



AUSTRALIA-JAPAN FREE TRADE AGREEMENT

COMMENTS BY AUSTRALIAN ELECTRICAL AND ELECTRONIC MANUFACTURERS' ASSOCIATION (AEEMA)

INTRODUCTION

AEEMA welcomes this opportunity to provide brief comments on the Government's recent decision to begin negotiations with Japan in early 2007 towards a bilateral FTA. In brief, AEEMA members support ongoing discussions leading toward an FTA with Japan but note that in order to avoid a lopsided trading relationship as has developed with the US, care should be taken to avoid large-scale exclusions or carve-outs, to ensure negotiators are aware of 'hidden' barriers behind the border that may become known to companies only after they have tried to access the new market, and to insist on global equivalence in all technical standards.

Further, the FTA with Japan should aim to reach at best WTO equivalence or WTO plus goals (GATS-plus for services). This will assist Australia in particular by sending strong messages to other nations in the region.

About AEEMA

The Australian Electrical and Electronic Manufacturers' Association Ltd (AEEMA) is the peak national, industry body in Australia representing some 400+ infrastructure providers for Australia's ICT, electronics, and electrical manufacturing industries. AEEMA is organised in three principal divisions (electrical, electronics and 'ICT Australia[®]'); member companies belong to some 16 industry forums and provides secretariat services for three other associations, the Armed Forces Communications and Electronics Association and IES The Lighting Society. AEEMA also supports industry-led clusters linked to national strategic development.

AEEMA's policy platform is based on adherence to competitive market principles, removal of trade barriers including non-tariff barriers, equivalent open access to markets, reduced red tape, regulation only where required, consumer safety and national benefit, appropriate environmental management regimes, equitable tax

treatment for business and the removal of impediments to Australian manufacturing that harm its international competitiveness.

Australia-Japan FTA

After a long period of robust trading, shared strategic values and political relations between Australia and Japan, complementarity between the two economies is such that fundamentals of the negotiating process should not be as difficult as with some other nations.

However, Japan's sensitivity in relation to key market sectors such as agriculture and resources may be used as leverage to force exclusions or carve-outs in 'trade-off' sectors, the impact of which will not be in Australia's favour commercially. If services, high goods tariffs or the like are traded off to meet Japan's sensitivity, Australian industry will inevitably be disillusioned with the outcome, as it was with the AUSFTA for similar reasons. A key principle of the negotiations should be to deliver equivalent market access and treatment between the two markets. When this does not occur (as with the AUSFTA) it becomes increasingly difficult to convince industry that liberalised trade policies will deliver more opportunities than threats. This is especially the case where it is clear that Australia has one of the most open economies in the world, with average tariffs of around 3.5%, while many of our trading partners maintain high tariff and non-tariff protection. Japan's average is 7.1% and one of its highest tariff levels is more than 700% on rice.

In addition, if regional competition or strategic relationship issues with China are the reasons for Japan's willingness to enter into an FTA with Australia, it will become obvious that sound commercial outcomes from the final Agreement may not be Japan's only objective. Trade diversion implications arising from a regional 'spaghetti bowl' of FTA's is a reasonable concern, but liberalised access to trade markets should be the overriding objective of any trade negotiation.

Government procurement

Preferential treatment granted to home-grown solutions for government markets is a key barrier which is frequently overlooked by negotiators. In order to garner industry support for more liberalised trade platforms, especially with Asian trading partners, it is essential that the Australian Government ensures genuine equivalence of treatment and access for Australian firms selling to the Japanese government. If foreign firms are given the same access as our firms to the Australian market, Australia must insist on the same treatment in the partner market.

Intellectual Property Protection

AEEMA agrees that current protection of intellectual property in both Australia and Japan is similar and reasonably robust. Nevertheless it remains a high priority to ensure appropriate protection is afforded under the final FTA and not compromised by trade-offs to meet Japanese sensitivities in other sectors. To that end AEEMA encourages the objective of a TRIPS-plus approach to intellectual property protection, which will have the added benefit of sending a strong message to other regional nations who do not have such standards of protection.

NTBs

Non-tariff trade barriers such as standards and conformance testing, as well as 'behind the border' barriers or hidden, informal and non-transparent barriers in the domestic enactments of Japan must be examined as part of the FTA negotiations. From the perspective of many of our members these issues serve to significantly undermine FTA objectives of equal access and treatment, if they are left un-addressed.

Given the high level of standing of Japanese capabilities in electronics/ICT/nanotechnology manufacturing and design, any FTA should not only ensure that non-transparent barriers are removed that might prevent Australian SMEs from forming collaborative arrangements (e.g. joint ventures, partnerships, licencing agreements etc) with Japanese companies forming part of global supply chains, but that mechanisms are also explored that proactively encourage these arrangements.

Japan has already made it clear that is seeking preferential access to Australia's mineral resources; our game plan should focus on gaining new markets and creating new inroads into Japan's high technology industries.

Conclusion

Offshore markets for our manufactured products and services must be further liberalised so manufacturers can compete – the recent failure of the Doha round of trade negotiations has delivered a severe blow to hopes for such liberalisation. Regional and bilateral negotiations must continue so that market access is more readily available, and the range of non-tariff barriers currently preventing or limiting successful trade should be addressed. Key among these is intellectual property protection in all foreign markets, as well as technical and standards barriers.

While AEEMA is supportive of further liberalised trade, it must be said that our members remain concerned that too rapid a liberalisation, without a phased adjustment period, may result in disruption to the manufacturing sector and capacity 'hollowing out'. This is because industry, specifically the manufacturing sector in Australia, is facing heightened competitive pressure from low-cost countries such as China and India; as these low cost markets move up the innovation path even greater competition can be expected for high value manufactures. Adjustment by industry to that competition is possible, but only if supported by an unwavering government program to pursue regional and bilateral negotiations that secure equal market access without carve-outs, and which address the full range of non-tariff barriers currently preventing or limiting fair market access.