

## **Australia's Trade Relationship with the Region**

6.1 The Committee received 28 submissions whose main focus was on Australia's trade relations with the Middle East. Four submissions were made by companies (Qantas, Kraft Foods, SAGRIC International and AWB Ltd), while another four came from individuals with an interest in trade. Twenty submissions came from various organisations with an interest in trade issues, both Government and private, such as the Department of Foreign Affairs and Trade (DFAT) and the Australian Chamber of Commerce and Industry (ACCI).

### **Key Findings**

6.2 Key findings of the Committee were:

- In trade terms, the Middle East is more important to Australia than we are to that region.
  - ⇒ In 1999, the Middle East consumed 4.7 per cent of Australia's total exports, while Australia received 0.7 per cent of the Middle East's total exports.
  - ⇒ In 2000, Australia had a surplus of exports over imports with all countries in the Middle East, except Israel and Qatar.
- An 'increasing mis-match' between Australia and the Middle East was identified. This needs to be reversed.
- Australia's exports in 2000 to the 14 countries of the Middle East covered by this Inquiry are relatively small, totalling \$5.6 billion—the same figure as Australia's exports to Taiwan.

- ⇒ The Middle East represented 5.1 per cent of Australia's total exports. In the last 20 years this figure has fluctuated widely between a high of 8.2 per cent in 1982 and a low of 2.5 per cent in 1995.
- ⇒ Australia's major export markets in the Middle East in 2000 were: Saudi Arabia (\$1.6 billion); UAE (\$1.0 billion); Iran (\$0.6 billion); and Iraq (\$0.6 billion). Exports to Israel totalled \$244 million (4.4 per cent of total exports to the Middle East).

- The USA was by far the biggest supplier to the Middle East in 1999, followed by Japan, the UK, and Germany.
  - ⇒ Australia supplied 1.9 per cent of total imports into the Middle East in 1999. This was slightly less than our market share in 1990.
  - ⇒ Australia has a marginally bigger market share of imports into the Middle East than Canada, Brazil, or South Africa.
- Australia's exports to the Middle East are dominated by primary products. Passenger Motor Vehicles (PMVs) is the only elaborately transformed manufacture (ETM) which has made substantial inroads.
- Australia's imports from the region are mainly crude and refined petroleum.
- The Middle East is a relatively small, but generally high-yield, source of tourists to Australia.
- Australia attracts less than 1% of Middle East students who study higher education courses overseas.

6.3 The submissions and hearings identified a number of suggestions for improving trade relations between Australia and the Middle East. The Committee has made several recommendations which, if implemented, could result in increased exports by Australia from the Middle East.

6.4 All values in this chapter are expressed in Australian dollars unless otherwise shown. Totals have normally been rounded to one decimal place. Appendix G contains updated Country Fact Sheets from the DFAT website, which include trade data for 2000.

## Australia/Middle East – Direction of Trade

### Bilateral trade

6.5 Australia's trade in 2000 with the 14 countries in the Middle East covered by this Inquiry is shown in Table 6.1 below.

Table 6.1 Australia's Trade with the Middle East in 2000, by Country, A\$ million

| Country                              | Exports from Australia | Imports into Australia | Country      | Exports from Australia | Imports into Australia |
|--------------------------------------|------------------------|------------------------|--------------|------------------------|------------------------|
|                                      | A\$m                   | A\$m                   |              | A\$m                   | A\$m                   |
| Bahrain                              | 83                     | 47                     | Lebanon      | 53                     | 7                      |
| Egypt                                | 554                    | 16                     | Oman         | 194                    | 79                     |
| Iran                                 | 604                    | 31                     | Qatar        | 81                     | 113                    |
| Iraq                                 | 590                    | 127                    | Saudi Arabia | 1,586                  | 1,429                  |
| Israel                               | 244                    | 418                    | Syria        | 19                     | 1                      |
| Jordan                               | 102                    | 3                      | UAE          | 1,016                  | 955                    |
| Kuwait                               | 322                    | 160                    | Yemen        | 129                    | 67                     |
| <b>Total all Middle East, above:</b> |                        |                        |              | <b>5,577</b>           | <b>3,453</b>           |

Source DFAT 'Composition of Trade 2000'

### Relative importance

6.6 In 1999, the Middle East accounted for 4.7 per cent of Australia's exports (5.1 per cent in 2000) while Australia received only 0.7 per cent of their exports. Table 6.2 shows the figures. Thus in trade terms the Middle East is more important to Australia than the reverse direction of trade and it is therefore in Australia's interest to nurture and develop this relationship.

Table 6.2 Middle East/Australia Exports – Relative Importance

|  | 1990        | 1995        | 1999        |
|--|-------------|-------------|-------------|
| Middle East Total Exports (US\$m) <sup>(1)</sup> | 151,500     | 167,100     | 174,800     |
| Middle East Exports to Australia (US\$m)         | 900         | 1,510       | 1,234       |
| <b>Percentage to Australia</b>                   | <b>0.6%</b> | <b>0.9%</b> | <b>0.7%</b> |
| Australian Total Exports (A\$m) <sup>(2)</sup>   | 50,892      | 71,670      | 86,893      |
| Exports to the Middle East (A\$m)                | 2,371       | 1,772       | 4,049       |
| <b>Percentage to the Middle East</b>             | <b>4.7%</b> | <b>2.5%</b> | <b>4.7%</b> |

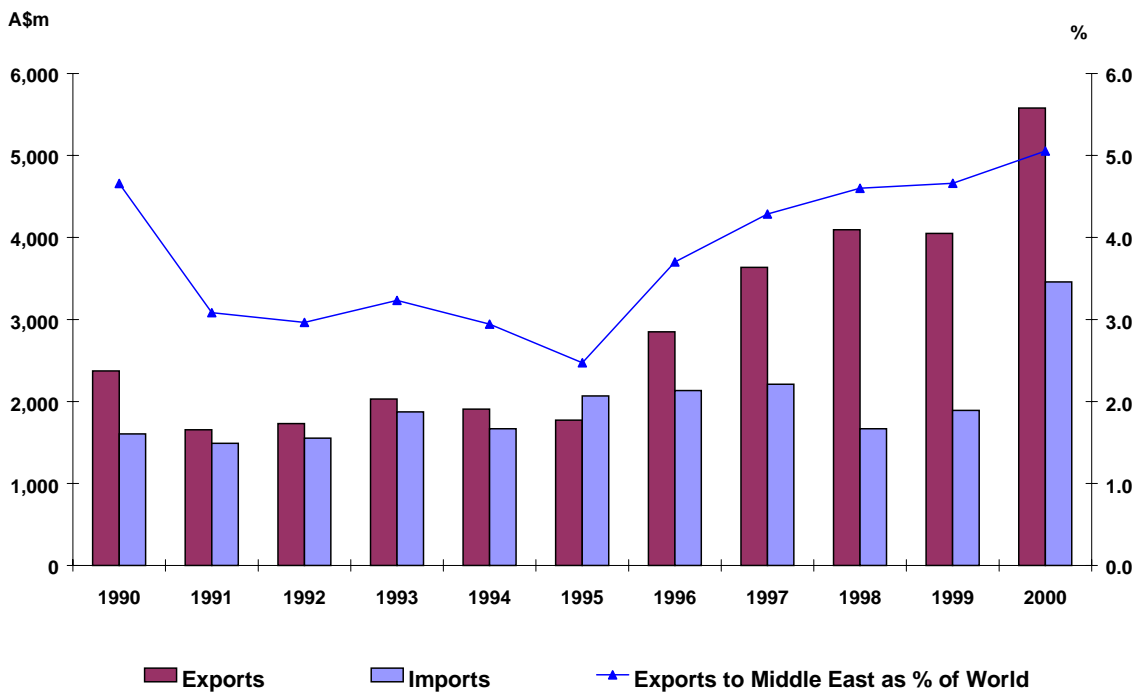
Source (1) – IMF 2000 Yearbook; (2) DFAT 'Composition of Trade 1999'

## Trade with the Middle East as a region

6.7 Australia's export and import trade with the Middle East region in the period 1990–2000 is shown in Fig 6.1 below. Australian exports to the Middle East stagnated in the early 1990s but have shown strong growth since 1996. In contrast, Australia's imports from the Middle East rose in most years between 1990 and 1997, then dipped in 1998. Imports rose slightly in 1999 and grew strongly in 2000.

6.8 The right-hand axis of Figure 6.1 shows exports to the Middle East as a percentage of total Australian exports in the period 1990–2000.

Fig 6.1 Australia's trade with the Middle East, 1990–2000, A\$m



Source DFAT Submission, p. 982.

6.9 A significant surplus in trade with the Arab countries of the Middle East is now developing in Australia's favour, as pointed out in the submission from the Australia Arab Chamber of Commerce and Industry (AACCI).<sup>1</sup> This trade imbalance is not an issue in the current era of high oil prices, but could cause tension with some countries in the future.

6.10 Table 6.3 below shows exports and imports to the Middle East as a proportion of total Australian exports.

<sup>1</sup> Submission, p. 228.

Table 6.3 Australia/Middle East Trade 1981-2000, A\$ million

|                                 | 1981   | 1985   | 1991   | 1996   | 2000    | 5 year trend<br>1996-<br>2000<br><br>% growth<br>per<br>annum | 10 year<br>trend<br>1991-<br>2000<br><br>% growth<br>per<br>annum | 20 year<br>trend<br>1981-<br>2000<br><br>% growth<br>per<br>annum |
|---------------------------------|--------|--------|--------|--------|---------|---|---|---|
| Exports to the Middle East      | 1,412  | 2,377  | 1,656  | 2,849  | 5,577   | 21.8  | 11.5  | 4.8   |
| Total Australian Exports        | 18,686 | 32,410 | 53,720 | 76,986 | 110,377 | 7.6   | 7.4   | 7.8   |
| Percentage to the Middle East   | 7.6    | 7.3    | 3.1    | 3.7    | 5.1     |   |   |   |
| Imports from the Middle East    | 1,968  | 1,389  | 1,489  | 2,132  | 3,453   | 5.7   | 5.2   | 2.1   |
| Total Australian Imports        | 20,486 | 33,130 | 49,674 | 78,410 | 116,947 | 8.9   | 9.0   | 9.5   |
| Percentage from the Middle East | 9.6    | 4.2    | 3.0    | 2.7    | 3.0     |   |   |   |

Source DFAT 'Composition of Trade'

- 6.11 The Middle East represented 7.6 per cent of Australia's total exports in 1981, rising to a high of 8.2 per cent the following year. It then steadily lost ground, reaching a low of 2.5 per cent of total exports in 1995. A strong performance since 1996, with trend growth for those five years of 21.8 per cent per annum, has seen the proportion of exports to the Middle East rise to 5.1 per cent of total exports in 2000. However, this very high rate of growth will need to be maintained for the next few years if the Middle East is to regain the share of Australia's total exports it represented 20 years ago.
- 6.12 To put Australia's exports to the Middle East region into a broader context, Australia's exports to those 14 countries in 2000 totalled \$5.6 billion—which was roughly the same value as Australia's exports to Taiwan, or the combined total of exports to the UK and the Netherlands, or 85 per cent of Australia's exports to New Zealand.

## New methodology

- 6.13 The submission made to the Committee by the Australian Chamber of Commerce and Industry (ACCI) was based on a new and innovative method of analysing trade relationships between countries and regions. The methodology was proposed by the Australian National University,

the data was provided by the Department of Foreign Affairs and Trade, and the analysis and interpretation was undertaken by the ACCI.

6.14 The methodology is complex, as ACCI explained:

... [I]t draws on several concepts: an overall trade balance; a degree of trade intensity; a degree of country bias; trade complementarity; and impact on world imports. ... The measurements ... are about ratios—a ratio of exports to imports [by Australia], ... by the Middle East, and each with the world.<sup>2</sup>

6.15 The ACCI suggests that Australia's trade relationship with the Middle East is not in good shape. Based on its modelling and analysis, the ACCI concluded that:

The general message of our work on the Middle East is one of decline in Australia's trade performance with the Middle East. Our market shares and market match are declining—in our methodology this is called an 'increasing mis-match'.<sup>3</sup>

6.16 This 'increasing mis-match' between Australia and the Middle East seems to reflect a situation where an increasing proportion of Middle East imports is sophisticated manufactured products while Australia's exports to the Middle East are still dominated by primary products. However, the proportion of ETMs in our exports to the Middle East is growing rapidly (see Table 6.4 below), and gives hope that the mismatch will at least be arrested if not reversed in the future.

6.17 The ACCI's work provides a valuable indicator for understanding the reality of the underlying trade relationship between Australia and the Middle East. The methodology used enables one to step back from the traditional and simple analysis of bilateral figures and has the potential to provide a much deeper insight into the true nature of a trade relationship.

6.18 The ACCI's methodology is still being refined. It relies on the availability of reliable trade statistics compiled under the auspices of the IMF. The limitations of some of the available statistics has meant that several countries in the Middle East have had to be omitted from the study. It is hoped that the issue of reliability of the data will diminish over time.

6.19 The Committee congratulates the ACCI on its pioneering work in developing this new methodology and believes that it has the potential to provide a useful new tool for analysing and understanding Australia's trade relationships.

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<sup>2</sup> Transcript, 20 March 2001, p. 632.

<sup>3</sup> *ibid.*

### Recommendation 13

6.20 **The Committee recommends that the Department of Foreign Affairs and Trade examine the methodology developed by the Australian Chamber of Commerce and Industry for analysing trade relationships, with a view to incorporating it in all future departmental reviews and briefs.**

### Australian imports

6.21 Australia's imports from the Middle East represented 9.6 per cent of total imports in 1981. The Middle East's share of total imports then declined, reaching a low of 1.7 per cent in 1998. Imports increased in 1999 and jumped in 2000, when the Middle East represented 3.0 per cent of total imports. Table 6.7 shows Australia's imports from the Middle East by major product category.

