

**AUSTRALIAN AGRIBUSINESS CLUSTER FOR SOUTH EAST EUROPE
SGSDA CONSULTING - PILOT PROJECT PROPOSAL**

PROJECT DESCRIPTION

2) Project Title:

Australian Agribusiness Cluster for South East Europe

Briefly explain your project including the main activities for which the funding will be used.

Forming a Cluster

The project idea is to make a Cluster of SME's in agribusiness, with Cluster members collaborating in business activities leading to increased Australian agribusiness exports to the region of central and south east Europe.

The Hub

The project idea would be achieved through the establishment and management of a Hub, to serve as a cost-effective executive body of the Cluster.

The purpose of the Hub would be to coordinate the large number of necessary activities for the cluster; these activities would involve suitable industry organizations, financial institutions and government bodies in Australia and overseas.

The Cluster – Hub relationship

The Hub would manage the project by registering interested agribusiness SME's into the Cluster.

All activities of the cluster would be coordinated through the Hub, with the aim of achieving project outcomes.

The overriding purpose of all project outcomes would be to increase Australian exports to central and south east Europe.

Benefits of the Hub

As a cost effective and goal driven managing body, the Hub would ensure that project outcomes are achieved through Action Plans. It would also ensure that budgets are adhered to in the given time frames.

Broadly, project outcomes would be realized by instigating business activities with key players in the target market of south east Europe. The Hub would ensure that these were reputable partners who are interested in importing agribusiness goods from Australia.

An extension of this could involve starting joint ventures between Australian and south east European agribusinesses, to export to third markets.

The SGSDA Consulting partnership is a provider of information and business consulting services, with the aim of promoting the trade of goods and services between Australian and south east European business.

Our contacts with Australian government officials and industry organizations indicate that SGSDA Consulting offers a unique service in Australia; there is no other business in Australia with the same or similar business services.

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<p>Our Partnership provides consulting services to companies from Australia and south east Europe on matters of trade, investment, business and other cooperation. Established in January 2003, SGSDA Consulting is a new and unique business in Australia.</p>
<p>A major objective of SGSDA Consulting is to provide services to those Australian agribusiness entities that are interested in export, investment, trade and active partnership with the leading agribusiness players of south east Europe.</p>
<p>Our research and development activities with business and government contacts in Australia and Serbia (the central country of south east Europe and a leader in the region's agribusiness industry) present a low level of trade between Serbia and Australia.</p> <p>Over the last 10 years, there has been a downturn of trade by more than 90% between these two countries.</p> <p>For example in the calendar year 1990, exports to Serbia & Montenegro (SiM) at A\$81.4m were still on a roll, comprised primarily of wool (22%), hides and skins (12%), cotton (7%).</p> <p>On the other hand, in 2002, Australia's merchandise exports to SiM were valued at A\$3.5 million, consisting primarily of computers and medical instruments.</p>
<p>The establishment of an Australian agribusiness cluster, which we are suggesting in this application, is a specific project of SGSDA Consulting.</p>
<p>Our research shows that there are no agribusiness clusters in Australia that target export or joint venture activities with south east Europe.</p>

PART B: FULL PILOT PROJECT PROPOSAL

1. BUSINESS OPPORTUNITY:

a) Describe the objective of the project

Increased Trade

The objective is to increase Australian agribusiness exports to the region of south east Europe, by creating a Cluster of SME's whose activities are to be coordinated through a central Hub.

Official statistics on the downturn in trade between Australia and south east Europe over the past decade reveal huge potential for reversing the drastic decline and, moreover, for increasing trade to even higher levels than a decade ago.

SGSDA Consulting's research shows has shown this view to be supported by south east European businesses and government, who are keen to boost their foreign trade.

The project envisages that the Australian agribusiness Cluster would be managed through a central Hub, an operative body that would coordinate the complex project activities for the Cluster, cost-effectively.

Clusters

A secondary objective of this pilot project is to capitalize on the cost-effectiveness of business Clusters in penetrating new world markets.

