
The Parliament of the Commonwealth of Australia

Australia's trade and investment relationship with Japan and the Republic of Korea

Inquiry of the Trade Sub-Committee

Joint Standing Committee on Foreign Affairs, Defence and Trade

May 2013
Canberra

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Foreword

There are few countries as important to Australia as Japan and the Republic of Korea. As our second and fourth largest trading partners respectively, Australia's trade and investment relationship with each country is of longstanding and fundamental importance.

The Trade Sub-Committee welcomed the opportunity presented by this inquiry to explore these relationships. In our inquiry, we have examined our current relationship with each country, identified opportunities to deepen and expand commercial links, looked at any barriers to trade and investment that presently exist, explored trends of the trading relationship, and further recognised that the success of trade was built as well on the friendship that exists between the countries.

With free trade agreement negotiations underway with each country, the inquiry was particularly timely. Indeed, as can be seen from the evidence we received, there were some enthusiastic expectations that negotiations with the Republic of Korea would be concluded before this report was finalised.

Since its initial investments in the resources sector in the 1960s, Japan has made a significant contribution to Australia's prosperity as Australia's largest trading partner for more than 40 years and third largest source of foreign investment. Resources, agriculture, education and tourism dominate Australian exports. In turn, Australia seeks Japanese cars, refined petroleum and manufactured products.

Australia's relationship with the Republic of Korea has also grown dramatically since the 1960s into a strong and complementary relationship. Energy and food security concerns have seen the Australia-Korea relationship develop and broaden significantly in recent years.

The Committee considered that much more attention should be given to the Korean relationship – in addition to goods trade, it is our third largest source of overseas students yet inquiry participants identified language and cultural

differences and an unfamiliar business environment to be affecting Australian businesses as they attempt to work in South Korea.

In recent years, South Korea has embarked on an active schedule of free trade negotiations. With agreements concluded with key trading partners, such as the United States, negotiations for an Australia-South Korea agreement take on particular importance. The negotiations feature in our report, as it did for those who gave evidence to the inquiry.

In Japan, the Japanese Government is moving towards trade liberalisation and agricultural reform. It has signalled its intention to liberalise and has publicly identified the importance of a free trade agreement with Australia. I note that Japan has also now joined negotiations for the proposed Trans Pacific Partnership, which we touch upon in our report.

Services are a key Australian export and we heard about the importance of education and tourism exports to both countries. Opportunities also exist in other sectors, ranging from infrastructure to health, financial, and legal services.

A delegation of the Committee undertook a parliamentary visit to Japan and South Korea in July 2012. Committee members appreciated the opportunity presented by this visit to broaden our awareness and understanding of the issues before us and to gain the perspective of our Japanese and Korean counterparts. Delegation members were particularly struck by the strength of Australia's relationship with both countries, which can be underappreciated or overlooked as we focus on the rise of other economies. This report includes commentary about the visit.

I conclude by thanking members of the Trade Sub-Committee for their contribution to the inquiry. I wish to thank as well the Inquiry Secretary Ms Julia Searle and I also particularly thank the Deputy Chair, the Hon Mr Bruce Scott MP, for his ongoing support and valuable input to the work of the Sub-Committee over many years now. We were able to work in the true spirit of bi-partisanship, which is what the Parliamentary Committees do best.

Finally, I thank all those who participated in the inquiry, both in Australia and overseas.

Janelle Saffin MP
Chair, Trade Sub-Committee



Membership of the Committee

Chair	Hon Mr Joel Fitzgibbon (from 15/5/13)	
	Mr Michael Danby MP (to 2/4/13)	
Deputy Chair	Mrs Joanna Gash MP	
Members	Senator M Bishop	Mr Laurie Ferguson MP (from 6/02/13)
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	Hon Ms J Bishop MP	Hon Mr B Scott MP
	Ms G Brodtmann MP	Hon Mr P Slipper MP (from 1/11/12)
	Hon Mr A Byrne MP (from 19/09/12)	Hon Dr S Stone MP
	Mr N Champion MP	Ms M Vamvakinou MP



Membership of the Trade Sub-Committee

Chair Ms Janelle Saffin MP

Deputy Chair Hon Mr Bruce Scott MP

Members	Senator the Hon Ian Macdonald	Mrs Joanna Gash MP (<i>ex officio</i>)
	Senator Stephen Parry	Mr Harry Jenkins MP
	Senator the Hon Ursula Stephens	Mrs Sophie Mirabella MP
	Hon Mr Dick Adams MP	Hon Mr John Murphy MP
	Hon Ms Julie Bishop MP	Mr Ken O'Dowd MP
	Mr Michael Danby MP (<i>ex officio</i>) (to 2/4/13)	Hon Mr Peter Slipper MP (from 1/11/12)
	Hon Mr Joel Fitzgibbon MP	Hon Dr Sharman Stone MP

Committee Secretariat

Secretary	Mr Jerome Brown
Inquiry Secretary	Ms Julia Searle (from November 2011) Mr Paul Zinkel (to November 2011)
Senior Research Officer	Mr James Bunce
Research Officer	Ms Fiona Gardner (29 March to 8 June 2012)
Administrative Officers	Ms Jessica Butler Mrs Sonya Gaspar Ms Lauren McDougall Ms Kane Moir



Terms of reference

The Trade Sub-Committee of the Joint Standing Committee on Foreign Affairs, Defence and Trade will inquire and report on Australia's trade and investment relations with Japan and the Republic of Korea with particular reference to:

- the nature of Australia's existing trade and investment relations;
- emerging and possible future trends in these relations;
- barriers and impediments to trade and investment with Japan and the Republic of Korea for Australian businesses;
- opportunities for deepening existing commercial links, and developing new ones, with Japan and the Republic of Korea; and
- the role of the government in identifying new opportunities and assisting Australian companies to access existing and potential opportunities in Japan and the Republic of Korea.



List of abbreviations

ADB	Asian Development Bank
Ai Group	Australian Industry Group
AJBCC	Australia Japan Business Cooperation Committee
AJEI	Australian and Japanese Economic Intelligence
AKBC	Australia-Korea Business Council
ANZCCJ	Australia New Zealand Chamber of Commerce in Japan
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
CIE	Centre for International Economics
Commerce Agreement	Agreement on Commerce between Japan and the Commonwealth of Australia
DAFF	Department of Agriculture, Fisheries and Forestry
DAPA	Defence Acquisition and Procurement Agency
Defence	Department of Defence
DFAT	Department of Foreign Affairs and Trade
DIISR	Department of Innovation, Industry, Science and Research
DMO	Defence Materiel Organisation

DRET	Department of Resources, Energy and Tourism
EFTA	European Free Trade Association
ELICOS	English Language Intensive Courses for Overseas Students
EPA	Economic Partnership Agreement
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FLNG	Floating Liquefied Natural Gas
FTA	Free Trade Agreement
FTAAP	Free Trade Area of the Asia-Pacific
G20	Group of Twenty Finance Ministers and Central Bank Governors
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
HHI	Hyundai Heavy Industries
IMF	International Monetary Fund
ISDS	Investor-State Dispute Settlement
JET	Japan Exchange and Teaching Programme
KEPCO	Korea Electric Power Corporation
KOGAS	Korea Gas Corporation
KORES	Korea Resource Corporation
KORUS	Korea-United States Free Trade Agreement
LNG	Liquefied Natural Gas
MFN	Most-favoured-nation

MLA	Meat and Livestock Australia
MOU	Memorandum of Understanding
Nara Treaty	Basic Treaty of Friendship and Cooperation between Australia and Japan
NFF	National Farmers' Federation
OECD	Organization for Economic Co-operation and Development
OFA	Organic Federation of Australia
POSCO	Pohang Iron and Steel Company
PPP	Public Private Partnerships
RCEP	Regional Comprehensive Economic Partnership
ROK	Republic of Korea
SMBC	Sumitomo Mitsui Banking Corporation
The Gordon	Gordon TAFE
TCF	Textiles, clothing, footwear
TPP	Trans Pacific Partnership
TTF	Tourism Transport Forum
US	United States
WTO	World Trade Organization



List of recommendations

2 Japan

Recommendation 1

The Committee recommends that the Australian Government continue to prioritise negotiation and conclusion of a comprehensive free trade agreement with Japan that addresses the numerous barriers, particularly in the agricultural sector, to trade and investment between Australia and Japan.

Recommendation 2

The Committee recommends that the Australian Government investigate establishment of a complementary program to the Japan Exchange and Teaching Programme (JET) to facilitate improved cross cultural links between Australia and Japan.

Recommendation 3

The Committee recommends that the Australian Government showcase the benefits of a coordinated approach to marketing, such as that used by Meat and Livestock Australia, in its export facilitation activities.

3 Republic of Korea

Recommendation 4

The Committee recommends that the Australian Government seek to conclude negotiations on a comprehensive and liberalising free trade agreement with the Republic of Korea as a matter of urgency.

Recommendation 5

The Committee recommends that the Australian Government recognise the significance of Australia's current and potential relationship with the Republic of Korea by designating Korean as a priority language in school education.

Recommendation 6

The Committee recommends that the Australian Government prioritise and promote Australia's relationship with the Republic of Korea, with the objective of broadening and deepening the relationship between the two countries.

Recommendation 7

The Committee recommends that the Australian Government prioritise its support for Australian businesses seeking to enter the Korean market, with a focus on improving understanding of the market and maximising opportunities to conduct business in the Republic of Korea.

Recommendation 8

The Committee recommends that the Australian Government prioritise implementation of the recommendations of the Joint Standing Committee on Foreign Affairs, Defence and Trade report *Australia's Overseas Representation: Punching below our weight?*

Introduction

Background to the inquiry

1.1 On 21 April 2011, the Minister for Trade, the Hon Dr Craig Emerson MP referred to the Committee an inquiry into Australia's trade and investment relationship with Japan and the Republic of Korea. The terms of reference of the inquiry were to:

... report on Australia's trade and investment relations with Japan and the Republic of Korea with particular reference to:

- the nature of Australia's existing trade and investment relations;
- emerging and possible future trends in these relations;
- barriers and impediments to trade and investment with Japan and the Republic of Korea for Australian businesses;
- opportunities for deepening existing commercial links, and developing new ones, with Japan and the Republic of Korea; and
- the role of the government in identifying new opportunities and assisting Australian companies to access existing and potential opportunities in Japan and the Republic of Korea.

1.2 As Australia's second and fourth largest trading partners respectively, Japan and the Republic of Korea are amongst Australia's most important trade and investment relationships. Australia's valued relationship with these two key trading partners is built on a foundation of complementary strengths.¹ Together the markets account for about 24.6 percent of Australia's goods and services exports.²

1 Department of Resources, Energy and Tourism, *Submission 16*, p. 4.

2 Mr Peter Rowe, DFAT, *Committee Hansard*, 14 March 2012, p. 1.

- 1.3 Australia's relationship with each country has been close and constant over many years and is imperative to the ongoing economic and strategic interests of all parties. Australia has contributed to both countries' energy and food security, and provided resources for their growth. Australia has also benefitted from imports and inward investment.
- 1.4 To strengthen and expand each relationship, Australia is negotiating free trade agreements with both countries. These agreements received considerable attention throughout the inquiry.
- 1.5 The Committee commenced this inquiry shortly after Japan experienced the devastating Great East Japan Earthquake and resulting tsunami on 11 March 2011. Over 22,000 people were killed and nuclear reactors at the Fukushima Daiichi nuclear power plant were severely damaged.³
- 1.6 Much of the early evidence received by the Committee was influenced by this significant event and the impact it might have on the Japanese Government's pursuit of economic and trade reform. The Committee is pleased that the Japanese Government appears committed to continuing reform, although understandably with revised timeframes.

Conduct of the inquiry

- 1.7 The Committee invited relevant companies and organisations to make a submission. The Committee received 24 submissions and 4 exhibits, which are listed at Appendices A and B.
- 1.8 Public hearings were conducted by the Committee in Melbourne, Sydney and Canberra. The dates and locations of the hearings, together with the names of witnesses who appeared before the Committee are at Appendix C.
- 1.9 A delegation of the Committee also travelled to Japan and the Republic of Korea from 16 to 27 July 2012. The Committee sought and secured support from the Prime Minister for the delegation visit. The Prime Minister approved the delegation as part of the Australian Parliament's outgoing delegation program for 2012.
- 1.10 A copy of the delegation program is at Appendix D. The program arranged for the visit provided the delegation with an opportunity to meet with Ministers, Vice Ministers, parliamentarians, Japanese, Korean and

3 Department of Foreign Affairs and Trade and Austrade, *Submission 3 (Japan)*, p. 18.

Australian business representatives, university representatives and Australian English language teachers.

- 1.11 The delegation visited Japan from Monday, 16 July to Saturday, 21 July 2012. The delegation held meetings and undertook site visits in Tokyo, Kyoto, Kizugawa, Kobe and Osaka, including visiting several supermarkets to view Australian products on sale.
- 1.12 Following its visit to Japan, the delegation travelled to the Republic of Korea from Sunday, 22 July to Thursday, 26 July 2012. The delegation undertook site visits and held meetings in Seoul, Pohang and Ulsan.

Structure of the report

- 1.13 The report has been divided into two parts and then broadly structured around the Terms of Reference (see paragraph 1.1).

Part One—Japan

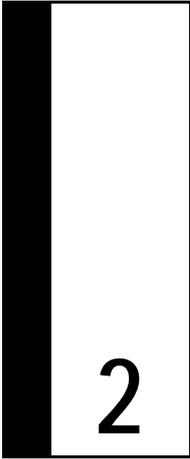
- 1.14 The first part focusses on Japan. It commences with an overview of the existing trade and investment relationship and discusses emerging trends including the impact of the Great East Japan Earthquake on energy and food security issues. It also briefly outlines the defence materiel relationship and Australia and Japan's multilateral cooperation.
- 1.15 The next sections focus on:
- barriers to trade and investment faced by Australian businesses in each country;
 - free trade agreement negotiations;
 - investment opportunities;
 - services trade, particularly in the education, tourism and financial services sectors; and
 - Australian products on sale in Japan, including marketing strategies.
- 1.16 The first part concludes with an overview of government activities that assist Australian companies to identify and access new opportunities.

Part Two—Republic of Korea

- 1.17 The second part focusses on the Republic of Korea and is similarly structured. It commences with an overview of the existing trade and investment relationship and discusses emerging trends, including the impact of energy and food security concerns, and new opportunities for small and medium-sized businesses. Defence materiel cooperation and multilateral cooperation are also discussed.
- 1.18 The next sections focus on:
- barriers to trade and investment faced by Australian businesses in each country;
 - free trade agreement negotiations;
 - services trade, particularly in the education and tourism sectors;
 - investment opportunities; and
 - government assistance.
- 1.19 The section concludes with a discussion of Australian products in the Republic of Korea, including some comments about organic certification.
- 1.20 Observations from the Committee’s delegation visit are included throughout the report.

Note on the text

- 1.21 The Committee has used the terms ‘Republic of Korea’, ‘South Korea’ and ‘Korea’ interchangeably throughout the report.



Japan

Japan has been Australia's closest and most consistent partner in Asia for decades, and the relationship is of fundamental importance to both countries' strategic and economic interests.¹

The trade and investment relationship

Background

- 2.1 Japan, with a population of 127 million, is the world's third largest economy in terms of GDP and, until 2009, Australia's largest export destination for over 40 years. As Australia's second largest trading partner and third largest source of foreign investment, Japan has made a significant contribution to Australia's prosperity.
- 2.2 The importance of the relationship was emphasised throughout this inquiry. Australia is one of Japan's most important suppliers of food, energy and mineral resources and a world-class centre for financial and other services. Japan is a major exporter of automobiles and manufactured products and a reliable customer for Australian resources. Since the 1960s Japanese investment has been instrumental to the development of the Australian economy.²
- 2.3 The Department of Agriculture, Fisheries and Forestry characterised Australia and Japan as:

1 Department of Foreign Affairs and Trade (DFAT) and Austrade, *Submission 3 (Japan)*, p. 1.

2 DFAT, *Japan Country Brief*, December 2012, viewed 16 January 2013, <http://www.dfat.gov.au/geo/japan/japan_brief.html>; Mr Tetsuro Amano, Embassy of Japan, *Committee Hansard*, 29 November 2012, p. 6.

... natural partners in the region, with shared democratic and market economy ideals, but differing natural endowments including of land and natural resources. ... The agricultural relationship with Japan is part of a broader partnership that has been beneficial to the economic and physical security of both nations.³

- 2.4 Japan's economic importance to Australia is not diminished by the rise of countries such as China and India. Indeed, it is expected that Japan will remain one of Australia's most significant trading partners well into the future.⁴

Development of the relationship

- 2.5 The current trading relationship originated with the 1957 *Agreement on Commerce between Japan and the Commonwealth of Australia* (the Commerce Agreement). Sir Rod Eddington, President of the Australia Japan Business Cooperation Committee (AJBCC), described this agreement as a platform that:

... reflected real courage and leadership from the senior politicians in both our countries, given that it was about 12 years after the end of the Pacific war. That agreement underpins today's trading relationship.⁵

- 2.6 The Commerce Agreement removed trade restrictions between Australia and Japan, providing a more certain business environment. This led to increased commercial links between the two countries.⁶ The Commerce Agreement is considered to have 'formalised and entrenched the shift towards Japan as a key export market and source for manufactured imports' and in 1966, Japan overtook the United Kingdom as Australia's largest export market.⁷
- 2.7 In 1976, Australia and Japan concluded the *Basic Treaty of Friendship and Cooperation between Australia and Japan* (the Nara Treaty), which 'enshrined

3 Department of Agriculture, Fisheries and Forestry (DAFF), *Submission 12 (Japan)*, p. 2.

4 DFAT and Austrade, *Submission 3 (Japan)*, p. 1.

5 Sir Rod Eddington, AJBCC, *Committee Hansard*, 14 November 2012, p. 2.

6 Australian Government (Department of Foreign Affairs and Trade), *Australia and Japan: How distance and complementarity shape a remarkable commercial relationship*, Canberra, 2008, pp. 43-44.

7 P. Drysdale, *Australia and Japan: a new economic partnership in Asia*, Report prepared for Austrade, Canberra, 2009, p. 9.

in formal and symbolic terms the friendship, community of interests and interdependence that exist between Australia and Japan.’⁸

- 2.8 The Nara Treaty established a broad framework for further cooperation and recognised the two countries’ mutual interest in each being a stable and reliable supplier to and market for the other.⁹ It also strengthened the political relationship and provided for cooperation in other areas. Notable outcomes included growth in the investment relationship and the establishment of the Working Holiday Program.¹⁰
- 2.9 In the ten years following the conclusion of this treaty, trade between Australia and Japan increased almost four-fold.¹¹
- 2.10 In the last decade, ‘a more fully rounded and diverse partnership including on important political and security objectives’ has emerged, resulting in a strong and broad-ranging relationship.¹²
- 2.11 The Government’s *Australia in the Asian Century* profile for Japan summarised the relationship as follows:

Over more than 50 years, a shared commitment to democracy, the rule of law and open-market economics, underpinned by striking economic complementarity, have made the Australia-Japan partnership our closest and most mature in the region and a template for our wider engagement with Asia.

Japan is currently the largest developed economy in the region. It is a huge, sophisticated and reliable market for Australian exports, the third largest source of foreign investment into Australia globally and a major source of innovation. It is also Australia’s

8 M. Dee, ‘The Negotiation of the 1976 Basic Treaty of Friendship and Cooperation between Australia and Japan: A Study of the Documents’, in G. Woodard, M. Dee and M. Suich, *Negotiating the Australia-Japan Basic Treaty of Friendship and Cooperation: Reflections and Afterthoughts*, Asia Pacific Economic Papers No. 362, ANU, Canberra, 2007, p. 11.

9 M. Dee, ‘The Negotiation of the 1976 Basic Treaty of Friendship and Cooperation between Australia and Japan: A Study of the Documents’, in G. Woodard, M. Dee and M. Suich, *Negotiating the Australia-Japan Basic Treaty of Friendship and Cooperation: Reflections and Afterthoughts*, Asia Pacific Economic Papers No. 362, ANU, Canberra, 2007, p. 11.

10 P. Drysdale, *Australia and Japan: a new economic partnership in Asia*, Report prepared for Austrade, Canberra, 2009, p. 10.

11 The Hon Dr Craig Emerson MP, Minister for Trade and Competitiveness, *Address to Japan-Australia Business Cooperation Committee*, Tokyo, 31 May 2012, viewed 22 August 2012, <http://www.trademinister.gov.au/speeches/2012/ce_sp_120531.html>.

12 DFAT, *Japan Country Brief*, December 2012, viewed 16 January 2013, <http://www.dfat.gov.au/geo/japan/japan_brief.html>.

closest partner in efforts to shape the global and regional strategic environment to ensure peace, security and prosperity.¹³

- 2.12 In discussions with the Committee, Mr Tetsuro Amano of the Japanese Embassy highlighted the longevity of the relationship, emphasising the mutual confidence that has been established through longstanding relations.¹⁴ Mr Manuel Panagiotopoulos considered the established networks and trust that has been built between Australia and Japan to be a key strength:

All Asian markets depend to a greater degree than Western markets on well developed human capital networks. The 50 years of formal Japan-Australia ties means these networks are into third and even further generations.

Established networks are real assets, which provide the base for new commercial linkages and are very hard to duplicate.¹⁵

- 2.13 Sir Rod Eddington made the point, however, that:

... we have such a strong relationship with Japan that we tend to undervalue it and we do not recognise it for what it is.¹⁶

- 2.14 This was a recurring theme throughout the Committee's inquiry.

Overview of goods and services trade

- 2.15 In 2011-12, Japan remained Australia's second largest trading partner. Two-way trade in goods and services was valued at \$75.6 billion, an 11.7 percent increase on 2010-11.¹⁷

Exports

- 2.16 Australian exports to Japan in 2011-12 were valued at \$53.1 billion, representing approximately 16.8 percent of Australia's total exports. This was an 8.6 percent increase on 2010-11.¹⁸

13 Australian Government, *Australia in the Asian Century Japan Profile*, viewed 4 February 2013, <<http://dfat.gov.au/publications/asian-century/japan.html>>.

14 Mr Tetsuro Amano, Embassy of Japan, *Committee Hansard*, 29 November 2012, p. 6.

15 Australian and Japanese Economic Intelligence, *Submission 7*, p. 1; See also, Mr Manuel Panagiotopoulos, *Committee Hansard*, 14 November 2012, p. 13.

16 Sir Rod Eddington, *AJBCC, Committee Hansard*, 14 November 2012, p. 7.

17 DFAT, *Japan Country Brief*, December 2012, viewed 16 January 2013, <http://www.dfat.gov.au/geo/japan/japan_brief.html>.

18 DFAT, *Japan Country Brief*, December 2012, viewed 16 January 2013, <http://www.dfat.gov.au/geo/japan/japan_brief.html>.

- 2.17 Coal (\$17 billion), iron ore (\$10.8 billion), beef (\$1.58 billion) and copper ores and concentrates (\$1.4 billion) were Australia's major exports to Japan in 2011. Japan was also Australia's largest export market for beef, fish, fruit juice, animal feed, copper ores and concentrates, coal, liquefied propane and butane, aluminium, transmission shafts, dairy products and natural gas.¹⁹
- 2.18 Merchandise exports to Japan have more than doubled since 2000. In this period, the composition of exports has changed significantly with fuels and minerals exports increasing three and four fold respectively on 2000 levels.²⁰
- 2.19 In 2010, resources and energy comprised 85 percent of the value of Australia's total exports to Japan.²¹ Japan is Australia's principal export market for coal, aluminium and liquefied natural gas (LNG) and second largest market for iron ore and concentrates and copper ore and concentrates.²²
- 2.20 Agricultural trade is an important component of the trade relationship. Japan is Australia's second largest export market for food and agricultural products. In 2010-11, agricultural, fish and forestry exports were worth about \$5.2 billion.²³ The composition of agricultural trade with Japan has changed over time. Beef, cereals, dairy and high quality seafood dominate current trade.²⁴
- 2.21 Japan is a key market for the Australian beef industry. In 2011, exports to Japan represented 36 percent of Australia's global beef exports.²⁵
- 2.22 Japan is Australia's largest market for seafood exports and the Committee received particular evidence about Australia's seafood exports. Fish and fish preparation items are Japan's largest food and live animal imports, valued at 1.35 trillion yen in 2011. The Japanese seafood market accounted for 23 percent of Australia's total seafood exports in 2011, dominated by Southern Bluefin Tuna, Atlantic Salmon, Worked Cultured Pearls, Shrimps and Prawns, and Rocklobsters.²⁶

19 DFAT, *Japan Country Brief*, December 2012, viewed 16 January 2013, <http://www.dfat.gov.au/geo/japan/japan_brief.html>.

20 DFAT, *Submission 3 (Japan)*, p. 6.

21 DFAT, *Submission 3 (Japan)*, p. 7.

22 Department of Resources, Energy and Tourism (DRET), *Submission 16*, p. 7.

23 Ms Jo Evans, DAFF, *Committee Hansard*, 19 March 2012, p. 1.

24 DAFF, *Submission 12 (Japan)*, p. 2.

25 Mr Andrew McCallum, MLA, *Committee Hansard*, 28 November 2012, p. 1.

26 Seafood Services Australia, *Submission 23*, p. 3.

- 2.23 In real terms, the value of Australia's agricultural exports to Japan has declined while exports to other Asian markets have increased. That said, Australia makes an important contribution to Japan's food security through the safe and reliable supply of high quality food.²⁷

Imports

- 2.24 Japan is Australia's third largest source of imports, with passenger vehicles (\$7.1 billion), refined petroleum (\$2.1 billion), goods vehicles (\$1.5 billion), and civil engineering equipment and parts (\$1 billion) comprising major imports.²⁸
- 2.25 The Department of Foreign Affairs and Trade and Austrade stated that the propensity of Australians to buy Japanese goods is high compared with Japan's other developed trading partners, particularly in the automotive sector, which dominates Japanese exports to Australia.²⁹

Services

- 2.26 Services trade with Japan was worth \$4.2 billion in 2011, comprising \$2.0 billion in exports and \$2.2 billion in imports.³⁰ Japan is Australia's seventh-largest two-way services trading partner, our fifth-largest source of services imports and seventh-largest services export destination. Services trade is focussed in the tourism, transport and education sectors.³¹
- 2.27 Australia's services exports to Japan have shown a steady downward trend over the last ten years – a time when Australia's services exports to other major trade partners in Asia have grown significantly.³² This can be largely explained by the steady decline in Japanese tourism since the mid-1990s. Japanese student numbers have also declined in recent years.³³

27 Ms Jo Evans, DAFF, *Committee Hansard*, 19 March 2012, p. 1.

28 DFAT, *Japan Country Brief*, December 2012, viewed 16 January 2013, <http://www.dfat.gov.au/geo/japan/japan_brief.html>.

29 DFAT and Austrade, *Submission 3 (Japan)*, p. 8.

30 DFAT, *Japan Country Brief*, December 2012, viewed 16 January 2013, <http://www.dfat.gov.au/geo/japan/japan_brief.html>.

31 DFAT and Austrade, *Submission 3 (Japan)*, p. 9.

32 DFAT and Austrade, *Submission 3 (Japan)*, p. 10.

33 DFAT and Austrade, *Submission 3 (Japan)*, p. 11.

Overview of investment

Japanese investment in Australia

2.28 Japan is Australia's third largest foreign investor after the United States and United Kingdom. At the end of 2010, the total stock of Japanese investment in Australia was worth \$117.6 billion, almost twice the sum of investment from China (including Hong Kong) at \$61 billion.³⁴

2.29 Australia is the fifth largest destination for Japanese Foreign Direct Investment (FDI) behind the United States, United Kingdom, China and Brazil and one of Australia's fastest-growing sources of foreign investment. Investment has more than doubled since 2001.³⁵ Australia is seen as a very safe, stable investment destination.³⁶

2.30 Various contributors to the inquiry emphasised the significance of Japanese investment. For example, the Department of Foreign Affairs and Trade and Austrade stated:

Japanese investment has been crucial in the development of many of Australia's key export industries and, consequently, central to Australia's own prosperity. Since the early 1960s, long-term contracts from Japanese users of minerals and energy, and investment by Japanese trading houses, have enabled the development of mines and gas fields for export markets, both in Japan and third countries ... Over time, Japan's FDI into Australia has diversified beyond the traditional resources sector, making a significant contribution to the development of Australia's manufacturing, agriculture and tourism sectors.³⁷

2.31 This diversified investment includes:

- \$800 million since 2004 by Toyota Australia in its Australian manufacturing facilities;
- acquisition of Paper Australia by Nippon Paper Group in 2009 for \$600 million;
- a \$190 million joint venture between Sekisui House, one of Japan's largest homebuilders, with Payce Consolidated to construct 4,500

34 DFAT and Austrade, *Submission 3 (Japan)*, pp. 13-14.

35 DFAT and Austrade, *Submission 3 (Japan)*, p. 14.

36 Mr Robert Bell, ANZ, *Committee Hansard*, 15 November 2012, p. 22.

37 DFAT and Austrade, *Submission 3 (Japan)*, pp. 14-15.

sustainable homes in Homebush Bay, NSW and Ripley Valley, Queensland;

- Asahi Group's 2011 purchase of a \$188 million stake in P & N Beverages Australia following its earlier purchase of Schweppes Australia for \$1.19 billion in April 2009; and
- acquisition of Dairy Farmers by Japanese beverage maker Kirin for \$910 million in December 2008, and Lion Nathan for \$3.5 billion in June 2009.³⁸

2.32 Other investment includes Snow Brand's investment in dairy ingredients in Victoria and Nippon Meat Packers in cattle-raising, feed-lotting and processing in Eastern Australia.³⁹

2.33 Sir Rod Eddington characterised Japanese investment to the Committee:

They are long-term investors; they bring pools of patient capital. They are strong customers as well. Because we enjoy a strategic relationship with Japan as well, it has been our experience that Japanese investment in Australia is not contentious. Although we understand and recognise the important role Japanese investment has had – for instance in resources, whether it is in coal or iron ore or LNG – there is actually a wide range of Japanese investment in areas that perhaps we are not as familiar with.⁴⁰

2.34 This includes infrastructure initiatives, food, tourism, financial services, consumer products, and housing.⁴¹

2.35 Japan is a major investor in Australian agriculture, fisheries and forestry and food, including dairy, livestock and beverages.⁴² In the ten years to 2009-10, Japan was Australia's seventh largest source of foreign investments in these sectors, totalling \$489 million.⁴³

Australian investment in Japan

2.36 Japan is Australia's seventh largest destination for foreign investment with stock of \$29 billion at the end of 2010, representing an 80 percent

38 DFAT and Austrade, *Submission 3 (Japan)*, p. 15.

39 Australian Industry Group (Ai Group), *Submission 6*, p. 2.

40 Sir Rod Eddington, *AJBCC, Committee Hansard*, 14 November 2012, pp. 2-3.

41 Mr Ian Williams, *AJBCC, Committee Hansard*, 14 November 2012, pp. 3-4.

42 DAFF, *Submission 12 (Japan)*, p. 4.

43 DAFF, *Submission 12 (Japan)*, p. 14.

growth since 2000.⁴⁴ The Department of Foreign Affairs and Trade and Austrade commented that:

The comparatively small stock of Australian FDI is consistent with the low levels of direct investment from all sources into Japan. FDI into Japan remains substantially lower than Japan's outward FDI, and is low overall compared with other developed economies.⁴⁵

2.37 The limitations and barriers to investment for Australian businesses are discussed later in the report.

Emerging trends

Japan in Asia

2.38 The Committee heard that Australian exports are increasingly going to firms in regional countries where Japanese companies are prominent investors, with their output being sold on to Japan and other countries.⁴⁶ In its submission, the Department of Foreign Affairs and Trade and Austrade pointed out that:

Sophisticated economies such as Japan are increasingly specialising in design, engineering, management and high value-added components. Japanese corporations are seeking to take advantage of lower-cost production in other Asian economies, particularly China – moving from a made-in-Japan model to a made-by-Japan model.⁴⁷

2.39 Japanese companies have created supply chains across the region, resulting in extensive trade and investment flows 'as semi-finished (or intermediate) goods [are] exported and re-exported across borders'. In addition to exporting energy and resources to Japan, therefore, 'Australia is exporting inputs directly into these supply chains, including in China.'⁴⁸

2.40 The AJBCC stated that:

Japanese corporates [are] being forced to make acquisitions offshore to compensate for the declining population and growth potential of the domestic market. Australia is an attractive base for procurement of clean green inputs and exports to third markets in

44 DFAT and Austrade, *Submission 3 (Japan)*, p. 16.

45 DFAT and Austrade, *Submission 3 (Japan)*, p. 17.

46 DFAT and Austrade, *Submission 3 (Japan)*, p. 7.

47 DFAT and Austrade, *Submission 3 (Japan)*, p. 9.

48 DFAT and Austrade, *Submission 3 (Japan)*, p. 9.

Asia, where increasing middle-class numbers are purchasing more western style and processed foods.⁴⁹

Resources and energy

- 2.41 With few natural resources, Japan is only four percent energy self-sufficient and the largest importer of coal and LNG in the world.⁵⁰ Resources and energy have been immensely important to Australia's relationship with Japan, both in terms of Australia's significant contribution to Japan's energy and resource needs and Japanese investment in Australian projects. As the AJBCC stated:
- It was Japanese investment from the 1960s in the mining and resources sectors that underpinned the development of Australia's mining industry, currently the single biggest contributor to Australia's economic vitality.⁵¹
- 2.42 The Great East Japan Earthquake caused significant damage to Japan's energy infrastructure and led to new energy priorities for Japan. The Japanese Government responded to the disaster by announcing construction of new non-nuclear power stations and greater use of gas. The Japanese Government also initiated a review of Japan's Basic Energy Plan, signalling an increased role for renewable energy with a target of 20 percent by 2020.⁵²
- 2.43 Japan's ongoing need for Australian resources was a theme throughout the Committee's visit to Japan, particularly in the context of its nuclear policy. The delegation heard that the Japanese Government is currently considering what proportion of its energy will be obtained from nuclear sources in the future, with three options – 0, 15 or 25 percent, under consideration.
- 2.44 Prior to the Great East Japan Earthquake, nuclear energy generated 30 percent of Japan's electricity. However, all reactors were gradually taken offline for safety checks in the wake of the earthquake. The delegation heard there is a growing anti-nuclear sentiment within Japan and that only two reactors had been restarted (in early July 2012) to ease energy shortfalls over that summer. It was suggested to the delegation that as Japan moves away from nuclear energy, it will have an increasing need for Australian resources.
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49 Australia Japan Business Cooperation Committee (AJBCC), *Submission 10*, p. 3.

