

CHAPTER 6

OPPORTUNITIES FOR AUSTRALIAN TRADE

Friends, India remains perhaps the world's pre-eminent development frontier. That is the simplest reason why India should be on the world's radar screen and as your destination for trade and investment.¹

6.1 India is without doubt one of the world's pre-eminent development frontiers and the Committee is keen to bring to the attention of Australian business the advantages and opportunities of doing business in India.

6.2 During the course of the Inquiry there was a range of business and investment opportunities which were brought to the Committee's attention. In examining opportunities for Australian trade and investment the Committee's breadth of coverage is by no means exhaustive. The opportunities for Australian participation in India stem from it being a 'giant' emerging market, resource rich, in need of technology and having woeful infrastructure. The Committee has focused not only on those opportunities which are already producing a return but on areas that are being 'pioneered' such as health and cultural exports.

6.3 At the 5th Australia-India Joint Ministerial Commission held in September last year, the then Indian Minister for Commerce, Dr Ramaiah said:

... there was considerable scope to strengthen commercial ties through improving market access, examining possibilities of joint ventures and increasing direct investment. He cited food processing, information technology, software, pharmaceuticals and the wool industry as examples where opportunities might open up for further joint venture projects. [He] also noted that India's high grow [sic] path and its economic reform process offered tremendous prospects for Australian investment, particularly in India's infrastructure and mining sectors.²

6.4 Coal is Australia's major export item to India, with exports growing rapidly over recent years. Wool is Australia's second largest export commodity and together coal and wool account for 66 percent of Australia's total exports to India. Other exports such as grains and pulses, dairy products and processed foods occupy much smaller niche markets.

6.5 Austrade has identified trade and investment opportunities in a range of areas, including:

- infrastructure including power, roads, telecommunications and ports;

1 Excerpt from the speech of Mr P. Chidambaram, the then Finance Minister, Government of India, at the *Seminar on India* organised by the World Bank, 20 September 1997.

2 Joint Press Release, *5th Australia-India Joint Ministerial Commission: 2-3 September*, 3 September 1997, Canberra.

- food production - India is the world's biggest food factory and there are opportunities along the food chain at the input, farming, processing, distribution and retailing stages;
- manufacturing where Australian technology and scale offer comparative advantages - a good example is the automotive sector;
- resource development including mining, and geological prospective;
- building materials;
- recreation; and
- services.³

6.6 The Indian market provides Australian business with the opportunity to get in on the ground floor. Although the Indian market is developing in response to increasing consumer demand, the requirements are still off a low base which gives Australian companies niche opportunities to enter the market. Australian firms have small-run capacity and are able to produce product efficiently and competitively whereas large US and European firms, in focusing on larger runs which are more economical for them, may often overlook the smaller needs of the Indian market.

Areas of Export Potential

Wheat

6.7 The importance of the Australian Wheat Board (AWB) as one of Australia's largest exporters cannot be underestimated. It provides funds to the rural sector with exports generating A\$3 billion on average to the Australian economy. Nearly 80 percent of total wheat production is exported. Although Australia is a relatively small player producing only around 3 percent of total world wheat production, Australia's strong export focus makes it the fourth largest exporter of wheat, contributing approximately 12 percent to total world wheat trade per annum.⁴

6.8 India is relatively self sufficient in wheat production and India's demand for wheat is generally at times of shortfall in domestic supply or to stabilise upward swings in consumer wheat prices. The importation of wheat is controlled directly by the Indian Government through the Food Corporation of India (FCI) which has a monopoly in the cereal trade. Most of the wheat goes into the public distribution system to which basically all Indian families have access.

6.9 The AWB points out that wheat consumption is historically part of the Indian diet, however the consumption of wheat and wheat based products has become increasingly popular over the last two decades as a result of urbanisation, higher female participation rates in the workforce and rising consumer income levels. The major factors which influence India's wheat consumption are:

3 Exhibit No. 44.

4 AWB Submission, p. S 650.

- the GOI's wheat import policy;
- price differentials between the world price and domestic price;
- absolute domestic price; and
- size of the domestic crop which is largely dependent on the weather.

6.10 Australia's position in the Indian market is strong with the white wheat that Australia produces being the preferred type for government distribution as it has excellent 'chapatti' (traditional Indian flat bread) making characteristics.

6.11 In the 1996-97 marketing year (October to September) Australia forward sold in excess of 2 million tonnes of wheat to India which represented around 90 percent of India's imports, with the AWB shipping over 2.4 million tonnes of wheat to India over the past 14 months. Early March 1998 saw the finalisation of the sale of 1.5 million tonnes of Australian wheat to India. This sale will represent some \$310 million to grain growers and significantly more to the Australian economy and, as the AWB notes, it follows a successful year of trading with India.⁵ These sales have established the AWB as the preferred supplier of wheat for India's State Trading Corporation (STC). Key factors which the AWB says has influenced its sales volumes to India have been:

- a reduced domestic crop in India;
- an established business relationship between the AWB and STC; and
- Australian wheat being of the right quality to meet India's requirements.⁶

6.12 Prospects for future imports of Australian wheat according to the AWB will depend on three factors:

- India's ability to produce sufficient wheat for its growing population and diversifying consumer preferences;
- India's policy on the purchase of buffer stocks, and therefore the available supply of domestic wheat; and
- The ability of the AWB to market Australian wheat competitively in the light of the US Export Enhancement Program (EEP), or alternatively, the extent that GATT/WTO policies are implemented and reforms are realised.⁷

6.13 In analysing the situation the AWB comments that:

In the short term the current system of importing only the domestic shortfall is likely to continue.⁸ In the medium term, however, the variables outlined above [the preceding paragraph] will be the principal determinants of import requirements, and are expected to lead to significant changes in Indian international trade. On the supply side there is concern within India about the ability of the nation's infrastructure to withstand large scale food transfer within the

5 AWB Submission, p. S 1076.

6 *ibid.* p. S 1077.

7 *ibid.* p. S 659.

8 Substantial wheat exports to India in 1992-93 & 1996-97 have been offset by zero exports in 1993-94 & 1995-96.

country. If this concern is justified then it could be more economical for food-grains to be imported directly to the ports as required then[sic] to transport it across the nation.⁹

6.14 The AWB told the Committee that although Australia presently holds a competitive advantage over its two large competitors, the United States and Canada, both on the geographical front and the Indian preference for white grained wheats (the bulk of Canadian and United States production is red grained wheats), the issues of export subsidies from countries like the United States (the EEP has been in abeyance since 1995) and generous credit packages offers that are available from the US and Canada are serious competitive threats. Once export subsidies are in place Australia will find it very difficult to compete. Furthermore the credit package offers that are available especially from the US and Canada have tended to be on much more favourable terms than the credit that is available to the AWB through Australian Government channels.¹⁰

6.15 On the issue of export subsidies and crowding out Australian grain exports the AWB point out that US policies, principally the EEP, have a significant influence on the world grain markets as well as on domestic grain producers, marketeers and consumers for whom the policies are primarily designed.

6.16 AWB maintains that Australian opposition to the US EEP arises chiefly from the fact that EEP is an export subsidy which directly lowers export prices in targeted markets, whilst at the same time exerting downward pressure on export prices in non-targeted markets. The presence of EEP has resulted in the creation of a two tier price system - one determined by international market forces, the other lower tier determined by the size of EEP subsidies to US grain exports. AWB argues that the competitiveness of international wheat markets effectively means that subsidised price levels are a 'major factor' in all international price negotiations. Accordingly, Australian wheat exports to South West Asia markets have been significantly affected by EEP subsidised exports, as demonstrated, in part, by the increase in Australia's share of South West Asia wheat imports following temporary suspension of EEP funding in 1995-96.¹¹

6.17 Despite pessimism about the possible resumed use of EEP, AWB contends that prospects for progressive liberalisation of the international grains markets are becoming more realistic, citing:

- the inclusion, albeit in limited terms, of agriculture in international trade rules (resulting in a more liberalised trading environment);
- multilateral disciplines on the use of grain export subsidies;
- evidence of the capacity of the international wheat market to respond through production increases to high prices and shortages in domestic markets.¹²

6.18 Through the establishment and monitoring of bilateral and regional trading arrangements the AWB points out that the Australian Government has an important role to

9 ibid.

10 AWB Transcript, p. 167.

11 AWB Submission, pp. S 670-672.

12 ibid. p. S 672.

play in facilitating Australian grain exports. The AWB notes that, in a climate of relatively low tariff protection for agricultural goods, bilateral trade agreements can be and are an important tool for minimising trade disruptions by limiting tariff relativities and for developing agreed standards on technical matters such as phytosanitary and quarantine regulations. AWB notes that the latter is an area of particular importance to agricultural trade, and potentially can be used to maintain significant non-tariff barriers to trade.

6.19 Similarly, AWB argues that the Government has a crucial role to play in ensuring that Australia is engaged, to the greatest extent possible, in regional arrangements which provide preferential access to markets. Given the competitiveness of international grains markets, lack of preferential access to regional markets obviously has the potential to significantly affect the ability of AWB to maximise Australian wheat exports.¹³

6.20 **Recommendation 23**

The Committee recommends that:

The Australian Government ensure that Australia is engaged to the greatest possible extent in regional arrangements which provide preferential access to markets.

