



COMMONWEALTH OF AUSTRALIA

JOINT STANDING COMMITTEE

on

FOREIGN AFFAIRS, DEFENCE AND TRADE

(Trade Subcommittee)

Reference: Australia's trade relationship with India

CANBERRA

Thursday, 7 August 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
Senator Childs
Senator Margetts

Mr Brough
Mr Dondas
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

ATHUKORALA, Dr Prema-Chandra, Senior Fellow, Australia South Asia Research Centre, Research School of Pacific and Asian Studies, Australian National University, Australian Capital Territory 0200	272
BROOKBANKS, Mr Eric, Assistant Secretary, Business Branch, Overseas Client Services Division, Department of Immigration and Multicultural Affairs, PO Box 25, Belconnen, Australian Capital Territory 2616	315
CALLIONI, Ms Victoria May, Director, Bilateral and Regional, Trade Coordination Group, Department of Transport and Regional Development, Level 2, Todd Building, Myuna Complex, Civic, Australian Capital Territory 2601	297
CASLING, Dr Elizabeth Mary, Director, Trade, Research and Liaison Section, Rail Branch, Land Transport, Department of Transport and Regional Development, GPO Box 594, Canberra, Australian Capital Territory 2601	297
CHESTER, Mr Doug, Assistant Secretary, Multilateral Trade Organisations Branch, Department of Foreign Affairs and Trade, R.G. Casey Building, John McEwen Crescent, Barton, Australian Capital Territory 0221	236
ELLIS, Mr Bill, First Assistant Secretary, Corporate Division, Department of Transport and Regional Development, 17 Mort Street, Canberra, Australian Capital Territory 2600	297
ENRIGHT, Mr Jim, Manager, Middle East Indian Ocean Office, Australian Trade Commission, R G Casey Building, John McEwen Crescent, Barton, Australian Capital Territory 2600	255
FISHER, Mr Luke Andrew, Commercial Manager, Europe and South-East Asia, Qantas Airways Ltd, Level 8, Building A, 203 Coward Street, Mascot, New South Wales 2020	308
FLANAGAN, Mr Paul, Director, Environment, Agriculture and Physical Infrastructure Section, AusAID, AusAID House, 62 Northbourne Avenue, Canberra City, Australian Capital Territory 2601	236
GRIFFITHS, Mr Tony, Acting Assistant Secretary, Trade Coordination, Corporate Division, Department of Transport and Regional Development, GPO Box 594, Canberra, Australian Capital Territory 2601	297
GUY, Mr David John, Market Analyst, SMEC International, PO Box 346, Cooma, New South Wales 2630	285

HOOKE, Mr Colin Edward, Senior Trade Commissioner, New Delhi, Australian Trade Commission, R G Casey Building, John McEwen Crescent, Barton, Australian Capital Territory 2600	255
KERR, Mr John Charles, General Manager, International Relations, Qantas Airways Ltd, GPO Box 933, Canberra, Australian Capital Territory 2601	308
KILLESTEYN, Mr Edward, First Assistant Secretary, Overseas Client Services Division, Department of Immigration and Multicultural Affairs, PO Box 25, Belconnen, Australian Capital Territory 2616	315
LONERGAN, Mr Colin, Assistant Director-General, South Asia, Africa and Humanitarian Relief Branch, AusAID, AusAID House, 62 Northbourne Avenue, Canberra City, Australian Capital Territory 2601	236
PIKO, Mr Gregory Paul, Team Leader, Maritime Division, Department of Transport and Regional Development, GPO Box 594, Canberra, Australian Capital Territory 2601	297
PORTEOUS, Mr Paul, Director, Integrated Logistics Team, Trade Coordination Area, Department of Transport and Regional Development, Canberra, Australian Capital Territory 2600	297
POWYS, Mr John, Director, Australia-India Council, Department of Foreign Affairs and Trade, R.G. Casey Building, John McEwen Crescent, Barton, Australian Capital Territory 0221	236
RAO, Dr Govinda Marapalli, Research Fellow, Australia South Asia Research Centre, Research School of Pacific and Asian Studies, Australian National University, Canberra, Australian Capital Territory 0200	272
SAMUEL, Mr Christopher Drummond, Director, Asia and New Zealand Section, International Relations Branch, Aviation Policy Division, Department of Transport and Regional Development, Trace Building, Civic, Canberra, Australian Capital Territory 2600	297
SHAND, Dr Richard Tregurtha, Executive Director, Australia South Asia Research Centre, Coombs Building, Australian National University, Canberra, Australian Capital Territory 0200	272
SMITH, Ms Tanya, Acting Director, India Section, South Asia and Indian Ocean Branch, Department of Foreign Affairs and Trade, R.G. Casey Building, John McEwen Crescent, Barton, Australian Capital Territory 0221	236

VICCARS, Ms Che, Acting Director, Business Relations Section, Business Branch, Overseas Client Services Division, Department of Immigration and Multicultural Affairs, PO Box 25, Belconnen, Australian Capital Territory 2616	315
WILKINSON, Mr Anthony Reginald, Executive Director, Aviation Training Australia Inc., 47 Monkman Street, Chapman, Australian Capital Territory 2611	297
WOOLCOTT, Mr Peter, Acting Assistant Secretary, South Asia and Indian Ocean Branch, Department of Foreign Affairs and Trade, R.G. Casey Building, John McEwen Crescent, Barton, Australian Capital Territory 0221	236

JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE
(Trade subcommittee)

Australia's trade relationship with India

CANBERRA

Thursday, 7 August 1997

Present

Senator Forshaw (Acting Chair)

Senator Childs

Mr Dondas

Mr Hollis

Mr Sinclair

The subcommittee met at 9.07 a.m.

Senator Forshaw took the chair.

CHESTER, Mr Doug, Assistant Secretary, Multilateral Trade Organisations Branch, Department of Foreign Affairs and Trade, R.G. Casey Building, John McEwen Crescent, Barton, Australian Capital Territory 0221

FLANAGAN, Mr Paul, Director, Environment, Agriculture and Physical Infrastructure Section, AusAID, AusAID House, 62 Northbourne Avenue, Canberra City, Australian Capital Territory 2601

LONERGAN, Mr Colin, Assistant Director-General, South Asia, Africa and Humanitarian Relief Branch, AusAID, AusAID House, 62 Northbourne Avenue, Canberra City, Australian Capital Territory 2601

POWYS, Mr John, Director, Australia-India Council, Department of Foreign Affairs and Trade, R.G. Casey Building, John McEwen Crescent, Barton, Australian Capital Territory 0221

SMITH, Ms Tanya, Acting Director, India Section, South Asia and Indian Ocean Branch, Department of Foreign Affairs and Trade, R.G. Casey Building, John McEwen Crescent, Barton, Australian Capital Territory 0221

WOOLCOTT, Mr Peter, Acting Assistant Secretary, South Asia and Indian Ocean Branch, Department of Foreign Affairs and Trade, R.G. Casey Building, John McEwen Crescent, Barton, Australian Capital Territory 0221

ACTING CHAIR—Good morning, ladies and gentlemen, I declare open this the third public hearing of the trade subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade inquiry into Australia's trade relations with India and the emerging economies of the South Asia region. I am the deputy chair of the subcommittee and I will be chairing today's session in the absence of our chair, Mr Sinclair.

The present inquiry is relevant and timely. It provides a valuable opportunity to assess how the Australia-India trade relationship has developed since the Senate committee report in 1990, particularly in light of the profound changes which have occurred both in the Indian economy and in the global trading system over the past seven years. It also offers the opportunity to consider the present Australian government's efforts to expand our commercial ties with India and the South Asia region, reflected immediately in the recent new horizons promotion program and the declaration of 1997 as the Year of South Asia.

To date, the trade subcommittee has received some 70 public and confidential submissions to the inquiry and taken evidence from a range of witnesses, including BHP Petroleum, ANZ Bank, Clayton Utz, the Australian Wheat Board, the Australia-India Council and the National Centre for South Asian Studies. Over the next two days the subcommittee hopes to receive valuable input from a number of government departments,

related agencies and business interest groups, as well as the senior representative of the Indian government in Australia, His Excellency Mr Parthasarathy. On behalf of the subcommittee, I welcome representatives from the Department of Foreign Affairs and Trade to this morning's session.

I am sure you all know the rules but I just should make this statement for the purposes of the *Hansard*. The proceedings today are legal proceedings of the parliament and warrant the same respect which proceedings in the respective houses of parliament demand. Although the subcommittee does not require evidence to be given on oath, you should be aware that this does not alter the importance of the occasion and that any deliberate misleading of the subcommittee may be regarded as a contempt of parliament. The subcommittee prefers that all evidence be given in public but, if at any stage you wish to give any evidence or part of your evidence in private, you may ask to do so and the committee will consider that request.

The subcommittee has received a submission from the Department of Foreign Affairs and Trade which is No. 58. Do you wish to make an opening statement in relation to the submission or some introductory remarks before we proceed to questions?

Mr Woolcott—Mr Chairman, if I might make a short introductory statement. Thank you for the opportunity to address this committee. The Australian government has over the past few years accorded a high priority to developing a stronger and more diverse relationship with India. Particular emphasis has been given to expanding commercial ties.

There were a number of factors which led the Australian government to focus attention on India and to the commercial relationship. In essence, they can be divided into two categories. Firstly are those factors which derive from the size, geography and history of India. The economy is large, the fifth largest in the world in terms of purchasing power parity. It has a substantial industrial base. What India lacks in many areas, Australia is able to supply. For example, wool for its textile industry, high grade coal for its steel making enterprises and mining technology and skills for the development of its mineral wealth.

The population is enormous with approximately 950 million people and growing by some 20 million each year. English is the lingua franca and the language of commerce. Moreover, India is a functioning democracy with a free press, well-established institutions of government and administration, and an independent judicial system. India is also in our region and is a significant international actor with a growing interest in and engagement with the Asia-Pacific.

Secondly, there are a range of new facets to India's economy which present particular commercial opportunities. These flow from the growing political consensus in India supporting the economic reform process. India is on a strong growth path, with GDP growth rates running at six to seven per cent. There are specific sectors undergoing

liberalisation and deregulation where Australia is competitive, and there is an increasing demand for consumer goods amongst India's emerging middle class. Structural weaknesses in the Indian economy and enormous infrastructural demands make it receptive to foreign investment, and a diversification of India's economy puts Australian technology in greater demand.

It is our view—and I note this is shared by many of the submissions presented to the committee—that the economic reform process in India is irreversible. There is consensus among the political and economic elites in India about the direction they have to go. Where there is a question mark is over the speed. The process may zigzag and be slower than many in the international community would hope. While India is radically changing in the way it does business and relates to the marketplace, powerful attitudinal constraints—not to mention vested interests—continue to exist.

The broader thrust of our submission is that there is very significant potential for further bilateral trade investment but that patience is required. We foresee continuing strong demand for Australian raw materials such as coking coal and wool, with good opportunities in areas such as thermal coal to meet India's energy requirements. The loosening of India's import regime will allow for higher volumes of Australian merchandise exports. This could be particularly significant in the agricultural and agribusiness area, and eventually in consumer goods to meet the expectations of the expanding middle class. The mining sector is very prospective. Australian companies are seen as having the capital, expertise and know-how to make a major contribution to the development of a modern mining industry in India.

Further reforms to the services sector, particularly insurance, should also create opportunities for Australian companies to enter the market. Further deregulation of foreign investment combined with privatisation and a greater reliance on the private sector will create new opportunities especially in infrastructure development such as ports, power and roads. We expect Australia-India trade to double within the next five years and we expect that India will move into our top 10 most important export markets early in the next century.

Mr Chairman, to achieve further results we need to recognise that the onus will continue to be on us to take the initiative in driving the commercial relationship forward. This means continuing to do what we have been doing but with a particular emphasis on using bilateral contact, both formal and informal, to encourage the Indian government to continue the economic reform process; working through multilateral forums, particularly the WTO, to improve market access for Australian products; keeping Australia's profile in India up through the high-level visits; finding new areas of cooperation on regional and international issues; working closely with Austrade, DPIE, DEETYA and other agencies on strategies to advance specific commercial interests; pursuing an integrated and coordinated approach to new horizons follow-up to maintain momentum in the bilateral relationship; targeting influential individuals to visit Australia to establish contacts with

decision makers and to become more informed about Australia's area of expertise; encouraging closer private sector and business cooperation as a means of strengthening commercial relations; and keeping closely informed on developments in India, including at the state level, so as to be able to provide good advice to business people and others about commercial opportunities. Finally, I should also mention that expanded parliamentary and media links are very important to this process.

In managing Australia's expanding relationship with India, we should be very aware of the fact that the Indian economy will be the focus of growing international interest, and Australia will have to compete aggressively to retain its share of the long-term opportunities which India's economic development will open up. Australia is, however, well placed to work cooperatively with India to develop its economic potential and to expand trade investments to our mutual benefit.

I might note that Mr Downer has just returned from visiting India. A primary objective was to build on personal contacts with senior government ministers, including Prime Minister Gujral, in order to sustain the momentum in what is a reinvigorated bilateral relationship. In his visit, Mr Downer also met the Leader of the Opposition and the President of the Congress Party—both prospective prime ministers. The visit allowed Mr Downer to reiterate to Mr Gujral and others that Australia regards India as very much a part of our region and to make clear that the 1996 new horizons promotion was not a one-off event. The visit helped confirm the support across party lines in India for the government's economic reform efforts, success of which will impact considerably on the further strengthening of bilateral commercial links.

May I conclude by saying that the economic challenge for any Indian government is immense. Nevertheless, our judgment is that there is little likelihood that India will resile from that challenge and that current and future governments will maintain their commitment to economic reform and change. Thank you, Mr Chairman.

ACTING CHAIR—Thank you. Any other people at the table wish to make any additional comments? If not, we will proceed to questions. I understand the projection is that bilateral trade will double over the course of the next five years. Currently, it is running in Australia's favour at about two to one—or a bit better than that. Could you indicate what you see as the break-up of our trade with that doubling of the amount of two-way trade over the next five years; is it likely to be more in Australia's favour; and, if so, what is the attitude of the Indian government to the current position?

Mr Woolcott—The Indian government recognises that the balance of trade is very much in our favour and naturally it is concerned about that. The growth trends are pretty much the same in terms of exports and imports, but the gap is not closing and in gross terms will continue to expand. One of the issues for the Indian side is textiles, clothing and footwear. I think something like \$240 million of imports from India are in that sector. They will watch very closely what the Australian government does in relation to TCF and

the tariff reform agenda here, because that is very much one of the areas that they hope to be able to exploit in Australia.

In terms of where our future export growth will lie, coal is one clear example. That has grown very significantly and is a very large proportion of our exports to India. It is now over \$700 million and is largely in the area of coking coal. We would expect that growth to continue as the Indian steel industry continues to play its part in the economic growth and industrialisation of India. But we also see very significant opportunities in thermal coal, and the ability to provide coal for Indian power stations to meet its enormous power and infrastructural demands. A lot of that is dependent on the reform of their port system, which DPIE is doing some work on with the Indian government at the moment.

We also see significant growth in wool, which is one of our major exports to India. The tariffs have now come down substantially. We will also continue to see growth in agricultural areas: pulses is a big part of our export market. We had a big wheat contract this year for two million metric tonnes of wheat. There were some problems with that in relation to complaints by the Indian government about weed seed in the wheat shipments. That has now been sorted out and that contract is back on foot.

The wheat market is not necessarily a long-term market. It very much fluctuates according to India's wheat needs. But there have been nine good monsoons in a row in India and with the cycle of nature with the weather, we would expect there to be opportunities in the wheat market in the future as well.

In ETMs, such as the motor vehicle industry and telecommunications, there are a whole range of niche markets for Australia. And further down the track we would see there being substantial potential growth in relation to processed food and meeting the demands of the growing middle class in India. That will take time, particularly the removal of quantitative restrictions which is a very important part of our economic agenda with India at the moment through the WTO.

In conclusion, we would see growth continuing in the natural resources and the agriculture area—which is where it is dominant at the moment—as well as very significant opportunities in ETMs and in meeting the demands of the middle class over time.

ACTING CHAIR—Whilst we know that there has been some liberalisation on the Indian side in terms of opening up their economy, there is still this issue which we have taken to the WTO, of restrictions across a large range of products. Could you comment upon how that is going and the likely position there; are the projections that you just outlined based upon the status quo, as it were, remaining with the restrictions that currently exist or does it anticipate some further liberalisation and improvement, therefore allowing more exports in?

Mr Woolcott—Our projections would anticipate some further liberalisation, although not necessarily great progress in the area of quantitative restrictions over the next five years. But I have the expert here, Doug Chester, who is handling that area in the department. I might let him speak to the specific question of the progress on quantitative restrictions and come back to your question in a moment.

Mr Chester—Perhaps if I just give an update since the DFAT submission was provided to the committee on where the considerations in the WTO have gone. When the DFAT submission was made, at that stage India had put forward a plan to phase out the quantitative restrictions on the remaining 2,700 items over a nine-year period of three phases of three years. There was subsequently a meeting of the WTO Balance of Payments Committee in Geneva in early June where that plan was considered by India's trading partners. Australia and India's other major trading partners all rejected that phase-out plan and suggested that India should be looking at a much shorter period to phase out the quantitative restrictions. India was then given two or three weeks to go back and consider what additional flexibility it may have.

At a subsequent meeting on 30 June, India came forward with a plan of seven years rather than the nine years. Again, India's major trading partners had problems with that. For Australia, our main problems were that, firstly, it was a very long period of time they were proposing and, secondly, the major products of importance to Australia found themselves in the last year or two of the phase-out plan. So we would be waiting for quite some years before we saw any freeing up on many products of importance to us. That meeting therefore ended in an impasse. There was no logical next step in the WTO processes.

So as a result, Australia sought formal consultations under the WTO with India as a way of firstly keeping the discussions going with India on the phase-out plan but, secondly, to signal that we did have some real trade interests which needed to be addressed and we would be looking for some additional flexibility from India. Four other countries have also sought those formal WTO consultations—New Zealand, US, Canada and Switzerland—as well as the EU. That is basically where we are on the WTO processes. We are trying to establish a date where we can have these Article XXII consultations.

We are also pursuing a second track of informal bilateral discussions with India, again aimed at trying to reach a settlement of this so that the WTO processes can be wound up and we do not have to go to the next step in the WTO processes. Let me say in relation to the Article XXII consultations that to seek consultations with a country is something Australia only does when we are sure we have a very good case. The WTO argument is one that India does not have any WTO cover for keeping the quantitative restrictions in place. Under the WTO rules, India in theory is obliged to remove those quantitative restrictions immediately. So that is the position we are starting from in seeking these consultations and that is our position in seeking to come up with a bilateral

settlement with India.

ACTING CHAIR—Is that issue likely to come up in the forthcoming joint ministerial council meeting in September?

Mr Chester—Yes, it will.

ACTING CHAIR—It would be on the agenda?

Mr Chester—Yes.

ACTING CHAIR—I will go to questions from other members of the committee. I might just indicate that we have been joined by Senator John Tierney. Senator Tierney is not actually a member of the subcommittee but is the chair of the Australia-India Parliamentary Friendship Group. He has come along to listen in this morning.

Mr HOLLIS—I am interested in the reform process but it seems to me that any reform process in India would be much slower than anything in Australia because you have all those factories which are so labour-intensive. Once you bring in anything in India, you are going to have a huge unemployed population. It is going to be a huge drain on the economy of India to maintain these people. Do you have any views on that?

Mr Woolcott—If you look at the Indian economy, some 70 per cent of people are employed in agriculture and many of them are running a very marginal lifestyle. That is one side of the Indian economy. Another side of the Indian economy to be considered is the fact that they have a very sophisticated industrial base. They have very fine engineers, computer experts and nuclear engineers. There are two economies in India: one is a sophisticated industrial economy and the other has a rural agrarian base.

You have a coalition government in India which has to survive in a very complex political environment, and that is one of the constraints on the reform process in India. For example, you were talking about people working in factories on low wages. Again, one of the issues in India is privatisation of enormously large, inefficient state-run enterprises. At the moment the Indian government is battling with the problem of privatisation without having what they call an exit policy which would enable anyone who buys these companies to restructure, to downsize and to make these companies run more efficiently as part of the private sector capacity. So, yes, there are enormous constraints on the reform process partly as a result of this second half of the Indian economy, which is essentially rural and very poor.

Mr HOLLIS—I am not quite so sure that the sophistication of the industrial process is quite as sophisticated as you indicate. Sure, I accept the nuclear aspect, I accept the engineers and I accept what they are doing in computers.

I remember what happened a couple of years ago when I was in India. We went to a factory producing crockery and porcelain. There must have been about 1,500 people employed there. It was very labour intensive. The manager was making a case to us that he would like to streamline the factory. We asked him how many people he could gainfully employ, and he said about 200. That would mean, say, the other 900 would be without a job. He went to great lengths to explain to us how difficult it was to get rid of the 900 and just keep the 200, which he felt would be a profitable way to run the factory.

There are sophisticated industries in India, but it seems to me that this is a major problem facing the Indians at the moment. If you streamline all these factories, be they private or public, you are going to have a huge pool of unemployed people there, and surely that would generate a lot of internal instability. Immediately you have a huge pool of unemployed and a very poor social welfare system, there is no way that these people can get money, even if it is a small amount to maintain. It seems to me that that must be one of the major political problems facing India. What are they going to do about that inevitable huge pool?

You are talking about the agricultural sector, but we are also talking about a population of over 900 million. So you have a middle class of, say, 80 million or 100 million. You have the potential there of having millions and millions of people unemployed. That would lead, I would suggest, to the possibility of real political difficulties there.

Mr Woolcott—I agree with you that one of the major problems the Indian government faces is this question of restructuring the work force. I think the official employment figure is about 37 million, but the assumption is that it is grossly understated and that underemployment is an enormous problem in India, particularly in the rural sector—which consists of, say, 70 per cent of the work force—and also on the factory side.

What the Indian government is hoping to do is reverse the whole period of stagnation, which occurred as a result of the collapse of their inward looking, autarchic policies in 1991. They want to go for growth in the industrial sector and look for job creation in that sector. You have had growth in that area of up to 12 per cent, which is a job creating machine, although a lot of those jobs will be low paid. What they have not tackled yet is reforming the agricultural sector, where most of the work force is. That just has not been addressed in the reform process at this stage. I agree with you that it is a major problem the Indian government has to address at some stage.