50 DFAT and Austrade, *Submission 3 (Japan)*, p. 5.

51 AJBCC, *Submission 10*, p. 2.

52 DFAT and Austrade, *Submission 3 (Japan)*, pp. 18, 32.

- 2.45 With only two of Japan's nuclear reactors functioning, Sir Rod Eddington of the AJBCC commented on the impact of reducing nuclear energy supply. While the short term solution has been greater use of coal and gas, Sir Rod argued there is concern amongst Japanese business about security of energy supply, which is in turn impacting upon investment decisions.⁵³
- 2.46 In November 2012, Mr Tetsuro Amano of the Japanese Embassy outlined to the Committee key priority areas adopted by the Japanese Cabinet in July 2012 for the 'rebirth' of Japan. Energy and the environment is the first priority, 'realising innovative energy as an element of society – we symbolise that as 'green'.⁵⁴
- 2.47 Japan's decisions on energy will have implications for Australia in a number of areas, including exports, future Japanese investment in Australia, and Australia's partnership with Japan on low-emission and renewable-energy technologies.⁵⁵
- 2.48 The Department of Resources, Energy and Tourism stated in its submission that while traditional exports are fundamentally important, potential new opportunities exist in:
- resource and energy related expertise, such as the mining equipment, technology and services sector; and
 - renewable energy, energy efficiency and low-emission technologies and related services.⁵⁶
- 2.49 The Department also highlighted Australia's strong position to meet future growth in demand for LNG in the Asia-Pacific region. Although Australia has just under two percent of world gas reserves, it is the world's fourth largest LNG exporter with the potential to become the second largest exporter when projects currently under construction become operational. The Department considered that Australian production could potentially triple by 2020.⁵⁷
- 2.50 Factors that could affect future LNG supply to Japan include:
- a shift away from nuclear power that results in an increased percentage of Japan's energy needs being met by gas; and

53 Sir Rod Eddington, AJBCC, *Committee Hansard*, 14 November 2012, p. 4.

54 Mr Tetsuro Amano, Embassy of Japan, *Committee Hansard*, 29 November 2012, p. 6.

55 Mr Tetsuro Amano, Embassy of Japan, *Committee Hansard*, 29 November 2012, p. 6.

56 DRET, *Submission 16*, p. 4.

57 DRET, *Submission 16*, p. 15.

- declining production and rapidly growing domestic demand in Malaysia and Indonesia, from which Japan currently sources 40 percent of its LNG imports.⁵⁸

Resources investment

2.51 Since the 1980s, the pattern of Japanese investment in the Australian resources sector has changed with investors increasingly taking a direct stake in projects through equity partnerships and minority shareholdings.⁵⁹ Examples include the Ichthys gas and condensate project, where Japanese firm INPEX is the operator for the first time of a major LNG project in Australia; direct equity holdings by Japanese companies in the North West Shelf Venture and Darwin LNG; as well as the Pluto, Gorgon and Queensland Curtis LNG projects that are currently under construction.⁶⁰

Trade liberalisation and agricultural reform

2.52 Another emerging trend is Japan's changing approach to engagement with its key trading partners, which is influenced by a number of factors, including:

- the impact of demographic change on economic growth;
- the need to improve Japan's competitiveness; and
- the need to respond to growing global competition for resources and energy.⁶¹

2.53 Recent Japanese Government policies have addressed trade liberalisation and agricultural reform, and are examined further in the context of the free trade agreement negotiations later in the report.

Defence materiel cooperation

2.54 The Committee notes that although Japan is a 'critical regional strategic partner', Australia has no formal defence materiel cooperation with Japan.⁶²

58 DRET, *Submission 16*, p. 16.

59 DRET, *Submission 16*, p. 14.

60 DRET, *Submission 16*, p. 14.

61 DFAT and Austrade, *Submission 3 (Japan)*, p. 17.

62 Department of Defence, *Submission 4*, p. 2.

2.55 Cooperation is 'impeded by Japanese Government policy restrictions placed on defence arms, technology and industry cooperation.' The Department of Defence (Defence) told the Committee that:

Japanese policy restrictions include a prohibition on the exportation of arms and other military technologies to countries other than the United States.⁶³

2.56 This prohibition stems from the Three Principles on Arms Exports. Defence elaborated on this:

The Three Principles are not law and are not embedded in Japan's constitution. Introduced in 1967, the Three Principles prohibit weapon exports to communist bloc countries, countries which under United Nations resolutions arms exports are prohibited, and countries involved or likely to be involved in conflict. In 1976 these restrictions were expanded to include all nations, and the arms export restrictions are now a long-standing contention of Japanese defence policy. The restrictions were modified in 1983 to allow for defence technology exports to the United States, and Japan has made some exemptions to the restrictions, including the transfer of patrol boats to Indonesia for counter-piracy purposes in 2006.⁶⁴

2.57 Defence stated that Japan had recently been considering further exemptions to these restrictions, noting:

... the June 2011 announcement by the Government of Japan that it may ease some of these restrictions around the export of the SM-3 Block IIA missile, components of which have been co-developed between the United States and Japan.⁶⁵

2.58 Defence indicated that it would welcome the opportunity to commence formal materiel cooperation with Japan. Defence also noted that Australia has a strong institutional framework in place to ensure that defence technology is not exported to third parties without the originating country's approval, one of the reasons behind Japan's policy restrictions.⁶⁶

Multilateral cooperation

2.59 Australia engages with Japan in a range of multilateral institutions. Australia and Japan share an interest in liberalising global trade and often

63 Department of Defence, *Submission 4*, p. 2.

64 Department of Defence, *Submission 20*, p. 1.

65 Department of Defence, *Submission 4*, p. 2.

66 Department of Defence, *Submission 4*, p. 2.

work together in the World Trade Organisation in areas such as liberalisation of trade in agricultural products and services, and intellectual property. The Department of Foreign Affairs and Trade and Austrade stated:

In April 2011, the prime ministers of Australia and Japan released a joint statement which called for 'a successful conclusion of the WTO Doha Round negotiations as promptly as possible'. Such a result would create a new wave of global trade liberalisation, which would also produce new trade opportunities for Japan and Australia...⁶⁷

2.60 Along with Australia, Japan is a founding member of the Asia Pacific Economic Cooperation (APEC), the 'preeminent trade and economic forum in the Asia-Pacific region.' Australia and Japan have actively pursued mutual interests in APEC:

Australia and Japan work together across a broad spectrum of APEC issues, including trade and investment facilitation, structural reform and emergency preparedness. Australia played a major role in assisting Japan to deliver progress on several key APEC issues during its host year in 2010. At Japan's invitation, we collaborated closely on the drafting of the Bogor Goals assessment report, a key document mapping APEC's progress towards free and open trade and investment by 2020.⁶⁸

2.61 Other areas of collaboration in APEC, include:

- APEC's structural reform agenda;
- developing APEC's Supply-Chain Connectivity Framework;
- supporting the Policy Support Unit, APEC's analytical arm; and
- emergency preparedness.⁶⁹

2.62 Australia and Japan also work together in both the East Asia Summit and the Association of Southeast Asian Nations Plus Working Groups.

2.63 Australia and Japan are also both active in the Food and Agriculture Organization (FAO) and the Organization for Economic Co-operation and Development (OECD). The Department of Agriculture, Fisheries and Forestry noted that Australia and Japan do not generally hold the same

67 DFAT and Austrade, *Submission 3 (Japan)*, p. 43.

68 DFAT and Austrade, *Submission 3 (Japan)*, pp. 45-46.

69 DFAT and Austrade, *Submission 3 (Japan)*, p. 46.

views on agricultural trade issues, particularly agriculture support and increased market access, but are more aligned on services and industrial products.⁷⁰

2.64 Both countries are also participants in the Regional Comprehensive Economic Partnership (RCEP) negotiations, which were launched during the East Asia Summit in Cambodia on 20 November 2012. These negotiations are intended to create a regional free trade area through a comprehensive and mutually beneficial agreement. RCEP will initially include the ten ASEAN member states and those countries that have an existing free trade agreement with ASEAN, including Australia, Japan and the Republic of Korea.⁷¹

2.65 Mr Tetsuro Amano of the Japanese Embassy provided the following perspective on cooperation:

Both countries, Japan and Australia, share the great vision of promoting trade liberalisation and investment in the Asia-Pacific region. Both countries have worked together towards this vision under APEC, which was established by the co-initiative of the two countries. In particular, it is important to achieve the common goal of establishing the FTAAP, the Free Trade Area of the Asia-Pacific. This is a final goal of free-trade negotiations in the Asia-Pacific region.

As a step towards this final goal, Japan would like to promote the negotiations of the RCEP, the Regional Comprehensive Economic Partnership – of course, the Australian government also participates in the forum – which was launched during the occasion of the ASEAN leaders meeting recently.⁷²

2.66 Mr Amano went on to state that Japan intends to continue close communication with Australia on Japan's participation in the Trans Pacific Partnership (TPP) negotiations.⁷³ The TPP was one area of focus in the Committee delegation's discussions in Japan with the Senior Vice Minister for Economy, Trade and Industry, Vice Minister for Foreign Affairs, and the Chair and Senior Members of the Upper and Lower House Trade and

70 DAFF, *Submission 12 (Japan)*, p. 22.

71 DFAT, 'Regional Comprehensive Economic Partnership (RCEP) negotiations', viewed 19 February 2013, <<http://www.dfat.gov.au/fta/rcep/>>.

72 Mr Tetsuro Amano, Embassy of Japan, *Committee Hansard*, 29 November 2012, pp. 6-7.

73 Mr Tetsuro Amano, Embassy of Japan, *Committee Hansard*, 29 November 2012, p. 7.

Agriculture Committees. The Committee notes that Japan has expressed formal interest in joining the TPP negotiations.⁷⁴

- 2.67 The Australian Government's Trade Policy Statement indicates that the TPP is the Government's highest regional trade negotiation priority and that:

The Australian Government will pursue a TPP outcome that eliminates or at least substantially reduces barriers to trade and investment.⁷⁵

- 2.68 The Department of Agriculture, Fisheries and Forestry noted that the decision to admit new members to the negotiations is taken jointly by TPP members on a consensus basis. Any country that seeks to join the negotiations must demonstrate a willingness to commit to a high-quality and comprehensive agreement.⁷⁶

Barriers and impediments for Australian businesses

Background

- 2.69 This section outlines the various barriers and impediments to trade and investment faced by Australian businesses. The general introductory statements apply to both Japan and the Republic of Korea (ROK). Specific barriers faced in Korea will be addressed later in the report.
- 2.70 The nature of the barriers faced by Australian businesses include tariffs; duties; domestic laws, regulations and policies; domestic resistance; and limited market information.
- 2.71 While barriers and impediments do not prohibit trade and investment, they do limit opportunities for Australian businesses. The Australian Chamber of Commerce in Korea stated that barriers increase the cost of doing business, reduce confidence and create uncertainty.⁷⁷ Barriers also limit competition, productivity, market forces and market access, effectively preventing free trade.

74 DFAT, 'Trans-Pacific Partnership Agreement negotiations', viewed 14 February 2013, <<http://www.dfat.gov.au/fta/tpp/>>.

75 Gillard Government Trade Policy Statement: *Trading our way to more jobs and prosperity*, April 2011, p. 11.

76 DAFF, *Submission 12 (Japan)*, p. 23.

77 Australian Chamber of Commerce in Korea, *Submission 17*, p. 7.

- 2.72 Both Japan and the ROK apply tariffs to goods. The most significant tariffs in both countries apply to the agricultural sector, although these markets still offer significant opportunities for Australian exports.⁷⁸ The Department of Agriculture, Fisheries and Forestry pointed out that because Japan's dependency on imported food is higher than that for many other countries, post-war experiences of famine and concerns about the possible impact of food shortages and food embargoes have been used to justify policies that aim to attain a high level of food self sufficiency. These policies include the full range of interventions seen in Japanese agriculture, including tariffs, non-tariff measures, statutory import and marketing arrangements, subsidies and more.⁷⁹
- 2.73 Japan uses an array of policies to support agriculture, including high tariffs, quota restrictions, subsidies, import tenders and elaborate marketing schemes often involving state owned enterprises. Most of this support is considered by the OECD to be distortionary.⁸⁰
- 2.74 The Department of Foreign Affairs and Trade and Austrade considered Japanese policies to promote food self-sufficiency have done little to improve domestic productivity. Such policies can therefore be seen as indirect non-tariff barriers, as they limit the importation of goods that might have otherwise occurred in a free market.⁸¹
- 2.75 The trade relationships with Japan and the ROK also involve technical market access issues, such as ensuring paperwork is completed and systems are in place prior to exports arriving. A smooth trade relationship and ongoing perseverance is required to maintain and improve these processes.⁸²
- 2.76 Australian businesses providing services or investing also face barriers concerning nationality and language.
- 2.77 Other barriers to exports come from within Australia. Domestic barriers include long lead times, limited infrastructure and a lack of skilled labour. It was submitted that the Australian Government has developed policies to address these issues.⁸³ Other domestic challenges for all of Australia's

78 Mr Karl Brennan, DIISR, *Committee Hansard*, 2 November 2011, p. 7; Ms Jo Evans, DAFF, *Committee Hansard*, 19 March 2012, p. 1.

79 DAFF, *Submission 12 (Japan)*, p. 5.

80 DAFF, *Submission 12 (Japan)*, p. 5.

81 DFAT and Austrade, *Submission 3 (Japan)*, p. 28.

82 Mr Charles McElhone, NFF, *Committee Hansard*, 19 March 2012, p. 14.

83 DRET, *Submission 16*, p. 20.

trade and investment relationships include increasing innovation, skills and productivity within Australian firms.⁸⁴

- 2.78 Other factors affecting the ability of Australian businesses to engage include currency fluctuations,⁸⁵ free trade agreements that the trade partner may have with other countries⁸⁶ and the competitiveness and uncertainties of global markets.⁸⁷
- 2.79 As noted earlier, in the defence sector, barriers include policy (not legal or constitutional) restrictions that prohibit defence arms, technology and industry cooperation with Australia.⁸⁸

Goods barriers

- 2.80 Australian businesses face various barriers and impediments to exporting goods to Japan. These fall into two categories: tariff barriers and non-tariff barriers.

Tariff barriers

- 2.81 Japan applies tariffs to approximately 59 percent of its 8,826 tariff lines, with 14 per cent of tariff lines having rates above 10 percent.⁸⁹ Japan's average most-favoured-nation (MFN) applied tariff⁹⁰ is 5.8 per cent. In 2009, approximately eight per cent of Australia's exports to Japan (by value) were subject to tariffs.⁹¹

Agricultural barriers

- 2.82 In the agricultural sector, the average MFN-applied tariff is 15.7 per cent with over three-quarters of agriculture tariff lines subject to a tariff rate. Rates for specific agricultural goods range from zero for cut flowers to over 450 per cent for some vegetables. Tariffs can be specific (based on a

84 Mrs Judith Zielke, DIISR, *Committee Hansard*, 2 November 2011, p. 6.

85 DAFF, *Submission 12 (Japan)*, p. 27; DAFF, *Submission 12 (ROK)*, p. 27.

86 DFAT and Austrade, *Submission 3 (Japan)*, pp. 29-30.

87 DRET, *Submission 6*, p. 19.

88 Department of Defence, *Submission 20*, p. 1.

89 A tariff line is 'a product as defined in lists of tariff rates'. World Trade Organization (WTO), 'Glossary', viewed 26 February 2013, <http://www.wto.org/english/thewto_e/glossary_e/glossary_e.htm>.

90 A most-favoured nation tariff is a 'normal non-discriminatory tariff charged on imports (excludes preferential tariffs under free trade agreements and other schemes or tariffs charged inside quotas)'. World Trade Organization (WTO), 'Glossary', viewed 26 February 2013, <http://www.wto.org/english/thewto_e/glossary_e/glossary_e.htm>.

91 DFAT and Austrade, *Submission 3 (Japan)*, p. 20.

unit) or ad valorem (based on a percentage). The use of specific tariffs can hide tariff 'peaks' that would stand out in ad valorem tariffs.⁹²

- 2.83 For Australia, tariffs apply to 54 per cent of the value of Australia's agricultural exports to Japan. This ranges from 15 per cent for wine to up to 218.6 per cent for raw sugar. Other items within this range include oranges (16 per cent), cheese (up to 40 per cent), beef (up to 50 per cent), milk powders (up to 66.1 per cent), and wheat (up to 78.7 per cent).⁹³

Non-agricultural tariffs

- 2.84 Outside the agricultural sector, 99 per cent of exports in 2009 were subject to a tariff rate of zero, with an average MFN-applied tariff of 3.5 per cent. Tariff rates include 11.7 per cent for nickel, 6.3 per cent for ferro-manganese, 3.2 per cent for coke and semi-coke of coal, and 3.3 per cent for aluminium hydroxide. The leather, rubber, footwear and travel goods sector has an average applied tariff of 14.5 per cent.⁹⁴

Non-tariff barriers

- 2.85 In addition to Japan's tariff barriers, many of Australia's agricultural exports must be traded through Japan's state trading system. This means that they attract duties other than tariffs, including mark-ups, surcharges and levies.⁹⁵ Other non-tariff barriers include import quotas and safeguards.
- 2.86 Duties other than tariffs apply to many of Australia's agricultural exports, such as wheat, barley, sugar and some dairy products. These items are classified as state-traded items and must be sold to the Japanese Government or selected agencies. The exporter must pay a duty before the goods are sold on to Japanese traders. The Department of Foreign Affairs and Trade and Austrade argued that this limits free trade by allowing the Japanese government to 'strictly control import volumes while extracting a rent (or revenue) from the transaction process.'⁹⁶
- 2.87 Non-tariff duties can be significantly higher than applied tariffs, which means that 'while some trade might appear *tariff free*, it is not necessarily *duty free*.'⁹⁷ This is the case for most state-traded wheat, barley and sugar

92 DFAT and Austrade, *Submission 3 (Japan)*, p. 20.

93 DFAT and Austrade, *Submission 3 (Japan)*, p. 20.

94 DFAT and Austrade, *Submission 3 (Japan)*, pp. 20-21.

95 DFAT and Austrade, *Submission 3 (Japan)*, p. 21.

96 DFAT and Austrade, *Submission 3 (Japan)*, p. 21

97 DFAT and Austrade, *Submission 3 (Japan)*, p. 21 [emphases in original].

products. Other products, such as butter and milk powders are subject to both a tariff (of 35 per cent and 25 per cent respectively) and a mark-up (of up to 164.2 per cent and up to 160 per cent respectively).⁹⁸

2.88 The Department of Foreign Affairs and Trade and Austrade stated that the state trading system results in a lack of transparency in goods trade and distorts market forces. State trading enterprises also create a barrier to Australian businesses trying to form and develop commercial relationships with Japanese customers.⁹⁹

2.89 Trade barriers also include the promotion of domestic food self-sufficiency and various means of direct government support to Japanese farmers, including subsidies, income support and price support through direct market intervention.¹⁰⁰

2.90 Japan operates tariff-rate quotas (where a specified quantity of imports may occur in quota at a reduced or zero tariff) for 175 tariff lines, mostly for dairy products and cereals. There are various methods for quota administration, and the quotas often involve:

... *inter alia* a combination of tariffs, additional duties collected by state-trading enterprises, import licensing, end-use restrictions, and restrictive-eligibility criteria for quota applicants.¹⁰¹

2.91 This leads to a system that is 'rigid, highly complex and opaque' to Australian exporters.¹⁰² Quota systems for wheat and dairy are particularly complex. There are two import systems for wheat, and restrictions on how dairy products can be used.¹⁰³

2.92 Fisheries imports are controlled through import quotas and licences. In-quota tariffs range from 3.5 to 15 per cent and apply to items including yellowtail, herring, cod, mackerel, sardines, horse mackerel, cod roes, scallops, cuttlefish and squid. Trade outside the quota is strictly prohibited to protect domestic production, and the quota is divided into sub-quotas. Limited allocation of sub-quotas on a first-come-first-served basis creates a barrier to new exporters.¹⁰⁴

98 DFAT and Austrade, *Submission 3 (Japan)*, p. 21.

99 DFAT and Austrade, *Submission 3 (Japan)*, pp. 21-22.

100 DFAT and Austrade, *Submission 3 (Japan)*, p. 28.

101 DFAT and Austrade, *Submission 3 (Japan)*, p. 21.

102 DFAT and Austrade, *Submission 3 (Japan)*, p. 21.

103 DFAT and Austrade, *Submission 3 (Japan)*, pp. 21-22.

104 DFAT and Austrade, *Submission 3 (Japan)*, p. 22.

- 2.93 Pork is subject to a gate-price system, which is similar to a variable levy. Pork and beef can be subject to safeguards, and other agricultural products may be subject to special safeguards if imports may harm or are harming the domestic industry.¹⁰⁵ Japan has reserved the right to use special safeguards on 119 agricultural products.¹⁰⁶
- 2.94 Other barriers include:
- Japan's sanitary and phytosanitary regime, which includes some regulations that are more stringent than international guidelines and procedures;
 - Japan's lengthy approval system for food additives – a process that can take up to five years; and
 - Negotiations on phytosanitary market-access requests for the export of horticultural goods.¹⁰⁷
- 2.95 ANZ identified quotas, 'excessive product testing', particularly for dairy, rice and grain, and 'inconsistent interpretation of legislation' as key barriers for Australian businesses.¹⁰⁸
- 2.96 The Australian Industry Group (Ai Group) also identified barriers within Japan, including: standards unique to Japan (formal and informal); official regulations skewed towards Japanese items; licensing powers that limit membership and market access; lack of transparency surrounding import insurance; airport clearance fees; and complex customs clearance procedures.¹⁰⁹ Ai Group told the Committee that these represent a very high barrier for Australian food manufacturers accessing the Japanese market. Further:

We see this as straightforward agricultural protection within the Japanese market. We represent a lot of food processors and the food processing industry and they made the point to us, when we sought their input into the submission, that the Japanese agriculture sector routinely applied standards or requirements that are unique to Japan and that apply nowhere else in the world. They will come up with rationales and explanations for this but they are still on their own. When our food processing industry is

105 DFAT and Austrade, *Submission 3 (Japan)*, p. 23.

106 DFAT and Austrade, *Submission 3 (Japan)*, pp. 23-24.

107 DFAT and Austrade, *Submission 3 (Japan)*, p. 24.

108 ANZ, *Submission 9*, p. 6.

109 Ai Group, *Submission 6*, p. 3.

trying to compete in the market, it is basically blocked at the door...¹¹⁰

2.97 Ai Group also explained its concerns about airport clearance processes:

We have been told of numerous examples of goods being left on docks or in airports for a very long time seeking clearance, getting spoiled. This came up several times when we were seeking input. They are goods that just happen to be left on the docks awaiting clearance. When you are dealing with food product you cannot wait long. It was a back door de facto way of keeping them out of the market essentially.¹¹¹

Services barriers

2.98 There are a number of barriers to services in Japan for Australian businesses, despite Japan's commitments to market access in the World Trade Organization.¹¹² These barriers limit Australia's involvement in Japan's legal, financial, education, telecommunications and infrastructure services sectors.

Legal services

2.99 Barriers to the legal sector include restrictions on the ability of foreign lawyers to provide international legal services inside Japan. To practise Japanese law, lawyers must pass the Japanese Bar Examination and be qualified as a Japanese lawyer. Qualified foreign lawyers may provide legal advice on international law issues but are restricted in that they are only able to set up joint enterprises with Japanese lawyers.¹¹³ The AJBCC described these domestic registration requirements as 'artificial and restrictive.'¹¹⁴

2.100 Registration processes for foreign lawyers can be cumbersome, and to maintain their registration they must be resident in Japan for 180 days per year. Registered foreign lawyers can only provide legal advisory services on their home jurisdiction, cannot form a legal professional corporation in the way that Japanese lawyers can, and are prevented from opening branch offices in Japan.¹¹⁵

110 Mr Innes Willox, Ai Group, *Committee Hansard*, 15 November 2012, p. 4.

111 Mr Innes Willox, Ai Group, *Committee Hansard*, 15 November 2012, p. 4.

112 DFAT and Austrade, *Submission 3 (Japan)*, p. 24.

113 DFAT and Austrade, *Submission 3 (Japan)*, p. 24.

114 AJBCC, *Submission 10*, pp. 5-6.

115 DFAT and Austrade, *Submission 3 (Japan)*, pp. 24-25.

Financial services

- 2.101 The financial services sector has fewer barriers to Australian businesses, with competition encouraged and the regulatory environment eased. Remaining barriers include licensing requirements and restrictions on foreign investment, and Japan's banking law means that deposit insurance does not apply to branches of foreign banks that are incorporated outside of Japan.¹¹⁶
- 2.102 Additionally, companies without a commercial presence in Japan cannot in most circumstances access Japan's Government Pension Investment Funds market, which was valued at approximately \$1.4 trillion in 2010.¹¹⁷

Education services

- 2.103 Although foreign education institutions are able to open and provide education services, they are discouraged by strict regulation and administrative requirements, exclusion from benefits available to Japanese educational institutions (including tax concessions), and limitations on the recognition of foreign academic qualifications which reduce the movement of students.¹¹⁸

Telecommunications

- 2.104 Japan's telecommunications sector has been deregulated significantly since 1985, however a number of restrictions on communications and broadcasting services remain. Telecommunications policy and regulation are managed by the Japanese government, rather than by an independent regulator, and competition is limited as the dominant, government-owned carrier, NTT, fixes interconnection rates.¹¹⁹

Infrastructure

- 2.105 Although Japan's Public Finance Initiative Law has been amended to provide greater private sector involvement, barriers to participation in public infrastructure projects in Japan include preventing private enterprises from participating in certain sectors such as toll roads and hospitals, and difficulty in accessing information for upcoming projects, which is generally held by prefectural (state) governments and available

116 DFAT and Austrade, *Submission 3 (Japan)*, p. 25

117 DFAT and Austrade, *Submission 3 (Japan)*, p. 25

118 DFAT and Austrade, *Submission 3 (Japan)*, p. 25

119 DFAT and Austrade, *Submission 3 (Japan)*, p. 25

only in Japanese. Australian businesses can also find it difficult to access distribution networks, as relationships between businesses in the supply chain can be interconnected.¹²⁰

Investment barriers

- 2.106 Japan's inward stock of FDI is the lowest in the OECD, representing only three percent of GDP in 2007.¹²¹ Deterrents to investment include language barriers, the high cost of doing business in Japan, and a restrictive foreign investment regime. Japan has the strongest restrictions on foreign equity investments in the OECD. In contrast, other restrictions are lower. Foreign investment restrictions are highest in the agriculture, forestry, fisheries and mining sectors, and lowest in the electricity, construction, retail and wholesale distribution sectors.¹²² The Department of Agriculture, Fisheries and Forestry argued that Japan's agricultural, fisheries and forestry sectors are substantially off-limits for foreign direct investment.¹²³
- 2.107 The Committee sought particular information about the foreign investment regime in Japan from the Department of Foreign Affairs and Trade and Austrade. An outline of the regime, provided by the Department, is included in full at Appendix E.
- 2.108 The Department of Foreign Affairs and Trade and Austrade noted that the Japanese Government has acknowledged many of the restrictions facing foreign investors, which include:
- regulatory and administrative procedures;
 - strong resistance to FDI from the corporate sector;
 - high corporate tax rates;
 - lack of transparency on tax treatment for complex transactions;
 - limited information on regional markets in Japan;
 - insufficient capacity in regional areas of Japan to deal with FDI; and
 - language barriers.¹²⁴
- 2.109 Although the Japanese Government implemented *the Inward Investment Promotion Program* in 2010 to address regulatory and administrative
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120 DFAT and Austrade, *Submission 3 (Japan)*, pp. 25-26.

121 DFAT and Austrade, *Submission 3 (Japan)*, p. 26.

122 DFAT and Austrade, *Submission 3 (Japan)*, p. 26.

123 DAFF, *Submission 12 (Japan)*, p. 14.

124 DFAT and Austrade, *Submission 22*, p. 2.

barriers and adversarial attitudes to foreign investors, many measures are yet to come into effect.¹²⁵

- 2.110 Japan's legal framework for foreign investment 'does not have a screening process for inward FDI *per se*, requiring in most cases only notification after the fact.' However, 'pre-transaction notification filing' is required in some circumstances. This depends on the nationality of the investor and the sensitivity of the industry involved, that is, whether it may impair national security, disturb public order, hinder public safety or cause 'significant harm to the smooth management of the Japanese economy.'¹²⁶
- 2.111 Sectors requiring pre-transaction notification filing include agriculture, forestry, fisheries, petroleum, leather and leather products and air and maritime transport. Sectors requiring prior notification 'on the grounds of public order and national security' include aircraft, arms, explosives, nuclear power, electric utilities, gas, water, heat generation, space, security, biological preparations, rail transport, passenger transport, telecommunications, television, cable television and broadcasting.¹²⁷
- 2.112 Land ownership eligibility and processes in the agricultural sector are the same for foreigners and nationals.¹²⁸
- 2.113 The AJBCC identified various barriers for Australian businesses to undertake infrastructure development in Japan: legal restrictions on private businesses undertaking roads, ports and airports projects; the present tendering system; the restriction on toll roads that prohibits private enterprises from profiting from toll roads; shares transfer restrictions; the inability to engage public officials in secondments; and an inefficient and inflexible tax structure that restricts investment in infrastructure.¹²⁹
- 2.114 The Committee supports the Government's efforts to address both tariff and non-tariff barriers through the FTA process, which will be discussed in the next section.

125 DFAT and Austrade, *Submission 22*, pp. 2-7.

126 DFAT and Austrade, *Submission 22*, pp. 3-5.

127 DFAT and Austrade, *Submission 3 (Japan)*, p. 26.

128 DFAT and Austrade, *Submission 22*, p. 15.

129 AJBCC, *Submission 10*, pp. 5-6.

Free trade agreement

Background

- 2.115 Negotiations for a FTA with Japan have been underway since 2007. Understandably delayed following the Great East Japan Earthquake in March 2011, negotiations resumed in December 2011. Since then, four rounds of negotiations have been undertaken with the most recent, the sixteenth, taking place in June 2012.¹³⁰
- 2.116 Japan has concluded FTAs with Peru, India, Thailand, Singapore, Philippines, Malaysia, Mexico, Chile, Indonesia, Vietnam, ASEAN, Switzerland and Brunei. It also has a number of agreements under negotiation or at the point of a feasibility study.¹³¹
- 2.117 Australia is currently involved in bilateral FTA negotiations with China, Japan, South Korea, India and Indonesia as well as several plurilateral negotiations.¹³²

Benefits of the agreement

- 2.118 A FTA with Japan is identified as a priority in the Government's Trade Policy Statement *Trading our way to more jobs and prosperity*. As an important market for Australia, reduction and elimination of Japan's substantial tariff and non-tariff barriers would bring considerable benefits to Australian business.¹³³
- 2.119 Participants in the inquiry considered that the agreement would open opportunities for business in both countries. For example, Sir Rod Eddington of the AJBCC stated:
- It is our view that if we are able to successfully conclude a FTA with the Japanese ... that will open the door to further opportunities in areas like resources and agriculture but also in areas like services.¹³⁴
- 2.120 Similarly, as Australia's largest market for food and agricultural exports:
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130 DFAT, 'Australia Japan Free Trade Agreement negotiations', viewed 6 February 2013, <<http://www.dfat.gov.au/fta/ajfta/>>.

131 DFAT and Austrade, *Submission 3 (Japan)*, pp. 29, 31.

132 DFAT, 'Australia's Trade Agreements', viewed 6 February 2013, <<http://www.dfat.gov.au/fta/>>.

133 DFAT and Austrade, *Submission 3 (Japan)*, p. 41.

134 Sir Rod Eddington, AJBCC, *Committee Hansard*, 14 November 2012, p. 2.

Australian agriculture stands to benefit greatly from a comprehensive FTA that includes reductions in tariffs affecting Australia's key rural exports. Australia's producers face some steep tariff barriers along with tariff-like arrangements, and for some commodities must navigate complex statutory marketing systems, all of which combine to stand between them and Japanese consumers.¹³⁵

- 2.121 The Ai Group argued that a FTA would provide consistency and address some of the difficulties experienced by Australian businesses in accessing the Japanese market:

A free-trade agreement would help, we believe, because it would set out very clear parameters for access. ... It gives you a basis from which to operate. At the moment there is no clear delineation, no broad overarching framework that you can revert back to so it is almost done on a sector-by-sector basis. ... When you get below that, a deal-by-deal basis or a transaction-by-transaction basis. You do not have that consistency, that broad framework in the relationship.¹³⁶

- 2.122 Sir Rod Eddington of the AJBCC considered the FTA would 'open the door' to greater Japanese investment in Australia.¹³⁷ ANZ similarly argued that a comprehensive FTA would lead to increased investment and trade. ANZ saw particular opportunities for Australia's financial services sector:

... more transparent, liberalised regulatory processes and rules would strengthen the relationship between Korean and Japanese regulators and Australian financial service providers. This would also generate increased certainty for Australian investors more broadly.¹³⁸

- 2.123 The AJBCC also argued that there would be a real and symbolic impact if the preferential treatment provided to the United States through the foreign investment regime and taxation regimes (such as double taxation treaties) was addressed.¹³⁹

- 2.124 Meat and Livestock Australia told the Committee of its strong support for the FTA:

135 DAFF, *Submission 12 (Japan)*, p. 21.

136 Mr Innes Willox, Ai Group, *Committee Hansard*, 15 November 2012, p. 4; See also Ai Group, *Submission 6*, p. 3.

137 Sir Rod Eddington, AJBCC, *Committee Hansard*, 14 November 2012, pp. 2-3.

138 ANZ, *Submission 9*, p. 7.

139 Mr Ian Williams, AJBCC, *Committee Hansard*, 14 November 2012, pp. 7-8.

In Japan, bilateral trade reform via the removal of the 38 per cent tariff, and the safeguard that sits above that, presents a unique opportunity for our sector, particularly in terms of future commercial gains. Not only will it deliver a more stable trade platform for our sector but the real beneficiaries are going to be Japanese consumers who at the moment pay an inflated price for beef at that retail and food service. There is an opportunity there for consumers, who are already predisposed to Australian beef to potentially consume more.¹⁴⁰

2.125 The joint Australia-Japan feasibility study completed in 2006 identified significant benefits to Australia and Japan from the proposed free trade agreement. The study concluded that a FTA would:

- deliver major economic gains for both countries;
- address discrimination resulting from each country's FTAs with others;
- promote ongoing economic reform and increase productivity in both countries;
- create new opportunities in respective services sectors, including by improving business mobility;
- tie Japan more closely to the largest contributor to Japan's energy supply and its third-largest supplier of minerals and resources;
- ensure Japan has reliable supplies of key minerals and energy into the future;
- help Japan realise its food security objectives;
- provide Australia with enhanced export opportunities to the world's third largest economy and its largest market for minerals, energy and food; and
- promote greater Japanese investment in Australia which would integrate Australia more closely with the Japanese market.¹⁴¹

Scope of the agreement

2.126 The Committee was informed that Japan's existing agreements, with a small number of exceptions, have contained no substantial concessions on agriculture.¹⁴² Products such as rice, wheat and barley, sugar, dairy

140 Mr Andrew McCallum, MLA, *Committee Hansard*, 28 November 2012, p. 1.

141 DFAT and Austrade, *Submission 3 (Japan)*, pp. 41-42.

142 DAFF, *Submission 12 (Japan)*, p. 21.

products, fish and fish products, petroleum oils, leather, leather products and footwear, and laminated wood have been consistently excluded.¹⁴³

2.127 Representatives of the Department of Foreign Affairs and Trade commented:

... the agreements that Japan has concluded thus far are not comprehensive in their agricultural outcomes; they have excluded a lot of products and their agreements, by and large, are not with major agricultural exporting countries.¹⁴⁴

2.128 In contrast to Japan's existing agreements:

Australia is seeking a comprehensive, high-quality agreement covering trade in goods (agricultural and non-agricultural), services and investment. Such an agreement would have a real impact in expanding trade and investment between Australia and Japan.¹⁴⁵

2.129 Significantly:

We are breaking new ground. There is no good precedent to follow from our perspective, unlike in the Korean situation, where Korea has concluded agreements with the US and EU.¹⁴⁶

2.130 The Committee supports the Government's approach to FTA negotiations and its efforts to obtain significant agricultural and non-agricultural outcomes.

