



**Australian Services
Roundtable**

**Submission to the Joint Standing Committee
on
Foreign Affairs Defence and Trade**

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

**Market access constraints affecting
Australia's services exports to India**

(The Australian Services Roundtable (ASR) prepared this Submission in consultation with members of the National ICT Industry Alliance (NICTIA). Specific input or commentary was provided by the Australian Telecommunications User Group (ATUG); the Australian Electrical and Electronic Manufacturers Association (AEEMA); the Australian Computer Society (ACS); the Australian Communications Industry Forum (ACIF); Telstra Corporation; Woodhead International; The Cox Group (Architects); Insurance Australia Group (IAG); the Australian Financial Markets Association (AFMA), the South Australian Department of Trade and Economic Development and the Global Services Coalition.

**www.servicesaustralia.org.au
www.nictia.org.au**

10 July 2006

1. Introduction to the Australian Services Roundtable

The Australian Services Roundtable is the peak business body for the services industries in Australia.

Sectors represented include financial services, professional services (accounting, legal, engineering, architectural), health, education, environmental services, energy services, logistics, tourism, information technology, telecommunications, transport and distribution, standards and conformance assessment services, audio-visual, media, entertainment, cultural and other business services.

A key characteristic of all developed countries in the modern world is a *high* and *growing* share of services within the overall economy. It is inconceivable that Australia could defy this trend. Already, the services sector accounts for the vast bulk of Australia's GDP and as much as 81 percent of Australian employment. Australia has become predominantly a services economy.

The next major challenge we face is to globalise our services sector, to increase its efficiency and competitiveness, and to develop far stronger and sustainable export revenues from this sector. Without sustained and substantial growth in our services trade we cannot aspire to maintain our current global economic ranking.

But Australian services industries face unprecedented challenges in the domestic and international business environment.

In the policy arena, their dominant contribution to national employment and the balance of payments continues to be insufficiently acknowledged both by government and by industry. Our national approach to services industry policy - under the headings of trade and industry development, competition, investment, immigration, education and training, and taxation - tends to be fragmented and unfocussed. The potential consequences of this are serious, whether it be a failure to implement needed domestic reform or to fully exploit opportunities offered by international trade negotiations.

In the wider world there is a major task ahead to market Australia as a source of highly competitive services. Our national strengths in other sectors do distract attention from the competitive services exports we have to

offer. The fact that we are a small, very open economy with a volatile currency strongly influenced by commodity prices, also poses an extra level of complexity in management of services exports.

Several key services sectors are under-developed, posing longer-term threats to balanced growth. Deficiencies in appropriate infrastructure and resources for services industries are partly the cause of this, and require concerted attention by government and business.

The rapid advancement of technology, and new business processes and structures to exploit it, are key drivers of change in services industries globally. Educational advancement in the developing world is another. The potential for transformation of services industries within current business planning horizons is substantial. The implications of this for Australian business need to be much better understood.

Services matter, not just in their own right, but also because they are pervasive. Best practice in provision of services in Australia will contribute undoubtedly to international competitiveness in all other sectors of the economy.

The Australian Services Roundtable is determined to re-map public understanding of the Australian economy, to take greater account of the contribution of the services sector and to raise awareness of the need for change in our services business environment.

For Australia to prosper in today's advanced global services markets, it is essential that our services industries be effective competitors at home and abroad, and recognised as such.

The Australian Services Roundtable seeks to achieve this outcome by creating a better business environment for services at home and abroad.

One of our key objectives is to identify the domestic regulatory obstacles to international competitiveness and to promote the need for domestic policy reform to enhance our export prospects and performance. We are strongly oriented to contributing to strategies for negotiating services trade and investment issues in the World Trade Organisation, in APEC, in bilateral Free Trade Agreements, and in other bilateral and regional arrangements under consideration.

The Australian Services Roundtable is a member of the Global Services Coalition. The membership of this Coalition is growing rapidly as the services sector mobilises and services industry groupings emerge in a broader range of countries; the Indian business grouping NASSCOM (which includes a large part of the Indian IT and business process outsourcing sector), for example, has recently joined this Coalition. The core membership consists of the United States Coalition of Services Industries, the European Services Forum, the Hong Kong Services Industry Coalition, the Australian Services Roundtable and the Japanese Services Group of Keidanren.

