

# Japan-Australia Economic Partnership Agreement

## Post-Implementation Review

December 2019

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## EXECUTIVE SUMMARY

The Japan-Australia Economic Partnership Agreement (JAEPA) entered into force on 15 January 2015. The Department of Foreign Affairs and Trade has conducted this Post-Implementation Review within five years of the implementation date, in accordance with the Australian Government's Guide to Regulation.

This Review has considered Australia's objectives of a free trade agreement with Japan, in light of the policy context leading up to JAEPA's entry into force, and the outcomes achieved in the first years of its implementation.

Analysis of relevant data outlined in this Review shows JAEPA has, to date, met its broad objective of expanding economic opportunities for Australian businesses and consumers through a closer economic partnership with Japan. In particular:

- economic flows between Australia and Japan have been liberalised through reduction of tariffs and other barriers to trade and investment;
- the value of Australia's goods exports to Japan has increased 16.8 per cent since the entry into force of JAEPA, driven by growth in key agricultural products as well as resources, energy and industrial commodities receiving JAEPA tariff preferences;
- the value of Australia's exports of travel and other services has increased 26.1 per cent since the entry into force of JAEPA;
- the value of two-way international investment between Australia and Japan has increased 31.6 per cent since the entry into force of JAEPA; and
- two-way people movements, including for business travel, have increased since the entry into force of JAEPA.

The analysis also shows JAEPA implementation has been effective and efficient:

- JAEPA has significantly reduced the tariff burden on Australian businesses and consumers;
- JAEPA preference utilisation rates have been above 90 per cent since its entry into force;
- compliance costs for business have been minimised, including through high take up of Declarations of Origin;
- JAEPA Committee mechanisms have minimised implementation costs while safeguarding the smooth implementation of the Agreement;
- JAEPA has been supported by government assistance to businesses; and
- JAEPA has had a positive impact on Australia's market access for key products, with few implementation issues, as highlighted by submissions to this review.

The overall conclusion is that JAEPA has delivered a net benefit in the five years since its entry into force, and will continue to do so in the future with the ongoing implementation of the Agreement.

## INTRODUCTION

1. This Post-Implementation Review relates to the Japan-Australia Economic Partnership Agreement (JAEPA), which entered into force on 15 January 2015.
2. In accordance with the Australian Government's Guide to Regulation, the Department of Foreign Affairs and Trade (DFAT) has conducted this Post-Implementation Review within five years of the implementation date.
3. The purpose of this Post-Implementation Review is to assess whether the regulation relating to JAEPA remains appropriate and how effective and efficient it has been in meeting its objectives.
4. This Post-Implementation review is required to address seven questions:
  - . What problem was the regulation meant to solve?
  - . Why was government action needed?
  - . What policy options were considered?
  - . What were the impacts of the regulation?
  - . Which stakeholders have been consulted?
  - . Has the regulation delivered a net benefit?
  - . How was the regulation implemented and evaluated?

### ***Background on JAEPA timelines and processes***

5. Negotiations on an economic partnership agreement (EPA) between Australia and Japan began in April 2007. Prior to commencement of negotiations, a joint government study on the feasibility of a bilateral trade agreement was completed.
6. The Australian Government welcomed 34 submissions from industry, business, state governments, peak bodies and individuals that helped inform Australia's approach to the negotiations. Over 450 domestic stakeholder consultations were also held during the negotiations.
7. The JAEPA negotiations concluded in April 2014. The Department of Foreign Affairs and Trade submitted a Regulatory Impact Statement on JAEPA to the Office of Best Practice Regulation (OBPR) in May 2014.
8. (Then) Prime Minister Abbott and Japanese Prime Minister Abe signed JAEPA and its Implementing Agreement in Canberra on 8 July 2014.
9. (Then) Trade and Investment Minister Robb tabled the text of the Agreement along with a National Interest Analysis in the Australian Parliament on 14 July 2014.
10. The Joint Standing Committee on Treaties (JSCOT) tabled its [report](#) of its inquiry into JAEPA in Parliament on 28 October 2014. The report supported JAEPA and recommended the Government take binding treaty action.

11. Following tabling of the report, then-Minister Robb introduced customs implementing legislation into Parliament on 29 October 2014. The [Senate Foreign Affairs, Defence and Trade Legislation Committee](#) reviewed the legislation and recommended the Senate pass the bills. The legislation was passed by Parliament on 27 November 2014, and related Regulations were amended.

12. The Japanese Parliament (Diet) passed JAEPA on 7 November 2014. Australia and Japan exchanged diplomatic notes on 16 December 2014, confirming the completion of domestic processes in both countries.

13. JAEPA entered into force on 15 January 2015. The first round of tariff cuts took place on entry into force. Subsequent annual cuts take place on 1 April each year (coinciding with the start of the Japanese fiscal year).

14. The JAEPA Joint Committee first met on January 2015, coinciding with the entry into force of the Agreement, and has since met in April 2017 and February 2019.<sup>1</sup> Two JAEPA sub-committees have also met.

### **Context**

15. In the lead up to the commencement of the JAEPA negotiations in 2007, Japan was a longstanding and highly complementary economic partner for Australia. Throughout the preceding decades, Japan had been a key investment partner and Australia's largest or second-largest trading partner.

16. At the commencement of the JAEPA negotiations Australia had in-force bilateral FTAs with New Zealand (1983), Singapore (2003), the United States (2005), and Thailand (2005). Concurrent with the JAEPA negotiations, Australia was also negotiating bilateral FTAs with Chile (entered into force in 2009), Malaysia (2013), the Republic of Korea (2014), and China (2015), as well as the regional ASEAN-Australia-New Zealand FTA (AANZFTA) (2010), the Trans-Pacific Partnership (TPP), and the Regional Comprehensive Economic Partnership (RCEP).

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<sup>1</sup> Information on outcomes from these meetings is provided later in this Review.

## PROBLEM IDENTIFICATION – WHAT WAS JAEPA MEANT TO RESOLVE?

17. In 2014, before the entry into force of JAEPA, Japan was Australia's second-largest trading partner with two-way goods and services trade valued at \$70.3 billion, and a trade surplus to Australia of \$30.1 billion. Japan was Australia's second-largest goods export destination (18.1 per cent of total exports) and third-largest source of imports (6.5 per cent). Japan was Australia's fourth-largest source of international investment (valued at \$187.6 billion) and fourth-largest Australian investment destination (\$72.4 billion).

18. Notwithstanding the strong and mutually beneficial trade and investment relationship between Australia and Japan over a sustained period, the absence of a bilateral trade agreement:

- constrained Australian producers' and exporters' ability to further expand trade, in the context of high tariffs (particularly for agricultural products);
- left Australian exporters vulnerable to market access disadvantage through third-party preferential agreements Japan had concluded, or was negotiating, with key competitors;
- meant higher costs for Australian consumers and businesses for key Japanese imports;
- meant barriers to services trade and investment were unable to be addressed, limiting profitability and international competitiveness; and
- was an impediment to Australia further developing its bilateral relationship with Japan, and building the trade and investment framework to underpin one of our most important strategic and economic partnerships.

### *High tariffs limited trade opportunities for Australia, particularly in agriculture*

19. In the absence of improved market access through a trade agreement, Australian exporters faced very high tariffs into Japan for many key products of export interest to Australia.

20. Japan's tariff barriers were particularly high in agriculture, a vital area of trade for Australia, with an average applied Most Favoured Nation (MFN) tariff of 16.6 per cent (2013). Despite this tariff burden, Japan was Australia's second-largest agricultural market, with an estimated total value of \$4.0 billion (or ten per cent of Australia's agricultural exports to the world) in 2013. It was Australia's largest market for beef, cheese, animal feed and offal, and an important destination for sugar, vegetable oils, seafood, and fruit and nuts.

21. Japan imposed high tariffs prior to JAEPA on a range of agricultural goods of interest to Australia, including beef, dairy, wheat, sugar, barley, vegetable oils, tuna and rice. For example, Japan imposed tariffs of 38.5 per cent on beef (which under certain circumstances could be increased up to 50 per cent) and up to 40 per cent on cheese. In addition to high tariffs, many agricultural exports faced a complex and

opaque regulatory framework that included tariff rate quotas, state trading arrangements, and special safeguard and emergency tariffs.

22. In the absence of a bilateral free trade agreement with Japan, Australian agricultural producers would have continued to face these very high tariffs and complex non-tariff barriers on key products.

23. In 2013, prior to conclusion of the JAEPA negotiations, Japan was Australia's second-largest market for non-agricultural goods, with Australian exports worth over \$42 billion. It was Australia's largest destination for coal and liquefied natural gas, second-largest destination for iron ore and a major market for petroleum and aluminium. Many of Australia's major resources and mineral exports (including coal, iron ore, liquefied natural gas, copper ore, and aluminium), constituting over 80 per cent of Australia's merchandise exports to Japan, entered Japan tariff free. However, with tariffs of up to 11.7 per cent on a range of other resources products, including coke and semi-coke of coal and non-crude petroleum, there was scope to improve market access for Australia's non-agricultural goods. Japan also applied tariffs up to 30 per cent on some manufactured products of interest to Australia, including textiles, forestry products, and hides and skins.

### ***Australian producers and exporters faced increasing competition in the Japanese market***

24. Japan had long been a vital market for Australia. However, Australia's ongoing competitive position was vulnerable.

25. Japan was in the process of negotiating trade agreements with Australia's key competitors, including bilaterally with the European Union (EU) and Canada and multilaterally with the United States (US) and New Zealand through the Trans-Pacific Partnership (TPP). Japan already had in place trade agreements with the Association of Southeast Asian Nations (ASEAN), Chile, India, Mexico, and Peru. An EPA with Japan would deliver earlier tariff elimination and reductions for Australia, position Australia well in TPP negotiations, and provide an opportunity to stay abreast of competitor countries by including renegotiation provisions should Japan provide better access in other trade deals.

26. In some sectors Japan's trade agreements in place meant Australia was already losing market share to Japan's other EPA partners. This was particularly the case with wine, for which Chile enjoyed a tariff advantage through its EPA with Japan. Since the Japan-Chile EPA entered into force, Japan's imports of Chilean wines more than doubled to \$178 million in 2013, while imports from Australia had decreased slightly, to \$46 million. JAEPA would help make our exported goods and services more competitive in Japan.

27. Over this period prior to the entry into force of JAEPA, Australian agricultural exporters were facing growing pressure from competitors in the Japanese market. The starkest example was beef. Australian beef producers had been losing market share to competitors from the US as Japan had progressively eased Bovine

Spongiform Encephalopathy (BSE)-related health restrictions against US beef. (Before the discovery of BSE in US beef in 2003, US beef dominated the Japanese market). JAEPA would provide Australian exporters a competitive advantage.

### ***Higher costs for Australian consumers and businesses for key imports from Japan***

28. For most goods subject to tariffs, the MFN general duty rate imposed by Australia on Japanese goods was five per cent.<sup>2</sup> Of particular significance, five per cent duties were levied on motor vehicle imports from Japan, worth \$8.2 billion in 2013. Other manufactured goods, including whitegoods and electrical items, were subject to tariffs that increased the costs for Australian consumers and businesses.

### ***Further opportunities for investment and trade in services***

29. An EPA with Japan would expand opportunities for Australian businesses by reducing barriers to services trade and investment that limited profitability and international competitiveness.

30. Japan's commitments in the World Trade Organization (WTO) on trade in services were limited. An EPA would facilitate opportunities to expand bilateral services trade and investment to the benefit of both countries. Through JAEPA, Japan would bind its regulatory regime in a much wider range of service sectors, providing greater certainty of treatment for Australian service providers and investors. A bilateral EPA with Japan would also improve protections and certainty for Japanese investors, making Australia a more attractive destination for Japanese investment.

### ***Further building the Australia-Japan partnership***

31. The Australia-Japan relationship was extremely strong, supported by significant bilateral architecture. Economically, the 1957 Commerce Agreement was a landmark agreement setting the agenda for increased bilateral trade and investment and closer economic integration. While this had served Australia and Japan well, a bilateral EPA would take the economic and bilateral relationship to a new level. JAEPA would provide improved market access and facilitation of trade and investment for both Australia and Japan, and enhance the bilateral relationship.

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<sup>2</sup> Note Australia's remaining 10 per cent MFN tariffs on certain clothing and textile imports were cut to 5 per cent in 2015.

## **OBJECTIVES – WHY WAS GOVERNMENT ACTION NEEDED?**

32. The Government's objective in negotiating JAEPA was to conclude a high-quality bilateral free trade agreement that would secure and improve Australia's competitiveness in the Japanese market, and to do so as soon as practicable. Finalisation of an EPA with Japan would achieve the following outcomes:

- improved goods market access, including through the elimination or reduction of Japanese tariffs on key Australian agricultural, resources, energy and manufacturing goods over the shortest possible timeframe;
- ongoing competitiveness for Australia's agricultural and services exports, including through renegotiation clauses should competitor countries secure better access with Japan;
- better access for Australian service suppliers in the Japanese market, including by eliminating or reducing restrictions on commercial presence, cross-border supply and foreign equity holdings;
- greater clarity and certainty of Japan's regulations for Australian service providers and investors through a binding of Japan's existing and future regulation;
- secure access to Japan's government procurement market;
- commitments to ensure rights of Australian intellectual property holders are protected effectively and enforced by Japan's intellectual property regime; and
- commitments to enhance the use of electronic commerce in goods and services, including by ensuring that customs duties will not be introduced on electronic transmissions.

33. It should be noted that FTAs such as JAEPA are not purely about trade. While FTAs are aimed primarily at optimising Australia's economic prosperity, they are also a strong platform for progressing Australia's bilateral relations, regional integration, and strategic interests. The Foreign Policy White Paper includes a target of FTAs covering 80 per cent of Australia's trade by 2020, and the Government has most recently committed that around 90 per cent of Australia's two-way trade will be covered by FTAs by 2022.

### ***What were the conclusions from the JAEPA Regulatory Impact Statement?***

34. The JAEPA Regulatory Impact Statement concluded it was in Australia's interests to enter into an EPA with Japan, as it was expected to:

- deliver commercially meaningful market access gains that benefit Australian agricultural producers, as well as energy and mineral resources exporters, service providers, consumers and investors;
- secure a competitive advantage for Australian exporters in the Japanese market against producers from Japan's other trading partners, particularly in



agriculture, ahead of other trade deals Japan was seeking to conclude with Australia's competitors;

- . deliver faster and deeper market access gains than those possible through multilateral WTO or regional negotiations;
- . be consistent with WTO requirements for free trade agreements, covering substantially all trade in goods and services; and
- . complement Australia's efforts to seek additional trade liberalisation from Japan through the WTO and regional mechanisms.

## WHAT POLICY OPTIONS WERE CONSIDERED?

35. As outlined in the 'Problem Identification' section, Japan maintained tariffs and other trade barriers on goods and services of interest to Australia. Without an EPA or other mechanism to reduce these restrictions, Australian exporters would be constrained in capitalising on the opportunities presented by Japan's large and affluent market. Furthermore, it was in Australia's interest to secure an early 'first mover' advantage in the Japanese market over Australia's competitors who were negotiating trade agreements with Japan.

36. The most viable option available to the Government to achieve these objectives was the negotiation of a bilateral free trade agreement with Japan. The following outlines other options available to the Government, including conducting concurrent regional/plurilateral and multilateral trade negotiations.

### *No action*

37. The absence of a new trade arrangement would have left Australia with, at best, the status quo, and the prospect of losing competitiveness in the Japanese market. With no action, high tariff barriers on key products would continue to constrain Australian exporters from fully capitalising on one of the world's most valuable markets. A no action scenario would erode Australia's competitive position compared to Japan's other trading partners, including Canada and the European Union, which were negotiating bilateral preferential EPAs with Japan. Failure to enter a bilateral preferential EPA ahead of these countries would place Australian producers at a disadvantage.

38. Taking no action would also maintain any applicable Australian tariffs on imports from Japan (dominated by passenger motor vehicles, refined petroleum and goods vehicles), depriving Australian consumers and businesses of more competitive imports.

### *Regional trade negotiations only*

39. At the time of launching JAEPA negotiations, regional trade options to deliver market access opportunities into Japan appeared not to be an option. However, by the time of JAEPA's entry into force in 2015, Australia and Japan were parties to two regional trade negotiations: the Regional Comprehensive Economic Partnership (RCEP) and the Trans-Pacific Partnership (TPP).

40. These negotiations were complementary rather than an alternative to JAEPA – the bilateral negotiations between Australia and Japan supported further progress in these regional efforts while providing early gains and protections for Australia.

41. TPP negotiations concluded in late 2016 with a high-quality agreement between the 12 TPP negotiating countries, including Australia and Japan. However, it was only in late 2018 that a slightly revised version of the original agreement - newly renamed the Comprehensive and Progressive Agreement for Trans-Pacific

Partnership (CPTPP) - entered into force. A bilateral FTA with Japan would deliver important opportunities for Australian exporters significantly earlier than the TPP.

42. RCEP negotiations included all ten ASEAN Member States and ASEAN's six FTA partners – Australia, China, India, Japan, Korea and New Zealand. The guiding principles for RCEP potentially allowed for negotiation of a high-quality, comprehensive agreement. However, RCEP negotiations were then at an early stage, with key decisions yet to be taken on the scope and level of goods and services market access. As RCEP negotiations were unlikely to conclude quickly, pursuing a bilateral FTA with Japan would deliver the objectives and specific outcomes sought in a more certain and timely manner.

### ***Multilateral trade negotiations***

43. The WTO Doha Round of trade negotiations, launched in 2001, included an ambitious agenda, with all 164 WTO members participating. Decisions were to be by consensus, and as a single undertaking— meaning there would be an entire agreement or none at all.

44. While the Doha Round was a vehicle for advancing Australia's trade interests with Japan, there was no certainty at the time it would deliver outcomes addressing Australia's specific priority interests with Japan as extensively, or in as timely a way, as was possible under a bilateral FTA with Japan.

45. In 2016, after 15 years of talks, the Doha round ended in stalemate. The ambitious agenda and wide divergence of views between WTO members were among the key factors in this outcome.

## WHAT WERE THE KEY OUTCOMES OF THE JAEPA NEGOTIATIONS?

46. JAEPA factsheets and other information published on the DFAT website outline the key outcomes of JAEPA for Australian stakeholders, including goods exporters, service suppliers, investors, consumers and businesses. The following information is adapted from the 'JAEPA Outcomes at a Glance' Factsheet.<sup>3</sup>

### *For Australian goods exporters*

47. On full implementation of JAEPA on 1 April 2034, around 98 per cent of Australia's merchandise exports to Japan will receive preferential access or enter duty-free.

48. Japan's **agriculture** market has historically been heavily protected due to Japan's domestic sensitivities. Australia was one of the first significant agricultural producing countries to have a comprehensive trade agreement with Japan, providing Australian exporters with a competitive advantage. On JAEPA's entry into force in January 2015, Japan eliminated tariffs for Australian bulk wine, high polarity (international standard) raw sugar, milk protein concentrates, lactose and casein, wheat and barley for animal feed, some horticulture (including asparagus, macadamia nuts, almonds and mangoes), and some seafood (lobsters, prawns, oysters, crabs and abalone). Tariffs on most other agricultural exports are being phased out over several years. Other key outcomes include:

- . Beef: rapid tariff reductions for Australia's largest agricultural export to Japan, providing a significant competitive advantage over our major competitor, the United States;
- . Wine: elimination of the 15 per cent tariff on bottled wine by 1 April 2021, and immediate elimination of the tariff on bulk wine;
- . Dairy: duty-free quotas for Australian cheese, and new opportunities for ice-cream and frozen yoghurt; and
- . Seafood: the tariff on Australia's largest seafood export to Japan, tuna, and Atlantic salmon, will be phased out by 1 April 2024.

49. From entry into force of JAEPA, almost all of Australia's exports of **resources, energy and manufacturing** products enter Japan duty-free. Upon full implementation on 1 April 2034, all of Australia's resources, energy and manufactured goods exports will enter Japan duty-free.

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<sup>3</sup> Further detailed information is available from other Factsheets relating to the JAEPA Implementation Timeline; Built-in Agenda; Agriculture and Processed Food; Resources, energy and manufacturing; Trade in goods – rules; Services and investment; Financial services; Movement of Natural Persons; Government Procurement; and Intellectual property, electronic commerce and competition policy.

50. Resources, energy and manufacturing outcomes include:
- immediate elimination of tariffs for coke and semi-coke of coal, non-crude petroleum oils, aluminium hydroxide and titanium dioxide;
  - phased elimination of tariffs for unwrought nickel and ferro-manganese; and
  - immediate elimination of tariffs on paints, key plastic products and pearl jewellery.

### ***For Australian services suppliers***

51. JAEPA provisions give greater clarity and certainty for Australian service suppliers by binding Japan's existing market access, and committing Japan to lock-in future improvements to its regulatory regime. JAEPA provides Australia with better treatment in trade in services, including financial services, education services, legal and other professional services, than that under Japan's WTO commitments. JAEPA provides Australian services exporters with treatment equivalent to the best Japan has agreed with any other trading partner. Key outcomes include:

- new commitments allowing cross-border access to Japan for Australian fund managers providing wholesale investment advice and portfolio management services;
- Australian law firms guaranteed market access to the Japanese legal services market;
- Australian education providers guaranteed market access to Japan's higher education services market, including vocational and technical education;
- Australian telecommunications providers can benefit from commitments on non-discriminatory treatment, regulatory transparency, competitive safeguards and fair and reasonable access to telecommunications networks and services;
- for Australian professionals (including architects, engineers and accountants), existing market access is guaranteed and Japan committed to extend to them any future preferential treatment for the professionals of other countries; and
- Australian innovators and creative industries to enjoy high levels of intellectual property protection in Japan, broadly equivalent to protections in Australia.

### ***For investors***

52. JAEPA promotes investment supporting further growth and diversification in the Australian economy through liberalising the screening threshold for consideration of private Japanese investment in non-sensitive sectors by the Foreign Investment Review Board from \$252 million to \$1.154 billion.<sup>4</sup> Australia retains the ability to screen proposals for investment in sensitive sectors, and agricultural land and agribusinesses at lower levels. JAEPA also provides enhanced protections and certainty for bilateral investments.

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<sup>4</sup> As at 1 January 2019. The threshold is indexed annually.

53. JAEPA provides enhanced protections and certainty for Australian investors in Japan, with provisions to ensure non-discrimination, protection and security for investments. In particular:

- . all forms of investment are protected, including enterprises, shares and stocks, debt instruments and property rights;
- . Australian investors and investments may not be treated less favourably than Japanese investors with respect to the establishment, acquisition, operation and sale of investments in Japan;
- . Australian investments may not be expropriated or nationalised in a discriminatory way or in the absence of prompt, adequate and effective compensation; and
- . investments must be treated in accordance with an internationally accepted minimum standard of treatment, which includes obligations of fair and equitable treatment and full protection and security of investments.

### ***For Australian consumers and businesses***

54. Consistent with Australia's other bilateral trade agreements, remaining Australian tariffs on Japanese imports are being eliminated progressively. This includes removing the five per cent tariff on Japanese passenger and goods motor vehicles, electronics and white goods, with consumers and businesses to benefit from lower prices and/or greater availability of Japanese products.

55. For some of Australia's sensitive sectors (some auto parts, steel, copper, plastics, chemicals and clothing, textiles and footwear), the five per cent tariff will be phased out over periods of up to eight years.

### ***Is JAEPA consistent with Australia's overall trade policy objectives?***

56. JAEPA is consistent with Australia's trade policy objectives as it is a high-quality trade agreement that substantially liberalises Australia's trade with a major economy and complements multilateral and regional trade liberalisation. JAEPA is consistent with Australia's existing international commitments, including those under the WTO Agreement.

## WHAT HAVE BEEN THE IMPACTS OF THE REGULATION TO DATE?

### *Preliminary discussion*

57. The analysis of the impacts of JAEPA set out below identifies the key stakeholders impacted by JAEPA, and considers broad trade and investment trends. It also analyses product-, sector- and stakeholder-specific outcomes. The analysis draws heavily on data in the JAEPA Regulatory Impact Statement, including comparison of the actual outcomes with the expected outcomes articulated therein.

58. In considering outcomes, it should be recognised JAEPA was the result of a negotiated outcome between sovereign nations. While the conclusion of JAEPA represented an overall ‘win-win’ for Australia and Japan, this does not mean all stakeholders got the outcome they wanted, particularly for sensitive agricultural products.

59. While JAEPA represents a regulatory intervention, we should acknowledge it differs from domestic laws falling solely under Australian sovereignty.

60. We should also note the myriad of influences on trade and investment flows between countries, such as prevailing economic conditions, exchange rate fluctuations, supply and demand factors, and environmental factors such as weather and natural disasters.<sup>5</sup> Determining a ‘cause and effect’ relationship between an FTA and trade and investment outcomes is not always feasible. Measuring the counterfactual – what would have happened if the FTA had not entered into force – is also complex. Moreover, data considered in isolation may not always reveal the full picture – there may be instances where, for example, Australia’s exports have decreased following JAEPA’s entry into force, but market share has increased due to a higher-than-proportionate decrease in Japan’s imports from other markets. Finally, comparisons between Australian and partner-country trade data can be difficult, reflecting valuation differences, transshipments through third-party countries and timing issues.

61. Analysis of the impact of JAEPA should also take into account the effect of the significant expansion of Australian resources exports in the years before JAEPA entered into force, which can influence data trends and impact on time-series data analysis.

62. Note that all data in this Review reflects nominal Australian dollars.<sup>6</sup>

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<sup>5</sup> Note the Australian dollar has depreciated against the Japanese yen since the entry into force of JAEPA, from 91.83 in January 2015 to 75.26 in October 2019.

<sup>6</sup> Unless otherwise indicated. Note it is not feasible to determine movements in real terms, due to the absence of Japan-specific deflators across exports and imports. Where feasible, analysis in this Review includes value and volume data. For a simple analysis of domestic consumer price movements between 2014 and 2018, note A\$1,000.00 in 2014 equated to A\$1,068.11 in 2018 (Source: [RBA](#)).

