COMMONWEALTH OF AUSTRALIA

JOINT STANDING COMMITTEE

on

FOREIGN AFFAIRS, DEFENCE AND TRADE

(Trade Subcommittee)

Reference: Australia's trade relationship with India

MELBOURNE

Tuesday, 22 July 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

ATKINSON, Mr Jeffrey, Policy Adviser, Community Aid Abroad, 156 George Street, Fitzroy, Victoria 3065 195

DENT, Mr Noel, General Manager, Operations Australian National Line Ltd, 432 St Kilda Road, Melbourne, Victoria 3004 208

EADY, Mr Bruce, Program Coordinator—South Asia, Community Aid Abroad, 156 George Street, Fitzroy, Victoria 3065 195

FYSH, Dr Stuart Alfred, Manager—Pakistan Business Development, BHP Petroleum, 120 Collins Street, Melbourne, Victoria 3000 225

HAMILTON, Mr John Kenneth, Manager, Iron Development, Ausmelt Ltd, 12 Kitchen Road, Dandenong, Victoria 3175 178

HARLEY, Mr Thomas Stephen, Group Manager—Business Development, BHP Petroleum, 120 Collins Street, Melbourne, Victoria 3000 225

KHANNA, Mr Vik, Senior Consultant, International Taxation Services, Price Waterhouse, 215 Spring Street, Melbourne 3000 214

McCAMMON, Mr Brian William, Managing Director, Ausmelt Ltd, 12 Kitchen Road, Dandenong, Victoria 3175 178

STOTT, Mr Charles Eric, Manager—International Business Development, BHP Petroleum, 120 Collins Street, Melbourne, Victoria 3000 225

JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE

(Trade Subcommittee)

Australia's trade relationship with India

MELBOURNE

Tuesday, 22 July 1997

Present

Mr Sinclair (Chair)

Senator Margetts	Mr Dondas
	Mrs Gallus
	Mr Slipper

The subcommittee met at 9.00 a.m.

Mr Sinclair took the chair.

HAMILTON, Mr John Kenneth, Manager, Iron Development, Ausmelt Ltd, 12 Kitchen Road, Dandenong, Victoria 3175

McCAMMON, Mr Brian William, Managing Director, Ausmelt Ltd, 12 Kitchen Road, Dandenong, Victoria 3175

CHAIR—I declare the subcommittee meeting resumed. As you would be aware, this inquiry is into Australia's trade relations with India. We thank you for your submission, which is submission No. 23. Although we do not require witnesses to give evidence on oath, the proceedings today are the same as ordinary parliamentary proceedings and should be treated accordingly.

We prefer all evidence to be given in public but if, for any reason, you have some matters which you feel should be kept confidential, by all means ask us and the subcommittee will consider your request. You might like to make an introductory statement and then we can proceed to questions.

Mr McCammon—We have prepared a further submission which builds on the earlier submission we gave to the committee. Since that time there have been some developments—time never stands still. We are very conscious of the time we have available to us this morning and I thought the best thing would be, if the subcommittee's chairman is happy for this, for Mr Hamilton to step through the salient points of what is contained in the most recent submission.

Ken was previously General Manager of Hamersley and Vice-President, Development, of CRA. So he brings a broad knowledge of resource development opportunities to Ausmelt. He is now Manager, Iron Development and has had a close association with the sort of developments we are looking to pursue at the moment. If you are happy, Mr Chairman, we will just walk you through the submission.

CHAIR—We are very happy, thanks Mr McCammon. Over to you, Mr Hamilton.

Mr Hamilton—Thank you, Mr Chairman. Firstly, I present you with a copy of the revised submission. I have given your colleagues a copy and there should be a spare one for Senator Margetts. The key issues which I would like to address today relate to defence and trade, but more particularly to commercial defence and the weaponry in this case is some Australian technology. The submission highlights two key pieces of technology which we believe have genuine application in the Indian context and, importantly, protect Australia's existing steaming coal trade with India. India does not have steaming coal. There are no indigenous steaming coal resources of any significance, but they are Australia's major customer.

More recently—since we presented the submission to you and contained in that document—we have received a letter from Dr Amitava. He is coming to Australia in

September and will be visiting Ausmelt. The purpose of this visit is to try to establish a joint iron-making study group for the application of AusIRON, which is the Ausmelt technology, in India.

Importantly, the Ausmelt technology for iron making uses steaming coal. By way of background, I will leave with you a volume which contains a lot of information on the technology. Equally important is the densified brown coal which we referred to earlier. I will also table a public document prepared by the University of Melbourne on the densification of brown coal. This is technology which has been developed here in Victoria. If you refer to the document you will see a photograph of some of the equipment that is in place for making this material.

This is what densified brown coal looks like. I would like to pass this around, but Senator Margetts will have to stretch her imagination. Importantly, this is densified Indian lignite. This material has been made here in Victoria from Indian lignite and it is very, very high quality steaming coal. It is extremely high quality. It is low ash and has high calorific value. By reference to that document you will see the high quality of this material.

CHAIR—How does that compare, in its final form, with Australian lignite—brown coal—from Yallourn or wherever?

Mr Hamilton—You can make that material from Yallourn brown coal quite readily. In fact, the earlier work was all done on Loy Yang coal from the La Trobe Valley. My concern today is that we know that the Indian resources are amenable to treatment to produce densified brown coal.

All that makes densified brown coal different is that the moisture has been removed. The moisture is not removed by drying, but the coal is ground, then attritioned and then extruded. You will see a photograph in that document of an extruder. During the attritioning process the coal repolymerises, the temperature of the coal increases and the water is evaporated. There is no forced drying in this technology. That is an outstanding development from the University of Melbourne. It reduces the moisture content from around 50-55 per cent in its natural condition to about 12-15 per cent without any external heating. It is highly applicable to the Indian scene because of the huge supplies of lignite. You can imagine Yallourn. The Indian government at Neyveli has lignite reserves of about 1.9 billion tonnes. They are enormous—and that is the stuff that is in that plastic bag.

CHAIR—How much lignite is required to produce that sort of result? Apart from the water elimination, is it a compaction process?

Mr Hamilton—No, it only the loss of water. All that has happened is that the water has been removed, and you have a very high grade steaming coal. The AusIRON technology for making pig-iron requires steaming coal as a source of fuel and also as a reductant. That densified brown coal has a high fixed carbon content, and we see a lot of synergy with the development and application of this technology in India.

We have a genuine concern because of the low cost of making that densified coal. At the moment steaming coal for India is exported at around $US40-44 a tonne f.o.b. from the Hunter Valley or Queensland. The Indians would produce densified brown coal at probably a third of that price. It is easy to see the implications vis-a-vis the price structure if they were to move into densification of the lignite in a big way.

The Indian government at Neyveli have a Yallourn or La Trobe Valley look-alike mining operation. They have very modern pits with bucket wheel excavators, and I suspect the costs are pretty much the same as the La Trobe Valley costs: probably $4 or $5 coal at best, and possibly less. The opportunity for them to have a very low-cost substitute for steaming coal is quite real.

They also have very large reserves of iron ore, and that is one of the reasons they approached Ausmelt. Their reserves of iron ore are not unlike Australia's in that they are becoming richer in fines rather than lump ores. They are looking for simple technology to add value to the fine iron ore with which they are doing either one of two things at the moment. They are either dumping it on the iron ore market—the Australian producers will tell you all about that and what effect that has on the pricing negotiations for us—or they are abandoning it. The combination of that densified coal and the AusIRON technology could quite easily see the iron ore produced as a feed stock for producing pig-iron.

A feature of the AusIRON technology is power co-generation. You have a photograph of an AusIRON furnace in that dossier. It is actually an AusIRON furnace being installed in Germany. You will notice the top of it is shaped with a horizontal flange. That is where the waste heat boiler sits. This particular furnace in middle Europe has a waste heat boiler on the top of it and that is used to generate power.

More recently, we have had a second invitation from the Indian national metallurgical people to work with them on iron making. We know that they have shown interest in the densified brown coal. The coal technology is patented, but only in Australia, at least that is my understanding. To the best of my knowledge, it is not patented in India.

We have spoken at length with the Maddingley people and suggested to them that it would be sensible to do something jointly. This is why we are here today: to seek your support. We are looking for support in two areas. One is fiscal, that is, the $600,000 that we mentioned which we would like to use to obtain samples and do work here in Melbourne, both on the densified coal and using that coal on the Ausmelt and AusIRON plant at Dandenong. There is a photograph of that furnace in that document to give you an idea of what it looks like.

The other area for assistance that we are looking for is management. We at

Ausmelt have already, with the AusAID people, put a small plant in India. We are well aware of the difficulties and problems of doing business in India. We have the cultural and language problems. We really believe there is a real role for Austrade to help manage the introduction and the control of the technology and its sale in India. Austrade do have an experienced track record in that part of the world, and we would be seeking your support to have them work with us and assist us.

The opportunity for joint R&D is quite real and it is very recent, which is why we included this letter in the submission. That only came to us several weeks ago, quite unrelated to this presentation today. They were not aware of today's event when this opportunity arose; nor were we. The assistance that we are looking for is something that can be activated quite quickly. We are not looking for funds to build any installation, plants or test rigs. They are in place, and you can see some photographs of them in the document.

The funding will be largely spent on conducting the operating trials—we think there would be about 20 of them—and also on activating the patent application for the densified brown coal in India. That would have to be a central co-commitment in anything that was done. We would envisage that the densified brown coal technology would be locked onto the iron-making joint venture, whatever it was and however it was structured. We do not want to run the risk of having a pirate operation or some Japanese entrepreneur or a European group running a densified brown coal operation in India. At the moment, we are trying to head that off. There are some real threats out there.

We have the opportunity to do something relatively quickly and quite inexpensively, but we need some assistance. The assistance is fiscal but, more importantly, we need management assistance in how to do business in India. It is not easy, and we would look to Austrade to take a leading role in managing our efforts. Brian might have something to add. Mr Chairman, that is as concise as I can manage to be.

CHAIR—Can I just ask you one question in relation to your technique of coal densification? You said that there was a patent for this densification process only in Australia. Have you applied for international patents?

Mr Hamilton—No, they have not.

CHAIR—Where do you come in with the Maddingley group? If they own the patent, how do you access it?

Mr Hamilton—The patents were originally held jointly by CRA and the University of Melbourne, but they were allowed to lapse. They were taken up by the University of Melbourne, and the Maddingley technology people funded the application, or the maintenance of the patents, at that point. That was two or three years ago, and they have continued to do so, but they have not made an application for the patent coverage in

India.

Mr McCammon—You have here two complementary technologies. One is the Ausmelt technology for production of pig-iron, which does not require a coking coal as a feed. It can take a steaming coal as a feed supplying the reductant and the energy. With the Maddingley technology, you have a capability of converting a low-grade coal to a steaming coal; and so you have two technologies which complement one another. Of course you will appreciate that when you combine the two you have very dramatically reduced the cost of the carbon input to the production of pig-iron compared with the cost of traditional route, which uses high quality coal, coke ovens and a blast furnace. So you have two complementary technologies.

CHAIR—I understand that. But you are saying that, because Maddingley technology does not apply their patent in India, you have access to it in India, but you do not have access to it in Australia. Is that the story?

Mr Hamilton—Yes, we do. We have an agreement with Maddingley.

CHAIR—Have you an agreement with Maddingley to apply the technology in India?

Mr Hamilton—Yes. I should explain that I am also a director of Maddingley Technology. I am the link between Ausmelt and Maddingley.

CHAIR—I see; there is an agreement that you should use that technology. Who has the patent for the iron ore technology?

Mr Hamilton—Ausmelt.

CHAIR—So you have a capacity, technically, to use the compaction and drying technology in India and, because you hold the other patent, to link the two in the development of your pilot plants and your concept of a pig-iron production unit in India. Could you just explain what stage your whole development is at? You have tested it and you have proved you can do this. Where are you off to from there?

Mr Hamilton—That part of it has also been exhaustively—you can see a photograph of the rig in the document—worked up on Victorian brown coals. At the moment the Maddingley people are densifying on an ongoing basis the brown coal from Bacchus Marsh, where they own the Bacchus Marsh brown coal deposit. That is just used as fuel for firing coal-fired boilers here in Victoria, generally in hospitals, and the old chipboard plant at Bacchus Marsh. It is just used as a substitute for what were briquettes. There is no question it is a satisfactory fuel. Some of it also finds its way into the Smorgon furnace as a source of carbon at Smorgon Steel.

At the moment we are working with SASE, the South Australian Steel and Energy project, to erect a two tonne an hour demonstration iron making plant at Whyalla, which your government recently gave major project status through the minister, Mr John Moore, who announced that the technology had been selected. I have John Moore’s press release here. Technology in Australia has been taken and will move forward. Within the next month or less the contract for the construction of that plant will be awarded. That is where that is at.

CHAIR—In your latest submission to us—I do not know whether you want to address this, Mr McCammon, or whether you would prefer to do it, Mr Hamilton—two paragraphs on page 2 refer specifically to the case that you have just expressed, where you talk about the extent to which you are apprehensive about others using technology and the impact it would have on the future export of Australia’s steaming coal to India and that you are looking for help from Austrade. Have you approached Austrade? At what stage are you at in that application?

Mr McCammon—No, we have not. This is moving as we talk. The fact that we now have the Indians expressing an interest in a joint R&D has actually moved our thought process further than we have in the past. Part of the issues that we found with regard to the management of the situation in India come out of our experience in putting a small smelter in India at Ghatsila. What we found is that for a small company such as ours, it is just not possible to put the people in place on the ground in India to develop the contacts and the knowledge of the country to provide the support you need when you actually go into the country. Realistically, that continues to be the case. As we move forward with Austrade, we want to move into a relationship, not an adversarial one but a partnering one. That is a real major issue for us.

