lease; and bionic ear manufacturer Cochlear.
- 5.32 Sectors in which DFAT sees Poland providing export potential include: wine, foodstuffs, meat, sheepskins, processed leather, education, ITC (especially software for managing assets and providing logistical back-up) and waste management technology.
- 5.33 Evidence of an emerging middle class and growing wealth in Poland was seen in the increasing demand for educational services and the population's ability to study overseas. Polish demand for Australian education has grown dramatically in recent years and is now the third largest market for education services, after the Czech and Slovak Republics.
- 5.34 The Australian business representatives, including Ernst &Young, Bovis Lend Lease, Spatial Cadastral Systems and The Cheesecake Shop, gave a generally optimistic appraisal of their experiences in conducting their respective businesses in Poland. According to the representative from Denton Corker Marshall (architects), there is 'terrific potential in Poland'. It was suggested that Australian firms wanting to operate in the country need to be 'proactive', 'learn the rules' and 'get to know how things are done locally'.
- 5.35 The representative from Spatial Cadastral Systems suggested that foreign companies needed to be prepared to work with Polish companies as joint partners. Amcor Polska indicated that Poland's entry into the EU presented a big opportunity, particularly in regard to picking up business in the EU.

Investment

- 5.36 Amcor Polska is Australia's largest investment activity in Poland. It has invested in a plant which packages food, cosmetics and cigarettes. Other investors include Ernst &Young, Bovis Lend Lease, Spatial Cadastral Systems and The Cheesecake Shop.
- 5.37 Areas which DFAT identify as providing good investment opportunities include: road smart technologies, transport and port

handing, environment (land rehabilitation, clean coal technologies, and renewable sources of energy).

- 5.38 The Business Centre Club stressed that Australian companies should aim to establish themselves in Poland prior to accession so that they can then enter the EU as a 'European company'. Although it might be too late for companies to realistically do this in Poland or other acceding countries now, this advice is worthwhile for those subject countries acceding in 2007 and after (Bulgaria, Romania and Croatia).
- 5.39 This important message was reiterated in most of the countries visited by the Committee.

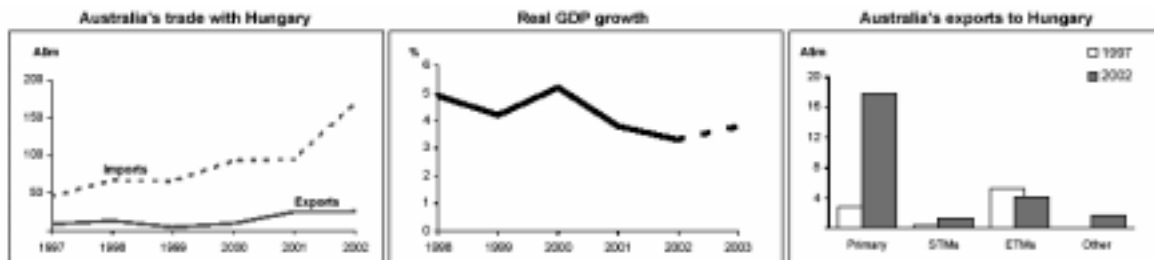
Hungary

Key indicators

Population (million)	10.1	GDP per capita	US\$ 8380 (2003)
Economic Overview (2001 as % of GDP)	Services 62.4 Industry 27.1 Agriculture 4.2	GDP trend growth (%)	3.8 (2003)

Australia's major exports and imports

Australia's Major Exports (2001-02):	A\$ m	Australia's Major Imports (2001-02):	A\$ m
Wool	9.9	Toys, games and sporting goods	68
Insecticides, herbicides	1.1	Computers	24
Measuring and controlling equipment	0.4	Motor vehicle parts	14
Pumps for liquids	0.63	Electrical machinery	13
Perfumery and cosmetics	0.29	Nitrogen-function compounds	5.2
Specialised machinery	0.26	Rubber tyres	3.2



Meeting Program in Hungary

- 5.40 The Committee spent two days in Hungary. On 9 April after an initial briefing with Ambassador Leo Cruise, the Committee met with the Hungarian Parliamentary Committee on Economic Affairs followed by a lunch meeting with several Hungarian members of parliament. In the afternoon the Committee met with representatives of the Hungarian Employers and Industrialists Association. In the evening the Committee attended a reception at the Ambassador's residence along with various Hungarian dignitaries including the Deputy Foreign Minister. Day two saw the Committee meet with the Trade Division of the Hungarian Foreign Ministry and the Hungarian Chamber of Commerce and Industry.

Emerging issues and observations

- 5.41 Hungary has been one of the fastest growing economies in Central Europe since the fall of the communist government in the early 1990s. Hungary was in fact the number one Central European economy in terms of foreign direct investment for the first half of the 1990s. Currently private capital accounts for 80% of the economy.
- 5.42 In 2003, just under 4% economic growth is forecast for Hungary. The Hungarian economy has been undergoing fundamental reform for the past 12 years. Former Easter Bloc countries represented 50% of Hungarian trade in 1990, but with the fall of communism led to the collapse of socialist heavy industry in Hungary. The share of Soviet trade in the communist period was 30%, and now it is less than 2%.
- 5.43 Since that time there has been US \$25 billion in foreign direct investment. Hungary now has a US \$4.5 billion trade surplus with the EU. At the end of the 1980s Hungary's trade volume was US \$6.5 billion but by 2002 it was US \$36 billion. Part of the reason for the success in seeking foreign investment is the competitive advantage of Hungary's wage level, which is approximately 1/6 of Australia's wage levels. There are concerns within Hungary that this advantage will shift to the Ukraine and Romania where wage levels are respectively 1/10 and ¼ the wage level of Hungary. China is also attracting significant new investment in industries where Hungary was previously competitive.
- 5.44 The reasons given by the Hungarian foreign office for the level of foreign investment were:
- Stability
 - Liberalisation of corporate law
 - Bi-lateral trade agreements
 - Level of corporate tax, which at 18% is the lowest in Central Europe
 - The level of Hungarian education
 - The competitive salary levels
 - The English language capability of Hungarian graduates

- 5.45 In the early 1990s Hungary was the leader in foreign investments. In the second half of the 1990s investors discovered Poland and in the last 3 years the Czech Republic has been gaining on Poland.
- 5.46 Productivity growth in Hungary for the last few years has been greater than 10%. Last year growth was 3.5%. The stated aim of Hungary is to lead economic growth in the former Easter Bloc. Investment promotion has been particularly targeted to the electronic and car manufacturing industries.
- 5.47 The challenges for Hungary with EU accession are related to infrastructure, particularly railways and highways, the need to upgrade IT capability and capital access.
- 5.48 Unions in Hungary have seen a decline in their role over the 12 years of transition. During this period the economy has not been substantially affected by strikes.
- 5.49 In this rapidly growing economy opportunities are obvious for Australian companies both for export and investment. The strong presence in Australia of migrants from Hungary contributes to Australia's image, and access in this country. Opportunities exist for e-government providers, operatives in the tourism industry, environmental sector, infrastructure providers particularly in relation to road and railways, and educational institutes seeking offshore students. The environmental equipment relates to water purification, sewage systems and air pollution.
- 5.50 The Committee considers that Australia's representation is insufficiently focused on taking advantage of emerging trade and investment opportunities, particularly in regard to Hungary's impending accession to the EU. The Committee believes therefore, that a more dynamic and strengthened trade and business focus would enhance Australia's trade and investment relationship with Hungary.

Recommendation 6

The Committee recommends that Austrade strengthen Australia's trade representation in Hungary.

Trade and investment opportunities

Trade

- 5.51 Australia's major trading partners in Hungary include: Cochlear, the supplier of ear implants; Jurox, a veterinary products supplier; wool supplier GH Michell; Griffiths and Beerens chainsaw manufactures; and timber floorboard suppliers, Boral.
- 5.52 Infrastructure development was clearly an issue for Hungary. Road and rail infrastructure, and information technology were all areas in which Hungary needed to invest to lift its economic potential, providing potential for Australian expertise and exporters.
- 5.53 Tourism, an area in which Australia has much expertise, is likely to experience considerable growth in Hungary in coming years, according to the EBRD. Australia's experience in the area, coupled with our highly developed education and VET sector is well placed to capitalize on this expected growth.
- 5.54 Hungary still has some way to go before accession in meeting EU environmental standards. Australia's comparative strength in the field of environmental management places Australian firms well to exploit this opportunity. It was suggested to the Committee by the Hungarian Parliamentary Committee on Economic Affairs that Australian companies wanting to win environment business will need to set up in Hungary to have a chance of achieving significant results.
- 5.55 Hungary's agricultural production was considered efficient by world standards, having once been part of the Cairns group of nations within the WTO. Consequently Hungary was likely to be pushing for reform of the CAP once it accedes to the EU. Common interests in this regard might prove useful for relations in the future.
- 5.56 The Foreign Ministry indicated that IT is well developed in Hungary and that Hungarian IT companies are very competitive with a strong export focus. It was suggested that IT and administration (e-business and e-government) were opportunities for service sector investments.

Investment

- 5.57 There are four major Australian investors in Hungary: QBE in insurance; car headlight manufacturer Hell-Stanley Holding Pty Ltd; compact disk case manufacturer Proloc Central and Eastern Europe; and accommodation provider Sydney Apartment Hotel.
- 5.58 As was the case in other countries in the region, the Hungarian Parliamentary Committee on Economic Affairs stressed the importance of foreign businesses investing in Hungary prior to accession to the EU. In the case of agricultural products, it was indicated to the Committee that there will not be much scope to offer Australia special access after Hungary's accession to the EU.

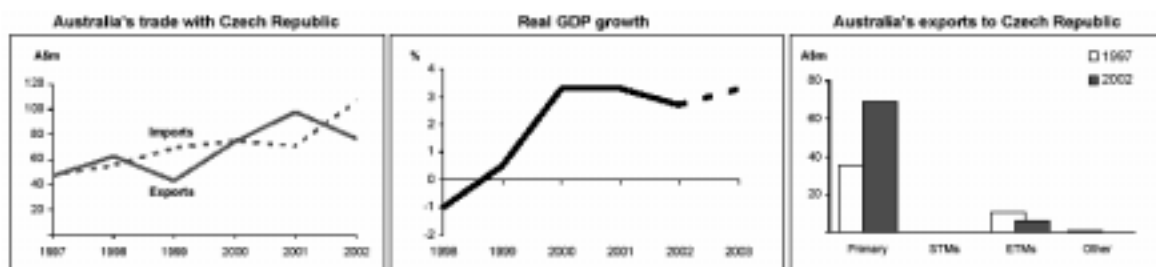
Czech Republic

Key indicators

Population (million)	10.3	GDP per capita	A\$ 9150 (2003)
Economic overview as % of GDP	Services 58.0 Industry 30.2 Agriculture 3.8	GDP trend growth (%)	3.3 (2003)

Australia's major exports and imports

Australia's Major Exports (2001)	\$ m	Australia's Major Imports (2001)	\$ m
wool	82.5	Glassware	6.6
medicaments (including veterinary)	4.2	Tractors	4.3
other food products	3.4	computer parts	4.1
confidential items	1.6	wood simply worked	3.4
machinery and transport equipment	1.1	organo-inorganic compounds	3.2



Meeting Program in the Czech Republic

- 5.59 The Committee had one full working day in the Czech Republic. After an early breakfast meeting with Ambassador Patrick Lawless and Petr Vodvarka of Austrade, the group met with the Prague office of the EBRD, followed by a meeting with Australian companies in Prague and Czech importers of Australia products. Members of the Czech Chamber of Deputies hosted a lunch meeting for the group, which was followed by meetings with the Chamber's Economic Affairs and Foreign Affairs committees. In the evening the Committee met with senior officials from the Czech Republic's 'one stop shop' investment agency Czech Invest.

Emerging issues and observations

- 5.60 The Committee was most impressed by the visit to the Czech Republic. Czech Invest was the most notable of the investment promotion agencies who presented to the Committee during the visit

to Central Europe. Young, dynamic and articulate, the officers of Czech Invest provided an outstanding presentation on the achievements of the Czech Republic since democratisation and liberalisation began in the early 90's.