## ***Who are the key Australian stakeholders impacted by JAEPA?***

63. The main Australian stakeholders affected by JAEPA include:
- producers and exporters, particularly in the agriculture sector, whose products may benefit from improved competitiveness in the Japanese market as tariffs and other trade barriers are reduced or eliminated;
  - consumers and businesses, who may benefit from more competitively-priced imports and a broader choice of Japanese-made products under JAEPA;
  - importers, who may benefit from improved access to quality intermediary goods and equipment from Japan, and may be able to source an increased choice of imports;
  - manufacturers, who may face increased competition from Japanese-made goods but may also benefit from improved demand for their products as a result of JAEPA;
  - service providers, who may benefit from increased business activity in Australia as a result of JAEPA and improved access to the significant and well-developed Japanese market in key areas of commercial interest including financial, education, telecommunications and legal services;
  - businesses and investors, who may benefit from increased business activity in Australia as a result of JAEPA, through attracting greater Japanese investment for projects and ventures in Australia, and through business and investment opportunities in Japan;
  - employees, who may benefit from improved career and job prospects through increased business activity resulting from JAEPA; and
  - governments and institutional partners, including the education and tourism sectors, which may benefit from JAEPA's contribution to greater regional, economic and people-to-people links between Australia and Japan.

## ***What has happened with broad bilateral trade and investment post-JAEPA?***

64. Chart 1 shows Australia's goods trade with Japan from 2010 through 2018. Goods exports initially dipped in 2015 and 2016, before increasing strongly to reach \$56.3 billion in 2018 (up 16.8 per cent on \$48.2 billion in 2014 before JAEPA). The decrease in exports in 2015 and 2016 was driven by downturns in exports of liquefied gases including Liquefied Natural Gas (LNG), iron ores and concentrates, and aluminium (down over \$10.6 billion combined in 2016 compared to 2014).<sup>7</sup>

65. Goods imports grew steadily following JAEPA's entry into force to reach \$22.8 billion in 2018 (up 32.1 per cent on \$17.2 billion in 2014). The key drivers have been motor vehicles, gold, engineering equipment and parts, and refined petroleum.

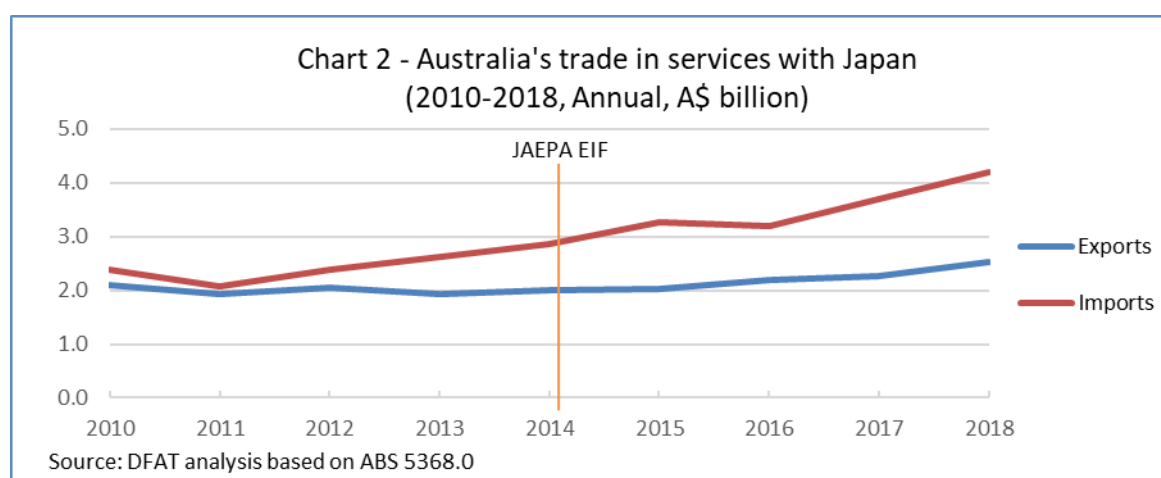
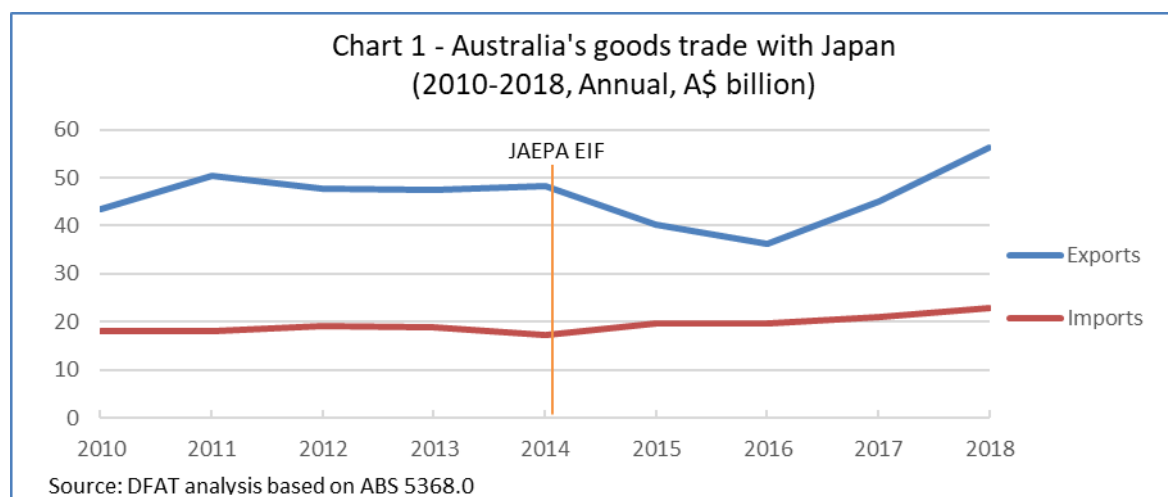
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<sup>7</sup> Exports of *Confidential items of trade* also fell over \$900 million between 2014 and 2016. Note some exports including LNG increased sharply following Japan's 2012 earthquake and tsunami.



66. Chart 2 shows Australia's services exports to Japan reached \$2.5 billion in 2018 (up 26.1 per cent on \$2.0 billion in 2014), and services imports grew to \$4.2 billion in 2018 (up 46.6 per cent on \$2.9 billion in 2014). Movements in trade in services have been heavily influenced by personal travel (see analysis below).

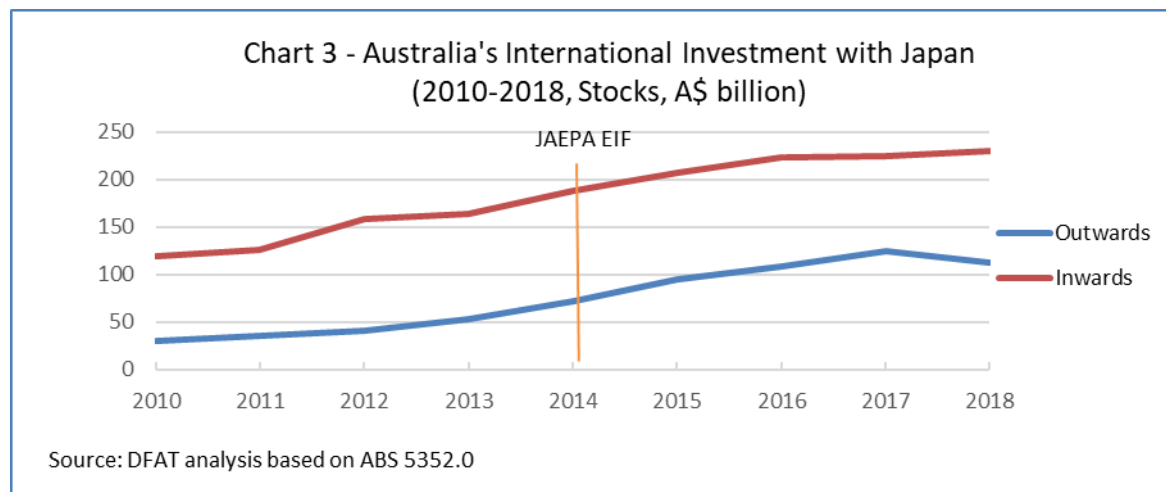
67. Japan was Australia's second-largest goods and services trading partner in 2018 behind China (unchanged from 2014), with 10.1 per cent of Australia's total trade (down slightly from 10.4 per cent in 2014).<sup>8</sup>



68. Chart 3 shows Australia's inwards investment from Japan has increased steadily since the entry into force of JAEPA, reaching \$229.3 billion in 2018 (up 22.2 per cent on \$187.6 billion in 2014). Australia's investment in Japan reached \$113.0 billion in 2018, down slightly from a high of \$125.2 billion in 2017 (but up 56.1 per cent on \$72.4 billion in 2014).

<sup>8</sup> Note this outcome may reflect the strong growth in trade with China during this period.

69. Japan was Australia’s fourth-largest international investor in 2018 (unchanged from 2014), with around 6.5 per cent of total investment stocks (down slightly from 6.6 per cent in 2014). Japan was Australia’s third-largest destination for outwards investment in 2018 (up from fourth in 2014), with around 4.5 per cent of total investment stocks (up from 3.7 per cent in 2014).



**Observation 1:**

Overall trade and investment flows between Australia and Japan have grown since entry into force of JAEPA.

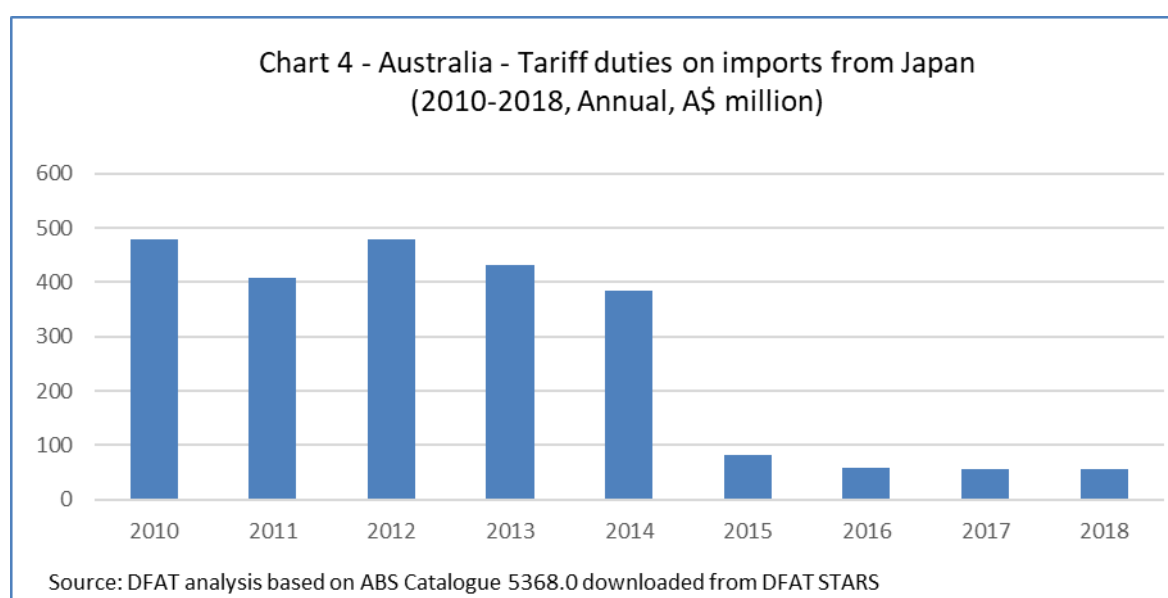
***What has happened with tariffs since JAEPA entered into force?***

70. Analysis included in the JAEPA Regulatory Impact Statement indicated Japan eliminated tariffs on 92.8 per cent of Japan’s imports (by value) from Australia immediately on entry into force of the Agreement. On full implementation of the Agreement, around 98 per cent of the goods flow into Japan from Australia (by value) is expected to benefit from preferential tariff treatment (including tariff reductions and quota arrangements). Note that JAEPA excludes a limited number of products identified by Japan as most sensitive, including rice, fresh milk and certain fur skin products. These lines accounted for 2.5 per cent of Japan’s imports from Australia in 2013. Japan excluded these sensitive products from their previous FTAs, meaning Australian exporters are not disadvantaged in relation to their competitors by the exclusion of these products from JAEPA. (Australia stands to benefit from additional market access provided through the CPTPP for some of these sensitive products. In respect of rice, Australian producers retain access to a WTO country-specific quota).

71. Australia eliminated tariffs on 82.7 per cent (by value) of merchandise imports from Japan on entry into force of JAEPA. From 1 April 2016 (year three of JAEPA), this increased to 95 per cent (by value) of imports, with remaining tariffs to be phased out by 1 April 2021 (year eight of JAEPA).

72. Tariff reductions reduce the overall costs of imported goods, resulting in improved price-competitiveness in the marketplace and cheaper prices for imported goods. In simple economic terms, elimination or reduction of tariffs and other barriers to the bilateral flow of goods reduces the costs of trade and helps increase the competitiveness of the Australian economy.

73. Chart 4 shows tariff duties collected on Australia’s imports of goods from Japan has dropped significantly following the entry into force of JAEPA. In 2018, \$55.7 million in duties were collected, representing an 85.5 per cent decrease from the \$383.9 million collected in 2014. The duties collected between 2015 and 2018 totalled \$252.8 million compared to \$1,701.4 million in a similar period before JAEPA, representing an average annual saving to Australian importers and consumers of around \$362 million.



74. In 2018, tariff duties accounted for 0.24 per cent of the value of total goods imports from Japan, compared to 2.23 per cent in 2014. This represents a significant tariff saving of almost two per cent of the value of all goods imports from Japan, which translates to cheaper prices for importers, businesses and consumers.

75. Note that equivalent data on tariff duties collected by Japan on imports from Australia is not available. However, our assessment is that the tariff savings have been significant.

**Observation 2:**

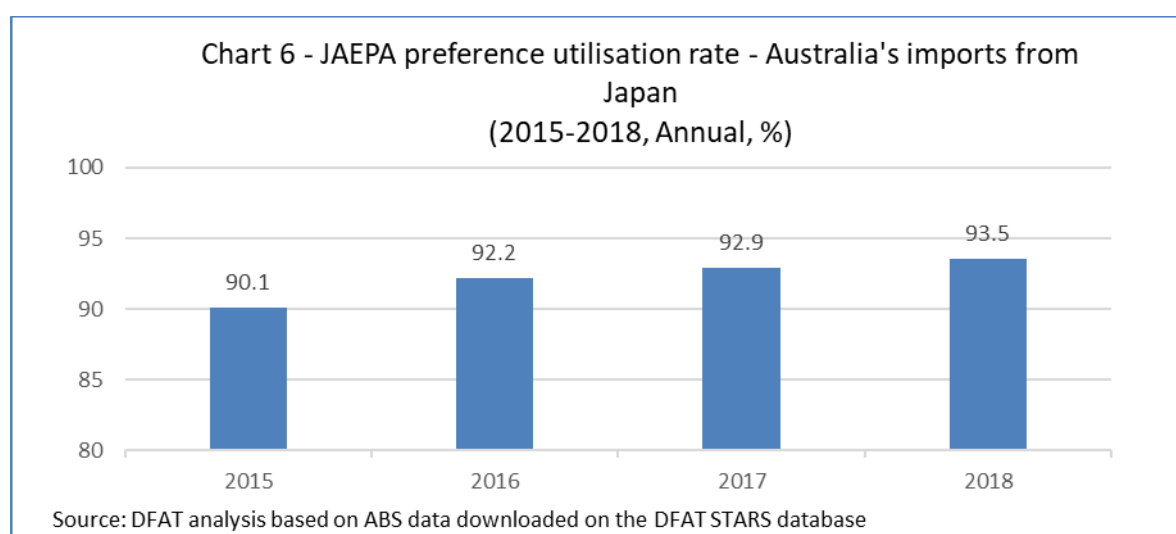
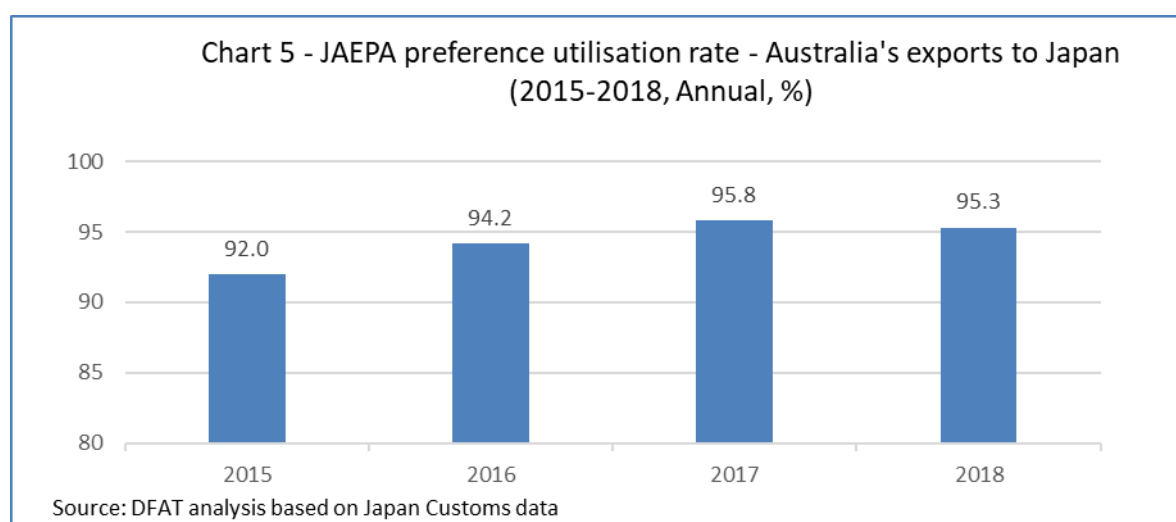
JAEPA has resulted in substantial tariff savings, benefitting Australian and Japanese businesses and consumers.

76. Separate to tariff cuts, a key outcome of JAEPA has been improved certainty for traders through ‘binding’ or locking in tariff settings. Before JAEPA, many key Australia exports entered Japan under zero tariffs under MFN arrangements. However, these tariffs were not ‘bound’ under WTO rules, which meant that Japan had discretion to adjust the rate upwards in the future. JAEPA locks in the zero tariffs on these products, ensuring future certainty for Australian exporters.

### *How well have JAEPA tariff preferences been utilised?*

77. Chart 5 shows JAEPA preference utilisation<sup>9</sup> for Australia’s exports to Japan has trended upwards from 92.0 per cent in 2015 to a high of 95.8 per cent in 2017, before falling slightly to 95.3 per cent in 2018.

78. Chart 6 shows JAEPA preference utilisation for Australia’s imports from Japan has also trended upwards since JAEPA’s entry into force, rising from 90.1 per cent in 2015 to 93.5 per cent in 2018.



<sup>9</sup> JAEPA preference utilisation rates are calculated as the value of imports that claim a JAEPA preference over the value of imports that may be eligible to claim a JAEPA preference.

**Observation 3:**

Two-way JAEPA preference utilisation has been strong, and has generally trended upwards since entry into force of the Agreement. This means that businesses and consumers have benefitted from tariff savings from traders' strong uptake of JAEPA preferential tariffs.

***What has happened with key agricultural and processed food exports to Japan since entry into force of JAEPA?***

79. Table 1 outlines the key market access outcomes for agricultural products under JAEPA, including a comparison between the value of exports in 2014 (before JAEPA's entry into force) and 2018.<sup>10</sup> The combined value of exports in 2018 for the key agricultural products listed was around \$4.2 billion, up around 43 per cent on 2014.

**Table 1: Key agricultural market access outcomes for Australia**

Product	Japan's MFN tariff	JAEPA outcome	Australian exports to Japan (\$ million, 2014)	Australian exports to Japan (\$ million, 2018)
Beef	38.5	<ul style="list-style-type: none"><li>Tariffs reduced to 19.5 per cent for frozen beef and 23.5 per cent for fresh and chilled beef over 18 and 15 years with a safeguard set above current trade levels</li><li>Significant frontloading of tariff cuts to provide earlier benefits – 6 and 8 percentage points off fresh and frozen beef respectively on entry into force</li><li>Australia to never face 'snapback' tariff of 50 per cent</li><li>Renegotiation after five years, and if a competitor gets better access</li><li>Renegotiation of safeguard after ten years</li></ul>	1,433.5	2,269

<sup>10</sup> The methodological approach taken in this review is to use 2014 and 2018 as comparison points, noting JAEPA entered into force on 15 January 2015 and 2018 is the latest available calendar year dataset. While this is a valid statistical approach, it is worth noting that, anecdotally, there may be an uptick in trade before entry into force of an FTA, as businesses make strategic market entry or expansion decisions.

Product	Japan's MFN tariff	JAEP A outcome	Australian exports to Japan (\$ million, 2014)	Australian exports to Japan (\$ million, 2018)
Dairy	0 – 40  specific tariffs up to ¥1,199/kg (\$12.62/kg) <sup>11</sup>	<ul style="list-style-type: none"> <li>• Tariff elimination on casein, lactose, albumen, and milk-based proteins on entry into force</li> <li>• Immediate duty free quotas for <ul style="list-style-type: none"> <li>○ natural cheese for processing (Australia's largest dairy export) growing from 4,000 tonnes to 20,000 tonnes over 20 years</li> <li>○ cheese for shredding growing from 1,000 to 5,000 tonnes over ten years</li> </ul> </li> <li>• Tariff reductions on <ul style="list-style-type: none"> <li>○ grated / powdered cheese for a quota growing to 1,000 tonnes over ten years</li> <li>○ processed cheese for a quota growing to 100 tonnes</li> <li>○ blue veined cheese (no volume restrictions)</li> </ul> </li> <li>• Tariff reductions on ice-cream and yoghurt under growing quotas</li> <li>• Renegotiation after five years, and if a competitor gets better access</li> </ul>	448.1	539.2
Wheat and its milling products	0 – 21.3  specific tariffs up to ¥50/kg (\$0.53/kg)	<ul style="list-style-type: none"> <li>• Tariff elimination on wheat for feed on entry into force, and for wheat gluten over ten years</li> <li>• Streamlined export processes</li> </ul>	317.6	350.7

<sup>11</sup> Currency conversions in this Table are based on analysis at the time of the JAEP A Regulatory Impact Statement i.e. ¥95.02 per Australian dollar (as at 2 May 2014; source: Reserve Bank of Australia). The exchange rate was ¥75.26 per Australian dollar (as at 31 October 2019).

Product	Japan's MFN tariff	JAEPA outcome	Australian exports to Japan (\$ million, 2014)	Australian exports to Japan (\$ million, 2018)
		<ul style="list-style-type: none"> <li>Immediate tariff elimination on dextrin under a quota of 14,000 tonnes</li> <li>Renegotiation after five years, and if a competitor gets better access</li> </ul>		
Barley and malt	0 – ¥39/kg (\$0.41/kg)	<ul style="list-style-type: none"> <li>Tariff elimination on barley (for feed) on entry into force</li> <li>Streamlined export processes for barley</li> <li>Renegotiate after five years, and if a competitor gets better access</li> <li>Large duty-free quota for unroasted malt on entry into force</li> </ul>	216.6	327.1
Sugar	35.3 – up to ¥106.2/kg (\$1.12/kg)	<ul style="list-style-type: none"> <li>Tariff elimination and on high polarity raw sugar on entry into force</li> <li>Reduction in the levy on high polarity raw sugar</li> <li>Renegotiation after five years, and if a competitor gets better access</li> </ul>	178.8	313.4
Seafood	0 – 15	<ul style="list-style-type: none"> <li>Tariff elimination on entry into force for crustaceans, shellfish and some fish</li> <li>Tariff elimination over ten years for southern bluefin tuna, swordfish, marlin and salmon</li> </ul>	189.5	186.4
Beef offal, prepared and preserved beef meat	12.8 – 50	<ul style="list-style-type: none"> <li>Tariff reductions under a growing quota for beef offal</li> <li>Tariff reductions under a growing quota for prepared and preserved beef meat</li> <li>Renegotiation after five years, and if a competitor gets better access</li> </ul>	181.4	244.7
Wine and beer	15 – 23 specific tariffs up to ¥182/litre (\$1.92/litre)	<ul style="list-style-type: none"> <li>Tariffs eliminated on bottled wine and sparkling wine (over seven years), bulk wine (on entry into force and over</li> </ul>	40.4	57.8

Product	Japan's MFN tariff	JAEPA outcome	Australian exports to Japan (\$ million, 2014)	Australian exports to Japan (\$ million, 2018)
		<ul style="list-style-type: none"> <li>ten years) and fortified wine and cider (over five years)</li> <li>Tariffs on beer bound at zero</li> </ul>		
Citrus	16 – 32 (seasonal)	<ul style="list-style-type: none"> <li>Elimination of in-season tariff over ten years</li> </ul>	34.7	68.9
Juices <sup>12</sup>	5 – 29.8 Specific duties up to ¥23/kg (\$0.24/kg)	<ul style="list-style-type: none"> <li>Tariffs on grape, grapefruit mixed vegetable and carrot juice eliminated over five to ten years</li> <li>New quotas with tariff reductions for orange and apple juice</li> </ul>	17.6	10.4
Condiments and soups	7.2 – 21.3	<ul style="list-style-type: none"> <li>Tariff elimination on jam, peanut butter, sauces and soups over five to ten years</li> </ul>	43.1	54.8
Vegetables	0-15 Specific duties up to ¥354/kg (\$3.73/kg)	<ul style="list-style-type: none"> <li>Immediate elimination of tariffs on asparagus and many other fresh vegetables</li> <li>Tariffs on canned tomatoes eliminated over five years</li> </ul>	25.1	36.3
Chocolate	0 – 29.8 Specific tariffs up to ¥679/kg (\$7.15/kg)	<ul style="list-style-type: none"> <li>A growing duty-free quota for chocolate slabs</li> <li>Tariff reductions on a range of other chocolate products, from entry into force up to ten years</li> </ul>	36.6	49.0
Live cattle	Specific tariffs of ¥38,250/head (\$403/head) and ¥63,750/head (\$671/head)	<ul style="list-style-type: none"> <li>Tariff reduction of 20 per cent on entry into force</li> <li>Renegotiation after five years, and if a competitor gets better access</li> </ul>	13.8	34.4
Nuts	0 – 12	<ul style="list-style-type: none"> <li>Tariff elimination on macadamia nuts, almonds, pecans and hazelnuts on entry into force</li> <li>Elimination over five years for walnuts and ten years for chestnuts</li> </ul>	18.9	52.1

<sup>12</sup> The downturn in exports of juices to Japan between 2014 and 2018 relates mainly to juices of any single fruit (other than citrus, pineapple, tomato, apple, cranberry, or grape juices), and mixtures of vegetable juices. While Australia's data shows a downturn in exports, Japan's data on imports from Australia shows 2018 imports were roughly the same as in 2014. The difference between the Australian export and Japan import figures may reflect transshipment of some Australian exports through third-party countries.



