AUSTRALIAN-GULF BUSINESS

KEY POINTS

- **Australian trade with the Gulf region grew significantly in the 1990s. The region remains a growing and important market for Australia's agricultural and mineral exports. Manufactured export values, particularly for cars, are large and rapidly growing. As a share of total Australian exports to the Gulf, elaborately transformed manufactures, ETMs, have expanded more dramatically than in any other major Australian export market.**

- **The Gulf's planned heavy industry growth should boost Australian exports of alumina and iron and steel making inputs and increase incentives for Gulf economies to invest in Australia.**

- **Key areas of export opportunity include bulk and high value agricultural products, processed food industry inputs, manufactures including cars, food processing machinery, telecommunications equipment, medical and pharmaceutical products, and construction, education and tourism services.**

- **Australia's small, diverse investment presence in the Gulf is mostly in UAE manufacturing and distribution, or the region's petroleum extraction or gas sectors. However, other attractive investment opportunities include infrastructure, mining, manufacturing, finance, tourism, transport and business services.**

Australia has well established export markets in the Gulf and a rapidly growing investment presence. In the last decade, Australia's merchandise exports to the Gulf economies expanded rapidly, averaging almost 11 per cent per year since 1990, and almost 20 per cent per year since 1995. By 1999, two way trade topped A$4.3 billion, with Australia's goods and services exports valued at A$3 billion, up from only A$1.6 billion in 1990 (Department of Foreign Affairs and Trade, 2000). While primary exports remain very important, car exports now exceed A$800 million per year. In the next decade, the challenge will be to expand higher value added food exports, diversify manufactured exports beyond cars, expand Australia's investment presence and attract more Gulf investment to Australia.

This chapter first briefly examines Australia's main Gulf markets. It then highlights major sectoral export trends and examines key export opportunities including in the service sector. Next it explores Australia's current direct investment in the Gulf and investment opportunities. It analyses Gulf economies' current and potential direct investment in Australia and exports to Australia. Finally, it discusses Australian business links with the Gulf.

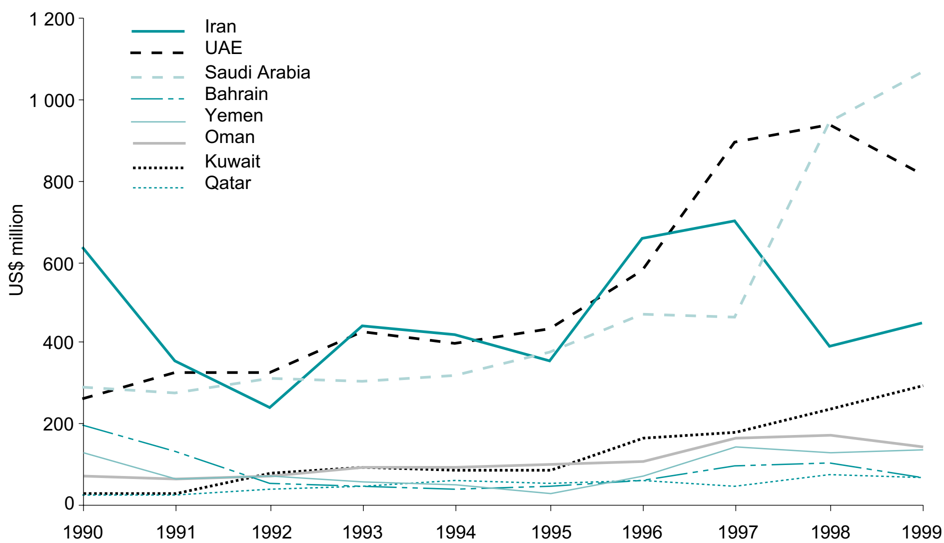
AUSTRALIA'S EXPORTS - MAJOR GULF MARKETS

Australia's main Gulf markets are Saudi Arabia, the UAE and Iran. Over the past decade, manufactured exports to Saudi Arabia and the UAE grew strongly. Exports to Iran were more volatile with no clear trend (Figure 2.1).

Figure 2.1

Saudi Arabia and the UAE Are Australia's Key Gulf Markets

Australia's Merchandise Exports to the Arabian Peninsula and Iran, 1990-99



Source: Department of Foreign Affairs and Trade, 2000.

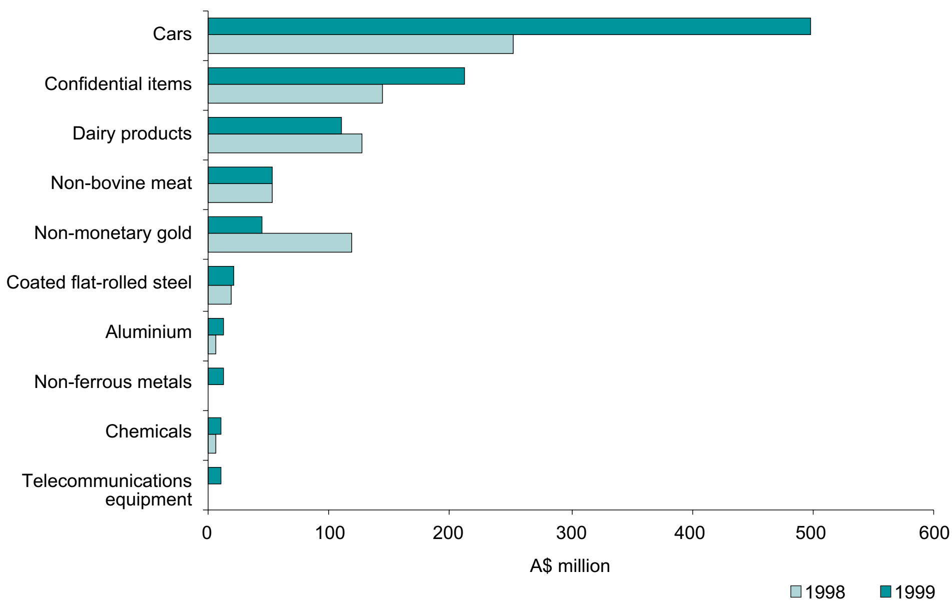
Saudi Arabia

In 1999, Saudi Arabia was Australia's main Gulf export market (Figure 2.1), accounting for 35 per cent of Australian exports to Gulf economies and 55 per cent of elaborately transformed manufacture, ETM, exports. Since 1997, exports have expanded at an annual rate of 52 per cent due to surging demand for Australian produced cars. In 1999, apart from cars (worth A$499 million, and in the year to 30 June 2000, A$700 million), major exports to Saudi Arabia included confidential items like sugar (A$212 million), dairy products (A$99 million), non-bovine meat (A$52 million), non-monetary gold (A$45 million) and flat rolled steel (A$21 million) (Figure 2.2).

Figure 2.2

Cars Dominate Exports

Top Ten Australian Exports to Saudi Arabia, 1998-99



Source: Department of Foreign Affairs and Trade, 2000.

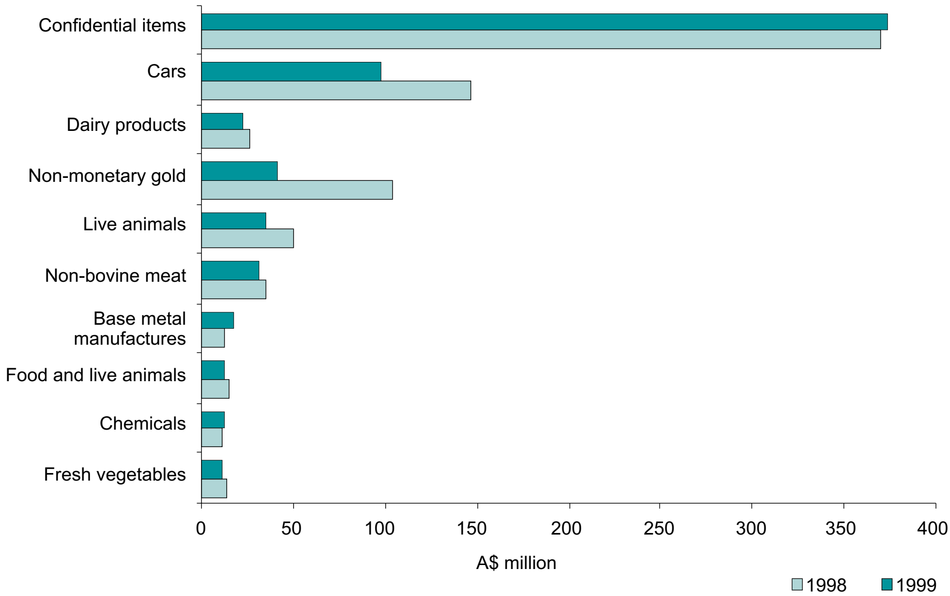
The UAE

The UAE was Australia's second largest Gulf export market in 1999, receiving 27 per cent of Australia's Gulf exports. Exports were 89 per cent above 1995 levels. In 1999, the UAE's main Australian imports were confidential items, principally alumina (A$373 million), cars (A$98 million), non-monetary gold (A$41 million), live sheep (A$35 million), non-bovine meat (A$32 million) and dairy products (A$24 million) (Figure 2.3).

Figure 2.3

Alumina Is a Major Export

Top Ten Australian Exports to the UAE



Source: Department of Foreign Affairs and Trade, 2000.

Iran

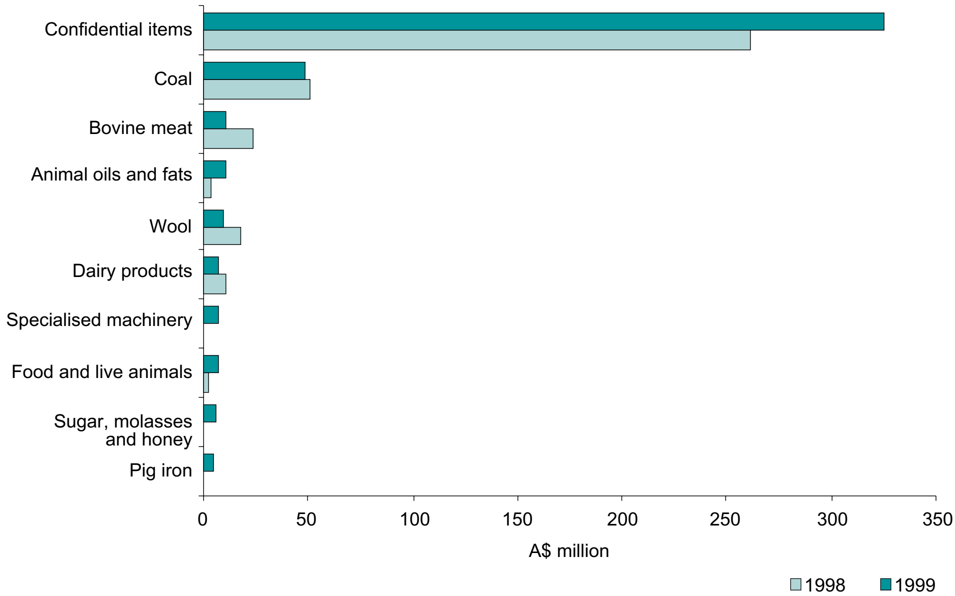
Before 1990, Iran was easily Australia's largest Gulf export market. It remains Australia's third most important market and a key bulk commodity market (Figure 2.4). Over the 1990s Iran's relative importance as an export destination shrank dramatically due to strong growth in exports to the UAE and Saudi Arabia, and Iran's weak economic performance and chronic foreign exchange shortages. Iran's imports also fluctuate as climatic conditions determine wheat and sugar imports.

