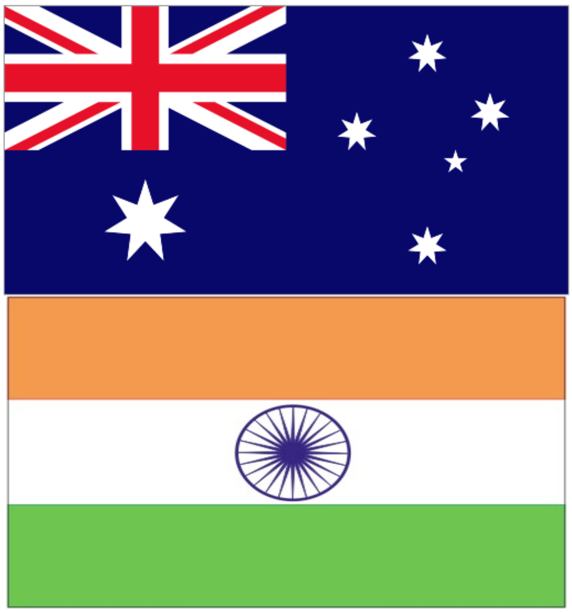
ECONOMIC IMPLICATIONS FOR SOUTH AUSTRALIA OF A POTENTIAL FREE TRADE AGREEMENT BETWEEN AUSTRALIA AND INDIA



INSTITUTE FOR INTERNATIONAL TRADE
THE UNIVERSITY OF ADELAIDE

APRIL 2010

Statistics & Higher Education Updates in December 2011

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Background to this study

This study has been produced under contract to the Department of Manufacturing, Innovation, Trade, Resources and Energy, Government of South Australia, as a part of an overall consultancy contract that also produced a similar study of the likely implications for the South Australian economy of a potential Australian free trade agreement with India. The methodology and approach of this study is modelled on earlier studies produced by the Institute for International Trade of the implications for the state economy of free trade agreements between Australia and the Peoples Republic of China, Japan, Korea and Chile.

This version of this report was updated (statistics and higher education developments) in December 2011.

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About the Institute

The University of Adelaide's Institute for International Trade was established in 2003. The Institute is dedicated to the advancement of study in support of those who work in today's global economy, whether they are in business, government or academia. The Institute can be contacted at:

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TABLE OF CONTENTS

ABBREVIATIONS AND ACRONYMS

AAERI - Australian Education Representatives in India

AANZFTA – ASEAN Australia-New Zealand Free Trade Agreement

ABARE - Australian Bureau of Agricultural and Resource Economics

ABLE – Association of Biotechnology Led Enterprises

ABS - Australian Bureau of Statistics

ACIS - Automotive Competitiveness and Investment Scheme

AEI – Australian Education International

AIBC - Australia Indonesia Business Council

APTA - Asia Pacific Trade Agreement

AQIS - Australian Quarantine and Inspection Service

ASEAN – Association of South East Asian Nations

ATS - Automotive Transformation Scheme

AUD – Australian Dollars

AUSFTA - Australia United States Free Trade Agreement

AVE – Ad valorem equivalents

B2C – Business to Consumer / Customer

BIMST-EC - Bay of Bengal Initiative for Multisectoral, Technical and Economic Cooperation

BPO - Business Process Outsourcing

CD ROM – Compact Disc Read-Only Memory

CECA - Comprehensive Economic Cooperation Agreement

CEPA - Comprehensive Economic Partnership Agreement

CEPEA - Comprehensive Economic Partnership for East Asia

CII – Confederation of Indian Industries

CSIRO – Commonwealth Scientific and Industrial Research Organization

DAFF - Department of Agriculture, Fisheries and Forestry

DFAT - Department of Foreign Affairs and Trade

EAS - East Asia Summit

EFTA - European Free Trade Area

EOU - Export Oriented Units

EPZ - Export Processing Zones

ESOS - Educations Services for Overseas Students

ETM - Elaborately Transformed Materials

EU - European Union

FATA – Foreign Acquisitions and Takeovers Act (1975)

FDI - Foreign Direct Investment

FII - Foreign Institutional Investment

FIRB - Foreign Investment Review Board

FTA – Free Trade Agreement

GATS - General Agreement on Trade in Services

GATT – General Agreement on Tariffs and Trade

GCC - Gulf Cooperation Council

GDP - Gross Domestic Product

GFC - Global Financial Crisis

GSTP - Global System of Tariff Preferences

IAC – India – Australia Council

IAEA - International Atomic Energy Agency

IBEF – Indian Bureau for Electricity Formation

ICT - Information and Communication Technology

ILD – International Long Distance

IP – Intellectual Property

IPMA - India's Paper Manufacturers Association

ISP – Internet Service Provider

IT - Information Technologies

ITA - Information Technology Agreement

ITES – Information Technology-Enabled Services

IVS - International Visitor Survey

LML - Lincoln Mineral Limited

LPG – Liquefied Petroleum Gas

MERCOSUR – Southern Common Market (Brazil, Argentina, Uruguay & Paraguay)

MFN - Most Favoured Nation

MOU - Memorandum of Understanding

MRAs - Mutual Recognition Agreements

NLD – National Long Distance

np - not published

NPAs – Non-Performing Assets

NPT - Non-Proliferation Treaty

NRIs – Non-Resident Indians

NTB – Non-Tariff Barrier

PACIA - Plastics and Chemicals Industries Associations

PIRSA - Department of Primary Industries and Resources (SA)

PLN - Indonesian Electricity Company

PMV - Passenger motor vehicle

PRC - Peoples Republic of China

PSBs – Public Sector Banks

PTA - Preferential Trade Agreement

R& D - Research and Development

RBI - Reserve Bank of India

RET – Resources Energy and Tourism (Dept of) - Australia

RILA - Reliance Industries Limited Australia Pty Ltd

RMS – Risk Management System

Rs – Rupees (Indian Currency)

SA – South Australia

SACOME - South Australian Chamber of Mines and Energy

SACU - South African Customs Union

SAFTA - South Asian Free Trade Area

SCM - Subsidies and countervailing measures

SEZ - Special Economic Zones

SIAM - Society of Indian Automobile Manufacturers

SMEs – Small Medium Enterprises

SOE – State-Owned Enterprise

SPS - Sanitary and Phytosanitary Measures

TBT – Technical Barriers to Trade

TCF – Textile Clothing Footwear

TIA - Technology Industry Association

TRA - Tourism Research Australia

TREC - Trade export classification category

TRIPs – Agreement on Trade-Related Aspects of Intellectual Property Rights

UAE – United Arab Emirates

USA - United States of America

USD – United States Dollars

UXA - Uranium Exploration Australia Limited

VSNL – Videsh Sanchar Nigam Limited

WCT – WIPO Copyright Treaty (1996)

WIPO – World Intellectual Property Organization

WOS – Wholly-Owned Subsidiary

WPPT – WIPO Performances and Phonograms Treaty (1996)

WTO - World Trade Organization

OVERVIEW

India's economy has grown at an impressive pace over the past decade. This growth has been driven by wide-ranging reforms to the economy since 1991, including progressive liberalisation of international trade, deregulation in the financial sector and the removal of licensing requirements and other government controls over many areas of private sector activity. The ongoing process of reform suggests India's economic prospects over the medium and longer terms are very positive.

India's rapid growth in recent years has been associated with surging export growth especially in the services and manufacturing sectors. The strong growth in India's services exports has been led by the information technology, business process outsourcing (BPO), tourism and transportation sectors. Software services and BPO services, in particular, account for a substantial proportion of recent services exports growth.

India's reforms have also led to a substantial increase in imports. Goods import growth has averaged 23 per cent per year since 2000, similar to the growth in exports. The majority of India's imported goods have been raw resources (including petroleum products) and metals, as well as electronic goods. Growth of particular note has been witnessed in ferrous ores, and iron and steel imports.

With a population of more than 1.2 billion persons (50 times the Australian population), India dwarfs Australia by some important measures. However, the size of the Indian economy, with an estimated GDP in 2011 of AUD$ 1.83 trillion, is just twenty percent larger than that of Australia (AUD$ 1.48 trillion). Somewhat surprisingly, India accounts for just 2.16 percent of global trade in goods and services compared to 1.4 percent for Australia. Australian GDP per capita is over 40 times greater than the Indian figure of just AUD$ 1,495.

Like Australia, India was a latecomer to the FTA game but is now very active in negotiating free trade agreements with many of its important trading partners – recently concluding an agreement with the Association of South East Asian Nations (ASEAN). With both India and Australia now participating in the East Asian Summit (EAS) process and collaborating on exercises such as the Comprehensive Economic Partnership in East Asia (CEPEA), it is not surprising that the two countries have discussed the possibility of negotiating a bilateral free trade agreement (FTA).

On May 4, 2010, after this study for South Australia was completed by the Institute, the Australian Trade Minister and his Indian counterpart released the Australia – India Free Trade Agreement Joint Feasibility Study. The Study recommends that the Australian and Indian Governments consider negotiation of a comprehensive bilateral FTA that would include trade in goods, trade in services, investment and other trade and investment facilitation measures as a single undertaking. Independent modelling conducted in 2008 for the Study by the Centre for International Economics indicated that an Australia – India FTA could result in a net increase in Australia's GDP by up to USD$ 32 billion and India's GDP by up to USD$ 34 billion over a period of 20 years.

The Australian Trade Minister and the Indian Minister of Commerce and Industry endorsed the broad recommendations of the feasibility study but noted that both sides would need to undertake further internal processes before negotiations could be launched. On 12 May 2011, Australia and India jointly announced the commencement of negotiations for a comprehensive FTA. As of December 2011, two rounds of negotiations have been completed. With the recent agreement by the Federal Labor caucus to review their position on uranium exports to India, Uranium could become an important trade issue for India and Australia.

MAJOR FINDINGS AND RECOMMENDATIONS

A. General findings

Australia's trading relationship with India is expanding rapidly and India is one of the fastest growing of Australia's major markets. In the recent past, Australian exports of goods and services to India both grew by an annual average of over 30 percent per year. Australia's merchandise exports to India are dominated heavily by minerals (coal, gold and copper ores and concentrates). As Indian income levels rise and bring on dietary changes, Australia's potential to export agricultural products to India should increase commensurately. Our imports from India are more diversified and to some extent reflect a complementarity in the trading relationship (Australians ship gold to India and import significant amounts of jewellery).

Australian exporters face high tariffs in the Indian market, with the average applied tariff on agricultural goods at 37.6 percent and the average applied tariff on non-agricultural merchandise at 16.4 percent. India also makes use of restrictive import licensing measures to keep Australian exports out of the Indian market.

By contrast, Indian exporters to the Australian market generally face low tariff barriers, with the average MFN applied tariff at just 3.9 percent. In addition, some Indian exports benefit from concessional tariff rates under Australia GSP scheme for developing countries.

Generally speaking, Indian barriers to Australian exporters are far more significant than Australian barriers to imports from India so negotiating a bilateral free trade agreement with India that eliminated Indian tariffs on imports from Australia would appear to be of significant benefit to Australian exporters while constituting little threat to Australian industries competing here with goods from India.

Most of India's applied MFN tariffs are set at a level that is well below the bound rate, this gives the government a great amount of leeway to increase applied tariffs. Therefore, one of the advantages of signing a comprehensive FTA would be to lock-in application of the lower applied rate for those products included in the schedule of commitments, even if no major tariff reduction is achieved.

B. Specific findings and recommendations

B.1. Specific recommendations for negotiators

(1) Agriculture
India is a major producer of grains and high domestic stocks mean that Australia and South Australia are unlikely to find major market opportunities in India in this sector.

South Australia does not currently export significant quantities of meat to India. This could be due to the relatively high tariffs maintained by India or it may be the result of the 2006 introduction by Indian authorities of import prohibitions on some livestock and livestock products, including domestic and wild birds, meat and meat products from avian species, and live pigs and pig meat products (except processed pig products).

Notwithstanding applied tariffs of 30 percent, South Australia did manage to export over approximately AUD$ 48 million of pulses and more than AUD$ 12 million in fruits and nuts to India in 2010/2011. The total market for imported pulses in India is worth USD$ 732 million and there is plenty of room for growth in the Australian and South Australian share.

Reducing the high applied tariff rates on these products through an FTA will benefit South Australian producers through increased volumes, revenues and enhanced future market opportunities.

One quarantine issue of importance to India seems to have been partially resolved when in August 2008 Biosecurity Australia issued a policy determination allowing imports of fresh mangoes from India. However, no import permits can be delivered until a detailed operational work plan has been approved by AQIS, and this has not yet happened.

(2) Wine

India imposes high import duties on wine, creating barriers for South Australian companies in penetrating the market and introducing the culture of wine. India did not agree to cut its high tariffs on wine even in its bilateral agreement with Chile, so it would presumably be difficult for Australia to negotiate a meaningful reduction or elimination of the duty in trade talks with New Delhi.

Nevertheless, reducing India's import duties on wine should be a priority in any eventual negotiations, proximity to India an increasing middle class and movement of younger generation from spirits to wine and beer will be assisted greatly through removal of import duties and the subsequent reduction in price of wine.

(3) Seafood

Seafood products figure heavily in the tariff lines that have received preferences under the Chile-India PTA. Products in this sector from Chile, including: trout, salmon, tuna, sardines, mackerel, squid, shrimps, prawns, oysters, abalone, crabs, sardines, grouper, sea bass, pomfret and hake will receive a margin of preference of 20 percent over the MFN rate. In India's FTA with ASEAN many fish products – mostly those not available in Indian waters – will be able to enter India duty free from 2013. However, several of the fish that can be caught in Indian waters have been placed in the list of exclusions.

Given the large potential size of the market in India, Australian negotiators should pursue tariff elimination for seafood in any eventual FTA, even if industry experts currently do not believe there is much of a market for non-local seafood in India.

(4) Minerals and metals

Although Indian tariffs in the minerals and metals sector are already low, Australia may need to insist on tariff reductions in this area to restore competitive conditions with Chilean exports of copper ore and concentrates which under the India-Chile PTA have received a tariff preference of 10 percent over the MFN rate. This is also the case with ASEAN countries whose exports of mineral ores and concentrates are set to enter duty free into India by end 2013.

In an FTA, Australia should insist on tariff treatment equivalent to that afforded to Chilean mineral and metals products in the Indian market.

(5) Automotive sector

The Indian government has a clear policy regarding tariff policies and possible consequences on the Indian automotive sector. Central to the policy discussion is a recognition that high tariffs attract foreign investors and capital, while lower tariffs stimulate international trade. With its preference for increased domestic production in the sector, India prefers to keep current tariffs unchanged. Despite ongoing negotiations with different countries, India has kept auto tariffs high.[1] India's high tariff barriers provide few incentives for Australian exporters to penetrate the Indian market. As of 2006/2007 the MFN applied rate for motor vehicles was 33.6 percent.[2]

Australian negotiators should aim for duty-free trade in automobiles in any bilateral FTA with India.

(6) Forest products

Indian applied tariffs on wood and paper products range from 13.5 to 15 percent ad valorem. Given that Australia and South Australia export large quantities of woodchips to paper producers in other countries, reducing the Indian tariffs through a bilateral FTA might lead to new market opportunities in India.

Australian negotiators should aim for duty-free treatment of wood and paper products from Australia.

(7) Mining, energy and engineering services

[1] "Automotive Mission Plan 2006-2016", '*A Mission for Development of Indian Automotive Industry*', Ministry of Heavy Industries & Public Enterprises Government of India.
[2] WTO, Trade Policy Review, '*Report by the Secretariat India Revision*', p. xi.

FTA negotiations should be used to ensure that Indian policies and practices do not limit the opportunities for Australian and South Australian firms in the mining, energy and engineering services sector.

(8) Investment

In the context of its agreement with Singapore (CECA), India has taken a position in respect of foreign direct investment that is far more forthcoming than the positions it has taken in the multilateral trade negotiations. The CECA includes a broad definition of investment, national treatment guarantees, specific commitments through a positive list approach and even investor-state dispute resolution.

Australia should seek to obtain an agreement on investment issues at least as good as that negotiated by Singapore (CECA) if it enters into bilateral FTA negotiations with India.

I.B.2. Recommendations for trade promotion & export development

(1) Mining, energy and engineering services

The AIBC and South Australian Chamber of Mines and Energy (SACOME) conducted a trade mission to India in March 2010, with the objective of scoping out business opportunities with India for the South Australian mineral and resource sector. This potential has already been demonstrated by 3 joint venture projects in the minerals and resources area which have been described in the investment section of this report. Further projects and business relations with India would allow the South Australian minerals and resources sector to diversify the source of investment and destination of exports from China which is the predominant partner in the state.

(2) Education services

Official figures from the Australian government agency, Australian Education International (AEI) show 6555 enrolments of Indian students in 2010, a decline of 7.6 percent from 2009 following an increase of 48.5 percent from 2008. 2011 figures indicate a continuation of this downward trend. This is South Australia's second largest contingent of students after the Chinese. The decline in Indian students enrolments over the past two years in South Australia reflect the general national trend but one that is less severe.

The 2009 reported attacks on Indian students across Australia have had a negative impact on the number of Indian students applying for visas. Data from the Immigration Department shows a 46 percent drop in visa applications for the period 1 July to 31 October 2009 period when compared to same trimester in 2008. Indian student enrolments nationally also declined by 21 percent in 2010, with current 2011 figures showing a continuation of this downward trend.

While there is probably nothing that can be done about the situation through an FTA, it is important that Australia and South Australia do all that they can to ensure that our exports of education services to India are not undermined by Indian students' fears for their safety in Australia.

The recently completed Federal government commissioned Strategic Review of Student Visa Program by Mr Michael Knight AO with 41 recommendations (June 2011), its subsequent release in September 2011 and the commencement on 5 November 2011 of Stage One Implementation of a number of key recommendations is expected bring about positive outcomes for South Australia education sector. Broadly, the paper recommended:

- A new streamlined visa processing arrangement for a range of university courses to commence in the first half of 2012
- Reduced financial requirements for some student visa applicants
- Access to a post-study work visa for up to 4 years after graduation depending on award.
- More flexible arrangements for English language study, including the removal of English Language test requirements for stand-alone English Intensive Courses for Students (ELICOS) visa applicants
- Improved work entitlements
- Greater flexibility in the Higher Degrees by Research (HDR) sector including the streamlining visa processing, unlimited work rights during study, extension of validity of visa by 6 months for the purpose of interactive marking of a thesis.

The majority of the recommendations will be rolled out, with modifications, between November 2011 and 2013. Most are expected to come into effect before Semester 2, 2012. It is, therefore, important that South Australia take full advantage of these changes by promoting our tertiary and vocational training institutions, our lower cost of living and perceived safer living environment.

I.B.3. Outreach and advocacy activities

(1) Intellectual property rights

The Department of Foreign Affairs and Trade's "Industry Consultation Background Paper" prepared in connection with consideration of a possible FTA with India notes that FTAs provide an opportunity to build upon specific commitments on intellectual property and address specific impediments to market access raised by stakeholders. Although not cited as an objective by DFAT, it is possible that Australia would seek Indian agreement to update IP protection afforded under TRIPS (which dates from 1993) by joining the 2006 Singapore Treaty on the Law of Trademarks, the 1996 WIPO Copyright Treaty and the 1996 WIPO Performances and Phonograms Treaty.

For its part, India might use the FTA negotiations to gain Australian legal recognition of geographic indications protection for Indian products such as Darjeeling tea.

(6) Implications for regional South Australia

The two industries of particular importance to potential export growth in regional South Australia are mining and agriculture (including wine). South Australia's resource industry is located primarily in the northern and mid-northern regions, however other regions will also benefit from the flow on effects of new exploration and mining developments.

The second industry is agriculture, where reduced tariffs and increased investment in value added products such as ready-to-eat meat products, could represent a significant opportunity for South Australia's agricultural industry.

In general, some of the most important potential outcomes from an FTA with India for regional South Australia would be lowering tariff barriers to potential South Australian exports and/or removing licensing restrictions applying to certain products.

Representatives of regional South Australia have not expressed concern over perceived negative impacts of a possible FTA with India.

II INTRODUCTION

II.A. The overall economic relationship

With a population of more than 1.2 billion persons (50 times the Australian population), India dwarfs Australia by some important measures. However, the size of the Indian economy, with an estimated GDP in 2011 of AUD$ 1.83 trillion, is just twenty percent larger than that of Australia (AUD$ 1.47 trillion). Somewhat surprisingly, India accounts for just 2.16 percent of global trade in goods and services compared to 1.4 percent for Australia. Australian GDP per capita is nearly 40 times greater than the Indian figure of just AUD$ 1,435. India's economy has grown rapidly in recent years – by over 9 percent per annum in 2005, 2006 and 2007 before slowing during the height of the global financial crisis. Even in the generally very bad year of 2008, India's economy managed growth of 6.2 percent.

Australia's trade with India is expanding rapidly, with both Australian goods and services exports to India growing at an annual average of 34 percent in the 2003 to 2008 period. In 2008/2009, Australian merchandise exports to India grew by a remarkable 65 percent. This was followed by a modest growth for 5 percent in 2009/2010, then by a contraction of 2.6 percent in 2010/2011. Two-way trade in goods and services amounted to nearly AUD$ 21 billion in 2010/2011, with Australia enjoying large surpluses in its bilateral trade of both goods (AUD$ 13.7 billion) and services (AUD$ 1.8 billion). India is the fourth most important market for Australian merchandise exports and 21st most important source of Australian imports.[3] Australia ranks 29th as a destination for Indian exports and 6th as a source of imports into India.[4]

Bilateral investment flows are very small, with Australian foreign direct investment in India estimated at AUD$ 755 million in 2010 while Indian-source FDI in Australia data for the same year was unavailable.

India has repeatedly expressed interest in buying uranium from Australia. Until recently, the Australian government had a long-standing policy of banning sales of uranium to countries that are not signatories of the Nuclear non-Proliferation Treaty (NPT), such as India. This ban was been maintained even in the light of the recent signing and approval by the International Atomic Energy Agency (IAEA) of an agreement giving India access to nuclear fuel and technology from the US. However in December 2011, the Australian Labor Party changed its policy platform on the sale of uranium. This decision is a positive sign of progress in the India-Australia diplomatic relations and therefore a benefit to the current on-going bilateral FTA negotiations. There is scope for South Australia's economic relationship with India to be significantly boosted by the Australian Labor Party's proposal to open the door for the export of uranium to India, subject to a series of safeguards and approvals.

[3] DFAT, Composition of Trade 2010-2011; http://www.dfat.gov.au/publications/stats-pubs/composition_trade.html
[4] DFAT, India Fact sheet 2011; http://www.dfat.gov.au/geo/fs/inia.pdf

II.A.1. Merchandise trade

In terms of Australia's major trading partners, total trade in goods between Australia and India was the 5th highest ranked in 2010/2011 compared to being the 7th highest ranked in 2008/2009, and the 12th highest in 2004/2005. Australia was India's 16th largest trading partner in the year April 2010/March 2011, according to India's Department of Commerce.[5] In 2010/2011, merchandise trade with India was valued at AUD$ 17.85 billion, accounting for 3.9 percent of Australia's total merchandise trade. Bilateral merchandise trade contracted by 1 percent over the previous year. This is after the strong gain of 60 percent in 2008/2009, mainly due to a strong increase in merchandise exports. Within merchandise trade, Australia's exports to India accounted for 88 percent while its imports from India made up 12 percent. Over the last five years, the value of bilateral trade has increased 18 percent each year on average.

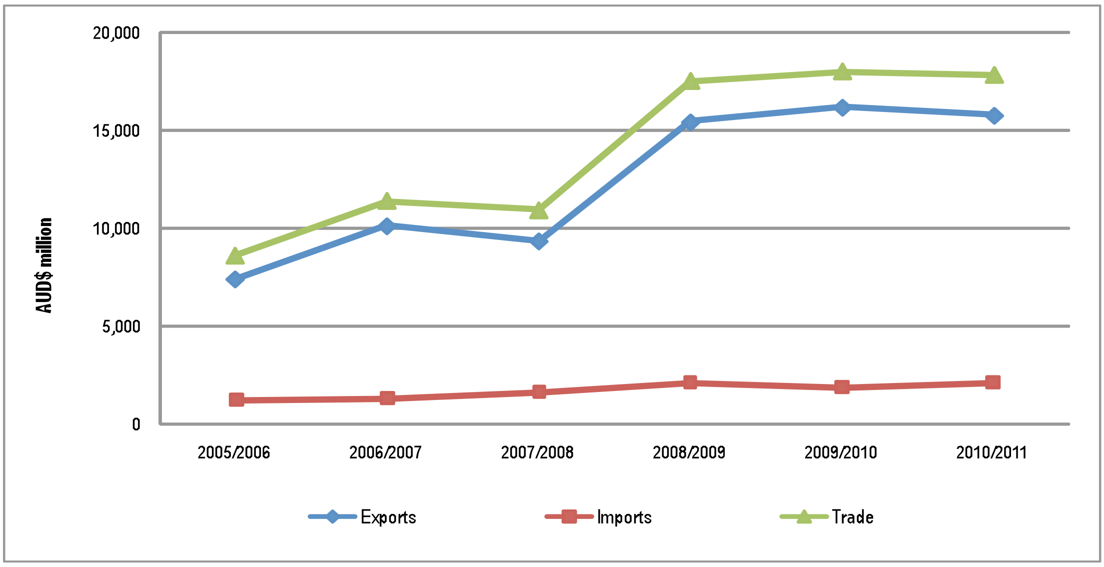
Table 1
India's position in Australia's total merchandise trade

Country	2010/2011		2009/2010		2008/2009		2004/2005	
	% Share	Rank	% Share	Rank	% Share	Rank	% Share	Rank
Peoples Republic of China (PRC)	23.0%	1	20.50%	1	17.0%	1	11.9%	2
Japan	13.8%	2	13.60%	2	15.7%	2	15.3%	1
United States of America (USA)	7.6%	3	8.30%	3	8.2%	3	11.1%	3
Republic of Korea	6.4%	4	5.80%	4	5.7%	4	5.3%	4
India	3.9%	5	4.5%	5	3.9%	7	2.6%	12
Singapore	3.7%	6	3.9%	7	4.2%	6	3.8%	7
United Kingdom	2.7%	11	3.2%	9	4.6%	5	3.9%	6

Sources: DFAT, Composition of Trade (2010-2011; 2009-2010); ABS, International Trade in Goods and Services, Catalogue No. 5368.0, Catalogue No.5302.0 and ABS unpublished data

[5] Department of Commerce, Total Trade: Top 25 countries, year 2010/2011, http://commerce.nic.in/eidb/iecnttopn.asp

Graph 1 - Australia's merchandise trade with India



Sources: DFAT, Composition of Trade (2010-2011; 2009-2010); ABS, International Trade in Goods and Services, Catalogue No. 5368.0, Catalogue No.5302.0 and ABS unpublished data

In export terms, in 2010/2011 India was the 4th largest destination for Australia's exports of merchandise. Merchandise exports to India represented approximately 6.4 percent of all merchandise exports. Compared to an increased of 65 percent to AUD$ 15.41 billion in 2008/2009, exports grew modestly at 5% (AUD$ 16.18 billion) followed by a drop of 2.6 percent in 2010/2011 to AUD$ 15.77 billion. Exports to India have risen by an average annual rate of 24.22 percent over the last five years.

