

## **Opportunities in the Gulf**

- 3.1 Throughout the range of meetings the committee held, members were provided with a plethora of suggestions and recommendations from a range of perspectives. Although some were clearly more valid than others in terms of their potential for Australian trade, Chapter 3 will provide a 'quick glance' over the issues covered and suggestions made.
- 3.2 As with previous chapters this chapter will only cover the countries visited. The other countries of the inquiry will be covered in the forthcoming inquiry report.

## Meeting with Members of the Kuwait National Assembly



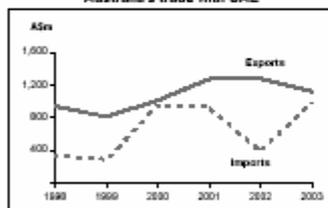
## United Arab Emirates

### Economic Overview

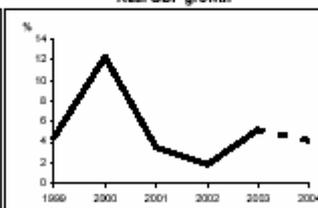
#### Recent economic indicators:

	1999	2000	2001	2002	2003(a)	2004(b)
GDP (US\$bn):	54.9	70.2	69.2	71.0	78.4	73.7
GDP per capita (US\$):	19,624	21,952	19,779	18,677	19,593	17,547
Real GDP growth (% change YOY):	4.4	12.3	3.5	1.8	5.2	4.1
Current account balance (US\$m):	3,487	13,752	9,948	8,440	12,365	5,206
Current account balance (% GDP):	6.3	19.6	14.4	11.9	15.8	7.1
Goods & services exports (% GDP):	70.2	74.0	73.9	73.5	76.2	74.8
Inflation (% change YOY):	2.1	1.3	2.7	2.9	3.2	3.0
Unemployment rate (%):	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

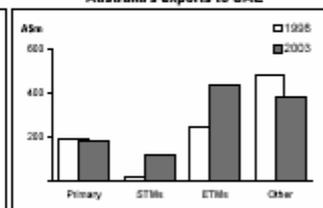
Australia's trade with UAE



Real GDP growth



Australia's exports to UAE



#### Australia's trade relationship with UAE:

##### Major Australian exports\*, 2003 (A\$m):

Passenger motor vehicles	247
Zinc	98
Meat (excl. bovine)	49
Live animals	25
Motor vehicle parts	16

##### Major Australian imports, 2003 (A\$m):

Crude petroleum	876
Liquefied propane & butane	13
Structures of iron, steel or aluminium	12
Jewellery	10
Glassware	9

\*Includes A\$360m of confidential items, 32.1% of total exports.

## Opportunities

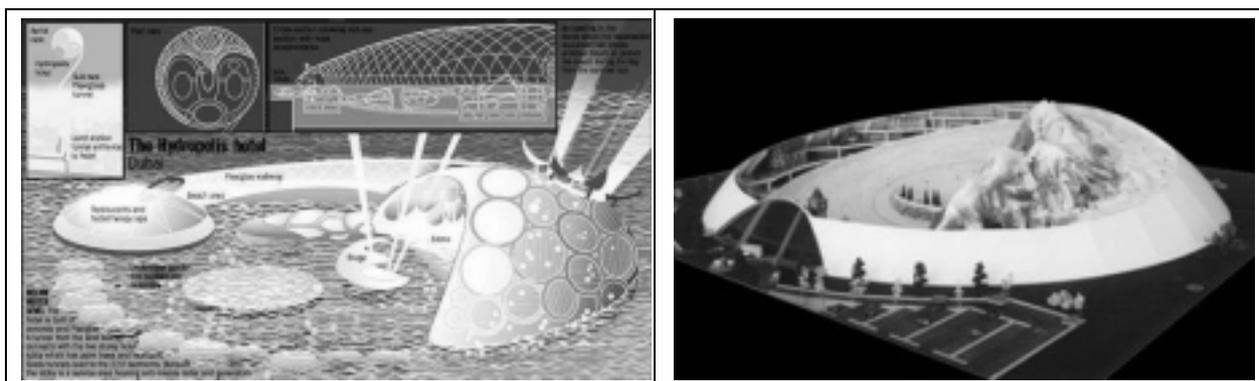
- 3.3 The region provides extensive opportunities for Australian exporters and investors. Growth in GDP in the Gulf region is currently running at 5% per annum.<sup>1</sup> Growth for Dubai was 6.2% in 2003 and at a similar level for Abu Dhabi.
- 3.4 Dubai is also working to establish itself as the regional services centre, modelling itself as the Singapore of the Middle East. To achieve this it is moving quickly to develop all the necessary infrastructure, which drives many of the development projects underway. There are also three free trade zones in the UAE: one in Abu Dhabi, one in Dubai and one in the eastern region.
- 3.5 As of the visit to the region by the committee, 622 multi-storey buildings were under construction in Dubai. Retail space is to increase four fold by 2010 making Dubai the most densely 'shopped' in the world. Emirates Mall which is currently under construction will be the largest shopping centre in the world outside the USA at 225 000 square metres.
- 3.6 On top of the impressive construction facts for Dubai mentioned earlier, fifty five star hotels are currently under construction and hotel occupancy rates are running at more than 90%. Dubai in 2002 sold 4.26 million hotel room nights<sup>2</sup> in 1996, which represented 146% growth since 1996.
- 3.7 In terms of traffic through Dubai in 2002, 18 million passengers passed through Dubai airport, as compared to approximately 25 million through all Australian airports per annum. With a doubling of flight and terminal capacity, this figure for Dubai is likely to double by 2012.
- 3.8 With Palm Island I nearing completion and having been sold out within weeks, Palm Island II is under construction as well as a third, larger project with an island complex in the shape of the globe. There is also an underwater hotel under construction and a year round ski complex.