## Australia/Middle East - Composition of Trade

### Broad categories

6.22 Australia's exports to the Middle East are still dominated by primary products, although ETMs have taken an increasing proportion of total exports in recent years, as shown in Table 6.4:

Table 6.4 Australia's Exports to the Middle East by broad category, per cent

|                                      | 1991 | 1996 | 2000 |
|--------------------------------------|------|------|------|
| Primary Products                     | 86.0 | 86.0 | 66.4 |
| Simply Transformed Manufactures      | 5.8  | 2.0  | 2.3  |
| Elaborately Transformed Manufactures | 7.9  | 11.3 | 29.3 |
| Other                                | 0.2  | 0.7  | 2.0  |
| <b>TOTAL EXPORTS</b>                 | 100% | 100% | 100% |

Source DFAT, TREC Report

6.23 The category 'Primary Products' comprises Unprocessed Primary and Processed Primary. Unprocessed Primary includes products such as wheat and live animals. Processed Primary includes products such as meat, dairy products, and alumina. 'STM' covers products such as

precious and semi-precious stones, alloys of metal, and chemicals. 'ETM' was mainly Passenger Motor Vehicles, and also covers products such as machinery and equipment and parts. 'Other' covers non-monetary gold and special transactions.

## Top ten exports

6.24 Australia's top 10 exports to the Middle East by product category are shown in Table 6.5.

Table 6.5 Australia's Top Ten Export Categories to the Middle East, A\$ million

|   | 1996         | 1998         | 2000         | Percentage increase 1996-2000 |
|---|--------------|--------------|--------------|-------------------------------|
| Confidential items                            | 1,590        | 1,698        | 2,413        | 52                            |
| Passenger Motor Vehicles                      | 121          | 554          | 1,323        | 993                           |
| Live animals                                  | 231          | 268          | 366          | 58                            |
| Cheese and curd                               | 94           | 132          | 179          | 90                            |
| Coal  | 103          | 134          | 139          | 35                            |
| Meat (excluding bovine)                       | 85           | 110          | 131          | 54                            |
| Milk and cream                                | 30           | 69           | 103          | 243                           |
| Non monetary Gold                             | 16           | 223          | 95           | 494                           |
| Fresh vegetables                              | 56           | 49           | 89           | 59                            |
| Butter  | 49           | 82           | 84           | 71                            |
| <b>Total – Top 10 Major Categories</b>        | <b>2,375</b> | <b>3,319</b> | <b>4,922</b> | <b>107</b>                    |
| <b>Total – all exports to the Middle East</b> | <b>2,859</b> | <b>4,106</b> | <b>5,577</b> | <b>96</b>                     |
| <b>Percentage of Top Ten of all exports</b>   | <b>83%</b>   | <b>81%</b>   | <b>88%</b>   |                               |

*NOTE:* Confidential items is believed to comprise mainly wheat and alumina.

*Source* DFAT 'Composition of Trade 2000'

6.25 In 2000, the top 10 product categories represented 88 per cent of total exports to the region, which illustrates how narrow the range of products is in Australia's exports. Only one of the Top Ten export categories was an ETM (*ie* passenger vehicles). Much more work needs to be done to broaden the range and size of ETMs exported to the Middle East.

6.26 The Middle East is a very important market for Australian exporters of wheat, alumina, live animals, processed cheese, milk powder, butter, and passenger motor vehicles. Food and consumer items have a positive future in the Middle East due to the high population growth rate. According to Austrade, more companies should now be positioning their brands in that market:



The Middle East has a population of over 250 million and a population growth rate of 3 per cent, making the supply of sufficient good quality food a real priority. It is significant to note that the demographics of the region are changing, with an emerging young and affluent society demanding more sophisticated goods, both in specialised processed foods and other elaborately transformed products.<sup>4</sup>

- 6.27 For example, Egypt's population is expected to be 90 million by 2025, Syria's 34 million, Jordan's 10 million and Israel's 7 million.<sup>5</sup>
- 6.28 Exports of PMVs from Australia to the Middle East started in earnest in 1996 and since then this product category has been the major driver of growth in ETM exports. In 2000, PMVs represented about 85 per cent of ETM exports to the Middle East.<sup>6</sup>
- 6.29 This is a remarkable success story. The export figures are provided in Table 6.6:

Table 6.6 Exports of Passenger Motor Vehicles (PMVs) to the Middle East, A\$ million

|  | 1995 | 1996 | 1997 | 1998 | 1999 | 2000  |
|--|------|------|------|------|------|-------|
| Exports of PMVs                        | 1    | 121  | 340  | 567  | 808  | 1,325 |
| Percentage increase over previous year |      | #    | 179% | 64%  | 47%  | 64%   |

# = very large increase

Source DFAT 'Composition of Trade 2000'

- 6.30 The Committee congratulates the car manufacturers, especially General Motors Holden (GMH) and Toyota on their success in developing such an excellent market in the Middle East for Australian-built cars.
- 6.31 However, the Committee understands that the GMH vehicles are sold in the Middle East with American badging. The VT Commodore is sold as a Chevrolet Lumina and the Statesman as a Chevrolet Caprice. The Committee believes that it is important that a market for distinctly Australian brands be developed and would prefer to see these cars carry Australian badging.

<sup>4</sup> Austrade, Submission, p. 845.

<sup>5</sup> DFAT, Submission, p. 963.

<sup>6</sup> Austrade, Exhibit 36.

- 6.32 It is noteworthy that, although exports of PMVs to the Middle East were valued at \$1.3 billion per annum in 2000, the export of automotive components from Australia to the Middle East totalled only \$40 million, or 3 per cent of PMV exports. In contrast, Australia's exports of PMVs to the USA were valued at \$371 million while the export of automotive parts was almost as much at \$322 million. The Committee suggests that Austrade examine the apparent untapped potential for Australian manufacturers of automotive parts and accessories in the Middle East.
- 6.33 The Committee received a submission and then evidence from Kraft Australia and was impressed to learn of Kraft's success in building an important business for its branded processed cheese products in the Middle East. This business is now worth over \$100 million per annum.<sup>7</sup>
- 6.34 Australia needs to develop other product areas to duplicate the excellent examples provided by Kraft and the car manufacturers. More companies should build long-term markets for Australian-made, value-added, branded products, as Kraft has done so successfully.
- 6.35 The recent growth in exports of ETMs to the Middle East is a step in the right direction, as these are products for which demand is growing in the Middle East. However, the reality is that Middle East imports of ETMs from Australia still only represent a very small proportion of their total imports of ETMs.
- 6.36 'Passenger Motor Vehicles' is the only ETM category where Australia has made a really significant impact, with exports of that product category now worth well over one billion dollars per annum. Australia urgently needs to duplicate this experience with other ETMs.

### **Confidential items in trade statistics**

- 6.37 In 2000, 43 per cent of exports to the Middle East were classified as 'Confidential Items'. The Australian Bureau of Statistics classifies products under a general 'Confidential Items' heading if there are only a few exporters of that product involved in the trade. This is done so that competitors are not able to ascertain easily the make-up of exports and therefore able to calculate the performance of their fellow exporters.
- 6.38 With the 'Confidential Items' category becoming so large, meaningful analysis of Australia's export statistics becomes increasingly difficult. This situation does not apply only to the Middle East. For example, 'Confidential Items' represented a huge 53 per cent of exports to Canada

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<sup>7</sup> Submission, p.835 and Transcript, 25 July 2000, p.170.

and 54 per cent of exports to South Africa in 2000. Furthermore, it was by far the largest single export category to the USA.

- 6.39 The size of 'Confidential Items' in import statistics is becoming an issue as well. In 2000, imports classified under 'Confidential Items' were valued at \$231m or 7 per cent of total imports from the Middle East (see Table 6.8 below).
- 6.40 The use of the 'Confidential Items' category is meant to hide details of traded goods. But the reality is that, with a little effort, exporters and other interested parties can obtain relevant statistics by examining the import statistics of recipient countries as other countries are not bound by the ABS restrictions. Similarly, importers in Australia could search supplier-country export statistics to obtain those statistics.

#### **Recommendation 14**

- 6.41 **The Committee recommends that the Department of Foreign Affairs and Trade discuss the use of the category 'Confidential Items' for both exports and imports with the Australian Bureau of Statistics, to produce more meaningful trade statistics.**

### **Composition of imports**

- 6.42 If Australia's exports to the Middle East are not sufficiently diversified, the region's exports to Australia are even more concentrated. The top five product categories in Australia's imports from the Middle East represented 83 per cent of total imports from the Middle East in 2000. With the exception of Israel, which supplies a wider range of products to Australia, the other countries of the Middle East need to diversify their exports even more urgently than Australia does. The relevant figures are provided in Table 6.7, which follows:

Table 6.7 Australia's Top Five Imports from the Middle East, A\$ million

|   | 1996         | 1998         | 2000         | Percentage increase 1996-2000 |
|---|--------------|--------------|--------------|-------------------------------|
| Crude petroleum                                 | 1,080        | 680          | 1,963        | 82                            |
| Refined petroleum                               | 362          | 175          | 404          | 12                            |
| Confidential items                              | 171          | 156          | 231          | 35                            |
| Fertilisers (excluding crude)                   | 84           | 83           | 144          | 71                            |
| Liquefied propane and butane                    | 45           | 42           | 130          | 188                           |
| <b>Total – Top Five</b>                         | <b>1,742</b> | <b>1,136</b> | <b>2,872</b> | <b>65</b>                     |
| <b>Total – All imports from the Middle East</b> | <b>2,134</b> | <b>1,669</b> | <b>3,453</b> | <b>62</b>                     |
| <b>Percentage – Top Five of all imports</b>     | <b>82%</b>   | <b>68%</b>   | <b>83%</b>   |                               |

Source DFAT 'Composition of Trade 2000'

## Imports into the Middle East

### Australia's market share

- 6.43 The submissions from DFAT and Austrade generally painted a positive and up-beat picture of Australia's trade with the Middle East. However, the submission from the Australia Arab Chamber of Commerce (AACCI) and Industry took a far less sanguine view, with the observation that Australia's overall share of Middle East imports is poor.<sup>8</sup>
- 6.44 The Committee believes that the AACCI is on the right track—that to really understand how well Australia is doing one needs to look at market share. Market share shows how Australia has performed in relation to other suppliers, rather than just looking at our own exports and how they have moved year to year.
- 6.45 The Australian Chamber of Commerce and Industry made this point succinctly when discussing its new approach to analysing trade statistics:

I do not have to tell a politician that it is not how many votes you get, it is your market share that really matters at the final point.<sup>9</sup>

<sup>8</sup> AACCI, Submission, p. 228.

<sup>9</sup> ACCI, Transcript, 20 March 2001, p.631.

6.46 Table 6.8 shows the import volumes generated by particular countries in the Middle East and Australia's share of those imports in 1990, 1995 and 1999:

Table 6.8 Middle East imports in US\$ million, and percentage from Australia

| Country      | 1990                         |                                   | 1995                         |                                   | 1999                         |                                   |
|--------------|------------------------------|-----------------------------------|------------------------------|-----------------------------------|------------------------------|-----------------------------------|
|              | Value of total imports US\$m | % of total imports from Australia | Value of total imports US\$m | % of total imports from Australia | Value of total imports US\$m | % of total imports from Australia |
| Bahrain      | 3,711                        | 5.2                               | 3,716                        | 4.8                               | 2,803                        | 1.6                               |
| Egypt        | 9,216                        | 4.2                               | 11,739                       | 1.1                               | 15,962                       | 2.7                               |
| Iran         | 15,903                       | 3.0                               | 12,313                       | 3.3                               | 11,953                       | 2.6                               |
| Iraq         | 6,526                        | 2.9                               | 665                          | 0.8                               | 1,513                        | 12.0                              |
| Israel       | 15,338                       | 0.3                               | 28,218                       | 0.3                               | 31,093                       | 0.3                               |
| Jordan       | 2,607                        | 0.4                               | 3,660                        | 1.1                               | 3,791                        | 1.8                               |
| Kuwait       | 4,066                        | 0.7                               | 7,771                        | 1.1                               | 7,616                        | 3.2                               |
| Lebanon      | 2,515                        | -                                 | 6,670                        | 0.2                               | 5,730                        | 0.4                               |
| Oman         | 2,726                        | 2.3                               | 4,253                        | 2.7                               | 4,674                        | 2.7                               |
| Qatar        | 1,696                        | 2.4                               | 1,929                        | 2.0                               | 2,781                        | 1.6                               |
| Saudi Arabia | 24,081                       | 1.2                               | 27,449                       | 0.8                               | 28,031                       | 2.2                               |
| Syria        | 2,401                        | -                                 | 4,709                        | -                                 | 5,333                        | 0.3                               |
| UAE          | 11,472                       | 1.9                               | 20,984                       | 1.3                               | 33,040                       | 1.9                               |
| Yemen        | 2,385                        | 5.6                               | 1,578                        | 0.4                               | 2,587                        | 3.8                               |
| <b>TOTAL</b> | <b>104,643</b>               | <b>2.0</b>                        | <b>135,654</b>               | <b>1.2</b>                        | <b>156,907</b>               | <b>1.9</b>                        |

Source IMF 2000 Yearbook

6.47 The above table shows that Australia is indeed a small player on the Middle Eastern trade scene, contributing only 1.9 per cent of the total imports in 1999 and taking only 0.7 per cent of the region's total exports.

