MINERALS COUNCIL OF AUSTRALIA

JAPAN-AUSTRALIA ECONOMIC PARTNERSHIP AGREEMENT: SUBMISSION TO THE JOINT STANDING COMMITTEE ON TREATIES

AUGUST 2014

Contents

EXECUTIVE SUMMARY

- The Minerals Council of Australia (MCA) strongly endorses the Japan-Australia Economic Partnership Agreement (JAEPA) signed on 8 July 2014 in Canberra. It is a high-quality trade agreement that substantially liberalises Australia's trade with a major economy, increases market access for goods and services, opens up investment opportunities, and links Australia more firmly into evolving regional economic architecture.
- Japan's commitments are by far the most liberalising it has negotiated to date with any of its trading partners – a high water mark that its partners in the Trans-Pacific Partnership (TPP) negotiations will look to push higher over time.
- No other option to JAEPA exists at this time to deepen the Australia-Japan economic relationship. Without JAEPA, Australia would gradually lose competitiveness in important sectors of the Japanese market.
- JAEPA promises to deliver significant benefits to the Australian minerals industry, as well as to other important sectors. In particular, it can play a role, along with the FTA negotiated with Korea and the prospective FTA with China, in supporting regional energy and minerals security and contributing to regional stability.
- Japan's industrialisation and outward foreign direct investment (FDI) have helped to underpin the expansion of the Australian minerals and energy sector over several decades. Japan is still a major market for Australian commodities or products derived from them. The biggest mineral exports to Japan are coal, LNG and iron ore, but there are a number of other important exports, either within the minerals and energy sector or in more processed forms. These include copper ores and concentrates, unwrought aluminium and nickel (either as matte or the unwrought metal).
- For coal and iron ore, Australia's share of Japan's import requirements is very high. A key priority is to maintain these shares in the face of strong competition from other resource suppliers, such as Indonesia (in the case of thermal coal) and Brazil (in the case of iron ore). Virtually all coal and all iron ore enter Japan duty free already, as do many other minerals and energy products.
- There are also a number of commodities of interest to members of the MCA where tariffs will be eliminated under JAEPA. These include unwrought nickel (not alloyed), coke and semi-coke of coal, aluminium hydroxide, ferro manganese and titanium dioxide.
- Japanese companies now invest more in mining in Australia than in any other country - as much as in all of the Americas and over eight times as much as in the rest of Asia. The wide scope of the undertakings on investment, combined with national treatment and MFN treatment for investors under the agreement should provide a solid foundation for increasing two-way direct investment. In particular, raising FIRB thresholds should encourage more direct investment in resources and energy in Australia.
- JAEPA has the promise to become the third major milestone in the Australia-Japan post-war economic relationship (following the 1957 Australia-Japan Commerce Treaty and the 1977 Basic Treaty of Friendship and Cooperation). The agreement reinforces that Australia remains a vital, reliable supplier of high quality mineral commodities to Japan.

1. INTRODUCTION

The Minerals Council of Australia (MCA) strongly endorses the Japan-Australia Economic Partnership Agreement (JAEPA) signed on 8 July 2014 in Canberra. Australia and Japan have highly complementary economies. The agreement will further underpin an already strong trade and investment relationship.

During the second half of the twentieth century, the Australia-Japan relationship, built around exchanging food and minerals and energy for manufactures, was the foundation of Australia's wider economic engagement with Asia and of the geographical transformation of Australia's trading relationships. Since the early 2000s, Australia's focus has shifted somewhat to China with its rapid growth, large trade and investment opportunities, and growing impact on the region and world.

But while Japan may be a more "settled" market compared with China and other emerging Asian economies, it is still:

- Australia's second largest trading partner
- a vital market for agriculture, minerals and energy and increasingly services, and
- central to Australia's engagement with Asia.

Over many years, the MCA and the Australia-Japan Business Co-operation Committee have sought to emphasise the strength of the Australia-Japan connection and worked to heighten awareness of the importance of this relationship to all Australians.[i]

JAEPA provides opportunities to broaden, deepen and reinvigorate Australia's commercial links with Japan and to raise the relationship more broadly to new levels. It is a high-quality trade agreement that substantially liberalises Australia's trade with a major economy, increases market access for goods and services, opens up investment opportunities, and links Australia more firmly into evolving regional economic architecture.

Australia's commitments to Japan are equal to, or better than, our commitments to other trade and investment partners. Japan's commitments are by far the most liberalising it has negotiated to date with any of its trading partners – a high water mark that its partners in Trans-Pacific Partnership (TPP) negotiations will look to push higher over time.