Product	Japan's MFN tariff	JAEPA outcome	Australian exports to Japan (\$ million, 2014)	Australian exports to Japan (\$ million, 2018)
Vegetable oils	Specific tariffs up to ¥13.2/kg (\$0.14/kg)	<ul style="list-style-type: none"> <li>Tariffs on canola oil, cottonseed oil, mixed oils, safflower oil, sunflower oil, sesame oil, linseed oil eliminated over five to ten years</li> <li>Olive oil tariff bound at zero</li> </ul>	6.7	4.6
Wool grease (and lanolin)	1.2	<ul style="list-style-type: none"> <li>Tariff elimination on entry into force</li> </ul>	4.4	4.0
Other fruit	0 – 25	<ul style="list-style-type: none"> <li>Tariffs eliminated on mangoes, cherries, strawberries, apples, table grapes and stone fruit from entry into force or over up to ten years</li> <li>Tariffs eliminated on canned peaches and pears over seven years</li> </ul>	3.5	45.0
Pork meat, offal and prepared or preserved pork meat products	0 – 20 Specific tariffs up to ¥482/kg (\$5.07/kg)	<ul style="list-style-type: none"> <li>Tariff reductions under a growing quota for pork meat, offal and prepared or preserved meat products</li> <li>Exemption from Japan's price safeguard</li> </ul>	2.6	3.7
Honey	25.5	<ul style="list-style-type: none"> <li>Tariff eliminated over ten years under a growing quota</li> </ul>	0.5	1.7

Source: Australian Bureau of Statistics, WTO

80. Table 1 does not include significant agricultural products that entered Japan duty-free before JAEPA, including fodder (worth \$182.7 million in 2014, \$227.7 million in 2018), oilseeds (\$126.1 million and \$116.5 million), sheep and goat meat (\$123.5 million and \$151.8 million), and wool (\$12.6 million and \$23.7 million). Note that Japan bound its tariffs for these products at zero under JAEPA thereby safeguarding Australian exporters against possible future MFN tariff rate changes.

**Observation 4:**

Key agricultural products expected to benefit from JAEPA have overwhelmingly recorded increased exports since entry into force of the Agreement. Some exports, including sugar, live cattle, nuts, citrus, and other fruits have recorded strong growth trends.

81. Attachment A provides further detail on the outcomes of JAEPA for Australia's key agricultural exports.

## What has happened with key resources, energy and industrial exports to Japan since entry into force of JAEPA?

82. Table 2 outlines the key market access outcomes for resources, energy and industrial products under JAEPA, including a comparison between exports in 2014 (before entry into force) and 2018. The combined value of exports in 2018 for the key products listed was around \$760 million, up around 86 per cent on 2014.

83. Table 2 does not include mineral and energy exports that already entered Japan duty free before JAEPA, including coal (worth \$11.9 billion in 2014, 19.0 billion in 2018), iron ore (\$8.4 billion and \$5.1 billion), and liquefied natural gas (LNG) (\$16.2 billion and \$18.7 billion). Note that Japan bound tariffs for these products at zero under JAEPA thereby safeguarding Australian exporters against MFN tariff rate changes.

**Table 2: Key resources, energy and industrial market access outcomes for Australia**

Product	Japan's MFN tariff	JAEPA outcome (years until tariff elimination)	Australian Exports to Japan (\$ million, 2014)	Australian Exports to Japan (\$ million, 2018)
Unwrought nickel (unalloyed)*	11.7 per cent or ¥44/kg (\$0.46/kg), whichever is less	7	140.2	327.0
Non-crude petroleum oils	ranging up to 7.9 per cent	0	59.9	152.3
Aluminium hydroxide	3.3 per cent	0	111.0	129.7
Ferro manganese*	6.3 per cent	7	35.8	58.7
Ferrosilicon manganese	2.5 per cent	7	15.8	22.8
Titanium dioxide*	3.2 per cent	0	15.8	23.7
Paints and varnishes	Up to 4.0 per cent	0	6.6	2.2
Plastic products	Up to 6.5 per cent	0	8.3	12.5
Sausage casings	4.0 per cent	0	15.8	33.9
Shaving preparations and deodorants	Up to 4.8 per cent	0	1.0	1.9

\*Japanese import data. Sources: Australian Bureau of Statistics, WTO, IHS Markit

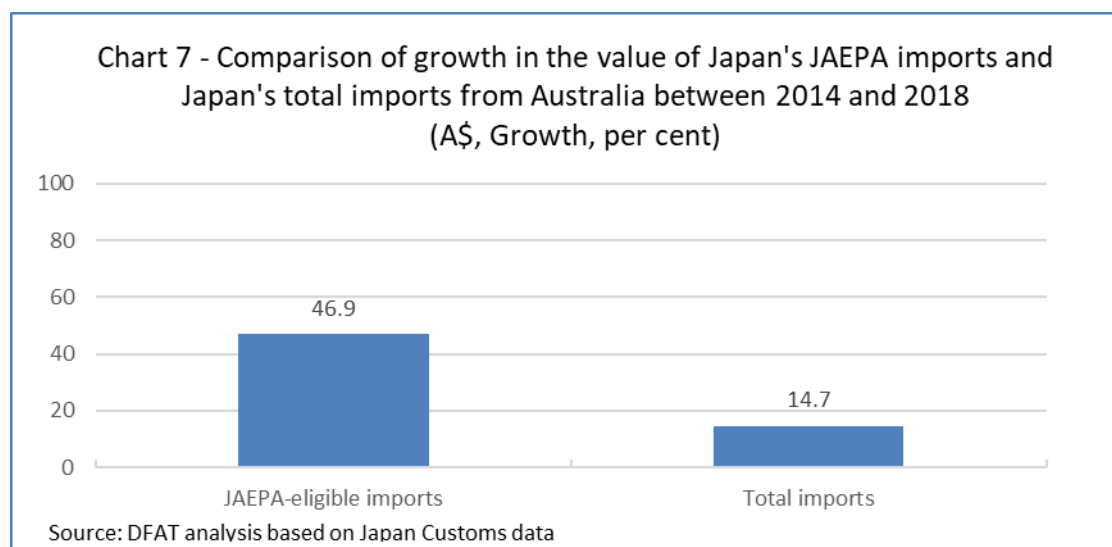
### **Observation 5:**

Resources, energy and industrial products expected to benefit from JAEPA have recorded increased exports since entry into force of the Agreement.

## How have JAEPA-eligible goods exports performed in comparison with total goods exports?

84. Chart 7 shows the value of JAEPA-eligible goods imports to Japan from Australia increased 46.9 per cent between 2014 and 2018. In the same period, total imports (including under existing MFN zero lines) grew by around 14.7 per cent. In

effect, trade receiving JAEPA preferential treatment has grown at around three times the rate of total trade, suggesting JAEPA has resulted in expansion of Australia’s exports particularly for products where JAEPA is eliminating tariffs.<sup>13</sup>



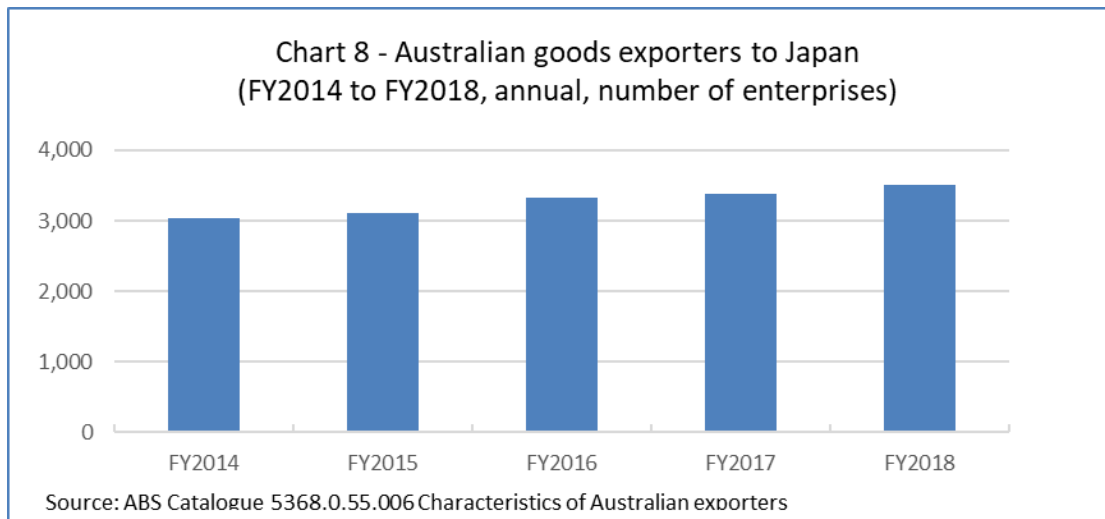
**Observation 6:**  
JAEPA-eligible exports have outperformed total exports since JAEPA’s entry into force.

### ***What has happened with exporter statistics since entry into force of JAEPA?***

85. Chart 8 indicates the number of Australian businesses exporting goods to Japan increased each year from 3,031 in 2013-14 to 3,512 in 2017-18 (up 15.9 per cent).<sup>14</sup>

<sup>13</sup> Note this analysis has been on Japan’s import data (rather than Australia’s export data) to facilitate alignment with JAEPA tariff schedules.

<sup>14</sup> Based on the Australian Bureau of Statistics ‘Type of Activity Unit’ business counts.



86. Chart 9 shows the number of Australian export transactions to Japan increased from around 161,000 in 2013-14 to around 198,000 in 2017-18 (up 23.0 per cent).



**Observation 7:**

Export activity in terms of both number of businesses and number of transactions has increased since the entry into force of JAEPA.

***What has happened with key imports from Japan since entry into force of JAEPA?***

87. Table 3 summarises the key goods market access concessions Australia granted Japan under JAEPA, along with a comparison between imports in 2014 and 2018. The combined value of exports in 2018 for the key products listed was around \$12.4 billion, up around 20 per cent on 2014.

**Table 3: Key goods market access outcomes for Japan**

Product	Australia's MFN applied tariff (per cent)	Years until tariff elimination	Australia's imports from Japan (\$ million, 2014)	Australia's imports from Japan (\$ million, 2018)
Passenger motor vehicles	5	0, 3 <sup>15</sup>	5,894.1	8,260.1
Goods, buses and other vehicles	5	0, 3	1,597.6	1961.8
Vehicle parts	5	3, 5	1,011.4	862.7
Tubes and pipes of iron or steel	5	5	782.9	54.0
Aerials and cameras (incl. television, digital, video)	0, 5	0	123.3	148.5
Fork lift trucks	5	0	97.0	139.7
Water heaters and heat exchange units	5	0	91.4	107.7
Certain industrial machinery	5	0	97.7	101.0
Photographic goods	0, 5	0	52.8	46.6
Electrical transformers, static converters and inductors	0, 5	0	26.4	11.7
Flat-rolled steel products	5	0	32.6	20.2
Certain machinery parts	0, 5	0	51.2	187.8
Printing ink	5	0	37.5	38.3
Paper and paperboard	0, 5	0	54.4	59.7
Cranes and lifting frames	5	0	25.1	22.6
Hand tools	0, 5	0	37.6	41.3
Ball or roller bearings*	5	0	43.6	42.7
Valves*	0, 5	0	44.7	45.7
Electric generating sets and rotary converters	0, 5	0	23.0	18.9
Liquids pumps*	0, 5	0	49.8	53.4
Electrical switches, fuses, plugs, etc.*	0, 5	0	26.7	23.6
Centrifuges and filtering/purifying machinery*	5	0	60.7	96.0
Refrigerators, freezers and heat pumps	5	0	32.7	29.5

\* Including automotive parts

Sources: Australian Bureau of Statistics, WTO

**Observation 8:**

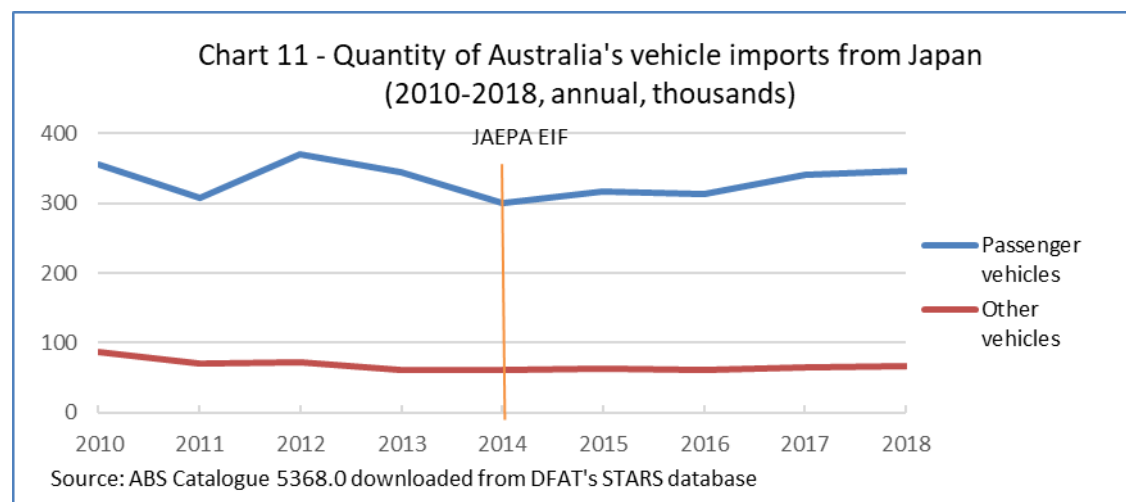
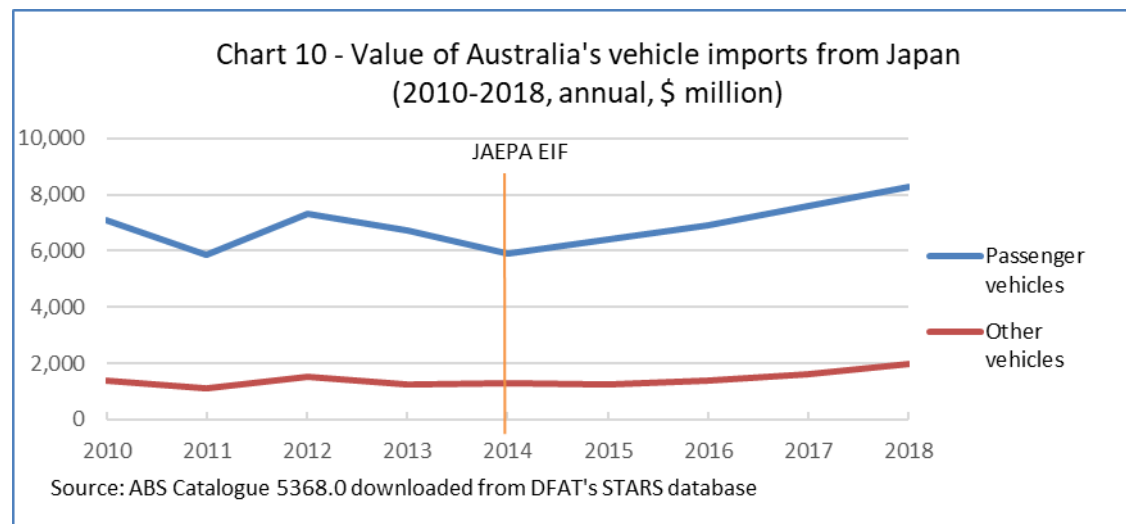
Of the key imports from Japan expected to benefit from JAEPA, the motor vehicle sector has experienced the strongest growth.

<sup>15</sup> I.e. some tariffs eliminated on entry into force, and some over 3 years.

## What has happened with vehicle imports from Japan since entry into force of JAEPA?

88. Chart 10 and Chart 11 show the value and quantity (respectively) of passenger and other vehicles imported from Japan between 2010 and 2018.

89. The data shows the value of passenger vehicle imports from Japan increased by 40.1 per cent between 2014 and 2018, and the value of other vehicle imports increased 53.0 per cent in the same period. In quantity terms, passenger vehicle imports from Japan increased by 46,300 (15.4 per cent) between 2014 and 2018, and other vehicle imports increased by 4,900 (7.9 per cent) in the same period. Japan's share of Australia vehicle imports on a quantity basis was 29.4 per cent in 2018, down slightly from 30.8 per cent in 2014. Japan's share of Australia's vehicles imports on a value basis was 30.7 per cent in 2018, unchanged from 2014.<sup>16</sup>



<sup>16</sup> Note Australia's other FTAs, including with Korea, have impacted Japan's competitive position in the Australian market.

**Observation 9:**

Australia imported around 51,000 more vehicles from Japan in 2018 compared to 2014. While the value and quantity of Australia's vehicle imports from Japan has increased since the entry into force of JAEPA, Japan's market share on a quantity basis was slightly lower in 2018 than in 2014.

***What information is available on compliance costs associated with JAEPA?***

90. In order to access the preferential trade arrangements for goods under JAEPA, goods must meet Rules of Origin (ROO) and certification documentation requirements. The ROOs provide criteria for determining whether a good is 'originating' in either Party and therefore eligible for preferential tariff treatment. Without ROOs, traders from third-party countries could undermine the objectives of the Agreement by merely transshipping through Australia or Japan to access lower tariffs.

91. A claim for JAEPA preferential tariff treatment for Australian goods exported to Japan can be made on the basis of either:

- a Declaration of Origin (DoO) completed by the importer, exporter or the producer; or
- a Certificate of Origin (CoO) issued by an authorised body (usually at a fee for service).

92. This approach provides flexibility for traders, particularly small- and medium-sized enterprises (SMEs), which can choose to certify their own products, or pay a service provider to certify on their behalf.

93. Information provided by one of the JAEPA Authorised Bodies in Australia indicates an average cost of around \$31 for JAEPA CoOs it has issued, with price differentials between electronic and manual CoOs, and between members and non-members. The Authorised Body issued an average of around 1,200 JAEPA CoOs annually. Another JAEPA Authorising Body indicated it issues around 10,000 JAEPA CoOs annually.<sup>17</sup> DFAT's estimate of the annual direct costs paid to Authorising Bodies for CoOs is under \$400,000.<sup>18</sup>

94. The JAEPA Authorised Bodies indicated processing times for CoOs were around two business hours for electronic certificates, and up to four business hours for manual or hard-copy certificates. One of the Authorised Bodies indicated the ratio of electronic to manual CoOs it issued was around ten to one.

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<sup>17</sup> The Authorising Body did not wish to release information on costs which it considered commercial in confidence.

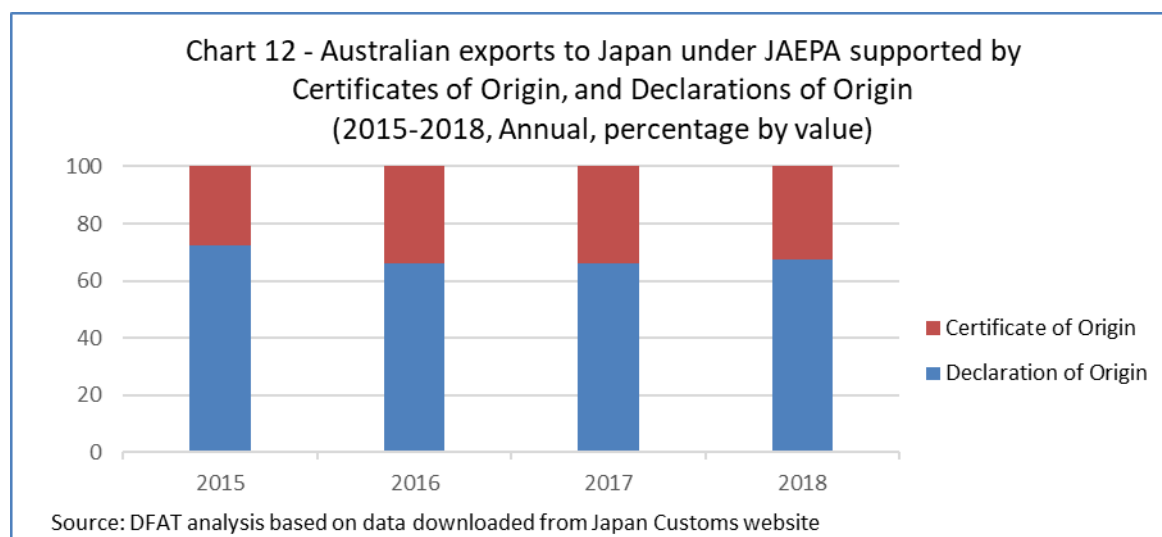
<sup>18</sup> Based on around 11,000 CoOs per annum, and assuming rough equivalence of average CoO costs across Authorised Bodies.

**Observation 10:**

Authorised Bodies issue over 11,000 JAEPA CoOs annually. The direct cost to exporters of obtaining JAEPA CoOs through Authorised Bodies is estimated to be under \$400,000 annually. Use of electronic CoOs far outweighs manual CoOs.

95. Generally, we would expect unit compliance costs associated with preparing DoOs are likely to be less than the costs associated with CoOs, given that Authorising Bodies charge a fee-for-service for CoOs.

96. Chart 12 shows the relative proportion of Australia’s exports to Japan (by value) that claimed JAEPA preferences supported by CoOs and DoOs in 2015 through 2018. The data shows the proportion of exports supported by DoOs is roughly double that supported by CoOs. The DoO proportion fell from 72.3 per cent in 2015 to 66.0 per cent the next year, before rising to 67.2 per cent in 2018.<sup>19</sup>



97. The relatively high proportion of JAEPA exports supported by DoOs suggests that compliance costs for JAEPA are lower than would be the case if DoOs were not included under the Agreement, or were otherwise not widely used.

**Observation 11:**

JAEPA Declarations of Origin support around twice the value of exports supported by Certificates of Origin. Compliance costs for exports supported by Declarations of Origin are likely lower than for exports supported by Certificates of Origin.

98. Attachment B provides further information on the Regulatory Burden Cost Estimate for JAEPA in accordance with the Commonwealth Regulatory Burden Measurement Framework.

<sup>19</sup> Data on the use of DoOs for imports to Australia is not available.



## ***What are the key trade in services commitments under JAEPA?***

99. JAEPA gives greater clarity and certainty for Australian service suppliers by binding Japan's existing market access, and committing Japan to lock-in future improvements to its regulatory regime. JAEPA provides Australia with better treatment in trade in services, including financial services, education services, legal and other professional services than was previously available under Japan's WTO commitments.

100. Under JAEPA, Australia provides Japan with treatment in trade in services substantively equivalent to commitments made under Australia's trade agreements with the United States and the Republic of Korea. These commitments do not prejudice Australia's immigration policy settings.

## ***What has happened with cross-border trade in services since JAEPA entered into force?<sup>20</sup>***

101. As shown in Chart 2 above, Australia's total services exports to Japan reached \$2.5 billion in 2018 (up 26.1 per cent on \$2.0 billion in 2014), and total services imports grew to \$4.2 billion in 2018 (up 46.6 per cent on \$2.9 billion in 2014).

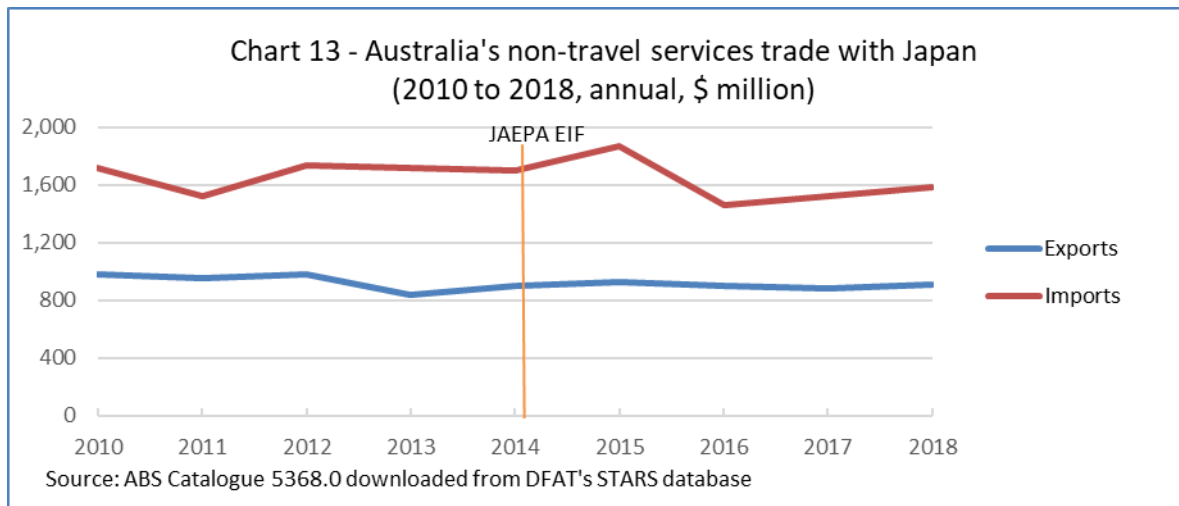
102. In analysing what has happened with cross border services trade with Japan in recent years, it is worthwhile to note the increasing share of travel services within overall services trade. Exports of travel services accounted for 64 per cent of services exports to Japan in 2018, compared to 55 per cent in 2014. Imports of travel services accounted for 62 per cent of Australia's services imports from Japan in 2018, up strongly from 40 per cent in 2014.

103. Separating out travel and other non-travel services allows for analysis of what has happened since JAEPA's entry into force across the services sectors.

