



South Australia

An open door to the North Atlantic

**South Australia – North Atlantic
Engagement Strategy Directions Paper**

“This Directions Paper is intended to stimulate an exchange of ideas and opinions between interested parties, which will then contribute to South Australia’s North Atlantic Engagement Strategy.”

Hon Jay Weatherill

Premier of South Australia

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Note: Unless noted otherwise, all currency references are in Australian dollars.

A message from the Premier



The South Australian Government recognises that in order to grow our state's economy, we must aim for a greater portion of foreign direct investment.

Our state faces the same challenges and issues as other manufacturing regions. We need to adapt to rapid global economic and social changes, keep pace with new technological advances and remain competitive with emerging countries.

For the fourth consecutive year Australia remains in the top 10 global destinations for foreign direct investment, according to the UN Conference on Trade and Development's World Investment Report 2015.¹

South Australia's stable economic growth, strategic location, increased global trade and investment ties, and proven record of innovation position it as an attractive investment destination.

We know that international research and development collaboration is a catalyst in building and promoting our capabilities and attracting investment. We want to attract knowledge-intensive research centres and private companies from leading countries, and we want to create synergies with local universities and companies to bring new talents, knowledge and ideas to enhance our competitiveness.

We're already seeing success with the Tonsley innovation district, BioSA and SAHMRI precincts, where multinational companies such as Siemens and Hewlett Packard, high-tech small to medium enterprises and universities are clustering together to leverage interconnections and strengthen their networks.

The South Australian Government has developed formal strategies to engage with the Indian sub-continent, China and South East Asia, and we're now turning our attention to our most traditional and established markets, as well as future growth markets, in the North Atlantic region.

This Directions Paper is intended to stimulate an exchange of ideas and opinions between interested parties, which will then contribute to South Australia's North Atlantic Engagement Strategy.

A handwritten signature in black ink that reads "Jay Weatherill". The signature is written in a cursive, slightly slanted style.

Hon Jay Weatherill
Premier of South Australia

1. UN Conference on Trade and Development World Investment Report 2015
(http://unctad.org/en/PublicationsLibrary/wir2015_en.pdf)

A message from the Minister



The North Atlantic region takes in the countries of the United States, Canada and the 28 members of the European Union. The region has a combined population of 866 million people and a GDP of \$45.5 trillion. This is a vast region, and one that offers great prospectivity for the South Australian economy if we can engage the market successfully.

Australia enjoys long-standing and deep relationships with the United Kingdom and United States. But in addition to our close cultural links, these markets continue to be major sources of trade and investment due to our access to Asian markets from a stable English-speaking base.

The North Atlantic Engagement Strategy will be based on three fundamental objectives – attracting foreign direct investment, increasing exports and increasing research and development activity.

This Directions Paper aims to test possible approaches to achieving these objectives and to generate new ideas, which will formulate the final strategy paper for the North Atlantic region.

The Strategy will take into account those regions that offer the best conditions for identifying companies with potential projects for South Australia, those that would be the most receptive to South Australian exports, and those with the greatest clusters of research and development activity.

We want to strengthen our relationship with countries such as the United States, Canada, the United Kingdom, Germany, France, Italy, the Netherlands and Sweden in areas of reciprocal interest, including natural resources, energy, renewable assets, agribusiness, health science, pharmacology and biotechnology.

The ultimate aim of the North Atlantic Engagement Strategy is to increase our existing collaboration projects and programs by 2020.

With the impacts of the global financial crisis beginning to subside and the Australian dollar falling, now is the time to focus our efforts on developing existing investment and attracting new companies into the state. The North Atlantic Engagement Strategy will build on our relationship with our oldest trade partners and let them know South Australia is open for business.

Members of the business community and wider public are invited to provide comment and input into the final North Atlantic Engagement Strategy. There are a number of questions on page 7 that we would like your views on by 12 February 2016.

A handwritten signature in black ink, appearing to read 'Martin Hamilton-Smith'.

Hon Martin Hamilton-Smith MP
Minister for Investment and Trade



1. Introduction

The importance of Australia's longstanding and deep relationships with Europe and North America should not be underestimated.

In addition to our close cultural ties, these markets continue to be major sources of trade and investment for South Australia.

The United States currently ranks at number two on the list of trading partners for South Australia, with a value of more than \$1.5 billion. The United Kingdom (UK) ranks at number eight, but represents more than \$441 million in exports for South Australia annually. Other countries within the European Union (excluding the UK) represent more than \$826 million in exports.²

These relationships, combined with Australia's access to the Asian markets from a stable, English-speaking base have also led to significant foreign direct investment (FDI) into Australia from both the US and Europe. According to FDI markets³ over the past 10 years, 43 per cent of all FDI projects coming into Australia from around the world came from Western Europe. North America, including the United States and Canada, accounted for 35 per cent and the Asia Pacific 18.6 per cent, slightly less than the UK stand-alone figure of 18.8 per cent.

The South Australian Government is committed to maintaining and growing the state's close ties with the established markets of North America, the United Kingdom and Europe. We have already developed and implemented formal strategies for engagement with China, India and South East Asia, and we are now turning our attention to our most traditional and established markets, as well as future growth markets.

This Directions Paper is intended to stimulate an exchange of ideas and opinions between interested parties to contribute to a North Atlantic Engagement Strategy, which will be developed in early 2016.

The State Government has committed to supporting the following sectors, all of which are expected to experience above average growth in global demand and will feature prominently in the strategy:



Defence



Resources and energy



Premium food and wine



Health and biomedical industry



Tourism



Education services



Creative industries

2. ABS cat. no.5368.0 www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5368.0May%202015?OpenDocument

3. FDI Markets is a wholly owned subsidiary of the Financial Times Group, which specialises in providing data and information on companies creating subsidiaries around the world (www.fdimarkets.com)

The North Atlantic Engagement Strategy will prioritise three objectives:

a. Attracting foreign direct investment (FDI)

We want to attract companies to South Australia to create jobs, introduce new skills and technologies, develop supply chain opportunities and stimulate the economy. These targets are part of the Government's Economic Priority 9, which aims to create 6,000 new jobs from FDI by 2017.

b. Increasing exports

We aim to help existing exporters find new clients, guide new exporters to 'starter markets' and develop their reach, and support existing export initiatives. This objective also falls under Economic Priority 9, which sets challenging targets of 50 new exporters per year and increasing exports from \$13.8 billion to \$18 billion by 2017.

c. Increasing research and development (R&D) activity

We want to attract R&D oriented companies to the state (as above) and identify R&D opportunities in the North Atlantic region for South Australian companies, organisations and universities. This objective aligns with Economic Priorities 2, 3 and 5 - becoming a global leader in health, research and ageing, developing the knowledge state, and promoting growth through innovation.

The North Atlantic geographical area is a significant part of inbound tourism for South Australia, and represents potential in both the trade and investment targets. Thought should also be given towards how we could further leverage our natural attributes in our engagement strategy.

This Directions Paper aims to test possible approaches to achieving these objectives and to generate new ideas. Members of the business community and the wider public are invited to provide comment and input into the final North Atlantic Engagement Strategy. In particular, we invite views on the following key questions:

- *What are the critical elements to facilitating strategic engagement with the region, and what role should the South Australian Government and other sections of the community play?*
- *How should the State Government prioritise South Australia's engagement with the region? Is the tiered approach suggested appropriate? Which countries in the region should we focus on, and in what order or priority?*
- *Are the opportunities for engagement with the North Atlantic region reflective of commercial realities, including South Australia's business capabilities and capacities, and appetite for engagement?*
- *What practical assistance should the Government provide to facilitate exports to the region?*
- *What practical assistance and support should the Government provide to attract foreign direct investment to South Australia from the North Atlantic region?*
- *Are there other countries we should be actively exploring engagement with and, if so, what should be the focus of that engagement?*
- *What are the key impediments to closer engagement with the North Atlantic region, and what role can the Government play in addressing them?*
- *Where, if anywhere, in the North Atlantic region should the Government have in-market representation to better engage with the region?*
- *What are South Australia's competitive advantages, and how do we effectively utilise them to build mutually beneficial relationships?*
- *What avenues are there for raising South Australia's profile in the region?*

QUESTIONS

2. Why the North Atlantic?

In addition to our historical links, common values and closely aligned strategic interests, there are significant economic reasons to strengthen our engagement with North America and European Union.

The North Atlantic region is the largest source of foreign direct investment (FDI) into Australia, with Europe leading and North America a close second. Recognising this, federal and state governments have concentrated their efforts on investment attraction activities over recent years. Developing a North Atlantic Engagement Strategy provides the State Government with the opportunity to review its strategic approach towards this important market.

