

Chapter 3 Trade Relations

It is appropriate that in this report considerable emphasis should be placed on the trading relations between the two countries. Nevertheless, to give a sense of perspective the Committee considered it useful to include the illustration appearing on the opposite page of Japan's trading on a global basis.

Japan is now Australia's largest export market absorbing 27.8 per cent of goods exported in 1971-72 at a value of \$A1,360 million. The balance of trade between the two countries is greatly in Australia's favour, approximately in the ratio of two as to one. Imports from Japan for the same year were valued at \$A629 million, or 15.7 per cent of all Australian imports, placing Japan as the third largest supplier of goods to Australia after the United States and Britain.

It is a matter of historical interest that the first trading between Australia and Japan occurred in 1859 when Alexander Marks, a Melbourne merchant, established a business in Yokohama—this was the year Yokohama was opened to foreign trade. The Committee received as part of the submission made to it by the Department of Trade and Industry an excellent historical summary of trading relations between Australia and Japan which warrants publishing in full and therefore appears as Appendix IV to this report.

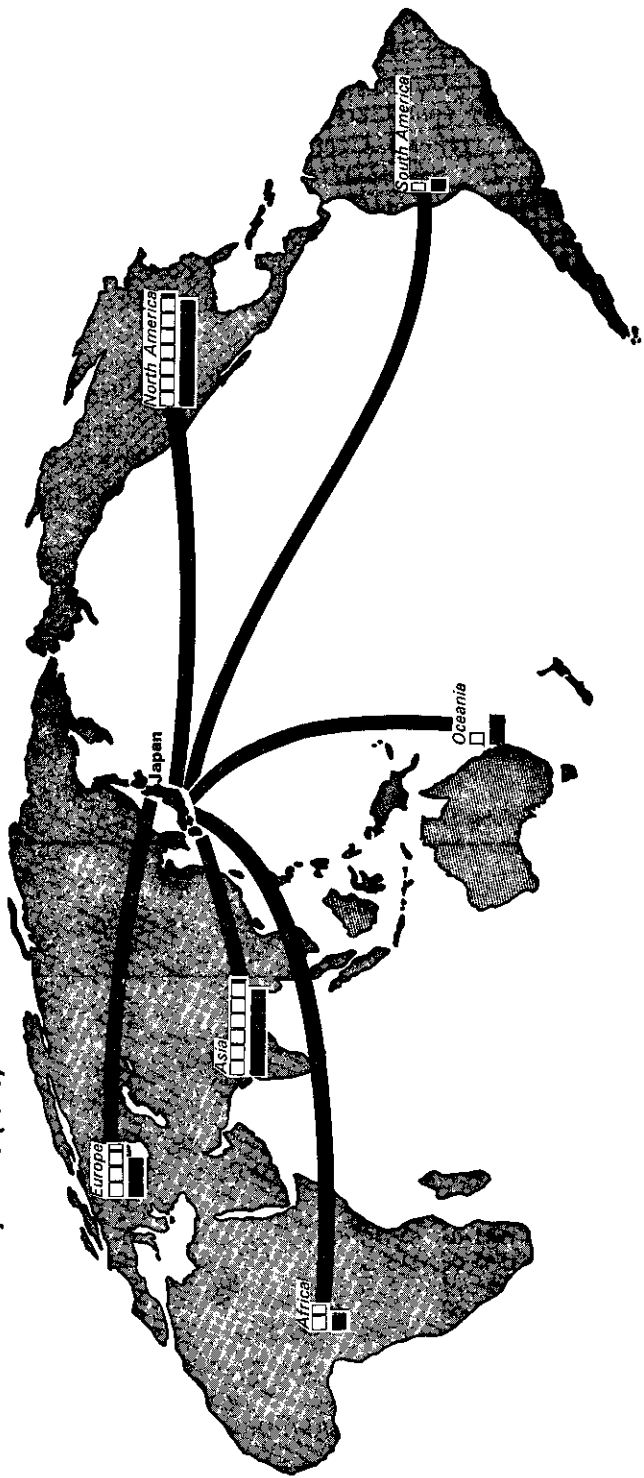
Agreement on Commerce

The significant event of recent times to stimulate the growth of two-way trade between the two countries was the Australia-Japan Agreement on Commerce signed in July 1957 and reviewed in 1963. Trade between the two countries is therefore governed both by the rules of the General Agreement on Tariffs and Trade, to which both parties are signatories, and by the bilateral Agreement on Commerce. The latter agreement recognises that the rights and obligations of GATT have full application to both parties. Briefly, the Agreement on Commerce provides for:

- the accord of Most-Favoured-Nation tariff treatment to each other;
- the granting of more liberal access to the Japanese market for a number of Australian agricultural products;
- duty free entry of wool to Japan for the first three years of the Agreement—subsequently under the 1963 amendments Japan undertook not to impose a duty on wool unless circumstances changed markedly;
- full and regular consultations; and
- Japan to have equal opportunities with other countries in overseas purchases made by the Commonwealth Government.

The Agreement on Commerce was at first greeted with mixed

External Trade by Areas (1970)



□ Exports (1,000 million dollars)
■ Imports (1,000 million dollars)

(Courtesy of the Japanese Embassy, Canberra)

reactions in Australia. Industry, as represented by the Associated Chambers of Commerce, welcomed the Agreement; manufacturers doubted whether sufficient safeguards existed; and the trade unions feared the Agreement constituted a threat to established Australian industries and consequently represented a danger of unemployment to Australian workers. Consultations between representatives of both countries were held annually under the terms of the Agreement until 1963 to review progress. These reviews indicated a satisfactory state of affairs, trade continued to flourish and apprehensions expressed when the Agreement was signed proved to be unfounded. More recently, these reviews have been replaced by informal talks on specific matters as the need arises.

Levels of Trade

Tables G and H show the value of Australian imports from and exports to Japan for each year since the signing of the Agreement on Commerce in 1957, and show also the consistent balance of this trade in Australia's favour. It should also be noted that in each table the values shown are f.o.b. basis.

These tables show very clearly the consistent increase in the levels of trade. On only two occasions since 1957-58 has the annual figure for Australian exports to Japan failed to exceed that of the previous year; also, over the same period imports from Japan have shown an annual increase on all but one occasion. Mention has already been made of the fears expressed from time to time on the danger of Australia becoming over-dependent on Japanese markets for its exports.

Table G: Australian Imports from Japan

	<i>Total (\$A million f.o.b.)</i>	<i>As percentage of Imports from all Sources</i>
1957-58	47.6	3.0
1958-59	59.9	3.8
1959-60	83.1	4.5
1960-61	130.9	6.0
1961-62	99.0	5.6
1962-63	129.4	6.0
1963-64	162.5	6.8
1964-65	258.6	8.9
1965-66	280.2	9.5
1966-67	296.0	9.7
1967-68	343.3	10.5
1968-69	414.7	12.0
1969-70	481.2	12.4
1970-71	573.6	13.8
1971-72	628.6	15.7

Source: Department of Trade and Industry.

Table H: Australian Exports to Japan

	<i>Total (\$A million f.o.b.)</i>	<i>As percentage of Exports to all Destinations</i>
1958-59	204.6	12.6
1959-60	269.3	14.4
1960-61	323.0	16.7
1961-62	373.8	17.3
1962-63	346.2	16.1
1963-64	487.8	17.5
1964-65	440.7	16.6
1965-66	470.4	17.3
1966-67	586.5	19.4
1967-68	642.1	21.1
1968-69	822.1	24.4
1969-70	1,025.2	24.8
1970-71	1,190.7	27.1
1971-72	1,360.2	27.8

Source: Department of Trade and Industry.