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1 Peter Linford, Austrade STC Dubai, *Briefing to committee*, 12 April 2004.

2 One room-night is one hotel room rented for one night

Planned underwater hotel (left) and planned indoor skil centre (right)



Source Peter Linford, Austrade STC Dubai, *Briefing to committee*, 12 April 2004.

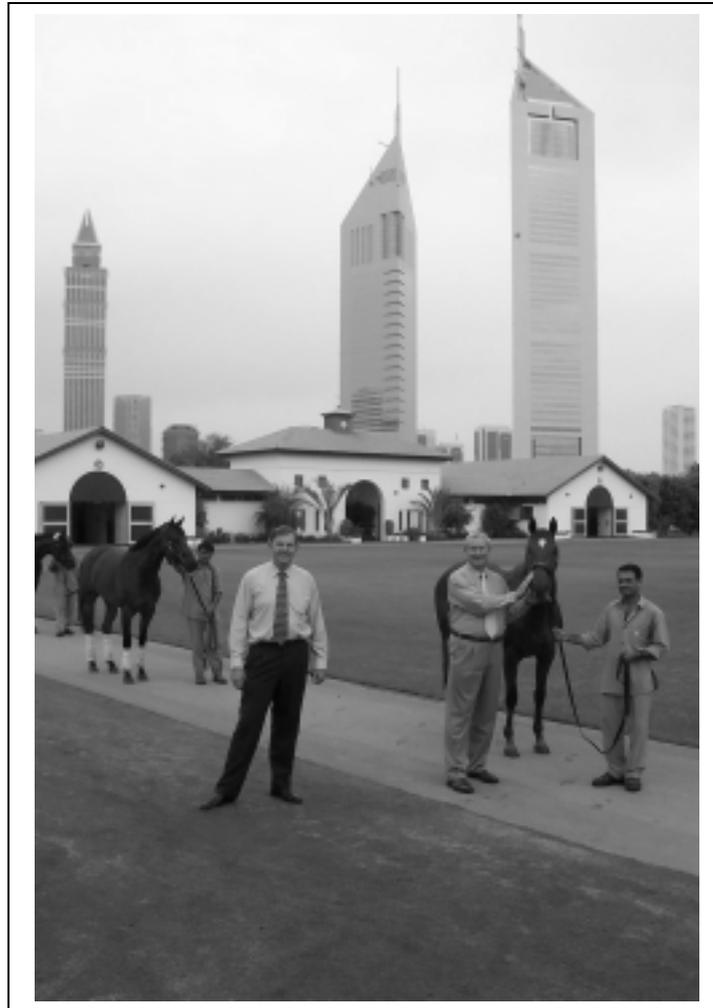
- 3.9 Dubai is also working to develop a number of high value commercial and services 'clusters'. Among them are the Dubai International Financial Centre, Internet City, Knowledge Village, Healthcare City and Dubailand. As mentioned Dubailand is a US\$5 billion project which will cover 185 million square metres of land (which would cover an area 13km by 13km)<sup>3</sup> and incorporate numerous theme parks, zoos, health resorts, schools, hotels, skiing, film production facilities, sports facilities (including a formula one racing track), cinema complex, museums, art gallery and other attractions.

## Conclusions

- 3.10 The UAE was clearly the standout in terms of the level of development of a modern economy and society. It clearly had the best and most modern infrastructure of the region and operated as a very business friendly environment. It also provides a relaxed environment for business people servicing the region.
- 3.11 The ambition and vision of the government of UAE is breathtaking and the results of their efforts to date have been extremely impressive. Dubai clearly is the hub for the region and the committee would encourage Australian exporters and investors to use it as such. Using Dubai as an entry point or basing Middle East operations in Dubai appears to be a prudent step into the market and is clearly the entry point of choice for international business.
- 3.12 The committee would also suggest that Austrade strengthen further its resources in Dubai to encourage Australian businesses to explore opportunities in the region and use Dubai as a hub.

