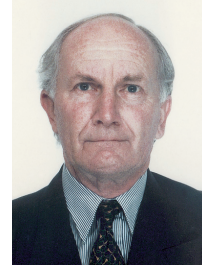


Australia-Japan Negotiations on a Preferential Trade Agreement

By Ross STOCKALL



Author Ross Stockall

Overview of Australia's Relationship with Japan

Although the media continues to emphasise the importance of China to Australia, as several recent studies have observed, any view that the significance of the Australia-Japan relationship is declining is wrong. Australia's relationship with Japan remains strong and is becoming more diverse. The relationship has expanded beyond the past focus on trade and economic matters and now includes issues such as cooperation on intellectual property, defence, tax, social security, nuclear-non-proliferation, development assistance and humanitarian relief operations. There are also several instances of close cooperation between the two countries in the region, for example, the establishment of Asia-Pacific Economic Cooperation and the Pacific Economic Cooperation Council. The Australian Government acknowledges that this partnership is crucial to Australia's prosperity.

Australia's General Approach to Trade

Successive Australian governments have supported the progressive reduction of import tariffs for some forty years and now most imports into Australia are subject to a tariff of 5% or zero. Most of this reduction has resulted from unilateral action by Australia rather than from bilateral or regional trade agreements (BRTAs). Australia has several long established Preferential Trade Agreements (PTAs) confined to merchandise trade and duty concessions. There are several more recent BRTAs which cover other issues such as services trade, investment and intellectual property. Australia also has several BRTAs under negotiation and several feasibility studies are being considered. More countries are finalising PTAs and Australia appreciates that such agreements can protect and improve Australia's competitive position. However, Australia emphasises that they are not a substitute for the World Trade Organisation's Doha Development Round. One of the key aspects of Australia's trade policy is to link into Asia's increasing demand for goods and services. As Emeritus Professor Peter Drysdale of The Australian National University emphasises, the Japanese market is no longer confined to Japan itself but is now a huge international market generated by the activities of Japanese investment, particularly in Asia, and Australian companies need to integrate more closely with these networks in Asia.

The Australia-Japan Economic Partnership

In 1957, the Australia-Japan Agreement on Commerce was finalised and this established the basis for equality in trade dealings. Japan has

been Australia's major export market for more than forty years and was Australia's largest trading partner until 2007, when it was overtaken by China. Japan accounts for about 20% of Australia's total exports of goods and services. Australia's major merchandise exports to Japan are coal, iron ore, beef and aluminium. Japan is Australia's most important customer for coal, liquefied natural gas, beef and dairy products and Australia is Japan's largest supplier of strategic materials such as uranium, iron ore and aluminium. Major merchandise imports from Japan include passenger motor vehicles, goods vehicles and refined petroleum. Tourism is Australia's major service export.

Japan is Australia's third-largest source of foreign investment after the US and the UK. Japan's investment covers a wide range of sectors and is particularly important in agrifood, energy and resources. As at December 2009 Japan's investment in Australia totalled \$A 102.024 billion compared to Australia's total investment in Japan of \$A 31.607 billion.

Background to Negotiations

A Joint Study to examine the costs and benefits of the liberalisation of trade in goods and services and investment between Australia and Japan was completed in April 2005, based on the Australia-Japan Trade and Economic Framework agreed to by the two governments in July 2003. This was followed by the Joint Study for Enhancing Economic Relations between Japan and Australia, including the Feasibility or Pros and Cons of a Free Trade Agreement (Study Group), which was released in December 2006.

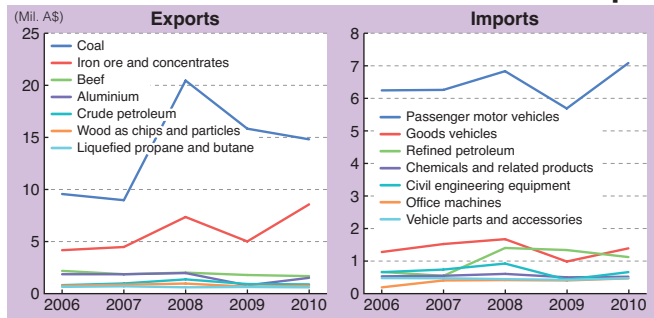
The Study Group concluded that a comprehensive free trade agreement (FTA) would result in considerable benefits to both countries but acknowledged that there were sensitivities on both sides, particularly agriculture in the case of Japan. Trade for most goods between the two countries already faces reasonably low trade barriers, the main exception being agricultural products imported into Japan.

Progress on Negotiations

At the negotiations, all goods and issues have been considered including agriculture, industrial, services, e-commerce and competition. However, Australia and Japan do not usually disclose the full details of the negotiations on individual issues discussed at each meeting.