Mr DONDAS—In terms of the technology and a joint venture with an Indian company, presumably, you would get the operation up and running. What happens with the technology if in, say, three or four years time the partnership is dissolved? Is part of the arrangement that you have to transfer the technology to get into India?

Mr McCammon—This is one of the issues for us as a small organisation. We have maintained for 15 years now our control of the technology, and it is an essential issue for us. My view is that we could move the technology further quicker by simply selling it overseas. What we have attempted to do over the last 15 years is to make sure we control it. In that sense, when we have entered into joint ventures, we actually licence that joint venture to use the technology, but only for that particular and specific purpose. So we maintain control of the technology. That cannot continue forever. The easiest result for us would simply be to look to sell the technology and take the quick, early dollar.

Mr DONDAS—But it is very hard to do business with some of these people.

Mr McCammon—Yes, it is.

Mr DONDAS—What role can AusAID take in protecting your technology?

Mr McCammon—One of the problems we experienced with Ghatsila in our plant there was that I think more open discussion between the government and ourselves concerning the cultural differences we were likely to face would have been helpful. We had issues in regard to training. We found that essentially we had to train several tiers of people in India. The first training had to be given to people who were not necessarily going to be operators, but they wanted to make sure they knew what was happening. Then we found we had to do a second role of training to the people who were actually going to run the plant as it were.

I think more, let us say, partnering relations with people on the ground there who have the knowledge of the particular cultural biases and systems in that country would have been of great help to us. It was a difficult issue for us and we found ourselves in the situation where there was a bit of confusion as to the role of AusAID, us, the Indian government and the Australian government. Was AusAID's primary purpose there to assist us in getting the plant into operation, or was its primary purpose to hold to a contract, as it were? Frankly, a more open relationship would have been more effective in delivering the product. If we are going to a larger plant and larger opportunities, I think that will just be magnified.

CHAIR—Your Ghatsila project was financed by AusAID.

Mr McCammon—Yes, it was.

CHAIR—Is that phase of the project over, or what is the stage of that?

Mr McCammon—No, there is an issue where we have commissioned the plant once, and we have just renegotiated with AusAID a further commissioning period. We are now moving towards completion of that project by the first quarter of next year.

CHAIR—Is the intention that you transfer that project into this new project that you are talking about? Will AusAID be involved in that?

Mr McCammon—No, that current project is actually for the smelting of an entirely different range of materials. It is a very small plant.

CHAIR—The one at Ghatsila?

Mr McCammon—Yes. It is very small. It is 200 kilograms an hour. It actually takes material which has gold and silver residues in it and produces the gold and silver. So it is a different plant entirely.

As we move into the iron ore development or the pig-iron development, you are looking for two orders of magnitude larger. Our pilot plant which we run out at Dandenong is only 100 kilograms an hour or 200 kilograms an hour, depending on the material. The demonstration plant which we are seeking to build now for the SASE project will be two tonne an hour or 15,000 tonnes per annum. The next scale up from that is 500,000 tonnes per annum. So you can see the incremental steps.

Ghatsila is a different application of the technology, but the problems that we encountered in terms of implementing the project have led us to be concerned as to how we would implement any other type of project in India.

CHAIR—Is the Ghatsila project ongoing or has it concluded? What is the outcome of that?

Mr McCammon—No, we anticipate concluding that in the first quarter of next year. The plant is up. We have had some problems in commissioning it and we are going back to do some further work. We expect commissioning of that and the completion of it in the first quarter of next year.

CHAIR—And then it will be run by the Indians themselves?

Mr McCammon—That is right.

CHAIR—Will it be under some form of local ownership?

Mr McCammon—Yes, they will own it entirely. We will licence Ghatsila to use that plant for the particular purpose.

CHAIR—I see. So that project, you say, is quite apart from this alternate project which you are now talking about.

Mr McCammon—Yes.

Mr Hamilton—That is the Ghatsila plant. It was built here in Dandenong. This is a picture of it. It was put in a container and sent to Ghatsila, so you can see how small it is.

CHAIR—It is very difficult actually to see that. A photograph is a photograph, but I know what you mean.

Mr Hamilton—It is not quite a throwaway, but the iron making one is orders of magnitude larger. The important thing with the iron making one is that it also is a co-generator of power. Whilst it is not said by the Indians, I think that is the main reason underlying their interest in the technology.

CHAIR—What you are essentially saying to us is that the plant at Ghatsila—we want to separate the two—has been funded by AusAID, you have had some technical problems in developing it but you expect that, in the first quarter of next year, it will be up and running and complete according to whatever contractual arrangements you have with AusAID and with the Indian project.

Mr McCammon—Yes. The experience we have had in Ghatsila that caused us some concern relates to the implementation, not the particular plant that went in. That implementation was then how you involve the Indians in the training, et cetera. That is where we would see that people on the ground have a good deal of opportunity to assist us in that activity.

CHAIR—How do you propose in your new plant to meet those deficiencies? In the training? You are looking for finance; I understand that.

Mr McCammon—Yes.

CHAIR—You are looking presumably in terms of training, and will that be something you or the project will do?

Mr McCammon—Yes. We actually provide the training. It is the delivery of that training. What we have found, as I have said, is that we actually have to train several tiers of Indian management because of their cultural issues. Different people run different parts of the plant.

CHAIR—In terms of the research and development, it is now under discussion between whom—yourselves and an Indian group, or the Indian government?

Mr Hamilton—It is the Indian government.

CHAIR—State government or federal government?

Mr Hamilton—No, it is the central government.

CHAIR—So you are now having discussions with them on research and development projects to look at the technical difficulties you are having. Would you have the Ghatsila project or is this—

Mr Hamilton—No. The Indian government's interest is totally unrelated to Ghatsila.

CHAIR—Yes. Where are the technical problems?

Mr Hamilton—The technical problems vis-a-vis this interest is in using our technology to make pig iron from the fine iron ores which are no longer readily saleable from Baillaidilla, Khudremukah and some of the other Indian iron ore mines. They are relatively low grade ores. They know, and you will see it in that document, that the AusIRON technology can handle relatively low grade ore feeds. What the Indians are also interested in is how we are going to make the technology work using indigenous coal. The only indigenous coal they have are the Indian lignites.

CHAIR—But that is where that comes in. I am still not sure where you want the R&D. It is in applying your compacted lignite to this other technology in processing fine iron ore or fine iron pellets, whatever you call them.

Mr Hamilton—That is it, yes. Putting the two technologies together is really what we want to have the government assist us to do.

Mr McCammon—I think it would be fairer to say it is not a technical problem; rather, it is technical issues.

CHAIR—But you want R&D?

Mr McCammon—Yes. What we are doing with that R&D is actually bringing in a new carbon source, as it were, which is this densified brown coal and then taking the Indian iron ore and then testing it in the pilot plant to demonstrate that we can indeed use the combination of the two technologies to produce a pig-iron.

CHAIR—When you talk about 20 operating trials, you are not talking about 20 operating plants, are you? You are talking about one.

Mr Hamilton—No, no, all on the same plant. Mr Chairman, could I just ask that we please drop the use of the ‘r’ word. The ‘r’ is really done. This is really about ‘d’, about development.

CHAIR—I see. You are looking for AusAID’s assistance—

Mr Hamilton—No, no, we are looking for Austrade’s assistance.

CHAIR—You are looking for Austrade’s assistance in order to develop this link between the two technologies.

Mr Hamilton—Yes.

CHAIR—I see. Do you wish to sum up, Mr McCammon? I will ask my colleagues to ask some questions and then I will ask some more questions.

Mr McCammon—Yes. In simple terms, what we see is that we have an opportunity for a combination of two Australian technologies to be applied in India. We think it is a great opportunity. What we are concerned about, though, is we move forward and do this in a timely fashion without losing control of the technology.

CHAIR—Before I do handover, in terms of the actual status of the process at the moment, is the Indian government talking to you about the development or is it talking to Austrade about the development?

Mr McCammon—No, it is talking to us.

CHAIR—Austrade is still not involved?

Mr McCammon—No.

CHAIR—Have you approached Austrade?

Mr McCammon—Have a look at the date on that letter. I was away when it came in.

Mr Hamilton—It is dated 16 July.

CHAIR—I see.

Mr Hamilton—Mr Chairman, I would like to say one thing about Austrade. We are participants in the South Australian Steel and Energy joint venture, or project, which has been given major project status by your government. One of the other participants is Krakatau Steel. It was Austrade which brought Krakatau Steel into that joint venture. We saw Austrade in action on the ground, and we were very impressed. They brought the Indonesians into the partnership very successfully and very smoothly, and they knew what they were doing.

I would really urge you to use your influence, if you can, for Austrade to participate in this venture—if you decide to recommend that we do it. We could well do with their assistance. They know the technology. They know what we are about. Roger Bayliss and his people did an outstanding job in Indonesia when they brought the Krakatau Steel people into this South Australian joint venture.

CHAIR—We can do no more than refer it to Austrade. Austrade itself makes its decisions on those matters. We can certainly take note of your request. Our particular purpose, as you would know from my introduction, is to look into Australia's trade relations with India. We are interested in the way in which we might develop that relationship and ways by which we can extend contact. Obviously your project has some relevance in that context. There are a few questions about how to do this.

Mrs GALLUS—I would like to follow up on a comment you made in your submission. The submission said that it was suffering from the apathy of your Indian client. Perhaps you could expand on that.

Mr McCammon—Part of the reason the project went ahead at Ghatsila was environmental. There was previously a dore furnace in place—do not worry about the technology—which allowed more emissions to escape to the atmosphere than is the case with the Ausmelt furnace. The difference between the Ausmelt furnace and the dore furnace is in the technology. The old dore furnace would take eight to nine days to produce material. The Ausmelt furnace will do the same work in 24 hours. You get much higher capital intensity, and it operates at a much lower cost, et cetera.

Operating the dore furnace was a very leisurely operation. You had eight days. We were bringing in new technology which people at a certain level saw as advantageous to the country but not necessarily—

Mr DONDAS—To employment.

Mr McCammon—Yes. So we had a situation where there were different attitudes at different levels of management.

Mrs GALLUS—I understand that the environmental consideration is an ongoing problem: while lip-service is paid to environmental matters in India, it is not actually the case on the ground.

Mr McCammon—I have to be very careful with this. Our experience is very limited to just this one.

Mrs GALLUS—I was judging from what I have read from others as well.

Mr McCammon—That was the background to that comment. It was a more leisurely production operation with the old furnace. With the Ausmelt furnace, you get very good yields. But you have to drive the furnace; you have to know what is going in. You have 24 hours, and you need to have good control on your materials to get good results out.

Mrs GALLUS—Is it the attitude in the workplace that you have problems with there?

Mr McCammon—Again, I would be very careful in extending it too far. We are talking about a particular result we saw. I think you would need to talk to others who have had broader experience.

Mrs GALLUS—But your experience is that you were having problems in the workplace—getting the sort of enthusiasm and drive that you need to get it up and going as you want it to go.

Mr McCammon—Yes. As I said, they could produce it with an old furnace at a more leisurely pace.

CHAIR—You are saying that it was not the fault of the project; you feel it was more part of this training difficulty that you had—and partly attitudinal on your project?

Mr McCammon—Yes.

Mr Hamilton—I visited Ghatsila—only once—in the very early stages, and the caste system was very much in place. It is a very old plant. It has been there for years. I do not know how old this copper smelter is, but it is really old.

Mr DONDAS—Is it 20 years old or 30 years old?

Mr Hamilton—Easily. It would be more than that—truly. They had the universal disease, and that was a resistance to change. It is the only copper smelter I have ever been at—and I have been to a few—where there was a sacred cow wandering around the smelter.

Mrs GALLUS—They have the right in India.

Mr Hamilton—That is right. That will give you some idea of the indifference to change. It was a real problem. The reason I was there is that Tata Steel have their steelworks not very far away, at Jamshedpur—the major iron and steel centre in India—where these people are coming from. There it is quite different. There is a different culture. You could just as easily be in Port Kembla.

CHAIR—Not Newcastle?

Mr Hamilton—I was not going to say that.

Mrs GALLUS—Did you find a way to get over this in the end or does it remain a problem?

Mr McCammon—It has taken a lot of discussion at very high levels—and substantial cost—with a lot of people visiting at different times. We believe we have overcome it, but the proof will be in the operation as we move forward. It is not a cost we ever envisaged having to incur. Ghatsila is not going to be an outstanding profit success for our organisation. It is one of those occasions where, with hindsight, one might say one should have been better prepared but, had we had to spend the money—the investment—to prepare for that, we would never have done the project. We are talking about a very small project in this case and a company of our size cannot spend that amount of money. We have to leverage off other resources and facilities. We look then to organisations such as Austrade.

Senator MARGETTS—In the scale of it all, I am curious to know what sort of investment has been involved for Ausmelt?

Mr McCammon—At the Ghatsila smelter?

Senator MARGETTS—Yes.

Mr McCammon—Investment in the Ghatsila smelter is only between $1 million and $2 million. It is a very small investment. If you are looking at the amounts of money that are associated with the R&D that we have done over the years, you are looking more at $30 million to $40 million worth of investment, and that has been totally funded internally. As we said earlier, you have to differentiate between the Ghatsila project—which we see as giving us some experience of operating in India—and what we are proposing here which is going to a much larger scale of iron development. In terms of iron development, we have been involved in that R&D work going back over about eight years now.

Senator MARGETTS—So you were looking for about $600,000 worth of fiscal assistance?

Mr McCammon—Yes. To undertake trials bringing these two materials together to demonstrate that we can produce pig iron on that scale.

Senator MARGETTS—What sort of assistance have you had over time from AusAID?

Mr McCammon—We contracted with AusAID for the construction of the Ghatsila plant. I am not aware of the arrangement between AusAID and the Indian government but, essentially, it was AusAID which entered into contracts with us for Ghatsila.