6.48 Australia had a market share of imports greater than 2 per cent in only six of the 14 specified countries in the Middle East in 1999. By far the highest market share achieved was in Iraq, where Australia supplied 12 per cent of imports. Unfortunately this was not the result of some brilliant new marketing strategy to increase exports to Iraq. Only one commodity was involved—wheat—supplied by AWB Ltd under the UN's 'Oil for Food' program. This result is a great tribute to AWB Ltd's excellent customer relations throughout the Middle East, including with Iraq, since other

companies such as Kraft Foods, have found it very difficult to access that market.<sup>10</sup>

## Growth markets

6.49 Table 6.9 shows how the value of imports to the markets of the Middle East changed over the ten years from 1990 to 1999:

Table 6.9 Percentage change in total imports, 1990 to 1999

|         |      |                      |      |
|---------|------|----------------------|------|
| Bahrain | -25% | Lebanon              | 128% |
| Egypt   | 73%  | Oman                 | 72%  |
| Iran    | -25% | Qatar                | 64%  |
| Iraq    | -77% | Saudi Arabia         | 17%  |
| Israel  | 103% | Syria                | 122% |
| Jordan  | 45%  | United Arab Emirates | 188% |
| Kuwait  | 87%  | Yemen                | 9%   |

Source *IMF 2000 Yearbook*

6.50 The markets which experienced the strongest import growth over that period were UAE, Lebanon, Syria and Israel, while the markets of Iraq, Iran and Bahrain actually shrank in size.

6.51 From a trade development perspective it would make sense for Australia to focus its representation in those markets which are experiencing the highest growth, at the expense of markets with slower growth or which are contracting in size. For example, Austrade could look at the feasibility of switching some resources from Iran to establish a presence in Syria which is experiencing fast import growth and where Australia only has a 0.3 per cent share of imports at present.

6.52 Austrade needs to be very flexible in order to respond quickly to changing market dynamics; to maximise the flow of intelligence and well-defined opportunities for the benefit of Australian business.

<sup>10</sup> Kraft Foods Ltd, Transcript, 25 July 2000, p.170.

## Benchmarking Australia's performance

- 6.53 The largest suppliers to the Middle East are the USA and Japan, followed by a number of European countries such as the UK, Germany, Italy and France. The major growth in Middle East imports in recent years has been in defence and transport equipment and other sophisticated manufactures. In comparison with these big players, Australia is very much a 'second tier' supplier.
- 6.54 It would not be very meaningful to compare Australia with these major suppliers. It is more realistic to benchmark Australia's performance against other 'second tier' suppliers to the Middle East, such as Canada, Brazil and South Africa. Table 6.10 provides the relevant figures:

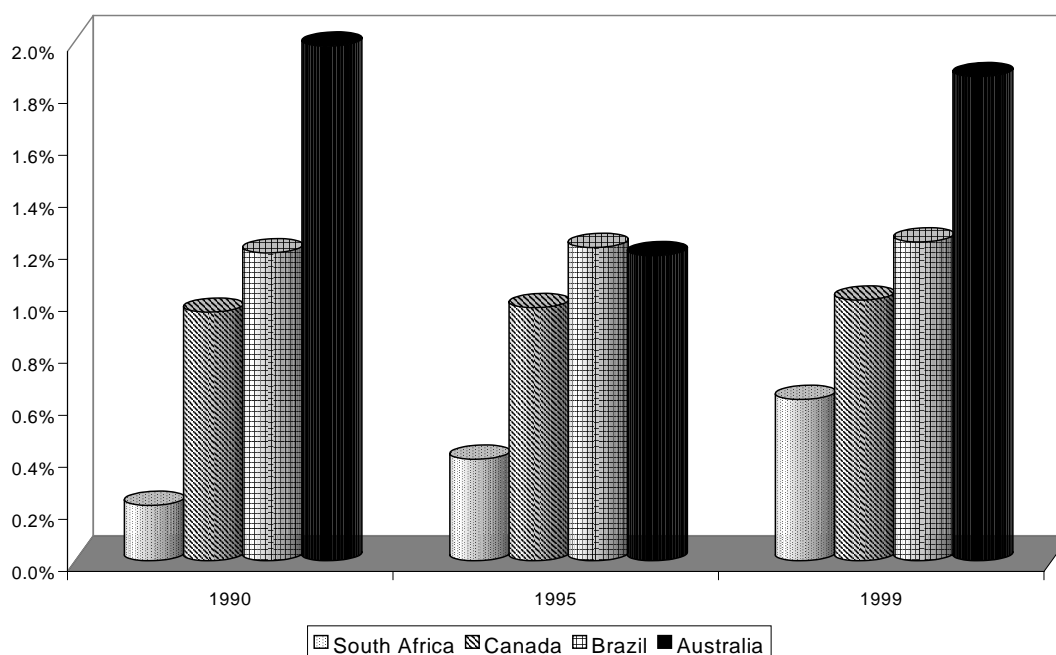
Table 6.10 Comparison of Market Share of Middle East Imports

| Country                  | 1990           |                | 1995           |                | 1999           |                |
|--------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                          | US\$m          | Per cent share | US\$m          | Per cent share | US\$m          | Per cent share |
| Australia                | 2,071          | 2.0            | 1,591          | 1.2            | 2,921          | 1.9            |
| Canada                   | 1,016          | 1.0            | 1,320          | 1.0            | 1,572          | 1.0            |
| Brazil                   | 1,239          | 1.2            | 1,634          | 1.2            | 1,923          | 1.2            |
| South Africa             | 222            | 0.2            | 529            | 0.4            | 920            | 0.6            |
| <b>Total all Imports</b> | <b>104,643</b> | <b>100</b>     | <b>135,654</b> | <b>100</b>     | <b>156,907</b> | <b>100</b>     |

Source IMF 2000 Yearbook

- 6.55 The statistics in Table 6.10 above are shown in graph form in Figure 6.2 on the next page. It is some consolation that Australia has generally achieved a slightly greater market share than Canada, Brazil or South Africa—but in reality none of these four suppliers has much to celebrate, with such small market shares.

**Figure 6.2** Share of Middle East imports—South Africa, Canada, Brazil, Australia



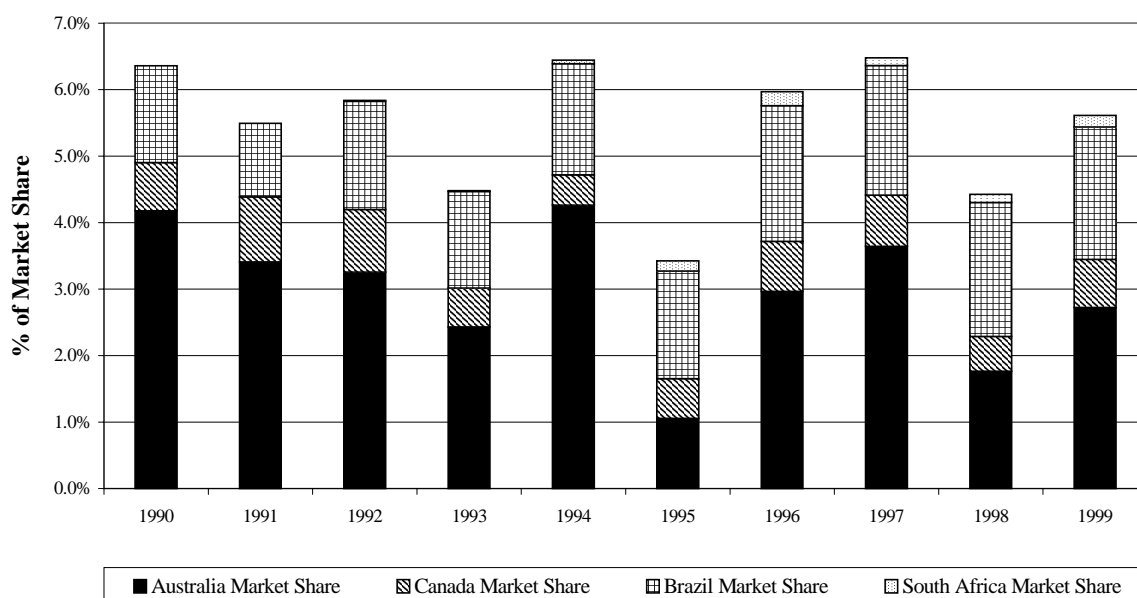
Source *IMF 2000 Yearbook*

- 6.56** Canada and Brazil were able to maintain steady market shares over the decade of the 1990s, while Australia's fluctuated quite widely. The fluctuations reflect Australia's vulnerability in relying on a few major product categories. If problems occur in one or two key product categories, they can have a big impact on exports and on market share. Australia needs to diversify the range and size of exports to the Middle East to be able to survive better the problems that inevitably occur in all trading relationships from time to time.
- 6.57** South Africa managed to increase its market share in the Middle East steadily over the course of the 1990's. In fact it was the only one of the four countries to increase its market share during this period. South Africa has made good gains, but from a very small base. It will be interesting to see if South Africa is able to continue to grow its share of the market at the same rate in the future.
- 6.58** As shown in Table 6.8 above, there are four major import markets in the Middle East, namely Egypt (US\$16 billion), Israel (US\$31 b), Saudi Arabia (US\$28 b), and the UAE (US\$33 b). In 1999 these four markets represented 70 per cent of total imports into the Middle East. The following graphs benchmark Australia's performance in these markets against Canada, Brazil and South Africa, respectively:



## Egypt

Figure 6.3 Share of Egyptian imports



Source IMF 2000 Yearbook

6.59 Total imports into Egypt increased by 73 per cent between 1990 and 1999, while imports from Australia rose by only 13 per cent in that decade.

6.60 Australia's share of the Egyptian market has fluctuated between a high of 4.3 per cent in 1990 and a low of 1.1 per cent in 1995. Australia finished the decade with a respectable 2.7 per cent market share. However, our long-term market share shows a declining trend, which does not augur well for the future.

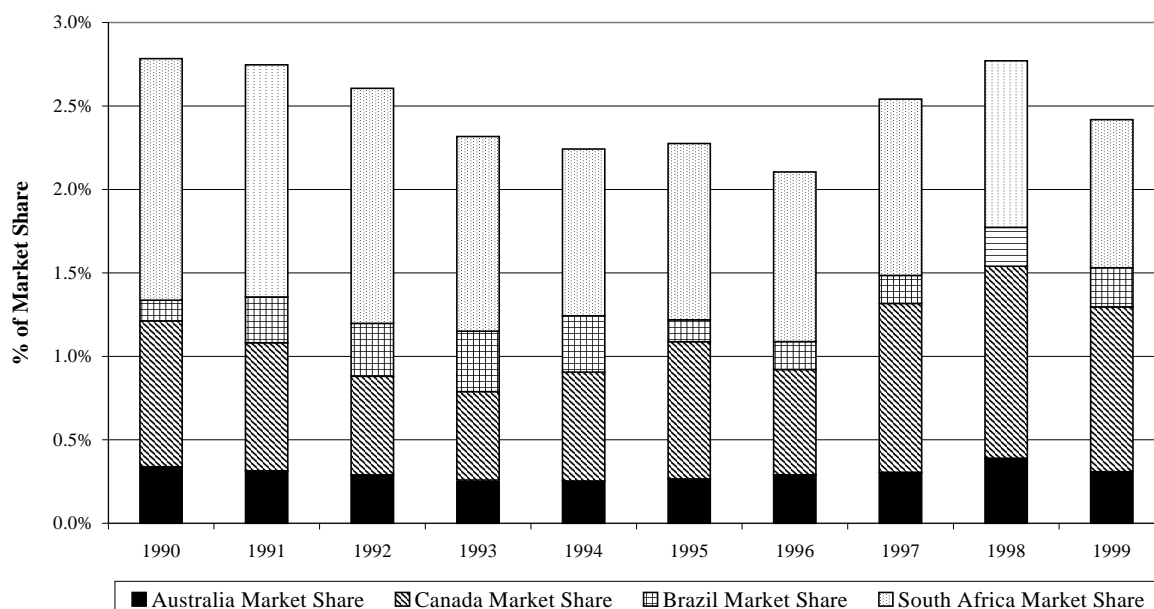
6.61 The major export categories from Australia to Egypt in 2000 were: Confidential Items (\$257million, believed to be mainly wheat) which was 46 per cent of total exports, live animals (\$141m), dairy products (\$61m), and fresh vegetables (\$48m).

6.62 Egypt is clearly a very important market for a range of Australian primary products, but there is a need to diversify exports to include more ETMs. There is quite a large community in Australia of Egyptian origin that, one might have thought, would have facilitated a broader range of bilateral commercial ties.

6.63 Imports into Australia from Egypt in 2000 totalled a very small \$16 million, being mainly floor coverings and textiles.