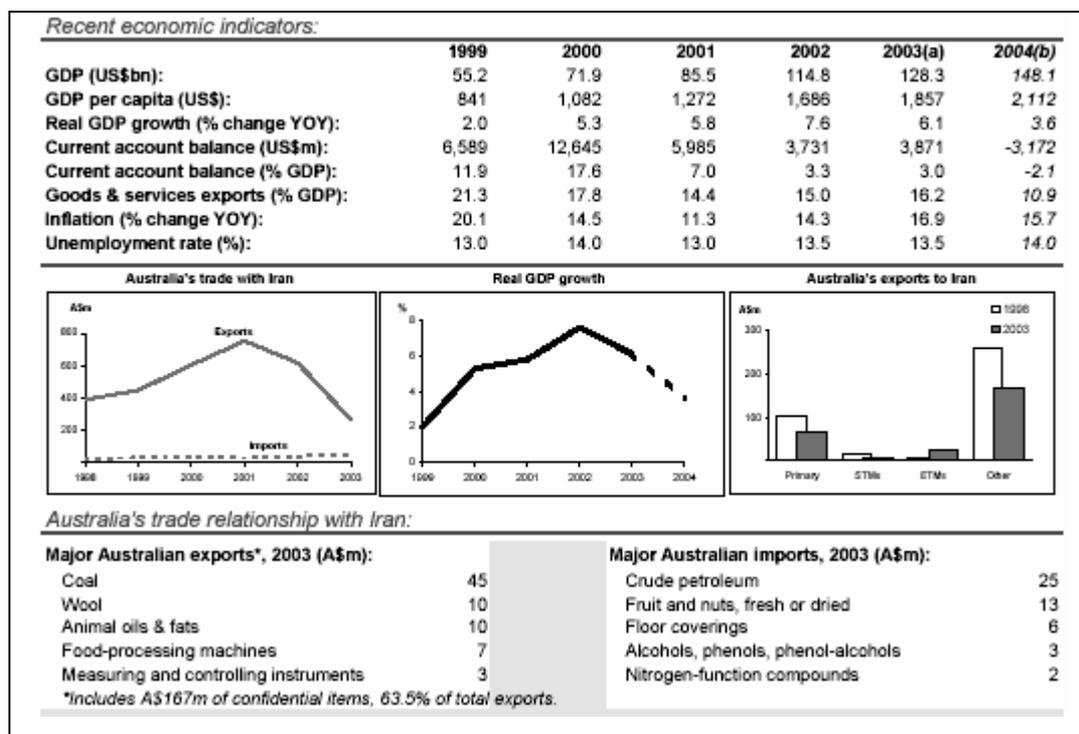
<sup>3</sup> Peter Linford, Austrade STC Dubai, *Briefing to committee*, 12 April 2004.

Delegation members touring Zabeel Stables in Dubai



## Islamic Republic of Iran

### Economic overview



- 3.13 With GDP growth levels in the 5-7% range, a population of 65 million and a economic reformist momentum in the country, Iran is believed to have significant long term potential.
- 3.14 The meetings held in Iran confirmed that there is a degree of consensus on the need for economic reform. Like most other countries in the region, Iran has a large number of young people, with 70% of the population being under 30 years of age. All sources acknowledged the challenge this poses and the consensus on economic reform is the broad response.
- 3.15 In terms of economic performance Iran has done well in recent years. 2004, the last year of the 3<sup>rd</sup> Economic Development Plan saw growth reaching 7.4%. The Central Bank expects 2005 to deliver a more modest but still commendable 6.5% growth.

- 3.16 Inflation which has been a problem through the 1990s has been reduced to 15% and the Central Bank hopes to have down to less than 10% within the next couple of years.
- 3.17 In terms of economic liberalisation Iran plans to reduce the corporate tax rate from 60% to a more competitive 25%. It has a tax holiday arrangement for industrial and manufacturing investors. It has recently introduced new laws of foreign direct investment. Iran has also expressed interest in WTO membership.
- 3.18 The banking sector, like most sectors in Iran, is either heavily regulated or owned by government. Some efforts have been made to partially privatise some banks and the first licenses for private banks have been issued. The 4<sup>th</sup> Economic Development Plan has also given more independence to the Central Bank.

## Opportunities

- 3.19 The potential size of the market is an attractive aspect of Iran. If its current growth levels are maintained there will be substantial opportunities for Australia. The difference between Iran and the other Gulf countries however, is that trading or investing in Iran would require longer term efforts. High levels of regulation and reasonably restrictive investment conditions mean that efforts to invest or trade require a degree of effort and commitment that would not be needed in the more open economies such as UAE.

