

# JAPAN – AUSTRALIA ECONOMIC PARTNERSHIP AGREEMENT (JAEPA) REVIEW

*Submission to the Department of  
Foreign Affairs and Trade (DFAT)*

August 2021

## Introduction

1. The Chamber of Commerce and Industry Queensland (CCIQ) welcomes the opportunity to make a submission on the General Review of the Japan-Australia Economic Partnership Agreement (JAEPA.) CCIQ is Queensland's peak industry representative organisation for small and medium businesses. We represent over 440,000 Queensland small and medium businesses who employ over 40% of Queenslanders working in the private sector.
2. On 17 May 2021, the Department of Foreign Affairs and Trade (DFAT) advised stakeholders of the commencement of work on a **General Review** of the implementation and operation of JAEPA under Article 20.5 of the agreement. This mandated General Review was acknowledged as an opportunity to upgrade and modernise the agreement to support an enhanced bilateral economic partnership. The General Review provides a framework to identify trade and investment policy opportunities, review FTA activities and to consider emerging developments in global trade policy more broadly.
3. CCIQ acknowledges that JAEPA is one of several preferential trade agreement (PTA) reviews underway. We will, however, focus only on JAEPA given the importance of Japan as a major trading partner for Australia as a whole and Queensland in particular. The value of the Queensland-Japan economic relationship is particularly important at this time when trade and investment diversification is a key element of Australian trade policy

## CCIQ Approach

CCIQ will take a Queensland-centric view in this submission, with due consideration of Australia-wide trends and data. Our approach will include an overview of Australia's trade profile, followed by key trends in Queensland's trade profile. The importance of diversification will then be emphasized before looking at current trade data. CCIQ will then highlight direct member feedback on knowledge, understanding and utilization of JAEPA. This will then form the basis of our recommendations for the review.

## Australia two-way goods and services trade profile

Australia's two-way trade profile shows a high concentration in terms of both countries and goods and services. Australia's top 10 trading partners accounted for 69% of total goods and services trade in 2018-19. To further highlight this concentration, the top three partners, China, Japan, and the USA accounted for nearly 45% of Australia's total two-way goods and services trade<sup>1</sup>.

Australia's two-way trade is also highly concentrated in terms of goods and services exported. Australia's top three goods exports; iron ores and concentrates, coal, and natural gas accounted for nearly 42% of Australia's total exports by value in 2018-19<sup>2</sup>. Only two services exports; education and related services and personal travel services featured in Australia's top 10 by value and they constituted just under 13% of Australia's services exports. Australia's services exports reached just over \$97 billion

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<sup>1</sup> Trade and Investment at a Glance (2020), DFAT

<sup>2</sup> CCIQ calculations from DFAT data

in the 2018-19 financial year, which represented significant growth from the previous year, but was dwarfed by goods exports.

## Focus on Queensland

It is critical to highlight Queensland’s role as a major exporting state in the Australian context. The state is Australia’s second largest exporter, responsible for nearly a quarter of Australia’s merchandise exports by value in 2018-19<sup>3</sup>. Queensland’s status as Australia’s 2nd largest exporting state makes it imperative for CCIQ to make a submission to this review.

## Queensland trade profile

In line with Australia as a whole, Queensland’s trade and investment profile is also highly concentrated. The top 10 partners accounted for 78% of two-way trade in the 2018-2019 financial year. The top three partners alone; China, Japan and the Republic of Korea accounted for nearly 51% of Queensland’s two-way trade<sup>4</sup>.

Rank	Country	(\$A million)	% of total trade
1	China	39,422	28.93
2	Japan	17,139	12.58
3	Korea, Republic of	12,641	9.28
4	India	11,893	8.73
5	United States of America	7,611	5.59
6	Malaysia	4,525	3.32
7	Taiwan	4,150	3.05
8	Thailand	3,760	2.76
9	Vietnam	2,771	2.03
10	Indonesia	2,538	1.86

Source: CCIQ calculations from ABS data

## Japan-Australia Relationship Contextualised

Australia’s biggest trading partner is China. However, recent trade and investment tensions<sup>5</sup> have harmed Australia’s exports of high-value items such as wine, barley, and high-value seafood. These tensions have also resulted in Australia’s initiation of formal dispute settlement proceedings against China’s trade remedies at the World Trade Organisation (WTO). Australia’s most valuable commodity exports have been less affected, but tensions with China have highlighted the risk of major dependence on one trading partner and spurred a trade and investment diversification drive.

Japan looks to be a natural partner in this trade and diversification drive. It is already Australia’s second-largest trade and investment partner, is a fellow member of inter-governmental forums such as the Group of Seven (G7) and the Organisation for Economic Co-operation and Development (OECD,) and

<sup>3</sup> Characteristics of Australian Exporters (Australian Bureau of Statistics – 2018-19)

<sup>4</sup> CCIQ calculations from ABS data

<sup>5</sup> Australia has spoken publicly about “economic coercion” from China

displays significant trade complementarity with Australia<sup>6</sup>. Any efforts at trade diversification by Australia as a whole and Queensland in particular, will have to include Japan if they are to achieve maximum impact.

