COMMONWEALTH OF AUSTRALIA

JOINT STANDING COMMITTEE

on

FOREIGN AFFAIRS, DEFENCE AND TRADE

(Trade Subcommittee)

Reference: Australia's trade relationship with India

SYDNEY

Friday, 12 December 1997

OFFICIAL HANSARD REPORT

CANBERRA

JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE

(Trade Subcommittee)

Members:

Mr Sinclair (Chair)

Senator Forshaw (Deputy Chair)

Senator Chapman	Mr Brough
Senator Childs	Mr Dondas
Senator Margetts	Mrs Gallus
	Mr Hollis
	Mr Nugent
	Mr Price
	Mr Slipper
	Mr Stephen Smith

Matter referred:

Australia's trade relationship with India and to consider the emerging economies of South Asia, and report on such areas as:

India's economic significance for Australia, and the opportunities for expanding trade and investment;

the prospects for continuing economic reform and trade liberalisation in India and the implications of this for Australian trade and investment;

India's growing economic engagement with Asia and the Indian Ocean region;

South Asia's emerging economic significance for Australia, and the potential implications of closer economic cooperation amongst South Asian countries, including through the South Asian Association for Regional Cooperation;

trade and investment opportunities for Australia in Pakistan, Sri Lanka and Bangladesh.

WITNESSES

JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE

(Trade Subcommittee)

Australia's trade relationship with India

SYDNEY

Friday, 12 December 1997

Present

Mr Sinclair (Chair)

Senator Chapman	Mr Dondas
Senator O'Brien	Mr Hollis

The subcommittee met at 10.01 a.m.

Mr Sinclair took the chair.

DUNCAN, Mr Travers William, Group Managing Director, White Industries Australia Ltd, 60 Miller Street, North Sydney, New South Wales

WHITE, Mr Geoffrey Bernard, Chairman, White Industries Australia Ltd, 60 Miller Street, North Sydney, New South Wales

CHAIR—Welcome. Our inquiry is into Australia's trade relations with India. We do not require witnesses to give evidence under oath but, at the same time, we need to stress to you that the proceedings are proceedings of the parliament and need to be treated as such. The subcommittee prefers that all evidence be given in public but, if you wish to give any evidence in private, please ask us and we will consider whether we can do so. Would you like to make a short opening statement? And then we can have a discussion about what sounds like quite a fascinating time you have had in India.

Mr White—Yes. Our company was awarded a contract to build an open-cut coal mine in India, as well as a coal preparation and coal handling plant, together with train loading facilities. The contract totalling about $550 million was awarded to us in 1989, and the funds for the project came from Coal India Ltd, plus $206 million of Australian money loaned to Coal India, with no interest and drawn down over five years and payable back over 10 years. Coal India has already made seven payments out of 20 payments, and so the scheme is working quite well. The $206 million which was advanced by EFIC to Coal India had a DIFF grant of about $61.5 million and had to be spent on plant, machinery and goods sourced in Australia, which we managed to achieve.

The project was completed on 24 October 1997. It was not without difficulties but it has satisfactorily been completed, and we achieved targets over a six-month period in over-burden removal and coal mining, which entitled us to earn bonuses. That was done about 18 months ago. We also achieved completion of the six-month trial of coal handling and coal washing in October this year and, again, we earned a bonus. I might say that we have not been paid yet. The project was a very satisfactory project. The Australian government, through AusAID, commissioned BHP Engineering and Kinhill to do an in-house audit on our performance. I would commend that report to your committee.

CHAIR—I have just received it. It is No. 111 and it is in the proceedings.

Mr White—It is quite a complimentary report. It covers all aspects and describes the difficulties we faced. Most of the difficulties we faced were connected with land and relocation of villages, but it also describes the benefits of this mine. The Piparwar mine is a world-class mine, not to be compared with some of Coal India's other mines.

The coal mining industry in India produces about 240 million tonnes per annum. This mine is delighted to produce 6.5 million tonnes of raw coal per annum and 5.25 tonnes of washed coal per annum. The coal is very much in demand because it is the only mine that washes the coal. It has the first coal washing plant on a thermal coal mine in India.

The development of the mine was typical of what we do in Australia—open cut, fill in the holes and regenerate. It has been awarded just about every award in India for industrial development. Forestry take over the land after we reclaim it and the whole area is regenerated. It is the only reclaimed land that forestry have ever taken back in India, so a lot of good things are happening there.

We believe the Pipawar mine is an environmental triumph in India, and not to be confused with adjoining mines. We did a lot of good internally with the villages in what is a very difficult state in India. The Bihar State of India is a traditional communist state occupied by a lot of what they call the aboriginal Indians—the original people. I would not say poverty is high, but it is the poorest state in India and it is the state that has got most of the coal. I will ask Mr Duncan to expand on the project because he knows it more intimately than I do, but we believe the DIFF aid given to India needs to be continued if we are to continue with this assistance. There does not seem to be any problem. They are paying back the money.

CHAIR—Although you have not been paid yet?

Mr White—No, they are paying back the Australian government for the money that—

CHAIR—So the government is paid, but you are not?

Mr White—We have been paid on the way through. There are still moneys outstanding but I dare say we will fight our way through that. I have tabled some papers from the mine. It is a very modern mine by world standards.

CHAIR—Mr Duncan, could you tell us a little bit about the replacement of villages, what was done with them, who did it and what sort of compensation has been payable to them, because obviously that is going to be something we need to have in mind.

Mr Duncan—I am Managing Director of the White Industries Australia group. I have had direct line responsibility on this particular job for the people in India. I will just correct and expand on a couple of numbers that Mr White put forward. The $206 million was provided by EFIC, supported by a $61½ million DIFF grant to EFIC. It was a no-interest loan to Coal India. They have already repaid $72.26 million, so we in Australia have got back now more than we put in to get the project started.

CHAIR—Was the contract in rupees, in Australian dollars, or what?

Mr Duncan—The contract was in Australian dollars but it was circulated through deutschmarks, which EFIC protected and purchased the total amount of in advance. The Indian side was supposed to have done the same thing. They took a currency judgment and did not do it, and the currency judgment went against them. So the cost of the project to them was about double what it should have been, because the rupees ran from about 18 rupees to the dollar to currently about 26; but they are still totally honouring their position.

There were about 370 or so village families relocated. They were moved into substantially better housing, which was arranged via these funds, in new locations. They were moved on religious and village grounds: that is, Muslim people were moved near another Muslim village, and Hindu people were moved near another Hindu village. They were moved in the same general region. The villages they were moved from had only a common well, no electricity, no water and no health services. The new villages were provided with schools, with a room for first-aid and medicals with the visiting doctor from Coal India that came there, and with electricity and water.

I will give the exact numbers of what we did. The project included one hospital with 30 beds, with four male doctors and two female doctors. It was most important to have female doctors, because of the religious sensibilities in the area. There were three primary schools done, one secondary school, one high school, and no colleges. A bank, a post office and a cooperative were set up. There were four school buses and other buses provided for conveying employees to the mine. There were 698 houses built, and 16 houses were built to European standard for our people to live in.

Also, 750,000 gallons per day of potable water was provided and distributed throughout the mine area and villages. Double that amount was provided for industrial usage. A farming system was started, to teach the villagers who were relocated and who had no land bank to support them in the new position about multi-layer farming: growing nuts and fruit trees, fish farming, beekeeping and things of that nature. There was an adult literacy program put in for 250 adults. There was a health immunisation program started, whereby rooms were provided in all the villages and the doctor from the main hospital would go around and the villagers could get there.

There was a non-conventional energy program started, using animal waste to generate gas in the area. There was a craft development area for training for self-employment in two locations, for 30 ladies and 10 men at each location. Ten crore rupees, about $500,000, was provided for educational grants and various other of those activities. That $500,000 does not sound a lot of money when you think of several thousand people; but 10 crore rupees, which that represents, is an extremely large sum of money in those areas, in their own currency terms.

Mr White—What are the average wages there, Travers, per day?

Mr Duncan—They are about $1 per day, about 25 to 30 rupees per day.

CHAIR—What about the land that they were working? Didn't most of them have agricultural land or something? Is that why you have these alternative initiatives?

Mr Duncan—If they had agricultural land, depending upon the amount of land they had, they were guaranteed a job with Coal India if it was in the area that was going to be worked over or mined out and reclaimed. So they were provided with a job and a certain amount of compensation for their land. If they were not provided with a job, they could get a pension for up to 20 years.There were comments that, while these were regulations, some of this money was skimmed off by some of the management. I am not aware of that and our people are not aware of it, but it was said that that happened.

We managed to establish two Lions clubs in the area and affiliate them with Lions clubs in the mining areas of Queensland. Together those groups provided a first aid centre plus an ambulance for the villagers to use. There were 2,830 man-days of training of Indian personnel back in Australia, 5,000-odd days of training on site and another 3,000-odd days of training in facilities in the area. In the last three years of our operation, 250,000, 350,000 and 270,000 trees were planted in reclamation. The hardest part of our job was dealing with delays because of relocation of families and land.

Mr White—And trees.

Mr Duncan—And sacred trees. Sacred trees could become un-sacred by a ceremony, payment of money and identification of another tree that the family spirits could move to.

CHAIR—When we were talking out there, you spoke about some of the security problems. I thought it might be worth while mentioning those, and I wonder if you could also tell us whether there were any visa difficulties in getting Indians into Australia for training.

Mr Duncan—As far as visas are concerned, we had no difficulty at all. The Australian High Commissioners—the three who were there—were extremely helpful during the course of this exercise. The problem mainly was, from the Indian side, getting them a passport to submit to the Australian side. Except for the top echelon in the organisation, none of them had any passports or history so it was a fairly long, drawn out process for Coal India.

CHAIR—Do they have birth certificates and things of that sort?

Mr Duncan—Yes, but not all of them did because a lot of them are in the village. One of the problems was that the land records are kept in a big book and they are written up by what they call the circle officer. In some areas the book had not been written up for maybe 10 or 15 years and there was a drawer of bits of paper, and you would have to shuffle through it. It had not been written up in the book.

CHAIR—So you have got a few people who are not registered and are about, and the statistics are probably a bit understated.

Mr Duncan—Yes. As far as security was concerned, we had a number of events but the state police provided an officer of about lieutenant level who travelled with our general manager. If the wives and children went out, they provided officers. They had a barracks at the gate of our compound where there were state police, and Coal India had their own police force and provided security. My view was that it was provided not because our people would get hurt but because of kidnapping and ransom activities.

CHAIR—Who was the threat from?

Mr Duncan—In the area where we were working there is the Maoist people's party and another one called MKK. They are heavily related to communism in that area and heavily related to the aboriginal people, who are viewed as quite low caste by other parts of the community.

CHAIR—Were any of them relocated to the villages?

Mr Duncan—Yes, some of them were relocated with great difficulty. Indians can be quite aggressive. They are not necessarily meek and mild people. Besides spears, knives and swords, there are a substantial number of old shotguns and old World War I 303-type weapons around.

CHAIR—Within the project, did you have any instances of violence? Was the violence mainly outside, apart from the security—

Mr Duncan—The violence was mainly outside, except that a few times our people's cars got stoned, but there were no firearm problems with our European people. The road went through two areas of forest between the main town, Ranchi, and the mine site, Piparwar, about 70 kilometres away. Coal India placed a rule on us that we were not allowed to go through the two forest areas after dark because they were occupied by what they call Dacoits. They would regularly hold up the local buses and rob the passengers and that sort of thing.

CHAIR—Who was the project actually undertaken by? Was it a state instrumentality or a federal instrumentality?

Mr Duncan—It was a federally owned corporation. Coal India Limited was the corporation, but all the shares were owned by the federal government, and then they had geographic areas called Central Coalfields, South East Coalfields, Northern Coalfields, and they were also corporations, but 100 per cent subsidiaries of Coal India Limited, of which all the shares were owned by the government. The repayment of the loan was guaranteed by the federal government.

CHAIR—So the site was determined by Coal India.

Mr Duncan—Correct, but with a lot of guidance from us. A number of missions on mining came to Australia from India. They saw the Ulan Mine in New South Wales which, at that stage, we owned and had developed. They saw the technology we were using there, which was not used in any other coalmine in Australia at that stage. It had geology which fitted several areas of geology in India, so it was able to almost take that. During a visit by Mr Ghandi to Australia, when Mr Hawke was the Prime Minister, I think the conversation went along the lines of, 'What can we do for you?' and he said, 'I want one of them'—which was the Ulan technology in that area. That was the background.

CHAIR—That was the genesis of it. Presumably, the coal is going straight to generating power.

Mr Duncan—Straight to a power station.

CHAIR—Where is the power station?

Mr Duncan—It is near New Delhi. It supplies the New Delhi area. They cart it for about 1,100 kilometres by rail from this area to New Delhi.

CHAIR—So it all goes by state owned rail trucks.

Mr Duncan—It is all state owned.

CHAIR—So the point of delivery for the coal is at the railhead, is it?

Mr Duncan—That is correct, then it goes straight to there. Our contract was at the mine, but we delivered it to Coal India at the top of the mine, and they then trucked it to the railhead.

CHAIR—In road trucks?

Mr Duncan—They had something like 300 10-tonne trucks roaring along the road because there was a gap in the railway line where they could not get access to the land to build that piece of railway. The land was controlled by a village controlled by the MKK.

Mr HOLLIS—I was very interested in reading about what you have done. Are there similar possibilities in India?

Mr Duncan—There are a large number of them. There is one that we could readily identify, and I was going to suggest that one of the proposals for trade in India is a repeat of this type of transaction, because there are geological areas very close to where this work has already been done which could be introduced and done in that area at less cost because it would be able to live off the infrastructure of this project.

Mr HOLLIS—Do you get cooperation or hassles from the Australian end?

Mr Duncan—There is some resentment at the technical level in Coal India Limited—a 'don't teach us to suck eggs' sort of attitude. There is a highly educated engineering class in Coal India who do not get their hands dirty. The majority of people we provided after we did all the engineering technology were more like the superintendent or top foreman level people who actually knew how to work the machinery.

Mr HOLLIS—That is the Indian end. What about the Australian end? Any problems here? Did you get encouragement?

Mr Duncan—We got a great deal of support from EFIC, who insured us. We had somewhat of a dispute towards the end with EFIC where, when the contract was extended by 18 months, EFIC would not extend our insurance by 18 months. So we were uninsured for that period.

Mr HOLLIS—On a more general level—you have been specific with coal and so on—one of the things that some people have said to us, looking more broadly at the trade relationship, is that Australia does not really work on the relationship. We do not work negatively or positively; we very much take India for granted, and maybe the Indians take us for granted. In that way, there is not a lot done to develop a relationship at all. By this rather negative attitude, we are missing potential there for trade and investment in a whole range of fields. From your experience, would you say that is true? Or it is exaggerated?

Mr Duncan—It is a bit exaggerated, because the gestation period is quite long. It means that you have got to commit time and funds and commit to the project. So you have got to have someone who is dedicated to getting that particular activity going. Some of the major companies, CRA and BHP and so on, have put in organisations and spent a large amount of money but are frustrated by the amount of time to get things done and by the level of bureaucracy. Dealing with the bureaucracy is very difficult. Because of the way the Indian economy has been, such that it has been virtually run by issuing licenses for various types of businesses to selected people, the government ministry and the IAS—the Indian Administrative Service, a special echelon of the public service—have massive influence and can either cause things to happen or cause things not to happen.

Mr White—Can I just cut in there? Apart from Piparwar, we export about 500,000 tonnes of hard coking coal from our Queensland mines into India, and we have a good relationship with TATA and SAIL. As well, we are registered as the civil engineering contractor to build some dams in India, using such new technology as roller-compacted concrete, in which they have not got the necessary expertise but in which White Industries has. We have built three dams using that technology. We have been invited to participate in that. When it will happen, I do not know; but we are one of the few registered companies involved.

We have tried enormously hard to get more work in India. We had great dialogue with the past Chairman of Coal India, Mr Choudaray, and he was very keen to joint-venture the development of more mines. We would be in that and would put up our own money. Even if we got paid in rupees, it would not matter to us: we would probably invest it in India anyway, because it is a very emerging market and we should tackle it and assist development there. Unfortunately, Mr Choudaray retired, and there does not seem to be much enthusiasm for joint ventures from the new chairman.

Our latest approach to work in India is to talk to the ministry of coal and to take a 49 per cent interest in the development of new fields. All the fields are owned by Coal India. Coal India have a 25 per cent interest and maybe an industry leader like TATA, or one of the steel, cement or power authorities, take a 26 per cent interest and we will develop the mine for them. We are trying that. We have tried very hard to get repeat work.