The delegation meeting with representatives of the Iran-Australia Chamber of Commerce and Industry



- 3.20 Some of the significant areas of potential economic cooperation appeared to be in agriculture and agricultural technology. Strong similarities between the climates and Australia's perceived technological lead in this area prompted the Iranian Deputy Minister for Agricultural Jihad make numerous suggestions for cooperation in this area. CSIRO is a good example. It has undertaken a number of consultancies in Iran, contributing to Australia's reputation and profile and positioning itself well for future commercial opportunities.
- 3.21 Throughout discussions three main areas of interest emerged in terms of increased cooperation. These were:
- Agricultural knowledge transfer – Australia is viewed as a leader and Iran wishes to develop its agriculture and draw on Australia's expertise through some mutually beneficial cooperative arrangements.
  - Post harvest technology – Australia is again viewed as a leader in the field and Iran wants to improve dramatically on its 30% spoilage rates for fresh produce.
  - Vocational training in agriculture – in line with the above suggestions it was believed that Australia could assist in vocational agricultural education through some cooperative arrangements.
- 3.22 Iran was also keen to invest heavily in exploiting its enormous oil and gas reserves. Massive investment is required to do this and all meetings suggested that Iran is keen to attract Australian investment and expertise. BHP unfortunately, after trying for several years to build an enterprise in Iran, curtailed its efforts in late 2001.
- 3.23 Clearly Australia's traditional strengths in such primary industries, places it well in regards to develop such opportunities.
- 3.24 A very important aspect of the 4<sup>th</sup> Economic Development Plan in Iran is the development of manufacturing industries. Accordingly foreign investors in manufacturing are obliged to take a local partner. They then in turn receive a range of benefits mainly in the form of tax exemptions. A range of Japanese, South Koreans and European firms have taken up these opportunities to locally produce cars, whitegoods and other manufactures.

- 3.25 The Deputy Minister for International and Economic Affairs pointed out that 52 joint industrial projects had been approved in 2003 valued at around USD 200 billion.<sup>4</sup>
- 3.26 Another opportunity raised by the Iran Chamber of Commerce and Industry is the expected demand for cheap housing and building materials. The demographic challenge mentioned previously and the high growth rate mean the emerging middle class will need to be housed. Accordingly representatives of the chamber believed that housing materials will be in great demand in the future.
- 3.27 The committee feels that Australia is strong in this field, especially in the provision of cheap housing (such as kit homes) and could find export opportunities in Iran.
- 3.28 The Chamber believes opportunities also exist for trade in a range of other areas including:
- mining and energy
  - agricultural technology (especially in post harvest technology)
  - raw materials for building (such as masonry)
  - English language training
  - tourism training
- 3.29 One issue of concern which was raised several times was the inability of Iranian firms to provide credit card facilities. The US embargo on Iran meant major credit card operators were unable to work in Iran and accordingly the committee felt that this would disadvantage in Iran in some sectors such as tourism.
- 3.30 Australia's strong track record in construction both at home and in the region also places it well to pursue major infrastructure projects as they arise in Iran.
- 3.31 The committee believes there are facilitative steps the Australian government should take to enable opportunities to be pursued. The main one is an investment protection agreement between Iran and Australia. The committee believes such an agreement should be expedited.

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4 Meeting notes.

**Recommendation 1**

**The committee recommends that the government expedite an investment protection agreement between Australia and Iran**

- 3.32 As incomes rise in Iran and the economy opens, the demand for higher quality health and education services is likely to grow. The committee believes Australian strengths in these areas will position it well.

**Agriculture**

- 3.33 As pointed out in Chapter 2, there are two categories of agricultural opportunities for Australian firms in the region: food and beverage products to those Gulf countries without agriculture, and agricultural technology and expertise to those that do have agriculture.
- 3.34 Iran fits into the second category, having worked to develop its agriculture over past five year plans. The industry has many problems however, and the similarity between Iran's and Australia's climates mean Australian agriculture has a lot to offer Iran in terms of technology and expertise. Unfortunately this also means that Australia is unlikely to be able to easily export food and beverage products into Iran.
- 3.35 One suggestion raised by Deputy Minister Dr Emadi from the Ministry of Agriculture, who undertook his doctoral studies in Australia, was that Iran and Australia jointly host and fund a major symposium to discover areas of potential technical cooperation and mutual gain. The symposium should have three components, reflecting areas of greatest perceived potential:
- Mining
  - Agriculture and agricultural (including dry land farming, forestry and vocational agricultural training)
  - Post harvest technology

Delegation meeting with the Deputy Minister from the Ministry of Agriculture, Dr Emadi (a research alumnus of the University of Western Sydney)



3.36 The committee feels that such a symposium should be structured so as to complement the Joint Ministerial Commission process.