- 5.61 The track record of the Czech Republic in relation to foreign direct investment has been dramatic. In fact since the passing of the former Eastern Bloc, the Czech Republic has attracted over \$50 billion in foreign direct investment.²¹⁹ In the last year alone FDI has totalled US \$8.4 billion which was double that of Poland.²²⁰ The major areas of investment are financial services, transport, communication, automotive and electronics. In the automotive sector the joint venture with Toyota / Peugeot is worth \$1.5 billion.²²¹
- 5.62 Surveys of companies which have invested in the Czech Republic report their reasons for investment are (in descending order): an inexpensive workforce; an educated and skilled workforce; good investment incentives; geographic location; stability of environment; available workforce; and generally low costs. The only negative on the surveys indicated that the investing companies found the bureaucracy more cumbersome than expected.²²²
- 5.63 In terms of key indicators investment and trade variables, the Committee learned that the level of corporate taxation in the Czech Republic in 1995 was 46%, but was now 36%. In 2005-06 the government plans to reduce it by a further 3%. The average wage in the Czech Republic is less than US\$500 per month. Approximately 15–18% of the workforce has a tertiary qualification, and traditionally these are concentrated in the information technology and engineering areas.
- 5.64 Czech Invest provides investment incentives in a number of areas including: tax incentives, job creation grants, training and retraining grants, and land transfer at marginal prices. Incentives can provide up to 50% of the total cost of the project. And in the Czech Republic, unlike Poland, economic incentives are not apportioned by economic zone, but can be received in any part of the country.
- 5.65 The strong impression the Czech Republic left with the delegation was that it was the leading transition country in Central Europe. This

²¹⁹ JSCFADT Visit to Central Europe Notes.

²²⁰ Mr Robert Hejzák, Czech Invest, JSCFADT Visit to Central Europe Notes.

²²¹ JSCFADT Visit to Central Europe Notes.

²²² JSCFADT Visit to Central Europe Notes.

lead, on several criteria, and the Czech Republic's geographic position suggests that it will be the dominant economic power in the region. A number of Australian companies such as Brambles and Cochlear have experienced great success in the Czech Republic.

- 5.66 The Committee believes that Australia should capitalize on the Czech Republic's progress by strengthening its representation in Prague. The Committee believes establishing an embassy in Prague will lift Australia's profile in the region and enhance Australia's trade and investment activity in Central Europe.

Recommendation 7

Because of the prominence of the Czech Republic in Central Europe, the Committee recommends the re-establishment of an embassy in Prague, to raise Australia's profile and enhance Australian trade and investment activity in the region.

Trade and investment opportunities

Trade

- 5.67 There are currently several major Australian exporters working in the Czech Republic: Mincom is supplying software to the mining industry and public utilities; Brambles is supplying and servicing forklifts in various sectors; and Cochlear is supplying ear implants.
- 5.68 The Committee believes the best opportunities for Australia are in IT, agri-business, consumer goods and education. There are approximately 1,500 Czechs who come to Australia for tertiary study making it Australia's primary sources of education exports in Central Europe. The preferred disciplines are hospitality, IT and commerce related courses.
- 5.69 Education agents in Prague believe there are areas of improvement needed to assist the development of the education market. These are:
- ⇒ Recognition of Czech universities to enable students to do part of their degrees in Czechoslovakia.
 - ⇒ Simplification of student visa applications. The visa processing issue is discussed in Chapter 4. It also currently takes 8–12 months for student visas to be issued.
- 5.70 In the agri-business sector, wool represents 70% of exports from Australia. Meat, especially beef, veal and lamb are all exported from

Australia. Australian game meat – kangaroo, donkey, crocodile, ostrich and quail - have also established a small market in the Czech Republic. There are currently 15–20 Australian wines on the market served at restaurants and available in supermarkets.

- 5.71 Other markets of interest are lamb, natural cosmetics, hospitality and tourism. Prague has become a major tourism capital with over 8 million visitors annually, staying on average 3 days.
- 5.72 The Committee was impressed with the scale of the automotive industry in the Czech Republic. The Czech Republic is clearly a hub of European automotive engineering, producing half a million cars annually. The existence of this mature industry might be able to provide Australia with some opportunities in terms of automotive parts – an area in which Australia is strong. An Australian firm is currently negotiating the supply of leather for car seats for Czech manufacturer Skoda.
- 5.73 Rising disposable incomes also mean there is an increasing demand for health care services. Again Australia is a world leader in health care reform providing opportunities to sell expertise in this area.
- 5.74 One particular example stems from Cochlear’s success in the Czech Republic. Cochlear believes the Czech health system is in need of a range of improved health provision systems, like the early detection of hearing disorders – an area in which Cochlear dominates.

Investment

- 5.75 Major investments in the Czech Republic include Village Cinemas, and Seabird Aviation, which is undertaking a major joint venture with a Czech aviation company.
- 5.76 DFAT assesses investment opportunities to exist in: the energy sector; infrastructure (road and rail construction, particularly after the floods of late 2002); coal gasification; IT, smart card applications; automatic industry; wine; meat; and education.

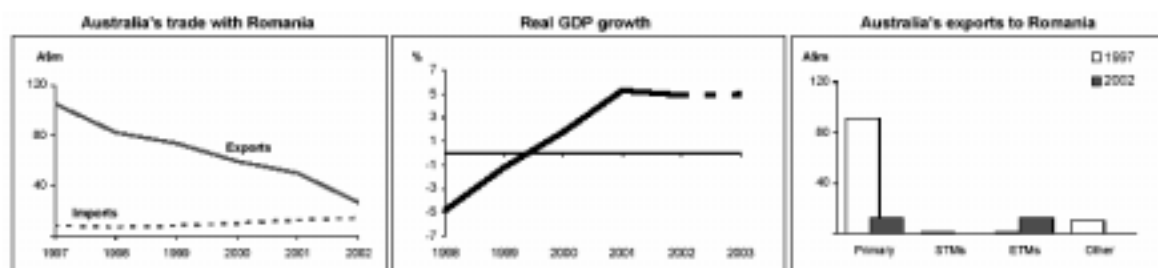
Romania

Key indicators

Population (million)	22.1	GDP per capita	US\$ 2420 (2003)
Economic Overview (2000) as % of GDP	Services 45.5 Industry 27.6 Agriculture 11.4	GDP trend growth (%)	5 (2003)

Australia's major exports and imports

Australia's Major Exports (2001)	A\$m	Australia's Major Imports (2001)	A\$m
Coal	13	Clothing	3
Iron ore	11	Footwear	11
Other ores	9	Taps, cocks, valves	1
Plastic plate, sheet, film and strip	5	Furniture	1
Specialized machinery	1	Toys, games, sporting goods	1



Meeting Program in Romania

- 5.77 The group that visited Bulgaria and Romania comprised Senator Alan Ferguson, Senator Alan Eggleston and David Hawker MP.
- 5.78 The program in Romania comprised two full days. On the morning of April 14 the group met with the Deputy Minister of Public Works, Transport and Housing, the Foreign Affairs Minister and officials from the Ministry of Foreign Trade. The Chair of the Foreign Affairs Committee of the Romanian Parliament hosted a lunch meeting for the group. In the afternoon the group met with the Minister for Communications and IT. The Committee also held a roundtable meeting with Australian business people.
- 5.79 On Tuesday 15 April the Committee met with Romanian Parliamentarians, including the President of the Committee for Economic Policy Reform and Privatisation, the Head of the Romania-

Australia Friendship Group, the Vice President of the Committee of Budget and the head of the IT Committee. This was followed by meetings with the First Vice-Governor of the National Bank of Romania, and the Romanian Prime-Minister, Mr Adrian Nastase

Emerging issues and observations

- 5.80 The Committee observed that transition in Romania seemed to be moving marginally slower than in some of the other Central European countries although growth was very strong. Romania was not due to accede in 2004 although preparations were clearly on track for a 2007 accession.
- 5.81 Australian businesses in Romania, such as Transgold, Securancy, PriceWaterhouseCoopers and Comtim,²²³ provided a positive perception of the business environment in Romania. They indicated that they had not encountered any significant corruption. Comtim in particular highlighted opportunities in the agriculture sector and also in environment.
- 5.82 Government representatives sought to assure the Committee that Romania's economic fundamentals were sound and consistently improving. Growth is clearly strong but inflation and unemployment had not been reduced as much as hoped. The Committee acknowledged however, that Romania's larger population and potential balanced some of the difficulties.

Trade and investment opportunities

Trade

- 5.83 An opportunity is available to Australian producers in Bulgaria, Romania and Croatia with regard to the CAP. Any trade developed before accession with these three countries will increase Australia's export quotas upon accession. Thus these three countries provide good opportunities in agriculture.
- 5.84 However, there were some difficulties in this area. As was the case in Poland, Romanian agriculture remains an unreformed sector employing a large proportion of the workforce. It was on the

²²³ Comtim had been a major state owned enterprise which has been successfully privatised and bought into by Australia investors.

government's reform list but had to date been a politically difficult sector to reform.

- 5.85 Another area due for reform was public administration. The bureaucracy was relatively unreformed and inward looking. Commitments by the Romanian government to reform the public sector may provide opportunities to export Australia expertise in these areas.

Investment

- 5.86 Australia's main investment activities in Romania include: a joint gold-mining venture by Esmerelda with a local firm; an investment in a Bucharest Business Centre by Australian firm Forum, and agribusiness investments by APT in genetics, wool and grains.
- 5.87 One outstanding example of successful Australian investment in Central Europe is Romania's biggest pig farming venture, Cojo Group of Melbourne. Over a very short period Cojo Group has become Romania's largest pork producer supplying roughly a third of the Romanian market.
- 5.88 DFAT sees additional trade and investment opportunities in food and agribusiness; infrastructure; IT and energy; and services. The Committee was also made aware of opportunities in the minerals sector, particularly iron ore and mineral sands.
- 5.89 As was the case in other countries visited by the Committee, Australian investors were advised to enter the Romanian market before accession. Officials from the Ministry of Foreign Trade suggested that Romania's late accession to the EU presents an opportunity for Australian business to establish and develop investments in Romania now and enter the EU in three to five years time.
- 5.90 Romania is planning massive improvements to its transport infrastructure much of which will involve private/public partnerships. There was to be investment in three major European transport corridors that run through Romania:
- Corridor No.4 from the Black Sea Coast to Western Europe
 - Corridor No.9 from Bulgaria/Turkey/Greece to Eastern Europe; and
 - Corridor No.7 from the Black Sea Channel to the Port of Rotterdam.

- 5.91 Therefore investment will be sought in road, rail, aviation, water and urban transport infrastructure. The scale of the investments involved is significant, for example the Railway Corridor 4 upgrade required an investment of \$US 4 billion. The Romanian government will also pursue investment in large scale housing projects. Assurances were given to the group that local investment will not be favoured over foreign investment and that all government projects are open to Australian companies through the government's tender process.

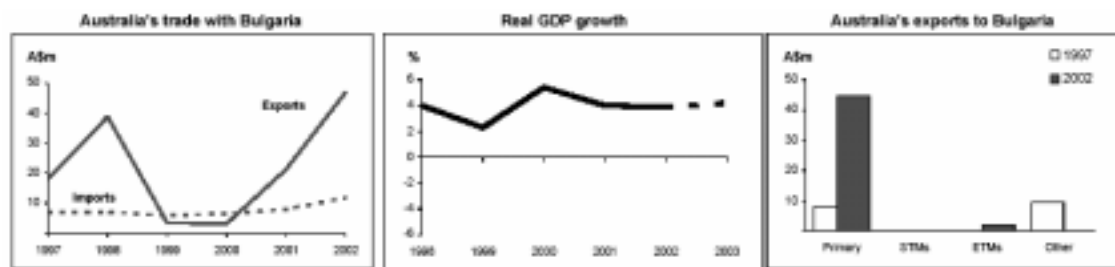
Bulgaria

Key indicators

Population (million)	7.9	GDP per capita	US\$ 2675 (2003)
Economic overview (2001) as % of GDP	agriculture: 14% industry: 29% services: 58%	GDP trend growth (%)	4.2 (2003)

Australia's major exports and imports

Australia's Major Exports (2001)	A\$ m	Australia's Major Imports (2001)	A\$ m
Coal	32	Cheese and curd	5
Wool	12	Preserved fruit and preparations	1
Woven cotton fabrics	1	Clothing	1
Rawhides and skins (except furs)	1	Power generating machinery	1



Meeting Program in Bulgaria

- 5.92 The group (Mr Hawker MP and Senators Eggelstone and Ferguson) spent two days in Sofia. April 16 involved meetings with the Minister of State Administration, the Chairman of Kremikovtzi Corporation and the Deputy Minister for the Economy. A working lunch was held with representatives of the Australian and international business community. A dinner in honour of the visit was hosted in the evening by the Deputy Minister for Foreign Affairs.
- 5.93 On April 17 the group met with the Chairman of the Bulgarian Foreign Investment Agency, the Deputy Chairman of the Bulgarian National Assembly, the Chairman of the Economic Policy Committee and the Deputy Minister for Agriculture and Forestry.

Emerging issues and observations

- 5.94 One initial observation of the group was that Bulgarian links with the UK were quite strong.