In this regard, one witness strongly urged that Australia should avoid a repetition of the degree of reliance which was formerly placed on the British market as an outlet for Australian exports with the consequences which followed Britain's negotiations for entry into the European Economic Community, particularly for a variety of agricultural products. His solution was the conscious diversification of markets to the greatest possible extent. The Committee strongly supports the idea of diversification, and is aware of the business and government efforts being directed towards this end. It would favour the Trade Commissioner Service being assured of whatever additional support may be necessary for this task, and in this connection it welcomes the Minister for Trade and Industry's statement on 21 August 1972 that there is to be a strengthening of the Trade Commissioner Service in the expanded EEC. Although not related to its current investigation into Japan, the Committee holds the view that, despite the frequently repeated suggestion that the EEC may be a closed community, vigorous investigation would show areas where openings for Australian exports might be both possible and profitable. It was timely that when it became apparent that alternative sources of export income would need to be found by Australia to replace the loss of the British market and the decline in the value of rural products, Japan's industrial development was gaining momentum. An alternative outlet for many of our commodities was thus provided and export income was sustained, and later increased substantially by the development of mineral and other resources to meet the Japanese market.

Traditionally, wool has been the major Australian export to Japan, but in 1970-71 it took second place to iron ore and concentrates. The

relative values were wool, \$A198 million, iron ore and concentrates, \$A329 million. In part, the explanation for this reversal lies in the fact that wool prices declined in that year while exports of iron ore and concentrates reached record levels. The scale of the iron ore development has captured the public imagination and it is iron ore which has assumed a glamour role. It must be remembered, however, that rapid increases in export income in the past five years have also been derived from a wide range of other minerals and metals, some manufactured products and substantial quantities of agricultural commodities.

The submission of the Department of Trade and Industry also included tables showing the significance to Australia of Japan as an outlet for agricultural products, minerals and metals, and the relationship of the Japanese market to other Australian markets; they also show Australia's position in relation to other suppliers of similar products. Because of their interest the tables have been included as Appendix III. In summary, they establish an order of importance for major exports to Japan in 1971-72 on a value basis as being:

Iron ore and concentrates	\$A326.3 million
Wool, greasy	217.8 million
Coal	198.4 million
Wheat	72.1 million
Sugar	56.3 million
Sorghum	47.4 million
Beef and veal	44.6 million
Mutton and lamb	28.5 million
Copper ore and concentrates	26.1 million
Prawns, shrimps	17.9 million
Aluminium, unwrought	16.3 million