Senator MARGETTS—Is that fiscal assistance?

Mr McCammon—That was simply a straight contract and, at the end of the day, it has not been an outstanding success.

Senator MARGETTS—What sort of taxes would that kind of operation be paying in India?

Mr McCammon—I do not rightly know. Do you mean what we pay in India?

Senator MARGETTS—Yes.

Mr McCammon—We pay nothing in India.

Senator MARGETTS—What kind of taxes do you pay back in Australia for this operation in India?

Mr McCammon—We are in a loss situation at the moment.

Senator MARGETTS—I am just trying to work out, in total, what Australia will benefit from your operation in India for putting in financial assistance.

Mr McCammon—You are then talking about a situation where you have to forecast what might be the impact on the Indian pig-iron market. What we would have there is a situation where, in the Australian sense, we would have two sources of income coming back into Ausmelt. One would be the license fee itself and the second would be the engineering and design for what we call the Ausmelt package.

We have a group of about 50 people—the submission says 60 but it is actually standing at 50 at the moment—out at Dandenong who are process, mechanical and other engineers who do the intellectual work associated with providing the smelters.

CHAIR—Something of the upgrading and the technology is apparent in the submission which has just been handed to us, which you obviously cannot see from over there. There are some samples of the process which, of itself, transforms relatively unusable lignite into an operationally effective sample. There are also a number of exhibits which relate to the actual iron package and to the densification of the brown coal package, plus another exhibit. It is a bit hard to envisage them without having them in front of you.

Senator MARGETTS—Sure. Obviously, the object of any operation is to find something that people want to buy and they would not, in the end, want to buy it unless it had some benefits for the current operation. So they will be using Indian coal to make that lignite?

CHAIR—It is Indian lignite, which is a bit different. Indian lignite is not necessarily usable in its present form because of the high moisture content, as I understand it.

Senator MARGETTS—Yes. But you will be using it in this process to make steaming coal out of the Indian—

CHAIR—Yes, that is the technology of it which appears from these documents that we have in front of us.

Senator MARGETTS—One of the issues for me is that we have been telling the developing countries that Australia will not be reducing its greenhouse gas production unless they pull their socks up and reduce their greenhouse output. I wonder whether or not Australian taxpayers should be contributing to coal technology as opposed to other forms of technology—perhaps other forms of energy in other parts of India—or other processes. I understand there is less particulate and so on, but it is still a problem for greenhouse. I am just wondering whether this should be a priority.

Mr McCammon—You can look at this in several ways. It can be looked at as a co-generation project if you choose to. For example, what we are looking to do here—

Senator MARGETTS—There is not necessarily going to be co-generation—

Mr McCammon—No, that is quite correct. But you have here a situation where, in producing the pig-iron, you have a stream of hot gases coming off that furnace. In the case in Australia, for example, it is our considered view that it is very economic to capture that energy by way of waste heat boilers to generate power. In fact, that is exactly what we are intending to do in the South Australian Steel and Energy project—and I stress the word ‘energy’. The basis of that project is the generation not only of the pig-iron output but also of power. What we are looking to do there is to ensure that we make the best use of the energy that we consume in the process itself.

Senator MARGETTS—It is still extra from what India is producing at the moment, though. That is fine. As a concept that is okay. Considering that funds are being withdrawn for things like renewable energy technology, how do we fit in priority?

CHAIR—They are issues that perhaps we cannot consider within this inquiry but are properly matters and issues that have to be considered.

Senator MARGETTS—Sure. We are looking at trade with India and I guess we are looking at what benefits Australia will get in Australia’s part of the world. I am just trying to put it in the context of what we get out of whatever contributions we make to developing any particular sort of trade—what we get out of it and what India gets out of it.

CHAIR—That is certainly an issue that would need to be considered before any finance were provided.

Mrs GALLUS—Let me ask you as a summary statement, knowing what you know now, would you do it again?

Mr McCammon—No I would not. I am not interested in loss making opportunities.

Mrs GALLUS—You did not get enough knowledge of operations in India to say, ‘Financially it was not a great success, but it has given me a wealth of knowledge that I can now build on for other projects’?

Mr McCammon—No.

Mrs GALLUS—Thank you. That is very clear.

Senator MARGETTS—That adds to my question: why should we use aid for something that may not be profitable instead of something that might be of more benefit to everybody? I guess that was just a cynical, devil’s advocate position.

CHAIR—Thank you for your submission. There are obviously a number of issues that need to be pursued with Austrade. In relation to our inquiry, it is helpful to know of the experiences that you have been subject to in India. We wish you well in your pursuit of development funds. It sounds as though they are going to be critical for the ongoing process of your investment.

Thank you for your evidence. If you have any additional material that you want us to receive we would be happy to have that. We take on board your request to Austrade. Thank you for coming along and making your presentation this morning.

Resolved (on motion by **Mr Dondas**, seconded by **Mrs Gallus)**:

That the subcommittee accepts the updated submission as evidence and authorises it for publication as submission No. 65, that three additional documents be accepted as exhibits, and that we take note of the two coal samples.

[10.00 a.m.]

ATKINSON, Mr Jeffrey, Policy Adviser, Community Aid Abroad, 156 George Street, Fitzroy, Victoria 3065

EADY, Mr Bruce, Program Coordinator—South Asia, Community Aid Abroad, 156 George Street, Fitzroy, Victoria 3065

CHAIR—Welcome. As you would gather, we have Senator Margetts participating in our meeting in absentia, through the telelink system in Western Australia. This hearing relates to our inquiry into trade relations with India. Although we do not require you to give evidence on oath, you should be aware that proceedings are legal proceedings of the parliament and warrant the same respect which proceedings in the respective houses of parliament demand.

We have a submission from Community Aid Abroad, submission No. 46. If you wish at any stage to add matters that you wish to be dealt with in private, you may ask to do so and the subcommittee will, of course, give consideration to that request. Perhaps you might wish to make a statement in relation to your submission or a few introductory remarks, and we can then proceed to some questioning.

Mr Eady—I would like to start by giving a brief overview of Community Aid Abroad in India and then hand over to Jeff, who will comment on the highlights of our submission. Community Aid Abroad has a long history and a substantial presence in India. It is a country that we feel we know quite well and we have had a lot of experience of. We have had a presence there for 45 years.

India was the first country that Community Aid Abroad supported local groups in, so there has been a long history of development of the program. We have two field offices in India—one in Poona and one in Bangalore—and that puts us in a strong position to input local knowledge. The field offices are staffed by local Indian nationals who have a very good knowledge of the country.

Our budget in India is approximately $1 million a year for the India program. That is funded largely from donations by the public to Community Aid Abroad. It does include an AusAid subsidy, which we receive for some Indian projects. Last year we had a review by AusAid of the program, which was extremely positive.

The program consists of supporting local groups. We are supporting approximately 50 local community organisations. These are non-government, non-aligned organisations aiming to bring about lasting social and economic change for the poor. That is the objective of the program. The field offices play a role and our local staff play a role with those community groups in appraising, monitoring and evaluating the projects that they are running, and they are in a position to give them advice and to help them with their work.

There is a variety of programs that we are running—practical types of programs, such as literacy programs for women; training, especially in new skills for employment; and savings and credit programs, as the poor have no access to the banking system. Those sorts of very practical programs are being run by the groups that we are supporting. But they are also particularly interested in the basic rights of the poor, as well as in practical employment and credit programs. I guess that is particularly relevant to our submission to this inquiry.

We have found in the past that, where the poor have been exploited, it has been by large landowners, high caste people and money lenders. There have been, I guess, traditional groups who have exploited the poor in India. But we are finding increasingly that the situation is changing and that economic expansion, particularly with the opening up of the Indian economy, has opened up new ways in which the poor are being disadvantaged in India. This is particularly through industrial expansion, such as the opening up of new mines, dams and so on, which has a profound impact on the poor in those areas, particularly through displacement of many thousands of people from the land that these schemes take up, which basically amounts to people being thrown off their land. This has become a particular issue which groups we are supporting are focusing on, hence our special interest in this inquiry. We are interested in industrial expansion, mining, damming and so on and their consequences for the poor. That is something we would like to highlight in our submission.

CHAIR—Have you taken these representations up with the Indian government?

Mr Eady—Some of the groups that we are supporting do.

CHAIR—But you have not? You do not make your involvement conditional upon the Indian government meeting the concerns that you have identified?

Mr Eady—The groups that we are supporting do try to influence government policy. We see it as more relevant for them to do that as Indian nationals rather than us as a foreign organisation.

CHAIR—But you do not say, ‘We will not be involved because the project, we think, is against the interests of that community or that district or is against the Indian people or is using labour that we feel is being improperly employed.’

Mr Eady—We would not get involved in something like that. I guess we are more likely to be supporting the people who are trying to overcome those obstacles and to be lobbying the governments to bring about changes in legislation which will protect people in these sorts of situations.

Mr Atkinson—We are not involved in the infrastructure projects ourselves. We are involved in projects that are assisting communities who are being affected by these projects.

CHAIR—I can understand your concern, but my trouble is whether you are saying to the Indian government, 'We do not think that it is proper.' You are not; you are saying it is all done through the Indian nationals and Community Aid Abroad becomes involved, presumably, after the projects are under way and then you try and correct the project where it is deficient.

Mr Atkinson—Not necessarily. Our basic philosophy, as Bruce has said, is that as foreign nationals we do not necessarily have a right to try and influence the Indian government. What we do is support groups who are themselves Indian nationals trying to do that. It is not us directly lobbying or trying to influence the Indian government.

CHAIR—You could say to the Indian government, 'We do not believe that it is proper for you to go there and we are not going to provide help unless you do it in this way.' But you do not see that that would be a means of achieving your objective, obviously.

Mr Atkinson—I think the amounts of money that we are moving to India would not give us any leverage.

Mr SLIPPER—What sort of help do you give those local groups seeking to influence the Indian government?

Mr Eady—We give the financial assistance. They need to do research and they need to employ staff. One example would be the Piparwar coalmine in Bihar, which we have had some involvement with in the past. We were very concerned that the actions of some companies, including an Australian company, were disadvantaging the poor there, resulting in people being displaced from their land without adequate compensation.

We funded a community group of people who were from and had worked in that area for many years. They put on a field worker for about 12 months to do research and gather information. He spent all his time going around the villages which were affected, documenting cases where people had not received compensation and looking at the plans for where the mine was going to expand to in the future. This mine was basically just going to move right down a valley and all the villagers were going to be displaced. They needed to do that sort of research and that produced a document which we were able to use and which they also used in India. So it is mainly financial assistance to employ staff.

Mr SLIPPER—Does the Indian government object to your assisting local groups in this way?

Mr Eady—No. I guess it is an interesting situation that there is sufficient political freedom in India for that to happen. It certainly would be a problem in some other countries. It is also one reason why we do not do it ourselves. There are some restrictions on the rules we are under in India as a foreign organisation. We are not to engage in political activity, put it that way. It depends on your interpretation of that as to whether we could do that sort of work ourselves or not. But there is actually no objection from the government to Indian organisations doing that because it is their democratic right to lobby and to campaign.

CHAIR—Sorry for interrupting you. Please continue.

Mr Eady—That is okay. I will hand over to Jeff now.

Mr Atkinson—I will summarise the main points in our submission. The main point we are trying to make is that Australian trade and investment with India is increasing sharply and that it is specifically heading for areas that are identified by Austrade as being particularly advantageous for Australia. Those include steaming and coking coal, telecommunications, mining systems, and infrastructure, equipment and services for power generation and distribution.

Our concern is that all of these sectors are ones which will have the major social and environmental impacts that Bruce has been talking about. They will have these in an environment in India in which the rights of poor and weaker groups are not well looked after. We are concerned therefore that as Australian investors and companies move more and more into India they are going to be moving into dangerous territory. They are going to be moving specifically and quite consciously into areas which have quite dramatic impacts for poor and disadvantaged groups, in particular the displacement of people as a result of infrastructure projects, be they dams, be they mines, port developments, industrial estates et cetera.

Our concern, of course, is to protect the rights of the weak, and we would hope that the Australian government was also concerned about that. But, even if it were not, we would assume that the Australian government would be concerned about protecting the reputation of Australian companies and protecting the reputation of Australia as a trading nation and as a potential investor.

The record so far has not been good. In the few short years that Australian companies have been investing in India we have had two major scandals, one of which is still under way. The Piparwar project, which was alluded to before, is basically a coalmining project in which an Australian company sold and operated new, advanced and green coalmining technology.

CHAIR—Where is Piparwar?

Mr Atkinson—It is in Bihar state.

Mr SLIPPER—Did you say green technology?

Mr Atkinson—Yes. One of the justifications for it, and we accept this, was that it was introducing to India new methods of mining and washing coal and of managing wastes, both water management and noise and dust control, which were new to India. So it was good new technology. But the problem with that project was that, while the Australian company took responsibility for the environmental impact, it took no responsibility whatsoever for the social impact, particularly for the displacees. It left that entirely to the Indian authorities, knowing full well that the reputation of the Indian authorities for dealing justly with displacees was appalling. Hence the controversy and the poor reputation which it earned for Australia.

We currently have a similar situation in the form of a development project by P&O Ports Australia which is involved in developing a port north of Bombay which is in an environmentally fragile area and an area which is inhabited by unassimilated tribal groups. There is considerable local resistance to this project. There has been considerable resistance to a number of attempts to develop this area over the years and this is the latest in a series. Unfortunately, an Australian company has now entered this fray on what we would consider the wrong side. Once again, it is in danger of becoming associated with a project in which large numbers of poor people, in this case tribals, are being displaced.

As Bruce alluded to, the problem of displacees in India is a huge one and one of considerable interest to us. There are something like 500,000 people displaced every year by such projects in India. That is half a million people. The weaker groups tend to be over-represented amongst them. For example, tribals make up only seven or eight per cent of the total population but make up some 40 per cent of displacees.