Japanese policy

2.131 The Japanese Government addressed trade liberalisation and domestic economic reform in its *Basic Policy on Comprehensive Economic Partnerships* released in November 2010. The policy formed part of the Japanese Government's efforts to revitalise the Japanese economy.¹⁴⁷

2.132 The policy states that Japan will 'take major steps forward from its present posture and promote high-level economic partnerships with major trading powers'. Specifically, the policy recognises Australia, stating that: 'Japan

143 DFAT and Austrade, *Submission 3 (Japan)*, p. 29.

144 Ms Jan Adams, DFAT, *Committee Hansard*, 22 March 2012, p. 2.

145 DFAT and Austrade, *Submission 3 (Japan)*, p. 30.

146 Ms Jan Adams, DFAT, *Committee Hansard*, 22 March 2012, p. 2.

147 DFAT and Austrade, *Submission 3 (Japan)*, p. 18.

will increase its efforts to conclude the ongoing EPA [FTA] negotiations with Peru and Australia...'¹⁴⁸

2.133 Following the Great East Japan Earthquake, the Japanese Cabinet adopted its *Policy Guidelines: Towards Japan's Revitalisation* on 17 May 2011, which indicated trade liberalisation would continue but with revised timeframes.¹⁴⁹

2.134 More recently, in discussions with Mr Tetsuro Amano of the Japanese Embassy, the Committee heard about priority areas that had been adopted by the Japanese Cabinet in July 2012 for the 'rebirth of Japan':

Firstly, energy and the environment: realising innovative energy as an element of society – we symbolise that as 'green'. Secondly, life: this means we want to realise the world's leading health and medical care and the welfare of society – we symbolise that as 'life'. Thirdly, agriculture and small-to-medium enterprises – the revitalising of such areas.¹⁵⁰

2.135 Mr Amano went on to state that Japan will implement growth strategies that include promoting economic partnerships in the Asia-Pacific area, including Australia:

Japan attaches high importance to further strengthening its partnerships with Australia, which are based on mutual trust and the mutual benefit derived from open trade.

From this point of view, Japan is promoting the bilateral FTA negotiations with Australia.¹⁵¹

Agricultural reform

2.136 Japan's agricultural sector is one of the most protected in the world.¹⁵² In 2009, it was estimated that 42.2 percent of Japanese farmers were 70 years old or more with 66.4 percent aged at least 60.¹⁵³

148 Ministerial Committee on Comprehensive Economic Partnerships, *Basic Policy on Comprehensive Economic Partnerships*, November 2010, viewed 22 October 2012, <<http://www.mofa.go.jp/policy/economy/fta/policy20101106.html>>.

149 DFAT and Austrade, *Submission 3 (Japan)*, p. 43.

150 Mr Tetsuro Amano, Embassy of Japan, *Committee Hansard*, 29 November 2012, p. 6.

151 Mr Tetsuro Amano, Embassy of Japan, *Committee Hansard*, 29 November 2012, p. 6.

152 DFAT, *Japan Country Brief*, December 2012, viewed 16 January 2013, <http://www.dfat.gov.au/geo/japan/japan_brief.html>.

153 DAFF, *Submission 12 (Japan)*, p. 18.

- 2.137 The *Basic Policy on Economic Partnerships* recognised the impact that trade liberalisation would have upon Japan's agricultural sector:

In particular, agriculture is the field most likely to be affected by trade liberalization. Moreover, considering Japan's aging farming population, the difficulty farmers have in finding people to take over their farms when they are ready to retire, and the low rate of profit, there is a risk that sustainable agriculture will not be possible in the future. Hence it is imperative to institute bold policies that will realize the full potential of Japan's agriculture, for example, by improving their competitiveness and exploring new demand overseas.¹⁵⁴

- 2.138 Japan's policies and directions for agriculture were set down in agricultural basic laws enacted in 1961 and 1999. The Department of Agriculture, Fisheries and Forestry stated in its submission:

As well as the role of agriculture as a source of food, emphasis is given in the current basic law to the 'multifunctional roles of agriculture'. Those roles are defined to include the maintenance of the stability of people's lives, stable production in rural areas, conservation of land, water and the natural environment, the formation of good landscape and the maintenance of cultural traditions.¹⁵⁵

- 2.139 Over the period 2007-09, direct government support to Japanese agricultural producers on average accounted for 47 percent of farmers' incomes.¹⁵⁶

- 2.140 Ms Jan Adams of the Department of Foreign Affairs and Trade commented that:

... progress on the front of agricultural trade liberalisation is very closely linked with Japan's program of domestic economic and agricultural reform. That is a major policy front that the Japanese government is grappling with right now.¹⁵⁷

- 2.141 Agricultural reform offers opportunities for Australia. The Department of Agriculture, Fisheries and Forestry argued that:

154 Ministerial Committee on Comprehensive Economic Partnerships, *Basic Policy on Comprehensive Economic Partnerships*, November 2010, viewed 22 October 2012, <<http://www.mofa.go.jp/policy/economy/fta/policy20101106.html>>.

155 DAFF, *Submission 12 (Japan)*, p. 5.

156 DFAT and Austrade, *Submission 3 (Japan)*, p. 28.

157 Ms Jan Adams, DFAT, *Committee Hansard*, 22 March 2012, p. 1.

With the pursuit of reform in Japan will come opportunities for Australian agriculture. Many institutional barriers to trade with Japan stand to be addressed if reform is taken-up, including barriers that prevent Australian exporters establishing direct commercial relationships with Japanese end-users. Opportunities may also extend to the granting of access to Japan's largely closed market for the delivery of agricultural services in Japan, and to new investment opportunities.¹⁵⁸

- 2.142 The Committee heard that Japan is under pressure to pursue agricultural reform, both domestically, and in the context of its engagement with FTA partners including Australia, its potential inclusion in the Trans Pacific Partnership and from within the World Trade Organization.¹⁵⁹

Delegation discussions

- 2.143 During its visit to Japan, the Committee delegation had the opportunity to meet with Japanese ministers and parliamentarians. Discussions included the difficulties, from a Japanese perspective, associated with the inclusion of agriculture in the FTA.
- 2.144 In discussions with the Chair and Senior Members of the Upper and Lower House Trade and Agriculture Committees, members indicated they were not opposed to free trade but were concerned that the agreement achieves the right balance on issues such as volumes and level of tariffs.
- 2.145 Members also indicated the need for discussion about necessary protections. In particular, different members highlighted the sensitivities surrounding agricultural products, informing the delegation that these products are seen differently within Japan to other resources. For example, members explained that a strong emotional relationship exists with rice, arising from historical associations to its former use as currency. Farmers also express concern about whether they will be able to continue farming with the FTA in place.
- 2.146 Differing attitudes towards the proposed agreement were expressed to the delegation during its visit, however, with others highlighting the opportunities it presents for agricultural reform and to contribute to Japan's ongoing food security. Various groups have advocated the benefits of the agreement with the Japanese government.

158 DAFF, *Submission 12 (Japan)*, p. 28. See also Mr Robert Bell, ANZ, *Committee Hansard*, 15 November 2012, p. 24; Mr Justin Ross, Primary Industries and Regions SA, *Committee Hansard*, 15 November 2012, pp. 31-32.

159 DAFF, *Submission 12 (Japan)*, p. 28.

Australian perspectives

2.147 The National Farmers' Federation (NFF), in its submission, recognised the sensitivities surrounding agriculture, but stated:

If we look at the emerging challenges for food and fibre production and the role that Australian agriculture can play in Japan, the NFF does not believe that there is a long term or serious threat to Japan's farmers.¹⁶⁰

2.148 The NFF argued that more recognition should be given to the complementary nature of Australia and Japan's agriculture industries. In the NFF's view 'completed trade deals can benefit everybody.'¹⁶¹ Specifically:

- Australia is able to deliver the high quality, high value products desired by Japanese and Korean customers;
- Australia has a reputation for clean and natural supply systems, with the use of fumigants and insecticides heavily regulated and monitored by government authorities;
- Australian production, based around southern hemisphere seasons, is available in the 'off season' for Japan and Korea, particularly in sectors such as horticulture; and
- many Australian products are differentiated from Japanese and Korean local produce and service different market sectors. For example, in both markets Australian beef competes against other imported produce rather than against local beef. Similarly, Australia grain exports complement local production, which does not produce sufficient quantities of the grades of wheat necessary to make high quality grain based foods such as udon and alkaki noodles. Dairy exports also complement local production and do not compete in markets such as fresh milk, providing cheese for processing and other vital ingredients to dairy companies and other food manufacturers.¹⁶²

2.149 The Committee shares the view that there are significant benefits to be obtained for Australia from a comprehensive agreement that liberalises both goods and services trade and liberalises and facilitates investment.

¹⁶⁰ National Farmers' Federation, *Submission 15*, p. 5.

¹⁶¹ National Farmers' Federation, *Submission 15*, p. 6.

¹⁶² National Farmers' Federation, *Submission 15*, p. 6; Meat and Livestock Australia, *Submission 18*, p. 5. See also Mr Justin Ross, Primary Industries and Regions SA, *Committee Hansard*, 15 November 2012, pp. 30, 32.

- 2.150 The Committee supports efforts by the Australian Government to negotiate a comprehensive agreement that benefits both Australia and Japan. The Committee considers that such negotiations should continue to be prioritised by the Government, including at the Ministerial and Prime Ministerial level with their Japanese counterparts.

Recommendation 1

The Committee recommends that the Australian Government continue to prioritise negotiation and conclusion of a comprehensive free trade agreement with Japan that addresses the numerous barriers, particularly in the agricultural sector, to trade and investment between Australia and Japan.

Investment opportunities

- 2.151 As Australia's third largest source of foreign investment, the importance of Japanese investment in Australia has been recognised earlier in the report. This section examines in more detail some of the future opportunities.

- 2.152 Several inquiry participants noted that the attention given to Japanese investment is generally much less than investment from China and India. The AJBCC, for example, commented:

Much of the new and substantial Japanese investment in resources has been part of major iron ore and coal mine expansions operated by BHP Billiton, Rio Tinto, Anglo and Xstrata which has gone almost unnoticed. Almost all the major LNG projects under development have Japanese equity participation and are underpinned by Japanese power and gas utilities as foundation customers.¹⁶³

- 2.153 In evidence to the Committee, Mr Manuel Panagiotopoulos argued that the strong relationship between Australia and Japan will lead to more Japanese investment.¹⁶⁴ Mr Panagiotopoulos outlined the attractiveness of Australia not only as a source of investment, but also as a gateway to other parts of Asia. The size of the Australian economy, high levels of income

163 Australia Japan Business Co-operation Committee, *Submission 10*, p. 2.

164 Mr Manuel Panagiotopoulos, *Committee Hansard*, 14 November 2012, p. 14.

and growing population, together with Australia's biggest trading partners being in the adjacent region are all attractions. Further:

We have regulatory frameworks, financial markets, legal frameworks and political stability – all those commercial environmental issues which make investment attractive. We can be used as a base not just for sales in Australia but for sales to Asia.¹⁶⁵

2.154 To build investment links, ANZ considered that:

This long standing relationship needs to be nurtured. For example, the Japanese trading houses and corporates continue to look beyond their domestic businesses in order to grow. They are very active investors in the wider Asia Pacific region, including Australia. We believe the Australian Government and businesses play an important role in facilitating this investment.¹⁶⁶

2.155 Some of the areas of investor interest include resources, agriculture, services and manufacturing. As mentioned earlier, there is also growing interest in renewable energy following the Great East Japan Earthquake.¹⁶⁷

2.156 Mr Manuel Panagiotopoulos argued that 'fundamental economic forces will lead to much more Japanese FDI in the future':

Demographic change in the form of an ageing, shrinking population and a highly competitive domestic market means that the major growth opportunities for Japanese companies will be found outside Japan.¹⁶⁸

2.157 This view was echoed by the AJBCC, which pointed to opportunities in a number of areas, including infrastructure.¹⁶⁹ The AJBCC considered there were significant complementarities between Australia and Japan that could be utilised in joint infrastructure ventures. This includes 'world class Australian competencies' in design, construction, operation, maintenance, consortia/project management and financial management built up over long term private sector involvement in public infrastructure projects.¹⁷⁰

165 Mr Manuel Panagiotopoulos, *Committee Hansard*, 14 November 2012, pp. 15-16.

166 ANZ, *Submission 9*, p. 5.

167 Mr Robert Bell, ANZ, *Committee Hansard*, 15 November 2012, p. 23.

168 Australian and Japanese Economic Intelligence, *Submission 7*, p. 3.

169 Mr Bob Seidler, AJBCC, *Committee Hansard*, 14 November 2012, p. 5; AJBCC, *Submission 10*, p. 3.

170 AJBCC, *Submission 10*, p. 4.

- 2.158 The Committee heard that the AJBCC and its Japanese counterpart are promoting the public-private partnership model of infrastructure financing in Japan and in third countries. This work is supported by the Australian Government.¹⁷¹
- 2.159 The AJBCC told the Committee about joint trade missions that have been undertaken to India and Indonesia that included Australian banks, constructions companies, law firms and other business together with their Japanese counterparts, looking at opportunities to work together.¹⁷²
- 2.160 Mr Bob Seidler described this opportunity:
- In terms of third markets, there is a huge opportunity for us – which we are trying to exploit – in the infrastructure area. One of the benefits is that Japan has enormous influence around the region. They are the major aid supplier to almost every country. If you look at India, Japan has funded most of the major infrastructure projects there. Around the region, governments do not have the money for infrastructure. So they are funding a lot of this through aid agencies. It is either World Bank money, ADB or Japan. They have huge influence.¹⁷³
- 2.161 Sir Rod Eddington summarised this as follows:
- They bring capital and influence and we bring expertise.¹⁷⁴
- 2.162 The AJBCC also argued that Japanese companies have moved capital investment and manufacturing capacity to countries ‘in which they look to do business.’ Australia is one of these countries, with added attractiveness as Japan is one of Australia’s major customers.¹⁷⁵

Delegation discussions

- 2.163 During its visit to Japan, the Committee delegation heard about the growth in Japanese investment and its increasing focus outside Japan.
- 2.164 The Committee had the opportunity to attend a roundtable meeting with representatives of Japanese businesses, including Marubeni Corporation, Nikko Asset Management, Sumitomo Mitsui Banking Corporation

171 DFAT and Austrade, *Submission 3 (Japan)*, p. 33.

172 Sir Rod Eddington, AJBCC, *Committee Hansard*, 14 November 2012, p. 2.

173 Mr Bob Seidler, AJBCC, *Committee Hansard*, 14 November 2012, p. 5.

174 Sir Rod Eddington, AJBCC, *Committee Hansard*, 14 November 2012, p. 5.

175 Sir Rob Eddington, AJBCC, *Committee Hansard*, 14 November 2012, p. 6.

(SMBC), Nippon Steel Corporation, INPEX, Sumitomo Forestry and Kawasaki Heavy Industries.

- 2.165 Company representatives described their Australian investments, highlighting that one of the key benefits of conducting business in Australia is its stability. Compared with other markets, Australia was considered to be 'comfortable' with no sovereign risk. For companies such as Nippon Steel, Japan's leading steel company, which sources 65 percent of its iron ore and 60 percent of its coking coal from Australia, security of supply was extremely important.
- 2.166 Australia was also seen as a sophisticated and mature investment market. Mr Charles Beazley, Chief Executive Officer of Nikko Asset Management described Australia as one of the most geo-strategically important countries in Asia, with the fourth largest mutual investment market. Mr Beazley predicted a significant increase in investment in the next five to ten years.
- 2.167 Some of the investment challenges identified by companies included labour shortages and costs, the impact of the Mineral Resource Rent Tax, and transport and infrastructure costs.
- 2.168 Investment is across a range of sectors and it was pointed out that many companies are looking to diversify from a traditional investment focus upon resources. Agri-business, infrastructure, Public Private Partnerships (PPP), and emerging markets such as clean technology are some of the areas of interest. The delegation also heard that Japanese trading banks are looking for opportunities for domestic companies, such as joint ventures.
- 2.169 In Tokyo, the delegation also participated in a roundtable meeting with executive members of the Australia New Zealand Chamber of Commerce in Japan (ANZCCJ). Participants discussed investment opportunities in infrastructure, renewable energy, PPP, superannuation and funds management. Some of the issues that arose from the roundtable included:
- The importance of relationship building. For example, Mr Nobi Yamaji of Rio Tinto indicated that despite the length of time Rio Tinto has been involved in Japan and the scale of its imports (at \$10 billion), the relationship is still being developed. He added that contract stability is highly important to the Japanese.
 - Opportunities in services. For example, Mr Andrew Gauci, Deputy Chair of the ANZJCC and CEO of Lendlease Japan advocated a greater focus on services. He pointed out that although the Japanese construction industry is the third largest in the world, there are no

Australian companies involved in the industry with the exception of Lendlease, which has been in Japan for 24 years.

- Opportunities in the legal sector. For example, Mr Edward Cole of Freshfields pointed out that while the vast majority of foreign lawyers in Japan are Australian, Ashurst is the only Australian firm.

2.170 Following its visit to Tokyo, the delegation travelled to the Kansai region, which encompasses six prefectures in central Japan, and includes cities such as Kyoto and Osaka. The region accounts for 16 percent of Japan's GDP (79.7 trillion yen) and 16 percent of its population (20.7 million).¹⁷⁶

2.171 The delegation called on Osaka's Vice Governor, Mr Shinsaku Kimura. Mr Kimura described Osaka's status as a special economic zone and the steps that have been taken to eliminate local regulation and local taxes in order to promote investment. Mr Kimura indicated that he would welcome a greater focus on Osaka from Australian companies. It was noted the second largest Australian investment in Japan, Toll Holdings, is based in Osaka.

2.172 The delegation also met with representatives of the Kansai Economic Federation, known as Kankeiren. Established in 1946, Kankeiren is a non-profit comprehensive economic organisation with about 1400 members. It is focussed upon economic activities in the Kansai region and represents the business community's collective views on a range of economic, social and labour issues. The area is characterised by industrial, electronics, biotech and port infrastructure as well as significant agribusiness and tourism assets.

2.173 Discussions with Kankeiren representatives ranged across issues associated with trade liberalisation and the TPP. Kankeiren supports Japan's participation in the TPP and advocates establishing FTAs with strategically important countries. Discussions also included investment in Australia and some of the challenges faced by Japanese investors.

2.174 During its visit to Kyoto, the delegation was briefed by Dr Takashi Kamei on opportunities relating to the use of thorium for energy production. Dr Kamei explained his research on this issue, advocating for the inclusion of thorium in discussions about Japan's energy policy.

176 Kansai Economic Federation, Brochure provided to delegation, July 2012, p. 1.

Services trade

Background

- 2.175 This section discusses Australia's services trade with Japan, with a focus upon three areas that received particular attention during the inquiry: education, tourism and financial services.
- 2.176 As noted earlier, Australia's services exports to Japan have declined since 2000. A significant part of the decline in Australia's overall services exports to Japan can be explained by the steady decline in Japanese tourism since the mid-1990s, which was valued at \$1.2 billion in 2010 compared with its peak of \$2.2 billion in 2000.¹⁷⁷
- 2.177 Japanese student numbers have also declined and, as discussed earlier, there are a number of difficulties encountered by Australian businesses when trying to enter Japan's services market.
- 2.178 While services account for about 80 percent of Australian GDP and 85 percent of total employment, they represent only 18.4 percent of Australia's exports. In the case of Japan, services represent 6.9 percent of total two-way trade, reflecting two factors – first, that Australia is not a significant services exporter and secondly, that Japan is not a big importer of services.¹⁷⁸
- 2.179 Nonetheless, the Department of Foreign Affairs and Trade and Austrade highlighted in its submission that there are significant opportunities for increased bilateral trade in services in a number of sectors, including:
- Government services;
 - Legal and accounting services;
 - Real estate and property services;
 - Vocational training;
 - Recreational;
 - Music and performing arts; and
 - Hospitality services.¹⁷⁹

177 DFAT and Austrade, *Submission 3(Japan)*, p. 11

178 DFAT and Austrade, *Submission 3(Japan)*, p. 13.

179 DFAT and Austrade, *Submission 3 (Japan)*, p. 35.

2.180 Areas where Australia's exports are particularly strong include travel, insurance, financial services, personal and computer services.¹⁸⁰ In financial services, particular opportunities exist for Australian investment products. The Department of Foreign Affairs and Trade and Austrade commented that:

... as long as returns on investment in equities and bonds in Japan remain below those available in Australia, demand for Australian investment products from Japanese mutual funds and retail investors is likely to continue to grow.¹⁸¹

2.181 The AJBCC also saw opportunities for increased services trade between Australia and Japan. Sir Rod Eddington commented:

One of the things we have been trying to do as a committee is not only to build on the strengths of the past in areas like resources and agriculture outbound from Australia – obviously inbound manufacturing goods, primarily – but also to try to build around our service economies. Increasingly our economy is a service economy, and we are looking through the free trade agreement in our broader discussions to look at new opportunities for bilateral trade between our two countries.¹⁸²

2.182 Mr Manuel Panagiotopoulos expressed the view that with changing demographics in Japan, including its ageing population, there will be opportunities for services exports in areas such as health and lifestyle services.¹⁸³

2.183 The AJBCC also highlighted health services as an area of Australian and Japanese complementarity. Both countries have an ageing population and health care is a significant industry. Japan's technological expertise can be offset against Australia's infrastructure capacity:

... we have got areas in aged-care management, health policy, PPP or social infrastructure – those sorts of areas – which we can export to Japan. Equally, we can bring from their side things like technology and money into our social infrastructure.¹⁸⁴

2.184 Mr Panagiotopoulos also advocated increased personnel exchange as a mechanism to improve not only cultural understanding but also the

180 DFAT and Austrade, *Submission 3 (Japan)*, p. 35.

181 DFAT and Austrade, *Submission 3 (Japan)*, p. 35.

182 Sir Rod Eddington, *AJBCC, Committee Hansard*, 14 November 2012, pp. 1-2.

183 Mr Manuel Panagiotopoulos, *Committee Hansard*, 14 November 2012, p. 15.

184 Sir Bob Seidler, *AJBCC, Committee Hansard*, 14 November 2012, p. 8.

processes in either country. This has occurred for example in the legal sector, where Australian law firms have seconded staff to the legal departments of Japanese corporations.¹⁸⁵

Education

2.185 Higher education is Australia's largest services export. It plays a significant role in the economies of Victoria and New South Wales, as Victoria's largest and New South Wales' second largest export.¹⁸⁶

2.186 Japan (and the Republic of Korea) are important education partners for Australia:

The education ties that exist between Australia and the Republic of Korea and Japan make a significant contribution to the economic, political and cultural relationship with the countries. Continued engagement and collaboration with both countries on education policy and sharing of best practice will enable Australia to play a leading role in providing world class quality international education.¹⁸⁷

2.187 Japanese student numbers have declined however – in 2010, there were 9,200 students compared with 14,000 in 2002, making Japan Australia's twelfth largest source of international students.¹⁸⁸ According to Austrade, Australia's education relationship with Japan remains strong with Japanese students increasingly likely to undertake short-term study rather than a full degree course.¹⁸⁹

2.188 Further, Australia continues to be a premier destination for Japanese school study tours and working holiday makers, and there are a significant number of university-to-university linkages between the two countries.¹⁹⁰

2.189 The Committee heard about the challenges faced by Japan's higher education sector in developing a globally literate workforce that is

185 Mr Manuel Panagiotopoulos, *Committee Hansard*, 14 November 2012, p. 14.

186 Universities Australia, 'Education: Victoria's highest export earner', *Media Release*, 26 November 2012.

187 Department of Education, Employment and Workplace Relations, *Submission 1*, p. 1.

188 DFAT and Austrade, *Submission 3 (Japan)*, p. 11.

189 Australia Unlimited, 'Education to Japan', viewed 27 August 2012, <<http://www.austrade.com.au/Education-to-Japan/default.aspx>>.

190 Australia Unlimited, 'Education to Japan', viewed 27 August 2012, <<http://www.austrade.com.au/Education-to-Japan/default.aspx>>.

increasingly demanded by employers. The Department of Foreign Affairs and Trade and Austrade explained that:

Japan's international competitiveness is increasingly determined by its ability to develop a globally literate workforce capable of developing and expanding overseas markets for Japanese products and services. Japan today faces a contracting domestic market and mounting competition from neighbouring countries...

Japanese companies are increasingly looking to extend their overseas operations, in particular seeing the emerging economies of Asia as not just cheaper production locations, but as attractive markets to penetrate. However, at the same time, there is widespread realisation that Japan's education and training systems are largely failing to supply the quality of human resources capable of negotiating these challenges.¹⁹¹

2.190 Significant investment is being made by Japanese companies to develop the competency of their staff in the following areas:

- English language ability with real world applicability;
- Cross-cultural understanding, diversity in thinking, and an ability to adapt to different environments; and
- Global leadership skills to lead the development and expansion of overseas markets, and to transfer that know-how to local staff.¹⁹²

2.191 Japanese universities are responding to the challenge of producing globally-literate recruits by devoting resources into internationalising their campuses through recruiting international students and introducing courses taught in English into curricula. There remains a prevailing view however that overseas study is necessary to develop global literacy.¹⁹³

2.192 Austrade has tapped into this with its major marketing initiative, Global Human Capital Development, which is:

... positioning Australia as a preferred supplier of high-end educational services and programs for global human capital development. Austrade is assisting Australian educational institutions and providers to create tailored solutions for Japanese

191 DFAT and Austrade, *Submission 3 (Japan)*, p. 35.

192 DFAT and Austrade, *Submission 3 (Japan)*, p. 35.

193 Australia Unlimited, 'Education to Japan', viewed 27 August 2012, <<http://www.austrade.com.au/Education-to-Japan/default.aspx>>.

corporate and educational institutions to develop more globally competent human resource management capabilities.¹⁹⁴

Delegation discussions

Kyoto Consortium

- 2.193 During its visit to Japan, the Committee met with the Consortium of Universities in Kyoto (the Consortium).
- 2.194 Established in 1994, the Consortium comprises 50 local universities and 150,000 students. Its purpose is to promote overseas cooperation and exchange, and it has alliances with universities in Boston, USA and Victoria, Australia. The Consortium's mission statement indicates that its member universities will provide mutual cooperation and support to:
- promote 'academic internationalisation' for students and international mobility for staff;
 - educate students for 'Global Citizenship'; and
 - provide opportunities for exchange studies.¹⁹⁵
- 2.195 During its visit, the delegation heard that the Consortium had been collaborating with several Victorian universities and the Gordon Institute of TAFE since 2009, offering short term study abroad programs as well as professional development programs for university staff.
- 2.196 Figures provided by the Consortium indicated that about 39 students had undertaken a study tour and 37 staff had a staff exchange or professional development program in Victoria between 2010 and 2012. A smaller number – about 17 students and 5 staff – had participated in programs in Kyoto.
- 2.197 The delegation heard about the opportunities for graduates with Japanese language skills in small and medium sized enterprises that are currently experiencing difficulties attracting employees, and the relevance of overseas experience to recruitment opportunities. Consortium representatives considered there were opportunities to be gained from Australian universities' experience in industry collaboration.
- 2.198 On its return to Australia, the Committee sought further information from two educational institutions with links to the Kyoto Consortium.

194 DFAT and Austrade, *Submission 3 (Japan)*, p. 40.

195 The Consortium of Universities in Kyoto, Brochure provided to delegation, July 2012.

- 2.199 Mr Andrew Palmer of Gordon TAFE, known as The Gordon, explained that the Consortium has sought to establish a brand for their member universities through which ‘they promote their consortium members as providing particular or extra opportunities to students that non-member universities would not be able to offer.’ In particular:

It was designed to give private universities a bit of, I suppose, bulk buying power. Individual universities probably did not have the connections both locally and internationally and maybe did not have the funding or the resources to be able to develop opportunities such as overseas study and cultural exchange. By coming together as a consortium they were able to leverage that a bit better. Students at the consortium member universities are able to enrol for units of study at other consortium members and get credit transfer for those things – and they were looking to do the same overseas.¹⁹⁶

- 2.200 Mr Palmer explained that The Gordon became involved with the Consortium at a time when there was growing concern in Japan about the effect demographic changes were having on Japanese universities and enrolment numbers.¹⁹⁷ The Gordon considered there was potential for it to be involved with the Consortium in short term study tours and English language studies.¹⁹⁸

- 2.201 Mr Palmer indicated that the benefits to involvement in the Consortium included the opportunities for professional development and access to more vocationally relevant study tours for students.¹⁹⁹

- 2.202 Mr Ben Stubbs of the Deakin University English Language Institute told the Committee that the Consortium was very interested in engaging with Victorian universities, due in part to their regard for the universities but also because of their perception of Melbourne as a ‘more European older type of sophisticated city’ that accords with perceptions of their own city.²⁰⁰ Mr Stubbs explained:

There is very much a prestige value of who they associate with.
... the second tier universities have had trouble knowing how to engage with people. The consortium in a sense is becoming a mechanism for the universities that do not have exchange

196 Mr Andrew Palmer, Gordon TAFE, *Committee Hansard*, 15 November 2012, p. 7.

197 Mr Andrew Palmer, Gordon TAFE, *Committee Hansard*, 15 November 2012, p. 7.

198 Mr Andrew Palmer, Gordon TAFE, *Committee Hansard*, 15 November 2012, p. 8.

199 Mr Andrew Palmer, Gordon TAFE, *Committee Hansard*, 15 November 2012, p. 9.

200 Mr Ben Stubbs, Deakin University, *Committee Hansard*, 15 November 2012, pp. 14-15.

agreements, study abroad agreements or English-language programs to match like-minded centres or like-minded universities.²⁰¹

- 2.203 Mr Stubbs considered the Consortium provided the opportunity to create linkages with universities and give students an opportunity to undertake an overseas study experience that is credited towards their course requirements.²⁰²
- 2.204 Mr Stubbs also indicated that there is a strong push from the Japanese Government for students to improve their communication skills. To build 'Global Human Capital', students are being encouraged to undertake an overseas study experience – an 'English plus a university study abroad program'.²⁰³
- 2.205 Victorian universities, including Deakin, Swinburne and Victoria University have signed contracts with a Tokyo university to deliver an English and study abroad program at each university from 2014.²⁰⁴ Mr Stubbs also saw relationship building between universities as key to increasing the number of Australian students going overseas to study.²⁰⁵
- 2.206 While noting that collaboration with the Kyoto Consortium is relatively new, the Committee considers the Australian Government should continue to support opportunities for Australian educational institutions to build and strengthen links with overseas institutions.

Japan Exchange and Teaching Programme

- 2.207 While in Japan, the Committee delegation travelled to Kobe to meet with Australian participants in the Japan Exchange and Teaching Programme (JET).
- 2.208 JET has been operating for 26 years and is aimed at promoting grass-roots international exchange between Japan and other nations. As at 1 July 2012, there were 4,360 people from 40 countries, including 262 Australians, participating in the program.²⁰⁶ JET is administered by the Japanese Council of Local Authorities for International Relations in cooperation with local government organisations; the Minister of Internal Affairs and

201 Mr Ben Stubbs, Deakin University, *Committee Hansard*, 15 November 2012, p. 15.

202 Mr Ben Stubbs, Deakin University, *Committee Hansard*, 15 November 2012, p. 16.

203 Mr Ben Stubbs, Deakin University, *Committee Hansard*, 15 November 2012, p. 16.

204 Mr Ben Stubbs, Deakin University, *Committee Hansard*, 15 November 2012, pp. 16-17.

205 Mr Ben Stubbs, Deakin University, *Committee Hansard*, 15 November 2012, p. 17.

206 JET Programme, 'JET Programme Participant Numbers', viewed 30 August 2012, <<http://www.jetprogramme.org/e/introduction/statistics.html>>.

Communications; the Ministry of Foreign Affairs; and the Ministry of Education, Culture, Sports, Science and Technology. Applicants apply to the Japanese Embassy in their country of citizenship, which also conducts the interview process and then training sessions for successful applicants. Living expenses for participants are subsidised by the Japanese Government.

- 2.209 The reception with current JET participants offered delegation members a useful first-hand insight into the program. Recruited from all over Australia, the reception attendees were mostly employed as Assistant Language Teachers. The majority had been with the program around two years, with the longest participant in his seventh year. Participants were generally highly positive about their experiences and recommended that Australia establish a similar program.

Cultural understanding

- 2.210 The AJBCC identified the significance of branding to opportunities in the international education sector, arguing it is not only the quality of the education but the perception of the country that is important. There is a need to move beyond generalisations of Australia as a 'beach, a farm and a quarry' so that Japanese students understand 'we are a clever country in a number of areas'.²⁰⁷
- 2.211 Further, it is not just language learning, but also cultural understanding that is important. Sir Rod Eddington described language without an understanding of culture as a 'sterile exercise'.²⁰⁸ Mr Ben Stubbs of Deakin University also emphasised the importance of international students gaining cultural understanding and experiencing Western culture firsthand.²⁰⁹ The Committee agrees with that view.
- 2.212 Noting the priority that the Government has placed upon Japanese learning in the *Australia in the Asian Century* White Paper and that Japanese is the most widely taught language in Australian schools²¹⁰, the Committee sees merit in a program styled on the Japanese JET program that would contribute to building relationships and cultural understanding.

207 Mr Ian Williams, AJBCC, *Committee Hansard*, 14 November 2012, p. 9; Mr Bob Seidler, AJBCC, *Committee Hansard*, 14 November 2012, p. 9.

208 Sir Rod Eddington, AJBCC, *Committee Hansard*, 14 November 2012, p. 11.

209 Mr Ben Stubbs, Deakin University, *Committee Hansard*, 15 November 2012, p. 18.

210 Australian Government, *Australia in the Asian Century*, White Paper, October 2012, pp. 168, 171.

Recommendation 2

The Committee recommends that the Australian Government investigate establishment of a complementary program to the Japan Exchange and Teaching Programme (JET) to facilitate improved cross cultural links between Australia and Japan.

Tourism

2.213 Tourism is one of Australia's main services exports. The Department of Resources, Energy and Tourism described tourism as:

... an effective avenue of establishing the people to people linkages necessary to forge closer cultural ties from which Australia's strategic and commercial interests may be more effectively pursued with Japan and Korea.²¹¹

2.214 Australia has some distinct advantages in the tourism market. Mr Simon Westaway of Tourism Australia told the Committee:

[Australia has] an extremely compelling advantage over the rest of the world. Our nature and environment is very difficult for other markets to replicate ... our blue skies, our clean air, some of the best and freshest seafood in the world, the freshest beef, and welcoming people...²¹²

2.215 A key challenge for the tourism industry, however, is:

... how we get the visitors around the country as much as we can as cost-effectively as we can and give them the types of experiences that will get them to come back ...²¹³

The Japanese market

2.216 Japan is an important tourism market for Australia. Formerly Australia's largest inbound tourism market in the 1980s and early 1990s, it remains the fifth largest by visitation and fifth largest by expenditure, delivering around \$1.4 billion to the Australian economy annually.²¹⁴

211 DRET, *Submission 16*, p. 8.

212 Mr Simon Westaway, Tourism Australia, *Committee Hansard*, 14 November 2012, p. 35.

213 Mr Simon Westaway, Tourism Australia, *Committee Hansard*, 14 November 2012, p. 35.

214 Mr Simon Westaway, Tourism Australia, *Committee Hansard*, 14 November 2012, p. 30.

2.217 Together, Japan and Korea account for nearly 10 percent of total tourism exports and just over 10 percent of total visitors.²¹⁵ This compares with the small number overseas trips taken annually by Australians to each country.²¹⁶

2.218 Mr Simon Westaway of Tourism Australia provided the following summary of the Japanese market since 2007:

It is a market that is much maligned, but it is coming back. We had the tragic circumstances around the tsunami and earthquake there in 2011; but it did stop, with some quite impressive growth returning to that market. To give you some quick statistics: from the calendar year 2007, we had, in essence, 574,000 visitors from Japan. By 2009, that fell down to 355,000 visitors. In 2010 it had jumped up to 398,000, but the disastrous impact of the quake and tsunami there in early 2011 saw the numbers fall back to 332,000 – a 16 per cent drop. On the current numbers, we are at around 350,000 annual visitors from Japan, so it is coming back.