No other option to JAEPA exists at this time to deepen the Australia-Japan economic relationship. Waiting for TPP negotiations to conclude would be pointless, as would waiting for the conclusion of Regional Comprehensive Economic Partnership (RCEP) and Doha Round negotiations. TPP negotiations could take several more years before an agreement enters into force. RCEP negotiations are at an early stage, with key decisions still to be taken on the scope and level of goods and services market access. And Doha negotiations are in limbo (again).

Without JAEPA, Australia would gradually lose competitiveness in important sectors of the Japanese market. Japan, like Australia, has negotiated trade agreements with several countries and country groupings, including some of Australia's competitors, and is negotiating new agreements with the European Union and Canada among others. Trade diversion would be especially damaging for Australia in areas like agriculture and services.

Doing nothing also would also carry non-negligible risks for Australia's trade in minerals and energy. The scramble for energy and mineral resources in our fast-growing region has the continuing potential to unsettle markets and to destabilise the geo-politics. Reinforcing Australia's commitment to Japan's energy and resources security is important commercially and strategically.

JAEPA, along with Australia's FTA with Korea and prospective FTA with China, plays a part in supporting regional countries' energy and minerals security and contributing to regional stability.

2. JAEPA AND THE ECONOMIC RELATIONSHIP

Japan is a vital economic partner for Australia. In 2013, it was our largest market for coal, liquefied natural gas (LNG), aluminium, beef, and dairy products. It was our second-largest overall trading partner after China; our second-largest market for goods, agriculture and iron ore; our sixth-largest destination for Australian capital; and a major market for services.

Minerals and energy made up over 80 per cent of Australia's merchandise exports to Japan. In the same year, Japan was our third largest source of foreign capital (after the United States and United Kingdom) and of imports. Manufactures, including passenger motor vehicles, goods vehicles, civil engineering equipment, and electronics, dominated merchandise imports.

Substantial two-way trade goes back to at least the inter-war years when it was based largely on wool, wheat and textiles. Japan accounted for around 5 per cent of our trade in the 1920s and up to 10 per cent in the mid-1930s: at this time Australian exports to Japan exceeded those to either the United States or France.

Australia's push towards Japan began in earnest in the 1950s. The Australian public, understandably enough, was very distrustful of this. Wartime memories were vivid and raw. But Japan was the only large market for Australia's agricultural products with real prospects for strong medium-term growth (Adams, Brown & Wickes 2013, p.94.). This set the scene for the 1957 Australia–Japan Commerce Treaty, the first milestone in the post-war relationship and arguably Australia's most important bilateral trade agreement in the second half of the twentieth century. The agreement exchanged most favoured nation (MFN) treatment between the two countries; started the flow of Australian minerals to Japan; created some of the pre-conditions for "the second coming of Japan's industry after the war" (Abe 2014); and substantially laid the foundations for much of Australia's prosperity for a generation.

Japanese investment in Australia began in the late 1960s and gathered momentum through the 1970s. The Basic Treaty of Friendship and Cooperation (1977) added impetus to the commercial relationship and marks the second major milestone in the relationship. The Treaty extended MFN treatment to all bilateral commercial dealings and established a comprehensive basis of equity and fairness in economic and political relations. Along with the Double Taxation Agreement (1969), it facilitated growing Japanese investment in Australia's resources industries (especially coal mining) and manufacturing (including motor vehicles), as well as in tourism.

JAEPA could well be the third major milestone with an impact in line with differences in the size of the two economies and their relative importance as trading partners. Japan's economy is around three times larger than Australia's and Australia accounts for only 2.4 per cent of its merchandise exports, though we are a more important source of imports (6 per cent). Japan, on the other hand, accounts for around one-fifth of Australia's merchandise exports. Generally speaking, trade and investment liberalisation under JAEPA 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 can be a difficult market to do business in. Most Australian small and medium sized companies (the vast majority) find it difficult to spend the time and money required to build the connections that are needed to develop sustainable businesses in Japan. But the potential nonetheless to broaden and deepen commercial relations through JAEPA is clear:

- Australia is the first country to negotiate a liberalising and commercially meaningful outcome on agriculture with Japan. The achievement, uneven as it is, is remarkable given high levels of Japanese farm protection and the farm lobby's trenchant opposition to even considering negotiations.