SGSDA Consulting chose the *cluster* concept because it is based on collaboration, not competition, and as such strengthens alliances between Cluster members.

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Furthermore, through Clusters, Australian agribusiness SME's would benefit from improved knowledge flows and collaboration, while increasing their trade with leading agribusiness players overseas, in a cost-effective manner.

Business Clusters are also considered to have a role in fostering sustainable economic development for participant industries.

The use of a business cluster in this pilot project is intended to maximize future opportunities for Australian trade and investment with Europe.

Business Cultures

As Hub manager, SGSDA Consulting would apply its understanding of the divergent business cultures of Australia and south east Europe; successfully marrying the two in a cost-effective manner would be a major factor for the success of the project.

b) What is currently known about the business opportunity?

This business opportunity is about exploiting the potential of a market of 65 million consumers, situated in a free trade zone that exists across Croatia, Bosnia, Serbia & Montenegro, Albania, FYR Macedonia, Bulgaria, Romania and Moldova.

All of these countries of south east Europe hold privileged trade agreements with both the EU and USA. In addition, Serbia & Montenegro has a free trade agreement with Russia.

Australian agribusiness commodities have occupied an historic role in their trade with countries of south east Europe and there is continuing demand for at least some of these commodities. Therefore, these products would appear to offer a good short term and sustainable opportunity to rebuild Australian trade.

Meat and Livestock:

Currently, the countries most valuable for the meat and livestock markets are Bulgaria, Slovenia and Croatia, importing between A\$0.3m and \$0.4m each.

Prior to the collapse of the large Russian market for meat processing, there was also a good meat trade from Australia into the region, to supply the intermediary regional meat processing industry.

Recent factors in the global meat industry, such as food safety concerns arising from the "mad cow disease" (BSE) and foot and mouth disease crises that swept across the UK and Europe, have put Australia in a favourable position to supply meat and livestock to a growing number of markets.

Continued growth and demand for Australian meat and livestock products is anticipated.

Australian producers are recognized for raising stock in natural environments and for advanced farm management, breeding and processing techniques, complemented by a clean and relatively disease-free environment, for rearing livestock. Opportunities for Australian exports to the region of south east Europe include manufacturing beef and sheep meat, lamb meat, offal and tripe.

These conclusions are supported by Submission No 16 of the Department of Foreign Affairs and Trade, entitled, *Expanding Australia's Trade and Investment Relations with Central Europe*.

Wine:

The Australian wine industry faces the challenge of meeting the very specific requirements of the EU for its products, for example, specific requirement for bottling and labelling wines that are

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different to the Australian and American specifications. For Australian winemakers, these requirements increase the costs of penetrating the European market.

The countries of south east Europe themselves face challenges on their route to EU membership, being obliged to adapt their legal and economic systems to EU standards, south east European manufacturing facilities will likewise have to be adapted to the rigorous EU standards.

This presents an excellent opening for Australian wine producers to form joint ventures in the region and take advantage of the more favourable cost of labour and tax rates in south east Europe, compared to the EU. It further offers the opportunity to Australian wine producers to overcome problems related to the high Australian dollar and the lowered price of Australian wine.

Joint ventures would engage wine producers in Australia and bottling facilities in south east Europe. In this way, Australian wine producers could concentrate efforts on increasing production in Australia, also increasing regional employment in Australia. Meanwhile, their partners in south east Europe would provide cost-effective bottling facilities and distribution services into the European market.

Wool:

Central Europe has been the traditional export market for Australian wool. In the 1980's, the markets of central Europe and the Commonwealth of Independent States together bought 10-20% of Australia's total wool production.

By 2001, however, this billion dollar regional market had declined to represent only 3% of Australia's global wool exports.

Similar trends of decline apply for the market of south east Europe. For example, Australia's trade with Serbia and Montenegro the downturn has been by some 90% over the past decade.