Mr HOLLIS—It is interesting that you said that you do not mind being paid in rupee. You must be a bit of an exception there, because a submission that was put up to us stressed how difficult it was because of the non-convertibility of the rupee. They were talking about payment and how difficult it was, firstly, to get the payment and, secondly, when the payment came, to get it converted into Australian currency. What they were doing was, they were paying in Australia—

CHAIR—I was trying to think. It was one of the education ones, wasn't it? You remember those ones, Jane?

Mr HOLLIS—Somehow they were paying in Australia for services in India, because they could not get the money from India to Australia.

Mr White—The desirable thing is to get paid in US or Australian dollars. If you do a 100 rupee job in India, you are going to spend 90 rupees getting the job done in India. So you only have to worry about 10 per cent anyway, because you are going to pay your wages in rupees—you are going to pay your goods and services in rupees. If you make a 10 per cent profit on the job, you only have to worry about 10 per cent, don't you?

Mr DONDAS—And reinvest it.

Mr White—And reinvest it.

Mr Duncan—There are other ways of dealing with it. Remember our transaction, where we took product and we sold it to another trader who sold it to another trader, who got phosphate and we got paid. So we bartered our way out of it.

Mr DONDAS—The barter system.

Mr Duncan—But you can only do that, if you have got selected product. Education that you sell is something that you cannot barter your way around. But if you had a bushel of wheat or a bale of wool, you could—

CHAIR—I am just interested in aid or the lack of the DIFF project or EFIC cover and whether they have been factors in your not being able to get further work?

Mr White—It has been an enormously important factor. It is a pity that we have cut it out because it was an interest-free loan and it has been paid back quite honestly. When you get the facts of this, India produces 240 million tonnes of coal, as I told you. The output of a man employed in open-cut mines, which is what we look at, is probably one tonne per man employed. We are used to 60s and 70s. Piparwar Mine is 35. So the training we put into this mine is really terribly important to them. We have taught them that the environment is so important. When it comes down to actual dollar terms, the Piparwar Mine, for 6½ million tonnes of coal, earns about half of Coal India's profit for the year.

CHAIR—How many other mines have they got—many?

Mr White—They have hundreds. They get 240 million tonnes and 6½ million tonnes from Piparwar earns half of their profit for the whole year. So imagine how bad the other ones are. When you drive into the Karanpura Valley, there are fires everywhere. You would think it was Christmas time. If you go in the night time, there are fires everywhere because—

Mr Duncan—Because of the poor mining practices. I would like to comment further on the aid issue, if I could.

Senator O'BRIEN—Don't take all my questions.

Mr Duncan—DIFF gave $61.5 million to EFIC. EFIC made a $206 million loan. Of that $206 million, $153 million was spent on goods and services in Australia, of which $88.9 million went in direct wages and salaries to the people who produced the goods and did the engineering and everything else. So we gave $61 million. We get the $206 million back. We generated nearly 3,000 man years of work in wages.

Senator O'BRIEN—In Australia?

Mr Duncan—In Australia. And that does not account for the wages we generated spending some of Coal India's other $300 million in Australia. That is just the $206 million that EFIC put up.

Senator O'BRIEN—Have you a figure for the total job generation in Australia?

Mr Duncan—No. I cannot give you one. As part of our EFIC exercise, we had to keep track of all the wages and money from the $206 million, but we were not required to keep track of all the wages in Coal India's bit, and so we did not go to the trouble of that exercise. But it was substantial.

Senator O'BRIEN—Is there any rough multiplier you can apply to the figure you gave?

Mr Duncan—I would have thought it would only have been about $25 million or $30 million out of theirs, because the large part of it was spent in India, and we only got spares and small stuff.

Senator O'BRIEN—About another one-third roughly?

Mr Duncan—About 25 per cent or 35 per cent, yes.

Senator O'BRIEN—Is there any question of the project having gone ahead without the DIFF funding?

Mr Duncan—It would not have proceeded without it.

Senator O'BRIEN—You talk about the productivity in India. Does that mean that a comparable mine using their technology would have employed a lot more people?

Mr Duncan—Yes, it does.

Senator O'BRIEN—What reaction, if any, did you receive from the local community about employment potential and the question of whether that was actually reducing job opportunities in the region?

Mr Duncan—No job opportunities existed in the area. There were no job opportunities, so most of the people who were put onto the mine were raw villagers, apart from the management and skilled people at the top. The raw villagers were taken on and trained because they had no bad habits and no Indian practices. We got these raw village people, which in the beginning was difficult, because we had to then either get our instruction manuals back into Hindi or get them some English so that we could communicate with them.

Mr White—We met with the Minister for Mines in the early part of the project, and he said, 'I understand you are obtaining about 65 tonnes per man employed in

Australia at Ulan?' We said, 'Yes, that's right, sir.' He said, 'What are you going to produce at Piparwar?' We said, 'Our feasibility studies show we can achieve 35 tonnes per man employed, and that is what we are planning.' He said, 'Why the difference?' We said, 'We are not going to have 100 gardeners and 100 first aid officers and 100 sweepers.' He said, 'I want this mine not to be a—

Mr Duncan—A social mine.

Mr White—Not social, what was the word? A 'welfare mine', he said. He said, 'Forget the welfare side of it; other departments look after that.' Of course, that did not happen. In Australia I would say that that mine would have employed 350 men, and we had 750 men in India. That is the reason for the difference between the 65 tonnes we would have achieved here and the 35 tonnes there. We could even have done better here, I think. It was a very good mine. That is why we got 35 tonnes. There is a significant doubling of employment there compared to what we need in Australia.

Senator O'BRIEN—What is the mine's projected life?

Mr White—Fifty years.

Mr Duncan—Thirty-five years on this side and about 50 down that side. The machinery will wear out long before they get down to the first strip.

Senator O'BRIEN—You talked about the relocation of the villagers. From your evidence, you are suggesting that the infrastructure that the project has created and the better housing are going to have a marked effect on the standard of living of those villagers.

Mr Duncan—Correct.

Senator O'BRIEN—Where does the water come from. You talked about the 150—

Mr Duncan—There are two big rivers there, the Damador and the Saphir. They come down and they end up being part of the Ganges system. There is a big old mine there, what they call one of their quarries, which is a big open cut that was not filled back in again. So in the monsoon the water floods out of the river into this big hole. Enough water can be stored there for several years of supply. We just collect it during the monsoon.

Senator O'BRIEN—And that is supplied to the villages?

Mr Duncan—That is treated, purified and filtered, and then it is reticulated throughout the various villages and the mine.

Senator O'BRIEN—Was that system part of your project?

Mr Duncan—Yes.

Mr White—Can I butt in? We did not do any physical work. Our role there was to train them to do the mining. Whilst some of our supervisors might have hopped on a bulldozer just to get something done when it was not getting done, we did not physically work. We designed it and showed them how to do it.

Senator O'BRIEN—Did the equipment for that water purification and reticulation system come from Australia or was it Indian based?

Mr Duncan—No, very little of that water reticulation system came from Australia because they have a substantial manufacturing base to be able to produce that type of equipment. We got from Australia those selected items which were identified at the beginning of the project that would come from there. We had a schedule of what we would get from Australia and what we would get from India.

Senator O'BRIEN—What about the alternative energy generation plant and equipment? Where did that come from?

Mr Duncan—The bits were bought in Australia.

Senator O'BRIEN—Right.

Mr Duncan—And it was then assembled with local steel for the structure and—

Senator O'BRIEN—You are talking about a methane converter?

Mr Duncan—That is right, yes.

Senator O'BRIEN—Were any solar generation systems used?

Mr Duncan—We put a small solar system in one of the schools that charged up batteries and then provided light in the evening for the illiterate adults to attend evening classes.

Senator O'BRIEN—Again, an Australian source?

Mr Duncan—Australian.

Senator O'BRIEN—Is there a possibility that there would be a greater market for that as a result of this project?

Mr Duncan—I think it would but it fits better in poor villages or where there is no reticulation and hence their ability to pay for it or buy is limited.

Senator O'BRIEN—You talked about the bonuses. Would you mind telling us what the value of bonuses on the project was?

Mr Duncan—Because—

Senator O'BRIEN—You have not already got them, but—

Mr Duncan—We have not got them yet and I just need to make a few comments on that. This is the only aid project—by any country—in India that has actually been finished on time and budget and that has met its guarantees. The Indians were very sceptical at the beginning that we would be able to do all these things, so we had a bonus penalty clause. That is, we could lose $12 million if the project did not perform as guaranteed or, if we performed as guaranteed, we could earn up to $8 million in bonuses. The mining side performed so as to entitle us to a bonus of about $3.6 million, which we hope will flow before Christmas.

Mr White—Eighteen months ago.

Mr Duncan—Yes, it should have been paid 18 months ago. That fits in with it being a long time to get paid. The coal handling plant performed to a level which will entitle us to about 2.8 million and the coal preparation plant will perform to 1.2 million. So, we have almost got an entitlement to the $8 million but part of the deal was that if we earned any bonus we had to give some back to EFIC. So EFIC gets the first million and a quarter of bonus.

Senator O'BRIEN—What about in the communities themselves? Is there an identification of the value of the project to the communities that reflects back on Australia?

Mr Duncan—The road leading up to the project has got signs up with the Indian flag and the Australian flag and White Industries stickers, so there is recognition within the area and there is a recognition within the mining industry, but I think to the general public it is just another coalmine.

Mr DONDAS—How did you find the legal system there in terms of documentation, contracts, supply and employment?

Mr White—We sat around a swimming pool for about a week getting the contract in terms that we could understand. But after that it was no great problem.

Mr Duncan—It is based on English law and actually you can get your day in court. But there is a great reluctance to use precise words that exactly describe the situation. There is a desire to use gentler words that at some stage in the future you can view from several points of view.

Mr DONDAS—For example, if your bonus was not forthcoming, did you have legal recourse?

Mr Duncan—Yes, we had the right to arbitration in Paris—

CHAIR—Why Paris?

Mr Duncan—Because the international headquarters of the Chamber of Arbitration are there.

Mr White—But it would be argued under British law.

Mr DONDAS—What about communications?

Mr White—Terrible. For the first few years it was almost a carrier pigeon exercise. We had a system of vehicles and drivers to take written messages from the mine back to where the office was, because it was a grassroots area 70 kilometres from the nearest reasonable infrastructure. In the end, it became very good, with automatic ISD dialling, but that was part of the system that we built.

Mr DONDAS—So there was a lot of add-on stuff, apart from education, employment and the rest of it?

Mr White—Yes. Now we have got ISD dialling into this area.

CHAIR—Is it micro-dish or satellite?

Mr Duncan—Satellite.

Mr DONDAS—You said the life of the Piparwar mine is anywhere between 50 and 80 years. What are the long-term reserves of coal in India: another 500 years, 1,000 years?

Mr Duncan—It is huge. Billions of tonnes just in this Karanpura area.

Mr White—The third biggest reserves in the world.

Mr DONDAS—Good coal?

Mr White—Dirty coal. We washed it from 42 per cent dirt, ash, down to 35.

Mr Duncan—The Indian definition of coal is less than 50 per cent ash. It is then classified as coal.

CHAIR—Is the product you are delivering any better than the average coal delivered from there?

Mr White—Substantially. And in great demand by the power utilities.

Mr Duncan—The coal, unwashed, would sell for about 200 rupees a tonne, and the washed coal sells now for 790-odd rupees a tonne.

Senator CHAPMAN—Your responsibility until the handover was in developing the project but overall as mine managers, was it?

Mr Duncan—Design, construct, finance, build, train, hand over.

Senator CHAPMAN—I am just wondering whether there is any basis for comparing the operational performance of the mine in the period you were involved with what has happened since the handover, or is it too soon to do that?

Mr Duncan—It is quite good. We handed it over producing slightly more than eight million tonnes per annum in the mine itself. That is raw. For the last 18 months, the Indian side have been running it at about 7.8 million tonnes per annum, so they have come back slightly.

Mr White—But still very good. The mine is designed for 6½ million tonnes.

Mr Duncan—They have kept it going but, because of the financial situation when we were there and because we had these funds and control, we were able to order spares and to implement our system of getting spare parts in time into the project. It is now operating on an internal budget within Coal India. Even though we have introduced these systems, once the bit of paper leaves the mine for the ordering of the spare part it then goes into Coal India’s system. This means that the spare part supply is running down and that they are currently using the stocks and spares we left them. To overcome those problems, a lot of the controls and the sophistication of the mining is being bridged out.

Mr White—They are very reluctant to supply spare parts to Coal India because they do not get paid for a long time. They probably get paid eventually, but Coal India’s credit rating is not very high.

CHAIR—Coal India were the prime contractors and you have been paid by them.

Mr Duncan—No. We have been paid by EFIC. All they had to do was issue the certificates, so once we got the certificate signed we did not have to worry about getting the cash out. We came back to Australia and collected it direct from them.

Senator CHAPMAN—So EFIC has got to collect from Coal India?

Mr Duncan—EFIC lent the money to Coal India, but they did not actually hand the money over. They gave them a credit facility, so that once we got the progress certificate signed in India we presented it back here and EFIC then handed it down and increased their loan.

Senator CHAPMAN—EFIC have still got to retrieve their funds eventually from—

Mr Duncan—Yes.

Mr White—Yes. They are getting over 10 years.

Mr Duncan—Coal India has already paid them back $72.26 million of the $206 million.

Senator CHAPMAN—How significant was the DIFF scheme?

Mr Duncan—Absolutely fundamental.

Senator CHAPMAN—Given that that has now been abandoned, what impact do you think that will have on the potential for similar projects?

Mr Duncan—We will never get another one.

Mr White—Not only will we not get one, but no-one else will.

Senator CHAPMAN—You will never get another one without that support?

Mr White—We have a great faith in the long-term future with India. We believe that it is one of the emerging markets. We would like to be involved still because we have got so much to offer, for example, the training and the proven track record that we achieved. It is well known in industry in India what a job we did. I believe that they need the technology that we showed them—not necessarily ours, but what the Australian industry showed them. That is why we are going to try and work away from Coal India and take Coal India and a steel mill or cement private enterprise into a new project where we will have 49 per cent of the management of it. When we were talking joint venture with Coal India I said, 'I would joint venture with you any time, but we would want to control it. We would not want you interfering because it is too slow.'

Senator CHAPMAN—Thus far, have any other companies been able to piggyback on your experience, not necessarily in the same sector—in coal mining—but maybe in other mining sectors or, indeed, other industry sectors, using the goodwill and the reputation that you have built as an Australian company to open doors for them?

Mr Duncan—BHP Kinhill, based on a DIFF scheme, did have a program to introduce roof bolting technology into underground mines in India. They were never able to actually get the contract signed and to deal with this long process of attrition. They have not been able to proceed. They have now instituted arbitration. That is going to get them nowhere because it will cause a reaction. CRA have started dealing with a private steelmill there to be the coalminer for the supplying of the fuel for this private development. I am not aware of anyone actually being able to do any transaction with a major exercise in the mining industry.So that one went by the wayside. Then we were going to train them in the use of the Wongawilly system of underground mining, and something happened there too.

Mr Duncan—We ran out of money.

Mr White—Yes, we ran out of money; something like that.

Senator CHAPMAN—From what you have just indicated, there are continuing contractual difficulties for Australian companies doing business in India.

Mr White—Yes.

Mr Duncan—It is a learning curve. We have paid our apprenticeship fees for our learning curve, and they come quite high. We would have had the best part of $1 million invested in it before we actually won the job; that is, in people’s time, engineering work, and that type of thing.

But the EFIC exercise—the DIFF is the one. You would be able to get many of these types of projects in India, if you did have that DIFF element to be able to get the funding of the exercise going. If you look at it, people say that DIFF should be for untied aid, social work, and everything else. But if you get DIFF, you can introduce the social aspects of it much better and much larger because they are only then peripheral to the main project for a more economic exercise. So we are supporting DIFF and EFIC as part of the exercise to get trade in there.

The other major exercise is bonding. For example, we had to put up a $12 million cash bond. There are very few companies that can get that amount of money together. That was our guarantee that we would perform. If we did not perform, they were entitled to pick up our bond.

Mr White—They still have $4 million of it too, by the way due, due back in March.

CHAIR—It is just as well that you are generous, isn't it.

Mr White—Contracts are contracts, aren't they.

Mr Duncan—A bond is a bond with any contract.

Senator O'BRIEN—I have been doing a quick sum here. In terms of the DIFF money in the project, the cost of that project would be forgone interest and administration costs, I take it, to the government?

Mr Duncan—That is right, virtually.

