



Submission No 14

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

Organisation: Department of Innovation, Industry, Science and
Research



Australian Government

**Department of Innovation
Industry, Science and Research**

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Dear Mr Zinkel

**Joint Standing Committee Inquiry - Australia's trade and investment
relationship with Japan and the Republic of Korea**

I refer to your letter of 26 May 2011 to Mr Mark Paterson, the then Secretary of the Department of Innovation, Industry, Science and Research requesting a submission to the inquiry into Australia's trade and investment relationship with Japan and the Republic of Korea.

Please find enclosed the Department of Innovation, Industry, Science and Research's submission to the Trade Sub-Committee of the Joint Standing Committee on Foreign Affairs, Defence and Trade.

Should you require further information please contact Paul Trotman, General Manager, Trade and International Branch on (02) 6213 6600 or Paul.Trotman@innovation.gov.au.

Yours sincerely

Sue Weston
Deputy Secretary

28 July 2011



Australian Government

**Department of Innovation
Industry, Science and Research**

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

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Relationship with Japan and the Republic of
Korea**

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1 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.

The purpose of this submission is to provide factual material to the Committee in relation to the Terms of Reference.

The Department of Innovation, Industry, Science and Research undertakes several activities in relation to the current enquiry. These are outlined in the following pages.

2 Introduction

The Department of Innovation, Industry, Science and Research (the Department) makes a strong contribution to the development of Australia's international trade and investment relations. The benefits of international engagement for Australian industry, business, science and research institutions include:

- increased foreign direct investment (FDI) which establishes and enhances Australian involvement in global value chains and global economic integration;
- increased trade and access to global value chains that allows Australian businesses to cut input costs and manufacture more efficiently; and
- technology and knowledge sharing which delivers the highest quality science and research outcomes.

The Department's main interactions with Japan and the Republic of Korea (Korea) are through participation in Australia's ongoing free trade agreement (FTA) negotiations and in furthering Australia's science, research and innovation linkages with both countries.

3 International Engagement and Improving International Competitiveness

The Department is active in facilitating international engagement through all portfolio areas. The Department administers various programs and policies that promote Australia's participation in global value chains by encouraging innovation and the development of new industries. Examples include the *Research and Development (R&D) Tax Credit*, *Commercialisation Australia*, funding for Cooperative Research Centres and investment in the public sector research base.

The Department's *Enterprise Connect* initiative provides knowledge, tools and expertise to help improve business productivity, increase competitiveness and build business capacity to capitalise on opportunities for growth. Supplier Advocates promote entrance into new markets by supporting global value chain activities and Industry Innovation Councils aim to help create sustainable conditions for innovation to flourish.

The *Supplier Access to Major Projects (SAMP)* program links Australian industry to major Australian and international projects. SAMP supports the state-based *Industry Capability Network (ICN)* to research and identify capable and competitive Australian businesses which can supply goods and services to projects. Through SAMP, the Department is funding ICN involvement to assist Australian companies gain access to supply chain opportunities in Japan and Korea in the following projects:

- establishing and building contacts with eight major Asian oil and gas module contractors and procurement hubs, three of which are located in Korea;
- connecting Australian suppliers to opportunities in the proposed INPEX Ichthys gas project for which the front-end engineering and design work is being carried out in Yokohama, Perth and London; and
- connecting Australian suppliers to opportunities that arise in Shell's Prelude Liquefied Natural Gas (LNG) project for which Shell is planning to fabricate a Floating LNG processing facility vessel in Korea.

The science and research programs delivered through the portfolio play an integral role in attracting R&D related foreign investment and the basis of many research collaborations is Australia's accessible world-class research infrastructure and skilled workforce.

IP Australia has long standing, cooperative and productive relationships with its Japanese and Korean counterpart agencies, the Japan Patent Office and the Korean Intellectual Property Office. These relationships continue to develop through informal activities such as ongoing technical cooperation and information sharing, as well as cooperative discussions on mutual exploitation initiatives for patent and plant breeder's rights examination. Japan and Korea share similar views with Australia in a number of international committees in respect to the protection of intellectual property (IP), and work together cooperatively to achieve multilateral progress on reform and further development of the international IP system. IP Australia also publishes information which assists Australian business in understanding IP systems and protection mechanisms in foreign countries prior to export.