The United States and European Union have historically been of significant importance to Australia and South Australia. Export figures remain strong despite challenging conditions over the past few years, largely due to the high Australian dollar and subdued growth in the North Atlantic region on the back of the global financial crisis (GFC). However, as export conditions start to improve, now is the optimum time to pursue a focused trade development agenda.

In addition to improved export figures, exporters are also showing strong interest in pursuing these markets. The US and UK have been ranked the first and fourth most important markets for two years running in *Australia's International Business Survey*⁴ (AIBS 2015), recently conducted by Austrade, the Export Council of Australia, Export Finance and Insurance Corporation (Efic) and the University of Sydney.

This is consistent in South Australia, with a recent State Government survey of 1,400 exporters ranking the US second and England fourth most popular export markets in the last two years.



This appetite for exporting is set to continue, with 85 per cent of respondents indicating an intention to export to new markets in the next two years. The United Kingdom/Europe and North America ranked second and third, after China, as top markets of interest.

There is also an opportunity to build on existing ties between South Australia and the North Atlantic region in research and development collaboration. South Australian-specific data is difficult to obtain, but Australian Government data shows that the US, UK and European countries account for at least 60 per cent of collaboration with foreign countries on ARC grants.

4. Austrade website www.austrade.gov.au/news/economic-analysis/key-publications/australias-international-business-survey-2015



The North Atlantic region is the largest source of foreign direct investment (FDI) into Australia.

Examples of current collaborations include:

- the 2012 memorandum of understanding (MoU) between Siemens and the South Australian Government to investigate opportunities for collaboration and innovation at Tonsley
- the Hawke EU Centre for Mobilities, Migrations and Cultural Transformations at UniSA
- the EU Centre for Global Affairs, which focuses on enhancing international trade and regional cooperation in the Asia and Pacific regions.

These examples will be the building blocks for future collaborations to assist South Australian industry sectors to innovate and respond to future challenges.

3. The need for deeper and more focused engagement

To formulate an effective engagement strategy for the North Atlantic region, we must take into account its sheer size, diversity and complexity. There are 50 states in the United States, 10 provinces and three territories in Canada, and 28 member countries in the European Union. Market segmentation of the region will be critical to a successful strategy, bearing in mind South Australia's smaller population and its commercial capacity.

North America

The North American market is vast in terms of population (319 million in the US, 35 million in Canada), Gross Domestic Product (US\$16.77 trillion, Canada US\$1.83 trillion) and physical size (US 9.86m km², Canada 9.85m km²). None of these statistics are evenly shared among the states, territories or provinces, so the strategy will need to take into account the regions that offer the best conditions for South Australia, those most receptive to South Australian exports, and those with the greatest clusters of research and development (R&D) activity. By segregating the market, we will aim to use our available resources in the most effective manner.

The European Union

The same approach will be needed for the European Union (EU). With a population of 742.5 million, a GDP of US\$18.45 trillion and a land surface of 10.2m km², the EU is substantially bigger than the United States and only smaller in land mass than the whole of North America.

4a. Trade

Current status

In the year to July 2015⁵, Australian Bureau of Statistics (ABS) figures on South Australian overseas goods exports show growth from the previous year for the markets of the United States (up \$169 million or 12 per cent) and the European Union (up \$97 million or 9.9 per cent).

In the 12 months to June 2015, expenditure by European visitors to South Australia was \$193 million, while North American visitors spent \$81 million, for a total European and North American expenditure in South Australia of \$274 million.

This expenditure includes education purpose visitors who stayed for a period of less than one year, so must be used with caution when aggregating with data provided from other sources. Education purpose visitors are primarily sourced from eastern markets (especially China and India), and as such represent only a small proportion of spend for these western markets.

As a result, the State Government is seeing renewed interest from South Australian exporters to either enter or re-enter the US and European markets through programs such as TradeStart and the Export Partnership Program. The State Government's policy is to encourage businesses to select their markets and support them to leverage those chosen markets. It seems that the most likely sectors to pursue these markets are the food, wine, ICT and services sectors.

Ores and mineral exports account for the large portion of trade to Asian markets, somewhat skewing the figures in Asia's favour.

Bearing in mind this dominance by the minerals sector and the State Government's limited role in this sector, it will be important to focus resources on the sectors with the greatest potential to grow in these markets.



This paper provides the opportunity for interested parties to contribute innovative ideas and challenge or improve suggested proposals.

5. Tourism Research Australia, International Visitor Survey www.tourism.sa.gov.au/assets/documents/Int_Origin_Aust_and_SA_June_2015.pdf

There are key trade agreements with the North Atlantic region that South Australian businesses can benefit from, including:

- the US Free Trade Agreement (USFTA) (in force for 10 years)
- the Trans Pacific Partnership (TPP) (under negotiation)
- the Trade in Services Agreement (TiSA) (under negotiation).

The State Government is open to raising awareness of the USFTA and investigating new ways of maximising its benefits, as well as leveraging new opportunities that present following TPP and TiSA ratification. There is now also the prospect of a new Australia-Europe FTA with the European Commission seeking permission to commence negotiations in October 2015.

We have already seen that North America and Europe represent a vast, mature market with sophisticated buyers and a sound business environment.

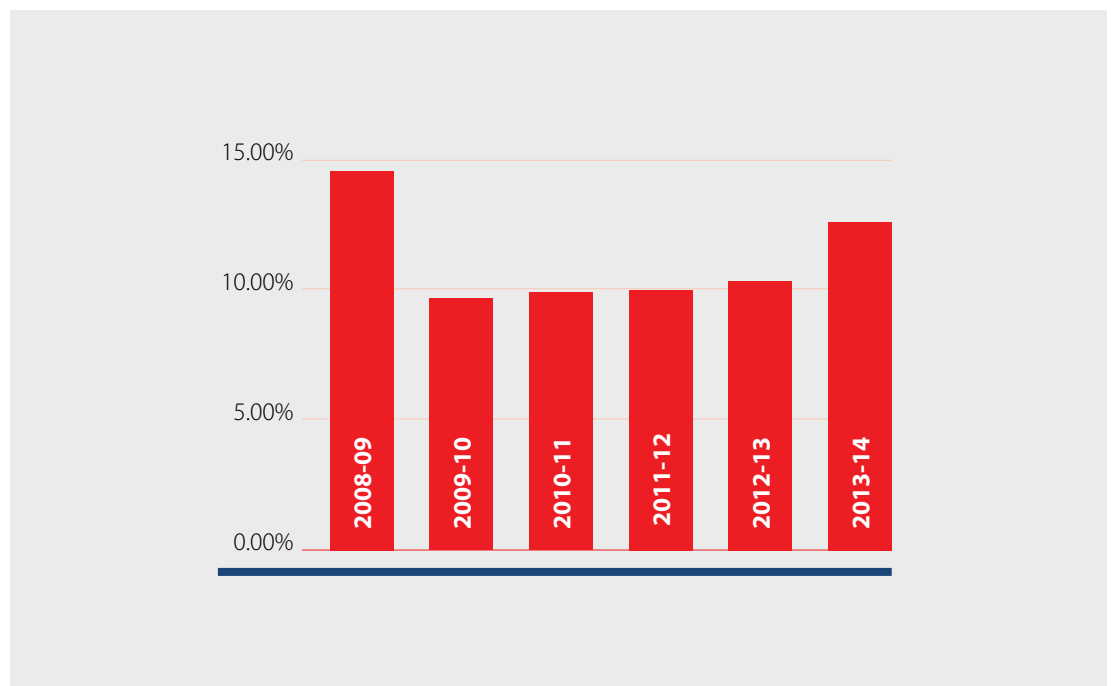
Through surveys and measurement of our export assistance programs, we have also established that the US and Europe are key priority markets for South Australian and Australian exporters.

We now need to analyse whether South Australian businesses are capable of seizing a greater share of the North Atlantic markets. The strategy will need to identify mechanisms to address possible barriers, as well as opportunities to grow trade in the region.

Exports to North America

Looking at South Australia's export performance to the United States, the initial impression is that we are performing reasonably well. The table below charts the percentage of the total amount of Australian exports to the US represented by South Australian products. While the GFC certainly had a dramatic effect on our exports, as it did for the whole of Australia, our percentage share is returning to pre-GFC levels.

