CHAPTER 7

OPPORTUNITIES FOR AUSTRALIAN INVESTMENT

> ***We welcome foreign investment in areas of our special priority such as infrastructure development, hi-tech, transfer of better management practices, upgradation of product quality to help export capability and critical global marketing linkages. ... no investor who has been given permission hitherto to operate will find the permission withdrawn or narrowed in scope.***[1]

7.1 Australian investments in projects in India have been steadily growing, with investment approvals for projects in India reaching around A$1.1 billion between August 1991 and February 1997. Moreover according to the Indian High Commissioner, this figure is based on approvals and the areas covered by the investment are vast, including alumina, synthetic rutile, data processing services, agro-processing, railway equipment, chemicals, engineering products, leather products and the like.[2] Since August 1991 and up to December 1996, according to the Indian High Commissioner, some 209 joint ventures have been approved in India, and of these 134 have a financial presence and 75 are purely technical collaboration. In 1997 Australia held a 2 percent share of FDI approvals in India (see Figure 5.6 in Chapter 5).

7.2 The Indian Government is encouraging the inflow of foreign direct investment into 'core' areas to overcome the bottlenecks that are strangling the Government's efforts to increase economic growth. The 'core' areas to which the GOI wishes to attract FDI are power, telecommunications, ports, roads, airports, fuel, fertilisers, cement, information technology and metallurgical industries. These core areas provide opportunities for Australian companies to invest in India. Furthermore the Government, as mentioned in paragraph 5.10, has initiated measures to decentralise the automatic approval of foreign direct investment to certain sectors (yet to be identified) by giving states direct jurisdiction to clear foreign investment up to a limit (yet to be determined).

Infrastructure

7.3 Infrastructure development is of critical importance to the future of economic reform and growth in India. There is little doubt that the country is outstripping its infrastructure resources and increased investment is necessary to ensure that India is able to maintain its growth levels.

7.4 The BJP Government recognises the critical importance of infrastructure development to it economic reform agenda in which it has earmarked a GDP growth rate of 7-8 percent. As SMEC notes it is impossible for modern industry to function efficiently if traffic congestion prevents raw materials reaching factories or products reaching ports or if erratic power supplies interrupt production. Moreover access to infrastructure services,

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1 Inaugural Address of Prime Minister Shri Atal Bihari Vajpayee at the National Conference and Annual Session of the Confederation of Indian Industries (CII), New Delhi, 28 April 1998.

2 Indian High Commissioner Transcript, p. 326.

especially in the power, water and telecommunications sectors, is also an indicator of the material welfare of the population.[3]

7.5 Poor infrastructure impacts significantly on business in India. Some 20 percent of the food that India produces is wasted through poor handling and distribution. A poignant example of poor infrastructure and the inefficiencies that result can be found on the Indian waterfront:

> ... we saw a 5,000-tonne vessel unloading field peas in Tuticorin and it was taking 10 days to get her unloaded. They drop a sling into the hold. They had about 30 of these ... fellows, using buckets and their hands, who would throw all the grain on top of it. Then they would pick up the sling and take it out, and they would release it. There was a truck somewhere underneath—a couple of tonner—and about half of it went on the truck and the other half went on the wharf. They would have another lot picking it up and putting it back in the truck. Then they would take it around to a shed and they would drop it on the floor and pick it up and bag it. It seemed to me to be an incredible waste of time. If they could have had some automation there to put the peas into some bulk storage, they could have let the ship go and then they could do what they liked. The demurrage on that is something fearful and it is clearly an impediment to the competitiveness that we ... are trying to get ... [4]

Ports

7.6 There are significant joint venture opportunities in India for Australian companies. P & O Ports Australia is involved in a number of joint venture projects in South Asia including two large projects in India. According to DPIE, until recently, port development projects in India were undertaken by either the Central Government, which manages 11 ports (five on the east coast and six on the west), or the State Governments which manage some 142 ports around the Indian coastline. However port development needs have been constrained by insufficient capital resources. P & O Ports Australia has found that the main advantage of a joint venture is that it involves the resident community in a project with local strategic and economic significance.

7.7 **Jawaharlal Nehru Port, Mumbai.** The Port Trust (JNPT) and Nhava Sheva International Container Terminal Ltd (NSICT) a consortium led by P & O Ports signed an agreement in June 1997 for a two berth container terminal. The terminal will be built on a BOT basis and the license is for 30 years. The first ship is scheduled to berth in 1999 and the project completed by the year 2000. $200 million is being spent on this project.