In the ICT sector, the Australian Services Roundtable is working closely with members of the National ICT Industry Alliance on international trade policy issues affecting the Australian ICT sector.

2. The National ICT Industry Alliance

The National ICT Industry Alliance, formed in January 2001, is a forum where leading industry organisations representing the Australian information and communication technology (ICT) industries and the interests of ICT professionals can meet, as required, to exchange views and discuss initiatives to advance industry promotion and development. The Alliance has no permanent staff or corporate assets and operates under the voluntary effort and chair of members. The National ICT Industry Alliance membership includes the major ICT industry associations and has recently been expanded to include the principal ICT R&D institutions including CSIRO. Current industry membership is set out in Appendix B.

The Alliance mechanism has provided an excellent forum for sharing information, arranging government briefings and to discuss key issues of concern to the industry. The Alliance exercises its influence through better coordination of industry programs undertaken by its members, rather than direct lobbying or the branding of particular programs. Members exchange priorities and ideas and lend support to the initiatives of other members where a common interest is evident. That support can take the form of logo endorsement or the pursuit of joint activities where appropriate. There are a number of policy areas where there is an evident common interest among the members and the potential to strengthen the communication channel to

governments and the community through collaborative programs. These include;

- The gathering and publication of industry information and statistics,
- Research and publication of data that measures the contribution of the ICT industries to national social and economic development,
- The support of education and skills programs to support industry development,
- The encouragement of innovation, R&D through:
 - Support of institutional basic research programs,
 - Recognition and reward for institutional and corporate R&D and commercialization, and
 - Protection of intellectual property rights, including software and content in the online environment.
- Promotion of Australia's business, institutional and residential use of the Internet and online services, through:
 - Ready access to affordable and reliable telecommunications services, including broadband,
 - The promotion of a secure and trusted online framework for the conduct of e-business and individual online access,
 - Effective competition among service providers, and
 - The support of local online content development and distribution.
- The support of investment and entrepreneurship through appropriate taxation policies,
- Encouraging international companies to locate major facilities and headquarters operations in Australia.

The National ICT Alliance seeks to foster communication and cooperation with related organisations that may operate within state boundaries or other jurisdictions and that share the common interests identified above.

3. Australian services exports are more significant than realised

In considering any international trade issue affecting the services sector, it is important to understand some of the conceptual differences between trade in Goods and trade in Services. In particular, Services are traded internationally via four separate modes of delivery.

- **Mode 1: Cross-border supply** is defined to cover services flows from the territory of one country (the exporter) into the territory of another (e.g. banking or architectural services transmitted via telecommunications or e-mail);
- **Mode 2: Consumption abroad** refers to situations where a services consumer (e.g. a tourist, student or medical patient) travels temporarily into another country's territory (that of the exporter) to obtain a service abroad;
- **Mode 3: Commercial presence** takes place where a services supplier of one country (the exporter) establishes a local presence, including through ownership or lease of premises, in another country's territory to provide a service in that market (e.g. domestic subsidiaries of foreign insurance companies or hotel chains); and
- **Mode 4: Movement of natural persons** consists of services providers of one country (the exporter) travelling temporarily to the territory of another country to supply a service (e.g. accountants, lawyers, doctors, teachers).

It is clear from the description above of Mode 3 that Australian exports of services and Australian investment offshore in a services sector are very closely related and can be, in effect, one and the same.

When an Australian architectural firm opens an office in India, for example, that firm is establishing a commercial presence in order to facilitate its provision of services into the Indian market. This activity may be picked up and measured and described as investment but conceptually, from an international trade policy and trade law perspective, this activity constitutes services export activity. The design work which then takes place collaboratively between head office in Australia and the office in India and delivered to Indian clients is generally then traded across the border (Mode 1) by way of telecommunications links. Mode 4 comes into effect when individual architects travel to India to service clients and Mode 2 takes place when Indian clients visit the head office in Australia.

Australia's services exports have been growing, from a small base, faster than any other Australian export item. The balance of payments now records services exports as roughly on a par with manufactures exports, both doing marginally better than agricultural exports, at roughly 23 percent of total exports each. But for the conceptual reasons outlined above, the balance of payments is known to be a very poor measure of total services

exports. **All around the world, the extent of services exports are seriously underestimated.** In 2005, the Australian Bureau of Statistics devised its first ever initial estimate of Mode 3 services exports, based on surveys of 100 percent owned Australian firms with affiliates offshore. This initial work, itself known to be a significant underestimate, showed that the balance of payments data is only picking up around a third at most of what is actually going on in terms of services exports, especially in sectors such as financial services and professional services.

