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**Report on
Japan-Australia Stronger Economic Relations**

March 2001

**Study Group on
Japan-Australia Stronger Economic Relations**

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Members of Study Group on Japan-Australia Stronger Economic Relations

Motoshige ITOH, Ph.D. (Chair)
Professor Faculty of Economics, University of Tokyo

Jiro TAMURA
Professor of Law, Keio University

Sadao NAGAOKA, Ph.D.
Professor, Institute of Innovation Research, Hitotsubashi University

Takeshi MORI
Professor of Economics, Department of Economics, Dokkyo University

Noriyuki YONEMURA
Senior Vice President, Fuji Xerox Co., Ltd.

Tsuneharu TAKEDA
President & C.E.O.
ITOCHU Management Consulting Co., Ltd.

(Observers)
The Japan/Tokyo Chamber of Commerce & Industry
Japan External Trade Organization
Ministry of Foreign Affairs
Ministry of Economy, Trade and Industry

(Secretariat)
Sanwa Research Institute

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The interviewees

In “The Study Group on Japan-Australia Stronger Economic Relations”, 67 interviews of Japanese and Australian government institutions and companies were conducted.

1. Japanese companies and organizations (50)

(1) Interviewees in Japan (34)

(2) Interviewees in Australia (16)

2. Australian companies (7)

(1) Interviewees in Japan (1)

(2) Interviewees in Australia (6)

3. Australian government organizations (10)

(1) Organizations in Japan (2)

(2) Organizations in Australia (8)

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I . Introduction

1. The character of the report

This report represents a summary of the views generated by the free exchange of ideas within the “Study Group on Japan-Australia Stronger Economic, which consists of experts from academia and industry, based on series of aural survey of companies in both countries and Australian government institutions, and analysis of documented materials.

2. The significance of improved economic relations between Japan and Australia <Improvement of traditional relations, partners with the potential to develop in new areas>

(1) Perceptions of the current state of relations between the two countries

a) In terms of trade, the bilateral relationship between Japan and Australia has sustained and developed complementary economic relations that are, in respect of primary commodity imports and secondary commodity exports, both stable and successful (Japan exports machinery and imports mineral fuel, foodstuffs and other such goods. The balance of trade for 1999 shows exports to Australia of 961.6 billion yen and imports from Australia of 1 trillion 457 billion yen, an import surplus of 495.3 billion yen. See Fig. 2-1-2). In terms of investment, the relationship is one-sided, with Japan investing far more (on a cumulative basis through the 1990's, Japanese investment in Australia was 230.5 billion yen and Australia's investment in Japan 15.2 billion yen. See Fig 2-2-1).

b) In addition, the general perception of Australia held by Japanese people is one of a “sunny and plentiful country” with a rewarding lifestyle, rich in nature and abundant in leisure time. Australia is one of the most desirable honeymoon destinations, with many visitors from Japan, principally tourists. At the same time, the numbers visiting Japan from Australia are one fifth those going to Australia from Japan (according to the actual figures for 1999, 684,000 people traveled to Australia from Japan and 138,000 to Japan from Australia. In terms of those visiting for the purpose of business, these numbers include 42,000 people traveling from Japan to Australia and 11,000 from Australia to Japan. See Fig. 2-3-1)

c) As far as their international relationship is concerned, Japan and Australia have built up and maintained friendly relations as two highly developed countries that are neighbors in the

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Asian region. For example, the leadership of Japan and Australia was an important contribution in the establishment of Asia-Pacific Economic Cooperation (APEC).

Australia modified its immigration policy - abolishing the “White Australia” policy - and increased its social diversity by absorbing many different cultures. We also think it fair to give some recognition to the dynamic changes Australia has achieved in its economy over the last 15 to 20 years through tariff reduction and deregulation.

d) However, many of the Japanese companies and individuals who took up shares in Australian coal mines and bought property including hotels and even holiday homes between the late 1980’s and early 1990’s are now selling off their assets and pulling out of Australia. The Japanese financial institutions and general construction companies that went into the Australian market are also flocking out (The membership of the Japan Chamber of Commerce and Industry, Sydney Inc. has fallen from its peak of 300 companies to the present level of 210. In terms of full membership in the major overseas Japanese Chambers of Commerce between 1997 and 2001, the fall in that of the Sydney Chamber of Commerce (-15%) is the largest after Southern California (-24%), and the number of Japanese employees stationed in Australia is also in decline. The number of children attending Japanese schools in Australia, 336 in 2000, also fell from 615 in 1989 to 304 in 1998 (the number of pupils at the Japanese schools in Sydney, Melbourne and Perth¹). Tourist numbers have slipped from their mid-1990’s heyday (The number of Japanese visiting Australia for the purpose of tourism was down to 620,000 in 1998 from a peak of 720,000 in 1997. See Fig. 2-3-1) and the number of international flight routes that support the exchange of people between the two countries has fallen too (All Nippon Airways, Japan’s second domestic carrier, which joined the Narita-Sydney route in 1987, finally pulled out in 1998. The only services it currently offers are on codeshare flights operated by Ansett-Australia.

¹ In 2000 the Japanese school in Sydney had an enrollment of 214 schoolchildren plus 26 children of permanent Japanese residents. The Sydney school has also set up international classes and specially opened its doors to Australian pupils, with an enrollment of 113 children in 2000 (in the elementary school only). The number of parents who want their children to go to a well organized school is increasing and private schools are becoming more popular. It has been pointed out that fees at the Japanese school in Sydney are cheaper than those at other private schools in Australia, and that the school is contributing to exchange between the two countries.

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Common carrier flights between Japan and Australia are down from 78 per week in 1997 to 52 per week since 1999). Duty free outlets targeting Japanese shoppers have become more scarce.

While Japan's economic slowdown has also been one factor in this, there are signs of a decline in the presence of Japanese companies in Australia, furthermore , in the present circumstances, there will be no recovery later on.

e) In other words, economic relations between the two countries have matured and maintained their stability, but, given the decreasing Japanese presence in Australia, the reality is that expectation of a potential resurgence are fading (Japan's share of Australian exports worldwide fell from 26.3% in 1990 to 19.2% in 1999. Similarly, Japan's share of total imports fell from 18.7% to 13.5% in the same period. On the other hand, both countries are seeing increased import and export trade with Asian nations. See Fig. 2-1-1. It is therefore felt that constructive "arrangements" are required to give impetus to relations between Japan and Australia.

f) It is a fact that there exists a major "issue", or "concern", between the two countries in terms of market access of agricultural, forestry and fisheries products. Agricultural issue is part of the built-in agenda in World Trade Organization (WTO) recent negotiation, and talks has already begun.

Although - such problem aside - there are no matters for concern, nor is there any sign of the breakthrough that would help to stimulate and bring about a further closing of economic relations between the two countries, as indicated by the suggestion that, where Japan-Australian relations are concerned, "the fact that there are no issues is an issue".

g) Major changes are today taking place throughout the world in the environment surrounding the Japanese and Australian economies, including the rise of the new industrial sector known as the "New Economy" centered on the IT industry and the progress of global "mega-competition". Economic relations between Japan and Australia are obviously expected to change too, but there are no signs of that starting to happen yet.

h) Under such circumstances, relations between the two countries may be stable, but like

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“long-term partners in a marriage²” there is a possibility that the relationship will become one where both are satisfied with maintaining the status quo while having no real strong interest in the other.

i) It has certainly been pointed out that the huge difference in the size of the two countries' economies makes it difficult to build an extensive partnership (in terms of economic size, Japan has a population 6.7 times that of Australia and a GDP 11 times as big. Its area, on the other hand, is one twentieth the size of Australia. See Fig. 2-4-2). At the same time, there are examples of free trade agreements being created between countries and regions whose economies differ in size, as Mexico has done with its neighbor the United States under the North American Free Trade Agreement (NAFTA), and more recently with the European Union (EU). (The economies of the United States and EU are 18 times and 17 times respectively as big as that of Mexico in terms of their total GDP.) Even setting free trade agreements aside, there seems to be potential for a broad spectrum of cooperation in Japan-Australian relations.

(2) The direction of developing bilateral relations will develop between the two countries as partners

a) Given the amount of progress throughout the world towards closer bilateral economic relation between countries, Japan also needs to seek bilateral economic relations with a variety of different partners to complement the multilateral free trade system. For example, a talk on an economic agreement for a new age partnership have already taken place with Singapore, and the results of joint study efforts with Mexico and the Republic of Korea were published in April and May 2000 respectively. A joint study with Chile is currently in progress.

b) Having long sustained complementary economic relations that are both stable and successful, Japan and Australia constitute an important bilateral relationship, one must be developed in order to strengthen that stability and success even further. To be more specific, the development of cooperative relations not only in terms of the bilateral relationship

² In a Japanese sense. It is possible that the situation in Australia is different.

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between Japan and Australia but also through the participation of the surrounding Asian countries is vital to overcome the problems caused by the relatively small size of the Australian domestic market and bring about further economic expansion.

c) Japan and Australia have no particular history of friction, and the two countries have sustained complementary and successful economic relations, which makes them partners capable of aiming for a “win-win” relationship as the new economy rises throughout the world and global competition becomes tougher. The reason for this lies in the fact their relationship is a complementary one in which each shares in the other’s experiences and both learn from their respective “advantages” and “disadvantages”, potentially allowing them to build a mature, “win-win” relationship in which companies work together to expand their markets.

d) In addition, the fact that Japan and Australia are reliable partners within Asia capable of holding discussions on the basis of certain common perceptions in a multilateral framework should allow them to foster cooperation. Japan and Australia are highly developed countries located in the North and South of Asia, and it is also feasible that, were they to cultivate debate on the basis of their shared wisdom, the results would make a significant contribution to the development of other Asian countries as well as themselves.

In other words, both countries need to have a clear awareness of the region of Asia as well as of the geographical boundaries within which they themselves exist.

e) In further promoting relations between them, the two countries must aim to build a partnership that makes good use of their complementary qualities, paying heed to the differences in their characteristics as set out below.

- the difference in the size of their respective economies
- the differences in their respective experience (for example, Japan is in the process of proceeding domestic deregulation and administrative reform and hopes to share experiences in such areas with Australia)
- Subtle differences in corporate behavior in business and other areas

In the light of the issues raised above, the Study Group submits this report herewith as source of material for a study into future cooperation between Japan and Australia.

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. The potential for cooperation (perceptions of the current situation in each field, potential areas of cooperation, issues)

In this report we have examined the potential for “synergy” between Japan and Australia, looking at areas where it regarded that it would be instructive for Japan and Australia to share their respective experiences or where the two countries might be required to put their respective advantages to mutual use, based on an aural survey of companies and other institutions, an analysis of documented materials and other sources.

At the first half of this chapter, the “New Economy”, where the fresh potential it is expected to bring, is discussed. And then, trade and investment that have sustained economic relations between the two countries up to now will be argued at the latter half of this chapter.

The time spent on this study was short, and the aural survey and collection of source material, as well as the analysis and study thereof, were subject to a limited timeframe. There may as a consequence be differences in the perception of facts and other such issues between Japan and Australia.

1. The sphere of the New Economy

(1) Information and Communication Technology (IT)

(i) The current situation and business potential of the IT industry in the two countries

a) Differences in the state of the IT industry in each country

Japan has both a hardware industry (a manufacturing sector producing IT-based products) and a software industry (program and systems development). Australia, on the other hand, relies on overseas imports for most of its hardware, probably due to the small size of its market. This means that there is for the moment only limited potential for cooperation between Japan and Australia in the hardware sector. We were also unable to confirm from our locally conducted survey in Australia and other research the presence of a heavily concentrated software industry in Australia.

b) Mutual lack of interest in the software sector

The two countries have up to now shown an almost complete lack of interest in the question of what kind of companies are doing what kind of activities in the software sector of

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the other. At present, there is only one Australian software development house that is conspicuously active in Japan. Only recently it is also true that some 17 companies have set up subsidiaries, representative offices and agents in Japan (according to an Austrade survey).

In order to conform with Australian Federal Government regulations (the former “Fixed Term Arrangement”. Now revised to “PfD: Partnership for Development”), a number of major electronic equipment manufacturers from Japan have now set up research centers in Australia (Fujitsu and Canon have theirs in the Sydney suburbs) and are expanding their R&D operations.

Case An Australian IT company succeeding in Japan: Spike ServerWorks

Sydney-based Spike ServerWorks has a track record in Internet website development and is the only Australian IT company to springboard its way into Japan and be conspicuously expanding its operations. Spike succeeded in breaking into the Japanese market after enhancing its reputation by building the website for Toyota Australia and contributing to the creation of the English homepage for Toyota Head Office.

Behind its success is the thought the company had given to the strategic build-up of the systems needed in order to break into the Japanese market, such as the recruitment of Japanese and Australian IT specialists capable of working with both Japanese and English, the setting up of business systems capable of responding to the demands of the Japanese market, and the creation of strategic alliances with advertising agencies that lacked IT skills.

Case A Japanese company engaged in R&D activities in Australia: CISRA

A subsidiary of Canon Australia, CISRA was established for research and development purposes in the attempt to comply with the “Fixed Term Arrangement” (currently the “Partnership for Development (PfD)”) imposed on entry into the Australian government procurement market. CISRA’s R&D applies Canon’s image-processing-based technology and has a strong focus on commercialization.

The products on which CISRA focuses, such as the “UI card”, a card that gives one-touch

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access to network services, and “RAMA”, a small, user-friendly household device providing remote access to multimedia assistants, are intended for commercialization by Australian technicians. Encouraging development with the intention of commercialization by Australian technicians is a major incentive with which to keep high-grade technicians, apparently in short supply, with the company.

c) IT business potential

We were unable to identify, as a result of our locally conducted survey in Australia, the presence in Australia of a major concentration in this sector.

The IT sector is of course one in which there is potential for the superior technology and ideas of one start-up to lead to a major success, should the seeds produced by new ideas coincide with the needs. The IT industry is in general terms at a stage where revolution regardless of the size, happens on a daily basis, of the companies concerned, and the fact that there is no concentration of IT business in Australia does not preclude the potential for cooperation between Japan and Australia. Examples that spring to mind are the outsourcing of the creation of English homepages to Australian companies by Japanese software houses, and the trading of digital image-processing technology between the two countries. Cooperation is not necessarily restricted to within the software industry, for there is also potential for cooperation between related sectors, such as the combination of Japanese hardware technology and Australian software technology.