Senator O'BRIEN—The benefits would be the tax paid on the wages earned in Australia, tax by wide industry and, potentially, a reduction in social security payments. Have you done any calculation on that sort of equation with this project?

Mr Duncan—Yes, I have done all those.

Senator O'BRIEN—Perhaps you could supply them on notice to the committee.

Mr Duncan—The answer is: yes, we have done it. But it is quite positive; we got more out than the DIFF. The wages bill on just the 206 element was $88.9 million. We did a notional tax calculation based on that and, as I said, there were 3,000 man years. The social welfare for the 3,000 man years at $675 a fortnight—and that was, I think, the figure we used with a family with two children—came out almost as the equivalent of the amount of the DIFF fund.

CHAIR—I think it would be very helpful if you would supply those figures, as Senator O'Brien has suggested.

With the government of India's policy to provide cleaner power and with the consequences of Kyoto generally, in any way is your project seen as part of a drive to make—either with the quantum of power produced, or with the quality of coal extracted—some environmental impact on India's general performance in greenhouse gases, and so on?

Mr Duncan—Yes, a substantial impact. Because you wash the coal, it has less ash and, therefore, there is more efficient burning in the boiler; and you have less particulants going out through the stack, because you have less ash in there that goes out and gets put into the atmosphere.

In relation to the CO_2, you still burn and produce the same quantity when you burn a tonne of material. But you use fewer tonnes to produce the same power because it has higher energy and therefore it produces less gas, less CO_2. I just cannot think of the number. There are two improvements: you use less fuel to cart the material in the train across there because you cart less tonnes leaving the ash behind, and you get more efficiency in the boiler; and you have less total CO_2 greenhouse gas.

CHAIR—Is this part of the government of India's program?

Mr Duncan—It is. This is the first wash plant for washing thermal coal. They are now talking about wanting to put in more wash plants at other mines that exist now. This is one of the other areas of business in India that Australia could involve itself in: installing these coal preparation washing plants at existing mines. But again it needs support to fund it and to bond it.

CHAIR—Are any of our competitors using soft loans or a DIFF-like scheme? Is Coal India proceeding with other coalmines? Are we losing out because of the lack of a DIFF-type program?

Mr Duncan—Canada were equal to us. They started a project, at the time we started one, with a company called Met Chem. They failed to meet their performance criteria and their guarantee, and they walked off the job. They have since come back with a loan, but it is hard to find out the exact mechanics of it. They are tied up with a group called Mittal, which is a private steel company in India, on a mine of which the price they put in is about 40 per cent of what we think it would cost to do. So we have drawn a conclusion that they are getting some support to be able to offer that sort of price. The French are offering substantially cheap projects.

CHAIR—Are they getting contracts?

Mr Duncan—They are getting contracts.

CHAIR—And are they performing?

Mr Duncan—Well, they are getting contracts. They have not yet got experience—

CHAIR—The Canadians failed.

Mr Duncan—Yes.

CHAIR—But then they have not yet got to the point of being tested.

Mr Duncan—That is right.

Mr White—A lot of the early aid in India was through Russia and Poland previously. The four-wheel drive vehicles we work are Maruti—

Mr Duncan—Maruti

Mr White—which is a Russian design. But just on greenhouse gas, the Hunter Valley coals, and probably the Queensland good quality black coals, probably emit about 30 per cent less gasses than the Victorian brown coals. I would guess that Piparwar would be between those. The Piparwar coal would be of a better quality than Victorian brown coal, because Victorian brown coal is more of a lignite. So I would think washed coal in India would be better than Victorian brown coal as to greenhouse gas emissions.

CHAIR—Is there better coal elsewhere in India?

Mr White—Yes. There is not much hard coking coal; very little, as a matter of fact. They are a net importer of hard coking coal.

CHAIR—It has been mentioned in your paper and you have mentioned it in your evidence that that spur line of eight kilometres, eight miles, or whatever, has not been built. Was that part of your contract?

Mr Duncan—No, that was to be built by Indian Eastern Railways.

CHAIR—So that does affect the delivery of the coal, but it is not your—

Mr Duncan—We have built a structure of about 60 metres in height in the middle of a paddock with a conveyor going up to the top, and it was to load trains. But the railway is still on the other side of the—

CHAIR—It is eight miles away.

Mr Duncan—Yes, that is right.

CHAIR—It is a bit hard to load trains that way.

Mr Duncan—That is right.

Mr White—That is where we actually thought we might fail the demonstration period—because there are no trains to load. But commonsense prevailed and we demonstrated that, if the train was there, we could load the train.

Mr DONDAS—Where did the 300 trucks come from?

Mr Duncan—Local trucks—

Mr White—They were 10-tonne trucks—one truck movement every 30 seconds.

Mr Duncan—Of course, that was a huge employer. Running 24 hours a day with 300 trucks, you have a change of shift, you have mechanics, and everything else.

Mr DONDAS—And the roads obviously are getting wrecked.

Mr Duncan—The roads are terrible.

CHAIR—As there are no further questions, the committee thanks you both very much for your evidence; it has been very worthwhile. If you do not mind providing that arithmetic detail, it would help us. Thank you.

[11.12 a.m.]

BUBEER, Mr Eric John, Director, Operations and Systems, P&O Ports Australia, 160 Sussex Street, Sydney, New South Wales 2000

CHAIR—Welcome. The nature of our inquiry is Australia's trade relations with India. These proceedings are legal proceedings of the parliament and, although we do not require you to give evidence on oath, they should be treated as proceedings of the parliament. We prefer all evidence to be given in public, but if you have something you want to say which you feel for commercial or other reasons should be kept sensitive you can ask that the evidence be taken in private. The members of the committee are generally aware that you have been investing in India, but it would help if you could put on the public record a little of where you are at. We have received a submission from P&O Ports Australia Pty Ltd, which is submission No. 49. I invite you to make an opening statement.

Mr Bubeer—I would like to start by giving a brief overview of what P&O Ports Australia are doing globally. I will then focus on the Indian subcontinent. As some of you may know, over the past 10 years we have built up a substantial international business in the development and management of ports. That ranges from China through Asia and down to South America. The basic philosophy in those businesses is that we go in with a local partner, we form a joint venture, we negotiate with government and we take on leases for 25 years to 30 years. The investment involved in each of the projects will vary with the scope of the project. The minimum investment is $30 million to $50 million, and the maximum at the moment is around $200 million. It is a fairly substantive business that we are getting into.

Let me turn to India. After listening to the previous witness, I can sympathise somewhat in terms of the areas with which he is dealing. Our area is obviously ports privatisation. Privatisation is, in itself, a political process rather than a commercial process, certainly in its early days.

I have looked at the terms of reference for the committee, and I am aware that you are concentrating on India. In terms of trade, particularly trade between Australia and India, one must look at the interrelationship of trade, transport and ports. At the moment around 33 per cent of the containerised traffic in the subregion—that is, Pakistan, India and Bangladesh—is moving through Sri Lanka. There are two reasons for this: first, a lack of capacity in the Indian ports and, second, the nature of the size of vessels and the fact that vessels are only calling at the minimum number of ports in the hub and spoke system.

We would normally be looking at a three-year window between putting in a bid—even if it is an international tender—and taking up a project as a going concern. We were very surprised that in the last entry into India we achieved it in under 18 months. I must say that was after about three false starts, because every time we got there we had a change of government and it was back to the blocks. We now have a signed contract, we have a concession which was won in an international tender, and building has commenced for a new container facility at the port of Nhava Sheva.

I would like to touch on the other ports that we are looking at and what is happening in India today. For fear of stating what is already on the record, it is worth noting that last year the Indian ports handled around 250 million tonnes of cargo. Growth in the last five years has been about eight per cent. Growth in the container traffic at JNPT, which is a satellite port from Mumbai, has been 25 per cent. The committee would be well aware that the Indian government's policy of freeing up trade is one thing but that the window for doing it is quite narrow. Providing that legislation is put into place and the regulation is changed, it can happen tomorrow. Getting the port infrastructure into place obviously takes time. It takes time for two reasons: firstly, it takes time to construct and, more importantly, it takes the bureaucracy time to deal with the process. Our view today is that India will continue to suffer from trade restrictions because of its port infrastructure and transport infrastructure rather than its ability to trade.

Port capacity utilisation in 1994-95 as an average, as declared by the centre for monitoring the Indian economy, is 113 per cent. The ports on average are already over the top. Vishakhapatnam, which is the biggest port, is running at 129 per cent of capacity. Mumbai, or Bombay, is running at 120 per cent of capacity. Kandla is running at 127 per cent of capacity, and Chennai, which in the old language was Madras, is running at 134 per cent of capacity. That was two years ago. Trade has gone up and the port capacity has not gone anywhere. There is a pent-up demand to do something.

We have opened an office in Mumbai, where we have a permanent representative. We have been successful in winning the tender for JNPT, the new container terminal. That is a $200 million investment. It will build 650 metres of quay, it will provide capacity for about 750,000 containers per year, and it will be operating by the end of next year. The shareholding in that group is comprised of a Malaysian group, with 47 per cent; P&O Ports Australia, with 48 per cent; and some local input, at five per cent. Maybe we can come back to JNPT and what is happening there a little later.

CHAIR—Before you leave it, has there been any problem with Malaysia and the values of the ringgit, investments and so on?

Mr Bubeer—No, not at this point in time. The government has a policy of getting out into the market. As I said, they are aware that they have to free up the ports. They have freed up the economy, they have freed up the trade but they have not freed up the ports yet. They are moving—let us be fair. They have recently let another bid for a place called Tuticorin, which you may know is in the south-east just south of Madras. That is in the bidding process at the moment. It is a very small operation that will need about $30 million over the next five years, and it will be evaluated over the next few months.

We are also keen to be there. The reason that we are keen to be there—and if I can, with your permission, move to Sri Lanka notwithstanding that we are focusing on India—is that we believe a large part of the traffic will still go to Sir Lanka for transhipment in these mammoth 6,000 container ships that ply between the East and Europe. They will go to only one port in the subcontinent and Colombo offers the best opportunity. At the moment we are creating a network in India so that we can feed and have control of the transport routes from the ports around India down into Colombo.

There is another major project in India which some of you may be aware of and that is the port of Vadhavan, which, if you saw it today, is a rock shelf about 120 kilometres north of Mumbai. At the moment we are doing a feasibility study for that. It is a massive project, but it is the sort of project that India needs if it is going to come to terms with this trade explosion that it is getting—and that it will continue to have, one assumes. We do have a letter of intent from the state government, we have a feasibility study under way and stage 1 of that development will have a cost ticket of somewhere in the region of $US700 million.

Mr DONDAS—Is that in Aussie dollars or in US dollars?

Mr Bubeer—It is all in US dollars.

Mr DONDAS—You might as well say $1 billion.

Mr Bubeer—Yes. That is to dredge in and to provide about 2,000 metres of quay. So that project is under way. There are some major issues to be addressed—obviously the environmental issue. We are doing a detailed environmental study on that, and government have been very clear that certain of their guidelines have to be met. We are doing a social impact study because of the positives and the negatives that occur with a development of that nature. We hope that that feasibility study will be coming through by the first quarter of next year. So it is a challenging place.

CHAIR—With whom are you entering all these contracts—with state governments or with the Indian government? Secondly, is your contract only for the port, or are you also involved in the infrastructure to the port and to the other associated facilities—for example, the container depot and all the rest of it?

Mr Bubeer—To answer the first issue, there are 11 or 12 major ports around the coast of India—Kandla, Mumbai, Cochin, Tuticorin, Vishakhapatnam, Calcutta and a few others—which are run and administered by the Ministry of Surface Transport in Delhi. We are negotiating with, if you like, the federal government in respect of JNPT, the new container terminal at Tuticorin. There are around 142 smaller ports around the coast and they are, if you like, state government ports. So Vadhavan is a state government issue.

Mr DONDAS—What about the road systems coming into this new port that they are going to build for a billion bucks? Is there a road system there?

Mr Bubeer—Following on to that, when we go into these projects, obviously, because of the amount of money that our group is going to have to put in, we have to ensure that the support infrastructure is there. Generally we limit our liability to the port and the ‘wet’ side of the business but, at the same time, we have a back-to-back agreement that facilities for the road and the rail will be there. Then we manage that process so that we do not get a situation where, as we heard before, there is a loader with a train eight kilometres away. It is a very important issue and one that has to be managed very carefully.

CHAIR—Do you actually have that back-to-back agreement with your new port at Mumbai?

Mr Bubeer—Yes.

CHAIR—Do their contractual commencement dates coincide with your own and do you reasonably expect, subject to unforeseen exigencies, that both road and rail facilities will be there to move the product once you have your port in?

Mr Bubeer—That is correct. And as we go through the process we ensure that they are on time as well, because the last thing we want is a $200 million facility and no road. I should say that the one we are building at JNPT is next door to an existing container terminal.

CHAIR—Yes, but it would be much smaller.

Mr Bubeer—It is much smaller; we are doubling the capacity. On paper, it will be full before we finish building, so the impact on the road and rail system will be quite dramatic. But we need that because one of the things in a container terminal is that, unless you can move the goods in and out, you are not turning your productivity over in terms of your investment productivity. So we cannot afford to have those containers sitting in the terminal; to do that, you have to have infrastructure. So it is an artery to us.

CHAIR—When you are talking about your wharf space, are you also putting cranage in? And, if you have cranage in, are you training Indians to handle the cranes? How are you handling the waterfront operations? Does your contract extend beyond the construction phase to the operating stage, and how are you going to operate it then?

Mr Bubeer—Let me firstly say that we do not construct ports. We go in and we take up a concession. That concession may include construction, in which case we contract that service in. We in fact take over that area, as defined in the concession agreement. We would take on any equipment that is in it, and would certainly take on the responsibility for providing additional equipment over the life of the lease—25 to 30 years. We would take on a number of people, to be agreed, locally, which is normally double what we need, but that is part of the social issue of dealing with unemployment, privatisation and taking over from government, et cetera.

We normally take with us not more than three or four expatriates into the Indian project, and the rest will all be Indian nationals. We then have a massive training program, both in the skills of doing the job and the social skills, because a lot of these guys that you bring in cannot read and write. But, with the technology that you have today, they need to be able to read and write. So very often that is where we have to start—at the operator level. Certainly at the middle management level the social skills are there, but the technical skills have to be given to them. Transfer of technology and training are major skills that we bring to the table and are always things that the government looks to very early in the piece. They say, ‘What are you going to do?’ Because they are looking to value-add not only to their trading economy but to their social economy and the multiplier effects.

CHAIR—In terms of the cranage and the mechanical equipment, you would match whatever is available if you said you were providing double the capacity of the existing government port?

Mr Bubeer—Yes. We will be putting in the equipment we think is necessary.

CHAIR—But will that be the same cranes? Where are you going to get the cranes?

Mr Bubeer—They will be sourced internationally, on an international competitive bid. Everything is done on competitive bids and has to be because we are only a shareholder in the company.

CHAIR—Has DIFF or any assistance from EFIC played any part in that tender?

Mr Bubeer—None at all.

Senator O’BRIEN—Is Vadhavan likely to compete with the Sri Lankan ports as a major hub port? You are talking about very large wharf space.

Mr Bubeer—It could well for the traffic that is—and we are looking at maybe five or seven years down the track—coming from the west coast of India and from the hinterland in that industrial zone just north of Mumbai. Yes, there will be some. The question will be finding the deep water, because these new ships need 15 metres of water. We are having to build a new port in Colombo to take them. That will come into the financial viability of Vadhavan. We have some very strong doubts as to it its financial viability at this point in time.

Senator O’BRIEN—For the reason of the size—

Mr Bubeer—For the size of the civil infrastructure—the dredging and the breakwaters—which are government type projects that do not fit into commercial privatisation processes.

Mr DONDAS—You never get your money back.

Mr Bubeer—You never get your money back. To do that you need a 50-year lease and shareholders say, 'We don't know what is going to happen in 50 years and you want to risk all this money.' The breakwater cost and the dredging cost are really things that have to be government driven with a 50- or 60-year depreciation period and with low-cost financing. Then it may get a chance.

Senator O'BRIEN—I hear what you say about the transport infrastructure of India being the key to trade with India. From Australia's point of view it would also be the key to trade from India to Australia, would it not?

Mr Bubeer—Absolutely.

Senator O'BRIEN—If you had to make a judgment, would an improvement in that infrastructure be more beneficial to India than to Australia or vice versa?

Mr Bubeer—Interesting question. In terms of infrastructure, they certainly need it. We have excellent infrastructure in Australia. Some of the working practices and productivity levels that we achieve really mean that our infrastructure is not working to its full capacity. Their infrastructure is certainly at a much lower level than ours.

