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The economic relationship: Business engagement—energy, resources and agriculture

Introduction

3.1 As noted in chapter 1, this Committee last examined the trade relationship between Australia and India in 1998. At that time, it was reported that the Indian economy was growing and that economic reform begun in 1992 was beginning to have an effect. The Indian middle class was on the rise, which represented a potentially large consumer market.[1]

3.2 These trends continue today. India is the world's second fastest growing economy. Economic reform continues and the potential purchasing power of the burgeoning Indian middle class is growing.[2] In its Supplementary Submission, DFAT updated the trade and investment figures provided to the Committee earlier:

> Although the range of areas in which Australia and India engage is expanding steadily, trade and investment are at the core of the relationship. Two-way trade in goods and services totalled $13.3 billion in 2007. In 2007, India was Australia's 10th largest merchandise trading partner. Australian merchandise exports to India reached $9.3 billion in 2007. Our

1 JSCFADT report, *Australia's Trade Relationship with India*, June 1998, pp. 6-7.

2 Austrade, *Submission No 4, Sub. Vol. 1*, p. 185.

> sixth largest merchandise export market in 2007, India was also Australia's fastest growing major export market for both goods and services over the last five years. While merchandise exports predominate, the role of services is significant. Australia exported $2.1 billion worth of services to India in 2007. [3]

3.3 Australia is one of India's largest overseas investors, with Australian companies spending around AUD$1 billion in joint ventures. Indian investment in Australia is at roughly the same level and is focused on industries such as mining, fertilizer and pharmaceutical and information and communications technology.[4]

3.4 This chapter will focus primarily on Australia's business relationship with India in the energy, resources and agriculture sectors. Subsequent chapters will cover Australia's engagement in the services sectors and any potential trade opportunities.

Energy and resources

3.5 Despite the growth in all avenues of trade with India, mineral exports still dominate Australia-India trade statistics. DITR advised the Committee that "India is one of Australia's fastest growing mineral export markets accounting for eight percent of total mineral exports in 2005-06, up from one percent in 1995-96."[5]

3.6 For example, in the Committee's previous report on India, Australian coal exports to India were valued at AUD$687 million.[6] Figures gathered for this report (noted below) value Australian coal exports at AUD$2, 396 million. In its Supplementary Submission of 2008, DFAT estimated coal exports as $2.4 billion in 2007.

3.7 Principal mineral exports to India include:

- non-monetary gold;
- coal/coking coal; and
- copper ores.

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3 DFAT, *Supplementary Submission No 21a*, pp. 7-8

4 DFAT, *Submission No. 21, Sub. Vol. 1*, p. 178.

5 DITR, *Submission No. 37, Sub. Vol. 2*, p. 375.

6 JSCFADT report, *Australia's Trade Relationship with India*, June 1998, p. 115.

3.8 The chart below showing figures received in 2008 in a Submission from the Department of Resources, Energy and Tourism outlines the values in dollars of Australia's top exports to India:

Top Australian exports to India - 2007	
Item	**Value (A$ m)**
Non-monetary gold	4167
Coal	2396
Copper ores	1113
Wool	151

.[7]

Coal, in particular, has been cited as one of Australia's most important exports to India. DFAT noted that:

> Given the significant role Australian exports of coking coal play in India's large steel industry, the importance of coal as one of the mainstays of our trading relationship is unlikely to diminish.[8]

3.9 Links between the Australian and Indian coal industries continue to increase. A coal and mining forum was held between the two countries in February 2006 (see details below) and Indian companies have begun to invest in Australian coal mines—Gujarat NRE Coke's investment in NSW coal mines being a good example.[9]

3.10 In its 2008 Submission to the Committee, the Department of Resources, Energy and Tourism summarised the increasing importance of India as an energy market for Australia:

> India is the world's fifth largest energy consumer with energy needs increasingly in line with a growth rate of approximately 8 percent per annum during the period 2000-2007.[10]

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7 Department of Resources, Energy and Tourism, *Submission No 40* (2008) , p.1

8 < http://www.aph.gov.au/house/committee/jfadt/india2006/subs/sub21.pdf>, 8 January 2006, p. 9.