### **Recommendation 2**

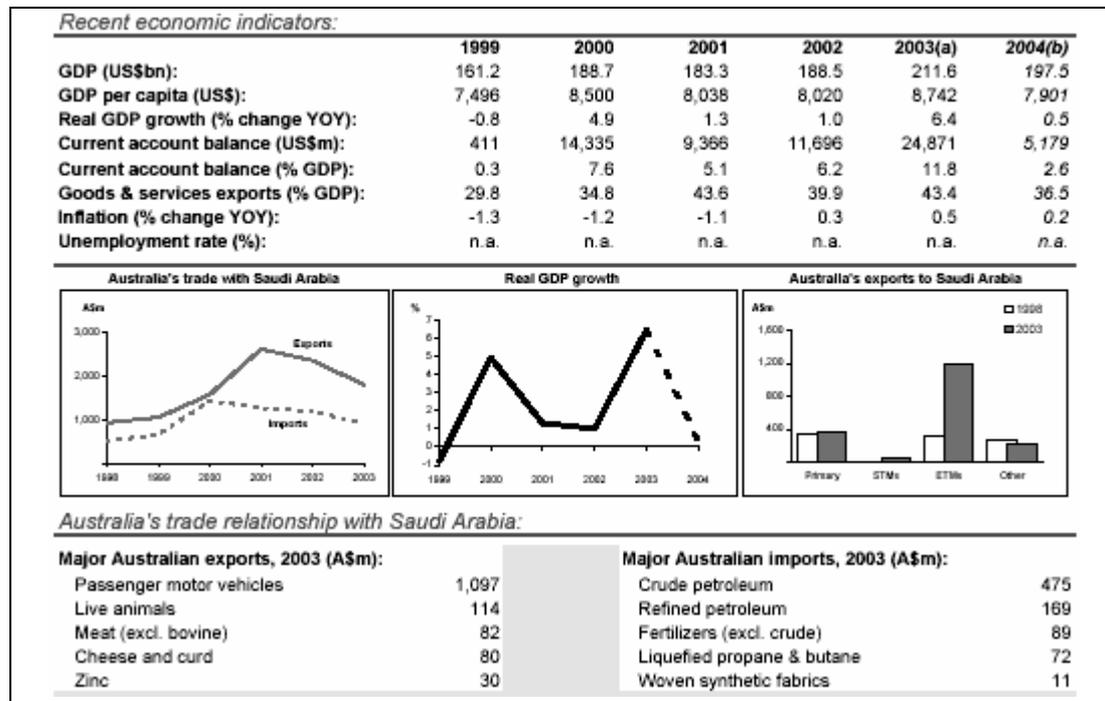
**The committee recommends the Australian government jointly host a symposium to investigate areas of potential technical cooperation between Australia and Iran. The symposium should include the following three components:**

- **Mining**
- **Agriculture and agricultural training (including dry-land farming, forestry and vocational agricultural training)**
- **Post harvest technology**

3.37 The Iran Chamber of Commerce also informed the committee that a trade delegation comprising 42 of its members will be travelling to Australia in the near future.

## Saudi Arabia

### Economic overview



- 3.38 Saudi Arabia has the second largest population and the largest economy in the region. It is therefore a major part of the GCC economy and a key market in the region.
- 3.39 As is clear above the bulk of Australia's exports to Saudi Arabia are cars and agricultural produce. Also as evidenced by figures in Table 2.1 Australian exports to Saudi Arabia have almost tripled since 1998.
- 3.40 Saudi Arabia has similar characteristics to other Gulf States. It has similar challenges as other Gulf States such as a high proportion of youth in the population, a lack of job opportunities and a heavily oil dependent economy.
- 3.41 It too is trying to diversify and liberalise the economy so as to create the growth that will create jobs for the young population.
- 3.42 Opportunities for traditional exports to Saudi Arabia such as live animals and foodstuffs remain. The live sheep export issue which arose during 2003 is currently being addressed and both Saudi Arabia and Australia are optimistic for a successful outcome.

## Opportunities

- 3.43 The most obvious new opportunity for Australian exports stemming from the success in exporting cars to Saudi Arabia is the potential for the sale of more cars and after market car accessories. Toyota recently celebrated the 300,000th Australian built Camry to be delivered to the Middle East,<sup>5</sup> the bulk of which have gone to Saudi Arabia.
- 3.44 Automotive exports have clearly been a magnificent success for Australia and the longer the success is sustained the bigger the market for accessories will become.
- 3.45 In trying to develop and diversify its economy, the government of Saudi Arabia is investing heavily in infrastructure, much like in the other Gulf States. This includes both social infrastructure (health and education) and physical infrastructure such as roads, highways, ports etc.
- 3.46 Australia is clearly very strong in both of these fields and is already established in the region in both fields in some form. Australian health professionals and trainers are common in Saudi Arabia and the region, and Australia construction firms are very well established in other parts of the Gulf especially the UAE. Saudi Arabia has plans to develop its railways and the mining sector.