## Israel

Figure 6.4 Share of Israeli imports

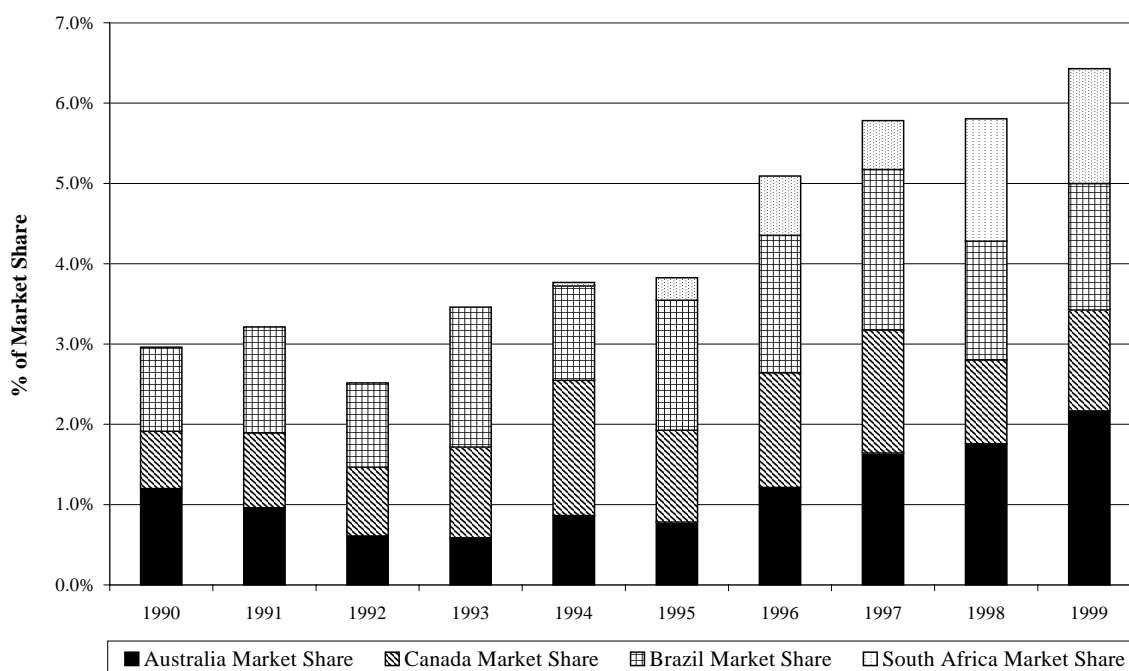


Source IMF 2000 Yearbook

- 6.64 Australia's share of Israel's imports has been a steady 0.3 per cent over the past decade, marginally larger than Brazil but significantly smaller than both Canada and South Africa. While Israel's imports over the decade of the 1990s grew by dynamic 103 per cent, Australia was not able to increase its market share. This is a very disappointing, given the energetic activities of the Australia Israel Chamber of Commerce and the existence of close community ties.
- 6.65 The range of Australian products exported to Israel is narrow. In 2000, three products represented 73 per cent of total exports—Coal (\$100m), Confidential items (\$41m), and Aluminium (\$37m). ETMs represented only about 10 per cent of total exports to Israel
- 6.66 In 2000, Israel and Qatar were the only two countries in the Middle East with which Australia had bilateral trade deficits—Australian exports to Israel were valued at \$244m, and imports \$418m.
- 6.67 Major import categories from Israel were pearls and gems (\$83m), and telecommunications equipment (\$59m).

## Saudi Arabia

Figure 6.5 Share of Saudi Arabian imports



Source *IMF 2000 Yearbook*

6.68 While Saudi Arabia is a huge import market, valued at US\$28 billion in 1999, total imports only registered a small increase of 17 per cent over the past decade.

6.69 Australia's share of Saudi Arabian imports declined between 1990 and 1995. That trend was reversed, thanks almost entirely to the increase in Passenger Motor Vehicle exports, and Australia ended the decade with a market share of 2.2 per cent.

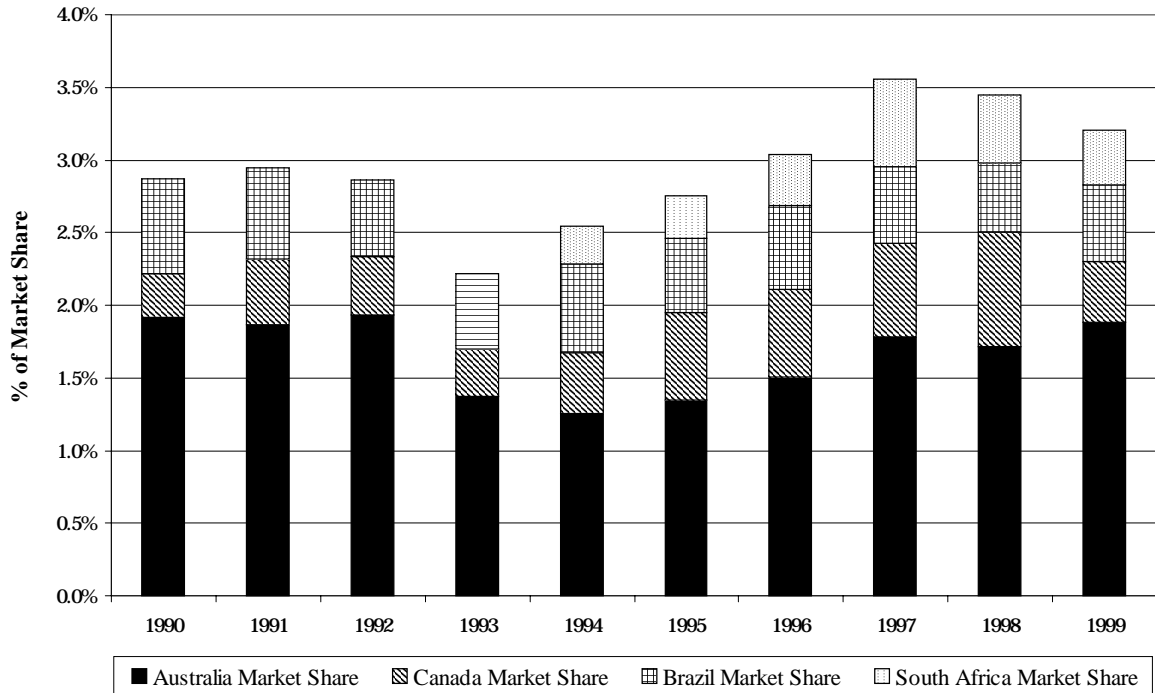
6.70 Canada's market share fluctuated between 0.7 per cent and 1.7 per cent and Brazil's between 1.1 per cent and 2 per cent. South Africa did well, capturing a 1.5 per cent share after only six years trading with Saudi Arabia.

6.71 In 2000, Australia's main export categories were PMVs (\$895m), Confidential items (\$244m, believed to be mainly barley and sugar), and cheese (\$113m). These three categories represented 79 per cent of Australia's total exports to Saudi Arabia.

6.72 Imports from Saudi Arabia were mainly crude petroleum (\$802m) and refined petroleum (\$351m).

## United Arab Emirates

Figure 6.6 Share of UAE imports



Source IMF 2000 Yearbook

- 6.73 Between 1990 and 1999, imports into the United Arab Emirates grew from US\$12 billion to US\$33 billion, or 188 per cent. This was by far the highest rate of growth of imports in the Middle East region, and is a reflection of the UAE's important entrepot role in Gulf trade.
- 6.74 Australia started the decade with a 1.9 per cent share of UAE imports. That declined to 1.3 per cent in 1994, before returning to 1.9 per cent in 1999. Australia's exports over the 10 years grew by 182 per cent, enabling us to maintain market share. Canada's share was fairly stable around 0.4 per cent, while Brazil lost ground slightly going from 0.7 to 0.5 per cent. South Africa came into the market in 1994 and is now supplying 0.4 per cent of the market.
- 6.75 In 2000, Australia's major export categories were—Confidential items (\$465m), passenger motor vehicles (\$176m), non-monetary gold (\$58m), dairy products (\$40m), and non-bovine meat (\$40m). These five categories represented 77 per cent of Australia's total exports to the UAE.
- 6.76 Two products represented 90 per cent of Australia's imports from the UAE in 2000—crude petroleum (\$856m), and refined petroleum (\$53m).

## A New Approach

- 6.77 The Middle East is a huge market. In 1999 imports into the Middle East totalled US\$157 billion, of which Australia supplied US\$2.9 billion or 1.9 per cent. Table 6.8 shows that Australia's share of this dynamic region started the decade of the 1990s with a 2 per cent share of imports, decreased to 1.2 per cent by 1995, and then finished the decade back up to 1.9 per cent in 1999.
- 6.78 Despite all the trade policy and market development work undertaken by Australian Government agencies and private companies, Australia's share of the Middle East market has not increased. In fact, Australia is only now recovering the market share we had 10 years ago. It is apparent that past promotional efforts have not been successful in achieving increased market share. This suggests that new strategies need to be devised to achieve significant and sustained increase in our share of Middle East imports.
- 6.79 Australia already has significant resources devoted to the Middle East, but perhaps these resources need to be coordinated and directed more effectively.
- 6.80 DFAT has seven embassies in the Middle East located in Abu Dhabi, Amman, Beirut, Cairo, Riyadh, Tel Aviv and Tehran. These are staffed by 31 Australians and 44 locally-engaged employees. The DFAT submission states that *market development* is the top priority in the Middle East, so one could presume that at least a quarter of those resources should be devoted to that task:
- By far the most important focus of Australia's missions in the Middle East is market development.<sup>11</sup>
- 6.81 Austrade has four offices managed by Australian trade commissioners located in Cairo, Dubai, Riyadh, and Tehran, three sub-offices managed by locally-engaged managers in Amman, Beirut, and Tel Aviv, and two trade consultants located in Jeddah and Abu Dhabi. Austrade has 30 staff in the Middle East focused on trade promotion and development.<sup>12</sup>
- 6.82 Thus, in total, the Commonwealth Government has close to 50 personnel located in the region dedicated to the development of Australia's trade with the Middle East. DFAT and Austrade have another 10 or so staff based in Canberra with a focus on the Middle East.

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<sup>11</sup> DFAT, Submission, p. 995.

<sup>12</sup> Austrade, Exhibit 36.

- 6.83 Some of the States, particularly Victoria, Queensland, South Australia and Western Australia also have dedicated resources working on the Middle East. In addition, the private sector has a number of Chambers as well as other service providers such as airlines and shipping companies, all focused on promoting the Middle East region to Australian exporters.
- 6.84 It is apparent from the trade figures that past efforts have only just managed to maintain Australia's share of the Middle East market. There must be better ways to harness the energy and intellect of all these resources devoted to promoting exports and investment with the Middle East for greater impact and result.
- 6.85 The Committee believes that the Government should consider the establishment of a Middle East 'Business Advisory Group' (BAG) led by DFAT in association with Austrade and representatives of the key Chambers of Commerce, in appropriate national groupings.
- 6.86 The BAG could be divided into two sub-groups—one involving regional trade experts representing the AACCI, and the other involving bilateral trade experts representing the Australia Israel Chamber of Commerce (AICC). The sub-groups would normally work independently, but there may be occasions when they might be able to cooperate. That approach could even break down some of the barriers between the various business communities in Australia.
- 6.87 The BAG would promote a stronger 'Team Australia' approach, with a very sharp trade focus. It would be charged with developing new strategies to enhance Australia's exports to the Middle East. DFAT and Austrade could each provide 40 per cent of the funding requirement with 20 per cent from private sector groups. Direct private sector involvement and funding is vital to ensure that the BAG has a practical work agenda and is outcome-focused.
- 6.88 The AACCI suggested in its submission that the 'Supermarket to Asia' strategy could have application in the Middle East.<sup>13</sup> This is the kind of practical suggestion the BAG would be well placed to evaluate in relation to Australia's trade with the Middle East.
- 6.89 DFAT should be in a position to provide secretariat support to the BAG, given that market development is a stated priority. The role of coordinating the BAG would fit comfortably with DFAT's key priority in the region and ensure the full and enthusiastic involvement of all Australian Embassies.
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<sup>13</sup> AACCI, Submission, p. 228.

- 6.90 At present, DFAT's approach to trade seems to be largely Canberra-centric.<sup>14</sup> It will be vital that all staff, both in Australia and overseas, are fully committed to achieving real gains in market development.
- 6.91 To give it the status required to achieve a real turn-around in our trade performance in the Middle East, the BAG should report twice-yearly to the Market Development Task Force which is chaired by the Secretary of DFAT and includes senior officials of DFAT, Austrade, the Department of Industry, Science and Resources, and the Department of Agriculture, Forestry and Fisheries.<sup>15</sup> It could record its achievements in the annual Trade Outcomes and Objectives Statement and also make an annual appearance before the Joint Standing Committee on Foreign Affairs, Defence and Trade to report progress and discuss issues.
- 6.92 The Australian Arabic Council, in its submission and also during a public hearing, presented a strong argument for the establishment of an Australian Arabic Foundation to oversight the development of closer economic, cultural and political ties:
- The Foundation's purpose would be to broaden the relationship between Australia and the Arab World by encouraging and supporting increasing levels of knowledge and understanding and cooperation between Australians and Arabs.<sup>16</sup>
- 6.93 The Committee recognises that a number of such Foundations or Councils have been established under the coordination of the Department of Foreign Affairs and Trade, covering countries such as Indonesia, Japan, Korea, and China which are seen as important to Australia's national interest.
- 6.94 The Committee fully supports the formation of an Australian Arabic Foundation and recommends such a course in Chapter 8 in relation to enhancing social and cultural linkages. The Committee believes that a body such as the proposed 'Business Advisory Group' would be a complementary strategy. Economic linkages covering two-way trade, investment, tourism and education need to be further developed and cemented. To do this effectively requires a separate and focussed agenda. The Committee believes that the proposed Foundation could address cultural, academic, student and youth exchanges, while the BAG would maintain a very narrow focus on matters related solely to trade and

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<sup>14</sup> DFAT, Submission, p. 990.

<sup>15</sup> *ibid.*, p. 930.

<sup>16</sup> AAC, Submission, p. 1807 and Transcript, 24 July 2000, p. 136.

investment. The two bodies would, of course, work together on relevant projects.

### **Recommendation 15**

- 6.95 **The Committee recommends the Department of Foreign Affairs and Trade establish a Business Advisory Group on the Middle East, comprising the Department of Foreign Affairs and Trade, Austrade, and relevant Chambers of Commerce, to more effectively coordinate export strategies for the region.**
- 6.96 The Committee notes that the Australian Ambassador in Riyadh is also accredited to Kuwait, Qatar, Bahrain, Yemen, and Oman while the Ambassador in Abu Dhabi is only accredited to the UAE.<sup>17</sup> It may be more efficient to spread the load more evenly, with Abu Dhabi taking on responsibility for neighbouring countries such as Oman, Qatar and Bahrain.
- 6.97 Austrade, in its organisational structure, has Israel as part of its Europe Region while in DFAT's structure Israel comes under the responsibility of the Middle East Branch. The manager of Austrade's Tel Aviv office reports to the Executive General Manager Europe who is based in Frankfurt. This seems to be a historical hang-over from a time when travel to Israel was restricted and difficult.
- 6.98 The Committee feels that Austrade should transfer responsibility for Tel Aviv to the Middle East/Indian Ocean Region. The Executive General Manager of that region is based in Dubai. Today there is ready entry to Israel through Cairo and Amman, so access should no longer be an issue. It is felt that such a move would enhance coordination within Austrade of all the countries in the Middle East, and also between Austrade and DFAT. Aligning organisational structures becomes even more important in light of the recommendation to establish a 'Business Advisory Group' to coordinate Australia's trade efforts in the Middle East.