2.219 Mr Westaway predicted that tourist numbers could increase to 450,000 a year, and possibly 500,000, over the next decade.²¹⁷

2.220 Tourism Australia's Market Profile for Japan provides the following key statistics and predictions for the Japanese market:

- arrivals from Japan peaked in 1997, and declined on average 6.8 percent annually between 2001 and 2011;
- in addition to the Great East Japan Earthquake in 2011, arrivals dropped in the aftermath of the Asian Financial Crisis in 1997, with the outbreak of SARS and other influenzas also affecting travel demand between 2002 and 2009;
- Japan's top five outbound destinations in 2011 were China, the United States, Korea, Taiwan and Thailand. Australia ranked 14th;
- excluding North East Asian countries, Japan's top five outbound destinations in 2011 were the United States, Thailand, France, Germany and Singapore. Australia ranked 10th among 'out of region' destinations;

215 DRET, *Submission 16*, p. 8.

216 DRET, *Submission 16*, p. 11.

217 Mr Simon Westaway, Tourism Australia, *Committee Hansard*, 14 November 2012, pp. 30-31.

- aviation capacity on the Japan-Australia route declined in 2011. Recent years have seen the withdrawal of direct services to Perth, Brisbane and Melbourne, significantly reducing capacity;
- Jetstar became the key airline to Japan in 2009 and will remain a significant carrier, particularly for Queensland. Qantas, JAL and Singapore Airlines also carry significant numbers of visitors to Australia;
- Jetstar Japan's launch in 2012 is expected to improve connectivity from more cities in Japan to Australia;
- Australia and Japan signed an open skies agreement in September 2011; and
- new Japanese low cost carriers Peach and AirAsia are expected to increase Japanese demand for travel to short-haul destinations.²¹⁸

Composition of the market and key attractions

2.221 Most Japanese visitors to Australia fall into the leisure and visiting friends and relatives categories. Tourism Australia told the Committee that leisure holiday makers are coming:

... for the experience of Australia. They are attracted as much by our modern cities, such as Sydney, Melbourne and Brisbane, as by our nature. The most compelling element for an Asian visitor generally, without putting a badge on that saying, is our world-class nature, and the accessibility of that nature. ... The Great Barrier Reef is still an extremely important trigger for visiting Australia. ... Sydney is a well desired experience. Interestingly, Tasmania is also an appealing experience, particularly for visitors who have already been to Australia once and are looking for a great natural experience of the kind that Tasmania provides.

... Food and wine, as we call that component – our cuisine – is also becoming a bit of a driver.²¹⁹

2.222 Uluru is another important destination that 'has been holding up pretty well', with proactive approaches by tourism providers. Tourism Australia indicated that it is currently working with Qantas, Virgin Australia and

218 Tourism Australia, *Japan Market Profile*, May 2012, viewed on 11 December 2012, <<http://www.tourism.australia.com/en-au/markets/japan.aspx>>.

219 Mr Simon Westaway, Tourism Australia, *Committee Hansard*, 14 November 2012, p. 32.

Jetstar on good connectivity with international flights. Mr Westaway told the Committee:

... accessibility to flights and that seamless connection are really important, because if you start to break up people's trips you can break up the opportunity to visit.²²⁰

- 2.223 The Committee met with Tourism Australia's Regional Manager for Japan, Mr Kaz Hori during its visit to Tokyo. Mr Hori told the delegation that most Japanese travellers to Australia are repeat visitors that are generally looking for greater choice and a more in-depth experience. Some of the opportunities identified in discussions to promote Australia's clean and green reputation included eco-tourism (an area where Australia is competitive with other destinations), local food and wine experiences, and working holidays. Other opportunities are presented by school groups learning English (the 'Overseas in School' market).
- 2.224 The delegation noted that brochures available at Tourism Australia's office in Japan (and targeted to Japanese travellers) focussed on world heritage, wildlife, food and wine, cruises and train travel (such as the Ghan and Indian Pacific), events, Indigenous culture and lifestyle.

Issues

- 2.225 The Committee heard that there are a number of factors that have impacted on the Japanese tourism market for Australia. These factors include a shift amongst Japanese travellers to short-haul destinations, increasing competition from other markets, and air service changes. The quality of Australian tourism infrastructure and the high Australian dollar are also contributing factors.

Short haul destinations

- 2.226 In Japan, Mr Kaz Hori told the Committee that 17 million people travel from Japan each year, with 70 percent of these travellers visiting short haul destinations no more than three hours away, including South Korea, China, Taiwan and Guam.
- 2.227 The delegation heard that the shift to shorthaul affordable destinations can be attributed to a number of factors, including 9/11, SARS, the Global Financial Crisis and the Great East Japan Earthquake. Many Japanese travellers are also simply time poor, resulting in neighbouring cities becoming more desirable tourist destinations.

220 Mr Simon Westaway, Tourism Australia, *Committee Hansard*, 14 November 2012, p. 33.

2.228 Tourism Australia also considered the increase in low-cost carriers, a phenomenon that 'has just started to take hold in Japan' to be a factor. The rise of low-cost carriers has meant:

... people are travelling more often to more places but are generally taking shorter trips ... They have changed the market.²²¹

Competition from other destinations

2.229 Australia as an 'out of region' destination for Japanese travellers is competing with 'Hawaii through to the Maldives then through to Europe and the US'. Tourism Australia described Australia's performance as an out of region destination as 'about average'.²²²

2.230 The Department of Resources, Energy and Tourism commented that a number of economies in the region, including Japan, are 'seeking to develop tourism as a way of diversifying their economic base'. As a result, Australia is facing competition not only from traditional competitors, such as Hawaii and Palau, but also Macau, Singapore, Guam and the Philippines.²²³

2.231 The value of the Japanese yen against the Australian dollar has also made package holidays, which are the main travel segment, less competitive when compared with other nearby travel destinations.²²⁴

Air services

2.232 Tourism Australia told the Committee about changes in air services between Australia and Japan. In 2007, around 123,000 travellers came to Australia on Japan Airlines. In 2011, this figure was 43,000, which:

For the flag carrier ... is a huge change in that particular market.²²⁵

2.233 For the same period, Jetstar increased from 66,000 passengers to 155,000 and Qantas declined from 273,000 to 53,000.²²⁶

2.234 Tourism Australia made several comments about the changes in air services:

Jetstar is now the predominant flyer in the market. Japan Airlines had significantly cut back capacity; however, we are hopeful that

221 Mr Simon Westaway, Tourism Australia, *Committee Hansard*, 14 November 2012, p. 33.

222 Mr Simon Westaway, Tourism Australia, *Committee Hansard*, 14 November 2012, pp. 33, 34.

223 DRET, *Submission 16*, p. 9.

224 DRET, *Submission 16*, p. 9.

225 Mr Simon Westaway, Tourism Australia, *Committee Hansard*, 14 November 2012, p. 36.

226 Mr Simon Westaway, Tourism Australia, *Committee Hansard*, 14 November 2012, p. 36.

they will put some more capacity back in due course. Qantas have a constant between Sydney and Tokyo, but the majority of Qantas group's flights are with Jetstar.²²⁷

2.235 With regard to Japan Airlines:

... Japan Airlines have been reducing their capacity into Australia, and that is big when you have the flag carriers changing their patterns. It is well documented that Japan Airlines had significant financial issues. That has seen a decline: the reduction of service such as withdrawing from Brisbane, which Japan Airlines did about 18 months ago from memory – that was a significant hit to the industry just because it was a well-patronised route.²²⁸

2.236 Mr Justin Wastnage of the Tourism Transport Forum told the Committee that Japan is 'unique' amongst Australia's tourist markets as it is predominantly a low-cost carrier market. Jetstar operates flights between Cairns, Darwin and the Gold Coast to Tokyo, as well as from Cairns, Darwin, the Gold Coast and Sydney to Osaka in central Japan.²²⁹

2.237 More generally, the Tourism Transport Forum pointed out that through the air liberalisation policies of successive governments, any pressures in the Japanese (and Korean) markets are more commercial than regulatory with both markets a role model for other Asian markets. Neither market has any significant barriers to air transport.²³⁰

Jetstar Japan

2.238 The Committee delegation was pleased to have the opportunity in Tokyo to hear about Jetstar's investment in Japan through the establishment of Jetstar Japan.

2.239 The delegation was informed that Jetstar has been working with carriers in Japan, Hong Kong and the Pacific to develop low cost markets in these countries. Aviation is the last major industry to be deregulated in Japan and the low cost carrier is a new model in the Japanese market, directly competing with the train system.

2.240 Jetstar Japan is a partnership between Qantas/Jetstar, JAL, Mitsubishi Corporation and Century Tokyo Leasing. Established in September 2011 following four years of negotiations, the airline is one of three low cost

227 Mr Simon Westaway, Tourism Australia, *Committee Hansard*, 14 November 2012, p. 30.

228 Mr Simon Westaway, Tourism Australia, *Committee Hansard*, 14 November 2012, p. 34.

229 Mr Justin Wastnage, TTF, *Committee Hansard*, 14 November 2012, p. 39.

230 Mr Justin Wastnage, TTF, *Committee Hansard*, 14 November 2012, p. 40.

carriers in Japan. Operations commenced on 3 July 2012 with a focus on flights up to five hours.

- 2.241 Senior executives told delegation members that Jetstar Japan's management combines low cost expertise with Japanese cultural understanding to create a model that is different to Jetstar Australia. Foreign operations in Japan are required to have a Japanese Chief Executive Officer. Chief Executive Officer, Ms Miyuki Suzuki expected Jetstar Japan to be successful because Jetstar is already operating in 17 countries, has good brand recognition and a quality connection to Qantas and therefore Australia.
- 2.242 This view was echoed in discussions with Tourism Australia. Mr Kaz Hori expressed the view that Jetstar Japan would provide the opportunity for Japanese travellers to use Jetstar domestically to build comfort with the brand.
- 2.243 Mr Justin Wastnage of the Tourism Transport Forum also commented:
- ... looking briefly at the story of Jetstar Japan: the impartation of an Australian brand in Japan we think is key in keeping relations going and keeping the brand establishment of Australia and Australian brands alive ... they reinforce the image of Australia...²³¹
- 2.244 From the Tourism Transport Forum's viewpoint, Jetstar Japan is also significant as it:
- ... demonstrates the openness of the Japanese market to Australian businesses in opening up such joint ventures.²³²
- 2.245 The Committee notes that since its visit shortly after the airline commenced operations, Jetstar Japan has announced three new domestic destinations and increased its fleet to nine aircraft.²³³ The airline is leading its competitors in the low cost carrier market in Japan and is forecast to carry more than 1.5 million passengers in its first year of operations.²³⁴

231 Mr Justin Wastnage, TTF, *Committee Hansard*, 14 November 2012, p. 39.

232 Mr Justin Wastnage, TTF, *Committee Hansard*, 14 November 2012, p. 39.

233 The Australian, *Jetstar Japan takes off with new A320s*, 24 January 2013, viewed 10 February 2013, <<http://www.theaustralian.com.au/business/aviation/jetstar-japan-takes-off-with-new-a320s/story-e6frg95x-1226560411007>>.

234 Mr Alan Joyce, *The Year Ahead*, Address to the Tourism and Transport Forum, 6 February 2013, viewed 10 February 2013, <<http://www.qantas.com.au/travel/airlines/tourism-and-transport-forum/global/en>>.

Marketing

- 2.246 The Asia Marketing Fund, announced in the Government's 2012-13 Budget, provides \$48.5 million over four years to promote Australia as a tourism destination in Asia. The Fund is intended to allow Tourism Australia to significantly increase its footprint in Asia (the source of 40 percent of all international visitors in 2011) and build on the updated 'There's Nothing Like Australia' campaign. Reinvigorating marketing in Japan will be one of the initial projects.²³⁵
- 2.247 In terms of marketing to the Japanese market, the Committee heard about a focus on what is described as the 'affluent middles' – affluent, older Japanese people as well as targeted campaigns towards people who have either been to Australia before or have a connection to Australia.²³⁶
- 2.248 Mr Westaway highlighted the impact of airline models, such as Jetstar, in targeting travellers:
- Jetstar's Jetstar Japan operation in particular target a different consumer, in Australia and in Japan, and it is proving to be a very successful business already. We think that, with the way that they go direct to market in terms of distribution through the web, the way that they operate, we are going to see a growth in the youth segment coming here from Japan. ... I think the sweet spot is the more affluent middle-class, in all of these Asian markets, quite frankly. We do think we can re-engage the youth market with Australia, but it will take time.²³⁷
- 2.249 Tourism Australia is also focussed on expanding awareness of destinations such as the Kimberley, Bungle Bungles, and Cape Leveque as well as reinforcing awareness of existing popular destinations such as Sydney and Queensland.²³⁸

Tourism investment

- 2.250 In its submission, the Department of Resources, Energy and Tourism emphasised the historical significance of Japanese investment in the

235 Hon Martin Ferguson AM MP, Minister for Tourism, *Asia Marketing Fund to Strengthen Australian Tourism*, Media Release, 17 August 2012, viewed 6 December 2012, <<http://minister.ret.gov.au/MediaCentre/MediaReleases/Pages/AsiaMarketingFundAustralianTourism.aspx>>.

236 Mr Simon Westaway, Tourism Australia, *Committee Hansard*, 14 November 2012, p. 32.

237 Mr Simon Westaway, Tourism Australia, *Committee Hansard*, 14 November 2012, p. 32.

238 Mr Simon Westaway, Tourism Australia, *Committee Hansard*, 14 November 2012, p. 35.

Australian tourism industry, whereby Japanese investment in the 1980s created:

... a hotel and resort infrastructure for the rapid expansion of Australia as an international tourist destination. Investments were heavily concentrated in prestigious hotels and resorts in popular tourist destinations. Queensland received more than half of the total Japanese investment in the hotel resorts market, particularly around the Gold Coast and Cairns.²³⁹

2.251 Mr Bob Seidler of the AJBCC told the Committee:

... we should not forget ... that we would not have a tourism industry if it were not for the Japanese. If you had a look around the country, almost every major hotel that was built around Australia has been built by Japanese money.²⁴⁰

2.252 Property investment plummeted however in the early 1990s with the weakening of the Japanese economy.²⁴¹

2.253 In its submission, the Department of Resources, Energy and Tourism stated:

Investing in new products that are relevant to changing demographics is critical to determining the attractiveness of a tourism destination. Increased investment in tourism is essential to drive long-term profitability, capacity and innovation in Australia's tourism industry.²⁴²

2.254 A key challenge is to ensure Australia has quality tourism products and services 'required to move up the international tourism value chain' and remain internationally competitive. The Department considered this particularly important for Australia:

... because Australia's higher labour costs means that tourism products and services are often more expensive than those of competitor destinations. Without sufficient levels of additional investment, Australia's tourism product will fail to offer increasingly sophisticated tourists the necessary value for money required to justify paying higher prices. This is particularly true for the Japanese and Korean markets.²⁴³

239 DRET, *Submission 16*, p. 4.

240 Mr Bob Seidler, AJBCC, *Committee Hansard*, 14 November 2012, p. 3.

241 DRET, *Submission 16*, p. 5.

242 DRET, *Submission 16*, p. 12.

243 DRET, *Submission 16*, p. 12.

2.255 The Committee heard about a five year partnership commenced in July 2012 between Tourism Australia, the Department of Resources, Energy and Tourism and Austrade. Tourism Australia told the Committee that tourism is one of four new investment priorities for Austrade and that this partnership:

... is about us working with Austrade in international markets, promoting foreign investment in tourism product in Australia – from resorts, accommodation and theme parks through to experiences. That is early days, but we are quite excited by what is out there. A well-known firm, JL Ellis, is saying that we might see the strongest levels of foreign investment in Australian tourism products since 2007 this year.²⁴⁴

2.256 When asked about the reasons for strong investment, Mr Simon Westaway stated:

Australia is a very attractive place to invest. Hotel yields are better than residential and commercial at the moment. Places like Perth, Sydney and Brisbane are getting very high hotel yield rates. Perhaps demand is ahead of supply – that could be part of that driver. We are seeing the attractiveness of Australia as a safe place to invest; good country, good rule of law and we get 6 million international visitors a year, and lots of Australians travel regularly. And there is a great business market underneath a leisure market. There are some very good reasons. In fact, I think that Australia probably has not promoted itself strongly enough to the international market – that we are such an appealing proposition.²⁴⁵

2.257 Mr Westaway indicated that one of the contributions that Tourism Australia is making to the partnership is its international marketing experience. One of the goals is not only to attract travellers to Australia, but to ensure that they stay for as long as possible and travel within the country as much as possible, including to regional areas.²⁴⁶

2.258 The Tourism Investment Regional Fund will provide around \$8.5 million over the next four years to help regional areas to develop or refurbish accommodation in areas with ‘world-class’ tourist attractions, but without accommodation of a corresponding standard.²⁴⁷

244 Mr Simon Westaway, Tourism Australia, *Committee Hansard*, 14 November 2012, p. 34.

245 Mr Simon Westaway, Tourism Australia, *Committee Hansard*, 14 November 2012, p. 34.

246 Mr Simon Westaway, Tourism Australia, *Committee Hansard*, 14 November 2012, p. 34.

247 Ms Victoria Maigre, Tourism Australia, *Committee Hansard*, 14 November 2012, p. 36.

A clever and interesting country

- 2.259 The Committee was interested to hear in its overseas discussions about other approaches to marketing Australia that move beyond the image of Australia as a friendly destination. For example, Austrade's Australia Unlimited campaign is focussed on promoting Australia as a clever and interesting country and building its profile in business, science, education, technology, creativity and not-for-profit activity.²⁴⁸

Financial services

- 2.260 Japan has the world's second-largest pool of investable wealth with the largest asset management market in Asia.²⁴⁹ According to the AJBCC, Japan has approximately US\$21 trillion of investable funds, with about 54 percent held in cash.²⁵⁰
- 2.261 A number of Australian financial services firms are active in Japan, including ANZ, National Australia Bank, Commonwealth Bank of Japan, First State Investments, Macquarie Capital Securities (Japan) Limited, and AMP Capital Investors KK.²⁵¹
- 2.262 According to the AJBCC, unlike Australia, Japan does not have a range of investment products nor do institutions have the design capacity. In contrast:
- We have a fantastic design capability, because we have a very competitive financial services market.²⁵²
- 2.263 Accordingly, Japan's financial institutions:
- ... are now recognising that acquiring, or having a relationship with an Australian investment management firm, will give them sophisticated product design capability as well as the opportunity to participate in our growing funds management industry.²⁵³
- 2.264 In discussing the important links between Australia and Japan, the AJBCC highlighted the financial services sector, citing Dai-ichi Life's acquisition of the Tower insurance group and Mitsubishi UFJ Trust Bank acquiring a

248 Australia Unlimited, 'About the Program', viewed 27 August 2012, <<http://www.australiaunlimited.com/page/brand-australia/engage>>.

249 DFAT and Austrade, *Submission 22*, p. 18.

250 AJBCC, *Submission 10*, p. 3.

251 DFAT and Austrade, *Submission 22*, pp. 18-19.

252 Mr Bob Seidler, AJBCC, *Committee Hansard*, 14 November 2012, p. 5.

253 AJBCC, *Submission 10*, p. 3.

15 per cent share of AMP Capital. The AJBCC commented that these represent:

... the financial resources of Japan being put together with the intellectual property around financial services in Australia...²⁵⁴

2.265 In evidence to the Committee, the ANZ highlighted it has a significant presence in both Japan and South Korea and its strategy is to become a super-regional bank. Head of Super Regional Business Development, Mr Robert Bell told the Committee:

... we see our role in the region as providing seamless banking across a number of countries in the Asia-Pacific, providing financial services to customers. For this reason Australia's bilateral relationships are really central to our own strategy, so anything that would help improve those relationships is obviously a benefit to us, and we see it as a way of helping our customers across the region.²⁵⁵

2.266 ANZ is a major facilitator of investment into Australia and focusses on the following areas: natural resources, oil and gas, infrastructure projects, agriculture, electronics, telecommunications, manufacturing and diversified industrials.²⁵⁶

2.267 Mr Bell told the Committee that Japanese investment is 'flowing heavily' particularly outside Japan. ANZ facilitates this through building relationships in Japan and helping large Japanese trading houses to understand the Australian market and establish contacts.²⁵⁷

2.268 When asked about ANZ's future focus, Mr Bell told the Committee:

We see Japan and Korea as being absolutely critical if you want to be in the greater Asian piece. Some people might think about just focussing on high-growth Indonesia or China because of the headline growth. But the reality of Australian investment in those countries is that Japan is also in those countries and heavily invested in those countries. If you want to capture businesses who are operating in multiple countries then you have to be in Japan and Korea.²⁵⁸

254 Mr Ian Williams, AJBCC, *Committee Hansard*, 14 November 2012, p. 4.

255 Mr Robert Bell, ANZ, *Committee Hansard*, 15 November 2012, p. 22.

256 ANZ, *Submission 9*, p. 4.

257 Mr Robert Bell, ANZ, *Committee Hansard*, 15 November 2012, p. 22.

258 Mr Robert Bell, ANZ, *Committee Hansard*, 15 November 2012, p. 23.

Australian products in Japan

- 2.269 Given the importance of Australia's agricultural and food exports to Japan, the Committee delegation particularly sought the opportunity provided by its visit to see Australian products on sale in Japan.
- 2.270 Accompanied by Ms Melanie Brock from Meat and Livestock Australia, the delegation visited two supermarkets in Tokyo where Australian products are available. One of these, Life, is a major supermarket chain in Japan and sells Australian beef exclusively. Since 2010, Life has also sold Australian lamb.
- 2.271 In 2011, Australia supplied 70 percent of Japan's beef imports, which comprised 39 percent of the total market share in Japan. Ms Brock briefed the delegation about the common branding of Australian beef as 'Aussie Beef' and lamb as 'Aussie Lamb', an approach that has not been adopted in relation to other products, which are therefore competing against each other.
- 2.272 In Kyoto, the delegation visited AEON supermarket to experience the 'Australia Fair' promotion which ran from 20 to 22 July 2012. AEON is one of five partners in Austrade's 'Taste of Tomorrow' program, one of its major marketing initiatives in Japan.²⁵⁹ AEON owns or franchises over 5,100 stores worldwide. It is a major supermarket chain in Japan with quality Australian produce, including fresh, particularly counter-seasonal, Australian fruit and vegetables in its Japanese stores.²⁶⁰ The delegation received a very warm welcome at the supermarket and appreciated the opportunity to see the range of Australian products. This included: beef, salmon and other seafood, frozen yoghurt, macadamia nuts, cheese (fetta and brie), fruit juice (carrot, peach, passionfruit, tropical and mango), oranges, wine, Tim Tams, Nutella, chocolate (Milky Way, M&Ms), beef jerky, salt and stock cubes.
- 2.273 The visit attracted the attention of a number of shoppers, who expressed enthusiasm to delegates about Australian products.
- 2.274 While in Tokyo, the delegation also had the opportunity to visit Tsukiji Wholesale Market, where it witnessed the tuna auction and toured the fisheries and agricultural sections of the market. The market, established in 1935, occupies a 23 hectare site, comprising the inner market (where

259 DFAT and Austrade, *Submission (Japan) 3*, p. 39.

260 P. Drysdale, *Australia and Japan: a new economic partnership in Asia*, Report prepared for Austrade, Canberra, 2009, p. 19.

wholesale business takes places) and outer market (retail area and restaurants).

- 2.275 The delegation was informed that 94 percent of fish in the Tokyo metropolitan area passes through this market. In 2011, 497,082 tonnes of fish passed through the market, an average of 1,821 tonnes per day. In the same period 308,582 tonnes of vegetables passed through the market. Produce is sourced both domestically and from around the world, including tuna and lobster from Australia.

Marketing

- 2.276 The Committee was particularly interested in the approach that Meat and Livestock Australia has taken to marketing. Mr Andrew McCallum told the Committee that the MLA's marketing is industry funded, with expenditure of around \$9 million per annum in Japan. Initially focussed on creating a clear country-of-origin differentiation and recognition of the Australian logo, MLA has also sought to position Australian brands in the market:

So we provide an umbrella marketing approach for identification, and below that sit individual brands with individual quality attributes.²⁶¹

- 2.277 In Japan, Ms Brock explained some of the marketing activities currently being undertaken by Meat and Livestock Australia, including promotions specifically targeted at women and older people, and focussed on the specific health benefits of meat. For example, it has been found that about 70 percent of Japanese women are iron deficient. One particular promotion is MLA's 'Iron Beauties', who work as ambassadors to promote health benefits to Japanese women.
- 2.278 Mr Andrew McCallum told the Committee that this strategy arose from efforts to differentiate Australian products from competing products. Nutrition, and iron in particular, was identified as a potential point of differentiation for Australian beef based on research with Japanese consumers. This led to the establishment of the Iron Beauties program. According to Mr McCallum, the rationale is that if Australia owns this particular message, it will drive consumption of Australian beef, particularly given Japanese women are the principal shoppers.²⁶²

- 2.279 Mr McCallum told the Committee:
-

261 Mr Andrew McCallum, MLA, *Committee Hansard*, 28 November 2012, p. 4.

262 Mr Andrew McCallum, MLA, *Committee Hansard*, 28 November 2012, pp. 2-3.

We have done a lot of work as an industry in research and understanding what consumers want ... We have positioned our product quite clearly in terms of differentiating from our competitors on the basis of our safety, quality and reliability of supply attributes.²⁶³

- 2.280 The delegation saw opportunities to use MLA's model of creating an 'umbrella' marketing campaign through the 'Aussie Beef' and 'Aussie Lamb' promotions as a mechanism that could be used effectively for other Australian products. The benefits of this approach could include a reduction in competition between individual Australian brands, improved customer awareness, and the opportunity to utilise Japanese perceptions of Australian food as safe, high quality products.

Recommendation 3

The Committee recommends that the Australian Government showcase the benefits of a coordinated approach to marketing, such as that used by Meat and Livestock Australia, in its export facilitation activities.

Government assistance

- 2.281 The Committee notes that Austrade and the Department of Innovation, Industry, Science and Research have an important role in identifying and assisting Australian business to access international opportunities.
- 2.282 Austrade has three broad pillars to its activities: education marketing, investment opportunities and export opportunities.²⁶⁴ At a broad level, Austrade's trade and investment initiatives aim to:
- build better brand awareness of Australian capability;
 - break down barriers to market entry;
 - develop new market sectors for Australia;
 - expand market share; and
 - create new pathways to market.²⁶⁵

263 Mr Andrew McCallum, MLA, *Committee Hansard*, 28 November 2012, p. 1.

264 Mr Brett Cooper, Austrade, *Committee Hansard*, 22 March 2012, p. 6.

265 DFAT and Austrade, *Submission 3 (Japan)*, p. 39.

2.283 Austrade's major marketing initiatives within Japan, which have been referred to elsewhere in the report, are:

- *Taste of Tomorrow Food Safety*, which aims to raise the profile of Australia's food safety, reliability and integrity;
- *PPP Infrastructure*, which aims to position Australia as a sophisticated provider of infrastructure and related services using the PPP financing model;
- *Australia and Japan in Asia*, which facilitates collaboration between Australian and Japanese businesses in third-country markets in Asia;
- *Growth and Diversification of Japanese FDI*, particularly into areas that support the Government's clean energy priorities;
- *Global Human Capital Development*, which positions Australia as a preferred supplier of high-end educational services and programs for global human capital development;
- *Online Retail*, which is assisting Australian businesses to take advantage of on-line opportunities; and
- *Women in Business*, which is leveraging Japan's need to incorporate more women into its workforce.²⁶⁶

2.284 In addition to Austrade's activities, Meat and Livestock Australia told the Committee of the value of the agricultural counsellor network in the Australian Embassies, which they described as:

... invaluable in terms of their networks and their relationships with their counterparts. So if we do have an issue of any sort, they have the entrée that industry may not have via a government to government relationship. We value that resource very highly and we work very closely with them in market to pursue a whole lot of issues in terms of potential regulations that may impact us and changes in legislation. That is a useful network to have and to be made available to us as a sector. We would encourage government to maintain those positions.²⁶⁷

2.285 Government assistance is also provided through the Export Finance and Insurance Corporation, which provides export credit, guarantee and

266 DFAT and Austrade, *Submission 3 (Japan)*, pp. 39-40.

267 Mr Andrew McCallum, MLA, *Committee Hansard*, 28 November 2012, p. 5.

insurance services to viable Australian exporters investing overseas that are unable to obtain private market support.²⁶⁸

- 2.286 The Department of Innovation, Industry, Science and Research is also actively engaged in developing Australia's trade and investment relationship with both Japan and Korea. The Department is focussed upon making companies export ready. Austrade then helps those companies to access overseas markets.²⁶⁹
- 2.287 The Department outlined to the Committee its key programs:
- Enterprise Connect, which helps improve business productivity, increase competitiveness and build business capacity to capitalise on opportunities for growth;
 - Supplier Access to Major Projects (SAMP), which helps link Australian industry to major Australian and international projects; and
 - The state-based Industry Capability Network, which is funded through the SAMP.²⁷⁰
- 2.288 Through the SAMP and the Industry Capability Network, Australian companies have gained access to a number of supply chain opportunities in Japanese (and Korean) projects, particularly in the resources sector.²⁷¹

Concluding comments

- 2.289 The strength of the relationship between Australia and Japan was reinforced to the Committee throughout this inquiry. Both countries benefit greatly from what the other country has to offer.
- 2.290 In the resources and energy sector, Japanese investment, beginning in the 1960s, helped build an industry that now supplies 85 percent of the value of Australia's exports to Japan. As Japan currently reviews its energy policy, there are ongoing opportunities for Australia, including in LNG, renewable energy, energy efficiency and low-emission technologies.
- 2.291 Australia's agricultural exports to Japan contribute to its ongoing food security, while our imports from Japan, such as cars and other manufactured goods, are in high demand by Australian consumers.

268 DFAT and Austrade, *Submission 3 (Japan)*, pp. 46-47.

269 Mrs Judith Zielke, DIISR, *Committee Hansard*, 2 November 2011, p. 5.

270 Department of Innovation, Industry, Science and Research (DIISR), *Submission 14*, p. 3.

271 DIISR, *Submission 14*, p. 4.

- 2.292 As Japan's engagement with its key trading partners changes and Japan moves toward trade liberalisation and agricultural reform, Australia's FTA with Japan will be a significant milestone. The Committee strongly supports the Government's efforts to conclude a comprehensive agreement and considers negotiations should continue to be prioritised.
- 2.293 When concluded, the FTA will be Japan's first agreement with one of its top six trading partners and its first with a major developed economy.²⁷² The agreement will expand trade and investment between Australia and Japan and offer numerous benefits to both countries.
- 2.294 Comprehensive agricultural outcomes will be necessary, however, to address the many tariff and non-tariff barriers imposed by Japan in the agricultural sector. The Japanese Government has recognised the need for domestic reform to maintain Japan's international competitiveness and has committed to trade liberalisation (including agricultural reform).²⁷³ While the Committee heard the concerns of Japanese parliamentarians and their constituents during its visit to Japan about the possible impact of the FTA on Japanese agriculture, the Committee considers there are many potential positive outcomes that should also be recognised.
- 2.295 The Committee also notes that a commitment to comprehensive trade liberalisation is a prerequisite to admission to negotiations for the Trans Pacific Partnership.
- 2.296 A FTA also offers opportunities to address the other barriers identified in evidence to the inquiry, including in the services sector. Australia has particular expertise, for example, in financial services, that is being recognised in Japan. The Committee heard about opportunities to build investment links through capitalising on each country's strengths, including through joint ventures in third countries. Such ventures utilise Australian expertise and Japanese capital and influence.
- 2.297 Education and tourism are both important exports to Japan. Japanese investment was critically important to the development of the Australian tourism industry. Although Japanese tourist numbers have declined from their peak in the 1990s, Japan remains an important market and the Committee supports the efforts of Australia's tourism industry to attract visitors. With the growth of the low-cost carrier market in Japan, the

272 DFAT and Austrade, *Submission 3*, p. 30.

273 Ministerial Committee on Comprehensive Economic Partnerships, *Basic Policy on Comprehensive Economic Partnerships*, November 2010, viewed 22 October 2012, <<http://www.mofa.go.jp/policy/economy/fta/policy20101106.html>>.

Committee welcomed the opportunity to learn more about Australia's investment in this market with the establishment of Jetstar Japan.

- 2.298 Current moves by Japanese universities to give students a more international focus and build 'Global Human Capital' also present opportunities for Australia, which have been recognised by the Australian Government and are being promoted by Austrade. The Committee heard about the involvement of particular Australian education institutions in the Consortium of Universities in Kyoto, which offers one particular example of how the problem of creating a globally literate workforce in Japan is being tackled. Given that education is Australia's largest services export, the Committee considers that the Government should continue to support opportunities for Australian education institutions to build and strengthen links with their Japanese counterparts.
- 2.299 The Committee considered cross-cultural links between Australia and Japan could also be improved through establishment of a complementary program to the Japan Exchange and Training Programme run by the Japanese Government.
- 2.300 The Committee had several opportunities during its visit to Japan to see how Australian products are promoted in Japanese supermarkets. The Committee saw particular benefits to the approach taken by Meat and Livestock Australia and has advocated showcasing MLA's marketing in Austrade's export facilitation activities.