7.8 **Vadhavan, India.** P & O Ports have a letter of intent to build at Vadhavan at Dahanu, north of Mumbai. A nine months company feasibility study on this major general cargo facility commenced in 1997. The one billion dollar port will be the first private port in India. Apparently the company has yet to receive environmental clearances.

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3 SMEC Submission, p. S 927.

4 Pulse Australia Transcript, p. 29.

7.9 P & O Ports attributes its success in India to long-term preparing of the ground - not just for physically building terminals, but first of all lobbying to create a legal and administrative environment in the country that can support large projects and investments. P & O Ports opened an office in Mumbai in 1995 and it is now a full subsidiary - P & O Ports India. The company persuaded, lobbied and advised the key ministries, and as a result got a much stronger set of rules and guidelines in place for port tenderers to work with.

7.10 Both of the major projects offered by the Indian Government to date have gone to P & O Ports and the Maharashtra State Government itself has come into the Vadhavan project as a 10 percent shareholder. The company's success in India could not have been achieved without the local office.

7.11 Although India, according to P & O, suffers a perpetual liquidity crunch this has not stopped regional and local banks queuing up to get into the two P & O projects and the company sees no problem in reaching a 70/30 debt to equity ratio at Vadhavan.

7.12 P & O informed the Committee that generally it limits its liability to the port and the 'wet' side of the business, but a critical factor in the success of the port development projects in India is to have the road and rail facilities in place so that product can be moved. P & O have back-to-back agreements to ensure that facilities for the road and the rail will be there.[5]

Roads

7.13 Roads carry 60 percent of passenger traffic and 80 percent of freight traffic.[6] Austrade told the Committee that over the last 30 years car growth has been 80 times with road growth just twice.[7] The annual growth of road traffic over the next decade is projected to be 7-9 percent and the national highway system needs A$20 billion spent to upgrade it and the state highway systems need a similar amount.

7.14 Austrade points out that there are opportunities for Australian companies in this sector with interest having been shown in construction, the provision of aggregate and concrete, and equipment such as kerb making equipment, and in actually operating the tollways.[8] Just recently the National Highway Authority of India put out a tender proposal for highway construction and maintenance. It invited proposals from interested enterprises which could be a firm, company, a joint venture or a consortium or an individual of Indian or foreign origin, for the construction, operation and maintenance of a number of national highway networks on a BOT basis.

Power

7.15 Heading the infrastructure list in terms of opportunity, according to Austrade, is the power sector. At the present time there is a 20 percent shortfall at peak demand. India needs an additional 142 000 megawatts of generating capacity over the next 15 years, and of

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5 P & O Ports Australia Transcript, p. 646.
6 DFAT Submission, p. S 755.
7 Austrade Transcript, p. 256.
8 ibid.

this 87 000 megawatts would need to come from private developers - at an estimated US$160 billion.[9]

7.16 The opening of India's power sector to domestic and foreign companies has led to around 250 project proposals worth over US$100 billion, and involving some 93 000 megawatts of capacity.[10] Most of these projects are still on the drawing board, with eight having been fast tracked. As Austrade notes, probably over the next two or three years there will be six or so power stations getting underway with two-thirds of the power needs to come from the private sector.[11]

7.17 Opportunities which Austrade has identified for Australian companies are the supply of fuel, especially coal, supply of equipment, and operating the power stations and transmission lines.[12]

Information Technology and Telecommunications

7.18 TOOS 98 points out that information technology and telecommunications (ITT) - both hardware and software - comprise a critical element in the performance of individual economies and in their increasingly globalised linkages.[13] India is a world leader in computer software and its software industry is growing by 50 percent per annum. With its global competitive edge, India has been targeted as one of the major areas for Microsoft operations.[14]

7.19 Australian ITT exporters face a range of tariff and non-tariff barriers especially in the markets of most interest which includes India. India signed the Information Technology Agreement (ITA) in December 1996. By 2000 the Agreement will eliminate tariffs on a wide range of ITT products (computers, software, semiconductors, semiconductor manufacturing equipment, telecommunications equipment and scientific instruments. The ITA was implemented on 1 July 1997, with the first of four equal reductions in tariffs on ITT products worth about US$595 billion a year (about 10 percent of the world merchandise trade).[15]

7.20 The tariff barriers to trade in the Indian ITT market before the implementation of ITA were an average tariff of 29 percent to a maximum of 42 percent. ITA tariffs will be zero by the year 2005.