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<sup>17</sup> DFAT, Submission, p.1053.



## Recommendation 16

### 6.99 The Committee recommends that:

- the Department of Foreign Affairs and Trade spread the load more evenly between the Australian embassies in Riyadh and Abu Dhabi; and
- Austrade include Israel in the Middle East/Indian Ocean Region, to enhance coordination within the region, and with the Department of Foreign Affairs and Trade.

## Market Development

### Trade and other agreements

#### 6.100 DFAT, in its submission, outlined Australia's current trade agreements with countries in the Middle East in the following terms:

Australia has trade and economic agreements with Bahrain (1979), Egypt (1988), Iran (1974), Iraq (1980), Israel (1951), Jordan (1988), Kuwait (1982), Oman (1982), Saudi Arabia (1981), and UAE (1985). An agreement signed with Lebanon in 1997 is yet to enter into force. These agreements, some of which have been in existence for some time, provide a basis for formal treaty-based consultations on a regular basis or as agreed between the parties, often taking the form of Joint Ministerial Commissions which are coordinated by DFAT.<sup>18</sup>

#### 6.101 The general subject of trade agreements has had a much higher public profile in recent times with talk of Australia negotiating Free Trade Agreements (FTAs) with Singapore and the USA. Many countries are becoming impatient with the slow progress made in multinational or regional forums and are opting instead for bilateral FTAs. A number of submissions suggested that the Middle East is no exception in this regard, with a growing network of bilateral and regional free trade arrangements. Given these developments, it would have been appropriate for the DFAT submission to provide an in-depth analysis of the possible implications of these trends for Australian trade.

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<sup>18</sup> DFAT, Submission, p. 991.

- 6.102 The Committee hopes that DFAT will not be distracted by groupings such as the Indian Ocean Rim Association for Regional Cooperation.<sup>19</sup> No doubt the aims of this Association are laudable, but experience in other regional-type groupings has demonstrated how difficult it is to achieve real progress. The Committee acknowledges that the World Trade Organisation should be the major multilateral focus, but suggests that much quicker gains can be made through bilateral negotiations such as those the Government is pursuing with Singapore and the USA.
- 6.103 DFAT refers to the age of some of the bilateral agreements Australia has in the Middle East.<sup>20</sup> The Committee regards this as a serious issue. The two most recent agreements are already 12 years old, and several of the other eight agreements are much older than that. In other words, none of these agreements reflect the tremendous changes which have taken place in information and communications technology particularly in the last decade. The Committee urges DFAT to re-visit these agreements to ensure that they reflect fully Australia's priorities in the 21<sup>st</sup> Century.
- 6.104 The DFAT submission described the important role of Joint Ministerial Commissions (JMCs) as instruments of engagement for Australia with trading partners in the Middle East:
- JMCs are important mechanisms which allow both parties to review their performance in the context of the articles of the bilateral trade or economic relationship, to address potential irritants in the relationship, and to agree on forward-looking measures to foster the bilateral economic relationship.<sup>21</sup>
- 6.105 Five JMCs have taken place since 1996—with Saudi Arabia in Canberra (October 1996); with Iran in Tehran (March 1999) and in Canberra (April 2000); with the UAE in Melbourne (September 1998) and in Abu Dhabi (March 2000).<sup>22</sup> JMCs appear to be a useful process. The Committee feels that these conferences should be held more regularly, especially with countries such as Saudi Arabia with which Australia has experienced a range of market access issues. JMCs should also be held with a broader range of countries in the Middle East, such as Egypt, as they would ensure that relationships are kept relevant and dynamic.

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<sup>19</sup> DFAT, Submission, p. 993.

<sup>20</sup> *ibid.*, p. 991.

<sup>21</sup> *ibid.*

<sup>22</sup> DFAT, Exhibit 33.

- 6.106 The submission from the AICC points out that Israel has negotiated a number of FTAs, and suggests that Australia examine the prospects of concluding such an agreement with Israel:

Israel is in a unique position with free trade agreements in place with three major economic blocs: North America, the European Union, and the European Free Trade Association. Further to this, agreements are in place with a number of countries including Canada and Turkey.<sup>23</sup>

- 6.107 As discussed in the earlier section on benchmarking, Australia has a larger market share than Canada in every major market in the Middle East except Israel, where Canada's share of the market is three times that of Australia. The Committee believes that Canada's better performance in Israel is no coincidence, and strongly recommends that a FTA be negotiated to give Australian suppliers equal access.

- 6.108 At the same time the Committee believes that DFAT should commence negotiations on a FTA with the Gulf Cooperation Council (GCC), comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE. According to DFAT, the GCC aims to introduce a unified customs tariff by March 2005 and has the intention of then negotiating a FTA with the European Union.<sup>24</sup> Austrade made the following comment on this issue:

While this agreement between the GCC and the EU has the potential to make it more difficult for Australian exporters to compete for market share with European exporters, long term implications can not be measured at this time.<sup>25</sup>

- 6.109 The Committee considers that it is a fair assumption that the long term implications of a FTA between the GCC and the EU will not be good news for Australia. Australian exporters of ETMs (other than PMVs) have struggled to make inroads into the markets of the Middle East. Their prospects will be even more limited if their European competitors have preferred access to those markets.
- 6.110 The Committee believes that the Government should anticipate this challenge and move now to ensure that Australian suppliers have equal access. It could even be that Australia's hard-won markets for passenger vehicles might be threatened if European manufacturers get preferential treatment. It would be wrong to delay taking action—it would be much better if Australia were proactive in this instance.

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<sup>23</sup> AICC, Submission, p. 819.

<sup>24</sup> DFAT, Submission, p. 1014.

<sup>25</sup> Austrade, Submission, p. 852.

- 6.111 Only a small number of Australian companies have invested in Israel and established joint ventures or opened branch offices. There appears to be greater movement the other way. The submission from the AICC outlines the growing presence of Israeli companies in Australia:

There are now 34 Israeli companies (compared with less than 10 in the mid-90s) which have established either regional headquarters or local offices in Australia, distributed across most States.<sup>26</sup>

## Double taxation issues

- 6.112 The AICC believes that two-way investment would be encouraged if a double taxation agreement were in place:

It is recommended that an agreement is established in order to remove the possibility of double taxation, and therefore increase business activity between Australia and Israel.<sup>27</sup>

- 6.113 The Committee pursued this issue further at a public hearing, during which the AICC identified a double taxation agreement as a top priority:

In order to enhance trade between Australia and Israel, the message I am getting from industry is that we need a double taxation agreement fast. A lot of trade is going through third countries and not directly between the two countries.<sup>28</sup>

- 6.114 In his submission, Mr Joe Hassan, a Certified Practising Accountant and a Past-President of the Australia Lebanon International Business Council, commented that the establishment of a double taxation agreement between Australia and Lebanon is long overdue and would be a significant boost to bilateral commercial relations:

It is considered that a double tax treaty network will not only encourage economic and commercial activities between the two countries, it will also provide a powerful platform for the further investment of capital into Lebanon and an incentive for the movement of human capital between the two countries.<sup>29</sup>

- 6.115 The Committee fully supports the negotiation of double taxation agreements—certainly with Israel, but also with other countries in the Middle East such as Saudi Arabia and the UAE which are major overseas investors, as well as with countries such as Lebanon and Egypt where

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<sup>26</sup> AICC, Submission, p. 808.

<sup>27</sup> Ibid., p. 820.

<sup>28</sup> AICC, Transcript, 25 July 2000, p. 190.

<sup>29</sup> Hassan J., Submission, p. 432. See also AAC, Submission, p. 1803.

Australia has significant local populations. The need for proper Investment Protection Agreements with these countries should also be examined.

### Recommendation 17

6.116 The Committee recommends that

- **Joint Ministerial Commissions be held more frequently and with more countries;**
- **The Government negotiate free trade agreements with Israel and with the Gulf Cooperation Council; and**
- **The Government negotiate double taxation agreements and investment protection agreements with key countries in the Middle East.**

### Research and development

6.117 The Australia Israel Chamber of Commerce suggested both countries would gain from closer cooperation in research and development:

The Australia Israel Chamber of Commerce is very keen to see collaborative R&D between the two countries. The benefit to Australian companies is clear – gain access to Israeli technology and also likely to derive commercial advantages from Israel's free trade agreements with the USA and EU.<sup>30</sup>

6.118 Israel has signed Research and Development Agreements with a large number of countries, but in some cases they have taken this an important step further with the establishment of joint R&D funds to provide funding for collaborative projects. Such funds have been established with the USA, Canada, the UK, Singapore and South Korea:

The primary reason why these countries have entered into Agreements and Funds with Israel are the ensuing advantages of shared costs and minimisation of the inherent risks involved in industrial R&D. These advantages benefit both the cooperating parties and improve the prospects for successfully marketing and supporting the developed product or service internationally.<sup>31</sup>

<sup>30</sup> AICC, Submission, p. 817.

<sup>31</sup> *ibid.*

- 6.119 The US/Israel Fund, called the Binational Industrial Research and Development Foundation (BIRD) was established in 1977 and has been notably successful in stimulating cooperation between high-tech companies.
- 6.120 The US/Israel Binational Agricultural Research and Development Fund (BARD) was established specifically to support R&D in agriculture.<sup>32</sup> In describing BARD the Chamber notes:
- This has been a very successful Fund, and has a strong Australian connection. Professor Bruce Stone of Melbourne University has been an independent auditor for the program since its inception.<sup>33</sup>
- 6.121 Given Israel's strong reputation in the high-tech and agricultural sectors, the Committee believes that the Australian Government should definitely look at establishing Research and Development Funds, particularly in these two sectors which are also top priorities for Australia.
- 6.122 Furthermore, the Committee understands that a number of other countries in the Middle East are conducting excellent research in a number of agricultural areas such as dry-land farming. Scientific cooperation in these areas could be of great benefit to Australia. The Committee strongly suggests that appropriate agreements be put in place where such opportunities for cooperative research and development are identified.

### **Recommendation 18**

- 6.123 **The Committee recommends that**
- **Research and Development Funds be established to foster cooperation, particularly in information technology and agriculture, between Australia and Israel; and**
  - **Opportunities to develop closer research and development links in agriculture with other countries in the Middle East be actively pursued.**

### **Common food standards**

- 6.124 Kraft Foods, in its submission, noted that complying with different food standards across the Middle East can impose significant additional costs on food exporters doing business in that region. A welcome development
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<sup>32</sup> See [www.bard-isus.com](http://www.bard-isus.com)

<sup>33</sup> AICC, Submission, p. 818.

has been that the countries of the GCC are now working towards common food standards.<sup>34</sup>

- 6.125 Kraft believes that Australia has valuable expertise in this area, especially through the Australian Quarantine and Inspection Service and the Australia New Zealand Food Authority, and it may produce quicker and better results for Australia if these agencies assist the GCC in its work on food standards.<sup>35</sup>
- 6.126 Australia could send expert speakers to participate in technical meetings and conferences in the Middle East, and invite relevant officials and academics to visit Australia to learn of our approach in this area. Once the GCC has established good common food standards, Australian missions should actively encourage and facilitate the adoption of these same standards by other countries in the region.
- 6.127 The establishment of common standards is the first step. But the subsequent application and interpretation of those standards is also vitally important. Australian agencies have good experience in that regard and much to offer.
- 6.128 DFAT identified several issues related to food standards—specifically quarantine standards, interpretation and labelling—as major trade barriers.<sup>36</sup> DFAT gave three actual examples, including the following example regarding offal exports:
- ... [W]e are currently having problems with offal exports into Saudi Arabia. The Saudi Arabia Standards Organisation is developing processes in conjunction with Australian counterparts for quality control of Australian offal exports, which are worth about \$40 million a year. It is quite a substantial trade. The Saudi Standards Organisation, however, is short of technical expertise and equipment to undertake testing that would benefit our export efforts.<sup>37</sup>
- 6.129 The Committee supports the practical suggestions from Kraft Foods, and also notes the concerns raised by DFAT. It is obvious that the Middle East will present very significant opportunities for Australian exporters of unprocessed and processed foods into the foreseeable future and any assistance Government agencies can provide to facilitate access into those markets should be vigorously pursued.

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<sup>34</sup> Kraft, Submission, p. 836.

<sup>35</sup> Kraft, Transcript, 25 July 2000, p. 168.

<sup>36</sup> DFAT, Transcript, 14 September 2000, p. 370 – 372.

<sup>37</sup> *ibid.*, p. 372.

**Recommendation 19**

- 6.130 The Committee recommends that the Department of Foreign Affairs and Trade, in conjunction with relevant agencies such as the Australian Quarantine and Inspection Service, be proactive in assisting the Gulf Cooperation Council establish common food standards, including quarantine. DFAT should then encourage the adoption of those standards by other countries in the Middle East.**

**Cost of legalising documents**

- 6.131 In its submission, the South Australian Exporters Association (SAEA) commented on the high costs involved in legalising export documents to some countries in the Middle East:

When an order is finally gained and the goods shipped, it invariably requires the shipping documentation to be legalised by both a Chamber of Commerce as well as an Arab Embassy or Consulate in Canberra. The costs from both a money and time perspective can be quite onerous, especially in the case of the United Arab Emirates.

