

Trade opportunities

- 5.1 In its updated 2008 Supplementary Submission to the Committee, DFAT drew attention to the preparations now underway for a FTA between Australia and India:

The importance of Australia's economic relationship with India has been underscored by agreement in August 2007 to undertake a joint government-level study into the merits of a **bilateral free trade agreement** (FTA)... Terms of Reference for the study were agreed in April 2008. They allow for a comprehensive study covering goods, services and investment without exceptions. They also make explicit reference to a range of cross-cutting issues that would be important in any FTA negotiations such as intellectual property, competition policy, government procurement, the movement of service providers and sanitary and phytosanitary measures. Good progress has been made through three Joint Study Group (JSG) meetings (New Delhi on 17 April, Melbourne on 21 May and New Delhi on 11-12 August 2008). The Australian Trade Minister, Mr Crean, and India's Minister for Commerce and Industry, Mr Nath, agreed that the JSG should aim to present its joint report to governments by the end of 2008. India has drawn attention to traditionally sensitive areas, particularly its agriculture sector. Australia has said it seeks high-quality truly liberalising FTAs.¹

1 DFAT, *Supplementary Submission No 21a*, p.8

- 5.2 ABARE reports that in 2008-09, India wheat imports decreased to around 100 000 tonnes, down from 2 million in 2007-08. The Western Australian Government has previously advised the Committee that wheat and grain exports to India tend to remain static due to “existing quotas” which act as a barrier to increasing trade in the sector.
- 5.3 This example is representative of the fact that the majority of opportunities cited in the Committee’s previous report of 1998 have not been fully realised, but are gradually expanding with time – the exception has been the trade in education, tourism and IT services, which has grown rapidly in the last ten years.
- 5.4 Many business opportunities highlighted ten years ago, have, once again, been noted as potential trade opportunities in submissions and evidence received by the Committee for this inquiry. This section will outline some of these key opportunities.
- 5.5 They include:
- retailing;
 - financial services;
 - processed food and beverages; and
 - infrastructure development.

Retailing

- 5.6 The Committee was advised by Woolworths that it holds a very positive view of the prospects for retail activities in India.² It described the Indian marketplace as “very large” but disorganised, with multiple small enterprises all operating in a rapidly transforming environment due to the arrival of offshore entities such as Woolworths.³
- 5.7 The existing statutory environment in India precludes foreign direct investment in retail. As a result, Woolworths has partnered with the Tata group of companies to retail consumer electronics using a model similar to Dick Smith Powerhouse. Woolworths will be restricted to franchising and wholesaling activities with the Tata group responsible for the retailing end of the business.
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2 Mr Barry Neil, *Transcript 20 September 2006*, p. 60.

3 Mr Barry Neil, *Transcript 20 September 2006*, p. 60.

- 5.8 There are some immediate challenges which will have to be overcome. The advent of the shopping mall in India is driving the need for retail outlets such as consumer electronic stores but shopping malls are being erected in larger numbers than necessary and there is virtually no skill base upon which to support such high levels of growth.⁴ In addition, Woolworths notes that the cost of doing business in India is rising as rents, land prices and construction costs are all on the rise.⁵
- 5.9 Nevertheless, Woolworths believes that the long-term prospect for the business is very good:
- [India] is an economy that will grow very strongly, because there is an enormous pool of potential workers who are being well educated and, therefore, there will be potential consumers. In that context – and I would say the world’s retailers have come to this conclusion almost as one – eventually somebody will make some good money there.⁶

Financial services

- 5.10 At present, there is very little involvement between Australia and India’s financial services sectors. The State Bank of India has a banking licence in Australia and there are no Australian banks with a full banking operation in India.⁷
- 5.11 Knights Restructuring Services (KRS), a restructuring business with expertise on capital investment in India, voiced concern to the Committee about the low level of correspondence between Australian and Indian banks in the financial service sector. It noted that, a “greater presence by Australian banks in India would make it easier to facilitate exports to India.”⁸
- 5.12 Part of the reason for the lack of Australian banking services in India are existing restrictions on the level of foreign direct investment in Indian banks.⁹

4 Mr Barry Neil, *Transcript 20 September 2006*, p. 62.

5 Mr Barry Neil, *Transcript 20 September 2006*, p. 62.

6 Mr Barry Neil, *Transcript 20 September 2006*, p. 62.

7 Knights Restructuring Services, *Submission No. 8, Sub. Vol. 1*, p. 65.

8 Knights Restructuring Services, *Submission No. 8, Sub. Vol. 1*, p. 66.

9 Knights Restructuring Services, *Submission No. 8, Sub. Vol. 1*, p. 65.

- 5.13 The Committee was advised by ANZ, however, that it has operated ANZ India, a trade finance business, since 2001. ANZ India is classified as a non-bank financial corporation which markets trade finance for corporate customers and writes all its transactions cross-border, primarily in Singapore.¹⁰ ANZ expects this business to write approximately AUD\$1.5bn in 2007.
- 5.14 With a commonly shared legal system (British) there appears to be little reason why, in the future, Australian banks cannot expand into the India financial services market, providing that restrictions on that expansion are eventually lifted.