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5 Sunday Times (Perth), 9 May 2004.

### The delegation meeting with the President of the Riyadh Chamber of Commerce and Industry



- 3.47 The committee believes good opportunities in Saudi Arabia are common but as the Senior Trade Commissioner to Riyadh points out, doing such business in Saudi Arabia is closely tied to personal relationships. The Senior Trade Commissioner also pointed out that Australia does well in the region when it concentrates on supplying niche markets in which Australian products are particularly good.
- 3.48 Cheap housing is an area of developing opportunity. Like other countries in the Gulf the growing and reasonably wealthy population means a growing demand for quality, affordable housing. Australia would be well placed to supply this market.
- 3.49 Another area of potential in a relatively wealthy market is in the export of leisure goods. Like in the UAE, a substantial proportion of the population is cash rich. Accordingly leisure goods and consumables are in demand. Australian exporters in these areas could benefit.
- 3.50 Following Australia's success in automotive sales, the committee feels that the market for maritime leisure craft in Saudi Arabia could be a good opportunity for Australian producers. Saudi Arabia is aware of Australia's expertise in the area but as yet there have not been many sales.

- 3.51 When asked about the potential for Saudi Arabian students to study in Australia several respondents at meetings suggested there is a perception that it is quite difficult for Saudi nationals to obtain Australian student visas.
- 3.52 Although this appears not to be the case, the paucity of DIMIA representation in the region (see Appendix B) appears to have made fast visa processing difficult at times. The committee believes that DIMIA should reconsider its representation in the region to ensure faster processing of visas for the region, bearing in mind the export potential for Australia of countries such as Saudi Arabia, Kuwait and Qatar. Associated administrative arrangements in Australia should support any representative changes overseas.

### Recommendation 3

**The committee recommends that DIMIA consider strengthening its representation across the Gulf region. This should ensure faster processing of visas for key economies in the region in light of the growing opportunities in the Gulf States.**

- 3.53 The committee heard several times during the visit that Gulf governments were looking to diversify their sources of imports, and Australia would have a window of opportunity to capitalise on this. In terms of defence procurement and training, Saudi Arabia was a massive importer of US defence hardware and services such as training.
- 3.54 The committee felt that Australia currently has an opportunity to capitalise on this in the region. Australia over the last decade has positioned itself well in education exports but the same thinking had not penetrated defence. Accordingly Australia's defence representation in the region was tiny relative to the opportunities in this area (with 2 representatives in Riyadh and 1 in Abu Dhabi).
- 3.55 The committee understands that the government is currently developing a strategy for exporting defence hardware and services to the region.
- 3.56 The committee strongly supports this process and would like to recommend that the government consider carefully the level of defence export related representation in the region, and how various representatives from different agencies will cooperate for the best

results. It would also suggest the government consider the potential long term benefits that may arise from Gulf nationals undertaking military training in Australia.

- 3.57 The recent success of Australia selling approximately AUD100 million worth of patrol boats to the Yemeni government is a good example of the potential in the region.