4. Barriers to Trade in Services

The nature of the barriers to international trade in services are fundamentally different from the barriers to international trade in goods. The barriers have nothing whatsoever to do, for example, with tariffs or quotas. This is because trade in services is often about people movement (modes 2 and 4) and establishment (mode 3) inside the export market. It is also because traditional “cross-border” trade (mode 1), where it is feasible, generally takes place via telecommunications links. Services industries also tend, either because of a history of public monopoly/government ownership and control, or for other public interest reasons, to be relatively highly regulated. It is chiefly the nature and structure of these domestic regulations which determine – and limit – the extent of foreign access to services markets. The barriers to trade in services are often described, therefore, as barriers which exist ‘beyond’ or ‘behind’ the border’.

Many potential Australian services exports into India are affected by an array of ‘beyond the border’ administrative and regulatory barriers of varying degrees of transparency/opaqueness. This submission focuses below on certain barriers currently affecting two key infrastructural services industries. We wish also however to draw attention to the existence in India of a variety of technical (ie non-tariff) barriers which impact negatively on many Australian *goods* exports to India including, importantly, electronics products. These barriers include non-recognition of international standards, lack of transparency and openness in domestic standardization processes and unnecessarily burdensome and duplicative conformity assessment procedures. It should be noted that electronics products, like many other products, are often so closely bundled with services that the trade barriers they face are very relevant to the Australian Services Roundtable membership, including of course the Australian standards and conformity assessment services industry.

5. Australia's Services Exports to India

Overall bilateral trade with India is currently dominated by manufactures. Over the past five years, Australian exports to India have grown faster than those to any other of Australia's other top 30 markets, reaching just under \$7 billion in 2005, making India our sixth largest merchandise export market.

Bilateral trade in services has also been growing very rapidly from a low base. Indeed the volume of two way bilateral trade in services has doubled over the last decade. Much of this recent growth has been to India's apparent export advantage, including as a result of a growing trend to offshoring of ICT enabled services activities and business processes to lower cost destinations such as India. (Australia's ICT professionals now detect a potential for new global opportunities arising for Australian exports of high value-added ICT enabled services – we therefore take the opportunity of this submission to draw the Committee's attention to these new possibilities in Appendix D.)

Although Australia's services exports to India are still well under \$1 billion (at \$852m in 2004-5), they have also been growing very rapidly. Services exports grew by 39 percent in 2005 alone - and the potential for further growth remains significant. Australia has also become India's eighth largest source of foreign investment. And India is Australia's second largest source country for international students, with Indian student numbers in Australia growing by about 35 percent over 2002-2005. Collaborative and export opportunities to India have also been identified for Australian firms in productised applications in electronics governance, security, health (tele-medicine) and accounting.

For the sake of simplicity, this submission focuses on two particular services export issues only, namely constraints faced by potential Australian services exporters in the financial services (insurance) sector and constraints faced by potential Australian services exporters in telecommunications services.

Both financial services and telecommunications services are commonly described as 'infrastructural' services in that they provide critical infrastructure across the entire economy and hence facilitate development of 'user' industries in other sectors as well. These services, along with transport and logistics services are essential infrastructural components also

of international trade, in agriculture, manufactures and of course other services. The availability of world competitive financial services and telecommunications services is, in particular, essential in 'enabling' the growth and development of many other services industries.

This submission argues that potential Australian services exporters and investors are currently prejudiced by significant barriers to the Indian market in both financial and telecommunications services. The barriers in these sectors is impacting negatively also on potential Australian exporters, many of them at the small and medium end, in a variety of other services sub sectors including for example professional and other business services.

This submission takes as a sample case study the Australian architectural services industry, an industry which is significantly 'enabled', including in cross border trade, by modern telecommunications services.

It is important to note that in the bulk of the services sectors, Indian services providers enjoy much more open access to the Australian services market than vice versa. This is true not only in financial services and in telecommunications but in a wide range of other services sub sectors, including professional services. While the negotiating details remain confidential, India is reported not to have made an offer on services in the Doha Round which would provide commercially meaningful benefits for Australian services firms. There is no question, therefore, that Australian firms do not enjoy the same reciprocal access in India that Indian services providers enjoy in the Australian market.