3.1 Sector-specific Initiatives

3.1.1 Automotive

The Government's *New Car Plan for a Greener Future* assists the Australian automotive industry to prepare for a low carbon future, to invest in future technologies, be indispensable to global markets and value chains and to adjust to a more open trade environment.

In particular, the \$3.4 billion *Automotive Transformation Scheme* provides assistance for allowable investment in capital, innovation and production. The \$6.3 million *Automotive Market Access Program (AMAP)* supports the Australian automotive industry to access global value chains through the work of the Automotive Industry Envoys, The Hon Steve Bracks AC and Mr John Conomos AO, who have visited both Japan and Korea. AMAP also funds dedicated Austrade advisers in Korea.

The *Cooperative Research Centre for Advanced Automotive Technology (AutoCRC)*, with support from the Australian and Victorian governments, developed the *Automotive Australia 2020* technology roadmap. The roadmap identified emerging automotive technologies with real commercial potential for Australia. The opportunities identified are in the broad areas of vehicle electrification, gaseous fuels, lightweighting, and data and communications. The roadmap may be useful in stimulating and focussing investor interest from Japan and Korea.

3.1.2 Textiles, Clothing and Footwear, Iron and Steel and Pulp and Paper

The Government has in place a number of initiatives designed to increase competitiveness and innovative capability of the Australian textile, clothing and footwear (TCF), iron and steel, and pulp and paper industries. Industry Innovation Councils investigate long term sustainability and international competitiveness of industry, working with Supplier Advocates to maximise opportunities to participate in major projects in Australia and overseas. The Pulp and Paper Industry Strategy Group, for example, has provided a report highlighting trade and exports between Japan, Korea and the rest of Asia as an area of key importance to industry.

4 Key Areas of International Engagement

Innovation policy, science policy and international trade policy are three key areas of international engagement where the Department is working to strengthen Australia's trade relations and investment linkages with Japan and Korea.

4.1 Innovation Policy

The Government's 10 year vision for innovation, set out in *Powering Ideas*, is aimed at improving Australia's competitiveness and productivity. Such improvements help Australian business compete, both domestically and internationally and the Department's portfolio of programs are intended to help businesses achieve these outcomes. The Innovation portfolio includes programs aimed at addressing market failures in different parts of the innovation system, from R&D through to product commercialisation, as well as targeted structural adjustment funding to assist industries in adapting to changing economic environments.

Australia's innovation policy relationship with Japan and Korea is largely conducted via Australia's engagement in the Organisation for Economic Cooperation and Development's (OECD) Technology and Innovation Policy Committee and the Committee on Industry Innovation and Entrepreneurship. For example, Japan and Korea were members of an OECD Working Group on Innovation and Technology which was chaired by Australia. This working group produced the *Demand-side Innovation Policies* report in 2011.

4.2 Science Policy

Through its international science engagement function, the Department is responsible for leading intergovernmental relationships across the whole spectrum of science and research. The Department currently manages around 30 science and technology treaties. This work enables Australian researchers and research agencies to establish productive partnerships with leading international researchers and institutions and contributes to the Australian Government's National Innovation Priorities and National Research Priorities.

4.2.1 Australia-Japan Science and Technology Collaboration

Australia has longstanding science and research links with Japan, formalised since 1980 under the *Agreement between the Government of Australia and the Government of Japan on Cooperation in Research and Development in Science and Technology*.

The strengths and mutual complementarities found in the Australia-Japan science and technology relationship are discussed at Joint Science and Technology Committee (JSTC) meetings. The bilateral JSTC meetings provide a forum where areas for future science and research collaboration are identified and information relating to recent research and innovation policy developments is exchanged. The next JSTC meeting is expected to be held in early 2012 in Tokyo.

A key pillar of the Australia-Japan bilateral research partnership has been highly successful researcher exchange programs. Supported by the Department through the *International Science Linkages Program* (ISL) and administered by the Australian Academy of Science and the Australian Academy of Technological Sciences and Engineering, approximately 40 Australian researchers receive the opportunity to

conduct collaborative research in Japan each year. The ISL terminated on 30 June 2011.

Australia and New Zealand are bidding to host the *Square Kilometre Array* (SKA) project, an international mega-science radio astronomy project. Australia has had discussions with officials regarding Japan's involvement in the SKA project and welcomes Japan's role as an observer on the newly created SKA Founding Board.