To generate new IT business between the two countries will however require the industries of the two each countries to make contact and fully recognize each other's presence.

d) IT intensity in Japan and Australia

IT intensity in Japan and Australia needs to be judged on the basis of objective data which is available.

In the report “Measuring the ICT Sector” published by the Organisation for Economic Co-operation and Development (OECD) in October 2000, Australia is ranked as a “Low ICT intensity country” with employment, trade and R&D expenditure in the ICT sector less than the OECD average, while Japan is ranked as a “Medium ICT intensity country.”

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Internet use in Australian homes exceeds 40%, which means that IT is expanding in user terms, but both Japanese and Australian companies point out that IT is not necessarily being successfully put to advanced use.

e) Points to bear in mind

- There is a need to recognize that, although personnel costs for IT technologists may be lower in Australia than in the U.S., there are numerous competitors in software from India and other countries.
- There is also a need to recognize that the perception held by some Australians that “the software sector is highly skilled because ownership of PCs and use of the Internet are high” is a mistaken one.
- Australia apparently has nearly 400 IT-based companies (members of AIIA: the Australian Information Industry Association), but it is recognized that no material is available that systematically summarizes the kind of activities that these companies are engaged in or their true situation.

(ii) Challenges and potential in cooperation

a) Encouraging cooperation between companies in the IT sector

Many Japanese companies point out that Australian IT companies are not visible to them, and that the two countries are mutually unaware of the kind of the companies that exist in the other’s market and the needs of those companies. Factors such as 1) the large number of small-sized companies 2) rapidness of new or “venture” business start-ups come and go 3) the fact that companies operate in a “borderless” manner across nationalities all make it difficult to keep track of companies in the Australian IT sector.

For this reason the establishment of a gateway for matching businesses up is a key challenge in the IT sector. To start with, the attempt to spread information that has not necessarily been in evidence before on the number of companies present in the Australian IT sector and the strengths that those companies have will be the first step towards building cooperation. The following activities focusing on software houses in Australia will be significant in seeking out seeds and matching them with needs.

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For example, - Carry out surveys and obtain a full picture of the true circumstances of companies in each other's markets by sending out experts
- Matching of needs by means of an exchange of missions
- Creation of a directory of companies
- "Virtual mission" on homepages (it would be effective to start off with Japan and Australia and expand on a worldwide basis)

As indicated in 1) above, ideas such as, for example, integrated software selling, included utilization of within functions Japanese trading companies, are also thought to be worth studying in order to support the entry of software houses into the Japanese market, which is difficult to achieve on a unilateral basis for many of small-and-medium-sized businesses.

b) Participation in global private-sector fora on IT

For have now been set up on a private sector basis to promote IT at the worldwide or regional level, and discussions are underway on the building of common infrastructures and the formulation of business rules (examples of fora include the Global Business Dialogue on E-Commerce (GBDe), which discusses a variety of subjects such as consumer protection and encryption in electronic commerce, and the Asia Public Key Infrastructure (Asia PKI), targeting the construction of frameworks for the exchange of information on the authentication of public keys in the Asian region). Australian companies may not appear to be taking an active part in these arrangements at the moment (for instance, only one Australian company, Telstra, takes part in the GBDe), but it is an essential for the success of cooperation between Japan and Australia in the IT sector that Australian companies should participate in the international debate and work to make its own views count. What is more, it would help Australia to contribute internationally and raise the profile of Australian companies if the country were to exercise its potential by taking part in these debates.

c) System of Internet interconnection charges

According to Japanese carriers who have gone into the Australian market, cooperation

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between Japan and Australia would be possible in respect of the creation of international rules on system of Internet interconnection charges.

Under the present system of Internet interconnection charges, overseas providers pay the leading U.S. providers the full cost of line charges and cable construction. This is due to the insistence of U.S. companies on the principle that the user should be charged because the U.S. is the home of the Internet and U.S. websites are visited by people from all over the world remains unchallenged.

To date, Internet interconnections between Japan and Australia often have to pass through the West Coast of the U.S., which has inevitably meant users in both Japan and Australia being forced to pay higher line charges (it is however hoped that the construction of a large scale communication cable between the two countries, scheduled for the end of August 2001, will lead to an improvement in the situation).

As debates taking place at the WTO, International Telecommunications Union (ITU) and other such fora suggest, it is extremely important that both countries should cooperate in the construction of a fair worldwide system of charging in order to provide an alternative to the unipolar system under which charges are collected in the U.S.

(iii) An examination of sectors that use IT

Although they do not form part of the IT industry itself, fields that come to mind as using IT include e-government, remote medical care(or tele-medicine), video and image-processing and distance learning(or tele-education). IT use in these fields could potentially be linked to private sector business and requires more detailed information-gathering, but both countries would benefit by learning from areas in which the other is more advanced.

<Australia's current situation in these fields>

<p>- e-government: The Australian government has shown a willingness to embrace electronic systems and computerization, and Japanese companies also have a presence there. For example, a subsidiary of NEC has received a procurement for software that will move some administrative services in the state of Victoria to an electronic system (services</p>
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allowing the public to pay for public utilities and be provided with information from the state government through ATM-like machines known as “multimedia kiosks”, the Internet connection in their home, their telephone and other such methods). NEC is also reported to be considering exporting the system to overseas markets including Japan. While some local governments in Victoria State have joined the system, further evaluation will be required to assess public awareness and usage of such services, as well as the proportion of administrative services that are moved to the electronic system, and in which aspects, aside from unified access, these services are superior to existing forms of public service provision in Japan.

The Australian federal government is in the process of introducing IT in the field of geriatric medicine, and is currently aiming to move part of the paper-based procedure for matching applicants for a place with an elderly care facility over to an electronic system. Subsequent progress must be monitored to see how effective the use of IT in this area turns out to be and to decide whether any part of it is applicable from a Japanese perspective.

- Distance learning (tele-education): The geography of the country makes distance learning very popular in Australia (in 2000, 95,000 people were registered for distance learning courses, around 14% of university students in the entire country. Around 10,000 of these were resident overseas). The Australian government states that IT-based ideas such as two-way communication and group discussions have also recently been implemented. We were unable to obtain specific information on the system based on the materials available and the explanations we received in Australia, however, and it is unclear whether it will serve as a point of reference for the future of education in Japan.
- Media content such as video and image-processing: Sydney has a FOX studio that was used to produce movies such as The Matrix and Mission Impossible II. This gives Australia a track record of creating special imagery based on the computer graphics skills of its richly sensitive technicians. We feel that there is potential for future cooperation in the area of video and image-processing in the content field.
- Remote Medical (tele-medicine): As well as providing prescriptions based on remote

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treatment using IT, the Australian government explains that it is encouraging government and medical institutions, nursing facilities and other such entities to go online, and exchanging patient information such as health insurance and pensions without problems. Study is required to determine whether any of these technologies could actually be applied in Japan.

As example of how patient information has been put into an electronic system, in early 2001 the New South Wales state government announced plans to transfer all medical records, including charts and other such material, to a computerized database within 2 years, with the objective of giving patients free access to their own treatment record at any time. The Australian Medical Association expressed concerns about the protection of patient privacy in response to these plans, as a result of which a study is reported to be underway to establish laws that will limit information disclosure in New South Wales.

(2) The biotechnology sector

(i) The current state of biotechnology in Australia and its record to date

a) Biotechnological R&D in Australia is primarily carried out in the fundamental research fields by university and government (federal and some states) research centers. Like its Japanese counterpart, the Australian government recognizes that biotechnology is a key sector, giving grants and providing information on research bodies (for example, CISRO, the Commonwealth Scientific and Industrial Research Organization, provides backing for biotech companies).

Case An example of cooperation with an Australian research institution

In March 2001, Itochu Corporation teamed up with the three leading research institutions in Australia, CSIRO, AIMS (Australian Institute of Marine Science) and IMB (Institute for Molecular Bioscience) for the joint promotion of biotech business aimed at Japan. The objective of the alliance is to try to use the results of R&D carried out by this group to

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encourage biotech business in Japan, and it will involve looking into ideas such as the introduction of analytical tools, databases and other software from Australia, joint development between Japan and Australia, and investment in Australian biotech ventures.

Case A new influenza drug developed in Australia hits Japan

An example of R&D is provided by the development of new influenza drugs known as “Zanamivir” and “GS4104” by the team of Dr. Graeme Laver of the Australian National University in 1999. Of the two, Zanamivir, the commercial name of which is Relenza, works by blocking the enzyme neuraminidase that helps the influenza virus to multiply, and is believed to be effective against both type A and B influenza. It is said to reduce symptoms if taken within 48 hours of onset. The intellectual property rights are owned by the Australian drug company Biota Holdings, and the drug is marketed by British company Glaxo Welcome, the fourth largest in the industry. The drug is currently on sale in over 48 countries, and has also been fully available in Japan since the end of 2000.

R&D investment by the Australian Commonwealth Government in the bio-industrial sector was 250 million Australian dollars in 1999 (Source: Biotechnology Australia. Around 18.4 billion yen at the IMF’s average conversion rate for 1999), which is less than one fifth of the 2001 budget relating to biotechnology measures of 98.3 billion yen assigned (for leading-edge R&D etc.) to the 4 biotechnology-related government ministries in Japan (Ministry of Education, Culture, Sports, Science and Technology, Ministry of Health, Labor and Welfare, Ministry of Agriculture, Forestry and Fisheries, Ministry of Economy, Trade and Industry)

b) It is also pointed out that Australia has a rich gene resource and bioresources, which have been used in drugs produced by Japanese companies, for example.

Case An example of the effective use of Australia’s resources in commercialization

Australia is a country rich in gene resources and bioresources, and Sankyo’s Mevalotin

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(which serves to reduce cholesterol value and has a 150 billion yen market), for example, was extracted from a Japanese mold, but Australian bacteria proved the most effective in producing the chemical reaction that adds the hydroxyl group needed to minimize side-effects.

c) In addition, in the private sector, Chugai Pharmaceutical and Yamanouchi Pharmaceutical are carrying out joint R&D programs with biotechnology-related companies in Victoria and New South Wales respectively (Chugai's research is in hematology). Suntory has successfully developed blue carnations in Australia with U.S. venture business Florigene.

Case The development of a blue carnation

Florigene is a Melbourne-based biotechnology outfit which in 1991 succeeded in isolating the gene for the color blue from flower pigment. The new color carnations incorporating this gene were marketed as the lavender-colored "Moondust" and the violet "Moonshadow". Their market size is currently unknown, however. The company has also successfully marketed a carnation that has been genetically modified to keep for longer. Its largest shareholder was initially a Japan-Australian venture capital fund (with a stockholding of 24%. 5 Japanese companies took part in the fund, including Itochu Corporation), with stakeholders also including the Rothchild-run Biotechnology Investments (20% holding) and Perth-based investment company Inner Hadden (19% holding).

The Japanese companies subsequently pulled out of the joint venture when the initial objective of developing a blue rose failed to make progress, dissolving the Japan-Australian venture capital fund in April 2000.

d) In the new genome field, the Biomedical Group of Takara Shuzo announced a technological alliance in gene decoding technology with Nucleics Pty, a biotechnology start-up at the University of New South Wales (UNSW), in 2000.

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Case An example of cooperation with an Australian biotechnology start-up(or “venture”)

Takara Shuzo has bought up all of the intellectual property rights for a new genome DNA base sequencing analysis method developed by Nucleics Pty, a biotechnology start-up at the University of New South Wales (UNSW), called Amplification and Sequencing by Interlaced Nesting (ASIN) method (which improves the speeds at which the genome DNA base sequence can be determined by five to ten times over than those of conventional methods). Takara Shuzo now plans to make a patent application covering the entire world. It also reports plans to extend the scope of application of the high-speed genome analysis method through a program of joint research with Nucleics.

e) Despite the appearance from time to time of specific instances such as that described above, Australian biotechnology research as a whole does not seem to be specifically ahead of research in Japan, and its base of researchers appears by no means large. Biotechnology and IT require a different kind of infrastructure from that of traditional manufacturing industry. In this sense, dense concentration of industrial areas represents a major key to success, and it is pointed out that Australia will have to consider the concentration of its industry if it is going to focus on the biotechnology sector.

Australia does, however, appear to be ahead of Japan in some areas, such as the switch from R&D on agricultural chemicals to research focused on the direct gene level.

(ii) Future potential

a) This field study in Australia did not yield any new “seeds” for cooperation on biotechnology. As the success story described above suggests, it is important to take a constructive look at the potential for cooperation in this field. For this to happen, the demonstration of success stories and further exchanges of information will now be crucial. Although it is pointed out that fundamental research is the primary focus of Australian biotechnology, and that the lack of manufacturing industry therefore makes

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commercialization difficult, there is potential for cooperation with the Japanese manufacturing industry, which requires products for commercialization (as in the alliance between Shimadzu Corp. and Australian biotechnology venture PSL). In order to incubate such potential, it would be useful to establish a forum for the exchange of information between private-sector bodies, say by setting up a working group for the biotechnology sector under the Japan-Australia Business Co-operation Committee. At the same time, under the “Region to Region Initiative Program³” by JETRO, exchange of information and survey mission have been initiating in the area of natural product industry since 2000, which is expected to contribute to the new business opportunity

b) It would also be beneficial at government level to attract attention to cooperative relations in the area of biotechnology through forums such as the Agreement between Japan and the Government of Australia on Cooperation on Research and Development in Science and Technology.

(3) Environmental areas

(i) Perceptions of the current situation

Australia has been quick to focus on greenhouse gas emissions trading, forging ahead with preparations for the establishment of a greenhouse gas emissions trading market (this is not currently working, however, as no international consensus has been reached on the issue, and the conclusions of the 6th Conference of the Parties to the UN Framework Convention on Climate Change (COP6) are being awaited). Japanese energy providers, trading companies and other bodies have shown interest in the matter and an afforestation program has been started in Australia. Chubu Electric Power and Tomen have arranged a trial purchase of CO₂ emission reduction credit (2,000 ton - CO₂) from Australia’s largest power generation company Macquarie Generation as part of their preparations to take part in future business relating to CO₂ emissions rights.