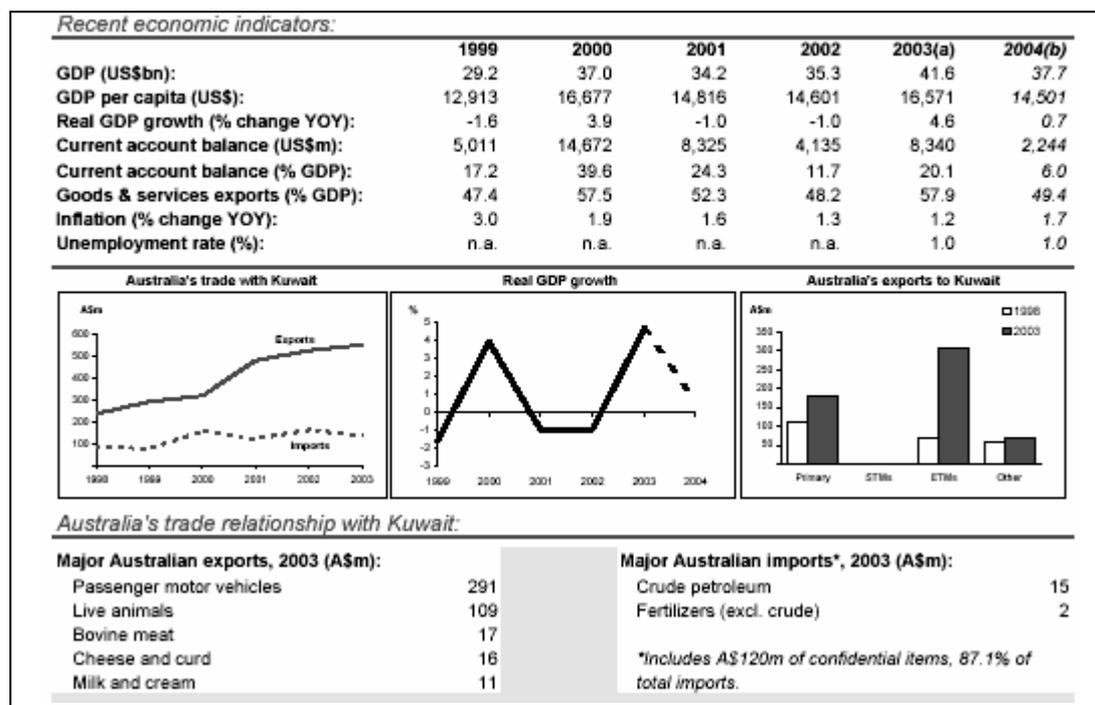
#### **Recommendation 4**

**The committee strongly supports the government's plans to develop a strategy for the export of defence related hardware and services to the region. The committee recommends the strategy consider:**

- **What specific opportunities exist for the export of defence related hardware and services**
- **How the relevant agencies should cooperate, in terms of resourcing and personnel posted to the region, to optimise defence related exports to the region**
- **The long term export opportunities which would flow from Gulf nationals undertaking military training in Australia**

## Kuwait

### Economic overview



- 3.58 Kuwait's economy is typical of the region. It is heavily oil dependent, looking to diversity both its economy and its sources of imports. It has a very young population (60% of the population under 30 years of age).
- 3.59 It is working to liberalise its economy and encourage private sector development. It is working on reforming its foreign investment laws and altering its tax regime to make it more investor friendly.

### Opportunities

- 3.60 Like in most of the other countries of the Gulf, Kuwait lacks a health system of the standard of Australia. Its health system is being developed but relies heavily on overseas health services providers. Once again Kuwait would have traditionally looked to the US and UK as sources of these services and Australia has an opportunity to target this market.

- 3.61 This would include both seeking health services in overseas destinations like Australia, but also in buying the provision of training services in Kuwait in order to train its own health workforce as the sector is developed.
- 3.62 The same is true for education services and education training. As the sector is being developed there will opportunities both to sell education services in Australia and also to provide them in Kuwait.
- 3.63 Tourism is one sector of the domestic economy the Kuwait government would like to expand. Once again its lack of training facilities and capacity provides an opportunity for Australian tourism VET.
- 3.64 Bearing in mind that Australia's Gold Coast is already a popular destination for Kuwaiti tourists, the committee felt that the packaging of tourism with healthcare services could be lucrative.
- 3.65 Kuwait also seeks to diversify its sources of imports and as with Saudi Arabia, Australia represents an alternative to dominant US military hardware and services suppliers. Accordingly the recommendation above, to do with investigating such opportunities and reconsidering the number and role of military postings in the region, applies equally to Kuwait.

The committee meeting with CEO and President of Kuwait Flour Mills and Bakeries



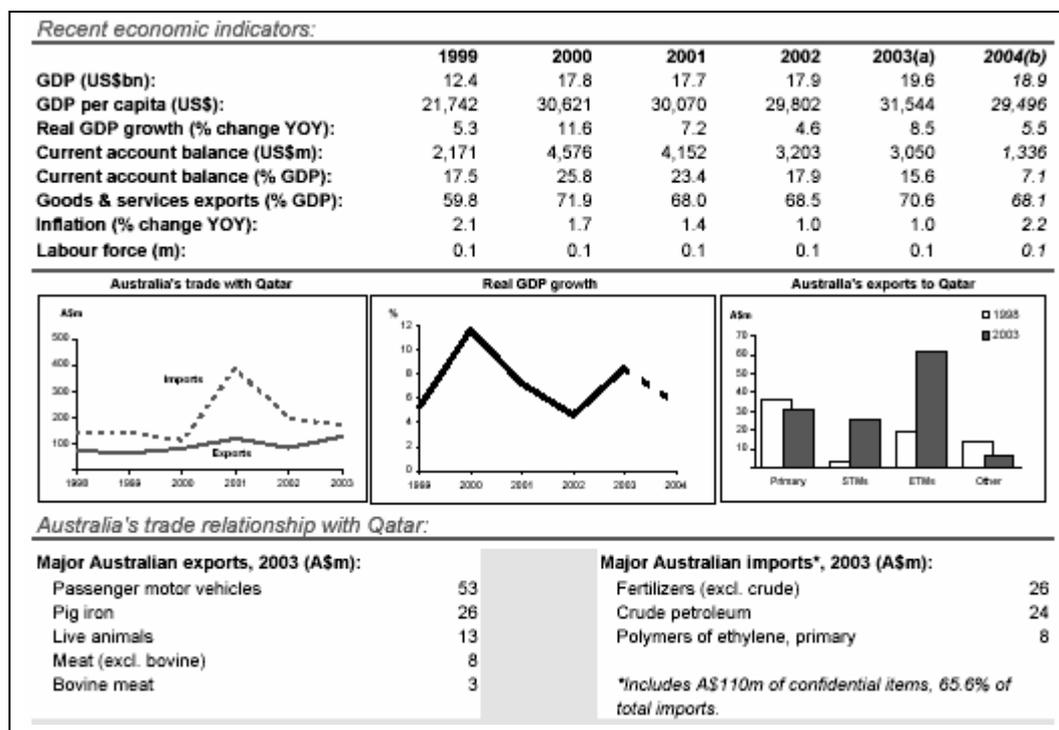
- 3.66 At the meeting with the Kuwaiti Deputy Prime Minister and Minister for Defence the issue of Australian patrol boats was raised, based on

