CME

24 September 2014

Committee Secretary
Joint Standing Committee on Treaties
PO Box 6021
Parliament House
Canberra ACT 2600

Dear Committee Secretary

CME response to questions taken on notice

This letter outlines responses to questions taken on notice from CME during the Joint Standing Committee on Treaties public hearing on the Japan-Australia Economic Partnership Agreement (the Agreement) in Perth on 16 June 2014.

Benefits of liberalising trade

While Japan accounts for around one-fifth of both Australia's and WA's merchandise exports, Australia accounts for only 2.5% of Japanese exports. Based on these volumes, trade and investment liberalisation under the Agreement should be more significant to Australia than Japan across a range of measures such as domestic productivity, import and export opportunities, jobs, and real wage growth.

Japan's commitments are the most liberalising it has negotiated to date with its trading partners – a high benchmark that other negotiators will look to push higher over time.

Measures have been agreed to promote stable supplies of resources and energy consistent with Australia's market-driven approach; the investment environment will be liberalised and additional protections put in place; a consultation mechanism; and a review mechanism. These are all positive for the resources sector.

Investment in the Western Australian resource sector

While there has been long term investment by Japan into the WA resources sector, the Agreement will further reinforce to Japanese investors Australia is an attractive investment destination.

Japan is Western Australia's second largest export market, accounting for 18% of the State's total exports. The value of Western Australia's exports to Japan rose 5% ($1 billion) in 2013 to $22.8 billion. The top 5 exports are listed below.

Western Australia's export items to Japan - 2013

Trade items	*$ billion*	*% share*
Confidential trade (inc. LNG, nickel, heavy mineral sand, barley and oats)	11.5	50.1
Iron ore	9.5	41.6
Liquefied propane and butane	0.5	2.0
Crude petroleum	0.4	1.8
Others	1.0	4.5
TOTAL	**22.8**	**100.0**

It is difficult to quantify what the Agreement will mean for trade figures both in terms of imports and exports for Australia without detailed modelling being undertaken. It is clear given the significance of resources product in the top listed exports, resources trade will benefit.

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Even where products currently enter duty free such as many resources commodities, the Agreement should have a positive impact by creating a more favourable climate for trade. This is important given a number of competitors such as ASEAN, Chile, India, Mexico and Peru already have free trade agreements or economic partnership agreements with Japan.

As well as the Agreement noting tariffs will be eliminated on all resources products over 10 years and many on entry into force, Chapter 8 specifically declares parties shall 'promote cooperation for strengthening stable and mutually beneficial relationships'.

The Agreement may also encourage more competitively priced imports of some items used by the resources industry, especially capital equipment. These reductions would benefit the Australian minerals and energy industry as success and profits in exporting depends on being an efficient importer of inputs to production.

Financial contributions to state and federal governments

Resources sector companies substantially contribute to both state and federal government revenue through a variety of payments, fees and levies; most significantly through corporate and resources tax revenues.

Royalty payments to Western Australia reached a record $6.98 billion in 2013-14, up 33% from the prior year and well above the forecast $5.8 billion in the May budget estimates. This equates to 25% of the Western Australian budget for 2013-14, a significant increase from royalties contributing only 5% of the budget 10 years prior in 2003-04.

This amount does not take into account the additional $1.05 billion revenue provided by way of North West Shelf grants returned by the Australian government to Western Australia.

According to a recent Deloitte Access Economic report[1], the minerals sector made $11.9 billion in federal company tax payments, $573 million in payments related to carbon pricing and $170 million paid under the mineral resource rent tax in 2013-14.

Additionally, Australian Petroleum Production Exploration Association (APPEA) estimates in 2011-12 the petroleum industry paid $4.8 billion in corporate taxes and $4 billion in production taxes. Receipts received under the petroleum resource rent tax will increase in the coming years as LNG plants reach their operational phase. By 2020, APPEA forecasts that the petroleum sector tax payments will reach $12.8 billion.

We appreciate the opportunity to provide further comment to the Committee. Should you have any questions regarding the above, please contact Shannon Burdeu on 08 9220 8514 or s.burdeu@cmewa.com.

Yours sincerely,

Nicole Roocke
Deputy Chief Executive

[1] Deloitte Access Economics (July 2014), *Estimated company tax, MRRT, carbon tax and royalties expenses for the minerals sector*, http://www.minerals.org.au/news/estimated_company_tax_mrrt_carbon_tax_and_royalties_expenses.