Mr SLIPPER—What do you mean by tribals? I did not think there were tribes that were wandering India still.

Mr Eady—It is a rather curious distinction, because the tribal people are the aboriginal inhabitants of India before the Aryan peoples moved in some 4,000 or 5,000 years ago. It is a distinction which is very clear in the minds of people in India.

Mr SLIPPER—Do they have native title rights?

Mr Eady—It is an issue. Because a lot of those groups are living in forested areas, remote areas, they have not had written title to their land. So there certainly has been a process of land rights and of people getting title to land which they have lived on for centuries. That has been quite big. It has not been as complex as it has here, because in most cases communities do have a clear right to that land and it is not being encroached on by others.

This is part of the situation that we are talking about—that in those remote, forested areas geologists are now going in and finding bauxite, gold and other minerals. They are seeing that valleys which people have lived in for centuries are now very suitable for huge dams, power stations and so on. This area which has been fairly undisturbed, quite large parts of inland India, is now really being encroached on by industrial development.

Mr Atkinson—The problem with displacees is, firstly, that the people who depend on land for income on a sustainable basis over generations find themselves losing that land as it is appropriated and in return, hopefully, are given cash. The problem is that that cash amount is never enough to invest and for people to live off the interest; they have to eat into capital. People who lose their land have to use up the cash compensation, so a common situation is that a few years down the track they have neither the land nor the cash and are rendered destitute.

Jobs provided by the infrastructure development project—be it a dam or whatever—are not usually given to the people displaced, because we are talking about communities which do not have the sort of skills that these projects require. I spoke briefly in the submission about a port development project in which very few of the families displaced ended up with port jobs because they were farmers and fishermen and not skilled enough to operate machinery on ports.

So what we are saying is that at the very least, as Australian companies become more and more involved in these projects, they must insist on a much higher standard for resettlement and compensation. For example, there must be adequate provision made in project budgeting for adequate compensation. As far as possible, there must be provision for unskilled jobs within the project so that those displaced, those who lose their land, are provided with some sort of alternative income.

There must be no intimidation involved in the process of determining compensation. This is a growing problem, not just in India but elsewhere, where intimidation and the threat of forced eviction are part of the negotiation process. There must be appeals mechanisms put in place for those who feel that they have not received proper compensation.

The other point we have made in the submission is that inevitably Australian companies are going to become involved with government bodies such as Coal India. Australia's trade relationship is dominated by coal, as we are all well aware—Australia being one of the world's leading exporters of coal and India being, if not our major customer, certainly one of our major customers already. So we are involved in selling coal to India, we are involved in selling coalmining technology and coalmine management techniques.

We are involved with Coal India and its subsidiaries in all sorts of ways. This is an organisation which has a number of problems, as has been widely recognised by all, including the Australian government, which has AusAID projects which are aimed at assisting Coal India to be more efficient in its use of coal and more environmentally sensitive. The World Bank is also very much involved. In May of last year, for example, it initiated the environmental and social mitigation project with Coal India.

The problem from an NGO's point of view is that World Bank funding, and possibly Australian government funding, is being continued to be given to Coal India to expand the coal sector—both coal mining and coal use—before these problems have been sorted out. We believe that this is not appropriate. It is fair to say that the World Bank is finally coming round to accept that point itself and is now starting to hold off further funding of coal sector projects in India until these mitigation projects start to take hold. The Australian government does not seem to have such concerns and Australian commercial involvement with Coal India is proceeding while these problems remain unresolved.

In summary can I say that we are calling for several things which are set out in the submission. If Australia is to continue selling coal to India, it should devote more of its aid resources at least to improving the environmental and social standards of the coal sector, particularly Coal India. At the same time, we would suggest that Austrade put greater effort than it is at the moment into diversifying Australian trade and investment in other sectors which are not potentially so dangerous, such as telecommunications, the service industry and so forth.

We would also like to advocate for the Australian government to establish some standards or guidelines. As Australian companies venture into what I have called dangerous territory they should have some support, assistance or guidance. We are suggesting that that could be most usefully in the form of a code of conduct covering such aspects as the management of the social and environmental impacts of these infrastructure projects. We would want this code to be very detailed and specific and that the standards it requires are based on internationally accepted ones.

In terms of displacement, we should suggest the World Bank guidelines. There are already quite specific and detailed World Bank guidelines on how resettlement and rehabilitation of displacees should be done. These could form the basis of part of this code. We would also want to see this code independently monitored, otherwise it just becomes a set of fine words, and we would want the results of that monitoring made public. That in a sense is the enforcement mechanism and a company which does not fulfil these obligations would possibly have its reputation damaged.

We would also like to raise the possibility of the Australian government following the American government model, that is by putting conditions on contractual arrangements which it comes to with Australian companies. If an Australian company seeks and obtains assistance from the Australian government in the form of political risk insurance for example, there should be conditions attached to that assistance, namely, that the company fulfils and follows these standards. As I say, this is a practice which several American government agencies already have in place, in particular OPIC the American equivalent of EFIC, the Export Finance and Insurance Corporation which has environmental conditionality attached to that assistance. We would like to see similar mechanisms put in place in Australia with the proviso that any breach of the code by an Australian company would result in suspension of that assistance. That is probably all I have to say.

Mrs GALLUS—You actually answered my question at the end there because I wanted to know what other countries do. Then you came in with the United States policy. What about countries other than the United States?

Mr Atkinson—The United States is probably more advanced than any in this. There are several provisions within American trade law which have conditions attached to them. We have seen that the most favoured nation status for the Chinese has human rights conditions attached to it, et cetera. It is quite a common practice for the American government to attach that sort of conditionality to benefits which it provides not only to other governments, but also to its own companies.

I do not know of any others, although the European Commission is very interested in this. Sir Leon Brittan is very interested in this kind of thing and is trying to push it within the European context. But so far we do not have anything which has those financial sanctions attached to it.

Mrs GALLUS—If you had a situation, for instance the one with P&O and the ports, where the Indian government was looking at various countries and Australia and America come in and say, ‘Okay, we’ll do it but we are going to insist on these conditions’, is the Indian government then likely to say, ‘Hold on, we’ll go with the other countries which are not insisting on these conditions’?

Mr Atkinson—It depends on what you mean by the ‘Indian government’. India is such a diverse society. In this particular case it is the Maharashtra state government which is the problem, which is pushing the development. On the other side you have the Indian High Court. I am not too sure what the position of the central government in that dispute would be.

Mrs GALLUS—But it is the regional government here that will make the decision?

Mr Atkinson—If it were the state government making the decision then they would be opposed to it because they are pushing for development in the region.

Mrs GALLUS—So you could get the situation where, by trying to do the right thing, you actually get excluded altogether and a country which has fewer standards than we already have, as inadequate as you have indicated they might be, comes in.

Mr Atkinson—Yes, this is true.

Mr Eady—The opposite can also happen because there has been strong local opposition to a number of projects and a growing awareness from people who have seen the devastation that has happened in a number of areas; opposition is often very well organised. The greatest example has been the Narmada Dam. Certainly the opposition there had a profound affect on the World Bank. I would think that countries that came in saying 'We are going to do the right thing by the people here and we do have a code of practice. We are quite open about it; here are the conditions under which we are going to operate' would certainly get the backing from local activists. There will be many players, for and against.

If Australian companies went in with the right sorts of codes of practice and conditions then that would significantly reduce any opposition to what they were doing.

Mr Atkinson—This is perhaps a little tangential, but it is interesting to note what is happening in some industries, particularly the mining industry, in regard to some of these things. I had a representative from a mining company talk to me the other day. It was just an informal chat but he made an interesting point about this kind of thing. He said, 'Within the mining industry, pretty well any company knows how to find minerals and to dig them out. We are all about equal there. My company is seeking a comparative advantage over other companies by being able to do these kinds of managed social and environmental impacts.'

So private enterprises like this company are themselves starting to realise that if you can manage this kind of situation and these kinds of social and environmental impacts then that in itself is a commercial advantage, not a commercial disadvantage. It does not mean that your less ethical rivals take over but rather that this is what governments are now looking for. They are looking for companies who can do the right thing by people and the environment. Certainly within the mining industry in Australia this is now recognised as being an advantage, not a disadvantage.

Mrs GALLUS—In these projects, is there an economic analysis done which shows the long-term benefits of the project taking into account the long-term negative effects on the people who are displaced from the area?

Mr Atkinson—I have never seen such an analysis, no.

Mrs GALLUS—What is your gut feeling about them? Obviously projects vary and some will have so many advantages that what has happened to the local people becomes insignificant. Are there situations where they are going ahead with projects which in the end, although they have benefits in themselves, result in a whole group of people being displaced and, as you say, incapable of earning a living, and putting other social and economic costs on the state?

Mr Atkinson—That is the key point—it is being put on the state. Where that happens you are basically transferring costs from the private sector to the public sector in extra health costs, damage to water supplies, et cetera. Clearly that is happening a lot. In a number of instances, of course, the costs are not being borne by the state either. They are simply not being borne by anybody and people are left in their destitute state. If such an analysis were done and the true costs of a project were calculated in terms of health costs, et cetera, you would get a very different picture of the economic viability of a project.

Mr SLIPPER—I can see the moral correctness of what you suggest. Have you done an assessment of what additional costs would be payable by Australian companies if, for instance, they were responsible for rehousing and resettling large numbers of displaced persons?

Mr Atkinson—No, we have not. In many countries, this is the norm anyway. When BHP began mining at Ok Tedi, it was they who bore the costs of rehousing the people living in the mining area. When any mining company operates in Indonesia, it is they who must bear the cost of both compensation for loss of land and the rehousing.

Mr SLIPPER—We got the impression yesterday from one witnesses that you needed the three P's—patience, patience, patience—in dealing with India. We understand that it takes about two years until a project is up and running from the time it is proposed. I can understand the moral argument. Wouldn't this be putting another burden on the company to the extent that it might make the investment in India non-viable from the point of view of the Australian company, bearing in mind the fact that dealing with India already is very expensive and very time consuming and very bureaucratic?

Mr Atkinson—It may well do. We are putting on companies responsibility for a tricky problem—resettlement of a lot of people. The point from which we are coming is the rights of people who have been displaced, rather than the encouragement of profitability of Australian companies.

Mr SLIPPER—Again, just putting the moral argument aside, wouldn't that mean that Australian companies, pursuant to this code of conduct, would be participating in a market at a disadvantage compared with the standards imposed by their competitors, whether the competitors be Indian companies or companies from other countries which would not have a similar code of conduct?

Mr Atkinson—I repeat the point that I made before. I think we are approaching a business environment where it is not a disadvantage and where the Indian government and other authorities who are the customers of Australian companies are looking for companies who can do this. They are not looking for a cheap deal that will come in and push these aside and create problems. They do not see it that way. It may be a cheaper operation but it is not a competitively advantageous operation.

Mr SLIPPER—Some people would say that it is not inappropriate to deal with a country in accordance with that country’s own principles and laws and values and that, by imposing this code of conduct, what one is really doing is tantamount to interfering within the domestic system of that particular country. I am not defending mass displacement, but as I am playing the role of the devil’s advocate, what would be your response to that?

Mr Atkinson—The counter argument would be, firstly, that we are not imposing any standards on anybody except Australians. It is the Australian government imposing conditions on Australians. The second thing is that we are not looking at a situation of ‘the Indians do it this way and we are coming in with different standards’. In the case of the P&O port, for example, you have certain standards being set by the Supreme Court, which we would support, and other standards being set by the Maharashtra government, which we would not support. So there is no uniformity of approach or principles on the part of the Indians, whoever ‘the Indians’ are. There are many different factions for and against.

Mr SLIPPER—If we did bring this code of conduct in, wouldn’t a lot of Australian companies try to do their projects in India using subsidiaries based in other countries when, by doing so, those subsidiary companies would not be subjected to the code of conduct—in other words, they could circumvent the code of conduct?

Mr Atkinson—This is certainly true.

Senator MARGETTS—I will try to reduce my questions; I have so many. Yesterday Robin Jeffrey, in particular, said that the jury is still out in relation to the benefits or costs of free trade to India. Would you agree?

Perhaps I will give more depth to the question. One of the parts of information given by Robin Jeffrey was an income assessment by Rao and Natarajan, Indian market demographics, which showed that on rupees there are fewer people under the poverty line then there were before. You mentioned those people displaced from ports and perhaps other sites for industrial development. Would these figures reflect the supplements for fishing, sustainable agriculture and so on? There are apparently fewer people below the poverty line in rupee terms than there were before. Does that reflect fewer people in poverty in India in your opinion?

Mr Atkinson—Those figures are the subject of some debate, as I understand it. There have been various reassessments of the number of people under the poverty line registered in terms of monetary income and also calorie intake.

My understanding is that the latest figures put out by various authoritative groups seem to indicate a pretty consistent figure. That is, something like 40 per cent—or it is in the high 30s anyway—of people are below the poverty line and this has remained unchanged over the last seven or eight years, the period of trade liberalisation. My understanding is that the most authoritative figures at the moment would indicate that what we are seeing is economic growth which is not being reflected in a reduction in poverty. That is my understanding of the latest figures.

Senator MARGETTS—There has been mention by several people on the committee today about whether or not Australia should interfere with other countries. I guess one could say we should be learning from issues like Bougainville, Ok Tedi, Freeport, Mindanao and so on. That is, we would interfere with the operations of a country if we displaced people, displaced environmental standards and so on.

Mr Atkinson—Yes, one could make that point. I will make the point that I made earlier: India is not a monolithic group. Within India, there is every range of opinion you could imagine. What Community Aid Abroad is doing, and always has done, is supporting those groups whom we believe are on the right track and assisting them to do what they want to do.

