

Tabled 24.5.01

# Joint Standing Committee on Foreign Affairs, Defence and Trade

Inquiry into Australia's Trade and  
Investment Relationship with  
South America

## **GOVERNMENT RESPONSE**

# Australia's Trade and Investment Relationship with South America

## *Building Australia's Trade and Investment Relationship with South America*

### **GOVERNMENT RESPONSE**

*The Government thanks the Joint Standing Committee on Foreign Affairs, Defence and Trade for the comprehensive inquiry conducted into Australia's trade and investment relationship with South America. The report is a welcome and timely follow-up to the last report on South America by the Senate Standing Committee on Foreign Affairs, Defence and Trade in 1992.*

*The report makes thirty recommendations regarding Australia's trade and investment relationship with South America. The Government's response to these recommendations is provided below.*

### **List of Recommendations**

#### ***Coalition Building, Economic and Regional Considerations***

##### **Recommendation 1**

The Committee recommends that the Australian Government, along with the New Zealand Government, urge the Mercosur countries to reinvigorate the CER-Mercosur dialogue.

*Australia has been active in putting forward initiatives for the dialogue. However, progress has been modest. The main problem is the heavy negotiating load with other external partners on the Mercosur side. We have made some progress on technical issues (such as science and technology cooperation) and will continue to seize opportunities as they arise. The CER-Mercosur dialogue will be examined in a major Government report by DFAT's East Asia Analytical Unit on business opportunities in Latin America. The report is due for completion in August 2001.*

##### **Recommendation 2**

The Committee recommends that the Australian Government pursue as a priority the development of an Australia-Mercosur free trade agreement.

*The Government closely monitors regional trade developments in Latin America in order to protect and advance our commercial interests. The Government remains open to the idea of a regional trade arrangement with Mercosur and/or other countries in the region consistent with its policy that such arrangements would deliver substantial gains to Australia across all sectors*

*which cannot be achieved in a similar timeframe otherwise. However, at the moment, we can discern little interest on the Mercosur side which has, like ourselves, other priority countries/regions for such agreements.*

### **Recommendation 3**

The Committee recommends that the Australian Parliament, under the Inter-Parliamentary Union, establish an Australia/Andean Community Parliamentary Group.

*This is a matter for Parliament to resolve.*

### **Recommendation 4**

The Committee recommends that the Department of Foreign Affairs and Trade, along with its portfolio partner Austrade, develop a strategy to establish Australia as a bridge to Asia for the economies of South America.

*This is already a feature of trade development and promotion messages in Australia and in the portfolio's work in the region.*

## ***Building a Sound Trade and Investment Relationship***

### **Recommendation 5**

The Committee recommends that the Australian Government establish an Australia-South America Foundation.

*The Government has announced the creation of a Council on Australia Latin America Relations (COALAR), aimed at strengthening ties between Australia and the countries of Latin America. The Council will be established by mid 2001.*

### **Recommendation 6**

The Committee recommends that the Australia-South America Foundation be serviced by a secretariat located in the Department of Foreign Affairs and Trade.

*The Council on Australia Latin America Relations, referred to above, will be serviced by a secretariat in DFAT.*

### **Recommendation 7**

The Committee recommends that the Australian diplomatic missions in Argentina, Brazil, Chile and Venezuela and the consulates in São Paulo, Brazil and Lima, Peru, promote the activities of the Australia-South America Foundation in South America.

*We envisage our posts being involved in the promotion of individual programs and activities of the COALAR, such as exchanges of young business executives. These activities would be in addition to the public diplomacy and trade promotion work already being undertaken by posts.*

### **Recommendation 8**

The Committee recommends that the Department of Foreign Affairs and Trade, in cooperation with Austrade, form a South America Working Group to enable greater cooperation and information exchange between governments, both federal and state, business and business forums on the opportunities, activities, initiatives and developments in South America.

*The proposed body being developed by DFAT in response to recommendation 5 above will facilitate greater cooperation and information exchange between government and business on opportunities in South America.*

#### **Recommendation 9**

The Committee recommends that the Prime Minister visit the South American region.