In 2010/2011, coal and gold were by far the major commodity exports. These commodities accounted for72% percent of Australian merchandise exports to India, being 45 percent and 27 percent respectively. Other commodities were: copper ores & concentrates (8.6 percent) and crude petroleum (5.8 percent).

Table 2
Australia's principal merchandise exports to India

Product	Export value (AUD$ million)					Share 2010/2011	Annual growth 2009/2010 to 2010/2011	Average annual growth 2005/2006 to 2010/2011
	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011			
321 Coal	2,482.59	2,714.22	6,677.35	5,532.28	7,122.86	45.18%	23.82%	41.74%
971 Gold	4,726.89	4,021.77	5,690.37	7,125.65	4,236.28	26.87%	-50.78%	2.81%
283 Copper ores & concentrates	1,049.68	999.34	766.99	1180.13	1,347.84	8.55%	21.87%	10.01%
333 Crude petroleum	44.43	177.41	44.74	498.79	918.43	5.83%	937.95%	330.88%

Sources: DFAT, Composition of Trade 2010-2011; 2009-2010; 2008-2009)

Following an increase of 22 percent and 32 percent in 2007/2008 and 2008/2009 respectively, imports of merchandise from India decreased 12.71 percent to AUD$ 1.85 billion in 2009/2010 before returning a growth of 12.87 percent in 2010/2011 to AUD$ 2.03 billion. Imports from India account for 1.0 percent of all merchandise imports. India was the 21st largest source of merchandise imports in 2010/2011. In the last five years merchandise imports from India have increased 12 percent each year on average.

In 2010/2011, pearls and gems accounted for 7.5 percent of all merchandise imports, jewellery 5.5 percent, medicaments 5.5 percent, passenger motor vehicles 4.6 percent and made-up textile articles 4.1 percent. Imports of the top 10 commodities are shown in the table below:

Table 3
Top 10 Australian merchandise imports from India

	Import value (AUD$ million)						Annual growth	Average annual growth
Product	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	Share 2010/2011	2009/2010 to 2010/2011	2006/2007 to 2010/2011
667 Pearl & gems	104.97	106.99	109.22	141.9	157.08	7.54%	10.70%	11.16%
897 Jewellery	43.51	66.69	64.95	106.86	115.31	5.54%	7.91%	30.78%
542 Medicaments (included veterinary)	36.16	47.01	73.36	86.77	115.18	5.53%	32.74%	34.27%
781 Passenger motor vehicles	0.32	0.52	3.24	33.34	95.78	4.60%	187.28%	425.47%
658 Made-up textile articles	50.51	52.67	73.47	68.78	86.13	4.13%	25.23%	15.65%
716 Rotating electric plant & parts	5.59	154.06	367.54	121.33	52.69	2.53%	-56.57%	667.75%
659 Floor covering	37.59	40.61	46.99	40.41	49.98	2.40%	23.68%	8.36%
*0 Food & live animals	27.12	35	39.94	22.62	47.78	2.29%	111.23%	27.76%
873 Meters & counters	2.21	5.22	4.13	36.69	50.31	2.42%	37.12%	235.20%
515 Organo-inorganic compounds	19.11	17.46	34.9	28.79	40.91	1.96%	42.10%	28.96%

Sources: DFAT, Composition of Trade (2010-2011; 2009-2010; 2008-2009);

np: not published

*Denotes reminder of category

In 2010/2011, the total value of India-Australia trade is AUD$ 17.85 billion. Australia also recorded a surplus of around AUD$ 13.68 billion with India, compared with a surplus of AUD$ 14.33 billion recorded in the previous year.

II.A.2. Services trade

In value terms, total trade in services between Australia and India was the 9th highest in 2010/2011 after reaching its peak of 6th position in 2009/2010. India's position, until recently rose steadily from the14th highest in 2004/2005 to its peak of 6th in 2009/2010.

Table 4
Australia's major trading partners - services trade

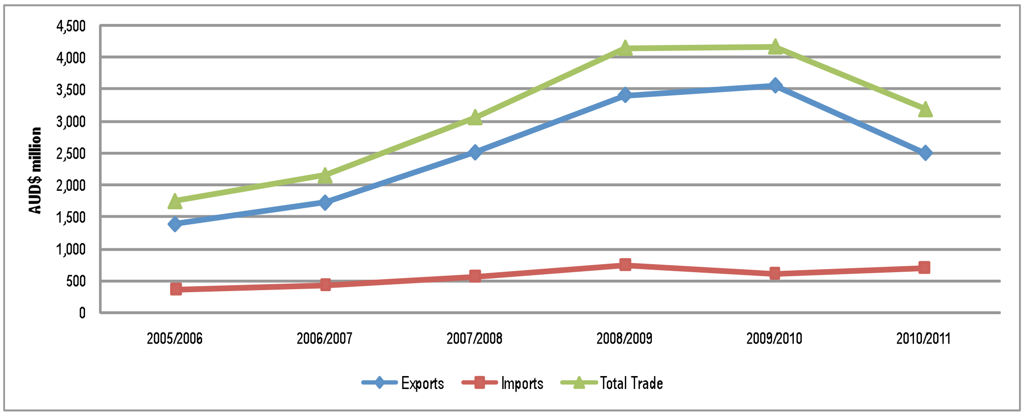
	2010/2011		2009/2010		2008/2009		2004/2005	
Country	**% Share**	**Rank**	**% Share**	**Rank**	**% Share**	**Rank**	**% Share**	**Rank**
USA	14.4%	1	14.4%	1	14.7%	1	14.3%	1
United Kingdom	8.2%	2	8.2%	2	8.7%	2	10.9%	2
PRC	6.8%	3	7.0%	3	6.1%	4	5.1%	6
Singapore	6.1%	4	5.6%	5	6.8%	3	6.3%	5
New Zealand	5.6%	5	5.6%	4	5.7%	5	6.6%	3
Japan	3.8%	6	3.8%	7	4.4%	6	6.4%	4
Hong Kong	3.4%	7	3.3%	8	3.4%	8	4.0%	7
Indonesia	3.1%	8	2.7%	10	2.1%	11	..	..
India	**3.0%**	**9**	**4.0%**	**6**	**3.8%**	**7**	**1.7%**	**14**

Sources: DFAT, Composition of Trade (2010-2011; 2009-2010; 2008-2009); ABS, International Trade in Goods and Services, Catalogue No. 5368.0,

In 2010/2011 services trade with India was valued at AUD$ 3.19 billion and accounted for 3 percent of Australia's total trade in services, which is a decline compared to 2009/2010 figure of AUD$ 4.28 billion or 4 percent of total trade in services.
Australia's exports to India accounted for 78 percent of total bilateral services trade and its imports from India contributed 22 percent in 2010/2011. Over the last five years, the value of bilateral trade in services has increased 33 percent each year on average.

In 2010/2011, India was the 6th largest country destination for Australia's exports of services, valued at AUD$ 2.5 billion which is a decrease of almost 30% percent from the previous year. However, it must be noted that this is the first contraction in over 5 years where services exports have grown steadily from AUD$ 1.39 billion to AUD$ 3.56 billion between 2005/2006 and 2009/2010. In 2010/2011, Australia's exports of services to India represented 4.9% percent of all Australian exports of services. Over the last five years Australian services exports to India have increased by an average 14 percent each year.

Graph 2
Australia's trade in services with India



Sources: DFAT; Market Information & Research Section, December 2011

Travel services exports (mainly education-related) comprised around 95 percent of Australian services exports to India in 2010/2011 and transportation services contributed 1percent of total services exports. Other services, which include significant items such as exports of telecommunications services, insurance and financial services contributed 3.4 percent of total services exports for the year.

It is important to note that after 10 years of consecutive increases which peaked at AUD$ 3.44 billion in 2009/2010, exports of travel services to India fell by almost 31% to AUD$ 2.39 billion in 2010/2011. Travel services include business-related travel, education-related travel and other personal travel. In 2010/2011, they respectively account for 6.2 percent at AUD$ 149 million, 84.3% percent at AUD$ 2.01 billion and 9.5 percent at AUD$ 226 million of all travel services.

India was Australia's 20th largest source of services imports in 2010/2011, valued at AUD$ 691 million, falling from 5th position in 2008/2009.. Services imports from India experienced a 17.6 percent contraction in 2009/2010 after 8 years of consecutive growth which peaked at AUD$ 746 million, before returning a growth of 12.4 percent in 2010/2011. India accounted for 1.2 percent of Australia's total imports of services in 2010/2011. Over the last five years, services imports from India have increased 19 percent each year on average.

In 2010/2011, Australian imports of travel services accounted for 76.7 percent of services imports from India, transportation services 1 percent, telecommunications computer and information services 14.8 percent and other services 7.5 percent. Australia recorded a surplus of around AUD$ 1.81 billion in its services trade with India, compared with surpluses of AUD$ 2.66 billion and AUD$2.94 billion recorded in the two previous year (2008/2009 and 2009/2010).

II.A.3. Investment

Based on ABS statistics, the stock of Indian direct investment in Australia at the end of December 2008 was AUD$ 69 million, representing only 0.02 percent of total foreign direct investment (FDI) in Australia, worth AUD$ 392.86 billion at the end of 2008. Data on India's investment in Australia for the previous five years is not available.

According to the Foreign Investment Review Board (FIRB), approvals of investment from India into Australia's industrial sector amounted to AUD$ 793 million in 2007/2008. This investment was primarily in the mineral exploration and development sector, which accounted for 61 percent of total proposed investment from India. Other investment sectors were real estate and services, which accounted for 18 percent and 21 percent, respectively.[6]

The stock of Australian FDI in India was AUD$ 755 million at the end of 2010 and represented 0.06 percent of total Australian investment abroad. Compared with the level at the end of 2008, it showed an increase of AUD$ 220 million over a period of 2 years.

Australia was India's 22nd largest investor during the period from April 2000 to December 2009, with total investment of USD$ 281.6 million – and accounting for just 2.7 percent of total FDI inflows.[7]

II.A.4. Trade remedies

In the most recent five year period, Australian authorities have not applied trade remedy measures (antidumping, countervailing duty or safeguard) to any products imported from India.

India is a very active user of antidumping measures – taking scores of measures against imports from China in recent years. India reported just one antidumping action affecting trade from Australia addressed to carbon black.

[6] Foreign Investment Review Board, *Annual Report 2007-08*, page 41.
[7] Department of Industrial Policy and Promotion and the Ministry of Commerce and Industry of India.

II.B. The Indian economy and trade policy

India has moved further in the direction of a market-based economy in recent years and – to some degree – away from its long-standing state-directed economic framework and policies that aimed at self-sufficiency. The reform in trade regulation, in particular, has been remarkable. In the late 1970's, only 79 products could be imported without a licence. Import licensing was abandoned in the 1980's, but as recently as the late 1980's, 92 percent of internationally tradeable domestic production remained protected by import quotas.

India's large population and market make it an increasingly interesting target for export growth and investment from Australia. India's economy has achieved impressive growth in recent years, with an average GDP increase of 8 percent in the period 2000-08. Although it has also been affected by the global recession, with the rate of GDP growth in 2008 slowing down to below 7 percent, India's low dependence on exports would indicate that in theory it should not be as affected as the industrialized countries and other emerging markets. India sees trade and economic growth not as an end in itself but as a means to tackle its daunting social and developmental challenges. To this end it has enjoyed a certain degree of success in reducing poverty through economic growth and this has been reflected in important social indicators. This performance is due in great part to unilateral trade and structural reforms, although many experts contend that if reforms had been deeper the gains would have been greater and more rapid.

II.B.1. Tariffs

Nevertheless, India has continued in the path of reform and there has been a great deal of reduction in MFN tariffs. In 2002, the average applied MFN rate was 32.3 percent, in 2008 the average applied rate had been reduced to 13 percent. Tariffs remain high in the agriculture sector with an average MFN rate of 37.6 percent and an average MFN tariff peak in the beverages and tobacco sector of 68.9 percent. For wines, the applied MFN tariff is even higher than the average standing at 100 percent for all varieties. Non-agricultural products have seen the greatest amount of reduction in tariffs with an average applied MFN rate of 16.4 percent in 2008. There are high levels of protection in the areas of textiles and clothing, chemicals and transport equipment, but the average applied MFN rate for minerals and metals is low at only 15.4 percent.

Most of India's applied MFN tariffs are set at a level that is well below the bound rate, this gives the government a great amount of leeway to increase applied tariffs. Therefore, one of the advantages of signing a comprehensive FTA would be to lock-in application of the lower applied rate for those products included in the schedule of commitments, even if no major tariff reduction is achieved.

Table 5
Applied Indian Tariffs on Selected Agricultural Products

Product Group	Average Applied Tariff (Ad Val %)	Maximum Applied Tariff (Ad Val %)
Agricultural products (overall)	37.6	
Animal products	33.0	100.0
Dairy products	35.0	60.0
Fruit, vegetables and plants	31.5	105.0
Coffee, tea	56.3	100.0
Cereals and preparations	37.3	160.0
Oilseeds, fats and oils	52.5	100.0
Sugars and confectionary	48.4	100.0
Beverages and tobacco	68.9	182.0
Cotton	17.0	30.0
Other agricultural products	27.1	70.0

Source: WTO Statistics database

Table 6
Applied Indian Tariffs on Selected Non-agricultural Products

Product Group	Average Applied Tariff (Ad Val %)	Maximum Applied Tariff (Ad Val %)
Non-agricultural products (overall)	16.4	
Fish & fish products	30.0	30.0
Minerals and metals	15.4	55.0
Petroleum	14.0	15.0
Chemicals	15.0	100.0
Wood, paper, etc.	13.5	15.0
Textiles	20.2	268.0
Clothing	22.4	103.0
Leather, footwear, etc.	15.4	70.0
Non-electrical machinery	14.3	15.0
Electrical machinery	12.3	15.0
Transport equipment	24.8	100.0
Manufactures	13.9	15.0

Source: WTO Statistics database

II.B.2. Non-tariff barriers

When it comes to non-tariff barriers, India has become a major user of anti-dumping measures, although very few of those have been imposed on Australian exports. This is probably due to the fact that most of India's measures are directed against imports of chemical and plastic products, which are not strongly represented in Australia's exports to India. India has also used safeguard measures with more frequency than other countries, with majority of the measures again being taken in the chemicals sector.

India has taken steps to align standards with international norms and streamline SPS procedures. Recently two SPS issues affecting Australian exports have been resolved. First, India announced that it would re-open its dairy market to Australian products, following the approval of a new health certificate developed by the Australian Quarantine and Inspection Service (AQIS) based on Australia's existing food safety and animal health systems. Second, AQIS has also successfully negotiated an export certification for frozen, chilled and smoked seafood. However, the certificate does not cover live seafood products which remain banned.

II.B.3. Barriers to services trade

While much of the Indian economy has been substantially reformed in recent years, the deregulation of services industries in the reform process has been mixed. Domestic air travel and telecommunications services have been opened up to competition. Other newer sectors, such as information technology enabled services (ITES) have not been subject to significant regulation and are largely open to competition. Knowledge-based industries have been prominent among the faster growing services sectors, assisted by an educated, low-cost workforce with good English language capabilities and technological advances. Important changes have occurred in the financial services sector in recent years, although foreign investment in banking and insurance remain heavily constrained. Major problems remain in the power generating and transport sectors which handicaps overall national growth and development. A range of business services, including accountancy and legal services remain protected from foreign competition, as does the retail sector.

II.B.4. Trade negotiations and agreements

Although India is one of the major players in the WTO trade negotiations and is generally considered a supporter of multilateralism, it has signed various FTAs at the regional level and a few outside the region. All of the bilateral agreements that have been concluded so far have been with other developing countries, including Afghanistan, Chile, Nepal, Singapore, Sri Lanka and Thailand. However, India is currently in negotiations with some industrialized countries or country groupings, namely: Japan, EU and EFTA. India has also started negotiations on possible trade agreements with Malaysia, the Gulf Cooperation Council (GCC), the South African Customs Union (SACU), Mauritius, and Pakistan.

India has also signed a number of regional trade agreements that to some extent overlap with its bilateral commitments, these include the India-ASEAN FTA, the South Asia Free Trade Area (SAFTA), the Bay of Bengal Initiative for Multisectoral, Technical and Economic Cooperation (BIMST-EC), and the Asia-Pacific Trade Agreement (APTA). In 2009, a preferential trade agreement with MERCOSUR came into force. India is also a participant in the Global System of Tariff Preferences (GSTP) between developing countries.

Many of India's FTAs are only partial in scope and based on positive lists of commitments, those that cover a broader universe of products have substantive negative lists or exceptions. Currently, only the agreement between India and Singapore covers services and investment. In the APTA, framework agreements have been signed on investment and trade facilitation, and concluded in services for a possible signing in March 2010.

Table 7
Indian Preferential Trade Agreements

Agreement	Countries	Coverage
SAFTA	Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka	Goods
BIMST-EC	Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, Thailand	Goods (Services and investment under negotiation)
India-ASEAN FTA	Brunei, Brunei Darussalam, Cambodia, Indonesia, India, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam	Goods (Services and investment under negotiation)
APTA	Bangladesh, China, India, Korea, Laos, Sri Lanka	Goods, investment, trade facilitation (Services awaiting signature)
India-Afghanistan	Afghanistan, India	Goods
India-MERCOSUR PTA	Argentina, Brazil, India, Paraguay, Uruguay	Goods
India-Chile PTA	Chile, India	Goods
India-Nepal	Nepal, India	Goods
India-Singapore CECA	Singapore, India	Goods, services, investment
India-Sri Lanka CEPA	Sri Lanka, India	Goods (Services and investment under negotiation)
India-Thailand CECA	Thailand, India	Goods (Services and investment under negotiation)

In order to gain a better understanding of what may be the position of India in a FTA negotiation with Australia it is useful to focus on particular aspects of three of the FTAs India has in effect.

II.B.4.a. <u>Services and investment issues in the India-Singapore CECA</u>

In the area of services, the CECA adopts a positive list approach, which is somewhat "GATS-plus". Given India's limited GATS concessions (less than a quarter of sectors are bound under mode 3 and less than 10 percent for mode 1), this is not surprising. Singapore obtained commitments beyond GATS in the following sectors: business services, urban planning services, tourism and travel related services, and transport services. However, most of the commitments given by India took the form of improvements to sectors already committed under GATS rather than commitments in new sectors, with a majority of these commitments coming in mode 3 (commercial presence). In banking, three Singaporean banks gained the right to set up a wholly owned subsidiary in India and be treated in the same way as Indian banks, or the right to set up 15 branches (total for all three banks) above the otherwise applicable quota for foreign banks. In telecommunications, India bound its foreign equity limit at 49 percent for many services, and 74 percent for internet and infrastructure, and made commitments similar to those in the WTO Telecommunications Reference Paper. The foreign equity limitation for voice mail, on-line information and database retrieval, and enhanced/value added services is 51%, which is less than the threshold specified in India's Doha Round offer.

Although it does not have a "substantial business operations" test, CECA contains rather stringent "rules of origin" for services, which in effect limit the benefits of the agreement to domestically owned or controlled firms, at least insofar as supply of a service through commercial presence is concerned.[8] Listed Singaporean banks operating in India are, however, exempt from this requirement. For the supply of services in modes 1 or 2, benefits under the agreement may be denied if the service is supplied from the territory of a non-party, or from a juridical person that is owned or controlled by persons from the denying party. The imposition of a safeguard measure on services is expressly prohibited under the agreement.

The parties agreed to negotiate Mutual Recognition Agreements for accountants, doctors, architects, dentists and nurses. A separate chapter on the movement of natural persons is included in CECA. The parties agreed to facilitate temporary entry for four categories of persons: Business Visitors, Short-term Service Suppliers, Intracorporate Transferees, and Professionals in 127 listed occupations (who can stay for the length of their contract up to a maximum of one year). Both citizens and permanent residents of Singapore and India benefit from these provisions.

On investment, the parties agreed to a reasonably broad definition of investment (including debts, intellectual property and contractual rights, and both FDI and portfolio investment). National treatment guarantees are provided, along with disciplines on expropriation and compensation. There is provision for the free repatriation of investment-related funds, and India agreed to bind liberalizing measures it had already adopting allowing certain investment in the real estate sector and rights for existing joint ventures to enter new joint ventures. India's specific commitments are included as a positive-list annex, while Singapore's corresponding annex is a negative-list annex of reservations.

Significantly, the CECA includes an investor-state dispute settlement mechanism. However, disputes involving an alleged violation of national treatment with respect to the establishment,

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[8] This is achieved through the definition of a "juridical person of the other party", although this definition is broadened somewhat for the supply of audiovisual, education, financial and telecommunications services.

acquisition or expansion of investment are not covered by this mechanism except that, as agreed in an exchange of letters annexed to the agreement, if India agrees to subject such disputes to compulsory investor-state dispute settlement in any other international agreement, it must automatically extend the same benefit to Singapore under the CECA, and Singapore must reciprocate. The CECA chapter on investment also allows for the denial of benefits to investors that do not have substantial business operations in a party, or that are owned or controlled by investors of the party denying benefits. In addition, requirements that senior management officials of an investor be of a certain nationality are prohibited (although Singapore has made a number of reservations regarding local managers).

II.B.4.b. <u>Tariff preferences in the Chile-India PTA</u>

There are significant similarities between the Chilean and South Australian economies given the resemblance in climate, geography and natural resource endowments. It is therefore relevant to examine the product coverage and commitments in the India-Chile PTA, both to get an idea which sectors of interest to South Australia India may be willing to open and to defend South Australian exports from displacement by Chilean exports. Under the PTA Chile and India have agreed to grant each other preferential access on a positive list of products. The list specifies a fixed margin of preference over the applicable MFN rate, which varies between 10 and 50 percent depending on the product. India has granted preferences on 178 tariff lines at the 8 digit level to Chile. On the other hand, Chile has granted preferences on 296 tariff lines at the 8 digit level including a few items with a 100 percent preference. (Note: The Parties would probably justify this limited coverage through citation of the GATT's "Enabling Clause" which permits preferences between developing countries that would not pass muster under GATT's rules for developed countries).

The products on which India has offered tariff preferences relate to: meat and fish products (84 tariff lines, including: beef, pork, sausages, trout, salmon, tuna, sardines, mackerel, squid, shrimps, prawns, oysters, abalone, crabs, turkey and chicken food products, dog and cat food), rock salt (1 tariff line), iodine (1 tariff line), copper ore and concentrates (1 tariff line), chemicals (13 tariff lines, mainly acetates), leather products (7 tariff lines, mostly bovine hides and leather), newsprint and paper (6 tariff lines), wood and plywood articles (42 tariff lines, including: fibreboard, insulation boards, doors and windows), some industrial products (12 tariff lines, including: cotton, silk, synthetic fibres and jute processing machinery), shorn wool & noils of wool (3 tariff lines) and some others (7 tariff lines, including: olives, coniferous and non-coniferous pulp of wood and tugboats). The list does not include wines, grains and fruits, products of significant export interest to both Chile and South Australia.

Chile has in turn granted preferences covering some agriculture products (7 tariff lines), chemicals and pharmaceuticals (53 tariff lines), dyes and resins (7 tariff lines), plastic, rubber and miscellaneous chemicals (14 tariff lines) leather products (12 tariff lines), textiles and clothing (106 tariff lines), footwear (10 tariff lines), some industrial products (82 tariff lines) and some other products (5 tariff lines).

II.B.4.c. Tariff reduction structure in the India-ASEAN FTA

The India-ASEAN FTA is the most ambitious FTA that India has signed both in terms of product coverage and the number and economic size of the countries involved. The India-ASEAN FTA is based on a negative-list approach with reduction to zero-tariff at the end of the implementation period. However, the tariff reduction and elimination schedules follow a complex 3-track approach, with special products and exclusion lists. Indian products under normal track 1 will see their tariffs progressively eliminated by 31 December 2013. Under normal track 2 tariffs will be progressively eliminated by 31 December 2016. Indian products in the sensitive track list with an MFN tariff above 5 percent will be reduced to 5 percent by 31 December 2016, 50 tariff lines can maintain an applied MFN tariff of 5 percent and 4 percent of products in the sensitive track can be designated for reduction by 31 December 2019.

India designated palm oil, coffee, black tea and pepper as special products which will maintain tariffs between 37.5 and 50 percent by the end of the implementation period on 31 December 2019. Products in the exclusion list will not be subject to tariff elimination; however, the list itself shall undergo annual reviews. There is an additional modality for highly sensitive products but India has not designated any products under it.

India has made extensive use of the exclusion list with the number of tariff lines so-designated almost reaching 1,300, and high concentration in seafood, dairy, fruits, grain, vegetable oil, wine, plastic, synthetic fibre and auto part products. Some 7,775 tariff lines will undergo normal track 1 reductions and around 1,252 will follow normal track 2. 1,805 products have been designated as sensitive many of them in the chemical, plastic, leather, auto, textile and footwear sectors. A special schedule of reduction commitments applies between India and Philippines. In addition, the India-ASEAN FTA contemplates the possibility of adopting safeguard measures allowing for a snap-back to the applied MFN rates in cases of increased imports causing serious injury or threat thereof.

II.C. Bilateral cooperation

Cooperation between India and Australia spans a range of areas. Notable agreements include Memoranda of Understanding (MoUs) on Defence Cooperation, Customs, Information and Communications Technology, Combating International Terrorism, Water Resource Management, and a bilateral Air Services Agreement. A MOU on intellectual property was signed in May 2008, and a MOU on science and technology cooperation was signed between CSIRO and its Indian counterpart in July 2008. A central element of India's foreign affairs agenda is 'energy diplomacy', which relates to the need to secure energy supplies to meet rapidly growing industrial and consumer demand. Australia is well positioned to partner with India in this regard, through exports of minerals and fuels, energy investment opportunities in Australia and collaboration on areas of joint interest, such as new mining technologies. The Joint Working Group on Energy and Minerals was established in 1999. Regular meetings have generated several initiatives designed to deepen the bilateral energy and resources relationship.