## **Japan-Australia Economic Partnership Agreement (JAEPA)**

JAEPA entered into force in January 2015. The agreement was designed to foster two-way goods and services trade and investment between the two countries and, at the time, was described by DFAT as “by far the most liberalizing trade agreement Japan as ever negotiated and implemented<sup>7</sup>.” Enhanced goods and services market access is a major boon as Japan was the world’s third largest economy in Gross Domestic Product (GDP) in 2020<sup>8</sup>. Enhanced access to this market for Australian exporters and investors, and enhanced access to Japan’s high-value goods and services have the potential to support Australia’s economic growth and trade and investment diversification goals.

## **CCIQ Position on Preferential Trade Agreements**

CCIQ supports the Australian government’s drive to increase Australia’s trade and investment performance. We are particularly supportive of the drive to diversify Australia’s trade and investment profile and to utilize PTAs to maximise this drive for diversification.

Despite this, we concur with the Australian Chamber of Commerce and Industry (ACCI) call to conduct independent economic reviews of Australia’s trade agreements to gauge their economic impact. We also concur with ACCI’s concern about the compliance costs associated with overlapping trade agreements, particular in the Asia-Pacific region<sup>9</sup>. CCIQ supports calls for a process to assess and, possibly, rationalize these agreements to reduce the “noodle-bowl” effect and maximise economic benefits for the Australian economy.

We also concur with ACCI’s position on the value of certificates of origin issued by International Chamber of Commerce (ICC) accredited bodies such as Chambers of Commerce. Chambers accredited to issue certificates of origin undergo regular quality assurance processes<sup>10</sup> and enable mobilization of the global chamber network to resolve issues arising from the veracity or interpretation thereof. CCIQ has utilized ICC channels to resolve issues in importing countries. Australia’s trade agreements should explicitly recognize chamber-issued certificates of origin as being valuable for quality assurance and trade facilitation. CCIQ submits that Australia’s trade agreements should explicitly recognize the value of chamber-issued certificates of origin as a means of quality assurance and trade facilitation, rather than a cost.

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<sup>6</sup> For example, Japan is a major global importer of iron ore, coal, natural gas, education services and beef; of which Australia is a major exporter

<sup>7</sup> <https://www.dfat.gov.au/trade/agreements/in-force/jaepa/japan-australia-economic-partnership-agreement>

<sup>8</sup> World Development Indicators database, World Bank, July 2021

<sup>9</sup> Japan and Australia are signatories to JAEPA, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership Agreement (RCEP)

<sup>10</sup> CCIQ, for instance is regularly audited under the Joint Accreditation System of Australia and New Zealand (JAS-ANZ)

## CCIQ Member Feedback on JAEPA

CCIQ conducted a survey of its membership and client base to understand their experience with JAEPA and to collect their recommendations for improvement. For the first time, we approached both goods and services exporters to get a sense of the issues at play for both. Our first observation was the low response rate to our survey. Despite this, key issues emerging from the survey are as follows:

### JAEPA Feedback: Goods Exporters

CCIQ sent out a simple, six-question survey to its exporters' database. The survey sought to determine basic facts about exporters' understanding and utilization of JAEPA. The survey also sought qualitative feedback on trade with Japan in general, as well as recommendations on further improvements in the trading relationship. The response rate was strikingly low, at 3.7%. However, CCIQ still gained significant insights from respondents. The tables below summarise the findings.

#### 1. Familiarity with JAEPA and how it may apply to your export business to Japan

Response	% of respondents
Very familiar	0
Familiar	20
Aware of JAEPA but not familiar with how it relates to my exports	60
Not familiar at all	20

#### 2. Products exported under JAEPA

Response	% of respondents
Agricultural (seafood, honey, fruit, vegetables, animal biproducts)	60
Manufacturing	20
Energy and resources	0
Other	20

#### 3. Understanding of the Rules of Origin requirements associated with JAEPA

Response	% of respondents
Easy to understand	20
Complex	20
Very complex	0
Not sure	60

#### 4. Regulatory issues exporting into the Japanese markets since 2015

Response	% of respondents
No	90
Yes	10
<b>Qualitative comment:</b> <ul style="list-style-type: none"> <li>- In 2020 we faced significant challenges understanding regulatory requirements for JAS Organic Standards. At that time organic equivalency was being renegotiated and there was a lot of uncertainty around whether would still be able to export organic beef into that market. At the eleventh hour a new equivalency arrangement was agreed to. However, there are still issues with regards to interpretation. Japanese importers are uncertain about what the equivalency means.</li> </ul>	

#### 5. Other, non-regulatory difficulties or issues exporting to Japan

Response	% of respondents
No	50
Yes	50
<b>Qualitative comments:</b> <ul style="list-style-type: none"> <li>- I feel it is hard to approach Japanese firm, take long time and not very straightforward.</li> <li>- Buyers have stated that we did not need to issue JAEPA Certificates, and they will provide their own documentation</li> <li>- Issues with shipping - frequency, and equipment shortages</li> <li>- They are difficult and pedantic, but we persist</li> <li>- Price sensitivity</li> </ul>	

