



AUSTRALIA JAPAN BUSINESS CO-OPERATION COMMITTEE



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Sir Rod Eddington AO
President

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

BY Email:
jsct@aph.gov.au

Dear Sir / Madam

Japan Australia Economic Partnership Agreement (JAEPA)

The Australia Japan Business Co-operation Committee (AJBCC) welcomes this opportunity to make a submission to the Joint Standing Committee on Treaties (JSCOT) inquiry into the JAEPA.

For the AJBCC and its JABCC counterpart, the 7th April, 2014 announcement that the seven year negotiation had been successfully concluded, brought to fruition a thirteen year championing of the FTA cause.

The AJBCC warmly congratulates each Minister and government official whom, over the seven years, have worked tirelessly for the desired outcome. Being a WTO comprehensive agreement amongst two sophisticated economies ensured that it would be a tough road, but the result has been broadly welcomed across the sectors. However, for the present, not all aspirations have been met.

All of the significant LNG, Iron Ore, Coal, Other Metals producers in Australia that provide 79 per cent of Australia's exports to Japan are amongst the AJBCC membership of 66 organisations. Meat and Livestock Australia, Burra Foods and Devondale Murray Goulburn Cooperative are also amongst the membership.

Since its establishment in 1962, the AJBCC has encouraged and witnessed the development of quality, long-term relationships, first in the agricultural commodity sectors that dominated the immediate post-war years, and secondly in the resources and energy sectors that have dominated the past forty to fifty years of the commercial relationship. The mutual trust that has evolved amongst the bilateral commercial sectors via these solid relationships is not as well recognised as a 'hallmark' as is the oft-remarked 'complementary nature' of the two-way trade – Australia as a reliable supplier of consistent quality energy, resources, and agribusiness product and importer of automobiles, consumer electronics and construction equipment.

Re Date of Entry into Force

Until recent years, for four decades, Japan was Australia's largest two-way trade partner, today, Japan remains the largest two-way trade partner and / or export market for a large number of Australian States and Territories. Therefore, in recognition of this ongoing significance, the AJBCC believes that the JAEPA's date of entry into force should be at the earliest possible date. The 1st of January 2015, or earlier, would be an appropriate target.

The JAEPA is the most ambitious and comprehensive trade agreement Japan has concluded to date. Its scope encompasses goods, services, investment, movement of people, government procurement, intellectual property, etc. The conclusion of the agreement with Australia represents a seismic shift in Japan's traditional protections of many of its sectors and the recognition that in Japan's national interest, there is a need for the sectors to be globally competitive, not protected. An early date of entry into force would signal Australia's welcoming of the policy shift and the long term structural reforms being initiated. It would also be a credible starting point for Australia to offer to share policy and industry experiences regarding the past, present and future necessitated structural reforms to realise the best, and least disruptive, integration of our economies.

Substantial numbers of senior business leaders accompanied Prime Ministers Abbott and Abe on their respective visits of April and July 2014. Consequently, in the broader business communities of both countries there is a heightened awareness of the other, so there would be much value in maintaining the positive perceptions via the earliest entry into force of the JAEPA.

Re the Benefits of the JAEPA

Being more readily quantifiable, there is an inclination to make a judgement of an FTA based on the gains for the trade in 'goods'. The AJBCC notes:-

- LNG, Iron Ore, and Coal are already tariff free into Japan, so the JAEPA does not produce a tangible benefit with respect to our top three exports, however, Japan will eliminate tariffs for all remaining resource products over seven years, including on nickel and ferro-alloys.
- The current tariff of 38.5 per cent on beef will, upon entry into force, undergo substantial first year cuts of 8 per cent on frozen beef and 6 per cent on chilled beef. Importantly, for Australia, Japan's 50 per cent global 'snap back' tariff will be replaced with a discretionary safeguard. This snap back tariff's automatic application was a most frustrating impost when Australian beef gained temporary replacement gains against US producers affected by an outbreak of 'mad cow' disease early in the 2000s.
- Australia exports 27,000 tonnes of cheese duty free to Japan under a global quota. Under the JAEPA, Australia has gained a preferential, duty free additional quota that will rise to 20,000 tonnes. Current exports of cheese are worth \$372 million.
- Australia currently supplies one-third of Japan's sugar imports – a trade valued at \$235 million. Under the Agreement, Australian exporters will benefit from tariff elimination and reduced levies for international standard raw sugar.
- Whilst Japan's tariffs on vehicles, auto parts and most pharmaceuticals are already at zero, under JAEPA, tariffs on \$243 million of manufactured imports from Australia that are as high as 30 per cent will be eliminated immediately upon entry into force of the JAEPA.

Japan is Asia's most sophisticated and balanced economy. It, like Australia, has over 75 per cent of its GDP and employment coming from its 'services' sector. Excluding 'Education' and 'Tourism', where receipts are large but both countries are under performers, each country is a very poor exporter of its services. Significant areas of unrealised potential exist bilaterally, for instance, Financial Services, particularly in Banking and Funds Management, Infrastructure development and funding, Healthcare, Agribusiness and Food Processing. Coincidentally, the Government of Japan has determined each as area in which it wants to encourage exports. Therefore, it has announced and been establishing new regulatory and policy frameworks to that end. The AJBCC's 'Infrastructure Initiative' of the past six years has verified that there are opportunities to bring together the competencies of the Australian and Japanese Finance and Infrastructure sectors into collaborative partnerships to undertake work in Australia, in Japan, and in third countries, most likely in Asia. The AJBCC believes that similar prospects exist in these other areas also.