7.21 WTO negotiations on basic telecommunication services (voice telephone, facsimile, telex, etc) were completed on 15 February 1997. It is pointed out in TOOS 98 that the commitments will lead to new export opportunities for Australia's telecommunications sector and lower prices for international telephone calls from Australia, due to increased competition. In addition the agreement will bring a new level of predictability to trade in

9 DFAT Submission, p. S 755.
10 ibid.
11 Austrade Transcript, p. 256.
12 ibid.
13 TOOS 1998, p. 165.
14 Indian High Commissioner Transcript, p. 328.
15 ibid. p. 169.

basic telecommunication services because the commitments are subject to legally binding WTO enforcement and dispute settlement processes.[16]

7.22 Australian companies will have increased market access opportunities in India as a result of the negotiations. India will review opening up its long distance market in 1999 and its international market in 2004. Furthermore India will commit to regulatory principles in full. In January 1997 the GOI announced that telecommunications would be treated as infrastructure which means 'that benefits available to sectors such as power, including tax holidays and concessional duties, will be available to basic and cellular services'.[17]

7.23 Telstra has been operating in the Indian market for a number of years opening its first office in India in 1994 to position itself to take advantage of certain licenses and opportunities that were coming up. It has two businesses in India, both joint ventures. One is a license to operate mobile telephone services in Calcutta. Telstra has a 49 percent shareholding with a local partner, the Modi Group, and the company is called Modi Telstra. This venture was the first mobile network service to be launched in India. There were no mobile phones in India in 1995 and the growth has been extraordinary. One factor which has influenced this growth, especially in the cities, is the poor fixed network system.

7.24 The second business is a joint venture called Telstra V-Comm which offers business customers in India satellite-based connections between and among the cities as well as covering remote areas. Telstra's partners are the Indian company VSNL, which is the international telecommunications provider for India, and an investment bank called IL&FS.

7.25 Telstra had a contract with the Department of Telecommunications, the monopoly fixed network operator in India, to provide them with network management services on a contractual basis in Chennai. This contract concluded last year. Telstra pointed out to the Committee that Australia has a very good image in India especially in the light of the training being based on Australian-type technology.[18]

7.26 There is now a clearer regulatory structure following the establishment of the Telecommunication Regulatory Authority of India (TRAI) last year. The big challenge for India is to meet the increasing demand for services. Telstra told the Committee that even though India is committed to opening up its long distance market for telecommunications by 1999 and the international market by 2004, from what they have seen in the past these time lines are not always met.[19]

Mining and Minerals Exploration

7.27 The Indian mining industry is dominated by Central and State Government-owned enterprises which account for 90 percent of production. While the Indian minerals sector was opened up in 1993 to participation by foreign firms, the current mining framework, according to DPIE, still poses difficulties for foreign investors.[20]

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16 ibid. p. 172.
17 Exhibit No. 74.
18 Telstra Transcript, p. 604.
19 ibid. p. 606.
20 DPIE Submission, p. S 876.

7.28 India's opening to foreign investment, according to DPIE, is creating useful opportunities for Australian explorers and miners to add to their already considerable global exposure. Furthermore it will create valuable marketing opportunities for Australian suppliers of mining-related equipment, technology and expertise.[21]

7.29 At the 11th Meeting of the India-Australia Joint Business Council held in Sydney in September 1997, the Immediate Past President of the Federation of Indian Mineral Industries, Mr R Thakore, provided a profile on recent developments and investment opportunities in India's mineral sector. He noted that in January 1997 the GOI decided to allow automatic approval of up to 50 percent foreign equity participation in mining, except in the case of gold, silver, diamonds and precious stones. Other decisions include:

- upgraded the ceiling for automatic approval of foreign equity to 74 percent in the case of services incidental to mining of minerals other than gold, silver and precious and semi-precious stones - this includes activities such as drilling, shafting, reclamation of mines, surveys and mapping etc;

- the inclusion of a number of base metal and alloy industries on the list for which approval of foreign equity participation up to 74 percent would be automatic;

- for companies seeking to set up a 100 percent wholly owned subsidiary permission may be given subject to the condition that in case the company wishes to enter into a joint venture for investment in mining where a foreign equity holding in excess of 50 percent is envisaged, prior approval of the FIPB would be taken.[22]

7.30 Mr Thakore pointed out that the FIPB had cleared some 36 proposals in the mining sector involving an investment of more than US$500 million and while this is somewhat low, he says that the Indian mining sector has the potential to attract foreign investment of up to US$2 billion.