In 1999, major exports to Iran included wheat, barley and other agricultural products classified as confidential items (A$325 million), coking coal (A$48 million), bovine meat (A$11 million), animal oils and fats (A$11 million), and wool (A$9 million). Non-agricultural exports were constrained due to prohibitions on car imports and, since 1993, generalised non-essential import restrictions resulting from export revenue shortfalls.

Figure 2.4

Iran Is a Major Australian Agricultural Export Market

Top Ten Australian Exports to Iran



Source: Department of Foreign Affairs and Trade, 2000.

Other Regional Markets

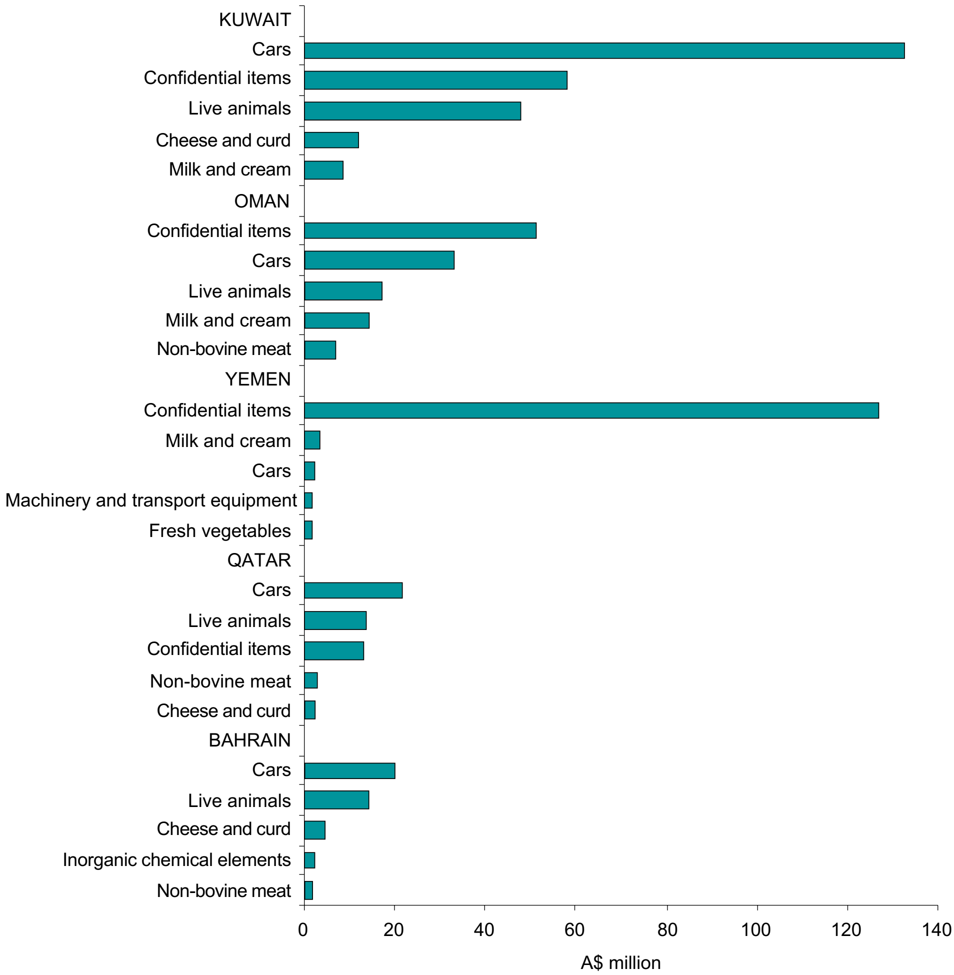
Among other Gulf economies, Kuwait and Oman are the most important markets (Figure 2.5).[1] Between 1995 and 1999, Australian exports to Kuwait increased more than threefold from A$83 million to A$293 million, and exports to Oman rose 13 per cent per year to reach A$145 million. Major export items to Kuwait include cars (A$132 million), confidential items (A$58 million), live animals (A$48 million) and dairy products (A$27 million), while for Oman, they include confidential items (A$51 million), cars (A$33 million) and live animals (A$17 million) (Figure 2.5). Australia also exported A$127 million in confidential items (mostly wheat) to Yemen.

[1] Bahrain also is important due to large alumina exports. However, the Australian Bureau of Statistics classifies these exports as 'confidential'; hence, they do not show up in Australia's trade statistics.

Figure 2.5

Kuwait Is a Major Car Market

Top Five Exports to Kuwait, Oman, Yemen, Qatar and Bahrain, 1999, A$ million



Note: Data on Australia's large-scale alumina exports to Bahrain are unavailable due to confidentiality restrictions.

Source: Department of Foreign Affairs and Trade, 2000.

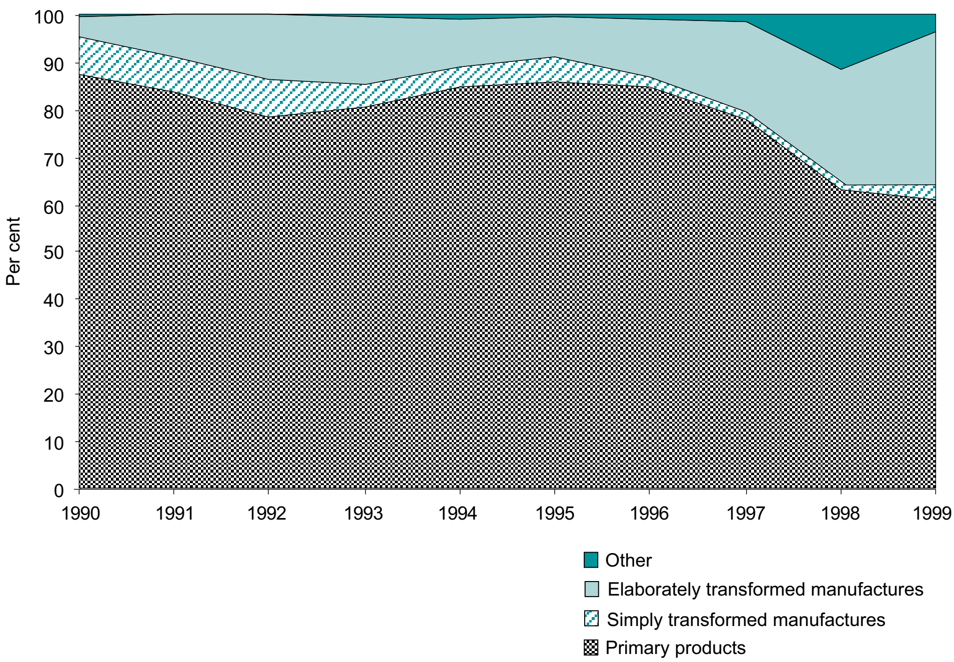
MAJOR SECTORAL TRENDS FOR AUSTRALIAN EXPORTS

While primary products still dominate Australia's Gulf exports, over the decade primary products' share in total Australian exports to the Gulf shrank from 87 to 60 per cent, while ETMs' share grew from 5 to 34 per cent (Figure 2.6). This ETM growth was more rapid than in any other major Australian market. Over the same period, ETM export shares to Asia grew from 9 to only 13 per cent, to Europe from 20 to 26 per cent and to the United States from 23 to 37 per cent.

Figure 2.6

Primary Products Dominate, ETM Exports Expand Rapidly

Composition of Australian Merchandise Exports to the Gulf Region, 1990-99



Note: a ETMs are manufactured products with unique features that are identified as differentiated goods on world markets. They are predominantly finished goods.

b Simply transformed manufactures are the remaining manufactured exports and consist largely of basic, unworked iron, steel and non-ferrous metal products.

Source: Department of Foreign Affairs and Trade, 2000.

MANUFACTURED EXPORTS

As a result of the rapid growth in car exports during the 1990s, by 1999 approximately 95 per cent of manufactured exports were ETMs.

Elaborately Transformed Manufactures

Between 1990 and 1999, as car exports boomed, Australian ETM exports to the Gulf grew 29 per cent per year.

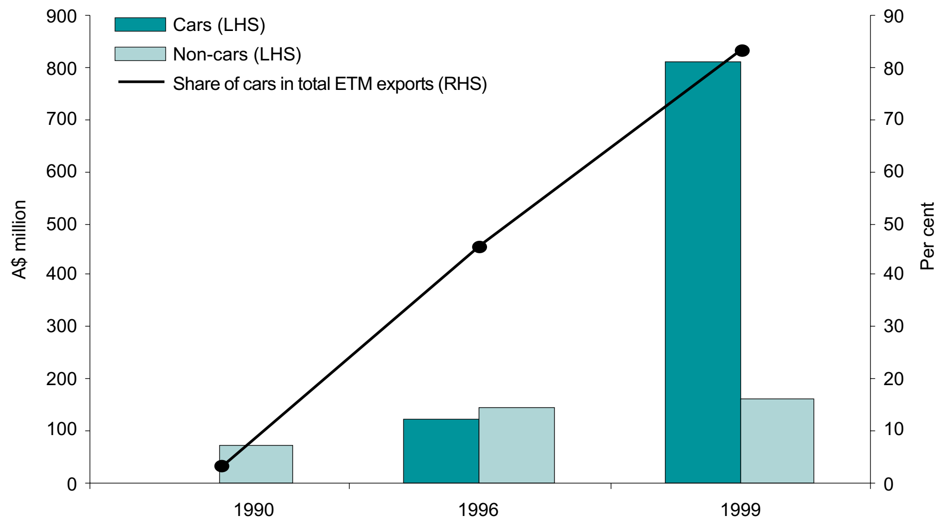
Car Exports

During this period, cars' share of ETM exports to the Gulf economies rose from below 2 per cent to over 80 per cent (Figure 2.7). Australian Toyota and General Motors Holden plants are the dominant suppliers of this market, which expanded from A$124 million in 1996 to A$810 million in 1999. Saudi Arabia is emerging as the key market, followed by the UAE and Kuwait (Figure 2.8).