South Australia's share of total Australian export value to the United States



However, these figures mask an underlying weakness in that 61 per cent of Australian road vehicle exports to the US originated in South Australia in 2013-14, and 68 per cent over the period covered in the graph. This figure will all but disappear when Holden ceases to manufacture in South Australia, taking \$260 million out of the current \$1.36 billion figure for our exports to the United States. For instance, removing GM from the statistics for 2013-14 would drop two clear percentage points from South Australia's share of total exports.

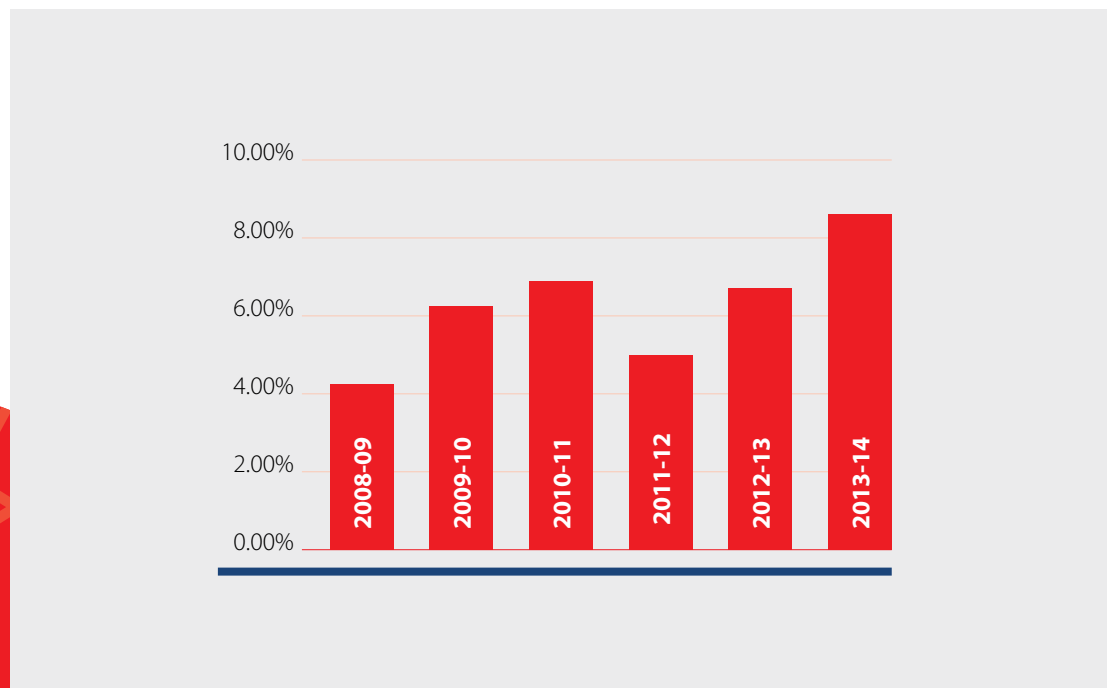
The second fundamental weakness is that the top four South Australian export categories – beverages, meat and meat preparations, road vehicles, and commodities and transactions not classified elsewhere – account for more than 75 per cent of all our exports to the US. To prevent the collapse of one sector (in this case cars) having a disproportionate effect on export performance, it should be a long term aim to increase the diversity of South Australia's exports to the US.

The picture for Canada is very similar, with three categories – beverages, meat and meat preparations, and commodities not covered elsewhere – representing 93 per cent of total exports. The overall annual average of the Canadian market for us is in the order of \$250 million, but there are potential opportunities to increase this figure, with markets such as plastics, fertilisers and hides growing at more than 20 per cent per annum.

Exports to Europe

Total Australian exports to the European Union have plummeted from more than \$24 billion in 2008-09 to a shade over \$12 billion in 2013-14. Over the same timeframe, South Australian exports have held up well, with only a modest drop from \$1.24 billion to \$1.13 billion. Falls in some categories were offset by key growths, such as cereals and cereal preparation (from \$321,285 to \$16.3 million), oil seeds and oleaginous fruits (\$49.5 million to \$121.3 million) and chemical materials and products (\$947,300 to \$2.34 million).

South Australia's share of total Australian export value to the European Union





As a consequence of steady levels of exports, South Australia's share of total exports to Europe has gone from 5.2 per cent in 2008-09 to 9.4 per cent in 2013-14. This not insignificant accomplishment was achieved by the existing number of companies exporting to Europe. According to the Government's export survey and data collected on the uptake of its export programs, there is considerable interest for aspiring and experienced exporters to pursue this market. This presents an opportunity to leverage the North Atlantic Engagement Strategy in the future.

Opportunities

Exporters can access trade support programs provided by state and federal governments and private industry associations. While these programs are not necessarily market or sector specific, they may be leveraged to generate trade outcomes to the North Atlantic region. Any additional strategies or activities for this market will complement the existing framework rather than duplicating it, and we welcome your views as to how we can achieve this. Existing initiatives that have the potential to be built on or further leveraged for the North Atlantic Engagement Strategy are detailed below.

Australian Government support for trade

- **Austrade** is a key stakeholder in our trade efforts and provides access to an extensive network of overseas offices that provide on-ground support for exporters. Austrade also offers practical advice, market intelligence, business matching and access to funding through the Export Market Development Grant (EMDG) Scheme.
- **The Export Finance and Insurance Corporation (Efic)** provides access to finance for businesses that may not be able to obtain it from the banks. Efic recently refocused its activity more strongly towards small to medium enterprises, and as of September 2015 has established a new physical presence in Adelaide.
- **The Department of Foreign Affairs and Trade (DFAT)** focuses on trade policy, particularly free trade agreement (FTA) negotiations and other settings. The South Australian Government's Department of State Development regularly partners with DFAT and Austrade to deliver workshops and briefings to raise awareness of the benefits that FTAs provide.



State Government support for trade

The South Australian Government, through the Department of State Development (DSD), provides export facilitation services through the following programs:

- **TradeStart** - In partnership with Austrade, DSD employs 4.4 FTE export advisers to deliver expert advice, market intelligence and facilitation services to South Australian exporters wanting to pursue or grow their exports. Each adviser has their own South Australian region and is well-versed in export processes. Their connections allow them to make introductions, 'join the dots', and advise businesses about other state and federal government services that can assist in their export plans. While advisers primarily work with export ready companies, they also do some work with aspiring exporters to develop a pipeline of TradeStart clients and exporters for the longer term.
- **Export Partnership Program (EPP)** - International market development funding is available to cover activities such as travel and accommodation, costs associated with trade exhibitions and overseas business programs, brochures, websites, and coaching, mentoring and advice on export plans. This program complements Austrade's Export Market Development Grant (EMDG) Scheme, but on a competitive basis and aimed at a state level. Aside from funding assistance, the EPP has built in processes to strengthen businesses' export plans through export audits and free TradeStart assistance for applicants.
- **Trade missions** - The South Australian Government has recently announced its program of business missions for 2016. Building on the successful program of missions delivered in 2015, the new program demonstrates that regularising our international business engagement is possible. To date business missions have largely focused on growth and the emerging markets of China, India and ASEAN, but they will extend to other international regions in 2016 in line with our other international engagement focus areas, including the North Atlantic and North Asia region. The State Government intends to tailor its trade missions to the culture, size and demands of each market.

Non-government support for trade

Chambers and industry associations in South Australia also provide valuable support in growing the state's exports. These bodies include:

- **Business SA** (export stamping and documentation and key input and representation on trade missions)
- peak industry associations including (but not limited to) **Food SA, the South Australian Wine Industry Association, Bio Innovation SA** and the **Water Industry Alliance**
- the **Council for International Trade and Commerce of South Australia (CITCSA)** and the 39 individual international chambers it represents
- banks, in terms of trade finance and currency.

These parties will be instrumental in rolling out the North Atlantic Engagement Strategy, as has been the case with the strategies for the China, India and ASEAN regions.

Few local authorities have the resources to offer services to their companies, but a number of them are considering how they might contribute to guide their companies through the services on offer by providers. An example of this is the establishment of the Northern Economic Leaders Forum and the alliance of a number of the northern councils determined to address the Holden issue head on.

Challenges

As with other markets, prior to penetrating any of the North Atlantic component markets, we must address:

- **logistics**
 - **language**
 - **norms**
 - **barriers to entry**
 - **competition**
 - **packaging**
- **distribution channels**
 - **promotion**
 - **price points**
 - **production capacity**
 - **patents and legal issues**

There are limited human resources dedicated to trade in the European and North American markets. Given the sheer size and diversity of the region, we must consider how we can effectively facilitate trade both onshore and offshore. The Office of the Agent General in London is the state's largest overseas office, but is still a relatively modest operation. In recent years it has focused on investment promotion, education, wine and food export assistance, and broad-based state promotion.