Questacon, the National Science and Technology Centre has a longstanding relationship with Japan. As a contribution to the celebration of Australia's bicentenary, the Japanese Government and business community contributed half the cost of the Questacon Centre, which continues to be an enduring symbol of the Australia – Japan relationship. Questacon maintains strong linkages with Japan through the Asia – Pacific Network of Science and Technology Centres and has a Friendship Agreement with the Japanese National Science Museum and a Memorandum of Understanding with Miraikan, the National Museum of Emerging Science and Innovation. These agreements are indicative of the very strong relationship Questacon enjoys with Japanese scientific organisations.

The Australian Nuclear Science and Technology Organisation (ANSTO) has long-standing links with counterpart institutions in Japan. Following the earthquake and tsunami, ANSTO granted preferential access 'beam time' on ANSTO's neutron beam instruments to the users of damaged Japanese neutron beam facilities.

Despite the damage from the earthquake and tsunami of March 2011, Japan has expressed a keen interest in deepening the science and research relationship with Australia, as demonstrated by its willingness to contribute to the longstanding and successful bilateral researcher exchange programs.

4.2.2 Australia-Korea Science and Technology Collaboration

Australia's science and research relationship with Korea is guided by the 1999 *Agreement between the Government of Australia and the Government of the Republic of Korea on Scientific and Technological Co-operation*.

In April 2010, the ISL brought together Korean and Australian experts in green growth-related areas of science and technology, especially in the areas of renewable energy, carbon capture and sequestration, clean coal, and green urban design. The main outcome of this government supported workshop was identifying potential opportunities for combining Australian and Korean expertise in the commercialisation of emerging technologies.

Australia has also had discussions with officials regarding Korea's involvement in the SKA project. Australia is also working closely with Korea on the Giant Magellan Telescope (GMT), a \$1 billion next-generation optical telescope to be constructed at high altitude in Chile. The GMT construction will generate tender opportunities for member countries in engineering, scientific and technical industry areas.

ANSTO has a long-standing relationship with the Korea Atomic Energy Research Institute (KAERI), conducted through an Implementing Arrangement initiated in 1990 and most recently extended in 2010. For example, since 2003 ANSTO and KAERI scientists have been looking at the effect of radiation on the materials used in reactor cores, including the zirconium alloys that are used in the OPAL reactor.

4.3 Trade Policy: Trade Liberalisation and Free Trade Agreements

The Government is committed to trade liberalisation, through multilateral, regional and bilateral trade agreements where they are high quality and provide business with commercially meaningful outcomes. Multilateral agreements offer the largest benefits and the Government is committed to the successful completion of the World Trade Organization (WTO) Doha Round of negotiations. The Government pursues regional and bilateral trade agreements which are genuinely liberalising and substantially reduce barriers to trade.

As part of a whole-of-government approach, the Department plays a key role in the negotiation and the ongoing administration of Australia's trade agreements. The Department advises on issues as varied as tariffs, rules of origin (ROOs), technical barriers to trade, and trade remedies. The Department seeks to achieve a positive outcome for Australian industry in multilateral, regional and bilateral trade agreements, including negotiating reciprocal industrial tariff elimination with appropriate transitional arrangements, consistent product specific ROOs based on a Change of Tariff Classification (CTC), mechanisms to deal with non-tariff and other technical barriers to trade, and commitments on trade remedies which maintains the integrity of Australia's domestic anti-dumping, countervailing and global safeguard regimes. The Department consults broadly with affected industries to provide considered and appropriate advice.

4.3.1 Regional Fora for Trade Liberalisation and Facilitation

The Department recognises that opening up markets, particularly in the Asia-Pacific region, has the potential to provide wealth creating export opportunities to Australian industry and businesses. The Department is engaged in a range of regional fora to pursue trade liberalisation and facilitation.

Australia is a member of the Asia-Pacific Economic Cooperation (APEC), to which Japan and Korea are also members. APEC endeavours to improve the operating environment for business by reducing the cost of cross-border trade, improving access to trade information and simplifying regulatory and administrative processes.

The Department represents Australia on the APEC Sub-Committee on Standards and Conformance (SCSC). The issues in relation to legal, regulatory and technical requirements and the challenges these create for business has been a significant area of discussion and work in the APEC SCSC.