Minister Ferguson and senior officials of the Department of Resources, Energy and Tourism (RET) visited India in November 2008. During that visit, RET officials signed five Action Plans with the Indian Ministries of: Coal; Mines; New and Renewable Energy; Petroleum and Natural Gas; and Power. The Action Plans are designed to underpin our bilateral engagement and technical cooperation on minerals and energy including trade and investment facilitation. At the sixth meeting of the Joint Working Group on Energy and Metals held in March 2009 in New Delhi, a three-year work program was finalised and signed under each Action Plan.

Education is an area of increasing importance to the bilateral relationship. In recent years, Australia has emerged as a major destination for Indian students studying abroad, who recognise the high quality and cost competitiveness of Australian education services. Enrolments of Indian students in Australia have increased at an average annual rate of around 41 per cent between 2002-2009. There were 120,569 Indian student enrolments in Australia in 2009.

II.D. South Australia's relationship with India and Indian business

II.D.1. Merchandise trade

In 2009/2010, India was the 6th largest merchandise trade partner of South Australia, compared with its earlier position as the state's 19th largest partner in 2004/2005.

Table 8
South Australia's major trading partners - Merchandise trade

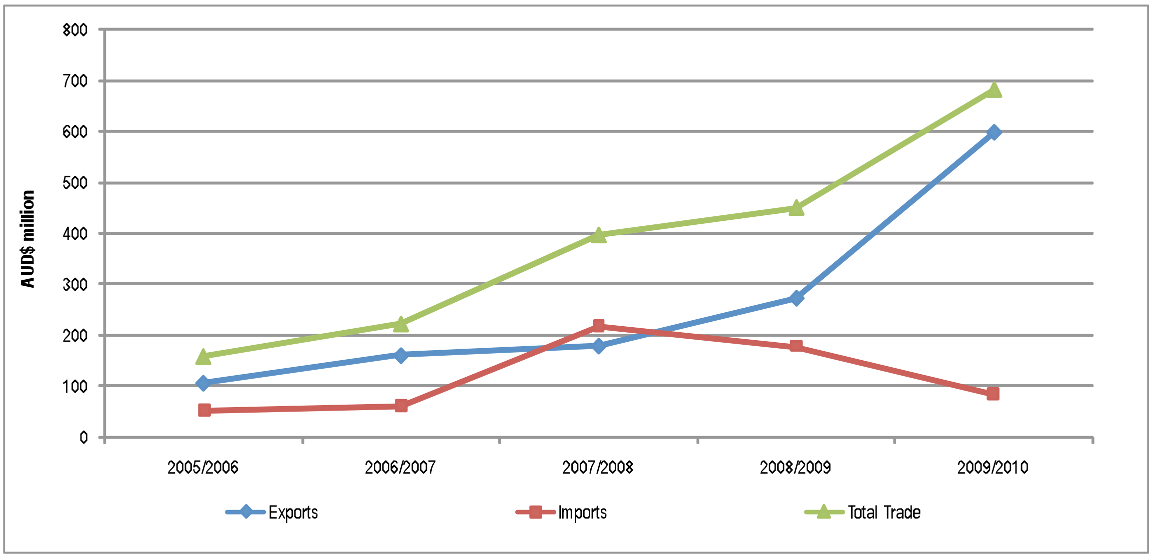
Country	2009/2010		2008/2009		2004/05	
	Share	Rank	Share	Rank	Share	Rank
PRC	15.20%	1	13.60%	2	7.40%	4
USA	10.00%	2	14.40%	1	13.80%	1
Japan	9.80%	3	9.70%	3	13.30%	2
Singapore	7.50%	4	6.80%	4	6.50%	5
Thailand	4.80%	5	4.10%	6	3.50%	7
India	**4.70%**	**6**	**2.80%**	**10**	**1.10%**	**19**
United Kingdom	4.60%	7	5.10%	5	7.80%	3
Republic of Korea	4.30%	8	3.60%	9	3.30%	9
New Zealand	3.80%	9	3.90%	7	4.00%	6
Malaysia	3.30%	10	3.80%	8	3.40%	8

Sources: DFAT, Australia's Trade by State and Territory (2009-10); ABS, International Trade in Goods and Services, Catalogue No. 5368.0

The value of total trade in goods between South Australia and India increased 24 percent to AUD$ 847 million in 2010/2011. Over the seven years from 2004/2005 to 2010/2011, the value of bilateral trade has increased 35 percent each year on average. In 2010/2011, South Australia's exports to India account for 84 percent of the total of bilateral trade while its imports from India made up 16 percent.

More detail on main products traded is found in the statistical annex to this report.

Graph 3
South Australia's merchandise trade with India



Sources: DFAT; Market Information & Research Section, December 2011

In 2004/2005, India was the 16th most important market in terms of exports of merchandise from South Australia. India was South Australia's 4th largest importer of merchandise in 2009/2010, importing AUD$ 599 million of goods from the state and accounting for 7.4 percent of the South Australia's total merchandise exports. And more recently, DFAT figures further rises of merchandise exports from South Australia to India, valued at AUD$ 714 million

South Australia's exports to India show a continuing trend of increases over the past seven years. In fact, they have risen 42 percent each year on average during this period.

In 2010/2011, South Australian exports to India were concentrated on: copper ores & concentrates (64 percent) and lead (11 percent). The major movements of the top 10 commodities exports are shown in the table found in the statistical annex.

Indian exports of merchandise to South Australia grew 58 percent in 2010/2011, after falling 52 percent in 2008/2009.

In respect to South Australia's merchandise imports, India was in the 20th most important supplier position in 2004/2005. It moved up to the 10th position in 2008/2009, before falling back to 16th position in 2009/2010, exporting goods to the state worth AUD$ 84 million and accounting for 1.3 percent of the South Australia's total imports of merchandise. More recently, 2010/2011 put the value of Indian merchandise imports at AUD$ 132 million.

Imports of merchandise from India into South Australia increased by 58 percent after two consecutive years of contraction (18 percent and 53 percent) in 2008/2009 and 2009/10. It is worth noting that over the past five years, state imports from India have increased by an average annual rate of greater than 50 percent.

In 2010/2011, South Australia's merchandise imports from India were dominated by rotating electric plant & parts which accounted for 35.8 percent of imports. Power generating machinery and parts comprise of 7.7 percent, Made-up textile articles 7.3 percent, Passenger motor vehicles 5.6 percent and jewellery 5.4 percent. Major movements of the top 10 commodities imports are shown in the table found in the statistical annex to this report.

In 2010/2011, South Australia recorded a surplus of AUD$ 581 million on its merchandise trade with India, an increase of 12.7 percent from the previous year.

II.D.2. Services trade

The Australian Bureau of Statistics (ABS) releases services trade data by State but do not provide any country detail due to confidentiality concerns and the complexities of the data source. However, it is noted that service trade is an important component of South Australia's international trade.

In 2009/2010 South Australia's total trade in services was AUD$ 3.97 billion, an increase of around 0.3 percent from the previous year and of over 6 each year on average over the last five years.

South Australia's services exports increased 5.6 percent in 2009/2010 to AUD$ 2.1 billion, following an increase of 2.6 percent and 4.2 percent in 2008/2009 and 2007/2008 respectively. Services exports were concentrated on travel services (78 percent), followed by transportation services (8 percent). In terms of average annual growth, travel services recorded the greatest increase, rising 11 percent each year on average over the past five years.

Within travel services exports, education-related travel amounted to AUD$ 1.05 billion (64 percent), other personal travel services was AUD$ 457 million (27.8 percent) and business-related travel AUD$ 136 million (8.2 percent).

On South Australia's services imports, in 2009/2010 there was a drop of 5.1 percent over the previous year to AUD$ 1.87 million. The main services imports were travel services which amounted to AUD$ 1.05 billion (56 percent) and transportation services with AUD$ 569 million (25 percent).

Within travel services imports, other personal travel services were valued at AUD$ 884 million (84.2 percent), business-related travel was AUD$ 128 million (12.2 percent) and education-related travel AUD$ 37 million (3.5 percent).

II.D.3. Investment flows

No overall statistics on Indian investment in South Australia or South Australian investment in India are available. However, some sectoral investment information is available.

In South Australia, Mumbai's Tata Power has bought a 10 percent stake in Australian enhanced geothermal systems firm Geodynamics, an investment worth a total of US$ 37 million. Reliance Industries of India has also entered into a partnership with Uranium Exploration Australia (UXA) to explore and develop four uranium production sites. Lincoln Minerals also had a joint venture to develop the Gum Flat iron ore project near Port Lincoln, but recently there have been reports that an agreement was reached for Lincoln Minerals to buy back the 40 percent share owned by Mineral Enterprises.

There has also been some investment in the wine production sector with Indage Vintners Ltd, a leading Indian wine company; acquiring Tandou Wines (later renamed Thanchi Wines) a Riverland located winery and VineCrest a premium boutique winery in the Barossa Valley. Two Indian companies are also very active in the area of wind power generation. Aban India, a supplier of wind farm technologies, has through its Australian affiliate Ausker Energy Pty Ltd obtained approval to develop wind farms in South Australia on the Eyre Peninsula. Suzlon, another Indian company, is Australia's leading wind turbine supplier and has been awarded turnkey contracts for the construction of five wind farm projects in South Australia.

One South Australian company which has reported some investment in India is Santos Limited. Santos has committed to an eight-year AUD$ 90 million work program covering two offshore oil and gas exploration licenses in India's Bay of Bengal.

II.E. The Indian Community in Australia and South Australia

According to the 2006 census approximately 7,000 Indian born people live in South Australia. However, more than 9,000 people claim to be of Indian ancestry. This shows that the Indian community in South Australia is composed not just of those born in India but is also integrated by people who have been born in Australia or in other countries where Indians have emigrated to, such as: Fiji, Singapore, South Africa, and Malaysia. A major proportion of the Indian born are recent arrivals having come to Australia after 2001.

In 2006 South Australian Premier Mike Rann signed a sister state agreement between South Australia and the southern Indian state of Tamil-Nadu. This initiated a strategy of promoting the South Australia in India using Tamil-Nadu and Chennai as the beachhead. This strategy included the posting in Chennai by the South Australian Government of Mr. A.K. Tareen as Director for Trade and Investment in India. It also involved developing cultural ties to promote links between the states through films and sports.

There have been various waves of Indian immigration to South Australia, starting in the mid-1800s with the arrival of the “Afghan” camel drivers, many of which were from Punjab, Rajasthan and Kashmir, that opened up the development of the Australian outback. A significant number of workers from India also came to South Australia to work in the mines when both were under the rule of the British. In the twentieth century Indian immigration was affected by the “white Australia policy”. The relaxation of this policy towards professionals in the late 1960s resulted in a wave of Indian doctors, accountants and academics arriving in Australia prior to 1971. These new arrivals were not entrepreneurial in nature and therefore did not contribute to a large increase in trade between India and Australia.

Since 2001 South Australia, like many other Australian states, has seen a big influx of immigrants from India. Many of these new arrivals are skilled and semi-skilled immigrants however some have difficulties finding work in the areas of their skills and end up in low-skilled activities such as taxi driver drivers and cleaners. The India born population of South Australia is very young with a major proportion of it being under 30 years old. The Indian population is also predominantly male in gender. Census data also shows a heavier concentration of Indian population in the suburbs of Port Adelaide/Enfield and Charles Sturt.

Official figures from AEI show 6555 enrolments of Indian students in 2010, a decline from 7092 enrolments (7.6 percent) from 2009 following an increase of 48.5 percent from 2008. 2011 figures indicate a continuation of this downward trend. This is South Australia’s second largest contingent of students after the Chinese. The decline in Indian students enrolments over the past two years in South Australia reflect the general national trend but one that is less severe. These students can roughly be divided into two groups; one group is composed of middle class students who are in the country to genuinely pursue secondary and tertiary education and for the most part intend to return to India after their studies. Another, probably more numerous, group is composed of students from the rural parts of India who mainly see their studies in Australia as a path to permanent residency. This latter group is attracted by Adelaide’s relatively lower cost of living and South Australia’s facilitated immigration, and tend to attend vocational schools. The 2009 reported attacks on Indian students across Australia have had a negative impact on the number of Indian students applying for visas. Data from the Immigration Department shows a 46 percent drop in visa applications for the period 1 July to 31 October 2009 period when compared to same trimester in 2008. Indian student enrolments nationally declined by 21 percent in 2010 with current 2011 figures showing a continuation of this downward trend. In conversations with the Indian community it has been pointed out that the effects of these reported attacks on Indians should not be underestimated as several opinion leaders in India such as politicians and Bollywood stars have stated publicly that they would not consider visiting Australia after these incidents.

The Australia-India Business Council (AIBC) was established in 1992 by the Australian Government to broaden the bilateral relationship through increasing levels of knowledge and understanding between the peoples and institutions of Australia and India. The AIBC comprises a board of members with interests in the Australia-India relationship, drawn from a cross-section of the Australian community. The AIBC is serviced by a secretariat located in the Department of Foreign Affairs and Trade in Canberra. The Australian High Commission in New Delhi manages the AIBC's activities in India with an in-country manager and support staff.

In 1995, the Indian Government established a counterpart to the AIBC, the India-Australia Council (IAC). The IAC is serviced by a secretariat located in the Confederation of Indian Industry (CII) based in Delhi. The AIC and IAC meet periodically to coordinate programs.

The most recent Australian Bureau of Statistics estimates indicate that as at 30 June 2008, there were 239,295 Indian-born people living in Australia. The Indian Ministry for Overseas Indian Affairs estimates the number of Indians in Australia at 448,430 people.

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III. STRATEGIC CONTEXT FOR AN AGREEMENT

III.A. The big picture

Although Australia's relationship with India is not as broad or as intensive as the Australian relationship with many nearer neighbours in East Asia, it is nevertheless a relationship that is growing in strategic importance. Australia and India both participate in the East Asian Summit (EAS) process and Australian and Indian officials have worked together practically in other regional architecture building exercises, such as the Track Two Study of a Comprehensive Economic Partnership for East Asia (CEPEA). To some extent, including India in Asian fora is a helpful way to ensure that China does not dominate the proceedings.

Like Australia, India was a latecomer to regional and bilateral trade agreements. However, it is now actively involved in negotiating bilateral and regional ties with its principal trading partners. All of the bilateral agreements that have been concluded so far have been with other developing countries, including Afghanistan, Chile, Nepal, Singapore, Sri Lanka and Thailand. However, India is currently in negotiations with some industrialized countries or country groupings, namely: Japan, EU and EFTA. India has also started negotiations on possible trade agreements with Malaysia, the Gulf Cooperation Council (GCC), the South African Customs Union (SACU), Mauritius, and Pakistan.

India has also signed a number of regional trade agreements that to some extent overlap with its bilateral commitments, these include the India-ASEAN FTA, the South Asia Free Trade Area (SAFTA), the Bay of Bengal Initiative for Multisectoral, Technical and Economic Cooperation (BIMST-EC), and the Asia-Pacific Trade Agreement (APTA). In 2009, a preferential trade agreement with MERCOSUR came into force. India is also a participant in the Global System of Tariff Preferences (GSTP) between developing countries.

Many of India's FTAs are only partial in scope and based on positive lists of commitments, those that cover a broader universe of products have substantive negative lists or exceptions. Currently, only the agreement between India and Singapore covers services and investment. In the APTA, framework agreements have been signed on investment and trade facilitation, and concluded in services for a possible signing in March 2010.

Negotiating a bilateral FTA with India would be a major undertaking for Australia. Unless Australia radically changes its approach to FTA negotiations, any agreement with India will need to be far more comprehensive than India's past agreements. A reluctance on the part of India to enter into a comprehensive, WTO-Plus negotiation may be one explanation for the fact that the bilateral feasibility study of an Australian-Indian FTA, which was due to have been completed in early 2009, is still not completed.

III.B. The likely nature of a bilateral agreement

Australian officials maintain that their objective in any bilateral trade agreement with India would be to conclude a high quality, comprehensive trade agreement with many WTO-Plus features. Current Australian Government policy requires any FTA it enters into to be consistent with World Trade Organization (WTO) rules, specifically Article XXIV of the General Agreement on Tariffs and Trade (GATT) and Article V of the General Agreement on Trade in Services (GATS). In Canberra's view, FTAs should also contribute to the momentum for multilateral liberalisation.

Under GATT Article XXIV, any FTA must among other things, provide for the elimination of duties and other restrictive regulations on commerce on substantially all trade in goods between the parties. With respect to services, GATS Article V requires liberalisation that has substantial sectoral coverage and the absence or elimination of substantially all discrimination between the FTA partners through the elimination of existing discriminatory measures and/or the prohibition of new or more discriminatory measures.

An FTA would enable both Australia and India to benefit economically by taking full advantage of each other's relative competitive strengths. This would be achieved by removing barriers to trade and investment which impose additional costs on producers and consumers, thereby impeding economic efficiency and growth potential. Given the considerable complementarity between the Australian and Indian economies, a high-quality FTA should produce significant benefits for both economies. It will be important to be ambitious in approaching any future FTA, while acknowledging the particular complexity of such a negotiation.

While some observers would find it hard to believe that India could consider entering into the kind of FTA Australia would want to negotiate, our assessment of the likely nature of a bilateral agreement will take as its starting point the anticipated content of the yet-to-be-completed bilateral feasibility study. The study will focus on the likely economic impact of an FTA, including the benefits that India and Australia could derive from trade and investment liberalisation. Coverage for the study will be comprehensive, including all goods and services trade, investment, and a number of other issues which cut across sectors, including but not limited to intellectual property, competition policy, government procurement, sanitary and phytosanitary (SPS) measures, technical barriers to trade (TBT), mutual recognition agreements (MRAs), and labour mobility associated with trade in services.

An agreement with India reached on this basis would be expected to incorporate the following main provisions:

National Treatment and Market Access for Trade in Goods – This chapter of the agreement, together with accompanying schedules, would outline the steps to be taken to reduce and eliminate tariffs (perhaps dealing separately with industrial and agricultural goods) and certain product-specific non-tariff measures inhibiting goods trade between Australia and India. From the description earlier in this report of India's willingness (or not) to liberalize tariffs in its agreements with Chile and ASEAN, we expect that it is likely to be a very difficult negotiation for Australia. The negotiation will not be made easier by the fact that India continues to apply an average tariff across all goods imports of 19.2 percent with the tariff on agricultural products averaging 37.6 percent. The average trade-weighted tariff on Australia's imports from India was 3.9 percent. To be seen as valuable, any agreement will need to reduce or eliminate high Indian tariffs such as those applicable to wine. India will also need to eliminate restrictive import licensing policies relating to some products of great interest to Australia.

Most of India's applied MFN tariffs are set at a level that is well below the bound rate, this gives the government a great amount of leeway to increase applied tariffs. Therefore, one of the advantages of signing a comprehensive FTA would be to lock-in application of the lower applied rate for those products included in the schedule of commitments, even if no major tariff reduction is achieved.

Services Trade – The WTO approach to negotiation of trade in services provides that only services included in a country's schedule of specific commitments are subject to market access and non-discrimination undertakings. This is known as the "bottom up" approach and it is the approach that was adopted in the Indian agreement with Singapore (CECA), where only limited progress was made in liberalizing services beyond what India has committed to in the WTO. Some FTAs, however, such as the Australia- United States FTA (AUSFTA), adopt a "top down" (or "negative list") approach eliminating access barriers and discrimination across all services except those identified as excluded from liberalisation. If both sides are serious about liberalization, they will adopt the top-down approach to the negotiations, but it is doubtful that India would agree to this.

The impact of a bilateral FTA on trade in services will depend not only on the degree to which India eliminates existing barriers to services trade but also on the extent to which non-discriminatory treatment is made subject to new and binding commitments under the FTA.

Investment – The investment chapter in the CECA offers some hints as to what India might agree to in a bilateral with Australia. In CECA, Singapore and India agreed to a reasonably broad definition of investment (including debts, intellectual property and contractual rights, and both FDI and portfolio investment). National treatment guarantees are provided, along with disciplines on expropriation and compensation. There is provision for the free repatriation of investment-related funds, and India agreed to bind liberalizing measures it had already adopting allowing certain investment in the real estate sector and rights for existing joint ventures to enter new joint ventures. India's specific commitments are included as a positive-list annex, while Singapore's corresponding annex is a negative-list annex of reservations.

Significantly, the CECA includes an investor-state dispute settlement mechanism. However, disputes involving an alleged violation of national treatment with respect to the establishment, acquisition or expansion of investment are not covered by this mechanism except that, as agreed in an exchange of letters annexed to the agreement, if India agrees to subject such disputes to compulsory investor-state dispute settlement in any other international agreement, it must automatically extend the same benefit to Singapore under the CECA, and Singapore must reciprocate. The CECA chapter on investment also allows for the denial of benefits to investors that do not have substantial business operations in a party, or that are owned or controlled by investors of the party denying benefits. In addition, requirements that senior management officials of an investor be of a certain nationality are prohibited (although Singapore has made a number of reservations regarding local managers).

Sanitary & Phytosanitary Measures (Quarantine) – Trade in plant, animal and foodstuffs between India and Australia will be certain to encounter quarantine-related barriers in both countries. In all likelihood, the FTA will include a chapter on SPS measures, although we would expect the bulk of the chapter to confirm existing WTO obligations, with some additional commitments to transparency and joint cooperation. The chapter could (as in some other FTAs) set up a joint committee designed to address specific quarantine issues and problems

Technical Barriers to Trade (Product Standards) – As with quarantine rules, national product standards frequently stifle trade where they are not based strictly on international standards. Product testing can often be unnecessarily duplicative and the FTA can help if it establishes ways in which the Indians and Australians can address mutual recognition of each other's testing requirements.

Customs Administration Normally, such chapters address clearance formalities, fees and documentation, as well as the adoption of important trade facilitation techniques that speed the clearance of goods through customs. India and Australia should be in a position in their bilateral FTA to build on the substantial progress that has been made in the WTO Doha Round trade facilitation negotiations.

Safeguards – It is likely that the bilateral FTA will include provisions allowing the parties to the agreement to impose temporary safeguard measures in the event of a sudden steep rise in imports of particular products. Normally the safeguard measure would involve a temporary return to MFN tariff rates and not the imposition of quantitative restrictions. Product-specific safeguards might also be incorporated in particularly sensitive sectors, such as agriculture or clothing and textiles.

Anti/Dumping Measures: These days, Australia does not make significant use of antidumping measures against imports. India, however, is a major user of antidumping measures and will not likely want to see its freedom of action abridged through the FTA. It is likely that the agreement will simply refer to the WTO disciplines in this area which already apply as between the parties.

Rules of Origin – The FTA will need to define how goods qualify as "Australian" or "Indian" in order to be eligible for preferential treatment under the agreement. The agreed rules for products that incorporate non-Australian non-Indian inputs can be simple (based, for example on a change in tariff classification brought on by a process of transformation) or they can be more complex (as can be the case with value-added based rules). We would expect that, in the interest of trade facilitation, Australia would push India to accept the same rules of origin approach as that adopted for the purposes of the AANZFTA where a co-equal status is given to a 40 percent regional value content rule and change of tariff classification at the 4-digit HS level. Exporters have the right to choose between the two approaches. India's own agreement with ASEAN uses a less "exporter friendly" approach which involves a combination of 35 percent regional value and a six-digit change in tariff sub-heading.

Government Procurement – Although neither Australia nor India are signatories to the WTO's Agreement on Government Procurement, Australia will almost certainly want the FTA with India to include a chapter on government procurement. Australia has already concluded government procurement agreements with the USA, Singapore and Chile. Government procurement has not, however, been addressed in India's FTAs. Because Australia dislikes the "red-tape-heavy" approach normally dictated by the USA in its FTA's, we would expect this chapter to be considerably less detailed and less comprehensive than those found in Australian FTAs.

Intellectual Property Protection - India and Australia are both parties to the WTO TRIPs Agreement. The Department of Foreign Affairs and Trade's "Industry Consultation Background Paper" prepared in connection with consideration of a possible FTA with India notes that FTAs provide an opportunity to build upon specific commitments on intellectual property and address specific impediments to market access raised by stakeholders. Although not cited as an objective by DFAT, it is possible that Australia would seek Indian agreement to update IP protection afforded under TRIPS (which dates from 1993) by joining the 2006 Singapore Treaty on the Law of Trademarks, the 1996 WIPO Copyright Treaty and the 1996 WIPO Performances and Phonograms Treaty.

For its part, India might use the FTA negotiations to gain Australian legal recognition of geographic indications protection for Indian products such as Darjeeling tea.

Competition Policy – Australia might hope that the FTA will contain a chapter on competition, which would likely impose soft obligations on the parties to maintain a competitive market and consult on instances of suspected anti-competitive behaviour. We also anticipate that this chapter could include provisions on consumer protection. As is the case in Australia's other FTAs, the chapter on competition policy would not, however, be subject to dispute settlement under the FTA. In multilateral fora, India has generally opposed agreements relating to competition policy, so it could be a hard sell for Australia to achieve this in a bilateral FTA with India.

Dispute Settlement – The FTA is almost certain to incorporate a mechanism for the settlement of bilateral disputes concerned with the implementation of the agreement. In other FTAs in which Australia participates, the process of dispute settlement under the bilateral agreement roughly parallels that of the WTO dispute settlement procedure. If this part of the agreement also mirrors the agreements that Australia has signed with other countries, then the dispute settlement mechanism could include certain innovations found in both of those agreements, such as open public hearings, release to the public of written submissions made by the parties, the possibility for non-parties (*amicus curiae*) to address written submissions to the panel, and the possibility for a losing party to pay a monetary fine to settle a trade dispute.

Temporary Movement of Natural Persons – Most modern FTAs contain some provisions relating to the temporary movement of natural persons as services suppliers. In most cases, the provisions deal with specialists of intra-company transferees at fairly senior levels. In some agreements, however, provision for the temporary movement of other kinds of services workers has been included. For example, in Australia's agreement with Thailand, skilled Thai chefs and masseuses are given free entry into Australia. New Zealand's agreement with China goes even further, opening many occupations to the temporary movement of workers from China. No doubt there are restrictions in India that hamper the temporary movement of Australian services providers into that country. However, the extent to which Australia is likely to pursue opportunities in this area will probably be tempered by its likely unwillingness to compromise planned liberalization of access to the Australian labour market by nationals of Pacific Island Forum countries.

III.C. Timing and Prospects

Australia and India were to have concluded their bilateral feasibility study of a possible free trade agreement in 2009. As of the date of this report's preparation (mid-March 2010) the feasibility study had still not been completed.

The feasibility study was finally released on May 4, 2010 and recommended negotiation of a comprehensive FTA between Australia and India – a recommendation endorsed by both the Australian Trade Minister and his Indian counterpart. However, both noted that further internal processes would need to be undertaken prior to the launch of negotiations.