Visit to Life Supermarket, Tokyo, 16 July 2012



Delegation with Mr Joe Makano, Vice Minister for Foreign Affairs, Tokyo, 17 July 2012



Breakfast meeting with Japanese DIET Members, Tokyo, 18 July 2012



Meeting with Jetstar Japan, Tokyo, 18 July 2012



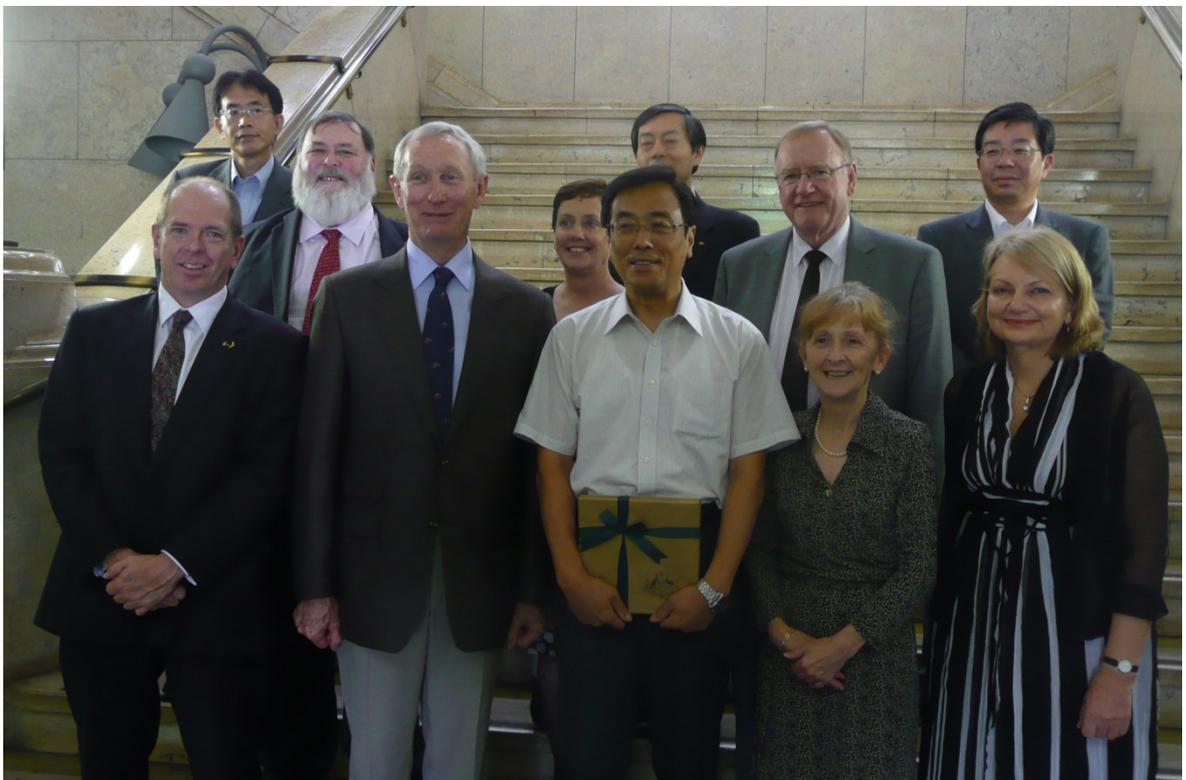
Meeting with ANZ, Tokyo, 18 July 2012



Delegation members with Ms Melanie Brock of Meat and Livestock Australia, Tokyo, 18 July 2012



Delegation with Australian participants in Japanese Exchange and Teaching Programme, Kobe, 19 July 2012



Meeting with Mr Sinsaku Kumra, Vice Governor of Osaka, 20 July 2012



Visit to AEON Supermarket, Kyoto, for 'Australia Fair' promotion, 21 July 2012



'Australia Fair' promotion, AEON Supermarket, Kyoto, 21 July 2012



Delegation members with Japanese shoppers at AEON Supermarket, 21 July 2012



Tea ceremony at Fukujuen Tea Factory, Kizugawa, 19 July 2012



Delegation members with Dr Takashi Kamei, 20 July 2012

「トップバリュ グリーンアイ タスマニアビーフ」を使ったレシピです。

エネルギー(1人分) **376kcal** 塩分(1人分) **2.2g**

栄養バランスガイドによる分類
主菜 野菜 主菜 肉類 穀類

※写真は4人前のイメージです。

牛肉のリエット オレンジ添え

材料(4人分)

- タスマニアビーフコース ステーキ用(一口大程度) 300g
- にんにく(薄切り) 1片
- たまねぎ(薄切り) 1/2個
- トップバリュ エキストラバージンオリーブオイル 小さじ2
- 塩 小さじ1
- こしょう 少々
- 水 2カップ(400ml)
- トップバリュ 月桂樹の葉(ローレル/ペイリーフス) 1枚
- フランスパン(食パン) 1/2本
- オレンジ(皮をむき皮を薄く剥き) 1個
- イタリアンパセリ 適量

作り方

- 鍋にオリーブオイルとにんにくを入れ弱火で炒め、香りが出たら、たまねぎを加え炒める。
- たまねぎが透き通ってきたら肉を加え、表面に焼き色がつくまで炒める。
- ②の鍋に水・ローレルを加え、沸騰したら塩・こしょうを加え、アクを取り除きながら20分以上煮る。
- 水分が無くなったらローレルを取り除き、肉のあら熱が取れたらフードプロセッサーに約20秒かけ、深さのある器に盛りつける。
- フランスパンはオーブントースターで軽く焼き、④のリエットを塗り、オレンジ・イタリアンパセリをのせる。

エキストラバージンオリーブオイル 450g **458円**

月桂樹の葉(ローレル/ペイリーフス) 4g **100円**

今週のおすすめ食材はコレ!

オーストラリア産 オレンジ

※写真はイメージです。

ワンポイントアドバイス

肉は解凍を取り除かずに使いましょ。口あたりがなめらかに仕上がります。

'Australia Fair' promotion material, AEON Supermarket Food Note

ELLE & MEN 2012年6月&21日刊

オージー・ビーフ&ラムで作る 食べてキレイになる、 “ミート・デリ”へ、ようこそ!

栄養アドバイザーとして活躍中のフードコーディネーター、石坂優子さんが、
おいしくて栄養豊富な赤身肉、オージー・ビーフ&ラムを使った誌上デリを創店。
たんぱく質や鉄分の吸収を助ける素材と組み合わせ、おいしくきれいになろう。
Photo: IZUMI HASEGAWA Styling: MARIKO IWASAKI Cooking: YUKO SHIZUKA
Text: HECTORA MURCIA

**スパイス・ラムステーキの
全粒粉ベトナムミューサブ**

Beef and Lamb Steak

**雑穀おにぎりのビーフ巻き、
アボカドのせ**

The Wholesome Rice Roll

ローストビーフと2種類のソース

Roast Beef with Mustard Sauce & Date

**ビーフと
たっぷりミニトマトの
赤ワイン煮**

Beef and Tomato in Red Wine Sauce

●オージー・ビーフ&ラムに関する詳しい情報は <http://www.ausveteel.jp/>

Meat and Livestock Australia promotion in Elle magazine

Republic of Korea

Australia and ROK are strong economic, political and strategic partners with common values and interests.¹

The trade and investment relationship

Background

- 3.1 The Republic of Korea (ROK) is Australia's fourth largest trading partner and the two countries share a longstanding and complementary trade relationship.
- 3.2 The historical linkages between Australia and the ROK, which extend back to Australia's participation in the Korean War, were emphasised throughout this inquiry, as was the importance of the ongoing, modern trade and investment relationship. Mr Wahn-Seong Jeong of the South Korean Embassy described Australia as a country with which Korea has had strong feelings of friendship since the Korean War.²
- 3.3 The Committee heard about the ROK's achievements as a market based economy that has transformed itself from one of the poorest countries in the world at the end of the Korean War to the world's 15th largest economy. The ROK was also the first country to move from being an aid recipient to donor and the first Asian country to host the G20.³

1 ANZ, *Submission 9*, p. 4.

2 Mr Wahn-Seong Jeong, Embassy of the ROK, *Committee Hansard*, 29 November 2012, p. 4.

3 See Korean Embassy, *Submission 8*, p. 1.

- 3.4 The trade relationship between Australia and the ROK developed rapidly from the 1960s onwards as Korea sought raw materials to support its industrial development. Bilateral trade increased from \$6.6 million in 1965-66 to \$176 million in 1975.⁴ Energy and minerals/metals exports have dominated Australia's exports to the ROK since the 1960s and in 2009-10, Korea was Australia's largest export market for coal, iron ore, crude petroleum and copper.⁵
- 3.5 Australia and Korea have 'pursued trade based on having complementary economies.'⁶ The Australian and Korean economies are now about the same size, with Australia's minerals, food and energy exports underpinning Korea's manufacturing-based industry. In turn, Korea supplies Australia with consumer products, including cars, electronics and refined fuels.⁷
- 3.6 In its *Australia in the Asian Century* profile for the ROK, the Government described the relationship as follows:
- Australia and South Korea share a broad and deeply-rooted set of global interests and values and, as fellow liberal democracies in Asia, are complementary middle powers.⁸
- 3.7 While the ROK was described to the Committee as a 'powerhouse', it was also emphasised that the relationship is generally not well known in Australia.⁹ The Ai Group commented that '[t]he relationships...are underdone and underappreciated within Australia ... in many ways it is the forgotten north Asian relationship.'¹⁰
- 3.8 Mr Colin Heseltine, Deputy Chairman of the Australia-Korea Business Council (AKBC) referred to the 'Australian north east Asian gaze', which moves from Japan to China and back again, but overlooks Korea.¹¹
- 3.9 Sir Rod Eddington of the Australia Japan Business Cooperation Committee (AJBCC) made the following comment:
- ... if we underestimate the importance of Japan today because we are preoccupied with other places, it is true in spades of Korea. It
-

4 DAFF, *Submission 12 (Korea)*, p. 4.

5 DFAT and Austrade, *Submission 3 (Korea)*, pp. 3-4.

6 DAFF, *Submission 12 (Korea)*, p. 4.

7 Korean Embassy, *Submission 8*, p. 2.

8 Australian Government, *Australia in the Asian Century Republic of Korea Profile*, viewed 4 February 2013, < <http://dfat.gov.au/publications/asian-century/rok.html>>.

9 Mr Colin Heseltine, AKBC, *Committee Hansard*, 14 November 2012, p. 25.

10 Mr Innes Willox, Ai Group, *Committee Hansard*, 14 November 2012, pp. 2, 5.

11 Mr Colin Heseltine, AKBC, *Committee Hansard*, 14 November 2012, p. 25.

is our third major trading partner. Australian troops fought in the Korean War and made real sacrifices through that period. They are a very important partner. As I understand it, our Prime Ministers have a good relationship, yet no one ever talks about it.¹²

Overview of goods and services trade

3.10 The ROK is Australia's fourth largest overall trading partner with two-way trade worth \$32.7 billion in 2011, representing more than five percent of Australia's international trade.¹³

Exports

3.11 The ROK is Australia's third largest goods export market with exports valued at \$23.4 billion in 2011. In the last five years, Australia's exports to the ROK have grown, on average, a third faster than Australia's exports as a whole. Iron ore, coal, crude petroleum, copper and other ores, and beef are important exports.¹⁴

3.12 Agricultural trade is an important part of the relationship. Trade in agricultural, fish and forestry products was valued at \$2.2 billion in 2010-11. As with Japan, Australia's safe and reliable supply of high quality food products contributes to Korea's food security.¹⁵

3.13 Korea imports about 70 percent of its food needs.¹⁶ It is Australia's fifth largest agricultural export market, accounting for 8.8 percent of Australia's farm exports, and third largest market for beef.¹⁷ Korea is also a significant market for sugar, wheat, dairy products, malt, animal feed, horticultural products and wine.¹⁸

3.14 The ROK is a key market for the Australian beef industry. Beef exports were valued at \$773 million in 2011, an increase from \$633 million in

12 Sir Rod Eddington, AJBCC, *Committee Hansard*, 14 November 2012, p. 7.

13 DFAT, *Republic of Korea Country Brief*, January 2013, viewed 23 January 2013, <http://www.dfat.gov.au/geo/rok/brief_index.html>.

14 DFAT and Austrade, *Submission 3 (Korea)*, p. 1; DFAT, *Republic of Korea Country Brief*, January 2013, viewed 23 January 2013, <http://www.dfat.gov.au/geo/rok/brief_index.html>.

15 Ms Jo Evans, DAFF, *Committee Hansard*, 19 March 2012, p. 1.

16 DAFF, *Submission 12 (Korea)*, p. 2.

17 DAFF, *Submission 12 (Korea)*, pp. 5, 8, 10.

18 DFAT and Austrade, *Submission 3 (Korea)*, p. 5.

2010.¹⁹ The Korean market represents 15 percent of Australia's global beef exports.²⁰

Imports

3.15 The ROK is Australia's ninth largest source of imports, valued at \$7.13 billion in 2011.²¹ Key imports are passenger motor vehicles, refined petroleum, civil engineering equipment and parts, and vehicle part and accessories.²² Australia is also a growing market for a broad range of manufactured products, such as mobile phones, information technology equipment, specialised maritime platforms and high-value consumer durables, such as flat-screen TVs.²³

Services

3.16 Services exports to the ROK were worth \$1.7 billion in 2011. Australia's services exports to Korea grew at an average annual rate of 15 percent from 2000 to reach \$1.9 billion in 2010, with education and tourism accounting for 91 percent of services exports.²⁴ South Korea is Australia's third largest source of foreign students after China and India, with 27,719 enrolments in Australian institutions at the end of 2012, representing 5.4 percent of total enrolments.²⁵

Overview of investment

3.17 Investment between Australia and the ROK has grown and diversified in the last decade. ROK stock in Australia increased twenty-seven-fold from 2001 to \$12.8 billion in 2011, representing 0.6 percent of foreign investment in Australia.²⁶ The Ai Group stated that ROK investment is primarily focussed on resource development and import and distribution. Major

19 DFAT, *Republic of Korea Country Brief*, January 2013, viewed 23 January 2013, <http://www.dfat.gov.au/geo/rok/brief_index.html>.

20 Mr Andrew McCallum, MLA, *Committee Hansard*, 28 November 2012, p. 1.

21 DFAT, *Republic of Korea Country Brief*, January 2013, viewed 23 January 2013, <http://www.dfat.gov.au/geo/rok/brief_index.html>.

22 DFAT, *Republic of Korea Country Brief*, January 2013, viewed 23 January 2013, <http://www.dfat.gov.au/geo/rok/brief_index.html>.

23 DFAT and Austrade, *Submission 3 (Korea)*, pp. 3-4.

24 DFAT and Austrade, *Submission 3 (Korea)*, p. 6.

25 Australian Education International, *End of Year Summary of International Student Enrolment Data – Australia – 2012*, viewed 14 February 2013, <<https://aei.gov.au/research/International-Student-Data/Pages/default.aspx>>.

26 DFAT, *Republic of Korea Country Brief*, January 2013, viewed 23 January 2013, <http://www.dfat.gov.au/geo/rok/brief_index.html>.

Korean investments have included Korea Zinc's investment in the Sun Metals Corporation refinery in Queensland and POSCO's investment in BHP-Billiton's iron ore resources in Western Australia.²⁷

3.18 In 2010, Australian investment stock in the ROK was \$6.8 billion, a three fold increase from 2001. ANZ noted that Australian investment has been concentrated in technology-intensive sectors, infrastructure and utilities, financial services, and education and training.²⁸

3.19 According to the Department of Foreign Affairs and Trade and Austrade, there is scope to increase both Australian investment in Korea and Korean investment in Australia. The Department also commented that:

The noticeable increase in Korea's foreign investment in Australia in recent years partly reflects an attempt by Korean firms to diversify their suppliers of resources.²⁹

3.20 The Korean Embassy told the Committee:

Australia is a country with which Korea foresees continuing a strong and sustained partnership. This is driven to a large extent by Korea's need to achieve a stable supply of energy and resources. Australia's abundant mineral and energy resources supplies, stable political situation, sound infrastructure and the know-how in exploiting and developing resources make it an attractive investment market for Korea. Korean investments in Australia are expected to increase further, fuelled by its strong demand for natural resources.³⁰

3.21 The Australian Chamber of Commerce in Korea pointed out that Korea has become a significant exporter of capital with expectations that this will grow significantly in the medium to long term:

Korea can become an important source of capital for Australia's infrastructure and industrial needs and Australia can capitalise on its proximity to Korea to attract much needed investment funds.³¹

27 Ai Group, *Submission 6*, p. 4.

28 ANZ, *Submission 9*, p. 4.

29 DFAT and Austrade, *Submission 3 (Korea)*, p. 8.

30 Korean Embassy, *Submission 8*, p. 6.

31 Australian Chamber of Commerce in Korea, *Submission 17*, p. 6.

Emerging trends

3.22 The Department of Foreign Affairs and Trade and Austrade identified a number of emerging trends that are likely to affect trade and investment links with Australia in the future, including:

- increasing concerns over resource, energy and food security, particularly given Korea's dependence on imports, with 97 percent of its energy and 70 percent of its food needs imported;
- the need to entrench foreign markets for Korean products and secure Korea's continuing economic growth; and
- Korea's growing middle class with its increasing political and consumer-driven demands.³²

3.23 The Department argued that the Korean Government sees 'green technology' as an effective means to address emerging trends and to maintain Korea's competitiveness when compared with Japan and China.³³

3.24 The AKBC told the Committee:

Importantly, the bilateral relationship is also moving beyond a focus only on minerals and energy as major opportunities emerge in new areas such as financial services and green industries, including renewables and infrastructure, not only in Korea and Australia but with firms from both countries working together in third countries. This trend is actually reflected in AKBC's membership.³⁴

3.25 The AKBC also saw the increasing economic integration between China, Japan and Korea as having 'enormous new opportunities' for Australia.³⁵

Resources and energy

3.26 In its submission, the Department of Foreign Affairs and Trade and Austrade highlighted the significance of energy and mineral/metal exports:

Securing energy and mineral resources is central to the ongoing development of the Korean economy, and this trade and

32 DFAT and Austrade, *Submission 3 (Korea)*, pp. 9-10.

33 DFAT and Austrade, *Submission 3 (Korea)*, p. 9.

34 Mr Colin Heseltine, AKBC, *Committee Hansard*, 14 November 2012, p. 24.

35 Mr Colin Heseltine, AKBC, *Committee Hansard*, 14 November 2012, p. 25.

associated investments will continue to form the bedrock for the bilateral economic relationship.³⁶

- 3.27 The Department pointed out that the Korean Government's 2010 overseas resource development plan aims to meet 30 percent of Korea's petroleum and gas consumption from overseas Korean developments by 2019. This is three times more than the stated aim in the previous 2007 plan. 42 percent of Korea's coal, uranium, steel, copper, tin, zinc and nickel requirements are also to be met from overseas. As a result, Korean companies are increasingly active in resource development.³⁷
- 3.28 In its submission, the Korean Embassy pointed to the substantial investment by the ROK, particularly in the resources sector, in the ten year period between 2000 and 2010, and stated that the ROK is 'seeking to establish more opportunities for partnership with Australian companies in order to secure a reliable supply of energy and mineral resources.'³⁸
- 3.29 Korean companies, including POSCO, the Korea Resource Corporation (KORES), the Korea Gas Corporation (KOGAS) and SK Energy (SKE) 'import a huge amount of resources such as coal, iron ore, petroleum and natural gas which contribute to Korea's sustained economic development.' These companies also have significant investments in Australian resource projects, include coal and iron ore mines, and liquefied natural gas (LNG).³⁹
- 3.30 Embassy representatives also told the Committee:
- More than one-third of the mineral resources Korea requires are imported from Australia, which contributes to Korea's sustained economic development. POSCO, the world's third biggest steel maker today, has been importing iron ore and coking coal since 1968. As a single company, it is still the biggest importer. Last year and this year, large-scale LNG purchase contracts were signed, including for Gladstone, Prelude and Ichthys. Put together, they will supply nine million tonnes of LNG from 2013 to 2015, and Australia will become Korea's No. 1 natural gas supplier from 2014.⁴⁰
- 3.31 The Department of Resources, Energy and Tourism noted that the pattern of Korean investment in Australia has changed over time with investors
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36 DFAT and Austrade, *Submission 3 (Korea)*, p. 23.

37 DFAT and Austrade, *Submission 3 (Korea)*, p. 23.

38 Korean Embassy, *Submission 8*, p. 5.

39 Korean Embassy, *Submission 8*, p. 6.

40 Mr Wahn-Seong Jeong, Embassy of the ROK, *Committee Hansard*, 29 November 2013, p. 1.

increasingly taking a direct stake in projects through equity partnerships and minority shareholdings. For example, in January 2011, KOGAS acquired a 15 percent stake in the Gladstone LNG coal seam gas-based LNG project, which was Korea's first equity stake in an Australian LNG project.⁴¹

3.32 The Korean Embassy also pointed out that in recent years, the level of equity acquired by Korean companies has increased significantly. For example, investment in coal mines has increased from typically 10 percent or less to:

- 20 percent in the Mount Thorley mine held by POSCO;
- 50 percent held by KORES in the Springvale mine; and
- 95 percent of the Wyong coal mines by KORES, SK Networks and Kyung Dong.⁴²

3.33 Korea is the world's second largest importer of LNG behind Japan. While currently sourcing the majority of its LNG from the Middle East, Malaysia and Indonesia, the Department of Resources, Energy and Tourism indicated in its submission that 'Korea is targeting Australia for new long-term supplies of LNG expected to come on stream in the 2015-16 timeframe.' For example:

- KOGAS has signed non-binding Heads of Agreements with Chevron to purchase 1.5 mtpa of LNG from the Wheatstone Project over 20 years and 1.5 mtpa of LNG from the Gorgon Project for 15 years; and
- KOGAS has purchased a 15 percent equity stake in the Gladstone LNG Project and will receive up to 3.5 mtpa of LNG from the project.⁴³

3.34 Australia's LNG exports to the ROK are expected to increase from two to around 25 percent of the ROK's LNG supply from 2015 onwards when full production commences on three major LNG contracts.⁴⁴

3.35 In the area of floating liquefied natural gas (FLNG), Samsung Heavy Industries is constructing a FLNG vessel for the Prelude FLNG project to be delivered in 2016. Shell and the Technip-Samsung Heavy Industries consortium have also reached agreement to work on the design,

41 DRET, *Submission 16*, p. 14.

42 Korean Embassy, *Submission 8*, p. 6.

43 DRET, *Submission 16*, p. 16.

44 DFAT, *Republic of Korea Country Brief*, January 2013, viewed 23 January 2013, <http://www.dfat.gov.au/geo/rok/brief_index.html>.

construction and installation of multiple FLNG facilities for up to 15 years.⁴⁵

- 3.36 Hyundai Heavy Industries is also involved in conventional offshore LNG projects, constructing modules for the Gorgon project's processing trains and fabricating topsides for the North West Shelf Venture's North Rankin B platform.⁴⁶
- 3.37 With a goal to lead the world in green-energy technologies by 2030, Korea is also interested in responding to climate change and energy security considerations through clean and renewable technologies.⁴⁷ The Department of Resources, Energy and Tourism considered there were opportunities to use the complementarity between the two countries (and between Australia and Japan) to pursue clean energy opportunities.⁴⁸
- 3.38 Another area of potential cooperation is in the production of rare earth oxides, required by both Japan and Korea for the manufacture of high technology items and green-energy and energy-efficient technologies.⁴⁹

Opportunities for small and medium-sized businesses

- 3.39 The AKBC pointed out in its submission that there is an increasing focus on South Korea from small and medium-size businesses rather than the traditional large corporate entities. Mr John Wotton told the Committee:

We are certainly starting to see – in the food industry, for example – smaller companies moving into the Korean market as they get a better understanding of how important it is to us. As Korea has relaxed some of its regulations with regard to investment in Korea, you are also starting to see accounting, investment and some of the companies involved in green energy here in Australia looking at Korea for potential opportunities. We are also seeing Australian companies that are involved in research here in Australia looking to Korea as perhaps a place where they can start to put some of the research to market, particularly in the areas of technology, biotechnology and nanotechnology, which are still very much in the research phase, even here in Australia. Some

45 DRET, *Submission 16*, p. 17.

46 DRET, *Submission 16*, p. 17.

47 DRET, *Submission 16*, p. 17.

48 DRET, *Submission 16*, p. 18.

49 DRET, *Submission 16*, p. 17.

of them are looking at Korea as a potential way to take their research to market.⁵⁰

- 3.40 The AKBC also identified that, regardless of the outcome of the Presidential elections in December 2012, 'freeing up of the chaebols, the big conglomerates, is on the agenda.' Mr Colin Heseltine of the AKBC explained the significance of this for Australian companies:

The importance of that for a country like Australia is that [the chaebols] operate as very self-contained business units. They do everything. Everything is in-house. If the freeing up of chaebols proceeds, a lot of outsourcing would take place in IT, maintenance, communications, whatever. If this happens – and it is expected that it will, to some degree at least – it will offer a lot of new opportunities for Australian companies, which are very good at these sorts of things.⁵¹

- 3.41 Specifically, it will improve competition and opportunities for businesses that are not associated with the chaebols, and particularly for small and medium-sized business enterprises that have been 'stifled' by the existing approach.⁵²

Defence materiel cooperation

- 3.42 The Department of Defence told the Committee that Australia's relationship with the ROK 'reflects our mutual interest in regional stability and our common alliance with the United States.'⁵³

- 3.43 The trade and investment relationship between Australia and the ROK in defence materiel and goods was formalised by a Memorandum of Understanding (MoU) in August 2001. The objective of the MoU:

... is to develop materiel cooperation activities that benefit the military of both countries. The MOU specifically relates to defence industry cooperation and seeks to help enable Australian and ROK defence companies to work within each other's defence procurement framework and to provide through life support to the respective armed forces. A Joint Committee has been set up

50 Mr John Wotton, AKBC, *Committee Hansard*, 14 November 2012, p. 26.

51 Mr Colin Heseltine, AKBC, *Committee Hansard*, 14 November 2012, p. 26.

52 Mr Colin Heseltine, AKBC, *Committee Hansard*, 14 November 2012, p. 28.

53 Department of Defence, *Submission No. 4*, p. 1.

under the auspices of this MOU to oversee and facilitate cooperation activities.⁵⁴

3.44 Defence considered materiel cooperation to show 'promise', stating:

Our respective Airborne Early Warning and Control (AEW&C) aircraft programs, AEGIS systems and programs to develop next generation submarines present good opportunities for potential cooperation.⁵⁵

3.45 Defence elaborated on the areas where Australia and the ROK are currently cooperating:

The Defence Materiel Organisation (DMO) currently cooperates with its Korean counterpart (DAPA - Defence Acquisition and Procurement Agency) on AEW&C and to a lesser extent on self-propelled howitzers (under LAND 17). Project Land 17 Phase 1 seeks to acquire both towed and self-propelled howitzers, their support systems, ammunition and enhanced digital battle management systems for targeting, and command and control. The tender for the project closed in April 2008 and received two submissions, including from Samsung Techwin/Raytheon Australia with the South Korean AS-9. Defence anticipates submitting the acquisition business case to government for Second Pass consideration in late 2011 or early 2012. Korean Ammunition Companies (Hanwha and Poongsan) are currently cooperating with Thales Australia on munitions (particularly the 155mm and the 5"/55 ammunitions) and continue to look for further opportunities to cooperate under the spirit of the 2001 MOU.⁵⁶

3.46 The Committee notes, however, that ultimately Samsung Techwin/Raytheon Australia did not win the tender for Project Land 17.⁵⁷

3.47 Defence also told the Committee that Australia and the ROK are in the process of finalising a Mutual Government Quality Assurance Arrangement, which will enable Defence agencies to provide quality assurance functions on behalf of both governments and industry.⁵⁸

54 Department of Defence, *Submission No. 4*, p. 1.

55 Department of Defence, *Submission No. 4*, p. 1.

56 Department of Defence, *Submission No. 4*, p. 1.

57 'Australia's \$450-600 million LAND 17 Artillery Replacement', *Defence Industry Daily*, 17 October 2012, viewed 31 January 2013, <<http://www.defenseindustrydaily.com/australias-a-450m600m-land-17-artillery-replacement-gets-goahead-01928/>>.

58 Department of Defence, *Submission No. 4*, p. 1.

- 3.48 In addition to this, Australia and the ROK entered into the *Agreement on Protection of Classified Military Information*, in 2010. This agreement provides a legally binding framework for the secure exchange of classified military information between defence organisations and related industry contractors. Practical defence and defence industry cooperation is facilitated by this agreement.⁵⁹

Multilateral cooperation

- 3.49 Australia and the ROK cooperate in a variety of multilateral organisations. Australia and the ROK pursue a shared commitment to an open-rules-based multilateral trading system via the World Trade Organization (WTO). Both countries are committed to conclusion of the WTO Doha Round.⁶⁰
- 3.50 The ROK provided active support to Australia's efforts to establish the Asia Pacific Economic Cooperation (APEC) in 1989 and became a founding member. The Department of Foreign Affairs and Trade and Austrade told the Committee that:
- Australia and Korea have a good working relationship in APEC, with both countries like-minded on most APEC issues. Korea supports Australia's efforts to promote domestic structural reform and is a strong proponent of aid-for-trade capacity building efforts. Australia supports Korea's efforts to strengthen capacity building for trade negotiators in developing APEC economies.
- 3.51 Other areas of collaboration within APEC include APEC's Supply-Chain Connectivity Framework and supporting APEC's analytical arm, the Policy Support Unit.⁶¹
- 3.52 The East Asia Summit is another forum for multilateral cooperation between Australia and the ROK, where Australia and ROK are working together on 'a possible Comprehensive Economic Partnership in East Asia.'⁶²
- 3.53 Other areas of cooperation include the G20, Food and Agriculture Organization, OECD and, as discussed in chapter two, the Regional

59 Department of Defence, *Submission No. 4*, p. 1.

60 DFAT and Austrade, *Submission 3 (Korea)*, p. 30.

61 DFAT and Austrade, *Submission 3 (Korea)*, p. 31.

62 DFAT and Austrade, *Submission 3 (Korea)*, p. 31.

Comprehensive Economic Partnership negotiations launched in November 2012.⁶³

Barriers and impediments for Australian businesses

Background

3.54 The Committee heard about the difficulties experienced working in Korea. Ai Group told the Committee:

The Korean market is a very nascent industry. I think it is fair to say that it is not the first place or even the second place that Australian industry would think of going. There are issues around language barriers and cultural barriers that are very difficult for Australian industry to penetrate. It is a market that is perceived by Australian industry to be very much self-contained, self-reliant.⁶⁴

3.55 According to the Ai Group, the market has been particularly difficult to access for agricultural products and manufactured goods. In the case of manufactured goods, Mr Willox stated '[t]hat many have tried and many have failed would be a fair assessment of the Korean market...'⁶⁵

3.56 Mr Colin Heseltine of the AKBC commented that:

No-one who has ever done work and business there would say it is not tough.⁶⁶

3.57 ANZ noted that since the 1980s, the ROK has embarked on significant trade liberalisation. That said, however, barriers and impediments to trade and investment remain in many sectors, with particularly high barriers in agriculture and restrictions across a range of services industries and on investment.⁶⁷

Goods barriers

3.58 Australian businesses face various barriers and impediments to exporting goods to the ROK. These fall into two categories: tariff barriers and non-

63 DFAT and Austrade, *Submission 3 (Korea)*, pp. 31-32; DAFF, *Submission 12 (ROK)*, p. 28.

64 Mr Innes Willox, Ai Group, *Committee Hansard*, 15 November 2012, p. 5.

65 Mr Innes Willox, Ai Group, *Committee Hansard*, 15 November 2012, p. 5.

66 Mr Colin Heseltine, AKBC, *Committee Hansard*, 14 November 2012, p. 27.

67 ANZ, *Submission 9*, p. 4.

tariff barriers. The latter includes constraints within the ROK, sanitary and phytosanitary issues, and technical market access issues. Both tariff and non-tariff barriers are particularly significant in the agricultural sector.

Tariff barriers

- 3.59 The ROK applies tariffs at an average of 12.1 per cent.⁶⁸ This has decreased from an average of nearly 24 per cent in 1982 but remains high compared with other OECD countries.⁶⁹ The ROK applies significant tariffs to agricultural products, at an average of 48.6 per cent, compared to 6.6 per cent for non-agricultural products.⁷⁰
- 3.60 Australia's major exports are subject to tariffs ranging from 40 per cent for beef up to 513 per cent for malt and barley. Key products within this range include animal fodder (100 per cent), dairy (up to 176 per cent), horticulture (up to 304 per cent) and maize (up to 328 per cent).⁷¹ Other agricultural products such as vegetables, fruit, nuts, cattle, sheep, goats, horses, beverages and tobacco products have average tariff rates above 20 per cent.⁷²
- 3.61 Moderate tariffs are applied to other sectors, such as engines, pharmaceuticals, chemicals and wine.⁷³ Some non-agricultural products are subject to 'nuisance tariffs', which apply to approximately 31 per cent of the value of Australia's non-agricultural exports, including resources, pharmaceuticals and vehicle parts.⁷⁴

Non-tariff barriers

- 3.62 Non-tariff barriers in the ROK include tariff-rate quotas, quantitative import quotas, special agricultural safeguards, flexible tariffs and adjustment duties, and domestic subsidies.
- 3.63 Tariff-rate quotas are applied to 179 agricultural products, with rates ranging from zero to 50 percent and 'out-of-quota' rates ranging up to 887 per cent. Tariff-rate quotas apply to milk powder, butter, cheese, malt and malting barley, animal fodder, potatoes and citrus.⁷⁵

68 DFAT and Austrade, *Submission 3 (Korea)*, p. 11.

69 DAFF, *Submission 12 (Korea)*, p. 24.

70 DFAT and Austrade, *Submission 3 (Korea)*, p. 11.

71 DFAT and Austrade, *Submission 3 (Korea)*, p. 11.

72 DAFF, *Submission 12 (Korea)*, p. 24.

73 Ai Group, *Submission 6*, p. 5.

74 DFAT and Austrade, *Submission 3 (Korea)*, p. 11.

75 DFAT and Austrade, *Submission 3 (Korea)*, pp. 11-12; DAFF, *Submission 12 (Korea)*, p. 24.

- 3.64 These quotas are operated by 22 different organisations in the ROK, including government ministries, state trading enterprises and producer organisations. This can cause a conflict of interest where producer organisations are owned by the domestic producers that compete with Australian exports, such as for raw ginseng, pine nuts and citrus fruits.⁷⁶
- 3.65 Tariff-rate quotas are administered by auction, allocation to designated organisations, first-come-first-served, or a combination of these methods. Additional mark-ups can be applied by state trading enterprises. These currently apply to rice, garlic, onions, nuts, seeds, beans, spices and soybeans. Rice is also subject to a quantitative-import quota, as the ROK increases its annual rice quota.⁷⁷
- 3.66 As a member of the WTO, the ROK can take 'safeguard action' to temporarily restrict imports by increasing tariffs if an increase in imports would impact on domestic industry. In the agricultural sector, a potential impact to domestic industry is adequate to institute safeguards, and the ROK has done this for 124 agricultural products. These safeguards have been consistently applied to soya and adzuki beans, buckwheat, starches and groundnuts with a significant negative impact on trade in these products.⁷⁸
- 3.67 Agricultural products are also subject to significant technical market access, sanitary and phytosanitary, and quarantine barriers.⁷⁹
- 3.68 Additional, temporary 'flexible tariffs' can also be applied to goods. These can be altered at the authority's discretion, with the maximum limited by the ROK's agreement with the WTO. This mechanism is used to encourage and discourage imports of particular goods, such as dairy, where domestic production is affected.⁸⁰
- 3.69 Further to these impediments are domestic subsidies, which averaged 52 per cent of farmers' incomes in 2007-09. The OECD reported that 91 per cent of subsidies are 'the most distorting type: payments linked to output and variable input use.'⁸¹

76 DFAT and Austrade, *Submission 3 (Korea)*, p. 11; DAFF, *Submission 12 (Korea)*, pp. 24-25.

77 DFAT and Austrade, *Submission 3 (Korea)*, pp. 11-12.

78 DFAT and Austrade, *Submission 3 (Korea)*, p. 12.

79 DFAT and Austrade, *Submission 3 (Korea)*, p. 18; Ai Group, *Submission 6*, p. 5; DAFF, *Submission 12 (Korea)*, pp. 25-27.