the recent sale of Australia patrol boats to Yemen. The Deputy Prime Minister was interested in this fact and suggested his department might investigate Kuwait's needs and in the future in terms of patrol boats.

- 3.67 Suggestions were also made to the committee about the opportunities to enter the Iraq market through Kuwait. Roughly one thousand trucks a day cross from Kuwait into Iraq carrying all manner of goods according to the Kuwait Minister for Trade and Industry. Kuwait also has a free trade zone near the border with Iraq. The Kuwaitis therefore believe that the best country through which to enter the Iraq market at the moment is Kuwait, a view for which the committee has some sympathy.
- 3.68 The committee was also fortunate to meet with the CEO and President of Kuwait Flour Mills and Bakeries (KFM) Mr Salah M. Al Kulaib. KFM buys all its wheat from Australia through AWB and had done so for over 20 years. The committee was surprised to learn that it had been the first high level Australian visit to KFM over this period – an unfortunate oversight considering the loyalty showed to Australian wheat and AWB.
- 3.69 This reinforced the committee's view that the UAE received a lot of Australian official attention but neighbouring countries, some providing equally good opportunities, tended not to draw official visitors.

## Qatar

### Economic overview



- 3.70 Australia's visit to the Qatar was an unscheduled addition to the visit program. While in Dubai the committee received an invite from the CEO of Qatar Airways Mr Akbar Al-Baker for the delegation to visit Qatar. The committee accepted the offer and spent a day in Doha.
- 3.71 Unlike the other countries visited the visit to Qatar involved only one substantial meeting, a tour of a range of construction projects and a working lunch. The committee spoke at length with Mr Al-Baker, senior executives of Qatar Airways and some Qatar based expatriate Australians working in hospitality.
- 3.72 The opportunities discussed below are drawn mainly from information gained at Qatar Airways meetings and information supplied by their staff. There are however many similarities with the region allowing the committee to draw broader conclusions from the discussions in Doha.

## Opportunities

- 3.73 Qatar's GDP per capita is one of the highest in the world – higher than Australia's (see overview above) and the highest in the Gulf region. It also has one of the largest reserves of natural gas in the world, which assures Qatar of windfall revenue for the indefinite future.

### The committee meeting with the CEO of Qatar Airways and executives



- 3.74 As mentioned in Chapter 2, Qatar has plans to spend AUD 7.03 billion<sup>6</sup> on infrastructure projects over the next 6 years. This includes AUD 3.2 billion on roads, AUD 1.98 billion on buildings, AUD 684 million on sewerage facilities and \$1.14 billion on health and education facilities.<sup>7</sup>
- 3.75 As of the visit by the committee 46 major infrastructure projects were in train, worth more than AUD 390 million.

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6 Exchange rate taken from Oanda (<http://www.oanda.com/convert/classic>) on 7 May 2004.

7 *Speech by Qatari Minister of Municipal Affairs and Agriculture to MEED conference on major projects and investment opportunities in Qatar, January 2004.*

- 3.76 Such construction plans were very impressive and it was noted that some Australian companies were already involved in Qatar, such as GHD Consulting.
- 3.77 Qatar was also in the process of developing an alumina smelter worth about AUD 3.5 billion which will when finished produce 700,000 to 1 million tonnes of alumina per annum.
- 3.78 Although it was clear there were not as many Australians and Australian companies in Doha as there were in Dubai, the scale of development plans here and the staggering value of natural resources at the disposal of Qatar's government in the medium and long term, make Qatar a good long term prospect for trade and investment.
- 3.79 Qatar has similar issues as other Gulf countries – in terms population, narrowly based economies and threats to stability – but clearly there are also many opportunities.
- 3.80 Mr Al-Baker was also interested in having Qatar Airways emulate Emirate's success with daily flights to Australia. Clearly this would only ease trade flows and add to the potential for trade and investment.
- 3.81 Mr Al-Baker suggested that he would be more than happy to lend his support to a Qatar investment authority visit to Australia. The committee feels that this important offer and similar ones could be pursued by an Invest Australia presence in the region (see Recommendation 6).