104. Chart 13 shows the value of combined non-travel services exports and imports with Japan from 2010 to 2018. The data shows non-travel services exports have been relatively stable, reaching \$911 million in 2018, up 1.1 per cent on \$901 million in 2014. The value of non-travel services imports from Japan was \$1,587 million in 2018, down 6.7 per cent on \$1,701 million in 2014. This was due largely to a fall in charges for the use of intellectual property (see further below).

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<sup>20</sup> Current statistical data on services trade between Australia and Japan reflect cross-border services supply and do not include Mode 3 (commercial presence, as defined under the WTO General Agreement on Trade in Services [GATS]). Many of the commitments in JAEPA relate to in-country services supply, including under commercial presence. Accordingly, the data movements discussed in this section should be interpreted with care. There could be instances, for example, where businesses have changed their mode of service supply since the entry into force of JAEPA that may influence data movements (i.e. a reduction in Mode 1 cross-border services trade through a switch to Mode 3 commercial presence service supply).



**Observation 12:**

Travel services account for a large proportion of Australia's two-way services trade with Japan. Non-travel services imports have fallen slightly since the entry into force of JAEPA.

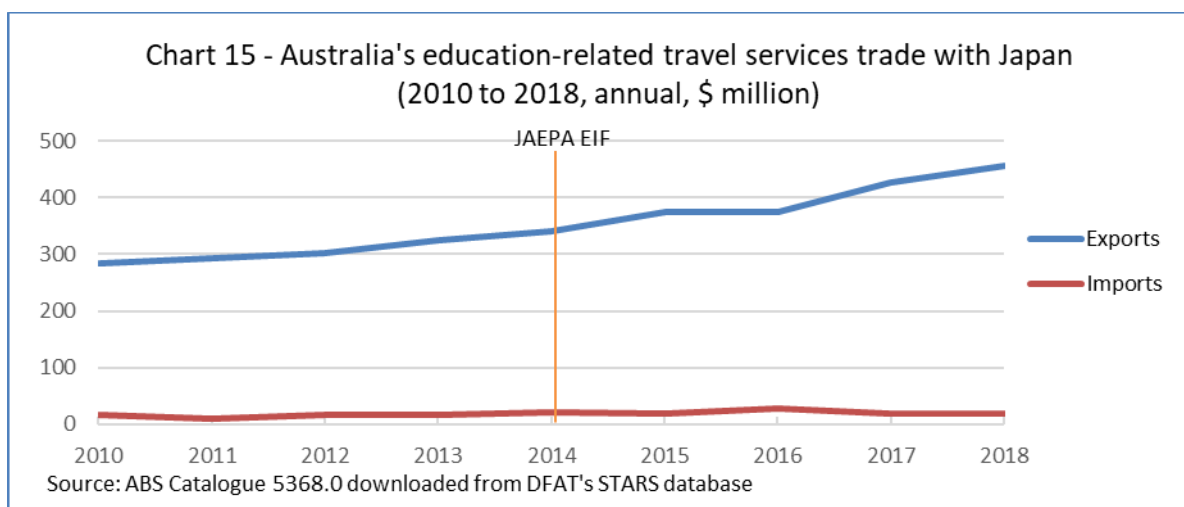
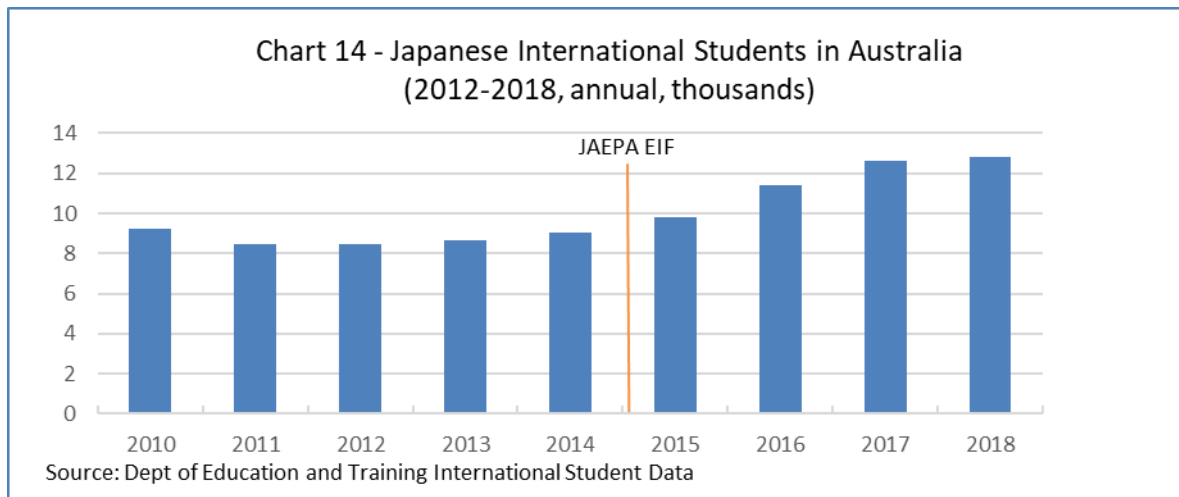
***What has happened with education-related travel services since JAEPA entered into force?***

105. Japan's JAEPA commitments allow students under Japanese Government scholarships to study at all Australian higher education providers, including vocational education providers such as TAFE colleges. Previously, Japanese students could apply for scholarships to study at Australian universities only.

106. Japan has also formally recognised Australian bachelor degrees for entry into postgraduate programs in Japanese institutions, benefiting students and making Australia's education services more attractive for Japan.

107. Chart 14 shows the number of international students in Australia has grown each year since JAEPA entered into force, reaching 12,800 in 2018 (up 41 per cent on 9,100 in 2014).

108. Chart 15 shows Australia's education-related travel services exports to Japan increased strongly since the entry into force of JAEPA, consistent with the increase in international student numbers. The value of education-related travel services exports was \$457 million in 2018, up 34.4 per cent on \$340 million in 2014. Note that Australia's education-related travel imports from Japan are relatively minor, valued at \$19 million in 2018.

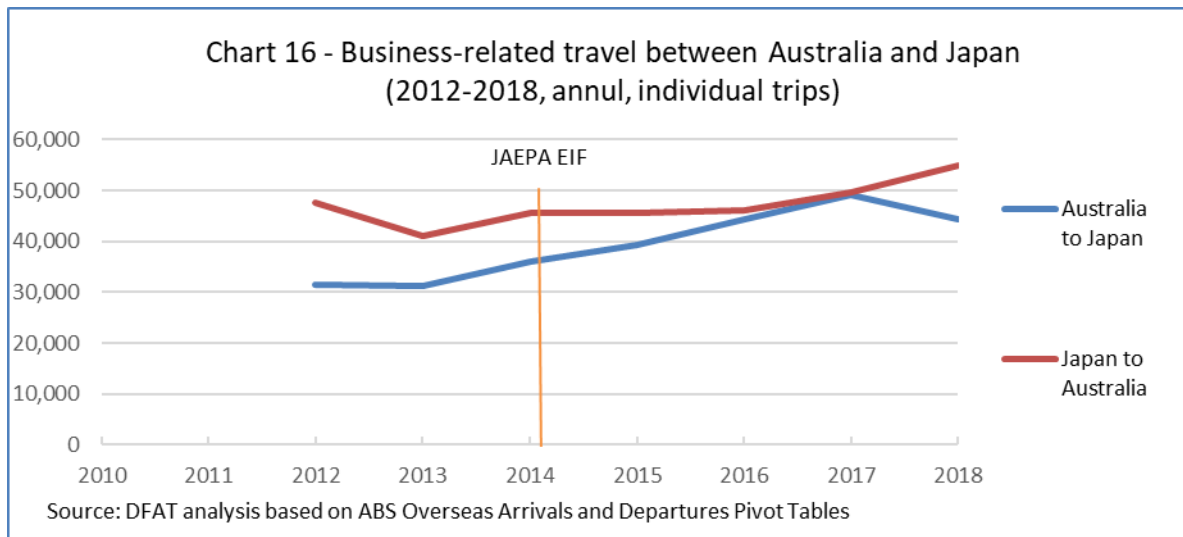


**Observation 13:**  
The number of Japanese students in Australia and the value of Australia's education-related travel services exports have both grown strongly since JAEPA entered into force.

***What has happened with the number of business travellers since JAEPA entered into force?***

109. Chart 16 shows the number of international business trips between Australia and Japan between 2012 and 2018. The number of business-related trips from Australia to Japan was 44,400 in 2018, down on 2017 but up 23.0 per cent on 36,100 in 2014. The downturn between 2017 and 2018 mainly reflects a downturn in the number of trips to attend conferences. The number of business-related trips from Japan to Australia was 55,000 in 2018, up 20.9 per cent on 45,400 in 2014.<sup>21</sup>

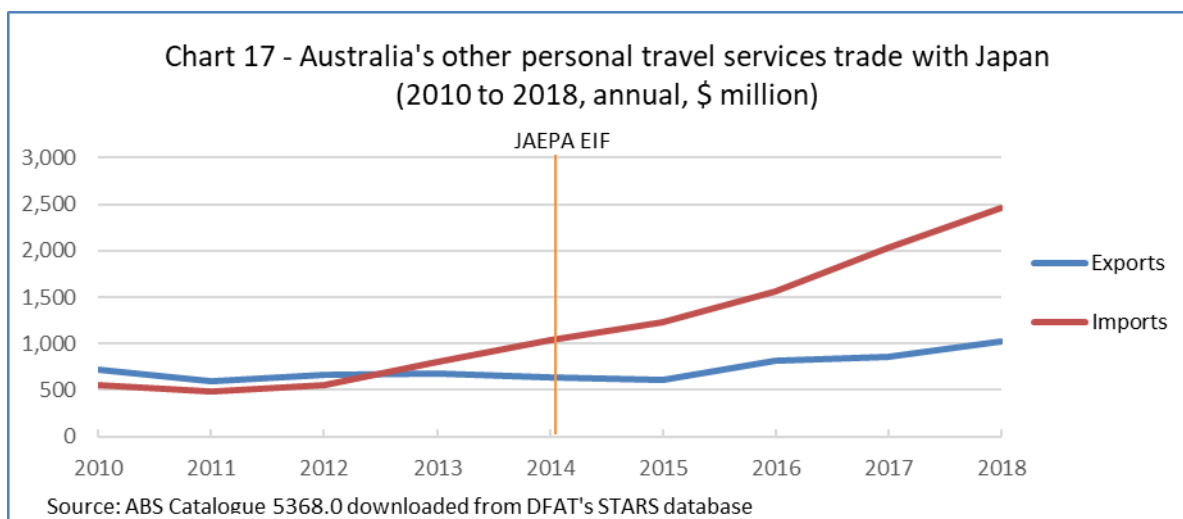
<sup>21</sup> Business travel in this Chart comprises business trips, trips to attend conferences, and trips for employment purposes. Data has been rounded to the nearest 100.



**Observation 14:**  
The number of business trips between Australia and Japan has increased strongly since JAEPA entered into force.

***What has happened with other personal (recreational) travel services since JAEPA entered into force?***

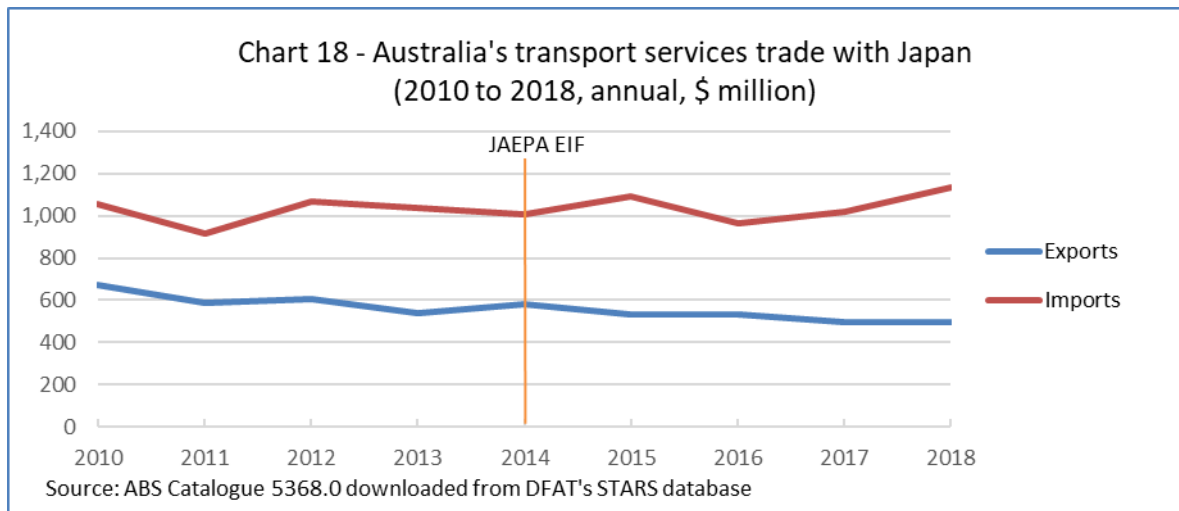
110. Chart 17 shows Australia’s other personal travel services imports and exports with Japan, such as personal travel for holidays, recreation or other personal reasons, increased strongly since the entry into force of JAEPA. The value of other personal travel services exports, or visitors from Japan, was \$1,028 million in 2018, up 60.1 per cent on \$642 million in 2014. The value of other personal travel services imports, or Australia visitors to Japan, was \$2,466 million in 2018, up 136.7 per cent on \$1,042 million in 2014.



**Observation 15:**

The value of other personal travel services exports and imports between Australia and Japan have both increased strongly since JAEPA entered into force.

111. Chart 18 shows that Australia's the value of transport services exports to Japan was \$499 million in 2018, down 14.3 per cent on \$582 million in 2014. The value of transport services imports from Japan was \$1,134 million in 2018, up 12.5 per cent on \$1,008 million in 2014.

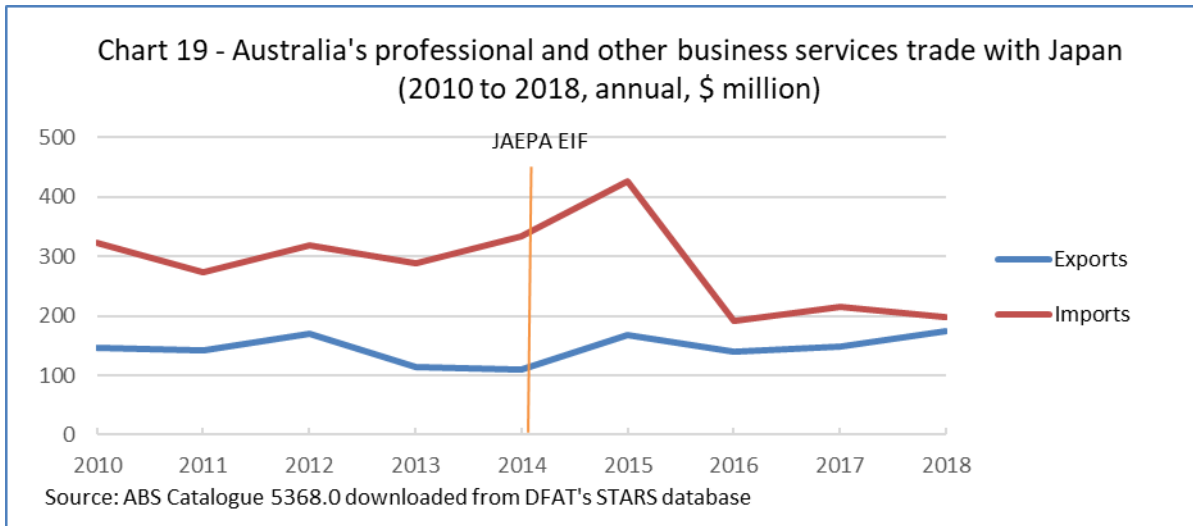


**Observation 16:**

Transport services exports have fallen since JAEPA entered into force, while transport services imports have grown.

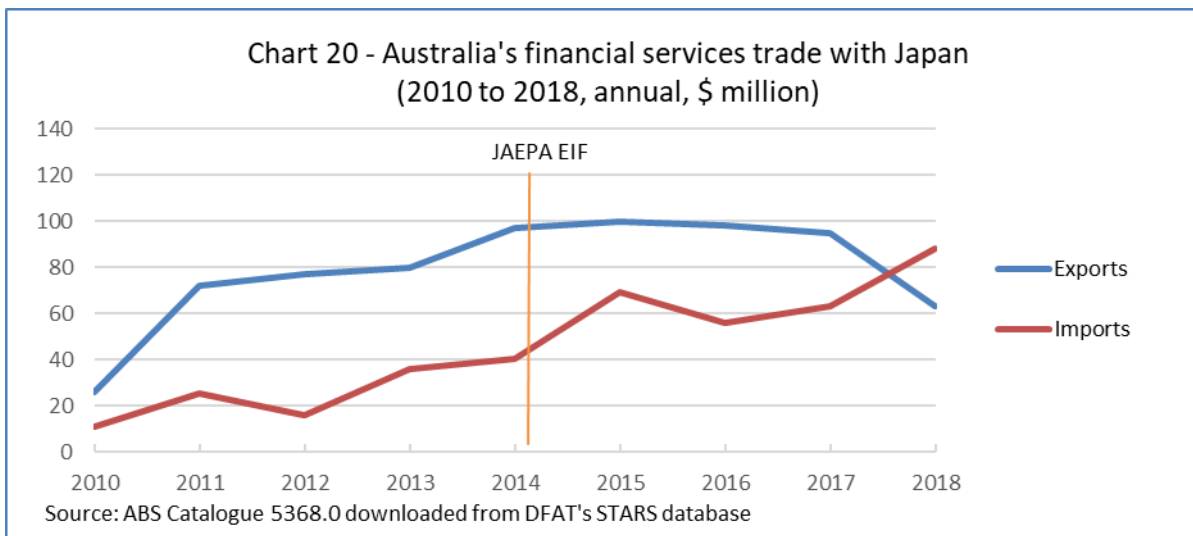
112. Chart 19 shows patterns for professional and other business services trade, which includes research and development services; legal, accounting, management consultancy public relations and other professional services; and technical, trade and other business services. The value of professional and other business services exports to Japan has increased since JAEPA entered into force, reaching \$174 million in 2018, up 59.6 per cent on \$109 million in 2014. The key drivers at the sub-sectoral level include increases in other professional services, and trade-related commission services.

113. The value of professional and other business services imports from Japan increased sharply in 2015 before falling to \$197 million in 2018, down 40.8 per cent on \$333 million in 2014. The key drivers included falls in engineering services. This may reflect the downturn in the resources and mining sector following the investment boom earlier this decade.



**Observation 17:**  
 Professional and other business services exports have grown since JAEPA entered into force, while professional and other business services imports have fallen sharply since 2015.

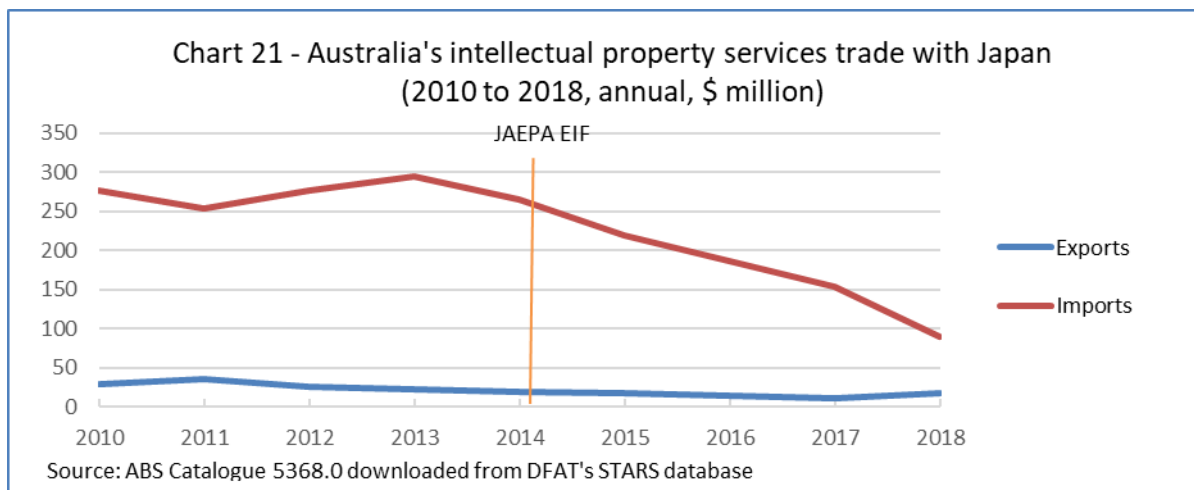
114. Chart 20 shows the value of financial services exports to Japan were relatively stable between 2014 and 2017, before falling sharply in 2018 to \$63 million, down 35.1 per cent on \$97 million in 2014. The fall between 2017 and 2018 reflects a fall in services exports by Australia-based banks, possibly relating to factors including lower Australian interest rates. The value of financial services imports from Japan has increased sharply under JAEPA, reaching \$88 million in 2018, up 120.0 per cent on \$40 million in 2014.



**Observation 18:**

Financial services exports have fallen since JAEPA entered into force, while financial services imports have grown strongly.

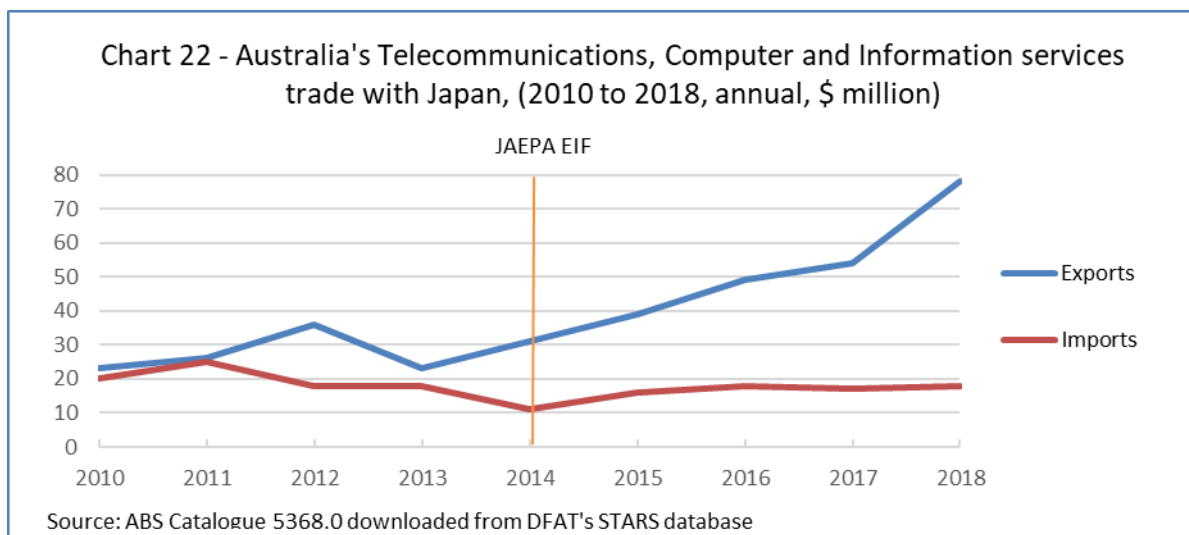
115. Chart 21 shows the value of charges for the use of intellectual property services exports to Japan was \$17 million in 2018, down 15.0 per cent on \$20 million in 2014. The value of intellectual property services imports from Japan has fallen sharply to \$90 million in 2018, down 66.0 per cent on \$265 million in 2014. The key drivers were falls in franchise and trademarks licensing fees, and in other charges for the use of intellectual property.



**Observation 19:**

Intellectual property services imports have fallen substantially since the entry into force of JAEPA.

116. Chart 22 shows the value of telecommunications, computer and information services exports to Japan was \$78 million in 2018, up 151.6 per cent on \$31 million in 2014. The value of telecommunications, computer and information services imports from Japan was \$18 million in 2018, up 63.6 per cent on \$11 million in 2014.



**Observation 20:**

Telecommunications, computer and information services exports have grown substantially since the entry into force of JAEPA.

117. In summary, trends in total trade in services have been heavily influenced by travel services, which account for almost two-thirds of services trade. Data on supply of services under GATS Mode 3 commercial presence is currently unavailable for Australian businesses in Japan. Of the non-travel trade in services sectors, Australia's exports have grown strongly in telecommunications, computer and information services, and in professional and other business services. Australia's imports have grown strongly in financial services, and fallen in professional and other business services and (substantially) in intellectual property services.

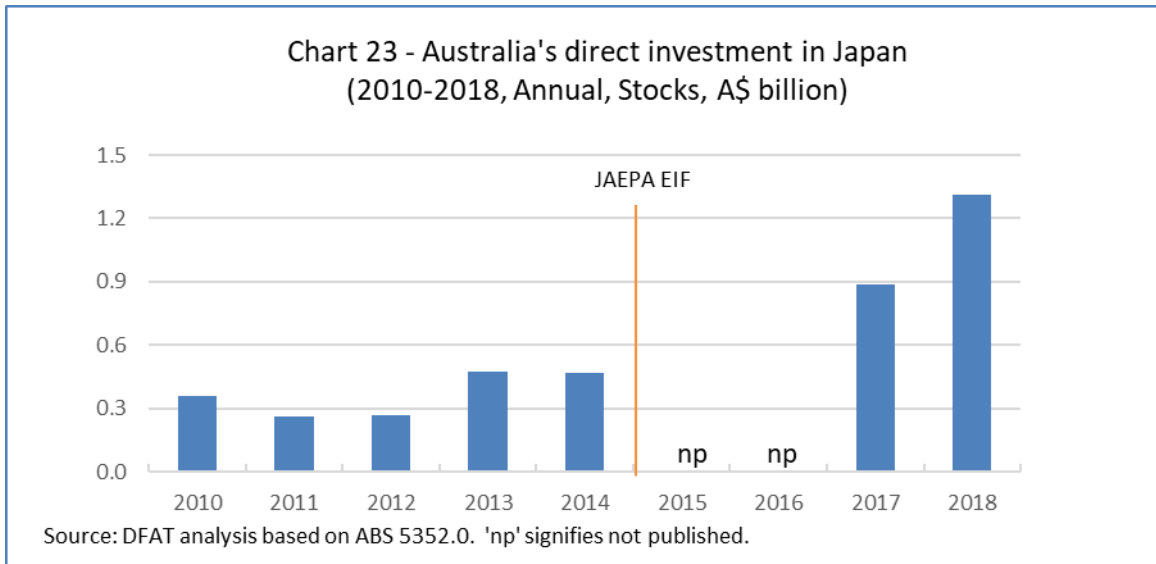
***What has happened with Australian investment in Japan since JAEPA entered into force?***

118. Under JAEPA, Australian investors are to be treated no less favourably than Japanese investors in the establishment, expansion, or acquisition, operation and sale of their investments in Japan (unless specifically exempted). JAEPA protects Australian investors from discriminatory or arbitrary expropriation and nationalisation. These commitments improve certainty for investors, and improve opportunities for Australian investment in Japan.