³ The program is discussed in detail at II.2.(1)5.

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Case Afforestation programs aimed at emissions trading in Australia

Japanese gas companies report that, in terms of afforestation, regions that suit the planting of fast-growing trees like eucalyptus are those of the same latitude as Australia such as Chile and South Africa, but that when these regions are compared, Australia has far more advanced arrangements for emissions trading, making it the optimum location for planting programs.

The stance of local government (Western Australia's Afforestation Commission) is also deserving of praise. The afforestation programs are first carried out by the Afforestation Commission at its own cost, targeting countermeasures against salt-damage and the afforestation of dry land, before being handed over to the private-sector once the feasibility of the project has been established. Under this system, the Afforestation Commission then moves on to examine the feasibility of carrying out afforestation programs in areas where the conditions are even worse. Instead of private-sector companies carrying out their own feasibility studies, the Afforestation Commission does so on their behalf at its own expense, and the business risk for the companies that commit to these projects is reported to be greatly reduced as a result.

b) Awareness of environmental conservation is very strong in Australia, and the introduction of recycled paper for items such as business cards and envelopes is laudable. Japan also has environmental conservation arrangements in place, with collection of used paper at over 60%.

c) The study team was, however, amazed to see fuel with the name "leaded gas" on sale. Subsequent investigations confirmed that the fuel was unleaded gas with additives, and did not involve the actual use of lead. The team nevertheless noted that many cars used in Australia continue to be older vehicles based on the old environmental standards. The average age of Australian cars is 10.6 years according to the vehicle census, but we had the impression that there were significant numbers of cars on the road that were built 15 to 20 years ago.

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According to the material we obtained, standards for exhaust emissions are relaxed (Japanese restrictions on exhaust emissions for HC, CO, and NO_x are 0.08g/km, 0.67g/km, and 0.08g/km respectively, against 0.24g/km, 1.91g/km and 0.57g/km in Australia), and although sewage treatment is carried out to tertiary level inland, it is conducted mainly to secondary level in coastal areas. According to a report from Sydney's Waterworks Department, pollution due to sewage effluence in swimmable waters around the city is approximately 1000 times the permissible level on some days, thus the existence of many areas in need of improvement were confirmed.

(ii) Future potential

a) Although there is a need to follow the COP6 debate as far as carbon dioxide emissions trading is concerned, it is hoped that Australia will play a major role as a provider of emission rights, and Japan is interested in Australia in that context.

b) It is hoped that the two countries have great potential to complement one another by sharing for their mutual benefit the technology that each possesses in relation to the environment, as well as the sizes of their territories, and other characteristics. The environment is also an area in which the potential for cooperation with third countries could be explored.

(4) The services sector

(i) Tourism and transport

a) Australia has considerable expectations to Japan as far as the tourism sector is concerned (the number of visitors to Australia from Japan is the second largest after New Zealand). The Australian Tourist Commission changed its alliance partner from Qantas to JAL in 2000, and is carrying out a campaign to promote the idea of a "diverse Australia" away from its stereotype (i.e. koalas, kangaroos, Sydney Opera House, and so on).

b) International air fares between Japan and Australia are nevertheless expensive, which is a barrier to increasing the movement of people (for example, according to the general travel

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website isize⁴, the lowest fare for a discounted economy class ticket (return) in March 2001 was 34,800 yen from Narita to Los Angeles, 42,800 yen from Narita to Singapore, 55,300 yen from Narita to Honolulu and 59,800 yen from Narita to Sydney. In the same connection, the fares for Narita to London and Narita to Paris were both 62,500 yen. On the other hand, the full business class fares as of March 2001 were, based on the agreement of the International Air Transport Association (IATA), 536,800 yen for Tokyo to Sydney return and 450,200 yen for Tokyo to Los Angeles return, which makes the prices proportional to distance).

High fares on domestic routes also dampen Australia's touring diversity and competitiveness in the area of costs as a tourist destination. The fostering of competition aimed at improving prices on domestic routes is an issue that needs tackling. Despite continuing high prices on domestic routes, Japan is also currently witnessing an expansion of competition in the market for domestic routes and a diversification in pricing on main routes.

c) In order to attract Japanese tourists, Australia must be strongly aware that it has numerous competition in the shape of, amongst others, Hawaii and the Asian resorts. Australia therefore needs to study whether it compares with other tourist destinations in terms of the number and scale of its hotels, branded goods outlets, shopping centers and other elements of its tourist infrastructure.

d) However, tourist tastes have changed from what they were during the bubble period, with a decrease in the number of customers looking for luxury and an increased requirement for residential and experience holidays. If anything, it is changes like these that need to be confronted.

For example, Australia has the advantage that its seasons are the reverse of Japan, which means that new lifestyle-based long-term stays could be encouraged for customers with enough free time to spend three months in Australia during the coldest period of the Japanese winter. We expect the promotional campaign of the Australian Tourist Commission to have positive effect in this regard.

⁴ <http://www.isize.com/travel/ab.html>

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Discussion and trial on overseas school trips by public junior and senior high schools in Japan have been started recently. With many of the private schools that already make school trips abroad choosing destinations like Hawaii, New Zealand and Australia, this represents a major opportunity for Australia to expand its market. The Australian tourist industry must be prepared to rise positively to the challenges offered by newly emerging markets in the tourism sector.

e) In addition, efforts must be made to do away with the complexities of entering and leaving the country with regard to visas. We feel that it would be a good idea to abolish visa requirements for travel to Australia from Japan. The Australian government claims to have simplified the visa process with the introduction of the system known as Electronic Travel Authority System (ETAS), but Japan abolished visas for short-term stays of up to 90 days when Australia brought in the ETAS.

As far as the issue of ETAS is concerned, some companies feel that there is a problem with the imposition on the airlines of an AUS\$5,000 fine for each violation, even if, for example, the ETAS information was mistakenly entered without malicious intent. We were informed that a system to allow registration via access from the website is in the process of construction, but feel that the need to build such systems would disappear anyway if visas themselves were abolished.

f) The APEC members currently participating in the ABTC (APEC Business Travel Card) scheme, commonly referred to as the "APEC business visa", are Australia, New Zealand, Chile, the Republic of Korea, the Philippines, Hong Kong, Malaysia and Thailand. Possession of an ABTC issued according to the criteria of each country allows entry into participating countries for business purposes (seemingly short-term only in the case of Australia). Fast track procedures for rapid entry are in place at major airports.

As Japan is not part of this scheme at present, a visa must be obtained. ETAS already cover business travel, however, and with multiple-entry visas costing 60 Australian dollars and single visas obtainable free of charge, it does not appear to provide any particular advantages for travel to Australia.

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(ii) Telecommunications

a) The current situation of the telecommunications sector

- Competition in Australia has been accelerated with an increase in the number of new players and other developments resulting from deregulation of the telecommunications sector in July 1997, which brought decreased telephone charges of all kinds and expanded service menus (as seen in the introduction of a system of fixed-price local calls, etc.). The number of companies using these features to set up call centers and data centers is increasing.
- On the other hand, the implementation of a high-volume communications infrastructure appropriate to the IT age has been delayed, partly due to the Telstra privatization issue. The incentive for Australian communications users to ask for the provision of high-volume communications services at extra cost would also appear to be low given the fall in the price of existing analogue services.

b) Challenges

- Assuming that Japan and Australia cooperate in the IT sector, the challenge will be to implement a communications infrastructure that includes broadband systems capable of sending and receiving high-volumes of data.

Japan has just over 30,000 asymmetric digital subscriber line (ADSL) service contracts compared to only around 3,000 in Australia. If the respective size of their populations is taken into account, penetration is lagging behind in both countries, but whereas Japan has seen a rapid expansion in ADSL services since the beginning of 2001, the speed at which ADSL services are proliferating in Australia is slow, because of the size of the country.

Progress in the implementation of a broadband-compatible infrastructure is expected to bring an even greater increase in business opportunities in sectors requiring high-volume data transmission.

- The construction of a high-volume communications network based on fiber-optic cable and other such means is currently in progress between Japan and Australia. It will now be important to ensure that the cable between the two countries is used to facilitate cooperation with Asian countries as well.

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(iii) Education, medical care and welfare

a) Education

- The importance of the movement of researchers has been pointed out in Japan's education and research sectors. Whatever the field, the exchange of excellent professors and assistant professors between the two countries will inspire researchers and draw excellent students. This in turn will encourage the concentration of knowledge and help to improve the level of education and research in both countries.
- Mutual acceptance of university credits from universities in the other country (such a scheme is currently run, for example, by Keio University and the Australian National University) also contributes to the strengthening of Japan-Australian relations.
- It is essential that English language teaching in Japan and Japanese language teaching in Australia are encouraged in order to reduce the language barrier that represents one of the obstacles to the strengthening of economic relations between the two countries. It would also be useful to exchange teachers on mutual basis. For example, it is hoped that the experiment in the teaching of methods of English language instruction under which the Australia-Japan Foundation invites around 10 English language teaching consultants from Japan to the University of Sydney every year will continue. Another suggestion is to set up a residential qualification (a system of working holidays aimed at business people) allowing business people to take English lessons while working in Australia. Australia enthusiastically embraces the teaching of the Japanese language in both secondary and higher education. Although many students do not reach a level where they could use their Japanese in a professional context, it is hoped that consideration will be given to specific measures to accumulate such Japanese language learning in the form of an asset.
- The Business Japanese courses run in Sydney by the Japan-Australia Business Cooperation Committee since 1998 may only have a few students, 20 or so per year, but they have won consistent recognition for facilitating business between the two countries, and it is essential that more effort goes into boosting the numbers of Australia's "Japan-lovers".
- To coincide with the reform of the teaching curriculum, public schools in Japan will be encouraged to recruit native-speaking English teachers from the 2002 academic year.

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Many English teachers have already come to Japan from Australia, working mainly in private English conversation schools, but the rising demand for English teachers at the level of secondary education in public schools will mean an expansion in the market for English teachers from now on. There is potential to encourage active exchanges of people with Australia in order to help foreign English teachers in provincial junior and senior high schools as well as in the urban centers of Tokyo and Osaka to improve.

- At the same time, many local authorities in Japan have brought in foreign language teaching assistants from overseas through the Japan Education and Training (JET) Program. The current requirement that foreign language teaching assistants should be “those with a qualification in language teaching or those with an enthusiasm for teaching English as a foreign language” means, however, that most foreign language teaching assistants who come to Japan from Australia have no English language teaching qualifications. From now on, we would ask that those sent to Japan have at least a degree in English in order to allow them to compete with English teachers from other countries.
- In order to foster cooperation between the two countries it is important to ensure that each provides information in the other’s language. The study team from Japan has from the start planned to publish this report in English and hopes that the Australian report will likewise be published in Japanese.

b) Medical care and welfare

- Some Australian companies have indicated their ambition to turn up new business in the form of care services. During the visit to Japan of Federal Minister for Aged Care Bronwyn Bishop in August 2000, a seminar was held in the Australian Embassy in Tokyo with the participation of accompanying representatives of the academic and business communities of Australia and Japanese representatives. Whether or not this kind of arrangement produces concrete results is unclear. Australians pointed out that their care services were superior, but our fieldwork did not provide a clear picture of the features and advantages of care services in Australia. The first challenge in promoting business between Japan and Australia in the care services sector is the exchange of information⁵

⁵ Japan and Australia have produced a piece of joint research in the aged care sector in the past, produced

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- Under the “Region to Region Initiative Program⁶” by JETRO, Ehime Prefecture and the State of Queensland have been initiating research and exchanging information in the area of welfare-related industry since 2000, and will continue to work together. It is expected to improve understanding to the concrete contents of such services in Australia, utilizing such opportunities.

(5) Mutual recognition of specialist professional qualifications

a) Australia is encouraging mutual recognition of APEC engineering qualifications. The priority for Japan is currently however mutual recognition of qualifications with the U.S. and European countries and mutual recognition of APEC engineering qualifications with Australia is a longer-term challenge.

b) Australia has no system of qualifications for IT engineers run by a government-related body (there are de facto qualifications certified by U.S. companies⁷).

Japan has a system of mutual recognition with India of the latter’s examinations for IT engineers and Japan’s Information Technologists Engineers Examination, and measures have been introduced to relax the rules on immigration, but it would not be possible to make this kind of arrangement with Australia due to the lack of a state qualification. In order to facilitate the trouble-free movement of IT engineers in the future, we would encourage Australia to introduce professional qualifications that might allow mutual recognition between our two countries.

(6) Competition policy

a) Japan and Australia have so far kept their industrial structures on a complementary

by the International Longevity Center in Japan and the Center for Health Outcomes and Innovation Research in Australia. This joint study was confined to an examination and exchange of ideas on the circumstances of aged care in both Japan and Australia and did not have implications for cooperation between the two countries.

⁶ The program is discussed in detail at II.2.(1)5.

⁷ According to Japanese IT firms expanding their businesses in Australia, Australia has no state qualifications equivalent to those in Japan’s Information Technology Engineers Examination. Technologists working in IT-based companies are apparently faced with negotiating their salaries on

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footing, and as such there have been no industry calls for cooperation and coordination on competition policy in either country. In institutional terms, however, export cartels and import cartels are both prohibited in Japan, whereas export cartels such as maintaining minimum price levels are allowed in Australia. It has been pointed out that Japanese companies could face real problems in areas such as, for instance, resources trading for this reason. If it is decided to increase trade in goods and services between the two countries, the discrepancies in their respective competition policies could be a source of friction in the future.

b) We believe that the content of the existing anti-monopoly agreements between the U.S. and Japan and the U.S. and Australia, as well as the discussion that Japan has conducted with Europe, with which it has been exchanging ideas for some time, would serve as a reference for any study of cooperation on competition policy (countries with which the Japanese anti-monopoly authorities have exchanged views on a bilateral basis are the U.S., the EU, Germany, France and the Republic of Korea).

c) Judging by past experiences, it takes a long time to build cooperative frameworks in the area of competition policy, but it is conceivable that the potential for cooperation between Japan and Australia, including improving the enforcement of competition law in their markets could be studied by opening an exchange of views between their respective authorities on areas of mutual concern such as the communications sector.

the basis of business qualifications certified by U.S. firms like Microsoft and Cisco.