Your point is correct. I think the point you are making is that, by coming in and digging a hole in the ground for a coalmine, you are in a sense interfering with the way Indians live their lives. Was that the point you were making?

Senator MARGETTS—That is right. There is talk about assisting local groups in India to get Australian companies or other companies to abide by certain standards, but I guess we are interfering with them anyway in one way or another in the form of development that Australian companies have chosen to promote. If the social and environmental costs make a project non-viable, even in Australia, one could argue that the project is not actually viable.

Mr Atkinson—That it is not viable?

Senator MARGETTS—Yes. If social and environmental costs of a project tip the scales from the project being profitable or viable to it being non-viable, one could argue that the project was never viable in the first place.

Mr Atkinson—I should stress that we are not talking about huge amounts. When we are talking about companies paying for resettlement and rehabilitation, we are not talking about very large amounts. It already is common practice in many Australian industries for them to take on that burden, particularly the mining industry in most countries of the region. They have traditionally always done that—they have taken on that burden of paying for the resettlement and rehabilitation of any displacees.

Senator MARGETTS—I will try to make this the last question. Some Australian companies have argued that, if you are going to have standards for Australian companies overseas, they have to be compulsory, rather than simply an agreement within the industry and so on, because it will not be a level playing field unless all the players comply.

Would you agree?

Mr Atkinson—Yes, in one sense, and, no, in another. If you approached an industry and said, ‘Here are the rules. Obey them or suffer a penalty,’ you would get resistance obviously. The approach that NGOs are starting to take is to work with industry to encourage them to develop their own codes. There are a number of NGOs around the world working on this issue—codes of conduct relating to the clothing, textile and footwear industry, mining, infant formula and so forth. Generally the approach is to have companies own the code. If you have it imposed from outside, it is going to be resisted and circumvented—and it is easily circumvented, as Mr Slipper mentioned before. So the approach we would prefer to take is to encourage companies or industries to establish their own codes and, initially, to give them a chance of applying them voluntarily. But always with the proviso that, if they are not properly implemented, they can be exposed; always with the knowledge that NGOs are on the scene and watching what they are doing and, if they find a breach of that code, they will expose it within Australia and embarrass the company.

If that does not work, I would advocate moving to a more legalistic approach—the one that I have suggested, which is that there be conditions attached to contractual arrangements made by the Australian government with companies. It would only be if that failed that I would be looking at legislation which would enforce certain standards. That is the last ditch attempt. I would prefer to start with voluntary codes, provided that there is independent monitoring.

Senator MARGETTS—This is not a question per se, but just a resource query: yesterday a book called *Everybody loves a Good Drought* by P. Sainath was suggested as a resource for the committee to look at the trends in income distribution in India. Can you suggest a resource for the committee in relation to the impacts of trade liberalisation—something easily digestible?

Mr Atkinson—A lot has been written but the easily digestible bit is a problem. I would have to take that as a question on notice and get back to you.

CHAIR—We might get Mr Atkinson to provide an answer to the secretary, because we are running half an hour behind time. We will have to conclude. There is a lot we could ask, but time has run out. Thank you very much, Mr Atkinson and Mr Eady. If you have any other information you want to send to the committee in addition to that, we would be very happy to receive it. Thank you for coming along.

[10.44 a.m.]

DENT, Mr Noel, General Manager, Operations Australian National Line Ltd, 432 St Kilda Road, Melbourne, Victoria 3004

CHAIR—Welcome. Thank you for your preparedness to come along and give evidence to our committee, Mr Dent. As you gather, we are looking into Australia's trade relations with India. The nature of the proceedings is that we do not require evidence to be given on oath but any evidence received is to be treated in the normal way for proceedings in respect of houses of parliament and therefore are of some significance. We prefer all evidence to be given in public. If you wish to give any advice in confidence, we will consider any requests to do so. You might like to make an opening statement and then we can have some dialogue.

Mr Dent—I am currently general manager of operations at Australian National Line, but prior to that I was involved in our commercial area having some involvement in our India trade. As you would be aware, ANL is a government business enterprise. We operate liner or containerised shipping services from Australia throughout Asia. We tend to operate within consortium type arrangements with other partners. Through to Asia we operate three services: our North-East Asia service to Japan and Korea; our East Asia service to Taiwan and Hong Kong; and our South-East Asia service to Singapore, Malaysia and Indonesia. In each of those services we provide one vessel. We service India via our South-East Asia service, transhipping all of our cargo over Singapore. The cargo is carried on consortium vessels from Australia to Singapore and from Singapore through to destination at India on feeder vessels and we have entered into slot purchase arrangements with the various feeder operators.

We service the main ports of Mumbai, Calcutta and Chennai and the inland destinations of New Dehli and Bangalore. We have been involved in the trade since the mid to late 1980s, initially with a joint service arrangement with Ceylon Shipping Corporation. That ceased in 1992. We appointed agents in 1992 to represent ANL and we sold the ANL brand name in both directions commencing in 1993. That is the background to ANL and what we are doing in India.

CHAIR—Perhaps you could tell us a little of how you see the trade with India: is it growing, are there particular difficulties in turnaround times in India or in dealing with India, and are there challenges that need to be taken into account in terms of the capacity for Australia to service Indian ports?

Mr Dent—India is a very challenging market from the point of view of importers and exports due to the fact that, first of all, there are very few direct services. There is just one direct service to India and that is the Conference service which is controlled by P&O Blue Star Line and a Japanese company, NYK. They only service one port directly and that is the port of Mumbai. That service connects with only two ports in Australia—

Melbourne and Fremantle—then proceeds to Singapore through the Arabian Gulf before dropping back to Mumbai on route back to New Zealand and then Australia. So there is only one direct service.

The only other way to get cargo to India is to tranship it over Singapore. There would probably be between 15 and 20 shipping companies transhipping cargo into India. When we analyse our transit times—say the ANL transit times compared with the direct service—we do, in fact, have a better transit time into India. We can get a container into Mumbai within 24 to 26 days, whereas the direct service is around 27 days.

CHAIR—Is that 24 days both ways?

Mr Dent—Yes.

CHAIR—From India to Australia would be about the same.

Mr Dent—It depends on the port of call obviously, that is, from Melbourne to Mumbai, for example. If it is going into Calcutta, it is probably around 24 days as well. Chennai we can do in about 22 days. It varies from port to port, these times relate to Melbourne. Some of the other shipping companies can do it in a bit less or a bit more. It is just subject to their actual rotation around the Australian coast. Transhipment has been very effective and is well supported by the marketplace. As I said, it really is the only way of serving the Indian ports.

CHAIR—What about the cost comparison with, say, the United States west coast or European ports?

Mr Dent—I cannot comment on the North American ports, but the Indian ports are generally fairly expensive to work through in terms of the stevedoring cost component. We have no idea of the port cost component, the cost of actually putting the ships into port for tugs, pilots and so forth because they are not our vessels. We just pay a slot fee to the feeder operator, but we pay the load and discharge cost direct. Generally, they would be comparable—Mumbai I know would be comparable to Australian ports—but a component of that reflects the consolidation or deconsolidation of the cargo.

A lot of the importers and exporters do not have their own warehousing facilities so they must use a CFS—a container freight station—for the packing and unpacking. Generally the rate that we get is an all inclusive rate that covers the discharge from the ship, moving to the container freight station, unpacking and moving the empty container to a container park, whereas in Australia the stevedoring rate is just pure stevedoring—discharge from the ship, load onto a truck to take out to the consignee's premises for unpacking.

CHAIR—Is it a relevant disparity between the volumes moving either way?

Mr Dent—From our own statistics it is very much an inbound or an import trade. We believe the import trade is growing and the export trade is perhaps static; there is not a lot of growth there, and that is reflected in the imbalance in our container movements. We have far more containers coming out of India than going into India, which leads on to other problems. With the margins on shipping it is very tight. There is not a lot of money in some of the freight that we carry. You need to balance your container flows. If you have to start moving empty containers around, that eats into the profit for the shipments. The imbalance flow does lead to problems.

CHAIR—In terms of the development of ports, we have been given some evidence about a P&O port that apparently is being developed north of Mumbai.

Mr Dent—That is right.

CHAIR—You do not have any association with port development?

Mr Dent—No. We used to have a stevedoring company or shareholdings in a stevedoring company, but that was sold about a year ago, so we do not have any. But P&O, as well as developing the port north of Mumbai, is also involved in the development of a port at Nhavasheva. There is already a container facility there. I am not sure whether they are actually taking over the running of that container facility or developing an adjacent container facility. In fact, P&O ports have been very successful around the world in developing new facilities. They are involved in China, Mozambique and South America.

CHAIR—Will they be general user berths?

Mr Dent—Nhavasheva will be a container facility. It will be a container facility such as you see here in the port of Melbourne. I am not sure if this new facility north of Mumbai is a container or a break bulk-type port. But the infrastructure is a concern. There are very few container facilities or terminals as we know them in Australia. There is the one at Nhavasheva, there is one more in Chennai and I believe there is another one in Calcutta, so you have got a country the size of India with effectively just three container terminals. We have effectively three container terminals here in the port of Melbourne managed by the two stevedores.

A lot of the ships have to call at what we would term conventional facilities. They have to have their own cranes; there is congestion; the vessels can be delayed waiting to get onto a berth, and, obviously, having to use their own cranes and with limited shore side resources the ship exchange can be slow. Obviously all of that is a cost impost to the movement of the cargo.

Mr DONDAS—The Alice Springs to Darwin rail link—which obviously at some stage is going to happen—what impact will that have in terms of ANL's process and procedures into Asia, and especially India, if any? Looking through your annual report, Darwin has not been a port of call for ANL for many years. Will it come into the equation at some stage, do you think?

Mr Dent—You are talking, perhaps, a few years in the future. We understand that the proposal that has been mooted is that the rail link will proceed with the cargo connecting with a high speed freighter, a fast freighter, for which the technology is just being developed now—freighters which I believe can perhaps travel at 35 knots compared to current ships which can travel at, say, 21 or 22 knots. The focus will be predominantly on high valued Australian produce. So you are talking about fruit and vegetables, chilled beef, meats, cheeses, butters and so forth.

The cargoes that are being carried into India are low valued commodities—wool, a lot of metal products, zinc, copper, aluminium—all those sorts of products. They are all very heavy cargoes. They are what we would term deadweight cargoes, and they would not be conducive to a fast freighter because you would lose perhaps half of your capacity carrying these heavyweight cargoes. As it is low revenue cargo, the freighter would never pay. So most of the cargoes that we carry will still be serviced on vessels calling at Melbourne, Sydney and so forth.

In fact, 90 per cent of the cargo that we carry into India would fall within the metal, wool, malt and lentil-type category. It is all low value cargo. The cargoes coming out of India, again, are low value: chemicals, tea, fabrics, garments, slate, tile, stone. Again, some of the cargoes are heavy, particularly when you are talking about slate and stone. Our own statistics show that about 90 per cent of the cargoes that we carry fall within those few categories.

Mrs GALLUS—I was interested in what my colleague Mr Dondas said, he being a territorian and I being a South Australian. Could I ask a little more about this deadweight? You are saying that things that are heavy and low value will not be economical to put on a fast freighter.

Mr Dent—That is right. The fast freighter, to develop and to build, will be a very high cost ship. I have not seen any of the figures but, just from reading the shipping papers and comments that have been made by the developers of the fast freight concept, they are focusing clearly on high valued commodities.

Mrs GALLUS—They are going to need those because the prices they are going to charge will need a good return.

Mr Dent—That is right; to offset the cost of developing this type of service. The idea is, I think, that Darwin to Singapore will be something like three days, for example. I am not quite sure of the exact time. They are saying that from Darwin to Singapore will be three days. Currently with our service Melbourne to Singapore is 14 days. So it is going to be an express service.

Mrs GALLUS—Is there not, though, also some room there—taken that there will be an express freight service up there—for a more conventional one that will use Darwin as the port?

Mr Dent—It will come down to the economics—the cost of rail to Darwin plus fast ferry or conventional container ship to Darwin, versus the cost of shipping direct on vessels calling at Melbourne or Sydney. But I believe it is felt—given the high population base in, say, Melbourne and Sydney where the product is being manufactured generally—that it will be always more economical to move these products on dedicated callers in Melbourne and Sydney.

Mr DONDAS—What about all the empty containers you have got problems with?

Mr Dent—We are trying to balance our flows as much as possible to minimise the movement of empty containers.

Mr DONDAS—Because, a little earlier, you perceived that to be a problem with India.

Mr Dent—With India, that is right. In India we have actually been leasing containers on special arrangements to overcome that. If we are short of containers we will go to a container-leasing company and try to negotiate some special arrangements to get containers from, say, Mumbai down to Melbourne, and we will re-deliver them in Melbourne. ANL tends to have surplus containers in Yokohama, and we are looking to see whether we can get cargo from Yokohama into India and then to use those containers from India back to Australia. So we are looking at triangulating our containers to keep the containers moving with cargo all the time and to take those re-positioning costs out of the budget.

Senator MARGETTS—It has been suggested that some companies in Australia, despite international agreements and laws, are still sending out toxic waste, I presume by sea. Does ANL, or companies shipping from Australia, have much knowledge of what is in the containers, or do you basically just have to take the word of the companies, or whoever is exporting it, and hope that Customs do their work properly?

Mr Dent—The customers must declare the commodities to us. We manifest those commodities and the manifests are lodged with Customs. They eventually end up with the Australian Bureau of Statistics. We are aware of what is in our containers. If there is any hazardous cargo, they must declare that cargo as hazardous for us to ensure that it is carried in the appropriate manner.

Senator MARGETTS—I am talking of such things as batteries and so on that are not supposed to be traded out and sent. Apparently, Australian companies are still trading those kinds of cargoes with India.

Mr Dent—That is right. I am aware that some shippers do still move old batteries.

Senator MARGETTS—Is ANL still carrying those cargoes?

