

## **Towards An Australia-Japan FTA - Benefits for the people of Hokkaido -**

Thank you very much for the opportunity to be here today, to speak to you all about the Australia-Japan Free Trade Agreement (FTA).

I hope you come away with a deeper appreciation of Australia, Australian agriculture, and importantly, the reasons why we should have an FTA and why Australia insists that an FTA must include agriculture in a substantial way.

### **A strategic partnership**

Our friendship is deep and strong.

Australia and Japan have shared values. We share a commitment to peace and prosperity, in particular in the Asia Pacific region.

This shared commitment has led us to work closely in diplomatic, security and strategic fields. Australian troops provided protection to Japanese engineers in Iraq; and Australia supports Japan's bid for membership of the UN Security Council.

Our trade relationship has delivered great mutual benefit for more than 50 years. But it took courage, vision and leadership on both sides to achieve this.

The foundation of our modern trade relationship was established through the 1957 "Australia-Japan Agreement on Commerce", even though many in Australia were opposed to it at the time.

Today, Australia is the largest supplier of primary energy to Japan – including coal, gas and uranium. Australia is a key supplier of vital industrial minerals to Japan

Australia benefits from Japanese investment. This is not only in the minerals and energy sector but also agriculture. Kirin Holdings recently purchased National Foods – Australia's largest dairy producer.

Niseko also shows the benefits of our trade and investment relationship. Cooperation between Australian and local businesses has resulted in an increase in visitors and investment, and this has helped to revitalise and reinvigorate an important rural community in Hokkaido. As a result, people from across the world are travelling to Hokkaido throughout the year.

When you look at the totality of our relationship, it would indeed be unfortunate if our two countries do not take the opportunity to strengthen further our ties through an FTA.

### **Agriculture**

Japan is Australia's largest market for agricultural products. As a consequence, Australia is also one of Japan's major sources of imported food. Australia's ability to

supply safe and high quality food to Japan is an important element of Japan's own food security.

Our main agricultural exports to Japan are:

- beef
- dairy - many inputs are for the processing sector in Hokkaido
- barley and wheat – much of which is used for stockfeed by Hokkaido's farmers
- raw cane sugar, which is processed by Japan's own sugar refining industry

We also supply many other products, but it's worth talking a about rice in a little detail.

Australia knows the vast majority of commercial farm households in Japan grow rice. Japan regularly produces an average of 8.5 million tonnes of rice per year. In contrast to this, during the 2007-08 financial year Australia was estimated to have produced less than 20,000 tonnes of rice. Australia now imports around 250,000 tonnes simply to meet its own domestic demand. So you can see, Australia's rice industry poses no competitive threat to Japan.

I wish to state clearly though, Australia is seeking better access to Japan's agriculture market through the FTA negotiations. Australia accepts that the outcome of our negotiations will need to reflect Japan's sensitivities, but an EPA that does not substantially cover agriculture would fail to include an important part of our relationship. Australia will not accept an FTA without a substantial commitment on agriculture.

### **Who will benefit from an FTA?**

- Consumers could benefit. Food prices in Japan are high partly because Japan has some of the world's highest agricultural tariffs. This includes, for example, a 38.5% tariff on beef. An FTA with lower tariffs could help lower food prices for Japanese consumers.
- Japanese farmers could benefit though access to cheaper animal feeds and other inputs that Japan cannot produce economically.

One specific example for Hokkaido's farmers is that an FTA with Australia could reduce the duties currently applied to barley feed from Australia.

Australia has traditionally been Japan's largest supplier of feed barley but results from the MAFF January 2009 tender for barley feed show that a 13% tariff-equivalent duty was applied to feed barley. An FTA that reduced this duty could mean Japan's dairy and beef farmers save 13% on their barley feed costs, which is a very large input cost.

- Japanese food processors and other businesses that use imported food could also benefit. This includes noodle makers, dairy companies, breweries, convenience stores, and fast food outlets, all use imported food from Australia in their business.

I have been told many times in Japan that an FTA between our two countries would mean the end of Japanese agriculture. This simply isn't the case.

After an FTA with Australia, Japan will continue to have an agriculture sector and Hokkaido will continue to be Japan's food bowl.

The reasons for this are that Hokkaido's agriculture has many significant strengths, including unique and high quality products. Hokkaido also has the advantage of economies of scale in agriculture. The introduction of greater competition into the Japanese agriculture sector will help Hokkaido reach its full productive potential.

Importantly, there are also many limitations on the potential growth of agriculture exports from Australia. Maybe Australia has not explained these points well in the past but the limits are real. Australia's climate limits its production capacity. Water and productive land resources in Australia are limited. Ultimately, this is the reason why the value of Australia's agricultural sector is less than half the size of Japan's. Australia also only has a population of 20 million people, nearly all of whom live in urban areas, and we also export to a range of markets other than Japan. Australia exported food to more than 200 countries in 2008.

Australia accepts that an FTA will require some change in Japan, but Japan's agriculture has changed in the past and irrespective of an FTA, it will change again, not least because of Japan's ageing farm labour force. Australia understands these pressures. Australia too faces difficulties in attracting the right labour. But Australia has also come to understand reform, both the process and the resulting benefits.

The Australia dairy sector is a good example of this. The Australian dairy sector reformed by ending restrictions on supply of fresh milk between Australian states. As a consequence, some less competitive producers were assisted to leave the market, but our efficient dairy farmers are no longer held back by inefficient dairy farmers in other parts of the country. Today, there are fewer dairy farmers in total, and they are concentrated in the state most suited to dairy production. Those that remain are efficient and profitable.

Our FTA is an opportunity to promote efficiency and productivity improvements in Japan – a process that Hokkaido is well positioned to benefit from.

## **Conclusion**

Ladies and Gentlemen: in conclusion I would like to reiterate my key messages to you today.

Firstly, Australia and Japan are like minded countries. An FTA will be an important part of strengthening further our strategic partnership.

Secondly, trade has long been the centre piece of our bilateral relationship. 50 years ago it took courage and vision to imagine the trade relationship that we both benefit from today. Today, the FTA negotiations offer an opportunity to integrate our

economies further. Australia is committed to strengthening the trade and economic relationship with Japan.

Finally, Australia sees these FTA negotiations as negotiations between good friends for mutual benefit. Japan's efficient producers will benefit from reform. So I say to you: Hokkaido. Be ambitious!