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2. The area of manufacturing industry and goods trade based on Australia's abundant resources

(1) The development of new trading commodities and services

a) In terms of trade between our two countries, stable exports continue, based mainly on primary commodities from Australia. For this reason, efforts to seek out new trade potential by further exploiting Australia's distinctive trading commodities or making improvements in the degree of processing carried out on the spot are felt to be less than satisfactory. There was a time when Australia had broken away from primary commodity exports and was putting a great deal of effort into developing and exporting highly processed products. A typical example would be the cheese it exported to Japan from the late 1980's.

b) In recent years, Australia appears to have been mainly concerned with the IT sector, showing rather less interest in the development of new trading commodities. And yet the potential for developing new trading commodities and services in this sector is felt to remain high. For example, the volume of produce such as hay imported from Australia has risen in recent years (according to data from Austrade, exports of hay to Japan rose from 160,000 tons in 1985 to 2,020,000 tons in 2000, an increase of more than 180 times in 15 years). Processed food exports from Australia to Japan have also risen. In addition, a sales drive on beef using the name "Aussie beef", of which Austrade is part, and involving initiatives such as the move from traditional bulk sales to the sale of cuts, as well as the holding of seminars and publication of magazines, has led to greater interest on the part of Japanese consumers and brought an increase in export volumes to Japan (according to Meat & Livestock Australia (MLA) figures, Japan's share of Australian beef exports has grown, in terms of weight, from 27% in 1990 to 36% in 2000). According to Austrade one reason for this growth in exports is the fact that Australian suppliers now makes sure that sales are tailored to the requirements of Japanese customers (for example, sales of beef processed for use in Japan's family restaurants, or pizza toppings suited to Japanese consumer trends), and as such Austrade feels that it has in some respects gone from being just a "supplier" to a "partner" to its Japanese clients.

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Case An Australian commodity successfully exported to Japan: wine

As far as imported wines are concerned, Old World wines have much the higher profile. New World wines may not be as expensive, but praise for their nevertheless pleasant taste is helping their market share to go up. However, conquering the perception that “French wine would taste better” to get people to buy New World wine is currently proving somewhat difficult.

Looking at the change in market share of overall imports between 1995 and 2000, the highest growth is in two countries, Chile and Australia. Chile’s share has grown dramatically, increasing its presence in the Japanese market substantially. In spite of its best efforts, Australia is deemed to have failed to make the most of the boom in wine, in comparison to Chile, which saw remarkable growth on the back of the boom.

In terms of its promotional image, Australian wine is in the “middle price” range (1000 to 2000 yen) and “value for money” bracket (the same quality (and equivalent taste) to wine from other countries, but cheaper and of consistent quality). It does, however, suffer from the lack of a particular cachet in the eyes of the general consumer, being selected only on the basis of the range of prices available in the shop.

c) Other examples of distinctively Australian exports include terracotta tiles, bricks for outside walls and Australian cypress. The low individual cost of these commodities means that Australia probably does not realize it still has so many promising products.

Case The import from Australia of bricks for exterior walls: Selco Home

Selco Home specialized in imported homes from Canada and was planning to expand its business. The Selco chief was provided with the opportunity to go to Australia himself as part of a study team made up of 10 small house-building contractors, and the suggestion of a representative at a commercial meeting with companies in Sydney that they open purchase negotiations lead to Selco starting to do business with Australian brick manufacturer A.

The product is of the type constructed by attaching a tin plate bedding onto which thin external bricks are hung. The product is simple to use, and its authentic brick look makes it

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Selco's main material for external wall construction.

Problems the company has experienced in relation to import business include substantial damage caused by the brick packaging being so basic and simple that the goods come loose during marine transportation, and the export of inferior quality goods leading to chaos on the construction site.

Company A is very strict on payment terms, pursuing payment before the goods have arrived, and there is an uncomfortable sense that such practices are well outside the business norm.

Case Australian furniture imports: IDC Otsuka.

IDC Otsuka (Otsuka Kagu) began importing furniture from Australia in 1995. Its president visited a number of local manufacturers, opening business with three of them (1- glass tables 2- leather upholstered sofas 3- cloth upholstered sofas). The only company with which it still works is that dealing in glass tables.

After making the initial proviso that it is dangerous to generalize, Otsuka Kagu reports that the factories of Australian furniture manufacturers are small, which means that the scale of production is not sufficiently advantageous. Structural components are imported from Asia and there are no standout design features, meaning that the product does not seem particularly cheap compared to the U.S. and other countries. The Australian sofa has a slight competitiveness but it is difficult to strike a balance between quality and price in wood products. An exception to this is reinforced glass tables, which seem to represent considerable value for money and are the only product the company is currently continuing to import in 2001. In general terms, experience to date suggests the incidence of defects in wooden components to be relatively high.

The problem with the import business is that manufacturers appear to be unfamiliar with exporting. A number of different problems can be expected when looking at doing business with a ordinary company that is unused to overseas trading, including the language barrier.

Going forward, the challenge to be met in order to increase trade is the competitiveness (beating competition from the U.S. and Asia is an absolute condition) and "sales effort" of

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the product (Asian manufacturers are beginning to take on staff who can do business in Japanese, and Australian companies will not compete unless they can do likewise). We feel that there is potential to increase sales levels substantially with regard to competitive products such as the glass tables by improving quality control, making marketing effort and studying design.

Case Australian cypress imports: Koyama Shoten

The Chairman of Koyama Shoten was part of a mission visiting Australia in 1995 to promote the import of housing and construction materials when he, along with other members of the party, met Australian wood company B at a commercial meeting at the end of the mission and began business discussions. Delighted by the timber, Mr. Koyama is currently working enthusiastically to export it successfully to Japan.

Australian cypress takes 100 years to grow, but the trees have recently begun to be used for export, with 10% going to Japan. The timber itself is characterized by a strong resistance to termites and ticks. On the basis of these properties, the tree is being promoted as a product for use in flooring, decorative panels, sill timbers.

According to the views of some house builders, the product has potential as a material for outside use (decking, for example) or as flooring in shops, where it would be used unpainted for people to walk on in shoes.

Australian lumber skills cannot be said to be of a high level. Koyama Shoten has been teaching lumber skills as there are merits including low costs for local staff and waste disposal during the lumber process.

Tasks such as the collection of goods are left to a consultant with experience of working in the Australian Embassy in Japan, who acts as an agent. The company has daily contact with him by telephone or email in Japanese, thus language does not pose a problem.

Australian cypress cannot, in effective terms, be used in the construction of housing in receipt of Housing Loan Corporation money, a situation that Koyama Shoten would like to see somehow remedied.

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Case The import of Australian terracotta tiles: Selco Home

Selco Home specialized in imported homes from Canada and was planning to expand its business. Terracotta tiles from Australian tile manufacturer C had been successfully imported by other companies in the industry, but the unease resulting from the size of the psychological barrier created by its lack of English language skills and unfamiliarity with its partner meant that Selco did not get as far as starting to do business.

When Selco subsequently got to know Company C at the Australian Fair in Sendai, it was given a catalogue and samples, and began a concrete study. It took between a year and eighteen months from first getting to know each other to starting to do business.

The distinguishing features of the terracotta and other tiles made by Company C include their highly consistent quality, the uniqueness of their red coloring in the eyes of Japanese people, and their low cost. Hints from Australian exporters about how to use the tiles in the construction of new products (including techniques on hiding differences in the size of the terracotta by widening the joints, or laying the tiles across a full terrace or a kitchen floor to give a more high-class feel) made market penetration easier.

It is currently recognized that Selco stands comparison with Japanese tile makers and has quite outstanding products. In more specific terms, the tiles are much used in porches, halls, terraces and other such locations, where they serve greatly to improve the feel of high quality.

Company C is a highly scrupulous firm which apparently requests "Payment within 40 days of shipment". In terms of the quality of its products and payment terms, Company C is a perfect business partner, and the sole complaint against it is the trouble experienced when a tile specification is suddenly changed or gets discontinued, accompanied by the phrase "sudden unannounced change" - even if Japanese tile makers are often felt to do the same.

d) In order to realize the potential for increasing export opportunities such as described above, business people in small and medium-sized companies in both Japan and Australia will have to take more interest in their counterparts in the other country. Ideas for increasing the interest of companies in the two countries in each other and providing indirect support for the building of relationships in which each is "visible" to the other, such as the

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development of partnering systems for companies and product seeking arrangements, would be valuable and are worthy of exploration.

An example of the existing framework to contribute towards broadening Japan-Australia business is the “Region to Region Initiative Program” by JETRO. This Program aims to stimulate local-based economy through supporting international business exchange between regional Japanese companies and foreign companies, and to encourage improvement of exchanges of goods, technologies, know-hows of management and capital⁸. Participating Japanese companies exist in 41 prefectures and counterparts in 22 countries in the world. Partners of three of 38 new projects in 2001FY are from Australia⁹.

Case New technology of foundry and processing of magnesium (JETRO “Region to Region Initiative Program”)

Industry Promoting Center of Chiba Prefecture and University of Queensland have agreed to promote technical cooperation in order to seek the possibility of technical alliance in the area of the new technology of magnesium foundry as a “Mini-Project”(one year term) of JETRO.

There accumulated infrastructural technical industry such as foundry and non-metal products in Higashi-Katsushika Area of Chiba Prefecture. Therefore, related agencies of Chiba Prefecture and local authority have, through the discussion, and based on the “Provisional Measure Act on Stimulation on Specific Industry Accumulation”, a Plan to stimulate accumulation of the infrastructural industry technology has developed and under the implementation. On the other hand, Australia has a world-level magnesium mine, and the Center of Chiba and University of Queensland had planned to cooperate in the area of technical exchange already. Therefore, within the Mini-Region to Region Project, field survey and exchange of experts would be initiated.

⁸ 33 projects, termed 2-3 years, and 99 Mini-project, termed single year since 1996FY to 2000FY, 40 prefectures in Japan and 20 countries are covered. For 2001 FY, 82 applicants (61 in Japan and 21 abroad) have been reported, which is 18 more than 2000FY. Out of that, 8 projects and 30 Mini-projects are accepted.

⁹ See page 19 for biotechnology project of Osaka and Queensland, page 27 for welfare project of Ehime and Queensland.

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Magnesium has been noticed as a useful resource of lightweight and resource-recycle. The use of magnesium has been broadened in the IT or auto-parts areas such as computer cases or bodies of mobile phones, and the growth of the demand expected world-wide.

e) Some Japanese business people say “We are doing it because we like Australia, even though we don’t make any money”, or “It’s precisely because we like Australia that we want to make money here.” We must actively increase the number of “Australia-lovers” like these as well as looking into measures to revitalize trade between the two countries.

Case The import of Australian building materials and furniture

The representative of EMUZ EXPORTS is Keiichi Inoue, a pioneering figure in the import of Australian building materials – and the very embodiment of the “Australia-lover”. He has set up a local office in Queensland finding and developing new products which he exports to Japan, such as artificial rock, moldings (decorative components for external use) and gates, in addition to bricks, sandstone, cabinets, furniture and so on.

Experience has taught him that the approach whereby he gives the Australian company an idea of what he is looking for and asks them to create a product that is suited to the demands of the Japanese market through trial and error is a definite requirement. In order for relationships with Australian companies to be successful, instructions and conditions must be set out meticulously.

f) On the other hand, there are strong complaints from Japanese industry that Australian companies “do not make enough effort to find a market for their products”. Many of the marketing methods used by Australian business people would not be considered good business in Japan. Instances crop up now and again in which the Japanese company is ready to do business if the terms are right, but its Australian counterpart does not seem to be keen to export at that particular time. Since there are many cases in which no specific business is generated even if interchange between business people and companies in each country is increased, we would ask Australians in the future to appreciate the differences in

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business practices between the two countries and be determined and enthusiastic in their attempts to succeed.

(2) Revitalizing traditional economic relations utilizing IT

a) Deals between companies based on the application of business to business (BtoB) commerce are gradually being adopted and the opportunities for sourcing components and other materials worldwide are expanding. BtoB trading, which allows estimates to be given instantly, is becoming the worldwide trend and there is potential for developing BtoB commerce, in which physical distance is irrelevant, in trade between Japan and Australia too. There are examples of BtoB spot transactions in resources trading. Although the focus continues to be on one-to-one deals and long-term contracts, it is pointed out that spot deals have a consistent impact on the price setting of long-term transactions. In coal trading, just over one tenth of transaction volumes worldwide are spot deals. Examples include the setting up of a joint website for BtoB trading in coal by three Japanese trading companies, scheduled to be operational from April 2001. Going forward, it will be necessary to monitor what impact increased Internet-based BtoB trading as the infrastructure for resources trading has on the market as a whole.

b) In respect of business to consumer (BtoC), which provides a direct link between manufacturer and consumer, both Japan and Australia are still at the development stage. Some of the Japanese companies who have made inroads into the Australian market report that they hope to take advantage of the potential for BtoC trading based on the high rate of Internet connectivity in Australian households (46% of Australian households have access to the Internet). However, some are of the view that the advantages of BtoC trading are not being utilized to the full because of the strength of resistance from the retailers who would be cut out as a result. Moreover, there would be problems in terms of competition policy if retailers were to join together to restrict purchasing from companies engaged in BtoC trading.

c) Although the Australian government emphasizes the high rate of Internet connectivity in households, this is not generating advantages in economic terms in the current situation.

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(3) Simplification of visa procedure

- a) There were some calls in discussions with the Japanese business community for the relaxation of Australian visa restrictions, which are based on the job classification, in order to facilitate business in Australia.
- b) In the past, there have been requests from the Commonwealth Government to replace management level staff with Australians, and we came across many instances of this matter being tackled through restrictions on the issue of visas. With the number of Japanese business people in Australia currently in decline, no major problems have been indicated, but bringing in the best people from any location is one of the most essential elements in an efficient business operation, and it is therefore hoped that the previous restrictions on the issue of visas will no longer be enforced.