Despite the completion of the feasibility study, it is not possible to predict when (or even whether) negotiations on a bilateral FTA might start. One thing is clear: negotiating a high quality FTA with India will be an enormously difficult task for Australia and it is likely to take many years to reach agreement.

IV. OPPORTUNITIES AND THREATS ARISING FROM AN FTA

IV.A. Trade in goods – overview

Australia's trading relationship with India is expanding rapidly and India is one of the fastest growing of Australia's major markets. In the recent past, Australian exports of goods and services to India both grew by an annual average of over 30 percent per year. Australia's merchandise exports to India are dominated heavily by minerals (coal, gold and copper ores and concentrates). As Indian income levels rise and bring on dietary changes, Australia's potential to export agricultural products to India should increase importantly. Our imports from India are more diversified and to some extent reflect a complementarity in the trading relationship (Australians ship gold to India and import significant amounts of jewellery.

As noted earlier, Australian exporters face high tariffs in the Indian market, with the average applied tariff on agricultural goods at 37.6 percent and the average applied tariff on non-agricultural merchandise at 16.4 percent. By contrast, Indian exporters to the Australian market generally face low tariff barriers, with the average MFN applied tariff at just 3.9 percent. In addition, some Indian exports benefit from concessional tariff rates under Australia GSP scheme for developing countries. Only in the textiles sector do Indian exporters face tariffs of above 5 percent ad valorem. Australian tariffs on apparel and certain finished textile goods are now set at 10 percent and are scheduled to be reduced to 5 percent in 2015. In 2006/2007, Australia's imports of textiles products from India were valued at AUD$ 228 million and accounted for 4 percent of Australia's imports of these products.

Generally speaking, Indian barriers to Australian exporters are far more significant than Australian barriers to imports from India so negotiating a bilateral free trade agreement with India that eliminated Indian tariffs on imports from Australia would appear to be of significant benefit to Australian exporters while constituting little threat to Australian industries competing here with goods from India.

IV.B. Agriculture, food and beverages

IV.B.1. Grains, meat products, vegetables and fruit/nuts

Although production of grains is important to Australian and South Australian farmers, the Indian market is unlikely to be an important one for Australian exporters. According to ABARE[9], on average India plants more area to wheat than any other country. As at 1 January 2010, wheat stocks in India were 23 million tonnes – nearly three times the government's target level. Average applied tariffs in India of between 37.3 and 56.3 percent, combined with the overhang of supply on the market will continue to frustrate any efforts by Australian exporters to sell grain products in India.

[9] Australian Commodities, vol 17 no 1, March quarter 2010, pp.22-23

From Table SA-1 of trade statistics (Statistical Annex), we can see that South Australia also does not export significant quantities of meat to India. This could be due to the relatively high tariffs maintained by India or it may be the result of the 2006 introduction by Indian authorities of import prohibitions on some livestock and livestock products, including domestic and wild birds, meat and meat products from avian species, and live pigs and pig meat products (except processed pig products). Of course, the market in India for certain meat products is limited by religious prohibitions and cultural preferences.

Import restrictions can be imposed under the Customs Act, 1962 and the Foreign Trade (Development and Regulation) Act, 1992. Some 415 tariff lines (around 3.5% of the tariff) at the HS 8-digit level are currently subject to import restrictions under Articles XX and XXI of the GATT including in sections 1 (live animals) 2 (vegetable products).

India also monitors imports of some 300 items that are considered to be sensitive including edible oil, cotton, silk, milk and milk products, cereals, fruit and vegetables, spices, tea, coffee, and alcoholic beverages

Notwithstanding applied tariffs of 30 percent, South Australia exported over AUD$ 48 million of pulses (field peas and chick peas) and more than AUD$ 12 million in fruits and nuts to India in 2010/2011. Despite India being the largest producer of pulses in the world, it is by far the largest consumer and the largest importer of pulses as well. Indian imports of dried peas in 2008 were worth USD$ 732 million, largely from Canada (USD$ 534 million), with the remainder coming from the USA, Australia and France. In 2009, Australia exported around AUD$ 90 million of field peas and AUD$ 126 million of chick peas to India. Indian production of pulses has remained essentially stable for many decades and the large vegetarian population, including those who are essentially vegetarian for economic reasons, rely on pulses for much of their protein.

India's bound tariff rate for pulses is very high at 100 percent ad valorem[10]. Reducing the high applied tariff rates on these products through an FTA should enhance future market opportunities for South Australian producers and securing a bilateral bound rate at zero or some level close to that would guard against the danger that India might someday decide to raise rates back to bound levels of 100 percent.

[10] Tariff items 0708.10, 0708.20 and 0708.90.

IV.B.2. Wine and alcoholic beverages

The wine and alcoholic beverage sector is an important one for Australia and for South Australia in particular. The value of Australian wine exports in 2009 came to some AUD$ 2.4 billion, but this figure represents a decline in value from earlier years (in 2007, exports were valued at AUD$ 2.8 billion) due to downward price pressure on Australian wines in the market. Although the total volume of Australian wine exports continues to grow, the average unit export price of wine fell by 17 percent in 2008/2009 relative to 2007/2008. These low prices are making it very difficult for wine producers to make a profit and exerting considerable pressure on grape growers.

In no small part, the difficulties of the Australian wine industry are due to over-production. According to industry groups, Australia is currently producing a surplus of 20 to 40 million cases of wine a year, with inventories currently exceeding 100 million cases. If current rates of production continue, inventories will more than double in the next two years. Industry groups that have jointly developed the "Wine Restructure Action Agreement" estimate that 20 percent of bearing vines in Australia are unprofitable and that the industry must restructure to reduce capacity and change the production mix.[11]

As a very large proportion of Australian wine production takes place in South Australia, it is important to the state that the industry should have an opportunity to export surplus production. Mirroring the experience of the Australian wine industry generally, the South Australian wine industry, during 2008/2009, experienced multiple challenges, leading to an overall decrease in the production. South Australian wine producers had to face global and domestic challenges related to oversupply of grapes and wines, drought, global economic crisis, increased competition internationally, fluctuating and uncertain exchange rates, increased input costs, reduced water allocations. As a consequence the industry experienced an overall decline production and volumes of supply[12].

In 2008/2009, South Australian wine exports in volume (litres) were estimated at 449 million litres and value of AUD$ 1.58 billion, decline of 3% and 15% respectively. The price per litre of South Australian wine exported fell to a record low $3.51 per litre[13].

Industry experts commented that India is, traditionally, not a wine drinking nation. While Indians generally prefer stronger spirits wine is now becoming more popular amongst India's young people.

India imposes high import duties on wine, with the calculated average applied tariff rate across wine tariff lines at 54.6 percent ad valorem - creating barriers for South Australian companies in penetrating the market and introducing the culture of wine. As noted earlier, India did not agree

[11] ABARE, Australian Commodities, vol 17 no 1, March Quarter 2010, page 55.
[12] http://www.safoodcentre.com.au/scorecard/industry_scorecards/wine
"2008-09 SA grape and wine scoredcard report".
[13] ibid

to cut its high tariffs on wine even in its bilateral agreement with Chile, so it would presumably be difficult for Australia to negotiate a meaningful reduction or elimination of the duty in trade talks with New Delhi. Nevertheless, reducing India's import duties on wine should be a priority in any eventual negotiations.

To be effective, the cut in tariffs achieved through an FTA would need to be accompanied by a promotional campaign designed to establish a brand for Australian wine in India.

IV.B.3. Seafood

The seafood industry is one of South Australia's main exporting industries. In 2007/2008 the value of South Australia's seafood exports was approximately AUD$ 338 million. Almost all of the production of blue fin tuna, lobster and abalone is exported to the Japanese and Hong Kong markets. The production of other tuna, fish, oysters, mussels and prawns is mostly consumed domestically.

Exports of South Australian seafood to India in the past were almost negligible. This may be due to the fact that only as of 1 February 2010 has AQIS been able to issue export certificates for frozen, chilled and smoked seafood acceptable to Indian authorities. Now that the NTB hurdle has been cleared Australian seafood exports still face a 30 percent tariff on all products when entering the Indian market.

From consultations with the industry it would appear that even if tariffs were reduced as a result of a FTA they do not see many opportunities for export growth in India. Consumption of fish is popular in certain regions of India, such as West Bengal, Kerala and Goa; however, most of the fish varieties consumed are from local production. It would also seem difficult to be able to meet the price point at which fish products would become competitive in the Indian market. In addition exports of South Australia's main exporting products tuna, lobster and abalone would not be able to fetch the premium prices in India they already get in the markets of Japan, Hong Kong and China. Opportunities exist in the area of aquaculture technologies where joint-ventures could be established to develop farming in species related to the yellowtail kingfish which are more to the taste of the Indian consumer.

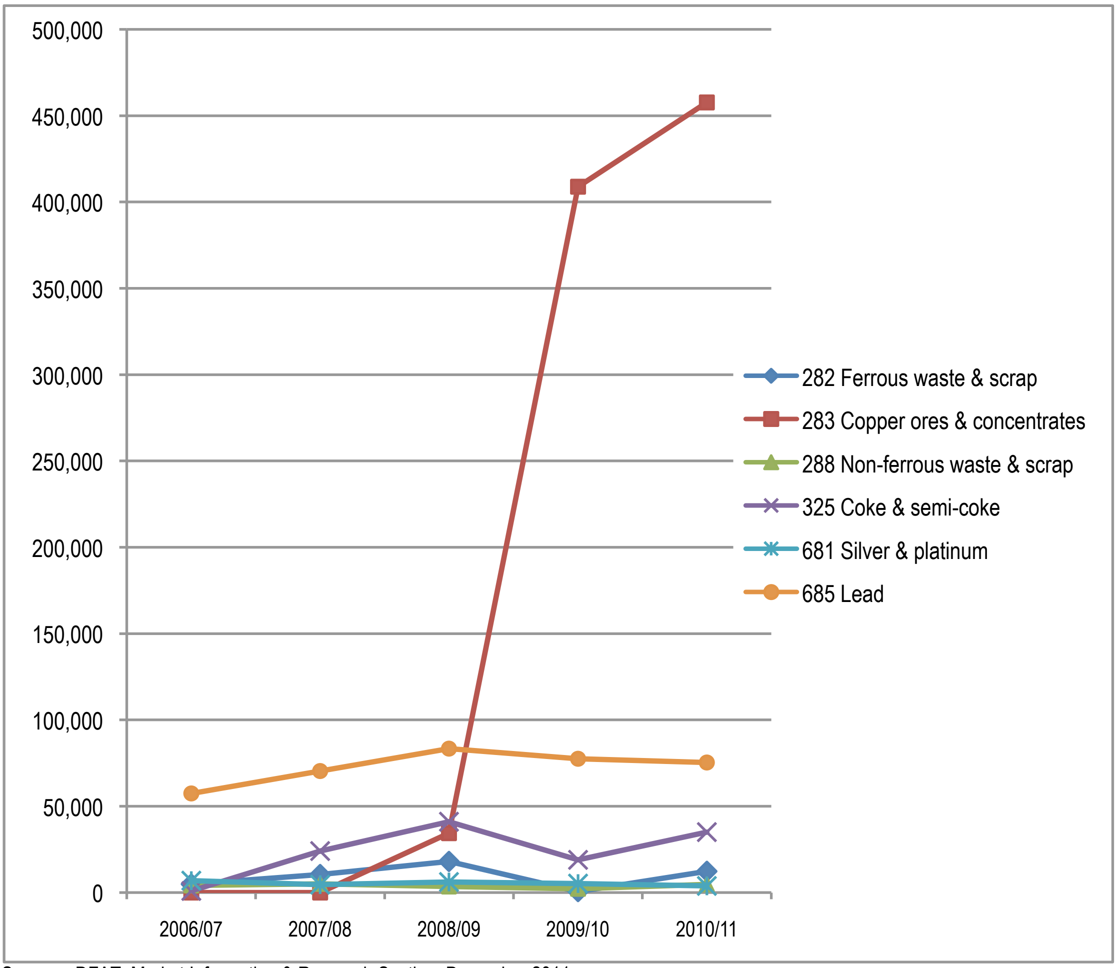
Seafood products figure heavily in the tariff lines that have received preferences under the Chile-India PTA. Products in this sector from Chile, including: trout, salmon, tuna, sardines, mackerel, squid, shrimps, prawns, oysters, abalone, crabs, sardines, grouper, sea bass, pomfret and hake will receive a margin of preference of 20 percent over the MFN rate. In India's FTA with ASEAN many fish products – mostly those not available in Indian waters – will be able to enter India duty free from 2013. However, several of the fish that can be caught in Indian waters have been placed in the list of exclusions.

Given the large potential size of the market in India, Australian negotiators should pursue tariff elimination for seafood in any eventual FTA, even if industry experts currently do not believe there is much of a market for non-local seafood in India.

IV.C. The mineral resource sector

South Australia is a major producer and exporter of minerals and resources; it is endowed with almost 40 percent of the world's known recoverable uranium reserves and significant volumes of copper, gold, zinc and silver. South Australia is also Australia's greatest producer of iron ore outside of the Pilbara region of Western Australia. South Australia currently has approximately AUD$ 13 billion worth of projects at various stages of development in the minerals and energy sector. Mining contributed AUD$ 2.9 billion (4.4 percent) to the State's Gross Value Added in 2007-08 and is also a major export category with a total export value of AUD $ 2.8 billion in the year to September 2009, or 31 percent of the state's total goods exports. It is also a major source of employment for the state with 7,800 people employed in mining and 14,750 employed in metals manufacturing in the year to August 2009.

Graph 4
South Australia's mineral exports to India



Sources: DFAT; Market Information & Research Section, December 2011

Three of South Australia's top four exports to India are in the minerals sector. In 2010/2011 these exports were valued at AUD$ 458 million for copper ore and concentrates, AUD$ 75 million for unwrought refined lead and AUD$ 35 million for coke and semi-coke. Given India's increasing need for resources to continue to fuel its industrialization and development efforts, great opportunities for expansion in this field will continue to exist in the long term.

Table 9
Indian tariffs on mineral and energy imports 2008

Category	Tariffs (Ad Valorem)
Mineral & Metals	**Average 7.4%**
Copper	2%
Gold	2 %
Silver	2 %
Uranium	2 %
Zinc	2 %
Lead	2 %
Iron	2 %
Petroleum, coal and gas	**Average 9%**
Coke and semi-coke	10%
Gasoline	10%
Kerosene	10%
Light Diesel	10%
Fuel oil	10%

Although Indian tariffs in the minerals and metals sector are already low, Australia may need to insist on tariff reductions in this area to restore competitive conditions with Chilean exports of copper ore and concentrates which under the India-Chile PTA have received a tariff preference of 10 percent over the MFN rate. This is also the case with ASEAN countries whose exports of mineral ores and concentrates are set to enter duty free into India by end 2013.

There seems to be a great potential for investments and joint-ventures for Indian companies into the minerals and resource sector of South Australia. The AIBC and South Australian Chamber of Mines and Energy (SACOME) conducted a trade mission to India in March 2010, with the objective of scoping out business opportunities with India for the South Australian mineral and resource sector. This potential has already been demonstrated by 3 joint venture projects in the minerals and resources area which have been described in the investment section of this report. Further projects and business relations with India would allow the South Australian minerals and resources sector to diversify the source of investment and destination of exports from China which is the predominant partner in the state.

As mentioned previously, there is scope for South Australia’s economic relationship with India to be significantly boosted by the Australian Labor Party’s proposal to open the door for the export of uranium to India.

IV.D. The manufacturing sector

IV.D.1. The automotive sector

IV.D.1.a. <u>The automotive sector in Australia</u>

The Australian automotive sector is one of the most significant industries within the Australian economy. Automobile production is centred in three car manufacturers (Holden, Ford and Toyota) and up to 200 component part manufacturers nationally, mainly located in South Australia and Victoria. The industry contributes significantly to exports, generating AUD$ 4.4 billion as of 2008/2009 and supporting around 60,000 jobs. Automotive production accounts for 48 percent of the value of total Australian manufacturing production. As of 2008, exports stood at 162,000 motor vehicles, contributing to national income considerably[14].

General Motors Holden has a manufacturing plant based in Adelaide and of the 200 automobile component firms in Australia approximately 50 are in South Australia, along with a significant number of second and third tier suppliers providing tooling to vehicle and component producers and a number of other firms that provide specialist automobile services. Mitsubishi operated an assembly plant in the southern suburbs of Adelaide for many years but announced the closure of the plant effective 31 March 2008. The Mitsubishi experience dramatically demonstrates that maintaining global competitiveness is a major challenge for what remains of the industry. Even with the demise of Mitsubishi, however, there is little doubt about the significance of the motor vehicle industry to Australia and South Australia. But local manufacturers, notwithstanding government support programs, continue to lose market share to imports.

The table which follows on the next page shows that locally manufactured cars' share of the domestic market fell from 16.9 to 15.8 percent between 2008 and 2009, with all three producers (we are not counting Mitsubishi) witnessing very substantial declines in both the overall number of vehicles manufactured and in their respective market shares.

[14] Department of Innovation, Industry, Science and Research, "*Outlook for the Automotive Manufacturing Industry Fact Sheet*", <<u>http://innovation.gov.au/Section/AboutDIISR/FactSheets/Pages/OutlookfortheAutomotiveManufacturingIndustryFactSheet.aspx</u>>.

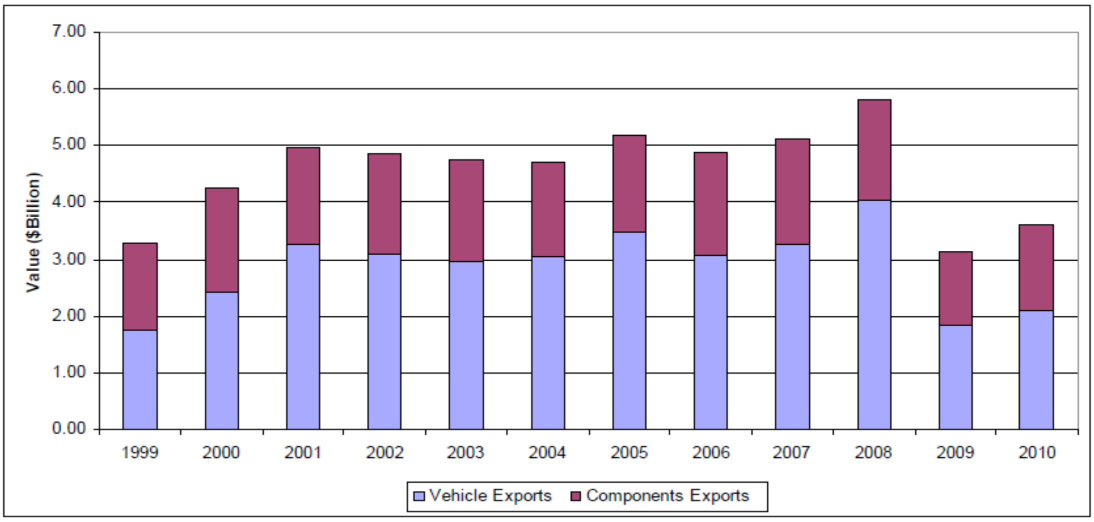
Table 10
Locally Manufactured v. Imported New Vehicles[15]

	2008		2009		2010	
	No. of Units	Market share %	No. of Units	Market share %	No. of Units	Market share %
Total Locally Produced	324,684	25.30%	218,258	22.30%	242,941	19.31%
Holden	119,246	9.29%	66,879	6.83%	66,145	5.26%
Ford	61,728	4.81%	54,543	5.57%	57,358	4.56%
Toyota	141,416	11.02%	96,836	9.89%	119,438	9.49%
Mitsubishi	2,294	0.18%	0	0.00%	0	0.00%
Total Imported	958,712	74.70%	760,475	77.70%	1,015,314	80.69%
Total Market	1,283,396	100.00%	978,733	100%	1,258,255	100.00%

Source: DIISR, Key Automotive Statistics 2010

In no small part due to the Global Financial Crisis (GFC), the sector suffered losses in international trade, where the total volume of exports decreased substantially, adversely affecting both, the component part manufacturers and car manufacturers. The following graph illustrates the value of automotive exports in recent years.[16]

Graph 5
Australia's Automotive Exports
(Value of Automotive Exports)



Source: DIISR, Key Automotive Statistics 2010

15 DIISR, Key Automotive Statistics 2010; <http://www.innovation.gov.au/Industry/Automotive/Statistics/Pages/default.aspx>
16 ibid

The Government's financial investment is expressed and implemented in various initiatives of new programs/developments and other measures enabling Australian automotive companies, particularly small medium enterprises (SME's), to compete more efficiently and effectively with strong rivals in today's globalized market. Examples can be seen in recent measures undertaken by the Australian Government, aiming to motivate, stimulate and encourage local consumption, leading to some restoration of business confidence. In 2009, new schemes were introduced which related to business tax breaks that totalled AUD$ 2.7 billion[17].

In addition, due to the GFC, the Australian Government undertook (initial) steps to review operating schemes in 2008. These measures to evaluate the entire sector placed emphasis on performance related to 'innovation'. However, the focus of the revision was also to evaluate the Automotive Competitiveness and Investment Scheme (ACIS) and its assistance schemes/mechanisms, vehicle tariff reductions, evaluation and assessment of trade and global environments as well as assessment of the multilateral/bilateral and regional obligations. The commissioning of the review was also related to the assessment of strengths and weaknesses as well as challenges and opportunities that the sector encountered domestically and internationally. The whole industry was studied under a 'magnifying glass'[18].

The industry in Australia is capable of manufacturing and assembling an entire motor vehicle without importing any components. Australia is considered to be among only fifteen countries in the world able to achieve a complete manufacturing process. In a push to recapture some competitive advantage and to be an automotive leader worldwide, the then Prime Minister Kevin Rudd's proactive approach has been aimed at reinventing the automotive sector by introducing "A new car plan for a greener future". It is believed that by doing so the sector will secure its future and investments made today will pay off in the near future.

The introduction of the green plan put emphasis on comprehensive support by the Government to the industry and focuses on providing AUD$ 6.2 billion of assistance for development and implementation. The key focus is on fundamental activities within the Automotive Sector, with the focal point on the re-vitalization of the Automotive Transformation Scheme (ATS), concluding with an injection of AUD$ 3.4 billion, as well as an allocation of AUD$ 1.3 billion into The Green Innovation Fund. In addition there has been promotion and structural adjustment, integration of supply chains, as well as improvement of the market access program and the "LPG vehicle scheme supporting private purchases" totalling AUD$ 15.3 million[19]. Introduction of the green plan supports Australia's determination of entering into a new era of a greener future with low carbon emissions, friendly environment and future sustainability.

IV.D.1.b. The automotive sector in India

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[17] Ibid

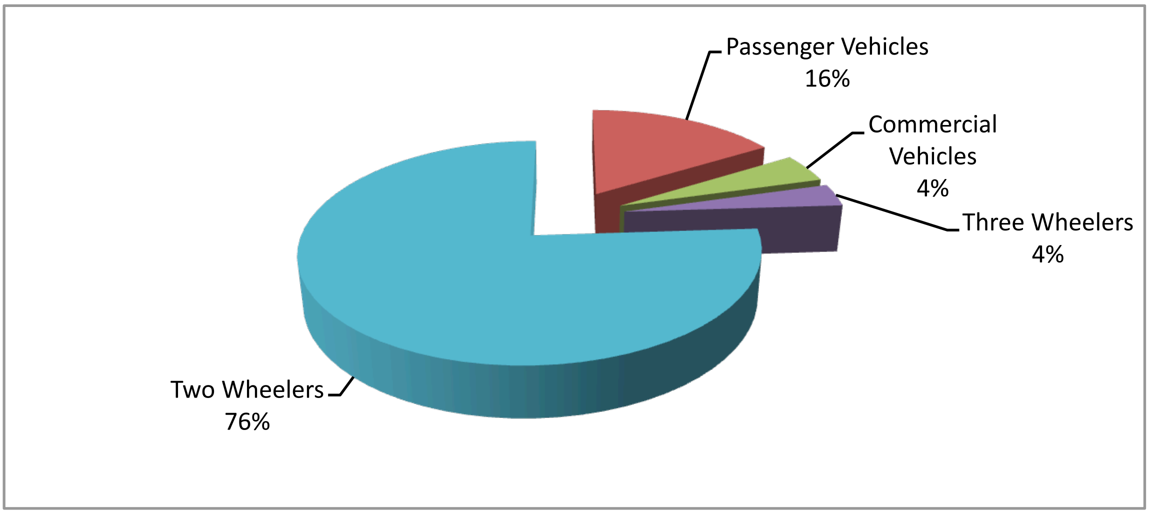
[18] Department of Innovation, Industry, Science and Research, " *Automotive Review – Terms of Reference*", <http://innovation.gov.au/automotivereview/Pages/AutomotiveReview-TermsofReference.aspx>.

[19] Department of Innovation, Industry, Science and Research, "*A new car plan for a greener future*", <http://innovation.gov.au/automotivereview/Documents/NEWCARPLANGREENERFUTUREweb.html>.

The development of an Indian automotive sector and its rapid expansion in recent years has played a vital role in the development of India's emerging economy. Indian automotive manufacturers specialize in a wide range of production, ranging from motorcycles, commercial and passenger vehicles, three wheelers tractors, agricultural equipment, as well as automotive parts and tires and so forth. Strong domestic competition among local Indian manufacturers led to expansion and improvement of productivity, ultimately benefiting consumers, by providing them with various product choices at competitive prices[20]. The domestic market for cars in India involves multiple domestic automotive manufacturers, including: Ashok Leyland, Chinkara Motors, Force Motors, Hindustan Motors, Mahindra, Maruti Suzuki, Premier, San Motors, Tata Motors Limited.