Figure 2.7

Cars Drive ETM Export Growth

Australian ETM Exports to the Gulf Region, 1990-99

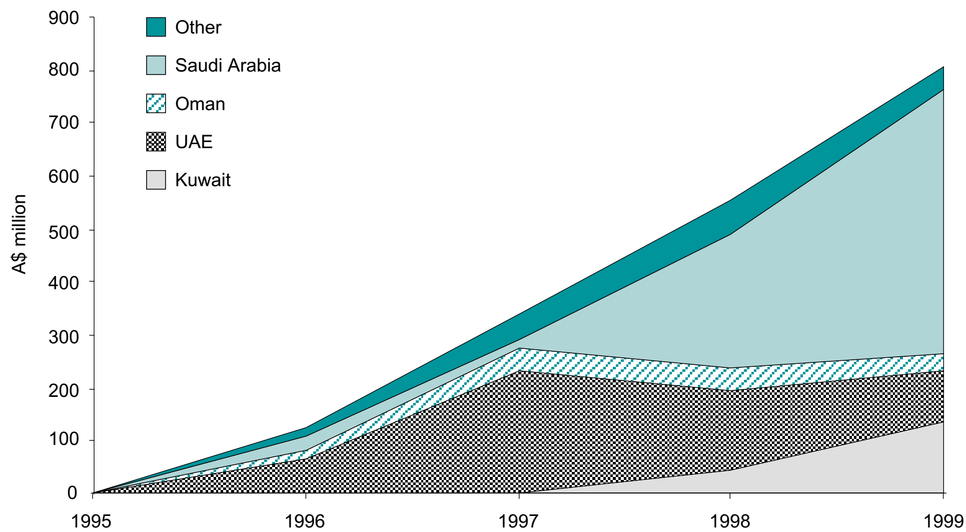


Source: Department of Foreign Affairs and Trade, 2000.

Figure 2.8

Saudi Market Dominates Car Exports

Exports of Australian Cars to the Gulf, 1995-99



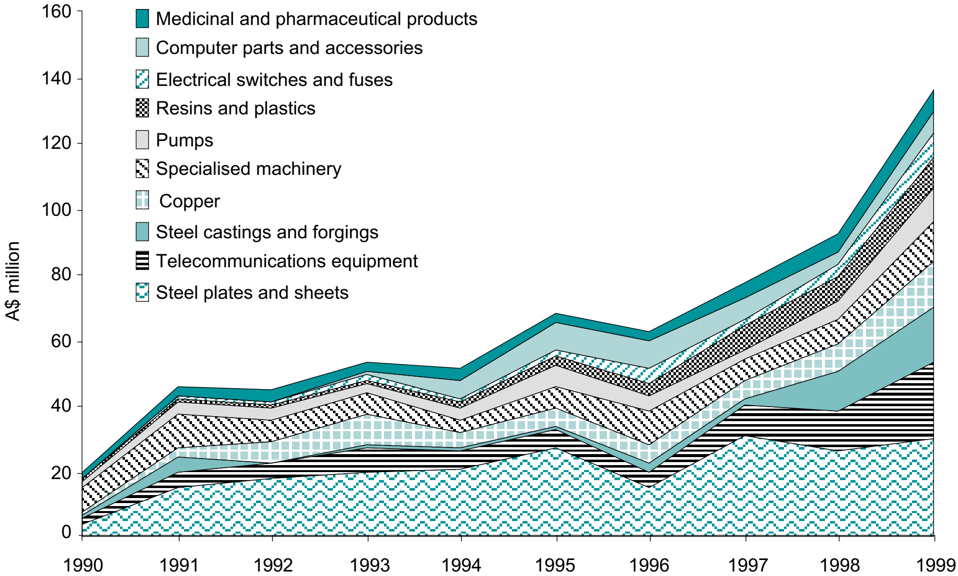
Note: Other comprises Bahrain, Qatar, Yemen and Iran.

Source: Department of Foreign Affairs and Trade, 2000.

Figure 2.9

Non-automotive ETMs Accelerate

Top Ten Australian Non-automotive ETMs to the Gulf Region, 1990-99



Source: Department of Foreign Affairs and Trade, 2000.

Other ETMs

In 1999, the main non-automotive ETM exports included steel plates and sheets (A$30 million), telecommunications equipment (A$23 million), steel castings and forgings (A$17 million) and copper (A$14 million) (Figure 2.9). Growth averaged 8 per cent between 1990 and 1997, but despite weak oil prices accelerated to 15 per cent in 1998 and 1999.

Simply Transformed Manufactures

The export value of simply transformed manufactures, STMs, declined from A$136 million (65 per cent of manufactured exports) in 1990 to A$56 million (5 per cent of manufactured exports) in 1999. This was largely because a previously large iron export line to Iran ceased. The remaining major STMs performed erratically, with declining pig iron exports and growing inorganic chemical exports the only consistent pattern (Figure 2.10).

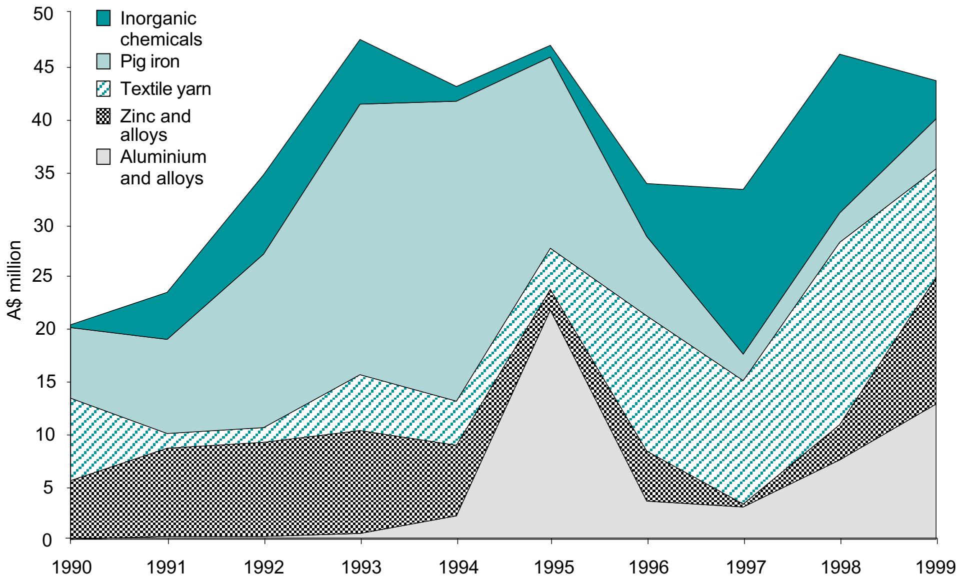
PRIMARY PRODUCTS

The great bulk of primary exports to the Gulf, including wheat, sugar and alumina, are listed as confidential items, to protect commercially confidential information of large sole suppliers.

Figure 2.10

Exports of Inorganic Chemicals Grow

Composition of Major Australian STM Exports to the Gulf Region, 1990-99



Source: Department of Foreign Affairs and Trade, 2000.

Agricultural Products

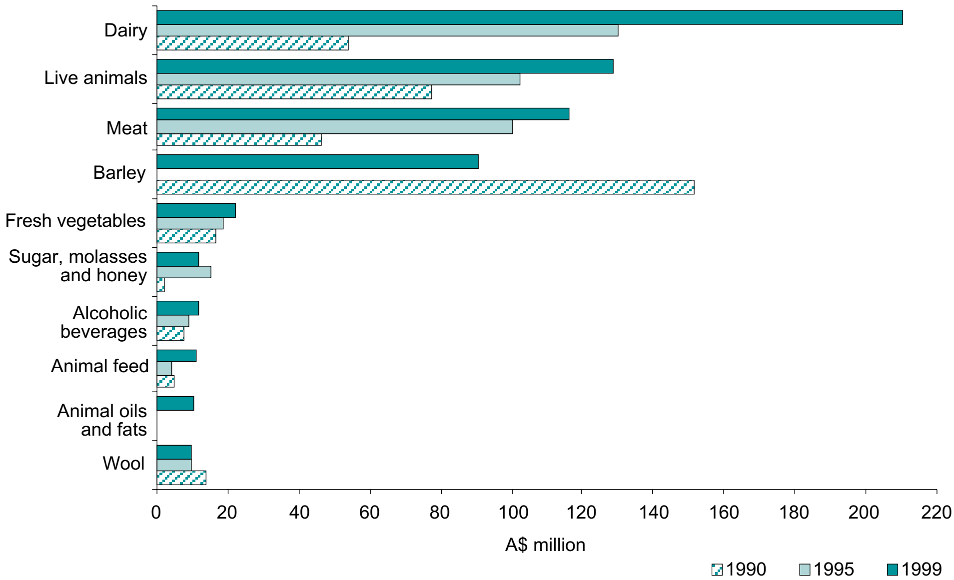
Between 1995 and 1999, non-confidential agricultural exports performed well, growing 13 per cent per year to A$692 million. Dairy products, live animals and meat were among the fastest growing non-confidential exports (Figure 2.11). Confidential agricultural exports, largely wheat and sugar still dominate Gulf trade and are growing well. In 1998-99, wheat exports by AWB Limited (formally the Australian Wheat Board) to the Gulf reached A$1.1 billion or 30 per cent of Australia's wheat exports to the world, with tonnages up almost fourfold on 1994-95 levels.

Sugar exports to the region also are significant. Queensland Sugar Corporation, QSC, undertakes most of this trade and supplies about 20 per cent of the world raw sugar market, making it one of the world's largest sugar exporters. In 1999-2000, it sold 168 000 tons of sugar to Iran and 208 000 tons to Saudi Arabia, representing 19 per cent and 40 per cent respectively of these nations' sugar imports (Queensland Sugar Corporation, 2000).

Figure 2.11

Agricultural Commodity Exports Growing Well

Australia's Major Non-confidential Agricultural Commodity Exports to the Gulf Region, 1990-99



Note: No barley exports to the Gulf region were recorded in 1995 and animal oils and fats were not exported in 1990 or 1995.