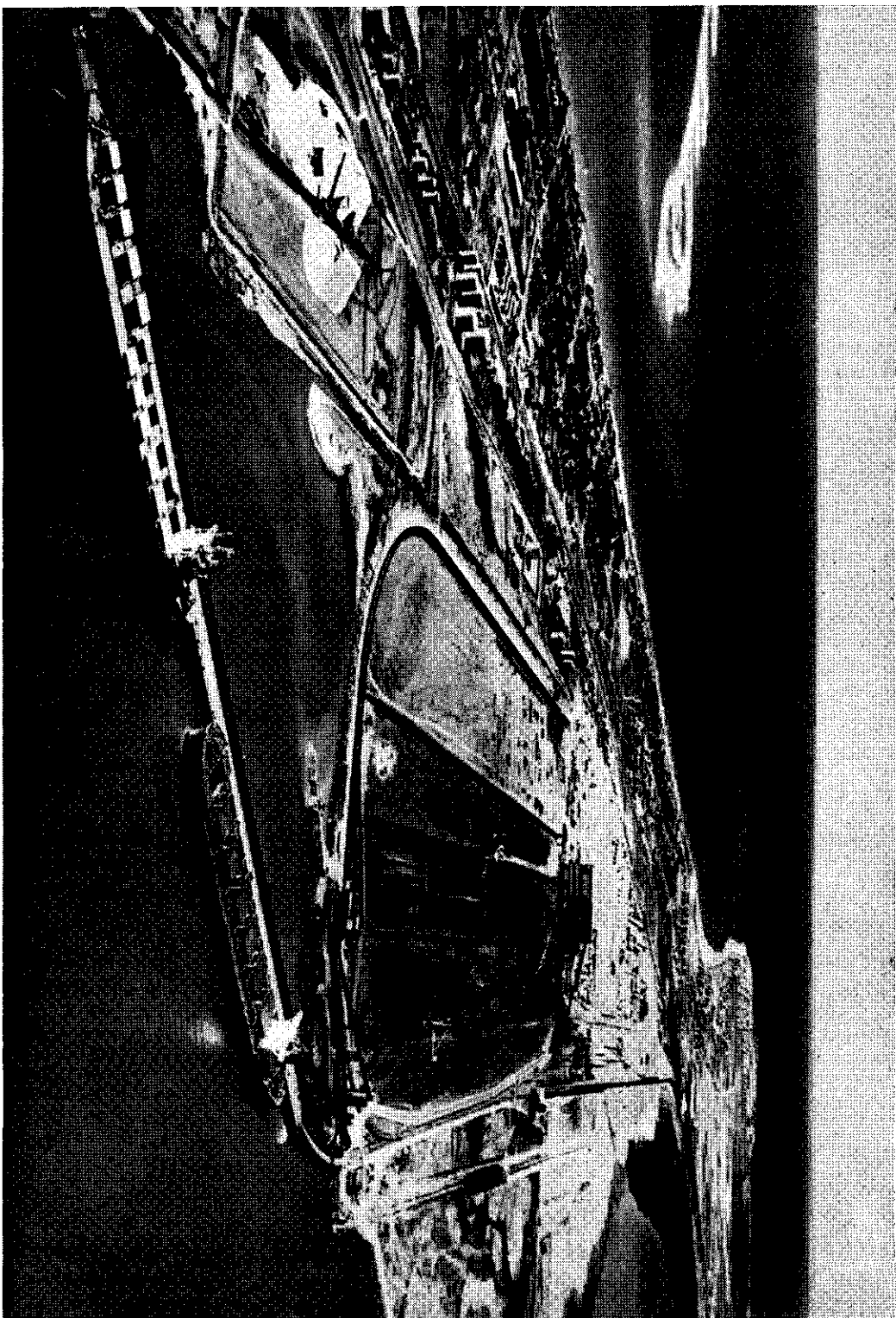
Export Commodities

Minerals and Metals

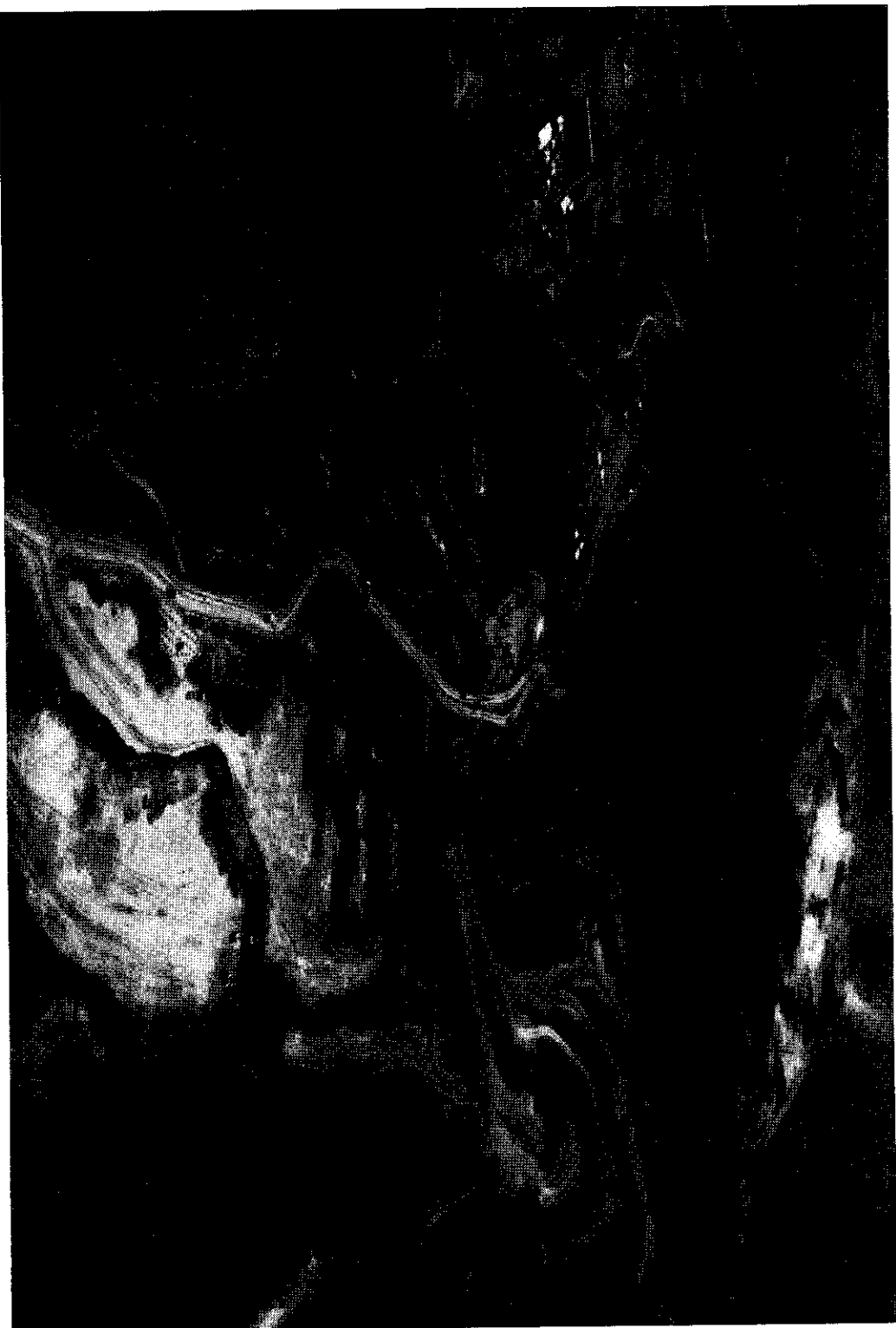
From the discovery of coal in the earliest days of European settlement in New South Wales, knowledge has been accumulating of how favourably Australia is endowed with mineral resources, but it was the rapid exploration and development programmes of the decade 1960-70 which established the mineral industry as Australia's largest growth industry. The changing situation for Australia is summed up in the following extract from the evidence presented to the Committee by the Department of National Development:

The sixties saw Australia's mineral industry advance from a total value of production in 1960 of \$363 million to \$1,447 million in 1970, and from an export value of \$204 million in 1960 to \$1,148 million in 1970; from a position of having no commercial petroleum in 1960 to the point where it is currently producing more than 60 per cent of Australia's oil requirements and as well has a thriving natural gas industry; from a position of having no known nickel deposits, practically no bauxite production, limited iron ore and manganese production, and no export of iron ore and minimal exports of coal, to its present state of adequacy of supplies or even abundance in all these resources except that we still need further significant petroleum discoveries to ensure continuity of even the present degree of self-sufficiency in crude oil.

The Department also provided with its submission an Australian mineral resources map showing the location of known mineral deposits, mines, processing plants and ports associated with the export of



Port Hedland. Two ships, each with a deadweight of more than 100,000 tons, berthed at the Mt Newman wharf. Photograph by courtesy of Mt Newman Mining Co. Limited.



View of Mount Tom Price showing scale of iron ore mining operations. Photograph by courtesy of Hamersley Iron Pty Limited.

minerals and this has been reproduced for convenient reference as Appendix V. As stated in the above quotation, the total value of Australian mineral exports reached a figure of \$A1,148 million in 1970. The dominant position of the Japanese market is clearly shown in the following table of destinations of mineral exports published by the Bureau of Mineral Resources in the Australian Mineral Review 1970:

	percentages by value
EEC	9.81
United Kingdom	11.96
United States	12.05
Japan	54.03
Other	12.15

It is not only in Japan that consumption of minerals has been increasing, for world consumption has risen at a rate of about 4.5 per cent per annum. Nevertheless the Japanese rate of increase has been two or three times that of other industrial nations and it is now the world's largest importer of iron ore, coking coal and crude oil, and also of lead, zinc and nickel in ore and concentrate form. The increasing world demand for minerals cannot be regarded in isolation as creating favourable circumstances for the Australian mining boom of the 1960s. Other contributing technical and economic factors have been:

- the technical advances in the exploration, production and processing of minerals;
- improved methods of bulk transport
- the long term purchase contracts which have enabled the establishing and financing of new, large scale mining ventures, and
- the economies of large scale production.

Iron Ore

Iron ore exports from Australia were banned between 1938 and 1960, it being believed in 1938, in the absence of knowledge of the extent of resources, that this measure was in the interests of conservation. The ban was partially lifted in 1960 in an endeavour to stimulate mineral exploration and this quickly resulted in it being established that enormous quantities of iron ore of high quality existed, especially in the Pilbara region of Western Australia. Both Australian and overseas corporations showed great interest in the developing of these deposits with a view to supplying the Japanese market and as a result of the discoveries made the export ban was lifted completely, with the Government retaining an oversight of export prices as the only purpose of export control. With a growing market being in the interests of both Australia and Japan, negotiations were opened for long term contracts and this was a significant departure from the custom elsewhere of yearly contracts. Advice has been received that European steel producers, convinced of benefits to be derived, are now approaching contracts on a long term basis for their ore supplies. The first of the Australian long term iron ore contracts with Japan was negotiated in 1963 for the

supply of Koolanooka (Western Australia) ore and was the forerunner of many others of a similar nature, some covering delivery as far forward as 1992. At the end of 1971 some 717 million tons of iron ore remained to be delivered under all contracts then in existence with Japan. In the 1960s, Australia's export income from minerals and mineral products, as a proportion of total export income, rose from 8 per cent to 29 per cent.