(4) Mutual recognition in the area of quarantine and others

- a) During discussions some members of the Japanese business community called for measures in line with the international consensus in areas such as environment, safety and health in order to make it easier to do business in Australia.
- b) For example, the privatization of Sydney airport has produced a measure of success in quarantine operations, but it has been pointed out that the examinations are occasionally excessive.
- c) Like the U.S. and other some countries, Australia has regulations on ballast water management that exceed the world standard. For example, some ships traveling between Japan and Australia are used for one-way transport only, especially in the resources sector, which means pumping on ballast water for the return journey from Japan to Australia. The regulations are intended to prevent penetration of creatures that are not present in Australia by stipulating disposal of the ballast water 200 nautical miles outside Australia, but the extra time it takes to replace the ballast water means that the ship's arrival is often delayed. Japanese shipping firms have also requested that action be taken to prevent excessive burden from being imposed on operators on the basis of regulations that exceed the international standard.

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(5) The streamlining of trading procedures – Trade Facilitation

- a) The streamlining of trading procedures is important as a basis for facilitating smooth business trade between Japan and Australia. For example, a liaison between Trade Electronic Data Interchange (TEDI) and the Australian system may be possible for this purpose.
- b) TEDI is a system developed and tested by a core group of companies that includes 9 Japanese trading houses and other shippers, 7 banks, vendors such as Fujitsu, Hitachi and NTT Communications and 6 transportation companies. Under it, procedures for the transfer of bills of lading between shippers, transport operators, banks and other parties as well as procedures relating to transportation contracts and insurance contracts are computerized and processed via the Internet. As part of the E-ASIA concept, test connections to systems relating to customs and other official processes in Singapore, the Republic of Korea, Hong Kong and elsewhere are being implemented. The key to the success of TEDI will be the number of countries and users adopting it, and in that sense cooperation with Australia will be important for increasing the user base.

3. Bilateral cooperation in multilateral relationships

(1) Significance

- a) As key players in the drive for the liberalization of trade and investment throughout the world, Japan and Australia are partners capable of working together on the strengthening of the world economic system based around the WTO.
- b) Japan and Australia are neighbors in the Asia-Pacific region and, as advanced countries, they are in a position to contribute to APEC activities.

(2) The potential for cooperation

Australia has been one of the countries involved in the drive for the liberalization of trade and investment in the Asia-Pacific region since the Bogor Declaration was made at the 1994 APEC conference in Indonesia, and Japan, which is also part of the drive for liberalization, must pursue the objectives of the Bogor Declaration (the voluntary liberalization of trade and investment by 2010 for advanced countries and 2020 for developing countries) in partnership with Australia.

We would like to see the two countries put their respective resources and aid tools to use in a complementary fashion by providing economic cooperation to developing countries in Asia, especially in eliminating the problem of the digital divide. For example, the Japanese government announced at the July Kyushu-Okinawa Summit Meeting 2000 that it would be providing aid for the establishment of human resources development centers at 30 locations in Asia, but it is possible that Japan and Australia could work together to promote cooperation on the supply of manpower to such centers.

Examples given of the use of APEC for the purpose of cooperation include attempts at WTO capacity building and the improvement of systems of economic law for developing countries.

In order to successfully start up the next round of WTO negotiations, the APEC ministerial meetings and leadership summit held in Brunei in November 2000 endorsed a "Strategic APEC Plan" under which developed economies would cooperate in the effort to improve the capacity of the governmental agencies responsible for WTO agreements in

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developing countries. In mapping out this plan, an actual condition survey on the aid requirements of developing economies was carried out with the cooperation of consultants from Japan, Australia and the U.S.

At present, cooperation implementation agencies in each economy are looking into cooperation requirements based on the Strategic APEC Plan. In order to make effective use of the human resources and cooperative tools that each economy possesses, the developed economies, including Japan and Australia, must work together to coordinate suitable arrangements between donor economies and other such efforts.

In view of the experience of the Asian economic crisis, APEC is in addition implementing measures to bring the market mechanisms of each economy into play, under the theme of “strengthening the markets”. The 2000 APEC Ministerial Declaration also speaks of taking an active approach to the improvement of systems of economic law, and a menu of options (a list of policy options) is currently being drawn up at the initiative of Japan, Australia and Peru as part of this idea.

It is now essential that Japan and Australia continue to work together to cement cooperation in these arrangements for the reform of the economic structure of the Asia-Pacific region.

. Recommendations of the Study Group (requests for both countries)

The objective of strengthening the economic relations between Japan and Australia that this study group has examined is to revitalize economic relations between the two countries, the potential for which is in fact difficult to see given that these relations are mature and stable, and to ensure that bilateral relations between Japan and Australia do not lose their importance in comparison to other bilateral relationships.

The targeting of a Free Trade Agreement (FTA) with Australia consistent to WTO rules with reductions in customs tariffs is generally speaking felt to be worthy of investigation in the long-term, but would be difficult to achieve at the present time.

There are however several key areas of cooperation that have the potential for earlier implementation with regard to the strengthening of relations between Japan and Australia. We must therefore make further headway in relations between our two countries by carrying

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out a broad-ranging study of cooperation in these areas.

The study group hereby recommends for meeting the objectives described above.

1 . Expect further cooperation aimed at facilitating and revitalizing trade in goods and services

Government and industry in each country must once again recognize both the need for further expansion in the trade in goods and services that has helped to build economic relations between Japan and Australia to date and the importance of the investment that supports the trade in goods.

We must work to exchange information at the private-sector level so that we might direct our attentions to pioneering and improving the degree of processing of the trading commodities and distinctive products that Australia's abundant natural resources provide. Japan External Trade Organization (JETRO) has so far played an important role in promoting relations between Japan and Australia by carrying out studies and providing information on various different country markets. The organization is praised for its constructive approach to finding cooperative projects at grass root level, such as Region to Region Initiative Program. Going forward, it is hoped that increased use of the JETRO framework will help to awaken the seeds of business development.

Austrade is a similar organization to JETRO, and is producing results. It is reported, however, that there has been a lack of follow-up to seminars and workshops and that charges have been made for enquiries from Australia. It is also pointed out that, because Austrade is a commercially-based independent administrative corporation, support for areas in which commission cannot be charged is difficult. Although, we are not in a position to comment on the Australian system, we would like to see Austrade make greater improvements and take a more active stance in order to promote closer relations between our two countries.

Partly due to time constraints, we were not necessarily able to investigate fully the advantages of each country in terms of services and expertise in areas such as distance learning and health and welfare, but we recognize that cooperation in these areas would be

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difficult.

The study group is greatly surprised by Australia's failure, along with that of New Zealand, to participate in the WTO Agreement on Government Procurement. We would ask the Australian government to increase the transparency of its regulations and implementation arrangements in relation to government procurement and join the WTO Agreement on Government Procurement at an early stage.

This study does not look in detail at the role of state government of Australia, but each state government has taken measures to attract foreign companies and expand trade, and it is important to use them as a channel for cooperation and dialogue alongside the Commonwealth Government and to promote alignments actively.

We would furthermore ask Australian companies to approach business from the perspective of creating "psychological appeal" by broadening their export horizons, offering ways of selling that take account of the position of the importer, and showing customers how to use and set up their products and services. It is also important to find energy for products sold in small lots and for small amounts, even though they are made light of as they only represent small orders. As the market for added value products such as processed food is still large, including exports of semi-processed foods for Japan's family restaurants and other such areas, we would hope to see Australian companies come more to the fore.

Cooperation with Australia for expanding the number of TEDI system users as part of efforts to foster the infrastructure for increased goods trading will also be important.

Although arrangements in the services sector have so far been few, it is hoped that studies will be made in finance and other areas on the possibility of introducing services based on Australia's rich experience in fields such as risk management or various financial dealing systems services.

2. Expect facilitating the transfer of personnel and increasing mutual exchange at all levels

Increased mutual exchange among people of all types - members of industry such as business people and technologists, tourists, teachers and students, as well as young people -

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will naturally contribute to the strengthening of economic relations between the two countries, but it will also help to build an enduring relationship of mutual trust. It is hoped that the exchange of first-rate professors and assistant professors between the two countries will attract first-rate students who will work together for the benefit of both.

For the objectives in question to succeed, it is hoped that efforts will be made by government, industry and universities to put in place a number of different measures including the simplification of the visa process, a study looking into mutual recognition of professional qualifications, improvements in the transport infrastructure aimed at revitalizing the tourist sector and cooperation in the field of education.

In order to expand imports from Australia and cultivate the relationship between the two countries, it is hoped to create greater opportunities for contact between them, allowing Japan to increase the number of “Australia-lovers” and Australia to increase the number of “Japan-lovers”.

3. Expect strengthening and revitalizing business relationships in the “new economy”, including the IT sector

The key challenge in building a cooperative alliance in the IT sector is to create a gateway for partnering up businesses. It would be fruitful if organizations such as JETRO and Austrade, as well as the Japan-Australia Business Co-operation Committee, would first become involved in dispatching specialists, exchanging missions, staging trade fairs, through creating and publishing directories and exchanging information of companies. It is hoped that the private sector, and Australian companies in particular, would try to make the most of such opportunities.

It is also important to study the potential for cooperation in terms of the “new economy” sector in the broadest sense, covering biotechnology, the environment and services (tourism, transport, communications, education, welfare, medical care, and the professions), as well as in terms of institutional infrastructure (such as competition policy) aimed at strengthening relationships in these areas.

4. Expect the role of the partnership between Japan and Australia in Asia and in the world

Criticism was also voiced that frameworks for dialogue between Japan and Australia put in place thus far have become a matter of form.

As well as using APEC and the APEC Business Advisory Council (ABAC) to examine the nature of multilateral systems of cooperation found in the Asia-Pacific region, one proposal is to establish a forum for discussions linking the north and south of Asia, which runs from Japan to Australia, as part of the responsibilities of both Japan and Australia as developed nations. It might, for example, be possible using Australian facilities to set up a forum for the lively exchange of ideas, inviting promising politicians and entrepreneurs, including those from the surrounding countries of Asia. If this were to happen, we must be careful to ensure that the forum did not impose the values of Japan and Australia on the rest of Asia.

Furthermore, it is hoped with reference to the liberalization of trade and investment that both countries will take the role of players with a responsibility to understand the position of the developing countries of Asia and other regions in the world, to speak for them and to support them, both in multi-national forums centered around the WTO and as members of APEC pursuing the liberalization of trade and investment as expressed in the Bogor Declaration. As examples of this, it is hoped that both countries will cooperate in every possible area, including WTO capacity building and the creation of arrangements backing the improvement of systems of economic law in APEC.

Reference material

1. Cases of business (detailed version)

(1) New economy sector

Case An Australian IT company succeeding in Japan: Spike CyberWorks

Sydney-based Spike CyberWorks has a track record in network solutions technology, particularly Internet website development, and is currently the only Australian IT company with a broad base of operations in Japan.

In terms of Spike's relationships with Japanese companies, the original contact was made

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between its Sydney Head Office and the Australia-based affiliate of Toyota, and the company was provided with the opportunity of an introduction to Toyota's Head Office after developing the English homepage for Toyota Australia.

To coincide with its entry into the Japanese market, the company set up an office there in 1995. Two Australian staff were initially sent out to Japan, where a recruitment drive was conducted, but it was difficult to find bilingual staff with an understanding of IT at the time. Operations were therefore kicked off by bringing 6 engineers out from the Sydney Head Office. The Japanese operation now has 30 staff, half of whom are of non-Japanese, their nationalities being Australian, American, New Zealand, Irish and Canadian. The Japanese staff includes people in charge of administrative tasks such as general affairs and accounts.

There used to be another Australian IT company that was relatively active in Japan, but that company has now pulled out. There are a number of Australian engineers working for Japanese and U.S. companies, but Spike is the only Australian company running its own operations with engineers recruited inside Japan.

Communication skills are a major factor in entering the Japanese market. With the current exception of two people, Spike's non-Japanese staff can also speak Japanese. It is essential to use Japanese when discussing detailed specifications with clients.

Before going into Japan, Spike also had to put in place different systems from those in Australia. The practice of "cold calling" used by, for example, Japanese and U.S. companies is not prevalent in Australia. Unless its business methods were a match for those of the competition, however, the company would fail to win orders in Japan. Spike's success is therefore down to the fact that its business methods are based on its strategy.

The company currently has a Strategic Marketing Alliance with advertising agency I&S BBDO, providing a complementary relationship under which it delivers IT services to customers nurtured by I&S. Although use of the Internet has become widespread in the advertising business, I&S lacked such expertise and outsources its requirement to Spike.

Further development of Spike's operations in the Japanese market lies ahead, but the major factors in the company's success to date have been its acknowledgement by a Japanese company in Australia, giving it access to the business of that company's Head Office, its

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ability to adopt a strategic approach to business, and its partnership with an advertising agency.

Case A Japanese company engaged in R&D activities in Australia: CISRA

A subsidiary of Canon Australia, CISRA was established for research and development purposes in October 1990, partly “out of necessity” in the attempt to comply with the “Fixed Term Arrangement” (currently the “Partnership for Development (PfD)”) imposed on entry into the Australian government procurement market. It is capitalized at 2 million Australian dollars, and 51% of its share is owned by Canon Head Office and 49% by Canon Australia. The company has 3 staff delegated from Japan and around 120 local engineers.

The R&D carried out by CISRA uses Canon’s image-processing technology and has a strong focus on commercialization. The company is distinguished by the fact that it does not target the government outsourcing market typically looked toward by Australian IT firms.

Its main emphasis up to now has been digital camera software, applications for printing photographs and for printing webpages. The new areas on which CISRA has been focusing recently are the “UI card”, a card that gives one-touch access to network services, and “RAMA”, a small, user-friendly household device providing remote access to multimedia assistants, which are intended for commercialization by Australian technicians. Encouraging development with the intention of commercialization by Australian technicians is a major incentive with which to keep high-grade technicians, apparently in short supply, with the company.

Around 90% of CISRA’s income has thus far come from Canon’s Head Office and Canon Australia, but the company hopes to raise half its revenue from outside Canon from now on.