Senator O'BRIEN—What about the wage comparison for the operation of the port? What are the wage levels in ports in India?

Mr DONDAS—Two dollars a day?

Mr Bubeer—A bit more; somewhere around $5 a day.

Senator O'BRIEN—So that is an irrelevancy in terms of making a comparison?

Mr Bubeer—Yes.

Senator O'BRIEN—What about Sri Lanka? I know it does not relate to this inquiry, but is it comparable?

Mr Bubeer—It is very similar.

Senator O'BRIEN—In terms of the future for your company, the key to survival of any pure investments is going to have more to do with the infrastructure that the Indian government provides to the ports so that you can operate at a higher production level. The throughput of the ports is going to be higher and you can pick up the increased demand given that you have said they are all operating in excess of their natural capacity.

Mr Bubeer—They are operating in excess of their natural capacity. The role that normally comes in the privatisation process is that one is awarded a concession area. It is up to the concessionaire—that is, us or whoever—to then finish the construction. Government would normally put in the key wharf, as they have in JNPT. So in that you can make a commercial business work. With Vadhavan it is more difficult because there is nothing there; it is a totally greenfield site.

Mr DONDAS—Where does the type of equipment you need for use on wharves come from? Do they manufacture that locally or do you import it from England or somewhere else?

Mr Bubeer—As I said, we go to international tender. Today it is not a case of who manufactures it because most of them have licensing arrangements. So although you might buy a Korean crane, because on evaluation it gives you the best deal for your specification, you may find that they have a licensing arrangement to make that crane in India.

Mr DONDAS—What about RORO facilities? Wouldn’t RORO facilities be as effective for what you are trying to do in having a hub?

Mr Bubeer—No. RORO has gone out of favour with these big ships because with a RORO ship you only have one point of entry, or two or maybe three. The length of these ships—

Mr DONDAS—No. You say the big ones are now tying up in Sri Lanka.

Mr Bubeer—Do you mean to feed it down?

Mr DONDAS—Yes.

Mr Bubeer—Yes, it could well be on the feeder services.

Mr DONDAS—You said the hub is going to be Sri Lanka and you are going to feed in from all the Indian ports because 6,000 container ships go through there on a regular basis.

Mr Bubeer—Yes.

Mr DONDAS—A RORO is not going to cost you $A1 billion, is it?

Mr Bubeer—But you do not put in port facilities only for transhipment. There will be ships coming in that are on different traffic trades—direct trades to the UK and the States. The 6,000 is everything. You are quite right, RORO is very good for a feeder service but you still need breakwaters, dredge channels, quays and stacking areas. What you do not need are those big cranes. Everything else is just about the same.

Mr DONDAS—I do not envy you your task.

Senator CHAPMAN—In your submission there is reference to the work you did there over a long period of time before actually embarking on the project in terms of an office and so on. Is your brand name of any significance? P&O is a well-known name. In the shipping days, P&O would have been well known in India as a shipping company. Did that have any effect on your ability to open doors and get things done?

Mr Bubeer—It makes governments somewhat comfortable because in going through these sorts of processes the issue that one deals with is the fear. What stops that process going ahead within government? There are some ministries that will say, 'Hey, let's make it happen,' particularly the finance ministry. The ministry of labour says to leave it alone because labour is going to be upset about that. There would be the people actually within the ports who resist doing things.

What we have is a whole bundle of agendas running. The P&O brand name is useful in that we can say we have been around for 160 years. We arrived in India 100 years ago. But, at the end of the day, it is international bidding and it is hard negotiation. Having won that then there is an element of comfort. They know that this company has been around for a long time.

Senator CHAPMAN—You also refer to there being a liquidity crunch in India and yet you found no difficulty in raising the necessary funds. Could you enlarge on that aspect?

Mr Bubeer—That is a good question. What happens is that there are many funds around the world for good infrastructure projects. There is the IFC, the CDC, the Asian Development Bank and local development banks. They are all looking for good projects to put their money into, and port projects are generally seen as good longstanding projects which are going to give a return because if the trade is not there then there is a real problem.

The answer is generally no. We normally need more equity than we can provide. In other words, we normally go in on 40 per cent equity and 60 per cent debt, and sometimes we will go fifty-fifty, depending on the risk profile. We now find that with the number of people who want to put equity into these types of projects, if we are not careful that equity contribution goes higher and higher, which then means the shareholding is going lower and lower so, therefore, why be in it in the first place?

Senator CHAPMAN—Their own shareholding?

Mr Bubeer—Yes, their own shareholding is diluted accordingly. You find that the multinationals—the IFCs and the Commonwealth Development Corporation—are willing to be debt providers but they also want equity. Moving away from India slightly to our Pakistan operation, the Commonwealth Development Corporation in the UK has a 30 per cent equity participation. They are also providing debt. A lot depends on the project and where it is seen in the overall scene of a country and the overall global economic scene.

CHAIR—You heard a little bit of White Industries' evidence about the problems they had in completing their contract. Have you had many problems at this stage in terms of the contract, payment, and general operations?

Mr Bubeer—As I said, we found this particular bid very smooth running. We have had problems in the past—we have nearly got to the starting gate and there was a change of government and then the whole thing starts again. But, certainly, over the last 18 months, we have already had one change of government in that. The process went on hold for a couple of months and then we were able to fire it up again. So the answer is no. We do have, as I said, a local office. The guy that we have there is an Indian. He finds his way through the corridors of power and keeps the thing moving.

Mr DONDAS—Is corruption an issue there at all?

Mr Bubeer—It can be, if you let it be. We have some fairly strong ethics on dealing with that. We have lost lots of contracts around the world by saying—

Mr DONDAS—P & O have been in the Far East for a long, long time.

Mr Bubeer—Yes.

Mr DONDAS—They are probably experts in corruption.

CHAIR—You had Goanese stewards for a long time, didn't you? Was that an advantage or a disadvantage?

Mr Bubeer—It depends on who you talk to.

CHAIR—Is the present political turmoil in India a factor that you take into account? Has it any prospective impact on what you are doing?

Mr Bubeer—The quick answer is no. We are committed. We have a contract. We are going to be in operation by the end of next year. Shareholding is in place. We are going on with it, again, mainly because there is pent up demand. It does not matter what happens; the trade is there. It has got to happen.

CHAIR—Are you involved in the Colombo port?

Mr Bubeer—Yes.

CHAIR—Is that a privatised port or is it a—

Mr Bubeer—Currently, it is not. Currently, it is run by the government through the Sri Lanka Ports Authority. They are already doing about 1.5 million TEUs—20-foot equivalents—through Colombo this year. We are negotiating and have been for three years—and I am going there again next week—to take over what they call Queen Elizabeth Quay, which is another part of the port, to then spend around $200 million on extending it and equipping it to handle another one million containers or TEUs. That is a joint venture between ourselves and a local Sri Lankan company. There will be equity with IFC and CDC. We have got some shipping lines saying they want to get into the business as well.

Mr DONDAS—The Evergreen Line and the Neptune Orient Line.

Mr Bubeer—Yes.

Mr DONDAS—Page 23.

CHAIR—I knew it was there. It was just that I was trying to see to what degree India was concerned that you were promoting the Colombo port at a time when they were trying to develop their own ports.

Mr Bubeer—And vice versa.

CHAIR—Yes. There is a fair bit of jealously between Pakistan, India and Sri Lanka, and I just wondered how you reconciled these international—

Mr Bubeer—The short answer is: with difficulty.

CHAIR—I can imagine.

Mr Bubeer—But we are able to say to the Indians that this is complementary to have those big ships. You have to handle them; they are not going to come to India at this point in time. I am going to Sri Lanka this week to try and give the government some confidence against the very same issue because they see us in India and say, ‘Hey, what are you doing down here?’

CHAIRMAN—It is obviously going to be a matter of some continued tension—having alternate facilities and each country looking at their national interests as distinct from the regional interests. A hub and spoke is never a very popular way to provide a service freely in one sense.

Mr Bubeer—That is true.

CHAIR—From the national view point.

Mr Bubeer—From a national view point.

CHAIR—Not from the point of view of the operators, yes.

Mr Bubeer—That is a case then of taking that through and trying to show the link between trade and transport. If you are not going to do it in your Indian ports and if you do not do it in Sri Lanka then you will not do it. Where are the options? One has to balance that very carefully.

CHAIR—In terms of the water, the access and those facilities, there is no problem. Colombo obviously is a more direct route from Asia through to Europe. Having said that, in terms of the access for the port, there is no more difficulty in setting up any of these ports that you are involved in, or look to be involved in, than there is in Colombo.

Mr Bubeer—Tuticorin is a fairly shallow port. It has got a rock shelf underneath, so it will never be a deep water port.

CHAIR—No, but the JNPT or whatever you call it?

Mr Bubeer—JNPT. Yes, that can be deep water—at a cost.

CHAIR—But it would have to be dredged?

Mr Bubeer—Yes, and quite a lot of maintenance dredging.

CHAIR—Yes.

Mr Bubeer—Whereas Colombo has a reasonably good harbour, with little or no dredging.

CHAIR—Do you employ the waterfront labour or are they employed by a Port Authority, when you have set up these ports an operate them?

Mr Bubeer—We employ them.

CHAIR—They are employees of P&O?

Mr Bubeer—Yes. We have to have a transfer system of taking people from the government sector.

CHAIR—No Australian mercenaries?

Mr Bubeer—No Australian mercenaries.

Mr HOLLIS—We will send the army across to it.

Mr Bubeer—No, we use the local guys.

Mr HOLLIS—I am just interested in the Colombo trans-shipment option that you were talking about. That is basically, though, because of the congestion and shallowness of the Indian ports.

Mr Bubeer—Yes.

Mr HOLLIS—You said you are building in Colombo just as a trans-shipment hub replacing Singapore.

Mr Bubeer—No, Singapore is servicing a different part of the globe.

Mr HOLLIS—Where are you servicing from Colombo?

Mr Bubeer—Singapore services that region of South-East Asia through to Calcutta. The figures that come out of Calcutta are that there are about 13,000 TEUs that are handled through Calcutta that actually go through Colombo. Last year there were 268,000 Indian containers moved through Mumbai to Colombo.

Mr HOLLIS—And then trans-shipped on?

Mr Bubeer—And then trans-shipped on.

Mr HOLLIS—So it is purely a hub port?

Mr Bubeer—No, about 30 per cent of the traffic in Colombo is national traffic and the balance is trans-shipment. Colombo itself has quite a big economy; there are 18 million people there.

CHAIR—You said only 30 per cent went to India. Where did the other 30 per cent go?

Mr Bubeer—No, 30 per cent of the Indian traffic goes through Colombo.

CHAIR—And 30 per cent of the Indian traffic represents 60 per cent of the

Colombo throughput?

Mr Bubeer—Yes.

Mr DONDAS—That could be going out on small freighters and all kind of transports.

Mr Bubeer—Up and down.

Mr DONDAS—To Mumbai.

Mr Bubeer—Yes, that is what happens—little feeders.

CHAIR—Thank you very much, Mr Bubeer. I must admit it sounds a fascinating place in which to work and we wish you well in your ventures there. We are still trying to come to grips with where the Australian trade relationship goes. Do you think there is room for significant growth in the Australian trade relationship with India? What should we do at a government or national level to try and facilitate that growth?

Mr Bubeer—That is stating the obvious. Where you have got that many people and an economy growing at the rate that that one is growing, there have got to be opportunities. The question is finding the way in. That is where I believe, and certainly our experience has been from our approaches, in the usefulness of Austrade. We used Austrade a lot in our early days of getting in and finding our way around places, and in getting to see ministers. As I have said, the process, even in the coal industry, or in any major industry, has got to be through the top and up through the bottom: top down and the bottom up. If you go in and only talk to the business level, there are a lot of other agendas around the place. Unless you can get it right at the government level you will be hijacked along the way.

That is a major issue that people have to come to terms with. The way to play that political process has to be through Austrade, the High Commission or the Embassy, as the case may be. I have just had three months in South Africa dealing with exactly that issue—how does one get into it? What I did was to go top down through the High Commissioner to be able to get to see the ministers, the minister of transport and the minister of public enterprise, to see what they are doing, where they are coming from and what the processes are in the business levels of the port to see what they are being told—because they have a different agenda from these guys—and then read the message and manage that process. It is not easy.

CHAIR—Particularly as there seem to be overlapping levels of responsibility. Have you had problems in the overlap between the state and federal governments?

Mr Bubeer—Absolutely—and within ministries. Still within the area, in Egypt, where they were trying to do some work, the overlap between the ministry of transport, ministry of public enterprise and the Treasury, is just enormous, all with their own agenda. We are finding the same in Sri Lanka. We have the president on site—'Get this signed up'. She was across to see our chairman in London a few weeks ago. But at the second level there were blockages. It is about power, it is about ego, and it is a process that has to be managed.

So, coming back, the opportunities to do business in India are obviously enormous. My belief is that one has to do it through a process which is top down-bottom up. As individual companies, generally the best way in is through our own government instrumentalities and services.

CHAIR—They have normally been able to give you the access you seek.

Mr Bubeer—Yes. I say that categorically.

CHAIR—Thank you very much indeed, Mr Bubeer, for coming and giving evidence to us today. It certainly helps us and provides another dimension to the picture. You will of course receive a copy of the transcript of evidence. If you wish to make any corrections, please do so. Thank you again. We will have a brief adjournment.

[12.03 p.m.]

MURRAY, Ms Susan Diana, Director, Marketing, Australian Film Commission, Level 4, 150 William Street, Woolloomooloo, New South Wales 2011

WARD, Mr Michael, Policy Adviser, Australian Film Commission, Level 4, 150 William Street, Woolloomooloo, New South Wales 2011

VAUGHAN, Ms Carolyn, Manager, International Training Services, Australian Film, Television and Radio School, PO Box 126, North Ryde, New South Wales 2113

ACTING CHAIR (Mr Dondas)—Welcome. Would you like to make an opening statement?

Ms Murray—Our submission was presented to you several days ago. To summarise, we believe that the opportunities for the film and television industry and, to a lesser degree, the multimedia industry in India are extremely extensive in terms of the benefits for us in a cultural sense. In a business sense, I would have to say that the market is extremely complex. It is this complexity which offers some barriers to our further expansion into the Indian market in terms of our ability to sell film and television programs.

At the same time as the market is so complex, the emergence of new pay TV satellite cable services will obviously mean a demand for more programming, and the development of multiplex cinemas is certainly going to enhance the cinematic experience, which we would also expect to lead to greater demand for a diversity of programming.

The other opportunities that we could look to in the future could be the possibility of co-ventures, co-financing and co-productions on a project-by-project basis. However, we do feel that the different ways of doing business in making films are such that the official co-production route is one that is not immediately available to us. Other areas for expansion certainly occur in the education and training arena. The Australia Film, Television and Radio School submission addresses those.

In summary, as our submission points out, it is a very large market. It is one that would logically seem to offer Australia many opportunities in a business sense. But the regulatory framework, the public taste, the concern for protection of India’s cultural environment are such that finding access into that market is not immediately easy.

ACTING CHAIR—Thank you. Mr Ward, would you like to say anything?

Mr Ward—Yes, thank you. In addition to the points that Sue has made, I would like to say that the AFC sees that there is an opportunity for us to assist the Australian industry in the development of opportunities in the region, including in India, through undertaking some cooperative research designed to provide information on domestic regulatory arrangements, the structure of domestic markets and similar issues—cooperative analysis of national audiovisual policies and the like.

To that end, we recently participated in the workshop in Singapore with participants from a number of countries in the region. There were no Indian representatives at that workshop, but there was follow-up to include representatives from India. We are, at this time, negotiating to begin the process of undertaking that research, with the objective of disseminating that research to the Australian industry.

CHAIR—My apologies. Please continue, Mr Dondas.

Mr DONDAS—Ms Murray and Mr Ward have just added to their submissions. We could now move on to some questions.

CHAIR—Why don't you start? You are up to date with this; I am not.

Mr DONDAS—In terms of the Australian Film Commission and, say, the joint venture projects you would try to get together, I note from the paper that the Department of Foreign Affairs and Trade are very interested in getting the Australian Film Commission involved, because it is another tool of marketing and promoting Australia. You have indicated that that is going to be very difficult, because of some of the culture that exists there and the way that they produce their films for their own continent, and that you are going to have an emphasis on training.

Ms Murray—Training is certainly one way to develop relationships on a cultural level. The film school's experience in the New Horizons promotion showed that there was a great receptivity to that approach. Basically, the sort of work that the Australian Film Commission is doing is strategic positioning of the film industry, with the emphasis on using the cultural aspect as a way to introduce the work of our film and television industry to foreign audiences.