Despite this general growth of iron ore production and exports from Australia during the 1960s, the market did have its problem periods. In the second half of the decade there was a general downward trend in world prices, brought about by the increase in the number of iron ore suppliers and by a partial slowing down in the growth rate of demand. Japan was exceptional in that demand continued to expand in that country. A general increase in demand on the world market occurred during 1968 and in 1970 prices improved. Some Australian companies were able to benefit from the situation and negotiate new contracts at higher prices. Buoyant conditions remained during 1970-71, but owing to the combination of the circumstances of a recession in the steel industry in Europe and the United States of America and the enforced cut-back of steel production in Japan, demand for raw materials declined in 1971. The Japanese mills proposed to exercise options in their contracts with Australian suppliers to reduce the volume of contracted quantities of iron ore at a time when producers had been planning increases. In addition, some of the Japanese mills reached agreement with Australian producers to deliver less than minima stipulated under the contracts. After protracted negotiations the end result is that total exports for 1972 will fall little if at all below the volume for 1971. This adjustment did, of course, disrupt programmed production of producers and affected commitments they had already made. Further problems arose from the international monetary crisis and the subsequent changes in currency rates. Under the Australia-Japan contracts, prices had been negotiated in United States dollars and the consequence of currency realignments was that Australian producers received approximately 6 per cent less for their production. In the cases of those companies which had made capital borrowings in United States dollars, there would be an offsetting advantage in payments of interest and repayments of capital. The operation of long term contracts is the subject of further comment later in this chapter.

It is the Committee's view that just as the market provided for iron ore by Japanese steel mills may be expected to be a continuing one, so Australia can continue to seek export opportunities in Japan and other world markets for many years to come without fear of depleting its resources beyond a safe margin for its future needs. In support of this view is the fact that exports of iron ore to all destinations in 1971-72 totalled 50 million tons, when it has already been established that reserves of high grade ore in the Pilbara region alone are of the order of 20,000 million tons. However, this does not mean that there

should be any lessening of the efforts in mineral exploration and proving programmes, which are discussed later in this chapter under the heading of 'Resources Policy'.

Coal

Australia's current production of coal is estimated at 50 million tons a year with a pit top value alone of about \$A250 million. Steaming coal, used for energy generation, is in ample supply with very significant long-range reserves. The proven reserves of coking coal, used for steel production, are smaller but significant.

The main producing areas are New South Wales, where output in terms of raw coal has doubled since 1960 to about 35 million tons per annum, and Queensland, where there has been a recent spectacular increase from 2.6 million tons to over 10 million tons and this figure is increasing rapidly. Victoria has extensive supplies of brown coal and production there has risen over the decade from 14 million to about 23 million tons per annum. Victorian brown coal deposits are, however, used almost exclusively for domestic power generation. Japan, on the other hand, is deficient in coal resources—production in 1970 totalled 40 million tons, of which one quarter was high volatile coking coal and the balance steaming coal. Japanese coal has a high sulphur content, undesirable because of high polluting qualities, and the custom has been to blend it with imported coals of better quality.

Japan has been pursuing a determined policy of seeking alternative forms of energy-producing fuels and is now using large quantities of petroleum and, more latterly, natural gas, with the result that between 1960 and 1969 the percentage of coal used for power generation was reduced from 35 per cent of the total to 2 per cent. Additionally, Japan is in the forefront in usage of uranium for power generation purposes. Therefore, it is in the field of coking coal used in steel production that the greatest prospects for exports from Australia exist, although the Committee has been told of technological advances being made in the transformation of steaming coal to a form suitable for use in steel production. Indeed, some experts even assert that in the decades ahead new steel-making processes will drastically reduce, and even virtually eliminate, the use of coal for thermal purposes in steel-making. A report published by the Japanese Ministry of International Trade and Industry, however, has indicated that by 1975 Japan will be dependent on imports for over 80 per cent of its coking coal needs.

Increases in Australian coal production have been principally of coking coal destined for export. During the 1971 Japanese fiscal year (April 1971 to March 1972) exports to Japan reached their highest point—a total of almost 18 million tons. There is every reason to expect that Japan will continue as a regular market, since Japanese importers have indicated that they propose to accept not less than 21.6 million tons during the Japanese fiscal year ending March 1973. Evidence before the Committee estimates that Australia can reasonably expect to retain a share of 35 to 40 per cent of the Japanese market.

The increase in production of New South Wales coal has been

achieved largely by modernisation of mines rather than the opening of new mines. By contrast, in Queensland the situation changed dramatically from the mid-1960s with the opening up of large open cut mines in the Bowen Basin. As with the development of new iron ore deposits elsewhere in Australia, the Bowen Basin development has been assisted by long term contracts with Japanese steel mills for the supply of high quality coking coal.

The Annual Report for 1970-71 of the Joint Coal Board included a table which illustrated the production of black coal in New South Wales and Queensland for 1970-71, together with the figures of the local and export markets and details of exports specifically to Japan. This table is reproduced below.

Table I: Australian Black Coal—1970-71
(million long tons)

<i>State</i>	<i>Saleable Production (a)</i>	<i>Consumed in Australia</i>	<i>Exported Overseas</i>	<i>Exported to Japan</i>
New South Wales	30.621	17.965	11.795	9.025 (76.5%)
Queensland	10.947	3.775	6.865	6.827 (99.4%)
Others	2.882	2.834
Total Australia	44.450	24.574	18.664	15.856 (85.0%)

(a) excludes rejected material arising from coal washing.

As with iron ore, the Committee believes that exports of coal on a substantial scale can safely be continued as known reserves of coal in New South Wales and Queensland have been estimated by the Bureau of Mineral Resources at nearly 24,000 million tons. This is not to deny the need for the continuation of research, the proving of further deposits and the establishment of an effective conservation policy for coal as for other energy producing materials. Action has already been taken by the New South Wales Government to reserve areas of low cost, well situated coal for power generation and local steel production and one such reservation has already been made for power generation supplies by the Queensland Government.

*Other
Minerals*

Lead and zinc form the basis of long established industries in the Australian scene and considerable processing of the ores has taken place in Australia for more than half a century, more than meeting all Australia's needs. In 1970, 80 per cent of production of 435,000 tons of lead in concentrates was processed to refined lead and lead bullion and 60 per cent of mine production of 440,000 tons of zinc in concentrates was processed to metal. In mine production Australia holds second place in the world in lead and third in zinc and is a major world exporter.

Since 1960, when Japan returned to its pre-War status as an industrial power, most major industrial nations have experienced an almost

uninterrupted period of buoyancy leading to an increased demand for lead and zinc. Demand for these two minerals has also been growing in developing countries. To meet this increased demand world producers increased production and in the period 1960-70 Australian production increased, in terms of metal content of lead, from 308,163 tons to 435,156 tons and of zinc from 317,408 tons to 440,696 tons. Two features of Australia's exports are the high percentages shipped in partially or fully processed form and the diversity of markets. Japan has been a prominent purchaser. Export prices are related to sales on the London Metal Exchange and the downturn in economic activity in the main industrial economies, plus anti-pollution pressures in 1971, caused a lowering of prices—substantial in the case of lead—and of production throughout the world, but prices had fully recovered in 1972.

For copper, Australian production rose from 109,000 tons in 1960 to 155,000 tons in 1970. During this time the value of this production rose from \$A50.7 million to \$A150.9 million. Expansion in copper mining operations was motivated by growing demand in both the domestic and overseas markets, with Japan being the outlet for the bulk of Australian exports. In 1970-71 these amounted to almost 132,000 tons of copper concentrates, valued at \$A30.6 million; 5,396 tons of refined copper, valued at \$A5.4 million; and 6,862 tons of blister copper, valued at \$A9.2 million. Controls are exercised over the export of the various forms of copper to ensure that domestic needs of refined copper are first met before exports take place.