Mr Dent—I am not sure; I could check that out. I know we have in the past.

CHAIR—Thank you for your evidence today and your patience for waiting to be called because I know that you have another appointment. If you do have any other advice that you might wish to give us, we would be very happy to receive it. We are trying to look at the whole dimension of trade with India, and shipping is a very important part of it.

[11.05 a.m.]

KHANNA, Mr Vik, Senior Consultant, International Taxation Services, Price Waterhouse, 215 Spring Street, Melbourne 3000

CHAIR—Thanks very much indeed, Mr Khanna, for coming before us. As you would understand, we are inquiring into Australia's trade relations with India. The proceedings of the committee do not require you to take an oath but they are part of the normal proceedings of the parliament. Consequently, the evidence you give should be treated in the same way as the legal proceedings of the respective houses of parliament.

We would prefer evidence to be given in public. If you wish to give any evidence to us in private, please feel free to request it and the subcommittee will give consideration to your request. Perhaps you might like to make an opening statement. Before you do so, I should explain that Senator Margetts is participating from Western Australia, hence her name at the end of the table and her voice from afar.

Mr Khanna—As part of my opening statement, I really want to cover three aspects very briefly—one, where Price Waterhouse is in Australia and in India; two, where we see India currently; and, three, the future of integrated country promotions: New Horizons was the most recent one in India last year. I want to comment on that aspect given that we were consultants to that project.

Overhead transparencies were then shown—

Looking at Price Waterhouse in the first instance, we are a global firm with 450 offices in 118 countries with approximately 53,000 staff world wide. We have very long established historic links with both Australia and India. In Australia, we trace our origin back to 1874. In India, we trace our origin back to 1880. In Australia we have 13 offices and some 2,300 staff. In India we have six offices in all of the major metropolitan cities and about 1,000 plus staff.

The important thing to emphasise is that the Australian firm and the Indian firm are independent of each other. We share common vision, common goals, common technology and expertise but there is not a common profit sharing arrangement. The global practice of Price Waterhouse is effectively monitored through a worldwide firm of which both Price Waterhouse Australia and Price Waterhouse India are part. The profitability of each and the business of each partnership of course is a separate issue and is not predicated on the results of the two separate partnerships.

In terms of Indian business and trade, we are generally very optimistic of the liberalisation process in India. Certainly, over the last five or six years, we have seen a massive upsurge of business in India, more from the US, Japan and the UK than from Australia. The liberalisation process in itself has been slow by westernised standards but has been fairly radical based on precisely where India was going prior to 1991. More importantly, the process is now irreversible. The best evidence of that is the 1997 budget which was passed even though there was a changed head of government.

In relation to the major constraints that we have heard from foreign investors, part of it is policy and, I suppose, a lack of understanding by most non-residents of the way business is undertaken in India. There are certain policy issues and constraints that the government has in relation to liberalising trade and, more importantly, in relation to its labour force.

The most common complaint that we have heard is bureaucratic delays. There is also a very strong public perception in India that foreign investment may have the effect of providing a large share of the domestic market to non-residents. This is not to be confused with nationalism, which is more of a political issue and press rhetoric. It is more a fundamental, deeply ingrained perception in the Indian psyche, given that the country has only been independent for 50 years and that was after a very long, bitter struggle for independence.

In terms of business, lack of infrastructure is a major constraint in India. From an Australian trade perspective, import tariffs in India are a lot higher than those of our major trading partners and they are likely to remain at relatively high levels for a period of time.

Turning to Australia's own promotion in India, it is best evidenced by the New Horizons promotion between September and November last year. Based on the feedback we have received, it was generally viewed as a success by almost all Australian corporations that took part. A number of corporations believed that it did achieve the goals they had set out to achieve.

Based on that Indian promotion and the Indonesian promotion we were involved with in 1994, our general view towards integrated country programs of this type is that there is a need for these programs to be a bit smaller and more focused than the grand scale of the New Horizons promotion, which covered six cities with some 60 different programs. We believe a similar result could be achieved by having a more focused, more targeted and more integrated program which perhaps covers fewer cities but is more integrated in terms of the government's role, the private sector's role and the role of the various cultural and business forums.

We also see project management as an issue, and we believe that these promotions could almost be self-funded by private sector participation. In terms of project management, we believe that the government should make policy but the implementation of that policy should, to some extent, be left with the private sector. Certainly, they ought to have some input into the precise nature of the promotion which is happening in that country.

In terms of future promotions, up to the year 2000 and beyond, we believe that there are very significant opportunities in leveraging of the Sydney 2000 Olympics. That is not simply in terms of Australian infrastructure and Australian investment, but because the Olympics are going to be a spotlight on Australia over the next four to five years.

CHAIR—Thank you very much. There seem to me to be a few areas where a professional partnership like yours can glean information from the relationship where others may not. One is: how do you assess the extent to which Australia is recognised as a country in India? How do you see the growth of Australian trade? Is it apparent to you that your Australian clients are now asking you to do business in India or is there a total division, where the clients of Australia are not the clients you have in India and you cannot make an assessment?

Mr Khanna—We do have a number of common clients. I think there has been an increase in trade post-1991. The majority of our clients are large Australian corporations. The Indian practice does have Australian clients that are not clients of the Australian practice. That is based on personal relationships between the Indian practice and the Australian corporations, or perhaps because the Australian corporations are advised by another big six practice.

There has been increasing interest and we have seen more Australian companies willing to do business in India. Certainly, the major banks are interested. All the major insurance companies are currently in India and a number of them have tied up collaborations. A number of manufacturing entities are looking at India as a manufacturing base or as a very large domestic market for its produce. I would say that, before 1991, there was very little interest in India apart from the ANZ Grindlays bank which has been in the country for the last 140 years and is an Australian bank.

CHAIR—What do you think the Australian government might be able to do to assist the growth of trade apart from focussing on project management, as suggested, and perhaps with a project management link here?

Mr Khanna—The comment about project management was more in terms of integrated country promotion in the case of—leaving India aside—the Philippines, Malaysia, Thailand, if you did choose to do that in the future. Perhaps the best use of that is to have more ministerial delegations into India. One of the things we have seen in the past in that regard is that the UK government and the US government have been very active, as have Germany and Japan. There are a number of ministerial trade delegations that have the effect of creating opportunities in India

The most common complaint from Australian companies is that they do not have access to the decision makers. If you look at the Indian market, if you spend a month in India, you realise that every week there is a separate trade delegation. It is very difficult for a corporation to gain access to some of the people who make the decisions, unless they have a well-established link or they have been in the country for a period of time, whereas a very high level ministerial delegation does open a number of doors that are otherwise very difficult to access.

Mr SLIPPER—I was interested obviously in the history of Price Waterhouse; it is a well-known firm. But I was particularly interested to hear you say that you were in charge of the India desk.

Mr Khanna—Yes.

Mr SLIPPER—You are obviously part of the Australian firm.

Mr Khanna—Yes.

Mr SLIPPER—Why does the Australian firm have an Indian desk?

Mr Khanna—I think there are two reasons. It is basically to facilitate business in India. Our focus is more on Australian business in India than vice versa. That is simply economic reality. The other part of it is that we are a very versatile practice and many employees have a number of roles. I have an Indian background, a knowledge of Indian accounts and so on and so forth. I can apply that in providing advice in Australia on Indian conditions.

Mr SLIPPER—Do you speak Hindi?

Mr Khanna—I speak Hindi fluently—read and write it.

Mr SLIPPER—That would be very helpful.

Mr Khanna—Yes.

Mr SLIPPER—We had some evidence yesterday that most of the Indian leaders are educated at tertiary level within India and that many of their postgraduate studies tend to be in the United States or maybe the United Kingdom, and that Australia is missing out rather badly. You also highlighted the importance of getting access to the Indian government at an appropriate level. What do you think the Australian government should do to try to ensure that future Indian leaders, or some of them, are educated in this country rather than in the US or the UK?

Mr Khanna—I think, as you very correctly pointed out, education is a critical issue. In terms of numbers, you would find that there are 50,000 to 60,000 Indian students studying abroad currently. I was educated in the UK.

Mr SLIPPER—You were from India.

Mr Khanna—I was from India. I did my tertiary education in India. I went to Scotland to do my postgraduate study. I am a member of the Chartered Accountants of Scotland which I trained for in London. I lived in London for six or seven years. You would find that a number of my contemporaries were either educated in the UK or in the US, depending on what discipline they undertook.

Mr SLIPPER—Exactly, but not Australia?

Mr Khanna—Australia is picking up now and more so in the last two and a half to three years. That is mainly because of very concerted marketing activity by Australian education institutions in India. Australia does not have a huge profile in India. India has a very strong American influence mainly because of Hollywood, the movies, and the fact that once you have 10,000 MBA students going to various US schools it has a cascading effect in terms of people coming up through the ranks. There is a recognition that 'X business school is good so you ought to go to there.'

Mr SLIPPER—But what should we do as a country—what should the government do—to try to get some of these students who are currently studying in the United States or in the UK?

Mr Khanna—It is very important for Australian educational institutions to market themselves effectively. That would involve setting up some sort of liaison function in almost all of the major metropolitan cities plus publicising the benefits of, say, an MBA from Melbourne Business School, vis a vis the US schools.

Mr SLIPPER—Is that happening? If it is happening, is it happening effectively?

Mr Khanna—It is happening to a very limited extent. The Indians who do come to Australia are mainly in the software industry or, perhaps, in engineering, but not in other services.

Mr SLIPPER—Yesterday we had some criticism that some Australian universities have been putting advertisements in newspapers and have been dealing with people who are not considered to be people of good reputation and that, because they are dealing through intermediaries who are not acceptable in India, that is having an adverse impact on the reputation of their institutions in that country and reducing the flow of students.

Mr Khanna—That may well be true. I believe that Australian institutions should do away with intermediaries and use the same acceptance standards for Indian students as are used for Australian students. In terms of being educated abroad, one of the major factors in India is cost. The US cost is typically between $US20,000 and $US40,000 per year.

Even having said that, the requirements for getting admission into a good business school in the US are very stringent. You have to get your US GMAT exams, which are across the board for any person of any nationality. For Australian institutions not to dilute their qualifications and to attract the right level of students, I suspect that we ought to have similar types of entry examinations because the majority of Indian students are very well-educated. Their tertiary system is quite effective—we are talking here about the elite class not the general public. The client base for Australian educational institutions is those top five or six percentiles. They should have relatively stringent monitoring processes as well, because the UK and US institutions certainly have those.

Mr SLIPPER—Does the US or the UK offer elite scholarships designed to attract those Indian students who not only have academic merit but are likely to be the leaders of Indian government in the future? In doing so, they would be buying influence for the future. Are they doing that?

Mr Khanna—Not in terms of future leaders specifically. As I understand it, the practice is that people get admission and, within six or 12 months of starting a degree, they receive some sort of grant which is based on academic merit. That sponsorship is not predicated on coming back to India and being a successful Indian.

Mr SLIPPER—It is not predicated on that?

Mr Khanna—It is not. Historically it has not been. Again, if you look at a US engineering college or a business school, typically it gives you a grant which is based on academic qualifications, unless you are sponsored by some sort of research grant when you go across to the UK or the US. The UK does have a number of grants—for Indian medical students and Indian engineering students, for example—where they typically come for 12 to 18 months of, say, industrial training.

Mrs GALLUS—I am sure the chairman knows the answer to the question I am about to ask, because he was at briefings which I did not attend. Could you help me on the tariffs? On the high tariffs, if those products are then transformed into another product and exported again, does India deduct duties paid?

Mr Khanna—There is an exempt policy which does deal with that. I am not clear about precisely how that operates. The last federal budget handed down in February this year reduced tariffs by about 10 per cent across the board. There is an exempt policy where, if you are producing for export, there are certain concessions which cover not only excise duties but also direct taxes.

Mrs GALLUS—In your overheads, you indicated that one of the problems for India's growth is its high tariff level and its trade barriers.

Mr Khanna—That is very true because, when you look at our other trading partners, the tariff levels in India are a lot higher. For example, the tariff level for coal has just come down from 20 per cent to 10 per cent, but that is still a fairly high figure. And that is across the board. Things like steel and coal are relatively lowly taxed, but textiles, manufactured products, whitegoods, consumer products have a very high level of protection in relation to tariff level.

Mrs GALLUS—Is the protection there to protect Indian industries or is it also part of a revenue collection?

Mr Khanna—The government's position on it currently appears to be that it is also to protect the balance of payments. They are concerned that if they remove import constraints, the foreign reserves of approximately $33 billion would be eroded very quickly. That is one part of it. There is an element of protectionism because there is a concern in the non-protected Indian industry that by opening the borders and allowing free competition it would erode their own domestic base. Again, the fundamental premise underlying this is the basic Indian desire for self-reliance, which is not nationalism, as I said previously; rather, it is deeply rooted in Indian industry that because they have been foreign dominated for a period of time they do not want to revert back to the situation of the East India Company.

Mrs GALLUS—So in a way it is a nationalistic protection to keep out too many imports so that they do not have that trade deficit and that reliance on foreigners.

Mr Khanna—Yes.

Mrs GALLUS—Yet surely India itself, being a very cheap labour country, has an interest in getting tariffs around the world down.

Mr Khanna—Yes, it has. But the other concern is that, when you look at it from a macro level, the moment they put the country out to free competition, as they intend to, that might lead to labour reductions in domestic industry. Certainly, that has been a concern of the life insurance and general insurance side of things. That is also the concern regarding manufacturing entities because, again, Indian industry is very labour intensive and is, by western standards, overmanned. The moment you introduce the technology of the 1990s into a country that has been relying on the technology of the 1960s and 1970s in some industries there is a concern that there will be massive labour cutbacks.

CHAIR—In the reciprocity of your partnerships, India to Australia, you mentioned Australians moving to and taking an interest in India. What about Indians taking an interest in Australia? Is that very significant?