6. Constraints affecting ICT and hence ICT enabled services exports to India

In 1994, India opened its telecommunications sector to allow up to 49 percent foreign equity in domestic telecommunications services suppliers. In the late 1990s, 100 percent foreign ownership was permitted for internet services providers (ISPs) and 75 percent for ISPs that operate their own international gateway. However, a number of domestic regulatory and administrative barriers operated to constrain foreign participation in the market, such as high license fees, stringent retail price controls (often setting floor prices too high to be affordable), requirements for senior positions to be held by Indian nationals, and high capital investment requirements. The

business scope for ISP licensees in particular was cut back in late 2003 to exclude Internet Protocol Virtual Private Networks ('IP-VPNs'), unless the ISPs paid exorbitant licence and turnover tax fees.

In November 2005 a number of reforms were introduced to the Indian telecommunications sector. The foreign equity cap was raised in several key areas of telecommunications business from 49 percent to 74 percent and, of particular relevance for the purposes of this submission, in December 2005 the Indian Department of Telecommunications issued new guidelines for the granting of International Long Distance (ILD) licenses. The new licensing requirements remain onerous. Constraints are imposed on licensees, ostensibly for national security and law enforcement purposes, such as restrictions on the transfer for accounting, user and network information outside India, restrictions on the international transit routing of domestic India traffic and restrictions on remote access for maintenance/repairs from outside India. This overall set of restrictions in effect make it impossible for any Australian telecommunications services supplier to take up the opportunity of an ILD license.

Without an ILD license in India, Australian telecoms suppliers can not compete to provide customers in India (including Australian exporters in other sectors – such as architecture - with commercial presence in India) with international connectivity to their Australian network facilities, nor provide direct supply, through their Australian networks, of IP-VPN services. Indian owned networks within India, meanwhile, can not necessarily guarantee appropriate quality or availability, impeding as a result the potential use by Australian firms with commercial presence in India (for example Australian architectural services suppliers) of dedicated IP-VPN facilities.

These same restrictions on ILD licensing also prevent other Australia-based firms outsourcing back office functions to India via any Australian owned networks. Australian telecoms suppliers meanwhile face stiff charges from Indian networks for access to Indian end half circuits.

Business outsourcing (a major growth business) therefore tends to take place using only Indian owned facilities. Indian services providers meanwhile face no such constraints in the Australian market, and are readily able to compete locally with Australian telecoms suppliers by acquiring distant end Australian half circuits and local loops.

Following lobbying by international business groups, the Indian Government announced in March 2006 a four month stay on these ILD conditions until July 2006, which has now been extended a further three months until October 2006. The Australian Services Roundtable, like other members of the Global Services Coalition would also like to see a revised offer on services from India which will commit in all sectors to higher levels of foreign investment restrictions. Currently India is committed, in the WTO, to a more restrictive investment regime for telecommunications than is current practice, ie to a foreign equity cap of only 25 percent, thereby still retaining policy flexibility to reduce the cap at a future date. Foreign services providers, including Australian services providers are reluctant to invest in countries that have not only liberalized but also confirmed that liberalization via WTO commitments.

Case study on the price impact of the ICT constraints on ICT-enabled services exports to India ; Architectural Services

Architectural firms are intensive users of information and communications technology. Architectural, like engineering practices, use Computer Aided Design software, which historically was standalone on single PCs but increasingly has become networked within offices and between offices to allow for collaborative work by many designers on the one structure / device.

A representative survey of Australian Services Roundtable members shows that most architectural offices in Australia use dedicated IP-VPN services. For an Australia-based architectural office to work effectively with its India-based office, or collaborate with joint venture partners in India, the generally preferred current telecommunications requirements would be a minimum clear bandwidth of 2 Megabits per second ('Mbps') and a latency maximum of 160 milliseconds ('ms') with a jitter of + or - 5 ms. The available software and hardware has come a long way for use by design professions; it now allows real time views of material such as plans, models in hard copy or screen shots, plus view back to members of the conference. Architectural users expect that within say 2-3 years it will be affordable and easy to use. Within 5 years most Australian architectural firms will probably therefore engage in collaborative work on CAD across international offices and utilise video conferencing on a daily basis with overseas clients and projects. This

could increase their bandwidth requirements considerably, possibly up to around 45 Mbps.

