



Submission No 40

Inquiry into Australia's relationship with India as an emerging world power

Organisation: Department of Resources, Energy & Tourism



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Dr Margot Kerley
Secretary
Joint Standing Committee on Foreign Affairs, Defence and
Trade
Parliament House
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Dear Dr Kerley

Inquiry into Australia's relationship with India as and emerging world power

Thank-you for your letter of 24 July 2008 to Dr Peter Boxall seeking an update on the former Department of Industry Tourism and Resources' 2006 submission to the Joint Standing Committee of Foreign Affairs, Defence and Trade's Inquiry into Australia's relationship with India as an emerging world power. Dr Boxall has asked me to respond on his behalf.

As a result of the machinery of government changes which came into effect on 3 December 2007, the Department of Resources, Energy and Tourism now has responsibility for the resources, energy and tourism aspects of the former submission.

There have been several developments in relation to the resources, energy and tourism elements of the 2006 submission; these are contained in the attached document. Each area of the original submission which required updating has been rewritten in its entirety. All other areas of the 2006 submission which have not been highlighted in attached, and are the responsibility of this Department, are current.

I note that while in the 2006 submission steel formed part of the resources and energy content, responsibility for steel now sits with the Department Industry, Innovation, Science and Research.

Should the Committee identify any further issues relating to resources, energy or tourism aspects of Australia's relationship with India the Department would be pleased to provide further information.

Yours sincerely

John Hartwell
Head of Division
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Department of Resources, Energy and Tourism
22 August 2008

Summary- page 4 paragraphs 1 & 2

India is one of Australia's fastest growing trading partners. In 2007 it was our 10th largest merchandise trading partner and our 6th largest merchandise export market. India has grown faster than any of our other top 30 markets over the past five years.

However, despite a growing services trade, it is still minerals which dominate our exports. India is one of Australia's fastest growing mineral export markets, accounting for 10 percent of total mineral exports in 2006-07, up from 1 percent in 1996-97. India also accounted for 6 percent of Australia's energy exports in 2006-07 up from 5 percent in 1996-97¹:

- non-monetary gold, coal and copper ores are the principal resources exported to India valued at \$8.3 billion in 2006-07;
- India is Australia's second largest market for coking coal (15 percent). In 2006-07, Australia exported 19.6 million tonnes of metallurgical coal to India worth \$2.4 billion.

Introduction- page 5, paragraphs 3&4

Two-way trade in goods totalled \$10.7 billion in 2007, with India as Australia's 10th largest merchandise trading partner. Australian merchandise exports to India reached \$9.2 billion in 2007, which represents 5.5 percent of Australia's total merchandise exports. As our 6th largest merchandise export market in 2007, India has grown faster than any of our other top 30 markets over the past five years. The top trade items are set out in Table 1.

Table 1

Top Australian exports to India 2007		Top imports from India 2007	
Item	Value (A\$m)	Item	Vale (A\$m)
Non-monetary gold	4167	Pearls and gems	108
Coal	2396	Jewellery	88
Copper ores	1113	Iron, steel articles	63
Wool	151	Floor coverings	38

Resources and Energy**Trade relationship- page 6**

India is one of Australia's fastest growing mineral export markets, accounting for 10 percent of total mineral exports in 2006-07, up from 1 percent in 1996-97². India also accounted for 6 percent of Australia's energy exports in 2006-07, up from 5 percent in 1996-07. Non-monetary gold, coal and copper ores are the principal resources exported to India valued at \$8.3 billion in 2007.

- India is Australia's second largest metallurgical (coking) coal export market, worth \$2.4 billion in 2006-07 (15 percent of Australia's coal exports),
- Non-monetary gold was one of Australia's largest direct exports to India in 2006-07, worth \$4.7 billion.

India is the world's fifth largest energy consumer with energy needs increasingly in line with a growth rate of approximately 8 percent per annum during the period 2000-2007.

