



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:
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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.