The South Australian Tourism Commission (SATC) has two staff co-located (rather than embedded) in the UK and representatives based in France, Germany, Italy and the US.

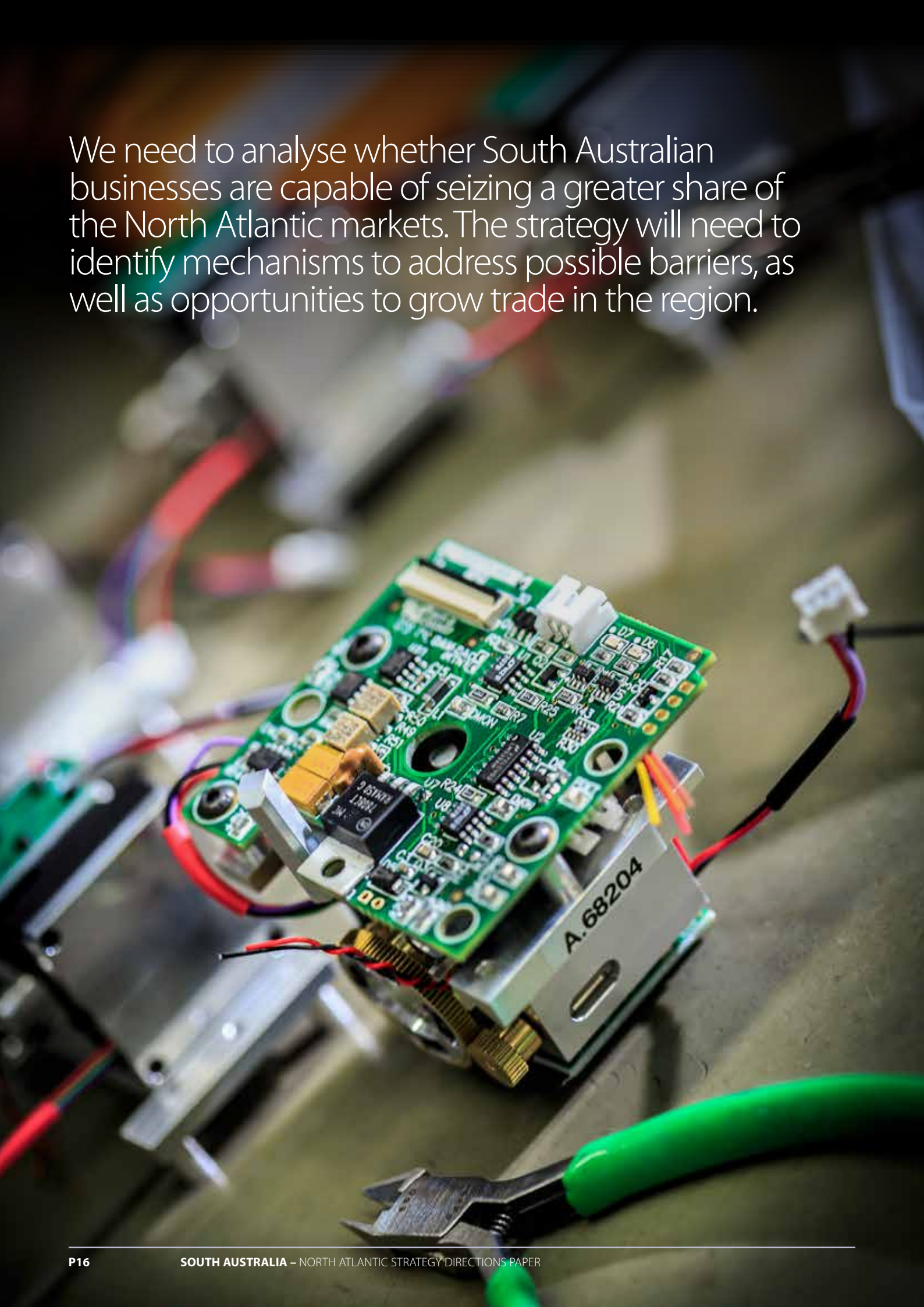
It is timely to reconsider what additional services the Office could provide aspiring exporters in the region, and extend this consideration to the rest of the North Atlantic region.

Potential options for overseas representation include:

- additional resources in the Office of the Agent General
- the Austrade embedded model, where officers are engaged through an agreement with Austrade (currently in operation in Mumbai, Shanghai and Hong Kong)
- standalone offices
- using consultants as needed.

We would welcome input from the business and wider community about the existing suite of services on offer for Australian exporters and how they could be strengthened.

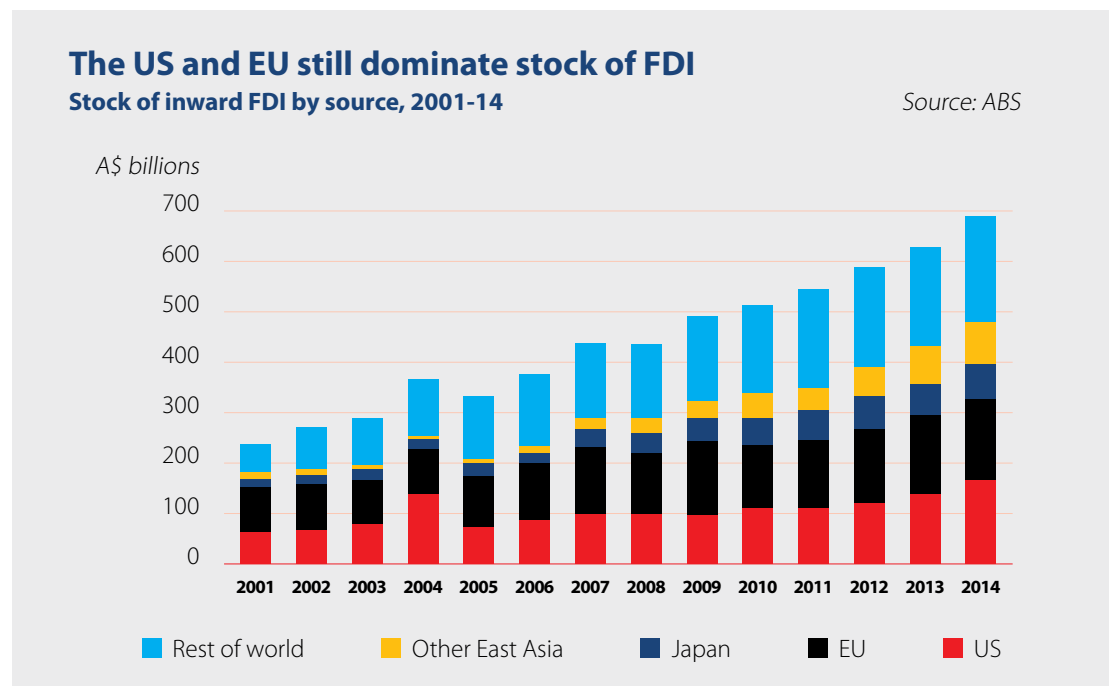
We need to analyse whether South Australian businesses are capable of seizing a greater share of the North Atlantic markets. The strategy will need to identify mechanisms to address possible barriers, as well as opportunities to grow trade in the region.