Mr HOLLIS—How strong is the trade union movement in India?

Mr Woolcott—It is strong. It is not in the agricultural sector but in the public service area, where a lot of the major government run corporations exist. Again, it is one of the reasons why the process of privatisation has been very slow and haphazard.

Mr DONDAS—Mr Woolcott, in terms of the fact that there are opportunities for increasing trade with India, what presence does DFAT have in India through trade? In other words, how many people have we got working in Delhi? Do we have people in other parts of the country trying to promote our product?

Mr Woolcott—If I may confine my answer to DFAT, Colin Hook, the Senior Trade Commissioner of Austrade, is speaking next. He will be able to speak in some detail about Austrade's resource base in India.

As far as foreign affairs is concerned, we have a dedicated policy economic officer at the first secretary level who handles economic issues in India. A lot of these involve the WTO and the economic policy reform process. He is assisted by a locally engaged staff member. Then you have the High Commissioner and the Deputy High Commissioner, who would probably spend a large proportion of their time involved on the economic side. They would work with Austrade on business contacts, on facilitating investment and trade and on the overall policy agenda. So it is a pretty tightly run outfit, but at the senior levels in the High Commission, trade gets a lot of focus from the High Commission in New Delhi.

Mr DONDAS—You used the terminology that English was the language of commerce. At other evidence taken by the committee, it has been brought to the committee's attention that in some instances there is a language barrier for the smaller traders from Australia in doing business in India, because there are obviously different dialects being spoken. Also, apparently the caste system has also created some barriers for Australians in being able to move in. I am not talking about the BHPs; I am talking about the small importer-exporter and trader at the micro level of business. Are you aware of any of that going on?

Mr Woolcott—On the language side of it, there were some comments about the need to build up a Hindi language capability in the department. We do have a degree of capability at the moment. In our High Commission in New Delhi, in the political section there are two officers who speak Hindi. The Deputy High Commissioner speaks Hindi, and a third secretary in the High Commission also speaks Hindi. That is, of course, only one of the languages of India.

I talked to them on the phone about this issue in preparation for this hearing and asked them how much they used Hindi in doing their work and facilitating access for Australian business. They said very little. In New Delhi, English is very much the language of commerce, although the further you get away from the centres, of course, the more the local dialect becomes important.

In terms of the caste system, I think your point is very valid. It is a very important part of the way India works. It emphasises the need, in dealing with India and in doing

business with India, to have an understanding and a cultural sensitivity towards the society. It is a very complex society, and the caste system makes it more so. It is certainly a factor that needs to be taken into consideration in doing business in India.

Mr DONDAS—Mr Chester, in terms of the phase-out period, we say that seven years is too long. What is a reasonable period? Five years or three years? From the press release that Tim Fischer issued on 16 July, he seemed to think that he wanted it to be here next month.

Mr Chester—Let me just start from the WTO legal point of view of India having no cover for having the quantitative restrictions beyond now. A reasonable period that we put to India on the phase-out of these in discussions earlier this year was, first, that we were looking for the phase-out by the year 2000. Since then, we have indicated some flexibility in that position. In other words, we would be prepared to contemplate a longer period, certainly not seven years.

Whilst the period itself is important, equally important is the product mix in relation to Australia's priority products. We want to see some of those moved from the last year or two into an earlier time frame. So, without giving away publicly our negotiating positions, it is of the order of somewhere beyond the year 2000 but certainly not seven years.

Mr DONDAS—Because of the failure of the wheat crops in India and obviously the trading between Pakistan and other areas in the region, they are importing Australia's wheat, as I understand it, to try to maintain price control on that product. How long is that scenario likely to last? In other words, it is good for us that they are trying to control the price of wheat because of the outward production. Is that likely to last for another three or four years?

Mr Woolcott—As you suggest, that is a difficult balancing act to perform. That is exactly the reason why they are importing wheat at this time. There is a price control system in operation in India. There are attempts by traders to manipulate that system, warehousing stocks and other such action, that has led the Indian government on this occasion to import large quantities of wheat. That situation may well arise again in the future, particularly if there are actual supply problems as a result of droughts or the failure of a monsoon to come. The food and grain trade in India, whether it be wheat or rice, is fairly unpredictable. It will go up and down.

Senator CHILDS—Regarding the emerging middle class that you have referred to, could you describe, or first of all define, middle class, what US dollar rate you put on it, and where that middle class is in India? What is your estimate of that middle class, and particularly—I know Austrade would answer this in more detail—how do you target that middle class for the products and the market that that group represents?

Mr Woolcott—I will have a first stab at that. I expect that Austrade and Colin Hook will be able to answer that much more comprehensively than I can. We use the figure in the submission of about 300 million middle class. To make it immediately clear: that is not middle class Australian lifestyles, that is a middle class slice of India. To fall into that category—and I cannot really put a US dollar figure on it, although Colin Hook may be able to later—we are talking about, say, owning a bicycle. Within that 300 middle class you can sector it again and there would probably only be about 30 million who would fall into the category of an Australian middle class lifestyle. You can put 30 million at the top of that slice.

There are something like 60 million TV sets in India which again is another example of a middle class slice. So where the opportunities are in consumer goods in that area you have to be very careful; they are not necessarily in terms of a great market for cars or videos. At the lower end of that 300 million, for example—the bottom 150 million of that—is the opportunity to sell toothpaste, and possibly some processed foods into that market, once quantitative restrictions are removed. As you go up you are getting a much greater demand now for refrigerators, television sets, telephones and motor bikes—only at the top 30 million are you talking about the capacity to send their children overseas for education, the ability to go overseas for holidays, for cars. You have to be careful about that figure, but Colin Hook may be able to answer that in much more detail.

Senator CHILDS—Yes, I will ask that question afterwards. Regarding the political relationships other than at the federal level, are there any state government to government or state relationships? Are there any local government relationships—sister city type relationships—with India and what is planned in that area?

Mr Woolcott—It is a federal system like ours. There are some 26 states and a number of territories as well. With the economic reform process in India the states are taking on much greater importance in the Indian economic scheme; power is being devolved to them. It is particularly true under this present coalition government which is dependent in many ways for its position on state based political parties who feed into the centre. There is no doubt that the federal structure is very important in India and that states are becoming increasingly important, and that there are great discrepancies between the efficiency of some states and the growth rates of some states and others.

In terms of sister city relationships I am not actually aware of any at the moment, but you do have a great deal of activity between some Australian state governments and India. For example, the Western Australian government has been particularly active in pursuing its trading relationship with India and has actually set up a trading office in Bombay. Other state governments participated actively in New Horizons—New South Wales, Tasmania and Queensland, for example—and there is a keen interest in pursuing relations with India. They are focusing on centres—for example, New Delhi—where they believe that they can follow their economic interests, but also in some of the key states like Maharashtra and Gujarat.

Senator CHILDS—Is it something that you would take on notice, to supply the details?

Mr Woolcott—I will supply on notice the information you have asked for in relation to sister city to city relationships.

Senator CHILDS—Is it departmental policy to try and encourage specific Indian state to Australian state relationships?

Mr Woolcott—Yes, we would very much encourage that. I have a slight question mark about the utility of city to city sister relationships, but certainly, in terms of the states working with other states as well as with the centre, we fully encourage that.

ACTING CHAIR—Thank you. I have some further questions. The department commissioned an evaluation, the New Horizons forum, and we are aware that that report by the Buchan Communications Group has been published. We recently got a copy of it. It has not become part of the formal record yet, but it will be in due course. Could you give us a brief summary of what that report found?

Mr Woolcott—Would you like me to formally tender that document? Would that be helpful?

ACTING CHAIR—That would be suitable, thank you.

Mr Woolcott—Buchan Communications was commissioned by the department to do an independent evaluation of the New Horizons project and to look at client satisfaction and the utility of what we call the integrated program of activities which was put together for New Horizons. The key findings were that there was a demonstrably high level of satisfaction with the business program; there was strong expressed support for the concept of integrated country promotions; the business with India being undertaken by business participants was substantial and a significant level of this business activity was attributed directly to the new horizons program; and there were substantial on-going business contacts which would lead to further new business over the next one or two years. In general, there was a very high level of satisfaction amongst the principal commercial sponsors of the new horizons project.

In essence, the actual figures are detailed there, but, for example, some 60 per cent of all participants believed it was worth participating in and 40 per cent made contacts that they would not have made on their own. There is also an attempt to put dollar values directly on the New Horizons promotion. For example, one of the figures used there was business directly attributed to New Horizons was: \$86 million being explored, \$27 million under negotiation and \$3 million actually concluded as a direct result of our New Horizons. In terms of the business opportunities and business reaction to New Horizons, I think it was an undoubted success. In terms of raising our profile as a nation in India too,

I think it was a very large success. That is much less tangible—you cannot put numbers or dollar values on that—but that is an enormously important part of doing business with India.

Our conclusion, based on the Buchan report, was that New Horizons worked very well and there was a very high level of satisfaction with it. The idea of the integrated program was also a very important part of that: combining business with culture, with sport and the whole gamut of the relationship.

ACTING CHAIR—Have you gleaned from it any ideas or any plans to build upon what happened, and maybe increase that perception further of Australia's role and interaction with India?

Mr Woolcott—We were very concerned not to make this big splash and then sit back and do nothing and let it all sort of filter away. What we have been very concerned about is to find ways to maintain the momentum that did develop out of New Horizons. Obviously, we do not have the money or the resources to do something similar in the near future, so it is a matter of building on the outcomes of New Horizons and finding other novel ways of progressing things. We have had a number of meetings, in a team Australia approach, of all the people who participated in New Horizons to discuss the various activities and to pull together in a complete picture what they are.

As part of our submission we attached a matrix which outlines in some detail what all the various government agencies and departments are doing in relation to India to follow up on New Horizons. It is a very comprehensive list of activities in law, the environment, investment, and trade. I would direct your attention to that and highlight a couple of things. For example, the Department of Primary Industries and Energy will commission a study into India's port structure, which will focus on services and facilities associated with the receipt and handling of coal shipments. That is one small example of what we are going to do as a follow up to New Horizons, with enormous potential significance for future trade in thermal coal. If you look at that matrix, you will see that right across the gamut there is a great deal of activity taking place with India. Our concern is that we do not let the momentum drop.

An important part of that is, for example, ministerial visits. We are trying to keep up the program of ministerial visits. We have had a number of ministers go there recently—Mr Downer, for example—and six Indian ministers have come here to Australia since New Horizons. We have also had a couple of Indian parliamentary delegations come here. That is a very important part of maintaining contact right across Indian society. We would be very hopeful that this committee also might be able to find a way to get to India in the course of its inquiry.

ACTING CHAIR—You outlined earlier and in the detailed submission that the department has put in where the prospects are for improved trade, where the key sectors

are. Correct me if I am wrong, but the services sector does not really rate all that highly. Insurance is mentioned. One of the areas that is often referred to as having potential for Australian exports into South East Asia and other regions—but particularly South East Asia—is the services sector, whether it be in education, civil engineering, construction, design and management, just to name a few. Another sector, which is in manufacturing, but which is also often talked about in the region, is the high quality value added food sector. What is the position with India in those two areas? As I said, there is a lot of talk that if Australia is going to be looking to other areas rather than just the traditional minerals and agricultural sectors, these are areas that we have got to look to in the future. Are there any thoughts about India and the Asian region generally?

Mr Woolcott—In relation to services, I might speak initially then get Doug Chester to speak briefly on the WTO aspects of service as well, which is an important part of our current approach to India. More generally, the ANZ-Grindlays Bank are well established in India. They are the largest foreign bank there and have a very significant network in India. There is an obvious interest in insurance, because you have got that Australian beachhead in there. The Australian insurance companies are looking for opportunities as the sector opens up. That has been slower than many would have hoped, but the opportunities in the longer term are there. It is a very under utilised and inefficient sector in the Indian economy.

As you mentioned, there are a number of other service areas with great potential. We addressed education briefly in our submission, but there is to be a separate submission from the department of education and employment. We are the third-largest provider of overseas education to India after the UK and the US. About 3,000 students a year come out from India to Australia for education. Again, as the middle class expands in India, that is an important future area of growth for us.

There is a very real opportunity, particularly in the mining area, for providing services there in terms of consultancies and the whole range of advice needed to set up a modern mining industry. That will flow in essence from the very direct involvement of Australian companies in the development of the mining industry in India.

In terms of tourism, Qantas is now flying to Bombay three times a week. It is looking to expand that schedule. You have got Air India with the rights to fly into Australia, although it is not exercising them at the moment; it was until recently. Tourist figures are not substantial at this stage but, again, as the middle class market develops those numbers should increase significantly.

In terms of architects, accountants and those sorts of services, opportunities are probably more limited in India at the moment. They have a large number of their own architects and engineers, and it is a pretty tough market to crack. But one area that we are giving a lot of attention to is, for example, health services—providing health services to the Indian economy; that was also part of the New Horizons project and we foresee

growth opportunities in that area as well. Services are a very important part of future trade with India.

ACTING CHAIR—Mr Chester, do you wish to add something?

Mr Chester—Yes, just a couple of things about what is happening in the World Trade Organisation—since the end of the Uruguay round of negotiations, there has been an ongoing program of further liberalisation in the services sector. At present negotiations are going on in the financial services area. They are due to conclude in December this year. Australia and many other countries have recognised the importance of the Indian market in the financial services area, and considerable pressure is being exerted on India to come forward with a statement of where they will liberalise and there is also pressure on them to fully participate in those negotiations.

In addition to that area, there are also ongoing negotiations across a broad range of service sectors. Particular effort is being put into the professional services sector, in particular into things like accountancy and other similar professions. Again, this is a multilateral effort to seek to get liberalisation around the world. Again, Australia and many other of India's trading partners recognise the importance of having India fully engaged in these negotiations. The potential of the Indian market is well recognised.

ACTING CHAIR—Thank you for that. Mr Woolcott, I am reminded that we have officers from the department of education and employment and also from the department of health appearing tomorrow so we can pursue those issues further. I have just one other question that relates to ASEM. In the submission there is a brief reference to the fact, as we know, that India is seeking to become a participant in ASEM along with Australia of course. We have a bit of a blockage there of which we are all aware. Do you have any comments on where that may be heading? It seems to me that at this stage at least—and I should declare that I have not long returned from talking to people in the European Union with whom I raised this issue—ASEM is really the EU and ASEAN and that countries like Australia and India particularly could be on the outside for some time.

Mr Woolcott—We believe that India, like us, has a very strong claim to membership of ASEM. We would say that there are four countries who should be the next cabs off the rank for membership of ASEM from the Asia side—Australia, New Zealand, India and Pakistan. We see a certain neatness about that group going in in time for the London summit next year. The Indians themselves are very strongly pushing ASEM membership but they are very much doing that on behalf of themselves. They do not necessarily see a package approach as the best way to go. They are doing nothing to undercut our bid but they are pursuing their own approach. You might want to explore that with the Indian High Commissioner when he comes before you. In terms of the blockage, we all know where that is. That has not changed. We are continuing to push in as sensible and rationale a way as we can for membership. We are continuing to encourage the Indians to look at a package approach.

Mr DONDAS—The Indian and Australian trade ministers meet annually. What are the timetables for meeting for delegates to the Indian Ocean Rim Association? Is there more that we could be doing to develop that particular association in the Indian Ocean?

Mr Woolcott—The next meeting for the Indian Ocean Rim Association at the officials level was going to be last month in Mauritius but was cancelled. But it should take place in the next few months. That is still dealing with the membership issue there. There is the question of working out criteria for membership of the Association. The next ministerial meeting is not for another two years. What we are trying to do at the officials level is to fix up the membership aspects, get that sorted out, and pursue essentially at this stage a trade facilitation agenda to look at all those issues such as customs and labelling—very important nuts and bolts trade issues. It is a very diverse group.

The work we have done in APEC on trade facilitation can be very easily transferred into IOR-ARC. It is, however, a very different organisation in composition. It encompasses parts of Africa, parts of the Middle East, south Asia, Australia and parts of ASEAN. It is very much a new concept. We are very pleased with the way it has gone. Open regionalism has been accepted as one of its main parameters. But we are going to have to move a little more slowly than APEC on it. Trade facilitation is what we are pushing at this stage and also to deal with membership.

Mr DONDAS—Does the presence of the Americans in Diego Garcia have any impact in terms of what might happen in the Indian Ocean Rim Association?

Mr Woolcott—They have not sought membership of IOR-ARC and their presence in Diego Garcia is there and noted.

Mr DONDAS—When does the lease on Diego Garcia expire? Does anyone have any idea?

Mr Woolcott—I would have to take that on notice.

Mr DONDAS—Do you think we should be doing more to try to promote and push the Indian Ocean Rim Association instead of this slower timetable, as you say, getting the nuts and bolts together? Should Australia be doing more to try to encourage those countries that are based in the rim to take a more pro-active role in developing bilateral discussions?

Mr Woolcott—I think we have done a lot. We have actually come a long way under both the current and previous governments. The idea was first pushed by Gareth Evans with the IFIOR conference in Perth. What that did was underline just the degree of suspicion and animosity that existed towards the concept of the Indian Ocean community pushed by Australia. We have come a long way in just a few years in gradually turning attitudes around. For example, IOR-ARC now in the Australian-India relationship is a

positive. I think before you could have said it was a negative. They were not sure what we were up to. Now it is a very positive part of the relationship. We are working very closely with them. I think we have come a long way. In terms of building a community, these are ideas that are still quite new to the wider region and will take a little time. It is a matter of not scaring the horses at this stage. I think it is a very important idea.

Mr DONDAS—So slowly, slowly.

Mr Woolcott—That is right.

Mr Powys—Mr Deputy Chair, with your permission and returning very briefly to the New Horizons promotion and the question of export of Australian services to India, I would like to table several documents relating to this for the committee's information. Firstly, I would like to table a booklet called *Doing Business with Australia*, which the Australia-India Council commissioned the Australia-India Chamber of Commerce in Melbourne to prepare for us. It is an evaluation of responses from Indian participants in the 'Doing Business with Australia' seminars held in India during New Horizons, or more specifically in Bangalore, Calcutta and Chennai, which is the new name for Madras.

I think that the conclusions of the survey show that Indian business people have generally a very positive attitude towards Australia. They feel that Australians are serious about doing business in India. There are obviously some gaps in their knowledge and information about Australia and from our point of view there are some perceptions which need to be updated. For example, they have a less full appreciation than we would wish to see of Australia's expertise in areas such as IT and our role as the producer of ETMs.

I would also like to table an update of the Australia-India Council's follow up projects to the New Horizons promotion, many of which the committee will see have a services aspect. For example, we are promoting the application of Australian expertise to help develop an alternative dispute resolution capacity and practice in India which has obvious commercial implications. There is an Australian team of medical scientists about to leave for India with Council sponsorship to explore collaboration in India for malaria research and eradication.

We are exploring with the Confederation of Indian Industry, CII, the possibility of assisting them to develop a training facility in environmental regulation and inspection; in other words, to help make industries in India take a more responsible attitude towards pollution. This is likely to involve Australian training expertise. In all of these areas the council seeks to act as a catalyst for the promotion of Australian technical expertise in a range of fields. Many of these fields are ones which were identified during the New Horizons promotion as areas in which more could be done or should be done to promote Australia. I would like to table that outline as well.

Also I would like to table a copy of the first edition of the publication called *Australia-India Focus*. This is a regular newsletter which will appear about five times a year, jointly produced and funded by the Australia-India Council, the Australia-India Business Council and Austrade. The purpose of it is to inform key groups in both countries, Australia and India, of important developments in the Australia-India relationship, particularly in the business field. We consider this to be a very exciting and useful initiative.

ACTING CHAIR—I want to follow up on the comments you have just made and raise the issue of aid which, according to the submission, is around about \$21 million a year. Firstly, some of those things that you have just mentioned—the provision of expertise in environmental management and so on—how are they funded? Do they come within the aid budget? I also note that, whilst I appreciate that the government has to respond to the Simons report—there are issues there as to the direction of Australian aid and the principles associated with that—in your submission you do note the importance of project activities having the potential to be valuable developmentally for India in demonstrating Australian capacity, and you go on to give some examples. This is at page 56 of your submission. What proportion of the overall aid budget could be said to fit into the category of not poverty relief but rather assistance in other forms? What is the department's view—if you can give me a view—about where that should go in the future?

Mr Woolcott—I might ask Mr Powys to answer that question in terms of the Australia-India Council, and then I will pass it over to Mr Lonergan from AusAID, who will pick up the more general questions about the aid program.

Mr Powys—I think the bulk of that question would be more appropriately responded to by our colleagues from AusAID. Just to make clear where the Australia-India Council stands in relation to what you asked: the council's purpose is to promote two-way contacts and exchanges between India and Australia. Our fundamental purpose in getting Australian expertise into India is to promote that expertise in ultimately a commercial context.

Mr Lonergan—If you take the Australian aid program of \$20 million and you work on the basis that there are 300 million people in India living in absolute poverty, that is about 5c or 6c a person. So the notion that we can in any way fundamentally change the poverty situation through an aid program from Australia or from the entire world is a nonsense concept.

What we can do though is tackle poverty and some of the fundamental problems in India, including environmental degradation and pollution, through our brain power, through our technical expertise. What we can try to do is influence and leverage policy reforms both on the economic and social front by targeting ministers in the top three or four levels of bureaucracies, to create the enabling environment.

What we are attempting to do is to institute a new program to do that. Mr Downer has actually just made a statement while in India. He issued a press release about a new initiative aimed at doing exactly that. It is a \$12 million program over three years aimed at facilitating two-way contact with very senior bureaucratic and ministerial levels in terms of policy reforms where India believes we have a comparative advantage. That will focus on areas such as health and education. It could go into trade reform. We see our work as being complementary to some of the initiatives undertaken within the trade department and also the Australia-India Council.

I could give you just one example of our demonstration projects. The Keshopur Sewerage Works is an indication of the pollution problems in India. It handles about a quarter of the sewage of New Delhi, a city of about the same size as Sydney. So one sewerage plant in India therefore handles about the same amount as the area of greater Sydney.

At the moment, because of poor management practices and poor contracting practices, about 15 per cent of that sewage is treated and the remaining 85 per cent is put raw into a holy river. So the equivalent of 85 per cent of Sydney's sewage is going every day into the holy river of New Delhi. We cannot fix up their sewerage system, but what we can do is tell them how they can go about it using the expertise we have in Australia. That is what we are doing. We will tell them what they need to do in order to fix it up.

