



## AUSTRALIA JAPAN BUSINESS CO-OPERATION COMMITTEE

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07Submission01-FTA.doc  
8<sup>th</sup> March 2007

Japan FTA Task Force  
Department of Foreign Affairs & Trade  
John McEwen Crescent  
BARTON ACT 0221

**Attention: Ms Gayle Milnes**

Dear Ms Milnes,

**SUBMISSION TO THE AUSTRALIA-JAPAN FTA TASK FORCE**

**Preamble**

The Australia Japan Business Co-operation Committee (AJBCC) warmly welcomed the announcement of 12<sup>th</sup> December 2006 by Prime Ministers Abe and Howard that Japan and Australia would commence negotiations of a Free Trade Agreement early in 2007.

The AJBCC and its JABCC counterpart have for the past five years championed the cause of an Economic Partnership Agreement (EPA) including a Free Trade Agreement (FTA) as being the most desirable means of increasing the integration of the two economies and increasing each country's global competitiveness.

In advocating a comprehensive high-quality 'WTO-plus' type of agreement, the AJBCC/JABCC have clearly sought a trade agreement that would impact beyond the scope of its membership's own economic welfare. It is believed that the AJBCC membership undertakes about 60% of Australia's exports to Japan. However, that membership is heavily biased to the 'Resources' and 'Energy' sectors of our economy, which provides about 40% of national exports but only 4% of national GDP. 'Resources' and 'Energy' do not face a tariff on entry to Japan.

Members also represent food (ranging from commodities to specialty processed items), technology, and services (particularly tourism, education and the professions) sectors that will be early beneficiaries under a 'WTO-plus' agreement.

It is highly appropriate that the commencement of the negotiations takes place in the 50<sup>th</sup> anniversary year of the 'milestone' Australia-Japan Agreement on Commerce. Just as Australia and Japan can be enormously proud of the extent and quality of the more than 100 year commercial relationship's achievements of the past fifty years, both country's can look forward with great expectations regarding the coming fifty years. As the two OECD developed economies on the north-south polarity of East Asia, the most dynamic economic region of the 21<sup>st</sup> century, increased Australian and Japanese economic integration will be both a 'model' and an early beneficiary of the integrative tendency amongst the region's economies.

Conservative modelling has shown, both national GDPs, and particularly Japanese consumers, would benefit from a bilateral EPA/FTA and therefore warrants that such an agreement should be pursued. The AJBCC and JABCC acknowledge that 'sensitivities' exist in each country. However, we are convinced that the negotiating teams can develop creative and flexible propositions, for instance 'phasings' that will permit time for the affected sectors to adjust to global competition.

### **Benefits**

Strengthening the economic relationship further improves one of the multi-faceted bilateral linkages – government-to-government, security co-operation, economic, education, cultural, people-to-people - that have been growing impressively over recent years.

For industrial Japan and the Japanese consumer, the benefits of the FTA would immediately provide some assurances regarding resource, energy and food security, which are areas of perceived vulnerability. The FTA would also speedily remove from Japanese manufactured exports to Australia any component of competitive disadvantage vis-à-vis countries with which Australia already has an FTA, ie USA, or is already negotiating with, ie China, with respect to tariffs.

Removal of the constraints on the businesses of both countries to access government procurement processes would be particularly attractive to Japanese business.

For Australia, a comprehensive high quality WTO-plus agreement would further enhance the bilateral relations with our nation's number one trading partner. With the structure of the Australian economy very much oriented to the 'services' sector (72% of GDP and 82% of employment), it is in this sector that the AJBCC believes that an EPA/FTA will bring substantial new opportunities.

The AJBCC would recommend AUSFTA comparable investment provisions be considered for the negotiations with Japan because, combined with an updated Double Taxation Agreement, we would envisage sharply increased Japanese investment in resource and infrastructure projects in Australia to eventuate as a consequence. We would also anticipate that it would encourage an increase of Australian investment in Japan.

A more liberalised tax and investment environment will be necessary for the encouragement of greater linkages in the 'new economy' areas of ICT, bio-medicine, bio-technology, nano-technology, financial services, education, etc. The AJBCC believes there is much scope for Australia's world class research, systems and technologies to gain market collaborators and joint venture partners in/with Japan - alternate to US or European sources. This would be especially true if there is a mechanism of regular EPA/FTA implementation reviews focussed on facilitating new areas of bilateral commerce.

The Japanese Government has instituted an agricultural restructuring programme that is now at its early stages. Australian science, systems and technologies could well be of value to the reform process and offered as an offset to access in the same way as more liberalised investment could encourage more Japanese agribusinesses to invest in Australian downstream semi or full food sector processing for exporting back to Japan, or to third markets.

The Trade and Economic Framework of 2005 identified eleven areas of trade facilitation which have proven to be an important encouragement to greater linkages, particularly at industry-to-industry levels. These are experiences of co-operation and collaboration that have shown, for instance the benefits to be gained from mutual recognition of professional qualifications. The FTA would be of great value if it led to recognition of a broader spectrum of profession qualifications, increased mobility of professionals, and to greater harmonisation of standards, mutual acceptance of clinical trials and health and safety testing procedures.

### **Sensitivities**

Strengthening the strategic partnership requires recognition that there are 'sensitivities' in both countries. The AJBCC is of the view, that without political interference, the negotiating teams will generate the creative and flexible solutions necessary to permit the affected sectors adequate time to adjust to global competition. 'Phasings' are a commonly adopted means to achieving this adequacy.

The anticipation of the 12<sup>th</sup> December 2006 announcement that Australia and Japan would commence negotiations of a FTA saw the highly unusual occurrence of 600 protesting 'farmers' on the streets of Tokyo. There evidently is a much greater appreciation of the efficiency and productivity of the non subsidised Australian agricultural sector than there is public acknowledgement in Japan that the water challenged Australian sector is too small to 'swamp' Japan's subsidised agricultural sector with cheap beef, wheat, rice, dairy, etc. The 'Farm' sector of the United States predicted similar doom and gloom regarding the effect of an FTA with Australia. Due to the current cyclical drought, the Australian industry has not been able to reach pre-agreement quotas let alone reach the new quotas. It is doubtful that the sector could ever expand to the acreage necessary, or acquire sufficient skilled producers, to provide the volume of stock and grains that would ever realise the fears of the US, Japanese and Chinese agricultural sectors singularly, let alone all three at once.

An FTA, being a treaty, will experience a review procedure of the two houses of the Australian Parliament and therefore it has to provide substantive benefits to Australia's trade interests. A comprehensive agreement requires that all segments of substantive commerce be included in any agreement:-

- Australian agricultural output represents 22% of exports to Japan and its producers have sufficient parliamentary power to ensure that access to the Japanese market is a mandated necessity.
- Australian manufacturing sector's elaborately transformed output needs both access and also protection against IP compromise.
- Australia is more than a mine, a farm or a beach and as a developed economy negotiating with another developed country in a global economy, it should seek the broadest access for its competitive services sector.

### **FTA 'Roadshow'**

The AJBCC would be confident that with the support of its members, it could provide a venue in each of the mainland capitals to permit interested Australian businesses to meet with FTA Task Force personnel to hear a progress report from them and to provide

relevant experiences to the negotiators. We request the FTA Task Force's consideration of this offer.

We have encouraged the membership to make their own submissions to the Task Force. We would welcome any requests for assistance that would further your work.

Yours sincerely



Rod I Eddington  
President