Mr Khanna—It is not significant at all. There are really two large Indian corporates in India: one is the Oberoi group, which owns the Windsor Hotel in Melbourne, and the other is Asian Paints, which has a manufacturing plant up in Townsville. Apart from that there has been a lot of interest from the Indian software industry which has been collaborating with a number of US enterprises in terms of setting up a joint venture to look at software implementation. The basic constraint in India is that the main corporates do not have the resources to expand. There is a perception that, with a population of 18 million people, Australia is not a big enough market for their products because some of the cities in India have a population of between 14 and 16 million—Bombay and New Delhi, for example.

CHAIR—You mention that you have some association with World Bank and Asian Development Bank and some of the other regional banks. Is that a source of work for you in relation to the Australian-Indian connection?

Mr Khanna—It is more a source of work for Price Waterhouse India from the UK and the US.

CHAIR—So we are not getting much of a share of that?

Mr Khanna—We have not had very much of that.

CHAIR—Have you tried to do anything about in it?

Mr Khanna—I am not too sure whether Price Waterhouse India is that worried about where it is coming from. Australian corporates are trying to get into those projects—certainly companies like John Holland—that involve infrastructure. There is also increasing trade in terms of electricity generation, for example, and port development. The Australian corporates are now getting interested and certainly opening up the insurance sector and the coal industry.

CHAIR—What about information technology? Have you tried to get involved in that at all? I notice you have a section that is devoted to it.

Mr Khanna—We are involved with that. Again, the operators in the software industry currently in Australia are relatively small. GE, the US company which has a collaboration in Australia, is one of the larger players. But typically in terms of size they are not very big because they are labour intensive. So it is not as if someone is coming in to set up a plant; it is just 350 computer programmers coming and doing business.

Mr SLIPPER—You mentioned that you have been in Australia since 1874 and in India since 1880, and that there appear to be tenuous links between the two partnerships. Is that because of the history of mega accountancy firms being formed through merger, that maybe Price Waterhouse Australia has only been part of the same group as Price Waterhouse India for a relatively short amount of time?

Mr Khanna—The relationship is fairly good. Price Waterhouse is fairly unique in the sense that we have not had many inorganic mergers in the hundred-odd years of our history.

Mr SLIPPER—So in India you started off as Price Waterhouse in 1880 and in Australia as Price Waterhouse in 1874. Fair enough.

Mr Khanna—They are members of the same firm but, apart from one of the big six practices, none of the big five accountancy practices are global partnerships. Each entity contributes to the same global entity and shares their expertise and people are very easily transferred and the quality of the work is the same, but it is a separate legal entity in its own right.

CHAIR—Part of it is because of the registration and the obligations each country imposes upon practitioners.

Mr Khanna—Exactly. To put it in perspective, India until four or five years ago did not allow a partnership of professionals of more than 20 people. In Australia we have 150-odd partners. In India we had this problem in the 1980s where they had 19 or 20 partners but could not make any more partners simply because company law did not permit it.

Mr SLIPPER—So you had lots of associates.

Mr Khanna—Lots of associates, and then separate partnerships, separate companies, for example. That threshold is still there. I think it is 30 people, and it is still to be eliminated.

Mr SLIPPER—Have you worked with the Indian firm?

Mr Khanna—I have worked with them as an Australian consultant. I spent about two and a half months in India in the last 12 to 18 months.

CHAIR—What sort of follow-up can we have to the New Horizons project? Do you have any bright ideas?

Mr Khanna—I do think it would be useful for there to be another trade delegation—not a large one but a focused one—in promoting Australian interests, certainly in the key areas of our focus: coal, infrastructure, banking and insurance. I suppose Indians themselves are a bit weary of all these promotions, because they do get quite a few. So it is more important for it to be relatively high level and well promoted, but with very defined ideas of precisely what our country wants out of it.

CHAIR—We have had evidence today which suggests that perhaps there are problems of the social fall-out of industrial development, particularly some of the new projects of port development and coal development concepts. As somebody who is involved and has an understanding of the Indian field, have you views on imposing some sort of a discipline on Australian investment in India, which might lead to a difficulty in achieving commercial consequences because of those disciplines?

Mr Khanna—I think that is absolutely right. There is a need for greater understanding, simply because when an Australian company goes into India they see a country with very familiar institutions, a very well educated elite—everyone uses English—and there is this assumption that this is a Westernised country. The fundamental thing about India is that you have a Westernised country, a Third World country and an emerging market coinciding at the same time. Whereas on the face of it everything looks fine, there is an underlying current that you have to be aware of. Personal relationships in India are very important. It does not really have a history of a huge amount of business litigation, for example, so there has to be a good personal understanding between the parties.

The other side of it is traditional values. India is a country that has been in existence for some 5,000 years and it does have its own unique quirks, and that is something that people need to appreciate. For example, McDonald's in India—India is one of the few instances of where they actually have had to change their menus, simply because they did not think the Indian market would buy it. Nike went into India and found that its product was not selling because the price was very sensitive. On the other hand, you have had entities like Kelloggs, for example, which made a sales turnover in a relatively short period of time because they were able to change Indian breakfast habits.

CHAIR—That is quite an achievement. Changing anyone's breakfast habits is very difficult. I think it is an amazing achievement if Kelloggs could do that. So we have had a look at trying to beat the market—

Mr Khanna—Each company has its own strategy. I suppose what Australian companies have not done yet is focus on the joint venture concept, and Indian industry to some extent demands that because there is a reluctance to hand over control. The other side of it is that very few Australian companies have actually gone into India as a production base for re-export, which UK and US industry have done. Suzuki of Japan has done that. It has picked up 78 per cent of the domestic car market over the last 15 years but is now producing vehicles for re-export to the Middle East. The government does pay a lot of heed to that, because that is a source of foreign exchange.

CHAIR—In your business do you have much trouble with the conflicts that are apparent between the central and state governments? You have said you had six city based firms—

Mr Khanna—India is one practice but we have six different office locations. The relationship between the state governments and the central government can be very strained at times. The constitution has actually split the responsibilities fairly clearly but the defining line is sometimes a bit blurred. The state of Orissa effectively went alone in liberalising its power sector and actively went out looking for foreign investment. That was followed by a number of other states that liked the model. West Bengal is the only communist state in India, and it is actively going out looking for foreign investment. I suppose the main tussle is the fact that all state governments want investment and they are effectively going after the same pool of resources.

CHAIR—And in combating the bureaucracy of India, which we are told is just about as bad as it is in Australia—

Mr Khanna—Much worse.

CHAIR—Much worse? That says something. Does your firm become involved on behalf of Australian clients in trying to clear the way, as it were? If an Australian investor were trying to invest in a particular state, would you be—

Mr Khanna—We do. The general answer to bureaucratic delays is to keep going a level above, because you would find that at the cabinet level, at the ministerial level, there is very clear guidance on how things should happen. The moment you reach the right level of the government things do happen.

CHAIR—I see. Thank you very much indeed for the evidence you have given to us.

[11.50 a.m.]

FYSH, Dr Stuart Alfred, Manager—Pakistan Business Development, BHP Petroleum, 120 Collins Street, Melbourne, Victoria 3000

HARLEY, Mr Thomas Stephen, Group Manager—Business Development, BHP Petroleum, 120 Collins Street, Melbourne, Victoria 3000

STOTT, Mr Charles Eric, Manager—International Business Development, BHP Petroleum, 120 Collins Street, Melbourne, Victoria 3000

CHAIR—Welcome. While we do not require you to take an oath, proceedings are as significant as they would be if they were proceedings of the parliament and should be treated as such. We prefer that all evidence be given in public, but I understand from your request that you would prefer that the evidence you give this morning be taken in private. Before we do that, however, I would like you to give any public evidence you can give to us.

You should be aware that we are actually doing an inquiry into trade with India and the subcontinent. We decided we would deal with India first. While I know your evidence specifically relates to Pakistan, we felt that it was worth while talking to you about both. If you would, we would like you to give us a very brief overview of where you see India,—if you can and if that information is available to you—to give us a bit of an idea, because we are looking at some of the problems in dealing with India, and because your connections are so significant there. Then, at the stage when you wish to go into in camera, I can put it to my colleagues and we can decide how we are going to proceed from there. I should also mention that Senator Margetts, in absentia, is participating by way of a teleconferencing facility from Perth.

Mr SLIPPER—What are you a doctor of, please, Dr Fysh?

Dr Fysh—I am a physicist. I have worked with BHP for about 16 years. I joined them in their research area for about six years and then gradually migrated to a much more honest occupation in business development!

CHAIR—Do you want to say anything in public? If you say anything about India, you can tell us at what stage you wish to go into in camera.

Mr Harley—We would be very happy for as much as possible to be on the public record. We thought we would ask for some bits to be in camera so we can be franker about things without betraying any commercial confidences.

CHAIR—Certainly.

Mr Harley—I would just like to say one introductory remark before handing over to Dr Fysh. BHP Petroleum deals with the Department of Foreign Affairs and Trade in a lot of countries, particularly in India and Pakistan. We want to place on record our great appreciation of their support in all the countries we have worked in, but particularly in India and Pakistan.

Dr Fysh—I think that, without overdoing it, Tom is quite correct. We had a situation in Pakistan over the past six to 12 months where the High Commissioner there has really functioned well beyond what we might have expected and has really gone the extra mile for BHP on a number of occasions. So, we have a very high regard both for his abilities and for his efforts.

Mr Harley—We have nothing but the highest regard for their commercial acumen and professionalism.

Mr SLIPPER—It is reassuring to hear that, considering other stories we hear about some of them.

Dr Fysh—It is always good to balance these things by saying that no-one is here to give you only good news. We have had equally poor experiences but, as of today, we are extremely well represented in Pakistan by a very capable High Commissioner and Austrade officer, Geoff Allen. Geoff has been there since May 1995 and has been a breath of fresh air. He is absolutely excellent.

CHAIR—Perhaps we can ask you to open your remarks and, at the stage when you wish to go into in camera, to advise us.

Dr Fysh—Fine. Firstly, dealing with India, we had a meeting yesterday with the petroleum minister from India. If I had known that that was going to happen, I could have sent you a presentation we put together for that meeting. We can run through that briefly. It summarises our position in respect to India quite nicely, actually.

CHAIR—If you could send that to us or perhaps do it now, that would be very helpful.

Dr Fysh—We can probably do both, if that is okay. In many ways, we are trying to achieve some of your ends and some of our own here. We understand that you are looking for some insight into India and Pakistan, as members of the business community in Australia see them. We are certainly happy to give you that.

Obviously, some of the projects we are dealing with there are what we would regard as sensitive projects—which is why we have such a delegation here. We have not really worked this out, because we were not sure how you would want to play this in camera thing, but I will try and stick to the general picture of Pakistan and India and then move into an in camera discussion of a particular project, the most significant project there.

CHAIR—Thank you very much for that.

Overhead transparencies were then shown—

Dr Fysh—Again, we have all the high tech wizardry here at this presentation. I hope it works. If it does not, we can quickly revert to slides. This presentation was put together for an oil and gas summit in Pakistan last February and it was pretty well received. The reason that we thought that it was a useful thing to use with you here is not that it saved us a lot of time but because we were particularly asked to present a multinational's view of Pakistan. I will flip through it very quickly, and only pause where I think it is salient.

Effectively, one of the things driving oil companies at the moment, in selecting the countries that they work in, is a perception in the oil industry at least that we are in a fairly flat real price environment for oil and that this is not the world's most profitable business. We are all aware that the oil price has been high in the past couple of years, but the perception which drives our industry is that it is not going to remain that way. So, there is a very strong emphasis in the industry in looking for value.

Certainly, there is an understanding in the industry that, although we are now having exploration successes in the newer provinces—Australia, the North Sea and so forth—somewhere down the track we need to be heading back towards Middle Eastern resources; and so the oil majors are all looking towards getting some sort of foothold in the Middle East. BHP Petroleum is no different from anyone else, in pursuing that end.

When we look at a country, we tend to look at many different criteria. We will summarise them here as being country risk; prospectivity—of course, it does not matter how riskless a place is: if there is nothing there, it is just not a good place to be; local markets—because increasingly our industry is shifting its focus from oil to gas. Again, this has been something which has been quite a change of mind-set over the past five to seven years for the international oil industry. Previously, it tended to be run by people who knew how to find oil, dig it up and get it on a ship and have it gone. Really, the price you got was very much a commodity market thing.

Over the past few years, all of the majors, ourselves included, have got a much stronger focus on gas, simply because the technology for utilising gas is improving out of sight. The highest efficiency forms of electricity generation that are now available are those based on gas, and also there is a hell of a lot of gas around and it was a lot easier to find. There was a period from the 1980s until the 1990s where gas reserves could be picked up fairly readily. So, we now have a much stronger focus on markets than we have had in the past. We also have a considerable eye to the strategic settings in which the countries we are targeting are placed.

Having said that, how does Pakistan rate under all of those criteria? Firstly, from a risk point of view, this is essentially an internal BHP view of Pakistan. The details are in the slide that has been supplied to you, but basically BHP views Pakistan as a fairly risky place to do business. It is difficult to parametise that. We put a very high emphasis on personal safety and on the legal systems which are in place and so on, but we also have to have regard to things which, although they do not impact on us directly, will very much affect our ability to do business.

Take the human rights record of a country. You will note that Burma has a risk rating for BHP similar to what we see for Pakistan. To some extent, that reflects the view that we may come under pressure not to do business there, because of the difficulties that can attach to dealing with the current regime. We view Pakistan as a relatively risky place. For the sake of completeness, you will note that we view India as somewhat less risky and somewhat further down the scale: perhaps intermediate between Pakistan and the better established investment destinations in South-East Asia.

CHAIR—How often do you review that?