We are also working hand in hand with the Japanese, who have the very big aid dollars available. We are making them aware of what we are doing. Hopefully, Japanese aid funding may follow and Australia might get a piece of that action. What we are working on is India getting the best quality advice from Australia in terms of how to reform that particular problem. That is the sort of strategy that we are adopting. It is very much at the higher end of policy, apart from a few initiatives with child labour. It does not pretend that Australia or any group of donors can resolve the poverty problems with India.

ACTING CHAIR—Thank you very much, Mr Lonergan. Before we conclude this session, we have a number of documents that have been tabled this morning. There is the report on the Australia-India new horizons conference from Buchan Communications Group, which was tabled by Mr Woolcott. There are a number of publications tabled by Mr Powys, including *Doing Business with Australia* from the Australia India council. There is a copy of issue No. 1 of *Focus* and an accompanying statement by the Australia-India Council. These documents will be taken as exhibits. Thank you for your attendance this morning and for the very detailed and informative submission from the department.

[10.24 a.m.]

ENRIGHT, Mr Jim, Manager, Middle East Indian Ocean Office, Australian Trade Commission, R G Casey Building, John McEwen Crescent, Barton, Australian Capital Territory 2600

HOOK, Mr Colin Edward, Senior Trade Commissioner, New Delhi, Australian Trade Commission, R G Casey Building, John McEwen Crescent, Barton, Australian Capital Territory 2600

ACTING CHAIR—On behalf of the subcommittee I welcome representatives of Austrade. I must advise you that the proceedings here today are legal proceedings of the parliament and, as such, warrant the same respect which proceedings in the respective houses of parliament demand. Although the subcommittee does not require you to give evidence on oath, you should be aware that this does not alter the importance of the occasion and that the deliberate misleading of the subcommittee may be regarded as a contempt of parliament. The subcommittee prefers that all evidence is given in public but if at any stage you wish to give your evidence in private, you may ask to do so and the subcommittee will give consideration to your request. The subcommittee has received a submission from Austrade, No. 27. I understand that you have an overhead display which you wish to present to the committee, so you may proceed with that and then we will follow with questions.

Mr Hook—Mr Chairman, just in explanation, five of my colleagues and I came down from South Asia and we have just completed a series of seminars in each of the capital cities and in the regional centres. We had 600 participants. At the seminars we were largely telling those companies what the opportunities were in the countries in South Asia. The program was part of the government's Year of South Asia. I thought it might be useful to go through my presentation. It was fairly brief and it really just concentrated on the opportunities in India.

Overhead transparencies were then shown—

Mr Hook—I have been in India for three and a half years. Over that time it has attracted a tremendous amount of attention. The first overhead was explaining to the audience why so many companies were looking at India. I think the first reason is the sheer scale of the economy. It is opening up, tariffs are coming down. Consumer goods, which are restricted at the moment, are likely to be derestricted over the next five years. It is an excellent market for our commodities. It is a growing market for our manufactures—up to \$250 million on the recent figures—and very big market for services. It is resource rich, it has got agriculture, it has got minerals. It has got an English speaking work force and very good senior managers. It needs technology. It has been a closed shop up until 1991, and a lot of its manufacturing sector needs new technology. It has very, very poor infrastructure.

I have picked out four major areas of opportunity. By far the leading area would be infrastructure. Heading the list would be power. At the present time, there is a 20 per cent shortfall at peak demand. They need 142,000 megawatts over the next 15 years. There are 200 power projects on the drawing board. Eight of those are fast tracked. Probably, over the next two or three years, there will be six or so power stations getting under way. Two-thirds of that power needs to come from the private sector. The opportunities for Australian companies are: supply of fuel, especially coal; supply of equipment; operating the power stations—we have utilities interested in that; and, transmission lines.

There is a similar situation with roads. Over the last 30 years, car growth has been 80 times, road growth just twice. The national highway system needs \$20 billion spent on it to upgrade; the state highway system needs a similar amount of money. Australian companies are active, providing engineering services. Australian companies are interested in construction, in provision of aggregate and concrete, equipment such as kerb making equipment, and in actually operating the tollways. I did bring down with me a booklet which lists all of the road and port projects that will be tendered by the Ministry of Surface Transport over the next year.

Telecommunications is another area of infrastructure. India has amongst the lowest line densities in the world. It has been privatised. There was a bit of a hiccup last year with a scandal involving the minister, but that now seems to be back on track. The opportunities are really for any Telecom equipment or service. Australian companies have been very active. We have had a series of missions. Eight Australian companies have set up joint ventures, including Telstra. Telstra is quite active there in cellular, VSAT services, network management and contracting.

Ports are operating way beyond capacity. Ships are waiting up to 10 days. There are 11 major ports. They are being privatised. Berths are being leased. There are 139 minor ports and a number of new ports being tendered. Again, Australian companies are active. BHPE Kinhill have the contract for Paradip Port. Construction companies are interested. P&O would be the most active company in this sector in India. They have won two huge projects on the west coast. There is the special facility that was mentioned earlier—the DPIE study looking at coal port infrastructure.

The second major area of opportunity—it is not one that would readily come to mind because it is not part of the image you have of India—has been indicated in a series of studies, the most recent being one by McKinsey and Co., that India does in fact have the potential to become the world's biggest food factory. In India they have huge production, ranking only behind China and the US; massive scope for improvement; their yields are very low; they process very little, less than two per cent; they eat fresh food and, as a result, you have a very high spoilage of up to 20 per cent. The other thing that is affecting this area is changing food habits. We do not have supermarkets yet but we have certainly had a proliferation of fast food outlets over the past two years. That is having a pull-through effect on better packaged and better produced food. I guess all of that adds

up to opportunities right along the food chain.

Just quickly with inputs, we have Australian companies providing potato seeds, vine cuttings, genetic material for livestock, fertilisers and farming equipment systems. With processing, Australian companies have been very active looking at bulk handling of grain and at building abattoirs. There is a lot of activity in the dairy sector. The Australian Dairy Corporation has just commissioned a major study. Australian packaging companies, especially with flexible packaging, are moving into that sector. The cold chain is yet to be developed in India. I believe there are only some 500 refrigerated trucks in India. A number of our major companies are looking at that sector. One Australian company is providing the food distribution service for a major fast food outlet in India. Branding of bulk items is just starting. Supermarkets are also just starting to be built in India, which should have quite a strong pull-through effect, producing a better quality and a better variety of food.

The third area is manufacturing. The significant thing there is that the Australian technology and the scale of our operations is very suitable for India. We have about 45 Australian companies that have set up in a whole range of industries. We are supplying inputs to the manufacturing sector but, as the market grows, it makes sense to produce locally and just ship in key components. The two key areas so far would be telecom and automotive components.

I would like to quickly go through the automotive sector, because that is a very good example of what is happening to some of the industry sectors in India. The automotive sector in India currently produces about half a million cars, almost as many trucks and about three million two- and three-wheeled vehicles. There are 12 new auto plants that are on the boards—six of those are currently under construction—with investment commitments from major companies like Ford for \$4 billion. These companies are insisting on world-class components. We have had tremendous interest from Australian companies. The most recent to sign a joint venture to manufacture there is BTR but, in all, we have eight Australian companies with joint ventures making auto components. Along with FAPM, Austrade will be participating at the big auto expo in February next year.

The fourth area is mining. This has been a very slow area to open up. Three years ago mining would have been top of the list in terms of opportunities, but it is opening up now. Three of our companies have finally got approval to explore in the state of Rajasthan. At the present time we are selling equipment and we are selling software. There is also some airborne geophysical survey out of Australia and some drilling contracting. But we expect that, as that opens up over the next year or so, there will be tremendous opportunities in that sector.

There is also a major World Bank loan of \$1 billion to upgrade Coal India facilities, and Australian companies should do well there. Some other opportunities worth mentioning include building materials, concrete products and building boards. Boral has

set up in Bangalore. A lot of smaller companies are supplying timber. In recreation, we have Australian companies designing and building golf courses, cinemas, hotels and theme parks.

Services is very much a needed area in India. The three I would single out would be first, engineering services. SMEC and Kinhill are very well established, and others would be Connell Wagner and GHD. Second, education services, this year over 3,000 Indian students will come to Australia to study. The third area is financial services. We have already got ANZ-Grindlays there. There are six Australian majors in the insurance sector that are looking to get into India and one has just started in the health sector.

The final slide is just a few points on doing business in India: what are the operating realities? India, in fact, is a series of markets. If you are a small company, it is quite possible to do business with just one part of India. There are vast regional and state variations. If you are setting up joint ventures, some states are very good but others like Bihar are very bad. You have to factor in the bureaucracy. The licensed Raj has just about gone but they are still very influential. You need to understand; you need to prepare; and you need to make sure that your paperwork is absolutely right.

The final point is that you need patience. It is an Indian virtue that our businessmen have to learn. You have to get the time frame right. It invariably takes longer that you would expect. You do need local knowledge: knowledge about how business is done and knowledge about the local culture. You can learn that over time but you can also buy those skills through an agent, an employee or a consultant.

Finally, I think you need to be selective, because India is absolutely awash with opportunities and also with many people—fix-it people, I call them—who can get the job done for you. I think it is a great trap; I think that companies have to be very selective. They have to choose over the opportunities and have a look at what obstacles are there, especially if you need government type approvals. You should preferably use a local partner or contact an affiliate in the first instance. Generally, it is a lot cleaner and quicker to do business in the private sector than in the public sector.

Austrade now has offices in the five key commercial centres. We have had a very good response from this round of seminars. Forty companies have requested quick market assessments, and at this stage we would have picked up probably 20 new companies with very good prospects in India. Thank you.

ACTING CHAIR—Thank you, Mr Hook. Mr Enright, do you wish to make any additional comments?

Mr Enright—No, thank you.

ACTING CHAIR—If we can go to questions. Your last comment about the need

for patience, if you have a look at the recent cricket scores by both Sri Lanka and India—they are very patient people to score that many runs—it demonstrates how important patience is in India. Could I begin by picking up that last point you were making about the operating realities of business in India.

How important is it to have a local Indian company involved in a joint venture or in a business enterprise, is that critical to getting a foothold or can Australian businesses do it alone; and, secondly, how does Austrade go about finding companies that may be interested in being potential partners with Australian companies?

Mr Hook—I think it depends on the size of the company and the sort of business that they are going into. Certainly some Australian companies elect to go it alone—those that feel that they know the market and those that have employed local managers that can give them the sort of local knowledge and skill that they need. For example, when BHP set up their steel roll forming operations, they will do that as a 100 per cent foreign company. But I think that, as you get to small and medium sized companies, it is very advisable to have a local partner because it does take a lot of the frustration out of the operation. You let the local partner get all of the government approvals and deal basically with the local scene. I guess the critical thing—it is the most important decision that the company will make—is choosing the right local partner. We have seen a lot of examples of people choosing the wrong partner. It is very hard to get out of and it is a disaster. So a lot of time should be spent in selecting the right partner.

How does Austrade help in that regard? The critical thing is not to go with the businessman who is sitting next to you on the plane who says he can do the job for you. Everyone knows everyone in India. They can all get it done for you. I think what you have to do is get an overview of your industry. We usually do that for the company so that they know who the local competitors are, who the foreign competitors are, how the industry is structured and what the distribution system is.

Then, basically, we put them in touch with people who are experts in their industry. We qualify those people to make sure that they are interested in talking to the Australian company about a joint venture or about an agency agreement. Then, when that company comes along, they know about the market, they have an idea of pricing and the quantity that they can sell. They are talking to people who actually understand their business and can get the job done for them.

ACTING CHAIR—At an earlier hearing, I recall we had some evidence from firms in the legal profession discussing, in one case, the legal services in India. There was also some discussion about the role and the impediments within the Indian legal system, which are legendary in some respects. I recall discussing in another Senate committee the difficulties that an individual faced over there. I am sure you are aware of that. I do not want to revisit that issue, but could you comment upon what impact the legal system has in restricting opportunities or causing delays. Are there signs of some improvements in

that regard? Is it a real barrier to Australia or other countries getting their businesses engaged in India?

Mr Hook—From what I have seen, I do not think it is a real barrier. I think, from the point of view of foreign law firms, it is difficult. They cannot operate in India. That is something that is being sorted out at the moment. It is very convenient for an Australian company, as they can do in Indonesia, to go with their local firm. They have affiliates or an operation in Indonesia, and they feel very comfortable with that. In fact, we have a list of six or seven Indian firms that we recommend. They vary depending on the sort of service that is required.

I have not seen that as being an impediment. I think the fact that India does have a legal system similar to ours and the fact that a foreign company can go to court and win cases—as we have seen with ANZ-Grindlays and we have seen with Telstra, with two Australian companies, and we have seen it with a lot of other foreign companies—shows that you do get fair decisions. I think the thing to be avoided is litigation at a lower level, with contracting and that sort of thing. That is something that Indians are very prone to.

ACTING CHAIR—Sorry to interrupt, but that is what I was really focusing on. There is an impression that has been there for some time that there are layers upon layers. Whether you call it a bureaucracy or regulation or legal requirements or whatever, that is the image that people have.

Mr Hook—If you are setting up an agreement and you do have a dispute between the partners, you lay down in that agreement how arbitration will take place and where it will take place. A lot of companies are doing that to avoid, hopefully, the situation where you have to go to court. Contracting is a very difficult area. The Australian companies that are looking at contracting are going there with their systems. So I do not think any of them will go in and risk it and take on a job on their own. They will go in with a major like L and T, and they will be the key contractor. The Australian company will really be providing assistance and know-how.

Mr DONDAS—You may have been here when I asked the Department of Foreign Affairs and Trade how many people they had working for them in India. How many people does Austrade have working in India compared with, say, Indonesia?

Mr Hook—We have three Australian based staff—me and another Australian in New Delhi, and we have one Consul-General Trade Commissioner based in Mumbai. I think, from memory, compared with Indonesia it is about 10.

Mr Enright—Something less than 10. I think maybe about seven or eight.

Mr Hook—In India, we can get very high calibre local staff. A lot of our post managers—such as those at Dhaka, Calcutta, Chennai, Bangalore, Colombo—are all local

managers.

Mr DONDAS—The point I am trying to make is that we see and hear and read how India is emerging as a trading partner with the potential in the growth areas. If we have not got the resources on the ground, are we likely to be able to meet the expectations that we have here in trying to provide additional services, not only to our Australian companies but also to the Indian companies? I would have thought that, after new horizons, there may have been a view taken by our government to maybe expand the facilities that Austrade have there to try to get back on to the market floor while everybody else is getting around it. Do we need more resources there to meet the expectations of further growth in trade?

Mr Hook—I think we have grown with the market. I think it has been very timely. We opened those three new offices. This financial year we are putting on another three business development managers. To the two of the new offices that have performed the best, Calcutta and Chennai, we are adding another business development manager. We are adding another business development manager in Mumbai.

Mr DONDAS—So our staff ratios are growing?

Mr Hook—They are growing. They are all local professionals. So we have 11 local staff in Delhi. We have nine in Mumbai, but some of those also do consular work. We have two, soon to be three, in Calcutta, and the same in Chennai. There are two in Bangalore.

At the present time, I think the system of having those five offices is working very well. Three of them collocated with ANZ-Grindlays. We are getting very good spin-off effects working with their corporate banking executives. So we have had major groups like Pioneer go through doing a big study. They went to all the centres where we were. We could pick them up, and the program was seamless all the way through right around India. So I think we have very good coverage at the moment.

Senator CHILDS—In previous inquiries that I have been on, both in this committee and others, once you go past the big Australian companies—and you have mentioned some of the names—there seems to be a problem for smaller companies to be able to identify with an appropriate market, especially now in a country the size of India. Some of the evidence we have had, both on Indonesia and other inquiries I have been involved in, is that state to state arrangements or city to city arrangements allow a political culture to develop between two countries that allows smaller actors to feel comfortable about picking niche markets. You heard me ask the question of the Department of Foreign Affairs and Trade, and they were going to supply further information. How important do you think it is to develop a better political culture between the two countries to enhance trade, especially at the more medium size company development?

Mr Hook—I guess all of that helps. Our focus really is just on business. I have not seen, in the past that I have been in, a tremendous advantage in having sister state or sister city relationships. It really depends on individuals. The big risk in India is that you have a wonderful relationship with the Chief Minister in Maharashtra, and 10 minutes later there is a change of government and you have Shiv Sena or someone in. Suddenly you have no relationship and it goes nowhere.

I think it is far more important for small and medium sized companies to pick niches and to ride in on the back of multinationals or Australian companies that are doing business. A good example of that would be a very small training company in Brisbane which has followed the Hilton Hotel in. Hilton took over one of the hotels in Delhi, and they wanted training of all of their staff. This company had done it for them in Brisbane, and they were alert enough to chase this opportunity. It is a very small company. That provided nearly a year's work—a lot of income. You see quite a bit of that. In the fast food outlets, you have Australian firms being encouraged to come and have a look at doing what they are doing in Australia for that company in India.

In the seminars, my advice to the small and medium size companies is that we will do a quick market assessment for them if there is an area that is clean and quick and they will not spin their wheels and waste their resources. That is the big risk: if you cannot give them business that happens quickly, then they do not have the resources to stick it.

But the big thing is to have a look at who they are working with in Australia. There are now over 100 Australian companies with offices or joint ventures, and a lot more are doing business over there. Often you can ride in on someone who has got a contract for a particular automotive component, and a small company produces one part of that. I encouraged firms to look at who they dealt with in Australia who was also operating in India. If they let us know that, then we would try to follow that connection through.

Senator CHILDS—I will ask another question because there seems to be different definitions of that middle-class grouping in India. How scientific is your estimate of that middle-class group and how do you target that group? You have described the differences in the regions. I am interested in how you work on that. I would imagine that would determine a lot of our interest and our strategy.

Mr Hook—We do not have any consumer goods. That is usually the big area if you are looking at the middle class and you are selling in white goods, foodstuffs or beverages. At the present time you cannot do that. Those sorts of products have to come in to five-star hotels, duty-free stores and the like.

I guess it is significant to us in terms of how many people can afford to buy a car. India is producing, as you saw, about 400,000 passenger cars at the moment. For the middle class, in terms of a population similar to Australia, able to buy the same sorts of things, 30 million seems to be the figure that everyone agrees on. Beyond that it varies

depending on the product or the service or whatever. There would be another 150 million who would have discretionary income, and then you might move out to 300 million who could buy something like a radio or something like that. But, if you are looking at the market for people who can afford to send their children overseas to be educated, people who can afford a motor car, you are probably looking at something between 30 and 50 million people.

To give you an idea, salaries are moving up very quickly. The people that we employ at the senior level got, I think, a 36 per cent increase last year—a very significant increase. But, even with that increase, you can get someone with a very good engineering degree, an MBA and about five years commercial experience for about \$A15,000. That gives you a bit of an feel.

ACTING CHAIR—I have a couple of further questions. You mentioned education just a moment ago, and you probably were here when I asked a question about the services sector of the department. There is an increasing involvement in export of education services or, more correctly, Indian students coming to Australia. Can you give us a break-up of those figures? Is it in the tertiary sector or at secondary school level?

Mr Hook—Basically it is all in the tertiary sector. It was related initially to what you could get foreign exchange for and initially, going back three years or so, you could only get it for postgraduate studies. As their foreign exchange reserves have grown, all of those restrictions have gone, and you can now get foreign funds for secondary study as well. But most of the students coming to Australia would be doing university studies. It is not like Indonesia, where you have got them coming down for ELICOS and other courses.

ACTING CHAIR—What is the potential there? Do you have any views about that?

Mr Hook—It has been growing phenomenally. If you go back four years, it was about 700, and this year it will be up to 3,400. June was a record month—800 student visas were issued in that month. Australia would be the most active promoter in this area, and it was my understanding that we had already passed the UK and that it was only the US that now took more students. We have still got a job to do—as for the US and the UK, their institutions have the reputation and I guess that what people look at is, when you come back, what sort of job you get when you say you have got an MBA from Melbourne University as against one from a US or UK institution. I think that to this point it is working out extremely well. The reputation of Australian institutions is growing. There are universities that are offering courses in-country—Deakin is doing that and others are looking at it.

We have a specialist education counsellor. He has quite a large staff and they are the ones who are most active in promoting this. Austrade only becomes involved if we get an institution that approaches us and says that they want us to run a seminar or a trade

display. We do more in Mumbai than we do in Delhi. In Delhi, as I say, you have got a specialist there and you have also got some private sector providers, like IDP and Conference Australia, that are running the major education conferences.

ACTING CHAIR—Turning to another area, you mentioned in your remarks when you were giving the overhead presentation that some states are very good to deal with and others are not. Could you expand on that? I think you might have mentioned Bihar as a difficult area. What is the distinction?

Mr Hook—Again, it depends on what you were doing. Let us say you wanted to go in and be involved in quarrying—to make aggregate to get involved in ready-mix concrete. That industry is alive with mafias so you need local knowledge to walk you through that minefield. It is very difficult to get licences to actually mine. As for a state like Bihar, politically it is very unstable; it is a very difficult business environment. The companies that would go into that state would be very knowledgeable ones with a lot of resources, and they would be going there because there is a mine to be developed, because they have got an industry that needs raw materials or because there is some specific reason for going to that state; otherwise you would pick one of the four or five states that are far more business friendly, that offer incentives and that have infrastructure. If you are setting up a brewery, you want power, you want access to clean water and you want good roads, and a lot of states cannot offer that.

ACTING CHAIR—What is the potential at a national level in India for endeavouring to get more uniformity in this regard? I appreciate the political situation in some states—we know that has been traditional in some parts of India. Just as we have endeavoured over the years to try to remove barriers so that you are promoting opportunities for the country—even though the state premiers in this country are pretty intent on promoting their own patch and quite rightly so—in terms of getting uniformity and flexibility right across the country of India, is that possible in the future?

Mr Hook—It is happening now.

ACTING CHAIR—That brings into question the position of the national government and what it can do in that regard.

Mr Hook—I think it is happening now. You are getting a movement of power from the centre to the states and the United Front government is causing that. You had Devi Gowda from Karnataka, and the United Front government is made up of a series of regional parties and they are wanting more power to go to the states.

The other thing happening is you are getting intense competition amongst the states for development. Whereas Maharashtra had it on its own for a while, you have just seen two of the major car companies that were going to set up there, Ford and Hyundai, actually go to Tamil Nadu. You have got the communist government in West Bengal

probably leading the charge in terms of incentives and going down the free enterprise sort of route. But you do have other states that are lagging, like Kerala and Bihar. They would be two that really do not seem to be that interested in pushing for development and attracting investment.