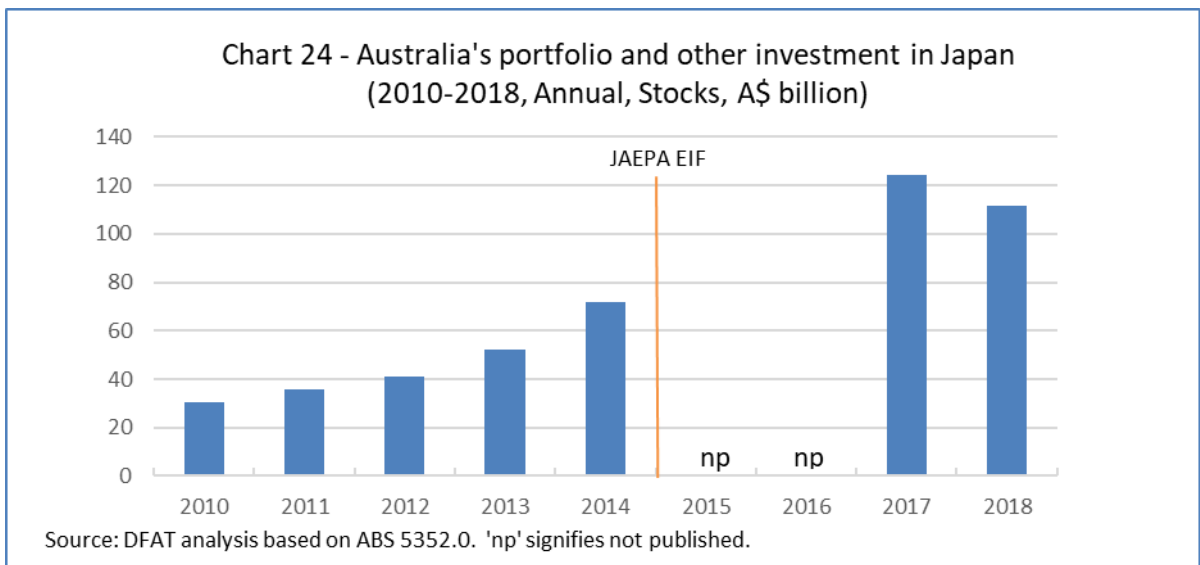
119. Chart 23 shows the value of Australia's direct investment stocks in Japan as at the end of 2010 to end 2018.<sup>22</sup> The data shows Australia's direct investment in Japan was \$1.313 billion at the end of 2018, up substantially (179 per cent) on \$0.47 billion in 2014.

<sup>22</sup> Direct investment relates to 10 per cent or more equity in the enterprise or entity.





120. Chart 24 shows the value of Australia’s portfolio and other investment stocks in Japan as at the end of 2010 to end 2018.<sup>23</sup> The data shows Australia’s portfolio and other investment in Japan was \$111.7 billion at the end of 2018, down from a high of 124.3 billion in 2017, but 55 per cent higher than the \$71.9 billion as at the end of 2014.



**Observation 21:**

The value of Australia’s direct investment in Japan increased substantially since JAEPA entered into force. The value of Australia’s portfolio and other investment also increased significantly in the period, and is substantially larger in magnitude than direct investment.

<sup>23</sup> Portfolio and other investment relates to less than 10 per cent equity in the enterprise or entity.

121. Detailed official data on the activity of Australian-owned businesses in Japan is not currently available. To address this data gap, DFAT and Austrade have commissioned the ABS to conduct a survey on Economic activity of Australian-owned businesses overseas, which will provide data on the number of Australian-owned businesses in Japan and other key countries as well as data on business investment, sales turnover, number of employees, industry, and other details. The survey is currently in the field, and the ABS is expected to publish the data in mid-2020.<sup>24</sup>

### ***What has been the impact of JAEPA on Japanese investment in Australia?***

122. The JAEPA provisions and protections for Australian investors in Japan (outlined above) apply equally to Japanese investors in Australia.

123. Under JAEPA, Australia raised the monetary threshold at which private investments from Japan in non-sensitive sectors are considered by the Foreign Investment Review Board (FIRB) from \$248 million to \$1,154 million,<sup>25</sup> consistent with the threshold provided to the United States, New Zealand and Korea. The Australian Government has retained the ability to screen at lower levels for sensitive sectors, including media, telecommunications and defence-related industries. The threshold for screening proposals for foreign investment in agricultural land is \$15 million, and \$53 million for agribusinesses.

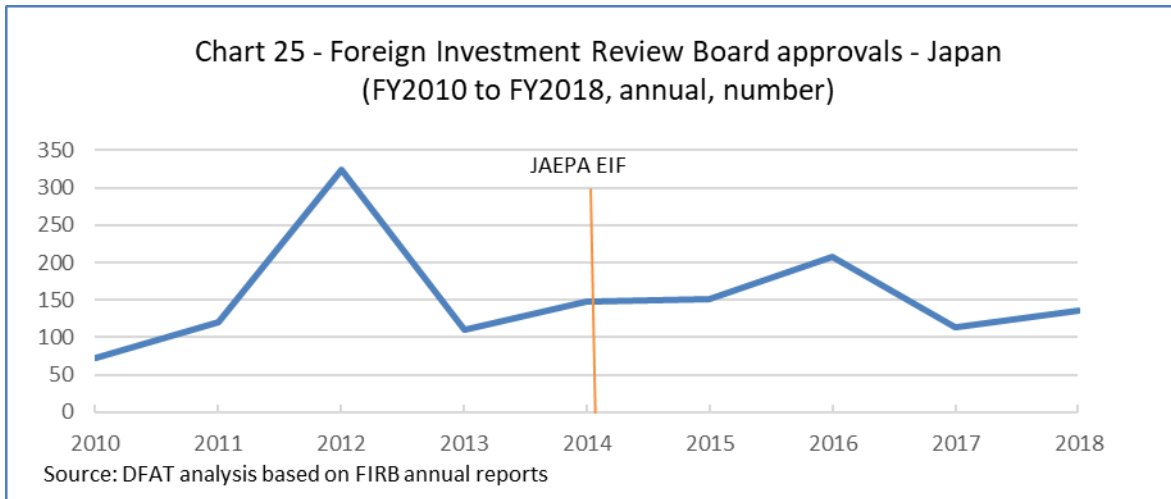
124. The JAEPA provisions facilitate Japanese investment into Australia, reducing compliance costs, and creating greater certainty for Japanese investors. International investment helps stimulate economic activity, helping employment opportunities and standards of living for Australians.

125. Chart 25 shows the number of foreign investment approvals granted by the FIRB across the 2010 to 2018 financial years. It should be noted that the number of approvals reflect the specifics of each investment. It should also be noted that this data is indicative only; data is not available on the number or value of investment approvals that did not require consideration by the FIRB due to the JAEPA thresholds.

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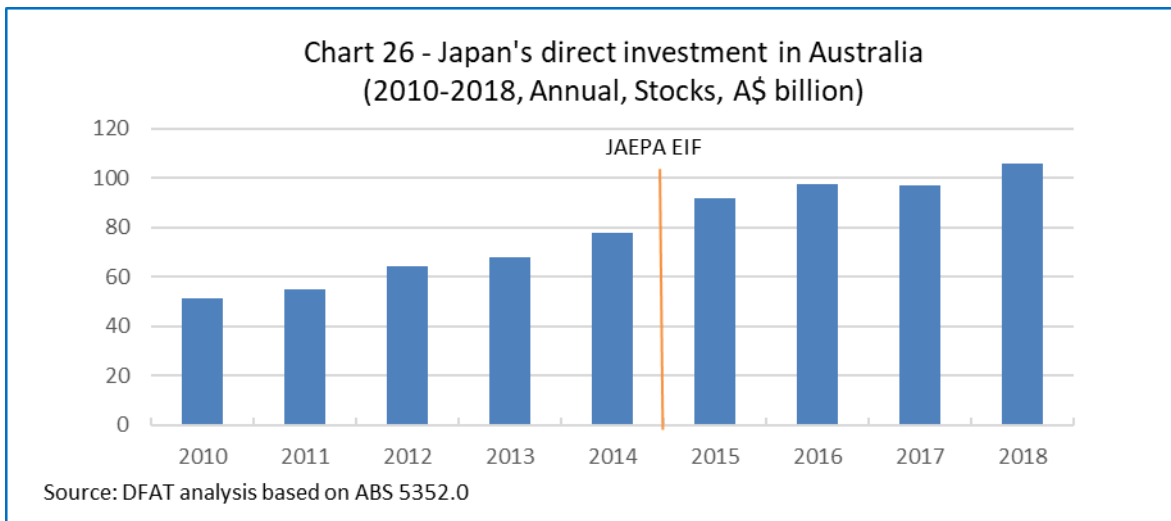
<sup>24</sup> See also the paragraph below and footnote on ABS Catalogue 5494.0.

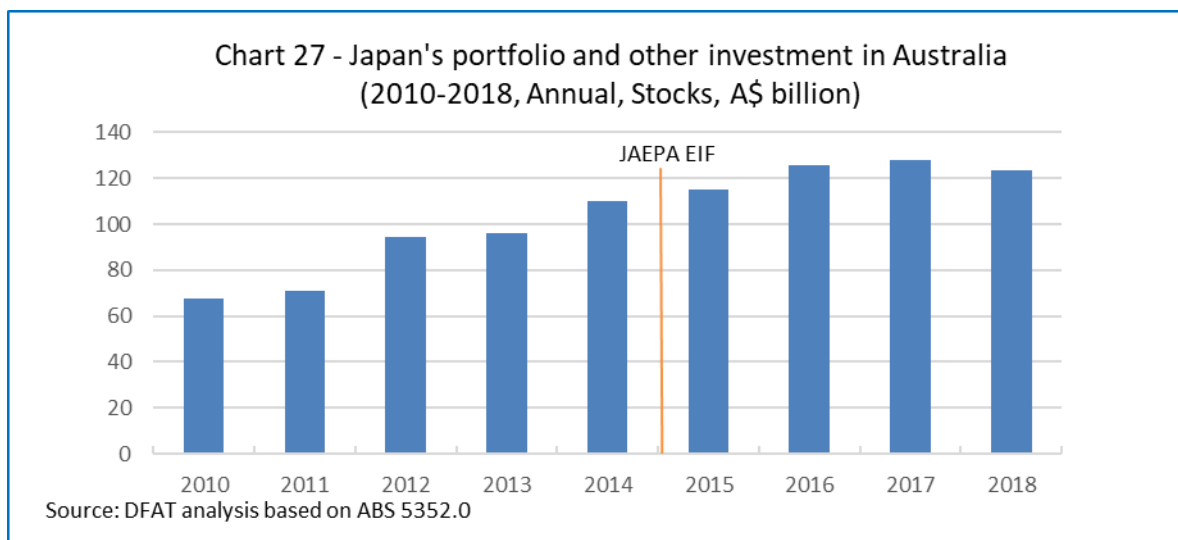
<sup>25</sup> The adjusted threshold, as at 1 January 2019.



126. Chart 26 shows the value of Japan’s direct investment stocks in Australia as at the end of 2010 to end 2018. The data shows Japan’s direct investment in Australia was \$105.9 billion at the end of 2018, up \$28.2 billion (36.4 per cent) on \$77.7 billion in 2014.

127. Chart 27 shows the value of Japan’s portfolio and other investment stocks in Australia as at the end of 2010 to end 2018. The data shows Japan’s portfolio and other investment in Australia was \$123.4 billion at the end of 2018, up \$13.5 billion (12.3 per cent) on \$187.6 billion in 2014.





**Observation 22:**

The value of Japan's direct investment in Australia increased between 2014 and 2018. The value of Japan's portfolio and other investment also increased in the period.

128. DFAT and Austrade recently commissioned the ABS to conduct a survey on economic activity of foreign-owned businesses in Australia.<sup>26</sup> The data, for 2014-15, shows there were 538 businesses in Australia with 50 per cent or more Japanese ownership share, employing 73,900 people and with \$82.6 billion in goods and services sales turnover. The businesses' expenses included \$6.4 billion in compensation of employees, and \$1.7 billion in contractors and commissions. The businesses' capital expenditure was \$3.5 billion, and their total assets were valued at \$219 billion. Significantly, Japan was Australia's third-largest investor in terms of the number of businesses, employment, turnover and compensation of employees (behind the United States and United Kingdom), and the second largest in terms of total assets (behind the United States).

**Observation 23:**

New data from the ABS shows Japanese-owned businesses in Australia contribute significantly to domestic economic activity and employ many Australians.

***What has been the impact of JAEPA on Australia's domestic manufacturing sector?***

129. The impact of JAEPA on Australia's domestic manufacturing has been mixed, with impacts varying through the sector. Australian manufacturing businesses using goods and materials produced in Japan benefit from lower input costs through

<sup>26</sup> ABS Catalogue 5494.0.

elimination of tariffs under JAEPA. On the other hand, businesses may face increasing competition from Japanese products.

130. While the elimination of Australia's five per cent tariff on new motor vehicles and automotive products increased competition within Australia's domestic automotive industry, at the time of JAEPA's entry into force major manufacturers had already announced the cessation of vehicle manufacturing in Australia by 2017.

131. Other manufacturing sectors, including the steel, copper, plastics, chemicals, textiles, clothing and footwear industries, face increased competition from Japanese imports following the elimination of Australian tariffs.

132. While JAEPA increases competitive pressure for some Australian manufacturers, the elimination of Japan's tariffs of up to 30 per cent on Australian industrial exports has expanded export opportunities for many Australian manufacturers. As outlined elsewhere in this report, Australian producers have taken advantage of improved market access opportunities for base metals such as unwrought nickel and ferro-alloys, titanium dioxide, other manufactures, and processed foods.

### ***What has been the impact of JAEPA on retail/servicing networks?***

133. While data on the impact of JAEPA on retail and servicing networks is not available, our assessment is that elimination of tariffs on Japanese-made new motor vehicles has had a positive impact on automotive retailers and service networks, as importers and suppliers pass on the price benefit of tariff elimination further down the supply chain. Vehicle retailers benefit from access to a broader range of competitively priced goods, while automotive service providers access more competitively priced parts.

### ***What has been the impact of JAEPA's movement of natural persons provisions?***

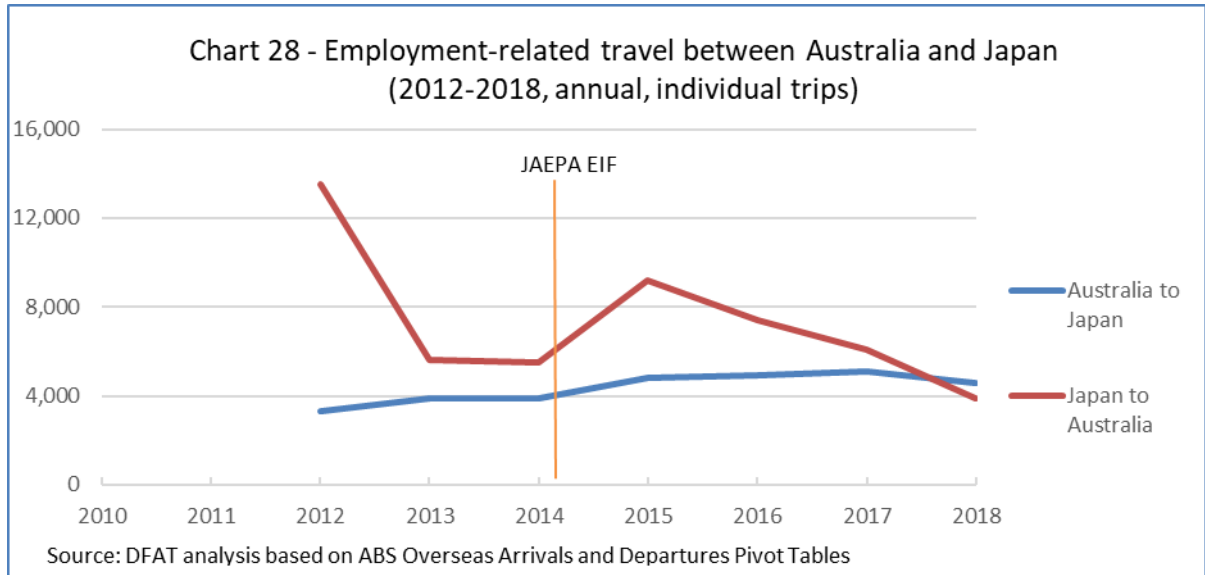
134. The JAEPA commitments on the movement of natural persons guarantee entry and temporary stay for Australian and Japanese skilled service providers, investors and business visitors in each other's country. These commitments build upon those made by both countries in the WTO.

135. [Chart 28](#) shows the number of Japanese entering Australia for employment purposes between 2012 and 2018.<sup>27</sup> The data shows 5,500 Japanese employment-related arrivals in 2014, rising to 9,200 in 2015 (following entry into force of JAEPA) and then falling across subsequent years to 3,900 in 2018 (down 29.1 per cent on 2014, and significantly lower than the 13,500 arrivals in 2012).

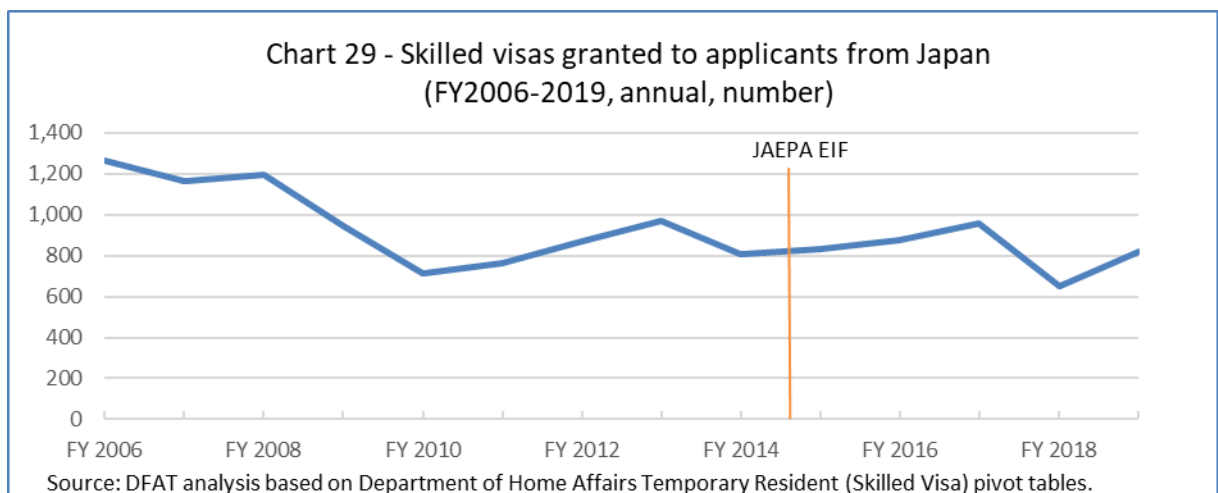
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<sup>27</sup> Note this data is also included within Chart 14 above. The data includes entry of skilled and unskilled employees.

136. The data also shows a steady increase in the number of Australians travelling to Japan for employment-related purposes, reaching 4,600 in 2018 (up 17.9 per cent on the 3,900 in 2014). Significantly, the number of Australians departing for employment in Japan in 2018 exceeded the number of Japanese arriving in Australia for employment purposes.



137. Chart 29 shows the number of visas granted to Japanese seeking entry to Australia under skilled visa arrangements from 2005-06 through 2018-19. The data shows 817 visas were granted in 2018-19, slightly down from 833 in 2014-15, and significantly lower than the 1,216 visas granted in 2005-06.



**Observation 24:**

The number of Australians departing to Japan for employment-related purposes in 2018 exceeded the number of Japanese arriving in Australia for employment-related purposes. Grants of visas to skilled workers from Japan have fluctuated in the period before and after JAEPA's entry into force.

***What has been the impact of JAEPA on Mutual Recognition Arrangements for Professional Services?***

138. Australia and Japan have long-standing mutual recognition arrangements (MRAs) for engineers (since 2003), actuarial professionals (since 2006) and architects (since 2008). Australian and Japan are both members of the Asia-Pacific Economic Cooperation (APEC) engineer and architect programs, which are plurilateral arrangements facilitating mutual recognition of professionals across APEC parties.

139. While JAEPA provides a framework for further MRAs, Australia and Japan have not entered into any new MRAs since the entry into force of the Agreement. Reporting from Tokyo Post indicates a low level of local demand for further MRAs from local stakeholders. This reflects Australian lawyers and accountants are able to work in Japan where they offer services in connection with their Australian certification, including on mergers and acquisitions between Japanese and Australian companies.

***What has been the impact of JAEPA on small business?***

140. Quantitative data on the impact of JAEPA on small businesses is not available. Our qualitative assessment is that JAEPA has had a positive impact on many small businesses due to increased business activity, a greater range of competitively priced inputs imported from Japan, and improved access and competitiveness of Australian goods and services in the Japanese market. Small businesses, including those providing goods and services to the tourist sector, have benefitted from the increased numbers of visitors from Japan since entry into force of the Agreement. Many small businesses may face increased competition from Japanese imported goods. The impact of JAEPA on small businesses is consistent with the expected outcomes of JAEPA articulated in the Regulatory Impact Statement.

***What has been the impact of JAEPA on regional Australia?***

141. Quantitative data on the impact of JAEPA on regional Australia is not available. Our qualitative assessment is that JAEPA has had a positive impact on regional Australia noting the JAEPA market access outcomes for key agricultural sectors including beef, live cattle, cheese, wine, fruit, nuts and vegetables. Regional businesses may also benefit from increased numbers of Japanese tourists and students in regional areas.

### ***What has been the impact of JAEPA on Australian consumers?***

142. Quantitative data on the impact of JAEPA on Australian consumers is not available. Our qualitative assessment is that Australian consumers have benefitted from the elimination of tariffs on key Japanese imports, particularly passenger motor vehicles, electronics, white goods and car parts, resulting in lower prices. Consumers have also benefitted from improvements in quality and greater choice of available products.

### ***What has been the impact of JAEPA on government revenue?***

143. As discussed earlier in this paper, the elimination of tariffs on merchandise imports has reduced Australian government duties revenue by around \$362 million annually since JAEPA's entry into force. This is consistent with Treasury estimates made before entry into force of the Agreement that tariff revenue would decline by \$1,590 million over the forward estimates. This figure did not include the second-round effects on government revenue from increased activity in the Australian economy facilitated by liberalised trade and investment flows between Australia and Japan. The overall effect of JAEPA on government revenue is assessed as positive.

### ***What has been the impact of JAEPA on State and Territory Governments?***

144. During JAEPA negotiations, State and Territory governments raised issues of interest to industries residing in their respective jurisdictions, their regulatory responsibilities and the administrative implications of JAEPA. State and Territory Governments are bound to comply with relevant sections of the Agreement, including the government procurement provisions. Our qualitative assessment is that JAEPA has had minimal direct impact on State and Territory Governments.

### ***Have there been other impacts of JAEPA?***

145. JAEPA includes provisions relating to electronic commerce, government procurement, intellectual property, and competition policy. Our qualitative assessment is that these provisions are likely to have a positive impact on Australia, noting there is no available quantitative data to support detailed analysis.

### ***Have there been any unintended impacts of JAEPA?***

146. Other than minor issues outlined elsewhere in this Review, there have not been any unintended impacts of JAEPA to date.<sup>28</sup> Bilateral trade issues that have arisen since the entry into force of JAEPA have been relatively minor, and mainly resolved through information sharing and dialogue.

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<sup>28</sup> See following section on feedback from stakeholders.



**Observation 25:**

The impacts of JAEPA for small businesses, regional areas and industry sectors have been largely consistent with expectations.

***What other impacts have there been from JAEPA?***

147. The conclusion of JAEPA negotiations in 2014 had significant incremental knock-on effects for some of Australia's other trade and economic priorities. In particular, the JAEPA outcomes provided impetus towards the conclusion of Australia's FTA with China, and a platform for conclusion of the CPTPP. Many of Australia's substantive market access outcomes in the Japan market through the CPTPP build on the outcomes of JAEPA, and would have been difficult to achieve in isolation of that earlier Agreement.

148. Similarly, JAEPA has assisted towards conclusion of RCEP, which will bring together nine of Australia's top 15 trading partners into a single economic framework. RCEP countries account for almost a third of the world's population and gross domestic product. RCEP parties have agreed to sign the agreement in 2020. Parties will then need to ratify the agreement. Australia will seek for RCEP to enter into force as quickly as possible. RCEP will help to strengthen economic integration and build strategic confidence in the region, and send an important signal of support for trade liberalisation and rules based trading arrangements at a time of significant global trade tensions.

149. JAEPA has also contributed to the Australia-Japan bilateral and strategic relationship, including through its promotion of information exchange and dialogue.

**Observation 26:**

JAEPA has contributed to outcomes for Australia through other bilateral and regional FTAs, including the CPTPP. JAEPA underpins the strong bilateral trade, economic and investment relationship between Australia and Japan.

## HOW HAS JAEPA BEEN IMPLEMENTED AND EVALUATED?

### *Parliamentary scrutiny, and legal implementation of JAEPA*

150. The comprehensive Parliamentary and other processes leading up to the entry into force of JAEPA are detailed in the Introduction of this report.