- There are significant market openings for services trade that could be enlarged by Japan's agreement to include an MFN clause on services. The clause ensures that any future services liberalisation agreed to by Japan, say in TPP or European Union-Japan negotiations, will flow automatically to Australia.
- JAEPA protects all forms of investments. Unless specifically exempted, Australian investors are to be treated no less favourably than Japanese investors in establishing and operating their Japanese investments. This should improve investor certainty and has the potential to increase Australian investment in Japan (DFAT 2014), particularly in highly targeted services businesses like casinos, tourism, education, and possibly services linked to mining, energy and infrastructure development.
- Australia will raise the monetary threshold for Foreign Investment Review Board (FIRB) consideration of private Japanese investments in non-sensitive sectors.[ii] This, alongside the emerging 'special' Australia-Japan relationship (Abe 2014; Abbott 2014a) and Australia's positioning as a preferred investment partner, should increase Japanese investment in Australia subject to the normal range of economic and commercial considerations.
- And JAEPA should strengthen the Australia-Japan resources and energy partnership directly by removing residual obstacles to trade and investment and through re-affirming Australia's pre-eminence in underwriting Japan's resources and energy security. The agreement also should strengthen the partnership indirectly by underlining the importance both governments attach to the strategic friendship, which flows through to economic relations, and by promoting regional integration with its implications for more trade and investment.

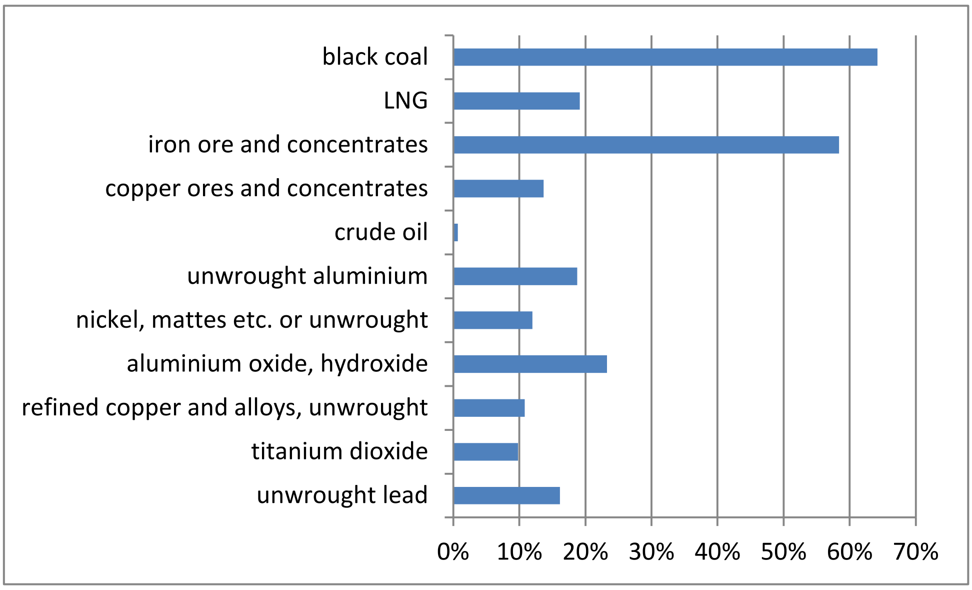
3. JAEPA AND RESOURCES EXPORTS

As the previous section has indicated, Japan's industrialisation and outward foreign direct investment (FDI)[iii] have underpinned the expansion of the Australian minerals and energy sector over several decades. Japan is still a major market for these commodities or products derived from them. The biggest mineral exports to Japan are coal, LNG and iron ore, but there are a number of other very important exports, either within the minerals and energy sector or in more processed forms. These include copper ores and concentrates, crude oil, unwrought aluminium, and nickel (either as matte or the unwrought metal). Australia supplies a significant (and in some cases very high) proportion of Japan's imports of many of these products (Figure 1).

Japan's total imports for some key mineral exports are not likely to expand strongly in the medium term. The most recent forecasts by the Bureau of Resources and Energy Economics project Japan's imports of iron ore falling slightly from 136 million tonnes in 2013 to 134 million tonnes in 2019, while metallurgical coal imports are projected to decline from 54 to 52 million tonnes over the same period (BREE 2014, pp.62, 66).