- 5.95 Bulgaria has made substantial efforts to attract foreign investment in recent years and has introduced a competitive company tax regime. Its company tax rate has dropped from 35% to 20.5% and is likely to be reduced to 15%. VAT is 20%. And the government is also considering tax holidays targeted to promote certain industries, like tourism. In terms of fiscal fundamentals, Bulgaria has the lowest budget deficit in the region, which gives it some flexibility in its transition.
- 5.96 Bulgaria's Foreign Investment Agency was to become a 'one stop shop' investment agency similar to Czech Invest, to assist foreign investors (see Appendix J for website addresses). The Committee noted the talented leadership of the agency in the form of its chairman, Mr Pavel Ezekiev, and believe his leadership augers well for Bulgaria's future efforts to attract investment.
- 5.97 The Committee was assured that administrative, judicial and taxation reform was continuing.
- 5.98 Bulgaria is proud of its multicultural nature, having a Moslem minority of over 1 million. There are no ethnic tensions and like Australia, Bulgaria is keen to utilize this diversity.

Trade and investment opportunities

Trade

- 5.99 Australia's main trade activities in Bulgaria are in education and health. IDP Education has won various contracts to assist with reform of certain public sector entities through training. HIC has also won contracts for reform of the Bulgarian health sector.
- 5.100 DFAT sees opportunities for Australian exports in beer and wine, naval defence related products and agricultural expertise.

Investment

- 5.101 Australia's main investment activity in Bulgaria has been QBE's investment in the Bulgarian insurance sector. QBE International Insurance Ltd invested \$2.7 million in Bulgaria in 1999 and maintains an office in Sofia.
- 5.102 Bulgaria, like other Central European countries, has an outdated land law system. This is both an impediment to land reform and an

opportunity for Australia which has a very effective and innovative land law based on 'Torrens Title' system.

- 5.103 Bulgaria is also interested in developing renewable energy resources for domestic and export use. It has significant hydro-power potential and Australia's expertise in the area may prove an investment opportunity.
- 5.104 Another area of potential cooperation is in e-government, based on Australia's considerable experience in this area.
- 5.105 In terms of agriculture there are certain similarities with Australia which suggests that Australian expertise might well be useful to Bulgaria and therefore provide opportunities. The Ministry of Agriculture noted that there was a need to update the relationship between Australia and Bulgaria in the agriculture and veterinary areas. Bulgaria was interested in drawing on Australian expertise in areas such as animal breeding, forest fires and land salination and would like to develop technical cooperation in the area of quarantine methods.
- 5.106 DFAT believes there are opportunities for Australians to invest in large privatisations in Bulgaria. Banks, utilities and telecommunications are sectors in which privatisation is scheduled.

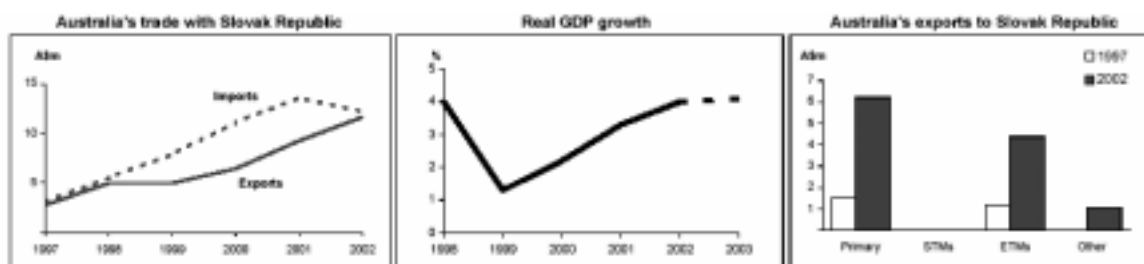
Slovak Republic

Key indicators

Population (million)	5.4	GDP per capita	US\$ 5700 (2003)
Economic overview (2001) as % of GDP	agriculture: 5% industry: 34% services: 61%	GDP trend growth (%)	4.1 (2003)

Australia's major exports and imports

Australia's Major Exports (2001)	A\$ m	Australia's Major Imports (2001)	A\$ m
Wool	6.4	Computer parts	6.4
Computers	0.9	Nitrogen-function compounds	1.4
Telecommunications equipment	0.85	Glassware	0.94
Confidential items	0.38	Footwear	0.91
Measuring and controlling instruments	0.3	Rubber tyres	0.8



Meeting Program in the Slovak Republic

- 5.107 Group two, comprising the Hon Bruce Baird MP, the Hon Geoff Prosser MP, the Hon David Jull MP and Cameron Thompson MP, spent two days in Bratislava.
- 5.108 On 14 April meetings were held with several committees of the National Council for the Slovak Republic, the Ministry of the Economy, the Vice-President of the National Council and the Slovak Foreign Ministry.
- 5.109 On 15 April meetings were held with the National Bank of Slovakia and the Committee on the Economy, Privatisation and Enterprise of the National Council. A lunch meeting was held with QBE and other Australian business interests in Romania. In the afternoon the

delegation met with representatives of the Slovak Investment and Trade Agency (SARIO).

Emerging issues and observations

- 5.110 Slovakia lagged behind the other Central European Countries in terms of foreign investment and economic growth during the 1990s, although this changed after 1998. FDI is currently averaging US\$1 billion a year. This shift was triggered by a change in Slovak leadership and the adoption of the more aggressive investment promotional regime, similar to the other Central European countries.
- 5.111 Slovakia now stands poised implement an aggressive reformist tax regime, with plans to introduce a '20/20/20 tax' - (20% corporate tax, 20% personal flat tax and 20% VAT). Currently the rates are: corporate 25%, personal 15–38% and VAT 20%. This change is expected to further increase FDI inflows.
- 5.112 Members of the committee were impressed by the professional young people they encountered in Slovakia – government ministers, senior bureaucrats, heads of government agencies, promotional bodies, and private sector groups. The transformation of the former centrally planned economies into dynamic market economies was impressive. The rapid growth of shopping centres, supermarkets, and entertainment complexes show the transformation of Slovakia into an economy which represents a great opportunity for Australia, in the longer term trade.
- 5.113 The Committee noted the progress of the Slovakian privatisation programme, which is now 50% complete. It covers gas, telecommunications, petrol, oil, and transport. Banks are already completely privatised.

Trade and investment opportunities

Trade

- 5.114 Slovakia is very keen to develop its tourism industry and looks to mature, innovative tourism destinations, like Australia, for expertise and ideas. Again Australia is viewed favourably by Slovakia as an advanced economy in an exotic location. Opportunities for Australians exist in both the provision of tourism infrastructure but also tourism expertise such as tourism training.

- 5.115 DFAT see opportunities for Australian exports in the areas of Australian leather; minerals and other raw materials; and uniquely Australian products such as beer, wine game meat, education services and tourism.

Investment

- 5.116 Australia's main investment activity in Slovakia was the acquisition by QBE insurance of Slovenska Investicna Poistovna. It is now the largest insurance company in Slovenia and plans to use Slovenia as a hub for entering southeast Europe.
- 5.117 The areas in which Slovakia is particularly seeking investment include the following: automotive; electronics; IT and software development; engineering; and tourism.
- 5.118 Opportunities for Australia also exist in infrastructure development (particularly in rail, roads, bridges, sewerage) tourism, ecology plants and e-commerce.
- 5.119 Slovakia offers substantial incentives to investors by offering tax credits of up to 50% of total investment. A range of grants are also provided for newly created jobs and the retraining of employees.

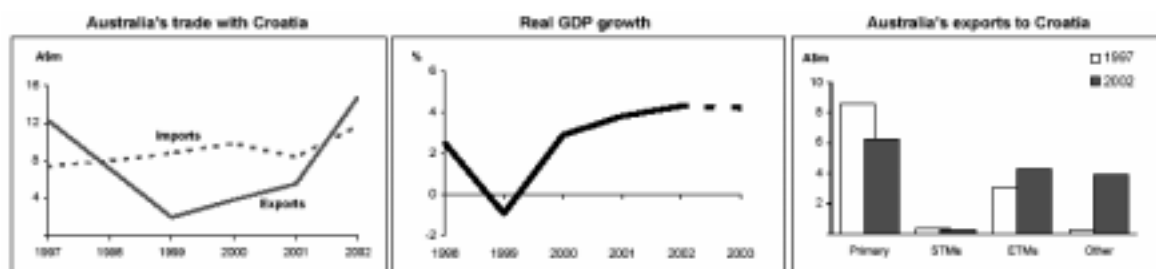
Croatia

Key indicators

Population (million)	4.437	GDP per capita	\$US 6097 (2003)
Economic Overview (2002 as % of GDP)	agriculture: 9% industry: 33% services: 58%	GDP trend growth	4.2 (2003)

Australia's major exports and imports

Australia's Major Imports (2001)	\$ m	Australia's Major Exports (2001)*	\$ m
Other food products	1.54	Raw hides and skins (except furskins)	0.49
Cereal preparations	1.13	Other metal household equipment	0.42
Meat prepared and preserved	0.74	Miscellaneous chemical products	0.35
Clothing	0.70	Ships, boats and floating structures	0.34
Preserved vegetables	0.47	Bovine meat	0.30



Meeting Program in Croatia

- 5.120 Group two had one full day of meetings in Croatia on 15 April. In the morning the group met with the Andreja Stampar School of Public Health; the Ministry of Justice, Administration and Public Health; representatives of Ministry of the Economy which included representatives from the Ministry of Foreign Affairs, the Ministry of Tourism, the Croatian Chamber of Commerce and the Croatian Privatisation Fund; and the Minister for the Economy.
- 5.121 In the afternoon the group met with members of the Parliamentary Foreign Affairs Committee and the Croatian-Australian Parliamentary Friendship Group. A business lunch was held in honour of the visit. It was attended by an array of government officials and business people. In the evening the group attended a business roundtable with Croatian and Australian business people.

Emerging issues and observations

- 5.122 Croatia is not one of the Central European countries to join the EU next May, but is nevertheless focussed on gaining accession in 2007-08. Difficulties in accession appear to revolve around three issues listed below. Croatian MP's assured the Committee they are confident of overcoming these issues.
- ⇒ Reform of the judiciary;
 - ⇒ Return of refugees;
 - ⇒ Support of war crimes tribunal in The Hague.
- 5.123 Tourism up to 1995 was zero, but this year Croatia is expecting a 10% growth. Just before the Committee arrived in Zagreb, an Australian of Croatian background purchased a five star hotel in Split, on the Dalmatian coast. Most tourists to Croatia are from Central Europe, but Germany is still the biggest Western European tourist source.
- 5.124 The tax rate in Croatia includes a progressive personal tax (15, 25, 35 and 40), corporate rate of 20% and VAT 22%. There is political pressure to reduce these rates.
- 5.125 The level of FDI in Croatia is about half that of the Czech Republic. In 2001 FDI in Poland was approximately \$8 billion and in Croatia it was \$1.5 billion.
- 5.126 Investment is basically in telecommunications, banking and retail. The major investors are Germany, Italy, Austria and the US.
- 5.127 Health services represent a strong area for Australian exporters. Croatia has adopted the 'Australian anti-smoking Campaign'. As a result it is claimed 90,000 people have stopped smoking.
- 5.128 Ten Croatian surgeons went to Australia to study emergency services. It is expected there will be a further group going later in the year. The Croatians are involved in a major programme of restructuring hospitals.
- 5.129 Australians have been involved in health insurance reform. HIC is preparing a specific reform strategy for the Croatian Government. Australian health consultants have been involved in programs intended to control for over-prescribing, fraud control and manage health services feedback information.
- 5.130 Land registration programmes also represent opportunities for Australian land titling or cadastre. Croatia has undertaken a land registration programme to reform longstanding land practices. The

whole programme will take roughly 15 years to complete. The programme is worth 26 million euros, financed by the World Bank.

- 5.131 The Committee considered particular Australian trade opportunities to be: livestock (beef and sheep); Atlantic tuna; wine; and tourism.
- 5.132 In Croatia the tourism industry provides US\$7–9 billion of total income, 13% of total employment, 10.6% of GDP and 40.3% of total exports. Tourism is the leading export and there have been significant privatisations in the tourist sector already, particularly in hotels. As a result of the growth of the tourism sector, wine sales are similarly likely to provide opportunities for Australia exporters.
- 5.133 The Committee believes opportunities exist for infrastructure development, particularly toll roads and rail. They noted also that 20% of the budget is allocated to war reconstruction. 400,000 homes were damaged during the conflict in the 1990s. Other opportunities exist for environmental products, service providers (accountants, lawyers), hospitality services, health services, e-government and assistance with bushfire prevention. Privatisation of Croatia's shipbuilding yards represents opportunities for Australian ship or ferry builders. Yachts are one of Croatia's few luxury ETMs.