6.21 Despite India's changeable grain importer/exporter status, the AWB expects that the Indian market will increase. With the general increase in population the demand for wheat and flour based products will increase which lends itself to Australian produced products. It is not expected that India will continue to increase its wheat production to match this demand. However US wheat interests are currently very active in India, as they too anticipate India emerging as a major importer in the future.

6.22 The BJP-led Coalition Government has no plans to review the Australian wheat import deal, which was signed by the previous government, in the face of objections including one from the US which it is reported has charged India with resorting to double standards in finalising the deal.¹⁴

Pulses

6.23 India is the largest producer and consumer of pulses in the world with total production ranging between 11 to 14 million tonnes per annum. More than a dozen varieties of pulse crops are grown in India. Pulses have traditionally constituted a significant part of the predominantly vegetarian Indian diet and provide a large part of the protein component, however their overall per capita consumption has been steadily declining as local production has failed to keep pace with population growth. Pulse production is very seasonal and India has been concentrating on supporting farmers to grow wheat and the broader cereals at the expense of pulses. The Indian Government is quite concerned that the population is not getting its protein requirements. Due to the shortfall in local production and the increasing

13 *ibid.* p. S 673.

14 *AAP*, sourced from *Asia Pulse*, New Delhi, 30 April 1998, 'Former Indian PM defends decision on wheat import deal', 1 May 1998.

consumer demand - up some 43 percent from 1992-95 - India is a regular importer of pulses with Austrade estimating future import demand at around 3 million tonnes per annum.¹⁵

6.24 Australia is a major producer and exporter of a wide range of pulses for human consumption. Major Australian pulse products include field peas and desi chick peas (exported to India in quantity), as well as lentils, faba beans and mung beans. Production is anticipated to double over the next decade to an annual total of 4 million tonnes, the bulk of which will be available for export. Australia's exports of pulses to India totalled 129 000 tonnes, valued at A\$46 million, 1993-94 representing about 20 percent of India's total pulse imports. Due to drought conditions in Australia in 1994-95, Australia's pulse exports to India declined to 91 000 tonnes valued at A\$34 million. In 1996 Australian pulse exports to India were valued at A\$49 million.

6.25 According to Austrade there are now few restrictions on the import of pulses into India. Imports are allowed under OGL - that is, no import license is required. In 1995 the Indian Government introduced further policy changes to facilitate greater importation of pulses, including a reduction in import duty from 10 percent to 5 percent and the lifting of restrictions imposed by the Storage Control Order. It is felt that Indian Government policy on the import of pulses is likely to remain liberal in view of rising prices and persisting short supply.

6.26 Pulse Australia, the peak industry body for the grain legume pulse industry has identified two key constraints to the current trade:

- domestic subsidies for Indian producers; and
- current limited bulk port facilities.¹⁶

6.27 Mr Alan Hunter, Chairman of Pulse Australia, described to the Committee the poor port handling facilities.¹⁷ He also told the Committee that 'We have to move our product out of the commodity markets and put it into higher value markets...'.¹⁸ and the important Indian market has the potential for a large increase in the sales of branded and packaged pulse product.

6.28 According to the Department of Primary Industry and Energy (DPIE), it is in this differentiated market that :

...Australia is best able to compete, and Pulse Australia believes the Indian market for branded, packaged product could rise from 30 000 tonnes per annum in the short term to around 300 000 tonnes per annum in the medium to long term.¹⁹

6.29 Not only in India but in other South Asian countries, pulses are the basic source of protein for the population and with this in mind Pulse Australia suggests that pulses should be used more in international food aid programs, especially in India, Sri Lanka, Pakistan and

15 Austrade Submission, p. S 384.

16 DPIE Submission, p. S 872.

17 Pulse Australia Transcript, p. 29.

18 *ibid.* p. 28 and see p. 24 for the reasons behind this move.

19 DPIE Submission, *op. cit.*

Bangladesh.²⁰ Pulse Australia believes that a joint effort is required to convince relevant international authorities of the value of pulses in this context.

6.30 **Recommendation 24**

The Committee recommends that:

The Australian Government assist in bringing to the attention of international food aid authorities the nutritional value of pulses and the importance of including pulses in food aid programs especially to South Asia.

Wool

6.31 Australia has a substantial wool export trade to India valued at A\$174.1 million in 1997, around 10.3 percent of our total exports to India. The International Wool Secretariat (IWS), in its *India 2005* report (October 1995), forecast strong growth in the Indian wool textiles industry, with mill consumption of apparel wool forecast to rise from 24 million kg in 1995 to 55 million kg in 2005. The opportunities this growth presents to the Australian wool industry are not only in terms of increased exports (to augment short falls in India's domestic wool production), but also in terms of assisting with the modernisation of India's wool textile industry.

6.32 India has a strong tradition of wool use and with the growing middle class, domestic consumption is expected to continue to increase. India's competitive manufacturing sector also provides a strong base for the re-export market. Only 10 percent of the wool produced in India is suitable for apparel production, with this sector almost entirely dependent on imports, largely from Australia which has 85 percent of the market.²¹

6.33 DPIE notes that the Indian wool textile industry has major expansion plans based on both increased domestic and export demand. Moreover increasing investment in new machinery, at all stages of the pipeline, makes India one of the world's most rapidly expanding apparel wool textile industries.²² The investment by some of the new players coming into India in very modern plants goes some way towards the Indian wool textile industry being able to produce consistently items that are acceptable on the world markets.

6.34 In assessing wool market liberalisation in India, DPIE points to a number of constraints to current trade, including:

- the highest import duties and associated taxes on apparel wool imports of any significant wool processing country in the world;
- a lack of foreign investment and therefore a lack of technology transfer to assist in the planned expansion process;

20 *ibid.*

21 *ibid.* pp. S 865-866.

22 *ibid.*

- a reluctance to date by the international wool trade to enter into joint venture arrangements with Indian firms in the wool textile sector;
- a general lack of technical and marketing knowledge to enable India to compete more successfully in world textile markets, including the failure of the early stage processing sector to meet consistently the quality requirements of the export market, and domestic spinners; and
- a lack of trained educators to provide the training to ensure a supply of staff with technical and managerial skills required to sustain a major industry expansion.²³

6.35 However, DFAT cautions that Australia's ability to capitalise on growth in India's wool consumption will be dependent on further reductions to the high tariff rates on raw wool and wool tops. The Australian Government has encouraged the GOI to reduce the differential tariff on imported Australian fine wool to at least the level of imported coarse wool (10 percent plus 2 percent). As a result, the 1997-98 Indian budget provided Australian wool interests with some reduction. Tariff rates for Australian raw wool and wool tops now stand at 20 percent and 40 percent respectively (down from 25 and 50 percent in 1995-96), however there is a 2 percent surcharge on top of both duties. Import duties do not apply to wool which is imported for processing and then re-exported. Australia will be hoping that the 1998-99 Indian budget will bring further reductions in the tariff rates on apparel wool.

6.36 The IWS is actively engaged in the marketing and promotion of Australian wool and wool products in India, and maintain a presence on the subcontinent through their New Delhi based office. The IWS is placing a priority on India as it has the capability to convert Australia's fine wool into fine fabrics. Moreover India is employing new technology - state-of-the-art - which gives the IWS the confidence to target India to develop fine textile wool products. Unfortunately Australia does not have a lot of companies which are in a position to invest in India to take advantage of the re-export opportunities through India. As the IWS pointed out, Australia has very few wool textile manufacturing companies left.²⁴

6.37 The IWS is providing assistance to the Indian wool textiles industry and has increased its support for technical assistance, market development and consumer promotion and an education and training aid project to provide India with the capacity to meet its wool industry training needs.²⁵

Dairy

6.38 Australia's attempts at developing a dairy export market to India have been inhibited by the restrictive import licensing practices of the Indian Government and by the import monopoly status of the Indian National Dairy Development Board for certain products such as butter.²⁶ In 1995-96 only 84 tonnes of Australian dairy product, which included cheese, yoghurt and some sour cream, butter and desserts, were exported to India.

23 *ibid.* pp. S 866-867.

24 IWS Transcript, p. 160.

25 *ibid.*

26 DPIE Transcript, p. 372.

6.39 India is the world's second largest producer of milk but there are problems in that the industry is seasonal and 52 percent of production is buffalo milk.²⁷ DPIE notes that there has been a significant increase in private sector companies in India targeting the affluent Indian middle class, with the majority of firms focusing on the processing and marketing of liquid milk.²⁸ Moreover some of the larger firms are diversifying into the production of ice cream, cheese, yoghurt and other value added dairy products with technical assistance often being provided by international companies.

6.40 As part of the *New Horizons* promotion, the Tasmanian Government sent a delegation to India which identified the following agricultural areas for involvement with India:

- soil and fodder improvement and breeding;
- herd improvement;
- milking machines;
- collection and handling and transport and packaging;
- joint venture processing new products like Long Life Milk and ways to increase shelf life;
- vocational training in practical farming methods; and
- quality assurance. Testing of milk for chemicals etc which will become more important for Indians if they downstream for export.²⁹

6.41 India does export dairy products including skim milk powder, unsweetened whole milk powder and infant milk food. Its 1996-97 export quota limit was 22 000 tonnes. However butter and ghee exports are limited to 2 000 tonnes and exports of milk powders are constrained by uncompetitive Indian prices. The markets for these products are mainly the Middle East and South Asia.