4b. Foreign direct investment

Current status

There is a strong case for the South Australian Government to focus its efforts on developing existing investment and attracting new companies into the state from the North Atlantic region, especially on the back of the new investment attraction agency, which commenced formal operations in October 2015. ABS figures show that these markets remain Australia's main source for all kinds of foreign direct investment, including capital flows.⁶



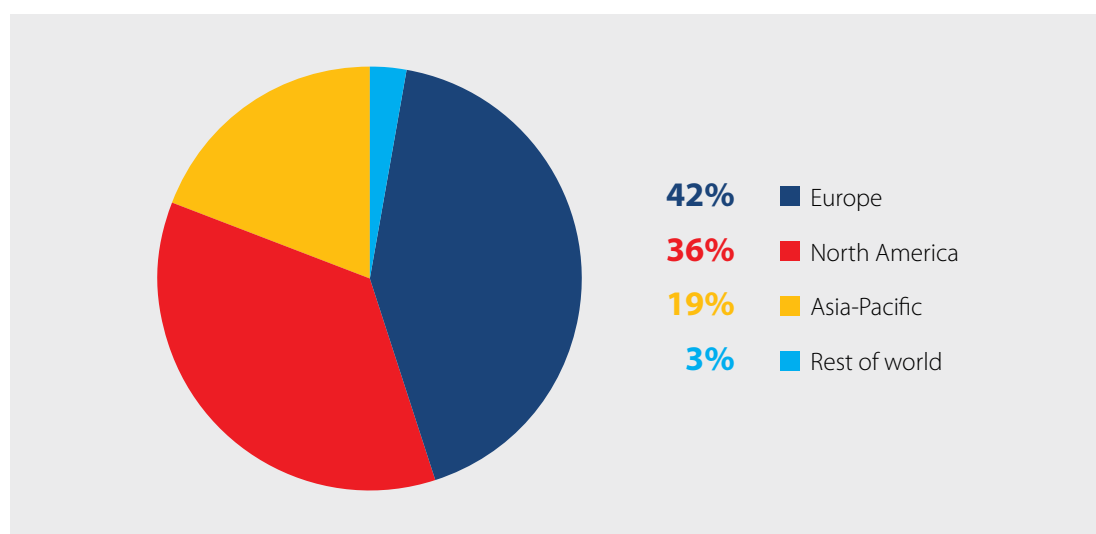
For the fourth consecutive year, Australia remains in the top 10 global destinations for foreign direct investment (FDI). Over the three years to 2014, Australia attracted a total of US\$162 billion in FDI flows, up nearly 30 per cent from US\$125 billion over the previous three years. This impressive growth has raised Australia's share of global FDI flows to 4 per cent in 2012-14 from 3.1 per cent in 2009-11. In contrast, developed economies' share of world FDI flows fell to 46 per cent in 2012-14 from 53 per cent in 2009-11. Australia's strong performance reflects our competitive position in the global economy.

With specific regard to companies creating or expanding a presence in Australia, *FDI Markets* data show that Western Europe is the main source region for such projects, followed by North America.

6. Department for Education and Training, International Student Data

https://internationaleducation.gov.au/research/International-Student-Data/Pages/InternationalStudentData2014.aspx#Pivot_Table

FDI Projects into Australia 2003-2014



Source: FDI Markets

Share of foreign direct investment into South Australia

ABS investment data by Australian state is limited, but *FDI Markets* reports that South Australia sits in fifth place behind the larger Australian states, but ahead of the NT, ACT and Tasmania. The number of projects coming to South Australia in relation to the state's overall share of the population is relatively low. Of the four states above us, only Queensland fails to attract the same or greater figure for market share than its percentage of the population, while both ACT and NT achieve this benchmark.

It is important to note that statistics compiled by *FDI Markets*, although generally recognised as the most accurate available, do not record every investment project undertaken around the world. As job and capital expenditure figures are not always given by investing companies, *FDI Markets* uses an algorithm to estimate these numbers. As a result, these statistics should only be regarded as indicative.

FDI into Australia from North America and Western Europe 2003 - 2014					
	% of Australia's population	No. of projects	% of projects	% of jobs	% of CapEx
NSW	32.4	948	42.7%	34.1%	29.3%
Victoria	24.8	554	25.0%	22.7%	17.8%
Queensland	20.2	282	12.7%	14.3%	15.8%
WA	10.3	260	11.7%	19.0%	27.1%
SA	7.4	84	3.8%	5.8%	4.5%
NT	1.0	27	1.2%	1.2%	2.8%
ACT	1.6	43	1.0%	1.5%	1.6%
Tasmania	2.3	20	0.9%	1.3%	1.1%

Source: FDI Markets (part of the FT group)

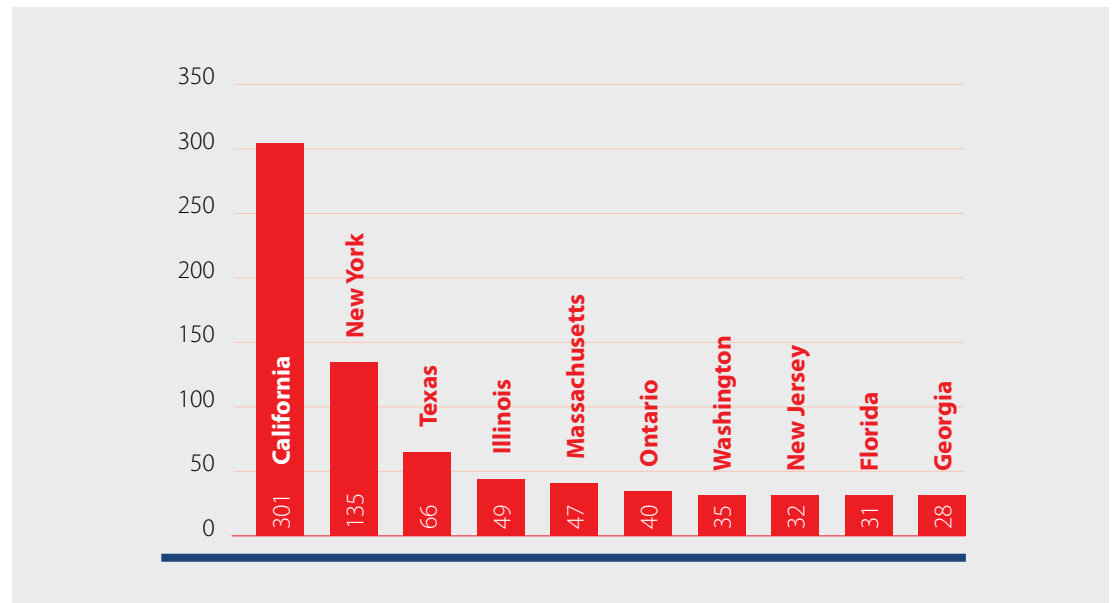


South Australia's size and geographic position present both an opportunity and a challenge when competing with other Australian states. The state has more capacity in certain sectors, such as call-centres, than our closest competitors, which means that there is less pressure on salaries and far lower rates of 'churn'. The resultant stability in the workforce, together with our lower cost base and central location, make us attractive to incoming companies. However, in developing the North Atlantic Engagement Strategy, we must consider the competitive landscape and form strategies based on evidence of best practice elsewhere.

North America – foreign direct investment

Any future investment strategy for the North American market must examine the key donor states within the region. Three quarters of all projects from North America come from just nine American states and one Canadian province.

Project numbers by donor state (Jan 2003 – Dec 2014)



Source: FDI Markets

The chart clearly shows the predominance of California as a source market within North America. The north east coast also has a strong representation in the figures, with New York, Massachusetts, New Jersey, Washington, Florida and Ontario.



Top sectors - North America

1. Software and IT services (California, Texas, Ontario and New York)
2. Communications (California)
3. Business services (California and New York)
4. Financial services (New York and Ontario)
5. Coal, oil and natural gas (Texas)
6. Industrial machinery, equipment and tools (Texas)
7. Metals (Ontario)

The consumer products, textiles, food and aerospace sectors are also well represented in the other top 10 states. Interestingly, according to the *FDI Markets* figures, the 61 projects recorded for Texas have a combined capital expenditure value of \$9.71 billion compared to the value of \$11.11 billion coming from California, which had five times the number of projects. This is due to the capital intensive nature of oil and gas related projects, which comprise most, if not all, of the investment projects coming out of Texas.

Opportunities

Both Australia and South Australia have a solid value proposition for FDI. The country's stable economic growth, strategic location, increased global trade and investment ties, and proven record of innovation all position Australia as an attractive investment destination.

Many investment projects are potentially mobile and could relocate from other states and territories given the right incentives. Based on consultation, companies often make decisions to locate in the higher populated states without considering South Australia's lower cost levels, greater staff retention and easy access to the rest of the country.

Brand awareness is also important. We must consider best practice examples from other governments and implement proven strategies in our overall approach towards investment.

For example, when the Welsh Development Agency was in its prime, it was attracting between 15 and 20 per cent of all the FDI coming into the UK, yet it represented barely 5 per cent of the population.

The South Australian Government is committed to attracting a greater portion of FDI into Australia as part of its growth strategy. We have already set up a new investment attraction agency, which streamlines existing resources and will leverage a \$15 million investment attraction fund. The new Chief Executive, who was previously employed by the Welsh Development Agency, will implement key initiatives using methods and strategies that have proven successful in Wales. This will allow us to promote South Australia's strong track record and value proposition in attracting new investment, as well as exploring reinvestment with established partners through highly professional and relevant aftercare methods.

This presents an opportunity to increase our FDI from the North Atlantic region both in new investment and re-investment.