Due to the favourable business environment, low labour and establishment costs (all consequences of local industrial de-licensing in 1991) India experienced an increase in the flow of foreign direct investment from well known multinational companies, which currently have formidable market shares[21]. These include: Audi, BMW, Chevrolet, Fiat, Ford, Hyundai, Mercedes-Benz, Mitsubishi, Renault, Skoda, Toyota and Volkswagen. According to the Society of Indian Automobile Manufacturers (hereafter SIAM), the domestic market share for different vehicle types as of 2010/2011 is represented in the following figure[22]:

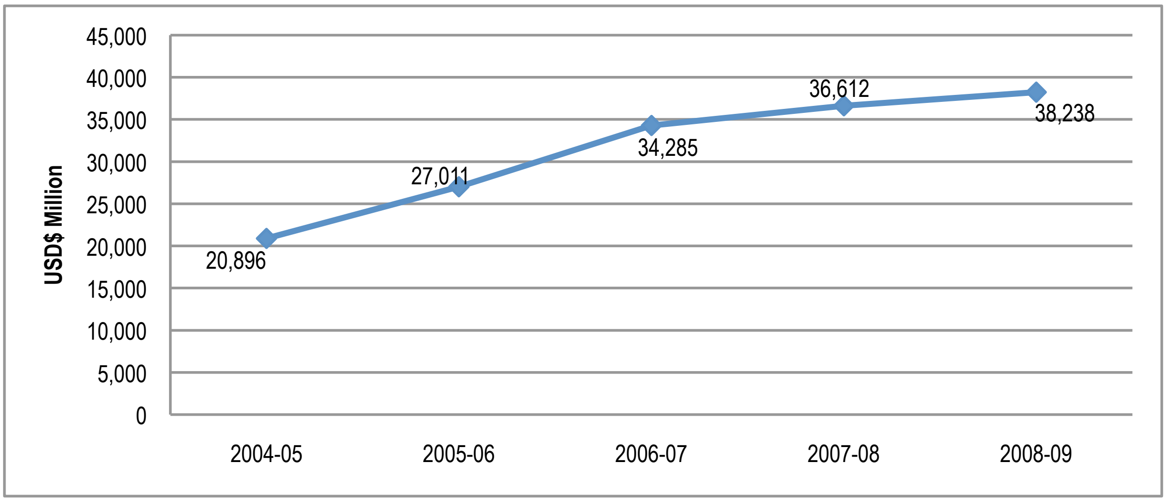
Figure 1
Indian Automotive (by type) Market Share 2010/2011



Rapid growth in the Indian automotive sector is clear from the following graph which charts gross turnover for Indian automobile manufacturers[23]:

[20] "Automotive Mission Plan 2006-2016", '*A Mission for Development of Indian Automotive Industry*', Ministry of Heavy Industries & Public Enterprises Government of India.
[21] ibid
[22] Society of Indian Automobile Manufacturers, <http://www.siamindia.com/scripts/market-share.aspx>.
[23] Society of Indian Automobile Manufacturers, < http://www.siamindia.com/scripts/gross-turnover.aspx>.

Graph 6
Gross Turnover of the Indian Automobile Industry



As domestic production has ramped up, India's automotive sector has seen a steady growth in vehicle exports in recent years[24].

Table 11
Indian Automobile Export Trends

Category	Number of vehicles								
	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	2009/2110	2010/2011
Passenger Vehicles	72,005	129,291	166,402	175,572	198,452	218,401	335,739	446,145	453,479
Commercial Vehicles	12,255	17,432	29,940	40,600	49,537	58,994	42,673	45,009	76,297
Three Wheelers	43,366	68,144	66,795	76,881	143,896	141,225	148,074	173,214	259,967
Two Wheelers	179,682	265,052	366,407	513,169	619,644	819,713	1,004,174	140,058	1,539,590
Grand Total	**307,308**	**479,919**	**629,544**	**806,222**	**1,011,529**	**1,238,333**	**1,530,660**	**804,426**	**2,329,333**

Despite the global financial crisis (GFC), there has been a noticeable increase in export volumes in 2008/2009 compared to previous years, with the exception of the 'commercial vehicles' category.

24 Society of Indian Automobile Manufacturers, <http://www.siamindia.com/scripts/export-trend.aspx>

Automobile production has increased and expanded in India. The following graph represents data between 2003 and 2011[25]:

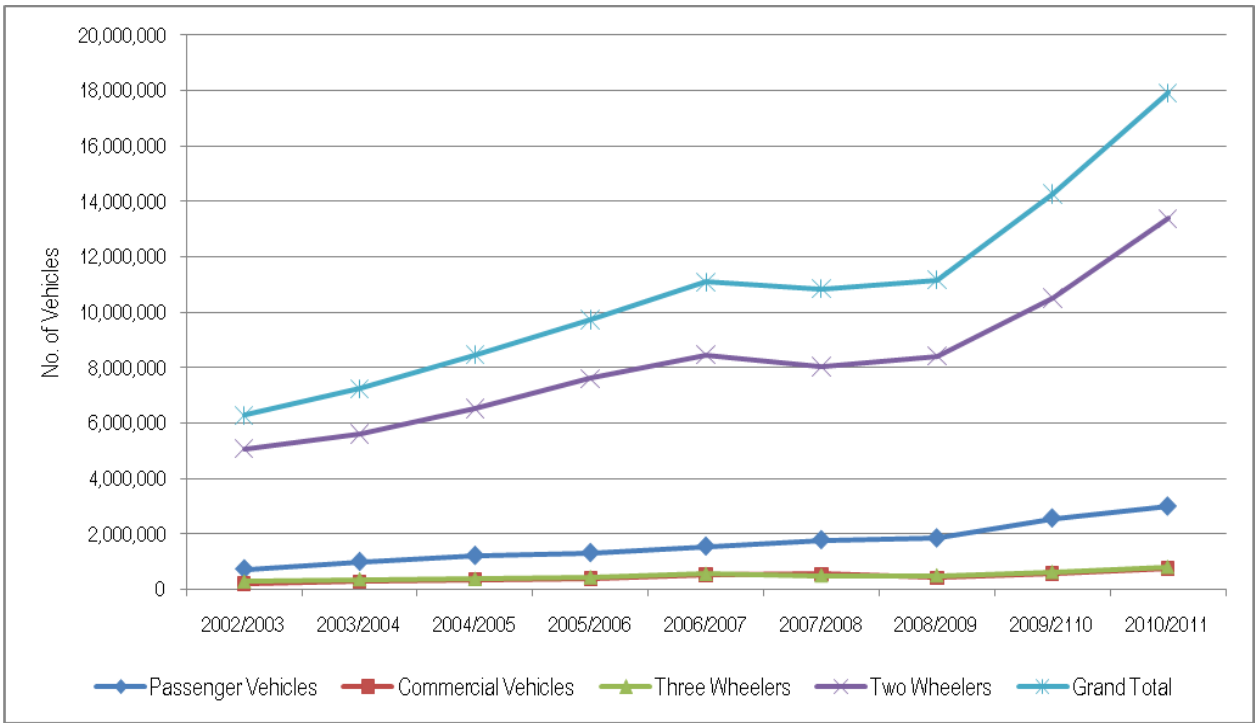
Table 12
Automobile Production Trends in India

Category	Number of vehicles								
		2003/2004	**2004/2005**	**2005/2006**	**2006/2007**	**2007/2008**	**2008/2009**	**2009/2110**	**2010/2011**
Passenger Vehicles		989,560	1,209,876	1,309,300	1,545,223	1,777,583	1,838,697	2,557,411	2,987,296
Commercial Vehicles		275,040	353,703	391,083	519,982	549,006	417,126	567,556	752,735
Three Wheelers		356,223	374,445	434,423	556,126	500,660	501,030	619,194	799,553
Two Wheelers		5,622,741	6,529,829	7,608,697	8,466,666	8,026,681	8,418,626	10,512,903	13,376,451
Grand Total		**7,243,564**	**8,467,853**	**9,743,503**	**11,087,997**	**10,853,930**	**11,175,479**	**14,257,064**	**17,916,035**

Although there is substantial growth in individual categories, by plotting the above data, an evident disparity can be seen in automobile production across the sector. The 'grand total' in the graph represents the total amount of production, when adding all categories collectively.

Graph 7
Automobile Production Trends in India

[25] Society of Indian Automobile Manufacturers, <http://www.siamindia.com/scripts/production-trend.aspx>.



The Indian Ministry of Heavy Industries and Public Enterprises released an Automotive Mission Plan for 2006-2016, outlining the most important and vigorous goals for the next 10 years. The strategic objectives covered the main purpose of the automotive industry as aiming to maintain competitiveness and sustainable growth, with an emphasis on improvement of infrastructure of Indian industries and technologies, labour law reforms and employment issues, research & development, fiscal and policy, human resources development, contribute to the growth of domestic demand and ultimately growth of exports[26].

The Indian government has a clear policy regarding tariff policies and possible consequences on the Indian automotive sector. Central to the policy discussion is a recognition that high tariffs attract foreign investors and capital, while lower tariffs stimulate international trade. With its preference for increased domestic production in the sector, India prefers to keep current tariffs unchanged. Despite ongoing negotiations with different countries, a careful and sensitive approach should be applied to tariff negotiations[27]. India's high tariff barriers provide few incentives for Australian exporters to penetrate the Indian market. As of 2006/2007 the MFN applied tariff rate for new automobiles and two-wheelers was 60 percent ad valorem and the tariff rate for used vehicles was set at 100 percent – with both tariffs being unbound.[28].

[26] "Automotive Mission Plan 2006-2016", '*A Mission for Development of Indian Automotive Industry*', Ministry of Heavy Industries & Public Enterprises Government of India.

[27] "Automotive Mission Plan 2006-2016", '*A Mission for Development of Indian Automotive Industry*', Ministry of Heavy Industries & Public Enterprises Government of India.
[28] WTO, Trade Policy Review, '*Report by the Secretariat India Revision*', p. xi.

IV.D.2. Electrical equipment, electronics & chemicals

IV.D.2.a. Electrical equipment and electronics

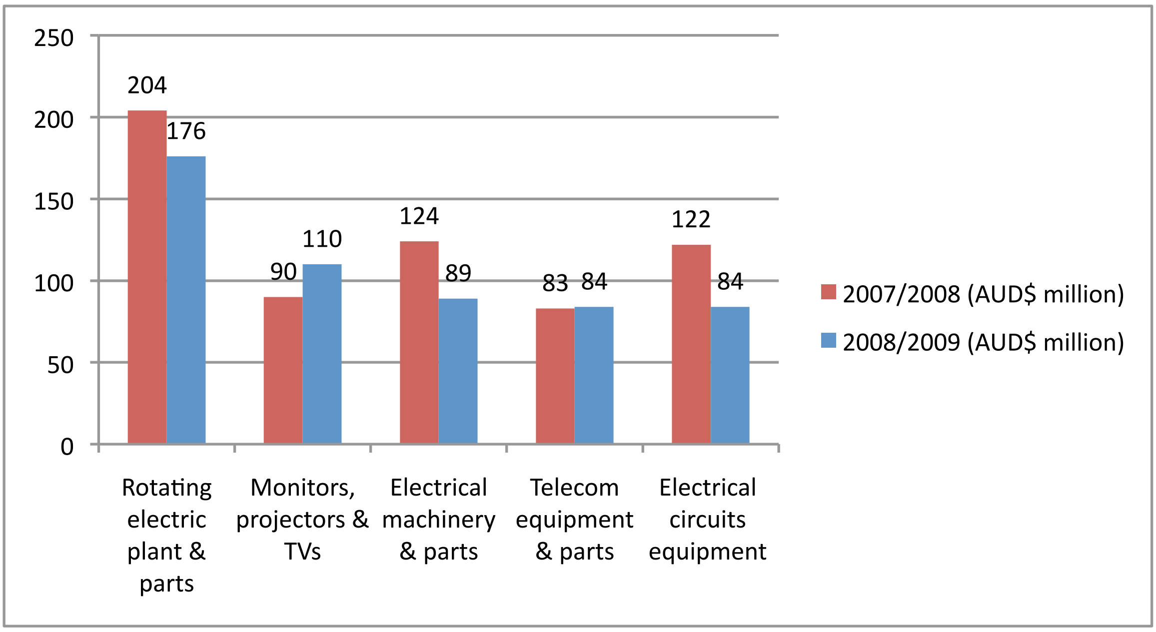
The South Australian electronics sector

The electronics sector is one of the fastest growing industries in South Australia, with significant export potential, contributing considerably to the long term viability of the South Australian economy. According to the Technology Industry Association (TIA), the South Australian electronics sector encompasses approximately 400 companies, within which the defence electronics cluster and an export community has been created. The ICT sector is composed overall of approximately 1,000 businesses and employs 25,000 people[29].

According to DFAT's latest report (Australia trade by state and territory2008/2009), South Australian merchandise imports in the following categories are among the top 20 commodities[30]:

Graph 8
South Australian Imports of Electrical Machinery and Electronics

[29] 29 Electronics News, "SA Entrepreneurs 'need to seize opportunities for innovation",
< http://www.electronicsnews.com.au/Article/SA-entrepreneurs-need-to-seize-opportunities-for-innovation/498096.aspx>.
[30] DFAT, "*Australia's Trade by State and Territory 2008-2009,* January 2010, p.80.



Of the total of 152 ICT companies surveyed for a paper prepared by Christine Comarty for the Centre for Economic Studies in 2007, 51 percent of respondents stated that they do export, while 49 percent stated that they do not export. The annual turnover from exporters (51 percent) ranged between 1 – 10 million. Some non-exporters acknowledged their intention to export in the future. At the time of the survey, an estimation of the ICT industry's future revenue was based on the past performance from previous years and estimated revenue at AUD$ 4.3 billion as of 2006/2007, with exports at AUD$ 937 million. The survey included assumptions based on the steady percentage growth of the industry and did not anticipate detrimental financial and economic events, which adversely affected other Australian and South Australian manufacturers, leading to an overall reduction in manufacturing and export activities in other sectors.

The electronics sector in India

India's electronics sector was established in 1965 and since has grown at an accelerating pace and became one of the most important sectors in the economy. Over the years, the electronics sector has changed tremendously, developing from government-controlled to prosperous and completely liberalized, open to foreign investments industry. Swift and robust growth of the industry and its future potential projects as of 2010 lead to an estimate of the sector's contribution to GDP of some USD$ 40 billion[31].

In India, the electronics industry is mainly divided into hardware and IT- Business process outsourcing (hereafter BPO) sector. The hardware sectors consist of: consumer electronics; the control, instrumentation and industrial electronics sector; the computer industry; the

[31] Electronic Industries Association of India, 'Indian Electronic Industry', <http://www.elcina.com/industry.asp>.

communications and broadcasting sector; and the electronic components sector. The IT-BPO sector consists of: the software and services exports (IT services, BPO, engineering services, R & D, software products; and the banking, financial services, insurance, and hi-tech/telecom sector.

The industry employs directly around 2.2 million experts and indirectly approximately 8 million persons. As of 2009, exports of electronic products and services contributed significantly to the India's export income, generating a combined USD$ 81.2 billion[32].

The Indian government has undertaken a vast number of initiatives related to 'information technology sector', 'nanotechnology', 'advanced computing', 'technology incubation and development entrepreneurs' and others, aiming to further develop, strengthen and enhance existing processes and direction by providing support to diverse crucial components/mechanisms within the whole sector.

India's long term strategic objectives related to the electronics sector are aimed at supporting sustainable local businesses and encouraging them to participate in international trade in exports. The Indian government provides financial and non-financial incentives to manufacturers. For instance, a direct tax incentive, where 100% tax deduction is allowed, if the manufacturer located in the special economic zone. In addition, specific export processing zones (EPZ's) have been established to enhance exports through 'tax holidays', 'exemption from customs duties', exemption from corporate income tax', provision of private warehouses and more[33]

India entered into commitments (under the 1997 Information Technologies Agreement – ITA) to eliminate customs duties on IT hardware by 2005 and has largely abided by this pledge. In areas not covered by the ITA, India has undertaken a more conservative approach towards liberalizing trade.

Despite the substantial assistance received by businesses operating locally, in some non-ITA sectors, India still has relatively high import barriers, which reduce the motivation out of South Australian manufacturers potentially exporting to this market. In the case of electronic items, while tariffs are largely eliminated, the Indian government imposes an excise tax on some products at a rate of 12.5 percent, (with an exemption for microprocessors for computers, hard discs, floppy discs, CD ROM and etc.). India is interested in attracting foreign investment related to both the hardware and software sectors, as well as to the ITES sector (excluding e-commerce B2C), where investments of up to 100 percent foreign ownership are permissible[34].

IV.D.2.b. <u>Chemicals & associated industries in Australia</u>

[32] Ministry of External Affairs, Government of India, "Information Technology", <http://www.indiainbusiness.nic.in/industry-infrastructure/service-sectors/it.htm>.
[33] ibid
[34] WTO, Trade Policy Review, '*Report by the Secretariat India Revision*',p.124.

The Australian industry

The growth of the chemicals industry in Australia was driven by high import tariffs, which prevented competition from imports and distorted the otherwise natural course of investments while impeding the industry's efficiency. In 1986, the Australian government decided on a policy for the sector that would significantly reduce tariff rates, some of which were as high as 45 percent. By 1996, tariffs in the sector were reduced to levels of between 0 and 5 percent. Followed the reduction in tariffs, foreign investment in Australia picked up and overseas-based companies penetrated the Australian market, raising competitiveness in the sector and ultimately contributing to a much healthier business climate for the chemicals industry. However the industry has remained relatively small and mainly produces to support other major industries in their production (e.g. agriculture, mineral processing, manufacturing and other associated industries)[35]. Most of the chemical industry today is located in Melbourne, Sydney and Perth.

Today the plastics and chemical industry is an essential part of the Australian economy and its future sustainability. According to the Plastics and Chemicals Industries Associations (PACIA), the industry employs 85,000 people, incorporating a wide range of chemical manufacturers, suppliers, recyclers and other crucial industry professionals. The turnover is AUD$ 32.5 billion as of 2009[36].

Chemicals & associated industries in India

India's chemical industry is considered to be one of the biggest in the world, accounting for 3% of Indian GDP and estimated at USD$ 35 billion, while world chemical industry is estimated at USD$ 2.4 trillion. It encompasses pharmaceutical and petrochemicals sectors, which contribute 26% and up to 40% respectively of the chemical industry output[37].

Petrochemicals: The main raw materials of the petrochemical sector are "crude oil", "petroleum gases", "naphtha", and "kerosene" and "gas oil"[38]. Petrochemical products are widely used on an everyday basis in industries such as housing, construction, automobiles, electronics and more. According to the Indian government's policy, foreign direct investments (FDI) are permissible up to 100 percent foreign ownership. Import tariffs in the sector range from15 percent to 100 percent, but even these high rates do not preclude Indian customs from collecting additional duties and charges. There are 55,000 entities actively functioning within the petrochemical processing sector, where their operations are mainly focused on processing

[35] Economic Analytical Unit, "*Australian-Thailand Trade relations: the Plastic and Chemicals Industry*", Briefing Paper, pp.1-3.
[36] PACIA, "*Global climate agreement vital to ensuring chemical industry continues to deliver significant 3:1 carbon savings*", <http://www.pacia.org.au/Content/media-6.07.2009-1.aspx>.
[37] Department of Chemicals and Petrochemicals, "*Indian Chemical Industry Scenario*", <http://chemicals.nic.in/chem1.htm>.
[38] Department of Chemicals and Petrochemicals, "Overview", < http://chemicals.nic.in/petro1.htm>.

polymer, recycled plastic, fibre and surfactant. About 4.8 million tonnes of polymer was processed in 2005/2006[39].

Pharmaceuticals: India's pharmaceutical sector (centred to a large extent on generic drug production) is also one of the biggest and important sectors, with annual sales estimated at USD$17 billion and it is one of the major export players in the world. It accounts for 8 percent of total world production of pharmaceuticals by volume and 1.5 percent by value. Technological advancement and innovation provides India with competitive advantage over other countries, as well as opportunities to export to economies such as Australia, USA, Europe and Japan.

Commodity pharmaceutical and specialty fine chemicals segments are estimated at USD$750 and USD$ 500 billion respectively. Major export markets are North America, Western Europe, Japan, Asia, and Latin America[40].

India makes extensive use of antidumping action in its efforts to protect the domestic chemicals sector and any Australian exporter attempting to access the market with a competitively priced product would likely find him the target of an antidumping action at some point.

IV.D.3. Textiles, clothing and footwear (TCF)

IV.D.3.a. <u>The TCF sector in Australia</u>

In Australia, the Textile, Footwear, Clothing (TCF) sector consists of about 680 companies on a national scale, mostly located in Victoria. It is a large sector and therefore accounts for a considerable portion of the total national employment. As of 2008/2009, the sector employed about 50,000 people nationwide, a significant increase of 10,000 jobs compared to the previous 2007/2008 financial year of 40,000[41].

Recent statistical data has revealed that as of 2008/2009, the Australian TCF sector imported AUD$ 10.6 billion in goods and exported AUD$ 1.9 billion in goods. The large volume of importation of the TCF goods can be explained by the fact that developing countries in the Asian region (especially China) have a significant competitive advantage in production due to low labour costs and enormous volumes of production runs, resulting in a much cheaper production costs. Consequently, Australian TCF producers struggle to meet competitive pressures on a number of fronts, especially from their competitors in the Asian region[42].

[39] ibid
[40] Department of Chemicals and Petrochemicals, < http://chemicals.nic.in/pharma1.htm>.
[41] Department of Innovation, Industry, Science and Research, "*TCF Manufacturing Industries Fact Sheet*", <http://www.innovation.gov.au/Section/AboutDIISR/FactSheets/Pages/OutlookfortheTCFManufacturingIndustriesFactSheet.aspx>.
[42] ibid

In 2008, an independent review of the Australian TCF sector was conducted by Professor Roy Green. The review developed fifteen vital recommendations for a robust and sustainable future for the sector. The review focused on product quality and innovation as well as a proposal for government's investment in the sector of AUD$ 401 million between 2009 and 2016[43].

Under a government adjustment plan, tariffs protecting the Australian TCF sector are being progressively reduced (see table below).

Table 13
TCF Sector: Australian Tariffs

	January 1 2005	January 1 2010	January 1 2015
Clothing & some finished textiles	17.50%	10%	5%
Woven fabrics, carpets & footwear	10%	5%	5%
Sleeping bags, table linen, footwear parts	7.50%	5%	5%
Textiles, yarns	5%	5%	5%

Australian TCF manufacturers have come to recognize the incentives and benefits of offshore manufacturing, in terms of cost efficiency. The company Pacific Brands, for example, has reallocated most of its former domestic operations to offshore locations, reducing Australian staff by 1,800 employees.

Despite the competitive pressures they face, local manufacturers believe that FTA negotiations and liberalization in the sector are acceptable, as long as the foreign country is also committed to matching liberalization under an agreement, in a way that facilitates Australian manufacturers' penetration of foreign markets. Despite a generally negative outlook, Australian TCF exporters believe in domestic manufacturing, as well as in its creativity and innovation, enabling them to find niche markets in foreign countries[44].

Australian designers of innovative textile and clothing products might find an opportunity to have their ideas manufactured in low-cost India. Reducing tariffs through a bilateral FTA could further facilitate such trade.

IV.D.3.b. The TCF sector in India

[43] ibid
[44] Hopkins, P.2009."Beached-manufacturing is fighting against the tide", The Age,(Melbourne), 23 December 2009, p.16.

The textile, clothing and footwear (TCF) industry is one of the most important manufacturing sectors in India, contributing substantially to India's national income and employment. This is the second largest sector after the automotive industry (and therefore sensitive to external and internal economic and financial vulnerabilities). The sector consists of a wide range of manufacturers, producing a wide variety of items such as cotton, silk and woollen textiles, as well as coir and jute. There are also diverse readymade garments, handcrafted carpets and so forth. Indian textile and clothing exports for the period 2005/2006 stood at USD$ 17.52 billion, while for 2006/2007 reached USD$ 19.5 billion, a growth of 9.28%. Since India's major trade partners and importers of textile and clothing are the United States (US) and the European Union (EU) followed by Canada, U.A.E, Japan, Saudi Arabia and etc., economic stability and financial prosperity of these countries are key determinants for a sustainable future trade.

India's textile and clothing sector is made up mainly of small fragmented manufacturers, with the biggest share of the market is accounted for by spinning, weaving and ginning sectors, where modernization of the machinery is one of the key policy aims for government. In recent years, the industry undertook a modernization process of factories. In addition, the government stated its intention to adjust policy in terms of international trade (e.g. through custom duties lowering) in the future. However, the recent economic slowdown has also slowed down anticipated changes in policies[45].

Indian tariffs on imports of textiles and clothing products are high. Average applied tariffs on imports of textiles range from 20.2 percent to 268 percent. Average applied tariffs on imports of clothing range from 22.4 percent to 103 percent ad valorem.

IV.D.3.c. South Australian TCF trade with India

According to Daft's statistics there are no significant exports of Australian or South Australian TCF products to India. The fact that Australian tariff barriers are much lower than Indian tariffs provides South Australian importers with incentives to import from India. The trend of imports can be seen in the table below[46]:

Overall growth in imports of leather and dressed fur skins has been quite strong in recent years. At the same time, imports of made-up textile articles have fallen off sharply. Imports of textile leather machinery and associated parts have also declined significantly with no imports at all recorded in 2008/2009.

Table 14
South Australia's Imports of TCF Products from India

	AUD$ '000					
	2005/2006	**2006/2007**	**2007/2008**	**2008/2009**	**2009/2010**	**2010/2011**

[45] ibid
[46] DFAT, Market Information and Research Centre, '*Composition of trade reports*', Susan Begley (email).

*61 Leather & dressed fur skins	263	334	836	1,681	907	875
*65 Textile yarn & fabrics	665	405	680	557	n/a	n/a
658 Made-up textile articles	11,266	11,040	7,651	7,449	9059	9652
724 Textile & leather machinery & parts	828	1,064	508	0	0	0
*84 Clothing	594	593	414	659	918	1291

Source: DFAT, Market Information & Research Section

One of the biggest South Australian footwear manufacturers is currently engaged in importing certain products from India. The company does its business on a fly-in and fly-out basis and is represented by an agent. The company admitted that obtaining Indian business visas is time consuming and alleged that overall Indian administrative and regulatory procedures are so complex as to constitute barriers to doing business in India.

In the course of doing business in India, the company has encountered government pressure to comply with certain performance requirements related to:

- exporting a given level or percentage of services,
- achieving a given level or percentage of domestic content or purchase,
- requirements to use or accord a preference to goods produced in India,
- and, obligations to purchase goods from Indian producers

If it is true that Indian authorities have engaged in these pressure tactics, certain of the measures would fall afoul of the WTO Agreement on Trade-Related Investment Measures.

The TCF sector in Australia is clearly undergoing a sensitive restructuring and it is too early to predict which portions – if any – of the industry will survive. India has a world-class competitive TCF sector. In the context of an eventual FTA, India should be expected to level the playing field and reduce its tariffs to Australian levels – including both countries going to zero in TCF tariffs applicable to each other. As noted earlier, there may be opportunities for Australian clothing designers to have their products manufactured in low-cost India.

