



Submission No 9

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

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ANZ Submission
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Executive Summary

ANZ has a long-standing, substantial and growing presence in the Asia-Pacific region. This includes our operations in Japan and the Republic of Korea (ROK), where we see an already strong trade relationship with the potential to develop even further.

ANZ's regional presence means it is well-placed to take advantage of the increasing trade and investment flows between Australia and Japan and ROK.

Access to key markets remains critical for Australian financial service providers, as it allows ANZ to capitalise on the region's economic growth. For this reason, a core interest for ANZ is the progress made in free trade negotiations with both ROK and Japan. Beyond these negotiations, ANZ is keen to see growth in other aspects of the bilateral relationship. For example, the growing people-to-people links. We recognise the complementarities between economies, and encourage the government to grow these further.

ANZ supports the Government's approach of attaching primacy to multilateral trade agreements. The WTO Doha Round of multilateral trade negotiations offers the most significant prospect to liberalise world trade, and the potential gains for the services sector are considerable. For advanced economies that have a significant services sector, such as Australia's, delivering outcomes through multilateral agreements is crucial.

In addition, we also place great importance on complementing these efforts through the negotiation of bilateral and regional free trade agreements. The conclusion of comprehensive free trade agreements with Japan and ROK presents significant opportunities for Australian businesses, for the financial services sector and for ANZ.

Through these negotiations, we are hoping issues such as barriers on commercial presence and transparency disciplines can be addressed. We consider that 'behind the border' issues are significant for Australian businesses operating in these countries.

ANZ would be pleased to provide further information about this Submission as required and can be contacted as follows:

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1. Introduction

ANZ welcomes the opportunity to contribute to the Joint Standing Committee on Foreign Affairs, Defence and Trade's Inquiry into Australia's trade and investment relationship with Japan and the Republic of Korea (ROK).

The breadth of ANZ's network puts it among the top five banks in Asia, with operations in 32 markets. ANZ has some of Australia's largest investments in Asia, including operations in Japan and ROK.

ANZ's strategy is to become a 'super regional' bank in the Asia Pacific region. That is, a bank that has the scale and quality of a global bank but with a regional focus. As part of this strategy we aim to provide Japanese and Korean corporates and financial institutions looking for business opportunities in domestic and global markets with advanced services and solutions globally.

It is increasingly evident that Asia has emerged from the global financial crisis in a stronger economic position. Australia's economic and strategic interests are focussed and tied to the Asia Pacific region, and our geographic location provides proximity to the fastest growing region in the world. We have a unique opportunity to further build our trade and investment relations by linking our economy more closely with the economies of Asia. This is where our trade focus will produce the most significant outcome for Australian business.

Our bilateral relationships with Japan and ROK are important. In particular, negotiating free trade agreements (FTAs) with Japan and ROK provides an important avenue for promoting Australia's economic and trade interests.

2. ANZ's existing trade and investment relations with Japan and ROK

ANZ in ROK

ANZ commenced its operations in ROK in 1978, and now operates one branch in Seoul, which is a fully licensed commercial bank. Our business includes domestic and foreign currency lending, trade and supply chain, payments and cash management, foreign exchange, and commodity and interest rate hedging.

Korea is a key network country for ANZ and forms an important part of our Super Regional Strategy. Our focus is on banking:

- 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 & Engineering
- Auto Manufacturing

ANZ in Japan

ANZ's presence in Japan commenced in 1969. ANZ is now the largest Australian bank operating in Japan, and continues to make significant investments. For example, we have added more than 50 staff over the last two years when other financial institutions have been reducing headcount. We opened a new sub branch in Nagoya last year, the first Australian bank to do so.

ANZ Japan is a major facilitator of investment into Australia and two way trade. ANZ has strong relationships with Japan's major trading houses and work with them in Australia and across the region. Our focus is on banking:

- Natural resources
- Oil and Gas
- Infrastructure projects
- Agriculture
- Electronics
- Telecommunications
- Manufacturing
- Diversified industrials

3. *Emerging and possible trends in relations with Japan and ROK*

ROK

The bilateral relationship between Australia and ROK is strong and covers economic and strategic interests. ROK is Australia's fourth largest overall trading partner, and two-way trade was valued at \$25.8 billion in 2009-10.