The Department also represents Australia on the APEC Small and Medium Enterprises Working Group (SMEWG). The SMEWG aims to facilitate cooperation between APEC members on issues that will foster the growth and development of SMEs including building management capabilities, developing market access and trade skills, and promoting innovation and green growth. Australia takes an active role in co-sponsoring SMEWG projects including involvement in the series of 'Ease of Doing Business' workshops held between 2007 and 2010.

Australia, Japan and Korea are all founding members of the East Asia Summit (EAS), which is a regional Leaders' forum that plays an important role in advancing closer regional integration and cooperation.

The Department is involved in Australia's ongoing Association of South-East Asian Nations (ASEAN)+6 dialogue, which involves Japan and Korea along with China, India, New Zealand and Australia. The ASEAN+6 discussions, combining the

partners of the ASEAN+1 agreements, are focused on providing an architecture for a regional trade agreement, building on existing agreements between ASEAN members and other Asia-Pacific countries.

4.3.2 Free Trade Agreements

The Department is heavily involved in all FTA negotiations currently underway. Along with Japan and Korea, the Government is currently negotiating FTAs with China, the Gulf Cooperation Council (GCC), India, Indonesia, Malaysia, countries participating in the PACER Plus agreement and countries involved in the Trans Pacific Partnership (TPP).

4.3.3 Trade with Japan

Bilateral Trade and Investment

Japan continues to be on one of Australia's key trading partners. In 2010 Australian merchandise exports to Japan were valued at \$43.55 billion, representing 18.9 per cent of Australia's exports, making Japan Australia's second biggest export market. Major exports in 2010 were coal, iron ore, beef and aluminium. In the same year, Australia's merchandise imports from Japan equalled \$18.18 billion, representing 8.7 per cent of Australia's imports, ranking Japan as third largest supplier in terms of imports. Major imports from Japan in 2010 included passenger motor vehicles, good vehicles, refined petroleum and civil engineering equipment and parts.

In 2010 Australia's investment in Japan was valued at \$29.11 billion, including FDI of \$518 million. Japan's investment in Australia equated to \$117.6 billion in 2010, including \$49.4 billion FDI. Japanese FDI has been essential in the development of many of the export industries that have driven Australia's export performance.

Australia-Japan Free Trade Agreement negotiations

Australia-Japan FTA negotiations started in April 2007, following the completion of the *Joint Study for Enhancing Economic Relations between Japan and Australia* in December 2006. The Joint Study indicated that the macroeconomic gains of an FTA range from 0.66 per cent to 1.79 per cent for Australia's GDP in 2020 and between 0.03 per cent and 0.13 per cent for Japan's GDP in 2020.

From the outset of negotiations, Australia and Japan agreed that the FTA should be comprehensive, WTO-consistent, concluded in a single undertaking, and will address tariff and non-tariff barriers, create commercial opportunities across all industries and promote two-way investment.

There have been 12 negotiating rounds to date. Negotiations have been disrupted following the March 2011 earthquake and tsunami.

4.3.4 Trade with Korea

Bilateral Trade and Investment

Korea is one of Australia's most important trading partners. In 2010 Australian merchandise exports to Korea were valued at \$20.4 billion, representing 8.8 per cent of Australia's exports, making Korea Australia's third largest export market. Major exports in 2010 were coal, iron ore, crude petroleum and copper ores. In the same year, Australia's merchandise imports from Korea equalled \$7.14 billion, representing 3.4 per cent of Australia's imports, ranking Korea as Australia's ninth largest supplier in terms of imports. Major imports from Korea in 2010 included passenger motor

vehicles, refined petroleum, telecommunications equipment and monitors, projectors and televisions.

The level of investment between Australia and Korea remains relatively small, but diversified. Other than resource development, Korea investors are mostly involved in import and distribution (e.g. Hyundai, Daewoo, Kia, LG and Samsung). Korea's investment in Australia was \$9.3 billion in 2010, including \$2 billion in FDI.

Australia-Korea Free Trade Agreement (FTA) negotiations

Following the release of a joint non-government FTA feasibility study in April 2008, Australia and Korea agreed to launch bilateral FTA negotiations in March 2009. There have been five rounds of negotiations to date, as well as a number of technical meetings.