After care will be a critical factor. Latest records show that there are just under 100 European companies represented in South Australia, with more than 200 points of presence. Statistics on the North American presence are limited, but with companies such as Lockheed Martin, General Dynamics and Raytheon present, it is likely that there will be a number of other companies we can strengthen our engagement with.

These form the basis of our inward investors and will need to be carefully managed. Discussions with senior management of FDI attraction agencies for Wales, Scotland and Ireland suggest that up to 80 per cent of their recorded FDI is through re-investment. To secure this they have developed a global network of offices to ensure proximity to their investors wherever they come from. This model may bear consideration in the consultation process for South Australia's North Atlantic Engagement Strategy.

Challenges

The size and diversity of the North Atlantic market has already been acknowledged as a significant challenge, a stark contrast to the more modest size, population and business structures in South Australia.

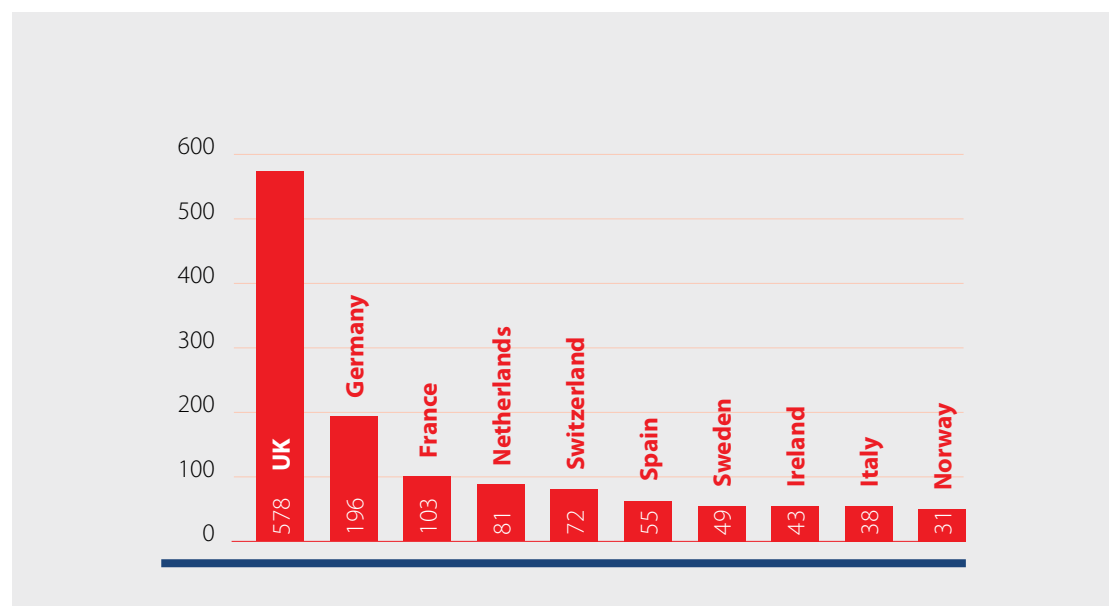
These factors create additional challenges in raising the state's profile when compared to larger jurisdictions such as NSW, which is able to leverage the strong brand awareness around Sydney as a business and travel location. Victoria also performs well. These states have resources in the market and targeted marketing campaigns.

The South Australian Government does not currently have a presence in the North America market for trade or investment attraction, and our presence in Europe is also relatively modest. During the consultation process and when developing the final strategy, we will consider appropriate mechanisms and domestic and overseas resourcing to address these issues.

Europe – foreign direct investment

The same statistics can be used to determine the top European donor countries and the sectors that have dominated the last 10 years of data.

Project numbers by donor country (Jan 2003 – Dec 2014)



Source FDI Markets

The chart clearly shows the UK's dominance in Europe, with more projects than the following six countries in the table combined. In fact, London was the source of 311 of the UK total. It is interesting to note that over this same period the whole of the Asia Pacific region produced 612 projects.

The top 10 sectors coming from Europe were exactly the same as those from North America, with the exception of the category business machines, which is supplanted by transport, but in a different order.

1. Business services
2. Software and IT services
3. Financial services
4. Textiles
5. Industrial machinery
6. Food and tobacco
7. Communications
8. Transport
9. Consumer products
10. Oil and gas

Challenges

As with North America, our key challenges are due to South Australia's low profile and resources compared to larger Australian states. However, there is a small team within the Office of the Agent General in London which is identifying opportunities and drawing in companies to visit South Australia. In a number of cases, these companies have decided to invest or expand there.

In the past 18 months, nearly 30 European companies have visited South Australia via the Office of the Agent General, and companies such as Sundrop Farms, Frazer Nash, Babcock Mobile Assets and Acorn People have set up in the state. This in-market support model bears consideration when developing the North Atlantic Engagement Strategy. Other challenges result from the diversity of the European market with its clear and distinct language and cultural differences, which are not a barrier in the North American market.

The key source markets for FDI projects in Europe are Germany, France, the UK and the Netherlands – four different languages, and diverse business practises, each requiring a sensitive approach. Other countries strong in the key sectors we are targeting, such as renewables in Denmark or communications and internet related technology in Sweden, present further challenges as well as opportunities. Determining the correct channels of communication and the messaging required will be an ongoing focus for the Office of the Agent General.



4C. Research and development

Current status

International research and development (R&D) collaboration is pivotal in promoting South Australia's capabilities and attracting investment. Attracting knowledge-intensive research centres and private companies, including small to medium enterprises (SMEs), will enhance our skills base and reputation for innovation globally.

South Australia's R&D expenditure for 2011-12 was \$2.1 billion or 6.8 per cent of the Australian total of \$31.6 billion. The state's gross expenditure on R&D (GERD) was 6.5 per cent of the total available resources in the state. While this seems relatively modest, it is more than the average of other Australian states, which was 3.5 per cent.⁷

The largest share of the GERD is represented by the private business sector, which accounted for around 49 per cent in 2011-12, much less than the Australian average of 58 per cent. At a state level, this suggests that the South Australian Government contributes significantly more than other states, although the business sector does not tend to invest in innovation (new products/processes) as much as other states.

South Australia's knowledge space is highly developed, mainly based on the three public universities, a number of private universities and non-university higher education institutions.

Together with these academic institutions, the education and research landscape of South Australia relies on a number of national and international research centres, which are important stakeholders of the regional innovation system.



7. Austrade website www.austrade.gov.au/News/Economics-at-Austrade/a-look-at-australias-inward-fdi-performance

National research centres present in South Australia include:

- 22 Australian Government Cooperative Research Centres (CRC), five headquarters and 17 nodes
- the Commonwealth Scientific and Industrial Research Centre (CSIRO), which in South Australia supports mostly agribusiness, natural resource management and manufacturing R&D
- the Defence Science and Technology Organisation (DSTO), which focuses on research in the defence sector and is linked to the state's universities in attracting defence and related ICT companies to the state.



Parallel to these major national research centres, South Australia hosts a number of other major research-intensive institutions that are engaged in international R&D activities, including:

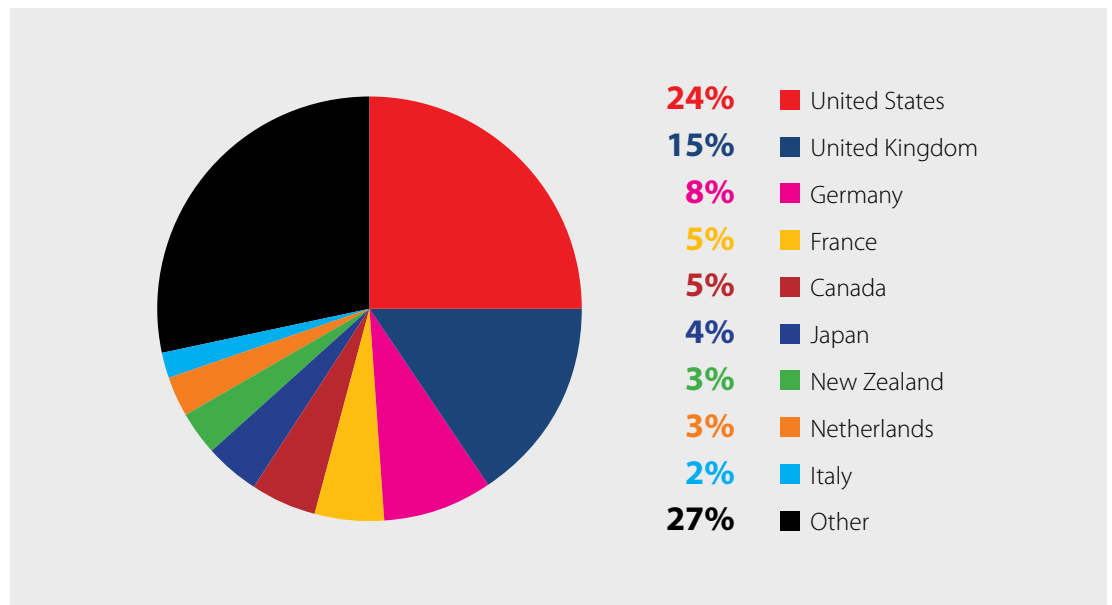
- the South Australian Health and Medical Research Institute (SAHMRI), South Australia's flagship health and research institute
- the South Australian Research and Development Institute (SARDI), the State Government's research institute specialising in agricultural, aquatic, environmental and biodiversity sciences
- Airborne Research Australia (ARA)
- the Australian Wine Research Institute (AWRI)
- internationally known and recognised Australian Centre for Plant Functional Genomics (ACPGF)
- the Australian Genome Research Facility (AGRF) NCRIS agriculture and environment node, located on the Waite campus.