ACTING CHAIR—Switching again to another area, the recent record of cotton has been pretty erratic in terms of levels of exports from Australia. Would you expand on what has happened there? I think you might mention in your submission the potential for some investment from Indian groups in cotton production in Australia. What is the story there?

Mr Hook—I think the erratic exports are largely due to drought and seasonal conditions in Australia; also to the fact that a lot of the Indian textile industry was lower end and therefore they preferred to use a local product or a product from Pakistan—something that was cheaper. That is changing and you have major groups there now producing world quality type fabrics: shirting material and denims. One of those groups is Arvind Mills and we have been dealing with them very closely. They have been out to Australia on four or five occasions and they are looking at sourcing cotton from Australia. They are looking at buying farms and growing cotton here. They have signed a memorandum of understanding with one Australian company that has the technology to help them grow cotton in India and in third countries.

We have been talking to companies in Bangladesh about similar sorts of things—some very major users of cotton there—and they are interested in a similar scenario. It is difficult, as you probably know, in the cotton industry to actually identify areas that are available for sale. I think at this stage there has been a lot of talk and that it will probably be purchase of cotton, but perhaps at a later stage investment in a facility. It has happened in the wool industry. We have one Indian company that has invested in the wool industry in Australia, but cotton has not happened yet. It possibly well down the line.

ACTING CHAIR—There have been tariff reductions in wool. What are the prospects for future reductions?

Mr Hook—The tariffs came down and I think that has been quite significant. But the main reason why India is using more Australian wool has to do with the collapse of the Russian market and the fact that they used to produce very cheap woollen blankets and so on, and uniforms, for Russia. They went through a very tough time and they have had to restructure their textile industry. They have put in the latest equipment and probably three of them now have magnificent world-class facilities to produce Italian type suiting material, which requires Australian wool. That was the big impetus and the fact that, through the lobbying on the part of our colleagues from Foreign Affairs, the tariff has come down has just helped that.

Senator CHILDS—I wanted to ask about pulses because India is a great producer

and it seems as though we have potential in that area. Could you outline your hopes in that area?

Mr Hook—India has traditionally had a shortfall of up to 3 million tonnes per annum on pulses. It is a very price sensitive item because it is the protein for the poor of India. Australia has been putting in a very big effort. We had a mission that came over with Agrotech and went right around the country. I visited the Wheat Board and the Western Australian pulses people on this visit. There is a whole series of plans under way to sell branded product, to grow new varieties. The Indian Department of Agriculture actually held a series of meetings with us and a number of other countries looking at contract growing. They wanted Australia to grow half a million or a million tonne of pulses. But it did not have any sort of commercial reality. They did not at that point realise that it had to be for this price and that they had to take the lot. So I am not sure that that will get very far. But I am sure that there will be a lot of additional varieties of pulses. At the moment it is mainly chickpeas that are grown for the Indian market. The state trading company has approached at least one major Australian supplier about an arrangement for them to market Australian pulses in India.

What you are seeing is a diversification of the trade. Traditionally it has been a trade that has been fairly high risk and it has been dominated by non-resident Indian companies. They will still be very significant players, but you are seeing other parties coming into the game. Pulses could very easily be a \$100 million dollar market for Australia, with a little bit of effort. As I see it, that effort is definitely going in. Our business development manager who looks after pulses is a chap called Rajit Kohli. He is coming down to the big pulses technical seminar in South Australia at the end of September. We are working very closely with the whole pulse trade in Australia.

Mr DONDAS—Mr Hook, Immigration is coming in this afternoon to give evidence to the inquiry. Do you find that you are getting complaints from Indian business people and companies that want to visit Australia that they are having trouble in getting their documentation processed in a reasonable amount of time?

Mr Hook—There have been some complaints. With business people that we know, we suggest that they flag it with us that they need to go down. We just make a note that we know these people and pass it through to Immigration. I think that they have had to handle an enormous increase in workload and they have just added three new Australian staff and about eight local staff. They are also opening up visa issuing facilities in the Austrade run office in Mumbai, so they will be putting two or three staff down there. I think the whole scenario has improved now and will improve quite dramatically.

When you actually look into some of the complaints, a lot of the problems are that the forms are not filled in correctly—they do not explain why they are going to Australia. It is just a simple fact of making sure that, yes, you are going down to see XYZ company, you are a major player in this particular industry. A lot of Indian businessmen give the

forms to their travel agent and these things are just not filled in. That can lead to delays in that they have got to go back to the travel agent and get that sort of detail. I am not an expert in this area, but I do believe that they do have some problems with people that are not bona fide business people going down to Australia and claiming refugee status.

Mr DONDAS—Do you think a more streamlined process may help develop some further trade links with those smaller companies that want to come down?

Mr Hook—I do, and I think they put that process in place probably about a month back.

ACTING CHAIR—What was the Australian involvement in the World Bank project with Coal India? I understand we were targeting an involvement in that. How much was involved and how successful has that been?

Mr Hook—We have just used our network. We visited Coal India; we have tried to determine what the hold-ups are and what sort of equipment is going to be bought. The project has actually been going for about 2½ to three years and the nature of it has changed. It is now upgrading a series of open-cast mines whereas initially they were looking at underground mines, which would have suited our equipment supply capability better.

We have used our offices in Washington. We have met every mission that has come through. We have been feeding back status reports constantly—largely through Austmine but to other companies that are interested as well. We put out a monthly news scan on the mining sector; so we give an update of any information we have got on the Coal India-World Bank project. Our mining manager might do a one- or two-page summary of where it is at. It is a case of letting all of the companies in Australia that have a chance of supplying equipment or services know where it is at, know when the tenders are coming out and then making sure that they are dealing with the executing agency. We have an office in Calcutta that does that. We visit every couple of months and call on them as well. It is also a case of making sure that our staff in Washington are also in the loop.

ACTING CHAIR—Are you able to say at this stage whether there are actually some concrete results with companies winning work.

Mr Hook—It has not even been tendered yet.

ACTING CHAIR—What is the time frame?

Mr Hook—It was approved just before I left to come down here.

ACTING CHAIR—Jumping to another area again: in the presentation you referred

to the auto expo next year. Could you just give us some details on what that involves and the participation Australia will have in it?

Mr Hook—The biggest and best trade displays in India are put on by an organisation known as the Confederation of Indian Industry, and this show is run by them. It is the biggest automotive show. We had a presence there last year. What we have been doing for four years is having our auto specialist come down to the FAPM—Federation of Automotive Parts Manufacturers—annual conference. This year I believe it was in Canberra. One year we brought down the head of Maruti, a company which produces 70 per cent of the Australian passenger cars, and we feel that his presentation at that conference turned a lot of people's attention towards India.

We have had one major mission of about 10 days where we called on all of the manufacturers and, as a result of that, we have had about eight joint ventures set up over the following year. This is just a continuation of that process trying to get some of the smaller component manufacturers into the market.

We are doing it again with FAPM. Robert Richardson is our auto specialist who came down this year to the conference. He then went around and saw all of the auto component companies that we felt had the best potential to sell them on coming into that particular show. So there will be Austrade; there will be FAPM as a group; and we are hoping there will be about 12 auto component companies. We hope that the eight or so companies that are over there will join us as well.

ACTING CHAIR—A general question: I asked the representatives from the department about the position with ASEM, the European-Asia group, and the applications by India and Australia to become members of that group. We all know the difficulties at the moment. Would you like to comment upon that issue and how important that is to Australia's interests and to India's interests?

Mr Hook—It is really an area that I do not get involved in. It is my Foreign Affairs colleagues who deal with that.

ACTING CHAIR—I appreciate that. We have all the details about the various areas of Australia-India trade, with the different products and the major items such as coal and so on. As we are trying to expand that trade in the future, do you foresee increasing competition from the ASEAN nations—obviously not in the specific product sector areas such as coal—as the ASEAN group expands and is endeavouring to promote a multilateral trading group? I suppose it is a general question: where do you see Australia sitting now and in the future vis-a-vis ASEAN, with trade and relationships with countries like India that are a bit like us?

Mr Hook—I do not think we will face a lot of competition from that area. What I would see is a migration of the companies, and we are seeing that already. When I was in

Indonesia in the late 1980s to 1990s, we were having trouble attracting firms. Now you have an enormous number of Australian companies in there. We are seeing a migration of companies that do well in that market or in Malaysia then moving on to south Asia. You see it with construction companies, with building material companies and with auto component companies. It will happen with our mining companies.

So I see those firms being attracted by south Asia, especially India, and moving in. It has taken probably two or three years to get the construction companies interested in India, but they are all now there having a look. The mining companies have been there all along. It has been Indian regulations that have slowed that sector down. I think our trade is destined to double over the next five years or so. You can see it in the major items like the commodities, with the plans to build new steel plants and power plants and with what is happening with wool and with pulses. You can also see it in the growth of our joint ventures. All of those joint ventures, even though they are producing in the country, they all bring products in.

The most recent one in the food sector is that W. R. Grace is developing flexible packaging for their dairy industry. They can put panir and panha into non-refrigerated packaging. It does not require refrigeration and it lasts for six months. That will be an enormous success. All of the film will come from Australia. You see it in telecoms and you see it in the automotive components sector. So our manufactures are going to grow, along with our growth, in joint ventures.

ACTING CHAIR—I suppose my question was provoked by something that I have been thinking about and looking at for a while. That is, we are seeing the expansion of the European Union quite dramatically in the development of a single currency and economic policies. There are attempts to build a relationship with Asia through ASEM. Clearly, with the recent developments in ASEAN, they are getting up a greater head of steam to move forward. There is tremendous expansion in the economies. In a global multilateral trading context, I think it is interesting to posit how Australia sits in relation to that.

It just struck me that, as ASEAN nations are looking further afield in that regard, we could well face greater competition, even in the services sector, as their economies become more highly developed in areas such as finance and banking and aviation and further sectors on that. It just struck me that it may be interesting to speculate how that will impact on our trade with other countries.

Mr Hook—You have it in Singapore already, of course. We already have a program working with Singapore looking at how Australian companies and Singaporean companies can come together and operate in India. I do not think we have any successes to date, but I know that was an area that we were looking at in relation to airports and roads. It was mainly to do with infrastructure.

ACTING CHAIR—Clearly countries like Thailand and Malaysia are very keen to

promote their involvement in that regard and, obviously, to some extent it could well be at our expense.

Senator CHILDS—You alluded earlier to your experience in Indonesia. Based on that experience, do you see the move to India and the experience you are having in India as an incremental change, looking at the different culture, or are there qualitatively different problems in India that need to be addressed? My impression is that people and governments and others have made forays into India, but there has been a lack of consistency on Australia's part, whereas Indonesia has been a more consistent concentration for obvious reasons. So I wonder whether you have any wisdom, based on your two posts, of a general nature that you could pass on.

Mr Hook—I think Indonesia, being so much closer, has had so much government attention focused on it over a number of years. That started with India before the new horizons process, and I guess reached a peak with new horizons. It is continuing with south Asia. I guess the big thing that is different is that in Indonesia it can all happen so quickly. If the government decides to do something, open up the mining sector, award this contract or build this hotel, it happens. That is comforting for business.

In India, companies have to realise that it is a democracy. You do need to get consensus. It is not going to be like that. You need to understand how to get approvals through. It frustrates the most knowledgeable and experienced of companies. Mining companies are almost tearing their hair out after three years, but they have hung in there. The majors have hung in there. The small and medium sized companies have decided to go off and do other things for the time being. When it opens, they will come back. I think that is the big difference.

Things could happen very quickly in Indonesia, and in India you are looking at a longer term commitment and a longer time frame. It is not true in all areas. I will mention that in the private sector, if you are going in and you are talking automotive, BTR can be in there and they will have a plan up and running and selling to those auto manufacturers probably within a year. That contrasts to some of the other areas where you really have to work at it for quite a long while, and that takes a lot of resources and hanging in there.

ACTING CHAIR—I have one final question, Mr Hook. You gave us the benefit of your presentation this morning, which has been given in the seminars around Australia, which was completed only recently, I understand. Are there any preliminary findings or results? In moving on from there, I understood you were looking at identifying and bringing key people to Australia in the future.

Mr Hook—For all of the companies that have asked us to do something, we will be following through, doing reports and we will keep track on who visits the market, who sets up agencies and what sales we get out of that. Continuing on that program, we are looking—if we can identify some sectors out of what we have done, maybe building

materials, maybe Telecom or IT software development—at taking groups back to the south Asian markets. We are also looking at identifying some key decision makers—for south Asia it will be three—and bringing those people down to Australia. We are looking at people who could buy and give us a result within a 12-month period. That is part of the Link West process.

ACTING CHAIR—So you are talking about the next 12 months?

Mr Hook—I guess that will happen from before the end of the year. Then next year we are repeating the process again. So it is not a one-off. Next year there will be the same three series—the Middle East and then south Asia and then South Africa—only we will probably space it more. We will probably make it two months between each seminar. We have learnt quite a lot out of this one. And with the same program again, we will modify it, depending on results. But if bringing the buyers—the decision makers—to Australia is very successful we may expand that program.

ACTING CHAIR—Are there any further questions? Thank you Mr Hook and Mr Enright for your attendance today, and particularly thank you Mr Hook. We do appreciate that you have travelled down here as a follow up to the seminars that you have conducted and been able to give evidence to the committee. We will admit into the committee's records, as an exhibit, the copies of the overheads that you presented.

[11.33 a.m.]

ATHUKORALA, Dr Prema-Chandra, Senior Fellow, Australia South Asia Research Centre, Research School of Pacific and Asian Studies, Australian National University, Australian Capital Territory 0200

RAO, Dr Govinda Marapalli, Research Fellow, Australia South Asia Research Centre, Research School of Pacific and Asian Studies, Australian National University, Canberra, Australian Capital Territory 0200

SHAND, Dr Richard Tregurtha, Executive Director, Australia South Asia Research Centre, Coombs Building, Australian National University, Canberra, Australian Capital Territory 0200

ACTING CHAIR—I welcome representatives from the Australia South Asia Research Centre to this inquiry. The proceedings here today are formal, legal proceedings of the parliament, similar to proceedings in the houses of parliament themselves. We do not require you to give evidence on oath, but I am obliged to formally tell you that deliberate misleading of the subcommittee could be treated as a contempt of the parliament. The subcommittee prefers that all the evidence be given in public, but if at any stage you wish to give any evidence in private you may ask to do so and we will consider that request at that time.

We have received a written submission from the Australia South Asia Research Centre, which is submission No. 10. Would you like to make some opening statements in relation to that submission, and then we can proceed to questions from members of the committee.

Dr Shand—Thank you. I have a few points I would like to kick off with. First of all, I would like to point out the importance of this committee. As we all know, the last time India was examined by parliament it was at a Senate inquiry. The report came out in 1990. A lot has happened since then. We believe that the report of this committee has the capacity to be a landmark in terms of Australia's thinking about India and South Asia. It has a number of excellent submissions of evidence which have been made to it, which we have read in the three volumes which have been published. So you have an excellent basis for a first class report, which I think will be a good successor to *India at the Midnight Hour*.

I think it is important because a report like this can have an impact on government thinking or parliamentary thinking in terms of priorities in policy in a country sense or a regional sense. We consider that it is a difficult process to adjust policy to fit in new priorities, but India's emergence in the last few years demands this. There is a tendency to sit back on existing priorities and to wave at new ones but not to firmly ensconce them within the rubric of policy priorities. In this sense I think it is very important to watch for

the white paper on foreign policy which is to be published by Foreign Affairs and Trade. It was supposed to come out in May. I believe it is coming out in the next week or two.

We have seen Foreign Affairs and Trade over the last few years make significant new efforts in various ways towards India—the India Today project, the New Horizons and IFIOR on the Indian Ocean. These need to be followed up tangibly. The best way this can be judged is through the attention that is given in the white paper. I flag that particular point. I think from that viewpoint the considerations of this committee and the report of this committee are going to be very important in juxtaposition with that white paper.

We have to take full account of India in the sense that on one count alone by 2020 India will be the fourth largest economy on a purchasing power parity basis. There also needs to be—and I think Senator Childs made this point in relation to the trade submission—a sustained effort with the promotion of India and the undertakings of India in the trade and investment area. That is another thing which must be watched very carefully so that it is not a one or two shot job but that the priority which India is now being given will be followed through into action on a sustained basis.

Why it is important to follow through is evident from the sheer realities of emerging India. In only five years India has now fully embraced the need for reform. There is a political consensus which crosses party lines and was as evidenced in the 1996 elections when every party left, right or centre embraced the need for reforms.

Secondly, we can see within the five years from 1992, when reforms began, an enhanced capacity for growth. India has now notched up two years of seven per cent growth. We believe that that is a fair statement of the base that we can expect in terms of growth in the future with the reforms in their current state. We also believe that with further reforms this growth rate can be increased further towards the levels of the East Asian tigers. In this sense we disagree quite strongly with one of the written submissions made to the committee that a growth rate of more than six per cent is not politically sustainable for India or for South Asia.

We also see the importance because of the reforms coming at state level now opening up for faster growth. This is particularly evident in the maritime states right round from Gujarat, Maharashtra, Karnataka, Andhra Pradesh, Tamil Nadu, up the east coast to Orissa and West Bengal. It may be slower in the interior Hindu states but there is a commitment to pursue the reform process in the long term and to globalise with an export orientation. India sees faster growth with a safety net as a long-term solution to its poverty problems.

I touched very briefly on the Indian Ocean initiative, which is an important one but it is there for the long haul. It is not an initiative where we can expect short-term results easily. It will be dominated by the growth triangle countries of South Africa, India, the

ASEAN members and Australia. It is an unusual collection of countries in its present state. It does not reflect economic reality so much as certain political factors. It also has some interesting aspects in terms of the first and second track which you may wish to follow up.

I want to make one further point and that concerns the question of how this high growth rate in India is going to be sustained, and in that I would draw your attention to one of our submissions on the relationship between agriculture and manufacturing. We believe that the engine of growth within India will be based on a bidirectional relationship that now exists between agriculture and manufacturing. By bidirectional, I mean that we all know that if agriculture grows manufacturing will grow because of the inputs purchased and the outputs purchased, but what is not so readily understood is the link from manufacturing back to agriculture. That we have found to be statistically significant, and it means that, if the manufacturing sector produces the right products at the right prices and makes them available in the right locations, it can stimulate the agricultural sector, agricultural households, to produce more and to raise productivity.

This is an interesting one. It has not been explored much. What we see is that growth of agriculture stirs up manufacturing, as it has in the past, but when the manufacturing sector opens up and the right sorts of products get to the consumer class that will be an incentive for an increase in growth rates in the agricultural sector. This interchange, this interrelationship, is very likely to boost the overall rate of growth within India, quite apart from the internationalisation of India.

I will end here, but I would like to come back to some of the points that were made earlier today about the question of unemployment—if India has opened up as it is going to because this is a big question that was not explored fully in the discussion. Mr Deputy Chairman, I will leave it there and turn the matter over to discussion.

ACTING CHAIR—Do either of the other gentlemen wish to make any additional comments before we go to questions?

Dr Rao—I just want to add to what Dr Shand presented. The important point that Dr Shand made was the bidirectional linkages between agriculture and industry. It is in this specific area that Australia has a tremendous strategic advantage in strengthening the bidirectional relationship between agriculture and industry. Given the nature of economic development in Australia, seeing that the agroprocessing industries have become an important component of the industrial scenario in this country and given that India does not have the technology in many of these areas, I think Australia has a tremendous advantage. In fact, even in terms of a sprinkler system of irrigation or other elements of agro-processing industry—packaging and various other things—Australia is another country that has taken advantage of the situation and has leapt onto the scene. Given the strong base that Australia has, Australia has a tremendous advantage in this area.

Another thing that I want to point out is that, when one looks at the Indian policy-

making scene, one has to distinguish between the policy-making at the central level and the policy-making at the state level. It is true that, in a democracy, policy takes a lot of time; it is a time consuming process. You have to build up a consensus to undertake reforms. But one of the things that the government has done in the last couple of years, particularly in the last year, is to charter a course of reforms for the next three to four years which is very transparent. It says that we are going to do the following things in the next two to three years: namely, we are going to reduce the tariffs to the levels that prevail in the ASEAN countries by the year 2000, and in the next three years we are going in for capital account convertibility. In fact, a committee was appointed which said that, in the next three years, India should work towards capital account convertibility.

The International Monetary Fund has suggested to India that this is the right way to go about it. In fact, in the latest report on India, the IMF has said that they should have capital account convertibility in place. That is very important for triggering growth and attracting foreign investment. Again, they are aware that there is a tremendous infrastructure bottleneck. They had a committee on infrastructure which brought out the details of what the investment requirements are, how to go about building the infrastructure and how to involve the private sector in general and foreign investment in particular to generalise investment in infrastructure.

As far as the states are concerned—much needs to be done—some states are very progressive, and some states are slack. We always say that planning is the antithesis of federalism and that it is decentralisation. One of the things that has happened in the course of the last four years is that the states have been rejuvenated. Many of the states are looking forward. There is tremendous competition among the states to attract foreign investment, to remove the internal impediments on trade and investment and to improve infrastructure facilities.

In all these areas Australia has a tremendous advantage. It can make a lasting contribution to further trade and the relationship between the two countries.

ACTING CHAIR—If that completes the remarks, we will go to questions.

Mr SINCLAIR—I was very interested to hear what was being said. Ric, there are a couple of things that perhaps you and your colleagues could explain. Firstly, your group, I gather, has been going for some years. It interests me that we have this South Asia Research Centre within the ANU. Indian studies has not really been a major topic for either Australian academics or schools. Do you have a regular connection with a particular institution in India? Is the education field, which you did not talk about, an area where we might be able to do something? Secondly, what about Australian businesses? You talked about the special opportunities there might be there. Have you tried arranging talks for Australian businesses specifically oriented to try to help businessmen do business in India and to give them a bit of an idea of hurdles and how they go about them or do you see yourself as being more at arms length and producing dispassionate learned journals and papers and dialogue for those who live in the dream world across the lake?

Dr Shand—We have been going for almost four years now. We started in 1994. It was an initiative within the university, actually. We recognised the coming importance of India. Of course, we have research strengths in South-East Asia, North-East Asia, Japan and so on within the economics division at the ANU. We agreed that we should move into South Asia and particularly India at that time. The university agreed to fund two positions, virtually three, and then we got funds from DEETYA to add two more. So we have a research capacity of five-plus at the moment.