The JAEPA provides Australian access to key sectors of the Japanese 'services' market and thereby will support a growth in exports. Joint venturing, alliances and partnerships are not the only way, but certainly the preferred way of capitalising on the above mentioned longstanding mutual trust in the relationship.

The AJBCC notes:-

- There is guaranteed market access when providing investment advice and portfolio management services and there is streamlined licensing.
- In Legal Services there is guaranteed market access and expedited registration for Australian lawyers residing in Japan.
- Australia has been given access to Japan's higher education services market. There will, over time, be improved access to low interest loans for Japanese students wishing to study in Australia.
- Australian investment into telecommunications and Internet based services will be permitted, together with a commitment to non-discriminatory treatment and transparency as well as fair and reasonable access to networks and services.
- The commitment to encouraging and supporting efforts towards mutual recognition of professional services qualifications will be accompanied by improved visa access.

Australia is the home of over \$130 billion of Japanese investment – FDI amounts to \$63 billion – and for many decades, Japan has been the third largest investor in Australia. In the reverse, Australian investment in Japan amounts to \$50 billion but its FDI is \$477 million.

If Australia is to expand and finance its 'Energy', 'Resource', and its 'Agribusiness and Food Processing' so as to remain an important element in Japan's aspirations for 'Energy', 'Resources' and 'Food' security, as well as upgrading its 'Tourism' facilities and deliver its extensive 'Finance and Infrastructure' capabilities, then Australia must have regulations and policies attractive to Japanese investors.

The AJBCC is supportive of the JAEPA's lifting of Australia's investment screening threshold from \$248 million to \$1,078 million for Japan and also notes that Australia has reserved lower screening levels affecting agricultural land and agribusiness investments. To date, we have not learnt of any situations where these reserved levels have created problems.

The AJBCC is also pleased to learn that the JAEPA affords levels of protection for Intellectual Property in Japan broadly equivalent to the protection levels provided in Australia and that the two Governments will not discriminate against the suppliers, goods and services of the other with respect to Government procurement. It is also noted that both governments will improve the temporary stay for skilled service providers, investors and business visitors.

The Opportunity!!!

It is the AJBCC's belief that the JAEPA is an excellent platform for increasing the integration of the Australian and Japanese economies bilaterally. In the future, we anticipate there will be many commercial linkages initiated that are not envisaged at present.

Both Australia and Japan are going through similar macro challenges for instance, rapidly ageing and growing populations. This means that collaborations around such challenges are timely and relevant. The capacity within the JAEPA to help facilitate joint solutions and in doing so help to foster stronger economic relationships around these issues, including:

- Facilitating institutional partnerships between companies in Australia and Japan
- Improving the operating environment through mutual recognition/harmonisation of regulatory frameworks

will be one area of commercial linkage to be prospectively tested for the future.

Given the dynamism of the globalising Asian markets, the breadth and strength of the bilateral integration under the JAEPA will invariably lead to Australian and Japanese businesses' increased collaborative engagement with the broader Asian marketplace. Therefore, we envisage that the hallmark of the 21st century will be the collaboration within our bilateral and third country commerce.

It is timely to recall that in GDP terms Japan's is the third largest economy in the world and that it is as large as Germany, the fourth largest, and France, the fifth largest, combined. Further that its Purchasing Price Parity (PPP) per capita is about \$1,000 less than that of Australia but more than three times that of China and nine times that of India. The Japanese consumer values a consistently high quality good or service and is prepared to pay the necessary premium.

The cash reserves of Japan's Nikkei 225 companies are \$1.5 trillion and the cash reserves of retail deposit holders is appreciably larger meaning Japan has the world's second largest pool of financial assets.

In 2014, the number of Japanese aged 65 or older has reached 25 per cent of the overall population compared with Australia's 14 per cent.

As a legacy of conducting the year 2000 Olympic Games and the 2003 Rugby World Cup, Australia has been able to export goods, services and systems to the destinations of the subsequent games. Japan is the host of the 2019 Rugby World Cup and Tokyo is the host city of the 2020 Summer Olympic and Paralympic Games.

The AJBCC – JABCC have an annual conference that alternates between the two countries. This year's conference (12th – 14th October) will be held for the first time in Darwin. Under a theme of *'Australia and Japan – A new era in the relationship'* various sessions will explore the fresh opportunities arising from the concluded agreement.

The Challenges!!!

The challenge accepted by the AJBCC and JABCC is to encourage business to appraise the JAEPA, strategically, for fresh opportunities for commercial collaboration. The AJBCC anticipates joining Australian Government agencies in the advocacy activities that normally occur about the time of the date of entry into force of trade agreements.

The final sentence of paragraph three on page one observes: *"However, for the present, not all aspirations have been met."* The Australian ambition in all its trade negotiations is to eliminate tariff and other barriers to trade and investment. The AJBCC is very supportive of this ambition. Meat and dairy are industries already exporting substantial percentages of their annual production. Both have bright prospects, in circumstances of fair competition, given the demands forecasted for the rapidly growing middle classes of Asia's developing economies. However, these are two areas where the JAEPA reveals that the free trade aspiration was not yet achievable. We note with approval, the unique inclusion in the Agreement of a 'Most Favoured Nation' (MFN) clause as a recognition of possibilities arising under the Trans-Pacific Partnership (TPP) Agreement and Regional Comprehensive Economic Partnership (RCEP) Agreement negotiations. Therefore, until the time of complete removal of tariffs and other barriers is reached, we would hope that the gains achieved under the JAEPA for these two industries, and other sectors of agribusiness, are maintained relatively against Australia's global competitors.

Yours sincerely

Rod Eddington
President