Source: Department of Foreign Affairs and Trade, 2000.

Bulk Mineral Exports

Alumina is the major bulk mineral export to the Gulf; exports to Bahrain and Dubai are worth between A$400 million and A$600 million per year and growing rapidly. Bahrain alone accounts for 11 per cent of Western Australia's alumina exports, with Western Australia Bahrain's sole supplier.[2] Similarly, Dubai Aluminium, Dubal, consumes 60 000 tonnes of alumina every three weeks from Alcoa's refinery at Kwinana, Western Australia (Department of Minerals and Energy Western Australia, 2000). The other significant bulk mineral export is coking coal, with exports to Iran of A$48 million in 1999.

2 Western Australia's four alumina refineries are owned by Alcoa at Kwinana, Pinjarra and Wagerup, and by Worsley Alumina near Collie (Department of Minerals and Energy Western Australia, 2000).

AUSTRALIAN EXPORT OPPORTUNITIES

Opportunities for Australian goods and service exporters in Gulf markets are wide, encompassing traditional and higher value added agricultural products, a rapidly broadening range of ETMs and expanding services exports, including tourism and education. Furthermore, many Australian direct investments in the Gulf are drawing in new Australian goods and services exports.

Agricultural Exports

Throughout the Gulf, environmental, fiscal and demographic pressures drive expanding opportunities for agricultural exports, like wheat, sugar, live sheep, frozen meat, and fruit and vegetables. Much of the region's agriculture is unsustainable; renewable per capita water reserves are falling rapidly, and agriculture demands 91 per cent of water withdrawals in Saudi Arabia, 80 per cent in the UAE and 94 per cent in Oman. (See Chapter 4 - *Foreign Investment*.) In addition, the growing fiscal cost of subsidising agricultural production via input and direct subsidies strains budgets, deepening structural deficits. In the short term, high oil prices may reduce fiscal pressures, but in the medium to longer term, pressing social and economic infrastructure demands on stretched budgets should drive the continuing reform of wasteful agricultural support policies.

Saudi Arabia provides the largest agricultural export opportunities for Australia. Since 1992, agricultural subsidy reforms reduced Saudi grain production from 4.8 million tonnes to 1.9 million tonnes in 1996, and the country switched from being a net exporter to a net importer of US$5 billion of agricultural products (Gulf Cooperation Council, 1999; and *Middle East Economic Digest*, 28 January 2000, p.8). Australia supplies around 5 per cent of these agricultural imports (Fisher, 2000a).

Opportunities for agricultural supplies and services also are significant. For example, in early 2000, Perth based Food Equipment of Australia installed and commissioned an abattoir in Saudi Arabia (Fisher, 2000a); Smorgon Cyclone has built large stock pens for holding imported live animals; and Austanz International has installed and is maintaining major irrigation systems (Bunton, 2000; and Giller, 2000).

Factors Driving Agricultural Export Growth

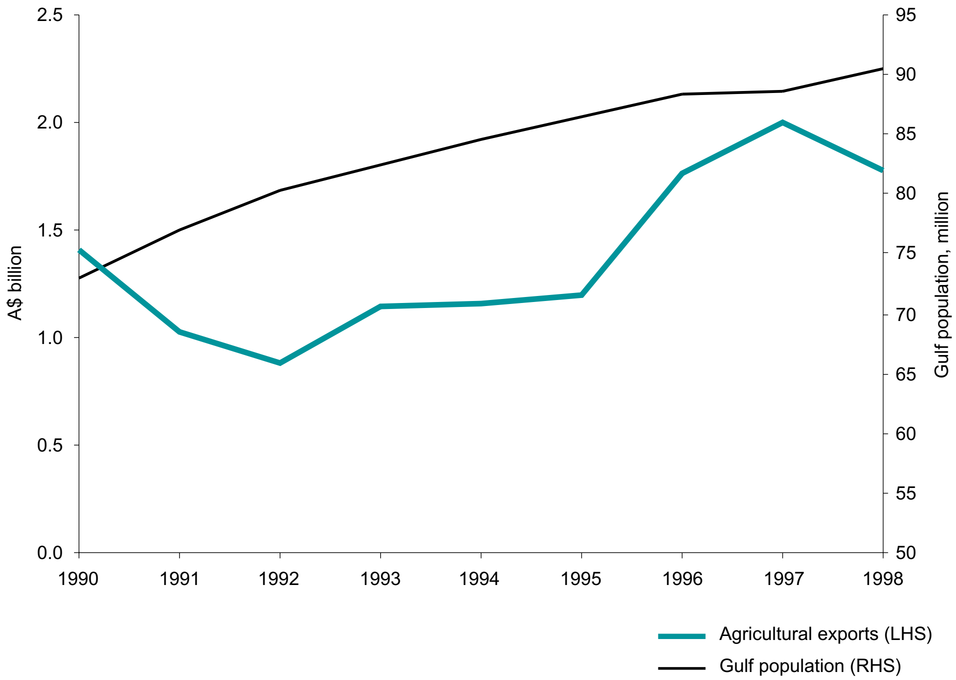
Both supply and demand factors drive growth in agricultural exports. On the supply side, as a leading agricultural exporter, Australia is a reliable, cost competitive, customer focused, long term supplier of bulk agricultural commodities.[3] On the demand side, rapid population growth, which underpinned growing demand for Australian primary products in the 1990s should continue into the next decade and beyond (Figure 2.12). Moderate growth in Gulf Cooperation Council, GCC, economies' per capita income, from US$8 171 in 1990 to US$9 262 in 1997, also sustains demand. Further, in 2000 and 2001, higher oil prices should spur increased demand, particularly from Iran.

3 For example, while Australia produces only 3 per cent of the world's total wheat production, it accounts for 17 to 20 per cent of the world's exports.

Figure 2.12

More Mouths to Feed

Australian Agricultural Exports to the Gulf and Population Growth, 1990-98



Note: Population data for Iran are from International Monetary Fund, 2000.

Source: Department of Foreign Affairs and Trade, 2000; Gulf Cooperation Council, 1999; and International Monetary Fund, 2000.

Wheat

Prospects are good for expanding wheat sales. Population growth will continue to drive strong demand, with product requirements changing due to young consumers' growing importance and increasing affluence. A push towards trade and overall economic reform also may facilitate greater trade with Australia.

RISING DEMAND FOR AUSTRALIAN WHEAT: AWB LIMITED SALES TO THE GULF

AWB Limited is Australia's sole bulk wheat exporter.[4] It began exporting to the Gulf in 1942 and maintains a strong market position. It values its strong relationship with the Gulf economies.

The Gulf wheat market is largely shared between Australia, Canada and Argentina, although the United States has made inroads via subsidised sales. In 1998-99, Australia's 4.7 million tonnes of wheat exports to the Gulf states represented around 30 per cent of total Australian wheat exports, and was worth A$1.1 billion. Depending on climatic conditions, AWB Limited often is the largest Australian exporter to many Gulf economies. In 1998-99, AWB Limited sold 1.7 million tonnes of wheat to Iran, 1.4 million tonnes to Iraq, 700 000 tonnes to Yemen, 220 000 tonnes to Kuwait, 248 000 tonnes to Oman, 620 000 tonnes to the UAE, 21 000 tonnes to Bahrain and 61 000 tonnes to Qatar.

Source: AWB Limited, 2000.

Sugar

Population pressures, and growth of processed food industries also should expand Australia's substantial raw sugar export opportunities.

QSC'S ROAD TO EXPORT SUCCESS IN IRAN

QSC began selling raw sugar to Iran in 1996. Previously, the Iranian Government Trading Corporation purchased sugar via tender, on a cargo-by-cargo basis on terms QSC found unacceptable. After extensive negotiations, QSC made an initial sale. Sales volumes grew as the relationship developed, and the Government Trading Corporation recognised the foreign exchange savings and employment benefits of importing raw sugar instead of refined sugar. QSC now is a major supplier of bulk raw sugar to Iran and anticipates sales should continue to grow.

Source: Queensland Sugar Corporation, 2000.

Live Sheep Exports

From 1990 to 1999, while live sheep exports to Gulf economies, mainly the UAE and Kuwait, expanded from A$62 million to A$130 million exports to Saudi Arabia ceased. Exports had reached three million sheep per year, but encountered problems due to sheep quality and some rejected shipments which created animal welfare problems. Now, a strict quality assurance program is in place with Saudi Arabia, and in 2000, four trial shipments of around 65 000 sheep have been successful.[5] Should the trade resume on a fully commercial basis, export volumes could reach one million sheep per year.

4 AWB Limited has a statutory monopoly on bulk wheat exports due to the 'single desk policy'. This policy currently is under review.

5 Key elements of this quality assurance program include ensuring sheep are vaccinated twice against scabby mouth, having a vet on board the ship and making Saudi Arabia the first port of call. Three more trial shipments are planned for the remainder of 2000.

Meat Exports

Exporters using the strong air links and handling infrastructure of Emirates Airlines and Gulf Air could open up new chilled sheep-meat markets. Already chilled sheep-meat is shipped to Dubai, Abu Dhabi, Doha in Qatar and Muscat in Oman. Efforts to establish markets for higher value boned meat could further increase the value of this trade. The provision of non-stop flights from Australia from 2003 also will boost trade, as meat exports then will not have to compete for space with high value computer parts and European bound freight currently loaded in Singapore.

Fruit and Vegetables

Fruit and vegetable exports to the Gulf economies grew from A$18 million in 1995 to A$22 million in 1999; due partly to improved air links since 1996, and show good growth prospects. Australian company, Pardy and Sons, has a longstanding market presence through exporting fresh fruit and vegetables to supermarkets and market agents in Kuwait, Dubai, Abu Dhabi, Bahrain and Muscat. Around 60 per cent of its business by value is air freighted, with most exports during the Australian summer (Pardy, 2000). While competition from South Africa and high yielding South East Asian cargoes loaded in Singapore is fierce, direct air links from 2003 also may help in expanding the high value end of this trade.

Processed Food

The fiscal, demographic and water supply pressures likely to stimulate agricultural imports also should increase opportunities for processed food exports. The markets for food processing inputs also should remain vibrant due to economic diversification.

Convenience Foods

With 30 per cent of the GCC’s population aged between 11 and 20, opportunities exist to service a rapidly growing snack food industry (Canadian Business Development International, 1997; and Gulf Cooperation Council, 1999).[6] As this youthful population moves into its twenties, demand for convenience foods also should accelerate rapidly. Higher value added prepared meats, for home cooking, uncooked products for small supermarket based bakeries and packaged beverages are potential niche exports for these relatively high income markets (Giller, 2000).