9 DITR, *Submission No. 37, Sub. Vol. 2*, p. 377.

10 Department of Resources, Energy and Tourism, *Submission No 40,* p.1

Liquefied Natural Gas (LNG)

3.11 Evidence supplied to the Committee by DITR in 2006, noted that the Australian Bureau of Agriculture and Resource Economics expects "that LNG exports to India will increase to 8.1 million tonnes per annum by 2010," and that there has been strong Indian interest in Australia as a source for LNG."[11] A submission from the Western Australian Government also noted the potential for a long-term LNG supply partnership with India given the state's vast reserves of LNG.[12]

3.12 An Indian company, Petronet LNG, signed a A$12.5 billion contract with ExxonMobil Corp for procuring liquefied natural gas (LNG) from its Gorgon project in Western Australia. Under the deal, Exxon's subsidiaries, Mobil Australia, Mobil Australia Resources Company and Mobil Exploration and Producing Australia will annually supply 1.5 million metric tons of LNG to Petronet's Kochi terminal in Kerala.[13]

3.13 The 2008 Submission from the Department of Resources, Energy and Tourism provided a summary of the present state of the Indian LNG market:

> India has been importing LNG since 2004 and in 2007 imported 8.42 million tons of LNG. To date, this LNG trade has consisted of several spot cargoes. ABARE expects that Indian LNG imports will increase to 12.6 million tonnes per annum (mtpa) by 2015 and 21.1 mtpa by 2020. This will involve an expansion at the existing import terminals and /or new LNG terminal projects.[14]

3.14 The Submission forecasts strong potential for growth but, as with other sectors, growth is dependent on continuing economic adjustment in India as well as expansion in Australia's production capacity:

> India represents an important long-term market for Australian LNG, but realising the potential will depend on Indian Government reforms and the availability and

11 Mr Philip Noonan, *Transcript 3 November 2006*, p. 31.

12 Department of Industry and Resources, Government of Western Australia, *Submission No. 25, Sub. Vol. 1*, p. 226.

13 "Petronet LNG and ExxonMobil Sign Pact for Gorgon LNG Supply, 8 May 2009, http://www.india-server.com/news/petronet-Ing-and-exxonmobil-sign-pact-7163.html

14 Department of Resources, Energy and Tourism, *Submission No 40*, p. 2

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

Australia's current LNG supply capacity is around 15.6 million tonnes, with a further 9.6 million tonnes under construction. Planned new LNG projects could add more than 50 million tonnes to that total.[15]

Government - industry collaboration

3.15 The Australian Government is actively engaging Indian companies and government over issues in the energy and minerals sector through a number of collaborative and strategic forums. For example, in 2000 the India-Australia Joint Working Group on Energy and Minerals (JWG) was established.

3.16 DITR advised the Committee that the purpose of the JWG is to "address trade and investment issues in the energy and minerals sector, to exchange information on policy developments and to identify possible commercial opportunities."[16] It noted that a key outcome of the JWG has been the Australia-India Coal and Mining Forum, held in New Delhi in early 2006.[17]

3.17 Key issues discussed at the Forum included:

- impediments to trade and investment;
- market access;
- regulatory frameworks on mining;
- opportunities for collaboration on education, skills and training;
- prospects for mining technology services and equipment; and

15 Department of Resources, Energy and Tourism, *Submission No 40*, p. 2

16 DITR, *Submission No. 37, Sub. Vol. 2*, p. 378.

17 Mr Philip Noonan, *Transcript 3 November 2006*, p. 32.

- clean coal technologies, coal washeries and coal bed methane.[18]

3.18 Issues discussed at this Forum are now being considered by DITR through the development of an India-Australia resources strategy. It is expected that this strategy will progress issues identified at the JWG meetings and forum as well as provide a "road map for the long-term resources relationship between India and Australia."[19]

3.19 The 2008 Submission from the Department of Resources, Energy and Tourism updated the previous information on government to government resource strategy talks:

> The Australia-India Resources Strategy proposal was endorsed by Trade Ministers at the February 2007 Joint Ministerial Commission Meeting. This strategy will provide a framework for long term collaboration on key resources issues identified by the Australia-India Joint Working Group on Minerals and Energy.[20]

India's energy security

3.20 India's rapid population and economic growth is placing significant pressure on its already strained energy supply systems. Energy shortages in India are a result of low investment in energy resource exploration and infrastructure development. As a result, India is pursuing a domestic and international energy strategy focused on domestic reforms and infrastructure investment coupled with international "energy diplomacy."[21]

3.21 As DFAT's 2008 Supplementary Submission notes, Australia's potential role in India's energy security is a complimentary one:

> Australia is well-positioned to partner India in this area, through exports of minerals (including gold, iron ore, bauxite, copper) and fuels, energy investment opportunities in Australia and collaboration in areas of common interest such as new mining technologies.[22]

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18 DITR, *Submission No. 37, Sub. Vol. 2*, p. 378.