Tungsten is produced in modest quantities, principally in Tasmania, but Australia is the sixth largest producer of tungsten ores in the free world. Total tungsten content of ores produced in 1970 was 1,245 tons, of which about 50 tons was used in domestic consumption for the production of tungsten carbide for tool tips. The remainder was exported in the form of scheelite and wolfram concentrates. In 1970, Japan took 169 tons of concentrates valued at a little over \$A500,000.

During the 1960s Australia continued to be a major world producer and exporter of mineral sands—rutile, zircon, monazite and ilmenite. Export control has been in existence since 1944, with exports of high grade concentrates only being approved. Again, Japan was a substantial importer from Australia of these products.

Manganese, used in the manufacture of steel, has also seen a rapid increase in production from about 60,000 tons per year in the early 1960s to over 700,000 tons in 1970. The increase has gone principally to the export market, with Japan taking about 75 per cent of exports in 1970, but substantial sales have also been made in Europe and the United States of America. Exports have increased to 620,000 tons at a value of \$A11.7 million in 1970.

Bauxite-aluminium production has increased tremendously, with Australia changing from a position of being unable to meet domestic requirements to that of being one of the world's major sources of bauxite and alumina and a net exporter of aluminium. In 1970-71 bauxite

production amounted to 10.9 million tons and Australia has three refineries for the processing of bauxite to alumina and three smelters to smelt aluminium metal. Aluminium consumption in Australia in 1970 was about 120,000 tons, having grown in the decade at an average annual rate of 12½ per cent. Exports to Japan of bauxite, alumina and aluminium taken together have been estimated at 30 per cent of exports of these items, with an f.o.b. value of about \$A55 million. In the Northern Territory, where complete authority is exercised by the Commonwealth Government, proposals were invited in 1964 for the development of the main bauxite deposits at Gove and part of the proposals involved the successful applicant entering a commitment for an alumina plant in the Northern Territory of not less than 300,000 tons capacity per annum. Subsequently the successful company established this plant, which it is proposed to expand by mid-1973 to an anticipated production capacity of one million tons per annum. Another condition of the agreement was that the company was obliged to study the feasibility of erecting an aluminium smelter.

Nickel was imported into Australia to meet domestic industrial requirements until the substantial discoveries in Western Australia in the 1960s. As a result of these discoveries domestic production in 1970 reached 30,000 tons of nickel in concentrates from ore mined in three mines in the Kalgoorlie area, and Australia now ranks fifth in the world in mine production for nickel. A further large scale project is expected to begin in Greenvale, Queensland, in 1974. Japan has negotiated a long term contract for the purchase of Western Australian nickel concentrate and is participating financially in the development of the Greenvale project.

Natural gas and liquefied petroleum gas production has increased rapidly in recent years. Already the Bureau of Mineral Resources has stated that proven recoverable reserves of natural gas exceed 13.94 million million cubic feet and continuing exploration is confidently expected to establish further supplies. By the end of 1971 the capital cities of Brisbane, Melbourne, Adelaide and Perth were being supplied and the expectation is that Sydney will receive supplies in the near future. These supplies are transported by pipelines from fields hundreds of miles from each of the city centres. Announced Government policy is that exports will not be permitted until Australia's needs are reasonably provided for, but that consideration would be given in cases where natural gas may be available in remote regions where it could not be expected that a significant Australian market would be found. It is understood that one application for permission to export from a Northern Territory source is under consideration. Japan has shown great interest in obtaining supplies of natural gas in liquefied form, which has decided advantage as an alternative source of energy because of its non-polluting qualities.

Liquefied petroleum gas production is normally more than adequate for domestic requirements and is not subject to export control. Local sales in 1971 amounted to 315,000 tons and exports to 590,000 tons.

Salt production until recent years was little more than that required for the domestic market and, because of its low value in comparison with freight costs, the ability of Australia to market this commodity overseas was limited. For example, exports were slightly less than 88,000 tons out of a total annual production of just over 700,000 tons in 1967. However, Japan has since provided a substantial market which has been aided by improved bulk transport methods, and in 1971-72 exports to Japan totalled 2.3 million tons at a value of \$A6.9 million. The advent of Japan as a substantial market has led to a considerable expansion of the industry in Western Australia, where facilities, existing and planned, are able to produce in excess of 10 million tons, a capacity much greater than the export market is likely to require for some years.

Uranium

Uranium production declined in Australia following a diminishing need for its use for defence purposes and it was the emergence of nuclear power for the generation of electricity which revived production. World demand for electricity has been constantly growing and there is every likelihood that by the turn of the century sources of traditional fuels will be unable to cope with this demand. It was the realisation of this and the technological advances in nuclear power as a source of energy that encouraged further uranium exploration and development of resources. It is now estimated that Australian reserves exceed 100,000 short tons of uranium oxide with additional deposits still being discovered.

In technology the development of nuclear power had many barriers to overcome and although now being produced in limited commercial quantities problems still remain to be solved—nevertheless a significant growth is expected in the next ten to twenty years. With the proposed increase in nuclear generating capacity, consumer countries have been contracting for supplies of uranium oxide some years ahead of their demands. From this a problem arises of a world situation of over-supply and depressed market prices—prices inadequate to encourage and sustain an exploration programme of the scale needed to meet anticipated demands in the 1980s. Forecasts for the uncommitted world uranium market up to 1980 amount to 75,000 tons, of which 25,000 tons is expected to be contracted for by 1977.

Japan has shown great interest in Australia as a source of uranium ore and possibly enriched uranium and has already joined Australia in an agreement for co-operation in the peaceful use of atomic energy—an agreement which opens the way for co-operation at the commercial level and establishes procedures under which this co-operation will be continued. The indications are that by the year 2000 Japan may be producing half or more of its enormous energy requirements through the use of nuclear power and figures published by the Japanese Ministry for International Trade and Industry have assessed cumulative demands for uranium oxide at 48,000 tons by 1980, 200,000 tons by 1990 and 420,000 tons by the year 2000. Already several contracts for the supply of uranium oxide have been signed between Australian producers and

Japanese consumers to which Australian Government approval has been given. The contracts cover limited quantities to be supplied over an extended period with deliveries commencing several years hence.

The earlier types of nuclear reactors used natural uranium which imposed restrictions on reactor design, but in later developments the use of enriched uranium has shown such advantages that the majority of reactors now in use and under construction have been designed for the use of this fuel. The advantages are such that in looking ahead it is clear that there will be a need for vastly increased enrichment capacity in the world, but this can be achieved only at enormous cost and requires a location having ample supplies of cheap power, water and other resources including, of course, the natural uranium deposits. It has been suggested to the Committee that for one of the known enrichment processes an approximate order of cost for such a project would be \$A1,000 million. However, advances in technology are being made which could affect the options open to Australia. It has been suggested to the Committee that it may not be until 1976 that sufficient information is available on alternative enrichment processes for the best decision to be made. It will require fine judgment to decide whether to proceed now on the basis of existing information in order to be ready to meet an upsurge in the demand for enriched uranium expected about 1980, or to defer a decision until about 1976.

Japan is interested in Australia as a possible future source of enriched uranium and the costs and benefits of such a development need to be carefully weighed. In association with French advisers, the Department of National Development has been making a feasibility study of technical and economic aspects. No commitment has yet been made, although a recent announcement invited interested parties to submit proposals for developing such a plant, with the information arising from the feasibility study being made freely available for consideration in the development of proposals.