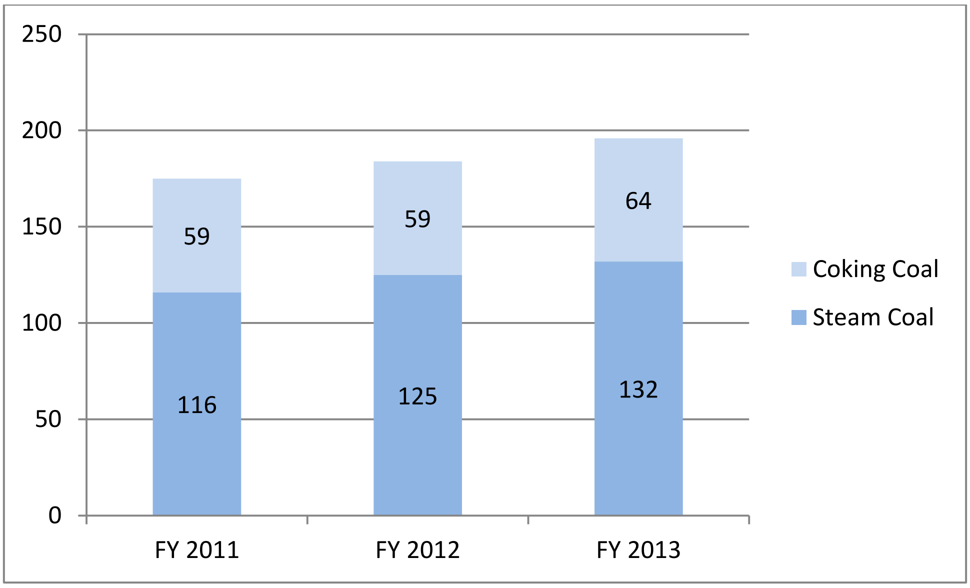
In the case of energy commodities, there are significant uncertainties and much will depend on the way in which energy policy evolves. The 2011 Fukushima Daiichi incident in Japan led to all nuclear reactors being shut down, resulting in a temporary increase in thermal coal imports over the following two years (Figure 2). BREE is nevertheless forecasting that Japan's thermal coal imports will fall from 137 million tonnes in 2013 to 127 million tonnes by 2019 (BREE 2014, pp.41,48).

Figure 1: Australia's Share of Japan's 2013 Imports by Value: Selected Commodities



Source: UN Comtrade Database. Black coal includes anthracite. Iron ore includes roasted iron pyrites. Titanium dioxide refers to preparations that contain at least 80 per cent of the compound by weight. Aluminium oxide/hydroxide includes artificial corundum.

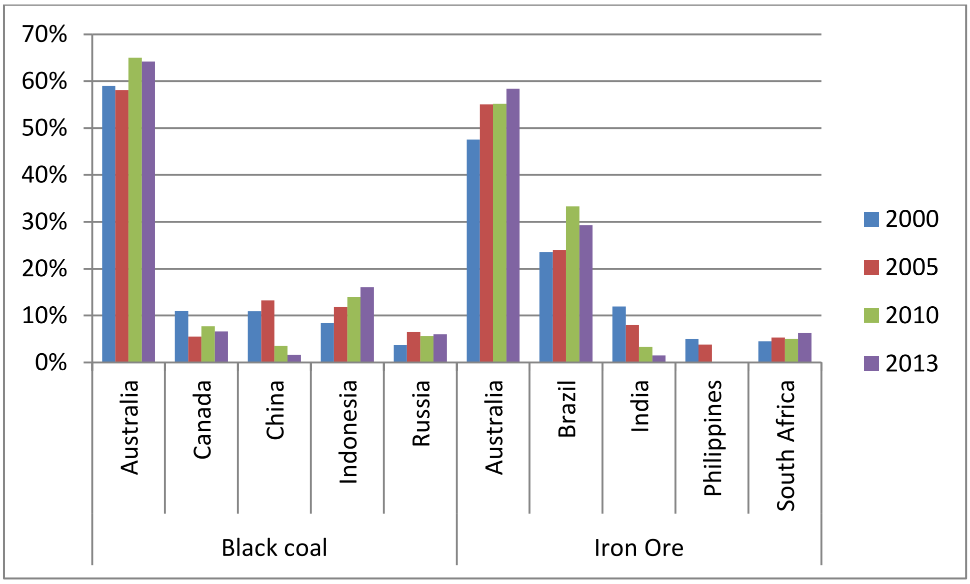
Figure 2: Japanese Coal Imports, FY2011 to FY2013 million tonnes



Source: Japanese Ministry of Economy, Trade and Industry.
Coking coal includes anthracite. Steam coal includes bituminous and sub-bituminous coal.