*The Government agrees that personal contact can contribute in an important way to building a sound trade and investment relationship. Annual APEC economic leaders' meetings provide opportunities for regular contact at head of government level with Chile and Peru (as well as Mexico). A visit by the Prime Minister to the South American region at a mutually convenient time would further contribute.*

#### **Recommendation 10**

The Committee recommends that the visit of the Prime Minister to South America be followed closely by the Minister for Trade visiting the region accompanied by Australian business representatives.

*Mr Vaile will visit the region when he chairs a Ministerial meeting of the Cairns Group due to be held in Uruguay in September 2001. If time permits, he intends to visit other countries and consideration will be given to taking a business delegation with him. Mr Vaile visited Argentina, Uruguay, Brazil and Peru in September 1999.*

#### **Recommendation 11**

The Committee recommends that the Australian Government, in partnership with industry, establish an exchange program for young executives between Australia and the countries of South America.

*DFAT and Austrade would promote this initiative through the Council on Australia Latin America Relations and the Australia-Latin America Business Council. Such an exchange program has also been recommended as a cooperative project of the Forum for East Asia Latin America Cooperation.*

#### **Recommendation 12**

The Committee recommends that, as an initiative of the Australia-South America Foundation, the Australian Government investigate the development of a program to provide the less developed countries of South America with the opportunity to capture the expertise and skills of people who have retired from the Australian workforce.

*The Government agrees that it would be useful to be able to harness the skills and expertise of people who have retired from the Australian workforce, for example former Ambassadors/Trade Commissioners, in South America. An example of where this is done successfully is the AESOP program, which places volunteers in developing countries in the Asia Pacific region. (AESOP receives financial support from AusAID). A similar program could be investigated by the COALAR. However, like AESOP, it would need some government financial support.*

#### **Recommendation 13**

The Committee recommends that the Australian Tourist Commission substantially increase its efforts in South America to capitalise on the tourism potential.

*There are a number of factors which can assist in maximising tourism growth out of the South American market – marketing is one, availability of air services is another. In terms of marketing, the ATC has been allocating resources to the development of Latin American markets since 1987. Latin America is managed through the ATC's Los Angeles office and is part of the Americas region. The USA and Canada accounted for 80 per cent and 15 per cent of arrivals from the region in 1999; Latin America accounted for 5 per cent, mostly from Argentina and Brazil.*

*While the ATC believes that the funding allocated to Latin America from the Americas regional budget is consistent with the outputs that can presently be generated from this region, the ATC does recognise the potential of the Latin American market in the longer term. Accordingly, the ATC will continue to monitor developments to maximise its growth potential commensurate with its global budget.*

#### **Recommendation 14**

The Committee recommends that the Department of Immigration and Multicultural Affairs introduce the Electronic Travel Authority into Argentina, Brazil and Chile, followed by the other South American countries.

*At present, the ETA is available to passport holders of 32 countries and locations. The extension of the ETA to Hong Kong and Taiwan on 1 July 1999 represented the completion of the first stage of the ETA rollout. The first stage rollout has meant that within a period of 4 years, some 9 million ETAs have been issued. ETAs now represent between 80% to 90% of all visitor visas issued. The ETA system is the most advanced and streamlined travel authorisation system in the world, with more than 70 airlines and over 300 000 travel agents worldwide currently able to participate in the system. Against the background of this very rapid increase in the use of ETAs, the Government decided that there should be a period of consolidation whilst the system is fully bedded-down.*

*The Government considers that following this period of consolidation, other countries can be considered for ETA extension subject to two major factors:*

- (a) that visitors from any proposed country should represent a very low immigration risk, particularly in terms of non-return rates; and*
- (b) that the size of the visitor market from the proposed country should be sufficient to warrant ETA extension. While the ETA has been extended to a number of countries which deliver very small numbers of visitors, each of these smaller source countries lies within or in close proximity to a much larger country or region where ETA has been extended (eg. The Vatican within Italy). Because generally the same travel agents service these smaller countries, it was considered financially feasible to extend ETA to those countries at the same time.*

*With regard to the recommendation to extend the ETA to Argentina, Brazil and Chile, the Government notes that each of these three countries represents a relatively small number of visitors annually. In 1999/00, there were 8561 visitor visas issued to Brazilian nationals (0.26% of total visitor visas issued), 6926 to Argentinians (0.21% of total visitor visas issued) and 2936 to Chilean nationals (0.09% of total visitor visas issued).*