Trade and investment opportunities

Trade

- 5.134 The Ministry of Justice welcomed Australian interest in land registration reform and noted that an Australian company (Land Equity) and the Western Australian Government were pursuing World Bank projects on cadastral reform.
- 5.135 The Ministry of Agriculture conceded that agriculture is inefficient and awaiting reform. Once again Australia agricultural expertise might provide opportunities for investment and exports. Additionally, as with Bulgaria and Romania, Croatia's late accession (at best after 2007) will provide for Australian opportunities to raise quotas before accession, in order to get CAP concessions upon accession.
- 5.136 The World Bank has been funding numerous health projects in Croatia including one in which Australia's Health Insurance Commission is involved. In addition, a group of Croatian doctors and nurses will undergo emergency care training in Melbourne funded by the World Bank. Such project will provide other opportunities in the

health sector which might be of benefits to other Australian firms. The Ministry of Economy noted that the success of the Health Insurance Commission in Croatia highlights Australian expertise in the medical services sector.

- 5.137 The Committee noted that Croatia is likely to be a substantial user of high speed ferries in future years, an area in which Australia is an industry leader. Unfortunately there were many idle communist-era shipyards still in existence. The Committee believed the growing demand and under-utilized skills could be matched with Australian investment and expertise to capitalize on the growing economy.
- 5.138 The Ambassador identified the IT and communications, e-government, boat / ferry building, food, consulting services, land reform and administration and infrastructure as sectors providing opportunities for Australian investors.
- 5.139 DFAT and Austrade see further export potential in various other areas including: cadastre; environmental protection; judicial reform; beef; frozen fish; pharmaceuticals' wine; and high speed ferries.

Investment

- 5.140 Australia's investments in Croatia involve the following: food processing company Olma; joint venture fish farming and processing firm Kali Tuna; retail textile sales firm Tekstil; hotel operator Lljirja; gas bottle-filling equipment manufacturer Cefrank; pharmaceutical producer Herbos Dijagnostik; paging services provider Sono; ear implant manufacturer Cochlear, health sector service provider HIC; mine detector retailer Minelab; solar panel producer Solahart; and leather luggage manufacturer Student Australia.
- 5.141 DFAT identifies infrastructure and tourism on the Adriatic coast as areas in which further investment is warranted.

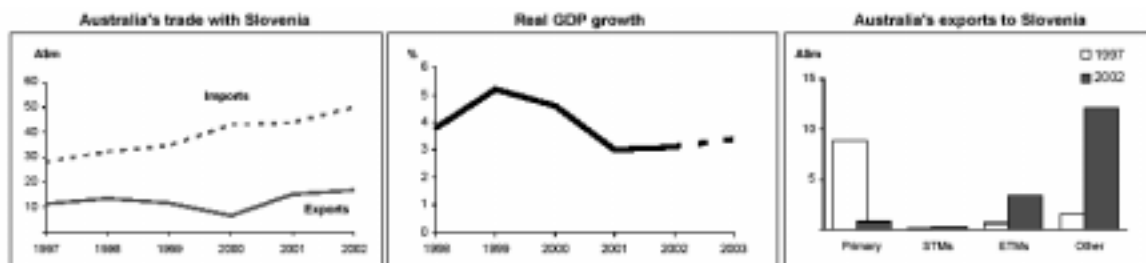
Slovenia

Key indicators

Population (million)	2	GDP per capita	US\$ 13622 (2003)
Economic Overview (2001) as % of GDP	Agriculture 3% Industry 41% Services 56%	GDP trend growth (%)	3.4 (2003)

Australia's major export and imports

Australia's Major Exports (2001-02)	A\$ m	Australia's Major Imports (2001-02)	A\$ m
Furniture	0.9	Rubber tyres	11.8
Computers	0.6	Household type equipment	4.4
Specialised machinery	0.6	Aluminum	2.6
Cotton	0.5	Pumps for gas	2.1
Raw hides and skins (excluding furskins) Includes confidential items of A\$15.7m, 75.8 per cent of total exports.	0.4	Medicinal & pharmaceutical products	2.1



Meeting Program in Slovenia

- 5.142 Group 2 had a full day of meetings in Slovenia on 17 April. The group held meetings with the Trade and Investment Office (TIPO), representatives of the Slovenia Foreign Ministry, representatives of the Slovenian Parliament.
- 5.143 A working lunch was held for the group involving Australian, Slovenian and other international business people. In the afternoon the group met with the management and visited the site of an Australian firm in Slovenia and a representative of the Slovenian Chamber of Commerce.

Emerging issues and observations

- 5.144 The Committee noted that Slovenia appeared to be the most liberal of the former Easter Bloc states, suggesting that it has the least distance, economically, to travel down the transition path. The effects of this are visible in the wealth levels of Slovenia, its general vibrancy and the cosmopolitan feel of Ljubljana.
- 5.145 Slovenia has had a softer transition to a market economy than most of the other Central European countries. The privatisation programme has been built on consensus and has therefore progressed slower than in other countries.
- 5.146 Slovenia developed a voucher privatisation system through which every citizen is issued with an allocation of shares. Citizens then choose in which companies they wish to invest their allocation. Its worth noting Slovenia's overall level of privatisation is not particularly high relative to its neighbours.
- 5.147 Slovenia is clearly trying to position itself as a progressive and central hub with Western and Central Europe. It was also conveyed to the Committee by the Parliamentary Commission that they would like to see an increase in trade and investment from Australia.
- 5.148 Slovenia has also worked hard to become 'investor friendly'. Australian organizations operating in Slovenia, such as the retailer Harvey Norman, believe Slovenia has succeeded on this count.
- 5.149 The corporate tax rate in Slovenia is 25%. Personal tax rate ranges from 20% to 50% and there is a 25% capital gains tax. If shares are held for longer than 3 years there is no tax.
- 5.150 One of the negative comments regarding Slovenia's economy relates to the small size of its banks and the absence of foreign banks.

Trade and investment opportunities

Trade

- 5.151 The Parliamentary Commission, with whom the Committee met, highlighted opportunities for trade in the areas of e-government, consulting services in banking and insurance, education services, tourism and agribusiness.

- 5.152 DFAT advised that opportunities exist in the high-tech sector; ecological services; applications and products; new media and telecommunications; sheep skin; sugar and education services.

Investment

- 5.153 Australia's main investment activities in Slovenia are in Harvey Norman and Tuba. Harvey Norman opened a furniture retail store in late 2002. Tuba, a subsidiary of Impact International Pty Ltd had been Australia's largest direct investment in Slovenia since 1994.

Bringing the markets together

Trade and investment strategy

- 6.1 Considering Australia's existing trade and investment with Central Europe comprises only a small portion of Australia's total trade and investment, Australia's strategy to improve trade and investment relationships with the region should be proportional.
- 6.2 Accordingly, radical changes to Australia's approach to the region should be avoided in favour of nuanced shifts in focus or allocations of resources.
- 6.3 Several of these ideas have emerged during this inquiry and in this report, in the form of specific recommendations through preceding chapters.
- 6.4 This chapter aims to build on those recommendations, and place them within a useful trade and investment promotion framework. Ideally this will be useful to government departments working to improve Australia-Central Europe economic relations.

Addressing the 'market failure' and enduring misperceptions

- 6.5 One key issue underlying all recommendations in this report is the notion of a 'market failure' between Australia and Central Europe. As discussed elsewhere in the report, natural opportunities and synergies between Australia and the region have failed to spark more substantial trade and investment because of misperceptions, on both sides, of each other and available opportunities.
- 6.6 The framework and recommendations following in this chapter aim primarily to address this issue.

Working with the multilateral banks

- 6.7 The EBRD was established in 1991 to support the transition of ex-Soviet bloc countries to market economies and democracy.²²⁴ In practical terms this has included institution building, public sector reform, industrial privatisation, deregulation of the energy sector and improvement of the region's investment climate.²²⁵
- 6.8 The overlap of these areas of activity with Australia's strengths, in terms of government services, is clear. Some Australian organizations have been exporting in these areas. Probably the most successful has been HIC, with three current health sector related projects in Central Europe, and numerous past ones – mostly funded by the World Bank but also national governments.²²⁶
- 6.9 Beyond HIC, Australian organizations have not been overly successful attracting multilateral funding. In Chapter 4 Austrade and Acumen Alliance outline one particular problem with attaining EBRD funding. They suggested using Australia's shareholding in the EBRD to fund small Technical Cooperation Program consultancies. Australian firms could then provide these consultancies and in so doing be well positioned to bid for larger EBRD consultancies, which are heavily weighted towards organizations with a history of EBRD work. This recommendation is made and discussed in Chapter 4.
- 6.10 This and other evidence²²⁷ suggest that such a strategic 'toe in the multilaterals door' approach may be useful in bidding for projects in other multilateral organizations such as UNDP, the World Bank, ILO and WHO.²²⁸
- 6.11 Although the details of tendering procedures are too particular to address in this inquiry, the Committee did feel it worthwhile to view potential opportunities for working with multilateral organizations as worthy of pursuit. Accordingly the committee believes Australian representation at relevant missions should reflect these opportunities, and the 'toe in the multilateral's door' approach for accessing World Bank project funding should be investigated further.

²²⁴ Austrade, Submission No 18, p 23.

²²⁵ DFAT, Submission No 16, 96.

²²⁶ HIC, Submission No 13.

²²⁷ Austrade, Submission No 18, p 23 & DFAT, Submission No 16, p 79.

²²⁸ Acumen Alliance, Submission No 12, p 2 & DFAT, Submission No 16, p 79.

Recommendation 8

The Committee recommends that Austrade and DFAT strengthen trade representation at the World Bank, to assist Australia organizations access development project funding.

Government action

- 6.12 This section is concerned primarily with recommendations on activities the Australian government can take to enhance Australia's trade and investment relations with Central Europe.
- 6.13 Several issues emerged from submissions and during the hearings which prompted the following recommendations on changes to the configuration of Australia's overseas representation.

Trade representation

- 6.14 Some members of the Committee were curious as to why the Czech Republic has no Australian embassy. Even in the early stages of the inquiry the Committee believed the Czech Republic was likely to be one of the more important economies in the region. Over the course of the inquiry and especially during the visit to Central Europe, this view was confirmed (reflected in Recommendation 11 in Chapter 5).
- 6.15 The Committee also believes that trade and investment relations with Hungary could be substantially improved with strengthened Australian trade representation in Budapest (reflected in Recommendation 10).
- 6.16 The Embassy of Romania made two important representations to the committee while giving evidence at the hearings. Firstly Ambassador Vulpe suggested that Australia should open an embassy in Bucharest to reflect Romania's emerging status as an important European country.²²⁹ Secondly, she suggested Romanian visitors would be more likely to visit Australia if there were an immigration representative in Bucharest or at least a Romanian speaking immigration official at the embassy in Belgrade. This would ease a substantial impediment to Romanians travelling to Australia.

²²⁹ Embassy of Romania, Transcript, p 134.

- 6.17 Ambassador Sladek of the Czech Republic made similar representations. Two issues were of concern to him. The first was to do with visa requirements surrounding the 48R visa application form. This issue is addressed in the following section. The second issue was that relating to the requirement for visa applicants to travel to Vienna. He believed this was 'quite difficult' for them and worthy of reconsideration in Australia. He stressed Australia's visa requirements for the EU will shortly apply to the Czech Republic, and that expediting the harmonization of visa requirements would be of mutual benefit.²³⁰
- 6.18 Cognizant of the importance of Australia's growing trade with the Czech Republic and independently of the recommendation on the establishment of an embassy in Prague (Recommendation 11), the Committee would like to suggest a measure to address these issues.
- 6.19 The Committee believes that DIMIA and DFAT should ensure each post in the region can provide immigration services in the languages of the countries for which they have coverage. Such a measure would ease the application process for those countries without a DIMIA/DFAT post.

Trade representation at the European Commission

- 6.20 The European Commission (EC) also presents some opportunities for promoting institutional linkages between Australia and Central Europe, and the export of Australian expertise to Central Europe.
- 6.21 Recommendation 9 in Chapter 4, suggests Australian research institutions pursue EC research funding under the Sixth Research and Technological Development Framework program (F6).
- 6.22 Recommendation 12 deals with accessing World Bank development project funding. Similar development funding is and will be provided by the EC for acceding members. Australia's export potential in relevant services applies equally to the EC.
- 6.23 Accordingly, to assist Australian organizations in the process of accessing F6 and other EU development project funding, the Committee believes trade representation to the EC in Brussels should be strengthened. The trade representative should assist both organizations seeking to sell goods and services to the EC, as well as support organizations seeking EC F6 funding.

²³⁰ Embassy of the Czech Republic, Transcript, p 128.

Recommendation 9

The Committee recommends that Austrade and DFAT in consultation with DEST, consider posting a trade commissioner in Brussels to assist Australian organizations access EU commission science research and development project funding.