Case An IT company doing business in Australia serving government procurement

Leading electronics “firm A” operated business worth more than 6 million Australian dollars of sales in 1999. Its local subsidiary in Melbourne has been in operation since the late 1960’s, employing 1,400 staff at the end of 2000. It produces and sells products such as mobile wireless devices, broadcasting equipment, mobile telephones and fax machines.

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There are some Japanese companies developing computer business in Australia, and Japanese firms have a high profile in communications. Having been slightly slow to get started in next-generation networks, however, Japanese companies now are finding that they have a fight on their hands.

Local content must be increased to meet the requirements for government procurement, which means that there is an advantage in producing locally. Locally added value in the company's products has increased year on year, with just under 10% in terms of value currently exported from Tokyo and 90% added locally.

The problem in operating in Australia is that the country represents only a small market. Australian-related business accounts for around 3 to 4% of the company's worldwide business, making it less than one tenth the size of the U.S. market. Since product and business lines are directly linked to the size of the population, a small population means a small market.

Some products have been taken to Australia for testing, and the company would like to continue with these activities, but internal coordination issues of the firm make it difficult for many products to be test-marketed in Australia.

Regulations on performance requirement at federal level previously held that 50% of the export value of components had to be exported. Having observed this regulation for 7 years, the company plans to maintain exports at the same level based on the agreement of the government.

Case maxi multimedia (a subsidiary of NEC) in Victoria, supporting the computerization of government

In 1995 the State of Victoria announced a project to bring all government services online, putting the development of a network of public services known as electronic service delivery (ESD) out for tender in 1996. NEC Australia tendered against IBM, Telstra and others, winning the contract for the project (under which technical development and business development costs would be borne by the successful bidder in return for goodwill on ESD).

In 1997 the joint venture company of maxi multimedia was set up, owned 80% by NEC

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Australia and 20% by Australian software house Aspect Computing. The company began to deliver services in December 1997 after the system development process was completed.

The company currently provides a service that allows people to pay their water bills, electricity bills and car tax, obtain birth and other certificates and register to vote from a single point of access through push phone devices, home PCs and ATM-like terminals known as maxi Kiosks. The service was used around 75,000 times in December 2000, a 10-fold increase on March 1998. The number of institutions providing the service will continue to be expanded to include the payment of property taxes and other such facilities.

Case Calls pointing out differences in business practice

Leading Japanese IT company A currently uses Australia to produce English versions of the manuals it requires for selling Japanese software overseas, monitor the latest trends in software development around the world and develop software.

It is particularly important to have trends in software development monitored by Australian programmers, who understand English, given that the U.S. is so often the point of origin for the newest trends. Software development costs in Australia are half what they are in the U.S., which means that using Australian programmers brings substantial benefits in terms of staff costs.

At the same time, Australian programmers are very rigid in their adherence to their working hours. They are normally certain to be out of the office by 5:30 pm, tending to give priority to their personal lives. The time difference is small at 2 hours, but given that Australians leave the office at 5:30 pm, any issues not dealt with before 3:00 pm in Japan would be held up by another day.

Australian programmers are also rather distrustful of Japanese software. They believe that software from the U.S. is the best in the world, and would tend to be reluctant even if a Japanese company developed an outstanding piece of software, partly due to the extra effort involved in converting the manual into English. Furthermore, Australian programmers are highly motivated in terms of development, but there is little interest in marketing software, even among local sales people. The belief appears to be that the customers will come as long

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as the product is good, even if nothing is done to sell it to them.

Case Cooperation between a Japanese company and Australian biotechnology research institutions

In March 2001, Itochu Corporation teamed up with the three leading research institutions in Australia, Commonwealth Scientific and Industrial Research Organization (CSIRO), Australian Institute of Marine Science (AIMS) and Institute for Molecular Bioscience (IMB) for the joint promotion of biotech business aimed at Japan. The objective of the alliance is to try to use the results of R&D carried out by this group to encourage biotech business in Japan, and will involve looking into ideas such as the introduction of analytical tools, databases and other software from Australia, joint development between Japan and Australia, and investment in Australian biotech ventures.

CSIRO has had a mutual cooperation agreement with Itochu since 1996, with a track record of results in fields such as food science, molecular chemistry and production technology. Itochu will now add the biotechnology sector, applying the results of the R&D carried out by CSIRO in the fields of genome drug development, gene therapy and agro-food biotechnology to its business in the Japanese market. A biomission from CSIRO will visit Japan in April 2001, holding workshops with Itochu to narrow down the focus onto specific projects.

A memorandum of cooperation has been exchanged between Itochu and AIMS, under which Itochu has become a commercial partner marketing the results of R&D conducted by AIMS to the Japanese market. Both companies will pursue the business potential in Japan of marine biotechnology projects carried out by AIMS. Specific projects are due to be discussed during the visit to Japan of AIMS Principal Research Scientist Walter Dunlap in April 2001.

Under an alliance with IMB, the results of R&D carried out by IMB in areas such as bioinformatics relating to genome drug development, gene and protein analysis, drug delivery and nanotechnology will be applied to Itochu's business in Japan.

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Case Cooperation between a Japanese company and an Australian biotechnology venture

Precision equipment manufacturer Shimadzu Corp. joined Australian biotechnology company Proteome Systems (PSL, Sydney-based) in a business partnership in the area of protein analysis in January 2001.

The background to the alliance between Shimadzu and PSL is one of failure in that, although in 1998 Shimadzu had developed what was at the time the world's fastest DNA sequencing equipment, the launch of the product was delayed by efforts to organize the patent, and the market for gene-sequencing equipment became saturated. In order to ensure that the mistake was not repeated, it was necessary to construct a system that would automate the entire process cycle, including the preliminary treatment carried out by adding enzymes and other elements before the material is placed in the analyzer in order to find out the structure and function of the proteins. For the automation of the preliminary treatment, Shimadzu turned to PSL, which had the enzyme technology that Shimadzu itself did not possess.

PSL was already a Shimadzu supplier, and the PSL president was approached with the proposed alliance while he was in Japan for an academic meeting in autumn 1999. Shimadzu's expectations coincided with those of the PSL president, who happened to have plans to found protein analysis centers in Australia and the U.S., and the two companies began their project for the analysis of protein functions with the joint establishment of large-scale protein analysis centers in Sydney and Boston at the end of 2000.

The core elements of the new analysis centers are AXIMA-CFR, a new and advanced mass spectrometer for protein analysis (MALDI TOF MASS Spectrometer) developed by Kratos Analytical, a UK subsidiary of Shimadzu, and technology for the preliminary treatment of samples under joint development by the two companies based on gel extraction technology owned by PSL as well as the "chemical printer" technology of which it is an extension. As well as taking contract orders for the analysis of protein functions from (inter alia) pharmaceutical firms and food companies, Shimadzu and PSL intend to use the analysis centers to build infomatics in protein analysis on their own to serve drug development

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programs.

Shimadzu and PSL now have plans to extend their partnership beyond the area of protein and across the whole of the biotechnological sphere.

Case Cooperation of local authorities on Natural Products –“Region to Region Initiative Program” of JETRO

Osaka Prefecture and State of Queensland have decided to exchange survey groups and missions, aiming development of the new products and technology, and promotion of trade and investment, under the framework of “Region to Region Initiative Program” of two-year-term.

Osaka Prefecture, among the Kansai area where several leading makers of medicines originated, enjoys accumulation of many medicine makers and wholesalers, and promoting bio-technology industry in which adoption to a range of industrial sectors such as medicine, agriculture, chemical, food and environment is expected. On the other hand Queensland is said that it has various kind of natural resources in ocean organisms and plants, as well as high level institutions and technology.

Through the survey mission to Queensland within the framework of “Mini-Region to Region Initiative Program”, of single-year-term, Osaka Prefecture found that the area of natural products would be with the largest potential, with the accumulation of industry and institution, as well as the intention of the firms, and decided to deepen the area by “Region to Region Initiative Program” in the FY2001.

The interrelation between Osaka Prefecture and the State of Queensland has initiated when Governor of the State of Queensland visited Governor of Osaka Prefecture. In 1988 “Memorandum of Friendship” has been agreed. Since then both have been active in cultural and human exchanges, and in 1998, 10th Anniversary of the relation, “Memorandum of Economic Exchange” has been agreed, promoting further inter-cooperation of economy. Both established the representative offices, that are utilized as centers of the inter-relationship.

After they have chosen the area of natural products as the focus of cooperation through “Mini Region to Region Initiative Program” in FY2000, some 40 experts from Queensland

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and firms and academics from Osaka both participated to the seminar to exchange views and information. The seminar was taken as a opportunity for the firms and institutions to initiate discussions towards the joint study.

Governor of the State of Queensland, when he visited Osaka in November 2000, stressed importance of the economic exchange of Osaka and Queensland at the meeting with the Governor of Osaka. The Governors agreed to promote the outcome and shared the strong intention to the further cooperation.

It is expected that new products and technology would be developed and mutual trade and investment would be promoted through the cooperation of areas with high-level institutions and advanced technology in the bio-related sector. In the framework of Region to Region Initiative Program, exchange of survey groups and experts in FY2001, missions and leading firms in FY2002 would be planned.

Case Emphasizing changes in the market for tourism

JAL is at a turning point in the way its operations are becoming increasingly IT-based through the initiative known as “e-JAL”. As part of this process, the company believes that Australia, with its favorable image, would make a relatively good partner. JAL has tied up with Qantas and Air New Zealand.

Japanese tourists account for around 70% of the demand on routes between Japan and Australia. The figure is falling off from its 1995 peak, and business demand is also flat. Overall take-up of seats has recovered to around 75% as a result of capacity reductions by airlines since 1998. The number of flights has come down from the peak of 78 per week in 1997 to the current level of 52. Cuts in capacity have finally caught up with falling demand. The only airlines now offering their own service on routes between Japan and Australia are JAL in Japan and Qantas (QF) and Ansett (AN) in Australia. QF flies to Narita and Nagoya and AN operates into Kansai International Airport.

As an example of business collaboration with QF, QF buys 110 of the 400-seat capacity on code share flights on the Kansai International Airport – Brisbane – Sydney - Kansai International Airport route from JAL. On the other hand, the “triangular service” flying the

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Narita – Brisbane – Cairns – Narita route proved inefficient and was therefore modified to two straight return flights, Narita – Brisbane and Narita – Cairns, after consultations with QF, with an arrangement to swap a portion of the seats on a code share basis.

The fact that flights to Australia carry many more tourists than business people means that real per-unit earnings (profit per seat) are low. JAL has pulled out of the Fukuoka and Sapporo services that used to operate. Unlike the London and New York routes, which are “everlasting services”, this market could be described as marginal. We consider that Australian routes are worth taking the time to cultivate in the long run if there is room to do so.

While it is true that the demand for flights between Japan and Australia would increase if overall business relations between the two countries were to improve, the air industry prefers to chase demand that already exists. Furthermore, in general terms, staff costs are a major determining factor for Japanese companies expanding overseas or forging alliances with overseas partners, and the fact that Australia offers no advantages over countries in Asia and elsewhere in this regard could be a disadvantage. Such issues produce an undeniable sense of stalemate.

Case Tourism and transport: pointing out the structural challenges to be met in Australia

Leading “travel agent A” has had an office in Australia for some 30 years without any real problems. The fact that the company’s customers are Japanese tourists means, however, that there is of course a strong need for the Japanese language, an unavoidable issue since it relates to personal service (unlike manufacturing, where companies compete on the strength of their products, business in the tourist industry is ultimately based on the human relationship between customer and service provider).

In terms of attractions, the main appeal of Australia is its resorts, and with its lack of historical culture the country has little draw for older age groups. As far as resorts are concerned, Southeast Asia is relatively competitive (Bali, Phuket etc.). The Gold Coast does not match Hawaii for density. The aging infrastructure is also a problem.

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With air routes under an oligopoly dominated by JAL and Qantas, the fundamental rules of competition are failing to operate. This keeps airfares high and puts Australia at a competitive disadvantage compared to tourist destinations in other countries.

There are no problems with visa provision for core staff (those transferred within the company), but visas for guides are difficult to obtain. The reasons why visas are not available are unclear, as the guidelines for the annual visa count and other factors are not made public (this applies to any country, but disclosure of the criteria under which visas are issued is inadequate).

Although individual travel has increased, package tours continue to represent the mainstream. Clerks to broker package tours and tour guides are an essential, but difficult to find in Australia itself. There is no shortage of recruits who can use Japanese (Japanese language courses are popular in Australia and New Zealand), but the best people end up in other lines of business, either because their Japanese has not reached a level where they could use it to provide those kinds of services, or because there are large numbers of competitors with the same needs. Human resources issues like these are becoming a bottleneck.

As far as the operation of Electronic Travel Authority System (ETAS), the new system of immigration control (introduced around 2 years ago), is concerned, frequent data errors and omissions of acquisition due to careless mistakes have led to fines being levied on the companies with which the registration and application procedure has been placed, thereby imposing a loss. The fines have now been increased twice, and are 5,000 Australian dollars for each infringement. The fines are imposed on the airlines, but the method of sharing payment between the airline and the agency that made the input error causes problems. The private sector tourist trade is calling for the abolition of visas for Australia, but the Australian government says that its policy is to replace the abolition of visas with ETAS (= no visas).

Quarantine standards and screening on entry to Australia are extremely strict. Although it is not, for example, forbidden to take in processed foodstuffs such as sponge cake and Chinese noodles, an application has to be made in order to do so. If one member of, say, a group of students on a school trip fails in an application, the whole group then has to undergo a check at the airport customs desk. Tourist agency A is calling for a more flexible approach,

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including the dropping of the need for well-intentioned tourists to make an application in respect of processed food items. Unless this happens, damage will be done to first impressions of Australia as a tourist country, creating a situation at odds with active promotion of tourism by the government.

The company is starting a bus service in Australia, but it seems that there are slight restrictions on such services in terms of bus routes, parking areas and so on.

Case An example of how to make the best of the qualities of Australia: setting up a call center

As well as having a credit card service aimed at the local market in Australia, “U.S. affiliated financial institution A” also set up a call center in Sydney 4 years ago. A major factor in locating the call center in Australia was the fall in communications charges brought on by deregulation.