IV.D.4. The furniture industry

IV.D.4.a. The Australian industry

Recent 2008/2009 figures reveal that the Australian furniture industry is valued at AUD$ 25 billion with manufacturing revenue of AUD$ 13.4 billion, maintaining and contributing considerably to the domestic employment rate by supporting directly and indirectly around 70,000 jobs. With a strong domestic presence and substantial international trade, the furniture industry plays a significant role within the Australian economy. Nevertheless, the recent GFC had an unfavourable impact on the operations of domestic producers, resulting in a downturn in a numerous key indicators such as ‘manufacturing revenue’, ‘industry gross product’ and ‘retail turnover’, with decreases of 4.3 percent, 6 percent and 5 percent respectively.

As of 2008/2009, the industry's international trade is more concerned with imports than exports. Recently, an increase of 11 percent was seen in imports, while exports remained at approximately the same level as the previous year[47]. Furniture is imported mainly from China. China has a comparative advantage in producing wooden and upholstered furniture at a much lower costs and offers Australian importers competitive prices as opposed/compared to other countries. Other major (country) sources of imports are Malaysia, Italy, Vietnam and Germany.
Among Australia's major import commodities is 'Furniture, mattresses & cushions'. The value of imports stood at AUD$ 2,841 million in 2008/2009.

IV.D.4.b. The furniture industry in South Australia

The furniture sector in South Australia also contributes significantly to the State's economy by employing around 3,000 (3,036) people in the manufacturing sector (estimated in 2009). As of 2009, the turnover of the South Australian furniture sector totalled AUD$ 568 million. The following table represents industry's turnover among diverse sectors[48]:

Table 15
South Australian Furniture Industry's turnover 2009 (AUD$)

	AUD$ million
Wooden furniture and upholstered seat mfg	331
Metal furniture mfg	54
Mattress mfg	45
Other furniture mfg	138
Furniture mfg	568

Australia's furniture sector was employing around 90,000 people domestically and was considered to be the fourth largest employer in Australia. However, recently interviewed representatives of furniture producers revealed that the industry's manufacturing is in a serious decline. According to responses received, the industry's potential for future growth has diminished significantly.

47 Furnishing Industry Association of Australia, "*Furnituretrend*", November 2009, p.1.
48 Furnishing Industry Association of Australia, "*Furnituretrend*", November 2009, p.13.

The furniture industry in South Australia has been seriously impacted by competition from imports and there is a growing tendency for local furniture retailers to import component parts from overseas (mostly from China). This has contributed to the decline of furniture manufacturing not only in South Australia but also across Australia. Although there are two or three companies left in South Australia which continue to produce and even export their products overseas, the overall view resulting from interviews conducted with industry professionals is that it now impossible to start up manufacturing furniture on a globally competitive scale in South Australia.

In addition, there is also the ever growing "flat pack" (IKEA) furniture demand which local industry cannot compete with. The view developed from interviews is that the local industry is finding it very difficult to compete with any low cost country producers. Those whose views were sought regarding outcomes from a possible FTA were that there are unlikely to be any perceivable benefits.

IV.D.4.c. The Indian furniture industry[49]

The furniture industry in India makes a contribution to Indian GDP of just 0.5 percent; however it employs more than 300,000 people, with only about 15 percent of these people working in the organized sector (limited liability companies). Wooden home furniture is the biggest segment of the market – accounting for roughly 80 percent of production - with most household furniture designed and manufactured to region-specific tastes in the country. The organized sector of the industry in India has grown by 13-15 percent a year and is expected to grow more rapidly in the future. Growth drivers are fast paced growth in the Indian construction and hospitality industries. Another growth driver is the demanding and discerning young Indian who is no longer satisfied with the old hand-me-down furniture used by his ancestors. India has a middle class population of more than 400 million persons, with a purchasing power on the upswing.

Imports of furniture into India were liberalized in 1998 and importers no longer require a license or prior permission to import. Import duties on furniture are relatively low (15 percent ad valorem). Imports of furniture into India have been growing at a compound annual growth rate of 60 percent and the value of imports of furniture in 2009 reached USD$ 150 million. Main sources of imports of furniture into India are Italy, Germany, Spain and Malaysia.

In view of the decline of the furniture industry in South Australia, it is unlikely that removal of the 15 percent Indian tariff on furniture would result in major business opportunities.

IV.E. Forest products

[49] The information is this section is drawn from "The Furniture Market in India – Profile 2009" Italian Trade Commission, Rome, 2009

IV.E.1. The forestry sector in Australia

Australia's diversified flora comprises of 149 million hectares of forests and covers up to 19 percent of the continent, with the highest amount of forest per capita in the world. Australia's forests consist of 78 percent eucalypts, 7 percent acacias and 5 percent melaleucas, and forestry plantations of softwood (pinus radiata) and hardwood (eucalypt)[50].

According to Department of Agriculture, Fisheries and Forestry (DAFF) data, forestry industries are the second largest sector in Australia, resulting in the substantial input into the Australian economy and the overall wealth of the country, with the turnover of AUD$ 21.4 billion and the gross domestic product (GDP) of 0.6 percent. Besides considerable turnover, the forest and the wood manufacturing industry employs 76,800 people nationwide. The Australian forestry industry also plays a significant role in international trade. Its share of trade in exports in 2007/2008 was estimated at AUD$ 2.5 billion, while imports amounted to AUD$ 4.4 billion, resulting in a trade deficit of AUD$ 1.9 billion. Major imports into Australia of wood come from China, Malaysia and Indonesia, while the main Australian exports are wood chips, representing 43 % of Australia's wood product exports[51].

IV.E.2. The South Australian forestry and paper sector

South Australia is very proactive in its approach to the forest industry and wood manufacturing as these are vital components of the state's economy. According to the then Primary Industries and Resources SA (PIRSA), as of 2008 the state has 181,754 hectares of plantation forest, of which 84,500 hectares are under the management of the government body, Forestry SA. South Australian timber is comprised primarily of radiata pine and eucalypt plantations. The end products of the sector are intended for both local and export consumption, adding value to international trade. State owned plantations focus on the production of sawn timber, pulp and paper, veneer and posts[52].

South Australia's forest and wood manufacturing together with the paper sector are important to the state's economy. As of 2006, this sector employed 6,100 people, where 4,500 people were employed in forestry and wood manufacturing (wooden furniture manufacturing; wooden component manufacturing; forestry; forestry and logging, log sawmilling and timber dressing; log sawmilling and logging) and 1,600 people in paper industry (paper bag and sack manufacturing, paper stationary manufacturing)[53]. As a result of strong growth, employment in the industry's employment reached 13,000 in 2007/2008[54].

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[50] Department of Agriculture, Fisheries and Forestry, "*Australia's Forests*", < http://www.daff.gov.au/forestry/national/australias-forests>.
[51] Department of Agriculture, Fisheries and Forestry, "*Australia's Forest Industries*", <http://www.daff.gov.au/forestry/national/industries>.
[52] Forestry SA, <http://www.forestry.sa.gov.au/aboutus.stm>.
[53] Australian Bureau of Statistics, Cat. No. 2068 Census Tables, (website check on the previous paper)
[54] Primary Industries and Resources SA, "Timber Production and Processing",

IV.E.3. The forestry and paper sector in India

Indian forests are rich in variety, encompassing diverse woods from, monsoon to subtropical forests. These include Indian rosewood, Padauk, Gurjan, Vellapine and so forth. Indian forests cover 19.27% of the country's area, with 63.3 million hectares[55]. As a result of such diversity, the sector services a demand for decorative plywood and construction timber and many other varieties of wooden products.

In earlier years, one of the most important initiatives in respect of the sector was commissioned by Indian government, introducing legislature, placing strong emphasis on the forest policy, administration and conservation, leading India's forest industry into a more progressive and competitive industry. Nowadays, India is encountering multiple difficulties related to forestry and paper industry. One such difficulty is the large and constantly growing human population, which is causing a substantial reduction in forests. Such Government concerns have led to new forest plantations across different states, aiming at meeting local and foreign demands for wood and wood products[56].

According to India's paper manufacturers association (IPMA), the paper industry plays crucial role within Indian economy, employing directly and indirectly about 460,000 people. Its turnover estimated at USD$ 5.95 billion, accounting for 1.6 percent of total world production[57].

In 1997, the industry experienced deregulation, allowing foreign investment into the country, and resulting in a steady rise of production in subsequent years. As of 2007/2008, the annual production capacity was estimated at 9.3 million tons of paper. Since the paper industry is one of the fastest growing industries in India, there are positive expectations as to the industry's capacity to supply large volumes of paper in the future. As global demand for paper rises, with future demand estimated at 13.95 million tons in 2015/2016, Indian producers expect to have important incentives to develop further supplier capacity[58].

Indian applied tariffs on wood and paper products range from 13.5 to 15 percent ad valorem. Given that Australia and South Australia export large quantities of woodchips to paper producers in other countries, reducing the Indian tariffs through a bilateral FTA might lead to new market opportunities in India.

IV.F. Trade in services

IV.F.1. Trade in services – overview

< http://www.pir.sa.gov.au/forestry/forestry_in_south_australia>.

[55] Wild India, <http://www.wild-india.com/Habitates/forest.html>.

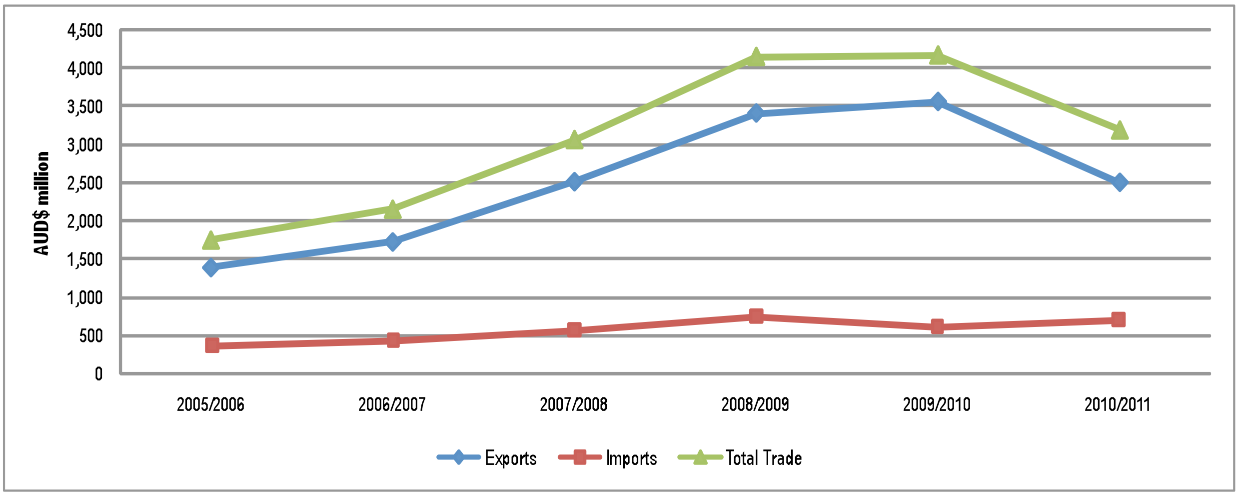
[56] 'Wood based panel Industry in India,
<http://furniture.indiabizclub.com/info/woodbased_panel_industry_in_india>.

[57] Indian Paper Manufacturers Association, 'Indian Paper Industry',
<http://www.ipma.co.in/paper_industry_overview.asp>.

[58] ibid

In 2010/2011 Australian services trade with India was valued at AUD$ 3.19 billion and accounted for 3 percent of Australia's total trade in services. There was a decrease in the bilateral trade in services of 23 percent from the previous year after 8 years of growth at an average rate of 29%. Proportionately, Australia's exports to India accounted for 78 percent and its imports from India contributed 22 percent in that year. Over the last five years which include the contraction experienced in 2010/2011, the value of bilateral trade in services has increased 22 percent each year on average.

Graph 2
Australia's trade in services with India



(Graph repeated from page 21)

In 2010/2011, India was the 6th most important destination for Australia's exports of services. Australia's exports of services to India represented 4.9 percent of all exports of services. This was a decrease of 30 percent – a first in since 2002/2003 – from AUD$ 3.56 billion in 2009/2010 to AUD$ 2.5 billion. The 5-year average until 2008/2009 was above 45%. With the slowdown in growth and contraction the past two years, this average has decreased to just over 20 percent.

Travel services exports (mainly education-related) made up around 95 percent of Australian services exports to India in 2010/2011 and transportation services contributed 1 percent of total services exports. Other services, which include significant items such as exports of communication, insurance and financial services contributed 3.4 percent of total services exports for the year.

It is important to note that after 10 years of consecutive increases which peaked at AUD$ 3.44 billion in 2009/2010, exports of travel services to India fell by almost 31% to AUD$ 2.39 billion in 2010/2011. Travel services include business-related travel, education-related travel and other personal travel. In 2010/2011, they respectively accounted for 6.2 percent at AUD$ 149 million, 84.3% percent at AUD$ 2.01 billion and 9.5 percent at AUD$ 226 million of all travel services.

India was Australia's 20th largest source of services imports in 2010/2011, valued at AUD$ 691 million, falling from 5th position in 2008/2009. Services imports from India contracted 17.6 percent in 2009/2010 after 8 years of consecutive growth which peaked at AUD$ 746 million, before returning a growth of 12.4 percent in 2010/2011. India accounted for 1.2 percent of Australia's total imports of services in 2010/2011. Over the last five years, services imports from India have increased 19 percent each year on average

Australia recorded a surplus of around AUD$ 1.81 billion in its services trade with India, compared with surpluses of AUD$ 2.66 billion and AUD$2.94 billion recorded in the two previous year (2008/2009 and 2009/2010)

Table 16
Breakdown of Australia's principal service exports to India

Services	Export value (AUD$ million)						
		2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011

Transportation services		47	85	75	81	33	28
Travel services		1,151	1,495	2,272	3,191	3,439	2,387
Business		71	74	116	135	132	149
Personal		1,079	1,421	2,156	3,055	3,307	2,238
Education-related		*978*	*1,298*	*1,971*	*2,855*	*3,066*	*2,012*
Other		*101*	*123*	*185*	*200*	*241*	*226*
Construction		1	-	-	-	-	1
Insurance and Pension Services		5	6	6	9	9	9
Financial Services		2	2	9	1	2	3
Charges for the use of Intellectual Property		4	3	6	6	6	7
Telecom, Computer and Information Services		6	14	27	29	19	36
Other Business Services		155	102	56	41	38	24
Personal, Cultural and Recreational services		5	14	49	46	4	3
Government goods and services		3	3	3	3	3	3
Total services exports		**1,380**	**1,725**	**2,504**	**3,406**	**3,556**	**2,501**

Source: DFAT, Market Information & Research Section, December 2011

Non-education related personal travel services (largely Australian tourists travelling in India) were Australia's most significant import from India, valued at $228 million in 2006-07.

Table 17
Breakdown of Australia's services imports from India

		Import value (AUD$ million)					
Services		**2005/2006**	**2006/2007**	**2007/2008**	**2008/2009**	**2009/2010**	**2010/2011**
Transportation services		5	5	6	87	5	6

Travel services		253	303	399	446	460	530
Business		48	56	67	55	60	51
Personal		206	247	332	392	400	480
Education-related		*11*	*13*	*11*	*14*	*14*	*12*
Other		*195*	*234*	*321*	*377*	386	468
Construction		-	-	-	-	-	-
Insurance and Pension Services		11	12	11	7	5	4
Financial Services		-	-	-	-	-	0
Charges for the use of Intellectual Property		-	-	-	1	1	0
Telecommunications, Computer and Information Services		54	79	84	139	98	102
Other Business Services		34	26	40	62	44	43
Personal, Cultural and Recreational services		1	2	3	4	2	5
Government goods and services		-	-	-	-	-	-
Total services imports		**360**	**427**	**544**	**746**	**615**	**691**

Source: DFAT, Market Information & Research Section, December 2011

It is important to note that the above data does not take account of services delivered by companies with a commercial presence in the other country. Australian companies have established a presence in a range of services sectors such as engineering, infrastructure design, health, financial services and mining services industries.

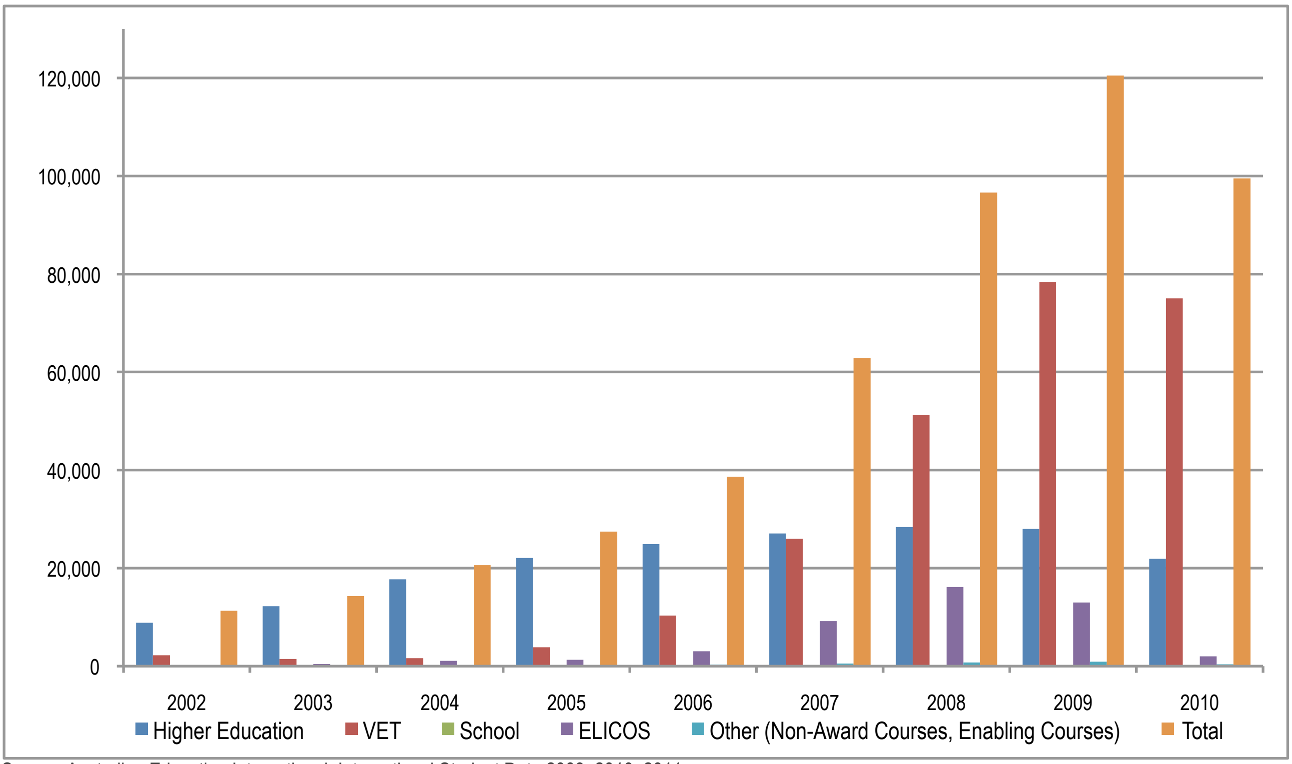
IV.F.2. Education services

Like merchandise exports, Australia's services exports to India have grown rapidly since 2002/2003. Australia's dominant services exports to India in 2006/2007 were education-related travel services (AUD$ 1.3 billion), a reflection of the large increase in Indian students studying in Australia.

Graph 9

Indian Student enrolments in Australia[59]

[59] Australian Education International, International Student Data (2009, 2010, 2011) < http://www.aei.gov.au/research/International-Student-Data/Pages/default.aspx>



Source: Australian Education International, International Student Data 2009, 2010, 2011

Official figures from AEI show 6555 enrolments of Indian students in 2010, a decline of 7.6 percent from 7092 enrolments in 2009 following an increase of 48.5 percent from 2008. 2011 figures indicate a continuation of this downward trend. This is South Australia's second largest contingent of students after the Chinese. The decline in Indian students enrolments over the past two years in South Australia reflect the general national trend but one that is less severe.

These students can roughly be divided into two groups; one group is composed of middle class students who are in the country to genuinely pursue secondary and tertiary education and for the most part intend to return to India after their studies. Another, probably more numerous, group is composed of student from the rural parts of India who mainly see their studies in Australia as a path to permanent residency. This latter group is attracted by Adelaide's relatively lower cost of living and South Australia's facilitated immigration, and tend to attend vocational schools.

The 2009 reported attacks on Indian students across Australia have had a negative impact on the number of Indian students applying for visas. Data from the Immigration Department shows a 46 percent drop in visa applications for the period 1 July to 31 October 2009 when compared to same trimester in 2008. Indian student enrolments nationally also declined by 21 percent in 2010 and current 2011 figures are showing a continuation of this downward trend. In conversations with the Indian community it has been pointed out that the effects of these reported attacks on Indians should not be underestimated as several opinion leaders in India such as politicians and Bollywood stars have stated publicly that they would not consider visiting Australia after these incidents.

The Australian and Indian Governments have stepped up their joint efforts to address issues affecting Indian students in Australia. During her visit to New Delhi from 31 August to 3 September 2009, Deputy Prime Minister Julia Gillard announced an annual ministerial exchange between the two countries on education issues that will be attended by ministers, representatives of each nation's universities and representatives of each nation's industry and business community. Joint Working Groups on Education and Student Mobility met for the first time on 6-7 October 2009, agreeing on a number of concrete measures to increase cooperation and collaboration in education and training, including in areas impacting on student welfare and safety.

Australia is also committed to strengthening links between Australian and Indian educational institutions. This commitment was underlined by the establishment of an education exchange program and the renewal of a MOU with India on cooperation in science and technology, both in 2003. Science and technology collaboration was consolidated in October 2004 when Australia's and India's two peak biotechnology industry bodies - AusBiotech and the Association of Biotechnology Led Enterprises (ABLE), respectively - formalised institutional linkages through the signing of a MOU.

The recently completed Federal government commissioned Strategic Review of Student Visa Program by Mr Michael Knight AO with 41 recommendations (June 2011), its subsequent release in September 2011 and the commencement on 5 November 2011 of Stage One Implementation of a number of key recommendations is expected bring about positive outcomes for the Australian education sector. Broadly, the paper recommended:

- A new streamlined visa processing arrangement for a range of university courses to commence in the first half of 2012
- Reduced financial requirements for some student visa applicants
- Access to a post-study work visa for up to 4 years after graduation depending on award.
- More flexible arrangements for English language study, including the removal of English Language test requirements for stand-alone English Intensive Courses for Students (ELICOS) visa applicants
- Improved work entitlements
- Greater flexibility in the Higher Degrees by Research (HDR) sector including the streamlining visa processing, unlimited work rights during study, extension of validity of visa by 6 months for the purpose of interactive marking of a thesis.

The majority of the recommendations will be rolled out, with modifications, between November 2011 and 2013. Most are expected to come into effect before Semester 2, 2012. It is, therefore, important that South Australia take full advantage of these changes by promoting our tertiary and vocational training institutions, our lower cost of living and perceived safer living environment.

IV.F.3. Financial Services

India's banking sector continues to be dominated by public sector banks (PSBs), which account for approximately 72 percent of the sector's total assets.[60] Of the 89 scheduled commercial banks, there were 28 public sector banks, 28 private banks, 29 foreign banks, and 4 local area banks. All commercial banks (domestic and foreign) are required to allocate a certain percentage of net lending (40 percent for domestic banks and 32 percent for foreign banks) to priority sectors (including agriculture and small-scale industries).[61] These requirements, however, tend to restrict banks' performance and may lead to problems in recovering assets. According to the authorities, the priority sector lending requirements would not lead to difficulties in asset recovering, as lending is on commercial terms; moreover, the level of non-performing assets (NPAs) in priority sector lending has declined in recent years.

Measures have also been adopted to gradually lift restrictions on foreign banks, while certain limits on foreign competition are likely to remain for some time (they expected liberalization has been delayed by the GFC). For example, although in 2003/2004 the aggregate foreign investment limit was increased from 49 percent to 74 percent in domestic private banks identified by the RBI for restructuring, the RBI has not laid down any criteria for identifying weak private-sector banks in need of restructuring, nor has it identified any bank for restructuring. In addition, there is a 49% limit for other private-sector banks.[62] Furthermore, under India's GATS commitments, foreign banks were allowed to access the Indian market only through branches (i.e. wholly owned subsidiaries or joint ventures were not allowed).[63] The Roadmap issued by the RBI in February 2005 divided foreign participation in the banking sector into two phases. In the first phase, foreign banks are allowed to establish wholly owned subsidiaries (WOS), in addition to branches. The authorities indicate that, at present all 29 foreign banks in India are branches; so far, no foreign bank has set up a wholly owned subsidiary in India. In the second phase, foreign banks may be permitted to enter into mergers and acquisitions with any private bank in India, subject to the overall investment limit of 74 percent.

The insurance industry continues to be dominated by SOEs. The market shares of the major SOEs, in life and general insurance, although lower than in 2003/04 (87.4 percent and 85.5 percent, respectively), were still 73.5 percent and 73.7 percent, respectively, in 2005/06.

[60] On 31 March 2006, public sector banks accounted for 72.3% of total assets of the scheduled commercial banks, down from 75.3% a year earlier (RBI, 2006f).

[61] Priority sectors include agriculture, small-scale industries, and other activities/borrowers such as retail trade, and software industry. Domestic banks are required to allocate 40% of their net bank credit to priority sectors. Of the 40%, 18% is to agriculture, 10% to weaker sections, and the rest to small-scale industries. Within the part to agriculture, the Government announced a farm credit policy in June 2004, which, apart from eased terms and condition on existing and future loans, envisaged a 30% annual increase in credit to the agriculture sector, so that total lending to agriculture would be doubled by 2007. For foreign banks, 32% of net lending must be to priority sectors (at least 10% for small-scale industries, and 12% for exports).

[62] Individual foreign institutional investment (FII) is restricted to 10%, and the aggregate limit for all FIIs is capped at 24%; this limit, however, can be raised to 49% once approved by the board and the shareholders. Investment by non-resident Indians (NRIs) is limited to 5%, and aggregate NRI investment is limited to 10%; the limit can be raised to 24% upon approval by the shareholders.

[63] Restrictions were also imposed on the number of banking licences (12 per year both for new entrants and existing banks), and on the value of the banking system's assets in the hands of foreign banks (15% of total assets).

Competition in the industry is constrained by the relatively high entry barriers: the minimum capital required to set up an insurance company is Rs 1 billion, and that for a reinsurance company is Rs 2 billion. Foreign investment is restricted to 26 percent of total investment; an amendment to increase the restriction to 49 percent is under consideration by the Government. Restrictions also remain with regard to raising funds from NRIs, where only cash injections from shareholders are permitted.