*Of greater significance, however, is that non-return rates for visitors from Brazil and Chile are very high. The non-return rate for Brazilian nationals rose sharply from 5.0% to 9.4% in 1999-00, while the rate for Chilean nationals remained very high at 12.1% in the same year. The Government notes that this is between 4 to 6 times higher than the global non-return rate of 2.4% and between 5 to 8 times higher than the average non-return rate of visitors from all ETA countries. Indeed, there are relatively few countries from which Australia receives more than 2000 visitors per year that have non-return rates greater than those of visitors from Chile and Brazil.*

*Given the relatively high non-return rates for Brazil and Chile, there is no case at this time for the ETA to be extended to these countries. The Government notes that the United States Visa Waiver Program and the Canadian Visa Exemption Program, the US and Canadian equivalents of the ETA, have not been introduced for these two countries. The Government also notes that visitor visa grants to nationals of Brazil and Chile increased by 24% and 13.6% respectively in 1999/00.*

*The Government has had under examination for some time the case for extending ETA to Argentina, but at this stage has made no firm commitment to proceed. The issue will be examined further. In the interim, the Government notes that existing visa processing arrangements for Argentina are highly efficient and provide for a 24-hour turn-around for most applicants. Visitor visa grants to Argentinians increased by 6.6% in 1999/00 over 1998/99.*

#### **Recommendation 15**

The Committee recommends that the Department of Immigration and Multicultural Affairs introduce a visa category that allows persons to be sponsored by Australian business to work not only in the company in Australia but to undertake formal study at the same time.

*There is an existing range of visa options for people wishing to come to Australia for study and work purposes.*

*Student visas are available to genuine students who wish to come to Australia to study in full time courses registered on the Commonwealth Register of Intensive Courses for Overseas Students (CRICOS). Students are permitted to apply for work rights after they commence their courses in Australia. Work rights involve up to 20 hours work per week, but this should be incidental to the study component.*

*The level of work rights available to student visa holders is one of the most generous in the world. The Australian overseas students industry recently rejected a proposal to increase the level of work rights available to overseas students.*

*An option available for Australian businesses seeking to sponsor a business entrant who also wishes to do some study is the Temporary Business (long stay) visa, subclass 457. Visa holders under this subclass are not restricted from enrolling or participating in courses of study at any level in Australia. Visa holders have as a mandatory condition (8107) that they must not change occupation or employer without the permission of DIMA, but this condition does not restrict access to courses of study.*

*Further visa options to combine study with other forms of activity include:*

- *visitor visas where a tourist can undertake some study as part of the visit to Australia;*

- *business visitor visas where a short term business entrant (less than 3 months) can undertake study in addition to business activities; and*
- *working holiday maker visas where the entrant can combine a holiday with work and study.*

*Additionally, there are a number of permanent entry options available for businesses to sponsor overseas employees to work and study in Australia. The Employer Nomination Scheme and the Regional Sponsored Migration Scheme allow employers to sponsor people from overseas to fill positions that cannot be filled from the local labour market. If successful, the applicant and family are able to access Australian education in the same way as any other resident of Australia.*

### **Recommendation 16**

The Committee recommends that the Department of Immigration and Multicultural Affairs revise its visa processing requirements in South America to streamline the process and reduce the compliance costs to applicants.

*DIMA is required by the Government to achieve a balance between facilitating the Government's foreign policy/trade agenda whilst maintaining the strong focus on immigration integrity that the Government is committed to. DIMA cannot and does not operate with only one of these two objectives in mind. It must strike a balance.*

*The structure of DIMA's visa processing arrangements in all parts of the world are driven by the volume of applications and the level of immigration risk. As a result, high volume, high risk countries such as China and India have seen significant increases in DIMA resources in recent years. DIMA constantly monitors the emerging trends in application rates, processing arrangements and staffing in all parts of the world, including South America.*

*The volume of visa applications from South America has traditionally been low although immigration risk has been relatively high. Increases in visa applications in 1999/00, however, suggest that a re-examination of DIMA's delivery structure in South America is appropriate. DIMA has, over the past twelve months, and in response to the concerns raised by the Committee:*