Resources Strategy- page 7

The Australia-India Resources Strategy proposal was endorsed by Trade Ministers at the February 2007 Joint Ministerial Commission Meeting. This strategy will provide a framework for long term collaboration on key resources issues identified by the Australia-India Joint Working Group on Minerals and Energy.

¹ Australian Bureau of Agricultural and Resource Economics (ABARE) Australian Commodities, June Quarter, 2008
www.abare.gov.au

² ibid

The Strategy proposes a framework to support the objectives of:

- Enhancing the collaborative and commercial relationship between Australia and India through information sharing, encouraging private sector communication and networking, participating in capacity building exercises, completing joint projects and showcasing industry expertise.
- Facilitating greater opportunities for trade and investment between Australia and India through enhanced awareness and understanding of policy and regulatory frameworks and addressing impediments in these areas, where appropriate.

Promoting sustainable development of the resources sectors in Australia and India through increasing awareness and implementation of responsible and sustainable mining practices, and the promotion of clean development technology including clean coal technologies.

LNG- page 8

India has been importing LNG since 2004 and in 2007 imported 8.42 million tonnes of LNG. To date, this LNG trade has consisted of several spot cargoes. ABARE expects that Indian LNG imports will increase to 12.6 million tonnes per annum (mtpa) by 2015 and 21.1 mtpa by 2020. This will involve an expansion at the existing import terminals and/or new LNG terminal projects.

According to ABARE's Report *Natural Gas in India: Prospects for LNG Imports*, which was released in December 2007, Indian natural gas demand is projected to be strong over the period to 2025, driven by robust economic and population growth. LNG is likely to play a key role in meeting this demand.

India represents an important long-term market for Australian LNG, but realising the potential will depend on Indian Government reforms and the availability and competitiveness of LNG compared with other fuel sources. Australia has considerable potential to expand its LNG production and companies such as Woodside, BHP Billiton, Chevron, Shell and ExxonMobil retain an interest in supplying India in the future. The outlook for Australian LNG exports to India has improved significantly, with Shell signing a memorandum of understanding (MOU) with India's Gujarat State Petroleum Corporation to supply up to 0.5 million tonnes of LNG, which could be sourced from the proposed Gorgon project.

Australia's current LNG supply capacity is around 15.6 million tonnes, with a further 9.6 million tonnes under construction. Planned new LNG projects could add more than 50 million tonnes to that total.

Petroleum Exploration- pp 8-9

The annual offshore acreage release was launched on Monday 7 April 2008. The acreage release was promoted to Indian petroleum companies in both New Delhi and Mumbai, India, in June 2008, by a senior delegation from RET and Geoscience Australia. The delegation met with representatives from GAIL India Ltd, ONGC Videsh Ltd, CRISIL Ltd, NTPC Ltd, Petrodrill, Petronet LNG, Jubilant Oil & Gas Pvt. Ltd, Oil India Ltd, Cairn Energy India Pvt. Ltd, Reliance Industries, Essar and Tata Petrodyne. Additionally, the Australian High Commission hosted a reception for Indian petroleum companies, with over 50 representatives from various companies attending.

Two bids were received from Indian companies in the recently closed 2007 bidding round. The outcome of the bidding process is expected later in 2008. Permit bids are assessed on the basis of the work program most likely to enhance the petroleum prospectivity of an area.

Indian investment in Australia's petroleum exploration industry has grown in the last two years, with six Indian companies now holding interests in four Australian offshore exploration permits. In 2005, there were only four companies, holding interests in three permits. Additionally, a number of Australian petroleum companies are in - or are developing – joint venture arrangements with Indian counterparts.

Nuclear Energy and Uranium demand in India- page 9

In 2007, nuclear power supplied approximately 2.5 per cent of India's electricity. India has 17 power reactors in operation with a total generating capacity of 3,779 megawatts electrical (MWe). India has plans for a major expansion of nuclear electricity generation. Six reactors are under construction with a planned capacity of 2,976 MWe. A further 19 are proposed. India plans to supply 25 per cent of India's electricity with nuclear power by 2050 and aims to have 20,000 MWe of nuclear capacity on line by 2020.