A witness eminent in this field drew to the Committee's attention the forms of control exercised by some overseas countries, such as the British Nuclear Fuel Corporation, and recommended a control organisation for Australia. In elaboration of this proposal it was suggested that a variety of alternatives for the composition of such a corporation existed—Government operation, a joint Government venture with private companies, or a consortium of companies with policy guidelines laid down by the Government. The function of the corporation as suggested to the Committee would be to handle all uranium marketing, lay down programmes for production and exploration and organise the processing of uranium to more valuable levels. Such an arrangement of the industry, it was said, would enable the presentation of a united marketing front to buyer countries to ensure a fair price. It is the Committee's view that, should the decision be taken to commit to construction a uranium enrichment plant on Australian soil, control should remain in Australian hands whatever form of financing

is adopted. In any event, firm control should be maintained on the level of usage of this valuable energy source.

Despite the protection afforded to agricultural industries in Japan, the market for a variety of imported foodstuffs has increased considerably and may be expected to continue to expand in the 1970s. Improved incomes, changes in taste, population growth and physical restraints on domestic production in Japan have all contributed to an increasing dependence on imported supplies. It is fortunate for Australia that it was able to participate in this growing market at a time when outlets for rural surpluses were declining following Britain's projected entry into the EEC. The Australia-Japan Agreement on Commerce provided an assurance of improved access for Australian agricultural products to the Japanese market and a later slow but progressive liberalisation of import restrictions served to stimulate a worthwhile outlet for a number of Australian rural commodities.

These conditions did not necessarily apply to wool, which was the one exception. Japan has been one of Australia's traditional wool markets. However, the Agreement on Commerce did improve the situation to the extent that it promoted a duty free import of wool for a period of three years and this concession was subsequently extended on a permanent basis. For a long time wool was Australia's major export commodity to Japan, but this has now been supplanted by minerals. Nevertheless, there is no reason to suggest that wool exports will not continue at a high level with the 1970-71 decline in wool prices now reversed. The value of wool exports to Japan in that year was only \$A198 million, with an increase in 1971-72 to \$A220 million and considerably higher figures expected for 1972-73. These purchases represent 80 per cent of the wool used by the Japanese textile industry.

The changing pattern of food consumption in Japan has greatly increased the use of wheat as a bread grain with consequent substantial increases in wheat imports. Japan relies almost exclusively on the United States, Canada and Australia for its imports and the Australian share of this market reached its highest level of 29.4 per cent in the Japanese fiscal year ending March 1972. For the crop years (ending November) 1969-70 and 1970-71 Japan ranked third in Australia's wheat export markets, taking over 11 per cent of Australian exports in those two years. The value of this market in 1971-72, when Japan took an even higher proportion of Australian exports, was \$A72.1 million. Because of excess milling capacity in Japan the country does not provide any outlet for Australian flour. In view of the desirability of diversification of Australia's wheat outlets, exports to Japan provide a stable and continuing market which should be preserved.

Sugar exports to Japan from Australia commenced in 1954 on a fairly modest scale, but with slow growth these stabilised at an average of about 120,000 tons per annum during 1957-60. With the collapse of the International Sugar Agreement in 1961 the opportunity was

taken to export further quantities to Japan and sales jumped to about 280,000 tons. This stimulated expansion of the Australian sugar industry between 1964 and 1966 and Japanese imports from Australia grew to more than 600,000 tons. At the same time, other markets developed and a new International Sugar Agreement was negotiated in 1969. Since that time Australian exports to Japan have stabilised within the range of 500,000 to 600,000 tons per annum. The value of sugar exports to Japan in 1971-72 was \$A56.3 million and represented 27 per cent of Australian sugar exports. This has been a mutually satisfactory arrangement because it has provided a steady market for the surpluses following the expansion of the industry between 1964 and 1966 and, from Japan's point of view, it is difficult to see how Japanese requirements could have been met, at least in certain areas, without this source of supply. Japan is dependent on Cuba, Australia and South Africa for a large proportion of its sugar requirements.

An unusual feature of the Australian marketing arrangement is that the Colonial Sugar Refining Company Limited is the marketing authority for all Australian raw sugar exports. This is an arrangement involving close association with government and, on the advice available to the Committee, has been operating satisfactorily to all parties.

Meat exports to Japan have shown a steady increase since 1964 and have accelerated greatly since 1969-70. The situation has reached the stage where Japan is now Australia's second most important meat export market after the United States. It is confidently expected that Japan will continue to be a growth market during the 1970s. Mutton and beef are the principal commodities and it is the beef market which is expected to provide the major source of growth. Australian exports of mutton now comprise over 50 per cent of Japan's import requirements and it is expected that Japan will remain Australia's major export customer although the growth in demand is unlikely to rise as dramatically as that for beef. Until mid-1970 Australia's beef trade with Japan was mainly in frozen form and did not entirely suit the handling and merchandising procedures of retail butchers. However, the introduction of container shipping services made possible the development of trade in chilled beef cuts, which admirably suit the Japanese market. Australia now supplies about 90 per cent of Japan's total beef import requirements, which amounted to 44,000 tons in 1971-72, and, on estimates provided to the Committee, are expected to reach 100,000 tons per annum by 1975. In 1971-72 beef and veal exports were valued at \$A44.6 million and mutton and lamb at \$A28.5 million. The Japanese market is exceedingly complex, with unique distribution systems which need special attention by Australian exporters if the success achieved to date is to be continued. The Committee was greatly impressed by the methods being pursued by the Australian Meat Board to cultivate expansion of the Japanese home market.

Other grains, mainly feed grains of sorghum and barley, have worthwhile outlets in Japan, as do a number of lesser exports such as prawns, shrimps, malt, tallow, cattle hides and skins, eggs, cheese and casein. There has been little opportunity to develop a market for fresh fruit and vegetables, principally because of the stringent quarantine regulations imposed on imports into Japan.

Manufactures

As with most industrial countries, Japanese tariffs are structured so that generally the duties increase with the degree of processing. This, coupled with Japan's major interest in processing industries, does not make access to the market for manufactures, either processed or partly processed, easy. However, as indicated earlier, some progress has been made in the supply of partly processed minerals, and the Committee believes that this is an area to which further attention should be directed. Already there is a trend developing that Japan may, because of industrialisation and pollution problems, provide an increasing market for partly or wholly processed minerals. Meanwhile, however, the Committee sought but was unable to obtain clear evidence on the relative economics of continuing the emphasis on raw material exports as against processed or partly processed minerals. It believes that there is an urgent need for cost-benefit studies to be undertaken to determine what economic advantages would accrue from processing or part processing of minerals for export as compared with the export of the raw materials.

In the matter of other manufactured items, the market prospects should not be dismissed merely because Japan is a giant manufacturer. Already indications exist that a number of manufactures are finding a market in Japan. Apart from alumina, which represented, in 1970-71, one-third of manufactures valued at \$A67 million exported to Japan, the balance represents a wide range of products. The Department of Trade advised the Committee that experience in Japan resembles the experience gained in the export of manufactures to the United States—another industrial economy—which in 1971-72 totalled \$A143 million. In both countries the range of manufactured products supplied by Australia is extremely wide, even if many are individually comparatively small in value. For example, the Committee was told that many of the individual items of manufactured goods exported to America came within a figure of less than \$50,000 a year, but collectively these items provide a substantial export income.