Australian wool exports to Serbia used to be around \$16m per annum, while in 2002 Australian total merchandise exports to that country totalled \$3.5m, with wool not even being among them.

An opportunity particularly favoured by the Head of the Department of Trade, Tourism and Services in the Serbian government was to offer wool-manufacturing facilities for Australian wool producers. This large facility is well positioned on the river Danube for easy distribution of wool products to the EU and CIS. The existence of other transport infrastructure - roads, airports and railway - would enable product distribution to all other parts of Europe. Serbia & Montenegro itself has the lowest labour costs and rates of income and company tax.

c) What is the market demand for the product, technology or service?

Our research through contact with business and government officials in Serbia and Montenegro revealed huge enthusiasm for a resurgence of Australian products such as wool and meat in the south east European market.

However, in terms of business temperament, Australian culture is characterized as high on Individualism, below-average on Power Distance and well below average on Uncertainty Avoidance and on Masculinity. In contrast, the cultures of south east Europe generally score high on Power Distance, Uncertainty Avoidance and are Collectivistic in nature. These differences lead to misunderstandings between negotiating parties and an inability to define common ground.

SGSDA Consulting offers its unique ability to understand and marry the divergent business cultures of Australia and south east Europe, in managing the proposed Cluster Hub. SGSDA Consulting's skills would help Australian agribusinesses to bridge gaps with key players in south east Europe. A central hub is invaluable in such a complex undertaking.

d) What are the expected commercial outcomes?

The commercial outcome of the proposed project would be an increase in Australian agribusiness exports, initially to the region of south east Europe but, through follow-on outcomes, also to central Europe.

Based on our in-market research and correspondence with agents in the region of south east Europe, we estimate a huge return on investment, considering the low level of Australia's export to the region over the past decade.

To illustrate, we are submitting graphs prepared by the Department of Foreign Affairs and Trade, showing Australia's trade with countries of the region during 2003 calendar year.

Considering that, a decade ago, Australia's trade used to be at a much higher level and that the decrease in trade was caused by the transition from socialist to free-trade economies in the countries of the region, our research indicates that it is possible to reverse trade levels to those of a decade ago, if not more.

The pilot project itself would make a return relevant to the level of economic strength, production facilities of agribusinesses involved in the Cluster and the investments that they made. The markets of south east Europe have a huge demand for quality agribusiness goods such as wool, livestock, meat, wine and other.

Our predictions are that the target markets could absorb as much as \$200 million worth of agribusiness products from Australia and more.

Costs for running the project itself are as per the budget submitted. Project participants would bear the costs necessary for goods production, transport to designated markets and all relevant incidentals.

Project participants would need support from relevant government and financial institutions. SGSDA Consulting has already established contact with relevant financial institutions, such as HSBC Bank Australia Ltd and The World Bank. SGSDA also has good cooperation with Austrade's representatives in the region whose support is indispensable for this pilot program.

This application hopes to provide another support mechanism, which would reduce costs for agribusinesses interested in exporting to south east Europe.

e) What will be the market impact (expected sales, market share) of the new product, technology or service over the medium term (3-5 years)?

In the medium term, this new service for agribusinesses would open up further opportunities for other Australian businesses interested in penetrating European markets. We estimate that this pilot project would benefit all parties, not just SGSDA Consulting.

SGSDA Consulting would have an opportunity to become the Hub for all Australian businesses interested in penetrating the markets of Europe and CIS through joint ventures with businesses from south east Europe.

Another impact that this project would make in the future is that businesses from south east Europe would become interested in investment in the Australian market. This would put SGSDA Consulting in a position to become a part of Australia's entry point for investors from south east Europe.

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In this case, SGSDA Consulting would play a role at the meeting point of Australian and south east European business communities in the future.

We estimate that over the medium term, SGSDA Consulting could facilitate sales of \$200 million and achieve 20% of market share in south east Europe on behalf of Australian agribusinesses.