The outlook for total minerals and energy demand will be influenced by Japan's economic growth rate and by the efficiency with which these resources are used. Significant uncertainties surround the introduction of structural reforms, while high levels of government debt and projected contraction in the working age population remain as economic headwinds (Adams, Brown and Wickes 2013, p.196).

Figure 3: Shares of Japan's Import Market by Value, 2000-13



Source: UN Comtrade Database. Black coal includes anthracite. Iron ore includes roasted iron pyrites.

In the case of Australia's trade, much will depend on competitiveness with respect to other major suppliers. For coal and iron ore, Australia maintains a very high share of Japan's import requirements (Figure 3). A key priority is to maintain this high share in the face of growing competition from other resource suppliers. With thermal coal, Indonesia has emerged as an increasingly important competitor (although China, which was a significant exporter of coal in the early 2000s, is now a large net importer). For iron ore, Brazil is a significant competitor in the Japanese market, as it is elsewhere, and Africa may become a more significant competitor in the medium and longer term. Although virtually all coal and iron ore enter at zero tariffs[iv], JAEPA should assist Australia to maintain a high market share because of the reassurance it provides Japan concerning its energy and resource security, including through Chapter 8 of the Agreement.[v]

Even excluding coal and iron ore, many minerals and energy products enter Japan duty free already. For example, this is the case for ores and concentrates of copper, manganese, nickel, cobalt, aluminium, lead, zinc, titanium, chromium and uranium, as well as unwrought aluminium. Key mineral products of interest to Australia - most coal, iron ore, copper ores and concentrates and unwrought aluminium - are already bound at zero in the WTO.[vi]

Even where products enter duty free, JAEPA should have a positive impact by creating a more favourable climate for trade. This is important because a number of competitors such as ASEAN, Chile, India, Mexico and Peru have free trade agreements or economic partnership agreements with Japan. In the case of copper ores and concentrates, for example, Chile, Peru and Indonesia are among Australia's major competitors in the Japanese market and the Philippines and Mexico are also significant suppliers. Between them they accounted for over two thirds of Japan's imports by value in 2013.

There are a number of commodities of interest to members of the MCA where tariffs will be eliminated under JAEPA. Table 1 lists five where the Council has already welcomed the outcome as providing a significant boost to Australia's trade. They account in aggregate for Australian exports of around $310 million.

Elimination of tariffs may have a useful impact on competitiveness relative to other suppliers in these cases. With titanium dioxide, for example, the United States is an important competitor with almost 40 per cent of Japan's import market in 2013: JAEPA may help Australia to increase its market share. JAEPA will also eliminate tariffs for many metal manufactures, which could benefit Australian suppliers if they can supply competitively. Japan's tariffs on aluminium products, for example, are up to 7.5 per cent. Although almost all of the metal supplied by Australia is currently in the form of unwrought aluminium or scrap, which enter free of duty, the agreement could pave the way for some expansion of this trade if Australia were to become a more competitive supplier.

Table 1: Examples of Market Access Gains of Interest to the MCA

	Base Rates	**Phase out under JAEPA**
Unwrought nickel, not alloyed	11.7% or 44 yen/kg whichever is less	Phase out over 7 years*
Coke and semi-coke of coal	3.2%	0 on entry into force (eif)
Aluminium hydroxide	3.3%	0 on eif
Ferro manganese	6.3%	Phase out over 7 years*, or 0 on eif depending on the carbon content
Titanium dioxide	3.2%	0 on eif

Source: DFAT 2014, JAEPA. *The phase out over 7 years takes place in eight equal instalments, with the first on entry into force of JAEPA and with subsequent cuts on 1 April of each year until the goods are free.

JAEPA may also encourage more competitively priced imports of some items used by the mineral industry, especially capital equipment. For example, the 5 per cent Australian tariff on dumpers and medium-large goods vehicles is to go to zero on entry into force. This will also be the case for the tariff on imports of iron and steel railway or tramway track construction material. Provided such tariff reductions are not offset by increases in other taxes, they will benefit the Australian minerals and energy industry. In mining, as in other sectors, success in exporting depends on being an efficient importer of inputs to production as well.