We set out, with assistance from Telstra Corporation, to compare the cost to an Australian architectural firm of establishing this basic capability from Australia into India, using an Australian services provider, compared with establishing that same basic capability from Australia into a liberalized regulatory environment such as Hong Kong, where many Australian architectural firms also have established offices.

The results of this comparative pricing analysis show that for a set-up of 2 Mbps from Sydney, the cost of initial set-up of each customer service to India is around **four times** that for the equivalent set-up cost of each customer service set-up to Hong Kong. The monthly cost for each 2Mbps service to India is **more than double** that for the equivalent to Hong Kong.

Looking at the likelihood of an architectural firm requiring in due course a considerably enhanced telecommunications link of say 45 Mbps, to allow simultaneous multi-destination videoconferencing and collaborative CAD, the cost of initial set-up of each customer service into India is around **three times** that for the equivalent into Hong Kong. The monthly cost for each 45 Mbps customer service to India is **more than two and a half times** that for the equivalent into Hong Kong.

The price difference in both cases results from the high cost of the India bilateral half-circuit and the local tail on the India side. The actual price difference for the existing requirement of 2 Mbps might not be significant enough to affect an Australian architectural firm's decision to set up shop in India or not, but it certainly does diminish the business case materially.

As more bandwidth intensive applications are used in the future, so the price difference would escalate -- if Australian architects begin using CAD between offices in real time together with simultaneous videoconferencing (for example on a Microsoft Live! platform) then 2 Mbps will not be enough. The price difference for 45 Mbps could certainly prove prohibitive in India compared for example with Hong Kong.

Meanwhile, Indian firms readily operate in the Australian market without these discriminatory price handicaps resulting from unconstrained monopoly pricing by incumbent suppliers. Australian capital city CBDs are serviced

by numerous competing telecommunications suppliers, usually with their own infrastructure. There are numerous major undersea cables to Australia, owned by competing consortia. Every major international corporate telecommunications supplier, from AT&T to BT to France Telecom, competes vigorously in the Australian market – to the ultimate benefit of the Australian economy and Australian consumers. An Indian supplier operating in Australia has the opportunity to bargain amongst these competitors for the best deal possible.

We have taken architecture as our case study. But the same considerations are impacting negatively on ICT-enabled services export of all kinds into the Indian market. Initiatives such as distance education and collaboration in R & D services or provision of logistics services are similarly made more expensive by the current inability of Australian services providers to access competitive market-priced telecoms links into India.

On July 5 2006, the United States Coalition of Services Industries (CSI) released a study, “Making the Most of the Doha Opportunity: Benefits from Services Liberalization,” which is available on the CSI website at http://www.uscsi.org/services_study/. This report shows that “In every country that has liberalised its telecommunications sector, the number of users has grown, prices have fallen, and employment in the industry has expanded.” In India the study shows that ICT-enabled services alone are already estimated to employ up to 3.3 million people by 2015. Further liberalisation of the telecommunications market would be likely to further increase local employment in ICT-enabled industries.

The USCSI study also shows that India’s cost of internal transport is nearly double the global average. India could realize significant additional annual growth if it modernized its transport, express delivery and supply chain management services with the help of foreign, including Australian investors.

Everything noted above with respect to potential Australian exports of architectural services to India also applies similarly to potential Australian exports of financial services to India. Banking, insurance and securities services (especially e-finance) are all major telecommunications user industries and highly dependent, in cross border trade, on access to efficient telecommunications services. But in this submission we wish to draw special attention to another quite different constraint to financial services

(insurance) exports to India, namely the current foreign equity cap.

7. Constraints affecting exports of insurance services to India

India's overall investment regime is relatively restrictive to foreigners. In some sectors of industry, investment caps operate to restrict foreign ownership to well below 49 percent. India opened up the insurance sector to foreign investment in 2000 but still maintains a 26 percent cap on foreign equity in insurance. Along with other members of the Global Services Coalition, the Australian Services Roundtable wrote to the Indian Government last year to urge an increase in the FDI cap on insurance to 49 percent, for example as part of India's offer on services in the Doha round of WTO negotiations.

