



**AUSTRALIA JAPAN BUSINESS CO-OPERATION
COMMITTEE**



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Sir Rod Eddington AO
President

17th February, 2014

Dr Bill Pender
Secretary
Joint Select Committee on Northern Australia
House of Representatives
Parliament of Australia

By Email:
jscna@aph.gov.au

Dear Dr Pender,

The Australia Japan Business Co-operation Committee (AJBCC) expresses its appreciation for the opportunity to provide this submission which briefly addresses the three Terms of Reference.

Background

The AJBCC was established in 1962 and together with its counterpart Japan Australia Business Co-operation Committee (JABCC) has sought to encourage and facilitate the bilateral commerce, and more latterly, its diversification.

The 'Complementarity' of the bilateral commerce of the past decades has been the hallmark of the commercial relationship. Whilst Japan will remain attracted to Australia as a consistent supplier of high quality energy and minerals and a source of safe agricultural products and as a substantial market for its high value automobiles, consumer electronics and construction equipment, there are new complementarities in infrastructure, financial services, education, health, ICT, tourism, green technologies, and agribusiness and food processing being developed each day.

Australia and Japan are both sophisticated economies located in the most dynamic economic region of the globe. The demographic shift of hundreds of millions from rural to urban environments over the coming decades and the growing affluence of the rapidly expanding middle classes of Asia are increasingly documented. These create new opportunities for Australian and Japanese businesses. Building on the mutual trust generated by decades of strong relationship, the AJBCC envisages increased collaboration and joint venturing with Japanese entities regarding opportunities in Australia, in Japan, and in third countries in:

- Building Asia
- Feeding Asia
- Innovating Asia, and
- Educating Asia.

'Collaboration' is anticipated to be the hallmark of the coming decades.

The First Term of Reference – The Potential

Over the past fifty years, Japan has been an integral part of the Northern Australia story across the spectrum of mineral, energy, agricultural and tourism developments. Most of these 'resources' and 'agribusiness' projects faced challenges ranging from a general lack of pre-development social and economic infrastructure, lack of a trained local development and production workforce, etc. Weather has also regularly affected the productivity of projects. The hospitality sector has experienced parallel constraints.

The dynamism and trends of the Asian economy underpin the confidence that the future of existing projects, and those yet to be identified, must be considered to have a ready market for internationally competitive output given the added bonus of proximity.

Over the past decade, Japanese interests have paid billions of dollars in the acquisition of prime agribusiness assets and hundreds of millions to upgrade those assets. The Japanese breweries have been particularly active and also the Trading Houses. In summary, this investment reflects a declining domestic outlook in Japan due to a numerically shrinking and ageing of the population and therefore growth through acquisition. However, it also reflects the utilisation of acquired Australian assets, together with Australia's national 'clean green' image, to market into Asia acquired product that is expected to be appealing to a newly affluent middle class.

The region's natural wonders – the Great Barrier Reef, Kakadu, etc – are perceived as possessing enormous tourism appeal. The fact that these are four – five hours flight time from hundreds of millions of increasingly affluent citizens wanting new experiences underscore why tourism infrastructure needs substantial rejuvenation and the benefit of a strong strategic direction.

Centres such as Cairns, Townsville and Darwin are four – five hours flight time from dynamic Asian centres needing to encourage education of their populations so as to sustain their economic growth and stimulate innovation in their economies. This provides those centres with an incentive to attract overseas students whom, in addition to obtaining an education, drive growth in the local economy.

The Second Term of Reference – Global Competitiveness

Whilst Australia has the benefit of proximity to the anticipated growth markets in Asia, the experience of the past decade underscores that global competitiveness is a marketplace prerequisite in the minerals, energy and agribusiness sectors. This does not necessarily mean cheapest cost, rather a suite of factors including consistency of quality, certainty of delivery, and ability to maintain the relationship.

Access to finance is a key determinant regarding the exploration, testing, development phases and the life-cycle of a minerals or energy project. Regardless of Australia having the fourth largest pool of investable funds in the world, risk and portfolio mix considerations mean that Australian financial institutions will not individually be able to finance prospective projects. Hence, project promoters need to develop consortia of local and external institutions. Japanese financial institutions have had a long engagement with Australian projects and the leading financiers have built up a substantial understanding of the success factors for such investments. The AJBCC is confident that the Japanese financial sector would be happy to continue their engagement regardless of the fact that the prime

destination of a 'resources' or agribusiness development's output would be other than Japan. The Government will need to be consistent with respect to its Foreign Direct Investment (FDI) thresholds for the agricultural and other sectors to validate its 'Open for Business' credentials.

The AJBCC has no intrinsic expertise, or commissioned reports, that pertain to productivity, security of supply, cost, productivity, financing, etc., however, it anticipates that the Joint Select Committee will receive submissions reflecting on pertinent matters.

The Third Term of Reference – Critical Infrastructure

The Northern Australian region's low population density and its distance from the continent's political power centres have not favoured substantial investments in social infrastructure, nor general economic infrastructure. Both clearly need to be improved to enhance the likelihood of success for the projects anticipated for the future. The economics of a project in Australia often faces stiff competition from developing country locations offering incentives to attract the investment dollar and the subsequent royalties and employment. Such incentives often relate to infrastructure offered.

Given the stretched financial resources of Australian governments, the AJBCC recommends the consideration of Public-Private Partnerships (PPPs) for future social and economic infrastructure. During the 'market soundings' stage, Government would be able to appraise the market's appetite for the risks involved and proceed, where there was an interest, with a PPP and determine which infrastructure needed to be added to the catalogue for the traditional delivery method.

Since the flush of Japanese monies into the Australian Tourism sector during the 1980s, there has not been a similar substantial investment wave. Consequently, much of the tourism infrastructure is ageing. The tiredness of the facilities operates as a deterrent to the crucial second and subsequent visits that should be the aspiration regarding the newly affluent Asian traveller. The variety of Northern Australia's natural attractions, their location four or five hours flight time from hundreds of millions of people now being able to afford new experiences, and the explosion of budget airlines in Asia should underpin the strategy for the region's tourism future.

Conclusion

The Joint Select Committee would be well aware of the world class competencies of the Australian Mining, Energy and Agribusiness sectors and also the extensive competition globally for project development. A reviving Japanese economy is increasingly looking outward for its future economic growth to offset its declining domestic population's contribution to GDP. The long-term bilateral relationship underpins the AJBCC confidence that Japanese business will continue to participate for reasons of, as well as beyond, Japan's interest in strengthening its resources, energy and food security. The engagement will be as an investor as well as a financier.

The region's natural wonders – the Great Barrier Reef, Kakadu, etc – are perceived as possessing enormous tourism appeal. The existing infrastructure needs substantial rejuvenation and the sector would benefit from strong strategic direction.

Education – tertiary and VET – is critical to the sustainability of a nation’s development. Some of the shortfall in capacity within developing nations could be attracted to major centres in Northern Australia to the benefit of the individual’s relationship with Australia and the stimulation to the local economy.

The AJBCC would be pleased to provide any additional commentary.

Yours sincerely

Rod I Eddington
President