6.42 Both the Tasmanian Government and DPIE believe there is significant potential for Australia to export a number of dairy products and related services to India. DPIE provided the Committee with market growth indicators - butter is estimated at 6-8 percent per annum and growth in the cheese market is expected to be 10-15 percent with the butter and cheese markets worth A\$150 and A\$40 million respectively. Demand for cheese is expected to grow substantially by the year 2000 and as the Tasmanian Government points out there is a rapid uptake in fast food outlets which require cheeses.

6.43 The bilateral agreement which Australia and India negotiated last year on the phase-out of quantitative restrictions included grated cheese and a range of dairy products on the priority list which will give unrestricted access to the Indian market by March 2000.

27 Tasmania Government Submission, p. S 604.

28 DPIE Submission, p. S 874.

29 Tasmania Government Submission, op. cit.

6.44 Austrade informed the Committee last year that the Australian Dairy Corporation had commissioned a major study, and the opportunities in India once the cold chain is in place are enormous. The development of supermarkets in India is just starting and will have a strong pull-through effect for a range of Australian products including dairy.³⁰

Horticulture

6.45 India has been identified as a market of interest for Australian horticultural products by the Australian Horticultural Corporation because of its large population and rapidly growing economy. According to DPIE, the Corporation, in consultation with State Departments of Agriculture, the Australian Horticultural Exporters Association and industry bodies, has established table grapes, pears, apples, stonefruit, citrus and mangoes as priorities for the Indian market.³¹

6.46 Australia does not export fresh horticultural products to India due to restrictions (including licensing requirements) imposed by the Indian Government on the import of consumer products which includes most fruit and vegetables, cut flowers and nursery plants. The rate of duty for most fruit and vegetables is 52 percent.³² The movement of 340 items to the OGL list under the recently revised Exim Policy included pears, which has significance for the Australian horticulture industry.

6.47 Most of Australia's trade in horticultural products with India are dried fruits which are exempt from India's trade restrictions. Dried fruit imports attract a 52 percent tariff with the exception of raisins (including sultanas) which are subject to a 132 percent tariff.³³ The Australian Government has requested that the Indian Government examine a reduction in tariffs.

6.48 The value of Australian horticulture food exports to India has risen over 900 percent in the period 1991-92 to 1996-97 from A\$12 million to A\$112 million.

6.49 With the bilateral agreement negotiated with India last year through the WTO, horticultural products are on the list of priority items to be free of quantitative restrictions by the year 2000.

Coal

6.50 Coal is Australia's major export item to India with a rapid expansion in exports since the 1994-95 Indian Budget decision to reduce tariff rates. In 1997 Australian coal exports to India were valued at A\$687 million with India being the fourth most important destination. Most of the coal is coking coal.

6.51 India is a major producer of coal but is still a net importer due to the low quality of its own domestic coal. Australia's high quality, hard coking coal is used for steel making

30 Austrade Transcript, p. 257.

31 DPIE Submission, p. S 873.

32 *ibid.* p. S 872.

33 *ibid.*

and this high quality along with geographic advantage gives Australia a competitive edge against its competitors, the United States and Canada, to supply coal.

6.52 Coal consumption in India is growing rapidly not only for steel production but also for power generation. Power generation is one of the priority areas targeted by the Indian Government in addressing structural deficiencies and there is a thermal coal production shortfall which has impacted on electricity and cement production especially in the western and southern parts of the country. These areas are remote from coal mining districts and are dependent on inadequate rail, port and coastal shipping systems.

6.53 In February 1997 the Government announced a comprehensive new coal policy that enables the private sector (Indian companies only) to mine, distribute and sell coal, allows foreign participation in coal mining and progressively deregulates thermal coal prices. Further coal tariff reductions were announced in the 1997-98 Budget with coking coal tariffs falling to 3 percent and thermal coal tariffs dropping to 10 percent.³⁴

6.54 The high ash levels found in Indian thermal coals create considerable problems for the power generation industry. The high ash levels increase transport volumes which increase costs, result in high operating and maintenance costs for power stations and magnify ash disposal problems.³⁵ There is considerable interest in India in washing thermal coals to reduce the ash content. The Piparwar coal mine project in Bihar State, designed, financed, constructed, trained and handed over by White Industries, includes a wash where the coal is washed from 42 percent ash (dirt) to 35 percent - the wash facility has increased the selling price of coal for Coal India from 200 rupees a tonne for unwashed coal to 790 rupees a tonne for washed coal.³⁶

6.55 DPIE points to the potential that has been created by the policy changes for Australian industry to take up opportunities, particularly in the areas of coal supply, and the provision of coal related mining equipment, and engineering, management and training services. Furthermore the potential for selling thermal coal to existing power stations could be increased:

... if there was more information available on performance of blends and if there was greater awareness in India of the financial and environmental benefits that could result from blending imported with domestic coals.³⁷

6.56 DPIE has commissioned a study of the technical and economic aspects of blending Australian and Indian coal. The aim of the study is to collect information that can be used in India to emphasise the advantages of blending to improve power station efficiencies, meet environmental targets and reduce power station operating and maintenance costs.

6.57 A major impediment to expanding coal imports is India's port infrastructure. DPIE has commissioned a study of India's port infrastructure to evaluate future coal demand

34 *ibid.* p. S 863.

35 *ibid.* p. S 862.

36 White Industries Transcript, p. 636.

37 DPIE Submission, p. S 864.

in India's coastal states, examine the weaknesses in India's ports impeding coal imports, and identify prospective sites for a port development project.

Petroleum

6.58 The Indian power market is huge and although it is reliant on coal at the present time the Indian Government is looking to use liquefied natural gas (LNG) in a fairly substantial way in the future to fuel the energy needs of India. The Indian petroleum market offers enormous potential for Australia especially in the supply of LNG and condensate. The former Indian High Commissioner to Australia, HE Mr Parthasarathy, told the Committee that India has 'indicated that, given our energy needs, we would be very happy to enter into long-term arrangements for the purchase of liquefied natural gas of which you [Australia] are now getting large sources off the coast of Western Australia and the Northern Territory'.³⁸

6.59 BHP Petroleum, which opened an office in New Delhi in 1987 and has been involved in offshore exploration work in India, told the Committee it 'seeks to be a major importer of hydrocarbons - liquid fuels, followed by LNG and/or pipeline gas into India'.³⁹ There is an existing shortfall in India today for gas and as India's requirements for gas increase, Australia, with its large gas reserves and technical capacity, is well placed to capture part of the multi-million dollar market.

6.60 Facilitating Australian access to the Indian petroleum and natural gas sector has been made a priority under the Government's Market Development Task Force. With India looking at moving away from coal to natural gas to fuel its energy needs, Australia will face a reduction in coal exports to India and needs to position itself for India's move to natural gas. The Government, as part of its strategy under the MDTF, has a role to play in Australia positioning itself in the Indian natural gas market.

6.61 **Recommendation 25**

The Committee recommends that:

The Australian Government, in cooperation with the Indian Government, undertake a feasibility study to evaluate supplying liquefied natural gas from Australia's western gas fields.

Minerals and Metals

6.62 The Indian market for minerals and metals is small for Australia. In 1996 Australia's non-ferrous metals trade with India was in copper with a value of A\$35.5 million, zinc valued at A\$17.25 million and lead with a value of around A\$18 million.⁴⁰ With regard

38 Indian High Commissioner Transcript, p. 327.

39 BHP Transcript, p. 232.

40 DFAT Submission, p. S 749.

to nickel exports to India, the exact level of Australia's exports is not publicly available because of ABS confidentiality provisions - as a guide some A\$10 million was exported in 1993.

6.63 Indian tariff protection has hampered trade in minerals and metals. Tariffs on non-ferrous minerals and metals have been brought down from over 100 percent but on escalating levels of up to and over 50 percent.⁴¹

6.64 DFAT comments that India is looking to develop its copper smelting and refining industry over the next few years for import replacement. However India's copper resources are limited and of poor quality which means that Australian suppliers can expect a rise in the demand for imports of copper ores and concentrates.⁴²

Diamonds and Gold

6.65 India is a major destination for Australian diamonds (where they are cut and polished) but this trade is not reflected in the two way trade figures with India. The diamonds are not shipped directly to India but are routed through Antwerp. Argyle Diamonds, the world's largest diamond producers, now directly markets all its rough diamond production through its European Sales Office based in Antwerp. It is estimated that Argyle Diamonds' exports to India are anywhere between A\$300 million and A\$500 million.⁴³

6.66 Argyle and Ashton Mining Limited, who owns 40.1 percent of the Argyle diamond mine, have a presence in India, not only to facilitate the market access of processed diamonds in European and American markets, but also to capitalise on any changes to India's policies relating to mineral exploration and investment in diamonds. The Indian Government has very tight restrictions on foreign investment in the mining of gold, silver, diamonds and precious stones.

6.67 Mr Colin Hollis, MP, a member of the Trade Sub-Committee, was in India in April 1998 and met with Commerce Minister Hegde. As part of wide ranging discussions on the Australia-India trade relationship, the diamond trade was raised and the issue of its non-inclusion in the trade figures masking the significance of this trade. Commerce Minister Hegde told Mr Hollis that India would like to trade directly with Australia rather than have the diamonds routed through Antwerp.