Woodchips

Woodchip exports for Japan's pulp and paper industries are the latest considerable export market Japan has provided for Australian products. Exports commenced in January 1971 and four woodchip projects have received export approval. One project is in New South Wales, another in Tasmania, and two additional projects in northern Tasmania are under construction. Export control is exercised to ensure that an adequate price is received, that a reasonable degree of processing will be undertaken in Australia and as an encouragement to reforestation. All four projects have an obligation to study the feasi-

bility of further processing and to undertake the processing to pulp if this is proved practicable. It is expected that exports will approximate 3.3 million tons a year from 1975 and at that time are expected to reach a value of approximately \$A49 million per annum.

Shipping

A feature of the Australian export trade has always been the heavy reliance placed on overseas-owned vessels for the transport of goods. One witness suggested that external influences have continued to operate to the detriment of the growth of an Australian maritime industry. Intermittently attempts have been made to stimulate the growth of Australia's shipping fleet, but the limited success so far achieved is indicated by evidence that the level of import and export tonnages carried to and from Australia in Australian ships during 1969-70 were 0.09 and 0.08 per cent respectively. By comparison, Japanese ships in the same year carried 35 per cent of Australia's total exports.

Evidence was also submitted on the strength of what is known as the 'Conference Line' system, which is an association of ship owners which regulates the freight rates and terms and conditions of carriage of goods in any particular trade. Conference Line ships operate on a regular timetable, stopping at scheduled ports and accepting cargo in small or large consignments at established freight rates. This certainty of service offers great benefits, but those criticisms which are made are generally based on the cartel-type operation and the rates of freights charged. The Conference Lines do not normally operate in the tanker and bulk cargo trade. Many countries have sought to deal with the criticisms of Conference Line operations but have generally come to the conclusion that shippers themselves should form equally strong associations to be able to negotiate from a position of strength with the ship owners.

Insofar as shipping between Australia and Japan is concerned, the Australian National Line has established participation in the Conference arrangements on a modest but successful and profitable basis. Long term contracts with Japan for commodities requiring bulk shipping, such as iron ore, have been written on an f.o.b. basis with Japan supplying its own ships for carriage of these goods.

The Committee supports suggestions that Australia should seek to establish a stronger maritime position. Having regard to Australia's geographical circumstance as an island continent, relying heavily on exports, it would enhance the country's status, economic and strategic positions if Australia's merchant marine were to be established on a more extensive basis. The Committee questions the criticisms which might be expected—that to do so would be uneconomic in present day circumstances. Comprehensive cost-benefit investigations would be a pre-requisite, but strategic considerations should also have a place in the decision-making process. It is recognised also that to do so may require Government financial support, but this is not uncommon in established maritime countries.

The Committee believes also that the Australian National Line participation in the Japanese trade should be strengthened and draws special attention to one area in which future opportunities will undoubtedly exist, namely, in the export of liquefied natural gas. This is a comparatively new but rapidly growing field requiring highly specialised and costly ships which may need to be purchased overseas, as the Committee understands that the technology and shipbuilding capacity for this type of vessel may not exist in Australia at present.

Imports

While the emphasis on trading relations with Japan in a report of this nature is naturally on Australian exports, it is appropriate to make a brief reference to the scale of Australia's imports from Japan. In a general sense, it is obvious that the aspect of the trading relationship of prime importance to Japan is the need to ensure access to Australian raw materials, which are the lifeblood of its industry. Nevertheless, the Australian market must be regarded as being of importance to Japan. Even though the balance of trade is two as to one in Australia's favour, this may be an acceptable level to Japan in view of its global trading situation.

On a population basis, Australia can be regarded as a not inconsiderable market and Japan is now its third largest source of imports after the United States and Britain. Although this represents only 3 per cent of Japanese exports, it represents almost 16 per cent of Australia's imports, which in 1971-72 had a value of about \$A629 million. These imports are almost entirely of industrial manufactures with the major exception of fish products. Appendix VI is a table showing the extent of these imports in greater detail.

Resources Policy

There is little doubt that much of Australia's mineral resources could be exported with immediate and short term advantage, but it was strongly put to the Committee that Australia lacked a clearly defined resources policy and that it was important that this omission be rectified. The concept was, broadly, that such a policy should seek to establish the extent of Australia's natural resources, determine the rate of exploitation, the reserves to be held for future internal needs, the conditions of export and priorities in the investment in and development of new resources. In recommending such a course of action, witnesses drew a comparison with the sophisticated manner in which Japan's raw material import policies are developed and made known. The suggestion was made, not so much to match the level of Japan's knowledge and the clarity of its policies, or that this need arises only because of trading relations with Japan, but as a basic requirement to safeguard the interests of Australia's future in the exploitation of resources. There are obvious difficulties, such as mineral exploration revealing new deposits of minerals and advances in technology. Nevertheless, despite the difficulties, the Committee believes the objective to be a desirable one.

The evidence of the Department of National Development indicated that its departmental structure contained many of the elements to fulfil this task and, indeed, that it was already a repository of a great deal of the information needed to enable guidelines to be laid down. Many of the other elements are in other departments and organisations and this fragmentation creates problems of communication. The Committee was informed of the intention of the Australian National University to establish in 1973 a Centre for Natural Resources at the post-graduate level and believes that close collaboration between this centre and established Government agencies, such as the Bureau of Mineral Resources, could contribute much of the basic information upon which policies and guidelines could be determined. Australia's trading relations are so important that full and clear public documents should be available both to industry and the country's trading partners on policies and the basis upon which such policies have been determined. No resources policy would be complete without some form of effective energy conservation policy.

Conclusions

The wealth of information placed before the Committee in evidence on trading relationships with Japan highlighted a number of problems which arise from this trading. Some, of course, are specifically internal problems, but nevertheless the Committee believes they warrant being brought to notice. It has therefore been decided that it would be convenient to identify the Committee's conclusions and recommendations on this trading relationship with the chapter to which they refer. They are set out below.

Dependence

The level of dependence of Australian exports on the Japanese market has been widely canvassed. However, the Committee reiterates that the export market provided by Japan has been of great advantage to Australia, not only as a source of export income but in opening up isolated areas of the continent. Whatever dependence exists at the present time is mutual rather than one-sided. Remembering the concern which the Japanese have for ensuring continuity of supply of raw materials, the Committee does not believe that for the foreseeable future there is any danger in the degree to which Australian production relies on Japan as a market. Nevertheless, in the same way as Japan has as a policy objective not to be reliant on any one country as a source of a particular import to an extent greater than 40 per cent, the Committee believes that it would be in Australia's interests to seek a further diversification of outlets. It does not necessarily suggest that the 40 per cent maximum adopted by Japan should be applied by Australia, but as a long term objective something of this order should be the aim.

Co-ordination

It is the Committee's view that co-ordination is a most important area warranting consideration in the continuing trading relations Australia will have with Japan. By and large, the development of

this export market has been rapid with limited opportunity for well tried and workable co-ordinating arrangements to develop to the degree desirable in the national interest. There is room for improvement in the achievement of co-ordination between Commonwealth and State Governments, and government generally and industry. In saying this the Committee is not critical of the substantial progress which has been made to date, such as the establishment of the Australian Minerals Council in 1968 with a membership comprising the Minister for National Development, State Ministers for Mines and the Commonwealth Ministers for the Interior and External Territories.