The call center also provides customer services to Japan as well as the major countries in Asia. Australia has an abundance of workers capable of supporting Asian languages, and recruitment is easy. For example, Japanese women who have gone to live in Australia after getting married are recruited for the provision of services aimed at Japan. Such workers are expected to remain in steady supply in the future.

Case Cooperation of local authorities on Welfare-related Industry –“Region to Region Initiative Program” of JETRO

Ehime Prefecture and State of Queensland have decided to exchange information in the area of welfare-related industry under the framework of “Region to Region Initiative Program” of three-year-term.

For Ehime Prefecture, aging rapidly, it is becoming important to establish the social system in which the aged people can exercise their ability. On the other hand, Australia has initiated

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the unique aged-care system with participation of private sector and volunteers since 1985, which is said that one of the earliest in the world, and regarded know-how of designs for aged-generation, as well as and architect and operation of facilities, is advanced.

Exchanges has developed through “Mini Region to Region Initiative Program” of JETRO in FY2000, including survey of welfare-related industry in Ehime, Queensland and exchange of experts in order to facilitate further cooperation.

For the future, through learning the foreign system internationalization and level up of the industry, this program aims at improvement of local welfare system, promotion of the industry, development of new products through exchange of technology and joint study.

Governors of Ehime Prefecture and the State of Queensland have agreed “Memorandum of Expansion of Economic Relations” in November 1997, and based upon it, promoting information exchange and economic inter-relation, especially in the area of welfare, education, food industry and so on.

It is expected that the program to encourage i) investment such as representative offices of Queensland-based welfare firms, ii) technology-alliance between Ehime, where is developing researches of welfare-related products and Queensland, where accumulates industry-academia R&D institutions, in mid-long term, the project is expected to contribute to the expansion of wide ranged related industry and level-up of industry structure, vitalization of the new-comers and improvement of welfare services.

In Ehime Prefecture, “International Welfare Industry Fare” will be held in November 2001. Taking the opportunity of the Fare, experts and firms will be invited to have symposiums, business meeting and survey. In FY2002 and FY2003, activities such as exchange of missions and leading companies, holding business meeting are planned.

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(2) The manufacturing industry and goods trade sector based on Australia's abundant resources

Case The import of bricks for outside walls from Australia: Selco Home

1. How Selco became involved in importing

a) Selco Home specialized in imported houses from Canada and was planning to expand its business. The company first used brick-style exterior wall panels imported from Canada, but these lacked texture and Selco was on the lookout for building materials that would add extra value.

Selco joined a housing and building- materials mission sent to Australia by the Ministry of International Trade and Industry (in June 1995, with the participation of around 75 Japanese companies), holding commercial meetings with Australian manufacturers as part of a continual effort to source material. Taking part in such a large mission allowed Selco to obtain information on a number of Australian companies, but the sheer volume of information combined with the problem of Selco's English language proficiency and lack of forwardness in the commercial meetings restricted it to merely looking at the products and prevented it from establishing firm contacts with the Australian companies.

Selco was planning to start using brick material for external walls imported from Australia (from a previous incarnation of Australian brick manufacturer A) by an enterprising industry competitor by buying them in Japan, but something of a misunderstanding arose, at which time the Selco chief was provided with the opportunity to go to Australia himself as part of a study team made up of 10 small house-building contractors. When at a commercial meeting with companies in Sydney a representative suggested that this was a good opportunity and that they should therefore hold purchase negotiations, Selco started discussions and began to do business as a result.

b) Small and medium-sized companies normally lack a sufficient reservoir of expertise to do business with overseas partners by themselves. The start of the business in question resulted from the fact that Selco was already familiar with the product through a competitor and happened to participate in a commercial meeting at which its partner was also present, half-forced it to make contact, and might in a sense be considered the product of

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coincidence.

2. The features, uses and applications of the product

a) The product is of the type worked by attaching a tin plate bedding to the external wall of the house and hanging thin external bricks onto the bedding. It is simple to use, and its authentic brick look has made it Selco's main material for external wall construction. In terms of applications, the product is used solely for external wall finishes, and it is positioned as a product to appeal to customers' taste for the upmarket. The product is targeted at Selco's own direct sales and members of its franchise chain (around 100 companies), but demand from the latter in particular has been insatiable in recent times.

For the metal bedding, Selco needed something of higher quality than an import and uses a product commissioned to its own specification from an affiliate of a domestic steel producer.

b) Company A is not a brick manufacturer but a processor. It apparently takes fat bricks manufactured for it by other brick makers and machines them down to fine brick using machining methods of its own design before exporting them.

c) In the past, problems occurred when the packaging itself was so flimsy as to come away and cause damage during marine transportation, and the lack of progress in making improvements in spite of numerous complaints was disturbing for all of those involved.

The methods by which the bricks are produced and the manufacturing plant have also been switched on account of the Australian side. As a result of such changes, extremely brittle, sub-standard products unfit for use were exported without undergoing an inspection by the exporter, with a huge shock on Selco and its associate companies. More specifically, when the Australian bricks were unpacked on the house construction site, they were so brittle as to be completely unusable, which created havoc and caused severe delays to the construction schedule. The problem was such that the bricks would easily have been spotted if the exporter had made any kind of check, and those involved on the Japanese side were all astounded that even this had not been done. In response to Selco's complaints, the production manager eventually came to Japan from Australia to check the products for

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himself, acknowledging the problem for the first time after individually checking large volumes of defective packaging. It is unfortunate that the situation should have caused such a substantial impediment to the building of a relationship of trust.

At the moment, the bricks are being produced by other manufacturers, and the bricks themselves are free from the problem of brittleness, but problems with unwanted scratches on the finished surface, irregularities in shape and other flaws occurring at the machining stage, as well as sudden changes in the product including variations in color against samples, are appearing with considerable frequency. Even though these issues are of lesser magnitude than those in the past, they continue to cause Selco headaches. The incidents provide a neat contrast with the highly consistent quality of the terracotta tiles produced by Australian tile manufacturer C.

3. Change in import amount

The value of Selco's imports has been rising annually in line with the increasing number of houses it builds. Company A has a number of agents through which it sells in Japan, and Selco's share of Company A's total sales in Japan in amount terms is estimated at between 30% and 40%.

4. Problem areas in relation to the import business

There have been a number of different problems with Company A products to date. As described, substantial damage was incurred over a considerable period of time after the start of the business by the fact that the packaging of the bricks was so basic and simple that the goods come loose during marine transportation from Australia to Japan, but the exporter refused to provide compensation because the time at which the damage occurred could not be proven. The packaging was finally improved after repeated requests to do so over a lengthy period. Complaints about the reluctance to address even requests for improvements that are based on fact are often heard from Japanese companies doing business with Australian firms.

Problems with the quality of the bricks themselves are as described in section 2., but in spite of suggestions made recently to establish tolerance criteria for the difference in the color

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of baked bricks compared to that of the samples, absolutely no progress has been made beyond these discussions, and sophisticated action is called for.

Supplies have also been disrupted, apparently due to delays in production and shipping and other such factors, at one time causing Japan to be short on stock of the bricks.

Selco changed its business arrangements in midstream to accommodate a request from Company A by conducting the business through a wholesale distribution agent in Sapporo. The interposition of an agent has had a substantial impact, in that it has at least given the person in charge at Selco someone to whom complaints that produced no improvement no matter how many times they were put to Company A directly may now be addressed in Japanese. In other words, it has provided a vent for frustrations even if no improvements are made. To put it another way still, it has created the psychological benefit of having someone to grumble to about complaints that were dealt with inadequately even though they were made direct. Australia should take note of the fact that these are the only plus points referred to.

The next point is that the decision to use an agent did not lead to a price hike which could occur as a demerit of transactions through a wholesaler. However, it is natural for a large-scale customer to ask for further efforts to be made to cut prices.

Company A is extremely strict on payment terms, issuing invoices to Selco at the time of shipment and stipulating terms under which payment is due within 3 days of the three monthly periods ending on the 7th, 17th and 27th, that is on the 10th, 20th and 30th respectively. To give an example, an invoice dated the 8th would consequently be closed on the 17th and due for payment on the 20th, leaving at the most only 12 days leeway before payment. This naturally means being urged for payment before the goods arrive, and there remains an uncomfortable sense that such practices are well outside the business norm.

In overall terms, the mode of doing business on the Australian side gives the appearance of being sloppy and strong only on self-assertion, which often makes Selco upset.

5. Outlook for the future

Selco hopes to carry on with the business, but a speedy and sensible response to the issues

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it raises as a whole is essential. Alternative products are available in many different parts of the world, and decisions will be taken in consideration of cost, quality and response to complaints.

Case Australian furniture imports: IDC Otsuka (Otsuka Kagu)

1. How Otsuka Kagu became involved in importing

Otsuka Kagu began importing furniture from Australia in 1995. On the strength of a sales pitch by a private consultant, the president of the company visited a number of local manufacturers in 1995, which resulted in the establishment of business with the three firms below. The manufacturers are mainly based in Victoria.

Deals were at the time agreed with i) glass table manufacturer D, ii) leather-upholstered sofa manufacturer E and iii) cloth-upholstered sofa manufacturer F. The only one of the above with which the company is still doing business is Company D (representing annual business worth several tens of millions of yen).

2. The features, uses and applications of the product

With the initial proviso that it would be dangerous to generalize, since the number of factories it visited in 1995 was limited, Otsuka Kagu reports concluded that i) speaking purely on the basis of the few companies that it visited, the factories were small, which meant that the scale of production was not sufficiently advantageous in comparison to the U.S. or Germany, ii) some of the structural components being used in 1995 seemed to be imports from Thailand and other countries in Asia, iii) the designs were lacking in standout features, iv) visits to retail outlets also gave the impression that the products were not particularly cheap compared to the products of the U.S. and other countries, nor did the visits change the impression that the designs were rather featureless, v) sofas were just about competitive based on the then-exchange rate of 65 yen, but it was difficult to strike a balance between quality and price for wood products, vi) an exception to this was the reinforced glass tables, which seemed substantially cheaper than those made in other countries, and only these are still being stocked by Otsuka Kagu in 2001.

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As far as the glass tables in particular are concerned, Otsuka Kagu recently took quotations for similar products from a number of different countries, which revealed that those made by Australian Company D were the cheapest, and Otsuka Kagu continued with the business. The company has not done any research into the reasons why the products are so cheap.

In general terms, the quality of the work on table legs and other wooden parts is low, and Otsuka Kagu assumes that this may either be because the company is poor at working with wood or because it is using wooden components made in Asia. The problem could of course lie with the particular company in question, but experience to date suggests the incidence of defects in wooden components to be relatively high.

3. Change in import amount

The amount of business is not particularly substantial, at 5 million to 9 million yen per month.

4. Problem areas in relation to the import business

The Australian sales team visits Japan infrequently, partly because the business volume is low. The last such visit by Company D was in 1999 for the opening of the Otsuka Kagu shop in Shinjuku.

In terms of contact with the government and official bodies, representatives of the State government of Victoria visited Otsuka Kagu back in 1995 to promote exports, but the company has no recollection of any contact since, Austrade included.

The only sales pitch from an Australian manufacturer was that of Company G in 1999, but even that did not lead to any business, and there have been no sales calls since.

As far as Otsuka Kagu's impressions are concerned, other manufacturers with whom it has dealt in the past also appeared to be unfamiliar with exporting, and in the hypothetical case of business between such manufacturers and an ordinary company other than Otsuka Kagu that was unused to overseas trading, a number of different problems could be expected, including the language barrier.

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5. Outlook for the future

In 1995, Australia seemed to be slightly under-competing against manufacturers in the southern U.S under the exchange rate and manufacturing conditions of the time as far as Otsuka Kagu's main items such as sofas were concerned. Although the recent weakness of the Australian dollar and strength of the U.S. dollar suggest that the circumstances are turning more or less in Australia's favor, the lack of promoting the sales makes the situation rather hopeless.

The challenges to be met in order to increase the business in the future are as follows.

- i) Competitiveness of the products – an absolute condition if Australia is to out-compete the U.S. in cloth-upholstered sofas and Asia in leather-upholstered sofas (since European and U.S. manufacturers have recently been moving their factories to Asia). This would mean substantial efforts on the part of Australian manufacturers.

Australian manufacturers would also benefit from differentiating their products in terms of design or quality control in order to add value.

- ii) Sales effort - Asian manufacturers are beginning to take on staff who can do business in Japanese, and Australian companies will not compete unless they can do likewise - with the natural proviso that the products themselves are competitive.
- iii) We feel that there is potential to increase sales levels substantially with regard to fundamentally competitive products such as the glass tables described previously by improving quality control and studying business effort and design

Case Australian cypress imports: Koyama Shoten

1. How Koyama Shoten became involved in importing

The chairman of Koyama Shoten was a member of a mission visiting Australia in 1995 to promote the import of housing and building materials. A number of commercial meetings were held locally with Australian manufacturers, but business talks began when Mr. Koyama met Australia wood company B at the final commercial meeting of the mission.

Delighted by the timber, Mr. Koyama is currently working enthusiastically to export it successfully to Japan.

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2. Natural occurrence

Under Australia's afforestation programs, Australian Cypress (according to a study by Mie University, the tree is of the cypress rather the Japanese cypress species) is cut down at the rate of 500,000 m³ per year (equivalent to the number of trees felled in the whole of Mie Prefecture). Australian cypress takes 100 years to grow and the trees have not been used for export because domestic demand in Australia has hitherto exceeded supply, but some have now been set aside for export, with 250,000 m³ - or half - of the 500,000 m³ being sawn up, 10% of which are exported to Japan. Koyama Shoten and another 4 or 5 suppliers import the trees to Japan.

The local suppliers are small and medium-sized companies, and the volumes would appear to be too small for Japanese trading companies to handle.

3. The features, uses and applications of the product

The timber itself has been proven to possess a strong resistance to termites and ticks, even if untreated with preservatives and pesticides.

Koyama Shoten uses these properties to promote the tree a product for use in flooring, decorative panels, sill timbers and other such purposes. The timber works well against ticks when used for flooring (it has been used for classroom floors), and is highly effective against termites when used for sill timbers located close to the ground. Koyama Shoten believes that it should be possible to increase the demand for the wood now that health-conscious housing is on the up.