6.68 India is one of the world's largest gold markets with opportunities for Australian companies if they go searching. The Committee was given very interesting evidence by the Perth Mint GoldCorp. The company started looking at India about four to five years ago and found a number of difficulties in importing product into India, especially precious metals and the margins in tola and gram bars 'just was not sufficient to make it worthwhile to pursue at that time'.⁴⁴ The company maintained an interest in India and developed a relationship two years ago with an Indian firm that distributes religious medallions in silver, with GoldCorp manufacturing the value added medallions in Perth for their Mumbai client. GoldCorp as a result has refocused its business in India on the value added medallion market rather than the lower margin bar market and is considering opening a representative office in India.

41 DPIE Submission, p. S 878.

42 DFAT Submission, op. cit.

43 Indian High Commissioner Transcript, p. 326.

44 GoldCorp Transcript, p. 511.

Automotive Sector

6.69 India has emerged as a significant automotive market in global terms. The automotive sector currently produces about half a million cars, almost as many trucks and about three million two-and three wheeled-vehicles. The growth in automotive sales is 15-25 percent per annum. There are 12 new auto plants to be built with six currently under construction, and investment commitments of some \$4 billion from major companies like Ford.⁴⁵ The Indian vehicle manufacturer Tata last year exported some 1500 vehicles, mainly pickups, to Australia through an exclusive distributor arrangement and has an export target of 3000 vehicles for this year. Significant promotion of the Tata vehicle is being undertaken on the Australian rural scene.

6.70 The Australian automotive industry is important to Australia's manufacturing sector and provides a major portion of Australia's high value added and technology extensive exports. Austrade has been focusing on identifying and capitalising on opportunities for Australian companies in the Indian automotive sector as a priority under the Market Development Task Force.⁴⁶ According to Austrade, Australian investment in India's automotive sector is growing with eight companies having achieved or planned investments in the Indian automotive market. These include seating fabrics, seat belts, mirrors, airconditioners, plastic components, spark plugs, automotive design and technical training. Austrade has identified 40 Indian component manufacturers seeking foreign collaboration.

6.71 Austrade coordinated participation by Australian companies in the Auto Expo '98 held in New Delhi in February 1998. An automotive consultant was recently contracted by Austrade to identify specific opportunities which match the capability of the Australian industry.⁴⁷

6.72 The Indian High Commissioner told the Committee that small companies do not need to invest in India. What India wants is the transfer of technical and services knowledge for which it will pay handsomely. He cited the example of OKA Motors - the Perth company which manufactures highly sophisticated transport vehicles - which has become tied up with one of India's majors and by the end of the century will be producing somewhere in the region of 30,000 vehicles a year in India.⁴⁸

6.73 Barriers to trade in the Indian automotive market are tariffs, with a tariff on new private motor vehicles of 110 percent and a 25-50 percent tariff on components. Non-Indian automakers are now required to increase the ratio of Indian made autoparts to 50 percent in three years and to 70 percent in five years. Furthermore India also requires the export of completed cars or auto parts equal to the value of imported auto parts starting from the fourth year after the start of local operations. Japan's MITI has asked the Indian Government to repeal the regulation and views it as violating WTO rules guaranteeing free movement of auto parts regardless of the maker's origin.⁴⁹

Defence Exports

45 Austrade Transcript, p. 257.

46 Austrade Submission, p. S 977.

47 *ibid.*

48 Indian High Commissioner Transcript, p. 327.

49 *AAP*, sourced from *Asia Pulse*, Tokyo, 30 March 1998, 'Japan's MITI asks India to alter autoparts supply rules', 30 March 1998.

6.74 From a defence trade perspective, the export of defence goods and dual use goods to the South Asia region is small compared to Australia's major overseas market, the United States.⁵⁰ The Department of Defence advises that in the period 1995-96 Australian companies exported defence and dual use goods to the value of A\$2.399 million to India and A\$3.3 million to Pakistan.

6.75 Defence notes that there are a number of potential barriers or inhibitors to Australian defence industries exporting defence and dual use goods and technologies with military application to India. Five issues, according to Defence, militate against significant expansion in the scale of activity:

- India's imperative to achieve indigenous sources of supply for Indian defence equipment;
- India's long standing defence relationship with Russia, which is its main foreign supplier of defence equipment;
- the difficulties in gaining access to the decision makers in the Indian Defence hierarchy;
- the difficulties experienced in doing business in the Indian marketplace; and
- the sheer size of the market. While the size of the defence market is enticing, a company must have the ability to supply on such a large scale.⁵¹

6.76 As Defence outlines, the best prospects for Australian defence industries in India would be for those that are concentrating on niche marketing, but it will be a long haul over a very uneven playing field.

Horse Industry

6.77 There is quite a long history of association between Australia and India with the supply of remounts, and in racing and the export of polo ponies. Well-known jockeys such as Edgar Britt and Billy Cook rode in India. However the association has faded away and in the export of thoroughbred horses for the period from 1994 to 30 June 1997, out of a total export number of 4677, only 14 (0.3 percent) were exported to India.

6.78 India is a member of the Asian Racing Conference and was host to the 24th Asian Racing Conference held in Hyderabad and Mumbai in January 1995. The Chief Delegates to the Conference included the Chairman of the Turf Authorities of India from the Royal Calcutta Turf Club and representatives from Australia, Korea, Philippines, Bahrain, Macau, South Africa, Hong Kong, New Zealand, Thailand, Japan, Pakistan, Turkey, Malaysia and Singapore.

6.79 The Chairman of the NSW Thoroughbred Racing Board (NSWTRB), Mr Bob Charley, told the Committee that the Indian racing industry is very well structured. The racetracks are in good condition:

50 Department of Defence Submission, p. S 641.

51 *ibid.* pp. S 642-643.

... they have quite good facilities, and the industry is administered very much along the lines of both England and Australia. In fact, it is better [administratively] than England but not as good as Australia. So there are a lot of similarities between the two nations; they do things very similarly in their whole administrative process and their whole regulatory process so far as the rules are concerned.⁵²

6.80 The Turf Authorities of India, the peak racing authorities body, comprises the Royal Calcutta Turf Club, the Royal Western India Turf Club Limited, centred at Mumbai (which includes its affiliates, the Delhi Race Club and the Pune Turf Club), the Department of Racing (the Madras Race Club and its affiliate the Udhagamandalam Race Club are run by the State Government of Tamil Nadu), Bangalore Turf Club Limited (the Mysore Race Club is affiliated to the BTC) and Hyderabad Race Club.

6.81 There are nine racecourses in India located at Chennai, Udhagamandalam (the southern hill station formerly called Ooty), Bangalore, Mysore, Hyderabad, Mumbai, Pune, Delhi and Calcutta. Mumbai and Bangalore are the main racing centres in terms of prizemoney and betting volumes.

6.82 There are approximately 3500 registered racehorses competing at these 9 centres and around 2800 races are held every year countrywide. There are over 100 breeding establishments for thoroughbreds with a broodmare band of about 4200 broodmares, and 170 standing stallions. The foal crop of 1995 was estimated to be 1700. Over the last decade the foal crop has been growing at about 8 percent per year.⁵³

6.83 Imports of thoroughbred horses are permitted only for breeding purposes. Only registered stud farms are granted necessary import licenses. Import of mares in foal is permitted against such licenses. Import duty is 45 percent (basic + special - the Indian Government put on an across-the-board special tariff of 3 percent on imports in August 1997 to cover the fiscal deficit and the tariff will remain in place until 31 March 1999). Only Indian bred horses (foaled in India) are permitted in most Indian races.⁵⁴

6.84 At all racecourses there is a bookies ring and a tote. Wagers attract betting tax which varies from state to state. In Delhi it is 12.5 percent of the wagered amount. Intervene betting is permitted. For instance one can bet on the Mumbai races at Delhi but only within the Delhi racecourse which is a licensed premise for horserace betting. The tote at Delhi is independent - not hooked up to the Mumbai tote. As of now video coverage is not provided for intervene betting, there is only a sound hookup. Off course betting is banned in India. However it is common knowledge that there is a huge illegal off-course betting network.⁵⁵

6.85 New racecourses are not likely to come up, according to Austrade, because of the serious shortage of space in the metros and the cost of real estate in vicinity of the population

52 NSWTRB Transcript, p. 691.

53 Exhibit No. 112.

54 *ibid.*

55 *ibid.*

centres. Stabling facilities at the race centres are also limited so the population of active racehorses is not likely to increase significantly.⁵⁶

6.86 Indian buyers are focused on the English, Irish and American markets for horses and have built extensive networks. It seems that there is a lack of awareness of what Australia has to offer the Indian industry, which 'translates into a negative view of the Australian industry vis a vis its competitors'.⁵⁷ As Mr Charley pointed out, there is good contact between the racing clubs at an administrative level, but there does not appear to be any real involvement at a commercial level in terms of breeding.

6.87 Although the opportunities for trade in horses appear limited, as Mr Charley noted, Australia leads the world in totalisator technology and most of the emerging countries which are putting in totalisator systems are using Australian systems.⁵⁸ There may be opportunities there for Australian exporters.

6.88 The Committee called the Director of Weatherbeeta to give evidence. Weatherbeeta is a major wholesaler of saddlery products in Australia, New Zealand and England and has a chain of 42 franchised Horseland saddlery stores around Australia. The company sources a lot of its product from India so the Committee was keen to gather evidence on the experience of a business in getting product made in India for the Australian market.