The first round of negotiations was held in April 2007. The 12th round was held in Tokyo in early February 2011 and Japan was described as showing renewed enthusiasm. This was the first meeting since the November 2010 announcement by Japan of its new policy on FTAs (the Basic Policy on Comprehensive Economic Partnerships) that confirmed

Australia's main items of merchandise trade with Japan



Source: Department of Foreign Affairs and Trade, Canberra

its commitment to conclude an FTA with Australia. Progress was made in most areas but progress on agricultural products has been limited. At the negotiations, Australia confirmed that free trade in agricultural products should be the goal. Japan acknowledged that liberalisation of its agricultural sector would be a prerequisite to finalising an FTA with Australia and noted that a new policy on agricultural reform was due in June 2011. Both Australia and Japan reiterated their request for further improvements in each other's offers for access on industrial products. It was reported that good progress was made on energy and mineral resources, while negotiations on food supply remained at an early stage. (Very early in the negotiations Australia suggested ways an FTA could help ensure Japan's food security by, for example, making it easier for Japanese to invest in Australia's agricultural sector.) Significant progress was made on discussions on telecommunications and financial services. Progress on rules of origin, customs procedures and technical barriers to trade was described as sound. Discussions on trade in services are almost complete. The services sector is important to Australia and exports in this sector frequently benefit more from inclusion in an FTA than some other sectors such as manufactured exports.

Australia's Approach to Negotiations on Key Issues

Australia has a key interest in beef, dairy products, wheat, barley, sugar and rice. Early in the negotiations Australia provided detailed information on all Japanese restrictions faced by Australian exporters, including tariff rate quotas and tariff rate quota administration. Japan wanted many agricultural items excluded from the negotiations, including several products of importance to Australia, and during earlier meetings Japan stated that liberalisation was not possible.

The National Farmers Federation (NFF), the peak national body representing agriculture across Australia, notes that agriculture has been a difficulty in many trade negotiations, but given the strong synergies between Australian and Japanese production, this should not be the case. For example, Australian production is generally based on southern hemisphere seasons; Australian produce is complementary to the Japanese economy; and Australian products are differentiated from Japanese products. The NFF provides several examples, including:

- Japan's Australian dairy imports are focussed on high-value niche markets whereas Japanese production supplies the majority of fresh milk. Also, Japanese manufacturers of processed cheese are heavily reliant on imports of Australian natural cheese;
- because Japan is unable to produce sufficient wheat of the grades required to produce foods such as udon and alkali noodles, Australian wheat does not replace Japanese wheat;



Photo: A Department of Foreign Affairs and Trade, Canberra

Ministry of Economy, Trade and Industry Banri Kaieda meeting with Australian Trade Minister the Hon Dr Craig Emerson, MP in Sydney for trade and economic talks as February 11, 2011.

- the majority of Australian beef imported by Japan is leaner than Wagyu beef, for example, and is generally purchased for everyday consumption; and
- Japan does not produce sufficient sugar to meet its requirements and has a continuing need to import raw sugar.

The Japanese market for agricultural products is important to Australia and is the largest export market, accounting for about 16% of Australia's agricultural exports. Several international best-practice quality assurance systems have been introduced in Australia, for example, the National Livestock Identification Scheme to ensure the hygiene of beef products. In Australia, the use of insecticides and fumigants is closely regulated and monitored. Because of the importance of the Japanese market, Australia has been working closely with processors in Japan to ensure that Australian products meet Japanese requirements and preferences.

It is against this background and in the context of increasing demand for food that the NFF considers that it is in the interests of the Japanese economy to allow imports from Australia to function without impediment. Other important organisations such as the Rice Growers' Association of Australia (RGA) fully support the approach taken by the NFF and the Australian Government. However, the RGA appreciates the sensitivities of some areas of agriculture in Japan, particularly rice.

Australia has an interest in the reform of Japan's agricultural sector as a major exporter of agricultural products and also because of the wider benefits it gains from improvements in Japan's economy as the Australia-Japan relationship becomes more diverse. Under the Agreement between Japan and Thailand for an Economic Partnership, Japan successfully restricted access to its agricultural sector by offering Thailand increased technical assistance and aspects of economic cooperation. As Australia has a commitment to comprehensive trade arrangements, it would not be attracted to a similar arrangement. However, Australia is encouraged by Minister Kaieda's statement in February 2011 in Sydney, that following Japan's proposed decision in about June 2011 on whether or not to join in the negotiations on the Trans-Pacific Partnership Agreement, Japan will introduce measures to further open the agricultural sector. Australia appreciates that to support Japan's future attempts to improve the efficiency of its agricultural sector, any trade liberalisation may require a phase-in period.

The next round of negotiations was originally planned to be held in Canberra in mid-April 2011. However, given the recent disaster in Japan and the focus of the Japanese bureaucracy on the recovery response, the meetings have been postponed. **US**

Ross Stockall is director of Stockall Research. Formerly, he was an Australian government bureaucrat involved in issues related to Japan, managing director of Stockall and Associates Pty Ltd, and a visiting lecturer at Daito Bunka University, Japan.