We do not see ourselves at arm's length. In fact, we have purposefully maintained strong links with government and government programs throughout the New Horizons program and the Year of South Asia. We have produced these profiles that you may have seen. We produced a profile 'From crisis to consensus' for the New Horizons, and we also did a lot of the leg work for the Perth conference. We see that as a very important role which we fulfil in addition to the fundamental research that we think must be done on the reform process itself. We carve ourselves up in that sense.

We also do consulting work. We were quite influential as a matter of fact in our report in the Western Australian government setting up its office on Mumbai. We have also had consultancies with BHP and with the Australian Consulting Engineers Association. So we also involve ourselves in that way.

We do not see ourselves as being sufficiently hands-on to talk about how to do business in India—we see that as more of an Austrade function. But we think it is vital to have a strong research capacity to understand where the economy is going, where the constraints are, and to make that readily available to government, to the business sector and to other interested parties in a digestible form. We see a fairly wide mandate, if that answers your question.

I guess the other part was the linkages with India. We do have strong linkages with research institutes in India—the National Council of Applied Economic Research, the University of Delhi and so on. So we have joint research projects going on with them. One of these is the globalisation of Indian agriculture. We have also just finished this report on the power sector, in which we have been involved with the Madras School of Economics and a number of the Indian government departments. So we have very strong linkages with government, with academics and with business, to some extent, in India.

Mr SINCLAIR—One of the concerns that I think there is in doing business with India is the extent to which India is looked upon as too hard, too difficult and too far away, in conflict with Pakistan, Kashmir is a problem, and there is a bit of concern about the Tamils and what is happening down in the southern end of India. It is not what you might call sexy in terms of attraction, and yet thousands of young Australians want to go and ride camels, climb the Himalayas and go through the Khyber Pass and so on. Have you any particular link with a tourist organisation?

That is part of my worry in getting India up as a focus of concern. They might seem to be peripheral concerns, but you have to get people to re-focus India as a country that is going to play a worthwhile and significant part in our region and with everybody else. I know there are problems with APEC and whatever. Do you have associations with the tourist industry? How do you see that we can promote the concept of India as a country that people need to be concerned about, if it is not taught in schools, it is always too hard, too difficult, and flown over?

Dr Shand—I think there are some inherited prejudices in Australia, which arise partly from the fact that India has been rather a closed shop for many years. If you run an autarchic economy for 30 years where, by and large, you are not interested in foreign investment and foreign technologies, then you tend to shut a lot of doors. I guess there is a perception of India, which has been built around that way in which the country has gone about its economic affairs, which is difficult to counter in the short run.

A lot of the things that you point out as making India too hard arise from the fact that it has been a closed economy. When you arrive at the airport, for example, what you bring in becomes very important. A lot of the normal things that you would bring into other countries are not allowed, or they have to be declared when you arrive and they have to be ticked off when you leave. So these are very irritating things.

Mr SINCLAIR—Such as?

Dr Shand—A camera, for example. In my case, it was a PC. PCs are on the prohibited list. So you had to make sure you took your PC out with you. These are the things that come from prohibited imports; in other words, certain goods that are disallowed. So they do not want you to come in with your PC and sell it on the local market. So this is part and parcel of the—

Mr SINCLAIR—When was this? Is this still current?

Dr Shand—This is only two years ago. Now it has changed.

Mr SINCLAIR—It has changed, has it?

Dr Shand—Yes. There was another classic case back in 1991. I was in the queue because I had some things that they needed to record. The fellow in front of me was a pharmaceutical salesman. He had a great big box of samples. These were definitely off the list, so they opened this box and there were literally hundreds of these samples. They went through them one by one, solemnly checking them off and what not. This fellow was out

of his mind in the end. It is symptomatic of the extremities you get with a totally closed economy, where the barriers are up on imports of consumer goods.

Mr SINCLAIR—Dr Rao, you said that has changed.

Dr Rao—I would not say it has changed entirely, but it is changing. In fact, today when you go to the airport, it is much easier and much faster. You do not really have that type of problem.

Mr SINCLAIR—What about the chemical samples, for example? In the instance of a package of chemicals, a chemical salesman would still go through the same traumas, or would he?

Dr Rao—You see if he has the proper papers and documents, I do not think there would be much of a difficulty at all. In fact, at least there were often occasions when I wanted to declare certain things, and they said, 'No, it is not necessary. Don't bother us. Go away.' There have been instances of this as well. Where you are declaring that this is the only piece that you have, they say, 'Okay, you can go,' and that type of thing. I am not saying it has changed entirely, but there has been a lot of change. I have been travelling in and out of India for the last seven or eight years, and I have seen this change coming.

Mr SINCLAIR—I will hand this back to you, Mr Deputy Chairman. I have got a series of questions to come.

ACTING CHAIR—Senator Childs has some questions.

Senator CHILDS—Dr Shand, you have said there is little knowledge of India in Australia, and I think that is absolutely right. As for knowledge of India in Australia, it is clear that it is a changing situation but it seems to be a very slow process of change, and I presume it is similar in India. I want to follow up Mr Sinclair's question. It seems to me that there is the economic and trade situation but, if you have that in isolation and you do not have the development of political and cultural/media contacts, you do have a difficulty because in other countries you have had a combination of processes that have opened up the two markets to each other and made it—the country you are trading with—more acceptable for business people.

I have asked some questions this morning and I think I have been given the obvious answers that business, economic and trade affairs are dominant at the moment, but it seems to me that, unless we are able to develop those links with those progressive states in India where there is more development—and I raised the issue of state to state or city to city development, which has been a successful catalyst for the development of human relationships, we have got problems. Yet I had a feeling that cold water was poured on that initiative. Is that because it is a longer-term issue for the Australia-India relationship, or is there no basis for that decentralised relationship between people that should be part of the decentralised potential in the economy of India? Obviously we have states that should be able to match that interest.

Dr Shand—As I listened this morning, one of the answers was about the relationship that the Western Australian government is trying to develop, but that is not a state to state relationship—it is really a state to India relationship, and I do not think they have really singled out a state. They have only singled out Maharashtra because they think it is the best place to have their office, and, to my knowledge, I do not think that the relationship extends much beyond the economic.

Senator CHILDS—I am posing this question: isn't the next step to try to develop that? I want to be knocked over by the case as to why there is not the potential for developing the human relationship between the peoples.

Dr Shand—Senator, the point is very well taken, and it may be a natural outgrowth of reforms moving to the state level. In the first few years, the reform process was really one conducted by the central government without much reference to the states. Now the centre of gravity is very definitely shifting towards the states because a lot of the new reforms that must be put into place will have to be enacted by states. States control agriculture, for example, and there are a number of other responsibilities like that. The states themselves have become conscious of this, and as they develop their own individuality, an economic identity in regional or state terms, they may reach out like that, particularly to states within Australia where they find complementary situations in business or where there may be Indian communities that they can relate to quite closely. I would agree with you that this should be an outgrowth; we should look for such opportunities.

Senator CHILDS—You mentioned the seaboard states with the different levels of development, and I could see what seemed to be a similarity with China's seaboard state arrangements and with its attempt to have arterial development going from the seaboard inland. Do you see that as a similar process, having in mind the poor infrastructure that India has and that that would be a way of developing trade by using the growth in seaboard areas or cities?

Dr Shand—I will say a few words on that, and I am sure that Govinda will say some more. Yes, we do see a parallel. In fact, I would like to table today a paper in which we have begun to look at this question more closely.

One of the developments that we see in China now is the success they have had with their labour intensive manufactures for export in the coastal states like Guangdong. The cost of labour is going up in the coastal areas, so they are shifting their emphasis inland with these same labour-intensive products. One of the concepts we are looking at the moment is that this will provide India with a chance to come in on many of the same products which the coastal provinces in China have been producing and enter that market—admittedly competing with the inland Chinese provinces, but probably well able to do so because of the sophistication of some of the states like Maharashtra, Gujurat and so on. So there is a link there. Dr Rao, would you like to comment on that?

Dr Rao—Yes, I would like to come back to this. Before that, I would like to go to the earlier concern that you had when you talked about the state to state initiatives and the people to people initiatives. In the last couple of years, there has been a number of delegations from different states. It could be at an official level, it could be at a ministerial level. They have been visiting Australia and going to various states in Australia. In fact, one of the ministers who came was basically looking at the possibility of extending the animal husbandry department. There have been a lot of initiatives going on. In fact, the Indian High Commissioner here keeps saying, ‘I keep getting these delegations.’ In the last couple of years it has increased tremendously. There are a lot of initiatives on that front. It is also true that many of these delegations have been visiting other countries like the United States. Even Bihar, one of the worst, has been going to South-East Asia.

Another thing has happened in India in the last two years. In India they used to look at the west all the time—basically, the UK, the United States and Europe. In the last couple of years they have been saying, ‘No, we have to look east. We have to look at South-East Asia and we have to look at Australia.’ That change has come about, and it has come about at the state level as well.

Another thing that they talk about is the pattern of governance within India. By and large, I think, the contention is that it is the maritime states which have done better than the others, but there are exceptions. In fact, sometimes when you look at the exceptions you learn quite a lot of things. But the substantial point about that is liberalisation. Development of exports can do a lot to strengthen the linkages. It is also seen when you look at the states of Haryana and Punjab. They are not really maritime states, but possibly have the highest growth rates recorded. That is because agriculture is the main area of development. They have attempted to strengthen the linkage between agriculture and industry.

But, if one looks at the pattern of development within India, one can see that historically the states of Maharashtra and Gujarat have been the states with mercantile capital. For strategic reasons, these are the states where the British concentrated and built sufficient infrastructure, along with West Bengal. Obviously they were far ahead of the rest, combined with the fact that there was a concentration of mercantile capital. Gujarat was the Manchester of India, because much of the textile industry went there. Other states have picked up. In fact there has been a lot of convergence, in that sense of that term. The software development in the Silicon Valley in the country—that is Karnataka—has made tremendous progress. Tamil Nadu has made a lot of progress.

What I am trying to say is that while there is a lot of truth in the fact that the maritime states have done very well, that potential is still not exhausted. I am emphasising this because Australia can make a very important contribution here. Fisheries is an area where there has been very little development, even though India exports quite a lot of these processed items. The way it is done is absolutely primitive. There is a lot of technology transfer that can take place here. Thank you.

ACTING CHAIR—We had some evidence this morning which you probably heard. You would be aware anyway of the issue of the WTO and the 2,700 odd items that still have trade restrictions applied. What will it be worth to Australian exports if those restrictions can be removed over time? What is the magnitude of that?

Dr Shand—Some of the remarks that were made, at least as far as I was concerned, were slightly off the mark. There was talk about two economies: the agricultural and the sophisticated industrial. That is a great simplification. In fact, the particular question you asked really revolves around the small scale industry sector, which is a very big sector in India and is a very important sector. Most of the consumer goods produced in India are produced by this sector and it is the sticking point so far as the WTO side of things is concerned.

The interesting thing about this sector is that again you can break it down. You have the micro industries, which are really the handicraft type, then you have another group of larger enterprises which are the more important ones, which provide a large proportion of India's exports of manufactured goods. The textile industry comes under that category. What happened there was that there were certain advantages that the government has given under the closed economy to that small scale industry sector for being small because it employs such a very large number of people. So much so that when potentially large scale industries want to enter this field they have to break themselves up into smaller units to satisfy the minimum size which is allowable.

In a sense, it is a very artificial creation, this small scale industry sector. By virtue of the fact that they have broken up into these small scale producing units they have lost the advantages of economies of scale; they have lost the advantages of technological change. There has been very little technological innovation and change in these industries. It is a disadvantaged sector in these terms, but it is a very important one.

Recently the government received a report called the Abid Hussain report on the small scale industry sector which, if that report can be obtained from Delhi, would be very useful to the committee. It charts the future direction of this sector. The Indian government is very keen to lift these controls, but it is saying that we need time to do it and we want to give our domestic industries the chance to get in on the act before we open up the whole show for imports of foreign goods as such. In other words, they are hoping to make the small scale Indian manufacturers competitive.

Even now though it is not a shut-out for foreign firms. There are some technological links with foreign firms in it. The trademarks are coming in from outside. Nevertheless, it has been very slow. I would like to give that context to the discussion that has been there up till now. It is a very sensitive area, but essentially what is expected is that this sector will be the engine of growth for export manufacturing in the future. This is why they want to get it right.

Dr Athukorala—This question relating to the India's compliance with the WTO agreement has implications for many other areas as well in addition to what Dr Shand mentioned. I think one important aspect is the Indian commitment under the WTO agricultural agreement. Under the agricultural agreement member countries of WTO were allowed to shift from quotas to tariffs but limits were not set on the tariff. Most agricultural tariffs in India were bound at very high levels, sometimes from 300 to 350 per cent. That is going to be a critical area in further negotiation with WTO.

A recent paper by Gary Purcell of the World Bank has analysed the possible implications of the removal or reduction of tariff levels. His findings clearly showed that agricultural produce in countries like Australia or the US would have immense market potential in food grain and other related food product sectors if WTO agreements were implemented properly.

The second point relates to the implications of country restrictions on labour intensive products, basically consumer goods, for future foreign investment in India. Following the liberalisation, foreign investments flows to India have increased significantly but not to the extent experienced in other countries which implemented reforms which favoured labour intensive manufacturing production. It is a very well-established point that the volume of foreign capital coming into a country is closely related to the nature of the trade region.

In India one of the reasons why foreign investment flows have not been expanding at a rapid rate like in China is that in labour intensive production areas you get restrictions. Most of the mobile foreign capital comes into this area. Therefore, my prediction is that with the second round of reform India is going to attract a lot of foreign investment into labour intensive production areas. That is one area where WTO commitments are going to have a tremendous impact on the reform process.

Even though reforms have been going on for about six years now, the employment outcome of the reform has not been that good in India. One of the reasons is the prevailing restrictions on labour intensive production areas which account for about 30 per cent of total manufacturing production.

Mr SINCLAIR—I am not too sure of the present status of India with this Indian Ocean Rim Association of Regional Cooperation. India seems to be putting a lot more emphasis on trade with Asia. They are obviously wanting to become members of APEC—a move which I totally endorse. Isn't it really something of 'me tooism' because Europe is together and America is getting into NAFTA and Asia is getting into APEC? Isn't there really far more future in Australia trying to promote, in spite of the West Australians, greater Indian integration into the Asian economies than trying to pick up the Indian Ocean rim? At the same time the SADC group of countries are lifting and their economies are lifting, but the Middle East does not seem to be part of it. Unless you can get some meaningful reciprocity in attitude and demand, I wondered how you saw that whole

concept.

Dr Shand—The dynamism in the Indian Ocean rim is very clearly on the eastern side, from India round through the ASEAN countries to Australia, and the expansion that has taken place in intra-industry trade and inter-industry trade in the last years has come from the really basic step, based on the dynamism on the eastern part of the rim, so I would agree with what you are saying there. When you shift across to the Gulf states and north-eastern Africa to southern Africa, you really have got some of the poorest economies in the world inside. In fact, the N14—the expanded number now—contains a number of these: Madagascar and Yemen to name just a couple.

I cannot see in the short run, in economic terms, a great deal of progress being made on dynamism in that western sector. What we are seeing is that there is a bit of treading of water at the regional level of IOR-ARC and there is more concern, at the sub-regional level, to get things going there before they go regional. SADC with South Africa is a case in point—South Africa really wants to get its relations with its neighbours straightened out a bit, with assistance and so on.

ACTING CHAIR—They are trying to get some of our neighbours straightened out!

Dr Shand—There is a new effort going on at the moment to get SAARC moving and that, again, is slow. But the regional concept behind the Indian Ocean initiative is one that is very hard to get over. As I say, it is a long shot really—we just keep the thing bubbling on the back burner.

Mr SINCLAIR—I do not know about bubbling. It is hardly simmering, isn't it?

Dr Shand—It is difficult to see. There are two tracks to it, which complicates things. The second track was the initiative of the last government in Perth. The first track is really the Mauritius initiative, which is essentially the Indian side of things. The Indians would really prefer the first track, but they put up with the second track. The difficulty is that there is not much money to go around to either track.

Mr SINCLAIR—It's a spin-off track!

Dr Shand—It is a bit hard to see the second track—there are not many footprints there. So those of us who are involved in the second track, and we are because we have an Indian Ocean trade and investment project that tries to crank this thing up a bit, find it difficult to see where the money is coming from for the sort of research that needs to be done.

Mr SINCLAIR—Thank you.

ACTING CHAIR—There being no further questions, I thank you for your attendance. I understand you have a document to present to the committee. We will deal with that now. The document is entitled *Achieving the potential for economic linkages between Australia and India* and it has been provided by the Australia South Asia Research Centre.

Resolved (on motion by Mr Dondas):

That the document be incorporated into the subcommittee's records as an exhibit to the inquiry into Australia's trade relationship with India.

ACTING CHAIR—We will also endeavour to obtain copies of those other publications that you three have mentioned. If you can give any assistance in respect of that, that would be helpful as well. Thank you again for your attendance. The subcommittee will stand adjourned till 1.30 p.m.

Luncheon adjournment

[1.43 p.m.]

GUY, Mr David John, Market Analyst, SMEC International, PO Box 346, Cooma, New South Wales 2630

ACTING CHAIR—I declare open this afternoon session of the trade subcommittee of the Joint Foreign Affairs, Defence and Trade Committee and welcome Mr David Guy to the hearing. Are you appearing on behalf of the corporation?

Mr Guy—Yes.

ACTING CHAIR—These proceedings have the same status legally as proceedings in the houses of parliament. Whilst we do not require you to give evidence on oath, I am obliged to inform you that it is important that all answers to questions and evidence that is submitted be truthful and that any deliberate misleading of the subcommittee may be regarded as a contempt of parliament. We do not normally have that problem but I have to say that for your own advice.

The committee that prefers that all the evidence be given in public but, if at any stage you wish to give your evidence in private, you may ask to do so at that time and we will consider the request. The subcommittee has before it a submission from the Snowy Mountains Engineering Corporation which is submission No. 66. That submission has not as yet been formally admitted into evidence.

Resolved (on motion by Mr Dondas):

That the subcommittee receives as evidence and authorises for publication submission No. 66 from the Snowy Mountains Engineering Corporation to the inquiry into Australia's trade relationship with India.

ACTING CHAIR—Would you care to now make some opening comments in respect of the submission by the corporation and then we will proceed to questions.

Mr Guy—Thank you, Mr Chairman. I would like at the outset to express the apologies of my CEO, Jack Boniface, who was originally to have given evidence here today. He has been called away suddenly to an urgent meeting in Sydney, which he could not postpone, and has asked me to express his sincere regret that unavoidable unforeseen circumstances made it impossible for him to attend.

I should perhaps point out that my role in SMEC is market analyst and that it is my responsibility to undertake market research, to monitor emerging trends in infrastructure development in the Asia-Pacific region and to assist with the formulation of strategies to win new business. By way of background to our submission, I would like to say something about the way in which a company like SMEC approaches the identification of markets and the according of priority to the markets in which we operate.

ACTING CHAIR—Could I just interpret your presentation and I apologise for

doing so, Mr Guy: is SMEC International a different company from the Snowy Mountains Engineering Corporation? I am aware of the corporation generally and its work.

Mr Guy—The corporation was privatised by a staff buy-out in 1993 and, following that, the company was restructured primarily for operational purposes. The original company, which was SMEC Ltd, became a holding company and then separate subsidiary companies were set up for special purposes. SMEC International is a subsidiary that handles our international operations; SMEC Australia is responsible for domestic operations here in Australia; and then SMEC Services is responsible for the employment of staff and the like.

ACTING CHAIR—Good, thank you. I thought that was the case but I thought it was important to have that on the record.

Mr Guy—SMEC operates in a broad region from about the Gulf states in the west through south Asia and South-East Asia to China in the east. Our portfolio of markets within this region does change over time in accordance with changing needs, but at any point in time we would be working in about 20 markets. Determining the geographical and sectoral focus of our operations is one of the most important strategic decisions that we make.

India has been an area of operation for us for more than 15 years now and during this time it has risen and fallen in terms of turnover. In recent years SMEC has had a renewed interest in India for a number of reasons. One is the impact of the economic reform movement in India which, in very broad outline, would be endorsed by all political parties in India. This is opening up the economy to external contacts of all kinds, including investment, technology transfer and consulting.

In addition, over the years we have acquired a very good reputation in south Asia generally and in India in particular and, in part, this is due to the work we did for the Australian aid program in the 1970s and the early 1980s. In more recent times it is due to the time we have done primarily for the World Bank. As a result of this we are now beginning to reap the rewards of the efforts that we have been putting in in the Indian market for a decade or more.

Another factor in our priority accorded to the Indian market is the fact that, several years ago when we saw the beginnings of the economic reform movement and the opening up of the Indian economy, we took the decision to open a representative office in New Delhi. We have been fortunate in securing the services of a very good local manager. He is an Indian citizen who understands the processes of government and commerce in India very well.

One of the reasons for our success in the Indian market—and in some other markets I believe—is that we have a very good combination of an Australian expatriate regional manager, who is currently based in Kuala Lumpur but who was based in south Asia and who is still responsible for the south Asian region. He is a very good local

manager. I think it is the combination of these two that is, in part, responsible for us winning a growing amount of work in India over the past four to five years. I am sure that Austrade or DFAT would support that: that the winning formula is really to have good expat input and good local input.

It has been our experience in India that good local staff are never easy to find, but they are there. If you can find them and hang on to them, they will be an enormous asset to you, but they have to have the appropriate support from the company. I think that is all I would like to say by way of introduction. I would be happy to try to answer any questions.

ACTING CHAIR—You stated then and it is stated in your submission that the involvement of SMEC has been in projects funded by the World Bank or the Asian Development Bank. What are the prospects for the company being involved in projects where it is funded by the private sector or the Indian government or state instrumentalities directly; in other words, moving beyond the connection with international funding agencies?

Mr Guy—That is one of the objectives that we are currently pursuing. One of the features of the changing operations of multilateral agencies in the 1990s is a review of the nature of their support for infrastructure operations. It is quite clear that the World Bank in particular would like to scale down its financial support for infrastructure development, while acknowledging its importance in the totality in the development process and substitute a range of other mechanisms—guarantees and the like.