6.89 The company has been sourcing product from India for 20 years and found that one of the big advantages of India is that they were able to conduct their business in English which made doing business much easier.

6.90 The Committee was interested to hear of the opportunities that were available in India and the difficulties of operating in the environment:

India is also a pretty dirty grotty place when you get into the centres. The place we deal with is Kanpur, which is about six hours train ride out of Delhi. That is the biggest arms town in India and also the biggest saddlery centre in the world. There is nowhere in England, Germany or anywhere that is bigger than that in saddlery. It is huge in shoemaking as well nowadays. Kanpur has a population of three or four million people. It is a little town like Melbourne or something like that. It is only a small pimple in the total population of India.

I have found a lot of the Europeans and Americans have difficulty going there because it is so dirty and underdeveloped that a lot of these people do not like to get down to the nitty-gritty and work there. If Australians are prepared to get in there and work hard from the ground up with these factories, I think there is good opportunity for growth there that perhaps a lot of the other countries on the other side of the world are not prepared to get down and do.⁵⁹

56 *ibid.*

57 *ibid.*

58 NSWTRB Transcript, p. 690.

59 Horseland Transcript, p. 674.

6.91 An interesting observation, made by Mr Sinclair of Horseland, is that Australia represents only a few percent of the world market, and when an order is sought from China for small volume runs or to develop something small, 'they laugh at you. ... They really want big volume all the time'.⁶⁰ India, he said, seems to have none of that requirement. Their business is much smaller based and therefore they are prepared to work in much smaller volumes and spend a lot of time developing individual products, which he found in China was extremely difficult to do.⁶¹

6.92 Furthermore Mr Sinclair told the Committee that:

Over the next 10 years, I feel very confident that India will still be cheap whereas, in a lot of these other countries [China, Korea, Taiwan], the prices will start growing as the economies develop. Therefore, the long-term viability of working with India is much better than some of these other countries. The prices will remain low because of their huge labour force and the fact that they are not as go-ahead as the Chinese, Koreans or Taiwanese have been. In terms of developing product, it is a good place to learn in the long term.⁶²

Services Exports

6.93 Services is a very much needed area in India. India is focused on technology transfer to absorb the best international practice for which Australian companies are well placed. Three service areas singled out for further Australian activity by the former Senior Trade Commissioner to India were engineering services, education services and financial services.⁶³ In the area of engineering SMEC and Kinhill are well established. Australia is the second largest study destination for Indian students and in the area of financial services there is ANZ Grindlays. Furthermore there are six Australian majors in the insurance sector that are looking to get into India and one has just started in the health sector.⁶⁴ The insurance sector, where there has been joint venture activity, is examined in Chapter 7.

Education

6.94 Australia is the second largest destination for Indian fee-paying students, behind the United States, having supplanted the UK in the last year. The number of Indian students coming to Australia in 1997 was 5574, a large increase on the 14 that came to Australia in 1987. Since 1993 there has been a fourfold increase, some 314 percent, with numbers in 1998 expected to increase to 7700. The revenue generated in 1997 was A\$125 million of which A\$59 million was in fees and A\$65 million in goods and services. The revenue for 1998 is estimated at A\$170 million - A\$81 million in fees and A\$89 million in goods and services.

60 *ibid.*

61 *ibid.*

62 *ibid.* pp. 674-675.

63 Austrade Transcript, p. 258.

64 *ibid.*

6.95 Although Australia is a relative newcomer in South Asian education and training markets compared to the UK and the US, it has been able to make inroads by capitalising on relative advantages over its competitors. According to DEETYA these include:

- English as a medium of study at all levels of education;
- a proven vocational education and training system;
- a safe multicultural environment;
- a low fee structure compared to the US and the UK;
- geographical proximity as compared to the US;
- two intakes per annum into many Australian institutions;
- the availability of flexible tailored programs to meet market needs; and
- Asia Pacific oriented foreign affairs and trade policies.⁶⁵

6.96 1995 was an important year for Australian education in India with the Australian Government posting an education and training counsellor to the High Commission and IDP Australia establishing a presence in Delhi. Australian Education Centres (AECs) have also been established in the High Commission in Delhi and in Mumbai to disseminate general as well as education specific information to prospective students.

6.97 IDP Education Australia Limited is a private not-for-profit company owned by 37 Australian universities and was founded in 1969 with the purpose of promoting, and providing assistance through, Australian tertiary institutions in developing countries, encouraging international students to enrol in Australian education institutions, and providing English language training overseas and supporting the delivery off-shore of Australian education and training courses. Besides the Delhi office IDP has now established offices in Mumbai and Chennai. It sees India as the next major market for Australian education with an expectation that student enrolments will rise to over 5000 by the year 2000.

6.98 The education and training services sector was a major feature of the *New Horizons* promotion. The AIEF - a partnership between the Commonwealth Government and the Australian international education and training industry for the promotion of Australia's international education and training capabilities - was a major Australian contributor bringing together the education and training elements of the program. The education and training elements of the promotion consisted of an Education and Training Conference, Business Management Workshop and a Focus Group series held throughout Indian educational institutions.

6.99 The AIEF commissioned a study, under the auspices of the *New Horizons* promotion in the form of focus group discussions among Indian academics to establish the views, perceptions, images and understandings of Australia and its different aspects of culture, education and training services, business, etc. The key findings are very interesting and in essence are:

- Australia, in many areas is largely 'unknown' in India and there is a general lack of awareness and appreciation of the different aspects of Australia;
- Australia is perceived as a relatively large land mass with a relatively small population;

65 DEETYA Submission, p. S 635.

- a country rich in mineral and natural resources and a developed economy;
- very little is known about the education and training services of Australia;
- Australian immigration policies are perceived negatively and the issue related to visas;
- Australian marketing efforts lack the broader base of culture;
- the recruitment agency system contributes to a highly negative image of Australian education and training services;
- lack of 'structured information' and handling of enquiries regarding Australia and Australian academic and training institutions at the Australian High Commission - New Delhi;
- accessibility of information throughout India on various aspects of Australia;
- recognition of Australian qualifications and the 'indistinct' perception of the quality of higher degrees;
- Australia is a 'predominantly white culture which lacks integration'; and
- Indian students may find difficulty in settling into Australian culture due to the 'European culture'.⁶⁶

6.100 These findings not only pervade the Indian academic community but can be found in the general business community in India. Of significant concern for the Australian education sector is the highly negative image of Australian education and training services. This was reinforced by the Indian High Commissioner who told the Committee that:

On education: at the present moment the Australian thrust has been largely on getting students from India. There is very little in the way of collaborative arrangements between educational institutions. The net result has been that you find our universities, because of the common English language, excellently networked with American and British counterparts but there is very little by way of educational networking with Australia. Some of the research work which is done in our universities is used by American and British universities. There is no such networking and I am afraid the entire focus of the effort thus far in Australia has been on students and the commercial aspects of education.⁶⁷

6.101 The Australian Government is keen to promote Australian education and training services in overseas markets and on 11 May 1998 the Minister for Employment, Education, Training and Youth Affairs announced that the AIEF would be streamlined to become Australian Education International (AEI). AEI, funded by the Australian Government, will promote Australian education and training services around the world and the benefits of the

66 Exhibit No. 47.

67 Indian High Commissioner Transcript, p. 335.

internationalisation of education for Australia and other countries. The AIEF was established in 1994 to capitalise on the advantages of the Australian education and training community in overseas markets and to overcome impediments where these were evident. The AIEF had been the subject of a review announced in the 1997-98 Budget and the Government, as a transitional arrangement, fully funded the AIEF for the first 6 months of 1998.

6.102 The AEI will be, according to the Minister, more fully integrated within the operations of the Department of Employment, Education, Training and Youth Affairs, enabling it to act as an effective link between the offshore promotion of Australian education and training and broader government objectives for foreign affairs and trade.⁶⁸

6.103 The Government, to support the continued growth of Australia's education and training export industry, will provide A\$21 million over the next four years for an international marketing campaign, through the AEI, to promote Australia's education and training services overseas.⁶⁹

6.104 The campaign will focus on traditional Asian markets as well as the relatively untapped student markets which includes India. The Government estimates that from 1997 to 2001, Indian student numbers will grow by 94 percent (from 5574 in 1997 to 10 800 in 2001). Major student growth is expected in universities and it is forecast that there will be a 38.1 percent increase in Indian students coming to Australian universities in 1998.

Legal and Accountancy Services

6.105 Services represent one of the most dynamic and highly diversified sector of Australia's economy. They account for 74 percent of Australia's GDP and 72 percent of employment, with services exports exceeding A\$424 billion in 1996-97.⁷⁰ Within the broad services sector, the professional services area (eg, engineering, accounting, legal and architectural, etc), according to DFAT, is among the fastest growing segments. Furthermore 'With the maturing of Australia's services sector and the internationalisation of the Australian economy, professional services have become important drivers of Australia's international competitiveness'.⁷¹

6.106 India is a key and emerging market for professional services in the legal and accounting areas. As part of its strategy for increasing trade and investment with India, the Australian Government has professional services as a key sectoral priority with the aim to increase greater access for foreign legal, accountancy and architectural services and foreign engineers. Furthermore DFAT is working towards developing linkages between the legal professions of Australia and India with the medium to long term objective of improving access for Australian lawyers and law firms to the Indian market. This will assist Australian legal firms to support Australian companies and investors operating in India.