From South Australia it can take up to four working days to have documents relayed to Canberra, be legalised, and returned to the exporter for further action. From a cost viewpoint exporters are looking at Bank Cheque Fees, Courier Fees (both to and from Canberra) as well as the legalisation costs.<sup>38</sup>

- 6.132 Many countries have a requirement that documents be legalised or authenticated. There are often charges levied to cover the cost of legalising documents and such requirements and associated charges are today an accepted part of international trade. DFAT charges between \$10 and \$30 for this service. The AACCI charges a flat fee of \$20 for members and \$40 for non-members to legalise documents.
- 6.133 In comparison, the charges levied by the Embassy of the United Arab Emirates seem excessive—\$30 to legalise a single Certificate of Origin or a Packing List. To legalise a commercial invoice, the Embassy applies a sliding fee scale based on the value of the invoice itself. For example, if the value of the contract is less than \$3,333 the charge is \$60; between

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<sup>38</sup> SAEA, Submission, p. 17.



\$3,334 and \$10,000 the charge is \$120; between \$10,001 and \$20,000 the charge is \$240; and so on up to contracts valued at more than \$333,334 which attract a charge of \$1,200 to legalise the invoice. These charges can add up to substantial amounts.

- 6.134 The Committee has also learned that the Embassy of the Islamic Republic of Iran applies very high charges, around \$750 per page, to legalise documents. The Embassy of the Arab Republic of Egypt is understood to have recently increased its charges to \$100 per page.
- 6.135 It can be argued that these high charges act as a form of non-tariff barrier, imposing an additional cost on Australian exporters, and impeding trade. The Committee urges DFAT make vigorous representations to the respective Governments on the issue of their fees, with a view to obtaining a reduction to more normal levels. This is the type of practical business issue which the proposed 'Business Advisory Group' could identify and champion on behalf of Australian exporters.

## Recommendation 20

- 6.136 **The Committee recommends that the Australian Government direct the Department of Foreign Affairs and Trade to formally raise with the representatives in Canberra of the UAE, Iran and Egypt the level of charges for legalisation of commercial documents**

## The Internet

- 6.137 The Committee was disappointed that more submissions did not include a discussion of the Internet and e-commerce and the potential impact of the 'Information Age' on trade and general awareness-raising in the Middle East. The DFAT and Austrade submissions barely touched on this subject.
- 6.138 The advent of e-commerce was referred to very briefly in the report published in the second half of 2000 by DFAT's East Asia Analytical Unit (EAAU) titled *Accessing Middle East Growth*. The reference to 'Information Age' developments was made while describing the expansion of free trade zones in the UAE:

In addition, Dubai is developing a free trade zone for technology, e-commerce and media, the so-called Internet City. ... Thus far, Oracle has confirmed a move in its Europe and Middle East

headquarters from Vienna to Dubai, with IBM and Sun Microsystems also negotiating to establish in the zone.<sup>39</sup>

- 6.139 The Committee received a comprehensive submission on this subject from Mr Wehbe Abdo of Altona Meadows, Victoria. Mr Abdo is knowledgeable on Internet matters, especially in relation to Arab countries and the Arabic language. He is Treasurer of the Australian Arabic Council.
- 6.140 Mr Abdo made the point that over 60 per cent of the population of the Middle East is under 21 years of age. This generation is embracing global trends far more rapidly than its parents. The Internet will have an enormous impact in the Middle East as geographical, cultural and political barriers are minimised. Australia should position itself now to take full advantage of this new technology:
- There are opportunities for Australia to market its States, businesses, education, health & medicine, tourism, manufacturing, etc. to the Arab countries by utilising the Arabic language as a business tool through the establishment of Australian-based bilingual Internet portals for information, interaction and e-commerce.<sup>40</sup>
- 6.141 The Committee reviewed the DFAT and Austrade websites in May 2001. It commends Austrade on its web pages on the Middle East which are generally comprehensive and up-to-date. Similarly the UAE page on the DFAT web site is impressive. However, many of the pages covering other countries in the Middle East could be improved. DFAT is urged to upgrade the other pages on the Middle East to the same standard as those on the UAE. Hyperlinks should also be included to directly link the Austrade and DFAT country pages.
- 6.142 The Committee noted that some of the information on the DFAT and Austrade websites was quite dated. For example, Austrade's Beirut page promotes a trade directory, Australian Exports 1996, which is now five years old. Austrade's Cairo page lists a Post Manager who was replaced three years ago. DFAT's UAE page also includes some data relating to 1996.
- 6.143 It is important that information on Internet web pages be current. A minimum standard for which to aim would be to feature only information which is less than 12 months old. Discipline is required to set and

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<sup>39</sup> *Accessing Middle East Growth: business opportunities in the Arabian Peninsula and Iran*, September 2000, p. 104.

<sup>40</sup> W Abdo, Submission, p. 2253.

maintain a rigorous standard, but such standards are essential in the 'Information Age' to build credibility and trust.

- 6.144 DFAT's web pages usually show the 'date of last update', and it is suggested that Austrade follow the same good practice. In some cases however, the Committee found that part of a DFAT page had been updated, and the new date shown, but other parts of the page did not reflect the latest available information. It is important that all the information on a page is updated at a given point in time.
- 6.145 The Internet is a very powerful communications tool. The Committee believes that Austrade and DFAT should develop and maintain joint, high-quality, in-country web sites for reference by local importers and other businesses. The feasibility of bilingual sites should be assessed. Funds should be allocated for regular local campaigns to publicise the existence of these sites. In-country pages should include information on the procedures for obtaining visitor visas to Australia.
- 6.146 Austrade's Saudi Arabia web page is directed towards local importers who may be looking to source goods and services from other countries. This page is much better than Austrade's other in-country pages and therefore a good model.
- 6.147 When the Committee examined the Austrade website in May 2001, it was noted that there was no page for Iran. This seems to have been an oversight, as all the other major markets had sites targeting importers and residents in those countries. It was also noted that Austrade's Israel page directed importers to Austrade's Milan office for assistance. The Committee feels that Austrade's Tel Aviv office is in a better position to answer local inquiries and that Israeli importers would be more inclined to approach the local office for assistance.
- 6.148 A combined DFAT/Austrade strategy is required to maximise for Australia the opportunities presented by the Information Age. The development of such a strategy, its implementation, coordination and maintenance could be another priority task of the proposed 'Business Advisory Group'.

**Recommendation 21**

**6.149 The Committee strongly recommends that DFAT and Austrade develop a joint strategy to utilise fully the power of the Internet to:**

- **promote Australia and Australian products and services in the Middle East, and**
- **publicise the export opportunities identified by Austrade staff.**

**Trade missions**

**6.150** A number of submissions made the point that trade missions seem to work particularly well in the Middle East, and especially when they are led by a senior Government Minister. Austrade has organised a number of missions in recent years, often in association with Joint Ministerial Commission meetings.<sup>41</sup> JMCs usually alternate between Australia and the partner country. Private sector involvement in JMCs is important in achieving practical outcomes, and when they are held overseas the JMCs provide an excellent opportunity to put in place a formal trade mission.

**6.151** Austrade organised a trade mission led by the Minister for Trade, the Hon Mark Vaile MP, which visited Saudi Arabia, Kuwait and the UAE in February/March 2000. Sixty companies participated, the biggest trade mission for many years. According to Austrade:

The Minister for Trade's profile enabled members of the business delegation access to high profile government officials. This kind of access in the Middle East is extremely advantageous as government officials play a crucial role in commercial affairs.<sup>42</sup>

**6.152** The active Australia Israel Chamber of Commerce has organised an annual trade mission to Israel every year since 1989. These missions are normally led by a prominent business or government identity and are organised around themes such as 'high tech', or 'medical technologies'. The Chamber believes that missions are very effective in fostering commercial linkages:

Commercial outcomes derived from these missions extend beyond the bilateral trade statistics, as they include joint ventures, technology transfer agreements, academic exchanges, partnerships

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<sup>41</sup> DFAT, Submission, p. 991.

<sup>42</sup> Austrade, Submission, p. 850.

in third countries, cooperation agreements between Australian and Israeli business associations, and an increase in trade industrial products.<sup>43</sup>

- 6.153 The Chamber reports that there has been a noticeable increase in recent years in the number of inbound trade missions and individuals from Israel to Australia:

In addition, there have been a growing number of individual visits by high-profile Israeli business leaders and government representatives in recent years. An example was the visit in February 2000 by Israel's Chief Scientist, Dr Orna Berry.<sup>44</sup>

- 6.154 A significant number of trade missions are organised by Australian State Governments each year, particularly to the Persian Gulf countries. In its submission, the AACCI highlighted fragmentation as a problem area:

Another point made quite often over the years is the fragmented approach Australia takes in its marketing effort. ... [W]e still see States and State Departments taking trade missions into the region sometimes hot on the heels of Commonwealth missions. These various missions tend to call on the same industry groups and regional government departments and do little to assist a 'Market Australia' approach to our overseas customers.<sup>45</sup>

- 6.155 The AACCI gave evidence at a public hearing of the Committee held in Canberra on 20 March 2001. It made the following comments on the subject of missions:

We talk to our sister Chambers in the Middle East, which are huge organisations, and they say that they probably see more Australian trade missions in a year than from any other country ... they keep asking "Which one is the real delegation?" ... we believe that this is a major issue. We addressed it back in the early 1990s and started to get some regimentation into trade missions. We need to address that from Australia's point of view so that we have one message selling Australia.<sup>46</sup>

- 6.156 The Committee is sympathetic to AACCI's position. There would be benefits in achieving a greater degree of coordination of trade missions, particularly to ensure a uniform 'Market Australia' selling message and to avoid clashes in timing. Coordination should not come at the expense of

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<sup>43</sup> AICC, Submission, p. 803.

<sup>44</sup> *ibid.*, p. 804.

<sup>45</sup> AACCI, Submission, p. 231.

<sup>46</sup> AACCI Transcript, pp. 606 and 607

restricting the number of missions which visit the Middle East, however. Missions are obviously a very effective trade promotional tool in the region and should be encouraged. This coordination function is another role that could be undertaken by the proposed 'Business Advisory Group'.

## **Recommendation 22**

- 6.157 The Committee recommends that the proposed Business Advisory Group establish mechanisms to enhance the coordination of trade missions, particularly to the Persian Gulf region of the Middle East.**

## **Promoting the Middle East in Australia**

### **Seminars and workshops**

- 6.158 The 'Link West' series of seminars run by Austrade around Australia in 1997, 1998 and 1999 were very successful in raising awareness of the Middle East in the Australian business community.<sup>47</sup> The Committee appreciates that this program required a break after three successive years, but this is the kind of focused and practical activity which needs to be built into long term promotional strategies.

### **Utilising the Internet**

- 6.159 As acknowledged above, the Internet is a very powerful communications tool which should be utilised fully by Austrade and DFAT in their efforts to promote the Middle East to companies and Chambers around Australia. The Committee is aware that Austrade is currently revamping its website in the hope that both established and new exporters will find the new site of more benefit in their international trade efforts.
- 6.160 Webcasting, a technology which combines the Internet with satellite, is an efficient new way to bring the message of exporting and specific trade opportunities to a wide audience particularly to companies in regional Australia. The Committee understands that Austrade is installing satellite dishes and related computers in 31 offices around Australia. It is hoped that the Austrade offices in the Middle East will maximise the use of this new technology when it is fully functional.

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<sup>47</sup> Austrade, Submission, p. 850.

- 6.161 The Committee understands that Austrade's 100 offices around the world regularly send back well-defined trade opportunities that are circulated to potential suppliers in Australia. There should be a special page on the Austrade website that features these trade opportunities.
- 6.162 Details of opportunities would be added every day as they are received from overseas, and would be deleted automatically after a specified period, say 10 days. Such a service would give all Australian companies a chance to participate in the opportunities identified by Austrade.
- 6.163 Some might say that posting these opportunities on a website could provide information to foreign competitors. In reality international commerce moves so quickly these days that third parties would have difficulty keeping up, even in the unlikely scenario that the Austrade office was the only agency in that country to identify that particular import opportunity.

### Export opportunities

- 6.164 One of the best ways to promote a region within the Australian business community is to provide a steady stream of well-defined export opportunities. Trade missions and seminars are all worthwhile, but nothing captures the attention of a business person more quickly than a sound commercial opportunity.
- 6.165 Austrade advised the Committee that its offices in the Middle East forwarded 450 export and investment opportunities to Australian companies in 2000-01.<sup>48</sup> These opportunities covered a range of sectors including automotive, agribusiness, oil and gas, building and construction and information technology.
- 6.166 The number of opportunities distributed to companies suggests that Austrade marketing staff in the Middle East are averaging about one business opportunity per fortnight. It would have been interesting for the Austrade submission to have provided more details of this important aspect of the Commission's work, especially Austrade's experience in converting opportunities into actual business. Austrade needs to be 'opportunity-driven'. There is no doubt that the Middle East region will very quickly capture the attention of the Australian business community if large numbers of positive business opportunities can be identified.

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<sup>48</sup> Austrade, Exhibit 36.

### Visits by Austrade marketing specialists

- 6.167 The Committee believes that all marketing specialists based in Austrade offices overseas should visit Australia at least once a year. At present there is provision for Trade Commissioners to come back to Australia annually, but it is at least as important that the local marketing specialists, the staff who really know and understand the local business scene, are able to obtain regular exposure to Australia.
- 6.168 As part of their visits, local marketing specialists could hold workshops to brief companies on how best to capture the business opportunities which they had identified and referred back to Australia.
- 6.169 Austrade's overseas marketing specialists should be encouraged to bring with them key importers and buyers when they visit. Meeting actual overseas buyers in their own offices or factories in Australia is of great benefit to Australian exporters. Most overseas buyers appreciate being escorted, especially if it is their first visit to Australia, and it also forms closer bonds between the Austrade marketing specialist and the overseas buyer.