Australian Government support for research and development

In recent years, the Australian gross domestic expenditure on R&D (GERD) is approximately \$32 billion per year. In 2015-16, the Australian Government, among other contributors, has budgeted \$9.7 billion in support of science, research and innovation in the country.⁸ The National Health and Medical Research Council (NHMRC) and the Australian Research Council (ARC) represent the main national organisations to fund R&D, including international collaboration through their various schemes.

The chart below provides an insight into the ARC's international R&D collaborations, which highlight the importance of Australian partnerships with the North Atlantic region – more than 70 per cent of the ARC grants have been allocated to research with European and North American states.

Australian collaboration with foreign countries on ARC grants in the time span from 2011 to 2015



Source: Australian Government ARC

Despite Australia's small population (0.9 per cent of world population), it accounts for 3 per cent of the world's knowledge. Australia's relations with the European Union and with the United States and Canada have been prosperous, with bilateral dialogues in several fields ranging from trade development to education to science and innovation. Australia's flagship contribution is per capita scientific output, making it an attractive partner for the EU and North America.

8. Australian Bureau of Statistics 8104.0 – Research and Experimental Development, Business, Australia 2012-13

As Adelaide's health and biomedical precinct on North Terrace continues to develop, it is envisaged that the United States will be an important investment and R&D partner for South Australia in this sector.⁹

State Government support for research and development

The State Government plays a lead role in innovation, particularly in matching the knowledge within our world class universities and research centres with practical applications for firms.

The Premier's Research and Industry Fund (PRIF) has an annual budget of \$6 million to finance and promote innovation so South Australia's research community can compete on a national and international scale. Since 2003-04 the PRIF has committed \$46.8 million towards 82 projects and has leveraged \$95.5 million from the Australian Government, industry partners and institutions.

Further funding opportunities available in South Australia include:

- the Entrepreneurship and Venture Capital Fund
- the STEM Awareness / Careers Program
- the Defence-STEM Scholarships Fund
- the Medical Research Commercialisation Fund
- the High Value Food Manufacturing Centre (Food Hub)

Collaboration with the United States

The United States is Australia's number one collaborator in science, representing around a quarter of Australia's international R&D collaborations, and co-authoring 5,658 joint scientific publications in 2010.¹⁰ Federal research and development funding shows that Australian and US national science programs focus on many common areas of interest – energy, resources, defence, health, climate change, materials, and the environment.

These shared strategic interests and values are underpinned by the dynamic trade and investment links between Australia and the United States. The benefits to Australian science include:

- gaining access to facilities in America
- raising the profile of Australia's research capabilities and sophistication outside the country
- increasing access to a huge potential market for our research-based products.

The United States and South Australia bilateral relations have been prolific in recent years, with 2013 marking the 30th anniversary of the sister city relationship between Adelaide and Austin, Texas. Collaboration has encompassed several diverse R&D areas. Pharmaceutical research and manufacturers in the US have invested more than half a trillion dollars in R&D since 2000, including an estimated \$48.5 billion in 2012.

9. Thomson Reuters InCites TM, 2011

10. The Australian Government 2015-16 Science, Research and Innovation Budget Tables – Minister for Industry and Science's foreword.

Adelaide-based biopharmaceutical company Bionomics is preparing to accelerate development of a new drug to treat anxiety and depression. Bionomics has received US\$10 million in funding from the US Silicon Valley Bank to develop the drug, with approval to begin a Phase 1b human clinical trial in France.

Hewlett-Packard and the University of South Australia will partner in the University of South Australia's Science Creativity and Education studio (SciCEd), which will be located in a new HP Innovation and Collaboration Centre at UniSA's City West campus. The new partnership will see HP expand its South Australian workforce by more than 400 people and will support education. The Centre will further contribute to a thriving education precinct in the west end of Adelaide, and one rich in opportunities for students to engage with industry, to innovate and to develop networks that underpin success and entrepreneurship.

South Australian company Zen Energy Solutions is involved in a joint venture initiative with US-based Greensmith Energy to develop high density energy storage systems. The technology will allow base load power to be economically generated from renewable energy for the first time. This will enable energy utilities to manage peak loads in the world's power grids as well as residential systems, allowing consumers to generate, store and use their own power at home.

Collaboration with the European Union

Collectively, the EU is a world leader in research and innovation, with:

- 24 per cent of global expenditure on research
- 32 per cent of high impact publications
- 32 per cent of patent applications
- some of the best universities in the world (25 in the top 100)
- some of the most innovative companies (a quarter of world's top 2000 R&D investors).¹¹

Since 1994, the main opportunity for Australian R&D cooperation with the EU has been through the EU Framework Programme for Research and Technological Development. The Framework Programmes for Research and Technological Development, also called Framework Programmes or abbreviated FP1 (1984-1987) through FP7 (2007-2013), with FP8 being named Horizon 2020, are funding programmes created by the European Union/European Commission to support and foster research in the European Research Area (ERA).

Horizon 2020, the EU Framework Programme for Research and Innovation, commenced in 2014 and will run to 2020. The program has a budget of nearly €80 billion (about €11.3 billion per year), which represents an increase in funding of around 27 per cent on the previous budget period and around 10 per cent of all research investment in the EU. Main thematic areas considered as priorities are:

- | | |
|--|-----------------------------|
| • agriculture and forestry | • food and healthy diet |
| • aquatic resources | • health |
| • bio-based industries | • ICT |
| • biotechnology | • key enabling technologies |
| • energy, environment and climate action | • SMEs. |

11. South Australian Government, Department of the Premier and Cabinet, Country Profile: USA



In addition to the R&D incentive projects funded by the EU Commission, there are further R&D activities in the member states. In 2010, the 27 member states in the EU jointly spent US\$267 billion on R&D, about 2 per cent of the total EU GDP.

South Australia had seven research projects funded under the FP7 between 2007-13 with a total value of approximately €50 million. €35 million of this was directly funded by the EU to all of the participating partners.

South Australian research centres involved in these projects received a total of €0.5 million from the EU and contributed a total of €1.1 million. The seven projects funded in South Australia represent 3.6 per cent of the total projects funded in Australia by the EU. Under FP7, support was provided to 190 Australian Marie Curie fellows (both incoming and outgoing), who benefited from €172 million in EU support. Australia received 81 outgoing European Marie Curie Fellows, of which South Australia received six (7.4 per cent of the total for Australia)¹².

There have been a number of bilateral projects launched between Europe and South Australia, including the Hawke EU Centre for Mobilities, Migrations and Cultural Transformations at UniSA and the EU Centre for Global Affairs at the University of Adelaide.

In 2012, Siemens and the South Australian Government signed a memorandum of understanding to investigate opportunities for collaboration between education, research and industry. Siemens is now located at the Tonsley innovation precinct, which offers significant potential for fostering collaboration between businesses and leading academic institutions.

Siemens Corporate Technology (CT) plays a key role in R&D at Siemens. It provides expertise regarding strategically important areas to ensure the company's technological future, and to acquire patent rights that safeguard the company's business operations. CT is a network to facilitate efficient collaboration between its various sites around the world and with the rest of the company. More than 2,400 employees work for CT worldwide, and it is strongly involved in Horizon 2020 scenarios. Siemens at Tonsley presents an opportunity for South Australian universities and research centres to be involved in CT's network.