ANZ notes that the economic relations are complementary and growing. The strengthening in the relationship appears to be in part the result of having a similar approach to international economic governance issues, particularly the G20. We support the government's efforts in working with significant bilateral partners to develop broader, strategic relationships.

Australia and ROK are strong economic, political and strategic partners with common values and interests. Direct people-to-people links between the two countries are increasing and make a significant contribution to the relationship. ROK is Australia's third-largest source of overseas students, after China and India, and tourism links are also strong.

ANZ acknowledges that ROK has embarked on significant trade liberalisation since the 1980s. This has included reducing average tariff rates substantially, and significantly liberalising the services and investment sectors. However, tariffs in some 'sensitive' sectors, particularly agriculture, remain high and restrictions apply across a range of services industries and on investment.

The investment relationship is growing, although it is relatively small when compared to many of Australia's major trading partners. Australian investment has been concentrated in technology-intensive sectors, infrastructure and utilities, financial services and education and training. Korean investment has been focussed mainly in the energy and minerals, retail and manufacturing sectors. For example, through the Gorgon project in Australia, Korea Gas Corporation and GS Caltex had contracted to import LNG 1.5 mtpa (million ton per annum) for 15 years

and LNG 0.5 mtpa for 20 years, respectively. Also, POSCO has purchased 15% share of Roy Hill iron ore mining development project from Hancock Prospecting Pty Ltd based in Australia to assure importing of iron ore.

Japan

ANZ benefits from the strong bilateral relationship between Australia and Japan. The relationship is broad, and includes security cooperation, taxation, nuclear non-proliferation and other issues. Japan is Australia's second largest trading partner in 2010 with two-way trade in goods and services valued at \$66.1 billion in 2009.

Australia and Japan have enjoyed strong trade relationship for many years. While the rise of trade with China sometimes captures most of the headlines ANZ believes Japan will continue to be a very important trade partner in the future. 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. Natural resources continue to be an area of interest but we are also seeing interest in the agriculture and manufacturing sectors.

The recent Great Eastern Japan earthquakes and tsunami had a devastating impact on Japan. While Japan works hard to recover and rebuild, a key issue will be how Japan generates power in the future. Power production levels have been impacted by the closing of Nuclear reactors at Tokyo Electric Power Company (TEPCO). The longer term issue is how Japan will meet its energy needs, particularly if nuclear power is no longer socially/environmentally acceptable.

4. Barriers and impediments to trade and investment with Japan and ROK

ROK

While the bilateral trade and investment relationship is significant and growing, barriers remain in some areas, including services. Services are becoming increasingly important in the bilateral relationship as their extent and importance expands in both countries.

The FTA presents an opportunity to further strengthen Australia's highly complementary and growing bilateral trade and investment relationship with Korea, and deliver gains through closer economic integration.

The Foreign Bankers Group in Korea lodged a submission to Korea's Financial Supervisory Service (FFS) in February 2010 setting out issues we believe should be raised within the context of any negotiations, including:

- **Offshore Data Processing:** Approval allowing financial institutions to transfer data cross-border, allowing regional integration of data processing. We would like to see cross border data transfer (to affiliates and head offices and sister branches) permitted without prior written client consent.

There are a number of separate laws having provisions relating to the protection of personal information. Among these, the most relevant laws to banking business are the Real Name Financial Transactions and Guarantee of Secrecy Act ("the Real Name Act") and the Act on Use and Protection of Credit Information (the "Credit Information Act"). Currently, banks must obtain a 'prior written client' consent before sharing any transaction

information to a "third party" (affiliates and head offices or sister branches are considered "third parties" under the current law)