IV.F.4. Telecommunications services

Restrictions to foreign investment in the Indian telecommunications services sector have been relaxed since 2000, when 100 percent foreign ownership was allowed for internet service providers (ISPs) without gateways, infrastructure providers providing dark fibre, and electronic and voice mail services; companies providing these services must, nonetheless, divest 26 percent of equity in favour of the Indian public in five years, if they are listed outside India. From 2001, 74 percent foreign ownership was permitted for ISP with gateways, radio paging, and end-to-end bandwidth services.[64] In November 2005, foreign investment equity restrictions were increased from 49 percent to 74 percent in certain areas, such as fixed line, cellular, unified access services, national and international long-distance calls services.[65]

At the sub-sectoral level, unrestricted entry was permitted for national long-distance (NLD) calls in August 2000, with no limit on the number of service providers. Currently, there are two publicly owned and 14 private NLD operators. The NLD licence is issued for 20 years, and can be extended once for ten years. From 2006, entry requirements have been reduced for NLD operators; entry fees were reduced from Rs 1 billion to Rs 25 million, and licence fees from 15 percent to 6 percent of AGR. In addition, the mandatory roll-out obligations for NLD licences were removed on 14 December 2005.[66]

Deregulation of international long-distance (ILD) calls has continued since the privatization of the Videsh Sanchar Nigam Limited (VSNL) in February 2002.[67] Licences for ILD services are issued initially for 20 years, with an automatic extension for five years. Like the NLD sector, there is no limit on the number of service providers. There are nine private and one public ILD service providers; private operators account for more than 90 percent of market share. In January 2006, a new ILD licence agreement reduced entry fees from Rs 250 million to Rs 25

[64] Foreign investment in these services is also subject to licensing and security requirements notified by the Department of Telecommunications.

[65] FDI up to 49% may take place through the automatic route. Proposals need to be approved by the Foreign Investment Promotion Board if foreign investment is over 49% (Department of Industrial Policy and Promotion, 2006b).

[66] DOT online information, "ILD and NLD Licences Simplified". Viewed at: http://www.dot.gov.in/ ild/ILDNLD10NOV05.doc.

[67] The Government used to be the majority shareholder (53% of equity) of the VSNL until February 2002, when it sold 25% stake to the TATA group. VSNL employees hold 2% of shares, and the Government currently holds a 26% stake.

million, and licence fees from 15% to 6% of AGR. Furthermore, there are no mandatory roll-out obligations for ILD service licensees except to have at least one switch in India.[68]

The Indian Government's broadband policy allows service providers to access mutually agreed commercial arrangements, so as to use the available copper-loop for the expansion of broadband services. The authorities expected that there will be 20 million subscribers to broadband services, along with 40 million internet subscribers, by 2010.[69]

IV.F.5 Mining, energy and engineering services

The performance of India's engineering subsector is linked to that of industries, power utilities, and petroleum refining, and has been driven by growth in key end-user industries, as well as a preference by global manufacturing companies as an outsourcing destination.[70] It employs over 4 million skilled and semiskilled workers (directly and indirectly), and accounts for over 7% of total (formal) employment; this share is increasing.

It is estimated that in order to support 7 percent GDP growth per annum, growth of electricity supply needs to be over 10 percent annually.[71] Generation capacity in particular, which is currently 127,673 MW, must double every ten years for the next three decades. Accordingly, structural reforms are urgently needed to increase generation, transmission, and distribution capacity, to improve efficiency and reduce losses.

The performance of India's engineering subsector is linked to that of industries, power utilities, and petroleum refining, and has been driven by growth in key end-user industries, as well as a preference by global manufacturing companies as an outsourcing destination.[72] It employs over 4 million skilled and semiskilled workers (directly and indirectly), and accounts for over 7 percent of total (formal) employment; this share is increasing.

The AIBC and South Australian Chamber of Mines and Energy (SACOME) conducted a trade mission to India in March 2010, with the objective of scoping out business opportunities with India for the South Australian mineral and resource sector. This potential has already been

[68] DOT online information, "ILD and NLD Licences Simplified". Viewed at: http://www.dot.gov.in/ild/ILDNLD10NOV05.doc. Under the previous mandatory roll-out obligations, within three years of obtaining a licence, an ILD operator had to set up four international gateways/switches in each part of the country (north, south, east and west), and be able to connect calls to an international destination via regional hubs in, for example, North America, Europe, and Middle East.

[69] By the end of September 2006, there were 8 million subscribers, including 2 million broadband subscribers.

[70] Around 36% of total FDI is directed towards the engineering industry. Recently, the authorities permitted 100% FDI in construction and development projects. India has opened up infrastructure projects for power, roads, ports, the mining industry, and pharmaceuticals to private-sector participation and FDI.

[71] Indian Bureau of Electricity Formation (IBEF) (2006d).

[72] Around 36% of total FDI is directed towards the engineering industry. Recently, the authorities permitted 100% FDI in construction and development projects. India has opened up infrastructure projects for power, roads, ports, the mining industry, and pharmaceuticals to private-sector participation and FDI.

demonstrated by 3 joint venture projects in the minerals and resources area which have been described in the investment section of this report. Further projects and business relations with India would allow the South Australian minerals and resources sector to diversify the source of investment and destination of exports from China which is the predominant partner in the state.

IV.F.6. Tourism[73]

Australia and South Australia would not appear to be major tourism destinations for Indians. In the year ended December 2009, 118,000 Indian visitors to Australia accounted for just 2 percent of global visitors to Australia and spent just AUD$ 595 million out of the AUD$ 25 billion spent by all visitors that year. South Australia's share of Indian visitors was even smaller. Of the 7,147 thousand visitor nights spent by Indians in Australia in 2009, just 111,000 (1.5 percent of the total) were spent in South Australia.

Despite the relatively small numbers, it would seem that the potential for attracting increased numbers of Indian tourists is considerable, given the rapid growth in visitor nights spent by Indians in Australia in recent years. In 2009, visitor's nights by Indians were up by 9 percent over 2008 despite the effects of the GFC. 2008 saw a growth of 36 percent over 2007.

Using the category "personal travel excluding education" as a rough proxy for tourism flows, Australia recorded a deficit in bilateral tourism flows with India in 2008/2009 of around AUD$ 180 million.

IV.G. Investment

IV.G.1. The investment climate in India

Even though India has a fairly open investment regime and notwithstanding growth in recent years, it has consistently failed to attract foreign investment to a degree commensurate with the size and potential of its market. The relatively low levels of investment are typically attributed to complex procedures, particularly in certain sectors, sub-optimal transparency, and inadequate infrastructure. Political uncertainty has also hindered investment at times, and the myriad of state laws and investment requirements have also served as a deterrent to some investment. According to the World Economic Forum survey, in 2009/2010 India ranked 49th worldwide in its business competitiveness, with the main problematic factors for doing business being inadequate infrastructure and inefficient government bureaucracy. The World Bank's doing business report ranks India 133 out of 183 economies. India got particularly low rankings in the areas of enforcing contracts and dealing with construction permits, it ranked higher in the areas of getting credit and protecting investors. In the area of trading across borders India

[73] Figures are taken from the International Visitors in Australia publication (December 2009 Quarterly Results of the International Visitor Survey (Tourism Research Australia)

ranked 94, with times and costs to import of 20 days and USD$ 960 per container, times and costs to export where measured at 17 days and USD$ 945 per container.

There are two routes for FDI into India, automatic and government approval depending on the sector or activity for the proposed FDI. In a few sectors FDI is prohibited, namely: gambling and betting, lotteries, atomic energy, retail trading and agriculture (except floriculture, horticulture, seed development, animal husbandry, aquaculture, vegetables, mushrooms and services). The majority of sectors fall under the automatic route, which allows FDI, within the specified equity limits, to take place with only the requirement to notify the regional office of the Reserve Bank of India (RBI) within 30 days of the receipt of the investment and within 30 days of issuing shares to foreign investors. Certain sectors and activities require government approval, such as: activities requiring industrial license, FDI in a sector where the investor already has an operation in India, investment exceeding 24 percent equity in a manufacturer of products reserved for the small-scale sector, all proposals for FDI outside the specified equity limits and sectoral policy. The sectors requiring compulsory industrial license are: alcoholic drinks, cigarettes and tobacco, aerospace and defence electronics, explosives and hazardous chemicals. In addition an industrial license is required if the proposed production facility is located within 25Km of 23 cities which had a population of more than 1 million people under the 1991 census. Investors may also be required to obtain environmental clearances and other approvals or clearances at the state level.

India also has different programmes providing incentives for investors, including an extensive programme for Special Economic Zones (SEZ) and Export Oriented Units (EOU). Under these schemes companies may import or procure locally inputs and capital goods duty free. They also benefit from a 100 percent income tax exemption for the first 5 years of operation and 50 percent for two years thereafter. In addition, all earned, profits dividends and proceeds out of the sale of investment are fully capable of being repatriated.

Depending on the conditions of access to these exemptions they would most likely constitute prohibited export subsidies in the WTO's Subsidies and Countervailing Measures Agreement. However, given India's status as an Annex VII (b) country[74] under the SCM Agreement the export subsidy prohibition does not apply to India unless it is demonstrated it has reached export competitiveness[75] in a particular product.

From the above one can conclude that India's regulation of FDI is not overly restrictive, although it is complex. Therefore, it is hard to identify any "hard" barriers to investment. Most of the barriers encountered by investors in India are related to poor infrastructure, inefficient government bureaucracy, corruption and the difficulties of doing business in India's complex caste social environment. It is therefore advisable for investors doing business in India to

[74] Annex VII(b) countries are those WTO Members which, although not classified as LDCs, have a GNP per capita of less than US$ 1000 per annum.
[75] Export competitiveness is defined as having reached a share of at least 3.25 percent in world trade of a product for two consecutive calendar years.

establish a good network and preferably go into a joint-venture with an established Indian partner.

IV.G.2. The investment climate in Australia

Australia's political and regulatory environment is considered stable, open and progressive and investors are provided with a high degree of confidence. Australia also has an excellent reputation for good governance.

Foreign investment in Australia is regulated primarily through a regime established under the Foreign Acquisitions and Takeovers Act 1975 *(Cth)* as well as regulations made under this Act. In addition, foreign investment is also restricted under legislation or regulations specifically applicable to particular sectors, for example, aviation, media, banking, airports, urban real estate and mining leases. FDI projects may also be indirectly regulated under laws applicable because of a particular investment activity, for example, state or local government approvals may be required for a project involving construction work.

The FATA regime is administered by the Australian Treasurer and the Foreign Investment Review Board (FIRB). The notification of some investment proposals to the FIRB is compulsory while the notification of others, although not compulsory, is advisable because they might later fall contrary to the national interest and be rejected.

The overwhelming majority of foreign investment proposals considered by the FIRB are approved as evidenced by the statistics for 2007/2008 when 8,548 proposals were considered but only 14 proposals (less than 0.2 percent of the total) were rejected.[76]

IV.G.3. Indian investment in Australia and South Australia

While the overall numbers are still quite small, Indian investment in Australia is increasing, with a number of high-profile projects, notably in the hospitality and IT sectors, and more recently in relation to copper and coal resources. The stock of inward investment (including portfolio investment) increased almost five-fold to over AUD$ 600 million during the period 2002-2006. Indian companies report no significant barriers or constraints to investment, apart from shortages of skilled labour and some material inputs such as tyres.

Indian investment in the Australian mining industry is centred on copper and coal. In 2003, Birla Copper purchased the Nifty Copper Mine in Western Australia for AUD$158.8 million. The acquisition was completed through a wholly-owned Australian subsidiary and is the second largest foreign acquisition by an Indian company. The mine is the third-largest copper resource in Australia and one of the world's top 25 copper deposits. In September 2003, the Aditya Birla Group announced the acquisition of a second copper mine in Australia – the Mount Gordon Copper Mine in northwest Queensland. The AUD$21 million transaction was completed through a wholly-owned subsidiary, Birla Minerals. Indian companies also have investments in

[76] Indonesia-Australia FTA Joint Feasibility Study, page 25.

a Tasmanian copper mine with a concentrate production capacity of about 120,000 tonnes per annum. Indian Seamless Metal Tubes Ltd has also entered into a joint venture with an Australian company to set up a tube steel mill in Queensland. Indian companies have also made significant investments in the coal sector with Tata Steel and Gujarat NRE Coke owning 1 and 2 coal mines respectively in New South Wales.

In South Australia, Mumbai's Tata Power has bought a 10 percent stake in Australian enhanced geothermal systems firm Geodynamics, an investment worth a total of US$ 37 million. Reliance Industries of India has also entered into a partnership with Uranium Exploration Australia (UXA) to explore and develop four uranium production sites. Lincoln Minerals also had a joint venture to develop the Gum Flat iron ore project near Port Lincoln, but recently there have been reports that an agreement was reached for Lincoln Minerals to buy back the 40 percent share owned by Mineral Enterprises.

There has also been some investment in the wine production sector with Indage Vintners Ltd, a leading Indian wine company; acquiring Tandou Wines (later renamed Thanchi Wines) a Riverland located winery and VineCrest a premium boutique winery in the Barossa Valley. Two Indian companies are also very active in the area of wind power generation. Aban India, a supplier of wind farm technologies, has through its Australian affiliate Ausker Energy Pty Ltd obtained approval to develop wind farms in South Australia on the Eyre Peninsula. Suzlon, another Indian company, is one of Australia's leading wind turbine supplier and has been awarded turnkey contracts for the construction of five wind farm projects in South Australia.

IV.G. 4. Prospects for investment in a bilateral agreement

At the WTO, India has long led the charge against any multilateral rules to govern foreign direct investment and was largely responsible for the "Singapore Issues" investment topic being dropped from the agenda of the Doha Round in mid-2004. That said, India seems to have taken a different position on investment questions in its bilateral trade agreements. As noted earlier in this report, India agreed to fairly forthcoming provisions on investment in its bilateral trade agreement with Singapore, the Closer Economic Cooperation Agreement, or CECA.

On investment, the parties to the CECA agreed to a reasonably broad definition of investment (including debts, intellectual property and contractual rights, and both FDI and portfolio investment). National treatment guarantees are provided, along with disciplines on expropriation and compensation. There is provision for the free repatriation of investment-related funds, and India agreed to bind liberalizing measures it had already adopting allowing certain investment in the real estate sector and rights for existing joint ventures to enter new joint ventures.

India's specific commitments are included as a positive-list annex, while Singapore's corresponding annex is a negative-list annex of reservations. Significantly, the CECA includes an investor-state dispute settlement mechanism. However, disputes involving an alleged violation of national treatment with respect to the establishment, acquisition or expansion of investment are not covered by this mechanism except that, as agreed in an exchange of letters annexed to the agreement, if India agrees to subject such disputes to compulsory investor-state dispute settlement in any other international agreement, it must automatically extend the same benefit to Singapore under the CECA, and Singapore must reciprocate. The CECA chapter on investment also allows for the denial of benefits to investors that do not have substantial business operations in a party, or that are owned or controlled by investors of the party denying benefits. In addition, requirements that senior management officials of an investor be of a certain nationality are prohibited (although Singapore has made a number of reservations regarding local managers).

Australia should be able to obtain an agreement at least as good as that negotiated by Singapore if it eventually enters into free trade agreement negotiations with India.

IV.H. Intellectual property rights

IV.H.1. India's regime for protection of intellectual property[77]

The administration and protection of intellectual property rights in India is divided between the Department of Industrial Policy and Promotion in the Ministry of Commerce and Industry, which is responsible for industrial property through the Controller General of Patents, Designs and Trade Marks; the Ministry of Human Resource Development, which supervises copyright protection; and the Ministries of Agriculture and Communication and Information Technology, which administer the protection of plant varieties and semiconductors and integrated circuits, respectively. India is a member of most of the key international conventions and agreements on intellectual property rights. In addition, there are proposals to further amend the Indian Copyright Act in light of the WIPO's WCT and WPPT treaties.

IV.H.1.a. Copyright

Copyright is protected under the Copyright Act, 1957, most recently amended in 1999. Protection is granted to: original literary, dramatic, musical and artistic works; cinematographic films; and sound recordings. The term of protection is the lifetime of the author plus 60 years for literary, dramatic, musical and artistic works; and 60 years after the year of publication for anonymous and pseudonymous works, photographs, cinematographic films, sound recordings, and works owned by the Government or by a public undertaking or an international organization. Broadcast reproduction rights are for 25 years from year of broadcast, and performer's rights are for 50 years from the date of performance.

[77] The information in this section of this report is drawn heavily from India's most recent WTO Trade Policy Review (document WT/TPR/S/182/Rev.1)

Compulsory licences may be issued for works withheld from the public or for unpublished "Indian works"[78], where the author is dead or unknown. In such cases applications may be made to the Copyright Board, which after holding an inquiry, may direct the Registrar of Copyright to issue the licence under specified terms and conditions. The Central Government may also, if it deems it to be in the national interest, require the heirs or executors of a work whose author is no longer alive, to publish the work. Applications for licences to publish a translation of a literary or dramatic work in any language may be made to the Copyright Board seven years after publication of the work (three years if the translation is required for teaching, scholarship or research). Parallel imports are not permitted by the law.

Both civil and criminal remedies are available for infringement of copyright. Under Section 63, the penalties can be imprisonment for between six months and three years and/or a fine of between Rs 50,000 and Rs 200,000. Repeat offences are punishable by imprisonment of one to three years and/or a fine of Rs 100,000 to Rs 200,000.[79] Any person who knowingly makes use of an infringing copy of a computer program is punishable by imprisonment of seven days to three years and/or a fine of Rs 50,000 to Rs 200,000. The penalty for making or possessing plates for making infringing copies of protected works is imprisonment of up to two years and/or a fine. Publication of a sound recording or a video film in contravention of the Act is liable to imprisonment of up to three years and a fine.

IV.H.1.b. Patents

The Patents Act, 1970, governs the granting of patents. The Patents (Amendment) Act, 2002 extended the period of protection granted for all product and process patents to 20 years from the date of filing (Section 53); previously, protection was for five years for process patents for food or medicine and 14 years for other cases. Other key changes introduced by the 2002 Act include a more detailed framework for the granting of compulsory licences and deletion of the sections dealing with "licences of right" (see below). The Patents (Amendment) Act, 2005, by deleting Section 5 of the Act, which excluded product patents for food, medicine or drug or products using chemical processes, ended the ten-year transition available to India and other developing countries under the TRIPS Agreement. The regime for exclusive marketing rights, introduced under the 1999 amendment was also revoked.

Under the current Patents Act, which became effective on 1 January 2005, patent protection may be granted to any invention relating to either a product or process that is new, involves an inventive step, and is capable of industrial application (Article 2(1) (j)). The Act also sets out products or processes that are not recognized as inventions and are therefore not patentable.[80]

[78] "Indian work" is defined as an artistic work by a citizen of India or a cinematographic film or record made or manufactured in India (Article 31).
[79] In both cases, the penalty can be reduced if the infringement has not been made for gain in the course of trade or business.
[80] These are: inventions whose primary or intended use or commercial exploitation would be contrary to public order or morality or cause serious prejudice to human, animal or plant life or health or to the environment; the process for the medicinal, surgical, curative, prophylactic or other treatment of human beings; plants and animals or their parts (including seeds, varieties and species, and biological processes for the production or propagation of

Patents of addition for an improvement to a patented product can be granted to the holder of the original patent for the same period as the validity of the original patent.

On average, it takes between 10 and 60 months to grant a patent depending on the information provided by the applicant. However, the applicant is not entitled to institute any infringement proceedings until the patent has been granted. For patents relating to pharmaceuticals filed before 1 January 2005 (the "Mailbox"), the rights of the patentee accrue from the date of grant of the patent, but the period of protection remains 20 years from the date of filing. Moreover, the patent holder may not institute infringement proceedings against manufacturers already producing the patented product when the patent is granted; in such cases, the patent holder is entitled to receive reasonable royalties.[81] The law does not define "reasonable", which depends on the circumstances of each case, like royalty payment under Article 31 (h) of the TRIPS Agreement. The law also does not define the authority for determining the royalty. However, according to the authorities, although some 8,000 applications were made through the Mailbox facility, there have been no demands for royalty payments from patent holders.

Compulsory licences can be granted under Chapter XVI of the Patents Act. Under Section 84 any person interested in working a patent can, after the expiry of three years from the date of grant of the patent, apply to the Controller for grant of a compulsory licence. The grounds for such a compulsory licence may include: that the reasonable requirements of the public with respect to the patented invention have not been satisfied; the patented invention is not available at a reasonably affordable price; or that it is not worked in India. The Controller may issue a licence upon terms and conditions outlined in the Act.[82] Two years after a compulsory licence has been granted, the Central Government or any other interested person may request the Controller to revoke the patent on the grounds that it has not been worked or that the reasonable requirements of the public have not been met, or that it is not available to the public at a reasonable price. The Controller would normally make a decision within one year of it being presented. No compulsory licences have been granted under this provision. The Central Government may also, if necessary, such as in the case of a national emergency, provide for issue of a compulsory licence for a patented product through a notification in the *Official Gazette* (Section 92) and may use a patented invention for government purposes (Section 100). Following the amendment to the TRIPS Agreement in December 2005 to include the decision on patents and public health, a new section 92A was inserted in the Act to permit compulsory licences for exports of patented pharmaceutical products in certain exceptional circumstances. This provision has not been used to date.

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plants and animals) other than microorganisms; mathematical or business methods or computer programs and algorithms; and the topography of integrated circuits and traditional knowledge (Section 3).

[81] Section 11A of the Patent Act.

[82] The terms and conditions stipulated in Section 90 include: ensuring that the royalty or remuneration paid to the patent holder is appropriate; that the licence is fully worked by the holder; that the patented products are made available to the public at reasonably affordable prices; that the licence granted is non-exclusive and non-assignable; that the licence is granted for the balance of the term of the patent; that the licence is provided for predominant use in the Indian market.

India also permits parallel imports, the definition of which was changed in 2005 from "importation of patented products by any person from a person who is duly authorized by the patentee" to "importation of patented products by any person from a person who is duly authorized by the law".

False representation of any article sold in India as being patented in India or for which an application has been made are punishable by a fine of up to Rs 100,000. Contravention of secrecy provisions relating to certain inventions or falsification of any information relating to the Patents Register is punishable by a fine or imprisonment of up to two years. Appeals can be made to the Appellate Board established under Section 83 of the Trade Marks Act, 1999. However, pending establishment of the Appellate Board, appeals are to the High Courts.

IV.H.1.c. Trademarks

Trademarks are protected under the Trade Marks Act, 1999 and the Trade Marks Rules, 2002 (in force since September 2003), which repealed the Trade and Merchandise Marks Act, 1958. The changes introduced by the Act, include: protection to well known marks, as well as service and collective marks; extension of the period of protection from seven to ten years; establishment of an Appellate Board; and increased penalties for infringement of trade marks.

Trademarks must be filed in writing at one of the offices of the Trade Marks Registry. Following examination to determine whether the trade mark is distinctive and does not conflict with an existing or pending trade mark, the Registry publishes the trade mark in the *Trade Marks Journal*. Opposition to the trade mark can be made within three months of publication (extendable by one month) to which the applicant must respond within two months. Following a decision to register the trademark a certificate of registration is issued. The trademark is registered for ten years, renewable for further periods of ten years on payment of the prescribed fee. If the registered mark is not used for a continuous period of five years and three months from the date it was registered, or if the renewal fee is not paid within the prescribed period, it can be removed from the registry on grounds of non-use. Appeals against a decision by the Registrar may be made to the High Court pending establishment of the Appellate Board.

Under the Act, registration of a trademark gives the owner "the exclusive right to the use of the trade mark in relation to the goods or services and to obtain relief in respect of infringement of the trade mark" (Chapter IV, 28(1)). Registration is not compulsory, but the owner cannot bring a legal case against an infringer if the mark is not registered. The law also enables a suit for passing off to be filed for the use of any trade mark that is identical or deceptively similar to the plaintiff's trademark, whether registered or unregistered. The Trade Marks Act, 1999, preserves common law rights in respect of an unregistered trademark. Penalties for falsification of trademarks and selling or providing goods that infringe trademarks include a prison term of at least six months, extendable to three years, and a fine of between Rs 50,000 and Rs 200,000. Second or subsequent convictions may lead to imprisonment of between one and three years and a fine of between Rs 100,000 and Rs 200,000. Falsely representing a trade mark as registered may lead to imprisonment of up to three years and/or a fine. Other penalties include imprisonment of up to two years and/or a fine for improper description of a place of business as connected with the Trade Marks Office and for falsification of entries in the Register.

IV.H.2. Prospects for enhanced intellectual property protection in an FTA

The Department of Foreign Affairs and Trade's "Industry Consultation Background Paper" prepared in connection with consideration of a possible FTA with India notes that FTAs provide an opportunity to build upon specific commitments on intellectual property and address specific impediments to market access raised by stakeholders. Although not cited as an objective by DFAT, it is possible that Australia would seek Indian agreement to update IP protection afforded under TRIPS (which dates from 1993) by joining the 2006 Singapore Treaty on the Law of Trademarks, the 1996 WIPO Copyright Treaty and the 1996 WIPO Performances and Phonograms Treaty.

For its part, India might use the FTA negotiations to gain Australian legal recognition of geographic indications protection for Indian products such as Darjeeling tea and Basmati rice.

IV.I. Customs, border measures, and other trade-related issues

IV.I.1. Rules of origin

In its recently concluded agreement with ASEAN, India insisted on a slightly different approach to rules of origin (ROO) than that used by Australia and New Zealand, Japan and Korea in their own FTAs with ASEAN. In the India-ASEAN agreement, the single general rule calls for a change in tariff sub-heading (CTSH) at the six-digit level <u>plus</u> regional value content of 35 percent. In the AANZFTA and in other recent ASEAN agreements, two different ROOs are used and given co-equal status – making it easier for exporters to choose the method most likely to give them originating status. In the AANZFTA, the ROO is a co-equal 40 percent regional value content or a change in tariff classification (CTC) at the 4-digit level.

In order to reduce confusion among exporters and mitigate the "noodle bowl" effects of overlapping FTAs, Australia will likely seek Indian agreement to adopt the AANZFTA ROOs in a bilateral agreement between Australia and India.

IV.I.2. Trade facilitation

Changes to Indian import procedures in recent years should increase the possibility that Australia and India could include a meaningful trade facilitation chapter in any bilateral agreement they might negotiate. With the introduction of the Risk Management System (RMS) in December 2005, routine assessment, audit, and examination of all imported goods/bills of entry has been discontinued. The focus is now on quality assessment, examination and post clearance audit of bills of entry selected by the RMS. Import declarations filed with Customs are processed electronically and produce an electronic output that determines whether the consignment needs to be appraised or examined or both, or be cleared after payment of duty.

