

49th Japan - Australia Joint Business Conference
9th-11th October 2011

Brief Summary of the Conference's Presentations

The 49th Japan - Australia Joint Business Conference was held 9th-11th October, 2011, in Kyoto, Japan. The conference attracted 128 participants in the Japanese delegation and 82 participants in the Australian delegation. Additionally, 24 accompanying persons joined the conference.

Following the opening addresses by the conference's joint Chairs, Sir Rod Eddington and Mr. Akio Mimura, the reading of the messages from Prime Ministers Gillard and Noda respectively by Ambassadors Miller and Sato, and the welcome speech from Mr. Tateishi, Chairman of the Kyoto Chamber of Commerce and Industry, the conference commenced its seven plenary session program.

In **Plenary Session One**, "***Japan-Australia Relations in East Asia / Asia Pacific***", Dr. Shiraishi, President, National Graduate Institute for Policy Studies, was the keynote speaker. A panel discussion followed with Prof. Nakanishi as a Moderator.

Dr. Shiraishi referred to increasing urbanization in East Asia as the long-term driver of economic growth accompanying a transformation in regional order as the economies of China and India grow relative to the size of the Japanese economy. He stated it is important for Australia and Japan to support an appropriate balance in the regional security and economic system. He suggested that both countries deepen mutual reliance with regard to China and strengthen regional cooperation by promoting the establishment of internationally competitive "Mega-Regions" (hub city and industrial capacity).

Mr. Walsh (Rio Tinto) in his initial remarks emphasized that Japan remains a key strategic partner for Australia, as it is also for his business. Therefore, the engagement must continue to be strong and the relationship fostered. He noted Japan's broad engagement with the Australian economy outside mining. Mr. Walsh recommended bilateral collaboration in innovation and technology. He concluded by reference to Australia's challenge to develop the next cadre of Japan experts involved support of the Australia-Japan relationship at both the secondary school and the university levels.

Mr. Lester (Allens Arthur Robinson) referenced the 'absolute mutual dependency' evident in Japan, China and India increasingly looking to Australia for the supply of resources, energy and food and Australia looking to Japan, China and India for capital investment and markets for its resources, energy and food. He observed that the changes in the global order and fabric of the world present exciting opportunities – but with rapid change comes a degree of instability as influence moves and social perceptions adjust. Mr. Lester called for Australia and Japan to draw on our long history, connections and common values to take strong leadership roles to help the region navigate through these changes. It was commented that an immediate conclusion to the EPA/ FTA negotiation was required.

Dr. Seth (former Indian Ambassador to Japan), referred to the historical fact that in the 17th century China and India were the largest economies in the world, consequently, he believed that what we see now is a reemergence of their prominence. Japan, Australia and India share the values of democracy and free economy and also share the strategic desire for a well-ordered free trade system under the WTO framework. Dr. Seth referenced the response of the three countries to the Tsunami disaster on Sumatra in December, 2004 to demonstrate an instance of close and cooperative relationship in the past. Dr. Seth emphasized the importance of establishing a cooperation framework in regional security and regarding environmental issues.

Prof. Zhu (Toyo Gakuen University) commented that the very rapid growth of China has caused confusion and uncertainty for other countries and even for China. The consequence has been a negative reactive response by other countries to China's new economic and political position. In turn, China has emphasized domestic stability and external cooperation. He recommended a long-term strategy of building relations of mutual reliance with China by inclusiveness, rather than containing it.

Plenary Session Two, “Sustainable Growth - the challenges for the Japanese and Australian Economies” was chaired by Mr. Oku with Mr. Bartley as co-chairman.

In his speech entitled “the Post-Earthquake Japanese Economy and a new strategy for a more open country”, Mr. Ken Abe (Mitsui & Co., Ltd.) identified

- i) the economic maturity and the loss of growth;
- ii) the loss of competitiveness caused by the appreciation of Japanese Yen; and

iii) the rise of emerging economies

as the obstacles which Japanese economy cannot remove. He commented that the solution lies in the opening up of Japan both in allowing the active advance of Japanese companies to overseas markets and in accepting the expansion of overseas investments into Japan. He proposed to industrialize exports of Japanese culture as a whole which does not rely on the effect of the Japanese Yen appreciation, and also to expand domestic demand by responding to the needs of the public.

Mr. Dunn (AMP Limited) spoke of some of the ways that Australia has repositioned itself for flexibility and growth in the past few decades and of the challenges facing Australia and the developed countries post the global financial crisis and where he felt they could benefit from Japan's experiences. He expressed the belief that the world is not facing a normal recession, consequently normal responses will not do. Mr. Dunn stated that what most advanced economies will require is a balanced combination of targeted monetary and fiscal policy along with micro-economic structural reform that leads to increased productivity and greater international competitiveness. However, he acknowledged the substantial and political challenges in getting the balance right between monetary and fiscal policies. Growth, he stated, needs to be based on real increases in productivity which normally necessitates real structural change.