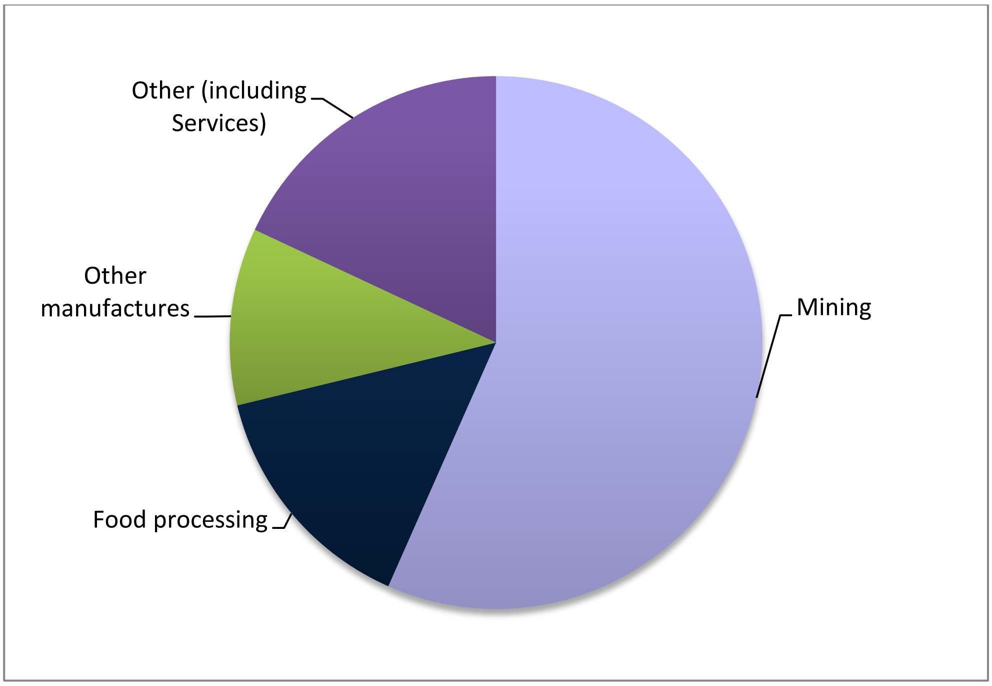
4. JAEPA AND RESOURCES-RELATED INVESTMENT AND COOPERATION

How JAEPA will impact on FDI flows between Australia and Japan is difficult to assess. Flows are dominated by Japan's role as a major capital exporter – the second largest country source of outward FDI after the United States – and by its abnormally low share of global inward FDI compared with other OECD and G20 countries (OECD 2014; UNCTAD 2014).

Strong outward flows of Japanese investment are associated closely with the rapid growth of Japanese-anchored value chains, regionally and globally, over the last 2-3 decades. Most of this outward FDI is directed at the United States, the European Union, China, and ASEAN, but a significant component is directed at Australia, where it has underpinned the growth of several major industries. By December 2013, the level of inward investment from Japan was around $131 billion. Of this, $63 billion was direct investment, making up around 10 per cent of Australia's FDI stock (ABS Cat. No.5352.0). Over half was in mining, especially coal and natural gas (Figure 4).[vii] According to the Bank of Japan, Japanese companies now invest more in mining in Australia than in any other country, as much as in all of the Americas and over eight times as much as in the rest of Asia.[viii]

By contrast, inward FDI flows to Japan are tiny for a major economy. Based on UNCTAD data, Japan's inward FDI as a share of the world stock of inward FDI (excluding inward FDI in Australia) was about 0.69 per cent in 2013. Various theories have been put forward to explain persistent low ness,[ix] but the interesting point in this context is that Japan's share of Australia's outward FDI is even lower at only about 0.10 per cent (again in 2013).[x] This suggests that there are two factors contributing to the low level of Australian FDI in Japan: Japan's overall low level of inward FDI, which will not be affected by JAEPA, and some factors specific to Australia or the Australia-Japan relationship, which might be affected by the agreement.

Figure 4 Japanese Direct Investment in Australia, December 2013 ($63 billion)



Source: Bank of Japan. Note that 'mining' refers to all minerals and energy resources.

Five cautious conclusions can be drawn about JAEPA's potential impact on outward and inward direct investment flows:

1. The wide scope of the undertakings on investment combined with national treatment and MFN treatment for investors should provide a solid foundation for increasing two-way direct investment.

2. Raising the FIRB thresholds for vetting investment applications to those agreed by Australia with the United States, New Zealand and South Korea should create greater certainty for Japanese investors and lead to more direct investment over time across the Australian economy.[xi] Raising thresholds was a major negotiating objective for the Japanese Government. Securing this places Japan on the same footing as its competitors (especially Korea). And, by reducing the number of proposals subject to scrutiny, it addresses Japanese business concerns that FIRB processes unnecessarily add to investment risks by being too opaque, lengthy and at times unpredictable.