We do not envisage that having a great impact on our operations in the short term, because I do not think in the short term it is really a viable policy. But we do expect over the medium to long term that there will be a winding down of World Bank involvement in Asia generally and in infrastructure, particularly in India. But there are some residual areas where it is going to be very difficult for the private sector to move in. One of those is rural infrastructure, whether it be rural telecommunications, rural road works, rural water supply or rural electrification.

The basic reason for that is that it is very difficult in conditions where you have very poor consumers with a limited capacity to pay for the services they consume and very high overheads due to long transmission costs for power lines or very high roads compared with the number of vehicles using them for these to be commercially viable in their own right. There are some mechanisms to get around that from the bank's point of view, but it is not something that lends itself readily to private sector investment.

Another area would be urban mass transit systems, particularly subways. Indian cities are very keen to develop subway networks as a way of easing the urban congestion. But these are a financial nightmare in terms of raising money that is consistent with the objective of charging a low fee to make it readily available to all passengers.

The third area is environmental protection where it is often difficult to allocate user costs in any manner of equity, and these are also very long-term investments. So whether the bank likes it or not, there is probably going to be a role for the bank in those particular areas of infrastructure development for many years to come.

We are currently involved, as is mentioned in the submission, with a private hydro-power project in Nepal which is linked to India because it is proposed that the power be sold to northern India. This is our most advanced private project. There are a number of ways in which we can approach linking our operations more closely into the private sector. One is, as in the West Seti project in Nepal, to be in effect the project sponsor and developer and to take a concept which had been articulated by the Nepalese government and try to bring it to the point of construction and operation as a viable commercial entity. For a company of our size, that is an ambitious undertaking, but we have achieved quite substantial progress to date. We will be reporting more fully on that in our submission to the second part of the inquiry dealing with countries other than India.

We can also subcontract or contract directly with private sector entities; we have been exploring that possibility in India either with Indian entities or with international companies that are operating in India. This is more difficult to do in a sense because it is a very ad hoc process. It is very opportunistic; it is dependent on finding the right kind of company that is in need of your services at that particular point in time. That is why it is very good to have effective market intelligence on the ground. We are doing that, for instance, with a Thai company operating in Indochina but we have not currently identified opportunities of that kind in India.

ACTING CHAIR—Could you give us your thoughts on the success—or what might otherwise be said as the lack of success—in terms of Australian companies being able to get access to World Bank funded projects? We do not seem to get a very big share—in fact we get a small share—of that fund in a region where we are endeavouring to increase our presence and our interaction. Do you have any views about reasons for that and what may be done to improve that situation? I know it goes beyond the specific question of our trade relations with India but it is clearly relevant because this is an area where a large proportion of the funds for infrastructure and development are directed.

Mr Guy—Within SMEC we do reflect on that question because we are one of the most consistently successful Australian companies in winning World Bank work in our areas of operation. One of the reasons for that is that we have a very heavy dependence on the World Bank and the Asian Development Bank for our income.

SMEC probably does not have the highest turnover of any consulting engineering firm in Australia but we do have the highest international turnover, I would think. We do more than 80 per cent of our business off-shore in the Asia-Pacific region, and the bulk of that is not done for AusAID. About 10 to 15 per cent of our work comes from AusAID. The bulk of it, something in the order of 60 to 70 per cent, comes from the multilateral

agencies and primarily the World Bank and the ADB. So we cannot afford to allow our performance to decline in contracting with the banks.

That is an advantage and a disadvantage. It is an advantage in the sense that that work is central to our portfolio of operations. In most Australian consulting firms it is really rather peripheral and there is a sort of 'hit and miss' attitude. We cannot afford to miss too often. Therefore we devote a lot of time to monitoring the operations of the banks and understanding the procedures by which the contracting process occurs.

One of the reasons that we are successful is that our engineers who draft our proposals produce quality work. As you know, initially you draft an expression of interest; if you are on the short list you draft a full proposal; then proposals of perhaps anywhere between four and six companies are evaluated; and then a company is selected. So the quality of your proposals, together with the credibility of your company, is critical to success. Our credibility has been established over 25 years. If we were starting out now, it would be much more difficult for us to win World Bank business. So we have the credibility covered. We also have the skills in-house in developing proposals that meet not just the terms of reference but also the thinking of the bank, which is extremely important.

Another factor is that, unlike a lot of Australian consulting engineering firms, we have a network of offices throughout Asia that we have been building up for perhaps 20 years. But in the last five years we have strengthened our network considerably by establishing new offices in Beijing, Hanoi, Hong Kong and several other places.

Success in World Bank projects is dependent on your being able to meet two different sets of needs, expectations and criteria: one is at bank headquarters in Washington or at their local office; and the other is in the executing agency or the agency for which the service is going to be performed. Often these are different in terms of the details of their expectations and requirements; you have to balance those two. You have not only got to be able to read the bank's requirements but you also have to understand the circumstances of the executing agency. That is where your local office becomes important, because they are the point at which the dialogue with the executing agency about the background to the project, about how they see their needs and the inputs of consultants fitting in to their operations is determined. You have to succeed at both ends of the spectrum.

We are equipped to do that because of our network of offices overseas. Of course, to establish such a network is an expensive undertaking and a lot of companies are reluctant to take on that initial expense. We have done so because we were set up to become an international company. It is only in the past 10 or 12 years that we have even been allowed to operate in the Australian marketplace; so we survive by our international operations. We cannot afford to do without it.

Another factor in World Bank work is that you must have increasingly local associates. It is not enough now to tender in isolation as an international company and say, 'We will do the work according to the terms of reference A, B, C, D.' What the World Bank is looking for is an effective combination of international expertise and local knowledge and understanding. This is manifested through joint proposals by a company like SMEC and a local associate company. Because we have a network of offices overseas and we are receptive to the development of alliances with local companies, we have reached the point where it is virtually routine for us to tender for World Bank work in association not with any local company but with a company that we have selected as being compatible with us. We have a host of these companies throughout Asia through which we routinely submit proposals. That is increasingly important in the way the World Bank evaluates these proposals. But without that presence in the marketplace, it is difficult to develop those kinds of alliances and collaborations.

ACTING CHAIR—Are there lost opportunities at the moment for other companies who obviously are not set up the way SMEC is; are there opportunities if companies did put that initial investment into establishing an on-the-ground network that could be realised either in World Bank or ADB funded projects or in other funded projects; do you see some opportunities there without impacting upon SMEC's business, I suppose, you have to earn a quid too?

Mr Guy—Yes, that is right. I think there are unrealised opportunities. If I might give an example: one of the growth areas in the operations of multilateral agencies is urban management systems. They have been monitoring for some time the growth of megacities worldwide—but principally in Asia—which they describe as having a population somewhat in excess of 10 million people. There will be a number of those throughout Asia.

It is quite clear already that the scale of urban development is such that it is rapidly exceeding the capacity of municipal authorities to plan and manage it. This is one area in which both the World Bank and the Asian Development Bank have signalled their intentions to increase their lending over the next five to 10 years. This will be at the expense of some other sectors obviously; so if you want to as a nation and as an industry maintain the scale of your business with the bank, you have to have the capacity to move in the directions that the bank is moving.

We already have some experience in urban development from fairly narrow sectoral perspectives like urban roads development, urban water supply and so on. But the management systems are really the key to it. We were involved with an assignment to help Brisbane City Council set up an export unit last year which would be focused on urban management business in South-East Asia and south Asia. We assisted with the market survey for the nature of the opportunities and how such a unit could be structured and so forth. There is a natural alliance between our capacity on the technical side and their capacity on the management side which we hope to develop jointly with them in the

years ahead.

That is one example of the way in which you have to respond to the changing nature of the bank's operations. That particular entity, Brisbane City Enterprises, is already operational and is already winning some work. We are hopeful of winning a lot of work jointly with them in the years ahead. That is one example of a growth area which Australia is placed to participate in, but it does require some initiative and imagination.

It also requires a certain capacity to assume calculated risks, and SMEC has always been prepared to assume those kinds of risks. A lot of companies are not really prepared to do that. I am not quite sure what you do about that. But the step from the domestic market to the international market is a very formidable step. We are in a favoured position in a way in a sense that we were in the international market before we were in the domestic market. That decision was made for us by the circumstances of our establishment. So it was not such a big step for us; it was a purpose for our existence. But for a fairly small consulting engineering firm, it is a big expense and a big financial risk to try to break into the international market.

Mr DONDAS—I thought SMEC's paper to the committee was a very good paper particularly in identifying the factors such as good local partners, technology transfer, bureaucratic intelligence, links with financial institutions and repatriation of earnings. The question is: had you not been in the international marketplace now or even five years ago, would you have attempted to try to set up a small engineering base in India; and, if so, how hard would it have been? You have been there for 20 years so obviously you have the fruits of a very strong foundation over that period, but let us talk about 1992 and beyond.

Mr Guy—Yes, we would be prepared to go into a market like that. The nature of our operations has changed considerably over the years. There are two basic philosophies you can adopt to international project work. You can take a fairly technical focus and you can simply follow the lending patterns of the agencies around the world and you can simply follow the flows of money. A lot of companies do that. If the World Bank is interested in Cambodia, then they are interested in Cambodia. We used to operate along those lines, but these days we take a much more strategic view of markets. We want to be in the market for the long term and we want to develop the nature of our operations in accordance with the way the market changes, so that we will change our operations in accordance with the nature of the opportunities.

If I could draw a parallel: we have a similar set of circumstances in the Gulf area at the moment. We have recently opened a new office in Dubai. The reasons for opening that office are that, in the wake of the Gulf War, there was a tremendous sense of uncertainty within the gulf region and a reluctance for governments to commit themselves to major projects. Now that people have regained a sense of stability that perception is changing, and a number of major infrastructure projects are being planned in the Gulf

states.

In a sense, this is the same situation as the opening up of India in the early 1990s. We could see that there was an opportunity there in the Gulf. There was going to be limited time in which to establish ourselves, and we had to decide whether or not we were going to take advantage of that opportunity. We decided we were and that we would set up an office in Dubai in the expectation that it would take two to three years before that office could be commercially viable; so it would have to be underwritten from headquarters over that time.

Consulting engineering firms are not particularly profitable enterprises because most of our earnings go out again in costs. But because SMEC is a fairly successful company within the industry, we have the financial reserves to be able to commit ourselves to projects like that and say, 'Well, there is an opportunity here which will take us several years to realise and we will commit ourselves to it in the expectation that the returns will be there.' If we had not been in India for, say, 15 years prior to the opening up of the Indian economy, that is probably the way that we would have looked at it. On the assumption that the reform movement was not going to be short-lived but was going to represent a permanent transformation of the way that the Indian economy was evolving, there were going to be much bigger opportunities there for companies like us. But we would have to be prepared to accept a two- to three-year period at least in order to develop a sufficient income stream from that market to cover the costs of servicing the market.

We would have to find the right kind of local associates. We would have to not only find a local manager but also contact sources of intelligence within the Indian bureaucracy or the industry networks, so that we would be confident that we would have effective early advice of opportunities that were emerging in India. We would have to have some kind of base on which to work which, in our case in India, is the World Bank. It is not unimaginable that a company without our track record could have followed that path. But I think it would have been a difficult decision for the company to make.

As I alluded to in the introduction, one of the problems that we have constantly is how do we rate, say, the Indian market against the Chinese market and against the Indonesian market? We cannot be everywhere at once. We have to have some kind of focus. So we can either take a short-term focus and say that where the work is in the next 12 months is where our priorities are; or, we can take a longer-term focus and say that we know that we might be struggling in China for several years before we have established our local credibility and we are prepared to wear that cost. It is the same in India. How do you evaluate the long-term income streams?

Our perception of the long-term income stream in India is very positive. But to do that, you have got to undertake the basic market research to come up with that assessment. It cannot be done simply on the basis of speculation or some kind of gut feeling. You

have got to do your homework on the market to evaluate whether there is going to be a place for you in the medium term which warrants the investment that is required to establish yourself there if you are starting from scratch.

As we pointed out in the submission, we were—as it happens—very well positioned when the economic reform movement was introduced. If you are not well positioned like that, then you have the problem that we faced in the gulf. Does your intelligence suggest that the long-term income stream is sufficient to warrant the short-term cost? Can you afford that cost from your operations and can you set in place the necessary infrastructure to ensure that you begin to benefit from that income stream as soon as possible?

ACTING CHAIR—Mr Guy, your submission expresses concern—indeed criticism, I would suggest—about the infrequency of visits by Australian ministers. It says that there is not enough government to government contact, et cetera, in that regard, compared with the situation with many of our competitors. You specifically mentioned the UK. Would you like to expand upon those comments which are made in your submission?

Mr Guy—I do not understand the details or the practicalities of formulating ministerial travel programs. Quite clearly—

ACTING CHAIR—Just read the papers and you will find out.

Mr Guy—There are many competing demands on the time of ministers, particularly economic ministers. We accept that we do not live in a perfect world where ministers could be cloned and they could be everywhere at once. But I believe that the cultural dynamics of a country like India are such that personal contacts are very important. That is often depicted as an Asian phenomenon, but personally I do not think it is particularly Asian. I think it is a universal human phenomenon that transactions are undertaken with people whom you know and in whom you have some confidence; that must be built up over time. That is one thing.

The second thing is that India is a mixed economy in which the state still plays a very prominent role and will probably continue to do so although it is being eroded in some areas, such as infrastructure. The idea that the state would not have some kind of important role to play in the commanding heights of the economy is unlikely to be the Indian policy view in the future. So governments are important and there is an implicit assumption, perhaps an incorrect one, that governments and companies are in some kind of symbiotic relationship.

The presence of the government in a supporting role of some kind for Australian, Canadian or British companies is taken as some kind of indication of quality assurance, if you like. Of course, Indian officials know that those Australian companies are not being underwritten by the Australian government, but in a certain sense their credibility is being

endorsed by the presence of the government there. Ministerial visits are not the only way to achieve that, but they are an important part of the mix.

One of the advantages of India is that it is on the way to a lot of other places. If it were possible for there to be more frequent, even though shorter, visits by economic ministers in particular when they were on their way to visit the Middle East, Europe or wherever, this would be—from our point of view—very valuable, but it is only valuable if the ministers get appropriate support from their departments and from industry. You cannot send ministers in there simply to wave a flag and drum up business; they have to be adequately briefed on the nature of the opportunities and the nature of any bottlenecks that might be encountered. So it is up to industry to support ministers as much as it is up to ministers to support industry.

ACTING CHAIR—I take it that you are talking about the national government, or are you including the state governments in Australia? Is there anything particular about endeavouring to promote that greater contact in the future as to where it could be directed? We have heard that the political situation is such that there is more of a—I do not think ‘devolution’ is the right word—greater role for the states within India compared with maybe the past under a more centralised government. How should we be promoting that?

Mr Guy—India, like Australia, has been blessed with a federal system. That is not likely to change so we have to work within that framework—so do the Indians. That is an advantage in the sense that Indian officials and businesspeople, above all in Asia, understand what a state government is. In some parts of Asia that have more centralist forms of government it is very difficult to understand exactly what a Premier or a minister from a state in Australia actually represents—is he like a governor or a lord mayor; what is he exactly?

ACTING CHAIR—That was what was triggering the question—that India does have a federal system.

Mr Guy—India is a special case, perhaps, in being able to interpret the status and objectives of state-based ministerial visits in a way that is very confusing for other people, because they never quite understand who these people represent. In terms of visits generally it has been a source of much concern and bewilderment throughout Asia that there are too many delegations with unclear objectives and unknown status. This is not just government, it is also industry associations and business councils and so on, who, with the best of motives, try and facilitate contact between Australia and other countries.

But from the viewpoint of the counterpart country it is often very confusing to understand why these people are here and who they really represent. Do they represent the whole of Australian industry, or only certain members of their association, or only the people who are actually there on the delegation? I know it is difficult in our pluralist

system to bring very much order into those kinds of activities, but I think we do ourselves a disservice by promoting confusion in the marketplace about who represents what and who is responsible for what.

ACTING CHAIR—I have one last question and it concerns the aid program and its relationship with development and particularly promoting Australian companies—this whole issue of concessional finance and so on. I am aware that we have had the Simons review and the government is yet to respond to that. Given that the amount of Australian aid to India is very small, compared with the overall picture, you do refer in your submission to the importance or the role of concessional finance in leading to promotion of trade, business and investment opportunities, and how that is utilised by other countries. What do you see as the future for that in India? Is it going to continue to be a major aspect of how they get some of these projects underway?

As I said, I do appreciate that a lot of our concessional finance funded projects were directed to other South-East Asian countries—the Philippines, Indonesia, Vietnam, and some to China. But what is the general position as to the importance of that type of funding in the future?

Mr Guy—At present the role of concessional finance in India is not as prominent as it is in most of South-East Asia and in China. However, that is likely to change with the opening up of the Indian economy, and I suspect that along with the policy decision to promote technology imports will go a substantial boom in export credit financing from Europe, Japan and North America. The extent to which that is underwritten by concessional finance terms will set the criteria for the marketplace.

Our dilemma is that if this trend actually turns out to be real then we are going to be at a serious disadvantage in the sense that we can offer commercial export credit terms through EFIC, but we will not be able to compete with concessional terms. In the end that is a decision for governments to make. A lot of governments around the world would prefer to live in a world where business was business and government was government.

ACTING CHAIR—And aid was aid.

Mr Guy—Yes. It would be a lot simpler for all of us if this murky world somewhere between trade and aid did not exist. But unfortunately there are a number of influential countries who do not see it that way and will continue to create the environment in which concessional finance rules the day. If we wanted a world in which concessional finance was abolished, in the same way that we might abolish chemical weapons, we would have to fight that battle in Paris and Tokyo particularly. If we do not reach that situation then the lack of a concessional finance facility will not cripple Australian industry, but it will effectively rule us out of certain sectors of certain Asian markets. From SMEC's point of view—

ACTING CHAIR—With respect to India specifically, which is the subject of this inquiry, you say that is likely to be increasingly the case?

Mr Guy—I suspect that is increasingly going to be the case. It is not as critical for companies like SMEC as it is perhaps for equipment suppliers. We have not actually, as a company, benefited a great deal from the DIFF scheme. That was partly because the DIFF scheme was so cumbersome that it was difficult to incorporate it into our project operations. If the government were to consider the introduction of a new concessional finance facility, I think they should start with a blank sheet of paper, look around at what the rest of the world was doing, and then devise a start of the art scheme which would look a lot different to DIFF, because DIFF was developed in a very ad hoc way over many years.

This inquiry, of course, does deal exclusively with India and I said I think that concessional finance is going to become more important rather than less important in India. It is already a critical factor in other parts of South Asia—Bangladesh and Pakistan.

ACTING CHAIR—I appreciate that. We have had another inquiry into that issue through the Senate committee. But it is a matter that was raised in your submission, so thank you commenting on it. I would like to thank you Mr Guy for appearing today. A copy of the *Hansard* will be forwarded to you in due course. If you have any further comments to make you can send them to the secretary. I call the witnesses from the Department of Transport and Regional Department.

[2.35 p.m.]

CALLIONI, Ms Victoria May, Director, Bilateral and Regional, Trade Coordination Group, Department of Transport and Regional Development, Level 2, Todd Building, Myuna Complex, Civic, Australian Capital Territory 2601

CASLING, Dr Elizabeth Mary, Director, Trade, Research and Liaison Section, Rail Branch, Land Transport, Department of Transport and Regional Development, GPO Box 594, Canberra, Australian Capital Territory 2601

ELLIS, Mr Bill, First Assistant Secretary, Corporate Division, Department of Transport and Regional Development, 17 Mort Street, Canberra, Australian Capital Territory 2600

GRIFFITHS, Mr Tony, Acting Assistant Secretary, Trade Coordination, Corporate Division, Department of Transport and Regional Development, GPO Box 594, Canberra, Australian Capital Territory 2601

PIKO, Mr Gregory Paul, Team Leader, Maritime Division, Department of Transport and Regional Development, GPO Box 594, Canberra, Australian Capital Territory 2601

PORTEOUS, Mr Paul, Director, Integrated Logistics Team, Trade Coordination Area, Department of Transport and Regional Development, Canberra, Australian Capital Territory 2600

SAMUEL, Mr Christopher Drummond, Director, Asia and New Zealand Section, International Relations Branch, Aviation Policy Division, Department of Transport and Regional Development, Trace Building, Civic, Canberra, Australian Capital Territory 2600

WILKINSON, Mr Anthony Reginald, Executive Director, Aviation Training Australia Inc., 47 Monkman Street, Chapman, Australian Capital Territory 2611

ACTING CHAIR—Welcome. As I am sure you are aware, these proceedings are similar in nature to proceedings of the parliament itself. While you are not required to give evidence on oath, you should be aware that evidence to the committee should be truthful. Any deliberate misleading of the subcommittee may be regarded as a contempt of parliament. The subcommittee does prefer that all evidence be given in public, but if at any stage you wish to give part of your evidence in private, you may ask to do so and the committee will consider that request.

We have received a submission from the Department of Transport and Regional Development which is submission No. 28. I now invite you to make some opening comments and then we will proceed with questions.

Mr Ellis—The Department of Transport and Regional Development is involved in transport and trade issues in support of the government's economic agenda to expand Australian exports. The department itself basically consists of people who provide policy advice, some program delivery and some safety investigatory functions. We do not operate transport services or operate infrastructure.

The department aims to create frameworks to facilitate safer and efficient transport of passengers and cargo. We aim to facilitate market access for the Australian transport industry, and we also aim to support industry efforts to increase sales and services and exports. We do this through cooperation with transport authorities and agencies in other countries on both a multilateral and bilateral basis. The department attempts to consult widely with industry, particularly through the transport trade industry consultative committee that we have established and other fora, and takes account of transport industry trade priorities.

We have brought along different people from different parts of the department this afternoon. If it is okay with the committee, when you come to a particular subject matter, I would like to pass the question to the people at the table.

ACTING CHAIR—Certainly. We will proceed to questions.

Senator CHILDS—I have a question about the high speed ocean freight area. You talk about three aspects of that development. Could you elaborate on how those three areas might be advanced in India?

Ms Callioni—The high speed ocean freight area in the fast ferries industry works very closely with Austrade in trying to facilitate entry into that market. I understand there have been some studies on commercial routes throughout South Asia, across the Indian Ocean and so on. I do not have details of those; they are commercial studies that have been undertaken.