The work that we would be doing is addressed to the wider public. In focusing on the wider public, we are looking to address the business leaders in the community and convince them about the value and the interest in seeing Australian programs. So it is a different approach to that taken by the film school and a different approach to that taken by the Department of Foreign Affairs and Trade, which is tending to use film as a diplomatic tool rather than expose film and television as the creative activity that it is.

Mr DONDAS—As you say, there is now a lot of communication by way of film. There are 45 million television households, which means that about five per cent of the population have got a television set. Are we able to sell our Australian product to that medium, which is going to put it into that market?

Ms Murray—We will get access to part of that market. The national broadcaster

Doordarshan acquires some of our programs; miniseries like *Bodyline*, for example, for clear reasons, was a big success—it is about cricket. But a lot of our programming does not suit the tastes so that, on the widest possible delivery system, we have limited access. Where our opportunities occur are in what are called niche services, such as the English language movie service run via Star TV or the opportunities on sports and factual programming, and music programming channels. We would see our avenue as being more specifically targeted.

Mr DONDAS—Going back to that training, obviously with a 'spaghetti western'—I suppose you could use that terminology because they knock these spaghetti westerns out at the rate of one a week—in India, as the film industry is very large, they would probably be knocking out one a day. China, Singapore or Hong Kong knock out a lot of product. Are we able to compete with the product that is coming out of the Asian region because of the English language capacity that we have?

Ms Murray—If you mean that each of these countries is producing a lot of films and that we do not produce anything like that number and can we compete, yes. Yes, we can because the films that they are making are often for domestic consumption. The Chinese and Taiwanese film industries in particular have tried very hard to get a foothold in the international market. The fact that we make films that conform to the western style of film making, the fact that we make them in English and the fact that we are actually quite successful at it makes us competitive in a way that they are not competitive. Part of our relationship with foreign countries in the Asia-Pacific region is predicated by us providing them with some assistance to learn how to access our market. So we are competitive even though numerically we produce maybe 25 to 35—within that range—feature films a year.

Mr DONDAS—Would there be a greater acceptance of Australian films if they were to be dubbed or if they were to have subtitles?

Ms Murray—They are subtitled or dubbed when they are purchased on a commercial basis and screened in these countries. They are definitely dubbed in lots of territories, including even European countries like Italy and Spain. That is when the films are purchased.

Mr DONDAS—How big is that niche market you talk about?

Ms Murray—I am afraid I would not know quite how to quantify that.

Mr DONDAS—What have we got—45 million households or five per cent?

Mr Ward—Even if you look at 45 million households, that is almost eight times the number of Australian television households for a start. The big question here is not just in terms of—and I will just look at and think about the numbers we might be discussing here—the size of the market but the price of the programs. There is reference in the submission to the price that is paid for programming. When one talks about television drama, for example, the price is about one-100th of the price that a television drama sale would be worth in Australia. That is not to diminish the market at all or any of these niche markets but to say that those making sales have to look at all of those factors—the size of the market and the price.

Mr DONDAS—Are you saying that production from here would be very reluctant to let its film go offshore because of the amount of money that they get back for it when it goes to air?

Mr Ward—It has a big factor—

Mr DONDAS—Would there be some way that it could be topped up by, say, Foreign Affairs? After all, it is promoting Australia, isn't it?

Ms Murray—There has been great debate about that very issue throughout the whole overseas posts structure about providing programming free to broadcasters and paying the licence holders. It is felt quite strongly in the industry that you devalue the commercial viability of your industry if you start to subsidise it in such a way, and that in time markets will free up and there will be a demand for the programming that might improve the actual purchase price. In some cases, if you sell a documentary for $500, by the time you put all the materials together to make that sale, you are out of pocket.

That the prices are low is one factor. The other factors are to do with the taste of audiences in the individual countries. Not everything that we make is applicable or of interest.

Mr Ward—The other factor in all of this is the significance of the WTO moves in relation to audiovisual piracy. The securing of intellectual property rights in a range of countries is going to be important for all audiovisual producers, and although Australian film and television makers may have a different set of views from some of the other members of the WTO, in relation to subsidy and content regulation on the issue and protection of audiovisual intellectual property, they are absolutely at one with the moves to improve that in a whole range of countries. That certainly is another factor in terms of international sales.

CHAIR—Ms Vaughan, I gather that you are the manager of international training services at the Australian Film, Television and Radio School.

Ms Vaughan—Yes.

Senator O'BRIEN—Are there any comparable bodies from overseas countries that are following a similar strategy for penetration of the Indian market?

Ms Murray—Yes. It would be fair to say that France puts a lot of energy into such activities through its international promotion arm—UniFrance—and that Scandinavian countries band together under the concept of Scandinavian films, that the German export union is active in initiatives internationally, and that in the UK it has not been a priority, but there is starting to be a whole attitude about the promotion of British cinema. The New Zealanders, of course, are active in this area through the New Zealand Film Commission, and the Canadians through Telefilm Canada.

Not all of them address the issues in quite the same way as we do. UniFrance picks a few countries—South Korea, Japan and the United States—and does a film season in those countries every year. The AFC's approach is much more diverse than that of any other countries I am aware of.

Senator O'BRIEN—In terms of targeting India specifically, what countries are doing that?

Ms Murray—The Americans are doing it, clearly, in a business context, and obviously it is a cultural expression, as well. The Americans have put the most effort into India.

Senator O'BRIEN—I take it that that would be funded by industry and not government?

Ms Murray—That is absolutely right. It is funded by the American studios and the Motion Picture Export Association which is run by Jack Valenti whose name you probably have come across.

Senator O'BRIEN—Yes. Are there other examples of government funded entities who are seeking to do what you are doing in India?

Ms Murray—Australian government funded entities?

Senator O'BRIEN—No, I mean any other government funded entities.

Ms Murray—Not to my knowledge.

Senator CHAPMAN—I was interested in the discussions we had a couple of months ago with AusTV, the problems that they foresaw in the broadcasting legislation that was coming forward in India, and the fact that that may not allow them to continue because of the extra infrastructure that would be required and the cost of that, and so on. If AusTV is forced to withdraw from India, do you see that creating difficulties for the promotion of Australian films and productions—without that sort of ability to get them before the market through that media?

Ms Murray—I do see that as being quite unfortunate, because what AusTV is programming is a greater diversity of programming on one service than would be available through any of the other niche services we are talking about. But there are other opportunities that will become available, one hopes, when the whole broadcasting bill is settled and it is clear who can own what services and what services they will be.

Senator CHAPMAN—I want to ask Ms Vaughan about the work of the television and radio school. Your submission says that its aim is 'to prepare students and practitioners for the growing regional and global film and television industry.' In that context, are you focusing particularly on India, or is India just one of a number of areas in the region to which you are giving attention?

Ms Vaughan—We are focusing on a number of other countries, but what we do is actually support the AFC's activities, and the industry's activities, in their target markets as well as some of our own, of AFTRS, but mainly our focus is in support of the industry. India has greater potential for us in terms of relationships for multimedia training and perhaps bringing students here. We do not take students en masse. Our real aim is to support the industry and its directions and, in fact, to compete with the Americans, who put equipment into film schools in Asia. This is probably the most cost beneficial way of us supporting the Australian government.

Senator CHAPMAN—So you had some Indian students come here to study at the school?

Ms Vaughan—No, we haven't as yet. But there is enormous interest in learning more about digital media.

Senator CHAPMAN—What do you see then as the flow-on benefits, if we do educate some Indian students in this field?

Ms Vaughan—I think the long-term benefits are probably greater in terms of on-line education partners and the Australian Film, Television and Radio School setting up an international curriculum on line with leading schools in Asia. This is one way into quite a lucrative education market in the long term.

Senator CHAPMAN—So the benefits would be in terms of developing greater opportunities to be involved in that education process as part of the education industry, if you like—

Ms Vaughan—Yes.

Senator CHAPMAN—Rather than in terms of enhancing the opportunities for the marketing of Australian productions?

Ms Vaughan—We do whatever we can in our training programs; we include a lot of Australian material. The FCF supported us with a lot of material—the producers, the television stations, so it is a subtle way of us promoting Australian product and creative expertise.

Senator CHAPMAN—How big a problem is this issue that, unless an overseas film gets access to a prestigious film festival or a major industry publication for promotion, the chance of it getting into India is pretty limited?

Ms Murray—A lot of our films actually do get selected for prestigious festivals and get reviews in prestigious magazines, so there are a large number of our films that would qualify to be considered. What in the end can often make it difficult for them is that they may have too much sexual content or too much violence, or in fact they are films that have no star names attached and are therefore not considered to justify the amount of money that would be required to release them into the theatrical market.

Senator CHAPMAN—In terms of India opening up its trading relations, as it is generally, I assume that applies to films as well in terms of removing those restrictive provisions.

Ms Murray—We have not seen evidence of that as yet, but we are hoping that that will occur in the coming years. It has been a situation that was more restrictive in the early 1980s and the 1970s. At least this system has some boundaries around it that we can work with, but it is still restrictive.

Senator CHAPMAN—So films are not really part of the general trade liberalisation developments in India?

Ms Murray—No, not as yet.

CHAIR—I might go back to the question Senator Chapman asked about the new broadcasting legislation in India. He referred to evidence we have received from Australia Television International through Michael Mann. We had a paper from Michael Mann which talks about a number of submissions they have made with regard to the new broadcasting act. Have you been involved at all or have you thought of working with Australia Television? They have got slightly different concerns perhaps to your own, but they do seem to be matters which are going to affect their capacity to broadcast into India. As I say, while the problem is different, have you done any work with ATV, or have you made separately any representations to the Indian government about the act?

Ms Murray—We have not.

CHAIR—Have you followed up with our own department of communications, or don’t you really see it as a problem for your section of the industry?

Mr Ward—I have briefed people in the Department of Communications and the Arts in regard to issues relating to this. I have not had the opportunity to speak to them about the most recent developments because these came to our attention just after 27 November. These are the most recent proposals in the legislation to be presented. So I have not had a chance to discuss with the department just what is happening. I am reading from a film industry journal called *Screen International* dated 21 to 27 November, which indicates that there is intensive lobbying going on by a range of international particularly satellite operators, foreign broadcasters, in Australia who are faced with the same questions as AusTV. What is put here is that they would not be able to operate in the future without, first, being licensed and without, secondly, having an Indian partner. I have not had the opportunity to brief the department at this stage on those issues or the most recent information that we have, but I intend to do that.

CHAIR—When you say brief the department, will there be an impact on you? You talk about reading it in a media source, but is there any ongoing effort by the Australian High Commission in New Delhi, for example, to monitor it and to see that Australian interests are not prejudiced in any way?

Mr Ward—That is something I would want to check with the department. The Australian Film Commission is not aware of what the high commission is doing in regard to this. Without speaking for the commission at this stage, nor indeed for the department, my view would be that it would be of some benefit to determine whether anything is being done or the high commission is doing anything, and perhaps to make some representations along with that other lobbying that is going on at this stage.

The point is made in this article by a representative of Star TV that if India were to move down this path it would join a very small number of countries, for example, China, Iran and Malaysia, who require the licensing of satellite broadcasting, the point being that they would be moving in a direction that was different from most of the rest of the world in terms of deregulation of broadcasting. I think there is some scope for us to put that same view because of the potential impact it would have on Australian operators. That is indirectly Australian in terms of our primary constituency—Australian film and television production entities—and we are talking mainly about the impact on broadcasters. But clearly it has a wider impact in terms of the issues about the promotion of Australian programs in India.

CHAIR—I noticed in your paper to us that you talked about future initiatives. If this has already been asked, please do not respond, but you mentioned three in particular:

> a film festival to screen in either Priya Village or Fox Cinemas in up to five cities; a seminar program to accompany the season, together with a major publicity campaign; and liaison with Star TV to broadcast a contemporary season of Australian programs with a gala film launch to attract key producers, exhibitors and distributors.

Could you tell me how they are getting on?

Ms Murray—We are in the investigation phase at the moment. We are trying to work out a schedule of when we might have the resources available to, firstly, undertake a feasibility or research trip and, secondly, when we may be able to implement such a program. At this stage it looks as if it will be 18 months from now and that some research will be being done towards the middle of next year. It is actually a bit resources dependent.

CHAIR—So you do not have the resources at the moment to undertake it, but you are proceeding on a path so that you have a firm program from which you can work out where you are going to get the resources?

Ms Murray—That is absolutely right.

CHAIR—That relates very much to my question to you, Ms Vaughan. I note that you talked about finance and that you do not receive a funding allocation for international research and development, and you want something like $35,000 to assist in development of regional on-line communication systems, distance learning curriculum and technology, teaching staff exchanges and regional workshops, which you have identified as your strategy. How are you getting on with that, and what sources of funds are there?

Ms Vaughan—We have established a relationship with the film and television institute in India, and we got the impression that it was going to be mutually resourced but unfortunately, like a lot of countries in Asia, they are not very well organised and they are relying on us to do most of the work. In fact, we are having a lot of trouble getting answers to surveys. So the next step for us to maintain this relationship is to take over the responsibility of running the whole program. To do that we need face to face meetings and we need to conduct a survey of the technology. There is huge long-term potential in this area for us as well as a number of education institutions. So $35,000—and this is just for India—is probably an eighth of the amount we would need for the whole territory.

CHAIR—So you do not have the money and you do not know quite where you are going to get it from?

Ms Vaughan—That is about it. This is always a problem for us, as demands on our resources are so great in Australia that we have to keep postponing a number of these projects.

CHAIR—Would you look for a sponsor, a private enterprise company, or how would you go about it?

Ms Vaughan—We have started looking for a sponsor through some of the industry contacts, but they are all in the same situation as we are, with funding cuts.

CHAIR—Yes, but private enterprise operates totally differently. I do not know whether some of the media outlets in Australia, for example, would be interested in a share of the action. Is it something that you can sell in that way? There are quite a few of the educational institutions, and we have a number of communication schools and a range of universities around Australia. Have you thought of going into a partnership with them to launch something?

Ms Vaughan—We are collaborating with RMIT and with quite a few film schools around the world to set up an international curriculum, but everyone is putting money into their own areas and their own markets and, I think, concentrating probably on mass education at this stage.

CHAIR—So finding the money is going to be difficult.

Ms Vaughan—Very.

CHAIR—Have you got any runs on the board in terms of the work with India?

Ms Vaughan—We just finished last year, through the New Horizons program, a screening and educational program in Delhi and Bombay. The outcome was that we had full houses in both cities and full attendance at the seminars, so we want to maintain that relationship and build on that.

CHAIR—Did you generate enough money to cover the costs of that presentation?

Ms Vaughan—No, it was all part of the Foreign Affairs and Trade promotion into India last year. It was funded by the Australia-India Council.

CHAIR—So the money for that project came from the Australia-India council?

Ms Vaughan—It would not have been possible without the generosity of the people who lent us the films, AFC support and the fact that we had contacts on the ground in the industry in India. The real value of that was about $60,000, which is double the amount Council gave us.

CHAIR—Have you tried selling your services to any of these Indian film making companies? I know that the costs are so much lower for making films in India. Obviously they are interested in the quality of their performances.

Ms Vaughan—They are interested. We get probably about 50 inquiries a week from Asia for training but we cannot accommodate them within the film school because training is 85 per cent production based and we have a huge demand from Australians for those places. So we would have to give up places for Australians in the course.

CHAIR—How are you funded at the moment?

Ms Vaughan—Through the Department of Communications, Information Technology and the Arts.

CHAIR—You don't get any outside income at all?

Ms Vaughan—No.

CHAIR—It is all direct funding?

Ms Vaughan—Yes.

CHAIR—And you do not sell your services to any other country, apart from India? You do not sell your services to, for example, any other Asian country?

Ms Vaughan—We do. I have just come back from China. I have just run a course there.

CHAIR—How do you fund that?

Ms Vaughan—That was, again, through sponsorship, through industry and through the Australia-China Council. It is seed money. We find generally that there are demands for places in our courses which we just cannot accommodate. So we are looking at long-term opportunities. Hence the on-line education. But, as Ms Murray just said, our role at present is probably culture and education and supporting the industry wherever we can. This is a way of the AFTRS maintaining a relationship until we do have the money. We just have too many demands on our human resources within the school.

CHAIR—As far as the Australian Film Commission is concerned, how are you funded?

Ms Murray—Through an appropriation from the Department of Communications, the Information Economy and the Arts.

CHAIR—Entirely?

Ms Murray—Our whole operating budget is not funded by the government. We also earn revenue on our investments in programs.