3. Raising FIRB thresholds should encourage more direct investment in resources and energy. Future investment will be determined fundamentally by commercial realities – Australia's competitiveness in attracting new investment and price trends on international markets. Political-economy factors such as special relationships, attitudes to resources security and the reverberations of regional rivalries also will influence investment decisions. Higher FIRB thresholds are likely to have a more marginal influence on resources decisions given their scale and long-term nature.

4. Additional protections for investors and better access to Japan's services sector could be expected to lead to significant increases in Australian direct investment over the medium term from their current very low levels. Mining, energy and infrastructure services are possibilities. The extent to which this occurs will depend on a range of factors including changes in the appetite for risk by Australian investors – investors historically have tended to focus on English speaking markets where there are strong cultural ties and familiar regulatory systems – and the extent to which JAEPA, and potentially TPP, loosen rules and regulations for investment in Japan and create genuine opportunities for business partnerships. The pace and nature of economic, social and perhaps cultural change in Japan will be fundamental to increasing inward direct investment from Australia, as well as from other countries.

5. And increases in direct investment flows in both directions should be reinforced by JAEPA's emphasis on resources security, "cooperation for strengthening stable and mutually beneficial relationships" (Article 8.7) and institutional structures, such as the Sub-Committee on Energy and Mineral Resources (Article 8.8) which provides a framework for consolidating and increasing cooperative and investment links between Australian resources producers and their Japanese customers. Unlike the FTA with Korea, JAEPA says nothing specific about cooperative measures beyond the theme of resources security. It does not, for instance, identify areas of cooperation such as in research and development and investment in emerging technologies, though these types of issues could be included on the agenda of the Sub-Committee on Energy and Mineral Resources. This lack of specificity probably reflects existing high levels of technical cooperation on issues like low emissions fossil fuel technologies.[xii] It also may reflect the previously declared intention of both governments to support ongoing cooperation, enhance joint activities in areas like coal and LNG[xiii], and explore further opportunities for joint activities in third country markets. The potential for further joint investment and collaboration in cutting edge technologies for resources processing and related services seems to be quite high.

5. CONCLUSION

All of the major outcomes sought on resources and energy trade and investment prior to commencing JAEPA negotiations have been achieved (Australia-Japan Joint Study Group 2006). There is a dedicated chapter on minerals and energy – the first in any Australian FTA[xiv]; 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 will deal with sectoral issues; and a review mechanism will deal specifically with implementation and operational matters relating to chapter disciplines and approaches.

More broadly, JAEPA has the promise to become the third major milestone across the Australia-Japan post-war economic relationship.

Government-to-government relations are excellent: there are few bilateral irritants. Australia has a high and positive public profile in Japan: the converse also is true. JAEPA may make it slightly easier for Japan to engage in TPP negotiations by narrowing the gap between its fairly basic FTAs with countries like India, Peru, Mexico, and ASEAN and the standards required by parties to TPP. And JAEPA may well set the Japanese public thinking positively about difficult economic reforms ahead and the adjustments required if Prime Minister Abe's 'third arrow' of reforms is to gain traction.

But however much JAEPA may contribute to the wider economic and security relationship, this agreement reinforced that Australia remains a vital, reliable supplier of high quality commodities to Japan.

Annex Table: Japanese Interests in Operating Australian Black Coal Mines at July 2014: Selected Examples

Mining Company	Operating Mine Sites	Ownership
Anglo American Metallurgical Coal Pty Ltd (AAMC)	Dawson Coal Mine	Owned by the Moura Joint Venture (JV) of AAMC 51% and Mitsui Coal Holdings 49%.
	Drayton Coal Mine	AAMC 88% and JV (NCE Australia, Mitsui Coal Holdings, Daesung Australia and Hyundai Australia) 22%.
	Capcoal Mining Project - two u/g mines (Grasstree and Aquila) and two o/c mines (Lake Lindsay and Oak Park)	AAMC 70% and Mitsui Coal Holdings 30%.
	Foxleigh Coal Mine	AAMC 70%, POSCO (South Korean steel company) 20%, and Itochu (a Japanese trading and mining investment company) 10%.
	Moranbah North Coal Mine	AAMC 88%; remaining 12% owned by JV partners Nippon Steel, Mitsui Coal, Shinsho Australia, NS Resources and Kokan Kogyo.
BHP Billiton Mitsubishi Alliance (BMA)	Blackwater	BMA is a partnership (50/50) with Mitsubishi Development Pty Ltd.
	Goonyella Mine	
	Gregory/Crinum Mine	
	Norwich Park Mine	
	Peak Downs Mine	
	Saraji Mine	
	Broadmeadow Mine	
	Caval Ridge Mine project	
	Daunia	
BHP Billiton Mitsui Coal	Poitrel	BHP Billiton 80% and Mitsui and Co Ltd 20%.
	Riverside Mine	
	South Walker Creek	
Coal and Allied	See Rio Tinto	Coal & Allied is 80% owned by the Rio Tinto Group and 20% owned by Mitsubishi Development.
Rio Tinto Coal Australia Pty Ltd	Hail Creek	Queensland Coal Pty Limited (82%), Nippon Steel Australia Pty Ltd (8%), Marubeni Coal Pty Ltd (6.67%) and Sumisho Coal Development Pty Ltd (3.33%).
	Kestrel u/g	Queensland Coal Pty Ltd (80%) and Mitsui Kestrel Coal Investment (20%).