- *considered a range of options for redistributing existing resources within the Region which would provide an opportunity for the Department to address the Committee's concerns as well as respond to emerging trends in South America. Several options for realignment of resources were explored, including establishing an A-based presence in Brazil (in either Brasilia or Sao Paolo), Buenos Aires and/or in Mexico City. Taking into account staffing, security, accommodation, associated costs and workload business cases for the Region, it was decided to establish a DIMA A-based presence in Brasilia of two A-based officers. Both officers took up their positions in Brasilia recently;*
- *appointed two additional Locally Engaged Employees at the Embassy in Brasilia;*
- *considered the feasibility of cooperative arrangements with the Australian export education industry to provide more efficient student visa processing in the Region; and*
- *considered the feasibility of locating a mobile visa processing resource in the Region.*

### APEC in South America

The Australian Pacific Economic Cooperation Forum (APEC) forum of 21 economies (including Chile, Mexico, and Peru) recognises the need for business people to move quickly in pursuing trade and investment opportunities. APEC economies aim to make it easier for APEC business people to travel through the Region. In this regard, a significant recent initiative has been the development and implementation of the APEC business travel card scheme. This scheme provides pre-clearance for the holders of accreditation cards and access to priority processing lanes at airports of participating economies. The travel card is valid for up to three years and provides for entry for up to three months on each visit.

Peru announced its decision to join the APEC Business Travel Card Scheme in August 2000, providing accredited Peruvian cardholders with streamlined entry to Australia. There are now ten participants in the Scheme, including Chile and Australia.

### Student visa applications from Colombia.

It is noted that at present there is no Australian mission (DFAT or otherwise) in Colombia. This limits the range of visa processing arrangements that can be put in place. The current arrangements require applicants to mail their applications to Santiago in Chile.

DIMA provided the Committee with a detailed submission on the costs associated with student visa processing from Colombia, broken down into various scenarios depending on the completeness of the initial application. If an incomplete application is lodged, the DIMA visa processing office in Santiago will contact the applicant and request submission of the missing documents. The applicant will then have to pay courier costs in addition to costs associated with lodging their application.

The current visa application charge is US\$185 and DIMA understands that the usual cost of couriers documents one way is US\$40. Couriers are used for document security reasons and because postal services are known to be unreliable. One well-known courier company offers a service whereby for a one-off fee of US\$65, applicants can send all their documents to Santiago and have the passport couriered back to Colombia. Student applicants are informed of this service in the student visa information package.

With respect to processing times, the processing of student applications is cyclical and geared to the commencement of the study year in Australia. The average processing time for Colombian student applications decided in Santiago was 29 days for the 1999 calendar year. That is the average number of days between lodgement of the student visa application and finalisation of the case.

This processing time is subject to the time it takes to process larger numbers of student visa applications in peak processing periods which usually occur from late November through to early February and again in the middle of the calendar year. Processing times can be longer during such times, depending upon the number of applications lodged.

DIMA will continue to examine alternative service delivery options that would provide a faster and less expensive process from the perspective of applicants, but notes that there are very significant safety issues involved in locating any form of stand-alone operation (ie without DFAT support) in Colombia. DIMA also notes that there is a very high level of detected fraud in the



*Colombian student caseload that makes significant improvements in processing times difficult to achieve.*

### **Recommendation 17**

The Committee recommends that the Australian Government reassess priorities for the negotiation of double taxation agreements and move to negotiate double taxation agreements with more South American countries.

*A double taxation agreement was finalised with Argentina in December 1999. The Government is close to finalising a double taxation agreement with Mexico. The Government has approved the negotiation of a similar agreement with Chile. (It should be noted however that Chile is a recent entrant into the field of double taxation agreements and has a long list of potential tax treaty partners, focussed on their South American neighbours and major trading partners in North America and Europe).*

*On 11 November 1999 the Treasurer, responding to the recommendations of the Ralph Review of Business Taxation, announced on behalf of the Government that priority will now be given to renegotiating Australia's ageing tax treaties with our major trading partners (in particular, the United Kingdom, the United States and Japan) and that the Government would also review its overall tax treaty policy to ensure that a greater focus is placed on the taxation of foreign source income. The ATO's available tax treaty resources are currently fully occupied with implementing the Government's response to the Ralph recommendations.*

*While the Government is unable to support the Committee's recommendation to move to negotiate double taxation agreements with more South American countries at this stage, this would not prevent Australia from entering into such negotiations in the future, where that is in accord with Australia's interests.*

### **Recommendation 18**

The Committee recommends that the Australian Government give consideration to Australia becoming a member of the Inter-American Development Bank.