Processed food and beverages

- 5.15 Austrade has highlighted processed food and beverages as an area in which Australia has a capability relative to India's needs and designated it as a current Austrade priority.¹¹
- 5.16 Food and beverage sales in India are US\$135 billion a year and rising at five percent. Australia exported A\$50 million of food and beverages to India in 2004-05 and with a growing population, Austrade expects a middle class and consumer revolution to push food and beverage sales upwards.¹²
- 5.17 The Government of Western Australia believes that the "growth and expansion of supermarkets, restaurants and hotel chains in India provides untapped opportunities."¹³
- 5.18 Austrade advised the Committee that the focus in current range of food product being focused on include pasta, jams, sauces, condiments, cereal, fruit juice, bakery products and confectionery – all dry goods which is attributed to the relative quality of the dry good food chain in India and difficulties with the frozen and chilled goods food chain.¹⁴

10 ANZ, *Submission No. 26, Sub. Vol. 1*, p. 272.

11 Austrade, *Submission No. 22, Sub. Vol. 1*, p. 189.

12 Austrade, *Submission No. 22, Sub. Vol. 1*, p. 189 and Mr Mike Moignard, *Transcript 3 November 2006*, p. 41.

13 Department of Industry and Resources, Government of Western Australia, *Submission No. 25, Sub. Vol. 1*, p. 228.

14 Mr Mike Moignard, *Transcript 3 November 2006*, p. 44.

- 5.19 Austrade and the National Food Industry Strategy Ltd have launched a five-year strategy to gain greater access for Australian products to Indian supermarkets and have set a two-year goal to establish a platform for Australian foods targeted at supermarkets in Chennai and Bangalore.¹⁵

Infrastructure development

- 5.20 Many witnesses to the Committee commented on the poor state of India's infrastructure. This can pose challenges in a business relationship but also opportunities for Australian companies with expertise in infrastructure development. Austrade noted that India's infrastructure investment in the next five years will top AUD\$267.6 billion which will "offer added opportunities for appropriately experienced Australian companies."¹⁶

- 5.21 When asked by the Committee what areas NAB would suggest targeting, it responded that infrastructure development in the Indian rural sector was one area of promise for foreign investors providing that government-to-government engagement paved the way for greater foreign investment in the sector:

There is an enormous opportunity for us as a bank to participate in financing [supply chain] infrastructure, providing asset finance around the consolidation of agriculture and bringing about mechanisation...it would require...a government-to-government view about the banking system to allow greater participation in that sector and perhaps open it up to greater foreign investment.¹⁷

- 5.22 KRS stated that:

Apart from the major infrastructure projects, such as the construction of power plants, or dams, there is a plethora of business available to Australian companies in maintaining or upgrading existing infrastructure. These opportunities range from contracts suitable to Australian SME's in small towns and villages, to major contracts in the metropolitan centres.¹⁸

15 Austrade, *Submission No. 22, Sub. Vol. 1*, p. 195.

16 Austrade, *Submission No. 22, Sub. Vol. 1*, p. 191.

17 Mr Cameron Clyne, *Transcript, 13 October 2006*, p. 7.

18 Knights Restructuring Services, *Submission No. 8, Sub. Vol. 1*, p. 64.

- 5.23 KRS believes that “Australian companies could gain a very tangible advantage in penetrating the Indian infrastructure market if they could defray the [financial] risk incurred on these projects.”¹⁹
- 5.24 KRS proposes that the Government of Australia enter into an investment financing agreement with the Government of India which would entail the Australian Government agreeing to carry the cost of credit insurance while the Indian Government ensured that underlying payment obligations would be met.²⁰

19 Knights Restructuring Services, *Submission No. 8, Sub. Vol. 1*, p. 64.

20 Knights Restructuring Services, *Submission No. 8, Sub. Vol. 1*, p. 64.