Source: Annual reports and other information provided by companies, including on their websites.

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[i] In 2014 this has included active participation in the 35th Australia-Japan High Level Group on Energy and Minerals; consultations in Brisbane in June; two Australia - Japan coal seminars – one in February at the Australian Embassy in Tokyo and one organised by the Department of Industry and Japan's Ministry of Economy, Trade and Industry (METI) in Brisbane in June; and the annual Japanese Clean Coal Day Seminar. In October the MCA will again host around 100 Japanese coal customer representatives at the 32nd Australia Japan Coal Conference.

[ii] See the section below on JAEPA and resources-related investment and cooperation.

[iii] FDI refers to investments by companies or entities based in one country in companies or entities in another which involve a significant degree of influence or control over their management. The commonly accepted threshold for such investments is that they must involve ownership of at least 10 per cent of the overseas invested enterprise. FDI differs from indirect investments, such as portfolio flows, where overseas institutions invest in bonds or equities with less than 10 per cent ownership of the enterprise concerned. For a more detailed discussion, see IMF (2010, Chapter 6).

[iv] The exception is briquettes, ovoids and similar solid fuels manufactured from coal, which have a 3.9 per cent base rate in JAEPA. This is to go to zero on entry into force. Japan did not import any product in this category from Australia in 2013. Coke and semi-coke will also see its 3.2 per cent tariff go to zero on entry into force, but this is not included under coal.

[v] Chapter 8 is discussed in more detail in the next section.

[vi] The exception, for coal, is again briquettes, ovoids and similar solid fuels manufactured from coal where the WTO bound rate is the same as the applied rate of 3.9 per cent.

[vii] Annex Table 1 provides a sample of Japanese interests in Australian coal mines both as major and minor joint venture partners.

[viii] Industry data and information on Japan's overseas investments are derived from Bank of Japan statistics at: http://www.boj.or.jp/en/statistics/br/bop/index.htm/

[ix] Explanations range across factors such as the difficulties of the Japanese language and distinctive culture to interlocking shareholdings of major Japanese companies to Japan's over regulated and protected services sector and low participation in international services trade.

[x] The low level of Australian investment in Japan is presented starkly by aggregate investment data. By December 2013, the level of outward investment from Australia was $50 billion and was predominantly in financial markets. Direct investment was just $0.5 billion, again predominantly in services (ABS Cat. No.5352.0).

[xi] The monetary threshold at which private investments from Japan in non-sensitive sectors are considered by the FIRB will be raised from $248 million to $1,078 million.

[xii] Examples include Japanese and Australian co- investment in the world leading Callide Oxyfuel demonstration project in Biloela, Queensland, and in Brown Coal Innovation Australia's research and development program in Victoria.

[xiii] In April 2014 the Australian and Japanese Prime Ministers met in Japan and "underlined the continued importance of stable and secure trade and investment in mineral and energy resources including liquefied natural gas (LNG) and coal at competitive prices based on market principles, and looked forward to continued expansion in the commercial relationship." They also specifically "noted the importance of endeavours towards utilising highly efficient coal-fired power generation technology to reduce greenhouse gas emissions" (Abbott 2014b). This latter comment recognises Japan's world leading research and development and demonstration of high efficiency, low emissions coal fired electricity generation at plants such as JCOAL's Isogo facility.

[xiv] The chapter on cooperation in the Korea-Australia Free Trade Agreement comes closest, but deals also with agriculture, fisheries and forestry issues.