*The Government acknowledges that there may be potential trade benefits to be derived by Australia through membership of the IADB. We consider, however, that membership of any international financial institution (IFI) needs to be considered in a balanced way, taking into account all relevant factors, such as our already wide and existing commitments to other international and regional fora and where we are best placed to influence outcomes that are consistent with Australia's overall international objectives. In this context, we are conscious of the need to achieve the greatest impact from the investment of our limited available resources.*

*The Government is also conscious of the current tight budgetary climate, particularly given the Government's overall fiscal strategy, and our increased aid focus on the Asia Pacific region since the Asian financial crisis, both directly (eg East Timor, PNG) and indirectly through our existing IFI shareholdings (eg IMF, World Bank, Asian Development Bank). In this context, the Asia Pacific region remains a key priority for the Government in terms of our funding for, and activities in, the IFIs.*

*In light of these considerations, we do not believe that Australian membership of the IADB is warranted at this time.*

### **Recommendation 19**

The Committee recommends that AusAID provide a budget allocation for development projects in South America in cooperation with the World Bank and the Inter-American Development Bank.

*The Australian overseas aid program is currently concentrated in the Asia Pacific, with selective involvement in South Asia, Africa and the Middle East. In "Better Aid for a Better Future", the Government announced that the focus of the Australian aid program would continue to be in our own region. This regional focus enhances the effectiveness and efficiency of the aid program by concentrating AusAID's skills and resources in a smaller number of countries in close proximity to Australia. On this basis, AusAID would not support a proposal to expand the aid program's focus to include Latin America.*

*As noted in the report, the Australian aid program has recently provided humanitarian and emergency assistance to Peru and Venezuela to assist with demining and the provision of medicine, bedding and clothing. In 1998, Australia provided A\$1 million for relief efforts in the wake of Hurricane Mitch. The Government has said that it will continue to respond flexibly to such humanitarian and emergency relief situations within and beyond the Asia Pacific region.*

### **Government Support for Australian Companies**

#### **Recommendation 20**

The Committee recommends that the Australian Government provide the Australian mission in Caracas, Venezuela, with additional resources to allow an appropriate level of service and support for the development of Australian trade and investment interests in the markets of Colombia, Ecuador and Venezuela.

*DFAT and Austrade have agreed that formalised trade promotion training and support will be given to a nominated member of staff at the Caracas mission.*

#### **Recommendation 21**

The Committee recommends that the Canada, Latin America and Caribbean Section of the Americas Branch in the Department of Foreign Affairs and Trade be realigned, with the Canada desk to be placed in another section.

*The Executive Officer who handles Canadian affairs in the Canada, Latin America and Caribbean Section tends to work directly to the Branch Head and is, in effect, autonomous within the Section. DFAT intends to retain the current arrangements.*

#### **Recommendation 22**

The Committee recommends that Austrade examine the resources provided to the Americas regional office in Canberra and the level of information flow coming from the Trade Commissioners to harmonise more effectively its relationship with Austrade South America.

*As a first step, Austrade's Americas Regional Office in Canberra has recently increased staffing to 3 people. As well, the recently appointed Executive General Manager for the Americas is reviewing these issues in light of the Committee's report, and Austrade's Information Age project is examining possible improvements in both internal and external information flows.*

### **Recommendation 23**

The Committee recommends that Austrade, in consultation with its portfolio partner the Department of Foreign Affairs and Trade, implement an information exchange strategy between the partners to ensure greater awareness and knowledge of potential and available business opportunities for Australia in South America.

*The Government agrees that the flow of information between DFAT and Austrade is vital. This objective is at the heart of DFAT and Austrade's joint Latin American Action Agenda. Information exchange was a major focus of the meeting of the Australian Heads of Mission in Latin America and the Caribbean in Buenos Aires in December 2000 in which senior Austrade representatives from the region participated.*

### **Recommendation 24**

The Committee recommends that Austrade review its user pay cost structure and introduce a concessional fee-for-service rate to assist small to medium enterprises to enter emerging markets.