The feasibility study found that an FTA would offer significant opportunities to further strengthen the complementary and growing bilateral trade and investment relationship between Australia and Korea. Economic modelling undertaken as a part of the feasibility study indicated that by 2020, an FTA with Korea could benefit Australia's real GDP by up to 0.04 per cent.

4.3.5 Sector-specific Trade Issues

The Department seeks positive outcomes for Australian industry through multilateral, regional and bilateral trade negotiations. Recognising that certain sectors of Australian industry are sensitive with respect to trade liberalisation, the Government works to manage these challenges to ensure that Australian industry is able to capitalise on the benefits of trade liberalisation.

4.3.5.1 Automotive Industries

Automotive Trade with Japan

Japan is Australia's largest trading partner in the automotive sector. Japan was Australia's largest source of imported motor vehicles in 2010 (\$8.89 billion). Japanese brands also dominate vehicle imports from Thailand (\$3.86 billion in 2010). In addition, Japan was the second largest source of automotive parts imports in 2010 (\$1.16 billion), after the United States. The 357,000 vehicles imported into Australia from Japan in 2010 represented 40 per cent of all imports and 34 per cent of the overall vehicle market. Australia's automotive exports to Japan totalled \$57.6 million in 2010 making it the eleventh largest export market. This was almost entirely made up of automotive parts (\$52.4 million), an increase of 52.6 per cent over the previous year.

Japan is a dominant global supplier of vehicles, whereas Australia constitutes only a small amount to global production. Prospects for Australian vehicle exports to Japan are limited, as Australia specialises in large passenger cars which are of low demand in Japan. The Japanese automotive industry has a number of vehicle manufacturers and a large number of global automotive component manufacturers. Many of these component firms have strong ties to vehicle manufacturers and have operations in different parts of the world.

Japan has a strong stake in the Australian automotive industry, including car and component production, design, engineering and testing. Investments by Toyota and Japanese automotive supply chain companies are a great example of the close

economic ties between Australia and Japan. Investment by Japanese firms like Toyota, component suppliers already operating in Australia, new component suppliers, and firms developing new automotive and battery technologies, is important to the competitiveness of the Australian automotive industry.

Automotive Trade with Korea

Korea is a significant supplier of automotive vehicles and components to Australia. The total import value of Korean automotive goods in 2010 was \$2.59 billion (an increase of 39.6 per cent on 2009). This comprised \$2.27 billion in automotive vehicles and \$320 million in automotive components. Imports of Korea vehicles have been increasing since 2004. The number of imported vehicles from Korea was over 163,000 in 2010, higher than the number of Australian made vehicles sold in the Australian market for the first time.

Australia exported over \$190 million of automotive products (virtually all of which were components) in 2010. Korea is the second largest destination of automotive component exports from Australia, including engines, gearboxes and electrical switches and apparatus. Similar to Japan, Korea is also a major supplier to the global vehicle market.

4.3.5.2 Iron and Steel

There is a significant amount of trade in iron and steel products with Japan and Korea. Australia exports principally non-alloy steel products, while imports include both non-alloy steel and other types of steel including stainless steel. In 2010 Australia imported \$314 million worth of iron and steel from Japan and \$73 million from Korea. Australia is a major supplier of iron ore to both markets, exporting \$8.5 billion and \$4.4 billion to Japan and Korea respectively in 2010. Better market access for Australian iron and steel exporters is a key element of trade negotiations with both countries.

5 Conclusion

Greater international engagement with key trading partners, such as Japan and Korea, is vitally important to growing the Australian economy. The Department acknowledges that, in terms of trade liberalisation, greater international engagement with Japan and Korea may represent a significant challenge for Australian manufacturers and subsequently the Department works to assist Australian industry to become more internationally competitive and to access global value chains. The Department therefore promotes and supports opportunities for Australian industry to engage in closer international engagement with Japan and Korea, especially through opportunities in the innovation, science, research and industry sectors.

The Department also advocates closer international engagement with Japan and Korea through promoting inward investment and encouraging and supporting Australian industry to gain access to global value chains. The Department also supports the conclusion of FTA negotiations with both Japan and Korea which result in genuinely trade liberalising agreements that allow Australian business to strengthen trade and investment relationships with Japan and Korea.