12. http://eeas.europa.eu/delegations/australia/documents/eu_australia/jstcc13_final_communique_02-12-14.pdf

Collaboration with Canada

Canada is Australia's fifth strongest scientific collaboration partner. Australia and Canada co-authored 1,665 joint scientific publications in 2010. There are strong institutional, historical and cultural links between the two nations, with more than 180 formal agreements between Australian and Canadian universities. In November 2010, Australia held the opening Australia-Canada Economic Leadership Forum, which brought together business people, academics and journalists to explore new opportunities for R&D cooperation.¹³

Opportunities

Systematic engagement with the North Atlantic region will improve our relationship with countries where there is already mature cooperation, such as with the United States, Canada, the United Kingdom, Germany, France, Italy, the Netherlands and Sweden in areas of reciprocal interests, including:

- | | |
|--|--|
| <ul style="list-style-type: none">• natural resources• energy• renewable assets• agribusiness | <ul style="list-style-type: none">• health science• pharmacology• biotechnology. |
|--|--|

Developing and implementing the North Atlantic Engagement Strategy could increase South Australia's number of joint international projects in the next five years and double its existing collaboration projects and programs in the North Atlantic region by 2020.

South Australia is renowned for its innovation success, fostered by a strong research community, entrepreneurial businesses, significant creative communities, effective government, high levels of education and an ability to collaborate. These factors are supported by dependable infrastructure and existing links to national and global markets.

Attracting high tech companies is a major priority for the state as a catalyst for innovation, higher-value manufacturing and increased trade. New technologies and systems present challenges for the existing supplier base, some of which can be met through increased collaboration with R&D institutions. This will create a virtuous circle as improved methods will make these suppliers more competitive for other clients and markets. Moreover, establishing new high tech companies in South Australia will increase our business expenditure on R&D.

Supporting young entrepreneur start-ups and new companies engaged internationally through the universities may provide new sources of innovation, internationalisation and local economic development.

13. Delegation of European Union to Australia Canberra

Enhancing cooperation with leading countries in science, research and development can significantly impact on South Australia's sustainable growth and help to:

- create a vibrant innovation ecosystem in our state
- increase research output and quality
- attract tertiary students and established scientists
- provide greater opportunities to local scientists
- create an overall improvement to quality of living.

Challenges

As is the case with FDI attraction and trade development, South Australia must continue to build its profile and leverage its competitive advantages on a world scale.

The opportunities associated with attracting talent are also a challenge, but we should leverage South Australia's reputation for a safe and clean environment to live and work. An effective marketing campaign is essential to generate this message in diverse markets and tailor our approach to different cultures and sectors.

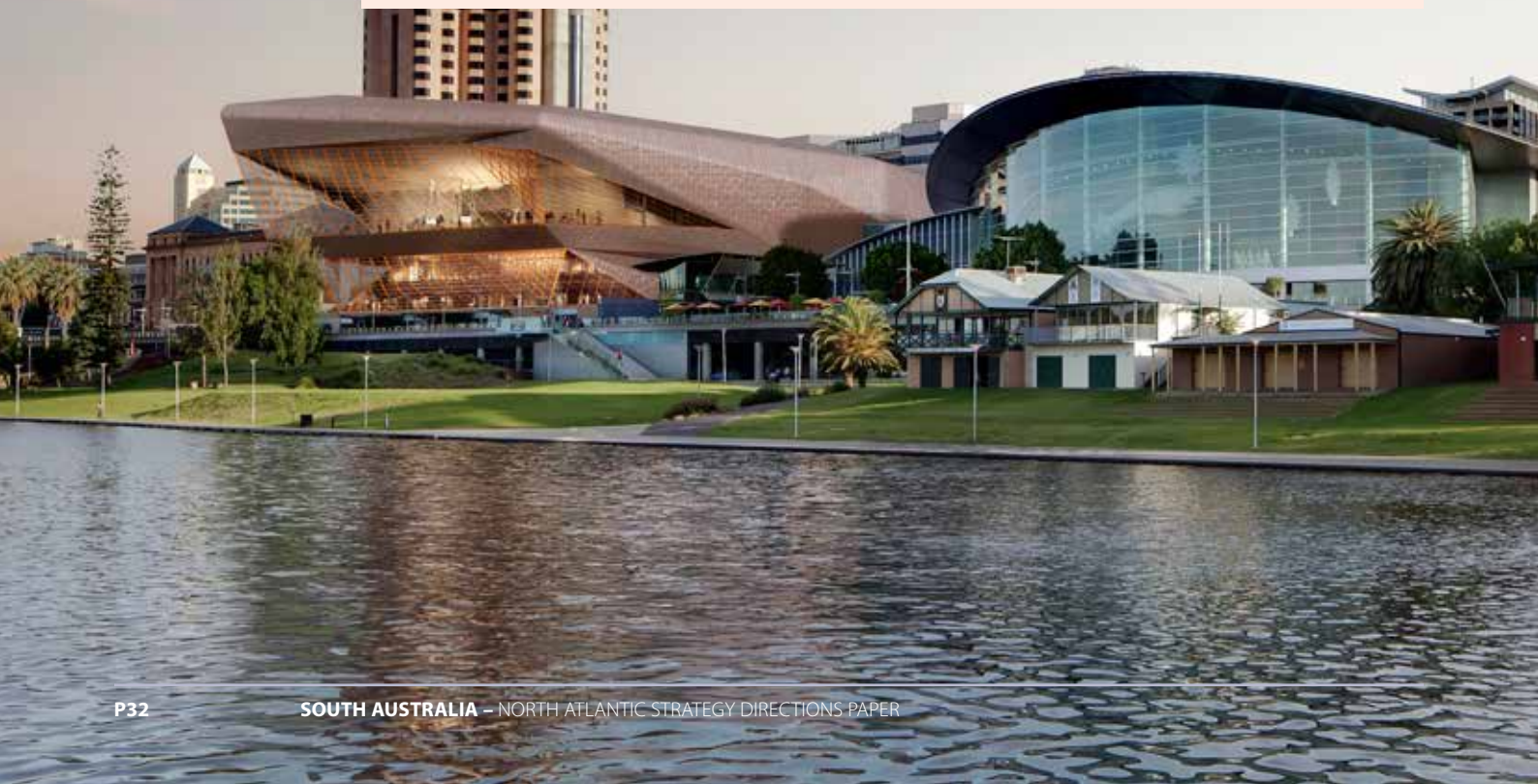


5. Where do we want to be?

South Australia is confronting the same challenges faced by other manufacturing economies. We need to adapt to rapid global economic and social changes, keep up with new technological advances and compete against emerging countries with a lower labour cost base.

The South Australian Government aims to pursue a focused and effective engagement strategy with the North Atlantic region that identifies bilateral opportunities, revisits past successes, increases collaborative efforts and strengthens our already strong economic ties.

South Australia needs to maintain and grow its business dealings with North America and the European Union while increasing our economic ties with Asian markets in order to ensure long term sustainability and reach. We also need to support businesses with products that are well suited to the North Atlantic markets. With the impacts of the GFC subsiding and the Australian dollar falling, now is the time to revitalise our engagement with our longstanding partners and reinforce that we're open for business.



6. Summary

Three strategic objectives for the North Atlantic Engagement Strategy have been identified in line with South Australia's Economic Priorities.

They are:

- 1. Attracting foreign direct investment (FDI)**
- 2. Increasing exports**
- 3. Increasing R&D activity**

The broad mechanisms that form the basis of an effective strategy for international engagement include:

- identifying or confirming key focus sectors
- identifying key focus countries within North America and the European Union to ensure a strategic approach to economic engagement
- understanding and articulating South Australia's capabilities
- promoting South Australia's capabilities
- leveraging diplomatic and business relationships
- overseas representation and resources
- South Australian-based support for businesses
- lobbying and policy making
- diplomacy.

We seek your input on how we might achieve the three objectives around trade, investment and R&D using these mechanisms.

7. Consultation process and timeframes

We strongly encourage you to make a submission outlining your views by Friday 12 February 2016 to:

Ms Esther Roberts

General Manager, Trade

E: North.Atlantic@sa.gov.au

We recommend using the list of questions on page 7 as a guide.

The Department of State Development will also hold several consultation workshops in Adelaide and regional South Australia. The time and location of these workshops is to be confirmed.

For further information visit:

www.statedevelopment.sa.gov.au/northatlantic

Once we have consolidated and analysed the contributions, the State Government will develop the strategic framework for South Australia's engagement with the North Atlantic region and identify critical initiatives to drive outcomes in the first quarter of 2016.



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