*Austrade services reflect the three different stages identified in the international business learning curve. Austrade's services are designed to assist Australian companies move along the curve faster than normal, while also reducing the risks and costs associated with developing an export business.*

*Thus, Austrade's services are grouped into three broad segments:*

*Tier 1: Seeking general information and advice about exporting: at the start, Austrade helps Australians thinking about export, by providing a range of general information and advice that will assist them in the decision-making process.*

*Tier 2: Selecting, understanding and entering new markets: when companies are ready to export, Austrade helps them select, understand and enter export markets, through focused advice and assistance in Australia and overseas.*

*Tier 3: Expanding overseas business: Austrade provides tailored assistance and strategic advice to existing exporters looking to expand their overseas business.*

*Austrade charges fees for Tier 2 (A\$100 per hour first 10 hours, A\$150 per hour thereafter) and 3 services (A\$150 per hour), in accord with Government policy. In practice, this Client Service Policy means that most Austrade services to small and medium enterprises are either free of charge, or else attract a subsidised fee. In addition, Austrade fees can be usually claimed under the EMDG scheme, subject to the eligibility criteria. Experience has shown that Austrade fees are normally only a small proportion of a small to medium enterprise's total costs of entering an overseas market.*

*Austrade therefore believes that there is a high degree of concessionality within the existing fee structure. Nevertheless, Austrade has noted this recommendation and will take the Committee's view into account when next reviewing fee structures. This will take place when the outcome of the Productivity Commission inquiry into cost recovery by Commonwealth agencies is known.*

### **Recommendation 25**

The Committee recommends that the Australian Government provide an additional budget allocation to assist the introduction of the concessional fee-for-service by Austrade.

*Austrade believes that under its three-tier pricing structure a subsidy is already built into Austrade pricing*

#### **Recommendation 26**

The Committee recommends that Austrade show separately the information on key performance indicators for South America in its Annual Report.

*Austrade will examine the feasibility of including regional-level performance details in future Annual Reports.*

#### **Recommendation 27**

The Committee recommends that Austrade implement a publicity strategy to raise the profile of South America within the Australian community as a potential export and investment destination.

*This objective is prominent in DFAT and Austrade's current joint Latin American Action Agenda. The portfolio was pleased with the results of the first "Latin America - Expand Your Horizons" nationwide seminar series in April 2000 and the second "Capture the Americas-Latin America" nationwide seminar series in March 2001. Both seminar series included Austrade Trade Commissioners from the region, DFAT representatives, key allies and exporters involved in Latin America. The series profiled Latin America as a potential export and investment destination as well as highlighting some of the pitfalls exporters may experience when dealing with the region.*

#### **Recommendation 28**

The Committee recommends that the Foreign Affairs and Trade Portfolio, as part of its Brazil sectoral papers series under the Latin America Action Agenda, prepare a paper on the services sector.

*The publication will specifically highlight opportunities in the services sector.*

#### **Recommendation 29**

The Committee recommends that Austrade improve the quality of its presentation at international fairs and expositions to ensure that Australia is properly promoted.

*Austrade's presence at fairs and exhibitions is usually of a high standard. An example from South America was the Austrade stand at Expomin in Santiago, Chile in May 2000. There were in excess of forty Australian companies exhibiting and the Australian Pavilion was the fourth largest country pavilion after the USA, Canada and Germany. The design and construction of the Pavilion cost USD30,000. Australian exhibitors forecast new business arising from the trade show over the next twelve months in excess of A\$17 million. Eighty-five per cent of exhibitors rated the Pavilion design and facilities as excellent or very good; seventy-nine per cent rated Austrade's service on site as excellent or very good.*

*Nevertheless, Austrade notes the views expressed in evidence before the Committee and is putting in place procedures to ensure that the best practice standards demonstrated at Expomin are applied at all other Australian promotions in the region.*

#### **Recommendation 30**

The Committee recommends that EFIC actively participate in trade shows in South America focusing on the benefits over the long term rather than taking the short term outcome approach to participation.

*EFIC will consider opportunities to participate in trade shows in South America as they arise, on their merits. In consultation with Austrade and exporters, EFIC will consider participation taking account of all potential benefits of participation.*