80 DFAT and Austrade, *Submission 3 (Korea)*, p. 12.

81 DFAT and Austrade, *Submission 3 (Korea)*, p. 12.

- 3.70 Key non-tariff barriers identified by the Ai Group, particularly in the automotive manufacturing sector, are discriminatory taxes and burdensome regulatory and safety compliance requirements.⁸²

Services barriers

- 3.71 There are various barriers to the services trade for Australian businesses in the ROK. The key barrier is related to the treatment of non-nationals, as indicated by the Department of Foreign Affairs and Trade and Austrade:

Broadly speaking, foreign service-providers' main complaint about Korea relates to national-treatment limitations, including barriers related to Korean state-owned enterprises, business ventures having to be Korean-organised and residency requirements.⁸³

- 3.72 ANZ identified some general barriers, including 'third party' rules, levies, and restrictions on licencing and outsourcing.⁸⁴ The Australian Chamber of Commerce in Korea identified others, including increasing regulation of the labour market (including restrictions on hiring foreign staff without Korean licences), limited opportunities for input into regulatory changes prior to their enactment, and reversals of previous tax rulings or interpretations.⁸⁵
- 3.73 Each sector faces different barriers. The ROK has restrictions on agriculture, particularly for wholesale and retail trade and storage services.⁸⁶

Accounting and taxation services

- 3.74 Accountants must pass an examination and complete field work before becoming licensed and registered to provide chartered public accounting or certified taxation accounting services in the ROK.⁸⁷

Architectural services

- 3.75 Foreign architects who wish to practise in the ROK must pass an examination to gain a Korean architect licence. Foreign companies can

82 Ai Group, *Submission 6*, p. 5.

83 DFAT and Austrade, *Submission 3 (Korea)*, p. 13.

84 ANZ, *Submission 9*, pp. 5-6.

85 Australian Chamber of Commerce in Korea, *Submission 17*, p. 7.

86 DFAT and Austrade, *Submission 3 (Korea)*, p. 13.

87 DFAT and Austrade, *Submission 3 (Korea)*, p. 13.

only provide architectural services in the ROK in a joint venture with a Korean-licensed architect.⁸⁸

Education

- 3.76 To operate on their own, foreign educational institutions must be non-profit and approved by the Korean Minister of Education, Science and Technology. Institutions cannot train primary school teachers or provide 'higher education services through broadcasting.' Depending on the level of foreign property ownership, the boards of educational institutions must include between 33 and 50 per cent Korean nationals. Foreign universities are able to partner with Korean universities to provide joint programs.⁸⁹
- 3.77 A non-regulatory barrier to attracting Korean students to study in Australia is the highly competitive international market, where many students consider studying at universities in other English-speaking countries such as the United States before they consider Australia as an option.⁹⁰ Other factors that impede university links with the ROK include limited English-language proficiency, limited numbers of students wanting to go on exchange to the ROK, and difficulty in getting professional accreditation in ROK. Despite these factors, the ROK is still a large source for incoming students.⁹¹

Financial services

- 3.78 Financial services firms are prohibited from providing cross-border services, but can establish branches within the ROK with some licensing and funding conditions. Foreign banks cannot open branches that would conduct business as credit unions, mutual savings banks, specialised capital finance companies, capital brokerage firms, credit information companies, general fund administrative firms, collective investment vehicle appraisal companies and bond appraisal companies. They are also 'prohibited from acquiring real estate for non-business purposes' and data laws require that 'most or all' of the IT systems of foreign firms must be located in the ROK.⁹²
- 3.79 ANZ considered Korea's 'behind the border' barriers should be addressed in free trade agreement negotiations, including the regulatory approvals

88 DFAT and Austrade, *Submission 3 (Korea)*, p. 13.

89 DFAT and Austrade, *Submission 3 (Korea)*, pp. 13-14.

90 Mr Brett Cooper, Austrade, *Committee Hansard*, 22 March 2012, p. 6.

91 DFAT and Austrade, *Submission 22*, p. 16.

92 DFAT and Austrade, *Submission 3 (Korea)*, p. 14.

process, licence processes and the ability to move data offshore so as to enable services to be provided in the most efficient way. Korea also requires the whole core banking system to be kept in country.⁹³ For a super-regional bank:

... you would obviously need the flexibility to have things in different countries to make it an efficient network.⁹⁴

3.80 Other matters ANZ considered should be addressed in the FTA negotiations are:

- Market access: additional retail branch openings and a more predictable licence approval process;
- Business deregulation/outsourcing: greater flexibility to share back-office functions across group entities inside and outside Korea; and
- Bank Levy Exemption for Trade Finance: exemption from the Bank of Korea imposed bank levy on foreign currency liabilities of less than one year.⁹⁵

Legal services

3.81 The ROK is virtually closed to foreign legal services firms. Firms cannot establish practices in the ROK and foreign lawyers must pass the Korean bar examination and complete two years of professional education in order to provide any form of legal advice.⁹⁶

News service

3.82 Foreign firms cannot provide news services directly, and the state has a monopoly on news channels. News services can only be provided by a commercial contract with a Korean news agency.⁹⁷

Telecommunications

3.83 The telecommunications and broadcasting sectors are restricted in that telecommunications services licences are only granted to ROK entities.⁹⁸

93 Mr Michael Johnston, ANZ, *Committee Hansard*, 15 November 2012, p. 24.

94 Mr Robert Bell, ANZ, *Committee Hansard*, 15 November 2012, p. 24.

95 ANZ, *Submission 9*, pp. 5-6.

96 DFAT and Austrade, *Submission 3 (Korea)*, p. 14.

97 DFAT and Austrade, *Submission 3 (Korea)*, p. 15.

98 DFAT and Austrade, *Submission 3 (Korea)*, p. 15.

Investment barriers

- 3.84 Barriers to investment in the ROK have lessened since the Asian financial crisis in 1998, when the ROK was required to implement 'FDI-friendly' policies in order to gain assistance from the IMF. Since then, ROK policies have encouraged FDI but it remains low, especially compared with other OECD countries.⁹⁹
- 3.85 Barriers that remain include foreign ownership ceilings in key service sectors, restrictive product market regulations, a lack of transparency in tax and regulatory policies and an unreformed labour market.¹⁰⁰ In some sectors, foreign investment is limited through legislation.¹⁰¹ Domestic protection¹⁰² and non-regulatory barriers, such as the Korean language, are also impediments to investment.¹⁰³
- 3.86 Furthermore, the cost of doing business is high, some sectors are highly regulated, some labour unions have a militant reputation, and some Korean practices are hard to internationalise, such as the practice of promotion based on length of service rather than merit.¹⁰⁴
- 3.87 There are specific barriers in the accounting and taxation, agricultural, energy, financial and news sectors. Australian businesses cannot invest in accounting or tax agency corporations in the ROK.¹⁰⁵ Foreign investment is not permitted in rice or barley farming, and a 50 per cent equity limit is set on beef-cattle farming.¹⁰⁶
- 3.88 Major energy suppliers are government owned and operated, with foreign holding limits of 30 and 40 per cent in the two major companies (KEPCO and KOGAS). Additionally, the ROK has limits on the aggregate foreign share of power generation facilities (30 per cent) and electric power transmission, distribution and sales businesses (50 per cent).¹⁰⁷
- 3.89 The ROK restricts the flow of inbound and outbound capital, including from foreign bank branches. Foreign financial institutions must be approved as an internationally recognised financial institution by ROK

99 DFAT and Austrade, *Submission 3 (Korea)*, p. 16.

100 DFAT and Austrade, *Submission 3 (Korea)*, p. 16.

101 Ms Jan Adams, DFAT, *Committee Hansard*, 14 March 2012, p. 4.

102 Mr Peter Rowe, DFAT, *Committee Hansard*, 14 March 2012, p. 4.

103 Mr Brett Cooper, Austrade, *Committee Hansard*, 14 March 2012, p. 4.

104 DFAT and Austrade, *Submission 22*, p. 8.

105 DFAT and Austrade, *Submission 3 (Korea)*, p. 13.

106 DFAT and Austrade, *Submission 3 (Korea)*, p. 13.

107 DFAT and Austrade, *Submission 3 (Korea)*, p. 14.

regulators in order to hold more than 10 per cent of the shares of a ROK commercial bank or bank-holding company.¹⁰⁸

- 3.90 Foreign investment in the news sector is limited to 30 per cent for newspapers and 50 per cent for other periodicals. Foreign enterprises are also prohibited from publishing periodicals. The ROK also limits foreign investment in 'facilities-based public-telecommunications services, cable-television operators and signal-transmission-network operators' to 49 per cent. Foreign ownership limits also apply to Korea Telecom Corporation and satellite broadcasters. Foreign investment is prohibited in 'terrestrial-television broadcasting'.¹⁰⁹
- 3.91 The Committee asked the Department of Foreign Affairs and Trade and Austrade to provide particular information about the foreign investment regime in South Korea. An outline of the regime, provided by the Department, is included in full at Appendix E.
- 3.92 The Committee supports the Government's efforts to address the tariff and non-tariff barriers experienced by Australian businesses in the Korean market.

Free trade agreement

Background

- 3.93 The FTA under negotiation between Australia and the ROK received considerable attention throughout this inquiry. This section discusses the importance of the agreement and some of the issues affecting negotiations. This section also reports in some detail about the discussions undertaken by the Committee delegation during its visit to South Korea. These discussions provided a useful perspective to the Committee on the attitudes within different sectors of the Korean community to the FTA.
- 3.94 Negotiations for the FTA commenced in 2009. After rapid progress in 2011, negotiations were delayed in 2012 by the conclusion and entry into force of the Korea-US FTA (KORUS). The Department of Foreign Affairs and Trade and Austrade stated, however, that the FTA 'is currently the

108 DFAT and Austrade, *Submission 3 (Korea)*, p. 14.

109 DFAT and Austrade, *Submission 3 (Korea)*, p. 15.

main focus of our bilateral trade and investment engagement with Korea...'¹¹⁰

3.95 The ROK has concluded FTAs with the United States, Chile, Singapore, European Free Trade Association (EFTA), the Association of South East Asian Nations (ASEAN), India, the European Union and Peru and has a number of other agreements under negotiation.¹¹¹ Of particular note, these agreements:

... contain concessions on agriculture that will result in the eventual elimination of many of Korea's very high tariff barriers for its FTA partners.¹¹²

3.96 Korea's agreements with the United States and European Union also liberalise a number of services markets, remove some foreign investment limits in the telecommunications sector and liberalise aspects of Korea's education sector. The agreements include strong outcomes in financial services, environmental services and transport.¹¹³

Objectives of the agreement

3.97 The FTA is expected to promote stronger trade and commercial ties, open opportunities for Australian exporters and secure Australia's competitiveness with Korea's other key trading partners.

3.98 The Government's Trade Policy Statement outlines the following objective for FTA negotiations with Korea:

Our objective in the negotiations is to put Australian exporters on an equal footing with US and EU competitors which have obtained improved access to the Korean market. The agreement would also include strong liberalising commitments by Korea in services while Australia would eliminate its remaining tariffs on auto imports from Korea and would liberalise its foreign investment requirements.¹¹⁴

3.99 Australia is seeking outcomes in the FTA that protect the competitiveness of key agricultural exports, including beef, sugar, wheat, dairy, malt and malting barley, wine and horticultural products. These products have all

110 DFAT and Austrade, *Submission 3 (Korea)*, p. 26.

111 DFAT and Austrade, *Submission 3 (Korea)*, p. 19.

112 DFAT and Austrade, *Submission 3 (Korea)*, p. 20.

113 DFAT and Austrade, *Submission 3 (Korea)*, p. 22.

114 *Gillard Government Trade Policy Statement: Trading our way to more jobs and prosperity*, April 2011, p. 11.

received either tariff elimination or changes to duty-free quotas in one or more of Korea's other agreements.¹¹⁵

3.100 The Ai Group indicated that beyond the agricultural sector, there would be benefits if Australia obtained tariff reductions in areas where tariffs are more modest but trade is growing. This includes automotive engines, pharmaceutical products, chemicals and wine.¹¹⁶

3.101 Measures to address non-tariff barriers such as discriminatory taxes and regulatory and safety compliance requirements that have been used to protect particular Korean industries, such as the automotive sector, were also advocated by the Ai Group.¹¹⁷ Ai Group noted that the Korean automotive market is almost exclusively dominated by domestically produced vehicles. This contrasts with the high import penetration in the Australian market.¹¹⁸

3.102 The Department of Agriculture, Fisheries and Forestry explained that under KORUS beef tariffs will reduce to zero over the next 15 years. In comparison, Australia's access to the Korean market currently has most-favoured-nation status under the World Trade Organization. For beef, therefore, the tariff is between 18 and 72 percent depending on the specific type of product.¹¹⁹

3.103 Meat and Livestock Australia (MLA) told the Committee:

In Korea, it is critically important now that we proceed to secure a free trade agreement and that the 40 per cent tariff on Australian beef is eliminated. That delivery is crucial, given our major competitor in the market – the United States – has secured a reduction in the 40 per cent tariff to zero over 15 years.

3.104 Further:

Our market share will, in that market in Korea, come under extreme pressure unless similar tariff reductions are also extended to Australia.¹²⁰

3.105 MLA stated that from 1 January 2013, when a tariff differential of 5.33 percent applies, consumer shift to US beef is expected. The following year,

115 DFAT and Austrade, *Submission 3 (Korea)*, p. 20.

116 Ai Group, *Submission 6*, p. 5.

117 Ai Group, *Submission 6*, p. 5.

118 Ai Group, *Submission 6*, p. 5.

119 Ms Jo Evans, DAFF, *Committee Hansard*, 19 March 2012, p. 2.

120 Mr Andrew McCallum, MLA, *Committee Hansard*, 28 November 2012, p. 1.

when the differential becomes 8 percent, significant movement from consumers, solely as a result of price, is expected.¹²¹

3.106 Seafood Services Australia pointed out the impact Korea's FTAs with Chile, Singapore and the United States have had upon Australia's seafood exports. For example, a number of seafood tariffs were subject to immediate elimination in the agreements with Chile and Singapore, with other tariffs to be phased out over five to ten years.¹²² In the US agreement, tariffs will be eliminated over a twelve year period.¹²³

3.107 Seafood Services Australia highlighted the impact of tariffs on the Australian industry:

As significant global economic powers continue to aggressively pursue FTAs with [Japan and South Korea], the challenges already faced by Australian seafood exporters will be further exacerbated by agreements that reduce or eliminate tariffs and non-tariff barriers on seafood supplied by our trading competitors in the markets.¹²⁴

3.108 Seafood Services Australia argued that Australia should seek FTA outcomes on seafood that are, at a minimum, as favourable as those in other FTAs with both Japan and Korea.¹²⁵

3.109 The National Farmers' Federation stated that Korea's free trade agreements with the United States and European Union 'will leave Australia's farm exports at a significant competitive disadvantage', citing the Centre for International Economics (CIE):

... the US deal with Korea will slash Australia's agricultural and food exports into Korea by 12.4% by 2030 – gouging around \$800 million from our accumulated agricultural and food exports. That is, of course, unless we act quickly to get our own deal with Korea.

The CIE also estimates that an Australia-Korea trade agreement would see our agriculture and food exports into the Korean market increase by 53.3% by 2030 (or around \$700 million), even if the US deal is ratified.¹²⁶

121 Mr Stephen Kelly, Australian Meat Industry Council, *Committee Hansard*, 28 November 2012, p. 2.

122 Seafood Services Australia, *Submission 23*, pp. 8, 12-15.

123 Seafood Services Australia, *Submission 23*, pp. 9, 16-17.

124 Seafood Services Australia, *Submission 23*, p. 10.

125 Seafood Services Australia, *Submission 23*, p. 10.

126 National Farmers' Federation, *Submission 15*, p. 5.

Scope of the agreement

- 3.110 The Department of Foreign Affairs and Trade and Austrade stated in its submission that:

The final agreement will be comprehensive and ambitious and will provide many opportunities to deepen commercial links. It will be one of the strongest bilateral trade agreements that Australia has concluded. The FTA will include a highly-liberalising and transparent negative-list approach to services and investment commitments. Australian investments in Korea will benefit from the investments protections ... Australian services providers will benefit from liberalising commitments that go beyond GATS obligations...¹²⁷

- 3.111 In discussions with the Committee, departmental representatives emphasised that:

... the agreement that is in prospect with Korea is a very high-quality, liberalising agreement that would offer Australian agriculture exporters significant new market access into Korea along the lines of the agreements that have been concluded with the EU and the US.¹²⁸

- 3.112 From a Korean perspective, Embassy representatives told the Committee that the FTA:

... will give us some valuable opportunities to increase the trade and investment flows, especially in the areas of IT, automotive, communication, education, tourism and financial services. Financial trade is going well, so once the ongoing FTA negotiations are completed – and in the future – very important and new dimensions will be added to the already flourishing economic ties between Australia and Korea.¹²⁹

- 3.113 Embassy representatives considered services exporters would benefit from greater liberalisation of and access to the services market through the removal of specific barriers.¹³⁰

- 3.114 The Ai Group made the point to the Committee that it 'very much supports the notion and concept of a free trade agreement' provided the

127 DFAT and Austrade, *Submission 3 (Korea)*, p. 30.

128 Ms Jan Adams, DFAT, *Committee Hansard*, 14 March 2012, p. 2.

129 Mr Wahn-Seong Jeong, Embassy of the ROK, *Committee Hansard*, 29 November 2012, p. 2.

130 Korean Embassy, *Submission 8*, p. 8.

agreements are wide-ranging, broad and comprehensive.¹³¹ Mr Innes Willox told the Committee:

We do support a Korean FTA but in no way should an agreement be seen as a trade-off between sectors. We hear a lot of concern about notions of a trade-off between particularly the beef sector and the auto sector.

...

We are a little concerned that at some point the pressure, whether real or perceived to achieve an outcome for perhaps political purposes, may lead to big sectors of the Australian economy missing out on advantages.¹³²

Issues

Sensitive sectors

3.115 The Department of Innovation, Industry, Science and Research told the Committee that the manufacturing sector may face significant challenges as a result of trade liberalisation with both South Korea and Japan. Some of the challenges faced by Australian businesses are that they have a strong domestic focus and do not view themselves as global competitors. Mrs Judith Zielke told the Committee:

They do not have to be exporting to be a global competitor, and therefore companies need to understand that they are competing against firms from overseas whether they are only selling here or if they are also selling internationally.¹³³

3.116 The Department:

... is therefore working with Australian industry to assist it to become more internationally competitive and to facilitate access to global value chains.¹³⁴

3.117 This includes educating businesses about their opportunities, encouraging best practice, and improving management capacity, including leadership skills, human resources arrangements and business strategies.¹³⁵

131 Mr Innes Willox, Ai Group, *Committee Hansard*, 15 November 2012, p. 1.

132 Mr Innes Willox, Ai Group, *Committee Hansard*, 15 November 2012, p. 1.

133 Mrs Judith Zielke, DIISR, *Committee Hansard*, 2 November 2011, p. 5.

134 Mrs Judith Zielke, DIISR, *Committee Hansard*, 2 November 2011, p. 2.

135 Mrs Judith Zielke, DIISR, *Committee Hansard*, 2 November 2011, p. 5.

- 3.118 The Department indicated that it is also working to ensure that there are arrangements in the FTA to accommodate sensitive sectors, such as tariff phasings, and to address non-tariff and technical barriers concerning market access.¹³⁶ The Ai Group argued that a narrow scope of items may require transitional arrangements, such as certain textile, clothing and footwear (TCF), automotive, and machinery and equipment products. It also considered the FTA outcomes should include strategies to remove non-tariff barriers to Australian exporters in the automotive markets of both countries.¹³⁷

Investor-State Dispute Settlement

- 3.119 The Committee is aware that agreement on Investor-State Dispute Settlement (ISDS) is one of the remaining outstanding issues in FTA negotiations.¹³⁸
- 3.120 ISDS clauses are included in a number of trade agreements. These clauses typically empower businesses from one country to take international legal action against the government of another country for alleged breaches of the agreement.¹³⁹
- 3.121 The Committee notes Australia's position on ISDS as outlined in the Government's Trade Policy Statement:

The Gillard Government supports the principle of national treatment – that foreign and domestic businesses are treated equally under the law. However, the Government does not support provisions that would confer greater legal rights on foreign businesses than those available to domestic businesses. Nor will the Government support provisions that would constrain the ability of Australian governments to make laws on social, environmental and economic matters in circumstances where those laws do not discriminate between domestic and foreign businesses. The Government has not and will not accept provisions that limit its capacity to put health warnings or plain

136 Mr Karl Brennan, DIISR, *Committee Hansard*, 2 November 2011, pp. 6-7.

137 Ai Group, *Submission 6*, p. 5.

138 See, for example, Mr Wahn-Seong Jeong, Embassy of the ROK, *Committee Hansard*, 29 November 2012, p. 2.

139 *Gillard Government Trade Policy Statement: Trading our way to more jobs and prosperity*, April 2011, p. 14.

packaging requirements on tobacco products or its ability to continue the Pharmaceutical Benefits Scheme.¹⁴⁰

- 3.122 The Committee also notes the statement by the Deputy Leader of the Opposition and Shadow Minister for Trade, the Hon Julie Bishop MP:

The Coalition would, as a matter of course, put ISDS clauses on the negotiating table and then negotiate ISDS provisions on a case-by-case basis.¹⁴¹

- 3.123 This issue has received ongoing media attention and was raised during the Committee's visit to South Korea.

Impact of KORUS

- 3.124 The Department of Foreign Affairs and Trade referred to political fallout from the contentious debates over finalisation and implementation of KORUS that have impeded finalisation of the Australian agreement.¹⁴²

- 3.125 Mr Peter Rowe of the Department of Foreign Affairs and Trade commented:

There are not really obstacles – no particular items – in the agreement that are holding it up; I am sure we can come to a conclusion on those. It is the fact that getting through the United States free trade agreement has been so politically debilitating.¹⁴³

- 3.126 The AKBC expressed its concern that with the delay in negotiations:

Australia risks falling behind its competitors...¹⁴⁴

- 3.127 This issue was raised throughout the inquiry and is discussed in further detail below.

Delegation discussions

Political perspective

- 3.128 The FTA was a dominant theme in discussions in the ROK. The delegation recognised the opportunities presented by the FTA to strengthen trade
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140 Gillard Government Trade Policy Statement: *Trading our way to more jobs and prosperity*, April 2011, p. 14.

141 Hon Julie Bishop MP, 'Free Trade Focus', *On Line Opinion*, viewed 15 May 2013, <<http://www.onlineopinion.com.au/view.asp?article=14855>>.

142 Ms Jan Adams, DFAT, *Committee Hansard*, 14 March 2012, p. 2.

143 Mr Peter Rowe, DFAT, *Committee Hansard*, 14 March 2012, p. 3.

144 Mr Colin Heseltine, AKBC, *Committee Hansard*, 14 November 2012, p. 24.

and investment between the two countries. It also noted the effect that agreements concluded by Korea with a number of Australia's major competitors, including the United States, European Union, ASEAN and Chile have had.

- 3.129 The delegation met with the Ministers for Trade and Knowledge Economy as well as the Chairs of the National Assembly Committees on Agriculture, Knowledge Economy and Trade. In each of these meetings, the FTA was the main discussion topic, with Ministers and Committee Chairs expressing a commitment to conclude the agreement.
- 3.130 Chairman Choi Kyu-Sung of the Agriculture Committee informed the delegation that while there was strong opposition from farmers to KORUS, the Committee's consensus view was that free trade agreements are inevitable. The ROK's food self sufficiency is only 5 percent and food imports in 2011 were worth \$33 billion, double imports of the previous year.
- 3.131 Chairman Sung also considered the FTA must be mutually advantageous and achieve the right balance. He identified that one of the biggest concerns is beef, with half of the market dominated by imported beef. Farmers are concerned about the price impact on their own products as tariffs are reduced and eventually eliminated.
- 3.132 The Minister for Trade, Dr Bark Tae-Ho, spoke about ISDS. He said that it had been a feature of the KORUS and some would wonder why it is not in the Korea-Australia FTA.
- 3.133 The delegation noted that the Korea-Australia FTA legislation will come before the Foreign Affairs, Trade and Unification Committee for review after its approval by the National Assembly. It will then be reviewed by the Judiciary Committee before a final vote in the Plenary Session. Chairman of the Foreign Affairs, Trade and Unification Committee, Mr Ahn Hong Joon, stated that the ROK will make every effort to conclude the FTA at the national level in the shortest possible time.
- 3.134 Similarly, the Chairman of the Knowledge Economy Committee, Mr Kang Chang il, with other Committee members, indicated support for timely conclusion of the FTA, which they considered would bring mutual economic benefits to both countries.
- 3.135 Mr Kang emphasised however that while in his view the FTA is inevitable, efforts must be made to minimise impacts, especially on agriculture.

- 3.136 While the delegation acknowledged concerns about the proposed agreement, it considered that attention should also be given to the opportunities that the FTA will provide both countries.

Importer perspectives

- 3.137 While in Seoul, the delegation held a series of meetings with Korean importers where issues associated with the FTA also received considerable attention. The delegation also had the opportunity to informally discuss a range of matters with Korean importers at a dinner hosted by Australia's Ambassador to the ROK.
- 3.138 The delegation was aware from evidence received to the inquiry of the concerns of agricultural exporters that Australia would lose market share in the ROK as a result of the competitive disadvantages arising from Korea's agreements with major competitors.
- 3.139 Importers told the delegation that with FTA's concluded with the US and EU, products are cheaper to import from these countries and that without conclusion of the Korea-Australia FTA, they will need to look to markets other than Australia. However, the attractiveness of importing from Australia includes its clean image, the ability to secure good quality ingredients, and its logistical infrastructure.
- 3.140 Some examples presented by importers were:
- Dairy manufacturer, Binggrae's production in Australia is export focussed, with the company using Australia as a base for exporting to third countries. Binggrae representatives told the delegation that Australia is well placed compared with other markets such as Brazil and other South American countries and that the key attraction of Australia is that it can secure good quality ingredients, the production costs of raw milk are lower, and Australia is well placed to provide logistic infrastructure. On the other hand, it can be negatively affected by labour and other costs in Australia.
 - Pulmuone imports organic soybean and flour and some meat and seafood from Australia. It indicated that the reduction in tariffs from the FTA would facilitate greater imports, highlighting that the soybean quota is currently over 400 percent.
 - Orion imports potatoes and corn from Australia. Its other import markets are the United States and Japan. From Australia, it imports 5,000 to 10,000 tonnes of potatoes per year, mostly from South Australia and NSW. Orion's representative highlighted that Australian products

are twice the price of US imports. Orion made it clear to the delegation that without the Korea-Australia FTA it will need to change suppliers as soon as possible as contracts operate on a year to year basis.

- Sugar importers also emphasised the need to conclude the FTA. CJ indicated that Australia provides a reliable, high quality supply, and timely service that is better than elsewhere. Samyang Corporation also imports from Brazil, Guatemala and Thailand. For each country the tariff is 3 percent with the exception of Thailand where the tariff is zero because of the ASEAN FTA.

- 3.141 The delegation also received a comprehensive briefing about the wine market in the ROK. The top five wine imports to Korea (based on value) are France, Chile, Italy, United States (California) and Australia. Of these five, Australia is the only country that does not have a free trade agreement with the ROK.
- 3.142 In 2011, wine imports totalled 26 million litres, valued at US\$132 million.
- 3.143 The delegation was informed that as the first nation to sign a FTA with the ROK, Chilean wines and other products have benefitted from considerable media exposure and publicity and an aggressive marketing campaign, and have gained market share. In 2010-11, there was a 19.3 percent increase in value and an 11 percent increase in volume of Chilean wine.¹⁴⁵
- 3.144 Similarly, when Korea's FTA with the European Union took effect on 1 July 2011, the 15 percent basic tariff on wine was removed, resulting in a price drop of about 12 percent for EU wines. This is combined with aggressive marketing and support by EU wine exporting countries.¹⁴⁶
- 3.145 Price, quality, image, and country of origin are important to the Korean market. While Australian wine is attractive because of its clean image, very good quality and associations with Australia, price is a major barrier. Australian market share has declined to five percent as Australia's key competitors benefit from the abolition of tariffs.
- 3.146 Austrade pointed out that many Australian wine exporters have relatively limited knowledge of the Korean market and indicated in discussions with the Committee that Wine Australia marketing is now one of its priorities.¹⁴⁷ In subsequent discussions, Mr Justin Ross of Primary Industries and Regions SA told the Committee:

145 Austrade Seoul, *Wine Market Overview-Korea*, July 2012, p. 1.

146 Austrade Seoul, *Wine Market Overview-Korea*, July 2012, p. 3.

147 Austrade Seoul, *Wine Market Overview-Korea*, July 2012, p. 3.

... the success of the wine industry, particularly in the UK and US, was built around that concerted effort to build the brand 'Australia' and to raise awareness and I know that the same degree of effort is not going into these Asian markets at this stage. I think the benefit of having that umbrella brand is not necessarily there.¹⁴⁸

3.147 On its return to Australia, the delegation received a letter from C&H Food Speciality Co Ltd, which has an exclusive agreement with Victorian cheese producing company, Lemnos Foods, to import and sell in products in Korea. C&H Food Speciality has imported Australian products to Korea for the last seven years.

3.148 C&H Food Speciality highlighted that the market has experienced significant changes since the Korea-EU FTA and KORUS came into effect. Changes to tariffs and quotas have resulted in more European and US cheese being imported and sold at lower prices. Importers from Australia are finding it increasingly difficult to compete, with other factors such as the high Australian dollar and regulations to protect many European products also contributing to difficulties.

3.149 In his letter, company president Mr Sungmin Choi advocated proactive cooperation between Australia and Korea, stating:

Australia is a very positive country for Koreans and accordingly the image towards the Australian products are also very positive. For this reason, I established my company to import and sell Australian products only.¹⁴⁹

Agricultural reform

3.150 As noted earlier in the report, agricultural trade forms an important part of the relationship between Australia and South Korea. The relationship has been dynamic, with the composition of trade changing over time.¹⁵⁰

3.151 While Korea's industrialisation has brought many benefits, it has also had implications for its agricultural sector, including:

- an increasing gap in income between those working in the agricultural sector and those working in other sectors;

148 Mr Justin Ross, Primary Industries and Regions SA, *Committee Hansard*, 15 November 2012, p. 29.

149 Sungmin Choi, President, C&H Food Specialty Co. Ltd, private correspondence to the Committee, undated translation.

150 DAFF, *Submission 12 (Korea)*, p. 2.

- less arable land due to urbanisation and competition for resources; and
 - an ageing rural population as younger Koreans move toward more lucrative jobs in the industrial sector – for example, in 2005, 54.8 percent of Korean farmers were 60 or older, compared with 6.4 percent in 1970.¹⁵¹
- 3.152 The sector is now defined by small-scale, highly protected farms operated by an increasingly ageing farmer population.¹⁵²
- 3.153 Unlike Australia’s agricultural sector, which is highly trade exposed, Korea’s agricultural policies offer a high degree of protection for Korean domestic agriculture through measures such as domestic support and subsidies, high tariffs and non-tariff barriers such as quotas.¹⁵³ Korea’s support of the agriculture sector ranks amongst the highest in the world. In 2009, the OECD estimated that government support to farmers accounted for around half of gross farm receipts. This compares with one percent in New Zealand, four percent in Australia and 61 percent in Norway.¹⁵⁴
- 3.154 Korea’s agricultural imports are affected by changes in food consumption patterns as incomes increase and a ‘western’ lifestyle is increasingly adopted. This includes increased consumption of meat, poultry, fish, shellfish, fruit and vegetables and a decline in cereal and soybean consumption.¹⁵⁵ For example, the percentage of animal products consumed by Koreans increased from 3.9 percent of daily calories in 1965 to 15.1 percent in 2005.¹⁵⁶
- 3.155 Korean agricultural policy has been largely driven by protection of its agricultural industries and a desire for self-sufficiency, particularly in rice production, which covers more than 50 percent of cultivated land and is the main agricultural commodity.¹⁵⁷
- 3.156 The Department of Agriculture, Fisheries and Forestry indicated, however, that Korea is using its FTA agenda to address the need for stable food supply. Food security issues are also driving agricultural reform that

151 DAFF, *Submission 12 (Korea)*, p. 18.

152 DAFF, *Submission 12 (Korea)*, p. 3.

153 DAFF, *Submission 12 (Korea)*, p. 2.

154 DAFF, *Submission 12 (Korea)*, p. 20.

155 DAFF, *Submission 12 (Korea)*, p. 16.

156 DAFF, *Submission 12 (Korea)*, p. 17.

157 DAFF, *Submission 12 (Korea)*, p. 21.

has seen Korea open-up much of its agriculture sector to foreign competition through the FTA process.¹⁵⁸

- 3.157 The Committee considers that improved agricultural access to the Korean market would make a significant contribution to Korea's food security issues and changing food consumption patterns.
- 3.158 The Committee notes that in December 2012, Korea elected a new President. The Committee considers that efforts to conclude Australia's FTA with Korea need to be sustained. The Committee shares the concern that, with ongoing delays, Australia's exports to Korea will suffer. During its visit to Korea, the Committee heard directly from Korean importers that they will look to other markets in the absence of a Korea-Australia agreement.
- 3.159 The Committee believes that the FTA will strengthen the relationship between both countries and provide significant opportunities for business. The Committee considers it important that the outcomes achieved under the FTA ensure that Australia businesses can compete on equal terms with our competitors, especially in those markets where other countries have already received preferential treatment through conclusion of a FTA.
- 3.160 The FTA will also provide an ongoing contribution to Korea's energy and food security, and encourage further growth in bilateral investment and services trade.
- 3.161 Noting the political difficulties within Korea, the Committee supports the Government's efforts to conclude a comprehensive agreement with the ROK. The Committee considers that such negotiations should continue to be prioritised by the Government, including at the Ministerial and Prime Ministerial level with their Korean counterparts.

158 DAFF, *Submission 12 (Korea)*, p. 3.

Recommendation 4

The Committee recommends that the Australian Government seek to conclude negotiations on a comprehensive and liberalising free trade agreement with the Republic of Korea as a matter of urgency.

Services trade

- 3.162 Education and tourism represent the vast majority of Australia's services exports to Korea, which were valued at \$1.9 billion in 2010. From 2000, Australia's services exports grew at an average annual rate of 15 percent.¹⁵⁹

Education

- 3.163 As noted in chapter two, education is Australia's largest services export. The Tourism Transport Forum commented that the international education market has grown substantially over the last decade, with South Korea featuring very strongly in the market, including in short courses.¹⁶⁰ Korea is Australia's third largest source of foreign students after China and India. At the end of 2012, there were 27,719 students enrolled in Australian institutions.¹⁶¹ The Department of Foreign Affairs and Trade and Austrade told the Committee:

English language proficiency is recognised as important for success in Korea's export-driven economy and the strong demand among Koreans for overseas education is likely to continue. Korean perceptions of the price/quality ratio of Australian education will remain the key factor determining Australian enrolments.¹⁶²

- 3.164 From Australia's perspective, the Korean market is important to educational institutions seeking to diversify their foreign student

159 DFAT and Austrade, *Submission 3 (Korea)*, p. 6.

160 Students studying short courses fall within the visitor rather than the student visa category so their numbers are not reflected in student visa data. Mrs Adele Labine-Romain, TTF, *Committee Hansard*, 14 November 2012, p. 42.

161 Australian Education International, *End of Year Summary of International Student Enrolment Data – Australia – 2012*, viewed 14 February 2013, <<https://aei.gov.au/research/International-Student-Data/Pages/default.aspx>>.