India's production capacity is inadequate to meet demand from its planned expansion in nuclear generating capacity. India is not a signatory to the Nuclear Non-Proliferation Treaty (NPT) and has difficulty securing uranium imports. Proposed changes to the Nuclear Suppliers Group guidelines may allow uranium supply from some countries in future (although not Australia – see below).

In 2006, India was to have obtained enriched uranium from Russia to fuel two of its reactors in Tarapur.

Uranium Mining in India- pp 9-10

Uranium mining operations are carried out by the Government owned corporation, the Uranium Corporation of India Limited (UCIL), supervised by the Department of Atomic Energy. Production supplies India's nuclear power reactors.

Geoscience Australia advises that India's prospectivity for major uranium deposits is low. India has reasonably assured resources of 61,100 tonnes of uranium recoverable at costs less than US\$130/kg U, compared to Australia's resources of 983,000 tonnes recoverable at less than US\$80/kg U.

India has four operating underground mines; Jaguguda, Narwapahar, Bhatin and Turamdih, utilising modern equipment and technology. UCIL is developing an open cut mine at Banduhurang and an underground mine at Bagjata and have plans for a further 4 mines at Mohuldih, Lambapur-Peddagattu, Tummalapelle and Kylleng-Pyndengsohiong.

India has 'stepped up' uranium exploration. India's Atomic Minerals Division has invited tenders for exploration drilling and is planning to outsource geophysical exploration. The Atomic Energy Commission has launched a major initiative to find 100,000tU over the next four years.

India has about 25 per cent of the world's thorium reserves (approximately 290,000 tonnes) and has developed technology to utilise its thorium as nuclear fuel to compensate for its limited uranium supplied. This technology is not currently commercial.

US-India Civil Nuclear Initiative- page 10

President Bush and Indian Prime Minister Singh on 2 March 2006 announced an agreement on plans to separate India's civil and military nuclear facilities. Separation is an essential foundation for implementation of the agreement by President Bush and Prime Minister Singh on 18 July 2006 on facilitating civil nuclear cooperation with India.

India has agreed to classify 14 of its 22 nuclear reactors as civilian and subject to permanent International Atomic Energy Agency (IAEA) safeguards. The separation plan will be implemented in phases to be completed in 2014. The agreement must be approved by the US Congress.

On 1 August 2008, the IAEA Board of Governors (BoG) approved the India-IAEA safeguards agreement. The Nuclear Suppliers Group (NSG) needs to consider the US-India agreement. BoG and NSG approvals are required prior to US Congress consideration of the agreement.

Australia-India Uranium Relationship- page 10

Australia has a long-standing policy of only selling uranium to countries that are party to the Nuclear Non-Proliferation Treaty (NPT) and which have a bilateral safeguards agreement in place with Australia. Under this policy, Australia is unable to sell uranium to India. There are no automatic implications for our policy from the nuclear cooperation agreement between the US and India as it will remain a matter for each NSG member to determine its own national position with regard to uranium supply or other civil nuclear cooperation with India. Australia will not supply uranium to India whilst it is not a party to the NPT.

Tourism pp 11-13

Visitor Arrivals from India

India is Australia's fastest growing tourism market. In the financial year ending June 2008, there were 107,700 Indian tourists to Australia, an increase of 22.5 per cent compared to the previous financial year. This places India just outside of Australia's top 10 inbound markets. The Tourism Forecasting Committee predicts the Indian market will continue to grow at an annual average rate of 16.8 per cent over the 2006-2016 forecasting period to reach 397,000 visitors in 2016. In 2007 there were 121,800 Australian visitors to India, an increase of nearly 15 per cent compared to 2006.