- **Market Access:** Additional retail branch openings (including security company openings) are subject to approval and, in practice, difficult to obtain. We would like to see a relaxation of license approvals which currently have been subject to "stop-and-go" issuance practice. The current "stop-and-go" practice in the issuance of licenses creates an unpredictable business environment, making it difficult for financial institutions to prepare business plans. Furthermore, during the license re-registration process in early 2009, prior to the FSCMA ("Financial Investment Services and Capital Market Act") implementation, many banks have not been able to retain the full scope of banking products. In short, it has led to a situation where all banks now have a different scope of licenses and have to apply for "add-on" licenses for those products not covered by the re-registration. We seek approval from the regulator to allow any qualified license applicant to obtain any desired license.
- **Business Delegation/Outsourcing:** Share back-office functions across group entities inside and outside Korea. The current enforcement of the Business Delegation Regulations is quite restrictive. Only "non-core" functions can be outsourced / delegated to affiliates. "Non-core" definition is subject to verbal guidance / interpretation by a regulator which has been taking a very conservative stance. Subsidiaries are treated more strictly than branches (even though same regulation applies). We would like to see more flexibility to share IT systems with affiliates ("IT Delegation").
- **Bank Levy Exemption for Trade Finance:** Bank of Korea announced that it decided to introduce a bank levy, which will be effective on 1st August, 2011, as part of its efforts to prevent excessive capital flows from hurting its financial and economic stability.
- **BOK points out that of the various capital flows, overseas borrowing is the most volatile, in particular short-term ones.** Under the scheme, the levy will be imposed on non-deposit short-term and long-term foreign currency liabilities held by all financial institutions. Tax rates will vary depending on debt original maturity with short-term borrowing subject to higher rates. i.e. 20bps for below 1 year, 10bps for 1-3 years, 5bps for 3-5 years, and 2bps for above 5 years.
- **However, imposing tax on less than 1 year foreign currency liabilities for trade finance assets, will likely lead to a decline of the most critical component of the growth engine of international trade.** Therefore, a bank levy exemption for trade finance would be necessary.

Japan

Similarly, in Japan, ANZ acknowledges that the bilateral trade and investment relationship is growing. However, we recognise that tariff barriers remain an issue, particularly in merchandise trade. While agricultural products and food attract significant tariff levels, other sectors also face difficulties.

There are also a number of non-tariff barriers faced by Australian businesses hoping to trade with Japan. For example, quotas and excessive product testing present a hurdle, particularly on dairy, rice and grain.

In addition, regulatory barriers such as the inconsistent interpretation of legislation remain an issue for Australian businesses.

5. *Opportunities for deepening existing commercial links, and developing new ones*

ANZ recognises that there are real opportunities for deepening existing commercial links, and developing new links in both Japan and ROK. We consider the opportunities are exciting and offer real potential for the financial services sector, and trade more broadly.

ANZ supports the Government's approach of negotiating free trade agreements with Japan and ROK. The conclusion of comprehensive FTAs would lead to increased investment and trade flows between Australia and both countries. We also recognise that FTAs generate a positive impact on the business and regulatory culture in our trading partners.

Specifically, 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.

Additional opportunities to enhance the trade relationship with Japan include the potential for ANZ to be the gateway for Japanese trading houses to invest into Australia. While we are currently undertaking this, the growth potential is significant. ANZ has recognised the opportunity to partner with development banks (e.g. JBIC - Japan Bank for International cooperation) and we have started to make progress in this regard.

6. *The role of the government in identifying new opportunities and assisting ANZ to access existing and potential opportunities*

ANZ greatly appreciates the support provided by Australian embassies in Seoul and Tokyo, and by the Department of Foreign Affairs and Trade in Canberra.

We consider the government's commitment to pursuing comprehensive FTAs with both Japan and ROK is paramount. These agreements will complement the government's effort in multilateral and regional trade negotiations.

In addition, ANZ supports efforts to enhance strategic and people-to-people links with both Japan and ROK. The enhancement of bilateral relationships is not the role of government alone. We see a role for Australian businesses to 'step up' and enhance the business to business links.

Conclusion

ANZ appreciates the Committee's focus on the trade and investment relationship with Japan and ROK. ANZ supports the Government's approach of pursuing bilateral free trade agreements to complement the WTO Doha Round. We believe it is important for Australian exporters and the Government continue to work together to pursue market access, noting the significant resulting benefits. ANZ is interested in supporting in and/or participating in initiatives aimed at deepening and promoting Australia's trade and investment links to Japan and ROK, including through any joint Government-industry working groups.