162 DFAT and Austrade, *Submission 3 (Korea)*, p. 10.

enrolments. The Committee heard that over the next three years, Austrade will focus on increasing enrolments in tertiary studies, with the target of doubling the number of Korean students by 2015.¹⁶³

- 3.165 The Committee also heard however that it is often difficult for Korean students to come to Australia for formal student exchanges and short-term semester studies as, although English is widely studied in Korea, proficiency levels are mixed. It is similarly difficult for Australian students to study in Korea as few have the necessary level of proficiency in Korean.¹⁶⁴
- 3.166 Australia's major English-speaking competitors in the Korean market are the United States, United Kingdom, Canada, the Philippines and to some extent New Zealand. Each of Australia's competitors use similar recruitment strategies to Australia, including education fairs, agents, websites and social media. The United States also offers generous scholarship schemes and is the only country that has not experienced a recent decline in student numbers. Canada has mitigated immigration requirements to increase student numbers. The Philippines offers a low-cost option.¹⁶⁵

Delegation discussions

- 3.167 The Committee delegation received a comprehensive briefing on Australia's education links with the ROK during its visit to Korea, and met with representatives of the Korean Ministry of Education, Science and Technology.
- 3.168 The delegation heard that while the ROK represents Australia's third largest source of overseas students, numbers have declined due to the high Australian dollar and competition with the United States. While there are just under 30,000 Korean students in Australia, there are only 136 Australian students in Korea. Around half of the Korean students in Australia are in NSW, where there is a large Korean community.
- 3.169 The delegation was interested to learn more about Korea's education policies and the strong emphasis placed on education by Korean parents, which have led to high results in international tests, low high school dropout rates and college completion rates amongst the highest in the world.

163 DFAT and Austrade, *Submission 3 (Korea)*, p. 25.

164 DFAT and Austrade, *Submission 22*, p. 16.

165 DFAT and Austrade, *Submission 22*, p. 17.

- 3.170 Officials of the ROK Ministry of Education, Science and Technology briefed the delegation. Mr Chun Hong Kim of the Ministry's Policy Planning area highlighted the achievements in universal education and student performance obtained since the introduction of compulsory primary education in the 1960s. In 2009, the college advancement rate was 90.2 percent. In his presentation, Mr Kim also emphasised that for Koreans, education is regarded as an investment for the future. A high level of aspiration has been a driving force in the development of Korea's education system. However, this aspiration has also resulted in a highly competitive environment, with long school work hours, unhappy school life and high expenditure for private tutoring.
- 3.171 Some of the challenges facing Korean education are:
- Private education: excessive private education expenditure is having a negative impact on families, students and schools, both in terms of the amount of money being spent and also its impact on physical and mental health. The enormous costs paid by parents for after school tutoring is a significant contributor to the declining birth rate.
 - Rapidly decreasing student population: Mr Kim identified a strong need for university restructuring, fundamental changes in university admissions, and importance of nurturing the talent and potential of all individual students.
- 3.172 Mr Kim also outlined the vision of education for all under the slogan 'No Students, No Talents Missed Out'. Areas of focus are underachieving students, special needs students, multicultural/North Korean defector students, universalised early childhood education, vocational education, and expanding job opportunities for high school graduates.
- 3.173 Mr Kim informed the delegation that the goal of the vocational Meister High Schools is that all graduates are employed immediately upon graduation. To this end, Memoranda of Understanding are in place with some companies guaranteeing jobs. In the last four years, the employment rate of vocational high school graduates has increased from 16.7 to 40.2 percent.
- 3.174 Other areas of focus include:
- strengthening public education;
 - improving the college admission system;
 - advancing STEAM (science, technology, engineering, arts and mathematics) education;

- implementing SMART education, a promotional strategy that including digital textbooks and online courses;
 - English (communication ability);
 - math (problem solving ability);
 - full implementation of the five day school week; and
 - expansion of after school programs.
- 3.175 Education policy is also focussed on higher education reform, including strengthening research capacity in Graduate Schools, attracting renowned overseas education and research institutions, university specialisation, and enhancing graduate employability.
- 3.176 The delegation also heard about Austrade's marketing and promotion activities, which are focussed on utilising social media networks, agent workshops, alumni activity, the Australian Future Unlimited Education Exhibition, and working holiday makers and ELICOS (English Language Intensive Courses for Overseas Students).
- 3.177 In terms of overseas study, the delegation met representatives of Bada, the largest education agent for Australia, with two offices in Korea and four in Australia (Sydney, Melbourne, Adelaide and Canberra). Bada sends 400 Korean students per year exclusively to Australia. Representatives of Bada spoke to the delegation about Australia as an important destination to study English and its reputation as a safe and clean destination. The delegation also heard about the importance of education agents, a highly competitive market that plays a major role in providing information to potential students. One of Austrade's priority areas is building networks with agents.
- 3.178 The Committee notes that Korea's education system is amongst the five highest performing education systems in the world with almost universal post-secondary education.¹⁶⁶
- 3.179 During the inquiry, the Committee discussed the importance of building cultural understanding between countries, in addition to language learning.¹⁶⁷ The Committee was interested to learn about the Korean

166 Australian Government, *Australia in the Asian Century*, White Paper, October 2012, p. 34.

167 See also M. Jones, 'Moving out from the Shadows: A commentary on the South Korean-Australian Relationship in the Year of Friendship, marking the 50th Anniversary of the Commencement of Diplomatic Relationships', May 2011, *Exhibit 3*.

Government's cultural centre in Sydney, which is designed to introduce Korean culture to Australia.¹⁶⁸

3.180 The Committee notes that the Government's *Australia in the Asian Century* White Paper outlines the following national objective:

11. All Australian students will have the opportunity, and be encouraged, to undertake a continuous course of study in an Asian language throughout their years of schooling.

. All students will have access to at least one priority Asian language; these will be Chinese (Mandarin), Hindi, Indonesian and Japanese.¹⁶⁹

3.181 The White Paper then states that governments should continue to support efforts to increase the study of other languages such as Korean, Vietnamese and Thai.

3.182 The Committee notes that:

The selection of priority languages reflects those nations where the majority of opportunities will be available to Australians in the Asian century.¹⁷⁰

3.183 The AKBC raised concerns that Korean was not included in the list of priority languages. Mr Colin Heseltine told the Committee:

Korea's importance for Australia is recognised in section 9 of the white paper, which names Korea, along with China, India, Indonesia and Japan, as the key priorities in Asia for Australia. It is puzzling and perplexing, therefore, that Korean is not listed among the priority Asian languages for teaching in Australian schools...

Increasing integration of the three major north-east Asian economies suggests that Australia should take an integrated approach to furthering our relationships with these countries and identifying the growing opportunities there. This includes language and country studies. Not including Korean as a priority Asian language is, in the AKBC's view, an unfortunate and backward step which lacks vision in a document that looks to Australia's future from now to 2025.¹⁷¹

168 Mr Wahn-Seong Jeong, Embassy of the ROK, *Committee Hansard*, 29 November 2012, p. 3.

169 Australian Government, *Australia in the Asian Century*, White Paper, October 2012, p. 170.

170 Australian Government, *Australia in the Asian Century*, White Paper, October 2012, p. 171.

171 Mr Colin Heseltine, AKBC, *Committee Hansard*, 14 November 2012, p. 25.

- 3.184 The Committee received private correspondence from the Chair and Members of the Korea-Australia Parliamentary Friendship Group that also expressed concern about the omission of Korean as a priority language in the White Paper.¹⁷²
- 3.185 The Committee considers the omission of Korean from the list of priority languages to be a regrettable outcome of the White Paper process. The Committee is of the view that, in light of the significant relationship Australia enjoys with Korea, and its potential future growth, the Government should prioritise Korean language learning.

Recommendation 5

The Committee recommends that the Australian Government recognise the significance of Australia’s current and potential relationship with the Republic of Korea by designating Korean as a priority language in school education.

- 3.186 The Committee found comments about the lack of appreciation of the importance of Australia and Korea’s relationship disturbing. Although the Committee sought to maintain an equal focus on Japan and Korea during this inquiry, it did observe more familiarity and a greater depth of knowledge about Japan generally. Given the importance of Australia’s relationship with the ROK, and the potential for it to be broadened and deepened into the future, the Committee considers that the Government should prioritise and promote this relationship more broadly.

Recommendation 6

The Committee recommends that the Australian Government prioritise and promote Australia’s relationship with the Republic of Korea, with the objective of broadening and deepening the relationship between the two countries.

Tourism

- 3.187 In 2010, the Korean inbound market was Australia’s sixth largest by value and Australia’s eighth leading market in terms of international visitor

¹⁷² Korea-Australia Parliamentary Friendship Group, private correspondence to the Committee, 23 January 2013.

arrivals. Tourism Australia told the Committee that the South Korean tourism market delivers around \$1.3 billion annually, with around 197,000 visitors. The Committee notes that although the market is of similar value to the Japanese market, the number of visitors annually is much smaller.

3.188 Tourism Australia explained that:

The reason for the high level of expenditure is that it is a large youth component in that market – working holiday-maker visa arrangements and education. The average duration of stay for a Korean visitor is 67 days. The ABS calculates the figures by treating a student or a working holiday-maker in Australia as a visitor. Therefore, you get that long length of tenure. The average Japanese visitor's stay is around 22 days because it has a much larger leisure component. Korea is more driven by the education and employment market, while there is a much larger leisure component in the Japanese market.¹⁷³

3.189 Tourism Australia expected that Korean tourism would continue to be driven by education and employment opportunities into the future.¹⁷⁴

3.190 Tourism Australia's Market Profile for the ROK provides the following key statistics and predictions for the South Korean market:

- arrivals from South Korea have seen a compound annual growth rate of 1.2 percent between 2001 and 2011;
- arrivals dropped sharply following the Asian Financial Crisis in 1997. Other events to impact outbound travel in the last decade have included the outbreak of SARS in Asia, influenza outbreaks, and the Tohoku earthquake and tsunami;
- the availability of the Working Holiday Visa to Koreans since 1995 has also helped drive youth arrivals;
- South Korea's top five outbound destinations in 2011 were China, Japan, Thailand, the US and the Philippines. Australia ranked 14th.
- excluding North East Asian countries, South Korea's top five destinations were Thailand, the US, Philippines, Vietnam and Singapore. Australia ranked 10th among out of region travel.

173 Mr Simon Westaway, Tourism Australia, *Committee Hansard*, 14 November 2012, p. 30.

174 Mr Simon Westaway, Tourism Australia, *Committee Hansard*, 14 November 2012, p. 31.

- aviation capacity between Korea and Australia experienced modest growth in 2011. Korean Air and Asiana Airlines are the key carriers on the route with direct services from Seoul.
 - the Korean market is highly seasonal with carriers increasing and reducing capacity in line with seasonal demand. Peak travel times are December and January.¹⁷⁵
- 3.191 The Committee notes that no Australian carrier directly services the Korean market. Services are provided by Korean Air, which operates four services a week from Seoul to Brisbane, three services a week from Seoul to Melbourne and daily services from Seoul to Sydney, while Asiana Airlines operates daily services from Seoul to Sydney (on which Qantas code-shares).¹⁷⁶

Working Holiday Program

- 3.192 Australia's Working Holiday Program was introduced in 1975, when it was initially available to the United Kingdom, Ireland and Canada. Japan was the fourth country to join the scheme in 1980, followed by the Republic of Korea in 1995.
- 3.193 As at 31 December 2011, there were 26 partner nations and regions. The program is intended to foster closer ties and cultural exchange between Australia and partner countries.¹⁷⁷
- 3.194 Mr Simon Westaway of Tourism Australia told the Committee about the significance of the working holiday-maker visa category:

We think it is a good way to get visitors into our country and get them to go through the country, and, importantly, it will take up a lot of work roles that perhaps have been displaced through the growth in the mining sector. It will also take up the latent demand that the accommodation and hospitality sector requires in terms of baristas, front-of-house and back-of-house support around our tourism sector.¹⁷⁸

175 Tourism Australia, *Korea Market Profile*, May 2012, viewed 11 December 2012, <<http://www.tourism.australia.com/en-au/markets/North-Asia.aspx>>.

176 DRET, *Submission 16*, p. 12.

177 Department of Immigration and Citizenship, *Working Holiday Maker visa program report*, 31 December 2011, p. 3. The Working Holiday visa is available to passport holders from Belgium, Canada, Republic of Cyprus, Denmark, Estonia, Finland, France, Germany, Hong Kong, Republic of Ireland, Italy, Japan, Republic of Korea, Malta, the Netherlands, Norway, Sweden, Taiwan and the United Kingdom.

178 Mr Simon Westaway, Tourism Australia, *Committee Hansard*, 14 November 2012, p. 31.

3.195 The Tourism Transport Forum (TTF) stated that ‘South Korea has been a standout’ in the program. In 2011, 33,000 Korean holidaymakers came to Australia under the program, representing 15 percent of the market.¹⁷⁹ The TTF considered South Korea and Japan (with 9,000 participants in 2011) to be models for expansion of the program to allow participation by a greater number of countries and also increased quotas for countries such as Malaysia and Thailand that have a cap of 500 people. In the TTF’s view, the benefits of the program are:

What happens once these young people have been here ... is that they go back as tremendous ambassadors for Australia. They will be return visitors. They will send their students here to study. It is a really key program for establishing a mutual engagement partnership.¹⁸⁰

3.196 The Committee notes that the TTF’s submission to the *Australia in the Asian Century White Paper* described the program as a ‘major policy success for Australia’. In addition to its stated goal of fostering cultural ties and cultural exchange between Australia and partner countries, the program has also resulted in:

Australia gaining a mobile and committed source of labour to satisfy seasonal labour demand in agriculture and visitor economy; provided direct returns to the visitor economy as the visa holders travel around the country; and produced a large number of ambassadors for Australia when they return home.¹⁸¹

3.197 The Korean Embassy echoed this view in discussions with the Committee. The Committee heard that in addition to being a popular destination for young Koreans, they are also very happy to come to Australia to work. There is a barrier, however, in Australian requirements around English language proficiency.¹⁸²

179 Mrs Adele Labine-Romain, TTF, *Committee Hansard*, 14 November 2012, p. 38.

180 Mrs Adele Labine-Romain, TTF, *Committee Hansard*, 14 November 2012, p. 39.

181 Tourism Transport Forum, *Australia in the Asian Century: Visitor Economy Opportunities*, March 2012, viewed 1 November 2012, <<http://www.ttf.org.au/Content/asiancenturysub.aspx>>.

182 Mr Wahn-Seong Jeong, Embassy of the ROK, *Committee Hansard*, 29 November 2012, pp. 3, 4.

Investment opportunities

- 3.198 There has been an increasing focus on investment in Australia from Korea over the last decade. Mr Wahn-Seong Jeong of the ROK Embassy told the Committee:

Korean investment in Australia, especially in the resources sector, has grown strongly. Korea's investment in Australia in 2011 was the highest ever recorded, at over \$1.4 billion. Korea's investment during the first half of 2012 exceeded \$1.5 billion. Korea's corporations have made direct investment in 36 mining projects across the nation, mostly in joint ventures, including 10 coalmines in Queensland and 12 in New South Wales, as well as the \$1.5 billion investment in the Roy Hill project in Western Australia by POSCO. This is by far the biggest overseas investment by a Korean company anywhere in the world. Since 1968 the total amount of Korea's investment in Australia has amounted to over \$10 billion. On the other hand, Australia's total investment in Korea since 1962 has been \$2.1 billion. Much of this is portfolio investment.¹⁸³

- 3.199 In relation to LNG, Mr Jeong told the Committee:

... Korean shipbuilding companies are manufacturing floating LNG as well as gas processing modules. Samsung Heavy Industries is building the world's biggest and most modern floating LNG facility for Western Australia's Prelude project. It amounts to \$3.5 billion. Hyundai Heavy Industries, which is the world's biggest shipbuilder, is building modules for the Gorgon project, to be completed by 2013. Daewoo Shipbuilding and Marine Engineering are building an offshore gas processing platform for the Wheatstone LNG project, which will allow 55 million cubic metres of gas to be processed per day.¹⁸⁴

- 3.200 Mr Colin Heseltine, Deputy Chairman of the Australia-Korea Business Council commented:

What we are seeing now, as Korea looks for security of supply, is a growing focus in the resources sector on investment.¹⁸⁵

- 3.201 Embassy representatives were of the view, however, that Korean investment was likely to diversify beyond the resources sector.¹⁸⁶

183 Mr Wahn-Seong Jeong, Embassy of the ROK, *Committee Hansard*, 29 November 2012, p. 1.

184 Mr Wahn-Seong Jeong, Embassy of the ROK, *Committee Hansard*, 29 November 2012, p. 1.

185 Mr Colin Heseltine, AKBC, *Committee Hansard*, 14 November 2012, p. 24.

- 3.202 Mr Heseltine told the Committee that Korea, with the world's sixth largest pension fund, has 'a major capability as a giver rather than a taker of capital.' Other areas of potential Korean investment and interest are Australian infrastructure and financial services.¹⁸⁷
- 3.203 In terms of Australian investment in Korea, Mr Heseltine told the Committee:
- Again it gets back to Australians not naturally looking to Korea to invest in. I think they see it as difficult.¹⁸⁸
- 3.204 The Committee heard that both Macquarie Bank and ANZ are active in Korea. Since 2000, Macquarie Bank 'has built up a successful and diversified group of financial services businesses in Korea, employing over 300 staff.'¹⁸⁹
- 3.205 ANZ commenced operations in the ROK in 1978. It has one branch in Seoul, which is a fully licensed commercial bank. The ROK is an important part of the ANZ's super regional strategy, which was discussed in chapter two. ANZ focuses its activities in Korea in the following areas: global/regional and large local corporates, State owned companies and financial institutions, electronics, oil and gas, trade and utilities, chemicals, shipbuilding, steel and nonferrous metal manufacturing, construction and engineering, and auto manufacturing.¹⁹⁰

Delegation discussions

- 3.206 The delegation heard about investment opportunities in Korea during a meeting with representatives of Macquarie Securities, Pure Commerce, Boral Korea and Austcham Korea. Representatives described their company's involvement in Korea and the opportunities for Australian businesses, emphasising the importance of relationship building.
- 3.207 The delegation was also very pleased to visit two significant Korean companies with strong trade and investment ties to Australia.

POSCO Steelworks

- 3.208 The delegation welcomed the opportunity to meet with POSCO's Chairman, Mr Chung Joon-Yang in Seoul and then visit the POSCO

186 Mr Wahn-Seong Jeong, Embassy of the ROK, *Committee Hansard*, 29 November 2012, p. 4.

187 Mr Colin Heseltine, AKBC, *Committee Hansard*, 14 November 2012, p. 24.

188 Mr Colin Heseltine, AKBC, *Committee Hansard*, 14 November 2012, p. 28.

189 DFAT and Austrade, *Submission 3 (Korea)*, pp. 24-25.

190 ANZ, *Submission 9*, p. 3.

Steelworks in Pohang. General Superintendent and Senior Executive Vice President, Mr Cho Bong-Rae, hosted the delegation in Pohang. POSCO is Australia's largest corporate customer.

- 3.209 POSCO was established in 1968 and privatised in 2000. It has 17,500 employees and the plant operates 24 hours per day, using 1.8 million tonnes of raw materials every 20 days. Limestone is the only raw material used at the plant that is sourced within the ROK and POSCO sources 60 percent of its iron ore from Australia, where it also has significant investments.
- 3.210 The delegation toured the steelworks, including the iron rolling plant, environment centre and FINEX facility. FINEX is a more environmentally friendly alternative to the blasting process, in which the coking process is eliminated, dramatically reducing emissions. The delegation heard about POSCO investment of US\$2 billion in environmental measures, including planting over 2 million trees on site and recycling 98 percent of its industrial water.
- 3.211 POSCO has also invested substantially in harbour facilities as well as other infrastructure, including residences, a university, and other sporting facilities.

Hyundai Heavy Industries

- 3.212 Following the visit to Pohang, the delegation travelled to Ulsan to visit Hyundai Heavy Industries (HHI).
- 3.213 Mr Kim Dae Young, Executive Vice President of the Offshore Division hosted the delegation's visit. HHI is the largest shipbuilding and offshore manufacturing company in the world. HHI commenced shipbuilding in 1972 and has undertaken four projects in Australia since 1982, including its current project to construct plant modules for the Gorgon LNG project, with completion expected in 2013.¹⁹¹ HHI sources its steel from POSCO.
- 3.214 The scope of the company's activities includes the following divisions: shipbuilding (15 percent of all steel ships worldwide); engines and machinery (with 35 percent of the global marine market); offshore and engineering; industry plant and engineering; construction equipment; and research and development. HHI also has a substantial human resources infrastructure for its employees, including housing, hotels, medical centre,

¹⁹¹ Hyundai Heavy Industries Co. Ltd, *Offshore and Engineering*, Brochure provided to delegation, p. 51.

sports complex, schools and accommodation for foreign workers, as well as overseas study tours and language studies.

- 3.215 The delegation toured the shipyards where 100 ships are constructed each year and saw the platforms being built for the Gorgon project.

Government assistance

- 3.216 As discussed in chapter two, Austrade and the Department of Innovation, Industry, Science and Research play an important role in developing and promoting the trade and investment relationship.

- 3.217 In Korea, Austrade works with other government departments and agencies to:

- build better brand awareness of Australian capability;
- break down barriers to market entry;
- develop new market sectors for Australia;
- create new pathways to market; and
- expand market share.¹⁹²

- 3.218 In its submission, the Department of Foreign Affairs and Trade and Austrade stated that Korea is a challenging market for Australian exporters. Austrade provides particular assistance in business partner identification, which can be difficult in Korea, and government imprimatur. The involvement of Austrade through the Australian Embassy can elicit greater interest for individual businesses.¹⁹³

- 3.219 Ai Group saw an opportunity for government assistance through Austrade in providing local industry knowledge and on the ground information to assist in understanding language, cultural and global business perceptions in Korea:

Korea as a whole, as a market, is where industry could do with a bit more assistance to understand the market and to penetrate it.¹⁹⁴

- 3.220 Mr Innes Willox told the Committee about the importance of on the ground information, particularly in a market such as Korea:
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¹⁹² DFAT and Austrade, *Submission 3 (Korea)*, pp. 27-28.

¹⁹³ DFAT and Austrade, *Submission 3 (Korea)*, p. 27.

¹⁹⁴ Mr Innes Willox, Ai Group, *Committee Hansard*, 15 November 2012, p. 5.

It is a different market in terms of language, in terms of culture, in terms of global business perceptions. The common thing that I get told when I talk to members and others about Korea is that it is like operating in a whole different landscape altogether. So as much assistance as government can provide in local industry knowledge, background, contacts...

... on the ground information is, I think, essential. It is something that business is calling out for. I think business as a whole understands – it absolutely gets it, and we have made this point through the Asian white paper process – that we need to be in the region, and part of the success of being in the region is going back, making repeat visits. They get that. But you have to make sure that you are going to the right places, meeting the right people, doing the right things, having a better cultural understanding and awareness and being at the right access points.¹⁹⁵

3.221 Further, Mr Willox stated:

The point I would make on Korea, finally, is that if we were to achieve a free trade agreement ... there needs to be a lot of thought given by government to how we then take advantage of it, because beyond those key areas of beef and agriculture more generally, which are obvious access points, for us to really take advantage of a free trade agreement I think we need to put a lot of effort into market development and exploration for Australian business and any support government gave.¹⁹⁶

3.222 In the Ai Group's view, although the ROK is Australia's fourth largest trading partner, the focus on energy and minerals means that 'in many ways you could treat Korea as an emerging market because it is very deep in one sector and very narrow in others...'¹⁹⁷

3.223 As noted earlier, the Australian Government has identified that Korea is a challenging market for Australian exporters. The Committee considers that, given the ongoing importance of Australia's relationship with Korea, the Government should prioritise support for Australian businesses seeking to enter this market.

195 Mr Innes Willox, Ai Group, *Committee Hansard*, 15 November 2012, p. 5.

196 Mr Innes Willox, Ai Group, *Committee Hansard*, 15 November 2012, pp. 5-6.

197 Mr Innes Willox, Ai Group, *Committee Hansard*, 15 November 2012, p. 5.

Recommendation 7

The Committee recommends that the Australian Government prioritise its support for Australian businesses seeking to enter the Korean market, with a focus on improving understanding of the market and maximising opportunities to conduct business in the Republic of Korea.

Australian products in South Korea

- 3.224 As it did during its visit to Japan, the Committee delegation sought the opportunity to see Australian produce on sale in Korea. The delegation was therefore interested to visit EMart, Korean's largest grocery chain with 127 stores. EMart is a key importer of Australian products and the delegation observed fresh, frozen and tinned beef, cheese, butter and wine for sale during its visit.
- 3.225 Representatives of MLA explained some of their marketing activities, including 'Australian Beef – Clean and Safe' and 'Kids Love Aussie Beef'. Australia's clean and safe image has been promoted through the 'Australia Beef – Clean and Safe' promotion since 2002. The delegation saw samples of Australian beef in store that are packaged (including in cans) to suit the Korean market. MLA's research indicates that 78 percent of consumers buy Australian beef following sampling.
- 3.226 The Committee heard that marketing within Korea is based on country of origin differentiation. This approach to marketing has put Australia:
- ... in a good position because safety is paramount right across Asia in terms of food consumption, so people recognise Australian beef in Korea as clean and safe and that is a message that has stuck with consumers and has encouraged them to favour our product over some of our competitors.¹⁹⁸
- 3.227 The delegation also visited Kim Youngmo Patisserie, which imports 2,000 tonnes of organic wheat flour from Australia each year. Mr Kim Youngmo, President, together with his wife and son hosted the visit. A baker for more than 45 years, Mr Youngmo has three stores with 200 employees. He informed delegation members that he uses Australian wheat flour in his bakeries because of its reputation.

198 Mr Andrew McCallum, MLA, *Committee Hansard*, 28 November 2012, p. 3.

- 3.228 The delegation was interested in organic produce and the complex certification system currently in place in Australia, and sought further information upon its return to Australia.
- 3.229 The Committee heard from Mr Andre Leu, Chair of the Organic Federation of Australia that the organic market is the fastest growing agricultural trade sector in the world. There are difficulties for Australia, however, associated with the lack of a national organic mark:
- There is no control system for products that are labelled as organic in Australia. That raises issues with our trading partners ... Part of the solution for us has been to bring in an Australia standard so that we have one consistent standard for organic products.¹⁹⁹
- 3.230 Once there is industry uptake of the national standard, Australia needs to secure an equivalency agreement with Korea (and Japan), which will remove the need for multiple certifications and reduce costs for organic producers significantly. It will also improve market access with the potential to significantly increase trade in beef, grains, dairy products and wines. Mr Leu advocated inclusion of organic equivalence in the current FTA negotiations with each country.²⁰⁰
- 3.231 The delegation also made a brief visit to the Garak Agriculture and Marine Products Wholesale Market while in Seoul, where members met with Mr M K Kim of Global Trading Co. Ltd, an importer of Australian citrus and mangos.
- 3.232 Established in 1985, Garak was the first public wholesale market in Korea. Currently, 2,304,000 ton of produce is traded at the market annually, an average of 7,725 ton per day. Auctions are conducted via electronic bidding, with prices listed on the internet in real time.
- 3.233 The market is open to imported products from overseas competitors. Bananas, oranges, pineapples, garlic and grapes are the main imported agricultural products but represent less than 10 percent of trade volume. Mr Kim told the delegation he has been importing Australian citrus for the past ten years and from next year, will also be importing table grapes. A key advantage presented by Australian produce is that it is counter-seasonal.

199 Mr Andre Leu, OFA, *Committee Hansard*, 14 November 2012, p. 21.

200 Mr Andre Leu, OFA, *Committee Hansard*, 14 November 2012, pp. 21-22.

Concluding comments

- 3.234 The longstanding and complementary relationship between Australia and the Republic of Korea was emphasised through this inquiry. Australia supported Korea's industrial development from the 1960s onwards through exports of raw materials. Energy and minerals/metals exports continue to be the 'bedrock' of the ongoing relationship.²⁰¹
- 3.235 In recent years, there has been an increased focus from Korean companies on investing in Australia to secure Korea's ongoing energy needs. The Committee heard that Korean companies are taking increasingly large stakes in a variety of projects in the resources sector.
- 3.236 Agricultural trade is also important with 70 percent of Korea's food needs met from imports. Australia provides safe, high quality foods that contribute to Korea's food security. In turn, Australia continues to demand Korea's consumer products, including cars, electronics and refined fuels.
- 3.237 The ongoing FTA negotiations were a central focus of the Committee's discussions regarding Korea. The Committee heard with some concern about the implications of the delay in concluding negotiations, particularly as Korea's FTAs with countries such as the United States are now in force.
- 3.238 The Committee agrees that the competitiveness of Australia's key exports must be protected. The Committee heard first hand during its visit to Korea that without an Australia-Korea agreement, a number of Korean importers will turn away from Australia to other countries for their products.
- 3.239 The Committee strongly supports the Government's efforts to conclude a comprehensive and liberalising agreement that addresses the barriers for Australian businesses. While recognising that there are outstanding issues, such as agreement on Investor-State Dispute Settlement clauses, the Committee considers that the negotiations should continue to be prioritised with a view to finalising the agreement as a matter of urgency. At the same time, the Committee believes that the agreement should be comprehensive and advantageous to all sectors.
- 3.240 The Committee heard that there are a variety of difficulties faced by Australian businesses attempting to work in Korea, including language and cultural barriers, and a lack of understanding of the market amongst potential exporters. The Committee considers the importance of the

201 DFAT and Austrade, *Submission 3 (Korea)*, p. 1.

relationship between Australia and Korea warrants priority from the Government in providing assistance in this market.

- 3.241 Education is an important export to South Korea, which has the third highest number of foreign student enrolments in Australia. The Committee supports Austrade's initiatives to increase Korean enrolments in Australian educational institutions over the next few years.
- 3.242 South Korea's participation in Australia's Working Holiday Program has also been significant with South Koreans representing 15 percent of this market in 2011. The Committee heard about the opportunities this program presents for Australia in strengthening ties between the two countries.
- 3.243 The Committee has raised concerns about the exclusion of Korean as a priority language in the *Australia in the Asian Century* White Paper. As with other areas where the relationship between the two countries is often overlooked, the Committee considers that the importance of Korea should be more widely recognised and promoted.
- 3.244 The delegation that visited the Republic of Korea took the opportunity to see Australian products on sale and to learn more about the marketing strategies employed by organisations such as Meat and Livestock Australia, which has tapped into food safety with its 'Australian Beef – Clean and Safe' promotion. The Committee also learned about opportunities in the organic food sector, particularly if Australia adopts a national organic mark.
- 3.245 More generally, the Committee's view is that implementation of the recommendations contained in its report *Australia's Overseas Representation – Punching below our weight?* would assist with the promotion of Australia's trade interests overseas and aid in securing agreements.

Recommendation 8

The Committee recommends that the Australian Government prioritise implementation of the recommendations of the Joint Standing Committee on Foreign Affairs, Defence and Trade report *Australia's Overseas Representation: Punching below our weight?*

Ms Janelle Saffin MP
Chair
Trade Sub-Committee
May 2013

Hon Joel Fitzgibbon MP
Chair
Joint Standing Committee on Foreign
Affairs, Defence and Trade
May 2013



Delegation visit to E-mart, Seoul, 22 July 2012



Meat and Livestock Australia promotions in E-mart, Seoul, 22 July 2012



Delegation members at Kim Youngmo Bakery, Seoul, 22 July 2012



Meeting with Mr Chung Joon-Yang, Chairman of POSCO, Seoul, 24 July 2012



Delegation with Mr Cho Bong-rae, General Superintendent and Senior Executive Vice President, POSCO, Pohang, 25 July 2012



Delegation with Mr Kang Chang-il, Chairman of Knowledge Economy Committee, Seoul, 26 July 2012



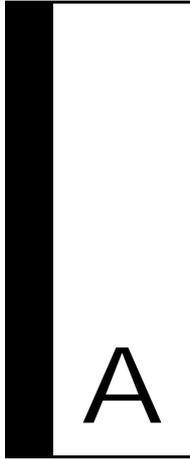
Delegation members with Mr Ahn Hong-joon, Chairman of the Foreign Affairs, Trade and Unification Committee in the National Assembly Foreign Affairs Committee Room, 26 July 2012



Delegation members at the POSCO Public Information Centre, Pohang, 25 July 2012



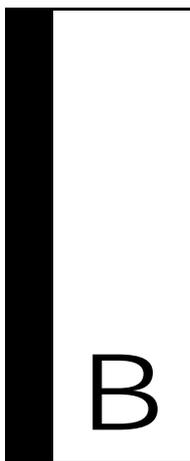
Australian beef with MLA promotional labelling: 'Australian beef—clean and safe', Emart, Seoul



Appendix A—List of Submissions

1. Department of Education, Employment and Workplace Relations
2. Dr Luke Nottage
3. Department of Foreign Affairs and Trade and Austrade
4. Department of Defence
5. Australia-Korea Business Council
6. Australian Industry Group
7. Australian and Japanese Economic Intelligence
8. Korean Embassy
9. ANZ
10. Australia Japan Business Co-operation Committee
11. Primary Industries and Resources, SA
12. Department of Agriculture, Fisheries and Forestry
13. Mr Matt Jones - Social Alchemy
14. Department of Innovation, Industry, Science and Research
15. National Farmers' Federation
16. Department of Resources, Energy and Tourism
17. Australian Chamber of Commerce in Korea
18. Meat and Livestock Australia
19. Confidential
20. Department of Defence—supplementary submission
21. Department of Innovation, Industry, Science and Research—supplementary submission
22. Department of Foreign Affairs and Trade and Austrade— supplementary submission

23. Seafood Services Australia
24. ANZ – supplementary submission



Appendix B—List of Exhibits

1. Dr Luke Nottage
Essay entitled 'The Impact of Japan's '3-11' disaster on FTA negotiations with Australia and beyond', University of Sydney Law School, 21 July 2012
2. Dr Luke Nottage
Research paper prepared for the University of Sydney Law School entitled 'Suppliers' Duties to Report Product-Related Accidents under the New "Australian Consumer Law": A Comparative Critique'
3. Social Alchemy Pty Ltd
"Moving out from the Shadows", A commentary on the South Korean- Australian Relationship in the Year Of Friendship, marking the 50th Anniversary of the Commencement of Diplomatic Relationships
4. ANZ
Report entitled 'ANZ Insight – Greener Pastures: The Global Soft Commodity Opportunity for Australia and New Zealand', Issue 3 October 2012



Appendix C—Witnesses who appeared at public hearings

Wednesday, 21 September 2011 - Canberra

Defence Materiel Organisation

Mrs Michele Miller, Director, International Materiel Cooperation, Industry Division

Department of Defence

Mr Christopher Birrer, Assistant Secretary, Major Powers and Global Interests, International Policy Division

Wednesday, 2 November 2011 - Canberra

Department of Innovation, Industry, Science and Research

Mr Karl Brennan, Manager, Tariff and Trade Policy Section

Mr Geoff Lewis, Manager, Automotive Innovation Council and Market Access Section

Mr Paul Trotman, General Manager, Trade and International Branch

Mrs Judith Zielke, Head of Division, Enterprise Connect

Wednesday, 14 March 2012 - Canberra

Austrade

Mr Brett Cooper, Group Manager, International Issues Branch

Department of Foreign Affairs and Trade

Ms Jan Adams, First Assistant Secretary, Free Trade Agreement Division

Mr Peter Rowe, First Assistant Secretary, North Asia Division

Monday, 19 March 2012 - Canberra

Australian Bureau of Agricultural and Resource Economics and Science

Dr Jammie Penm, Assistant Secretary, Agricultural Commodities and Trade Branch

Department of Agriculture, Fisheries and Forestry

Mr Darryl Barbour, A/g Assistant Secretary, Plant Biosecurity

Ms Jo Evans, First Assistant Secretary, Trade and Market Access

Mr Simon Murnane, Assistant Secretary, Bilateral Trade (North Asia, Middle East and Africa)

Mr Greg Read, First Assistant Secretary, Biosecurity Food

National Farmers' Federation

Mr Charles McElhone, General Manager - Policy

Thursday, 22 March 2012 - Canberra

Austrade

Mr Brett Cooper, Group Manager, International Issues Branch

Department of Foreign Affairs and Trade

Ms Jan Adams, First Assistant Secretary, Free Trade Division

Mr Peter Rowe, First Assistant Secretary, North Asia Division

Wednesday 14 November 2012 – Sydney

Australia Japan Business Cooperation Committee

Sir Roderick Eddington, President

Mr Paul Gallagher, Executive Director

Mr Robert Seidler, Vice President

Mr Ian Williams, Vice President

Australia Korea Business Council

Mr Colin Heseltine, Deputy Chairman

Mr John Wotton, Executive Director

Organic Federation of Australia

Mr Andre Leu, Chair

Private capacity

Mr Manuel Panagiotopoulos

Tourism and Transport Forum

Mrs Adele Labine-Romain, Director, Research and Strategy

Mr Justin Wastnage, Director, Aviation Policy

Tourism Australia

Ms Victoria Maigre, Government Relations Executive

Mr Simon Westaway, General Manager, Corporate Affairs and Strategy

Thursday 15 November 2012 – Melbourne**ANZ Banking Group Ltd**

Mr Robert Bell, Head, Super Regional Business Development, Corporate and Commercial Banking

Mr Michael Johnston, Head, Government and Regulatory Affairs

Australian Industry Group

Mr Innes Willox, Chief Executive

Deakin University

Mr Benedict Stubbs, Director, Deakin University English Language Institute

Gordon Institute of TAFE

Mr Andrew Palmer, Skills Centre Manager, Language and Further Education

Primary Industries and Regions SA

Mr Justin Ross, Director, Agribusiness Development

Wednesday 28 November 2012 – Canberra**Australian Meat Industry Council**

Mr Stephen Kelly, National Export Beef Processor Council

Meat & Livestock Australia

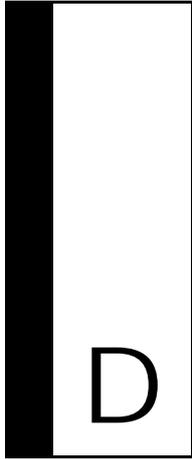
Mr Andrew McCallum, Manager, International Markets and Trade Services

Thursday 29 November 2012 – Canberra**Embassy of Japan**

Mr Tetsuro Amano, Minister and Deputy Head of Mission

Embassy of the Republic of Korea

Mr Wahn-Seong Jeong, Deputy Head of Mission



Appendix D—Delegation Program

Japan

Monday, 16 July – Tokyo

Arrive Tokyo

Meeting with Ms Melanie Brock, Regional Manager – Japan, Meat and Livestock Australia and tour of supermarkets selling Australian products

Tuesday, 17 July – Tokyo

Briefing and tour of Tsukiji Wholesale Market

Delegation briefing with Australia's Ambassador, HE Mr Bruce Miller, and senior embassy staff

Roundtable with Japanese business representatives:

- Mr Shoji Kuwayama, Managing Executive Director, Marubeni Corporation;
- Mr Charles Beazley, Chairman and Chief Executive Officer, Nikko Asset Management;
- Mr Yasukuki Kawasaki, Managing Director, Sumitomo Mitsui Banking Corporation;
- Mr Toshiharu Sakae, Director and General Manager, Raw Materials Division 2, Nippon Steel Corporation;
- Mr Jiro Okada, Vice President, Ichthys Project Division, INPEX;

- Mr Atsushi Kawamura, General Manager, Overseas Business Division, Sumitomo Forestry Co. Ltd; and
- Mr Fusanori Ariyama, Associate Officer, Corporate Business Planning Department, Kawasaki Heavy Industries.