CHAIR—Do you have shared ventures anywhere?

Ms Murray—We collaborate with the private sector, with international sales agents, with production companies, with cultural institutions internationally, with film festivals and museums, et cetera and in some activities with the Australia Council, with the state government film agencies, and obviously with the Department of Foreign Affairs and Trade through the overseas posts. Those relationships vary from providing advice and support through to financial contribution.

CHAIR—For example, if you are going to a Cannes film festival, would you get somebody who is also interested in going using the benefit of the tax concessions that have been available over the years saying, ‘Will you come and cooperate and coordinate with us in putting film together for it?’

Ms Murray—It would be fair to say that the AFC is the leading agency in terms of Australian representation at Cannes. We have been present for 20 years. We set up an office structure that is available for the use of independent film makers, with representatives from the Australian Film Finance Corporation, the state agencies, et cetera, so that we pull together those resources in a similar way to the work that Austrade does for businesses at other sorts of trade fairs. However, we are dealing with a cultural career development aspect as well as the business side. So it is a slightly different structure than Austrade provides.

CHAIR—Would you do it with the ABC, for example, or does the ABC do its own?

Ms Murray—The markets that we would go to in common would be the television markets in Cannes, MIP-TV and MIPCOM. The ABC takes its own stand so that it creates its own profile.

Basically, the AFC’s operation facility is a stepping stone. The companies like Southern Star and Beyond at one stage worked from our facilities and then were able to expand and needed their own profile.

CHAIR—What about overseas countries: do you take any overseas clients, directors or others into your embrace in Cannes?

Ms Murray—No, not in any formal way. We are in competition with them and are keen to remain in competition with them. Of course, official co-productions are a form of collaborative arrangement and we would certainly be advising foreign producers and filmmakers about working with Australians and effecting introductions. We would also deal with international buyers for television, video and film and introduce them to our creators. We provide a brokering service, rather than any other type of relationship with international players.

CHAIR—That is not a field that you see that you could possibly take up as far as your Indian relationships are concerned, for example?

Ms Murray—In any relationship, particularly with countries in the wider Asia-Pacific and Indian Ocean rim—all those sorts of countries—it is fair to say that providing some sort of intelligence about how the international market works is a precursor to any discussions for collaborative ventures.

CHAIR—Part of our challenge and our inquiry is to try to see ways in which the government might be able to help to promote this Indian-Australian trade relationship. Apart from money for each of your budgets, is there any particular idea that you might have that perhaps we could pick up and make recommendations on? Perhaps you could answer first, Ms Murray and then I will ask Ms Vaughan.

Ms Murray—I think that the regulatory obstacles that we have been talking about—some discussion about freeing up the restrictions on the importation of programs—would be helpful, as would be specific market intelligence that would allow us to take some opportunities, should they arise, for positioning Australian film and television.

Mr Ward—I think that India is a specific case and has a very well developed, if differently developed, audio-visual sector from Australia. It does not quite fit in with quite a large amount of the collaborative work that the Australian Film Commission has been doing in recent times with a number of other countries. There is a model there that might be useful in general terms and also in specific terms with regard to India.

Over recent times we have been approached by representatives of the governments of Hong Kong, Fiji, Mozambique, Zimbabwe, the Republic of Korea and South Africa. The most extensive work is the work we are currently doing with South Africa, which is, in fact, about rebuilding the relationships between the public and the private sector in terms of the development of an audio-visual culture. As I say, that does not quite fit the situation in India. I might also point out that someone from the UK approached me recently about the Australian model. The Australian model for audio-visual cultural development is seen increasingly as one of the most successful in the world. People are very interested in finding out more about it.

I think there is an opportunity for us to share our achievements and our intellectual property and promote ourselves at the same time as perhaps securing a business niche in countries such as India. The particular way in which it could work in India would necessarily be different from say the work that we have been doing in South Africa, because it is not about building something from the ground up. But there is definitely an opportunity there. Having said that, we are already stepping outside our legislative bounds and our financial bounds if we move any further.

CHAIR—I suppose you have to change your act to do all this?

Mr Ward—Just slightly. Whilst we remain in the business of promoting Australian programs—

CHAIR—As Senator O’Brien will tell you, even the slightest changes to acts sometimes create difficulties.

Senator O'BRIEN—They could be difficult. You would have to get them initiated in the House of Representatives first!

Mr Ward—At this stage we do not want to step outside our legislative bounds. We are certainly still about promoting Australian programs both domestically and internationally. The issues arise, though, in terms of where we might derive some finance. We have had some discussions both within the AFC and beyond about how we can actually continue to do this work without stretching our resources further. I have spoken to our chief executive about this issue, and we are in the process of preparing a paper for our minister about how this work might be done.

Ms Vaughan—Like the AFC, we have to look at the whole region and not just at one country. We can be more effective that way. It does come back to budget, though—which we don't have. It is in our mission statement to support our neighbours but we are finding it very hard to do this. Probably one of the most effective ways for us to influence young people of the future industry is to bring people here to Sydney for the training of trainers.

We have an international reputation for training some of the top filmmakers in the world. Our short films are very successful at all international festivals, so we get a number of visitors looking at our training model. People come here to look at our industry models too, as Michael just pointed out. We would like to bring more influential people here for workshops and forums, in collaboration with the industry, to strengthen these relationships.

CHAIR—You are really talking about training the trainers, so you would be training people who were going to—

Ms Vaughan—Yes, we are not looking for students. It is the people in the media who are going to influence the government.

Mr DONDAS—How many students do you have per year?

Ms Vaughan—Approximately 100 students.

Mr DONDAS—Is it a university degree or a TAFE degree?

Ms Vaughan—We have just moved up to a postgraduate diploma of one year, a two-year masters and a three-year masters-honours.

Mr DONDAS—Would it not be an industry that you could really promote in terms of financial income—as we do in other education systems where we encourage Malaysian and Asian students to come to universities in Australia? Wouldn't that be a good moneyspinner for you, so to speak?

Ms Vaughan—Except that we would lose the quality of our training, and that we would have to change it to a more theoretical university program rather than a production based program. I do not think that would be very good for our students. We have actually just accepted one overseas student at probably the highest scholarship in the world for one year.

Mr DONDAS—What would that be worth—$30,000 or $40,000?

Ms Vaughan—About $70,000. But we cannot accommodate more than that, and the concern of the industry is that—

Mr DONDAS—I was not saying to give students scholarships; I was saying to charge them, because at the moment it costs about $25,000 for a student to come from the Asian region to any of the Australian universities to do a simple course like arts or commerce.

Ms Vaughan—No, we cannot follow that suggestion; it is not classroom based work.

Mr DONDAS—We train more than 100 doctors here, you know.

Ms Vaughan—You have hospitals to put them in too! We are actually seen as the flagship for many other universities. We have the creative and the technical expertise and we are asked by other universities to work closely with them.

Mr DONDAS—I think you do a fabulous job, don't misunderstand me.

Ms Vaughan—I think we do too.

Mr DONDAS—I was just trying to get you to spread it a little more.

Ms Vaughan—I wish we could afford to.

Mr DONDAS—That is what I say: bring in a few more students and make them pay.

Ms Vaughan—We could if we put up another building. We would really hit your budget then.

Mr DONDAS—Maybe that is what you should be doing: getting the AFC to help you with that building.

CHAIR—Have you tried the AIC, the Australia-India Council, for a bit more money?

Ms Vaughan—Their limit is usually approximately $25,000 a project.

CHAIR—Thank you very much indeed. That has been quite fascinating. We wish you well. It sounds to me that the project you are involved in is certainly something that is in Australia's interests, and I think it will also be in India's interests. You will be forwarded a copy of your evidence. You can correct it in grammar or in fact if you wish and then return it to us. A record of the transcript will be published in due course, and we will use it in the preparation of our report. Thank you very much for your attendance this morning. We wish you well in the work you are doing.

Luncheon adjournment

[2.02 p.m.]

SINCLAIR, Mr Geoffrey Arnold, Managing Director, Horseland, 476 Maroondah Highway, Lilydale, Victoria 3140

CHAIR—I welcome Mr Geoffrey Sinclair to the hearing. As you know, we are inquiring into Australia's trade relations with India and we understand you have had quite extensive connections in the horse business with India over the years. India has had a bit of a reputation in that sense one way or another. Perhaps I can just tell you a bit about the way we conduct our proceedings. We do not require witnesses to give evidence on oath but they are formal proceedings of the parliament and should be treated as such.

We like all evidence to be given in public but, if you want to give us any evidence in private for commercial or other reasons, please ask and we will be happy to consider that. While we have a bit of background on what you do and the rest of it and on Horseland generally, perhaps you might like to make an opening statement and then take a few questions from us.

Mr Sinclair—I am a director of a company called Weatherbeeta, which is a major wholesaler of saddlery products in Australia, New Zealand and England. I am also a managing director of a section of that called Horseland. Weatherbeeta owns a chain of 42 franchised Horseland stores around Australia, so we are a large retail saddlery organisation as well.

Just briefly, we have been going for 20 years. I began working in India in about 1980. Since then, I have been travelling two to three times a year to India, working with them to develop products for our business, which initially was here in Australia and then obviously started around the world. Unlike a lot of Asian countries, one of the big advantages I have found in India is that they are English speaking. Because they are English speaking, communicating with them and working with them becomes a lot easier, and I think that has been a help to us.

One of the things about India is that a lot has not changed since the war. It is amazing when you get into the centre of India into where products are actually produced. In fact, the manufacturing facilities, the jute mills, the cotton mills and the way people make saddlery, war products and arms and things is done pretty much the same as it was done in the late 1940s and nothing really has developed a lot from that over the time.

In recent years, it has gone ahead a little bit, but it has still got a long way to go. One of the big things about India is that it is very slow to develop and you could not say that about Korea, China, Indonesia or any of those countries. I think that reflects in the type of people who are there. A lot of the Asians are very much go-getters. If you pay them more money, they want to get ahead and grow. In the factories there, we have found that, when you pay Indians more money, they do not turn up at work for about three or four days until the money has run out, and then they work again. They are quite different types of workers in India from those in China generally. I guess India is a more friendly place to work than China because they speak English and because of the way they work with you. Generally, I have found them far more trustworthy. We have a lot of really good cooperation there, which has been much harder to get in China. You just do not know where they are going next in a lot of those places.

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.

One of the things we have found that is massively different in our industry—and this is perhaps something that would suit industry in Australia—is that Australia represents only a few per cent of the world market. Therefore, when you go into China and you say that you want to buy 5,000 of something, they laugh at you. The same thing happens if you want to develop something small or in small quantities—small items or individual products that might suit all around the world. They really want big volume all the time.

India 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 we found in China is extremely difficult to do. I think you are even seeing that in the clothing industry today, too. A lot of people are buying clothing out of India, where they are prepared to go into textiles and make small runs of products, which just cannot be coped with by a lot of businesses in China. Economically, for our business, it works far better in a place like India. Even though we buy a lot out of China, it works better in India because you can develop more individual products and smaller runs of things.

In the long term, I think you will find in China what we found when we dealt with Japan 20 years ago and I guess we then moved to Korea, then to Taiwan and then to China. We have moved our products a lot from those Asian countries, but we have still been able to maintain them in India. Over the next 10 years, I feel very confident that India will still be cheap whereas, in a lot of these other countries, 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.

The big thing I have found about India is that, if you do not ever go in and talk about price, if you work on quality all the time, they will come good. Their prices are always fantastic. So if you work all the time on quality, that makes a real difference. The area that our company works in is obviously saddlery, which is saddles and bridles.

The areas that have grown hugely for us out of there, which now represent 70 per cent of our purchases from India—and it is also stuff that we sell around the world—are textile products such as horse rugs. There are a lot of things with jute, cotton, canvas and now with nylons in it as well.

Shoes and riding boots have certainly become a big product out of India that probably has affected Australia in a fair way. The R.M. Williams end is still very strong and I think it has got its own market. But there are people in between. I do not know whether you have heard of companies like Baxter or Victor that are in New South Wales. I think they are both going to suffer fairly strongly from the fact that there are imported products like those sorts of shoes. It would not matter whether you had 25 per cent, 50 per cent or 10 per cent duty on them. You are working off such a low base. In fact, they are making very good products out of there that are certainly going to affect some of our manufacturing here in Australia. It is certainly happening in other parts of the world very strongly too.

Just out of interest, where I have been working in Kanpur, the Italian shoe uppers are a really big part of their business. They export huge numbers of shoe uppers to Italy and then they whack the soles on them and stamp them 'Made in Italy', or whatever they do, and ship them off around the world. I guess it is happening all over the place.

CHAIR—That would be a substantial transformation test.

Mr Sinclair—I am sure they do not tell you everything. I think we are much stricter on our markings and on what is required in Australia than most countries in the world. There is another area that has become huge. It is based in Delhi and is probably close to the biggest jodhpur manufacturer in the world now. This guy manufactures his own fabric there and makes it up into jodhpurs. I think he is selling 100,000 pairs a year to the US and we are certainly distributing a lot in Australia, New Zealand and the UK.

CHAIR—On his label or yours?

Mr Sinclair—Under our label. I will explain that point to you next. Over the years, we have tried to work with these factories really closely. We have developed the product; we have lent them money at times. We have never actually bought machinery, but we might say, ‘All right; here is $50,000 that we will lend you to go and buy the right machine in Italy or France or wherever it is that you need to make the product’. We have helped them to get the style and colour and the finished product right.

Our company has taken the responsibility of distribution and marketing. In the countries where we are based, we have actually then imported the product to England or New Zealand or Australia and sold it under our own brand around those countries and done our own marketing. We have set up distributors in other countries right throughout Europe and America where those people buy direct from the factory. They take our marketing from Australia. We provide the new styles every year or twice a year and then they import direct from the factory and we take a commission on that. Those factories are now selling our products that have been developed for us under our brands in basically all the major European markets and the States. That has been good for us and it has given us a step into going overseas. In fact, we are sending a bloke to live in America in January this year and we will take the distribution of our product off our distributor by the end of the year and set up our own company and develop it ourselves there. It has given us a base to get going in these other European and American markets.

CHAIR—Whereabouts in the States are you going?

Mr Sinclair—We act to be a wholesaler. So it is not so important because we want to sell to everybody. We are going to base ourselves in Philadelphia just below New York.One of the things that has been really hard, but which has improved massively in India in the last five years, is that they used to only be able to use their local products to manufacture things. That became a real problem because, if you needed the right fittings or even the right leather, that had to come from England or Taiwan or somewhere. You could not bring it in without lots of special regulations. That is now completely opened up and the companies we work with are often importing raw materials from other parts of the world—English leather is a classic—and making it up into products. So we can virtually sell an English bridle with lots of labour in it and it costs us half of what it costs us in England. I guess we all buy Levis jeans that are now made in China and those things. They can now finish products and make products up to world standard because they can get all the little fittings and things they need and the machinery to do it to get it right.

I guess, when you are thinking of products that you are going to work with India on, in terms of buying from there, the most important thing is to think of labour intensive products, because that is obviously their greatest feature and advantage—the fact that they have got such massive amounts of cheap labour.

In terms of us selling to India and exporting there, I have been there several times and I have gathered that two to three per cent of the population is wealthy. You think that is not a lot, but that is 20 to 30 million people. A lot of wealthy people live in India, so it is a huge export market. But probably not so much for the saddlery industry. Even right throughout Asia, although, even with all the money there, there is a small market in each of those countries for horse-riding equipment. Certainly products that interest wealthy people have a big potential in India, and I am sure that is going to keep growing as their import regulations have opened up a fair bit more. I guess that gives an outline of what I have done there.

CHAIR—That is excellent. I know you have a plant in Banbury in the UK—have you also a plant in Australia? As, from what you are saying, India becomes more and more your manufacturing hub, where do these other production houses fit in?

Mr Sinclair—We have a warehouse in Banbury in England and we have a warehouse in Melbourne, so that is distribution. We manufacture product wherever is the best place to manufacture it in the world. One of my partners is Ron Bates, in Perth, who makes the Wintec saddle; that has been a very successful export product. We distribute that around the world for them, but we manufacture it wherever we think the best base is to make it.

CHAIR—You started in India well before the freeing up of the market there. Why did you particularly go to India at that stage? Was it because they had these leather products and you saw the opportunity?

Mr Sinclair—They had cheap leather in buffalo hides, so that was a good, natural resource. It is often good to try to make close to your natural resource, where they have cheap labour and cheap leather. I guess what we have got right away from now though—I think we really need to emphasise this—is that, in working with India, we are not going for cheap. We want to buy the best we possibly can there, and the resource we have to use is their labour resource.