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

Senator CHILDS—That is what I wanted to explore. We have heard earlier of the possibility of the development taking place, particularly in the seaboard areas of India. Your answer might be that a lot of the studies are commercial-in-confidence, but I was wondering whether the department had assessed the characteristics of that seaboard port development and whether there was any more detailed information on that.

Ms Callioni—The department has not specifically undertaken any studies in that area. As I say, I understand Austrade working with commercial people have done some

work in that area. I also understand that the Western Australian Integrated Water Transport Group, which is associated with the state government, has also led a mission to India in February this year. The group identified a number of opportunities which they will be pursuing over the next few years, but I do not have the detail of that work.

Senator CHILDS—So we are essentially talking about potential rather than accomplished arrangements?

Ms Callioni—For the most part, as we understand it, yes.

ACTING CHAIR—We had some evidence earlier to the committee regarding difficulties or impediments to tourism. We had some comments this morning about the problems that are often associated with people entering India at the airport, such as checks on goods being carried. You would not have heard this, but one witness commented on a very regulatory system whereby a business person who was taking some samples into India was held up for quite some time as every single little item was checked. There were comments that you could not even take a camera or a PC in at one stage unless you went through the whole process of declaring it and so on. Could you comment on that and what you see as may be some changes coming in that area? What will its impact be upon the image of promoting tourism/trade between the two countries?

Mr Samuel—I deal with air services capacity issues in terms of facilitating travel through negotiating air services capacity between India and Australia. I do not really think I could comment on the customs clearance procedures. That is really outside this portfolio.

ACTING CHAIR—Could you comment upon what is happening in respect of two-way tourism?

Mr Samuel—Yes, the market is actually growing quite substantially. I think in the last year, two-way traffic grew by about 10 per cent, and of that I think there was about a 20 per cent increase in Indian visitors to Australia. So, in terms of inbound tourism, it is quite strong. The actual break-up of the traffic too at the moment is about 60 per cent of Australians going to India and about 40 per cent of Indians coming to Australia. That gap is closing as the inbound market grows. Those growth figures do not suggest that that is a major impediment to growth. Beyond that, I really could not comment on customs clearance procedures or immigration clearance procedures at the Indian end.

ACTING CHAIR—The issue was raised also in the context of perceptions of India by Australian travellers and Australian business. It was in the context of you can talk about economics and you can talk about trade but, in general, when India is considered compared with other parts of the region, it does not have as high a profile as maybe it could have amongst Australians generally and Australian business in particular. Promoting tourism might be a way of then leading into promoting business opportunities. It was in that context that Mr Sinclair actually raised it when he was here. There has been

a feeling over the years of a frustration, which now will be lessening because of the opening up of the economy. What can be done? How can the government look at expanding the understanding and the knowledge of India within Australia, both generally and also within the business/tourism communities?

Mr Samuel—I think our focus probably tends to be on promoting Australia as a destination in India.

ACTING CHAIR—I appreciate that.

Mr Samuel—So we do not tend to look at it from that perspective. I suppose, as the number of travellers between the two countries increases, both leisure and business, a greater awareness will develop of India. I understand that, as they do deregulate their economy, they are moving certainly in the freight area to introduce some sort of acceleration of their customs clearance procedures, particularly through introducing electronic clearance procedures for freight. I do not know to what extent that would apply to the passenger level.

ACTING CHAIR—In the area of airport infrastructure, I think there are some indications that work could be undertaken there and there are potential opportunities for Australian companies. What is the source of funding for those projects? Is it World Bank or Asian Development Bank funding?

Mr Samuel—I am not really sure. I know that the Indian government is facing some fairly considerable problems in developing its airport infrastructure, largely through the lack of funds. I do not know to what extent there is any sort of outside assistance for that development, but certainly my understanding is that infrastructure expansion in terms of the airports is moving relatively slowly, basically due to the lack of funds.

ACTING CHAIR—Does the department have any personnel directly engaged in India? How does the department function in terms of its interaction with India? Do you work through Austrade and DFAT? Do you have specific personnel on the ground over there who are involved in looking for opportunities for Australian business in these transport related areas? Can you give us a picture of just what is happening in India rather than back here?

Mr Ellis—In general terms, our focus of effort is not directed towards India. The department has no personnel in India. Indeed, we have only one representative as such outside of Australia, and that is shared with another portfolio. Therefore, we are not engaged on the ground as such. We are engaged with a focus, particularly through the government's priority in the APEC forum. Of course, India is not a member of APEC. In a sense, we would work with Austrade and with DFAT, in terms of any interests from this end going towards India, as much as we would work with any other country.

ACTING CHAIR—How does the department identify what opportunities are there for Australian businesses in transport infrastructure. We have talked about fast ferries. I am trying to find out where the linkage is between all of you people who are sitting in front of this committee today talking about India. The way it fits together has me confused at the moment.

Mr Ellis—That is a good question. I think what I am saying to the committee is that India is not seen as the highest priority of the department's focus in terms of trade in services or transport trade facilitation. Our priority is directed towards participation through APEC and engaging in enhancing bilateral relationships with Indonesia, for example. We maintain a bilateral relationship in terms of the international air services which is why we have that sort of focus. Our people gather intelligence as necessary dealing through the High Commission, DFAT and Austrade. The bottom line is we do not have a concerted effort in looking for opportunities in India.

Senator CHILDS—You say in conclusion that an increased government focus of India would result in expanded opportunities. I wonder whether you could hazard a guess on how many people in the department in total would have as their primary focus transport issues with India.

Mr Porteous—I know what you mean by that question. I think one of the clear things is that while you are looking at it from a bilateral perspective the department is not necessarily structured along the lines of looking at a particular country and then taking into account every transport mode that will operate in that country. Instead, we tend to be issues focused. So where there is an opportunity to expand on air services arrangements, for example, then we will focus and put resources into the air services area until we get a result in that area.

Where there is potential for Australian operators—and certainly futuristically looking we have things such as the fast freight ferries and the like where there are opportunities for them—and it has been identified and the industry is interested in it then we will put resources into that and try to move towards a result in that area as well. It tends to be issues focused on particular transport areas rather than saying, 'Here is a country. What is the entire range of the transport relationship that we can engage in?'

One of the important things when we do look at the wider country areas is looking more at the regional perspective rather than a specific country. For example, ESCAP is involved in a lot of research which includes highways, railways and a whole range of things, and that includes India. Our interests would be more in developing transport systems across all of the countries in the region because we see from the trade perspective the importance is not just from one country to another by one mode of transport. Usually it is through several modes of transport and quite often, particularly in South Asia and South East Asia, travelling through several countries as well.

There is a larger need to get harmonisation between those countries for things like customs barriers, which is the example you gave before, and do it so that we end up with a seamless approach to our transport which says that if we are going to get something from one area to another it is actually able to be progressed smoothly. There is more of a broader regional focus as well as an issue focus from transport and, very importantly, an industry focus. That is where we have industry people come to us and say, 'We have identified a problem or we have identified an opportunity.' Then we will get involved with them and try to see if there is anything we can do at a government level to help reduce those barriers and work with Austrade or DFAT. Alternatively, we will see if it is worthwhile for us to become directly involved and even work on in terms of a partnership or help with research, as we have with a number of companies working in Indonesia, for example.

Senator CHILDS—I appreciate what you have said but one of our terms of reference is to work out how we should better improve the trade. I notice the Minister for Foreign Affairs has indicated that the government's position is to develop bilateral relationships, but you have put the emphasis on the multilateral approach. One of our problems is to work out just what threshold we start from. My question as to how many officers involved is to try to assess how much it is broad picture approach which in practice means that India is dropping off the priority list compared with Indonesia and the other countries we are more familiar with. I come back to my question. Is it true that most of the interest is multilateral and it is only stimulated by the few companies that have indicated direct requests for assistance in the transport area? In other words, what I am trying to work out is how deep is the department's research and concern about India as a potential market?

Mr Griffiths—The department approaches transport trade multilaterally through APEC principally. We do have bilateral relationships and intensive relationships. We have a relationship with Indonesia, which is the most intensive. We have what is called a high level relationship with the Japanese Ministry of Transport. We have a bilateral relationship with New Zealand through the CER arrangement. Just looking at the numbers of people who are engaged, I guess you would have to count the trade coordination group that several of us are from. We have about 15 people there. Across the various divisions of the department there are several people in each of the divisions who devote part of their time to transport trade in aviation, land, maritime, et cetera. We do not have a huge level of resources devoted to promoting transport trade but we do make a significant effort.

I guess a lot of it relies on networking. We do use Austrade a lot to identify what opportunities there are. While we do not directly go out and try to sell things, we have a lot of contact with industry and state government organisations that are involved in trying to promote their businesses. I guess it is a situation where we have one identified intensive bilateral relationship with Indonesia with whom we have an MOU between our two departments, a relationship with Japan that also takes up quite a lot of resources and one with New Zealand which takes up a significant amount of resources. If you look at it at a

bilateral level it is a question of how thinly we can spread ourselves. To date, India has not been identified as a potential future bilateral partner.

We are going through a process in the department this year of assessing whether we should initiate additional intensive bilateral relationships. In doing that we are consulting with the transport industry through the consultative group which Mr Ellis mentioned and also through the department with Austrade. The idea is to make a decision on that towards the end of this year. India is one country that has been suggested to us as a future target for a bilateral relationship. Others are Thailand and the Philippines. I think a lot of the basis for a decision on any additional relationship like that will be based on the resources that we are able to devote to it.

Senator CHILDS—I appreciate that answer. Could you go a bit further and make a comparison between the resources that are devoted to India and those currently devoted to China? You can take that on notice.

Mr Ellis—Part of our difficulty, as Mr Porteous was leading to, is that we do not structure ourselves as having a set-up, so we do not have an India desk or a China desk or, for that matter, an Indonesian desk. One of the reasons why you have got people from different parts of the department here is that the way we are organised means that if we are dealing with Indonesia, for example, there are a range of issues; there are people who work in different parts of the department who come together on that as either an issue or in the next meeting or when asking, ‘Where do we go from here?’ So although we have perhaps the closest bilateral with Indonesia, as Mr Griffiths said, we do not have a head count in terms of the people dedicated to Indonesia. I do not know whether that helps or confuses.

Senator CHILDS—The reason I was picking out China is that it is another vast potential market. Because of the government’s declared view of wishing to develop bilateral relationships, the real test is when you come down to how much a pressed department can devote, with its limited resources. I appreciate that if you will get more money, you will do more, as your conclusion says. I think I have got some idea of what you are doing at the present moment. Regarding the work with Indian Railways, you say that there are difficulties with Indian Railways fulfilling their responsibilities. Could you elaborate on what that represents?

Dr Casling—I understand that there were some commercial problems associated with the Indian side meeting the terms of the contract. It is also my understanding that these were resolved as part of the normal commercial practice and are no longer an issue.

Mr DONDAS—I would like to ask Mr Wilkinson a question in terms of Aviation Training Australia and the recent visit by your organisation with other officials to India. You talk about aviation training. Was that a successful trip?

Mr Wilkinson—Unfortunately, no, it was not, because we had to defer it; we have not yet been.

Mr DONDAS—When are you going?

Mr Wilkinson—We are currently planning to go in late October, early November. We unfortunately had to defer it because of the unavailability of the appropriate people to go.

Mr DONDAS—Mr Ellis, you may be able to tell me why Air India has reduced its six flights a week over to Perth.

Mr Ellis—It was a commercial decision by them.

Mr DONDAS—Two a week is a lot.

Mr Samuel—Yes, they have been in and out of that route for a number of years. They advised us that they were suspending it temporarily, and then they subsequently advised us that it was an indefinite suspension. They did not really go into the reasons. I can only assume that they were commercial reasons—that the route was no longer profitable.

Mr DONDAS—We have Immigration presenting a submission to this subcommittee this afternoon. From the feedback that I get through the community, the department of immigration are very slow in processing applications for tourist visas. Was anything relating to Immigration raised with the department as to the reason why Air India were pulling out of two flights?

Mr Samuel—That was never put to us by Air India. I think there are moves to introduce visa issuing facilities at Bombay (Mumbai), which may previously have been something of a problem. Air India have never actually said to us why they withdrew. They simply notified us that they were withdrawing.

Mr DONDAS—Thank you.

ACTING CHAIR—There is a comment in the submission regarding the announcement in January this year by the then Indian government about a new surface transport policy. I will just quote from your submission where it says that:

. . . a focus of which was to attract private investment in the infrastructure sector. The new policy for private investment in highway development through the build, operate and transfer route provides for an allocation of risk between the Government and private sector, as well as attractive fiscal concessions.

New foreign investment guidelines were also announced, but it is yet to be seen whether these

changes will result in increased opportunities for Australian industry.

Could you expand upon that last sentence? What are these new guidelines, and is it within the role of the department to monitor this to see if the investment opportunities for Australian industry do come about, or is someone else doing that and you will have a look at it down the track?

Dr Casling—We watch it; we keep an eye on it, but they are the sorts of matters that the Treasury would raise with its counterpart in India in their bilateral relationship—foreign investment guidelines fall within Treasury's responsibility, but we would certainly bring to its attention any problems that we perceived. We maintain a watching brief.

ACTING CHAIR—Are you able to make any comment at this stage about what is likely to happen, or is it too early to tell?

Dr Casling—No, not at this stage; it is too early to say.

ACTING CHAIR—As for those guidelines, what are they? Are they more restrictive or less restrictive?

Dr Casling—They are a lot less restrictive, allowing greater direct foreign investment in projects, but it has only got to the guidelines stage. It is my understanding that they have not been fully implemented as yet but the government is certainly looking at liberalising it and making it a lot easier for foreign investment. I would have to go to either the Indian High Commission or to our Treasury.

ACTING CHAIR—For what? A copy?

Dr Casling—To get a copy of the guidelines. Treasury would be able to comment on the efficacy of the new arrangements.

ACTING CHAIR—I am not sure whether Treasury is appearing before us, but we will be making efforts to get a copy of them. If the department is able to obtain them and provide them to us, that would help because it would at least expand upon your comment there.

Dr Casling—We will see what we can do.

ACTING CHAIR—In the transport, aviation and railway sectors, is it the case that Australian companies, government corporations or whatever would have to have partners in India in projects that they would be involved in? Are you aware if that is either a requirement or would be the general practice?

Dr Casling—It is my understanding that a foreign company would need to be

linked to a domestic organisation. I understand that the government currently allows up to 74 per cent of foreign direct investment in the highway sector.

ACTING CHAIR—We know that Australian companies, whether they be construction companies, civil engineering consultancy firms or manufacturing companies that have an interest in the broad range of transport services, are active in an increasing number of countries in the region. How well do you think they are positioned to take advantage of opportunities that may arise in India? Can you comment upon whether or not their sorts of expertise, experience and involvement in other countries—say, the Philippines, Vietnam or Indonesia, et cetera—does transpose readily to getting involved in the Indian scene?

Dr Casling—I cannot comment directly on India, but Australian rail and road construction industry companies have very good reputations in certain areas like South-East Asia and Asia. Our technical expertise, range of skills, covers the whole thing: consultancy, project management, infrastructure, construction, signalling—all those sorts of things. If that transposes to India, then the opportunities are there.

ACTING CHAIR—That is what I was trying to explore, because we had some evidence before you appeared this afternoon from SMEC, who have been there for some time. Their involvement is in providing specialist consultancy advice, as I understand it, in particular infrastructure projects that are funded through the World Bank and so on. I think what the committee is hearing is that there are opportunities coming along now and in the future as the economy is being opened up from its previous state of very much a closed economy and locked in, to a large extent, with the former Soviet bloc command economy approach.

As you correctly state—I said it in my lead-in to the question—we know that Australian companies in this sector are out there trying to do as much as they can and have a good reputation, and I concede that, in other parts of Asia, particularly South-East Asia. I suppose what I am trying to ascertain is: what is the position with, first, whether or not they are aware of what opportunities there are and, if they are not, how they can find out about them—presumably through Austrade and people like you—and, second, are they geared up to get involved as quickly as possible or are there some features about getting into the Indian market that may be different?

Dr Casling—I do not really think I can comment on that. A company will make a commercial decision on whether or not it wants to get involved in a market. We can point to the opportunities, but it is the industry that assesses the situation and decides that, yes, it wants to be involved or not.

Mr Ellis—I do not think we can answer that question. Would you be meeting with any people from the private sector when you go to Sydney, Perth or Melbourne?

ACTING CHAIR—I am sure we will be. I appreciate it is a question that Austrade particularly can comment on, but I suppose I was looking to see whether or not government departments such as your own—which presumably have an interest in the long-term future of Australian companies in transport and the opportunities for them to expand and operate or invest overseas—can suggest how we move them along the step to actually getting in there. I think you have answered it as well as you can. As there are no further questions, I thank officers from the Department of Transport and Regional Development for coming along this afternoon.

[3.15 p.m.]

FISHER, Mr Luke Andrew, Commercial Manager, Europe and South-East Asia, Qantas Airways Ltd, Level 8, Building A, 203 Coward Street, Mascot, New South Wales 2020

KERR, Mr John Charles, General Manager, International Relations, Qantas Airways Ltd, GPO Box 933, Canberra, Australian Capital Territory 2601

ACTING CHAIR—I welcome representatives of Qantas Airways Ltd to this hearing of the subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade. I must advise you that the proceedings here today are legal proceedings of the parliament and, as such, warrant the same respect as proceedings in the respective houses of parliament demand. Although the subcommittee does not require you to give evidence under oath, you should be aware that this does not alter the importance of the proceedings. Any deliberate misleading of the subcommittee may be regarded as a contempt of parliament. The subcommittee prefers that all evidence be given in public but, if at any stage you wish to give your evidence or part of your evidence in private, you may ask to do so and the subcommittee will give consideration to your request.

The subcommittee has received a submission from Qantas Airways Ltd, which is submission No. 18. I would now invite you to make an opening statement in respect of your submission and any additional matters you wish to raise. Then we will proceed to questions.

Mr Kerr—Thank you. I do not think we have too much that we would like to add to the submission. The submission is still current. You will see from it that we have been in and out of India for the best part of 50 years. We first went into India in 1947 and, apart from a short period in the early to mid-1990s, Qantas has had a continuing involvement in the Indian market. We have, despite being off-line for those few years, maintained sales offices in Mumbai and New Delhi throughout the period, so we have a continuing association in India. We are currently serving Mumbai three times a week and have announced our intention to commence a fourth Saturday service from Sydney to Mumbai from November this year.

We do see the Indian market very much as a developmental market at this stage, but it is one that is showing good growth prospects. We expect that to continue. We have identified in our submission one or two matters which we felt were worthy of the committee's attention, particularly the level of ATC representation and the issues concerning visa issue. I think that is where I would leave the opening remarks.

ACTING CHAIR—Mr Fisher, did you wish to add any comments?

Mr Fisher—No.

ACTING CHAIR—We will proceed to questions.

Senator CHILDS—Why do you go to Mumbai?

Mr Fisher—We operate to Mumbai because that is the commercial centre for India. In our studies we looked at a range of gateways. We established that Mumbai was where most of the Australian commercial traffic wanted to go to and as a catchment area for travel from India to Australia. That was where our best potential was in the first place.

Senator CHILDS—The reason I asked the question is that there seemed to me on the one hand to be a question of where the commercial centres were and where tourists were likely to come. What would your answer be to the issue of tourists coming from India?

Mr Fisher—From India, the two largest catchment areas for tourists are in the Mumbai region and also in the Delhi region, so we had those two under consideration. When we looked at the commercial markets, that was much stronger for Mumbai. In going back into the market, we decided that Mumbai offered the best potential for us.

Senator CHILDS—In your submission you refer to the small and underdeveloped freight market. There seems to be quite a difficulty there. Is there any potential in that area?

Mr Kerr—You are quite right; it is a difficult market. We operate 767 services through to India, and each of those has the capacity for about 10 tonnes of freight. In terms of export freight—probably even with that level of capacity—we would currently carry twice the level of freight exports. Imports are a little better, but that is the story of Australia. It is difficult to generate freight. Certainly Qantas's view in this market and in quite a number of other markets is that, principally, these are passenger services. But obviously freight is an important component of the viability of any services, and we are actively seeking to build up the freight component on all our services.

Senator CHILDS—Do you believe that there is anything that government could do to encourage two-way freight?

Mr Kerr—Looking at that as a broader question than just the Indian market, I think the government has in the past several years looked very closely at export freight and its relationship with aviation. There have been a number of studies which have concluded that the problem is really one that goes right back through the export chain—right back, in the Australian sense, to the farmgate. I think Qantas would basically support the conclusions of most of those studies that a comprehensive effort is needed right through the various points in the export chain to build up our export freight. Qantas has been party to most of those studies and is continuing to assist the government in things like the supermarket to Asia initiatives, which are clearly designed to try to improve the

export of primary produce from Australia. So we are supportive of those initiatives. Certainly the supermarket to Asia work is perhaps only 12 months old and it will take some time to see the fruits of all those sorts of issues.

Senator CHILDS—You have spoken of a general inquiry. Does that mean that in recent times there have not been any inquiries, other than that on the highway, to do with freight?

Mr Kerr—I am not aware of any work which has been specifically directed to the Indian market.

ACTING CHAIR—In terms of airfreight potential, what is the position of costs, et cetera, vis-a-vis shipping, or does that issue not arise because of the type of products that we are exporting? I am talking specifically about India.

Mr Kerr—Export freight out of Australia is usually high volume, low value. That reflects the nature, basically, of our primary produce, which is carried by airfreight. We would carry whatever freight were available out of Australia to India if it were available. At the moment the sustainability of the freight side of those services is what we can carry between Australia and Singapore and what we can carry between Singapore and India. I think that generally you would find that they are probably higher yielding. Certainly the Singapore to India market would be higher yielding freight than Australian origin freight. But that is not to suggest that we would not want to carry whatever Australian freight were available. Australia is our market and we have to do what we can to satisfy Australian customers in that regard, most of whom would not only be serving India but also other markets.

ACTING CHAIR—Can I turn to the issue of tourism and the concern that there is a lack of knowledge about Australia as a tourist destination within India. Could you expand upon what Qantas would like to see done in that regard either by the Australian Tourist Commission or the government or whoever?

Mr Fisher—There have been some very recent developments with the Australian Tourist Commission in regard to their plans for India. Just recently we received notification that they were planning to establish a representative office in Mumbai and that that person would be there essentially to implement a range of marketing and trade education programs. I think this had been a consideration by the ATC in the last year or so but they, for whatever reason, had not made the decision to go ahead with that. That is now going ahead this financial year. I think that was seen as one of the possible impediments in the market in terms of the market knowing what Australia had to offer.