6 This figure on the percentage of the population aged between 11 and 20 excludes Kuwait due to lack of data.

BERRI: PRESENTATION THE KEY

Berri Limited started exporting to the Middle East in 1997; now exports exceed A$1 million. Initial test marketing in Bahrain quickly revealed locally made Tetrapaks (foil lined cartons) undercut Australian manufactured juice products by 30 to 50 per cent. Consequently, Berri focused on product formulations and packaging styles not produced in the region. Its most successful product range is juice in polyethylene (or PET) plastic bottles; most competing products are foil lined boxes or pouches. Competing imported plastic products are significantly higher in price. While local competition from plastic bottles is expected soon, Berri is developing strategies to remain competitive and expand sales.

Source: Giller, 2000.

Dairy Products

The 66 per cent growth in dairy products exports to the Gulf economies from 1995 to 1999 reflects the strong opportunities in this young market. A major dairy goods exporter to the Middle East is Bonlac, which has extensive experience selling food processing ingredients and some consumer products in the region.[7] Bonlac emphasises quality control and successfully capitalises on Australia's clean, green image.

Inputs for Domestic Food Processing Industries

The growing snack and convenience food sector and diversifying economies provide opportunities to supply raw materials to rapidly expanding domestic food processing industries. For example, more than 400 Saudi factories produce around US$3 billion worth of processed food products annually. These factories need around US$1 billion in raw materials, intermediate ingredients, concentrates and bases; 75 per cent of these inputs are imported (Austrade, 2000a).

Bulk Minerals and Metals

The Gulf economies' competitiveness in energy intensive industry, gas from potential new pipeline projects like Dolphin, and Gulf governments' desire to further develop heavy industry to diversify economic activity all should create opportunities to expand Australia's minerals and metals trade.

Alumina

The success of Dubai Aluminium, Dubal, and the Aluminium Company of Bahrain, ALBA, the planned expansion of the downstream aluminium industry in areas such as foil rolling, and long term contracts like the recent A$1.4 billion deal to supply Dubal with alumina feedstock for the next eight years, all should ensure this trade continues to flourish (Vaile, 2000b; and Business Monitor International, 2000a). A proposed export oriented aluminium smelter in Oman could create further demand. Exports also may rise if the 6 per cent EU duty on primary aluminium exports from Gulf economies is removed and if a planned US$1 billion expansion at ALBA goes ahead (Business Monitor International, 2000a).

[7] Bonlac's sales to the Middle East and Africa are almost US$100 million per year. All orders are organised and serviced from Dubai.

Other Mineral and Metal Exports

If proposed major gas pipeline projects proceed, then integrated steel mills and electric arc furnace plants could use this cheap energy source. This, in turn, could generate demand for Australian iron ore and hot briquetted iron pellets.

Elaborately Transformed Manufactures

In 2000, high oil prices enhance opportunities to expand Australian ETM exports and diversify beyond car exports. Most Australian produced manufactures, which are competitive in Australia (without tariff protection), are likely to be competitive in the Gulf, provided tariffs are not prohibitive.

Cars

Australia's car exports to the Gulf have grown exponentially since 1996, mainly because:

- Australian produced cars suit the Gulf region, they perform well during long distance travel on often substandard roads, and have very good air conditioning and dust sealing
- restructuring of the Australian car industry since the late 1980s has improved production quality and reliability, convincing Australian car manufacturers' parent companies they can deliver on price, quality and reliability, despite smaller production volumes.

As car manufacturing is multinational, and supply decisions are centralised in parent company headquarters, future prospects for Australian cars' access to Gulf markets are somewhat uncertain; however, their success to date should boost their prospects.

CAR EXPORTS TO THE GULF SOAR

Australian-made left hand drive Toyota Camrys and GMH Commodores and Statesmans, re-badged as Chevrolet Luminas and Caprices, are very popular in the Gulf. In 1999, Toyota Australia shipped 23 000 cars to Saudi Arabia, up 40 per cent on 1998, with the Camry now the largest selling car in Saudi Arabia. In addition, both Toyota and GMH Australia have made big inroads in the UAE market. For example, Dubai Taxi Company runs a fleet of 2 000 Camrys and has ordered replacement vehicles worth A$21 million.

Source: Vaile, 2000a.

Construction Materials

Australian exports of construction materials to the Gulf are expanding rapidly, at 9 per cent per year in the 1990s, reaching A$70 million in 1999. Major export items include rolled metal, aluminium alloys and copper pipes. Driving these exports is Australian investment in local distribution and processing plants, like Lionweld Kennedy in Dubai and Clipsal's factory in Sharjah, and BHP's sales office and Boral Plasterboard's distribution centre in Dubai. In addition, Australia's growing construction sector success creates export opportunities for Australian construction material suppliers, as many Australian construction companies specify Australian subcontractors and materials. For example, Multiplex uses Australian crane and concrete forming companies (Deacon, 2000).

Telecommunications Equipment

Continued growth in the region's telecommunications markets and WTO driven liberalisation in Oman should improve prospects for Australian telecommunications exports, which grew from A$6 million in 1995 to A$23 million in 1999. Consequently, telecommunications equipment is a rapidly growing air cargo (Emirates SkyCargo, 2000).

Pharmaceuticals

With the Gulf's improving drug patent protection, opportunities to increase Australia's medicinal and pharmaceutical product exports should expand. Australian exports of medicinal and pharmaceutical products to the Gulf doubled to A$6 million in 1999 from A$3 million in 1996. They also are a fast growing air freight item (Emirates SkyCargo, 2000).

EMIRATES AIR FREIGHT EXPORTS EXPAND RAPIDLY

Emirates Airlines has flown daily from Melbourne to Dubai since October 1998, and has flown four times per week from Sydney to Dubai since 27 March 2000. Connections onward are available throughout the Gulf region. In 1999, the volume of Emirates air freight from Australia to Dubai grew 19 per cent. Major end markets include the UAE, Kuwait, Lebanon, Qatar and Saudi Arabia, with exports originating from Adelaide, Brisbane, Melbourne and Sydney.

Export cargo consists of both perishable and manufactured goods. Chilled meat and produce is regularly air freighted to Dubai, Abu Dhabi, Doha, Riyadh and Kuwait. Manufactures include car parts, communications equipment, computer parts, machinery and pharmaceuticals. Exports of perishables, telecommunication equipment and pharmaceuticals are growing fastest.

Source: Emirates SkyCargo, 2000.

Defence Related Equipment

Defence equipment is another area of ETM export opportunity, with Australia's key strengths lying in infrastructure, service and technology support. Major Australian defence sales include military vehicles by Tenix Defence Systems to Kuwait (A$20 million), military explosive warehouses to the UAE by Spontech (A$45 million) and targeting systems to various countries by Australian Defence Industries (A$1.4 million).

The UAE again is a hub for opportunities. In March 2001, it will hold the world's biggest defence exhibition, IDEX 2001, in Abu Dhabi. The Australian Middle East Defence Export Council will coordinate Australia's representation at this event. Austrade and the Department of Defence also are assisting market penetration.

OPPORTUNITIES UNDER DEFENCE OFFSET PROGRAMS

Participation in offset programs is another defence related opportunity. Offset programs are attached to most major Saudi, Kuwaiti and Emirati defence purchases. Designed to assist diversification, offsets require the defence contractor to re-invest a proportion of the contract value in non-defence areas.

One project offering opportunities is the Al Yamamah deal to supply a range of defence equipment to Saudi Arabia. British Aerospace is the prime contractor. Austrade has an agreement with British Aerospace Australia to identify Australian companies able to enter into significant joint ventures in Saudi Arabia, then British Aerospace can help identify an appropriate Saudi partner to progress the proposal through the Saudi Offsets Committee and secure finance. Incentives under the program include import duty exemptions, tariff free raw material access, ten year tax holidays, and low cost utilities and rents.

Source: Austrade, 2000b.

Other ETMs

In 2000, high oil prices offer opportunities to expand the value and range of ETMs, with annual growth of 20 per cent possible, based on past relationships between oil prices and import values. A diverse range of Australian ETMs, from taxi meters to fast ferries, have found ready markets in the Gulf in recent years.[8] Other areas of opportunity include:

- food processing machinery for Saudi Arabia's large food processing industry
- accessories and aftermarket products for four wheel drive vehicles, which are extremely popular.

Service Exports

Given the GCC economies' high per capita incomes, services provide a major export opportunity. The most prospective areas include education, tourism, construction, infrastructure, finance and business services.

Education

To augment employment localisation drives, most regional governments are spending large sums on education and training. Each year, regional governments offer around 50 000 scholarships for residents to study abroad (Al Falasi, 2000). However, most study in the United States and Europe. With only 376 Gulf students in Australia in 1999, Australia clearly could expand its market share (Department of Education, Training and Youth Affairs, 2000). Most Gulf students who come to study in Australia are from the UAE and Iran; the large Saudi market is virtually untapped.[9]

8 Between 1990 and 1997, Australian exports of ships and boats to the Gulf averaged A$18 million per year, although this dropped to A$1 million in 1998 and 1999 (Department of Foreign Affairs and Trade, 2000).

9 Numbers of Iranian students in Australia fell from 693 in 1998 to 138 in 1999 due to Iran's fiscal difficulties and persistent visa approval problems. UAE student numbers reached 191 in 1999, but only ten students came to Australia from Saudi Arabia (Department of Education, Training and Youth Affairs, 2000).

Factors boosting growth prospects include greatly improved transport links with direct flights to Dubai and Abu Dhabi, and growing awareness of Australia and its education system due to expanding tourism and promotion by Australian universities. The reciprocated presence of the UAE, Saudi and Iranian embassies in Australia also helps promote education exports. However, at this early stage of market development, Australian government promotional effort and institution level links need to be stronger. Student advisers with Australian tertiary experience could be based in Australia's embassies, and faster visa turnaround times also would help (Deacon, 2000).

THE UNIVERSITY OF MELBOURNE ENGAGES THE ARAB WORLD

The University of Melbourne has long held a world renowned collection of Qur'anic texts, and from the 1960s taught Arab and Islamic studies. It now is pursuing a broadly based strategy to engage with the Gulf economies. Along with Indonesian, Japanese and Chinese Studies, it designated Arab and Islamic Studies as a strategic pillar of the teaching and research program of the cross-disciplinary Melbourne Institute of Asian Languages and Studies, created in 1997.