Dr Fysh—This is something which is changing in BHP. Ten years ago we tended to do this on an opportunity basis—so when BHP looked at investing in Chile we did an extensive exercise to understand the politics of the place. Now the company is looking at investments daily, right around the world, and we have found in the last two to three years that we are increasingly reinventing the wheel. We have now moved to much more coherent risk understanding and analysis. That is conducted under the auspices of our corporate centre, but individual business groups and units will pursue the analysis for a particular opportunity. It is an ongoing process.

Mr Harley—We are trying to introduce an annual review system.

CHAIR—It might be good as a basis, but obviously there are a few areas where, were you to look at a particular investment, your judgment might well be different to the generalised impression.

Dr Fysh—Exactly.

Mr Harley—The degree of analysis will become more sophisticated depending on what we are likely to do. I should emphasise that we also look at risk in First World Countries, because the risks of appropriation and that kind of thing, which exist in Third World or developing countries, are even greater in First World Countries through changes in tax takes and so forth.

CHAIR—Yes, understood.

Dr Fysh—The other thing that is not there is any notion of mitigation. If you have an enormous risk, as we perceive in Chile, then you have the option of bringing in an IFC, a partner or whatever. The way we see Pakistan essentially is that it is a relatively risky place. The thing that attracts us to Pakistan is that we view it as a very attractive market, as you will see in a moment; and we have been looking for ways of being there and reasons to be there. One of the things that has very much attracted us to the place is that it is a good window on the genuine Islamic environment. BHP has some considerable skill in investing in Indonesia, for example, but Pakistan affords you a view on Islam in perhaps a more direct way than what you would get through Indonesia.

It has a familiar culture, language and legal system. I think that it is worth saying that I have worked in both countries for about five years in total, and in my experience Pakistan is a much easier place to do business than India—substantially easier. Pakistan is much less bureaucratic than India. Pakistan is much less diverse internally. You do not have that extreme spectrum of religious views and so on; and those do come in and affect projects that we do, there is no doubt about it. Pakistan has a smaller bureaucracy and a more modern bureaucracy.

In the oil and gas business, for example, Pakistani concessions, technical data and so on are on a much better footing than we find in India; but obviously the rewards there are fewer, because it is a smaller market. Also, there is a whole tier of local industrialisation which is missing in Pakistan. When you go to India you can meet with Ratan Tata and Birla: these are people who have got real money, and they know how to make a project happen. That whole tier of industrial capability is missing in Pakistan, because it has a much more recent episode of nationalisation.

I will not dwell too long on the prospectivity. Our view here is changing. Suffice it to say that we did not go into Pakistan principally as an exploration target. We are about to drill a well there—we will probably spud that well in October—and the target is very substantial. Were it to be successful, and there is perhaps a 10 per cent level on that, we would be looking at gas reserves which might be up to half of what we have in Bass Strait. But the risks are high, and that is a pretty rosy view. There have been fairly substantial discoveries there in the last six or eight months which have changed our view, but it is a very gassy province.

What this diagram is trying to tell you is that Pakistan is a fairly attractive place to find things. Essentially the diagram simply tells you that for the size of field that you expect to find, the investor can expect to get a return on his dollars which might be as much as 30 per cent after tax. That is very attractive by comparison with many of the other parts of Asia which we have been looking at.

CHAIR—Would the prospectivity of India be as high? The returns may differ, but would the prospectivity generally be as high?

Dr Fysh—Clearly, you are a layman and I am a layman, so I am exactly the right man to answer that. There are no giant fields in Pakistan as there are in India, not really. You have the Bombay High in India. I personally think that India is unlikely to produce another sizeable discovery. I think Pakistan has that possibility because there is still a lot of tribal territory that just has not been looked at.

We are in an episode where, several years ago, Pakistan reorganised its oil and gas sector and attracted considerable dollars into the exploration sector. We are now beginning to see—this diagram is a few months out of date—quite considerable success there. On a global picture, BHP does not see this as a particularly high reward area hence its position in the lower left of the diagram. It is relatively risky with no great rewards. We cannot compare this with the Gulf of Mexico or the North Sea for example.

Why are we in Pakistan then? One of the key reasons is its gas market. It is not widely known but Pakistan had the first high pressure gas transmission system outside North America. Pakistan has the most highly developed gas transmission infrastructure in Asia. That includes comparisons with Japan, Korea and so forth. You could argue about that as the Koreans put their gas ring around the country, but, basically, this is a very gassy country. Something like 38 per cent or 39 per cent of the primary energy demands in Pakistan are fulfilled by gas, and that is extremely high. So this is a country that really understands gas and knows how to use it. If you have gas in that country, you can sell it. You may not get paid, but you can sell it.

Basically the outlook that we have for Pakistan is that current gas reserves will continue to increase production for the next several years, particularly having regard to these recent discoveries. There is quite a wedge opening up in the market. We believe that there is a situation today where, if you could import gas into that country at reasonable prices, you could sell it. That situation is only going to grow. We have one slide—and I need to start galloping through this—that depicts that the situation in India is quite different.

The Indians have daily gas production which is about the same size as Pakistan, albeit that their population is 950 million in comparison to 130 million to 140 million in Pakistan. It took India a long time to utilise all that gas. It took about eight years for them to fully utilise their infrastructure. India is now desperate for more gas. The market demand and the market gap in India is there today and is very sizeable. Whereas Pakistan is just sort of beginning to see this issue arising in front of it, India is well and truly there.

Lastly, one of the other reasons that we are keen to be in Pakistan is because of its strategic positioning. Pakistan is basically sitting between the Middle East and Central Asia, both of those and the markets of the subcontinent. There is real potential for energy to flow from the Middle East, most likely Iran. There is also real potential for gas to come in from Turkmenistan and Afghanistan, if it can ever get its act together. That gas is going to head east. So it is strategically a very well positioned place.

Mr Harley—Gas is also likely to be drawn into those markets because of its preferred status environmentally replacing fuel oils and coal in the production of electricity. That is certainly something that we as a company are keen to support.

Dr Fysh—Tom makes a good point there. Again, to draw the comparison with India, and it is worth diverging, the Pakistanis have historically fired their power production with fuel oil. They just basically burn it under a boiler in the same way that we burn coal under a boiler. When we replace that with gas, we can really only get the same sort of price as what they would be normally paying for fuel oil. The electricity generation benefits are no greater with gas than they are with fuel oil. You certainly get a substantial environmental benefit because there is no sulfur in the gas.

On the other hand, India has invested more wisely in power generation which is based on naphtha. They have a full combined cycle technology which means they get a much better benefit out of switching from naphtha or diesel or whatever to gas. India is a higher quality power market. India will get a substantial environmental benefit from having gas available to it.

In summary, we see Pakistan as a relatively risky place, reasonably perspective but nothing to get terribly excited about, but it is a very interesting market and extremely well positioned. It is really for those last two reasons that we have chosen to be there. Most of these things now are really reviews of what is happening in the country.

The companies that are working in Pakistan are essentially of two sorts. There are some smaller companies. Of these, I guess we are talking about smaller oil companies that might be the same size as Santos. It would not surprise me if Santos turned up in Pakistan. Novus Petroleum is there. Command Petroleum, before they were taken over by another company, were in India. They again would be the sort of company we would expect to see in Pakistan. But then a lot of the larger companies in Pakistan are not there principally for this domestic oil and gas production potential. They are there for gas imports and power generation. We feel that that is basically the game we are in. We are there for the larger picture.

That should tell you that the main thing we are interested in in Pakistan is the potential to import gas there. So maybe we will leave that topic and very quickly flip over to India. It should not take too long. We had a visit yesterday from a government of India delegation, which included the minister of petroleum and director of hydrocarbons and so on. Essentially, the purpose of their visit was to solicit exploration interest in India. You asked earlier what our view of the exploration potential of India versus Pakistan is. We have no interest in exploring in India at the moment. We have reviewed it thoroughly; we just don’t have the interest. What we did do was talk to this delegation about BHP Petroleum’s agenda in India. I think we were very pleased at how they were willing to focus on what we were hoping to do there. Let me quickly go through with you what we did and then we will close down and go into closed session.

Quickly, BHP Petroleum's history in India may be of some interest to you. We opened an office in Delhi in 1987. We drilled one offshore well at Konkan Kerala, which is on the west coast of India, so it is to the south of that fairly prolific Bombay High province. It was a dry well. Basically that office sat there while BHP tried to decide what it would do for some time. In late 1992, early 1993, the Indians made available two quite sizeable gas fields, Mid and South Tapti. BHP put considerable effort into bidding for the development of those fields, but unfortunately we were unsuccessful.

These things have a habit of giving you a reason to be there and giving you a shopfront so that you can look for other opportunities. That is what happened to us here. We began to enter dialogue with the Iranians and the Indians about the possibility of an Iran to India gas pipeline. That is the first time that the company really began to focus on that project.

From 1995 to the present we have continued to work on that project, which we will come back to a little later in this presentation. There are a couple of slides here which talk about what else BHP was doing in India. I do not think we want to get into that at the moment.

Basically, we told them that our vision for India is that BHP seeks to be a major importer of hydrocarbons—liquid fuels, followed by LNG and/or pipeline gas into India. That is what we want to do in India. This diagram here looks at the markets in India for gas. This bar here represents their supply. There is an existing shortfall today which is very substantial. By around early next century that shortfall is going to be huge. Already today fulfilling part of this would be a multi-billion dollar business opportunity that we would certainly aspire to capture. So this is something that is going to grow. We would see that a project which enables people to meet that need is a north-west shelf sized infrastructure project for the subcontinent. I think it is also a project which has a lot of ramifications for the politics of the area, which we can perhaps talk about in a moment.

CHAIR—What do you think about this in relation to the subcontinent, not just in terms of its own needs, or is that BHP's perception as distinct from India's perception?

Dr Fysh—That is BHP's perception. There are two political issues that arise from this importation issue. There is that between India and Pakistan and there is that between the US and the larger area that would like to see that supplied in a different way. Both of those are very interesting issues. Maybe we can get to those in a moment.

We told our colleagues from India that we were looking to bring in gas via pipelines from Pakistan, and we were looking to bring in LNG from Australia or elsewhere. I will leave this last slide up. This is probably a good point for us to go in camera.

CHAIR—Senator Margetts, I know it has been a bit difficult; we are having a slide presentation which you are not able to see. Do you have any questions you want to put on the public record before we go in camera?

Senator MARGETTS—Yes, but I will still be listening in, won't I? Will I still be able to hear the in camera session?

CHAIR—Yes, you will be able to hear it. Before we go in camera, are there any questions you want to place on the public record?

Senator MARGETTS—Yes, I have a more general one, and it is obvious it is one to take on notice. I would like to have an idea of BHP's involvement in India—the nature and stage of BHP's developments in India.

Mr Harley—We can speak only for BHP Petroleum.

Senator MARGETTS—Yes. I am wondering whether you could take it on notice.

Dr Fysh—We have two slides here, which we will put into your record, which summarise it. Corporately, we have a general manager in India who has been in place since 1995. We sell around $265 million per annum worth of steel making raw materials to India. Since about 1988, we have supplied, on a commercial basis, technology to India for a variety of infrastructure related developments. Essentially, our involvement there today is with India as a market, with our normal range of products, and as a destination for infrastructure technology.

As to the future—again, this slide is here—BHP has a very large agenda for India. In fact, in the last couple of months we have just concluded an exercise that tried to corral together what we want to do in India and where we see ourselves going. At the moment we are co-developing two power projects in India. These are sizeable projects: one is about 500 megawatts; the other is about 1,000 megawatts. Our involvement is not huge. We have about a 15 per cent position in one of them. I am not sure about the second one. Essentially, we see that as a toe into the water—India is a huge power market.

We are fairly well advanced with Indian partners in discussions for joint ventures in thermal coal mining and iron ore mining. We have active exploration programs there, particularly for zinc. We are very encouraged with that there. In the longer term, I think there is potential for beach sands. India has very substantial beach sand mineral deposits. Unfortunately, at the moment it regards that as a strategic mineral which it does not want foreigners mining. India has opened up its mining sector quite radically in the last few years. I know my colleagues in BHP Minerals are quite excited about the future there for them.

CHAIR—Senator Margetts, I have just been advised that we cannot guarantee the security of the phone lines, so we have a problem moving into in camera with you. Of course, you will get the evidence which is given. It is just a bit of a problem, if we go into an in-confidence session, to maintain an open phone line. You will get a full copy of the transcript, but I do not think we can move into a confidential session with an open phone line. Were there any other questions you wanted to ask? We will then take confidential evidence.

Senator MARGETTS—I am still interested. The main thing is a list of projects that BHP is involved with. If there is something in writing about that, it would be great to have a copy.

CHAIR—What we are going to do is take the evidence in camera, then we will go back into open session and conclude the session. That will be the end of today's proceedings.

Senator MARGETTS—I will go, and if somebody wants to ring me when we go into public session, that will be fine.

CHAIR—We will switch off the phone line. If there is no disagreement, we will move into private session.

Evidence was then taken in camera, but later resumed in public—

CHAIR—I thank you very much for coming and giving your evidence today. We will take on board the evidence you have given, both publicly and privately. The public evidence will be published and the private evidence will be kept for the consideration of the committee.

On behalf of us all, I thank you for appearing. If you have any additional material from your discussions with the Indian minister yesterday, you can send that to our secretariat. It might be very helpful because we are really looking at the whole of the Indian subcontinent in two phases and we do see value in our trying to lift the profile. Apart from anything, one of our objectives is to give public recognition of the significance of the relationship in this changed environment in which we are all living.

Thank you very much indeed for your evidence and for coming to see us today. Thank you, *Hansard* and thank you to our staff.

Resolved (on motion by Mrs Gallus):

That this subcommittee authorises the publication of evidence, other than that taken in camera, given before it at public hearing this day.

Committee adjourned at 12.51 p.m.