By the same token, we have been working with the ATC and in the last financial year we were running a TV campaign on Indian TV with the ATC jointly funded to get some consumer awareness. There have been trade events and the big promotion in the last

year in India which also increased the profile. The only other issue was in regard to the visa issuance and we saw that there was some difficulty in that any Indian travellers had to send their passports to Delhi. As we have mentioned previously, Mumbai itself was perhaps the largest catchment area at this time for Indian travellers to Australia. Again, our understanding is that that is being addressed at the moment.

ACTING CHAIR—Air India has withdrawn services. I am not sure you were here when we asked the Department of Transport a question as to why. Can you answer that one?

Mr Fisher—Our understanding is that the route they operated was an uneconomic one for them and also at a time when they were reassessing a large number of their routes from India to a number of gateways.

ACTING CHAIR—That was to where? To Perth?

Mr Fisher—It went to Perth. In fact I think it might have originated in southern India from Madras or Bangalore via Singapore. I think it was at least two stops. It was not originating in the western or northern part of India. We have a very close relationship with Air India and we use them for interlining, which is flying to the other Indian capitals where you fly part of the way with Qantas and the rest of the way on Air India. We have had a very long association and it continues to work very well for us.

ACTING CHAIR—At the moment you have how many services?

Mr Fisher—We have three 767 services a week.

ACTING CHAIR—They go to where?

Mr Fisher—To Mumbai, going to four in November.

Mr Kerr—That means that we are using about half of the available capacity that exists under the government to government arrangements which was expanded last year. Our 767s have 228 seats each so that is three times 228 and four times 228. There are I think 1,650 seats available in the market at the end of this year in terms of the agreed capacity. That is increasing again at the end of next year. There is some scope there for Australian and Indian airlines to make commercial decisions about adding capacity as the market grows.

ACTING CHAIR—Am I correct in assuming that you are taking more Australians to India and Air India is not bringing any Indians to Australia? If so, what is happening on the return legs on your flights?

Mr Kerr—The market situation is very much as the Department of Transport

spokesman reported to you a few moments ago. It is about 60 per cent Australian resident traffic and about 40 per cent Indian visitor traffic. I do not know that the pattern on our aircraft is much different from the general pattern. It is pretty similar.

Mr Fisher—The Indian originating market is growing now at a faster rate than the Australia originating market. We would anticipate that those ratios would move.

ACTING CHAIR—Is that the basis for introducing the fourth service?

Mr Fisher—It is one of the considerations for introducing the additional service. There is growth from both markets and it has performed very well. We are confident of adding extra capacity to capture more of the market.

Mr Kerr—I think you have to see India in the context of the way Qantas views the world these days. Decisions about new services have to meet fairly tightly controlled financial thresholds. Qantas looks very closely, and probably more closely than in years gone by, at new markets. For that reason there have been relatively very few. The fact that India is up there getting this level of dedication as a relatively new market, as a re-entered market, I think is an indication of the developmental prospects that we see and the longer term prospects that we see in the Indian market.

Mr DONDAS—Is the Electronic Travel Authority in operation already?

Mr Fisher—It is in operation but I do not believe it is in operation in India.

Mr DONDAS—My understanding is that it is to start shortly. Just from a community perspective, being a federal member, I have often got complaints from people of Indian descent who are unable to bring their relatives out to Australia for holidays—I am not talk about migration but just for holidays. They have found it almost impossible and they have been very frustrated over a period of time. It has taken sometimes as long as three years to get a visitor's permit issued to an Indian, not only in India but it also happens in Indonesia and the Philippines as well. Obviously those countries appear to the Department of Immigration to have a higher influx of people wishing to overstay whatever their entry requirements were at the time. Are you anticipating a higher influx once the ETA is put in place? People will be able to walk up, buy a ticket and, providing they meet all the requirements and fill out all the forms, you will be able to issue them a visa?

Mr Fisher—I think our view is that as the Indian economy continues to improve and grow those sorts of things will become more available in the marketplace. That may act as a further stimulus to the market. Travel to Australia is getting easier.

Mr DONDAS—We have a very poor reputation in that area at the moment. Is the Australian Tourist Commission and Qantas wasting their money trying to promote Australia if people cannot get onto planes to come down here?

Mr Fisher—Given the growth rates in the last couple of years you would have to say that those growth rates of more than 20 per cent have been very healthy and that people are getting down here and that certainly things are improving. As we introduce these sorts of initiatives, if their perception of the ease of travel to Australia improves, then yes there might be further benefits to the airlines.

Mr SINCLAIR—I wanted to follow on from that. It always seemed to me that there are so many Indian people in Fiji and Fiji is a natural destination for Australia. If we can overcome our migration problems we should be able to pick up some of that through traffic back home as well as promote tourism. Until we get those visitor's visas organised it is not going to be very practical, is it?

Mr Fisher—We have already identified that as a key visiting friends and relatives market that travels through Australia from Fiji to India and vice versa.

Mr SINCLAIR—How many services do you run to Fiji?

Mr Fisher—We operate with Air Pacific a code share operation. Between us, out of Sydney we would operate daily services, six or seven services. If not daily, there would be at least six services. We also have services to Fiji from Brisbane and Melbourne.

Mr SINCLAIR—I presume there would still be fairly frequent services from Singapore to Fiji, wouldn't there?

Mr Fisher—As far as I am aware, there is no direct service between Fiji and Singapore, but certainly that traffic between Australia and Singapore would have a lot of service. Most of that service would feed through Sydney.

Mr SINCLAIR—You used to have quite a degree of direct link with Fiji, simply because we were the most convenient port and most of our aircraft called there. It has always seemed to me that that has probably been one of the up sides of trying to get that family reunion if you did not get back to India. What about tourist promotion in India? Have Qantas been involved in that at all? Where are we up to in tourism?

Mr Fisher—We have been heavily involved with the Australian Tourist Commission, for example, with a number of initiatives that we have done jointly with the ATC. We have been on TV consumer advertising. We have had a number of road shows which feature a number of Australian tourism suppliers and state government tourist officers. Usually there is an annual program. There is another one coming up in October this year, being the major on-line carrier between India and Australia. We have been heavily involved in those activities.

We run a range of tactical advertising programs with travel agents and local operators. Right throughout India, we have representation in many of the other regional

centres through the appointment of general sales agents who are responsible for the local promotion of Qantas and Australia. We have been very active. We understand that the Australian Tourist Commission is increasing their commitment to India in this financial year.

Mr SINCLAIR—Do we run a service to Karachi?

Mr Fisher—No, we have not.

Mr SINCLAIR—Is there a direct flight from Mumbai or somewhere to Karachi, or do you have to go somewhere else in order to get to Pakistan?

Mr Fisher—I am not sure, but I would be very surprised if there were not direct services between Mumbai and Karachi. The Australian government has air services arrangements in place with Pakistan, but they are dormant on both sides.

Mr SINCLAIR—So really you would look at India as a sole destination, even if we did have onward carriage rights?

Mr Kerr—That is right. We are looking at India very much as a terminating market or an originating market, which is quite distinct from the way it was. Once upon a time it was a through service to the UK.

Mr SINCLAIR—What about Colombo?

Mr Kerr—We do not have any services into Colombo. Air Lanka used to operate a service to Australia. They withdrew that several years ago through insufficient commercial demand.

ACTING CHAIR—As there are no further questions, I thank you, gentlemen, for coming along and appearing before the committee this afternoon.

[3.41 p.m.]

BROOKBANKS, Mr Eric, Assistant Secretary, Business Branch, Overseas Client Services Division, Department of Immigration and Multicultural Affairs, PO Box 25, Belconnen, Australian Capital Territory 2616

KILLESTEYN, Mr Edward, First Assistant Secretary, Overseas Client Services Division, Department of Immigration and Multicultural Affairs, PO Box 25, Belconnen, Australian Capital Territory 2616

VICCARS, Ms Che, Acting Director, Business Relations Section, Business Branch, Overseas Client Services Division, Department of Immigration and Multicultural Affairs, PO Box 25, Belconnen, Australian Capital Territory 2616

ACTING CHAIR—Welcome. I must advise you that the proceedings of the committee are legal proceedings similar to proceedings of the parliament itself. Whilst we do not require you to give evidence on oath, you are required to give truthful evidence. Any misleading of the subcommittee may be regarded as contempt. The subcommittee prefers that all the evidence be given in public, but if at any stage you wish to give any evidence in private you may ask to do so and we will give consideration to your request.

The subcommittee has received a submission from the Department of Immigration and Multicultural Affairs. That submission is No. 3. Would you now please make some opening comments or a statement if you so wish, and then we will proceed to questions.

Mr Killesteyn—Thank you. I will make an opening statement. Firstly, I thank the committee for the opportunity to appear today.

The Department of Immigration and Multicultural Affairs is, as you know, responsible for all forms of entry to Australia, whether that is entry as a migrant for permanent residency, tourist and business visitors or, indeed, students who attend courses in Australia. All these forms of entry have an impact upon our trade relations with other countries. In all these areas, DIMA has been consistently upgrading the services that we provide to people interested in coming to Australia by improving the visa services that we provide for tourists and business visitors and also by streamlining entry requirements for skilled and business people looking to come here for a longer term or, for some, permanent entry.

India, of course, is emerging as a large tourist market and an increasing source of students for Australia. Both tourism and the export of education services are of major significance to Australia. As you may be aware, tourism is now worth in excess of \$16 billion. Education services are growing and have reached the point of in excess of \$1 billion per annum. I think in both of these respects India has yet to reach its full potential.

DIMA is keen to assist in strengthening Australia's trade relations with India. It is opening a visa issuing service in Mumbai in addition to its visa processing facility in New Delhi. It is actively involved in trade promotion initiatives and also ensures that visa processing standards are maintained.

Australia's relationship with India is, however, marked by a number of emerging bona fide concerns. There is a degree of fraudulent documentation and deception which has led to a higher level of scrutiny of visa applications than occurs in other countries. Doubtful bona fides, if left unchecked, can lead to significant overstay rates which in turn can impact on the local labour market, and to a loss of public confidence in the integrity of the migration system. The challenge for DIMA is to achieve the correct balance between responding to the legitimate needs of business and protecting the national interest. Thank you, Mr Chair.

ACTING CHAIR—Thank you very much. Do either of the witnesses wish to make any comments?

Mr DONDAS—Is the electronic travel authority in Mumbai operational yet?

Mr Killesteyn—No, India is not a gazetted country for the purposes of the electronic travel authority. The electronic travel authority is a streamlined visa facility specifically designed for countries which are the most significant in terms of tourism for Australia. At the moment its implementation is being restricted to those countries, such as the US, Japan, the UK and so forth, which provide the greatest numbers of visitors and tourists to Australia. For example, just from the US, the UK and Japan, we have almost 50 per cent of our total visitors. The electronic travel authority is generally designed for those sorts of markets rather than a market such as India.

Mr DONDAS—There is an expectation by Qantas that you are going to put one in, though.

Mr Killesteyn—I do not know where Qantas would have got that expectation. There has certainly been no information or publicity that the department has issued which should lead anyone to come to that conclusion. There may be, however, some misinformation or misinterpretation of the information. As part of the electronic travel authority, airlines need to have a capacity to electronically confirm whether a person has an electronic visa. The ETA is different from our current visa system in that there is no paper record in the person's passport. So an airline needs to be able to have an alternative system for confirming that the person has authority to come to Australia.

We are certainly working with airlines that fly out of India, and that would include Qantas, to ensure that they have a capacity to confirm that a gazetted citizen for purposes of ETA does actually have an electronic visa. I think that may be the interpretation that is being put on it.

Mr DONDAS—Would you explain that to me again.

Mr Killesteyn—The ETA system operates at a number of levels. The first level is that a gazetted citizen for ETA purposes can go to a travel agent and simply provide—

Mr DONDAS—We are not talking about other countries; we are talking about India now. What happens in India with this ETA?

Mr Killesteyn—Let us say that a US citizen who is on their way to Australia via New Delhi has been in India for some time, has an electronic visa to come to Australia and is flying Qantas. They have to be able to go to the Qantas check-in counter and the Qantas customer service operator needs to be able to confirm electronically that the person has an ETA. They do that through their normal departure control systems. If that same citizen is flying Air India, or Air Pakistan, or Air New Zealand—any airline—that US citizen needs to be able to have their electronic visa confirmed at check-in. That is what we are working with airlines to do: to enable them to electronically confirm that the gazetted citizen has an electronic visa.

Mr DONDAS—But not Indian residents.

Mr Killesteyn—Not Indian residents. They are not gazetted nationals for purposes of awarding an ETA.

Mr DONDAS—I would like to pursue this a lot further.

ACTING CHAIR—You have the floor at the moment.

Mr DONDAS—I am quite sure that other members might have something to say as well. At this stage of the game we have the Australian government trying to promote trade with India. We have Qantas now trying to get more flights into India—putting a mixture of flights on—and the Australian Tourist Commission promoting Australia. But it is still going to be as hard tomorrow as it was yesterday for somebody from India to get a tourist visa to come to Australia because, at the moment, it is pretty hard.

Mr Killesteyn—There are a number of conditions which are important conditions in any market before the electronic travel authority can be implemented.

Mr DONDAS—I am not talking about electronic visas. We are not using it in India now. It does not apply to Indian citizens. I am talking about normal tourist visa applications.

Mr Killesteyn—Yes. As I said, we have been operating out of the New Delhi office for some time. A decision has been made now to open up an office in Mumbai,

where I think about 50 per cent of the total visitors are sourced at the moment. We are looking to find ways in which we can improve the services to Indian citizens to come to Australia. I think that the opening of the Mumbai office will considerably improve the situation. At the moment, a visitor sourced in Mumbai would need to lodge their application at the Austrade office in Mumbai and that application would then need to be forwarded to our processing office in New Delhi. We are seeking to find ways in which these agents can be sourced in those parts of India which are more relevant to where the visitors are coming from. That will be achieved with the opening of the Mumbai office.

Mr DONDAS—When is the Mumbai office going to open?

Mr Killesteyn—Our manager in New Delhi is, I think, going into Mumbai very shortly to discuss the opening of the office with the Austrade people. The decision has been made. It is a matter of selecting the staff for the Mumbai office and getting the relevant equipment put there—it requires some computer facilities to be put in. I would not like to give you a date, but it is certainly this side of Christmas.

Mr DONDAS—What about the other visas? We talked about the short stay business visa which caters to business people regularly travelling in and out of Australia. This visa is valid up to five years, or for the life of the passport up to 10 years, and allows multiple entry for stays of up to three months at a time. An added feature is that one application can include the entire family. Will those kinds of applications be handled through the Mumbai office as well, or only through Delhi?

Mr Killesteyn—No, all short-term business and tourist visas would be available through the Mumbai office.

Mr HOLLIS—To continue Mr Dondas's line of questioning: I think, as members of parliament, we always appreciate the difficulty with overstays and we always appreciate, say, fraudulent information. We understand that.

But it seems to me that in certain countries, like Indonesia, India and a couple of others, if you are between 16 and 25, especially if you are single, and regardless of what guarantees you have got in Australia, you are automatically refused your first application for a visa. I have had numerous cases in my area of people wanting to come from India who have put in an application. It might be for a family, for a wedding or something like that. It seems to me that instinctively, if the people are in that age range, the department refuses the application. I know that is a difficult age range, and I know that people come out here on a visitor visa and the next day turn up at the marriage thing; I have had that as well. But it seems to me that if we are trying to promote tourism there should be a little bit of flexibility.

At the danger of going on too long, on *AM* this morning there was a very

interesting case about China. Exactly the same thing was happening there. I do not know whether you heard that program. It seemed to me that what they were saying on *AM* this morning was that there was a fundamental conflict of interest between the department of tourism, where the minister has been trying to designate Australia as a favourite destination, and the department of immigration, which instinctively refuses all visas. I exaggerate of course.

But it seems to me that the same very much applies with India. I make representations for Indian doctors and others who come to see me and produce evidence that they are going to support their relatives, nephews or whoever, for the six weeks that they would be here. We write endless letters to you people and India. We guarantee that they will go back. It seems to me you are quite hard lined in these designated countries.

ACTING CHAIR—I think you are being asked for a comment.

Mr Killesteyn—I will take it as a question. I firstly respond by saying that the issue is about balance. I do not see it as a matter of tourism being in conflict with immigration. I think the tourism industry would be equally as interested as we are in ensuring that the people who come to Australia, irrespective of where they come from, are bona fide visitors. The last thing that tourism wants is an increase in non-bona fide visitors because ultimately the impact is a greater questioning and processes against applications to determine whether the person is genuine or not. It is an issue of balance. We can all have different views, I guess, on where you draw the line as far as that balance is concerned.

The other comment I would make is that you refer to the age profile of visitors. There is absolutely no decision or policy in Immigration that says a person falling between the age of 20 and 24 who happens to be a male shall not get a visa.

Mr HOLLIS—It is just that so many are refused.

Mr Killesteyn—That is a risk factor which is an issue that is taken into account in making a decision about whether a person has a genuine intention to visit and a genuine intention to return. It is not just some capricious figure that is pulled out of the air. It is based on statistical analysis of the visitors and of those visitors who overstay—an analysis of the profile of those people in terms of age, sex and so forth.

It is not determinative. It is simply a factor which is taken into account by the decision maker and the applicant needs to be able to demonstrate to our people that they do have a genuine intention to return. Notwithstanding all of that, there is growth occurring in the Indian market. The figures in terms of visitors are showing a substantial growth in temporary entry visitors—for 1994-95, 12,500 people; for 1995-96, 16,700; for 1996-97, 20,285.

Mr HOLLIS—All grandparents?

Mr Killesteyn—I cannot answer that, but they were all visitors. There is substantial growth. It is not as if immigration is holding the tide back. It is substantial growth which is certainly consistent with the general growth in tourism to Australia overall. In terms of those figures, certainly the increase in the number of tourist visitors for 1995-96 to 1996-97 is 25 per cent. The overall growth in tourist numbers to Australia is roughly in the order of 15 to 16 per cent. So there is growth. It is in excess of what we are experiencing overall, and I think that is an indication that the number of people who are wanting to come to Australia from India are being facilitated.

The only other comment I would make is that at the same time as we are experiencing large increases in visitors we are also seeing significant increases in bona fide concerns. The overstay rates are going up from India. In the six months to the middle of last year, which is when the last available figures were published, the figure has gone up from the previous six months. The number of people who are coming to Australia legally on visas and subsequently applying for protection or making asylum claims is also going up.

Mr HOLLIS—From India?

Mr Killesteyn—From India, yes. We have a list of citizens from the top 10 countries who are making protection visa claims. In 1995-96 India was sixth on that top 10. In 1996-97 it has moved to fifth position.

Mr DONDAS—Is that because of the Kashmir problem?

Mr Killesteyn—I cannot answer that.

Mr DONDAS—Religious problems?

Mr Killesteyn—I do not know, Mr Dondas. It is certainly an indication in terms of overstay rates, of protection visa claims and generally of the incidence of deception and fraudulent documentation that is being presented to our post in New Delhi that notwithstanding facilitation there is also an increasing number of people who are looking to abuse the system. We are trying to find that balance.

Mr DONDAS—That information would be very valuable to members who deal with constituents. When someone comes through the door we have an argument to put. We can say, firstly, that we know that the India desk is very busy in New Delhi—it is inundated with applications—and, secondly, that this is the likelihood of why your application has been refused. What kinds of assurances can the people who are trying to sponsor them give? Can we upgrade their guarantee or something that they are not going to overstay? There has to be a mechanism. There are some genuine cases.

Mr Killesteyn—I agree—20,285, apart from the ones that overstay, are genuine cases. But we can provide that information to the committee. In terms of the general issue of managing that, our ethnic relations people in our state offices do move through the various communities and are making these sorts of points, that the more the community is seen to be responsible the better off in terms of our processing of applications overseas.

ACTING CHAIR—Can I take you to the statement on page 3 of your submission? The paragraph at the top of the page reads:

With regard to the issue of business visas to Indian business people wishing to visit Australia, many applications require close scrutiny to establish bona fides as there remains a high degree of fraud and misrepresentation. The opening of a visa issuing service in Mumbai will assist DIMA's overall development of more sophisticated visa procedures for genuine business visitors and will provide more convenient and effective access to business people in that area.

Earlier you answered a question from Mr Dondas and you used the example of a US citizen in India having the electronic card, et cetera, and then coming to Australia and this service that you were commencing in India would take care of those situations. What is meant by 'the opening of a visa issuing service in Mumbai will assist DIMA's overall development of more sophisticated visitor procedures for genuine business visitors' being Indian business people? I am a bit confused as to what you are trying to say in that paragraph given the example you gave earlier.

Mr Killesteyn—You must always allow the bureaucrat to be flowery in some of their language at times.

ACTING CHAIR—You must always allow the politician to follow that up with another question.

Mr Killesteyn—That is fine. What happens now is that if a visitor from Mumbai wants to apply for a visa the application can be lodged with the Austrade office but it needs to be forwarded to New Delhi. So you have a situation where the application is, in a sense, being considered by remote. With the Mumbai service established we will be able to more directly look at visa applications and make an assessment, if we have to, on a face-to-face basis about the bona fides of the visitor, whereas the current arrangement is that it is often simply done on the papers that have been lodged by the applicant. I guess if that means more sophisticated I will take your point that it is perhaps a little bit of an overstatement, but it certainly provides a direct face-to-face ability for the applicant and the immigration officer to come to a conclusion.

ACTING CHAIR—What would be the usual length of stay? How long would the visa cover for a business person?

Mr Killesteyn—It generally covers up to three months. Indeed, the 456 visa, which was referred to before, provides multiple entry. They can come as many times as

they like for periods of up to three months and it is valid for up to 10 years depending upon the life of the person's passport; a minimum of five years but if you have a 10-year passport the 456 will be valid for that 10-year period.

We are now demonstrating or evidencing, if I can use that word, that a person holds a 456 business visa by providing them with a special Australian business access card. It is a non-smart smart card which simply recognises their status as a business visitor. They can use that to expedite their processing through the airport because it carries machine readable components on the card which can help with the border processing upon arrival.

ACTING CHAIR—If there are no further questions, thank you, ladies and gentlemen, for coming along to the inquiry this afternoon. We appreciate your attendance.

Resolved (on motion by Mr Hollis):

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

Subcommittee adjourned at 4.07 p.m.