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### Recommendation 23

- 6.170 The Committee recommends that Austrade develop proactive strategies to promote the Middle East region to Australian exporters—incorporating seminars and workshops, webcasting, the Internet, export opportunities, and regular visits by marketing staff and overseas buyers.**

### Sponsored visitors

- 6.171 As an important part of its public diplomacy activities, DFAT brings influential people to Australia under its Special Visits Program (SVP) and International Media Visits program.
- 6.172 The Committee understands that each geographic division in DFAT is entitled to sponsor six or seven visitors per annum under the SVP program. In the last four years the Middle East Branch has only sponsored four visitors—one each from Egypt and Lebanon in 1998, one from the Palestinian Territories in 1999, and one from Iran in 2000.<sup>49</sup>
- 6.173 The Committee feels it should be a priority of DFAT's Middle East Branch to ensure that all entitlements are taken up each year under the SVP
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<sup>49</sup> DFAT, Exhibit 33.



program. That would mean at least two, and possibly more, visitors per annum. While not a great number, over several years it would create a sizeable group of influential people in the Middle East who really know and understand Australia and hopefully are well disposed towards it.

- 6.174 In the 2000/2001 financial year, DFAT brought a total of 26 foreign journalists to Australia under its International Media Visits program. Seventeen journalists came from Asia, seven from Europe, and one each from North and South America. The editor of an Israeli newspaper was invited, but had to cancel his visit.<sup>50</sup>
- 6.175 The Committee feels that greater effort should be made to bring media representatives from the Middle East to Australia under the International Media Visits program. Journalists from business and trade-related media should be targeted, to develop awareness in the region of the products and services Australia has to offer.

#### **Recommendation 24**

- 6.176 **The Committee recommends that the Department of Foreign Affairs and Trade arrange a minimum of two visitors per annum from the Middle East under both the Special Visits Program and the International Media Visits program, as part of a comprehensive public affairs strategy for the region.**

#### **Recognition of importers**

- 6.177 The Australia Israel Chamber of Commerce in its submission lists 86 Australian companies which were recipients of the 1999 Israel Trade Awards.<sup>51</sup> The Israel Trade Awards are presented annually to Australian companies that have demonstrated outstanding effort and achievement in representing and distributing Israeli products. The winners are chosen by Israel's trade representative in Australia, who is based in the Israeli Consulate General in Sydney. The awards are presented at formal dinners held by branches of the Chamber of Commerce around Australia.
- 6.178 The Committee knows that Austrade, jointly with the ACCI, conducts the annual 'Export Awards' which recognise outstanding achievement by

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<sup>50</sup> DFAT, Exhibit 33. The Committee understands the criteria used by DFAT in selecting journalists for this program include the experience and standing of the person, and the circulation and reputation of their newspaper.

<sup>51</sup> AICC, Submission, p. 821.

Australian exporters. The Export Awards is a very important program in raising community awareness of the importance of export to the nation.

- 6.179 There are always two sides to a business deal—the exporter must have an importer or buyer at the other end to conclude a transaction. The Israeli approach recognises the vital role played by the importer or foreign buyer and seeks to develop closer relationships and ties by acknowledging publicly their important contribution.
- 6.180 Australia can learn from Israel in this instance, and the Committee recommends that Austrade examine the feasibility of introducing a similar scheme to recognise the contribution made by importers/buyers to Australia's export success. Apart from publicly recognising active importers/buyers, it is suggested that the top half-dozen should be rewarded in practical ways, for example in the form of two business class tickets to anywhere in Australia.

### **Recommendation 25**

- 6.181 **The Committee recommends that Austrade introduce an award scheme to recognise the vital contribution made to Australia's export success by outstanding overseas importers.**

## **Tourism**

- 6.182 The latest statistics available for the number of short-term visitor arrivals from the Middle East and North Africa is shown in Table 6.11 below. The figures include North Africa, but very few visitors come from countries such as Morocco and Algeria so the bulk would be from the Middle East. Israel is shown separately. The major sources of tourists in the Middle East, apart from Israel, are UAE, Saudi Arabia, and Kuwait:

**Table 6.11 Short Term Visitor Arrivals from the Middle East & North Africa, 1 August 1999 to 31 July 2000**

|                           | Israel                |   |                   | Other Middle East & North Africa |   |                   |
|---------------------------|-----------------------|---|-------------------|----------------------------------|---|-------------------|
|                           | <i>No of Arrivals</i> | <i>% change over previous 12 months</i> | <i>% of total</i> | <i>No of Arrivals</i>            | <i>% change over previous 12 months</i> | <i>% of total</i> |
| Holiday                   | 6,103                 | 12                                      | 48                | 18,992                           | 13                                      | 49                |
| Visit Friends & Relations | 2,959                 | 0                                       | 24                | 10,129                           | 15                                      | 26                |
| Business                  | 1,302                 | -15                                     | 10                | 2,897                            | 3                                       | 7                 |
| Conventions & Conferences | 511                   | 37                                      | 4                 | 1,184                            | -16                                     | 3                 |
| Other                     | 1,739                 | 1                                       | 14                | 5,713                            | -18                                     | 15                |
| <b>Total</b>              | <b>12,614</b>         | <b>5%</b>                               | <b>100%</b>       | <b>38,915</b>                    | <b>6%</b>                               | <b>100%</b>       |

Source *Australian Bureau of Statistics Catalogue 3401.1*

6.183 Short term departures from Australia to the Middle East in the 12 months to June 2000 totalled 60,900, of which 18,900 listed their principal destination as Lebanon and 8,300 as Israel.

6.184 For marketing purposes, the Australian Tourist Commission (ATC) divides the Middle East region into two parts: 'Arab Middle East' and 'Israel'. Both have distinctive characteristics.

6.185 The major characteristics of short-term visitors from Arab Middle East may be described as follows:

- Represents three-quarters of short term arrivals from the Middle East and North Africa. Main markets are UAE, Saudi Arabia, and Kuwait
- Key target is high-yield Arab families for their summer holidays. Popular destinations have been Europe and Florida. Mainly interested in Sydney, Melbourne and Gold Coast. Tend to stay several weeks and their expenditure is much higher than the average short term visitor.
- There is also an 'expatriate market' in the Middle East of professionals from Europe and the Indian sub-continent who are working in the region.<sup>52</sup>

6.186 Visitors from Israel represent about 25 per cent of short-term visitors from the Middle East. They are predominantly under 35, many are back-

<sup>52</sup> ATC, Submission, p. 236.

packers, although there is also a small, high-yield, over-50s group who come to visit friends and relatives.

- 6.187 Table 6.11 above shows that the reasons for travel to Australia are remarkably similar for visitors from Israel and the Arab countries—almost half come for holidays, another quarter come to visit friends and relatives, and about 10 per cent come for business.
- 6.188 The median stay for short-term visitors from the Middle East is 27 nights and their average expenditure in Australia itself is \$5,587—more than twice the average figure for tourists from all countries. The Middle East is one of the highest-yielding sources of tourism into Australia.<sup>53</sup>
- 6.189 The ATC has appointed marketing agencies in Tel Aviv, Cyprus and Dubai.
- 6.190 The ATC has a limited, but effective, promotional program which focuses on participating in regional travel trade shows, encouraging travel agents from the Middle East to attend trade shows in Australia, and bringing travel journalists to Australia:

Over the last five years we have had something like 43 journalists come from the Middle East to Australia sponsored by us and the airlines. They have come from Bahrain, Egypt, Israel, Saudi Arabia, and the United Arab Emirates. For this year, 2000-01, we plan to bring out an additional 10 journalists in conjunction with Gulf Air.<sup>54</sup>

- 6.191 The ATC has a useful website—[www.australia.com](http://www.australia.com)—which it promotes widely throughout the region. Utilisation of the web site is growing rapidly, as shown in the following figures:

Table 6.12 Australia.com web site: user sessions and pages delivered

|                                  | User sessions          | Pages delivered        |                                  |
|----------------------------------|------------------------|------------------------|----------------------------------|
|                                  | May 2000 to April 2001 | May 2000 to April 2001 | % change over previous 12 months |
| Israel                           | 6,642                  | 46,497                 | 55%                              |
| Other Middle East & North Africa | 49,614                 | 347,301                | 90%                              |

Source Australian Tourist Commission, May 2001

<sup>53</sup> ATC, Transcript, p. 343.

<sup>54</sup> *ibid*, p. 341.

- 6.192 Worldwide, the australia.com website attracted 4.04 million user sessions in the year to 30 April 2001, an increase of 72 per cent on the previous 12 months. The Middle East represented only 1.2 per cent of total world user sessions, but it is growing fast (the USA represented 40 per cent of total user sessions, with Australians representing 16 per cent). There is no doubt that the Sydney 2000 Olympics generated a lot of interest, but the ATC is confident that interest in Australia will continue at a high level.
- 6.193 ATC's australia.com website is presented in a number of languages: English, Japanese, Chinese, Korean, German, Italian, French, Spanish, and Portuguese. The Committee believes that it would make sense for an Arabic version to be included. This would make Arabic speakers feel more welcome, and encourage them to explore further what Australia has to offer.
- 6.194 The expansion of air services has been one of the key factors behind the strong growth in tourism between Australia and the Middle East in recent years.<sup>55</sup> The current schedule of direct flights is shown in Table 6.13 below:

Table 6.13 Schedule of direct flights between Australia and the Middle East, May 2001

| Air Line          | Departure–Arrival | Frequency             | Departure–arrival times | Stop Over                      |
|-------------------|-------------------|-----------------------|-------------------------|--------------------------------|
| Emirates Airlines | Melbourne–Dubai   | Daily                 | 19:20/05:10 +1          | Singapore                      |
|                   | Sydney – Dubai    | Mon, Wed, Fri, Sun    | 20:15/06:35+1           | Singapore                      |
| Gulf Air          | Sydney–Bahrain    | Tues, Thurs, Fri, Sun | 21:20/10:20+1           | Sydney via Melbourne/Singapore |
| Egypt Air         | Sydney–Cairo      | Wed, Sat              | 20:00/09:15+1           | Singapore                      |

Source *Airline Schedules, May 2001*

- 6.195 Emirates Airlines has indicated that it is considering direct flights to Perth and possibly also to Brisbane at some time in the future, which would give a boost to those cities, both in terms of more direct tourism and also better access to air freight capacity. There are also frequent connections through Singapore and Kuala Lumpur.
- 6.196 Partly in response to the arrival of illegal boat people, the Department of Immigration and Multicultural Affairs (DIMA) has expanded its presence in the Middle East and now has staff in Tel Aviv, Cairo, Beirut, Amman,

<sup>55</sup> ATC, Submission, p. 240.

Riyadh, Dubai, and Tehran. These offices also process short-term visa applications, which has reduced processing delays for intending tourists.

- 6.197 In order to facilitate the processing of visas, DIMA has authorised thirteen travel agents to handle visa applications. These agents are located in Abu Dhabi, Bahrain, Dubai (two agents), Kuwait (three agents), Muscat, Oman, and Saudi Arabia (agents in Riyadh, Jeddah, Dhahran, and Dammam).<sup>56</sup> These authorised agents hold stocks of visa application forms and visas. An intending visitor completes an application form which the agent faxes to DIMA in Dubai or Athens for processing. The agent is advised if the application is approved, and he then inserts the actual visa in the traveller's passport.
- 6.198 The agency system seems to be working well. The big advantage is that intending travellers do not need to send their passports away with their application to secure a visa.
- 6.199 Visitors from the Middle East are normally given a multiple entry visa valid for 12 months. Where DIMA is convinced of bona fides, multiple entry visas valid for five years are now becoming readily available.
- 6.200 The spread of DIMA personnel, together with the expanded agency system, should do much to address the requirements of short term visitors to Australia. Citizens of some countries may still experience delays in processing visa applications, but that is due to the requirement for security checks rather than DIMA's administrative procedures.
- 6.201 Despite relatively high rejection rates by DIMA of short term visitor visa applications, overstay or non-return rates are still significant for several Middle East countries as shown in Table 6.14 below:

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<sup>56</sup> DIMA, Exhibit 38.

Table 6.14 Middle East countries Rejection Rates and Non-Return Rates, (per cent)

| Country | Rejection rate        |       | Non-Return rate        |       |
|---------|-----------------------|-------|------------------------|-------|
|         | July 1999 - June 2000 |       | July 2000 - April 2001 |       |
| Egypt   | 26.36                 | 14.64 | 41.62                  | 12.81 |
| Iran    | 51.66                 | 20.20 | 48.73                  | 14.59 |
| Iraq    | 58.52                 | 17.67 | 37.36                  | 18.40 |
| Israel  | 3.74                  | 7.92  | 4.84                   | 6.84  |
| Jordan  | 41.85                 | 13.29 | 44.03                  | 18.28 |
| Lebanon | 47.67                 | 17.38 | 33.03                  | 13.28 |
| Syria   | 49.72                 | 22.46 | 52.32                  | 20.86 |

Source DIMA, Supplementary Submission 80(b)

- 6.202 The rejection rates and non-return rates for the Gulf countries are mostly below 1 per cent, with the highest being 2.49 per cent. Yemen is the exception, with rates comparable to some of the figures shown in Table 6.14.
- 6.203 The ATC's submission identified the cost of obtaining an Australian visa as a possible impediment to tourism.<sup>57</sup> DIMA contends that Australian visitor visas are not expensive in comparison with the charges levied by most other tourism destinations. DIMA provided the following figures based on a survey undertaken by their offices in the Middle East:

Table 6.15 Comparative costs of short term visas

| Country   | Cost of visa application<br>A\$ equivalent | Country      | Cost of visa application<br>A\$ equivalent |
|-----------|--|--------------|--|
| Australia | \$60                                       | New Zealand  | \$48                                       |
| Canada    | \$70                                       | South Africa | \$60                                       |
| Germany   | \$60                                       | UK           | \$110                                      |
| France    | \$60                                       | USA          | \$60                                       |

Source DIMA, Supplementary Submission received 18 June 2001

<sup>57</sup> Submission, pp. 238 – 39.