151. The implementation of JAEPA required changes to: the *Customs Act 1901*; the *Customs Tariff Act 1995* and associated regulations; the *Foreign Acquisitions and Takeovers Regulations 1989*; and the *Life Insurance Regulations 1995*.

### *JAEPA implementation mechanisms*

152. The implementation of JAEPA has been guided by the JAEPA Joint Committee, which is responsible for:

- reviewing and monitoring the implementation of the Agreement;
- considering and recommending any amendments to the Agreement;
- supervising and coordinating the work of all sub-committees;
- adopting any necessary decisions, including those referred to the Joint Committee under the relevant provisions of the Agreement; and
- other functions as the Parties may agree.

153. To date, the JAEPA Joint Committee has met three times: on 15 January 2015 (coinciding with JAEPA's entry into force), 19 April 2017, and on 13 February 2019.

154. The first meeting of the Joint Committee adopted the Agreement's Operating Procedures and Rules of Procedure of Arbitral Tribunals, and exchanged information on contact points on government procurement thresholds.

155. The second Joint Committee meeting in 2017 welcomed the close cooperation on JAEPA implementation since its entry into force, and the very high percentage of eligible trade claiming preferential tariff treatment. It noted the positive consideration of JAEPA by the WTO Committee on Regional Trade Agreements in April 2016, and agreed to take a practical approach to the institutional arrangements established under JAEPA in view of its broadly smooth implementation to date.

156. The third Joint Committee meeting noted the Agreement's smooth implementation to date, and the regular exchange of information on trade flows under JAEPA assisted both sides in understanding its benefits. The Joint Committee looked forward to further deepening bilateral trade and investment ties under the Agreement, and co-chairs exchanged information on trade agreements with third countries. The Joint Committee confirmed it would convene the Fourth Meeting in 2020.

157. JAEPA includes provisions for various sub-committees. Of these, the JAEPA Sub-Committee on Promotion of a Closer Economic Partnership met in October

2015. The JAEPA Financial Services Sub-Committee met in October 2017. The minimal number of sub-committee meetings to date reflects both the directions provided by the Joint Committee in 2017, and the smooth implementation of the Agreement (with low demand for sub-committee meetings reflecting the absence of substantive JAEPA-specific issues since entry into force of the Agreement).<sup>29</sup>

158. Reports from the Joint and Sub-Committees are published on the DFAT [website](#).

159. Following consultation between officials, formal Treaty amendment processes are underway for the update of JAEPA Annex 2 (Product Specific Rules) to reflect the 2017 version of the Harmonised System (HS2017).

**Observation 27:**

JAEPA implementation has been guided by a pragmatic approach by the Joint Committee, minimising costs associated with ongoing Committee structures.

### ***JAEPA review mechanisms***

160. The provisions of JAEPA set out arrangements for a number of reviews, including on specific market access issues.

161. The Agreement specifies these reviews may occur at set times (for example, after five or ten years) or under trigger mechanisms, such as if another country receives better treatment than Australia for specific products through a subsequent FTA negotiation.<sup>30</sup>

162. Under JAEPA Article 2.20, a review of market access for specified agricultural and other products is scheduled for 2020.

163. The Agreement specifies a general review of the implementation and operation of JAEPA set for the sixth year after entry into force (i.e. 2021).

### ***The FTA Seminars, FTA Portal and other support for businesses on FTAs***

164. Implementation of Australia's 'trifecta' of FTAs with Japan, Korea and China which entered into force in 2014 and 2015 have been supported by a significant investment by the Australian Government to promote increased business awareness and use of opportunities under Australia's FTAs.

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<sup>29</sup> See also the Australia-Japan Business Co-operation Committee submission later in this Review.

<sup>30</sup> Analysis of the EU-Japan EPA indicated the outcomes did not trigger a review under the JAEPA provisions. We are currently analysing the outcomes of the US-Japan negotiations.

165. The Government has sought to increase SMEs' and other businesses' awareness and use of JAEPA and other FTAs including through:

- . FTA information seminars delivered around the country;
- . bespoke advocacy for domestic stakeholders;
- . detailed on-line JAEPA information, including business guides and case studies;
- . FTA-specific email inboxes where businesses and members of the public can contact experts with specific questions or issues relating to JAEPA and other FTAs; and
- . developing a modern online FTA Portal for businesses.

166. With regard to the FTA information seminars about JAEPA and other FTAs, DFAT and Austrade delivered over 130 seminars since March 2015, engaging with more than 5500 business and other representatives, with around two-thirds of the seminars held in regional areas. In mid 2019, the Government committed to delivering 100 FTA seminars over the next three years. Recent FTA seminars been held in such locations as Brisbane, Beechworth, Mildura, Kangaroo Island and Smithton. Feedback from seminars indicates that they are valued by the participants.

167. The FTA Portal assists businesses to access information on Australia's FTAs in a user-friendly way. Launched in March 2016, the FTA Portal initially covered goods for JAEPA, ChAFTA and KAFTA. It has since expanded to include comprehensive information on all of Australia's FTAs. Information on FTA services commitments, including under JAEPA, were included in the Portal in 2018. Since its launch, the FTA Portal has attracted over 300,000 users.

168. The FTA Portal features a sophisticated tariff finder, rules of origin guide, trade data on individual markets and relevant links to help businesses make trade decisions. The FTA Portal helps businesses find the information that really matters to support informed decisions. It also helps businesses assess the best deal where there may be more than one available FTA, such as is now the case for Japan since the CPTPP entered into force in December 2018.

169. DFAT and partner agencies have received many positive comments about the FTA Portal, including from business groups and customs brokers, noting the easy-to-use interface and search function. The FTA Portal was awarded 'Best Application Development' at the 2016 Government ICT Awards.

170. In addition to the FTA information seminars outlined above, Austrade has supported JAEPA implementation through their services to businesses and investors, including the Tradestart network and the Export Market Development Grant scheme. The Austrade website includes JAEPA-specific video case studies and other material to assist businesses. Export Finance Australia also assists businesses develop export opportunities.

**Observation 28:**

FTA seminars, the FTA Portal and other government programs have supported business understanding and uptake of opportunities under Australia's FTAs including JAEPA.

***Evaluation – Export outcomes and JAEPA preference utilisation***

171. Following the entry into force of JAEPA, DFAT initiated an ongoing program of work to analyse and evaluate export trends for key products receiving JAEPA tariff cuts, and JAEPA preference utilisation. These analyses have supported FTA advocacy and policy, and stakeholder engagement (including targeted outreach on tariff preference uptake for specific products and sectors). Examples of these analyses are included throughout this report.

***FTA Utilisation Study***

172. Following the entry into force of Australia's three north Asian FTAs with China, Japan and Korea, DFAT commissioned an independent study on business utilisation of Australia's FTAs. The study considered all of Australia's FTAs, with an emphasis on the (then) most recent FTAs with China, Japan and Korea.

173. The *FTA Utilisation Study* undertaken by PricewaterhouseCoopers (PwC) and published in early 2018 found Australia's FTAs are being widely used and have a positive impact on business confidence, activity, strategy, expansion planning, and international investment (including in the services sector).

174. PwC's report found high utilisation rates for Australia's FTAs with China, Japan and Korea. In the case of JAEPA, around 95 per cent (by value) of Australia's eligible exports benefitted from tariff preferences secured under these agreements.<sup>31</sup>

175. PwC found while FTAs are providing greater regulatory certainty for Australian services providers and investors in partner markets, services businesses are not yet fully exploiting the commitments in FTAs to liberalise services. The report notes that the full services market access outcomes under Australia's north Asian FTAs will take some time to bear fruit. Not surprisingly, SMEs lag behind larger businesses in FTA utilisation, and continued outreach and education is required for these businesses to maximise the opportunities available to them from Australia's FTAs.

176. The PwC research highlighted the 'head turning' effect of Australia's trade agreement with China, Japan and Korea, contributing to the positive perception of Australia as a place to invest and do business. It also reported businesses reporting increases in domestic demand for goods and services from businesses trading internationally.

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<sup>31</sup> The study methodology included focus groups and a business survey conducted in 2017, and consideration of preference utilisation data from 2016.

**Observation 29:**

The FTA Utilisation Study provided timely analysis of Australia's FTAs including JAEPA.

***What other relevant inquiries or reports have taken place since JAEPA entered into force?***<sup>32</sup>

177. The Joint Standing Committee on Foreign Affairs, Defence and Trade launched an inquiry in 2018 into access to FTAs by SMEs.

178. The Terms of Reference for the Inquiry were:

*The Joint Standing Committee on Foreign Affairs, Defence and Trade shall examine opportunities and challenges facing small and medium Australian export-oriented businesses that seek to leverage free trade agreements for the export of goods and services with particular regard to:*

- . consideration of what products and services (e.g. inclusion and prioritisation) are negotiated in free trade agreements;*
- . awareness of, and accessibility to, free trade agreements;*
- . lessons learnt from attempts at leveraging free trade agreements, including barriers to implementation and success in fast-tracking export opportunities;*
- . role and effectiveness of support structures and networks in helping leverage free trade agreements;*
- . ongoing capacity building that will assist in creating opportunities and capturing more value from free trade agreements in the future; and*
- . any other related matters.*

179. The inquiry report *From little things big things grow: Supporting Australian SMEs go global* was released in February 2019. The Government response to the Report was tabled in December 2019. None of the recommendations of the report related specifically to JAEPA.<sup>33</sup>

**Observation 30:**

Small and medium enterprises (SMEs) require additional support to access benefits from Australia's FTAs.

<sup>32</sup> Note JAEPA was not included in the Terms of Reference for the 2015 Inquiry into Business experience in utilising Australia's FTAs.

<sup>33</sup> An issue specific to Japan raised during the inquiry was Japan's polarity testing of Australian sugar. This related to technical testing rather than JAEPA provisions *per se*.

## WHICH STAKEHOLDERS HAVE BEEN CONSULTED?

### *Consultations*

180. The DFAT website includes details of the extensive stakeholder consultations leading up to and during the JAEPA negotiations. DFAT sought submissions from interested parties and, in conjunction with relevant Commonwealth agencies, conducted an extensive program of direct consultations and discussions with over 450 stakeholders to inform the Government's negotiating strategy.

### *Ongoing stakeholder engagement*

181. DFAT has an ongoing stakeholder engagement process, including six-monthly stakeholder meetings to update interested parties on the progress with FTAs under negotiation or implementation. DFAT trade negotiators also meet on an *ad hoc* or periodic basis with stakeholders to discuss sector- or business-specific issues.

182. State and Territory Governments have been consulted on the implementation of JAEPA through the Trade and Investment Ministers Meeting (TIMM) and the Senior Officials Trade and Investment Group (SOTIG). In accordance with a whole-of-government approach, DFAT has also consulted with relevant Commonwealth Government agencies on JAEPA implementation, including on Joint Committee processes.

183. The general consensus from DFAT's stakeholder discussions is support for JAEPA, and acknowledgement that its implementation has been smooth. Understandably, some stakeholders have expressed interest in further improving market access for key products where feasible, including under the mandated reviews.

### *PIR Call for submissions*

184. DFAT issued a call for submissions in July 2019 on its website and through social media messaging as part of the processes for preparation of this Post-Implementation Review. We suggested stakeholders provide short, concise submissions to minimise their burden and encourage engagement.

185. Submissions were received from Meat and Livestock Australia (MLA), Grain Trade Australia (GTA), the Australia-Japan Business Co-operation Committee (AJBCC), and Herbert Smith Freehills (HSF). Excerpts or summaries of the submissions are shown below.

#### ***Meat and Livestock Australia (MLA)***

*"JAEPA provided a competitive edge to the Australian beef industry, underpinning Australia's market share in an increasingly competitive marketplace. The benefits being delivered by JAEPA are evident in our industry's utilisation of the tariff reductions - with an extremely high take up of the tariff preferences."*

*“To date there are no significant issues/impediments for Australian red meat products under JAEPA that need to be reviewed or amended – with the few significant improvements sought to the trading regime now being provisioned via the subsequent Comprehensive and Progressive-Trans Pacific Partnership Agreement (CPTPP).”*

### **Grain Trade Australia (GTA)**

*“JAEPA has delivered a net benefit to the Australian grains industry, and therefore to the Australian community. The agreement has delivered improved access to the Japanese market for Australian grains and provided Australia with improved competitiveness vis-a-vis other suppliers to this market, in particular, the USA. These benefits have been further enhanced through the subsequent TPP-11 agreement.”*

*“Japan’s grain trade is highly regulated, and includes WTO quotas, duties and other mark-ups, as well as complicated tendering arrangements. Outside the quota system, wheat (for food) and wheat (for feed) face prohibitive tariffs resulting in very little wheat entering outside the quotas.”*

*“JAEPA has provided the following opportunities for the Australian grains industry:*

- . access to a more efficient “simultaneous buy and sell” (SBS) process for some wheat varieties (Australian Hard and Australian Premium White). This was further enhanced through TPP-11 with a third category of SBS being introduced e.g. Category I - Bulk Shipment, Category II (Container Shipment), and Category III (New Quota, Bulk and Container)*
- . ability to export wheat and barley (for feed) duty-free outside of the existing complicated quota system, giving the opportunity for increased exports and streamlined export processes. While the Australian industry has widely utilized this arrangement (e.g. 125,000 tonnes of feed wheat exported*
- . directly to private Japanese buyers in 2017), under TPP-11 this will be extended to all TPP-11 members*
- . elimination of tariffs on wheat gluten and milled corn products by 2024*
- . elimination of tariffs for some canola and other vegetable oils by 2024.”*

*“The Australian grains industry has benefited from the improved conditions as part of the JAEPA and as assisted Australia to maintain its competitiveness. However, there are opportunities and further improvement for the industry through negotiation of more flexible SBS arrangements and improved quota allocations, as well as focus on non-tariff measures such as MRLs and regulation around plant breeding innovation/new technologies”.*

### **Australia-Japan Business Co-operation Committee (AJBCC)**

*“On the trade in physical goods under JAEPA, the reductions in tariffs have resulted in measurable benefits to Australian producers. One example is the*



*benefit which is accruing to Australia's beef industry as a result of the negotiated tariff reduction (and subsequently further enhanced through reductions in Australia and Japan's participation in the Comprehensive and Progressive-Trans Pacific Partnership Agreement (CPTPP))".*

*"On the trade in services, as well as areas either directly or unintentionally restricting business opportunities, JAEPA has provided a framework which has the possibility to be leveraged further amongst Australia's business community. As has been stated by the Joint Committee on JAEPA, it is "a living agreement" and there is a possibility to provide additional momentum to this significant platform. JAEPA provided a framework for the establishment of 12 sub-committees covering specific sectors or trade issues. These would be established and convened where required. To date, only two of them have been established and have met. This suggests that there is a high degree of satisfaction with the current agreement, and bears out our feedback in preparing this submission from the AJBCC membership, who indicated that there were no particular issues currently to be flagged. Whilst the sub-committees generally are government-to-government meetings, one of them provides for the business sector, by invitation, to attend. Article 18.2 established the Sub-Committee on Promotion of a Closer Economic Relationship, but it has been some years since the sub-committee has met. Perhaps, it could be used to greater effect by keeping JAEPA in the minds of the business sector. In this regard, one future possibility might be to coincide a sub-committee meeting at the time of the AJBCC's annual October Joint Business Conference held with our counterpart organisation, the Japan Australia Business Co-operation Committee (JABCC)".*

*"Care over other agreements and regulations. The AJBCC is pleased that the issues which arose from the changes to the 457/Temporary Skills Shortage Visa regulations, which caused such problems for Japanese companies in Australia, have been successfully resolved".*

***Herbert Smith Freehills (HSF)<sup>34</sup>***

*"Incomplete implementation of JAEPA provisions in Australia's foreign investment review rules has resulted in an unintended policy outcome, whereby Japanese investors are only able to access the benefit of JAEPA by implementing certain investment structures. These investment structures are often not commercially attractive for investors to adopt due to adverse commercial or tax implications".<sup>35</sup>*

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<sup>34</sup> Herbert Smith Freehills indicated it has one of the leading Japan-Australia merger and acquisitions legal practices in Australia.

<sup>35</sup> AJBCC's submission also references this extract from HSF's submission.

## Discussion

186. The submissions received provide commentary on the positive outcomes of JAEPA, particularly for the beef and grains sectors, and the additional benefits accruing for these sectors from the CPTPP. The submissions from the AJBCC and HSF raise a possible unintended outcome of JAEPA relating to potential Japanese investments in Australia. The AJBCC submission also reflects concerns about whether changes to Temporary Skills Shortages visa arrangements were potentially inconsistent with the intent of JAEPA Movement of Natural Persons provisions. It also suggests alignment between any future meetings of the JAEPA Sub-Committee on Promotion of a Closer Economic Relationship and its annual Joint Business Conference.

187. While a higher number of submissions would have been welcome, DFAT acknowledges the resources involved in stakeholders responding to public stakeholder consultation processes.<sup>36</sup> The relatively low number of submissions may also reflect the smooth implementation of the Agreement since its entry into force, and stakeholders' general satisfaction with its implementation and outcomes.<sup>37</sup> As reflected in the submissions received, the CPTPP has provided JAEPA-plus outcomes for some key sectors since its entry into force in December 2018.

188. On balance, we assess the consultation approach taken in this Post-Implementation Review has been commensurate and fit for purpose.

**Observation 31:**

Feedback from stakeholders indicates strong support for the Agreement, with minimal issues impacting on stakeholders.

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<sup>36</sup> DFAT separately received feedback pointing to possible stakeholder fatigue due to numerous calls to provide input to Government processes.

<sup>37</sup> As highlighted in the AJBCC submission.

## CONCLUSIONS ON THE IMPACT OF JAEPA

189. The analysis of relevant data shows JAEPA has, to date, met its broad objective of expanding economic opportunities for Australian businesses and consumers through a closer economic partnership with Japan, and this is being achieved effectively and efficiently.

190. Relevant evidence of the net benefits flowing from JAEPA's entry into force includes:

- economic flows between Australia and Japan have been liberalised through reduction of tariffs and other barriers to trade and investment;
- Australian exports have increased for the vast majority of products receiving JAEPA tariff preferences, including key agricultural, processed food, resources, energy and industrial products;
- Australian exports of travel and other services have increased;
- two-way international investment has increased; and
- two-way people movements, including for business travel, have increased.

191. In determining the impact of JAEPA on Australia's economic activity, it is particularly significant that exports eligible for JAEPA preferences have outperformed Australia's other exports to Japan since the entry into force of the Agreement.

192. This Review has shown that JAEPA has been implemented effectively and efficiently:

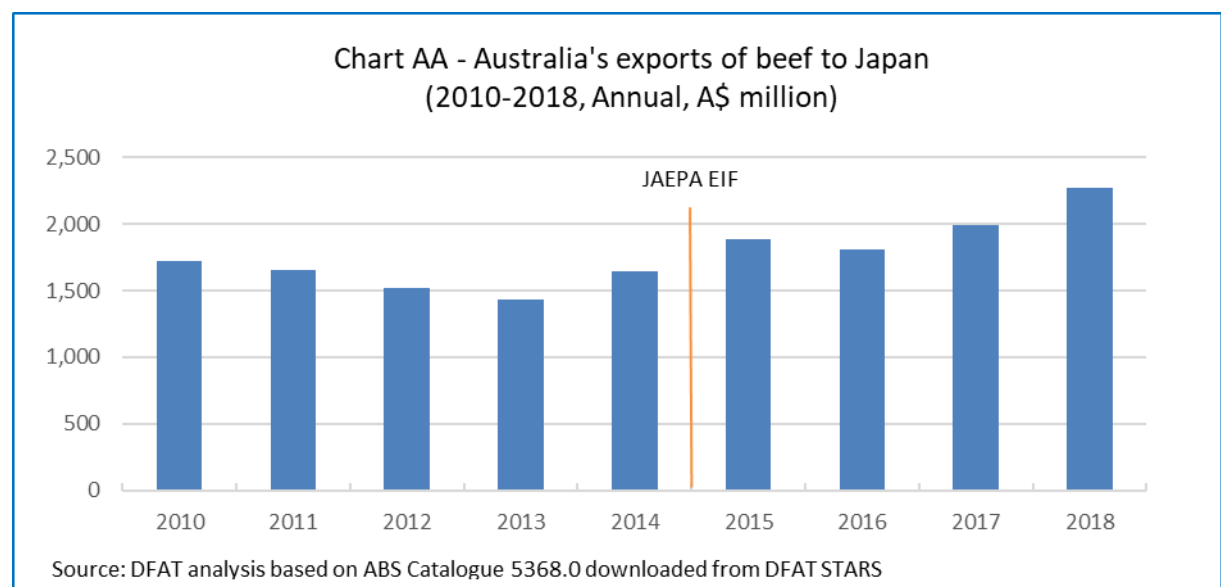
- JAEPA has significantly reduced the tariff burden on Australian businesses and consumers;
- JAEPA preference utilisation rates have been above 90 per cent since its entry into force, illustrating strong business use of the Agreement across Australia's imports and exports;
- the high take-up of Declarations of Origin has assisted minimising compliance costs for businesses;
- the compliance costs associated with Certificates of Origin issued through Authorised Bodies has been relatively low, and more than offset by positive export outcomes;
- the JAEPA Committee mechanisms, led by the Joint Committee, has minimised implementation costs while safeguarding the smooth implementation of the Agreement;
- JAEPA has been supported by government assistance to businesses, including the FTA information seminars, the FTA Portal, and Austrade programs; and
- submissions from stakeholders highlighted the positive impact of JAEPA on Australia's market access for key products, with few implementation issues.

193. Our assessment through this review is that JAEPA has delivered a net benefit in the five years since its entry into force, and will continue to do so in the future with the ongoing implementation of the Agreement, including further scheduled tariff cuts and other trade liberalisation, which will ensure Australian exporters remain competitive against other exporters to Japan.

## ATTACHMENT A: KEY JAEPA AGRICULTURAL EXPORT OUTCOMES IN DETAIL

### Beef

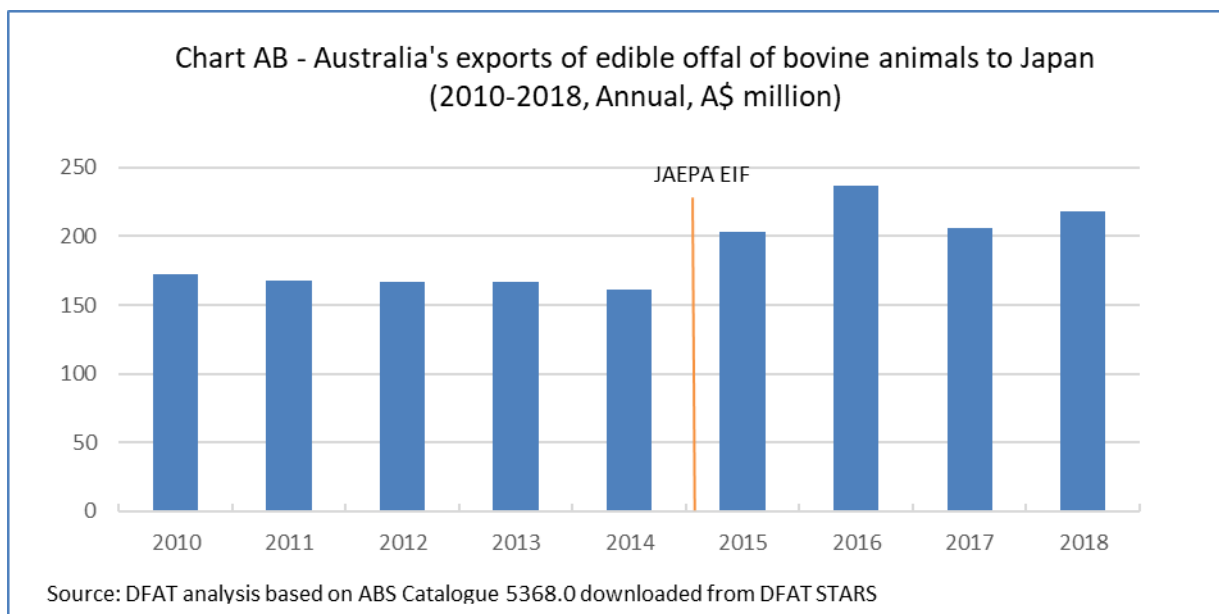
1. The key JAEPA outcomes for Australian fresh, chilled and frozen beef include front-loaded tariff cuts, and abolition of Japan's 50 per cent snapback tariff previously imposed where imports exceeded specified volumes. Before JAEPA, Australian beef was subject to MFN tariffs of 38.5 per cent, which could be increased to 50 per cent under certain conditions.
2. Chart AA shows the value of Australia's beef exports to Japan has performed strongly since entry into force of JAEPA, reaching \$2.27 billion in 2018 (up 37.9 per cent on 2014). In volume terms, over 317,000 tonnes were exported in 2018, up 10.6 per cent on 279,000 tonnes in 2014.
3. Australia's share of the Japan import market (in value terms) increased from around 51 per cent in 2014 to around 56 per cent in 2015. Australia's market share in 2018 was around 50 per cent, reflecting the competitive pressures from United States beef in the Japan market.