6.107 Currently international law firms cannot practice in India, only Indian law firms which are only allowed to have 20 partners, thereby restricting their size. Companies moving into India are accompanied by their lawyers on an advisory basis, as the agreements and

68 *\$1.2 Billion Growth in Education Export Industry*, media release by the Minister for Employment, Education, Training and Youth Affairs, Canberra, 11 May 1998.

69 *ibid.*

70 TOOS 1998, p. 177.

71 *ibid.*

documents that are being negotiated, especially in the area of infrastructure, are similar to those negotiated in another developing country.⁷² Clayton Utz, one of Australia's largest law firms, makes the point that much of the legal work that is required can be done back at the home base and Australian firms have an advantage in dealing in India in that the Indian legal system is based on the English common law.

6.108 Clayton Utz made the decision in 1995 to establish an Indian services group, providing services not only of a pure legal nature, but:

... also assisting clients with financial management, taxation advice, consulting services, introductory services, market research and feasibility studies, market entry strategies, joint venture partner selection, advice on foreign collaborations and investment, and assistance for tendering for work in India.⁷³

6.109 The firm has identified a number of specific areas which it believes are of relevance or benefit to Australian companies entering the Indian market. These areas include infrastructure - power, transport (road, rail and ports) - telecommunications, health, water and environmental services, mining, financial insurance services, agricultural business, and machinery and transport equipment.⁷⁴

6.110 Clayton Utz sees its role as being able to add value to 'Australian companies moving into the Indian market and also for Indian companies that may look at the Australian market - for instance, Tata and companies such as that'.⁷⁵

6.111 In the field of accountancy, Price Waterhouse has had a presence in India since 1880 and in Australia since 1874. The Australian and Indian firms operate independently of each other, but share common vision, goals, technology and expertise. Price Waterhouse India has 6 offices in all the major metropolitan cities.⁷⁶

6.112 Price Waterhouse Australia has an India desk and is focused on Australian business in India. The majority of the firm's clients are large Australian corporations, however the Indian practice does have Australian clients that are not clients of the Australian practice. The Committee was told that this is based on personal relationships between the Indian practice and the Australian corporations, or perhaps because the Australian corporations are advised by another of the big six practices.⁷⁷

Geoscientific Services

6.113 Considerable potential exists for exporting geoscientific services to India relevant to the development of its minerals and petroleum industries. Opportunities exist for the Australian Geological Survey Organisation (AGSO) to provide assistance to relevant Indian Government agencies to develop their geoscientific capabilities for effective planning and decision making for sustainable environmental and management practices, including

72 Clayton Utz Transcript, p. 41.

73 *ibid.* p. 39.

74 *ibid.*

75 *ibid.* p. 40.

76 Price Waterhouse Transcript, p. 214.

77 *ibid.* p. 216.

groundwater resource evaluation and agricultural and potable usage.⁷⁸ Currently there is a proposal under consideration by the Indian authorities for AGSO, in concert with the Geological Survey of India, to provide mineral mapping services to help identify and produce advanced geoscientific maps of potential mineral regions in India which might be suitable for exploration and perhaps foreign investment. Another bilateral activity is that the AGSO and the Indian Ministry of Urban Affairs and Employment are examining a proposal for the provision of advice on the use of geoscience in urban planning with the objective of helping to identify environmental issues and develop appropriate plans.

Cultural Heritage Services

6.114 The Committee was keen to take as much evidence as possible across a range of export interests and in particular in areas which may well be seen as being 'obscure' when compared to the more traditional areas of opportunity. With this in mind the Committee invited AusHeritage to give evidence to the inquiry.

6.115 AusHeritage is an export company which was established in 1996 and is Australia's network for the export of cultural heritage services. The company works on a commercial basis with partners in the Asia-Pacific region and was initially supported by the Australian Government, with seed funding provided under the Department of Communications and the Arts' Cultural Industry Development Program.

6.116 AusHeritage aims to develop export markets for the cultural heritage services industry, ranging from heritage architecture to materials conservation, from policy development to training. The network, at the time evidence was taken, had 32 members representing the diversity of Australia's expertise in the sector in both private and public enterprises, including Australia's leading national museums and cultural institutions, several major universities and prominent architectural practices, the Australian Heritage Commission and materials conservation laboratories. The scope of this membership allows AusHeritage to offer a wide range of high-level expertise.

6.117 With this level of expertise, AusHeritage is actively engaged in marketing its services internationally, initially focusing on the Association of South East Asian Nations (ASEAN) nations and subsequently on North and South Asia. AusHeritage recognises there are many opportunities in India and expressed its disappointment that it could not participate in the *New Horizons* program:

We were very interested when the Department of Foreign Affairs and Trade had the special high profile event in India last year [1996] and we thought very seriously about being part of that, but it was still very early in our working life. We had not yet launched ourselves and we were not ready to take part. It was a real pity from our point of view that it was not 12 months later, because India and the whole subcontinent is an area we are very interested in looking to and working with.⁷⁹

78 DPIE Submission, p. S 881.

79 AusHeritage Transcript, p. 444.

6.118 At the time AusHeritage gave evidence to the Committee, it had a small interest and engagement with India through one of its members, the Australian Museum in Sydney which works closely with people in India, both on its own and through the Getty Institute in Los Angeles. The Museum project was for a team of Australian experts in building conservation and restoration to visit India to initiate a scientific study and prepare an initial project proposal for the preservation and restoration of the Victoria Memorial Hall (Art Gallery Building) of the Government Museum in Chennai.

6.119 The Committee is pleased to learn that since giving evidence, AusHeritage has been active in working towards: raising the awareness of Australia's expertise in cultural heritage management and conservation; achieving maximum positioning, promotion and marketing for Australia's cultural heritage sector; providing a base for developing working partnerships between Australian members and their Indian counterparts in the academic, policy and practical aspects of cultural heritage management and practice; and promoting visits between Australian and Indian heritage practitioners. The Committee commends the Australia-India Council for providing funding support to AusHeritage to assist it to meet these objectives through promotional workshops in cultural heritage conservation, and to launch AusHeritage in India. The value of the work of and support provided through the Australia-India Council to furthering Australia-India relations should not be underestimated.

6.120 As part of its initial seed funding, AusHeritage made a video which was shown in 20 countries throughout the Asian region through Australia's AusTV network out of Darwin. The response AusHeritage received to the video showed that the AusTV coverage provided a reasonable amount of exposure in the region. This confirmed yet again to the Committee the critical importance to Australia of the provision by the Government of radio and television footprints into the Asian region including India.

6.121 Even in the cultural heritage sector there is fierce competition in the global arena to win heritage work. AusHeritage points out that the challenge for Australia's heritage industry is to try to get our colleagues to the north to look *south* rather than *west*. AusHeritage cited an example where:

...we competed with a British organisation for a fit-out of the National Gallery of Malaysia. Two organisations were asked to tender - one was British and the other was AusHeritage. In both the film preservation industry and the heritage industry in general, the Brits have a very vibrant and exciting industry and are highly competitive. One of the things that we have noted is that the British Council is very active in the region in supporting its heritage participants.

The British Council is - Like a bigger Australia Council - it is broader. But with very much a foreign affairs mandate. It is highly linked to trade development. Of course, they have offices in most countries throughout the world - I do not know how many they have now, but it is perhaps 100 offices or something like that.⁸⁰

6.122 AusHeritage has no formal links with the Australia Council for the Arts but it does have relationships with some of the Council's offices. At the ASEAN Committee on

80 *ibid.* p. 449.

Communications and Information (COCI) forum last year, there was an Australia Council officer who was part of the team as was AusHeritage which presented a proposal for a regional ASEAN policy and strategy for cultural heritage. The Australia Council was a major contributor to the *New Horizons* promotion.

Health Services and Products

6.123 Health services and products is a relatively new area for Australia in developing its export focus. The Australian Health Industry Development Forum (AHIDF) was established by the Commonwealth Government in September 1994 to assist the development of the health industry in Australia and promote exports of health products and services. Until recently the health industry was very fragmented and lacked an export focus. According to the AHIDF, the industry now enjoys a much more cohesive national identity and a greater export focus.

6.124 The Forum maintains contact with over 1500 organisations and individuals with an interest in exporting health services and products. The AHIDF notes that many of these recognise the advantages of operating under the umbrella of the Forum when conducting business in Asia, combining the commercial strength of the private sector with the credibility and government to government linkages of the public sector.

6.125 As part of the *Australia India - New Horizons* program, the Commonwealth Department of Health and Family Services coordinated a Health Trade Mission to India led by the Minister, visiting Mumbai, Chennai and New Delhi. A series of seminars following the theme 'Health: Sharing in Progress' were held.

6.126 The health mission established a profile for the Australian health industry in India and helped to develop new networks. The follow up was to build on the networks that came out of the health mission, and as the AHIDF notes in its submission 'the immediate challenge is to demonstrate to our Indian colleagues that our efforts last year were not just a token gesture, but the beginning of a long term commitment to fostering closer ties with the Indian hospital and health care industry'.⁸¹ As a result the AHIDF has established a Country Focus Group for India (such groups have already been established for Indonesia, China and Malaysia) under the name of Australia India Health Industry Network (AIHIN) with representatives of Australia's equipment manufacturers, hospital developers and service providers. Country focus groups are primarily soft networks for companies and individuals with an interest in enhancing their export opportunities and understanding of their target markets.