7.31 A major impediment to companies undertaking geological prospecting has been the policy of confining exploration to small areas only. In October 1996 the GOI issued guidelines which, according to Mr Thakore, considerably enhanced the maximum area for which prospecting licenses could be granted from the earlier limit of 25 square kilometres. The new guidelines, he said, will allow applications for prospecting licenses up to a ceiling of 5000 square kilometres for a single prospecting license, and a total aggregate area of 10 000 square kilometres per company for the whole country. However this grant of large areas will be linked to a scheme of relinquishment. In fact the relinquishment requirements are subject to an extremely tight timeframe, which leaves the licensee at the end of three years with an area of only 25 square kilometres.

7.32 Moreover DFAT points to other stiff policy issues such as no allowance for contract mining, the need for stronger assurances and incentives for prospectors and some expedited relief from the 'red tape' affecting lease approvals for projects such as aerial prospecting. Royalty rates are another issue and although a reduction in the rates are being

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21 ibid. p. S 877.

22 Mr R Thakore, 'Presentation on India's Mineral Sector - Recent Developments and Investment Opportunities', *11th Australia-India Joint Business Council Meeting*, 1 September 1997, Sydney.

looked at by the Central and State Governments progress is slow - royalties are an important source of revenue.[23]

7.33 A new coal mining policy was announced in February 1997 which moves towards breaking the government monopoly on coal and lignite mining. The change paves the way for private sector involvement in mining and distribution but this is limited to Indian companies only. However the Indian companies, subject to FIPB approval, will be allowed to contain appropriate levels of foreign equity. The scope for further work with the Indian Government on coal and its infrastructure requirements was discussed in Chapter 6.

7.34 In terms of investment opportunities, Mr Thakore noted that while India has performed fairly well in the field of conventional mineral exploration, it has lagged behind in developing exploitation operations of its resources to optimum capacity. As a result a number of low grade deposits, he says, are currently being considered commercially unviable even though many of them are exploitable as per global standards. Furthermore he adds that it is expected that the induction of modern technology and required capital in the mining sector through foreign participation can reap rich dividends within a short time, either through independent investment or through the vehicle of joint ventures.[24]

7.35 BHP has already taken advantage of the opportunities, noting in evidence to the Committee that it was fairly well advanced with Indian partners for joint ventures in thermal coal mining and iron ore mining. With India opening up its mining sector BHP has been active in exploration programs particularly for zinc and there is the potential in the longer term for beach sands which, at the time the company gave evidence to the Committee, India regarded as a strategic mineral and therefore not available for mining by foreigners.[25]

7.36 In 1997 an Australia India Mining Network was established to strengthen contacts and encourage cooperation to achieve best practices in India's mining and environment management.

7.37 The Indian Government is expected to announce a new mining policy in the very near future.

Agri-Food

7.38 Food processing is an area which the Indian Government has cited as possibly providing new opportunities for Australian joint venture projects. Currently Australian investment in the food and beverage sector is limited.[26]

7.39 Although agriculture dominates the Indian economy, agricultural production is carried out on a small-scale and is primarily for domestic consumption. There is a significant amount of wastage in the food chain through inefficient transport, storage and handling systems. Processing and packaging of food is small and the use of modern technology and methods is limited.

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23 DFAT Submission, pp. S 753-754.
24 ibid.
25 BHP Transcript, p. 233.
26 Fosters Brewing recently announced its move into the Indian beverage market.

7.40 There is an increasing demand in India for processed and packaged foods, better quality foods including value added dairy products and frozen and processed meat products due to rising incomes and changing tastes.[27] As noted in Chapter 6, Pulse Australia is moving towards providing packaged product into India which has been made possible as pulses are on the free import list.

7.41 Under the New Industrial Policy (the objective of which is to invite and facilitate foreign investment) revisions, the Indian Government is encouraging foreign investment participation in the manufacture of food products with up to 51 percent foreign equity in food processing ventures being automatically approved. Food product manufacture includes meat, dairy, fruit and vegetables, sauces, jams, jellies and marmalades, fish, flour and grain milling, salt and cocoa products. This is likely to offer opportunities for Australian investment and joint ventures in the areas of dairy processing, fruit and vegetable processing and grain and pulse storage and handling.