Immigration

- 6.24 Several representations were made by Central European ambassadors during the inquiry process, about the difficulty with visa requirements. The Czech Embassy specifically requested that Czech visitors to Australia be required to fill in immigration form 48 rather than the more onerous 48R.²³¹ DIMIA detailed why this requirement was in place during the relevant hearing, explaining that the Czech Republic non-return rate had improved when the more onerous form requirement was instituted.²³²
- 6.25 The Committee felt DIMIA's concerns and actions were reasonable. However, in light of the improving trend in non-return rates²³³ and the high potential for education services exports, the Committee felt the visa requirements for students from Central European countries should be reassessed.
- 6.26 The changing conditions and opportunities in Central Europe may justify the adoption of the Electronic Travel Authority (ETA) visa system for the countries of Central Europe, especially the five countries acceding in mid 2004.

²³¹ Embassy of the Czech Republic, Transcript, p 128.

²³² DIMIA, Transcript, p 140.

²³³ See Appendix E.

Recommendation 10

The Committee recommends that visa requirements for students (especially) and citizens (generally) from the five Central European countries acceding to the EU in 2004, should be reassessed. The reassessment should include consideration of the applicability of the Electronic Travel Authority visa system for those countries.

Government to government relations

- 6.27 To facilitate trade and investment and to complement efforts to be made in other areas discussed above, the Australian government should move quickly to ensure an appropriate bilateral legal framework is in place between Australia and the countries of Central Europe. It should include necessary agreements on investment protection and promotion, double taxation agreements etc.
- 6.28 Although there are numerous bilateral agreements in place between some of the Central European countries and Australia, others countries have less substantive sets of agreements. The Committee believes this situation should be rectified, and key agreements negotiated and signed as soon as practicable.
- 6.29 Appendix 10 of Submission 16 (DFAT) details bilateral arrangements in place between Australia and the Central European countries. Full lists of the agreements can be found in the DFAT treaties database.²³⁴

Recommendation 11

The Committee recommends the Australian government complete a full set of basic government to government agreements with all Central European countries.

Awareness and market information

- 6.30 This report and some submissions, including Austrade's,²³⁵ discuss how Australia's trade with Central Europe had not grown dramatically due to 'market failure'. Our export and investment capacity matched closely

²³⁴ <http://www.info.dfat.gov.au/treaties/>

²³⁵ Austrade, Submission No 18, p 5.

their needs but knowledge of mutual opportunities had failed to bridge the distance between the two countries.

- 6.31 As mentioned earlier in the report, one of the main objectives of this inquiry and report is to address this ‘market failure’, and equip the Australian and Central European economies to respond to the substantial market opportunities.
- 6.32 Therefore the Committee believes the government should undertake a range of activities which strategically alert Australian and Central European organizations to trade and investment opportunities existing between them. The activities should address both sides of the ‘market failure’, in Australia and Central Europe, and should work to dispel lingering misperceptions on both sides.
- 6.33 On the Australian side, the Committee believes Austrade should organize a range of awareness raising activities, to inform Australian organizations of the current and emerging opportunities in Central Europe. WADIR strongly supports this view, as conveyed in the recommendations of their submission.²³⁶

Recommendation 12

The Committee recommends Austrade organize a range of awareness raising activities in Australia focusing on Central Europe, highlighting emerging market opportunities and the particular requirements for operating in the region. This should include establishing a website focusing on trade and investment opportunities in Central Europe.

Trade missions

- 6.34 To complement all awareness raising efforts by lifting the profile of the relationship on both sides, the Committee feels that a trade mission led by the Minister for Trade would provide great impetus to the trade and investment relationship.
- 6.35 Although smaller sectoral trade missions are relatively frequent, such as the Austrade IT mission to Poland due later this year,²³⁷ the Committee felt that such a major gesture by the Australian government would substantially lift awareness of the potential of the relationship.

²³⁶ WADIR, Submission No 20, p 49.

²³⁷ Chair, Transcript, p 81.

Recommendation 13

The Committee recommends the trade minister lead a trade mission to the region to support Austrade's awareness raising activities in Australia and Central Europe.

E-government mission

- 6.36 The Committee also feels that Australia's particular experience exporting government services, its strengths in e-government and the potential for growth in these areas exhorts that special effort be made to capitalize on such major opportunities.
- 6.37 Accordingly the Committee believes the Minister for Communications, Information Technology and the Arts should lead an e-government / e-commerce trade mission to Central Europe.

Recommendation 14

The Committee recommends the Minister for Communications, Information Technology and the Arts gives priority to leading a trade mission to Central Europe focused on e-government and e-commerce services exports.

Trade fairs and related activities

- 6.38 The Committee is aware of the special role of trade fairs in the conduct of business in Europe, a view confirmed by evidence received through the inquiry.²³⁸ Accordingly, the Committee believes Austrade should utilize trade fairs to promote knowledge of Australia exporters in Europe and Central Europe as much as possible.
- 6.39 Several trade fairs were mentioned through the course of the inquiry – among others, the World Polonia Economic Conference,²³⁹ Cebit²⁴⁰ and the Central European Fair Alliance.²⁴¹ The Committee believes trade fairs should be more fully utilized to promote Australian exports in Central Europe.

²³⁸ Austrade, Transcript, p 37.

²³⁹ Australia Poland Business Council, Transcript, p 76.

²⁴⁰ Austrade, Submission No 18, Appendix B. Cebit Australia can be found at <http://www.cebit.com.au/html/default.cfm>

²⁴¹ DFAT, Submission No 16, p 81.

- 6.40 The Committee was also aware of the Australian Trade Commission's (ATC) Australian Tourist Exchange Program through which Australia brings a number of foreign tourism operators to Australia each year to familiarize them with Australia's tourism industry. The Committee felt that Australia would benefit from the ATC including Central European countries in the program.

Recommendation 15

The Committee recommends that:

- **Austrade and DFAT undertake greater promotion of Australian business through encouraging Australian participation in Western European trade shows.**
- **Austrade and DFAT encourage Central European business delegations to attend those trade shows.**
- **The Australian Tourist Commission ensure Central European countries are included in the Australian Tourist Exchange Program.**

Focus in trade strategy

- 6.41 The Committee acknowledges Austrade's past strategy papers for the region, but feels that Austrade and DFAT should produce an updated Central Europe strategy document on which to base a renewed effort to overcome the market failure between Australia and the region.
- 6.42 The activities which follow the recommendations of this inquiry could provide a platform to launch a new strategy and build upon the work of this Committee.
- 6.43 The Committee notes that Central Europe's services imports are growing dramatically as their economies liberalize and become more sophisticated (see Appendix E). Mindful of Australia's strengths in a range of service sectors discussed in this report, the Committee feels that special attention should be given to the potential trade in services in the region.
- 6.44 The Committee did also, through the course of the enquiry, find that several specific areas seemed to offer the most promise. And while the Committee wants to avoid discouraging any efforts at improving trade and investment relations between Australia and Central Europe, it does judge several areas to provide greater opportunity than others. This

assessment, as with all others in the inquiry, is based on all evidence taken - submissions, hearings and the Committee's experience throughout the visit to the countries.

- 6.45 The Committee stresses these are suggestions of *optimal* opportunities, rather than an exhaustive list.

Recommendation 16

The Committee recommends Austrade produce a business strategy paper to promote trade and investment with the countries of Central Europe taking into consideration sectors in which Australia has a comparative advantage, including:

- **Services:**
 - ⇒ **e-commerce and related services;**
 - ⇒ **e-government technology and services;**
 - ⇒ **government services, higher education and VET, health related technology and related services;**
 - ⇒ **tourism training;**
 - ⇒ **land titling;**
 - ⇒ **agricultural services;**
 - ⇒ **environment related-services.**
- **Agribusiness:**
 - ⇒ **wool (including a targeted trade mission); leather and related products; wine products.**
- **Manufacturing:**
 - ⇒ **automotive equipment; smart card technology; building materials; environmental equipment.**

Industry specific trade missions

- 6.46 Based on the comparative advantage Australia holds in several industries discussed through the report, the Committee felt that Austrade could complement other awareness raising activities by facilitating industry-specific trade missions.
- 6.47 WADIR made several recommendations based on the value it saw in approaching awareness raising challenges through cooperative activities within an industry or sector. Although it does not refer specifically to

industry specific trade missions, several of the recommendations allude to cooperation within industries to promote trade.²⁴²

- 6.48 While supporting strongly a trade mission to the region led by the Minister for Trade, the Committee also felt that Australia's lead in several sectors, discussed through this report, merited supplementary targeted trade missions. The Committee believed that industry-specific trade missions, especially in areas of comparative advantage, were likely to be fruitful for trade and investment.

Recommendation 17

The Committee recommends that Austrade facilitate industry-specific trade missions to Central Europe to encourage trade and investment in high opportunity areas.

Senator Alan Ferguson

Chairman

²⁴² WADIR, Submission No 20, p 49.



Appendix A – List of submissions

Submission No	Individual/organization
1	Export Finance and Insurance Corporation
2	Professor Leslie Holmes
3	Embassy of the Republic of Slovenia
4	Consulate-General of the Republic of Estonia
5	Department of Transport and Regional Services
6	Republic of Bulgaria Consulate-General
7	Department of Education Science and Training
8	Ministry of Foreign Affairs of the Republic of Latvia
9	Embassy of Romania
10	Embassy of the Republic of Croatia
11	Delegation of the European Commission to Australia and New Zealand
12	Acumen Alliance
13	Health Insurance Commission
14	Meat and Livestock Australia
15	Department of Industry, Tourism and Resources
16	Department of Foreign Affairs and Trade

- 17 Mr G von Gross
- 18 Austrade
- 19 Department of Treasury
- 20 WA Department of Industry and Technology (now
WA Department of Industry and Resources)
- 21 Impact International Pty Ltd
- 22 Department of Immigration and Multicultural and
Indigenous Affairs
- 23 Embassy of the Republic of Poland
- 24 Australian Poland Business Council
- 25 Department of Agriculture, Fisheries and Forestry
– Australia
- 26 Department of Foreign Affairs and Trade
- 27 Mr Alex Bilski
- 28 Department of Agriculture Fisheries & Forestry –
Australia
- 29 Department of Immigration and Multicultural and
Indigenous Affairs



Appendix B – List of hearings and witnesses

Canberra - Wednesday 23 October 2002

Austrade

Ms Elizabeth Agnes Dwyer, Project Manager, Europe Office

Mr Tim Harcourt, Chief Economist,

Mr Peter Robert Kane, National Manager, Central Europe

Mr Charles O'Hanlon, Executive General Manager (Europe)

Canberra – Tuesday 18 February 2003

DFAT

Mr David Ritchie, First Assistant Secretary, Americas & Europe Division

Ms Margaret Twomey, Assistant Secretary, Northern, Southern & Eastern Europe Branch

Mr Alexander Brooking, Director, Northern & Eastern Europe Section

Mr Peter Threlfall, Executive Officer, Northern, Central & Eastern Europe Section

Mr Andrew Ford, Executive Officer, Agriculture Policy & Negotiations Section

Mr Anthony Urbanski, Director, Southern Europe Section

Austrade

Mr Peter Kane, National Manager, Central Europe

Mr Peter Amey, Manager, Europe Office

Ms Elizabeth Dwyer, Project Manager, Europe Regional Office

Delegation of the European Commission to Australia and New Zealand

HE Piergiorgio Mazzocchi, Ambassador

Mr Paul Strickland, Counsellor

Dr Ingrid Kropman, Research Officer

Mr Roger Camilleri, Advisor, Media & Public Affairs

Department of Agriculture, Fisheries & Forestry

Mr Craig Burns, General Manager, Trade Policy, Market Access and Biosecurity

Mr John Madden, Manager, Europe Section, Trade Policy, Market Access and Biosecurity

Ms Sharina Quirke, Executive Officer, Europe Section, Trade Policy, Market Access and Biosecurity