6.127 The Indian market for health services and products is very big. There is the requirement for good health care services to meet the needs of a population of some 950 million. In India presently there are 11 500 registered hospitals providing 810 000 to 815 000 beds which is a very big market. On top of this, the AHIDF said, there are a lot of private nursing homes which are operated by doctors that provide 10 or 15 beds for overnight stays and provide a number of services including operating procedures.⁸²

81 AHIDF Submission, p. S 428.

82 AHIDF Transcript, p. 530.

6.128 The Chair of the AIHIN told the Committee that 'what is glaringly obvious in India is that there is a total lack of organisation of the health delivery systems'.⁸³ Moreover there is a lack of funding from government. He said:

... realistically, they need to get the basics put in place first: things like hospital management systems, technology and improvement in health and hygiene matters, both in the public health arena and in the hospital facilities. We believe, from our discussions with the various managers of facilities and people in the industry in general, that after they have read of and been spoken to about our capabilities they believe Australia has a role in that market. The challenge to us is to go back and respond to some of those opportunities now.⁸⁴

6.129 The Committee was told that one of the things that is clear is that in India the understanding of Australia's capability in the health sector is very limited. The importance of government support for efforts to promote Australian exports of health services and products is critical to success. The Australian Government has an important role in promoting Australian capability through its imprimatur for trade activities such as trade delegations and study tours. The Committee is aware that the AIHIN organised a small group of industry representatives which visited India recently and will be participating in Austrade's South Asia Health Promotion in India (participation in a major Indian health exhibition in Mumbai) and Pakistan to promote Australian health industry goods and services. The AIHIN is planning a Health Industry Trade Expo in December 1998 and discussions are underway with the Australia-India Council for some funding support.

6.130 **Recommendation 26**

The Committee recommends that:

The Australian Government continue to lend support to the efforts of the Australia India Health Industry Network in its efforts to promote the export of Australian health services and products to India.

Film and Television

6.131 The Australia Television (AusTV) is interested as a broadcaster in expanding and consolidating its viewing audience in India. There is a valuable link between AusTV's service and Australia's ability to achieve its trade and foreign policy objectives in India.

6.132 The AusTV service was launched in 1993 by the former Labor Government 'as a means of advancing its policy of economic integration with the Asia Pacific region'. For its part, the Australian Broadcasting Corporation (ABC) saw the venture as an opportunity to take advantage of the fledgling satellite medium as a means of meeting its charter obligation to broadcast to countries outside of Australia. Broadcasting from Darwin, AusTV (using the Indonesian Palapa C2 satellite) has established a reach of 33 Asian and Pacific countries and territories, including many of the eastern and northern states of India, as well as Sri Lanka and Bangladesh. The service includes regionally focused news, current affairs, sporting,

83 *ibid.*

84 *ibid.*

educational and general entertainment programs, and reaches an estimated 20 million households.

6.133 In November 1996, the ABC Board decided to seek expressions of interest from entities who wished to become involved in the future development of AusTV. In July 1997 the Federal Government announced that AusTV would be sold to Australia's Seven Network (for an estimated A\$4.5 million), with ABC retaining funding for the half hour news bulletin for two years (at an estimated A\$6 million).

6.134 In July 1997 there were nearly 50 TV channels transmitted from outside India to satellites and then beamed into the country. These channels are nearly all free-to-air and are redistributed around India through thousands of unregulated cable TV systems. AusTV is delivered by cable to an estimated 11 million households. This figure represents more than half of all households in the Asia Pacific region known to be able to receive AusTV's services via cable or terrestrial rebroadcast. AusTV currently has a rebroadcast arrangement with the Chennai-based Asianet Communications (estimated reach of 46 million viewers), and is negotiating agreements with Business India Television (BITV) and several other terrestrial networks on the sub-continent. AusTV has also gained access to several major cable operators in eastern India, such as RPG Netcom in Calcutta (estimated audience of 500 000 by the end of 1997), and CatVision in Bihar/West Bengal.

6.135 The AusTV notes that, as a result of the rapid growth in India's consumer classes (currently estimated by AusTV at around 200 million), expenditure on television advertising in India is expected to grow over the next decade by over 200 percent. Much of this growth will be in the satellite communications sector.⁸⁵

6.136 The Broadcast Bill to regulate satellite and cable broadcasts and direct-to-home (DTH) television was before the last Indian Parliament. AusTV told the Committee that the main concern with the draft legislation at that time was that it effectively prevented AusTV from being broadcast on cable networks in India. While the bill allowed news channels such as CNN and BBC, sports channels such as ESPN, and information channels such as Discovery to broadcast from outside India without any need for licensing, its definition excluded channels showing comprehensive broadcasting such as AusTV.⁸⁶ The enactment of the Broadcast Bill is part of the BJP's *National Agenda for Governance* and is aimed at regulating private broadcasting and protecting Indian interests, restricting foreign equity holding in private television broadcasting to 20 percent and preventing cross holding to avoid emergence of monopolies in the media. While the 'new' bill is still to be presented to the Indian Parliament there is concern that it will not allow AusTV to be seen through certain broadcast mediums in India.

6.137 The Australian Film Commission (AFC) informed the Committee that India's film industry is the most prolific in the world averaging 850 feature films each year - Australia has averaged about 30 in the past four years. Film generates an annual turnover of \$850 million, offers employment to 20 million people and caters to the 13 000 cinemas in the country.⁸⁷

85 AusTV Submission, p. S 347.

86 AusTV Transcript, p. 588.

87 AFC Submission, p. S. 961.

6.138 India has restrictive import requirements on film, such that a film must be screened in a prestigious film festival and/or secure good reviews in major industry publications such as *Variety* before they can be classified for distribution in India.⁸⁸ Furthermore tapes which are sent for preview, especially those with sexual or violent content, have been pirated in the past which, the AFC says, makes sellers cautious and only interested in previewing personally to the buyers, either in India or at the trading markets which Indian buyers do not travel to in significant numbers.⁸⁹ Moreover the prices paid for programs in India are not high.

6.139 The AFC claims that in order for the prices paid for television to increase, the Indian advertising market needs to grow and that is dependent on consumer purchasing. The prognosis from operators is that this will take sometime. However in the meantime:

... the Indian market will remain difficult to access and not [be] particularly lucrative, especially for Australian feature film which must compete with the big budget US studio films to secure market share and prices at the higher end of the scale.⁹⁰

6.140 **Recommendation 27**

The Committee recommends that:

The Australian Government make representations to the Indian Government to remove the restrictive practices which work against Australian films being shown in India.

6.141 The Australian Film Television and Radio School (AFTRS) has established a relationship with the National Film and Television Institute of India as part of its program of setting up an international educational and training curriculum on-line with leading schools in Asia. The AFTRS informed the Committee that the Director of the Film and Television Institute of India is anxious to work with them to develop the following projects which will benefit all regional members:

- survey current and proposed regional on-line communications systems;
- distance learning curriculum and technology programs;
- teaching staff exchanges; and
- regional workshops and forums for the exchange of educational and industry development information and expertise, as well as training for teachers.⁹¹

6.142 **Recommendation 28**

The Committee recommends that:

The Australia-India Council examine the provision of financial support to the Australian Film Television and Radio School for a

88 *ibid.* p. S 962.

89 *ibid.*

90 *ibid.* p. S 963.

91 AFTRS Submission, p. S 967.

workshop to exchange educational and industry development information and expertise with the Film and Television Institute of India.

Transport

6.143 The Department of Transport and Regional Development (DoTRD) told the Committee that Australian business is in a position to exploit emerging commercial activities in India and South Asia in the aviation, land transport and maritime sectors.

6.144 **Aviation.** In relation to aviation India has significant development opportunities in the areas of airport infrastructure and aviation training, with a senior delegation from Aviation Training Australia (ATA), a major network of Australian aviation training providers, planning to visit India late last year to meet senior government and aviation officials to explore commercial opportunities in aviation training and promote the training capabilities of ATA's members.

6.145 With the GOI upgrading many of its airports, DoTRD notes that opportunities exist for Australian companies in the areas of airport development and management projects, including runway extensions, terminal expansion and construction and upgrading of navigation and communication equipment.

6.146 Australia expanded its air service capacity to India with the negotiation of a new agreement in October 1996. The expansion in capacity allows the airlines of each side to increase services to nine per week by November 1998. This arrangement gives Australian carriers better access to Indian cities where previously Qantas could only fly to Calcutta and Mumbai or Delhi, now it can serve all three and link Calcutta with Mumbai and Delhi. DoTRD comments that 'the new arrangements are reflective of the fact that India is a market of increasing importance to Australia in the South Asian region and which has begun to grow strongly in recent years' with the potential for India (with its increasing middle class) to become a strong source of inbound tourism for Australia. The improved airlinks will assist the development of trade, commercial relationships and business links between the two countries.⁹²

6.147 Qantas informed the Committee that the Indian Department of Tourism has set a target of 5 million foreign tourists by the year 2000. This expansion in tourism will require an increase in hotel rooms of a suitable standard and the GOI has accorded the hotel industry high priority status and has targeted the private sector for investment, including FDI.⁹³

6.148 Qantas believes that Australia is well placed to gain an increased share of the expanding Indian market, especially the outbound traffic, but warned that Australia could not be complacent, noting that the national tourism organisations of the competing countries such as the UK, South Africa, Thailand and Singapore, actively promote their home countries. The long overdue permanent placement of an Australian Tourist Commission representative in New Delhi, along with Qantas' active promotion of Australia in the Indian market, will greatly assist in raising the Indian consciousness of Australia and its various attractions as a destination.