Also in 1997, the university audited the Islamic responsiveness of its courses, services and administration. Subsequently, it established new prayer and meeting facilities, and appointed an Islamic Counsellor. In 1998, a high level university mission visited four GCC economies to explore new academic, research, cultural and business relationships with regional academic leaders.

Evidence of the university's growing interaction with GCC economies includes:

- collaborating with the Victorian Education Department to provide advice on the development of schools and teachers in the UAE, Oman and Saudi Arabia
- cooperating with Monash University to tailor professional postgraduate medical programs for GCC candidates
- growing numbers of undergraduate and postgraduate GCC students
- using the Internet to offer worldwide, the only Masters of Islamic Studies.

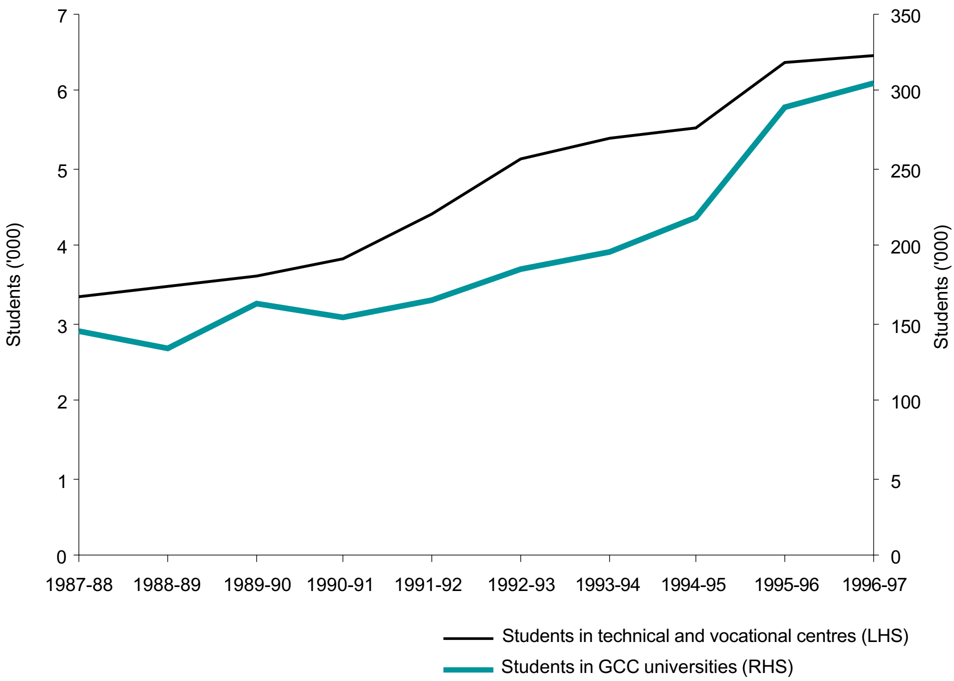
Source: Peacock, 2000.

As GCC economies' education systems grow, in-country educational services offer further opportunities. Expanding GCC university student numbers make the university sector a key area (Figure 2.13). Strategies include establishing Gulf campuses, as Wollongong University did with its Dubai campus, establishing Internet delivered degree programs as Melbourne University did, or obtaining contracts to teach particular courses. The rapidly growing technical education sector also offers opportunities (Figure 2.13). While relatively small now, it is likely to expand considerably with the employment localisation drive. Australia's strong reputation for technical education positions it to tap this growth (Deacon, 2000).

Figure 2.13

Expanding Gulf Education Market

Students at GCC Universities and Technical and Vocational Education Sectors, Thousands



Note: Data on GCC universities for 1996-97 exclude Qatar and female students in Bahrain.

Source: Gulf Cooperation Council, 1999.

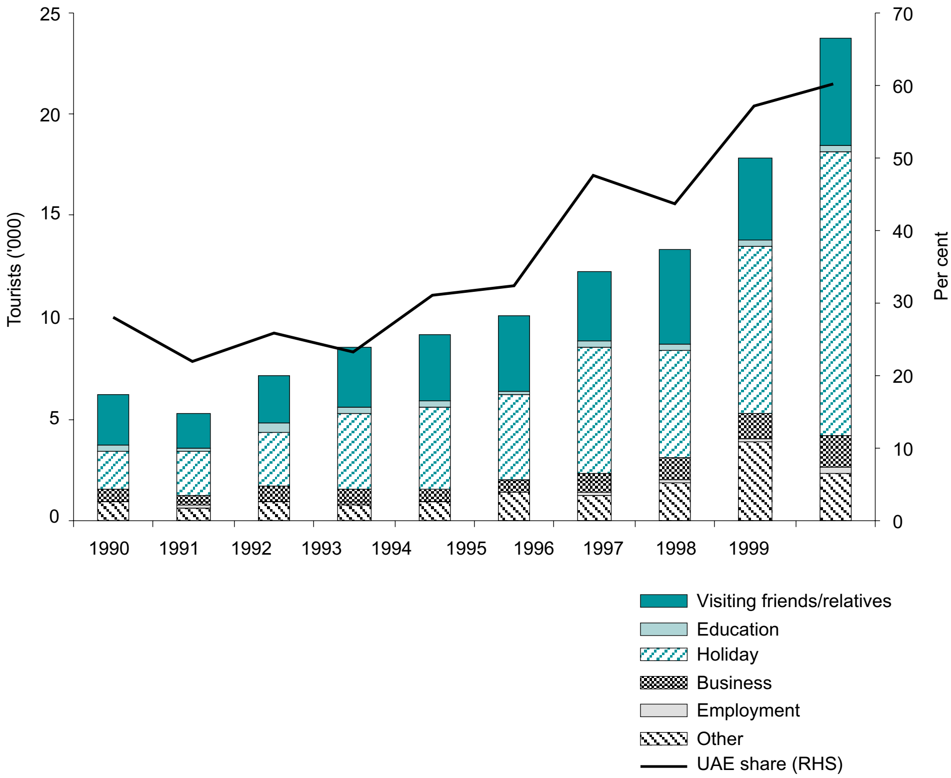
Tourism

Tourism from the Gulf economies grew rapidly throughout the 1990s, particularly after 1996, as direct air links expanded (Figure 2.14). This growth should continue with Emirates commencing flights from Sydney in March 2000, Gulf Air adding two flights from Abu Dhabi to Sydney in July 2000, and Emirates eventually planning to move to daily Sydney flights and providing additional services from other capital cities. The growing tourist market, with around 24 000 arrivals in 1999, offers opportunities to target services at Arab tourists and high income expatriates.

Figure 2.14

Tourism from the Gulf Is Growing Rapidly

Inbound Gulf Tourists to Australia by Reason for Journey, and the UAE's Share



Source: Australian Bureau of Statistics, 2000a.

Construction Services

Population growth, gas developments, tourism growth and technological change are likely to generate further opportunities for Australian construction companies, which already have a strong presence. As today's adolescents move into their twenties, demand for housing and urban infrastructure, such as electricity, roads and fresh water, will grow rapidly. Government initiatives to encourage private sector infrastructure provision in Oman, the UAE, Saudi Arabia and Kuwait also should increase infrastructure construction activity. (See Chapter 4 - *Foreign Investment*.) Increased activity also should flow from major planned projects exploiting Saudi, Qatari and Omani gas resources, including gas pipelines and liquefied natural gas, LNG, plants. Continuing tourism growth also should stimulate construction activity, particularly in Dubai where nine five-star and three four-star hotels are either approved or under construction, and in Oman which is encouraging international hotel construction (Austrade, 2000a).

AUSTRALIA'S GROWING CONSTRUCTION SERVICES PRESENCE

Several Australian construction firms have won major contracts in Gulf economies, particularly the UAE, and are well placed to access future opportunities. Australian construction services companies with UAE offices include:

- Multiplex (major building and infrastructure construction provider)
- Meinhardt and Snowy Mountains Engineering Corporation (engineering consultants)
- Bonacci Winard (structural engineers)
- Crone and Woods Bagot (architects)
- Australian Prestressing Services and Northern Territory Prestressing (suppliers of prestressed concrete)
- Worley Engineering and Clough Engineering (oil and gas engineers).

The Commonwealth Scientific and Industrial Research Organisation, which tests building materials, and the Building Control Commission of Victoria, which provides draft building regulations for Dubai, provide services via temporary offices or from Australia.

Source: Deacon, 2000.

By applying their leading edge in new energy, labour or time saving and environmentally friendly construction technologies, Australian companies can generate opportunities. Already Australian firms doing this include two specialist prestressed concrete companies pioneering this sector in the UAE, a company with a new technique (jumpforming) for holding setting concrete in high rise buildings and Favell Favco which developed a unique climbing crane for very high buildings (Deacon, 2000).[10]

LIONWELD KENNEDY: A NEW AUSTRALIAN PRESENCE

In 1998, Melbourne based industrial group, Pacifica Group Limited, acquired Lionweld Kennedy, a UK company which exported to Dubai. As Pacifica's philosophy is to build flexible plants close to its customer base, it has established a full manufacturing capability, including fabrication, in a joint venture with the Dubai Transport Company to produce customised steel gratings and handrails. At this stage, it mainly focuses production on Dubai, but ultimately, it may serve other regional markets.

Source: Pacifica Group Limited, 2000.

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10 The prestressing companies are Australian Prestressing Services and Northern Territory Prestressing.

REACHING FOR THE SKY: MULTIPLEX IN DUBAI

Nasa Multiplex, a partnership between Multiplex Australia and His Excellency Naser Abdulla Lootah's Nasa group of companies, built the Emirates Towers office complex in Dubai, the tallest building in the Middle East and Europe. It completed the project ahead of time and under budget.

Multiplex now is pursuing other regional construction projects. It finds its Australian business culture valuable, particularly its emphasis on innovation and quality. Multiplex works with, and encourages, Australian business ventures in the Gulf. Multiplex also uses many Australian materials and subcontractors on its buildings, including an Australian concrete forming company and Favell Favco's climbing crane, which it used on the Emirates Towers office complex.

Multiplex has pursued work in the Middle East for ten years, and has established itself as a major force in the UAE; it is confident of further growth.

Source: Multiplex, 2000.

Financial Services

Growing infrastructure requirements, including privately provided infrastructure, increasingly liberal foreign investment regimes and major gas related projects generate significant project financing and investment banking opportunities in the Gulf; ANZ Investment Bank is a major player. As required financing volumes increase, the demand for new financial products will grow. Funding diversity will become increasingly important due to the limited investor appeal of any one debt instrument from a particular part of the world (Knox, 2000).