Mr Frank Jotzo, ABARE, Research Economist

Department of Education, Science & Training

Mr Michael Gallagher, Acting Deputy Secretary

Mr Robert Stevens, A / G Branch Manager, International Cooperation

Canberra – Wednesday 19 February 2003

The Australia Poland Business Council

Mr Wieslaw Parajs, Vice President

Mr Eugene Bajkowski, Federal Executive Secretary

Dr Adam Malarz, Federal Treasurer

Mr Alexander Gancarz, National Secretary for Associations

Mr Michael Kordek, Affiliate Member

Mrs Barbara Wojtkon-Kacki, Member

Mr Alexander Nash-Nasielski, Member

Acumen Alliance

Mr Peter Keogh, Principal Consultant

Embassy of the Republic of Slovenia

Mr Bojan Bertoncelj, Chargé D` Affaires

Embassy of Slovak Republic

HE Dr Anna Tureníková, Ambassador

Embassy of the Republic of Croatia

HE Dr Mladen Ibler, Ambassador

Ms Vlatka Vukinovac, Second Secretary

Embassy of the Czech Republic

HE Mr Josef Sládek, Ambassador

Embassy of Romania

HE Mrs Manuela Vulpe, Ambassador

Department of Immigration & Multicultural & Indigenous Affairs

Mr Abbas Adam, Acting Director, Diversity Principles Section

Mr Phillip Thurbon, Director, Tourism & Working Holiday makers
Section

Ms Aria Keski-Nummi, Assistant Secretary, Temporary Entry Branch

Embassy of the Republic of Poland

HE Mr Jerzy Wieclaw, Ambassador

Mr Tomasz Zoladkiewicz, Counsellor

Sydney, Wednesday 23 April 2003

Export Finance and Insurance Corporation

Mr Michael Boyle, Head of Business Strategy and Marketing

Mr Roger Donnelly, Chief Economist

Mr Slater Smith, General Manager Credit Policy and Risk Management

Meat and Livestock Australia

Dr Peter Bernard, General Manager, Economics Planning and Market Services

Mr Andrew McCallum, Manager, Trade Policy

Western Australian Department of Industry and Resources

Mr Simon Johnson, Director, International Trade and Investment Services

Impact International Pty Ltd

Mr Dusan Lajovic, Chairman



Appendix C – List of exhibits

Exhibit No	Description
1	Powerpoint presentation by Mr Charles O'Hanlon, Executive General Manager, Europe, Austrade. Public hearing, Wednesday 23 October 2002.
2	Background information on Slovakia, provided by HE Dr Anna Turenicova, Ambassador, Embassy of the Slovak Republic, Canberra.
3	Background information on investment incentives, provided by the Embassy of the Czech Republic.
4	Material supplied by RV & Sons Pty Ltd.
5	<i>Welcome to Croatia</i> Investment Guide, October 2001. Provided by the Embassy of the Republic of Croatia as part of Submission No 10.
6	Leading Economic Indicators 2002, by the Ministry of Economy of the Republic of Croatia, 19 August 2002. Provided by the Embassy of the Republic of Croatia as part of Submission No 10.
7	Croatian Chamber of Economy: <i>Croatia your business partner; Industry and Technology Department</i> and <i>Croatian quality – Croatian creation</i> . Provided by the Embassy of the Republic of Croatia as part of Submission No 10.

- 8 Croatian Privatization Fund: *Privatize Croatia*. Provided by the Embassy of the Republic of Croatia as part of Submission No 10.
- 9 *What is this thing called Globalisation?* Provided by Austrade as part of Submission No 18.
- 10 *Knowing and Growing the Exporter Community*. Provided by Austrade as part of Submission No 18.
- 11 Material supplied by Impact International Pty Ltd as part of Submission No 21.
- 12 Letter from the Parliament of Romania's Friendship Parliamentary Group with Commonwealth of Australia. Provided by Mr von Gross as an attachment to Submission No 17.
- 13 Material provided by The Australia Poland Business Council as attachments to Submission No 24.
- 14 Presentation and overheads by HE Dr Mladen Ibler, Ambassador, Embassy of the Republic of Croatia. Public hearing on 19 February 2003.
- 15 Brochure material from the Croatian Chamber of Economy Industry and Technology Department. Presented by the Embassy of the Republic of Croatia at the public hearing on 19 February 2003.
- 16 Guide on *How to do Business in Poland* and two CDs titled *Business Opportunities in Poland* and *Economic Guide to Poland 2002*. Provided by HE Mr Jerzy Wieclaw, Ambassador of the Republic of Poland at the public hearing on 19 February 2003.
- 17 Answer to Question Taken on Notice at the public hearing on 18 February, 2003. HE Mr Piergiorgio Mazzocchi, Ambassador, Delegation of the European Commission to Australia and New Zealand.
- 18 Answers to Questions Taken on Notice at the public hearing on 19 February, 2003. HE Dr Mladen Ibler, Ambassador, Embassy of the Republic of Croatia.
- 19 Answers by Austrade to questions taken on notice at the public hearing on 18 February, 2003.

- 20 Answers by the Department of Immigration and Multicultural and Indigenous Affairs, to questions on notice at the public hearing on 19 February 2003.
- 21 Answers by the Department of Agriculture Fisheries & Forestry, to questions on notice at the public hearing on 18 February 2003.
- 22 Answers by Export Finance and Insurance Corporation, to questions on notice at the public hearing on 23 April 2003.



Appendix D - Chronology of EU enlargement

1957	• Belgium, France, Germany, Italy, Luxembourg and the Netherlands sign the Treaty of Rome and establish the European Economic Community (EEC)
1963	• Association Agreement signed with Turkey
1973	• Denmark, Ireland and the United Kingdom join the EC
1981	• Greece joins the EC
1986	• Portugal and Spain join the EC
1988	• Assumption of diplomatic contact between the European Communities and Hungary. • The first Trade and Co-operation Agreement signed with Hungary; similar agreements subsequently signed with the other countries of Central and Eastern Europe. • Poland, Bulgaria and Hungary establish diplomatic relations with the EU.
1989	• Fall of the Berlin Wall • European Community sets up the Programme of development assistance in CEECs
1990	• Malta and Cyprus apply for EU membership
1991	• European Community recognises Croatia's independence • Hostilities in Bosnia (1991-1995) • The first Europe Agreements signed with Hungary and Poland (ratified in 1994); similar agreements subsequently signed with the other countries of Central and Eastern Europe • Declaration of the Member States of the EC on the independence of the Baltic States
1992	• Slovenia establishes diplomatic relations with the EC • Former Czechoslovakia, Hungary and Poland sign the Central European Free Trade Agreement (CEFTA).
1993	• CEFTA comes into force, eliminating duties on approximately 40 per cent of industrial goods. • Romania signs a Europe Agreement • Slovenia establishes diplomatic relations with the European Union • Slovakia signs a Europe Agreement • At Copenhagen the European Council sets accession criteria

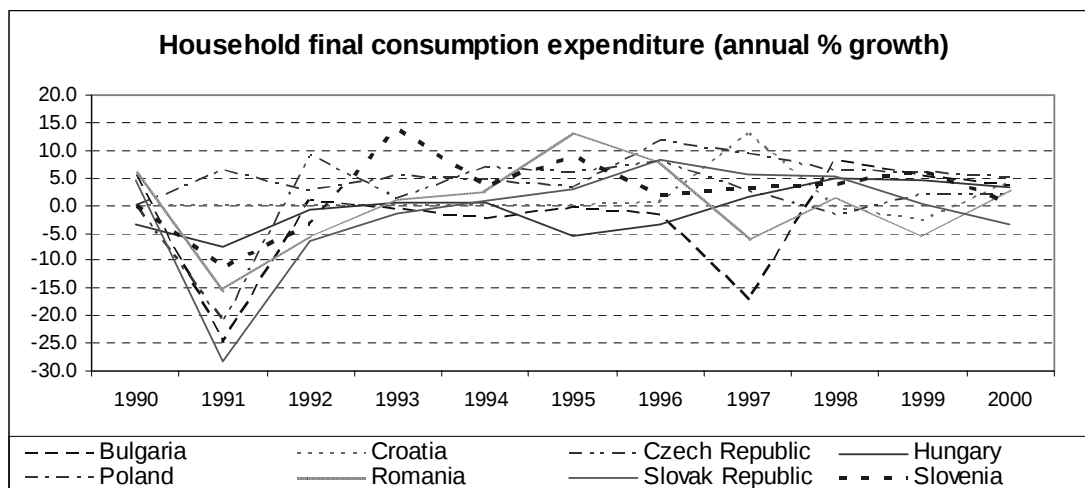
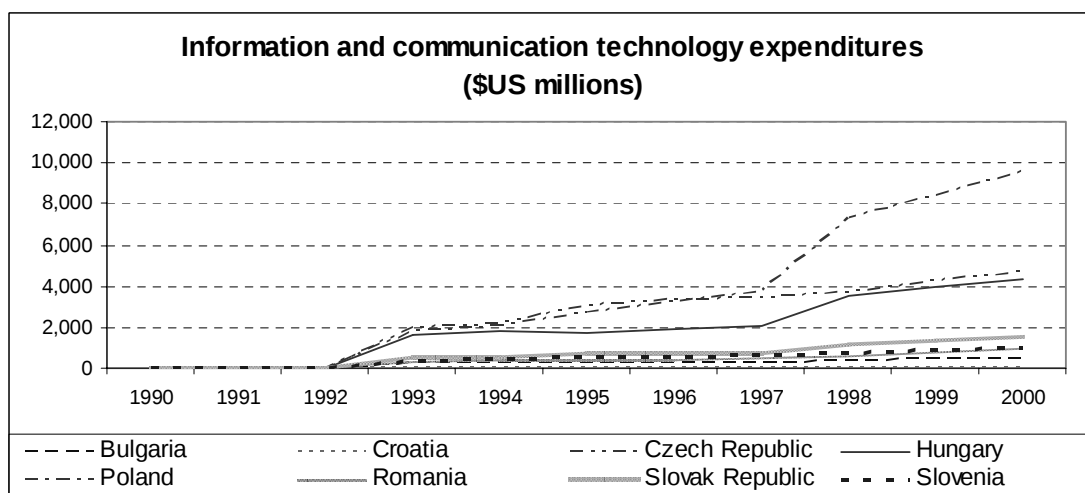
	• Bulgaria signs a Europe Agreement
1994	• Essen European Council agrees the pre-accession strategy • Hungary applies for EU membership
1995	• Austria, Finland and Sweden join the EU • Romania applies for EU membership • Lithuania and Latvia sign Europe Agreements • Bulgaria applies for EU membership • Latvia applies for EU membership • Slovakia applies for EU membership
1996	• Slovenia and Czech Republic sign Europe Agreements • Czech Republic applies for EU membership • New Labour government in Malta suspends EU membership application • Slovenia applies for EU membership • Slovenia joins CEFTA as a full member.
1997	• Romania joins CEFTA • Luxembourg European Council agrees on start of enlargement process, including accession negotiations and a reinforced pre-accession strategy
1998	• First European Conference held in March. The Conference was attended by EU member states and all European countries aspiring to EU membership, which had concluded an association agreement with the EU. It is a multilateral forum for political consultations on common foreign and security policy, justice and home affairs and economic and regional co-operation • Accession process launched in March • Accession Partnerships adopted in March • Accession negotiations opened with Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia in March • Bulgaria, Latvia, Lithuania, Romania and Slovakia start the general multilateral process of screening legislation for conformity with EU law in March • Individual screening process begins with the ten candidate countries from Central and Eastern Europe and Cyprus in April • New government in Malta reactivates EU membership application • European Commission adopts first Regular Reports in November • Vienna European Council in December endorses European Commission's Regular Reports which give an assessment of the progress made by candidate countries in meeting the <i>Acquis</i> and other accession obligations
1999	• European Commission presents update of its 1993 Opinion on Malta in February • Berlin European Council in March adopts the financial perspectives for 2000-2006 (Agenda 2000), including pre-accession funds and accession-related expenditure • European Commission adopts second set of Regular Reports and revises Accession Partnerships in October • Helsinki European Council in December reaffirms the inclusive nature of the accession process, decides to open accession negotiations with six additional candidates, and confirms Turkey as a candidate destined to join the European Union
2000	• Accession negotiations formally launched with Bulgaria, Latvia, Lithuania, Malta, Romania, and the Slovakia in February • Feira European Council in June confirms the principles of differentiation and catching up and emphasises the importance of candidate countries' administrative capacity to implement the <i>acquis communautaire</i> • European Commission adopts third set of Regular Reports in November