7.42 The opportunity for Australia in the agri-food field is best summarised by DPIE:

> Australia as a source of high quality food and raw materials and our leading edge technology in agricultural production and processing techniques and world class research and development facilities and [sic] provides a strong base for joint ventures and collaboration between Australian and Indian agri-food partners in improving agricultural production systems and yields. Australian expertise in infrastructure including storage, warehousing, handling and distribution systems could also offer opportunities for Australian companies to invest in India in food processing systems and related goods and services sectors (eg equipment and machinery).[28]

7.43 Furthermore DPIE says this strategy would help to overcome the barriers to Australian food exports to India. Foreign involvement in the Indian consumer goods sector is particularly difficult and foreign investors have to make a strong case for their involvement. Indian Finance Minister Yashwant Sinha has indicated that foreign investment would be welcome, in reference to the Indian processed food industry, if it brought high technology or good packaging for export oriented production in India. A feasibility study of potential areas for bilateral collaboration in agribusiness and food technology is under consideration, with the CSIRO to undertake the work with the AIC providing funding.

7.44 With the market for value added food products in India tipped to treble from A$21.4 billion to A$62.5 billion by 2005 and Australia already exporting in the major food categories of grains, dairy and horticulture, the Australian Government's *Supermarket to Asia* strategy is well placed to capitalise on the potential in the Indian food market (albeit a very difficult market) for Australian agri-food exports.

7.45 **Recommendation 30**

The Committee recommends that:

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27 DPIE Submission, p. S 869.

28 ibid.

The Australian Government, under its *Supermarket to Asia* initiative, work towards developing a market profile of India for Australian agri-food exports.

Insurance

7.46 India's insurance sector is closed to private participation having been nationalised and operated by the Central Government since 1973 for general insurance and 1977 for life insurance. In January 1996 the first step towards liberalising the insurance sector was taken with the establishment of a three member interim independent regulatory body under the Finance Ministry, the Insurance Regulatory Authority (IRA).[29] A government study, the Malhotra Report, had recommended the insurance sector be opened up to outside competition once a regulatory body was established. The Insurance Regulatory Bill was before the previous Parliament having been introduced in 1996. The Bill struck strong opposition from left parties, including the BJP, and trade unions, and lapsed following the dissolution of the Parliament late in 1997. The 1997-98 Budget announced that health insurance may be provided by the two government insurance monopolies in joint ventures with Indian controlled companies, and the IRA would become permanent.[30]

7.47 The BJP-led Coalition Government has indicated it is in favour of introducing competition in the insurance sector, as reform of the sector will enable strengthening of the Indian financial sector. The Government does not believe in the monopoly of the public sector in insurance and will open it up primarily to the Indian private sector. The Government will provide a strong regulatory framework for liberalised arrangements and allow 'other Indian companies' to participate in the market. The question is what constitutes an Indian company for insurance purposes. This issue is still under consideration and includes the question of the level of foreign joint venture participation in Indian insurance companies. The Director General of the CII says that the Insurance Regulatory Bill might be presented to Parliament soon and this year it expects a major restructuring of the existing state-owned players in the insurance sector.[31] As Austrade says, the opening up of the Indian insurance market is a question of 'when' and not 'if'.[32]

7.48 Australian insurance companies are very interested in entering the Indian market and according to DFAT these include National Mutual, QBE Insurance, Legal & General Australia, Colonial Mutual Group, FAI Insurance, HIH Winterthur, AMP Society and the Lend Lease Corporation. With India being one of the least insured countries in the world, the opening up of the market offers great scope for Australian businesses. Australian companies will find stiff competition from the Americans who are eyeing off the market.

7.49 One Australian company which is positioning itself in the Indian market in advance of the opening up of the insurance sector is GIO. In early March 1998 GIO announced its plan to enter the Indian insurance sector in association with the Sanmar Group located in Chennai. The two companies have already formed a joint venture to provide broking services in the government securities and other short term wholesale debt

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29 DFAT Submission, p. S 756.

30 ibid.

31 *AAP*, sourced from Asia Pulse, New Delhi, 31 March 1998, 'Indian Government committed to reforms: business council', 31 March 1998.

32 Austrade Submission, p. S 977.

instruments. The company GIO Sanmar Gilts Ltd has become one of the top ten fixed interest broking firms in the country.[33] Furthermore both groups had agreed in principle to promote joint ventures for broking, merchant banking and risk management services, with the risk management services being the forerunner to a joint venture for insurance business when that sector is opened up.

7.50 The Indian Government officially announced in the 1998-99 Budget, brought down on 1 June 1998, that it would open up the insurance sector for competition from private Indian companies. The other insurance announcement in the Budget was that the IRA would be converted into a statutory body.

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33 *AAP*, sourced from Asia Pulse, Chennai, 9 March 1998, 'Australian insurer GIO plans to enter Indian market', 9 March 1998.