Meeting with Mr Joe Nakano, Vice-Minister for Foreign Affairs

Meeting with Mr Seishu Makino, Senior Vice-Minister for Economy, Trade and Industry

Wednesday, 18 July – Tokyo

Breakfast meeting with Chair and Senior Members of the Upper and Lower House Trade and Agriculture Committees:

- Mr Masayuki Naoshima, Member of the Upper House Committee on Economy, Trade and Industry;
- Mr Chiaki Takahashi, Director of the Upper House Committee on Economy, Trade and Industry;
- Mr Kaname Tajima, Chief Director of the Lower House Committee on Economy, Trade and Industry;
- Mr Takahiro Sasaki, Senior Vice-Minister of Agriculture, Forestry and Fisheries and Member of Lower House Committee on Agriculture, Fisheries and Forestry;
- Mr Takao Makino, Shadow Minister of Fisheries and Member of the Upper House Committee on Economy, Trade and Industry; and
- Ms Emi Kaneko, Director of the Upper House Committee on Agriculture, Forestry and Fisheries.

Meeting with Ms Miyuki Suzuki, Chief Executive Officer and Mr Vincent Hodder, Executive Director, Jetstar Japan

Meeting with Mr Kaz Hori, Regional General Manager – Japan, Tourism Australia

Lunch meeting with Mr Peter Davis, Chief Executive Officer and Mr Hideo Uenishi, Head of Personal Banking and Wealth Development, ANZ Japan

Meeting with Ms Melanie Brock, Regional Manager – Japan, Meat and Livestock Australia

Roundtable with executive members of the Australia New Zealand Chamber of Commerce in Japan (ANZCCJ):

- Ms Melanie Brock, Chair, ANZCCJ;

- Mr Andrew Gauci, Deputy Chair, ANZCCJ, and Managing Director and CEO, Lendlease Japan;
- Ms Natsuko Ogawa, Partner, Ashurt;
- Mr Nobu Yamaji, President, Rio Tinto Japan;
- Mr Edward Cole, Partner, Freshfields; and
- Mr Arun Nangia, National Australia Bank.

Attend ANZCCJ Event – Update on Japanese Politics: An Australian Ambassador Briefing

Thursday, 19 July – Kyoto/Fukujuen/Kobe

Depart Tokyo for Kyoto by train

Meet with Mr Daisaku Kadokawa, Mayor of Kyoto followed by a roundtable meeting with the Consortium of Kyoto Universities, led by Professor Tesshin Akamatsu, Executive Director and attended by representatives of the Consortium and the Kyoto City Office

Lunch with representatives of the Consortium of Kyoto Universities, following by a tour of facilities

Travel to Kizugawa City

Meet with Mr Toshiaki Kirishima, Director, Overseas Department, Ujinotsuyu Seicha Co, Ltd, Fukujuen Group and tour Fukujuen tea making facilities

Travel to Kobe

Reception with Japan Exchange and Training Programme (JET) participants hosted by Mr Chris Rees, Consul-General and Senior Trade Commissioner

Friday, 20 July – Osaka/Kyoto

Delegation briefing by Consul-General and Senior Trade Commissioner

Call on Mr Shinsaku Kimura, Vice Governor, Osaka Prefecture

Lunch meeting with representatives of the Kansai Business Federation (Kankeiren):

- Mr Hideo Tashima, Chairman, International Committee (in charge of Europe, Russia, Africa), Kankeiren and Honorary Advisor, Konica Minolta Holdings Inc;

- Mr Yoichi Kobayashi, Vice Chairman for International Committee, Kankeiren and Director and Executive Vice President, ITOCHU Corporation;
- Mr Masahiko Saitou, General Manager, Executive Support Group, Panasonic Corporation;
- Mr Yosuke Kawamoto, Board Member and General Manager, President's Office, Rengo Co. Ltd;
- Mr Keiichiro Ushio, Deputy General Manager, Corporate Management Planning Department, Obayashi Corporation;
- Mr Masao Ichishi, Corporate Advisor for Kansai Region, Sojitz Corporation; and
- Mr Yoshihiko Kobayashi, General Manager, International Affairs Division, Kankeiren.

Travel to Kyoto

Meet with Dr Takashi Kamei, Research Institute for Applied Sciences

Saturday, 21 July – Kyoto

Tour of AEON Store with Mr Takashi Ando to view Australia Fair promotion

Tour of Kyoto

Depart Kyoto for Seoul

Republic of Korea

Sunday, 22 July – Seoul

Tour of EMart with Meat and Livestock Australia representatives to view Australian products

Lunch with Mr Jean Ough, Representative of the Trade and Investment Office Korea, Western Australian Government, and Dr Sang Min Woo, Trade and Investment Commissioner (Korea), Queensland Government

Tour of Kim Youngmo Patisserie with Mr Kim Youngmo, President

Tour of Seoul

Monday, 23 July – Seoul

Delegation briefing with Australia's Ambassador, HE Mr Sam Gerovich, and senior embassy staff

Meeting with Mr Choi Kyu-Sung, Chairman, National Assembly Food, Agriculture, Forestry and Fisheries Committee

Meeting with Dr Bark Tae-Ho, Minister for Trade

Meeting with Mr Hong Sukwoo, Minister for Knowledge Economy

Attend dinner at the Ambassador's residence with representatives of key agricultural industries

Tuesday, 24 July – Seoul

Roundtable breakfast meeting with:

- Mr Ross Gregory, Representative Director, Macquarie Securities Korea;
- Mr Rob Quinlan, Chief Operating Officer, Macquarie Securities Korea;
- Mr Peter Feltis, President, AusCham Korea;
- Mr Cho In-yong, North Asia Head, Pure Commerce; and
- Mr Frederic Billon, Chief Executive Officer, Boral Korea.

Meeting with Mr Andrew McCallum, Regional Manager – Japan, Meat and Livestock Australia and incoming manager, Mr Michael Finucan

Education market briefing with representatives of the ROK Ministry of Education, Science and Training, Bada (private sector education agents), and Austrade

Visit to Garak Agriculture and Fishery Wholesale Market

Lunch with Mr Chung Joon-Yang, Chief Executive Officer, POSCO and other representatives of POSCO

Meetings with representatives of Korean Importers, including: Binggrae, Pulmuone, Orion, Cheiljedang Corp (CJ), Samyang Corp, TS Corp, Lotte BG, Nara Cellar, and Treasury Estate

Wednesday, 25 July – Pohang/Ulsan

Depart Seoul for Pohang

Tour of POSCO Steelworks and lunch with Mr Cho Bong-Rae, General Superintendent and Senior Executive Vice-President

Depart Pohang for Ulsan

Meet with Mr Kim Dae Young, Executive Vice President of the Offshore and Engineering Division, Hyundai Heavy Industries, followed by a tour of the shipyards

Depart Ulsan for Seoul by train

Thursday, 26 July – Seoul

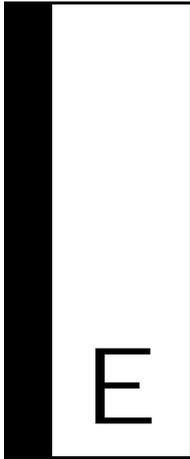
Meeting with Mr Kang Chang il, Chairman, National Assembly Committee on Knowledge Economy

Meeting with Mr Ahn Hong Joon, Chairman, National Assembly Committee on Foreign Affairs, Trade and Unification

Depart Seoul for Australia

Friday, 27 July

Arrive Australia



Appendix E—Response to Questions taken on Notice: DFAT and Austrade

Japan

Japan's inward stock of FDI was only 3 per cent of GDP, the lowest in the OECD according to the OECD's 2011 *Economic Survey of Japan*.¹ Foreign-controlled affiliates accounted for only 3.1 per cent of Japan's total turnover in manufacturing, and 1.4 per cent in services, both the lowest in the OECD. According to the OECD's FDI restrictiveness index, Japan is the fourth-most restrictive country in the OECD (behind Iceland, Russia and New Zealand).² Japan also has the strongest restrictions on foreign-equity investments, though other types of restrictions are less onerous, such as on the appointment of foreign managers.

The Japanese government acknowledges many of the restrictions facing foreign investors in Japan. The Expert Committee on FDI Promotion, established in 2008 under the Minister of Economic and Fiscal Policy in the Cabinet Office, identified in its final report issued in May 2008³ a wide range of barriers and disincentives to FDI in Japan:

- regulatory and administrative procedures;
- strong resistance to FDI from the corporate sector;
- high corporate tax rates;

1 <http://www.oecd.org/dataoecd/16/57/48693414.pdf>;
http://www.oecd.org/document/62/0,3746,en_2649_34569_47651390_1_1_1_1,00.html.

2 Australia currently ranks seventh.

3 See http://www.invest-japan.go.jp/pdf/jp/committee/recommendations_2_20080519.pdf.

- lack of transparency on tax treatment for complex transactions;
- limited information on regional markets;
- insufficient capacity in the regions to deal with FDI; and
- language barriers.

Regarding the regulatory and administrative barriers facing potential foreign investors in Japan, the Expert Committee concluded that:

- deregulation has not progressed as completely or as fast as necessary to promote significant growth in foreign investment;
- administrative guidance remains difficult to understand;
- the time required for administrative procedures is lengthy and unpredictable;
- the forms to be completed are numerous and complicated;
- implementation of regulation lacks transparency, consistency and predictability;
- verbal guidance during informal discussions with government officials is more prevalent than public comments and written responses such as no-action letters;
- complex regulatory and administrative procedures result in high regulatory compliance costs, which add to business costs;
- mergers and acquisition (M&A) takeover rules remain unclear, largely owing to the lack of accumulation of precedents and judicial reviews;
- despite new rules allowing triangular mergers, actual transactions are difficult to conclude owing to complex procedures.

Many of these restrictions apply equally to domestic companies, according to the Expert Committee. But corporate management in Japan displays an adversarial attitude to foreign investors. Japanese firms actively discourage foreign investment through cross-shareholdings and the use of defensive measures such as poison-pill takeover measures.

To address some of these issues, the Japanese government implemented the Inward Investment Promotion Program in 2010, cutting the corporate tax rate, deregulating investment procedures, and offering incentives such as preferential tax treatment and subsidies. But many of these measures are yet to come into effect.

There are very few cases of the Japanese government failing to approve foreign investment applications; only one foreign-investment request has been declined in the last thirty years.⁴

Japan's legal framework for foreign investment

Japan does not have a screening process for inward FDI *per se*, requiring in most cases only notification after the fact. But in certain industries, advance notice is still required. The laws governing such cases, as well as the foreign ownership thresholds that apply in each case, are discussed below.

Foreign investment in Japan is regulated primarily by the *Foreign Exchange and Foreign Trade Act (FEFTA)*⁵, supplemented by the Cabinet Order on Inward Direct Investment (IDI)⁶ and the Ministerial Ordinance on IDI⁷. In 1979, when the *FEFTA* replaced the previous law governing FDI (the *Act on Foreign Capital*), the system's operating principle switched from one requiring advance permission to one requiring advance notification.

In addition to the *FEFTA*, foreign investment is also subject to the *Prohibition of Private Monopolisation and Maintenance of Fair Trade Act* (hereafter, the *Anti-Monopoly Act*).⁸ Section 9 of the *Anti-Monopoly Act* prohibits the establishment or transformation of a company which constitutes an "excessive concentration of economic power" by the acquisition or possession of shares (including those of employees) of a Japanese company.⁹ But this law applies equally to domestic and foreign companies.

Following the 1991 revision of the *Foreign Exchange and Foreign Trade Act (FEFTA)*, most foreign investment transactions became subject to post-transaction reporting only. But prior notification is still required for certain inward direct investment in sensitive industries, defence and utilities. The Cabinet Order on IDI¹⁰ also requires prior notification of inward direct investment in companies that have technologies which could be converted to military use. Notification must be made to both the minister with jurisdiction over the business in question and the Minister of

4 In April 2008 the Children's Investment Fund, a UK-based hedge fund, was denied permission to raise its stake in J-Power, an electricity utility, from 9.9 to 20 per cent, on the grounds of national security.

5 Act No. 228 of 1 December, 1949.

6 Cabinet Order No. 261 of 11 October, 1980.

7 Ordinance of Cabinet Office, Ministry of Finance, Ministry of Education, Ministry of Welfare, Ministry of Agriculture and Fishery, Ministry of International Trade and Industry, Ministry of Transportation, Ministry of Postal Services, Ministry of Labour, Ministry of Construction No. 1 of November 20, 1980.

8 Act No.54 of April 14 1947.

9 http://www.jftc.go.jp/en/legislation_guidelines/ama/amended_ama09/04.html.

10 Cabinet Order No. 261 of 11 October, 1980.

Finance. In practice, documents are delivered to the Bank of Japan for formal acceptance, as affairs concerning the *FEFTA* are delegated to the Bank of Japan. Under Article 27 of the *FEFTA*, certain foreign investments are subject to pre-transaction notification and require government approval. Under this category, the government may exercise the power to recommend or order a change or discontinuation of the proposed investment.

Two factors determine the need for pre-transaction notification filing. The first is the nationality of the foreign investor. Pre-transaction notification filing is required for inward direct investment from countries with which Japan does not have a reciprocal investment agreement. The second is the sensitivity of the business/industry in which the investment is proposed. The investor must notify the government if the proposed investment has a risk of causing one of the following conditions:

- (i) impairing of national security;
- (ii) disturbing public order;
- (iii) hindering public safety; or
- (iv) significant harm to the smooth management of the Japanese economy.

Examples of businesses/industries that fall under each of these categories include:

- (i) aircraft, weapons, nuclear power, space development, gunpowder;
- (ii) electricity, gas, heat supply, communications, broadcasting, water services, railways, passenger transportation;
- (iii) biological chemicals, guard services; or
- (iv) primary industries relating to agriculture, forestry and fisheries, oil, leather and leather product manufacturing, air transport and maritime transport.

In principle, the foreign investor has to make a judgment on whether the target company is subject to pre-transaction filing or not, based on public information and direct inquiries to the target company. But in cases where it remains unclear whether the target company is engaged in a business that requires pre-transaction filing, the investor may make an inquiry to the ministry having jurisdiction. This requirement could act as a potential disincentive to foreign investment in these sectors.

Foreign investment in a number of industries is also regulated by various sectoral laws. These laws generally limit the voting rights held by foreign investors or deny business licences to foreign investors. As such, the purchase of shares does not necessarily guarantee voting rights because the transfer of shareholder registration may be refused. These sectoral laws are as follows:

Nippon Telegraph and Telecommunications Company Law¹¹

Under the *Nippon Telegraph and Telecommunications Company Law* (the *NTT Law*), the transfer of shareholder registration is prohibited if such a transfer results in holdings by “foreigners, etc” of one-third or more of voting rights. “Foreigners, etc” refers to:

- (i) an individual who is not a Japanese national¹²;
- (ii) a foreign government or its representative;
- (iii) a foreign firm or organisation; or
- (iv) a firm or organisation in which 10 per cent or more of voting rights are held by (i), (ii) or (iii) above.

Radio Law¹³

The *Radio Law* prohibits the issuance of the wireless radio licences to the following (Article 5-4):

- (i) an individual who is not a Japanese national;
- (ii) a foreign government or its representative;
- (iii) a foreign firm or organisation;
- (iv) a firm or organisation in which 20 per cent or more of voting rights are held directly or indirectly by (i), (ii) or (iii) above¹⁴; or
- (v) a firm or organisation which has a director whose radio license was cancelled within the last two years.

But category (iv) does not prevent foreign investors purchasing shares to acquire 20 per cent or more of voting rights in a company which already owns a wireless radio license.

Japan Broadcasting Law¹⁵

Under the *Japan Broadcasting Law*, the transfer of shareholder registration may be denied if such a transfer results in holdings by “foreigners, etc” of 20 per cent or more of voting rights, provided that the shares are listed on an exchange (Article 52-8). “Foreigners, etc” refers to:

- (i) an individual who is not a Japanese national;
- (ii) a foreign government or its representative;

11 Law No. 85 of 1984.

12 Unlike FEFTA, which specifically uses the term “resident”, these industry laws use the term “nationals”. As such, Japanese nationals who are non-residents would not be considered foreigners.

13 Law No. 131 of 2 May 1950.

14 Includes a firm or organisation in which (i), (ii) or (iii) holds a position of managing executive officer.

15 Law No. 132 of 2 May 1950.

- (iii) a foreign firm or organisation; or
- (iv) a firm or organisation in which 20 per cent or more of voting rights are held directly or indirectly by (i), (ii) or (iii) above.¹⁶

Aviation Law¹⁷

The *Aviation Law* prohibits the following from entering the air transport business (Article 101-9):

- (i) an individual who is not a Japanese national;
- (ii) a foreign country or a foreign public entity and similar institution;
- (iii) a firm established under a foreign law; or
- (iv) a firm or other organisation in which one-third or more of voting rights are held by (i), (ii) or (iii) above.

But clause (iv) does not prevent the purchase of shares by foreigners to acquire one-third or more of voting rights in a company that has already been approved to conduct air transport business. To respond to such cases, Article 120-2 of the *Aviation Law* states that an air transport company or its holding company may deny transfer of shareholder registration if such a transfer results in holdings by “foreigners, etc” of one-third or more of voting rights, provided that the shares are listed on an exchange.

Other

The *Freight Transport Law*¹⁸ limits holding of voting rights by foreigners to less than one-third in freight transport companies.

The *Mining Law*¹⁹ prohibits foreigners from acquiring mining rights. Although investments in certain sectors of the mining industry are permitted, these are not equivalent to mining rights. Article 17 of the *Mining Law* permits only Japanese nationals and Japanese firms to hold mining rights. Prior notification regarding investment is required only for the sub-sectors listed in Annex 5 and 7, as well as the sub-sectors that do not appear in Annex 8.

The *Financial Instruments and Exchange Act*²⁰ limits holding of voting rights by any person, whether foreign or Japanese, to less than 20 per cent in any securities exchange in Japan (for example, the Tokyo Securities Exchange or the Osaka Securities Exchange).

16 Includes a firm or organisation in which (i), (ii) or (iii) holds a position of managing executive officer.

17 Law No. 231 of 15 July 1952.

18 Law No. 82 of 9 December 1989.

19 Law No. 289 of 20 December 1950.

20 Act No. 25 of 1948.

Republic of Korea

ROK policy is to welcome foreign direct investment. In particular, the ROK implemented a number of FDI-friendly policies after the Asian Financial Crisis in 1998. There are now few formal restrictions on foreign investment, most investment notifications are automatically approved and the process is transparent with a negative list of proscribed areas.

But challenges remain for investors in the ROK which explain its low levels of inbound foreign investment. The cost of doing business can be high. Some sectors are highly-regulated, and some labour unions have a reputation for militancy. Some Korean business practices can also be difficult to internationalise. For example, Standard Chartered bank's attempts to introduce performance-related promotions resulted in a long-standing union-led strike to retain the Korean practice of promotion based on length of service.

To encourage foreign investment, the ROK has appointed an ombudsman for foreign-investment concerns and a formal regulation-review process to determine if new regulations are required or could be improved. It also provides some incentives to attract foreign investment, such as tax concessions and cash grants.

The ROK's legal framework for foreign investment

Regulation of foreign investment in the ROK falls under the Foreign Investment Promotion Act (FIPA). Foreign investors may establish a wholly-owned company or joint venture company. Both the minimum amount of the foreign investment and the stock ratio are prescribed in the FIPA:

- Minimum Foreign Investment Amount (the threshold): KRW100 million (A\$85,000)
- Foreign Investment Ratio: 10 per cent or more of the voting stocks or total invested capital

Foreign Investment needs to be notified the Korean Trade-Investment Promotion Authority (KOTRA) or to a commercial bank. If it does not fall into a restricted category, it is automatically approved.

According to Invest Korea, out of a total of 1,145 categories of business under the Korean Standard Industrial Classification (KSIC), foreign investment is not permitted in 60 categories of business, as set out under the Regulations on Foreign Investment and Technology Introduction and the Consolidated Public Notice for Foreign Investment.

Business categories in which foreign investment is not permitted include:

- Public administration, diplomacy, and national defence
- Postal services, central banking, individual mutual-aid organizations, pension funding, administration of financial markets, activities auxiliary to financial service activities.

- Legislative, judiciary, administrative bodies, foreign embassies, extra-territorial organizations and bodies.
- Education (pre-primary, primary, secondary, higher education, universities, graduate schools, schools for the handicapped, etc.)
- Artists, religious, business, professional, environmental advocacy, political, and labour organizations.

In addition, foreign investment is restricted in a further 29 categories of business. In principle, foreign investment is not permitted in these restricted categories, except in certain circumstances, known as “standards for permission”. These categories are set out in the table below:

ROK: Business categories in which foreign investment is restricted

Category of Business (KSIC)	Standards for Permission
Growing of cereal crops and other crops for food (01110)	- Growing of rice and barley is prohibited
Farming of beef cattle (01212)	- Permitted where the foreign investment ratio is less than 50 per cent
Inshore and coastal fishing (03112)	
Manufacture of other basic inorganic chemicals (20129)	- Permitted with the exception of manufacture and distribution of nuclear fuel
Manufacture of other smelting, refining and alloys of non-ferrous metals (24219)	
Nuclear power generation (35111)	- Prohibited
Hydroelectric power generation (35112) Fire power generation (35113) Other power generation (35119)	- The sum of power-plant facilities purchased by foreigners from Korea Electric Power Corporation (KEPCO) must not surpass 30 per cent of the total domestic power plant facilities

Transmission and distribution of electric power (35120)	<ul style="list-style-type: none"> - The foreign investment ratio must be less than 50 per cent - Voting stocks owned by foreign investors must be less than dominant stocks held by Korean nationals
Disposal of radioactive waste (38240)	- Radioactive waste management business is prohibited under Article 82 of the Electric Utility Act
Wholesale of meat (46312)	- Permitted where the foreign investment ratio is less than 50 per cent
Coastal water passenger transport (50121) Coastal water freight transport (50122)	<ul style="list-style-type: none"> - Permitted: Transport of passengers or freight between South and North Korea; - Joint venture with a shipping company of the Republic of Korea; - The foreign investment ratio is less than 50 per cent
Scheduled air transport (51100) Non-scheduled air transport (51200)	- Permitted where the foreign investment ratio is less than 50 per cent
Publishing of newspapers (58121)	- Permitted where the foreign investment ratio is less than 30 per cent
Publishing of magazines and periodicals (58122)	- Permitted where the foreign investment ratio is less than 50 per cent
Radio broadcasting (60100)	Prohibited
Over-the-air broadcasting (60210)	Prohibited
Program distribution (60221)	<ul style="list-style-type: none"> - Permitted where the foreign investment ratio is 49 per cent or less (* General programming channel and specialized news channel businesses are prohibited.) * Program distribution refers to program providing business under the Broadcasting Act
Cable networks (60222)	- CATV broadcasting business is permitted where foreign investment ratio is 49 per cent or less (* CATV relay

	broadcasting business is prohibited)
Broadcasting via satellite and other broadcasting (60229)	- Permitted where foreign investment ratio is 33 per cent or less (* Internet multimedia broadcasting business is permitted where the foreign investment ratio is 49 per cent or less)
Wired telecommunications (61210)	- Permitted where the sum of shares (limited to voting shares, including depositary receipt (DR) and other share equivalents and equity interests) held by a foreign government or a foreigner (including fictitious corporation of foreigners) is 49 per cent or less of the total issued shares of the company (Foreigners are not allowed to become a majority shareholder of KT. But, they may invest in KT where they own less than 5 per cent of the total shares.)
Mobile communications (61220)	
Satellite communications (61230)	* Fictitious corporation of foreigners: a corporation whose largest shareholder is a foreign government or a foreigner (including a specially-related person as referred to in Article 9 (1) 1 of the Financial Investment Services and Capital Markets Act), and not less than 15/100 of the gross number of whose issued stocks are owned by the said foreign government or foreigner.
Other electronic communications (61299)	- Telecommunications resellers business (61282) is permitted - Supplementary communications business is not restricted
News agency activities (63910)	- Permitted where the foreign investment ratio is less than 25 per cent
Domestic commercial bank (64121)	- Permission is limited to commercial banks and local banks (*Foreign investment in specialised banks, and agricultural/fisheries/livestock cooperative banking activities are prohibited.)

Data on foreign investment from Japan and the ROK by industry

The Foreign Investment Review Board (FIRB) publishes data on FIRB-approved foreign investment by industry sector. The most recent data for Japan and the ROK are attached on page 13. This data only captures those proposed investments that fall within the scope of the Foreign Acquisitions and Takeovers Act 1975 and Australia's Foreign Investment Policy, and therefore is not a measure of actual or total foreign investment. For example, FIRB statistics measure only direct investment, not portfolio or other investment. Nor do they measure when (or if) an approved investment is realised, or any subsequent withdrawal of direct investment from Australia.

The Australian Bureau of Statistics' (ABS) publishes data on foreign investment into Australia by country (see table below), but it does not routinely release data disaggregated by industry for individual countries. In part, this is because such disaggregated data may not accurately reflect the end use of the funds. For example, Australian banks and financial intermediaries may on-lend investment funds sourced from overseas to clients in a range of other industries. Another problem is that significant parts of the data cannot be published because of confidentiality requirements under the Census and Statistics Act of 1905. In response to a DFAT request, the ABS provided a customised product, attached on page 14, containing some limited data on foreign investment from Japan and the ROK in 2008 (the latest the ABS was able to provide).

Total foreign investment in Australia – top 10 sources* (A\$ billion, 2010 – most recent currently available)

	2009	2010	Rank in 2010	%share 2010	%change 2009 to 2010
Total	1,907	1,968		100.0	3.2
United States	515	550	1	27.9	6.8
United Kingdom	499	473	2	24.0	-5.3
Japan	103	118	3	6.0	14.7
Singapore	41	44	4	2.2	6.5
Netherlands	43	42	5	2.2	-2.3
Hong Kong (SAR of China)	43	41	6	2.1	-5.6
Germany	38	41	7	2.1	6.6
Switzerland	32	41	8	2.1	26.4
New Zealand	32	34	9	1.7	6.6
France	23	24	10	1.2	3.9
China	17	20	12	1.0	17.4

Based on ABS catalogue 5352.0.

*The ROK's total stock of investment in Australia as at the end of 2010 was \$9.4 billion, making it Australia's then sixteenth-largest source of foreign investment.

Foreign Investment Review Board foreign investment approvals by country of investor in 2010-11 – industry sector

Country(a)	Number of approvals(e)	Agriculture forestry & fishing \$m	Finance & insurance \$m	Manufacturing \$m	Mineral exploration & development \$m	Real estate \$m	Resource processing \$m	Services \$m	Tourism \$m	Total \$m
US	190	38	1,017	4,337	1,808	3,404	-	17,015	-	27,620
UK	1,005	106	1,679	644	5,551	4,610	25	2,734	-	15,349
China(b)	5,033	4	558	416	9,758	4,093	132	16	-	14,976
Canada	112	104	-	-	9,317	807	-	4,651	-	14,879
India	320	-	-	2,000	8,929	163	-	168	-	11,260
Singapore	535	-	3,606	1,639	688	1,727	1,750	59	76	9,545
Japan	123	-	1,335	1,251	4,893	598	-	590	-	8,666
Spain	19	-	-	-	2,344	407	600	4,398	-	7,750
Switzerland	53	300	-	-	711	455	-	6,089	-	7,555
Germany	126	-	376	1,865	232	1,128	-	1,048	-	4,649
France	82	-	-	1,270	911	45	-	1,149	-	3,376
Thailand	33	-	-	250	2,566	13	82	-	63	2,973
Russia	65	-	-	-	2,561	245	-	-	-	2,806
Malaysia	896	-	-	355	461	1,863	2	103	-	2,784
Sth Korea	90	-	420	-	1,445	497	-	-	-	2,362
Netherlands	62	-	27	-	-	1,691	-	571	-	2,289
New Zealand	32	-	-	757	1,110	64	-	163	6	2,100
Hong Kong	98	97	-	-	1,383	404	-	-	-	1,884
United Arab Emirates	9	-	-	-	-	1,088	-	392	-	1,480
South Africa	347	-	-	-	372	826	-	-	-	1,198
Other(c)	1,341	124	286	-	1,425	10,684	-	1,622	-	14,141
<i>Sub-total</i>	<i>10,571</i>	<i>773</i>	<i>9,304</i>	<i>14,783</i>	<i>56,465</i>	<i>34,815</i>	<i>2,591</i>	<i>40,769</i>	<i>145</i>	<i>159,644</i>
Australia(d)	177	758	4,435	230	1,439	5,750	-	6,732	-	19,345
Total	10,748	1,531	13,739	15,013	57,904	40,564	2,591	47,501	145	178,989

Note: Totals may not add due to rounding.
 '-' indicates a figure of zero.

Source: Foreign Investment Review Board Annual Report 2010-11

Japanese and South Korean Investment by industry division (2008 - latest available)

All data in \$AUD millions.

"n.p." denotes not published due to confidentiality rules under the Census and Statistics Act of 1905

Country	Data Item	Industry division											
		Agriculture, forestry and fishing	Mining	Manufacturing	Electricity, gas and water	Construction	Wholesale & Retail trade	Accommodation, cafes and restaurants	Transport & Communication	Finance and insurance	Property and business services	Other Services	Unallocated
South Korea	Direct Investment Abroad	-	-	n.p.	-	-	0.1	-	-	n.p.	n.p.	-	-
	Direct Investment Abroad: Equity Capital and Reinvested Earnings	-	-	n.p.	-	-	-	-	-	n.p.	-	-	-
	Direct Investment Abroad: Other Capital	-	-	n.p.	-	-	0.1	-	-	-	n.p.	-	-
	Direct Investment in Australia	-	n.p.	n.p.	-	-	n.p.	-	-	n.p.	-	-	n.p.
	Direct Investment in Australia: Equity Capital and Reinvested Earnings	-	n.p.	n.p.	-	-	n.p.	-	-	n.p.	-	-	-
	Direct Investment in Australia: Other Capital	-	n.p.	n.p.	-	-	n.p.	-	-	n.p.	-	-	n.p.
Japan	Direct Investment Abroad	-	223.8	362.3	-	-	234.6	n.p.	n.p.	1,047.2	n.p.	-	n.p.
	Direct Investment Abroad: Equity Capital and Reinvested Earnings	-	n.p.	n.p.	-	-	n.p.	n.p.	n.p.	n.p.	n.p.	-	-
	Direct Investment Abroad: Other Capital	-	n.p.	n.p.	-	-	n.p.	-	-	n.p.	n.p.	-	n.p.
	Direct Investment in Australia	-	19,318.0	8,910.6	n.p.	-	5,802.2	n.p.	n.p.	1,917.0	n.p.	-	210.7
	Direct Investment in Australia: Equity Capital and Reinvested Earnings	-	n.p.	n.p.	n.p.	-	4,379.8	-	n.p.	n.p.	n.p.	-	n.p.
	Direct Investment in Australia: Other Capital	-	n.p.	n.p.	n.p.	-	1,422.4	n.p.	n.p.	n.p.	n.p.	-	n.p.

Source: Australian Bureau of Statistics. Please see explanatory note on page 12.