Demand for mortgage products also is likely to grow as the Gulf's young populations purchase their own homes. For example, the traditional Saudi practice of purchasing a home from savings became less viable in the 1990s, as per capita incomes fell. This could create opportunities for Australian financial institutions working in joint ventures with established financial institutions to create markets in mortgage products, including securitised products.

CAPITALISING ON REGIONAL GROWTH: ANZ INVESTMENT BANK

ANZ Investment Bank, the investment banking arm of the Australia and New Zealand Banking Group Limited, offers a full range of investment banking services in the region. It is separate from ANZ Grindlays, the retail banking network purchased from Grindlays in 1984, which ANZ sold to Standard Chartered in early 2000.

Through its Bahrain office, ANZ Investment Bank offers project, corporate, trade, export, Islamic and transport finance. The office services the GCC economies as well as Iran, Jordan, Egypt, and Turkey. Its sectoral expertise covers oil, gas and petrochemicals, power, water, natural resources, media, telecommunications, infrastructure and industrial transport.

ANZ Investment Bank played a key role in financing several major recent petrochemical projects. In Qatar, it was a lead arranger of a US$750 million syndicated loan facility for the Q-Chem project for Qatar General Petroleum Corporation. In Saudi Arabia, it acted as an arranger of US$4.8 billion of financing for four major projects Saudi Arabian Basic Industries Corporation developed in joint ventures with Shell, Mobil and Exxon.[11] In the power and utilities sector, ANZ Investment Bank also has advised international developers on bids for major infrastructure projects in Jordan, Kuwait, Oman, Saudi Arabia and the UAE.

ANZ Investment Bank expects large scale financing opportunities in the region to expand. As governments accelerate privatisation initiatives, significant transactions are occurring in Saudi Arabia, Oman and the UAE, with Iran, Egypt and Turkey also offering exciting medium term prospects.

Source: ANZ Investment Bank, 2000.

Business Services

Computer hardware and software use is expanding rapidly, but regional economies have limited local expertise; this generates considerable opportunities for trade and investment in IT related services. Peachtree, an Australian software and consultancy firm with a Dubai office, recently won a contract with Saudi ARAMCO, the world's largest oil company, to provide human resource management services (*The Australian*, 4 April 2000, p. 39).[12]

[11] These projects are the Saudi Petrochemical Company, Sadaf, expansion, the Saudi Yanbu Petrochemical Company, Yanpet, expansion, the Al-Jubail Petrochemical Company, Kemya, expansion and the Saudi Iron and Steel Company, Hadeed.

[12] The widespread use of expatriate managers and professional personnel also creates considerable opportunities for human relations firms. As these usually require local offices, they are discussed in the 'Opportunities for Australian Investment - Business Services' section.

AUSTRALIA'S DIRECT INVESTMENT OPPORTUNIES

Australia's direct investment presence in the Gulf is growing rapidly. Between 1997 and 2000, the number of Australian firms represented in the UAE rose from around 30 to 70 (Austrade, 2000c). Disaggregated official data on Australian investment in the Gulf do not exist.[13] However, with the cost of establishing a three person office averaging about A$500 000, between 1997 and 2000, new Australian direct investment in the UAE alone could have exceeded A$20 million. Australian companies with the largest UAE presence include Clipsal, Lionweld Kennedy, Boral, Multiplex and Greater Union.

Outside the UAE, most Australian investment is in oil and gas, with BHP Petroleum, Woodside and Novus Petroleum all active. (See Chapter 4 - *Foreign Investment*.) In addition, ANZ Investment Bank's regional operation is based in Bahrain, while three Australian companies have significant joint ventures in Saudi Arabia:

- B&D Rollerdoor and Al Zamil make rollerdoors
- Enviroflow and Jamjoon provide health care
- McConnell Dowell is involved in oil and gas pipeline construction with Saudi ARAMCO.

Opportunities for Australian Investment

Demographics, economic reforms, non-oil diversification policies, government fiscal problems and new gas based developments drive opportunities for profitable Australian direct investment in the Gulf region. Key areas of opportunity include infrastructure, transport, construction, petroleum extraction, gas, mining, manufacturing, insurance and banking, tourism, leisure and business services.[14]

Infrastructure, Transport and Construction

Opportunities to invest in telecommunications, electricity and water supply service provision throughout the Gulf should expand in the next few years, as the private sector's role in infrastructure provision expands. (See Chapter 4 - *Foreign Investment*.) Unlike projects in major Asian markets, opportunities in Gulf markets usually are smaller and more manageable for many Australian companies. Moreover, in Oman and Abu Dhabi, where sound electricity regulatory frameworks are emerging, Australian utilities' experience with corporatisation and operation in competitive private markets and private infrastructure provision could yield important competitive advantages or make them valuable joint venture partners. Australian construction, distribution and maintenance experience in hot, difficult and remote terrains also is an advantage in Gulf economies.

Opportunities also are opening to invest in transport infrastructure and services to support intra-regional trade and passenger transport. Potential investment opportunities include fast ferry services,

[13] Official statistics on Australia's investment in individual Gulf economies are unavailable due to the small values involved. Investment in Gulf economies is included along with many other economies in an 'other Asia' category.

[14] Discussion of opportunities in infrastructure, petroleum, gas and mining sectors overlaps with Chapter 4 - *Foreign Investment*. However, as far as possible, Chapter 4 conveys more detailed information on these sectors, while this chapter focuses on the Australian presence and specific areas of Australian opportunity.

further port developments and railways. In Saudi Arabia, the World Bank is advising the Government on port infrastructure and feasibility of north-south and east-west rail links. Such projects will require multi-billion dollar private sector investment and create opportunities for foreign investment and know how (Fisher, 2000b). Growing trade flows also create opportunities to develop transport links between the Gulf and Central Asian republics, via Iran, which promotes its road and rail links as a landbridge and actively seeks investment in land transport infrastructure.

As discussed in the section on construction services, investment and growth prospects in the construction sector remain good, particularly given high oil prices in 2000, demographic trends and moves to greater openness and economic reform.

Petroleum Extraction

In Saudi Arabia, Qatar and Bahrain, upstream oil production is closed to foreign investment. Similar restrictions apply in Kuwait, although efforts are being made to allow foreign companies a role in developing the Northern oil fields. In the UAE, longstanding foreign leases effectively exclude new entrants. However, Oman, Yemen and Iran actively seek new investment in their upstream oil extraction sectors. (See Chapter 4 - *Foreign Investment.*)

Oman and Yemen may offer further attractive opportunities for Australian companies used to working viably in small, geologically complex fields major oil companies pass over. Potential opportunities are considerable in Iran, where much oil producing capacity is becoming obsolete. Since 1996, the Iranian Government has released 34 projects for tender under the buy-back system.[15] BHP Petroleum, Woodside Petroleum and numerous smaller firms, such as Novus Petroleum, seek to participate in the Iranian upstream oil and gas sectors.

However, two key disincentives constrain investors. Firstly, the US 1993 Iran Libya Sanctions Act imposes sanctions on companies investing more than US$20 million in Iran's oil and gas industry. Total already has obtained a waiver to proceed with its investment, while Elf Aquitaine and Shell are proceeding with large investments, despite not having waivers.

Secondly, the Iranian buy-back approach makes many projects unviable for international oil companies who generally work on longer time frames than its seven to nine year terms. Buy-backs also are difficult to finance as they are contracts not assets, so on balance sheets, they are unfunded liabilities, therefore attracting premium financing rates.

Gas

Australian companies are pursuing gas extraction and subcontracting opportunities in Iran, Oman and Bahrain. BHP Petroleum is one of eight foreign companies involved in developing Iran's gas industry master plan (Business Monitor International, 2000b).

Overall, prospects for increased involvement in the gas sector are stronger than in oil, as in-country expertise in this relatively new industry is less developed, and vested interests are less powerful.

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15 Buy-backs are a foreign investment mechanism whereby the investor contracts to develop a project, and is paid an agreed sum in dollar terms, via revenue from the project.

Mining

Although significant regulatory reform is needed, future mining investment opportunities will be concentrated in Iran and Saudi Arabia. (See Chapter 4 - *Foreign Investment*.) Projects involving mineral processing are more likely to attract official support than those with minimal processing.

Manufacturing

Australia has a small, diverse manufacturing presence in the Gulf, including joint venture investments in Saudi Arabia and free trade zone investments in the UAE. The two main manufacturing investment opportunities for Australian companies in the Gulf are:

- manufacturing operations in free trade zones, particularly in the UAE; Australian companies including Clipsal, Kempe Engineering, Hunter Watertech, Worley Engineering and Orica Explosives already have successful investments in these zones. Key attractions include full foreign ownership, duty free status, income and company tax exemptions, and excellent transport links with European and Asian markets
- equity investments in aluminium, steel and petrochemical projects using gas from Dolphin and other major gas pipeline projects once they proceed.

Insurance and Banking

While GCC governments generally prohibit foreign insurance companies from writing premiums, some opportunities are emerging in health insurance.[16] Saudi Arabia is moving to private sector provision of health insurance, first for expatriates, then for Saudi citizens, and foreign companies will be able to provide coverage (Business Monitor International, 2000c).[17] This is highly significant, as medical insurance constitutes 18 per cent of Saudi insurance premiums, and medical insurance premiums grew 25 per cent in 1997, making them Saudi Arabia's most rapidly growing insurance business (US Department of State, 1999a). Kuwait introduced mandatory health insurance for expatriates in January 2000, and while foreigners cannot write insurance premiums, foreign companies can provide local companies with support and expertise (US Department of State, 1999b).

Prospects for investment and retail banking also are growing. Likely future liberalisation of foreign direct investment regimes should enhance these opportunities. Currently, ANZ's investment banking presence in Bahrain is Australia's main presence in this sector.

[16] A Saudi state owned cooperative is the only legal entity able to sell insurance, and the Kuwaiti Government bans foreign investment in insurance. Foreign insurance companies can establish a presence in the UAE, but the Government limits their business activities to offshore operations (US State Department, 1999a and 1999b).

[17] Health insurance for Saudi Arabia's six million expatriates will move to the private sector by the end of 2000; this initiative will be extended to Saudi citizens within three years (Business Monitor International, 2000b).