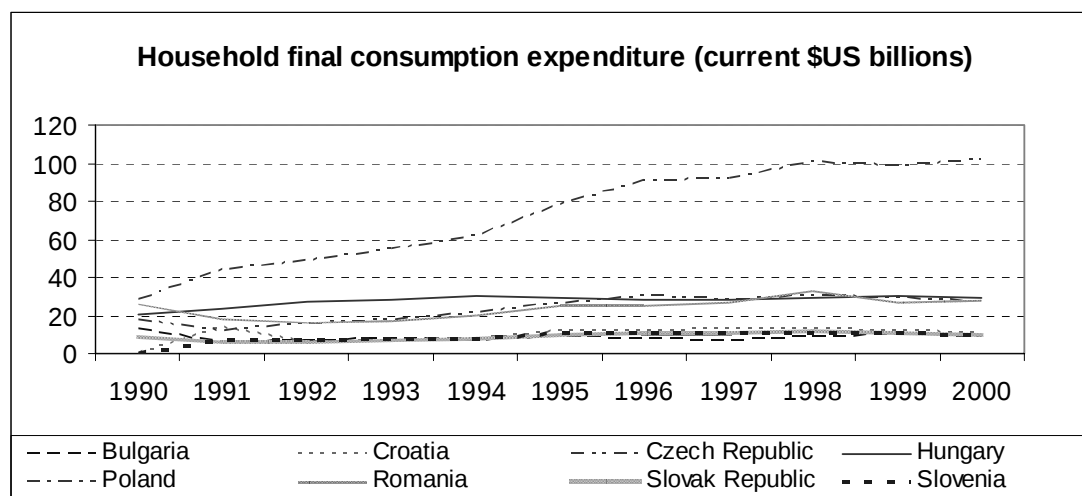
	• Nice European Council in December provides the institutional basis for enlargement by concluding the IGC on institutional reform, and endorses the enlargement strategy proposed by the Commission. The central element of the strategy is the roadmap for the conduct of the negotiations
2001	• Gothenburg European Council in June confirms that the enlargement process is irreversible, and reaffirms the roadmap as the framework for completion of the negotiations. "Provided that progress towards meeting the accession criteria continues at an unabated pace, the roadmap should make it possible to complete negotiations by the end of 2002 for those candidates that are ready, allowing the countries concerned to participate in the European Parliament elections of 2004 as new Members." The European Council recognises that the decisions in Helsinki have brought Turkey closer to the EU, and urges Turkey to take concrete measures to implement the priorities of the Accession Partnership • Ireland, in a referendum, fails to ratify Nice Treaty • European Commission adopts fourth set of Regular Reports and proposals for revised Accession Partnerships in November • Laeken European Council in December agrees with Commission which considered that, "if the present rate of progress of the negotiations and reforms in the candidate States is maintained, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, the Czech Republic and Slovenia could be ready" to conclude negotiations by the end of 2002 and take part in the elections for the European Parliament due in June 2004
2002	• European Commission announces, on 9 October, that it considers Second Irish referendum to ratify the Nice Treaty scheduled for 19 October • Copenhagen European Council meeting, scheduled for December, expected to issue invitations to ten accession countries to join the EU
2003	• The EU accession treaty is signed in Athens, Greece on April 16, 2003
2004	• Accession of ten new member states to the EU in May 2004: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia

E

Appendix E - Additional economic indicators

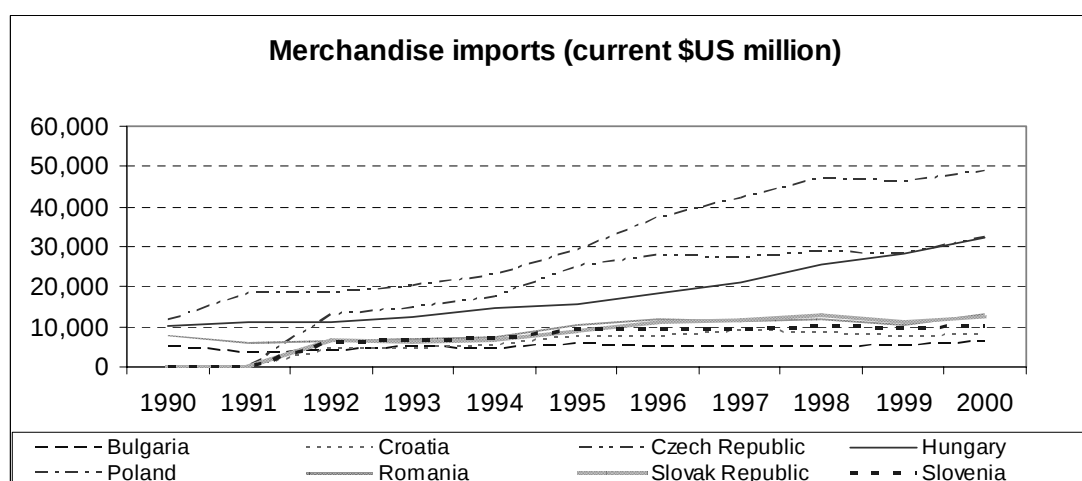
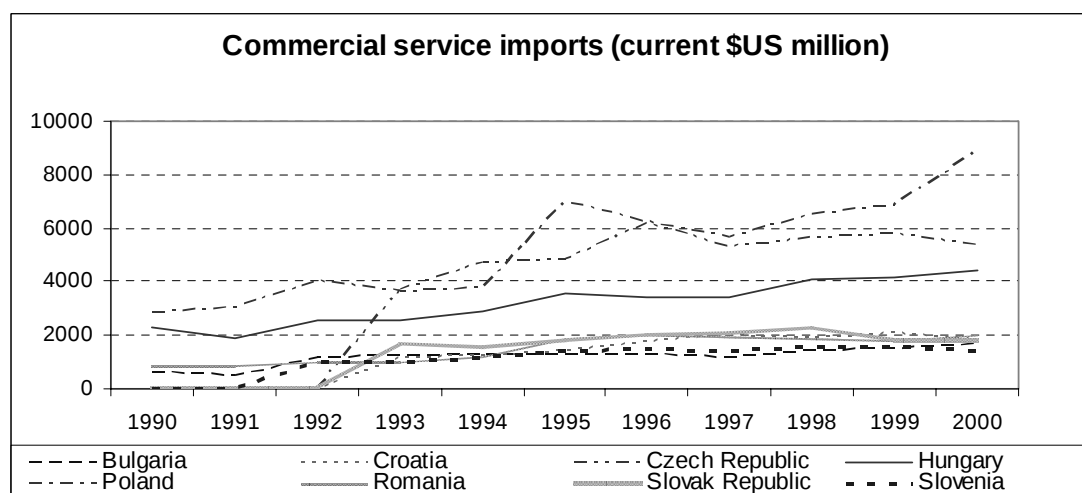
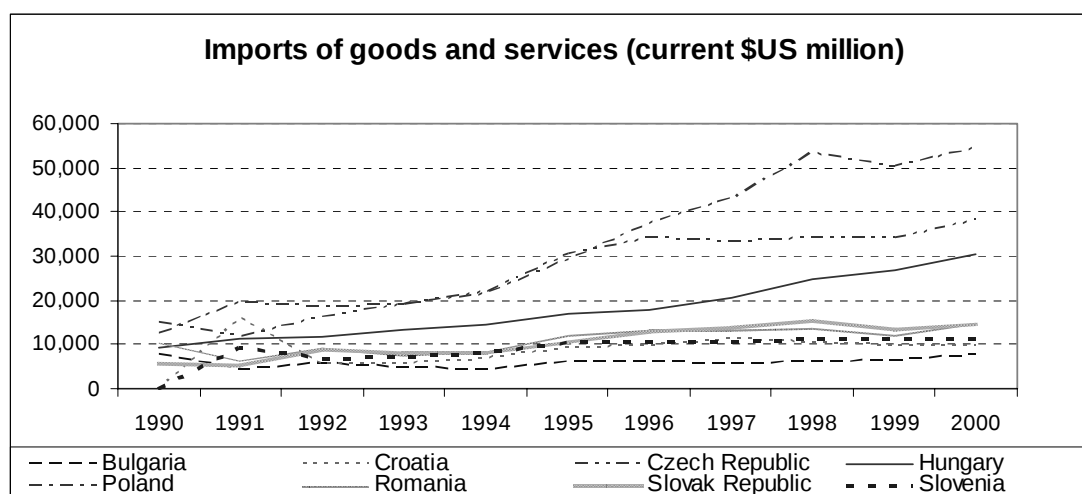
Graph series E.1 Consumer expenditures





Source World Bank, World Development Indicators

Graph series E.2 Import trends

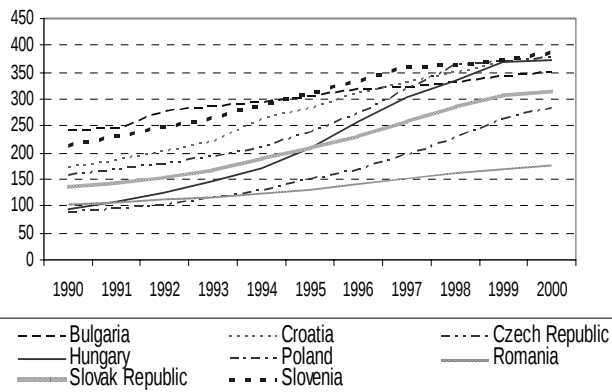


Source World Bank, World Development Indicators

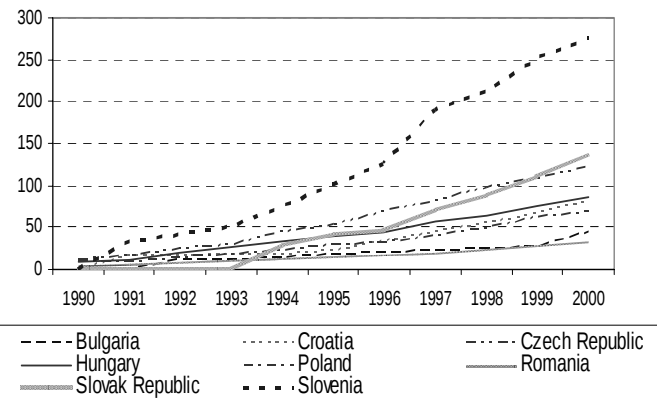
Graph series E.3

Telecommunications indicators

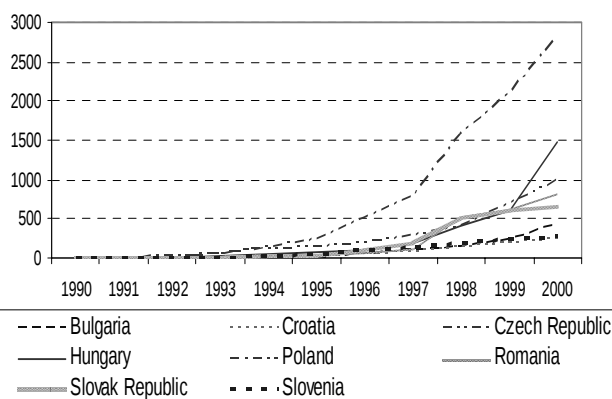
Telephone mailines (per 1000 people)



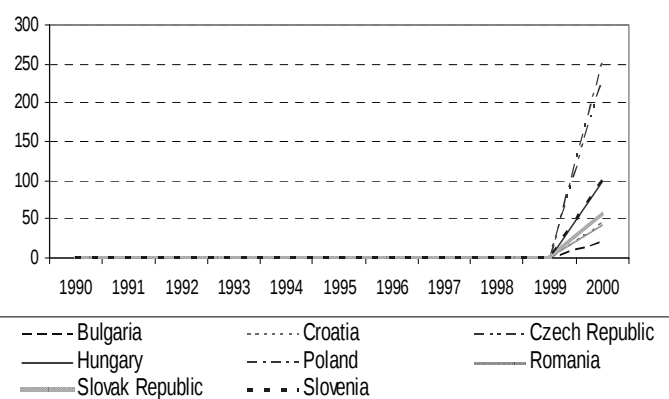
Personal computers (per 1000 people)



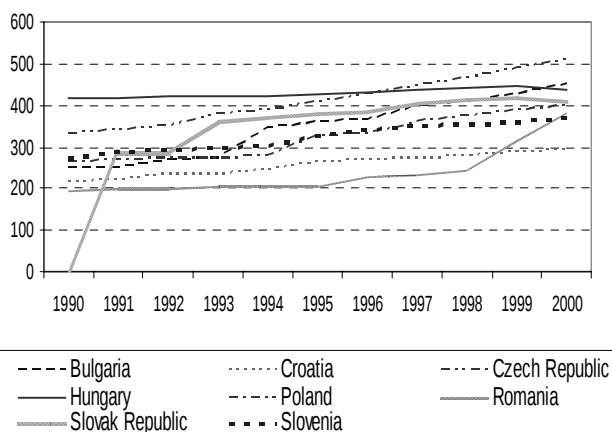
Internet users (thousand)



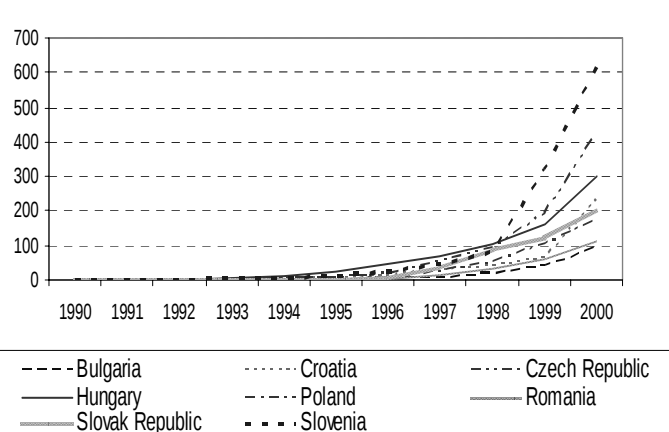
Secure internet servers



Television sets (per 1000 people)



Mobile phone (per 1000 people)