#### 6. Recommendations for improving JAEPA or trade with Japan in general

Response	% of respondents
No	70
Yes	20
<b>Qualitative comments:</b> <ul style="list-style-type: none"> <li>- Increase communication between potential buyer in Japan with CCIQ member</li> <li>- To attend a trade exhibition or trip to visit relative industry</li> </ul>	

### JAEP A Feedback: Services Exporters

Services are a major part of the Australian economy and, as highlighted in the introduction, a large and growing proportion of Australian exports. It was, therefore, important to reach out to services exporters to gain an understanding of their knowledge and experience of JAEPA. CCIQ worked closely with the Queensland Japan Chamber of Commerce and Industry to identify services exporters active in the Japanese market and canvas their interest in being interviewed. Six exporters were then interviewed telephonically, and they gave the following feedback:

## Knowledge of JAEPA

From the six respondents, three had no knowledge of JAEPA, despite direct export experience in the Japanese market. These companies operated in sectors such as legal services, tourism, and the arts.

From the other three respondents, only one had detailed knowledge of JAEPA. This respondent, the Queensland Resources Council (QRC) explained that the majority of their members were goods exporters, but services exporters were also part of their membership. The QRC stated that both goods and services exporters within their membership were familiar with JAEPA and its provisions.

The other two respondents included a major exporter of architecture, infrastructure, and event management services, as well as a branding, media, marketing, and communications specialist. Both these companies were active in Japan and had extensive knowledge of the market. Despite this, they had minimal knowledge and understanding of JAEPA.

## Other feedback – The value of relationships

Despite limited knowledge of JAEPA within this cohort, they gave some valuable insights into their experience of the Japanese market. One common theme was the importance of building and maintaining relationships with Japanese counterparts. The representative from Spruson and Ferguson<sup>11</sup> stated the following:

*“Doing business with Japanese clients requires extensive relationship-building. We need to advocate for the setting up of travel bubbles with safe countries in the region (eg. Japan) because that is central to building the relationships that are needed for doing business.”*

The relationship-building theme was also highlighted by the Queensland Resources Council (QRC). Their representative explained that:

*“The relationship between Australia and Japan is over 60 years old and, with Queensland, over 50 years old. Language and culture are, therefore, not an issue for the QRC and its membership. As a result, problems rarely emerge and, when they do, the relationship is strong enough to resolve them.”*

The architecture, infrastructure and event management company stated that they had started out in the Japanese market over a decade ago and worked through Austrade and Trade and Investment Queensland (TIQ) to connect with local counterparts. Their first projects came from connections with foreign partners established in Japan and via their own staff’s networking.

## Other feedback – Regulatory barriers

None of the six respondents had encountered significant regulatory barriers in their business with Japan. The QRC made the observation that “...contracts are honoured in Japan” and that this gave the market an edge over several other regional trading partners. This feedback was echoed by other respondents, and it painted the picture of a market with minimal regulatory barriers to services exporters.

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<sup>11</sup> Intellectual property lawyers

## Recommendations

1. Sector-specific JAEPA education is required, particularly for seafood exporters and manufacturing and services exports. These specialised sectors showed limited to no understanding of JAEPA and, given their role as key Queensland exports, CCIQ recommends targeted education and outreach targeting them.
2. CCIQ survey respondents also showed limited understanding of the rules of origin applicable to JAEPA. Given that rules of origin are crucial for taking advantage of the agreement, targeted education and outreach on rules of origin will potentially allow more companies to benefit from preferential terms of trade.
3. Education and outreach should be prioritised for organic agribusiness exporters to understand JAS Organic Standards. This gap was specifically identified in our survey and could also allow organic beef exporters, for example, to take full advantage of the Japanese export market.
4. Goods exporters cited COVID-induced supply chain constraints, such as the soaring cost of freight as further impediments to fully utilising JAEPA. The government could look to build on successful programmes such as the International Freight Assistance Mechanism (IFAM) to support exporters to key markets such as Japan.
5. Formal recognition of the option and benefits of chamber-issued certificates of origin should also be included in the JAEPA Agreement. Chamber-issued certificates of origin are both a risk-reduction and trade facilitation tool. Chambers that choose to utilise them should be able to reap the requisite benefits.
6. CCIQ strongly recommends increased funding for activities that serve to build relationships between Japanese and Australian companies. Examples include trade missions, exhibitions, and market visits, particularly for SMEs. The value of relationships was prominent in survey responses. It reinforces the value of this intangible asset in building on the success of JAEPA.

## Conclusion

CCIQ would like to thank the Department of Foreign Affairs and Trade (DFAT) for the opportunity to make a submission to this inquiry. If there are any questions in relation to the submission, please contact Gus Mandigora (Senior Policy Advisor) at [gmandigora@cciq.com.au](mailto:gmandigora@cciq.com.au)