Goods may also be examined before assessing the duty liability at the importer's request, in case of incomplete information at the time of import, or, if deemed necessary by the Customs Appraiser/Assistant Commissioner. Where the RMS has identified a cargo as low risk, "self assessment by importer" and "no examination by Customs" is accorded. Imports by clients accredited under the Risk Management Programme are facilitated through "no assessment" and "no examination" facilities. According to the authorities, customs clearance activities account for around 15-18% of the total cargo "dwell time" at ports of entry. The introduction of the RMS in major customs locations has reduced the time taken by Customs to eight hours (two hours for assessment and six hours for examination). For accredited clients, the clearance ranges from one to four hours.

The mid-term review of the Tenth Five-Year Plan called for further trade reforms by, *inter alia,* redoubling efforts to modernize customs, streamlining documentation requirements, and widening the coverage of Electronic Data Integration (EDI). Since December 2002, the National Import Database (NIDB) has been used by the Directorate General of Valuation to speed up valuation procedures. The NIDB permits a comparison with data gathered on the value of recent imports of comparable goods and is used by all 34 EDI stations as well as non-EDI stations through electronic mail. The RMS uses a valuation risk assessment module (VRAM) to use a weighted average value of recent like imports of sensitive goods. The list of products considered to be sensitive was not provided as the specifics of risk assessment are confidential. According to Customs, the introduction of these electronic databases has facilitated quicker clearance of imported cargo on the basis of self assessment without requiring any intervention by Customs for "a considerable percentage" of the total cargo; the percentage could not be revealed for enforcement reasons.

Under Chapter XV of the Customs Act, 1962, appeals against decisions taken by a Customs officer are heard by the Commissioner (Appeals). Appeals must be made within sixty days from the date of communication of the decision by Customs. Decisions by the Commissioner (Appeals) should be made, where possible, within six months from the date the appeal is filed.

IV.I.3. Import prohibitions, restrictions and licensing

Import prohibitions are maintained by India under Section 11 of the Customs Act 1962. Under the Act, the Government may, by notification in the *Official Gazette,* impose absolute or conditional import (or export) prohibitions. Such measures can be maintained for, *inter alia,* security, public order and standards of decency or morality, prevention of smuggling or shortage of goods, foreign exchange and balance of payments reasons, prevention of agricultural surpluses, standards, intellectual property, and the conservation of exhaustible resources.[83]

In April 2006, Indian authorities introduced import prohibitions on some livestock and livestock products, including domestic and wild birds, meat and meat products from avian species, and live pigs and pig meat products (except processed pig products).

Import restrictions can be imposed under the Customs Act, 1962 and the Foreign Trade (Development and Regulation) Act, 1992. Some 415 tariff lines (around 3.5% of the tariff) at the HS 8-digit level are currently subject to import restrictions under Articles XX and XXI of the GATT. The items are mainly in sections 19 (arms and ammunition), 1 (live animals), 21 (works of art), 5 (mineral products) and 2 (vegetable products) (Chart III.4).

India also monitors imports of some 300 items that are considered to be sensitive. The monitoring mechanism was set up after the removal of quantitative restrictions on imports in 2002. The products, which are monitored by a committee chaired by the Secretary of the Department of Commerce, include edible oil, cotton, silk, milk and milk products, cereals, fruit and vegetables, spices, automobiles, tea, coffee, alcoholic beverages and products produced by the small-scale industry.

IV.I.4. Competition policy

India has always been a staunch opponent of discussions in the WTO of competition policy and was instrumental in demanding that competition policy be taken off the WTO Doha Round negotiating agenda in mid-2004. India is unlikely to want a competition policy chapter in any bilateral FTA with Australia.

According to DFAT, Australia's approach to competition policy will vary depending upon the negotiating partner – from "best endeavours" clauses encouraging parties to adopt maintain and apply competition law to legally binding language that may require specific action. Australia will probably be lucky to gain agreement even to best endeavours language in any agreement with India.

IV.I.5. Temporary movement of business persons

Judging by the experience of Australia's other bilateral FTAs in the region, commitments on the temporary movement of business persons could well be an important topic in a bilateral FTA with India. In today's globalized world, it is frequently necessary to send business representatives to short-term postings in foreign markets in order to effectively deliver services

[83] Section 11(2) of the Customs Act, 1962.

to clients in these markets. The widespread nature of this business practice has long been recognized in the WTO GATS agreement and in most modern FTAs.

Australia's recent experience in the AANZFTA agreement with ASEAN nations could well be instructive as a potential model for how temporary movement of business persons might be addressed in a potential agreement with India.

The AANZFTA incorporates both general obligations in respect of the temporary movement of business persons and schedules of commitments made by each government participating in the FTA.

Box – Temporary Movement of Business Persons: Who is Covered?

The commitments made under the AANZFTA typically affect:

- Business visitors;
- Installers and servicers;
- Executives of a business headquartered in a Party establishing a branch or subsidiary, or other commercial presence of that business in another Party;
- Intra-corporate transferees; or
- Contractual service suppliers

Among the general obligations established in the AANZFTA chapter on movement of business persons are procedures relative to the grant of temporary entry, processing of applications and transparency. The FTA also makes clear that nothing in the agreement should be read as interfering with a government's ability to operate an effective domestic immigration policy.

Procedurally, AANZFTA governments are obliged to ensure that fees imposed in respect of temporary entry formalities are reasonable and that applications are processed fairly and within a reasonable period of time. In order to assist business in taking advantage of the possibilities for temporary movement of personnel, the Parties to the AANZFTA are obliged to publish explanatory material on relevant immigration formalities and the requirements for temporary entry pursuant to the AANZFTA's provisions.

IV.I.6. Government procurement

India has recently implemented significant reforms in its procurement procedures at the central government level, including enhanced use of electronic technologies and other steps to increase transparency. Similar reforms have been carried out in certain states. Extension and deepening of these reforms promises further benefits.

The procurement system is decentralized in India, comprising a multiplicity of entities at the central, state, and local levels in addition to numerous public sector enterprises. Consolidated data are not available on the economic significance of government procurement, including a breakdown of the value of contracts by tendering method. Data from cross-national studies suggest, however, that government procurement typically constitutes in the range of 10-15% of total economic activity or more.[84] In India, the percentage may be significantly higher given the role of public companies in key sectors such as railways and in the economy generally.

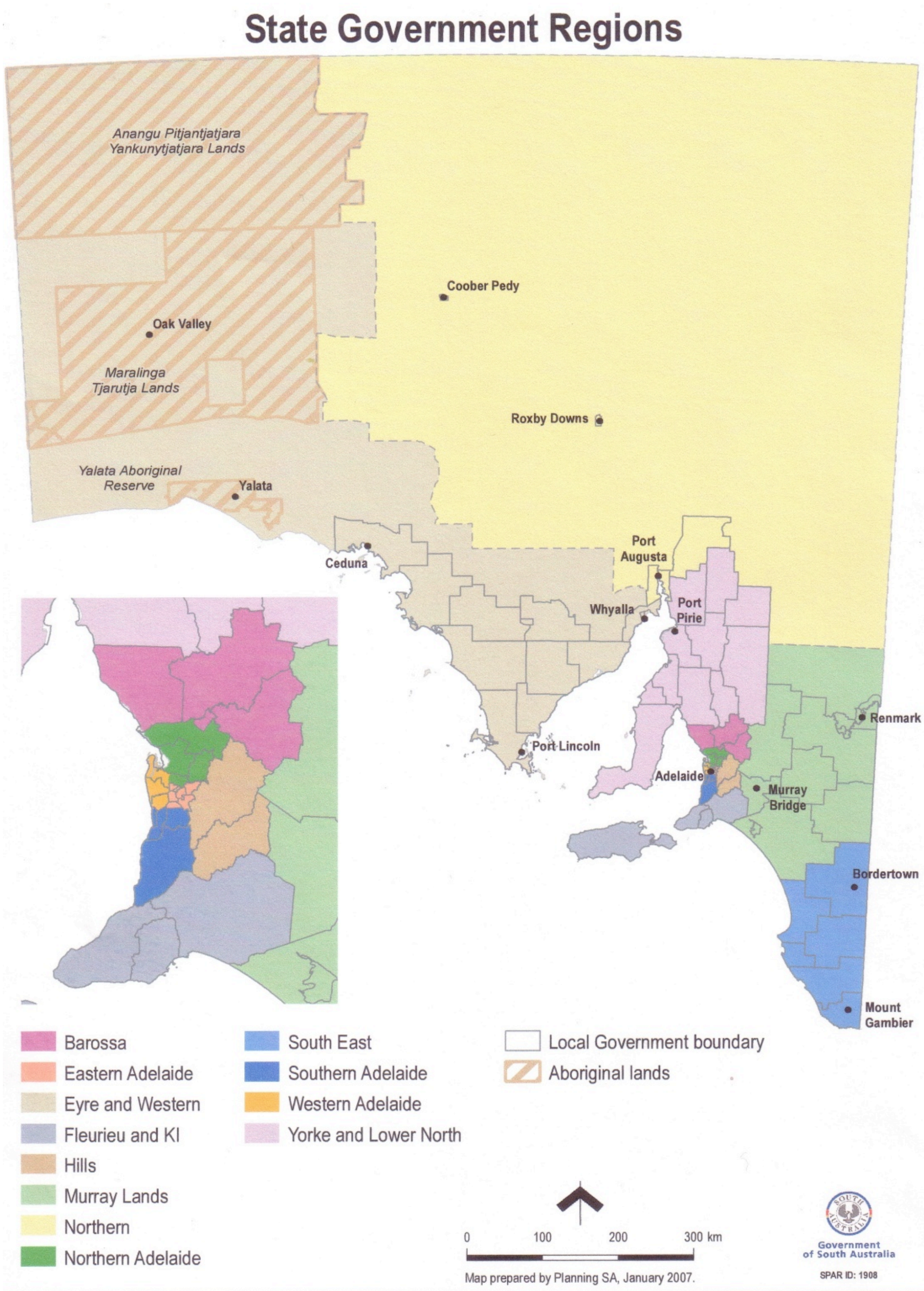
India retains preferential policies for central public-sector and micro and small enterprises. Central public-sector enterprises are permitted to submit fresh bids in response to private sector bids. For tenders valued between Rs 50 million and Rs 1 billion, a central public-sector enterprise whose bid is within 10% of that of a large private unit is allowed to revise its price downward and is eligible for a contract or parallel-rate contract. This system has been extended until 31 March 2008.

Micro and small enterprises (MSEs) receive purchase and price preferences in procurement by central government ministries and departments and public-sector enterprises. Under the purchase-preference system, 358 specified items must be procured exclusively from MSEs. The price preference system provides that if the price offered by the micro or small enterprise is not more than 15% above the price offered by a large enterprise, the product must be purchased from the former. MSEs are also assisted by way of: (i) issue of tender sets free of cost; (ii) exemption from payment of "earnest money" (deposits); and (iii) waiver of security deposits up to the monetary limit for which the unit is eligible, based on certain transparent criteria. The National Small Industries Corporation (NSIC) serves as a single point of negotiation for eligible MSEs for government purchasing preference schemes.

Neither India nor Australia are signatories to the WTO Government Procurement Agreement and it would seem unlikely that India would agree – as part of a bilateral agreement with Australia – to open its government procurement market to Australian suppliers. Given that Australia has not been able to achieve procurement access in other FTAs with countries that are generally more open than India (e.g. the ASEANS), this will probably not be an important Australian objective in any negotiations.

[84] OECD (2001).

V. IMPACT OF AN FTA IN REGIONAL SOUTH AUSTRALIA



Overview

The two industries of particular importance to potential export growth in regional South Australia are mining and agriculture (including wine). South Australia's resource industry is located primarily in the northern and mid-northern regions, however other regions will also benefit from the flow on effects of new exploration and mining developments.

The second industry is agriculture, where reduced tariffs and increased investment in value added products such as ready-to-eat meat products, could represent a significant opportunity for South Australia's agricultural industry.

In general, some of the most important potential outcomes from an FTA with India for regional South Australia would be lowering tariff barriers to potential South Australian exports and/or removing licensing restrictions applying to certain products.

Eyre Region

The Eyre region is one of the most productive regions in South Australia, with a strong focus on agriculture, mining, aquaculture, tourism, commerce and retail, building and construction. Agriculture is considered being one of the major industries in the region, valued at AUD$ 450 million, producing large quantities and high qualities of wheat and barley crops and to a lesser extent oats, canola, lupins and field peas[85]. Agriculture, forestry and fishing considered to be main industries in the region, providing 3,928 jobs. The livestock, horticulture and viticulture are also viable industries to the region [86].

Representatives of the Eyre region believe that an FTA with India would have great benefits for the Eyre Peninsula region. The Peninsula region is a primary based producer of broadacre grains and wide array of seafood products. The region's markets are predominately export. The grains industry - due to the relatively remote location - is disadvantaged by transport costs to the domestic markets, whereby 96% of the regions grain products are exported to the Middle East, Japan, China, and South East Asia. India and Indonesia are key markets with large population bases. Seafood is reliant on export markets and companies are seeking to diversify markets to spread the risk of rely on a single market.

Contrary to the expectations of the authors of this report, India is seen by representatives of the region as providing an opportunity for growth and demand for seafood into the future, and would be a market that the region would pursue should the tariffs are reduced or removed.

[85] http://eplga.sa.gov.au/biz_agriculture.htm
[86] http://eplga.sa.gov.au/biz_economy.htm

Southern Flinders Region

The Southern Flinders Ranges attracts mostly European tourists (mainly Germans). The Flinders Ranges are marketed internationally through initiatives of 'Tourism Australia'. In general, Asian countries' citizens find the Flinders Ranges Region less attractive due to the following:

- Proximity to the sea – Asian countries' tourist expect access to the sea and can have access to beaches in other States (NSW/Queensland)
- Lack of brand awareness

The region would like to see Australia marketing the region more aggressively in India. The negotiation of a bilateral FTA might result in a "head-turning" effect and help to make more Indians aware of tourism opportunities in South Australia.

Yorke Region

The Yorke Region is rich in agriculture and marine resources (producing agriculture machinery and equipment, transport equipment, human foods, animal food processors). Hay processing and exporting via companies such as Balco Australia – accounts for 15% of the Australian hay export market. Farming and animal husbandry (pig and poultry farming), feed lots and horticulture including olives and organic produce are also important and increasingly it is recognized as a wine region in its own right. Horticulture is a rapidly growing sector as is the livestock sector. The local fishing industry is strong (fishing, crayfish, crab, and oyster). Aquaculture is in fledging stages (30 aquaculture operators)[87].

Local representatives believe that farmers in the Yorke region would definitely benefit from FTA's. However, concerns were expressed related to overall exports, since the region is interested in establishing long term sustainable business relationships with business partners overseas. Although FTAs are seen as valuable to the region, imports of some goods have put a lot of pressure on rural regions and some find it hard to compete with cheap imports.

[87] http://www.yorkeregion.com.au/Regional_profile.html

Barossa Region

The Barossa region has long been considered one of the most famous of the South Australian regions, mainly focusing on viticulture and winemaking. The most appealing features of the FTA with India for the Barossa region would be reduction in Indian tariffs and other barriers inhibiting exports of South Australian wine.

Adelaide Hills Region

The Adelaide Hills regional economy is based on food industries, mainly related to wine and food production. Important specialty products include fruits and vegetables (strawberries, raspberries and cherries in the summer, apples, pears, plums and quinces in the autumn and cabbages, leeks, lettuces and rhubarb throughout the year),[88] as well as field crops, dairy, livestock, horticulture, seafood and wine[89].

In light of the fact that South Australia has already succeeded in supplying small amounts (AUD$ 8 million) of fruits and nuts to India despite a tariff of over 30 percent, a FTA with India should make is possible for speciality products from this region to be exported to India.

Fleurieu Region

The Fleurieu Region contains a mixture of agriculture, viticulture and horticulture production. In addition the region is also involved in the production of wine grapes, olives, vegetables and berries. Dairy and crop productions also contribute significantly to the region's income and wealth[90]. The Fleurieu business community is also strongly involved with boat building, fishing, some specialized electrical components work, and furniture manufacturing[91].

Like the Barossa and Adelaide Hills regions, the Fleurieu region's exporters of wines and specialty food products would be likely to benefit from lower tariffs in the Indian market.

Kangaroo Island Region

Kangaroo Island covers 4,400 square kilometres with the population of around 4,500. Its major industries are livestock and wool production, cropping, commercial fishing, honey, viticulture, cheese and yoghurts, free range chickens & eggs, eucalyptus, lavender & olive oils, aquaculture, plantation and farm forestry, horticulture, tourism[92].

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88 http://www.adelaidehillsfood.com.au/about.php
89 http://www.safoodcentre.com.au/scorecard/regional_scorecards/adelaide_hills
90 http://www.frd.org.au/region.php
91 http://www.frd.org.au/region.php
92 'kangaroo island' the regional summary, <http://www.kangarooisland.org/region/index.htm#>.

The Limestone Coast Region

The Limestone Coast region covers around 2.1 million hectares with a population of 60,000 people. The regional economy is primarily based on: agriculture, wine, forestry, dairy, fishing, potatoes, tourism, transport, retail, education and training, health and allied services, engineering and renewable energy[93]. Due to the impact of the GFC, the region experienced important declines in demand for dairy and timber products (including transport and harvesting services[94]). However, there are optimistic views in relation to region's economic recovery.

With respect to India, the Limestone Coast would favourably view a relaxation of Indian tariffs on cheese products and general decrease in dairy (products) tariff lines. The region has had numerous inquiries from the side of Indian producers in relation to timber for furniture; however there have been few successes, since the timber required was a specific type of timber, which does not grow in the region.

Trade in livestock and in seeds (grains/lentils/beans) are areas where reduced barriers in India could present opportunities for export expansion. Since the region also exports a small proportion of wines to India, any lowering of high Indian wine tariffs would also have a beneficial impact on the region's exporters

In addition, Limestone Coast representatives see opportunities in India related to trade of Australian agricultural services such as agricultural project management.

[93] Limecoast annual report 2008/2009, p. 35.
[94] Lime coast annual report 2008/2009, p. 4.

STATISTICAL ANNEX

Table SA-1: Principal South Australian Exports to India (AUD$ 000)

A$'000	2006/07	2007/08	2008/09	2009/10	2010/11
Total exports	**159,895**	**179,130**	**272,570**	**599,226**	**713,625**
Total imports	**62,132**	**218,249**	**178,457**	**84,176**	**132,766**
Balance of merchandise trade	**97,763**	**-39,119**	**94,113**	**515,050**	**580,859**

Principal exports (a)	2006/07	2007/08	2008/09	2009/10	2010/11
041 Wheat	0	950	0	18,588	16,058
283 Copper ores & concentrates	0	0	34,411	408,909	457,648
685 Lead	57,382	70,337	83,355	77,436	75,318
054 Vegetables, f.c.f.	50,573	15,783	20,798	22,391	48,823
325 Coke & semi-coke	955	24,039	41,006	18,888	35,065
268 Wool & other animal hair (incl tops)	7,327	7,680	7,213	8,003	20,910
282 Ferrous waste & scrap	4,901	10,404	18,068	575	12,381
057 Fruit & nuts	8,239	7,309	8,202	6,907	12,255
988 Confidential items of trade	950	3,120	4,187	3,554	7,041
288 Non-ferrous waste & scrap	4,057	5,058	3,518	2,194	4,667
*7 Machinery & transport equipment	3,587	2,040	4,617	3,621	4,252
681 Silver & platinum	6,850	4,534	6,085	5,245	3,873
*6 Manufactures classed by material	3,256	3,466	2,930	5,645	3,037
Other	3,934	2,538	2,618	2,982	2,789
*77 Electrical machinery & appliances	1,617	113	1,647	6,055	2,213
772 Electrical circuits equipment	1,169	1,792	1,772	1,407	1,950
112 Alcoholic beverages	1,367	2,328	1,574	1,095	1,795
728 Specialised machinery & parts	1,513	3,325	3,877	1,375	1,637
874 Measuring & analysing instruments	1,347	3,443	8,647	2,314	1,562
*5 Chemicals & related products	180	2,142	2,604	1,178	341
743 Pumps (excl liquid pumps) & parts	318	1,960	20	864	10
792 Aircraft, spacecraft & parts	373	6,769	15,421	0	0

(a) Commodity groups do not include any items classified as confidential. *Denotes "Remainder of category"
Source: DFAT, Market Information & Research Section

Table SA-2: Principal South Australian Imports from India (AUD$ 000)

Principal imports (a)	2006/07	2007/08	2008/09	2009/10	2010/11
*0 Food & live animals	746	1,127	652	1,122	1,597
*04 Cereals	257	575	502	1,062	1,150
*05 Vegetables & fruit	808	1,594	1,226	1,629	1,414
*2 Crude materials (excl fuels)	1,028	1,145	1,077	892	676
278 Crude minerals	72	969	1,031	1,358	996
*5 Chemicals & related products	2,019	1,590	3,179	2,729	1,377
522 Inorganic chemical elements	2,885	2,936	3,834	1,472	75
542 Medicaments (incl veterinary)	479	251	741	2,751	3,697
582 Plastic plates, sheets & film	498	95	240	639	1,831
*59 Chemical materials & products	30	325	466	956	425
591 Insecticides, herbicides, disinfectants	0	34	334	684	2,385
*6 Manufactures classed by material	1,833	1,500	1,772	1,074	1,771
*61 Leather & dressed fur skins	334	836	1,681	907	875
625 Rubber tyres, treads & tubes	534	542	810	804	963
629 Rubber articles	1,152	791	662	633	597
*64 Paper & paperboard	276	361	583	1,282	1,535
658 Made-up textile articles	11,040	7,651	9,449	9,059	9,652
659 Floor coverings	2,376	1,737	2,162	2,289	2,216
661 Lime, cement & construction materials	1,163	1,357	1,529	1,002	1,191
667 Pearls & gems	1,231	857	2,771	1,957	3,538
676 Iron & steel bars & rods	637	708	609	216	107
679 Tubes & pipes of iron or steel	701	1,180	578	386	469
681 Silver & platinum	2	276	560	377	1,260
*69 Manufactures of metals	1,414	1,922	1,729	1,089	1,354
699 Manufactures of base metal	2,241	2,905	2,793	3,087	2,730
*7 Machinery & transport equipment	1,225	2,914	2,391	1,333	1,781
716 Rotating electric plant & parts	2,182	148,804	113,453	19,394	47,549
718 Power generating machinery & parts	0	0	1	0	10,210
721 Agric machinery (excl tractors) & parts	697	343	1,350	348	287
724 Textile & leather machinery & parts	1,064	508	0	0	0
742 Pumps for liquids & parts	707	225	248	6	127
743 Pumps (excl liquid pumps) & parts	140	127	111	1,156	298
748 Transmission shafts & parts	533	218	29	1,527	199
*77 Electrical machinery & appliances	809	912	292	484	348
772 Electrical circuits equipment	1,018	4,850	1,935	1,677	3,680
775 Household-type equipment	655	1,013	287	908	840
776 Electronic integrated circuits	11	0	0	472	1,315
781 Passenger motor vehicles	0	0	221	2,511	7,403
784 Vehicle parts & accessories	4,509	3,524	3,096	1,562	1,797
*8 Miscellaneous manufactured articles	1,108	965	1,041	1,073	1,033
821 Furniture, mattresses & cushions	1,512	1,437	1,469	1,520	1,151
*84 Clothing	593	414	659	918	1,291
874 Measuring & analysing instruments	13	4,435	286	97	196
*89 Miscellaneous manufactured articles	1,304	705	865	541	785
897 Jewellery	5,619	7,505	5,547	6,245	7,217
988 Confidential items of trade	4,587	4,880	3,986	2,748	1,270
Other	90	1,206	220	200	108

(a) Commodity groups do not include any items classified as confidential.
*Denotes "Remainder of category"
Source: DFAT, Market Information & Research Section

Table SA-3
South Australia's Principal Merchandise Exports to India

Product	Export Value AUD$ million				Share 2010/2011	Annual growth 2009/2010 to 2010/2011	Average Annual growth 2007/08 – 2010/2011
	2007/08	2008/09	2009/10	2010/11			
283 Copper ores & concentrates	0	34,411	408,909	457,648	64.13%	12%	..
685 Lead	70,337	83,355	77,436	75,318	10.55%	-3%	7.81%
054 Vegetables, f.c.f.	15,783	20,798	22,391	48,823	6.84%	118%	22.17%
325 Coke & semi-coke	24,039	41,006	18,888	35,065	4.91%	86%	629.87%
268 Wool & other animal hair (incl tops)	7,680	7,213	8,003	20,910	2.93%	161%	42.74%
041 Wheat	950	0	18,588	16,058	2.25%	-14%	..
282 Ferrous waste & scrap	10,404	18,068	575	12,381	1.73%	2053%	535.59%
057 Fruit & nuts	7,309	8,202	6,907	12,255	1.72%	77%	15.64%
988 Confidential items of trade	3,120	4,187	3,554	7,041	0.99%	98%	86.40%
288 Non-ferrous waste & scrap	5,058	3,518	2,194	4,667	0.65%	113%	17.33%

Source: DFAT, Market Information & Research Section

Table SA-4
South Australia's Principal Merchandise Imports from India

Product	Import Value AUD$ million				Share 2010/2011	Annual growth 2009/2010 to 2010/2011	Average Annual growth 2007/08 – 2010/2011
	2007/08	2008/09	2009/10	2010/11			
716 Rotating electric plant & parts	148,804	113,453	19,394	47,549	35.81%	145.17%	1689.53%
718 Power generating machinery & parts	0	1	0	10,210	7.69%	..	..
658 Made-up textile articles	7,651	9,449	9,059	9,652	7.27%	6.55%	-1.19%
781 Passenger motor vehicles	0	221	2,511	7,403	5.58%	194.82%	..
897 Jewellery	7,505	5,547	6,245	7,217	5.44%	15.56%	8.91%
542 Medicaments (incl veterinary)	251	741	2,751	3,697	2.78%	34.39%	113.32%
772 Electrical circuits equipment	4,850	1,935	1,677	3,680	2.77%	119.44%	105.61%
667 Pearls & gems	857	2,771	1,957	3,538	2.66%	80.79%	61.09%
699 Manufactures of base metal	2,905	2,793	3,087	2,730	2.06%	-11.56%	6.18%
591 Insecticides, herbicides, disinfectants	34	334	684	2,385	1.80%	248.68%	..

Source: DFAT, Market Information & Research Section

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March 2010

Statistical Update – December 2011