92 DoTRD Submission, p. S 408.

93 Qantas Submission, p. S 282.

6.149 Qantas outlined to the Committee its tourist promotion in India:

We have been heavily involved with the Australian Tourist Commission, for example, with a number of initiatives that we have done jointly with the ATC. We have been on TV consumer advertising. We have a number of road shows which feature a number of Australian tourism suppliers and state government tourist officers. Usually there is an annual program. ... We run a range of tactical advertising programs with travel agents and local operators. Right throughout India, we have representation in many of the other regional centres through the appointment of general sales agents who are responsible for the local promotion of Qantas and Australia.⁹⁴

6.150 On the matter of the amount of airfreight carried between Australia and India, Qantas informed the Committee that the demand for export cargo space through to India on a direct basis has been negligible:

Export freight out of Australia is usually high volume, low value. That reflects the nature, basically, of our primary produce, which is carried by airfreight. We would carry whatever freight were available out of Australia to India if it were available. At the moment the sustainability of the freight side of those services is what we can carry between Australia and Singapore and what we can carry between Singapore and India. ... Certainly the Singapore to India market would be higher yielding freight than Australian origin freight. But that is not to suggest that we would not want to carry whatever Australian freight were available.⁹⁵

6.151 **Land Transport.** Indian Railways (IR) is the world's second largest state-owned railway system under unitary management. A number of private and government-owned Australian rail organisations have won contracts to supply both railway products (eg locomotives - Queensland Rail has supplied surplus locos to IR, and MM Kembla Products at Port Kembla is supplying copper rod and wire for overhead electrification projects) and services (eg consultancy, project management). Interestingly DoTRD points out that these organisations have been generally successful in winning business without seeking any assistance from government, either through Austrade or the Department. AusAID, under its Development Cooperation Program, is funding the construction in Australia of a train driver training simulator.⁹⁶

6.152 **Maritime.** The Australian high speed ocean freight area in the fast ferries industry is actively seeking new markets around the world. The industry works very closely with Austrade in trying to facilitate entry into that market and, according to DoTRD, there have been some studies on commercial routes throughout South Asia and across the Indian Ocean undertaken by commercial entities.

94 Qantas Transcript, pp. 313-314.

95 *ibid.* p. 310.

96 DoTRD Submission, p. S 408.

6.153 There are three areas in which the Australian industry seeks to sell services around the world: in the production and sales of vessels themselves, in the provision of services in terms of servicing those vessels and the technology associated with it, and also in terms of transport as a mechanism from taking a product from A to B.⁹⁷

6.154 During evidence to the Committee, DoTRD pointed out that it is involved in transport and trade issues in support of the Government's economic agenda to expand Australian exports.⁹⁸ However the highest priority of the Department's focus in terms of trade in services or transport trade facilitation is directed towards participation through the Asia Pacific Economic Cooperation (APEC) [of which India is not a member and membership to APEC was closed off for 10 years at the end of last year] and engaging in enhancing bilateral relationships with Indonesia.⁹⁹ Although DoTRD said it is not necessarily structured to examine a particular country but tends to examine regional perspectives, the Committee is concerned that the Department has virtually no focus on India (and South Asia) in spite of the country being a priority for Australia in developing the bilateral relationship and improving trade.

6.155 **Recommendation 29**

The Committee recommends that:

The Department of Transport and Regional Development develop a watching brief on transport infrastructure opportunities in India and South Asia as part of the Australian Government's efforts to build its bilateral relationship and improve trade with India.

Tourism and Leisure

6.156 India is a market which the Australian Tourist Commission (ATC) sees as an emerging market in the medium to the long term. It has the potential to become one of the important emerging markets for the ATC particularly at a time when the ATC is looking to broaden the source of arrivals for Australia.¹⁰⁰ With this potential the ATC set up a representative office in New Delhi in 1997 to focus on developing the market with its increasing middle class and high economic growth rates which creates the potential for outbound travellers. The ATC's strategy has even more significance in the light of the Asian currency crisis which has affected inbound tourist numbers from the more traditional Asian sources.

6.157 Between 1993 and 1996 the number of outbound travellers from India increased by 52 percent and this does not include the Haj traffic. In 1993 the number of Indian visitors to Australia was around 9700 and by 1996 this had increased to 21 000 which represents a 119 percent increase.¹⁰¹ Although the market share doubled it is still a very small share of the total market - the ATC says something like 1.6 percent. Furthermore the ATC says that:

97 DoTRD Transcript, p. 298.

98 *ibid.*

99 *ibid.* p. 301.

100 ATC Transcript, p. 546.

101 *ibid.* p. 544.

... The major competitors for Australia still remain the countries which have long historical ties with India. These are the UK, and Europe as well, but particularly the USA, Singapore and South Africa. It is true to say that these countries have both stronger historical links, and also they are far better known, and the awareness of the attractions is significantly higher than for Australia.¹⁰²

6.158 The ATC provided the Committee with some further interesting figures on the Indian tourist market. In 1996 the 21 000 visitors represented a value of some A\$56 million and to July 1997 the number of visitors had increased to 24 000. The Indian market is significant in that it is relatively high on yield, some A\$2345 per person as against a worldwide average of A\$2213. Currently the break up of the two way tourist traffic between India and Australia is about 60 percent Australians going to India and 40 percent of Indians coming to Australia.

6.159 Sources of visitation are Mumbai - 45 percent, Delhi - 30 percent, and 25 percent comes from the Chennai and Bangalore areas. Most of the visitors come to Australia to visit friends and relatives and the actual proportion which come for a holiday is a low 26 percent. The destinations which are attracting Indian vacation visitors are Perth, Sydney and the Gold Coast and as the ATC notes, if Indians are coming on holiday they travel in fairly large family groups.

6.160 The ATC has estimated that by 2002 the level of arrivals from India will be approximately 80 000 which would represent an overall yield of some A\$200 million. The placement of a representative office in Delhi has increased the marketing span for the ATC. The Commission is now in a better position to concentrate on building the Indian market through its retail training programs which are designed to improve the awareness and the knowledge of the Australian product and the destination with the retail network in India. With the ATC's focus on the Indian market there has been increased cooperation between the ATC and Qantas. Qantas flies to Mumbai via Singapore and there is more capacity available than is being used. The ATC feels that 'perhaps it is time to recognise that services out of Delhi might be necessary as well, which can really start to develop that part of the country...'¹⁰³

6.161 There were a number of issues which the Committee raised with the ATC and these included overstayers and the difficulty experienced by Indians in getting visas (see Chapter 5, paragraphs 5.53 to 5.60). The ATC acknowledged that the most significant development in the whole visa issuing system has been the introduction of the electronic travel authority (ETA). The introduction of the ETA in parts of Asia, Japan and the United States has been very successful in facilitating visits to Australia. It employs the resources of key travel agent partners to undertake the streamlined visa facility and in a country like India the ETA would address the tyranny of distance and time between traveller, especially the 25 percent of visitors from the Chennai and Bangalore areas, and New Delhi and Mumbai where visas are currently issued. The high rate of Indian overstayers from India and the DIMA requirement of close scrutiny of visa applications poses a problem in introducing the ETA system in India. Time will tell if the constraints on getting a visitor visa to come to Australia will significantly impact on the growth of the India market for the ATC. Moreover the

102 *ibid.* pp. 544-545.

103 *ibid.* p. 546.

announcement in the 1998-99 Federal Budget that the Australian Government will introduce a \$50 visa fee in high risk countries, such as India, may well be an added constraint.

6.162 The Federal Government announced in the 1998-99 Federal Budget a \$50 million boost to the funding of the ATC over four years. The Minister for Sport and Tourism said \$41 million will be used to build a presence in new and emerging markets, and to consolidate Australia's image in traditional markets. He pointed out that while Australia is currently facing a fall-off in tourism from some Asian countries, new markets such as India and China offer enormous opportunities for growth.¹⁰⁴

6.163 The Committee is concerned with the lack of consistency in the application of government policy. On the one hand the Government is introducing a \$50 visa fee in those countries which are regarded as high risk such as India and China, and on the other hand providing additional funds to the ATC to pursue the emerging tourist markets of India and China.

6.164 In the leisure and recreation area Australian companies have been active in designing and building golf courses, cinemas, hotels and theme parks. The Committee was particularly keen to gather evidence in this area but due to the business commitments of a number of companies and timing difficulties, it was not possible for them to come to a public hearing. Austrade advises the Committee that there are an increasing number of opportunities emerging in the leisure and entertainment industries and just recently Village Roadshow announced a joint venture with an Indian firm to set up cinema multiplexes in Delhi and Ahmedabad over the next four years.¹⁰⁵

104 1998 Budget Media Releases, 12 May 1998.

105 Austrade Submission, p. S 978.