Plenary Session Three, chaired by Mr. Koga with Prof. Corbett as co-chairman, took up the topic of “***Regional Economic Integration-Entering a New Phase.***”

Mr. Kojima (Mitsubishi Corporation) expressed the view that the rise of emerging economies necessitated the reinforcement of global standards (rules). He believed that Japan should participate in the TPP so as to be part of establishing the rules. He also believed that Japan should conclude an EPA between our two countries at the earliest date and that together we should seek to advance the TPP towards a Free Trade Agreement for the Asia-Pacific (FTAAP). He commented that Japan must work on its agriculture reform and stated much can be learned from Australian agriculture which is high technology industry. He also pointed to the importance of increasing the number of foreign exchange students between our two nations from the viewpoint of training the talent.

Mr. Grey (Australian Trade Commission) addressed three key elements of regional economic integration. He commenced with comments on the current status of the

various trade negotiations including the Doha Round; and the Trans-Pacific Partnership (TPP) Agreement; Secondly, Mr Grey referenced how Asian economic integration has tended to be more market driven than by institutionalized forms of economic integration as have developed in Europe. Regional groupings such as the East Asian Summit and the Asia Pacific Economic Cooperation Forum have played, and will continue to play, a very important role in facilitating and promoting economic integration. Finally, Mr. Grey mentioned the importance of human capital as the degree of sophisticated integration expands over the coming decades. He believed companies will increasingly need to develop people with competencies in cross-cultural understanding, diversity in thinking, and an ability to adapt to different environments.

Mr. Mikamo (Marubeni Research Institute) opined that Japan should look at “TPP and agriculture” as compatible rather than antagonistic as presently viewed. He believed that the agriculture policy should shift from protection to strengthening of competitiveness, and it had already come to the point where the establishment of structures that enable large-scale farmlands, complex management, and cooperation of farmers and enterprises should be put into action.

Mr. Low (RedBridge Grant Samuel) stated that the increase of trading volumes in the fields of resources, finance and consume goods in the Asian region economy are remarkable and that he expected these to increase. He referred also to the importance of the increasing investment across boundaries.

Plenary Session Four was chaired by Mr. Kobayashi with Mr. Williams as co-chairman under a theme of ***“Japan and Australia – Collaboration in the Asian Market.”***

Mr. Yokoo (Japan External Trade Organization) outlined the background of Australia–Japan infrastructure initiative, the achievements, and gave examples of Australia-Japan collaboration in infrastructure. He also explained the three future activity policies which are i) recommendations for reform of the PPP/PFI regulatory frameworks and improvement of business environments both in Australia and Japan, ii) following up on the infrastructure missions to India and Indonesia, and iii) development of partnerships between Australia and Japan through information exchange and other mutual activities.

Mr Seidler (Hunter Phillip Japan Limited) commented that the key feature of the new

collaboration in infrastructure is that it has made AJBCC and JABCC aware that Australia and Japan can work together in a non-competitive way because we have a shared interest and we also have complementary skills. In the future, this knowledge and experience should permit us to work together in areas other than infrastructure. Mr Seidler emphasized that what the AJBCC-JABCC initiative was not aimed at creating were quick investment opportunities for our businesses but to change the environment in Australia, in Japan, and in selected countries of strategic interest in Asia. The purpose was for the private sector to participate in the provision of public infrastructure in an efficient, productive, financially responsible and harmonious manner. This task was easier said than done, but the two Joint Australia-Japan Public-Private Dialogues were a good platform to raise the scope and the benefits of the desirable changes for undertaking work in Australia more attractive to Japanese infrastructure companies and vice versa. He indicated some of the issues of interest and stated that education through sharing experiences was most valuable. This will be most important as we seek to joint venture to undertake work in third countries such as India and Indonesia.

Mr. Morisaki (The Bank of Tokyo-Mitsubishi UFJ, Ltd.) indicated that the demand for infrastructure in in Asia in the next ten years was valued at 8 trillion Japanese Yen including a high demand for the usage of PPP. He also explained that although PPP for infrastructure has been primarily used in the field of power generation in Asia, Japan has been promoting overseas business with the collaboration of public and private sectors in other fields such as urban transportation and water. He commented that it is highly meaningful to promote the building of a consortium, for the development and financing of new projects with Australia- Japan collaboration as Australia has a broad experience in PPP project delivery.

Dr Catchlove (Padua Consulting) addressed the topic of '*Collaboration in Health Services*'. He described the reform process in Australian Health care particularly in relation to the involvement of the private sector. He commented upon features of the Australian and Japanese health care systems that they share with many developed countries such as escalating cost, ageing populations, increases in lifestyle related diseases and shortage of capital for infrastructure. Dr Catchlove stated that Australia had been fortunate in that the fundamentals of its health care system have been strong allowing opportunities to obtain access to capital, efficient management systems, and risk transfer so that it could enhance the delivery and quality of patient care. As a consequence, considerable expertise with reference to the relationship between the

public and private sectors had been established.