In his 2004-05 Budget Speech, the Indian Finance Minister announced that the FDI limit in insurance would indeed be raised to 49%. The Indian Insurance Regulatory and Development Authority (IRDA) has also publically supported an increase in the FDI cap on insurance to 49%. But the promised reforms have yet to be realised.

Since 2000, a variety of foreign insurers and insurance intermediaries have invested significantly in India's capital markets and there has been remarkable consequent growth in the sector with room for considerable further expansion. There is strong potential interest in the market from Australian insurance providers. An increase in the equity cap would encourage further foreign capital infusion, including via commercial presence from Australia.

As the Global Services Coalition has pointed out to the Indian Government, the benefits for India would also of course be significant. Since 2000 over 700,000 new Indian jobs/opportunities have been created directly and indirectly in the sector. This level is expected to increase to 1 million by 2006-2007 and to 1.5 million over the next 2-3 years if the FDI cap is raised to 49%. Foreign insurers have also brought a substantial number of new and innovative insurance products and services to Indian consumers; they share global best practices, management skills and product development know-how with local partners. Insurers typically invest a large percentage of their premium income in the domestic economy of the country where they are situated and are therefore among the largest global contributors to investment in infrastructure projects and in debt and equity markets.

From 2004-05 to 2005-06, private companies increased their market share in the Indian insurance sector from 20.29 per cent to 26.63 per cent. If added investment were permitted, there would certainly be scope for further market expansion. Despite its current growth, India's insurance market lags behind other economies in the baseline measure of insurance penetration. At only 2.8%, India is well behind the 13% for the UK, 11% for Japan, 10% for Korea, and 9.6% for the US. In view of both the dramatic demographic shifts and the commercial expansion now taking place in India, it is clear that the insurance industry will need to play an increasingly critical role in the future, in both the life/pensions and non-life sectors. Australian firms want to be part of this process.

Currently of the Rs.3,179 crore capitalization of private life insurance companies only Rs.827 crore is FDI. With the increase in the equity limit, many more foreign insurers, including Australian insurers, would be interested in entering the market, resulting in further expansion of the life insurance market along with offering a wider choice of products and services to the Indian consumer.

8. Conclusions

The relative share of services in Australia's total exports to India is well below our global average, reflecting at least in part the extent of the barriers we face in Indian services markets.

There is a very strong case for the Australian Government to work more closely with Australian services providers to lobby the Indian Government intensely in favour of more rapid reform across all the services sectors, including the key infrastructural services sectors such as telecommunications and financial services.

The current Doha Round of WTO negotiations provides a critical opportunity. So does the closer bilateral engagement now realized under the new bilateral Framework for Trade and Economic Cooperation.

Australian telecommunications providers currently have in effect no opportunity to compete in the Indian market. By comparison, Indian suppliers face relatively few regulatory barriers in Australia.

If the current telecommunications regulatory environment in India was liberalized, a wide variety of ICT-enabled Australian services exporters to India would be likely also to experience a significant cost reduction and hence be likely to do significantly better in the Indian market.

There is strong foreign interest in the growing Indian market for insurance services. But the foreign equity cap of 25 percent is a very significant barrier to entry. Australian industry has taken a lead, with other overseas industry groups, in seeking reform in this sector. The Australian Government should match that effort.

Appendix A; Australian Services Roundtable membership

Level 3 Gold Sponsors

- Qantas Airways
- South Australian Department of Trade and Economic Development

Level 2 Silver Sponsors

- Australian Insurance Group
- Corrs Chambers Westgarth
- IBM Australia
- Institute of Chartered Accountants in Australia
- Minter Ellison
- National Australia Bank
- SAI Global

Level 1 Members

- Australian Bankers Association
- Australian Communication Industry Forum
- Australian Computer Society
- Australian Telecommunications Users Group
- Business Council of Australia
- CPA Australia
- Engineers Australia
- Australian Financial Markets Association
- Investment and Financial Services Association
- Royal Australian Institute of Architects
- Abbott Tout Solicitors
- The Allen Consulting Group
- Australia Council for the Arts
- Australian Film Commission
- ANZ Banking Group
- Australian National University
- Centre for International Economics
- The Cox Group, Architects
- Design Inc.
- Division of Humanities, Macquarie University
- Gavin Anderson and Company
- Hassell Pty Ltd
- Hunt & Hunt
- University of Adelaide
- Macquarie Telecommunications
- Mallesons Stephen Jacques