Both the witnesses appearing from Government departments on the one hand, and those from industry on the other, spoke highly of the degree of mutual co-operation existing between their two groups. The difficulty is that this is mainly on an informal basis and lacking in organisation. Industry representatives in discussion with the Committee were unanimous in agreeing that a higher degree of co-operation would be favoured by them. Japan has a highly developed and efficient system of interchange of officers between government and industry. This is lacking in the Australian situation, but the Committee would strongly support and can see great mutual benefits arising from a free interchange of personnel on a short term basis. An area of criticism relating to the preparations for the meeting held in Canberra recently of the Australia-Japan Ministerial Committee was the absence of prior consultation and briefing between industry and Australian Ministers, particularly as the close consultation between Japanese Ministers and industry prior to any such meeting is well known. The Committee firmly recommends that machinery for such preliminary discussions be set up prior to the next meeting of the Ministerial Committee.

*Consultative
and planning
agency*

The Committee is aware of the excellent work undertaken by the Standing Interdepartmental Committee on Japan, which was first established in 1970 and now functions on a continuing basis to advise the Commonwealth Government. It consists of senior representatives of Commonwealth departments concerned with Australia's relationships with Japan and is the only committee of its type concerned with the totality of Australia's relations with another country. The shortcomings which this Committee sees in an otherwise excellent arrangement are that it is comprised of officers holding senior positions in a number of departments who have other considerable responsibilities, and no formal provision for consultations with industry exists. The Committee believes that the scale of our trading relationships and other associations with Japan are such that they would warrant the establishment of a consultative and planning agency backed up by a small, full time group providing research, planning and secretarial assistance, with a permanent chairman and with the existing members of the interdepartmental committee continuing to serve as part time board members. The Committee further recommends that the agency include representatives

of industry who have close associations with Japan. The function of such an organisation, as seen by the Committee, would be to deal with the totality of Australian relations with Japan.

Infrastructure

The scale of recent developments, particularly in the minerals industry, has created problems in the financing of infrastructure—roads, housing, town water supply and the many other facilities needed to develop the new townships in isolated areas. These are normally a responsibility of State governments, but the growth and scale in most cases has been beyond the capacity of governments to meet in the light of other competing demands for funds. There has, therefore, developed a general attitude that the mining organisations themselves should be required to provide these facilities. Consequently, in the development of new projects, private finance has had to be raised vastly in excess of that which would be required solely to establish the mining operations for extraction and handling. One witness indicated that the costs associated with establishing a new venture in an isolated area were two-thirds for the provision of infrastructure and one-third for equipment and mine handling machinery. In the particular case mentioned by the witness, the mining company had to build two railways, two ports, four towns and associated services including a power station; all of which cost about \$A400 million. By comparison, the expenditure on productive assets was \$A200 million. This affects other negotiations in that the mining companies naturally seek whatever concessions they can obtain in other directions—for example, the level of royalties paid. This is a very vexed question to which no simple solution can be offered by the Committee. In the light of competing demands for government funds, there seems little alternative but to continue on this basis for the present.

Contracts

The Committee sought to establish whether, in the light of public statements and evidence placed before it, the Australian national interest was being preserved in the terms of long term contracts and the prices received under these contracts. The first point established is the undoubted advantage in these contracts having been made. They have provided a basis upon which mining companies have been able to raise finance of the scale required for new mining ventures. It is of benefit to Australia that these ventures have contributed substantially to export income and that many have occurred in the isolated areas of the continent, thus opening up new areas and establishing centres of population.

Criticisms were first voiced when Japan found it necessary to cut back projected deliveries of minerals below the minima specified in the contracts and, on a second occasion, when world currencies were realigned, the result of which was a decrease in the prices received for Australian minerals under these contracts. Evidence received from leaders in the mining industry has shown that after negotiations with their Japanese counterparts there was understanding and acceptance

of the need for these variations in deliveries. It should be noted in this context that the treatment Australia received during this period of cut-backs was consistent with the treatment received by other suppliers overseas. It is not clear, however, that a similar degree of understanding occurred when Australian suppliers sought some re-negotiation of prices arising from the currency changes. The Committee has found a need for bridging the gap in understanding the attitudes of each side to their respective contract law—a need arising from the comparatively recent experience in large and frequently long term contracts. In brief, the extremes of these attitudes can be summed up as being, on the Australian side, an understanding of a contract as a legally binding document, whereas in Japan it appears to be regarded as an honest statement of intentions open to re-negotiation if circumstances change.

The Committee therefore regards as important the establishment in July 1972 of the Australia-Japan Trade Law Foundation, consisting of businessmen, lawyers, academics and senior government officials, to promote understanding in this area and that a kindred organisation was to be established in Japan. The Committee believes that this Foundation should be given every encouragement and assistance to pursue its objectives.

The Committee was informed that contracts provide for payment in United States dollars and that the recent vagaries in the international money market reacted unfavourably on Australian producers. As mentioned elsewhere, the Committee was advised that the last realignment of currencies involved as much as 6 per cent reduction in returns under some iron ore contracts. Denomination in terms of United States dollars was understandable at the time of negotiating the contracts as this was common custom, but the Committee suggests that some insulation against such fluctuations should be sought. It would probably be unacceptable for a number of reasons for future contracts to be written in Australian currency, but it suggests that consideration be given to future contracts being negotiated up to 50 per cent in the currency of the supplier and 50 per cent in an acceptable currency, such as that of the consumer.

Prices

The establishment of long term contracts has, to an extent, removed from the 'market place' the determination of prices which apply to most other commodities of world trade. This, therefore, raises the question of whether Australia is being adequately recompensed for the raw minerals being exported to Japan. The deficiency revealed by the Committee's inquiry appears to be related to the better preparedness and facilities available to the Japanese, both at industry and government levels, to study and undertake research before entering into negotiations. It is not uncommon for the Japanese to spend several years on investigation before being prepared to negotiate these long term contracts, with the result that they arrive at the negotiating table extremely well provided with information. In addition, their negotiators are highly skilled and drive a hard bargain. The evidence before the Committee is that

once an agreement has been reached, subsequent contractual problems are minimal. The one known exception is the reduction in iron ore shipments.

In the case of coal exports, the Committee questioned witnesses closely on whether Australia's best interests had been served in the prices negotiated for some of the contracts. For example, figures submitted in evidence indicated that Australian coal had been consistently supplied to Japan at considerably lower prices than from other world suppliers, the greatest margin being between Australian and United States returns. In 1970 the United States received \$A22.04 per metric ton on average against the Australian average of \$A13.36 per metric ton. This comparison makes no adjustment for difference in quality, and it is accepted that American coal is of high standard. Nevertheless, the Committee was also informed that Australian coal exported is also of high quality, and that any quality differential which may have existed could not account for the difference in prices.

The Committee believes that there is a demonstrated need in Australia for more orderly development of open cut and deep pit coal mining, including satisfactory arrangements for orderly marketing. This goal should be sought by co-operation between the Commonwealth and the States and could, perhaps, be effected by an extension of the role of the Joint Coal Board. While the Committee is mindful of the Commonwealth's reserve power to control exports, it believes that the orderly development of the industry, and more satisfactory prices for coal exports, can best be achieved by genuine co-operation between the Commonwealth and the States.

Merchant Marine

For a continent surrounded by sea and so dependent on the sale of its goods on world markets, the Committee considers it inconsistent with the best interests of Australia that it should continue to be so reliant on overseas-owned ships for the carriage of goods. The Committee does not base this view purely on economic grounds, for it recognises the strategic advantages inherent in Australia having a fleet of modern merchant ships. That difficulties will be raised in achieving this is recognised, but the Committee believes that means should be found of progressively increasing the participation of Australian owned, operated and manned ships in its overseas trade.