19 Mr Philip Noonan, *Transcript 3 November 2006*, p. 32.

20 Department of Resources, Energy and Tourism, *Submission No 40*, p. 1

21 DITR, *Submission No. 37, Sub. Vol. 2*, p. 379.

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

Nuclear energy

3.22 Part of India's energy strategy is focused on the development of nuclear energy. India has plans for a major expansion of nuclear energy generation, with seven reactors currently under construction and plans for 19 more. India expects to supply 25 percent of its electricity through nuclear power generation by 2020.[23]

3.23 A Submission to the inquiry from M V Ramana (No 46) challenged India's ability to meet these targets claiming they are extremely ambitious:

> It is true that India does have plans for a major expansion of nuclear energy generation. And if even all the reactors being constructed currently are completed, nuclear generation capacity in the country will grow substantially. At the same time, it must be remembered that Indian planners have a history of projecting rapid growth for nuclear power in India. In 1962, the Indian Department of Atomic Energy (DAE) predicted that, by 1987, India would have 20-25 GWe of installed heavy-water and breeder-reactor capacity [Hart, 1983, p. 61]. This was subsequently updated to 43 GWe of nuclear capacity by 2000 [Sethna, 1972}. None of this came true. At the end of 2008, India's nuclear capacity amounted to just 4.12 GWe, about 3 per cent of the country's total electricity generation capacity.[24]

3.24 DITR noted that India's uranium production capacity is unable to meet the demand of an expanded nuclear generating capacity.[25] Geoscience Australia advises that "India's prospectivity for major uranium deposits is low."[26] India has increased uranium exploration in hopes of finding 100,000 t U over the next four years but it has reportedly been forced to obtain enriched uranium from Russia to fuel two of its reactors.[27]

23 DITR, *Submission No. 37, Sub. Vol. 2*, p. 380.

24 MV Ramana, *Submission No 46*, p. 1

25 DITR, *Submission No. 37, Sub. Vol. 2*, p. 380.

26 DITR, *Submission No. 37, Sub. Vol. 2*, p. 380.

27 DITR, *Submission No. 37, Sub. Vol. 2*, p. 381 and 380.

Committee comment

3.25 Australia is well situated to capitalise on India's growing energy and resources needs. A steady growth in mineral export numbers since the Committee's previous report represents a gradual realisation of the potential in the Australia-India resource trade which has been regularly cited.

3.26 The Committee supports continued Australia-India collaboration in forums such as the JWG and suspects that greater dialogue will assist in growing the India-Australia energy and resources trade.

3.27 The Committee notes present Government policy with respect to uranium sales to India:

> The Australian Government's policy remains that Australia will supply **uranium** only to those countries that are parties to the Treaty on the Non-Proliferation of Nuclear Weapons (NPT), and with which Australia has a bilateral safeguards agreement. Nor will Australia supply nuclear-related dual-use items to non-NPT parties for use in civil nuclear programs. India is not a party to the NPT. The Australian Government supported both India's recently concluded safeguards agreement with the International Atomic Energy Agency (IAEA) and a consensus decision by the Nuclear Suppliers Group (NSG) to adopt a statement on civil nuclear cooperation with India, enabling civil nuclear supply to India by those NSG Participating Governments that choose to do so. In forming Australia's position, the Government took into account non-proliferation considerations and the strategic importance of the issue for India and the United States.[28]

Agriculture

3.28 Australia's agriculture trade with India is considerably more limited than its energy and minerals trade. For example, Western Australia's agrifood exports to India have remained static over the last five years, totalling AUD$61 million.[29] This may be due, in part, to India's own increasing level of agriculture exports. The

28 DFAT, *Supplementary Submission No 21a,* p. 9

29 Department of Industry and Resources, Government of Western Australia, *Submission No. 25, Sub. Vol. 1*, p. 221.

Committee was advised that, in recent years, Indian agriculture exports have grown at a rate of 16 per cent and that the Indian government is "very enthusiastic" about the prospect for further growth.[30]

3.29 Another possible explanation for the limited level of agriculture trade between India and Australia may be found in India's response to the Doha round of WTO negotiations. Professor Jha from the Australian National University, told the Committee that poor rural farmers in India, with no access to credit, would be particularly vulnerable to a more liberalised agriculture trading regime:

> … any sharp changes in the terms of trade of agriculture would mean a drastic increase in the vulnerability of poor households [in India]. No democratic government—and you know India is a democracy—would be willing to countenance that.[31]

3.30 Despite the relatively limited level of agricultural trade between the two countries, Australia continues to export a range of agricultural products to India, which include:

- grains;
- field peas;
- canola;
- oilseeds;
- fresh fruits and vegetables;
- processed food; and
- wool.[32]

3.31 Furthermore, the Committee received evidence noting a variety of opportunities for Australian agriculture exports to India, which will be dealt with separately in Chapter 5.

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30 Australia South Asia Research Centre, ANU, *Submission No. 5, Sub. Vol. 1,* p. 29.

31 Professor Raghbendra Jha, *Transcript 20 September 2006*, p. 7.

32 Department of Industry and Resources, Government of Western Australia, *Submission No. 25, Sub. Vol. 1*, p. 221.