- News Limited
- Riotinto Ltd
- Trade and Environment Solutions Pty Ltd
- Woodhead International
- Worley Parsons Pty Ltd
- Division of Mathematics & IT, CSIRO
- Cardno ACIL
- Victorian Dept of Innovation, Industry and Regional Development

Associate and Individual Members

- Association of Consulting Engineers
- Australian Electrical and Electronic Manufacturers Association
- Interactive Entertainment Industry Association of Australia
- Australia and New Zealand Institute of Insurance and Finance
- Australian Tourism Export Council
- Conformance and Standards Assessment Services Pty Ltd
- Environment Business Australia
- Free TV Australia
- Graeme Thomson & Associates
- Hawker Britton
- IDP Education Australia
- Law Council of Australia
- Media, Entertainment and Arts Alliance
- Music Council of Australia
- Northcote Management Pty Ltd
- Service Providers Industry Association
- Standards Australia
- Stanley Street Pty Ltd
- Louise Cox, Architect
- Dr. Philippa Dee
- Professor Christopher Findlay
- Judith King

Reciprocal Members

- International Chamber of Commerce, Australia
- Internet Society of Australia
- Law Institute of Victoria
- Australia/China Business Council NSW
- Australia India Business Council
- Professions Australia

Appendix B; National ICT Industry Alliance industry membership

- Australian Communications Industry Forum (ACIF)
- Australian Computer Society (ACS)
- Australian Electrical and Electronic Manufacturers' Association (AEEMA)
- Australian Information Industry Association (AIIA)
- Australian Interactive Media Industry Association (AIMIA)
- Australian Mobile Telecommunication Association (AMTA)
- Australian Telecommunications Users Group (ATUG)
- Telecommunications Society of Australia (TSA)
- Females in IT
- Internet Industry Association
- Internet Society of Australia
- National Electrical and Communications Association (NECA)
- Service Providers Association Inc (SPAN)
- Small Business Telecommunications Centre Limited (SETEL)
- Smartcard and Information Security Australia Association (SISAA)
- Standards Australia
- Telecommunications & Disability Consumer Representation (TEDICORE)
- TeleConnections

Appendix C; Global Services Coalition Letter to the Indian Finance Minister

July 27, 2005

Mr. Kamal Nath
Minister of Commerce
Ministry of Commerce and Industry
Room Number 146
Udyog Bhawan
New Delhi – 110011
India

Dear Minister Nath:

On behalf of the undersigned companies and associations, many of which have substantial investments in India, we wish to express our serious concern that the cap on foreign equity in the insurance sector will not be raised to 49% as supported by IRDA and the Finance Minister. We are particularly concerned that India may decide to lock in the unacceptably low existing percentage of 26% in its revised WTO services offer.

We have seen remarkable growth in India's insurance sector since its opening up in 2000, including the creation of over one million jobs (including direct and indirect employment in insurance companies and the business process outsourcing industry (BPO)). Clearly there is room for further growth, which can be fostered, in part, by raising the current foreign equity ceiling.

The Insurance Regulatory and Development Authority (IRDA) and the Finance Minister both support the increase of the foreign direct investment (FDI) cap from 26% to 49%. This would be a significant step towards the freedom from restrictions that foreign direct investors in the insurance sector would, ultimately, prefer. In fact the 2004–05 budget of the Congress Party committed that the FDI limit in insurance would be raised to 49% from the existing 26%. We are confident that raising foreign direct investment in the insurance sector will be good for consumers, the entire insurance industry, and India's economy.

Foreign insurers and insurance intermediaries have already invested significantly in India's capital markets and contributed to the country's infrastructure development. Given demographic shifts in India, the increase in urbanization and rapid industrialization, significant long-term capital for infrastructure projects will be needed. Insurance companies by their nature and by regulatory direction invest in long-term financial assets. Raising the equity cap in the insurance sector will encourage further foreign capital infusion and lead to faster capital market development.

Current IRDA regulations require the actual or available solvency margin of 1.5 times the required solvency margin for life insurers, which requires the local partner to

continuously expand its equity base as the business grows. Raising the equity cap would assist the local joint venture partners in meeting their ongoing capitalization requirements, allowing their local partners to invest in other areas.