### Edible offal of bovine animals

4. Beef tongues and other edible offal of bovine animals are a delicacy in Japan. Japan's 12.8 per cent tariff on edible offal was cut to 7.6 per cent on JAEPA's entry into force.
5. Chart AB shows the value of Australia's edible offal of bovine animals exports to Japan increased strongly following JAEPA's entry into force, increasing from \$161.2 million in 2014 to \$236.8 million in 2016. Exports in 2018 were valued at

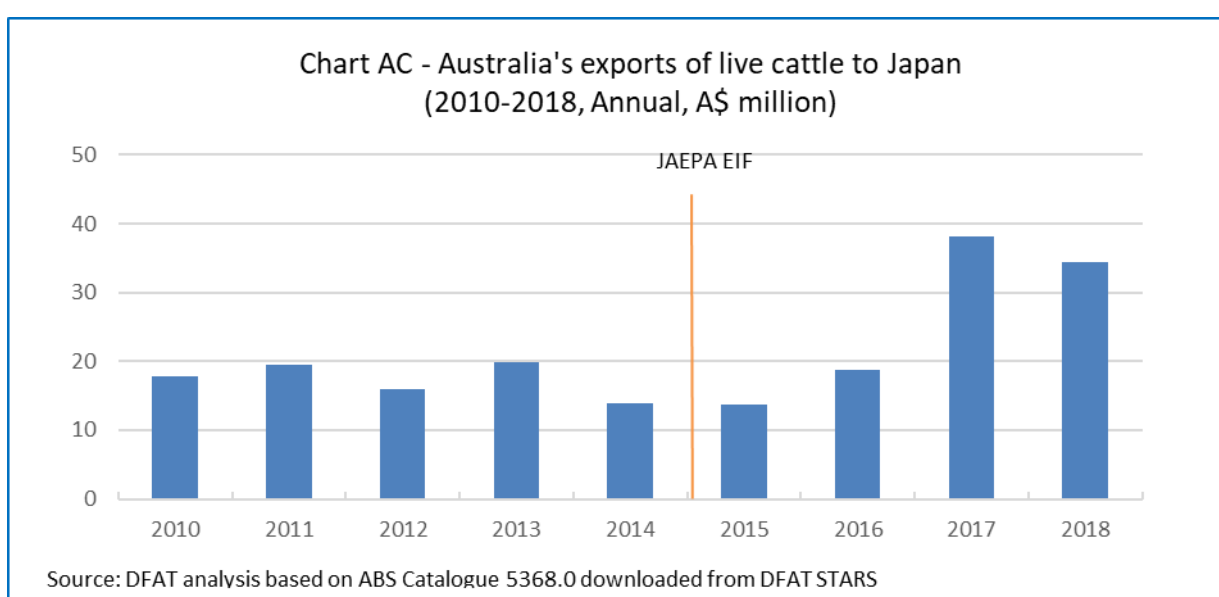
\$218.2 million, up 35.4 per cent on 2014. In volume terms, over 22,000 tonnes were exported to Japan in 2018, down 4.8 per cent on 2014.



### Live cattle

6. Under JAEPA, Japan immediately cut tariffs on live cattle by 20 per cent on entry into force, with no volume restrictions.

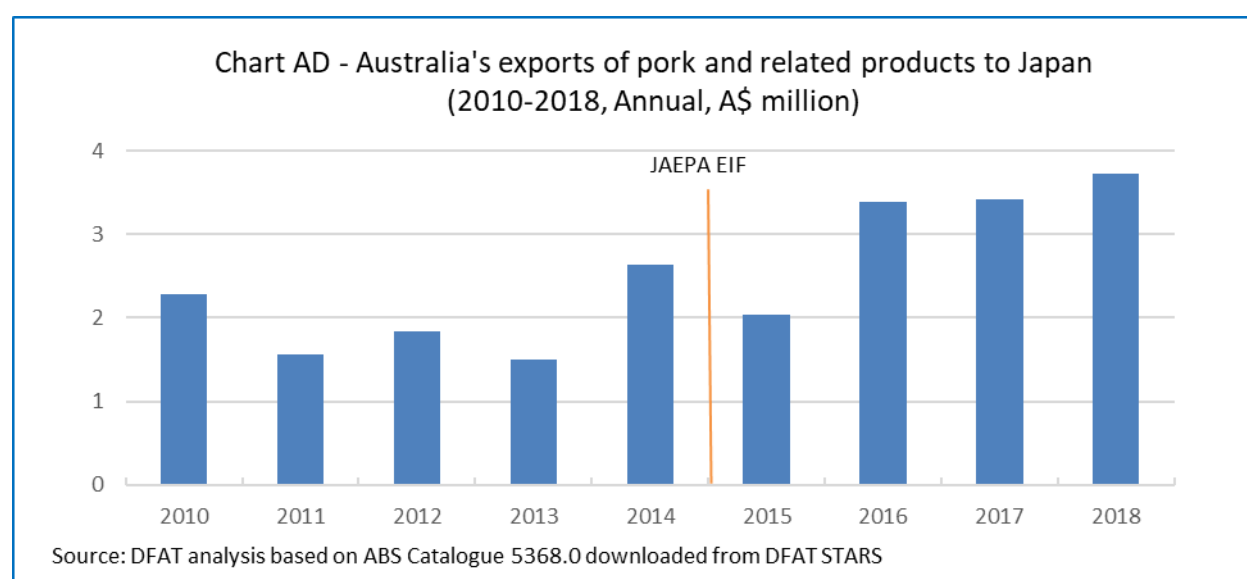
7. Chart AC shows the value of Australia's live cattle exports to Japan increased strongly to \$34.4 million in 2018, up 148.9 per cent on 2014. In volume terms, around 14,500 live cattle were exported to Japan in 2018, up 53.1 per cent on around 9,500 in 2014.



## Pork and related products

8. Japan has traditionally been a difficult market for Australian pork producers, with pork exports much lower than exports of Australian beef, sheep and goat meat.<sup>38</sup> Under JAEPA, Australia gained preferential access for a large volume of product through an Australia-only quota. Within the quota, the ad-valorem tariff rate was cut by half immediately on entry into force, and Australian product was exempt from Japan's global 'gate price safeguard'.

9. Chart AD shows Australia's pork and related products exports to Japan have grown each year to \$3.7 million in 2018, up 40.8 per cent on 2014. In volume terms, around 530 tonnes were exported to Japan in 2018, up 18.6 per cent on 2014.



## Dairy

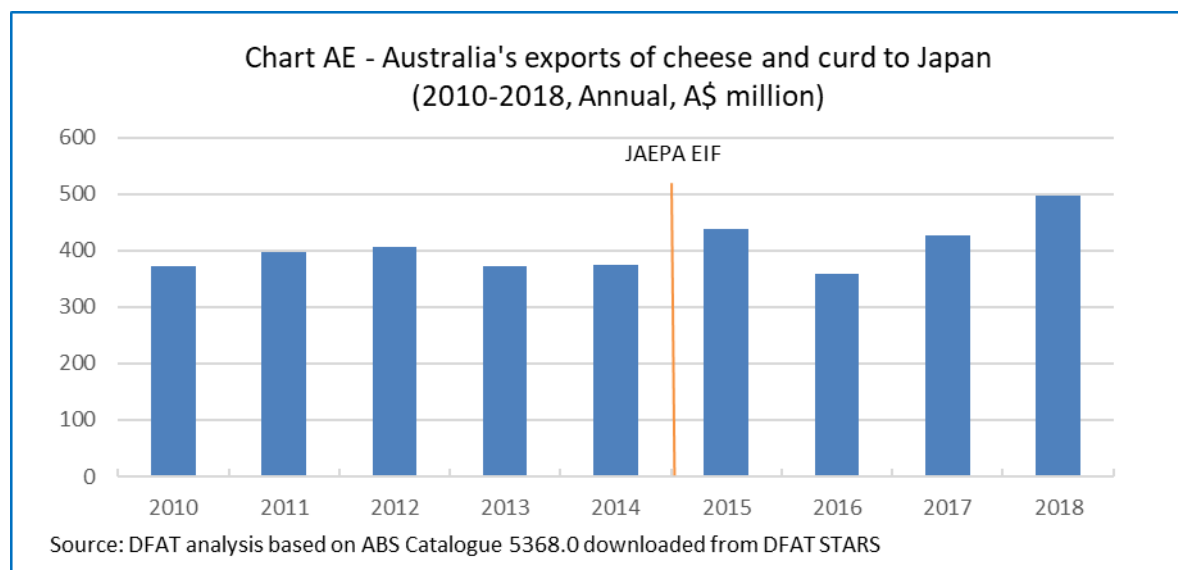
10. Following the conclusion of the JAEPA negotiations, the Australian dairy industry expressed disappointment with the outcome. Japan's complicated regulatory structure on dairy restricted Australia's opportunities to negotiate broader liberalisation under JAEPA. Australia accordingly focussed on improving access for cheese, our key export, and gains in growing markets such as lactose, casein and milk protein concentrates.

11. Under JAEPA, around half of Australia's cheese exports now enter Japan duty-free, with Australia-only quotas (including a quota of 4,000 tonnes on entry into force growing to 20,000 tonnes with front-loading for cheese for processing) available to exporters for major cheese lines. Tariffs have also been cut on some cheese lines, with no quota restrictions.

12. Chart AE shows Australia's cheese and curd exports to Japan have fluctuated since the entry into force of JAEPA, reaching \$497.3 million in 2018 (up 33.2 per cent

<sup>38</sup> Japan's did not impose tariffs on Australian sheep and goat meat before JAEPA.

on 2014). In volume terms, 88,000 tonnes of cheese and curd were exported to Japan in 2018, up 14.2 per cent on 2014.



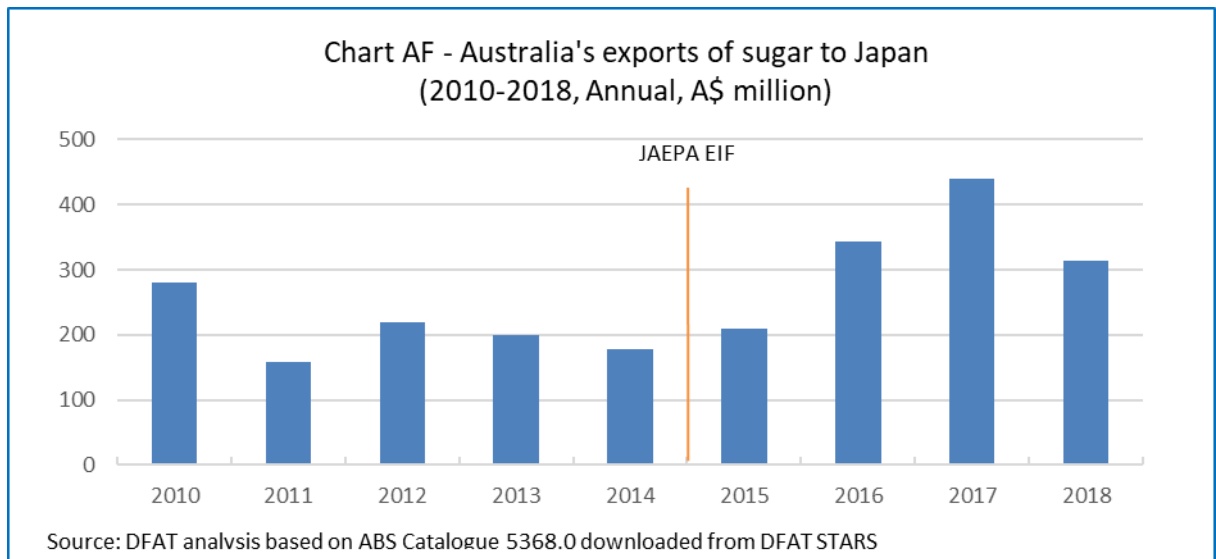
## Sugar

13. Under JAEPA, Japan's tariffs on Australian high polarity raw sugar were eliminated on entry into force, with levies also reduced.

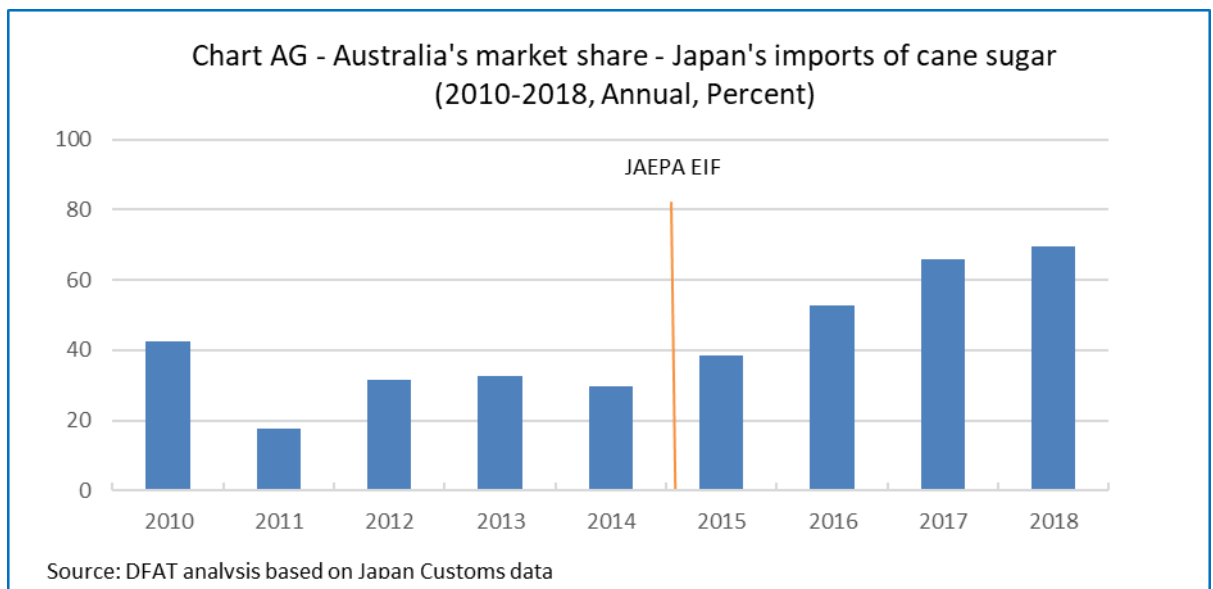
14. Chart AF shows the value of Australia's sugar exports to Japan have grown very strongly to \$313.4 million in 2018, up 75.3 per cent on 2014. The downturn in value of exports between 2017 and 2018 reflects global price fluctuations and the effect of India's sugar subsidies.<sup>39</sup> In volume terms over 806,000 tonnes were exported in 2018, up 94.8 per cent on 2014.

<sup>39</sup> In volume terms, the 806,000 tonnes exported to Japan in 2018 was slightly down on the 834,000 tonnes exported in 2017.





15. Chart AG shows Australia’s share of Japan’s sugar import market in value terms has grown strongly since the entry into force of JAEPA, reaching 69.3 per cent in 2018 (more than doubling from 29.6 per cent in 2014).



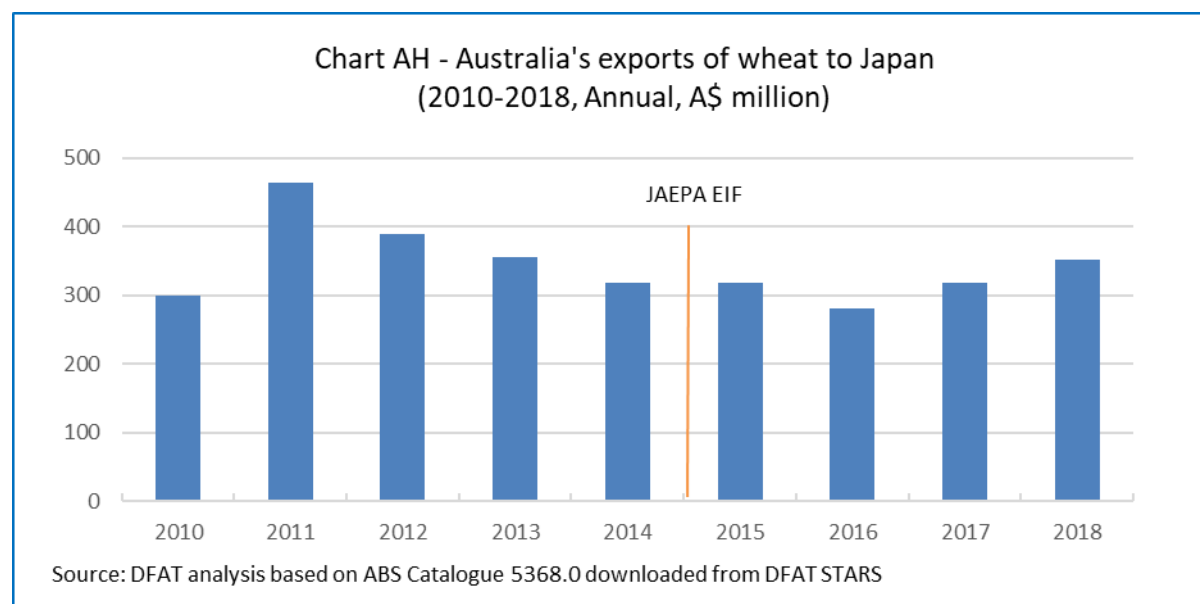
## Grains

16. Despite relatively low tariffs, Japan’s grain imports sector has traditionally been highly regulated, with WTO quotas, duties and other mark-ups, as well as complicated tendering arrangements.

17. Before JAEPA, the bulk of Australia’s wheat exports entered duty-free under Japan’s WTO quota system. However, wheat exporters also participated in a tendering process, which influenced efficiencies and costs. Under JAEPA, Australia secured access to the more efficient ‘simultaneous buy and sell’ process for some

key wheat varieties. Australia also secured immediate elimination of the ¥55 (\$0.58) per kilogram tariff on out-of-quota wheat (for feed).

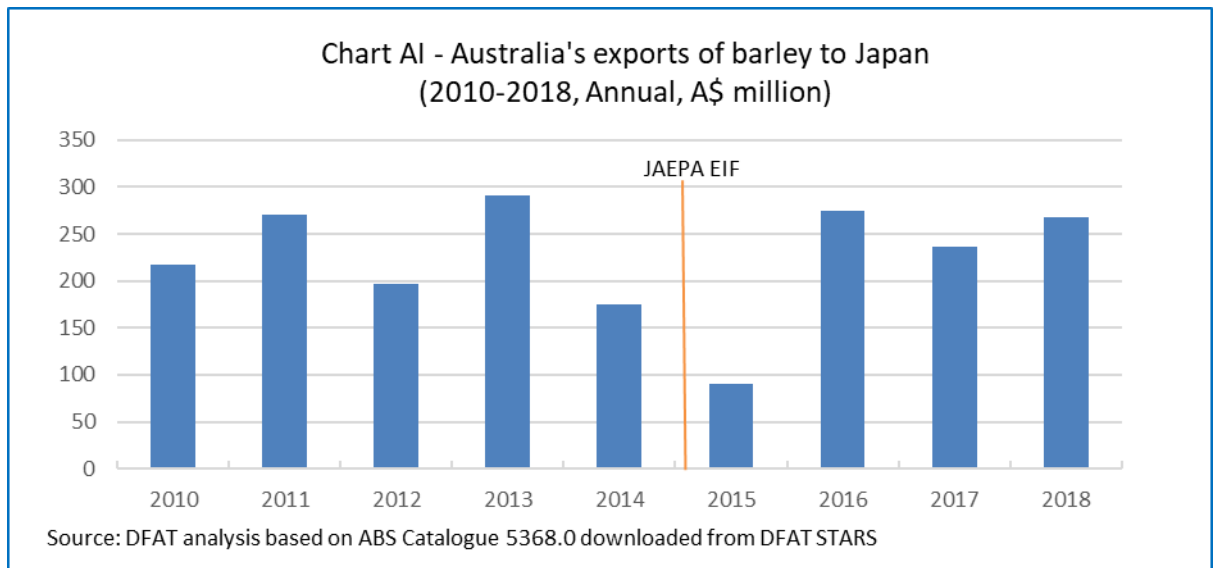
18. Chart AH shows the value of Australia's wheat exports to Japan were \$350.7 million in 2018, up 10.4 per cent on 2014 but below the values between 2011 and 2013. In volume terms, over 897,000 tonnes were exported in 2018, down 3.7 per cent on 2014.<sup>40</sup>



19. Under JAEPA, Australia secured immediate out-of-quota tariff elimination for barley (for feed) meaning Australia was the first country to be able to export duty free to Japan outside the complex quota system.

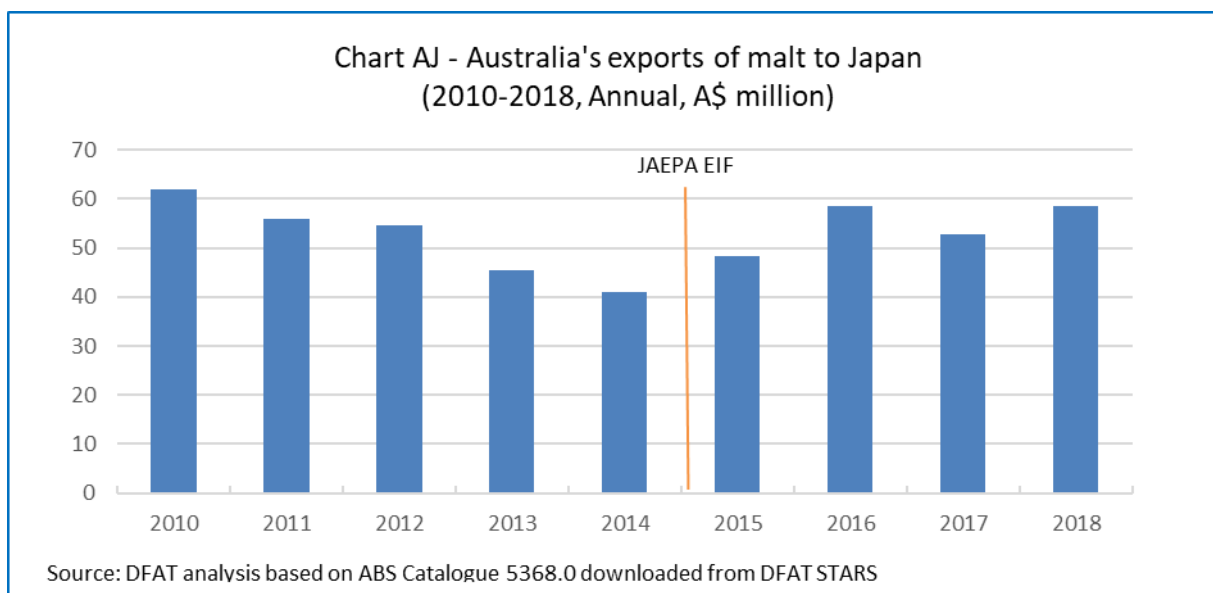
20. Chart AI shows Australia's barley exports to Japan were \$268.4 million in 2018, up 53.8 per cent on 2014. In volume terms, 848,800 tonnes of barley were exported to Japan in 2018, up 40.3 per cent on 2014.

<sup>40</sup> Note that grain exports are heavily influenced by weather conditions affecting production volumes, and world markets.



21. Under JAEPA, Australia received a large Australia-only duty free quota for unroasted malt.

22. Chart AJ shows Australia's malt exports to Japan were \$58.7 million in 2018, up 42.9 per cent on 2014. In volume terms, 94,000 tonnes were exported in 2018, up 33.9 per cent on 2014.



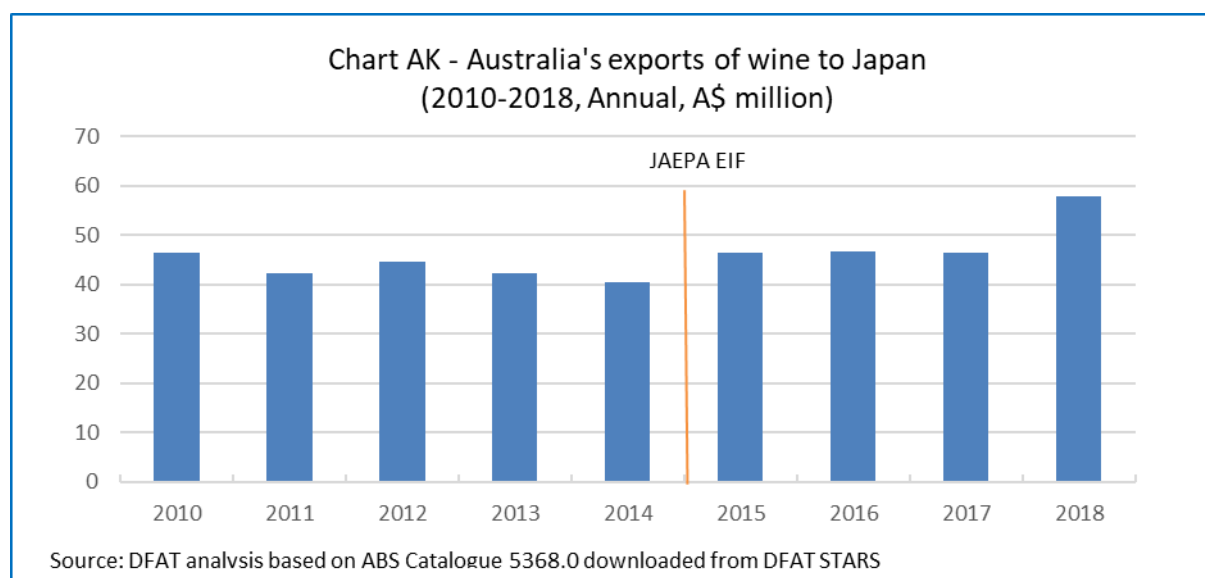
## Wine

23. Prior to JAEPA, Australian wine had been losing market share in Japan to Chile, which enjoyed phased tariff reductions under the Japan-Chile EPA.