Source World Bank, World Development Indicators



Appendix F - Central Europe meat tariffs and tariff quotas

	Beef	Sheepmeat
Bulgaria	5% tariff +66 - 244€/t +20% VAT Tariff quotas 1000t high quality beef (HQB) – 0% in-quota tariff 500t other HQB – 10% in-quota tariff 1000t chilled beef – 10% in-quota tariff 2000t frozen beef – 10% in-quota tariff 10200t frozen, bone-in beef – 8.5% in-quota tariff 1000t frozen bone-in beef – 0% in-quota tariff 4100t frozen, boneless beef – 10% in-quota tariff Beef offal: 20% tariff +20% VAT	10% tariff for lamb carcasses and half-carcasses (chilled and frozen) 15% tariff for all other sheepmeat
Croatia	8.7 – 9.2% tariff (varies with cut) +86.5 – 123.7 €/t	n.a.
Czech Republic	2000t GATT quota 30% in-quota tariff 34% above-quota tariff	300t GATT quota (bone-in lamb leg excluded from quota) 20% in-quota tariff 130% above-quota tariff
Hungary	15% tariff	25.6% tariff
Poland	19% tariff +max 3.03 €/t	25% tariff
Romania	40% tariff	17.6% tariff

Source MLA, Submission No 14



Appendix G - Education institutional links with Central Europe

Table G.1 Higher education institutional links with Central Europe

Australian University	Name of Institution	Country	Student Exchange	Study Abroad Program	Staff Exchange	Academic/Research Collaboration	Status of Agreement	Year of Agreement	Active
The University of Queensland	Sofia University	Bulgaria	Yes		Yes	Yes	In place	1983	
Edith Cowan University	Academy of Performing Arts	Czech R.	Yes	Yes	No	No	In place	1988	Yes
Edith Cowan University	Masarykova University (Utrecht Network Member)	Czech R.	Yes	Yes	No	No	In place	1999	Yes
La Trobe University	Institute of Physiological Regulations, Czechoslovak Academy of Sciences	Czech R.	Yes	No	Yes	Yes	In place	1989	Yes
La Trobe University	Masaryk University	Czech R.	Yes	No	Yes	Yes	In place	1993	Yes
Monash University	Charles University, Prague	Czech R.	No	No	Yes	Yes	Negotiation		No
The Australian National University	Academy of Arts, Architecture and Design - Prague	Czech R.	Yes	No	Yes	Yes	In place	1995	Yes
The Australian National University	Prague Academy of Fine Arts	Czech R.	Yes	No	No	Yes	In place	1993	Yes
The University of Newcastle	Brno University of Technology	Czech R.	Yes		Yes	Yes	In place	2000	Yes
University of Technology, Sydney	FAMU Academy of Performing Arts in Prague	Czech R.	Yes		Yes	Yes	In place	1999	Yes
Edith Cowan University	Eotvos Lorand University of Budapest (Utrecht Network Member)	Hungary	Yes	Yes	No	No	In place	1999	Yes
Flinders University	Budapest University of Technology and Economics	Hungary	Yes	No	Yes	Yes	In place	1999	Yes
Griffith University	Atila Jozsef University	Hungary	Yes		Yes	No	In place	1993	No
Griffith University	Technical University of Budapest	Hungary	Yes		Yes	No	In place	1993	No
Griffith University	Eotvos Lorand University	Hungary	Yes		Yes	No	In place	1993	Yes
La Trobe University	Budapest University of Technology and Economics	Hungary	Yes	No	Yes	Yes	In place	1993	Yes
La Trobe University	Godollo University of Agricultural Sciences	Hungary	Yes	No	Yes	Yes	In place	1993	Yes
Swinburne University of Technology	Buapesti Gazdasagi Foiskola	Hungary	Yes	No	No	No	In place	1994	Yes
University of Technology, Sydney	Budapest University of Technology & Economics (BUTE)	Hungary	Yes		Yes	Yes	In place	1990	Yes
University of Western Sydney	Technical University, Budapest	Hungary	Yes	No	Yes	Yes	In place	1996	
Curtin University of Technology	University of Lodz	Poland	No	No	Yes	Yes	In place	1994	Yes
Edith Cowan University	Jagellonian University (Utrecht Network Member)	Poland	Yes	Yes	No	No	In place	1999	No
Macquarie University	Warsaw University	Poland	No	No	Yes	Yes	In place	1990	No
Monash University	Poznan University	Poland	Yes	No	Yes	Yes	Negotiation		No
Monash University	University of Warsaw	Poland	Yes	No	Yes	Yes	Negotiation		No
Swinburne University of Technology	Warsaw School of Economics	Poland	Yes	No	No	No	In place	1993	Yes
La Trobe University	Agricultural University in Nitra	Slovakia	Yes	No	Yes	Yes	In place	1993	No
Edith Cowan University	University of Ljubljana (Utrecht Network Member)	Slovenia	Yes	Yes	No	No	In place	1999	No
Macquarie University	University of Ljubljani	Slovenia	Yes	No	Yes	Yes	In place	1992	Yes
Macquarie University	University of Maribor	Slovenia	No	No	No	Yes	In place	1993	No
Queensland University of Technology	Jozef Stefan Institute, Ljubljana	Slovenia	No		Yes	Yes	In place	1994	Yes
The University of New South Wales	University of Ljubljana	Slovenia	No	No	Yes	Yes	In place	1995	Yes
The University of Queensland	The National Institute of Biology, Ljubljana	Slovenia	Yes		Yes	Yes	In place	1994	Yes



Appendix H - Visa information: students from Central Europe

Table H.1 Offshore student visa grants (see graph below)

Country of citizenship	1999-00	2000-01	2001-02
Bulgaria	23	21	16
Croatia	14	5	12
Czech Republic	571	721	955
Hungary	113	139	247
Poland	280	373	604
Romania	7	12	18
Slovakia	481	585	700
Slovenia	6	1	6

Source DIMIA, Submission No 22, p 6.

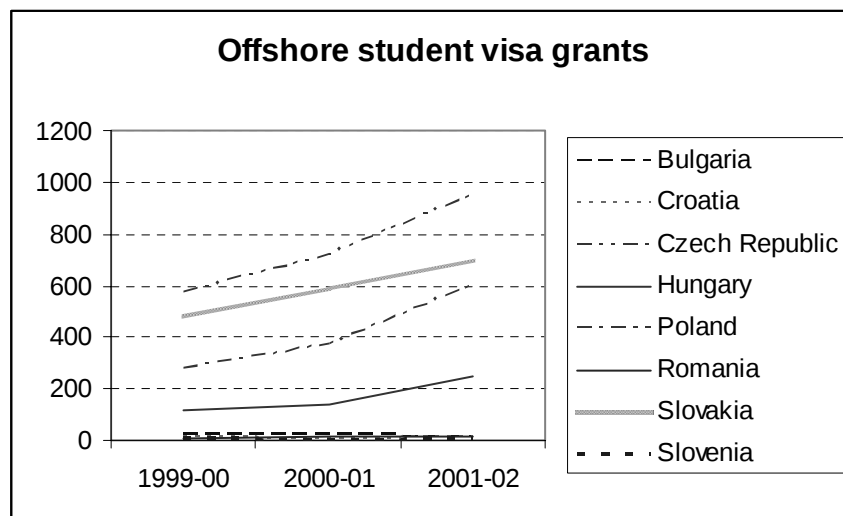
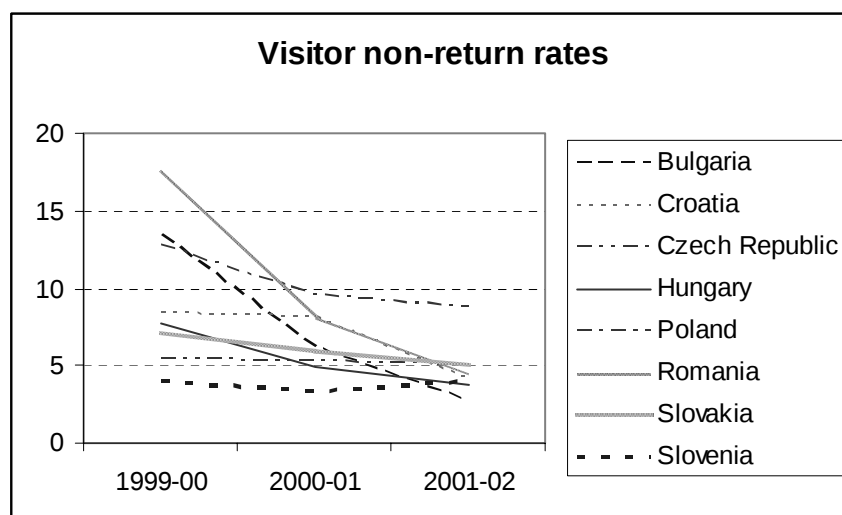


Table H.2 Visitor non-return rates (see graph below)

Country of citizenship	1999-00	2000-01	2001-02
Bulgaria	13.37	6.18	2.71
Croatia	8.42	8.12	4.1
Czech Republic	5.43	5.31	4.97
Hungary	7.72	4.96	3.68
Poland	12.72	9.54	8.82
Romania	17.55	7.98	4.33
Slovakia	7.05	6.0	5.07
Slovenia	3.94	3.34	4.03

Source DIMIA, Submission No 22, p 12.





Appendix I - EIU/Pyramid Research e-readiness rankings 2001

E-readiness ranking (of 60)	Country	E-readiness score (of 10)
E-business leaders		
1	US	8.73
2	Australia	8.29
3	UK	8.10
4	Canada	8.09
5	Norway	8.07
6	Sweden	7.98
7	Singapore	7.87
8	Finland	7.83
9	Denmark	7.70
10	Netherlands	7.69
11	Switzerland	7.67
12	Germany	7.51
13	Hong Kong	7.45
E-business contenders		
14	Ireland	7.28
15	France	7.26
16 (tie)	Austria	7.22
16 (tie)	Taiwan	7.22
18	Japan	7.18
19	Belgium	7.10
20	New Zealand	7.00
21	South Korea	6.97
22	Italy	6.74
23	Israel	6.71
24	Spain	6.43
25	Portugal	6.21
E-business followers		

26	Greece	5.85
27	Czech Republic	5.71
28	Hungary	5.49
29	Chile	5.28
30	Poland	5.05
31	Argentina	5.01
32	Slovakia	4.88
33	Malaysia	4.83
34	Mexico	4.78
35	South Africa	4.74
36	Brazil	4.64
37	Turkey	4.51
38	Colombia	4.24
39	Philippines	3.98
40 (tie)	Egypt	3.88
40 (tie)	Peru	3.88
42	Russia	3.84
43	Sri Lanka	3.82
44	Saudi Arabia	3.80
45	India	3.79
46	Thailand	3.75
47	Venezuela	3.62
E-business laggards		
48	Bulgaria	3.38
49	China	3.36
50 (tie)	Ecuador	3.30
50 (tie)	Iran	3.30
52 (tie)	Romania	3.20
52 (tie)	Ukraine	3.20
54 (tie)	Algeria	3.16
54 (tie)	Indonesia	3.16
56	Nigeria	2.91
57	Kazakhstan	2.76
58	Vietnam	2.76
59	Azerbaijan	2.72
60	Pakistan	2.66

Source Economist Intelligence Unit

(http://www.ebusinessforum.com/index.asp?layout=rich_story&doc_id=367&country_id=&title=The+Economist+Intelligence+Unit%2FPyramid+Research+e%2Dreadiness+rankings&channelid=6&categoryid=20) 24 June 2003.



Appendix J - Central European trade and investment development agencies

Bulgarian Foreign Investment Agency - www.bfia.org

Bulgarian Trade Promotion Agency - www.bepc.government.bg

CzechInvest - www.czechinvest.org

Hungarian Investment and Trade Development Agency - www.itd.hu

Polish Agency for Foreign Investment - www.paiz.gov.pl

Romanian Agency for Foreign Investments - www.arisinvest.ro

Romanian Foreign Trade Centre - www.traderom.ro

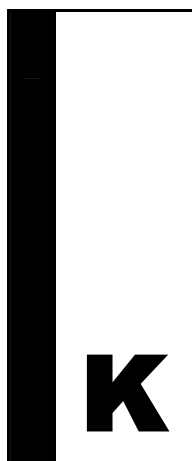
Slovak Trade and Investment Development Agency - www.sario.sk

Slovenia Trade and Investment Promotion Agency - www.investslovenia.org

For information on Australia's trade and investment promotion agencies see:

Australian Trade Commission – www.austrade.gov.au

Invest Australia - www.investaustralia.gov.au



Appendix K – KPMG's Corporate Tax Rates Survey (selected countries)

Country	1 Jan 2002 (%)	1 Jan 2003 (%)
Australia	30	30
China	33	33
Croatia	20	20
Czech Republic	31	31
France	34.33	34.33
Germany	38.26	39.58
Hungary	18	18
Malaysia	28	28
Poland	28	27
Portugal	33	33
Romania	25	25
Russia	24	24
Slovak Republic	25	25
United Kingdom	30	30
United States	40	40

Source KPMG's Corporate Tax Rates Survey – January 2003