Plenary Session Five, with Dr. Sasaki as chairman and Mr. Low as co-chairman, featured three presentations by Prof. Suematsu, Dr. Tateishi and Mr. Hattori on ***“Globalizing Innovation and Technology - Some Kyoto Experiences”***. At the beginning, Dr. Sasaki referred to the necessity of having world-class knowledge creation in Japan.

Prof. Suematsu (Kyoto University) pointed out that Kyoto Style Companies have been enjoying growth and profitability even in “the lost decades” and their key success factor is that they satisfied the new global competition rules of decision making and action such as being “Agile”, utilizing “Selection and Concentration”, and “Empowerment”, “Monitoring and Evaluation”. He mentioned that one of the most prominent differentiation features of Kyoto Style Companies is their orientation to module and interface structures. To enhance their competitiveness, Kyoto companies train talented personnel in Global Leadership which is necessary to handle the uncertainties in a global market.

Dr. Tateishi (OMRON Corporation) introduced OMRON’s philosophy of “enterprises are organs of society” and “SINIC theory” being “science”, “technology” and “society”. These are circularly and interactively influenced and developed as was advocated by its founder as the bare bones of OMRON’s management practices. He explained that OMRON achieved 40% power consumption cut in its manufacturing site by “Sensing and Control Technology” crystallizing the philosophy and theory.

Mr. Hattori (SHIMADZU Corporation) stated that Kyoto is a city of manufacturing in reality and its corporate culture has been formed by “cultural tradition”, “originality”, “deep tilling” and “Industry-Academia collaboration”, and also introduced the history of SHIMADZU which has created various precision instruments over 137 years here in Kyoto with the spirit of “contributing to society through Science and Technology”.

Plenary Session Six, chaired by Mr. Yajima with Mr. Buckley as co-chairman addressed the theme of ***“Global greenhouse emission reduction – the Japanese and Australian responses”***

Mr. Sakanashi (Electric Power Development Co., Ltd.) emphasized the importance of

the continuous development and commercialization in the downstream of coal value chain in order to maximize the usage of the resource. He also mentioned the progressive effort in the reduction of emissions of sulphur and nitrogen oxides at coal-fired power stations.

Mr. Cleary (Santos Limited) addressed the topic of "Moving to a low carbon economy." He spoke of the evolution of the Australian carbon policy and noted that there is bipartisan support for the 2020 objective to reduce emissions by five per cent from 2000 levels. Mr. Cleary advised that the Australian Labor Government, with the support of the Greens and the Independent MPs, announced its clean energy legislative package in July 2011. Under the package, the Government proposes 'a cap and trade carbon scheme' in which the carbon price will cover two thirds of Australia's emissions. Access to the international carbon markets is an important element of the Government's program. Mr. Cleary reported on the Opposition's carbon policy which is based on voluntary action with government incentives rather than compulsory penalization. Mr. Cleary concluded with a description of the role of natural gas in the transition to a low carbon economy which included a discussion of the impact of a carbon price on LNG and the greenhouse and water intensity of base-load power generation options and the significance to Australia of its significant gas reserves and resources.

Plenary Session Seven was chaired by Mr. Kojima with Ms Masamune as a co-chair. The theme was "***Building on energy, resources and food complementarities of the bilateral relationship.***" After the keynote address by The Hon Mr. Paul Henderson, MLA, Chief Minister of the Northern Territory of Australia, presentations were made by Mr. Heatley, Mr. Mizouchi, Mr. Kuroda, Mr. Byrne, Mr. Fujiwara and Mr. Ashby.

The Hon Paul Henderson MLA's keynote address was on the topic "Building on Energy, Resources and Food Complementarities of the Bilateral Relationship". He stated that the resource rich areas of Western Australia, Queensland and the Northern Territory would drive Australia's economic growth and prosperity in the 21st Century. The development of Darwin as a resource development and export location will be a critical element of this future. The Chief Minister spoke of the Northern Territory's economy, its thriving resources sector, its emerging food sector and opportunities to strengthen the bilateral ties.

Mr. Henderson referenced the existing modern national highway and rail network and

also supplementary infrastructure such as the new Marine Supply Base at East Arm Wharf in Darwin to provide efficient and rapid turn-around of platform support vessels in recognition of the huge potential of the region probably attracting ten new projects over the coming decade. This would complement an anticipated Ichthys inspired resource construction boom that would follow a positive final investment decision in the coming months.