Considering that currently SGSDA Consulting is the only business entity in Australia with the mission of connecting businesses from Australia and south east Europe, it is hard to estimate what SGSDA Consulting's market share for this market segment would be in Australia.

2. RISKS INHERENT IN PROPOSAL:

Outline the inherent risks associated with the project, i.e. an assessment of competitive threats

The current transition in the region of south east Europe brings risks associated with relative political instability as well as higher levels of corruption and crime, which could potentially influence international trade projects. Recognizing that organized crime in south east Europe impacts on Australian crime issues, Australian Federal Police now have an office in Belgrade.

Governments from outside the region, working with international institutions such as the EBRD, IFC, EIB, FIAS and MIGA, are considering how best to mobilize private financing and mitigate risk, as reforms in the region go forward and conditions for investment improve.

Local governments, supported by specific programs of international organizations such as US AID, are cooperating across the region to mitigate risks and insure foreign investments and international trade projects in the region.

This positive cooperation, however, presents competitive risks for Australia and other non-EU and non-US countries. Because the governments of south east Europe are collaborating closely with those of the US and EU, there is pressure to favour US and EU businesses over those from, say, Australia.

Some governments, such as the Japanese government, have implemented strategies to overcome these competitive threats. For example, the government of Japan has donated to the city of Belgrade (Serbia) 150 new buses; this goodwill gesture has opened doors for Japanese businesses that want to penetrate the SEE market.

Companies from Europe and the US are also buying their presence into the south east European market, without currently making a profit. One method they use is by participating in the privatisation processes occurring across the south east European region; another approach is by opening shopping centre chains that sell EU goods (including agricultural products).

Therefore, Australian businesses in south east Europe must take care that they do not inadvertently target foreign competitors when seeking alliances, but ensure they establish trade ties with *local* south east European businesses.

This is an area where SGSDA Consulting's familiarity with business in the region would be invaluable.

Targeting local south east European businesses is particularly important as Australia's policies on agriculture in the WTO differ widely to those of the EU.

3. EXPECTED OUTCOMES AND BENEFITS:

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a) Other than sales, what other outcomes and benefits are expected from the project such as:

- **Strategic and competitive positioning of businesses involved in the venture**

This pilot project is intended to lay the groundwork for future bigger projects that will increase Australia's export and trade with Europe.

By initiating business relations with south east European agribusinesses now, Australian agribusinesses will develop new business networks and the basis for future business and trade links between Australia and south east Europe. This will promote an increase in Australian trade with this region, generally.

Once some business relations had been established, SGSDA Consulting would also endeavour to organize a business exchange program to enable employees of Australian and south east European participants to learn about and gain experience of each other's business cultures.

- **Contribution to regional employment opportunities, and social and environmental sustainability?**

Contribution through Employment Opportunities:

An increase in export of agricultural goods to Europe will generate more income for Australian agribusinesses, which will lead to an increase in investments, production and employment.

Joint ventures with businesses of south east Europe would decrease intermediary costs and would allow agribusiness owners / managers to focus on increasing production, leading to more employment opportunities in Australia. Moreover, these job opportunities would be in regional Australia.

Social sustainability:

Advancing the development of Australian agribusiness would have positive effects on south east Europe as it emerges through the transition into the EU. Joint ventures and increased trade would raise levels of awareness of modern agribusiness management practices, help decrease unemployment and consequently help fight its side-effects such as crime, particularly in people-smuggling and illicit drug trade, the repercussions of which affect Australia as well.

Environmental Sustainability:

In addition to promoting modern agribusiness management practices in former eastern block countries, Australian businesses could also offer valuable knowledge in responsible environmental management.

In Australia, an increase in local agricultural production would help generate income for our regional communities to investing into local environmental projects.

b) Describe how the proposed project will advance understanding of best practice in new industry development and provide demonstration value for other Australian businesses.

The existence of Clusters in Australia is recent. The project of agribusiness clusters would contribute to improvement of Cluster policy in Australia, which is currently in its infancy.