Indian insurance companies have come of age and now compete against multinational companies worldwide. They have come to expect and receive substantially better treatment overseas. While India restricts branches and reinsurance, the Life Insurance Corporation of India (LIC), has overseas branches in the UK, Mauritius and Fiji as well as a subsidiary in Bahrain and also recently announced its entry into the Saudi Arabian market. The General Insurance Corporation of India (GIC) has reinsurance operations in South East Asia, Middle East, and Africa primarily on a cross border basis, while foreign providers are restricted from offering similar lines. New India Assurance has operations in 23 countries worldwide and 18 of those are branches.

We trust you will consider the factors favorably and take steps to amend the legislation towards increasing the FDI cap to 49% as per the commitments made by your government. This will cover both insurers and insurance intermediaries. Studies have shown that the incremental FDI from existing players will be at least US\$ 500 million, with several new players bringing in additional FDI if the cap is raised. Foreign insurers and intermediaries are committed to a long-term engagement in the Indian economy and playing an essential role in financing India's economic development.

Thank you for your consideration of our views and recommendations.

Sincerely,

ACE INA

American Council on Life Insurers
American Insurance Association
American International Group, Inc.
Association of British Insurers
Australian Services Roundtable
Canadian Life and Health Insurance
Association
Comité Européen des Assurances
Council of Insurance Agents and
Brokers, The
Coalition of Service Industries (U.S.)
European Services Forum

Fédération Française des Sociétés
d'Assurance
Financial Leaders Group, The
General Insurance Association of Japan,
The
International Financial Services London
MetLife
New York Life
Principal International, Inc.
Sun Life Financial
U.S. India Business Council
World Federation of Insurance
Intermediaries

cc: Mr. Palaniappan Chidambaram, Minister of Finance
Mr. Montek Singh Ahluwalia, Deputy Chairman Planning Commission

Appendix D; Emerging ICT sector “Offshoring” opportunities for Australia

Offshoring strategies came to prominence in the late 1980s when a number of multinationals began setting up ICT systems maintenance and development centres in low cost locations such as Mumbai and Bangalore in India. Many Indian offshoring ICT service providers (eg Tata, Infosys, etc) emerged to take advantage of this phenomenon and commenced outsourcing ICT enabled service activities and business processes, particularly those that were highly labour intensive. Many Australian based companies have taken the opportunity to outsource such services to offshore locations such as India.

Based on initial positive experiences in outsourcing low level business processes, firms in banking, insurance, financial services, accounts management and economic analysis are also beginning to outsource their high value add, high skill, analysis functions. These ICT enabled analytics functions are knowledge based activities requiring the use of sophisticated ICT platforms for data manipulation and analysis using highly skilled staff.

The general trend to offshore these services and functions is unmistakable and predictions are that whole service areas in media analysis, financial services, editing, architectural services, legal advice and even certain public services will be part of the next outsourcing wave.

Australia cannot match the labour costs offered by low cost destinations such as India. On the other hand, the Indian offshoring industry is experiencing significant impediments to its growth in the area of ICT enabled analytics due to

- Shortages of appropriately skilled staff;
- Lack of dependable infrastructure;
- Lack of transparency and regulatory and corporate governance concerns on the part of trading partners
- Concerns over confidential data protection, privacy and IP theft;
- Lack of multi lingual and multi cultural capabilities.

Meanwhile, Australia, as a medium cost destination, with a sophisticated financial services sector, highly skilled workforce, transparent legal and

corporate governance systems, is relatively well suited to take advantage of this impending wave of knowledge based ICT enabled analytics outsourcing. Australia currently has an opportunity to become a destination of choice as a global partner for knowledge based ICT enabled analytics services.

Research undertaken by the Australian Computer Society has identified four main areas suitable for onshoring to Australia over the next 3 to 5 years. The areas identified include;

Financial services

- Actuarial and insurance services
- Equity markets and mergers and acquisitions
- Credit research services
- Retail banking
- Branch location and closure analysis

Strategic business intelligence and research

Risk and quality management

- Business continuity planning
- ICT governance and compliance
- Quality management

Research and development

- ICT product design and development
- Customised research
- Clinical testing and global central reference labs

Australia's ICT professionals have identified these emerging export opportunities, including in partnership with current Indian competitors. Harnessing these opportunities will require deliberate and strategic Federal Government leadership.