The Chief Minister noted that large areas of the Northern Territory are still under explored so the government has put in place a suite of initiatives and incentives including high quality geo-scientific datasets to underpin the Northern Territory's business and investor friendly reputation. The NT Japan Minerals Investment Strategy is one specific initiative. The discovery of further "Rare Earth" prospects was most likely. Mr. Henderson spoke of the potential for renewables in the Northern Territory, particularly solar photovoltaic, solar thermal and geothermal development. He concluded with references to the potential for the Territory's food products other than Tiger Prawns and beef to be developed for export.

Mr. Heatley (Meat and Livestock Australia) mentioned the 'Together with Japan' response of the Australian meat industry to the Tohoku earthquake and tsunami of 11th March and the subsequent radiation exclusion zone around the Fukushima Nuclear Plant. This initiative has involved the provision of scholarships and also hay to livestock communities. Mr. Heatley also provided an overview of the current market, the challenges the industry faces, the outlook in particular in reference to trade policy and the FTA currently under negotiation. As Japan is dependent upon imports for 60 per cent of its beef consumption and more than one in five of each beef cattle slaughtered in Australia is processed for the Japanese market, then a robust Japan beef market is crucial to the overall health and financial performance of the Australian beef and cattle industry. Mr. Heatley advised that the total sheep meat consumption in Japan remains relatively low.

Mr. Mizouchi (Lion Pty. Ltd.) commented that Australia was originally just an important exporter of food resources to Japan, however the recent stagnation in Japanese domestic demand has shifted Australia to be an attractive market for direct investment from Japan. He used an example of a direct investment conducted by Kirin to explain how both countries respected each other to develop a reciprocal partnership.

Mr. Kuroda (INPEX Corporation) raised an example of a large-scale LNG project in Australia to explain the circle of stakeholders which includes the Australian government and local community, Japanese electricity and gas companies, Japanese/ Australian export credit agencies and commercial banks, and Japanese/Australian contractors. He expressed his determination to expand the business further under the reciprocal relationship between the two countries.

Mr. Byrne (Australia LNG) reported on Japan's increasing reliance on cleaner energy as a replacement for an earlier reliance on oil. Capacity constraints and environmental concerns will accelerate the use of gas, particularly to bridge the gap left by the lowered use of nuclear power. He also reported that global LNG demand growth is dominated by Asia. Australia's development plans mean that it will become the largest LNG producer in the world with almost a quarter (24%) of the world's liquefaction capacity by 2020 which represents a substantial increase on the 7 per cent share held in 2010. It is anticipated that most of Japan's increased demand will be met by Australian production. Mr. Byrne discussed 'Key Issues' in Australian LNG Project Delivery including projects in environmentally sensitive areas having increased costs and construction times; Coal Bed Methane projects facing localized protests over water contamination concerns and land rights issues; the scarcity and high cost of Australian labour; the impact of delays on supply availability. Mr. Byrne concluded with LNG demand forecasts for a number of significant markets including the fact that China might move from a relatively low importer to the largest importer of LNG globally.

Mr. Fujiwara (Nippon Steel Corporation) indicated that the remarkable economic growth achieved by China and other emerging economies rapidly and significantly increased the demand for resources, which invigorated the world economy but simultaneously raised the resources price and accelerated the depletion of resource. Under such circumstances, he commented the Japanese steel industry needs to consider i) development of resource-saving processes through improved resource efficiency and operating methods, ii) technological developments to promote alternative raw materials that are more abundant than rare ones, iii) technological developments to allow the use of lower quality materials, and iv) promotion of recycling to effectively make use of the resources. He expressed his determination to strive to solve this issue by maintaining close communication with Australia.

Mr. Ashby (BHP Billiton Iron Ore) illustrated that over the past 15 years, Japan's share

of Australia's minerals exports expressed in A\$ has consistently remained in the range of 24-30 per cent. Whilst the prominence of China has grown strongly, Japan will remain a significant and highly valued partner for many years to come. Japan relies on Australia for over 50 per cent of its coal and iron ore and as the major supplier of uranium and natural gas. Mr Ashby spoke of Japan's early investments in Australia's iron ore and coal projects. Buoyed by strong growth in steel demand primarily driven by China's urbanization and industrialization it is anticipated that Australian production of iron ore will increase from today's 440Mt to about 770 Mt in 2020, or a 75 percent capacity increase. This is imposing a severe test on Australia's construction and operations labour. At the same time it brings many opportunities for Japanese companies across a wide range of products and services such as plant and equipment, technology, technical services, and non-process infrastructure related to utilities such as water and power.

During the Closing Session of the Conference delegates considered and approved a Conference Declaration that called for an early conclusion to a comprehensive Economic Partnership Agreement / Free Trade Agreement. Sir Rod Eddington also extended an invitation to all delegates to attend the 50th Australia-Japan Joint Business Conference to be held 7th – 10th October, 2012 in Sydney.