Memorandum of Understanding on Tourism Cooperation

The Australia-India Memorandum of Understanding (MOU) in the field of Tourism Cooperation, signed in 2002, expired on 22 April 2008. There were limited outcomes under the MOU and, as a result, the Department of Resources, Energy and Tourism would need to carefully consider any future tourism bilateral arrangements with India. Given the importance of the India inbound tourism market, Australia will continue to work with the Indian Government and tourism industry to maintain the bilateral tourism relationship.

Australia-India Ecotourism Working Group

The Australia-India Ecotourism Working Group was established under the MOU, and included representatives from the Indian and Australian Governments, tourism industries and research institutions. The Working Group promoted cooperation in areas of mutual advantage in investment, research and training. The group also focused on eco-tourism certification, community participation in tourism and opportunities for information exchange between the two industries.

The first meeting of the Australia-India Ecotourism Working Group was held in New Delhi in October 2006 and included an ecotourism industry forum that involved leading Australian industry representatives. During this meeting a two-year work plan was established. This work plan is yet to be actioned - largely due to a lack of response from the Indian Government to Australian Government and industry correspondence. In the absence of any further action, the working group will not continue.

Tourism Australia's marketing activities

Tourism Australia (TA) has acquired licences to establish an office in Mumbai. There were a number of conditions accompanying approval, including that TA would not be able to co-locate within a diplomatic mission. As such, TA is unable to co-locate with the Consulate/Austrade in Mumbai as initially planned. TA has now secured separate office space and is working to open the office as soon as possible.

TA's marketing strategy for India is aimed at capturing the Indian traveller at the top end of the market, including family groups, honeymooners and the incentive reward market. Marketing activities in India focus on creating a stronger brand presence and refreshing consumer perceptions of Australia as a holiday destination. This involves public relations initiatives, targeted online content and promotional activities.

Another key objective in the market is to establish a solid distribution network via the development of the *Aussie Specialist Program* across key markets, with priority cities being Mumbai and Delhi.

Visas for Indian visitors

The issuance of Australian visitor visas to Indians has been significantly enhanced in recent years giving Australia a significant advantage over competitor destinations in catering for a short lead time for bookings.

In August 2006, a streamlined electronic visa processing system was implemented to facilitate expected growth in the market. Aussie Specialist Agents in India can submit an electronic visa application for their clients to reduce application delivery and processing times. Eighty per cent of applications lodged with preferred Aussie Specialists are processed within 72 hours and returned to the applicant via courier.

TA is working with the Australian Government to gradually expand the number of travel agents authorised to use this system.

Air Services

Qantas is the only carrier providing direct services between India and Australia, with three services per week between Sydney and Mumbai. Qantas also code shares on the Indian carrier Jet Airways' services between Mumbai-Singapore and Delhi-Singapore. Air India code shares on Malaysian Airlines via Kuala Lumpur.

There are no immediate impediments to growth in services under Australia's air services arrangements with India. Air India's code sharing arrangements use around two per cent of India's available capacity while Qantas is using some 14 per cent of Australia's available capacity. The air services arrangements were last updated in 2004, providing a total capacity of 6,500 seats per week for the airlines of both countries to/from Australia's four major ports of Sydney, Melbourne, Brisbane and Perth.

The majority (around 70 per cent) of Indian visitors to Australia travel via South East Asia, with Qantas and Singapore Airlines the two dominant carriers. The key challenges for the tourism sector are to improve air links with India via South East Asia, and encourage an increase in Qantas services as well as direct services by an Indian carrier. Indian Airlines was intending to start services to Melbourne in early 2008. These services have been delayed due to the merger between Air India and Indian Airlines and delays in the delivery of ordered aircraft. A further announcement by Air India regarding services to Australia is expected before the end of 2008.

National Long-Term Tourism Strategy

To address supply side issues in Australia's tourism markets, the Australian Government is developing a National Long-Term Tourism Strategy. The focus of the Strategy, to be developed over the next year, will be to develop the productive capacity of the industry, looking at the issues of investment, labour and skills, climate change and infrastructure. A high level Steering Committee has been developed with members drawn from within and outside the tourism industry.