CHAIR—But are you training these people? You mentioned you have allowed the money to buy machinery. Who is supervising the quality? Is it you, as the purchaser, or do you train their people so that they can produce to the quality standard that you set?

Mr Sinclair—We meet with them two or three times a year, and we have very strict requirements in terms of quality. I guess that is all we emphasise. We bring them here to train at times, they have certainly worked with our saddlers here, and we have spent a lot of time with them. They employ a lot of children there, too, which is perhaps against the Australian ethic. For instance, in the factories we deal with, you will often see 8- and 10-year-olds sitting on the floor in groups of 10 doing the really simple work. But those kids have a choice in life: they can go to work where they really are well respected and get some sort of care, or they can be on the streets. There is no education system that can take the capacity that India needs and, therefore, work is almost like a small education system for them.

CHAIR—Do you try to encourage them to teach literacy or anything like that through your contracts? Obviously, if the kids are going to work there, do you give them any educational opportunity?

Mr Sinclair—No. The factories we work with tend to be set up with a guy who owns it and who then has lots of subcontractors underneath him. So it is not really an ideal place where you can go into a big place, employ 300 people and say, 'We are going to educate all these people.' You tend to have to work with the head guy, and he will operate down with other guys. In our industry, change to the system has not worked.

CHAIR—You have not tried to?

Mr Sinclair—No. We would not have tried to introduce literacy. There would not be many kids that I could not talk to very well.

CHAIR—No, but they cannot read or write.

Mr Sinclair—No. But I would say that, as they start to improve products and quality and get more technical in what they have to do, they will naturally have to learn to read, write and communicate better. Industry will force that on them a bit.

CHAIR—Couldn't you force it on them to an even greater degree?

Mr Sinclair—I suppose if we asked for it, yes.

CHAIR—On the general freeing up of tariffs, you mentioned that they have now been able to source product that they could not before so they can now produce a quality product. Have you otherwise been conscious of the changes since 1990 and the impact they have had on your business? In other words, they are reducing tariffs and are apparently allowing a lot more flexibility within their domestic economy; has that made much difference to the growth of your business? You mentioned the quality standard, but has there been any other tangible result of it?

Mr Sinclair—No. I think the big thing is that we have been able to broaden hugely the product base we buy from them. Our purchases from India would have tripled over that time. Because they have been able to import things and free up what they can bring in, they can now manufacture more products to world standard than they ever have been able to before, because they simply could not get hold of the machines or materials to do it.

CHAIR—Have governments, either federal or state, in India had any impact on your business?

Mr Sinclair—India is corrupt in lots of areas, although probably not as corrupt as

China. There are certainly ways and means of working with all the little officials there. If you need something done there, they seem to call the local police officer in Kanpur and he rushes down and organises something. I guess there is that impact in terms of interfering with your business or facilitating it. It is not something that we have had much direct interaction with at all.

CHAIR—What about the currency and political problems? There has been a general volatility in Asian economies and so on, and particular volatility in Indian politics? Have either of those had any impact on your business? Presumably you pay them in hard currency so you have no worries?

Mr Sinclair—Actually it is an interesting thing that you have to cope with in India. Obviously, you have to pay in other than rupees. They want people to pay in US dollars or Australian dollars, whatever it is. We always want to take the currency risk because we want the manufacturer to give us the best price he can and then not have to build in 10 or 20 per cent for currency fluctuations. So, we link our deal to the local rupee rate to the Australian dollar. I guess the effect in recent years has been very good for us. It has done nothing but improve. Perhaps in the last few months it has deteriorated, but in the long term it has been excellent, the rate of the rupee to the dollar. It has worked well for us.

Senator CHAPMAN—Do you hedge that once you have done a deal, or do you take the risk?

Mr Sinclair—We take the risk and we cost it when we land it and change. However, it has been excellent.

Senator O'BRIEN—What sort of total product value would you bring into this country each year from India in the saddlery line—saddles, bridles, harnesses, et cetera?

Mr Sinclair—Jodhpurs, and the whole caboodle?

Senator O'BRIEN—Yes.

Mr Sinclair—Probably $2 million.

Senator O'BRIEN—How does that compare to the total Australian market?

Mr Sinclair—We probably bring in more than 50 per cent of the Australian imports.

Senator O'BRIEN—You talked about—

Senator CHAPMAN—Can I just interrupt there for a minute? What share does that represent of your own sales? What you bring from India, is that 100 per cent of your sales?

Mr Sinclair—No, it is only a portion of our sales. I do not know exactly because it is over different product groups, but it might be 20 or 30 per cent, but it is nothing like 100 per cent.

Senator CHAPMAN—And the rest is sourced from Australia and England?

Mr Sinclair—We buy 40 or 50 per cent of our product in Australia. It is still very strong here.

Senator O'BRIEN—You talked about a saddlery in Western Australia. Is that part of your operation?

Mr Sinclair—There are four directors of the company and one of them owns the saddlery operation in Western Australia. That has been very successful in making synthetic saddles and exporting those around the world. It is a brand called Wintec, as the committee secretary would know. It has been a really hot product around the world.

Senator O'BRIEN—In the past I have had a little bit to do with leather industries. There would only be a couple of operational manufacturing saddleries in Australia now, wouldn't there?

Mr Sinclair—Nowadays there is basically Bates and Syd Hill and Son, an old company in Brisbane that makes just stock saddles, the Australian style saddle. Bates is the only one that has got any real market in Australia and overseas. There are a few individuals who make a saddle, but Bates make 20,000 saddles a year.

CHAIR—In my part of the world there are half a dozen individuals making saddles.

Mr Sinclair—That's right, a lot of stock saddle guys.

Senator O'BRIEN—Do the Indians enjoying riding over there?

Mr Sinclair- No, it is not that strong. I have played polo there and I have done a bit of showjumping, but it is really not a big thing in India.

Mr DONDAS—There is no market in India for you?

Mr Sinclair—It is very small. Minute.

Senator O'BRIEN—We have another submission about the racing industry. Do the Indians manufacture their own racing saddles?

Mr Sinclair—They manufacture racing saddles for us. For instance, we sell to the Hong Kong Jockey Club, the Macau Jockey Club and to the places in Malaysia. In India there will be a little base like that too. It might end up being one guy or one little shop that brings in products to sell. I would not know about racing. There might be 200 or 300 horses racing in Delhi. I am not sure about the other areas.

Senator O'BRIEN—Is that much of a market for you? Do you sell to the Australian racing industry?

Mr Sinclair—Sure.

Senator O'BRIEN—Are the saddles made here or in India?

Mr Sinclair—I would say that 99 per cent of saddles sold to Australian racing people are Australian made racing saddles. One per cent of people would be the backyard trainers who might buy Indian racing saddles. Australian racing saddles are very competitively priced. Again, they are made in Perth from synthetic materials and they are of good quality.

Senator O'BRIEN—Not much of them either.

Mr Sinclair—No; they are pretty easy to make.

Senator O'BRIEN—What sort of wage structure do your suppliers in India have for their labour? You have talked about children working in factories. Obviously there would be different rates for children and adults. Do you know what they are?

Mr Sinclair—No. I have often seen them. They might have been earning 30 rupees or 40 rupees a week. That is probably $1.50.

Senator O'BRIEN—The children or the adults?

Mr Sinclair—The adults might be earning double that, but it is a very small wage and they work a six-day week. It is tiny. As I said earlier, China, Korea, Taiwan and Japan have all gone ahead hugely in that. That does not seem to be happening in India at any great rate at all. There seems to be unlimited labour at cheap rates. It is a mammoth problem. It is very difficult to get your mind around.

CHAIR—You mentioned before that, if you give the Indians double the money, they will not come to work until they have spent the money. Have you actually tried to increase your rates?

Mr Sinclair—Yes. We will produce three qualities of product in the one factory: a cheap one, a middle one and a better one. We have said to the better guys, 'If you get everything perfect, we will give you some more money.' Honestly, they will go and drink a bit more or go out with the family more often. Their families and religion are extremely important to them. They are lovely in the way that they treat one another.

Senator O'BRIEN—You said that you pay them. I had the impression that you were dealing through an employer who employed these people.

Mr Sinclair—No, we would offer the guy more money to do that. We have tried to educate them in the way that we would with our own staff if we wanted a better job or we wanted them to take more time with it. We would give them some more money, but it does not happen as easily as you might hope in India because of their culture.

Senator O'BRIEN—Are the materials that they bring in for specific products? You talked about English leather. What parts of the manufacture process would they bring in for a saddlery range?

Mr Sinclair—In our business, there are not many synthetics available. I do not know if there are any synthetics available in India. For instance, if you want to put nylon or ripstop into a horse rug, you need polyester. They are now able to introduce those sorts of products and to use natural products, such as canvas or jute. They can mix them together with synthetics to get world standard products. I suppose that has freed up their manufacturing and their quality a fair bit in that they can bring some of these products in.

The same can be said with the tanning of leather. They are able to bring in all the materials they might use to tan leather from England or Germany—or wherever the good stuff is made. They can utilise those materials instead of using what they were making in India, which was nothing like the same sort of stuff. If they import little fittings and things that they could never get right in India, they can finish off a product beautifully.

Senator O'BRIEN—I was thinking about the metal fittings for saddlery. Would they bring them in from Europe rather than Australia?

Mr Sinclair—I would say they are just about as good as the rest of the world in making some of these fittings now. That particular product is not a problem. Certainly they need to look at bringing in some of the fittings for jodhpurs and things like that. With riding boots, we bring in elastic from Mexico. It is the same elastic that is used in R.M. Williams' boots. That is the sort of thing that gets their quality right, and you cannot source it in India.

Mr HOLLIS—I want to ask a question about the difficulty of getting money out of India. If you are dealing in the rupee and it is not the most favoured currency on the international market, what do you do: do you reinvest it there? The witnesses who gave evidence before lunch said, ‘We use 90 per cent of the money we get in paying our wages and everything else. It is only the 10 per cent which we might want to repatriate that is a difficulty.’ Is your situation the same?

Mr Sinclair—We do not own a business in India, so it is not the same situation. But we have had problems. We have often been owed $50,000 or $60,000 in commissions and things like that, and it is quite difficult to get them to pay out. We used to think it was the blooming Indians who would not give you the money, but it is much deeper than that. The banks are very reluctant to convert the money and ship it out in big hunks. Trying to get that through the system is quite difficult. We can sometimes offset it against other invoices where we always owe them a lot more than they owe us.

Mr HOLLIS—When you say ship it out with the banks, you would want the banks to convert the rupee into Australian dollars or US dollars or something, would you?

Mr Sinclair—Yes, we would get a bank cheque from the Bank of India for X amount of Australian dollars.

Mr DONDAS—And they do not like doing it.

Mr Sinclair—They hate it.

Mr DONDAS—They are reluctant.

Mr Sinclair—I think the suppliers hate it too—everyone hates giving up money like that; it is part of the game.

Senator CHAPMAN—You indicated that a lot of their industry is antiquated. What implications does that have for the level of productivity and competitiveness that they achieve in terms of the products that you are obtaining from them?

Mr Sinclair—I was saying initially that if you have labour intensive products then they are fine, but once you need more modernisation they really find that hard to do. However, it has changed dramatically in the last five or six years since the opening up of allowing equipment to come in. If you go to a shoe factory now, they are well set up with good Czechoslovakian shoe manufacturing machines and things like that, so that is improving. But I still think it has to be labour intensive stuff that you want to buy from India.

Senator CHAPMAN—You said that it basically had not changed since the Second World War. Does this mean that these factories were originally set up by the British and were taken over by the Indians?

Mr Sinclair—Absolutely. It would horrify you. You walk into a place and it looks as though the English walked out two weeks ago—nothing has changed.

Senator CHAPMAN—So there has been no development of their industry by the Indians themselves?

Mr Sinclair—No. The big thing that country can do is work hard with industry to invest and try to help them to develop. That will make a real difference to India. They do not seem to have the ability to do it themselves, so it would make a big difference to their economy if that were encouraged.

Senator CHAPMAN—You also said that you are able to get small runs out of India. Is that also a consequence of the persistence of the old technology? In other words, is it because they have got old technology that they can do small runs because with modern technology you would need to do much bigger runs?

Mr Sinclair—No, I would say it is the system. In China you would sit in a room like this to buy a pair of rubber riding boots with 20 people from the executive of the factory. You would sit around for three hours discussing one riding boot. It is a nightmare. And then they want 100,000 pairs. In India virtually all are individual entrepreneurs. It tends not to be big government factories, so you have lots of individual entrepreneurs, and if you find the right bloke he is very happy to start his business, work with you and grow his little business with you. You can build a whole riding boot business or jodhpur business or saddle-making business from virtually nothing. In China you have to go to the big factories all the time, which is where the volume thing becomes a problem.

Mr DONDAS—There is a lot of cottage industry.

Mr Sinclair—Huge cottage industry.

Senator CHAPMAN—You also said that some of the product is made out of English leather that is imported and manufactured, processed and then re-exported as product. What is special about the English leather that the Indian leather has not got?

Mr Sinclair—There is a big difference—and we even have it in Australia. For instance, in Europe the cattle have a cold climate and they are also sometimes kept shedded. In India they use buffalos and that is a much coarser grain. The leather is much finer out of England and the tanning methods are much better, so the final leather is 10 times as good as buffalo hide in the way it is finished. We have the problems here in Australia because they do not let the cattle grow old enough so we do not get thick enough leather and also, because they are outdoors and there are barbed wire fences and all that sort of stuff, the leather is marked, so it is not as good from here. England, Austria and Germany are the best place for saddle leathers. It is an unusual industry because we need especially thick leather. For shoes and things like that you do not need anything like what we are looking for.

Senator CHAPMAN—But they import the leather; they do not import the raw hides and then process them?

Mr Sinclair—No, they would not process the raw hide; they would import the finished leather. Again, the finishing is good in England. But nowadays they could import raw hides quite easily. Probably you would be aware that there is a huge export business of leather from India too; Kanpur is basically the leather place. People, like Olivers of Ballarat who make shoes, bring tonnes and tonnes of leather from there to make up boots. I would not be surprised to see most of Blundstone's stuff coming out of India now.

CHAIR—That is even though the Hindus do not like killing cattle.

Mr Sinclair—It can be buffalo too. But yes, they do not like killing cattle, but you can still buy cattle hides there. If you go to a roundabout in Kanpur, there will be cows lying there. By God, you had better avoid hitting one because, if you do, there is no court system; it is like hitting somebody's mother.

Senator CHAPMAN—Obviously Australian consumers are benefiting from your involvement with India by getting cheaper products.

Mr Sinclair—Yes.

Senator CHAPMAN—Are there any other benefits to the Australian economy from the trade you are involved with? Because of your international network in that you have international outlets for what you are doing, are there more jobs being generated in your business in Australia? Are you getting taxation revenue as a result of it?

Mr Sinclair—Yes, you are certainly getting more tax, unfortunately. We repatriate all our profits from overseas back here. I think by next year we will be making more money overseas than we make in Australia. So yes, it has become an important part of our business.

I think the thing that I have found, and that you have to keep in mind, is that riding in a lot of countries is a very expensive sport and really an elitist sport. In Australia it is not, absolutely not. Here you can still keep a horse for $15 a week. You can still buy a horse for $500 and go riding, and join a pony club for $80 a year. That does not exist virtually anywhere else in the world. Also, you can buy a saddle and bridle and get started for $249. That has allowed a huge influx of young people to continue to ride in Australia, which they would not do if they had to start off by buying an Australian made saddle for $1,000, a $200 bridle, and all that sort of stuff. It gives a good introduction to the sport.

CHAIR—Plus gold medals.

Mr Sinclair—Gold medals have been pretty good to us too; they have been fantastic to us.

CHAIR—What about the infrastructure over the course of the time that you have worked there? Are you finding that you can get your product out? The Indian customs has had a pretty nasty reputation; have you had troubles with customs? How do you get on bureaucrats and so on?

Mr Sinclair—It is very, very difficult—and I would say that it is still difficult. For instance, we were not able to ship by container. We were bringing 50 containers a year out of Kanpur into Melbourne, but we were not able to ship by container out of Kanpur. We had to send the goods loose from Kanpur to Delhi on the back of a truck. If you were to see the trucks with all their little goddesses hanging from the window, you would wonder how they ever made it there. Then they have to get packed, and there are strikes. It is still very difficult. It has improved a little bit, but I would say that it is a continuing problem.

CHAIR—Where is the improvement: in the trucking, or in the roads? What about local customs?