- 6.204 The Visa Application Charge has not risen since July 1999 and falls in the Australian dollar have kept Australia's visitor visa application charges competitive.<sup>58</sup>
- 6.205 Agents charge service fees to their clients to assist them with visa applications and processing, which can increase the final cost significantly. However, there is no mandatory requirement that intending visitors use agents—they can, if they so choose, lodge applications directly with the nearest DIMA office.<sup>59</sup>
- 6.206 The issue of the cost of visas was raised by the Committee with the ATC during the public hearing on 27 July 2000. At that time, ATC admitted that the cost of obtaining visas was not as important as the delays involved in the actual process of applying for a visa.<sup>60</sup>
- 6.207 DIMA has taken reasonable steps to facilitate the issue of visas to short term visitors. However, processing times need to be carefully monitored to ensure that the new procedures are working efficiently and achieving the desired results. The Committee has every confidence that inbound tourism from the Middle East will continue to show steady growth in the future.

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### **Recommendation 26**

- 6.208 **The Committee recommends that the Australian Tourist Commission add an Arabic version to the australia.com website.**

## **Overseas students in Australia**

### **Size of the market**

- 6.209 A very significant number of students from the Middle East complete at least some of their studies overseas. DETYA's submission contained a table which showed that 34,172 students from the Middle East undertook higher education courses in four major English-language countries in 1998-99—the USA, the UK, Canada and Australia. Australia was the

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<sup>58</sup> DIMA, Supplementary Submission received 18 June 2001

<sup>59</sup> *ibid.*

<sup>60</sup> ATC, Transcript, p. 346.



destination for just 0.8 per cent of these students, as shown in Table 6.16 below:

**Table 6.16** Number of Middle East students studying higher education courses in the USA, UK, Canada and Australia in 1998-1999

|                      | USA  | UK   | Canada | Australia |
|----------------------|------|------|--------|-----------|
| Egypt                | 1834 | 200  | 146    | 15        |
| Iran                 | 1660 | 849  | 453    | 90        |
| Israel               | 3098 | 1996 | 159    | 54        |
| Jordan               | 2039 | 733  | 140    | 1         |
| Kuwait               | 3013 | 689  | 129    | -         |
| Saudi Arabia         | 4931 | 1466 | 426    | 2         |
| United Arab Emirates | 2524 | 912  | 36     | 75        |

Source *DETYA, Submission, p. 1711*

## Number of students from the Middle East in Australia

6.210 Table 6.17 shows the numbers of students from the Middle East who studied in Australia from 1996 to 2000:

**Table 6.17** Overseas Students, by Country

| Country                      | 1996           | 1997           | 1998           | 1999           | 2000           |
|------------------------------|----------------|----------------|----------------|----------------|----------------|
| Iran                         | 480            | 331            | 189            | 144            | 125            |
| Israel                       | 49             | 55             | 95             | 115            | 146            |
| Jordan                       | 42             | 63             | 87             | 114            | 260            |
| Lebanon                      | 24             | 27             | 30             | 92             | 232            |
| United Arab Emirates         | 155            | 230            | 249            | 252            | 239            |
| Egypt                        | 32             | 27             | 26             | 53             | 65             |
| <b>Total all Middle East</b> | <b>782</b>     | <b>733</b>     | <b>676</b>     | <b>770</b>     | <b>1,067</b>   |
| <b>Total all Countries</b>   | <b>147,789</b> | <b>154,728</b> | <b>151,444</b> | <b>162,865</b> | <b>188,277</b> |

Source *Overseas Student Statistics Collection 2000, Australian Education International*

6.211 The number of students from the Middle East totalled 1,067 in 2000, including 146 undertaking higher education courses offshore. The Middle East represented just 0.6% of the 188,277 overseas students in Australia. By way of comparison, Australia's major sources of overseas students in 2000 were Singapore (20,866), Hong Kong (20,739), Malaysia (19,602) and Indonesia (17,868).

- 6.212 There has been a sharp decrease in student numbers from Iran. Most Iranian students are funded by government scholarships and, as that regime becomes more flexible, a greater number of these students are choosing to study in the USA. A strategy should have been devised to retain a continuing interest in, and commitment to, Australia. Numbers from all the other countries in the Middle East have increased as shown in Table 6.17 above, but the overall numbers are still disappointingly small.
- 6.213 Previously DETYA had an educational counsellor based in the Australian Consulate General in Dubai. The position became vacant in early 2000 and a review was undertaken. DETYA decided to appoint a locally engaged officer to fill the position and is finalising negotiations with Austrade to permit that person to operate out of the Austrade office, commencing in August 2001.
- 6.214 Well over 30,000 students from the Middle East undertake higher education studies in English-speaking countries every year. After several years of trying, Australia still has a market share of less than one per cent. The Committee believes that a three per cent market share should be an achievable target in the medium term given the combined promotional activities in the region of DETYA, Austrade, IDP Education Australia, and the University of Wollongong. The oil-rich States of the Gulf should clearly be the priority target markets.
- 6.215 DETYA is urged to develop a business plan to achieve a three per cent market share within three years. If that target is achieved, and continuing the momentum generated, a market share of five per cent within five years would be very achievable. The business plan should be compiled in close cooperation with Austrade, IDP Education Australia, and the University of Wollongong to take full advantage of the significant on-the-ground experience these organisations have obtained in the region.
- 6.216 It is obvious that Australia's past marketing efforts have had very limited success. However, IDP has now established a presence in the region supported by an active marketing program (see section on IDP Education Australia below) which will give a major boost to Australia's efforts in the region.
- 6.217 In order for Australia to significantly increase its market share, DETYA has to play a strategic coordinating and leadership role. New promotional strategies must be instituted on a 'Team Australia' basis. If the targets set in the three year business plan are not achieved, the DETYA position in Dubai should be withdrawn and those resources put into more responsive markets.

## Types of courses

Table 6.18 Overseas students, by major country and type of course, 2000

| Country                    | Higher Education |            | Vocational Education | School Education | ELICOS*    | Total        |
|----------------------------|------------------|------------|----------------------|------------------|------------|--------------|
|                            | On-shore         | Off-shore  |                      |                  |            |              |
| Iran                       | 85               | 4          | 7                    | 4                | 25         | 125          |
| Israel                     | 106              | 10         | 22                   | 4                | 4          | 146          |
| Jordan                     | 43               | 3          | 35                   | -                | 179        | 260          |
| Lebanon                    | 73               | 8          | 42                   | 1                | 108        | 232          |
| United Arab Emirates       | 88               | 121        | 8                    | 1                | 21         | 239          |
| Egypt                      | 11               | 0          | 42                   | 4                | 8          | 65           |
| <b>Total Middle East</b>   | <b>406</b>       | <b>146</b> | <b>156</b>           | <b>14</b>        | <b>345</b> | <b>1,067</b> |
| <b>Total all Countries</b> | 72,717           | 34,905     | 30,759               | 13,129           | 36,767     | 188,277      |

\* ELICOS = English Language Intensive Courses for Overseas Students

Source Overseas Student Statistics Collection 2000, Australian Education International

6.218 Table 6.18 above shows the types of courses undertaken by students from the Middle East. The spread of courses undertaken by students from the Middle East mirrors fairly closely the distribution of all overseas students.

## Geographic distribution

6.219 NSW is by far the most popular destination for students from the Middle East, with 53 per cent choosing to study there, compared to an overall average for all foreign students of 31 per cent. Table 6.19 shows the geographic distribution of students from the Middle East around Australia:

Table 6.19 Overseas students, by major country and State/Territory, 2000

| Country                                   | NSW        | Vic        | Qld       | WA        | SA        | ACT       | Tas       | NT       | Off-Shore  | Total        |
|---|------------|------------|-----------|-----------|-----------|-----------|-----------|----------|------------|--------------|
| Iran                                      | 54         | 14         | 15        | 10        | 17        | 7         | 4         | -        | 4          | 125          |
| Israel                                    | 54         | 61         | 10        | 6         | 3         | 2         | -         | -        | 10         | 146          |
| Jordan                                    | 206        | 11         | 25        | 5         | 1         | 6         | -         | 3        | 3          | 260          |
| Lebanon                                   | 173        | 28         | 10        | 2         | 3         | 5         | -         | 3        | 8          | 232          |
| United Arab Emirates                      | 27         | 33         | 26        | 5         | 1         | 8         | 18        | -        | 121        | 239          |
| Egypt                                     | 51         | 9          | 1         | 4         | -         | -         | -         | -        | -          | 65           |
| <b>Total all Middle East</b>              | <b>565</b> | <b>156</b> | <b>87</b> | <b>32</b> | <b>25</b> | <b>28</b> | <b>22</b> | <b>6</b> | <b>146</b> | <b>1,067</b> |
| <b>Percentage</b>                         | 53         | 15         | 8         | 3         | 2         | 3         | 2         | 0.6      | 14         | 100%         |
| <b>Total Overseas Students Percentage</b> | 31         | 23         | 13        | 9         | 3         | 2         | 1         | 0.2      | 19         | 100%         |

Source Overseas Student Statistics Collection 2000, Australian Education International

## IDP Education Australia

- 6.220 IDP Education Australia (IDP) is the international marketing arm of universities in Australia. On behalf of the universities, IDP seeks overseas students to undertake higher education courses in Australia and also seeks consultancy projects that can be undertaken by universities on a commercial basis.
- 6.221 IDP opened its own office in Dubai in January 2000 and has since established representation in Bahrain, Kuwait, and Oman, and Saudi Arabia through a network of local partners.
- 6.222 IDP uses a range of proven marketing strategies to promote study in Australia, including education exhibitions, advertising in media, sponsoring school events, and organising roadshows and interview programs. These promotions are conducted in conjunction with the marketing departments of interested universities. IDP is planning a major 'Study Australia' promotion in October 2001 to be held in Bahrain, Kuwait, Oman, Abu Dhabi, Dubai as well as, for the first time, in three major centres in Saudi Arabia.<sup>61</sup>

61 IDP website July 2001: [www.idp.edu.au/exhibitions/](http://www.idp.edu.au/exhibitions/)

- 6.223 The government of Dubai has given IDP approval to conduct short-course training programs there. IDP is also examining the feasibility of establishing English teaching centres in the region.

## Visa regulations for overseas students

- 6.224 Some disquiet has been expressed about aspects of the new visa conditions for overseas students that came into force on 1 July 2001.<sup>62</sup> The National Liaison Committee for International Students in Australia conference held in Canberra in July 2001 criticised the fact that students from different countries were assessed against different criteria, and that visas were automatically cancelled if students did not respond to a 28-day notice.<sup>63</sup>
- 6.225 IDP Education Australia has identified three other areas of special concern with the new visa regulations:
- It is mandatory for students to achieve a minimum level in an IELTS (International English Language Testing System) test, even if their prime purpose in coming to Australia is to learn English;
  - All the Persian Gulf States are classified as Risk Category 2, except Oman and Qatar which have been designated Risk Category 3. Conditions are similar across the Gulf and both countries should be in Risk Category 2;
  - Only parents are now able to sponsor student children, whereas previously siblings and close relatives could also do so. The cultural norms of the Middle East mean that often the extended family holds wealth, and this should be taken into account for sponsorship purposes.<sup>64</sup>

### Recommendation 27

- 6.226 **The Committee recommends that the Department of Immigration and Multicultural Affairs review some of the new visa regulations for overseas students, particularly as they pertain to the Middle East.**

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62 The new visa regulations are explained on DIMA's website: [www.immi.gov.au/students/whatsnew](http://www.immi.gov.au/students/whatsnew)

63 *The Canberra Times*, 7 July 2001, p. 4.

64 IDP Education Australia, Exhibit 40.

## University of Wollongong

- 6.227 The University of Wollongong (UoW) established the Institute for Australian Studies in Dubai, UAE, in 1993. In December 1999, UoW was granted a licence by the UAE Ministry for Higher Education and Scientific Research to operate a fully-fledged university campus.<sup>65</sup>
- 6.228 The UoW is the first foreign university to be granted a licence to operate in the UAE. The licence enables the Dubai Campus to advertise its courses, sponsor visas for foreign students, and have its courses formally recognised for appointment and promotion purposes in the public sector.
- 6.229 Dubai was selected as the site for UoW's campus because of its standing as a leading industrial, commercial and trading centre servicing a large regional population in an oil-rich area. It has political and financial stability, an open pro-business regulatory climate, and sound infrastructure including advanced communications.
- 6.230 UoW plans to invest more than \$2 million over two years to improve facilities and infrastructure of the existing Dubai Campus, with the long-term goal of achieving a purpose-built campus. English-language enrolments are 850 in 2001 and these numbers will double in the next four years. Academic enrolments are expected to increase from 378 in 2001 to over 1,600 in 2005. The Dubai Campus currently has 65 staff and more are being recruited.<sup>66</sup>
- 6.231 The academic programs offered by the Dubai Campus are also offered by the main Wollongong Campus and have undergone the same approval and quality assurance process. Course and subject descriptions are based on those provided to students undertaking the same course in Australia. The Dubai Campus currently offers the following courses:

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65 University of Wollongong, Exhibit 28.

66 Ibid.

Table 6.20 Courses offered by UoW's Dubai Campus in 2001

| Undergraduate                               | Graduate  |
|---|---|
| Bachelor of Business Administration         | Graduate Certificate in Business Administration |
| Bachelor of Commerce                        | Graduate Certificate in Quality Management      |
| Bachelor of Computer Science                | Graduate Diploma in Business Administration     |
| Bachelor of Internet Science and Technology | Master of Business Administration               |
|   | Master of International Business                |
|   | Master of Quality Management                    |

Source *University of Wollongong, Exhibit 28*

- 6.232 The Dubai Campus also offers Islamic Studies (Culture) which is designed to familiarise students with Islamic teaching, culture and tradition. UoW is proposing to add two new courses in 2001: a Bachelor of Arts undergraduate course, and a Master of IT Management graduate course.
- 6.233 Previous attempts by Australian institutions to recruit students from the Middle East have not proven very effective. The Committee commends the University of Wollongong for taking an innovative and far-sighted approach to establishing a presence in this region and wishes it every success in its future endeavours.