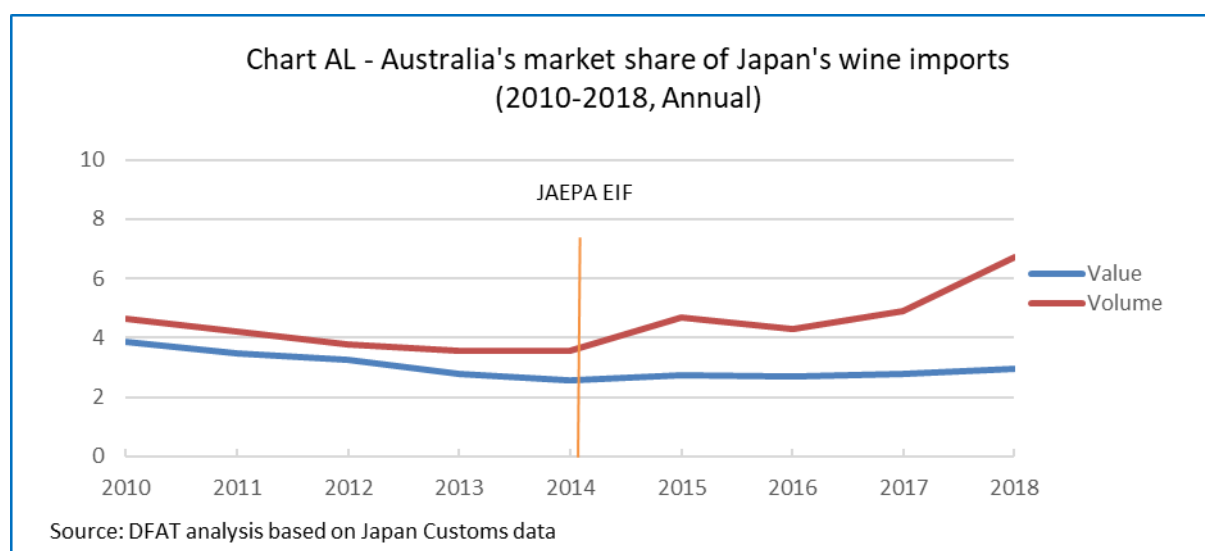
24. Under JAEPA, Australia gained improved access for bottled, sparkling and bulk wine, with faster tariff elimination than Chile secured, which helped level the

playing field with Chile and provided an immediate advantage over other key competitors including France, Italy, the United States and Spain. The wine industry strongly welcomed the JAEPA outcomes.

25. Chart AK shows Australia’s wine exports to Japan were \$57.7 million in 2018, up 42.8 per cent on 2014. In volume terms, 18.0 million litres of wine were exported to Japan in 2018, up 84.6 per cent on 2014.



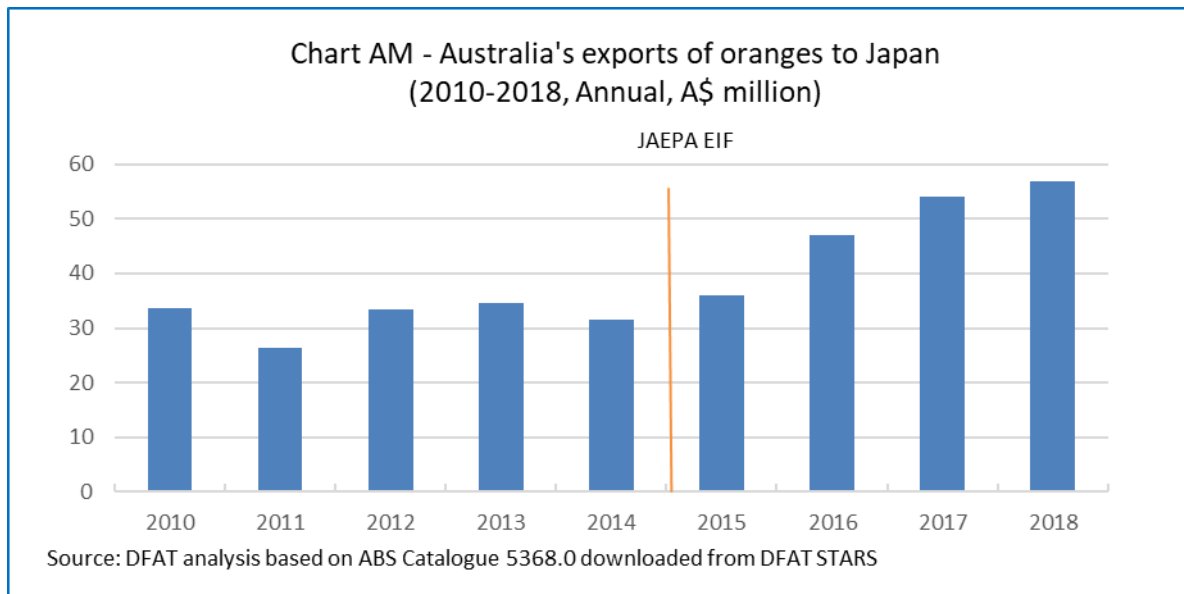
26. Chart AL shows Australia’s share of the Japan wine import market increased slightly in value terms between 2014 and 2018. In volume terms, there was a significant gain in market share (more than doubling to 6.7 per cent in 2018).



## Fruit

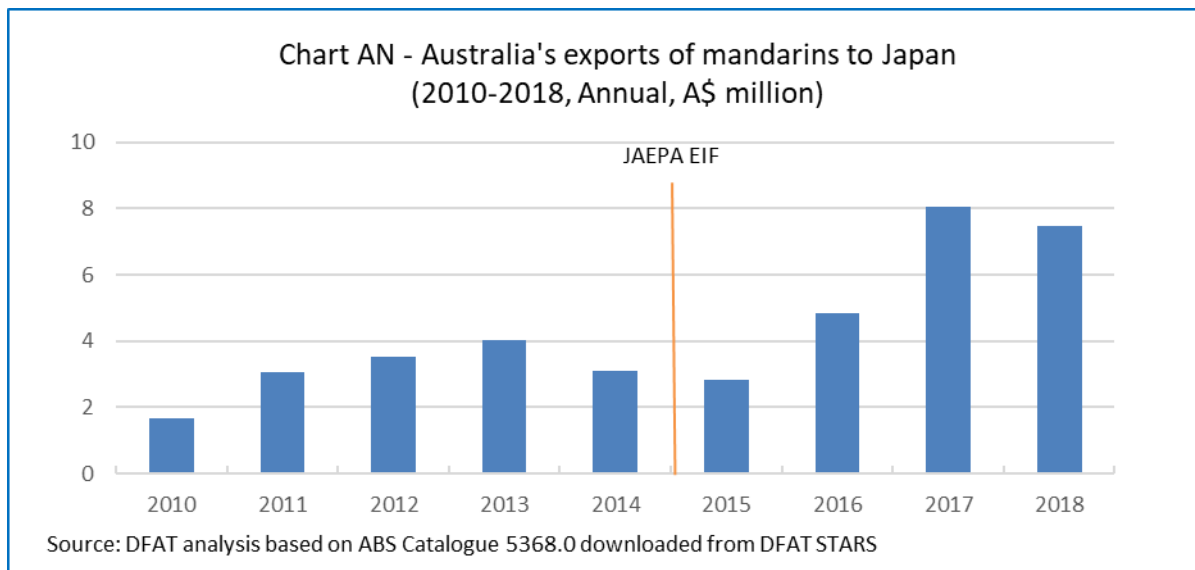
27. Under JAEPA, Japan’s 16 per cent tariff on oranges in season (between June and September) is being eliminated over ten years.

28. Chart AM shows Australia’s exports of oranges have performed strongly since JAEPA’s entry into force, increasing significantly to \$56.8 million in 2018 (up 80.4 per cent on 2014). In volume terms, over 33,000 tonnes of oranges were exported to Japan in 2018, up 24.3 per cent on 2018.



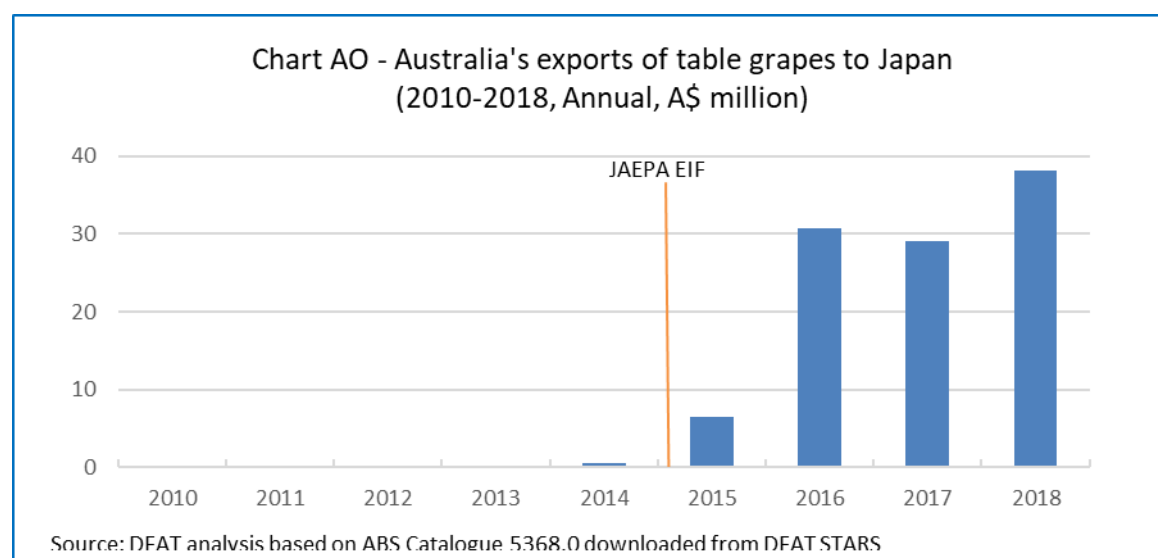
29. Under JAEPA, Japan’s 17 per cent tariff on mandarins is being eliminated over ten years.

30. Chart AN shows Australia’s exports of mandarins have also performed strongly since JAEPA’s entry into force, reaching \$7.5 million in 2018 (up 141 per cent on 2014). In volume terms, round 3,600 tonnes were shipped in 2018, up 122.2 per cent on 2014.



31. Under JAEPA, tariffs on table grapes are being eliminated (the 7.8 per cent in-season tariff over seven years; and the 17 per cent off-season tariff over 10 years), building on the significant biosecurity protocols that improved technical market access for Australian table grapes from February 2014.

32. Chart AO shows Australia's exports of table grapes have grown strongly to \$38.1 million in 2018. In volume terms, almost 11,000 tonnes were shipped to Japan in 2018, compared to 235 tonnes in 2014. Australia's share of Japan's import market for table grapes has also increased strongly, reaching around 30 per cent in 2018.

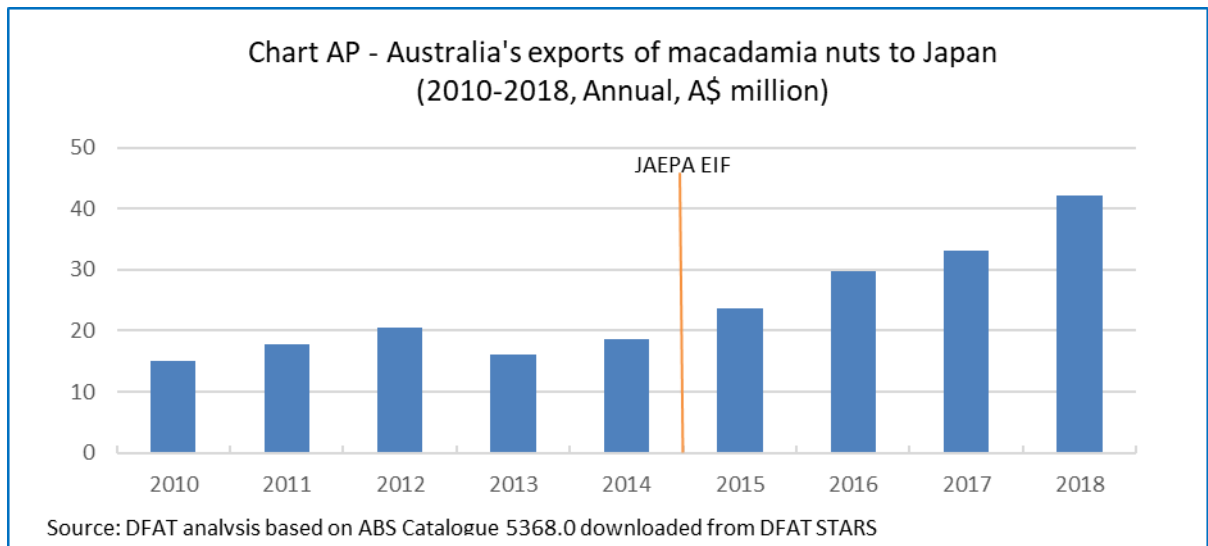


## Nuts

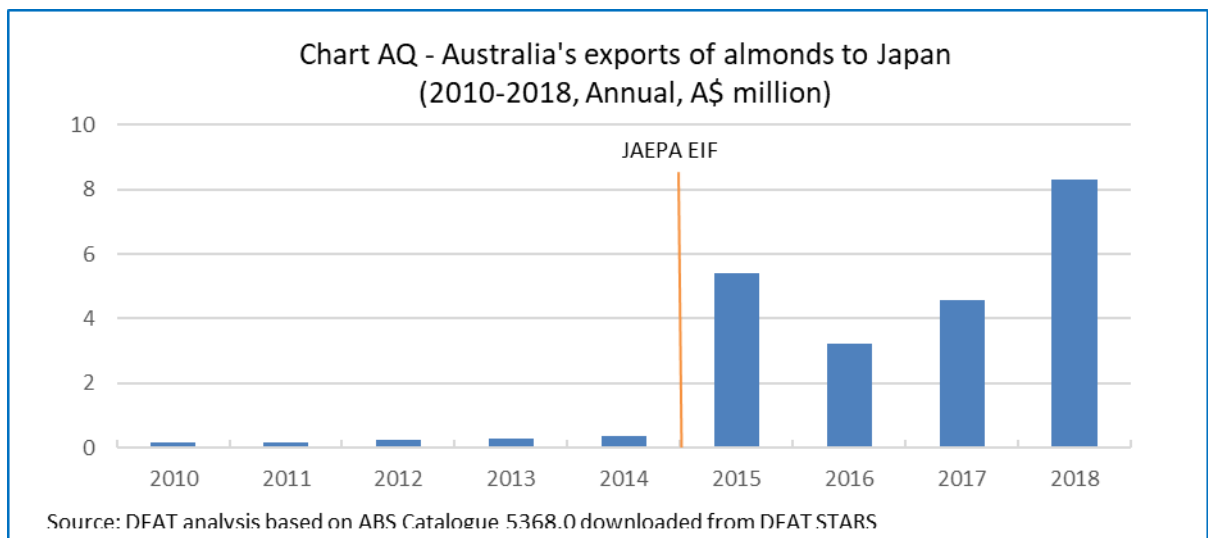
33. The key JAEPA outcomes for nuts include:

- macadamia nuts: immediate elimination of the five per cent tariff;
- almonds: immediate elimination of the 2.4 per cent tariff;
- pecans and hazelnuts: immediate elimination of the 4.5 and six per cent tariffs; and
- walnuts and chestnuts: ten per cent tariffs eliminated over five and ten years.

34. Chart AP shows Australia's exports of macadamia nuts increased significantly to \$42.1 million in 2018 (up 126.7 per cent on 2014). In volume terms, over 1,650 tonnes were exported to Japan in 2018, up 42.4 per cent on 2014.



35. Chart AQ shows Australia’s exports of almonds increased significantly to \$8.3 million in 2018, up from \$0.3 million in 2014. In volume terms, just over 810 tonnes were exported to Japan in 2018, compared to around 32 tonnes in 2014 (up over 24-fold).



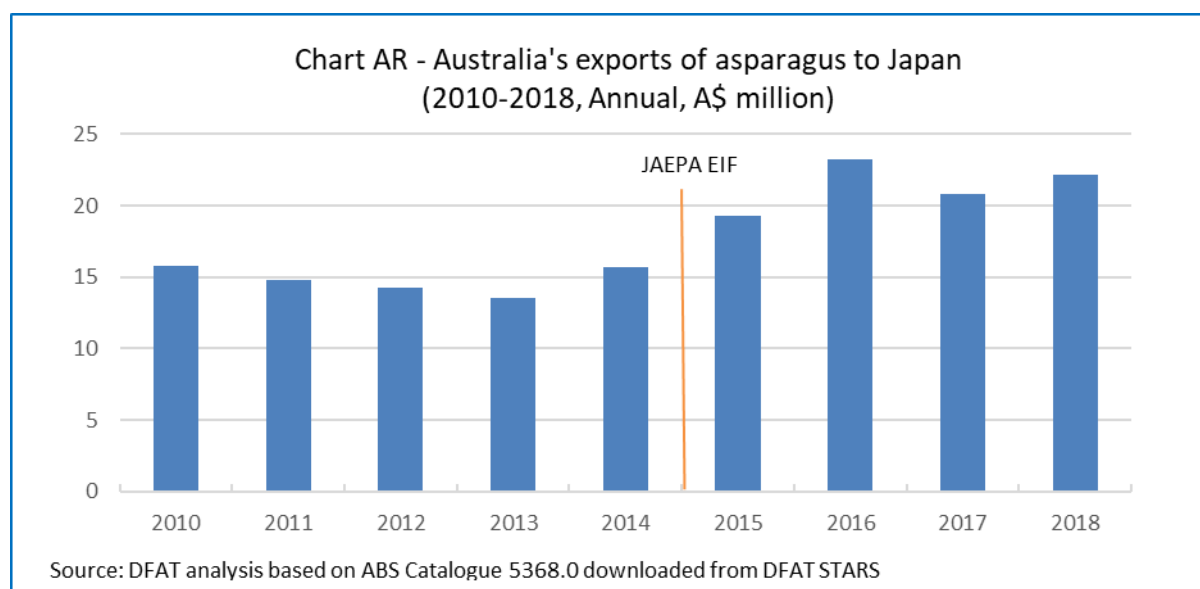
## Vegetables

36. Key JAEPA outcomes for vegetables include:

- asparagus: immediate elimination of the three per cent tariff on entry into force (Australia’s largest vegetable export to Japan);
- carrots, potatoes, leeks, garlic, tomatoes, shallots, cauliflower, broccoli, brussels sprouts, cabbage, truffles, spinach, capsicum, pumpkins, artichokes, mushrooms (except shiitake): immediate elimination of the three per cent tariff on entry into force;

- . olives (preserved): immediate elimination of the nine per cent tariff on entry into force;
- . canned tomatoes: nine per cent tariff eliminated over five years;
- . onions: 8.5 per cent tariff eliminated over five years; and
- . broad beans: ten per cent in-quota tariff eliminated over ten years.

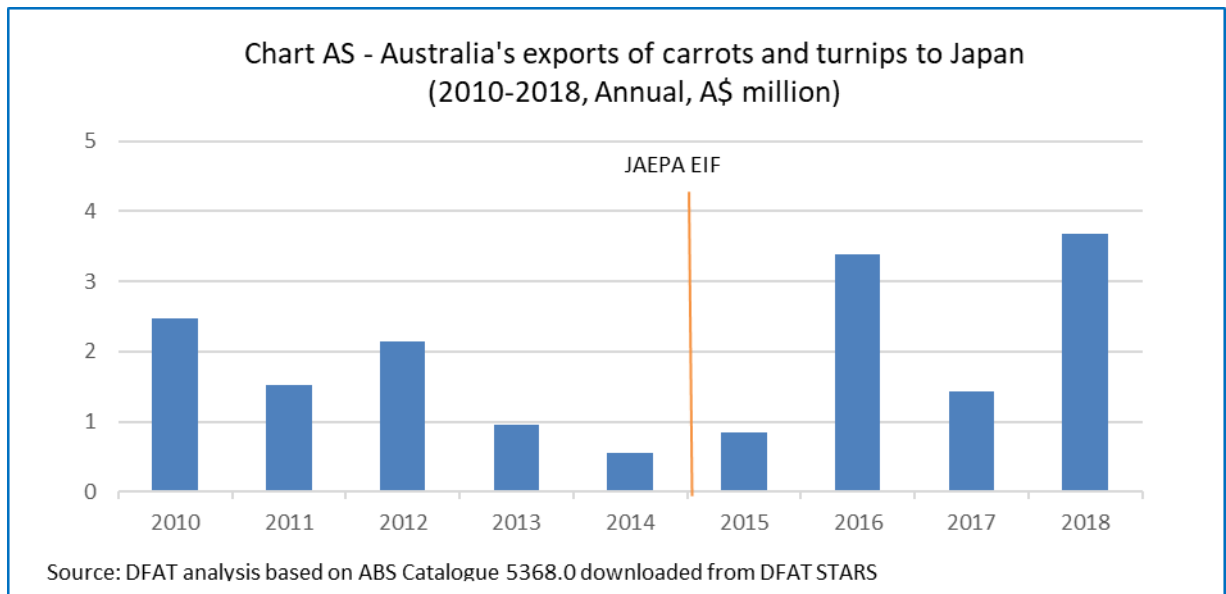
37. Chart AR shows Australia’s exports of asparagus increased significantly to \$22.1 million in 2018, up 41.2 per cent on 2014. In volume terms, almost 2,700 tonnes were shipped to Japan in 2014, increasing to over 4,000 tonnes in 2016 before declining to around 2,700 tonnes in 2018.



38. Chart AS shows Australia’s exports of carrots and turnips increased to \$3.7 million in 2018, up from around \$0.6 million in 2014. In volume terms, over 4,000 tonnes were exported to Japan in 2018, compared to 730 tonnes in 2014.<sup>41</sup>

<sup>41</sup> As with grains and other agricultural products, vegetable exports are influenced by weather conditions, production volumes, and world market fluctuations.





## Seafood

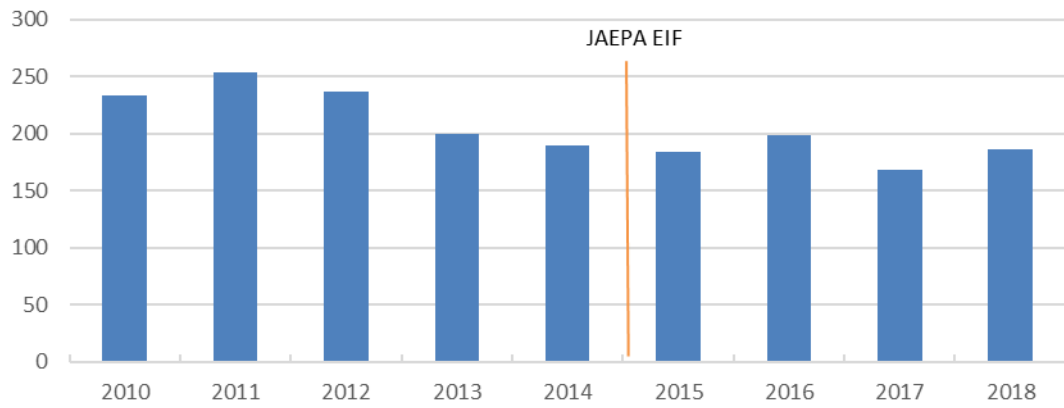
39. Key JAEPA outcomes for seafood include:

- tariffs up to 9.6 per cent on shrimps and prawns, rock lobsters, abalone (fresh or preserved), oysters, crabs, yellowfin tuna, tooth fish, sea urchins and fish oils were eliminated on entry into force;
- tariffs of 3.5 per cent on southern bluefin tuna are being eliminated over ten years, with reductions from year three after entry into force;<sup>42</sup> and
- tariffs of 3.5 per cent on swordfish, marlin and salmon are being eliminated over ten years, with reductions starting in year six after entry into force.

40. Chart AT shows Australia's exports of seafood to Japan were \$186.4 million in 2018, down slightly from \$189.5 million in 2014. In volume terms, over 11,000 tonnes were exported to Japan in 2018, down 4.1 per cent on the volume exported in 2014.

<sup>42</sup> At Japan's request, some tariff eliminations in JAEPA (including for southern bluefin tuna) were delayed to assist adjustment for its domestic fisheries industry following the 2011 earthquake and tsunami.

Chart AT - Australia's exports of seafood to Japan  
(2010-2018, Annual, A\$ million)



Source: DFAT analysis based on ABS Catalogue 5368.0 downloaded from DFAT STARS

## **ATTACHMENT B: REGULATORY BURDEN ESTIMATE**

1. The JAEPA Regulatory Impact Statement estimated JAEPA would reduce ongoing business compliance costs for Australian exporters to Japan by a nominal figure of around \$32,000 annually. This figure reflected average CoO direct cost of \$33, the number of export declarations in 2013, the proportion of preferential export declarations, and administrative costs in preparing for DoOs or CoOs. The analysis took into account businesses that sought and obtained non-preferential CoOs before JAEPA would be able to self-certify the origin of their goods under JAEPA through DoOs.

### ***Direct Costs***

2. As shown earlier in this review, the direct costs charged by Authorising Bodies can vary depending on the type of CoO (electronic or hard copy), and whether the business is a member of the Authorised Body. One of the Authorised Bodies reported an average CoO direct cost of \$31. Our estimate of the total annual cost based on around 11,000 CoOs each year is under \$400,000.

### ***Administrative costs***

3. The ongoing annual administrative costs incurred by a business in preparing the documentation to obtain a COO are assessed as relatively low. The bulk of Australian exports to Japan are 'wholly obtained' goods such as agriculture and resources commodities, which unlike more complex manufactured products such as motor vehicles, require relatively minimal administration to ensure compliance with origin requirements. Further, while new exporters may expend considerable time applying for certification for their initial consignment, as a matter of practice this information can be re-submitted for subsequent certifications. In addition, much of the information required would be collected for other purposes.

4. Records relating to certificate of origin are required to be kept for five years for most foreign customs agencies. However, businesses are required under Australian Tax Law to retain these records for seven years. The incremental compliance burden associated with record keeping for COOs is assessed as minimal.

### ***Compliance costs under JAEPA***

5. Prior to JAEPA, non-preferential CoOs were obtained by Australian exporters for goods destined to Japan for a range of reasons, including to meet the requirements of importer businesses and customs agencies (such as for the purpose of administering import tariff quotas).

6. Under JAEPA, businesses that previously sought and obtained non-preferential CoOs are able to self-certify the origin of their goods under JAEPA through DoOs. As shown earlier in this review, there has been a high take-up of DoOs under JAEPA.

7. Table B1 shows JAEPA is assessed as reducing the compliance burden by a nominal annual amount of \$0.05 million compared to the situation before JAEPA, when Australian exporters used non-preferential CoOs. The direct and administrative costs associated with compliance through preferential CoOs and DoOs has been more than offset by reductions in overall costs due to the high take-up of the DoO option.

**Table B1: Regulatory Burden and Estimate Table**

<b>Average annual compliance costs (from business as usual) Costs (\$m)</b>	<b>Business</b>	<b>Community organisations</b>	<b>Individuals</b>	<b>Total cost</b>
Total by sector	(\$0.05)	\$	\$	(\$0.05)