Mr Sinclair—Yes, you mean Indian customs. Probably there has been some improvement in the infrastructure systems, like the roads and the facilitating of things at ports to get it through more quickly. But it is still not easy.

The other big problem they have there is monsoons. From July and August everything can get moist. Really, for a couple of months of the year, it is a disaster to export from there—and probably to import as well.

CHAIR—Do you shut down for that period?

Mr Sinclair—We do not allow anything to be shipped.

CHAIR—They make the product, but you hold it.

Mr Sinclair—It is even hard to make the product. If you see the sorts of operations that they are keeping things in, it is not that easy.

I have a little story to tell you. When I first went to India—and this would still happen today—at lunchtime, between appointments, I would go back to my hotel in Kanpur and sit down in my room. On this particular occasion the girl was in the bathroom. She had a white cloth and was wiping out the bath with the white cloth. I could see her doing this because the door to the bathroom was open. She continued to wipe with the cloth. The next thing was that, with this white cloth she had, she wiped the toilet seat over, then went to the hand basin, and then went to the drinking glass—the type which has a little lid to proclaim it as having been sanitised—and wiped the glass out and put the sanitised lid on it. This still could happen tomorrow in India. It just has not changed in 20 years in that regard. So be careful.

CHAIR—Are there any prospects for other horse industries for Australia? Jane said that she thinks there is a whole lot we ought to be able to do something about—process feeds, veterinary products, equitation polo instruction, opportunities in racing and, I guess, horse breeding.

Mr Sinclair—Do you mean with regard to exporting to India?

CHAIR—In terms of association with India. Your industry has obviously developed a niche, but it is in one part of the horse industry with a lot of other add-ons. I understand that if there is not a big market there you are probably not going to sell too many process feeds or veterinary product lines.

Mr Sinclair—Veterinary product lines could well end up being developed and made in India. I would say that that has got some opportunity. Somebody who knows a lot about that product area could easily use India as a resource for making things.

CHAIR—The other thing that strikes me is that there are a lot of other countries in the region that have also had a long-time association with horses, running from Mongolia over to the north of China through to Afghanistan and Pakistan.

Mr Sinclair—Yes.

CHAIR—Do you do business there? How does the work opportunity in India compare with those other countries?

Mr Sinclair—We do a little bit of business in Pakistan and we have certainly bought stuff from Mongolia. What we have done in India we could just as easily have done in Pakistan, but we just happen to have ended up in India. Those countries are just as underdeveloped, but with enough care and work they probably could come along and manufacture stuff. We just have not paid attention to those countries yet. Mongolia is probably a little bit different. Have you been there?

CHAIR—Yes; inner and outer.

Mr Sinclair—It is pretty backward, isn't it?

CHAIR—I have been to Ulaanbaatar and I have been out in the yurts.

Mr Sinclair—Yes. The bits I have seen are not really manufacturing orientated.

CHAIR—I think there are great prospects there but, like a lot of underdeveloped countries, there is a long way to go before you would necessarily be able to get returns. What about investment there? You mentioned that you are basically buying from there. Have you thought instead about just using the present system of trying to provide an Australian-funded factory of some sort which might perhaps become more of a distributor? You are obviously now contracting, essentially, and then they are subcontracting and subcontracting again in order to get your product up.

Mr Sinclair—In our business we have an absolute policy that we do not want to own the factory. We are good marketers and we are good distributors—we are very efficient at that. One of the problems with owning the factory is that it ties you to that country or that place all the time. If the economy changes or the dollar changes, or whatever else, it could become much better somewhere else. So, no, we will not be doing that.

CHAIR—As there are no further questions, I thank you very much for coming along and giving evidence.

[3.00 p.m.]

CHARLEY, Mr Robert Lindsay, Chairman, New South Wales Thoroughbred Racing Board, 1 Rosebery Avenue, Rosebery, New South Wales 2018

CHAIR—Welcome, Mr Charley. As you know, we are conducting this inquiry into Australia's trade relations with India. Our real purpose is to try to see in what way and to what degree, through government assistance or otherwise, we might be able to promote the trade relationship with India because it seems to be one of the emerging markets where there is a great deal that we think can be done. We know that you, as the representative of the New South Wales Thoroughbred Racing Board, have some interest in this issue and horses have always been a very important part of the Indian psyche.

In our proceedings we do not require witnesses to give evidence on oath but they are normal proceedings of the parliament and should be treated as such. If you want to have your evidence treated as confidential information, please request it, but normally we take evidence in public. What we are seeking to do is to use what you and others say to help build up a framework for the inquiry. You might like to make an opening statement to us and then be prepared to answer a few questions.

Mr Charley—Thank you. I am also the chairman of New South Wales Racing Pty Ltd, which is a new body formed to oversee the three codes of racing in New South Wales.

I have limited experience of India, although funnily enough both my brother and sister were born there because my parents lived there for quite a number of years in the 1920s. I was part of the Australian delegation to India in 1993, I think, to the Asian racing conference. I have regular contact with people who represent Indian racing because I am Australia's delegate to the international conference of racing authorities that meets each year. I am also an executive council member of the Asian racing conference and one of the five members on that council comes from India. So I have dialogue with those gentlemen and I have witnessed their racing first-hand but, of course, only in a very superficial way because we were only there for a few days. We attended some race meetings and talked to their stud book officials and to their racing officials.

There is quite a long history of association between Australia and India in a racing sense, but that has been not so much the case latterly. Australia had quite a presence in India post Second World War, but that faded away and now they do very little business with us, as you can probably see from the figures. I think that only three horses changed hands in the last year and that only about 10 or 11 horses changed hands in the last three years, so the trade is virtually non-existent.

There are a couple of reasons for that. The first is that they are bound by the Northern Hemisphere foaling season, which is different from ours—not that that can't be overcome but it just means that mares would need to be bred at a different time in this country to suit their requirements. They seem to have built up an association with the UK, and America to a lesser extent, and they do not come here: their buyers do not come to our sales; they just do not seem to have any particular interest in Australian racing. Although there is good contact between the racing clubs at administrative level, there does not appear to be any real involvement at a commercial level in terms of breeding. Maybe that could change but there are some fairly tight restrictions over there on the amount of money they can spend on importing horses, and that is probably a matter where some dialogue at government level might assist in changing that.

I do not see any great opportunities in India for trade in horses. I think there may be opportunities in other areas. For instance, unquestionably we lead the world in totalisator technology and most of the emerging countries that are putting in totalisator systems are using our systems. India has a large betting society. Most of it is illegal, but the legal totalisators are, by our standards, meccano sets and there is good opportunity for the introduction of our technology. Once again, that depends to a large extent on dialogue at government level because they make a very bold face of being anti-gambling and yet it goes on—and without it racing can't be funded. But I do not know whether they are prepared to tackle the illegal gambling problem and try to turn that around and capture some of the revenue available if people are gambling legally—it is a moral issue and I do not know whether they are prepared to look at it.

I do not think the racing industry has got any standing in Indian society, although there are a lot of extremely wealthy people involved in the industry over there. In fact, we went on a visit to the stud owned by a gentleman named Cyrus Poonawalla, who I think is named here in these papers. I would have to say that it is one of the most opulent studs anywhere in the world. When he entertained all the international visitors and flew them there in planes, he spent one million dollars on the day. So there is untold money there for people who are interested in the industry but they just don't seem to be. They are restricted from doing anything outside their country as far as horse flesh is concerned other than at very low levels, as your documents will show, and there is an unwillingness to look at the gambling side of it because of the moral issue involved.

Some of those things may change, but it seems to me that if the latter issue changed we would be in a very good position to influence them to take on board some of our technology. They are really the only two areas in which I see much chance of us being involved. It is unlikely there will be any new racetracks built in India—there are nine currently. The whole of the administrative structure is controlled by the five turf authorities of India and I very much doubt there will be any expansion of that. So I could not paint a very rosy picture to you there of how there may be interaction. The best chance, in my view, would be totalisator technology.

Senator O'BRIEN—I think you have basically answered my questions in terms of setting the scene as to opportunities. Summing it up, we cannot export racing animals at the moment.

Mr Charley—They won't permit it. The breeding stock but not racing animals.

Senator O'BRIEN—That is what I understood. In terms of breeding stock they are getting most of that from the US and Europe?

Mr Charley—Yes. We may be able to have some influence on changing their restrictions on the value of imports, but market forces will prevail as to where they want to buy their stock from. Because they are buying horses bred to Northern Hemisphere time, that is going to suit them far better than coming to look at our stock.

One of the things I neglected to mention is that it is a very well-structured racing industry. The racetracks are in good condition, 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 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. Their structure of racing is very similar to ours. It is all non-profit, which is different from most other parts of the world. If I were comparing India to Japan, Japan is an absolutely closed door—you would not get anywhere there because the culture will not allow you to do business with them. But India is different. India's racing is very much like ours, and it is very well-conducted racing, but because of the moral constraints and constraints on the value of stock the opportunities that I see are extremely limited.

Senator O'BRIEN—I see from the submission that there are 3,500 racehorses for 2,800 races.

Mr Charley—I am not sure of the exact figures.

Senator O'BRIEN—There would be a lot more racing animals in training in Australia, wouldn't there?

Mr Charley—Yes, we have got the second highest equine population in the world. About 30,000 horses actually start in Australia and our population is about half that of the US and 2½ times larger than the next nation in the world, so on the breeding side of it we will produce about 16,000 to 17,000 foals this season. The Americans will produce somewhere around 30,000 and the next largest country will produce somewhere in the order of 8,000 to 9,000. But with regard to actual numbers of animals racing, we are probably nearly 2½ times larger than the third nation in the world.

Senator O'BRIEN—It is minuscule.

Mr Charley—Yes.

Senator O'BRIEN—There really would not be a market for many Australian bred animals, were they to take them over there.

Mr Charley—I don't think so.

Mr DONDAS—Do they get many people at the racetracks?

Mr Charley—Yes they get a lot of people. And don't forget that very few nations in the world now have bookmakers. There are only England, South Africa India and us that have them.

Mr DONDAS—Mauritius?

Mr Charley—Yes, sorry. There are probably a few other small places that have them. So there is a lot of business—a tremendous amount—done with the bookies, and with illegal bookies.

Mr DONDAS—But wouldn't that then justify a totalisator board?

Mr Charley—It would, but it comes back to governmental issues. For instance, when we were in Hyderabad, they put a prohibition on alcohol, so the conference moved into the hotel and no-one could have a drink. They did their absolute best to change it and at about 9 o'clock that night there were about 1,000 of us out in the garden and someone came and announced that the governor had relented and that the prohibition was off for this function. Naturally the first 30 people at the bar were Australians.

Senator CHAPMAN—Your view of the Indian market sounds to be at odds with the analysis prepared by Austrade for Aushorse. They say:

There is an absence of awareness of what Australia has to offer which translates into a negative view of the Australian industry vis a vis its competitors (USA, GB and Ireland), and opportunities exist to rectify this imbalance and increase the understanding of Indian buyers about Australian industry through targeted information and promotion campaigns.

Mr Charley—I would not dispute that; but I am looking at what the potential is. The potential for expansion of the Indian industry seems to me to be extremely limited because of this attitude that they do not want to encourage the industry to get bigger and it therefore seems that, even if you were able to do a marketing campaign and convince people that the Australian thoroughbred is worth pursuing, the market is still extremely small. If regulations change in the future, that might change the whole thing. I don't think that there is any doubt that the Indian population loves horse racing and would attend if they had the opportunity, but until some of those regulatory things change, I think it is going to be pretty difficult to make the market.

Senator CHAPMAN—If we are talking about regulations, what do you assess as the likelihood of off-course betting being allowed in the future? That would open up the market for totalisator equipment.

Mr Charley—I am not well enough versed in Indian society to know what those changes would be like. It might change from one state to another; you might get one state which permitted a viable off-course system and another not. I am not up to speed on that, unfortunately.

CHAIR—We have been told that there are a few problems with horse quarantine. Have you been alert to that? Is that one of the impediments there?

Mr Charley—I think that it probably is. I have been told that but I don't really understand their restrictions.

CHAIR—You haven't really been involved in any moves to try and ease that?

Mr Charley—No.

CHAIR—We were also told that there are prescribed price limits, tariffs, stud farm licensing and importation limits per farm, all of which seem to affect the number of horses that can come in. I presume that is all part of what you were saying? It really is related more to their customary sources: the United States and the UK and that is it. What changes, apart from legalising off-course betting and all that sort of thing, would need to be instituted in Indian racing to improve the quality of racing? The quality of racing is, you say, better than it is in the UK at the moment?

Mr Charley—No, I do not say that the quality of racing is better than in the UK. I am saying that I believe that the administrative system is superior to the system in the UK and that it is well conducted racing. The actual standard of the thoroughbred there is not very high, but if you compared it to a country like, say, the Philippines where the standard of the horses racing is right at the bottom of the barrel, India has a well structured racing industry: everything is conducted properly, inquiries are done properly, the standard of jockeyship is good, the way the horses are turned out is good—they may not be very good animals, but everything is done very well. I have no criticism of the way they conduct their racing within the limitations that are placed on them by regulations.

CHAIR—When you were talking, you mentioned the difference between northern hemisphere breeding cycles and ours. Have we thought of setting up an export industry and varying our breeding cycles to accommodate that export market?

Mr Charley—I think Aushorse has looked at that. They would be better people to talk to about that. Basically the problem is that our season runs from 1 August to 31 July, so, if a horse is born on 1 August, it is born in that year. The very worst that ever can happen is that a mare foals in the last week of July, because the horse is a year old when it is born. In the northern hemisphere the date is 1 January.

So, for instance, if our horses were going there to compete with the northern hemisphere horses, if they allowed that, every one of our horses that went there would be at a six-month disadvantage against its northern hemisphere counterpart. You could do what you are suggesting, which is to change the breeding cycle. There have been experiments conducted here where we have bred horses to northern hemisphere time and taken them to the northern hemisphere, but that is something which is in the hands of the breeders. If they think that is commercially viable, they will do it.

CHAIR—What is possible, although not necessarily commercially viable, is to change our breeding cycle and our horses' birth dates.

Mr Charley—I do not think they are going to do that. Go down and talk to the VRC about the Melbourne Cup and see what they have to say about that.

CHAIR—I do not doubt there are some prejudices against it. There is no significant move for discussion of that. I would not think there would be. Certainly up in my part of the world they would go mad if you even thought about that. Have we thought of any sort of an education type scheme with Indian jockeys or trainers?

Mr Charley—No. We go to these Asian conferences every 18 months, and they have events in which jockeys and apprentices from the various nations can participate. I do not think they have ever been very successful. There is very good dialogue with the people there. For instance, if anyone were going there, we know and have good relations with the people who know who has the power in the nation and who know who to go and speak to about this and that.

Here at our autumn carnival and at the Melbourne carnival you quite frequently see people from most of the Asian nations, particularly from Malaysia and Singapore, as well as Thailand. A lot of people from Hong Kong come here too, but you very rarely see any Indian people coming here. They seem now to have the sort of culture that, if they are going to go to any racing, they are going to go to it in the northern hemisphere.

CHAIR—The thing that always strikes me in both Hong Kong and Macau is that you scratch the surface and there are 1,000 Australians. They are at all stages of the industry.

Mr Charley—Not in India.

CHAIR—Not in India, we have not had that—

Mr Charley—There used to be, but not now. Post-war there were. Edgar Britt rode there for years, before he went to ride for the Queen. Billy Cook rode there. A lot of trainers went there too. But that has all faded away. There is too much money here and not enough there.

CHAIR—That is probably what it is about.

Mr Charley—The maharajas were giving good presents in those days.

CHAIR—The fading of the maharajas probably had some impact on the industry.

Mr Charley—It did.

CHAIR—All these racetracks would, I guess, have been in maharaja territory, looking at them.

Mr Charley—Yes.

CHAIR—The other thing that has always fascinated me is this. I know they used to export a helluva lot of Walers and horses other than thoroughbreds to India, but that was basically because the Brits and others were buying them. I do not know who else was then. There is no real trade in that sense is there?

Mr Charley—I do not think there is. I have not run across those figures, but I do not think there is any more.

CHAIR—There used to be quite a big export trade and quite a lot of interest in horse sports.

Thank you very much for that. I know you put a lot of effort into this, and it is a bit hard of us to intrude on your afternoon. It has been very helpful to us, and I thank you very much for coming. A copy of your *Hansard* transcript will be sent in due course and, if you feel you want to alter any facts or otherwise, please do so. Thank you very much for coming and good luck in your other negotiations.

Resolved (on motion by Mr Dondas):

That the subcommittee authorises the publication of evidence given before it at public hearing this day.

Subcommittee adjourned at 3.21 p.m.