Tourism and Leisure

Significant opportunities to invest in the Gulf region's leisure and tourism sector are emerging. Dubai successfully markets itself as a regional centre for high value tourism based on shopping, western style entertainment, watersports and beach/desert activities; it attracted three million visitors in 1999 (Jeffreys, 2000, pp. 99-100). Oman is increasing its efforts to attract tourists with its beach holidays and ancient architecture, and actively seeks hotel investment; and Iran seeks to cooperate with western tourism wholesalers to develop historical and cultural tourism.[18]

Several Australian firms already are active in the sector. Rydges began managing a Dubai hotel in 1999, and is looking to increase its regional presence (Allen, 2000). Greater Union has cinemas in Dubai and Abu Dhabi via a joint venture, and an Australian firm operates the tourist ferry service on Dubai Creek. In April 2000, Australian consultancy firm, SAGRIC, signed an agreement with Iranian tourism authorities to help promote tourism to Iran and Australian investment in Iran's tourism sector.

IRANIAN TOURISM DEVELOPMENT: SAGRIC SHOWS THE WAY

Iran seeks foreign expertise to develop its tremendous tourism potential. Iran has contracted SAGRIC, a major Australian international project management and technology transfer company, to help promote Iran as a tourist destination. The agreement includes tourism training and planning, infrastructure development, and advice on marketing. The project originated in 1999 during Australia Iran Joint Ministerial Commission discussions.

In May 2000, SAGRIC organised for senior Iranian tourism officials to visit Australia to see the depth of Australian expertise available to assist Iran implement its Tourism Master Plan. In November 2000, a business mission of Australian tourism wholesalers, retailers, and media and construction industry representatives will visit Iran.

Success in assisting Iran's tourism development could generate opportunities for Australian companies to invest in Iran's tourism infrastructure and services sector.

Source: SAGRIC International Proprietary Limited, 2000.

Business Services

The need to upgrade computer hardware and software, and the continued demand for senior expatriates, drives opportunities to invest in business services, including information technology and recruitment. Melbourne based Independent Corporate Solutions has been in the Saudi market for four years and in the UAE for two years, placing over 100 senior executives (Moore, 2000). Moreover, Australian managed executive search companies, Inter Search and Morgan and Banks, have Dubai offices. Such firms are well placed to recruit the many Australian professionals and managers employed in the Gulf, who are respected for their flexibility and 'can do' approach (Crosthwaite, 2000).

[18] Saudi Arabia also has a large tourism industry revolving around the massive influxes of religious pilgrims.

GULF ECONOMIES' INVESTMENT IN AUSTRALIA

The Gulf region has exported huge volumes of capital since the 1973 oil shock, as oil revenues exceeded domestic investment opportunities and investors sought to keep surplus funds in safe financial centres. The entire Middle East currently has at least US$800 billion of private capital invested abroad, and the Gulf economies at least US$500 billion, including US$150 billion from the Abu Dhabi Investment Authority (Atkinson, 2000; and Jeffreys, 2000, pp. 43-44).[19] Most of this capital is invested in the United States, United Kingdom, Germany, France and Switzerland.

If Australia's share of this capital were in line with its share of world gross domestic product, it would have received about US$10 billion in investment from the Middle East, and around US$2 billion from Abu Dhabi Investment Company. However, as the Australian Bureau of Statistics only records Australia's total stock of investment from Gulf economies and a number of other economies in a residual 'other Asia' category at US$940 million, the potential to lift Australia's share of Gulf capital exports is significant.[20]

Increasing travel and tourism between Australia and the UAE should boost investment in Australian real estate, hotels, financial markets and service sectors. Already Gulf tourism to the Gold Coast is generating considerable investment interest, as families recognise Australia's relative price competitiveness and secure permanent accommodation for their traditional two to three month summer holidays (Gold Coast City Council, 2000).

The increasing tourist flows from the Gulf, and hence increased familiarity with Australia, also create opportunities to attract more Gulf investment in the agriculture and resources sectors, which in turn could help open new Gulf export opportunities. Already, investment is significant in the agriculture sector, including racehorse studs and a cheese factory.

AUSTRALIAN MERCHANDISE IMPORTS FROM THE GULF ECONOMIES

In 1999, Australia imported A$1.3 billion of merchandise from Gulf economies, representing 1.3 per cent of total imports. These imports are mostly petroleum related; crude and refined petroleum accounted for 69 per cent of total imports in 1999 (Figure 2.15). Saudi Arabia supplied 51 per cent and the UAE supplied 22 per cent of these imports.

Manufactured Imports

Gulf manufactured exports to Australia (excluding petroleum products) grew from A$32 million in 1990 to A$177 million in 1999, growing at an average of 26 per cent per year (Department of Foreign Affairs and Trade, 2000) (Figure 2.15). The large confidential imports were mainly petrochemicals. The most important other import is fertiliser (A$75.8 million); also important are sugar confectionery, perfume and cosmetics, glass and glassware, pottery, manufactures of base metals, motor cycles, lighting fixtures, musical instruments, clothing accessories and printed matter.

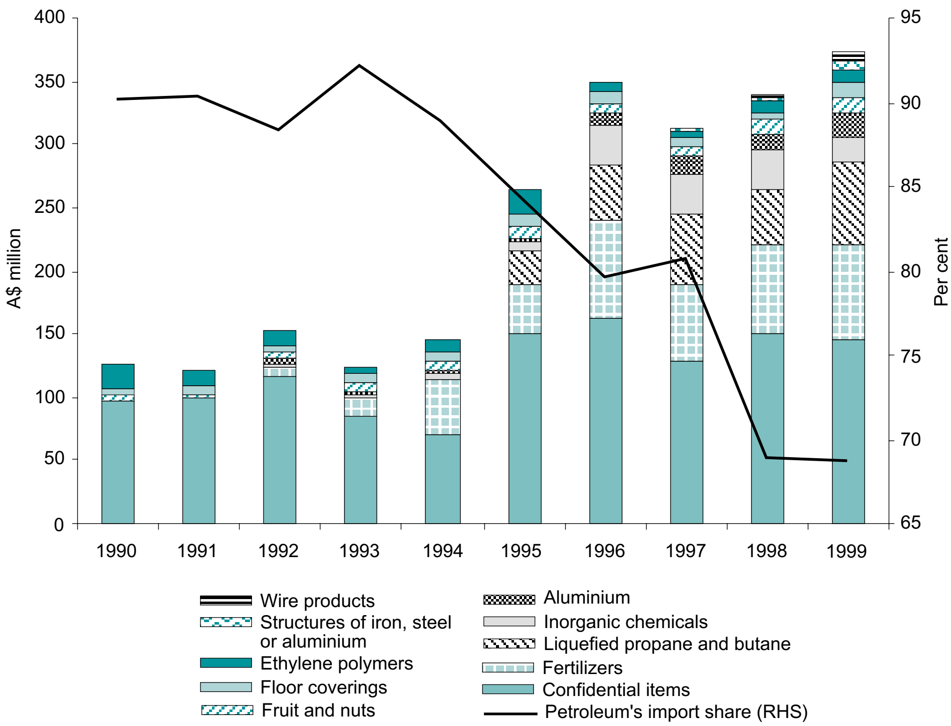
19 Abu Dhabi Investment Authority, ADIA, is the investment arm of the Abu Dhabi Government. It invests all surplus oil revenue after paying oil companies and funding general government expenditure.

20 This Australian Bureau of Statistics figure is converted to US dollars at A$1:US$0.60 (Australian Bureau of Statistics, 2000b).

Figure 2.15

Non-oil Imports from the Gulf Region Rising Slowly

Australia's Imports from the Arabian Peninsula and Iran, 1990-99



Source: Department of Foreign Affairs and Trade, 2000.

Constraints on Australian Imports from the Gulf

The main factor constraining Gulf imports is Australia's position as a net hydrocarbons exporter; imports therefore are restricted to specific types of crude oil for petroleum refining and refined products. Lack of price competitiveness for mass market products, inherent volume restrictions in Australia for niche products such as Persian carpets, musical instruments or dates, and limited trade promotion efforts in Australia constrain manufactured imports' growth.

AUSTRALIAN BUSINESS LINKS WITH THE GULF

Australian diplomatic and business links with the Gulf region are strong. In addition, Australians of Middle East origin can help in forming business links and provide valuable bilingual, bicultural employees and managers.

Diplomatic and Austrade Links

Australia maintains embassies in Saudi Arabia, the UAE, and Iran. The Australian Ambassador to Saudi Arabia also is accredited to Bahrain, Qatar, Oman, Kuwait and Yemen.[21] Saudi Arabia, the UAE and Iran all maintain Canberra embassies, and Kuwait maintains a Military Liaison Office. The Kuwaiti, Omani, and Qatari ambassadors to Japan are accredited to Australia.

Austrade has a Middle East and Indian Ocean regional base in Dubai, UAE and local offices in Abu Dhabi, UAE, Iran and Saudi Arabia. In addition, the Victorian Government has a business office in Dubai, while the South Australian Government has a representative employed on a contract basis. In the year to 30 June 1999, Austrade assisted 309 companies who were either new to exporting or new to the Gulf markets (Austrade, 2000b).

Business Networks

Bilateral chambers of commerce in Australia and the Gulf strengthen trade and investment links. In Australia, the Australia-Arab Chamber of Commerce with over 400 members, is growing at 15 per cent per year. Members range from BHP, Toyota and General Motors Holden to one person consultancy companies. Similarly, the Australia-Iran Chamber of Commerce has 22 members comprising both large and small Australian companies.

In the Gulf, the Australian Business in the Gulf Group, ABIG, represents Australian businesses and individual Australians working in the Gulf region.[22]

Middle East Immigrants

Many Australians have migrated from the Middle East, but mainly from Lebanon, Turkey, Iran, Iraq and Egypt rather than the Arabian Peninsula. Nonetheless, the Australian Middle Eastern community provides an important source of native Arabic and Farsi speakers, and cultural and business contacts in the Gulf.

IMPLICATIONS

Prospects for closer trade and investment relations between Australia and the Gulf economies are bright. In the long term, economic diversification, foreign investment liberalisation and privatisation should reduce income volatility and increase average growth rates. In the short term, high oil prices offer an important opportunity to diversify and expand Australian manufactured exports. Australia's well developed agricultural and mineral export trade also should continue to grow as populations and industrialisation expand.

Australia's small, diverse Gulf investment presence is growing rapidly. The range of opportunities has never been wider, encompassing infrastructure, construction, oil and gas, mining, manufacturing, finance, tourism, transport and business services. A stronger investment presence is likely to have flow on trade benefits. The Gulf's small investment in Australia also is growing as air, tourism and business links between Australia and the Gulf expand.

[21] From October 2000, Australia's embassy in Abu Dhabi, UAE will become accredited to Qatar.

[22] Contact details for these organisations, and others, are listed in 'Information for Companies' at the end of this report.

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