In order to check on the potential of the product, some of house builders were asked to evaluate it. Japanese builders who checked the product out from the point of view of both properties and cost commented along the lines that, since this was a new material that they were seeing for the first time, it would be difficult to give an unqualified welcome to the timber or adopt it immediately, although it might have potential for outside use (decking, for example) or as flooring in shops, where it would be used unpainted for people to walk on in shoes.

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4. Change in import amount

The current weakness of the Australian dollar is having a favorable effect on prices. Retail prices carry a premium of around 20% over Japanese cypress (Japanese cypress 80,000 yen, Australian cypress 100,00 yen). Koyama Shoten alone shifts 30 containers a year, worth around 100 million yen in sales.

5. The circumstances of Australian companies.

Australian lumber skills cannot be said to be of a high level, and Koyama Shoten has been teaching lumber skills. All goods exported to Japan have gone through the lumber process. Processing the timber has the advantage of reducing the weight (cutting down transport costs), cheap local labor and low-cost waste disposal during the lumber process itself.

6. Problem areas in relation to the import business

Tasks such as the collection of goods in Australia are left to a Canberra-based independent consultant who worked in the Australian Embassy in Japan until 6 years ago, and acts as an agent. The company has daily contact with him in Japanese by telephone or email, and language does not pose a problem.

As far as government involvement is concerned, Koyama Shoten is in contact with the Commonwealth Government through Dr. Greg Storey, the Australian Consul-General in Osaka and the Consulate-General in Nagoya, who are keen to listen to what the company has to say. As an example of the involvement of state government, Dr. Kennedy of the state forestry commission research center was invited to give a lecture at a Japanese seminar (as part of a JETRO Mini Region to Region Initiative Program).

Where new products are concerned, it is important first to create awareness among large numbers of Japanese companies, but there are also limitations to what importers can do. It is proving rather difficult to find ways of making a large number of building firms aware of the product's presence.

The specifications of the Housing Loan Corporation (for conventional construction

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methods) do not give Australian cypress as an acceptable foundation material, effectively preventing the timber from being used in the construction of housing in receipt of Housing Loan Corporation money. In the desire to see this situation somehow remedied, the Australian Consulate-General and Embassy have been requested to take the matter up with the government, but nothing has been done so far.

7. Outlook for the future

It is hoped that research will be carried out in government, industry and academia to derive an anti-termite extract from sawdust produced during the lumber process. The research involved in such a project would take into account the recent environment and be well in keeping with the times.

8. Other

Sydney Harbor and the Port of Yokkaichi are sister ports. It is hoped to make Yokkaichi the Australian cypress port. JETRO is asked to select this idea as a Region to Region Initiative Program.

Case The import of Australian terracotta tiles: Selco Home

1. How Selco Home became involved in importing

i) Selco Home specialized in imported homes from Canada and was planning to expand its business, but was unable to find construction materials to provide added value.

Selco joined a housing and construction materials mission sent to Australia by the Ministry of International Trade and Industry (of the time) (this took place in June 1995, with the participation of around 75 Japanese companies), holding commercial meetings with Australian manufacturers as a part of continual effort to find source materials. Taking part in such a large mission allowed Selco to obtain information on a number of Australian companies, but did not lead to a business deal due to the reasons explained later. Efforts to find new and attractive building materials continued, as when the Selco chief himself went to Australia as part of a study team made up of 10 small house-building contractors. This

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process lead to a business deals with an Australian company in bricks for use in external walls.

- ii) As far as terracotta tiles are concerned, an associate strongly recommended the use of Australian terracotta tiles as a means of adding value to its houses, and an industry competitor in the Chubu District of Japan was using terracotta from Australian tile manufacturer C, something which alerted Selco to the possibility of buying the tiles through this route. The situation did not, however, lead to the start of a business deal.

The reasons given for this are first the fact that, as with other smaller firms, Selco did not have sufficient English language skills to deal directly with an overseas company, which created a considerable psychological barrier to making contact, and also the uneasiness Selco felt coming from its lack of knowledge about its partner company and conditions in the country. Generally speaking, employees of small and medium-sized companies tend to prefer to avoid “hassle”. They do not take action unless their managers provide them with leadership.

The next reason we might give is that small and medium-sized companies are so inundated with routine work and the barriers so high that opportunities to be more proactive in respect of doing business with overseas companies are hard to come by. In the current situation, interest from management in overseas business is usually low and their English skills are poor, which means that their leadership very rarely takes the form of directing their staff to start doing overseas business.

- iii) The Australian Consulate-General in Sendai (Austrade) was keen to market Australian goods, occasionally visiting Selco or providing it with information. Bodies like the Consulate-General are not made up of actual business people, however, and their sales efforts are seldom successful as result. Without success, these contacts between overseas government establishments and businesses tend to become gradually more remote.

- iv) When Selco subsequently got to know Company C at the Australian Fair in Sendai, it was given a catalogue and samples, and began a concrete study. The two companies were

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tentative in their approach, and it took between a year and eighteen months from exchanging business cards and first getting to know each other to starting to do business.

2. The features, uses and applications of the product

The distinguishing features of the terracotta and other tiles made by Company C include the fact that they are in extremely common use in Australia and of highly consistent quality, the uniqueness of their red coloring in the eyes of Japanese people, the fact that they provide a means of differentiation since no other Japanese company is using them, and their low cost.

In actual fact, Selco did not make much use of the tiles at first. This is thought to have been because constructors of Selco preferred materials that it was already used to, and had a customary dislike of “new ideas” such as using new materials. As they are ceramic, the actual dimensions of the 300mm square tiles varied from one to the next, which made for difficulties in fitting the joints, and it could be another possible reason for the dislike of the construction people.

As far as these issues are concerned, advice from Australian exporters including hints on how to use the tiles in the construction of new products (such as techniques on hiding differences in the size of the terracotta by widening the joints, or laying the tiles across a full terrace or a kitchen floor to give a more high-class feel) is felt to have made it much easier for the products to penetrate the market from the beginning.

Despite these circumstances, the tiles were exceptionally well liked by house building firms from other parts of Japan that had joined Selco’s franchise chain (around 100 companies), and the quantities being used rose gradually.

It is currently recognized by Selco that Company C stands comparison with Japanese tile makers and has quite outstanding products. In more specific terms, the tiles are much used in porches, halls, terraces and other such locations, where they serve greatly to improve the feel of high quality.

3. Change in the import amount

Over the last two or three years, Selco has imported a few containers per year, but has

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already placed orders for 3 containers in the current period to date (from October 2000 to February 2001). One container is around 700 to 800 m² worth of tiles (assuming one house to take an average of 10 to 20 m² of tiles, each container would cover between 50 and 70 houses). A loaded container is worth 700,000 yen per unit (on top of which, for each container, around 100,000 yen for domestic transportation to Sendai is added to marine transportation to Yokohama and other freight costs of 140,000 to 150,000 yen).

Selco and its partner firms (the franchise members) as a whole are looking to construct around 1500 buildings per year from now on, and it is felt that terracotta imports will grow. The amount imported by Selco in isolation may be rather insignificant, but it is not beyond the bounds of possibility that exports volumes to Japan will increase.

4. Problem areas in relation to the import business

Company C is a highly scrupulous firm which apparently requests “Payment within 40 days of shipment”. This means that, as long as the products reach Japan no later than “4 weeks after shipment”, their arrival will always precede payment. With product and payment terms this good, Company C is a perfect business partner, and the sole complaint against it is the “sudden unannounced change” trouble experienced when a tile specification is suddenly changed or gets discontinued – though Japanese tile makers are often felt to do the same.

5. Outlook for the future

Selco hopes to flesh out its line-up of tiles products a little in the future, but it has not started to do so yet.

Although different in color, texture and other qualities, similar terracotta tiles made in Italy are being sold at extremely low prices in some home improvement centers (such as Joyful Honda based in Ibaraki Prefecture). They are even felt to have the edge over the Company C’s products in terms of price. Some small and medium-sized building firms have been importing similar terracotta tiles from Spain, which have also been well received.

In view of these circumstances, there is even greater potential for terracotta tiles to break into the Japanese market for construction materials, with the key words being “natural” and

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“earth”. Further growth in volume is conceivable if Australian export firms make extra efforts to crack open the market (recruit powerful Japanese sales teams, set up sales networks, establish delivery systems, advertise), regardless of the competition from Italian and Spanish products.

Case The import of Australian building materials and furniture

1. How EMUZ EXPORTS became involved in importing

The representative of EMUZ EXPORTS (which has changed its name to Japan Australia Export from April 2001) is Keiichi Inoue, something of a pioneering figure in the import of Australian building materials who threw his hand into the Australian house-building and construction materials import business while running a housing and construction business called Oregano in Gifu Prefecture from around 1994. He is the very embodiment of the “Australia-lover”.

Oregano was however subsequently wound up, and having overcome these difficulties, Inoue has once again embarked on the task of finding, developing and importing goods from Australia.

More specifically, he has set up a local office in Queensland as a base from which he focuses on exporting Australian goods to Japan. In addition to the bricks, sandstone, cabinets, furniture and so on that he has successfully imported in the past, he is finding and developing new products for export to Japan, including artificial rock, moldings (decorative components for external use) and gates.

EMUZ imports are currently worth around 50 million yen per year.

2. The features, uses and applications of the products

As far as products are concerned, EMUZ policy is to make continual efforts to spread the net wide and bring in items that cannot be found in Japan, handling almost anything. As a result, the company carries a large number of items.

Many different products are sold to building firms and small and medium-sized general contractors in Japan.

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3. Problem areas in relation to the import business

EMUZ has learned much from the experience of importing products that the approach does not work if the company imports what Australians want to sell. The approach whereby the Australian company is given an idea of what the Japanese are looking for and asked to create a product that is suited to the demands of the Japanese market through trial and error is therefore a definite requirement.

This allows the development of products that are cheap and perfectly suit the needs of the Japanese market.

Relationships with Australian companies are a quite different matter to dealing with Japanese businesses. In order for them to be successful, instructions and conditions must be set out meticulously.

4. Outlook for the future

Australia has much to offer if the right products can be found. Although the units in which it deals are small, EMUZ hopes to carry on importing and developing products.

Case An Australian commodity successfully exported to Japan: wine

Australian wine accounted for 4% of the wine imported to Japan in 2000, ranking 6th. The following information on Australian wine imports is based on accounts from, amongst others, Austrade and the Japan Wines and Spirits Importers Association.

1. Wine imports to Japan

- i) Japan witnessed a wine boom at the end of 1997 when it was said that red wine was good for the health, and stocks of red wine ran short. The volume of wine imported in 1998 more than doubled as a result. However, 1999 volumes fell dramatically when the boom subsequently dried up.
- ii) Some of the suppliers who signed import contracts in the attempt to increase rush imports during the 1998 boom were forced by their contracts to import more than the domestic

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demand even after the boom had ended. This meant that, in certain instances, the wine had to be sold off at a loss. This appears to have been the case with some Latin American wines. Although 1999 import levels were far below those of the previous year, volumes were up on 1997. Imports in 2000 were at roughly the same level, showing no major increase.

iii) As far as imported wines are concerned, Old World wines (French and Italian) have much the higher profile, as would be expected. New World wines (North and South America, Australia) may not be as expensive, but praise for their nevertheless pleasant taste is helping their market share to go up. However, conquering the perception that “French wine would taste better” to get people to buy New World wine is currently proving somewhat difficult. Demand for French wine is partly also sustained by its high visibility and that for Italian wine by the large number of Italian restaurants in Japan. German wine is losing share. New World wines are often bought by younger customers for whom they represent “good wine at an affordable price”.

iv) It is impossible to generalize on what all the different countries are doing to market their wine, but the sale of wine is promoted by agencies such as the commercial departments of their embassies in Japan and food promotion councils.

【Promotion agencies of the key countries】

Australia	Australian Wine Export Council (Embassy marketing section)
France	Wines and spirits marketing officer in the commercial section of the embassy The society for the expansion of the sales of agricultural and food products from France (SOPEXA) promotes sales in Japan
Germany	Agricultural products team in the embassy Japan office of the Central Marketing Agency
Italy	Trade Promotion Council
Chile	Responsibility of the commercial section of the Embassy
U.S.	The sale of Californian wines is promoted by the Wine Institute as well the embassy

v) Experiences of marketing suggest there is certain chain process at work in that, if a specific

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wine is advertised as having a good rating in, say, a U.S. wine magazine, that advertisement comes to represent a form of approval in Japan and the number of people buying the wine due to its effect increases, leading in turn to a higher sales volume.

vi) When advertising New World wines, the challenge is that of how to spread the wine's reputation for representing "good quality (taste) for an affordable price".

vii) In addition, apart from the amount of imported wines, wine accounts for only 3% of overall drinking-alcohol consumption in Japan. Most of the alcohol consumed is beer, sake and shochu, and another challenge is therefore to increase proportional consumption of wine as a whole.

2. Selling Australian wine in Japan

i) Looking at the change in market share of overall imports between 1995 and 2000, the highest growth is in two countries, Chile and Australia (that of Australian wine grew from 2.2% in 1997 to 4.0% in 2000, and that of Chile from 0.5% in 1997 to 6.6% in 2000).

The market share of Chilean wine has grown dramatically, going from one quarter of that of Australian wine in 1997 to 1.5 times that of Australian wine in 2000, increasing its presence in the Japanese market substantially.

Australian wine initially had a higher market share than Chilean wine, but its share has grown only steadily, at 3.5% in 1999 and 4.0% in 2000. Although large inventory volumes were carried in 1998, Australia is deemed to have failed to make the most of the boom in wine, in comparison to Chile, which saw remarkable growth in market share on the back of the boom.

Chilean wine doubled its market share during the 1998 boom, and whilst the failure of Australian wine to increase its share is put down to the lack of enough stock to allow it to be exported, the same also applies to Chile and other countries, making it rather difficult to accept this as an adequate explanation.

ii) As far as the promotion of Australian wine is concerned, the Australian Wine Export Council, established in June 1998, and Tokyo Branch of the AWB has launched a market-driven promotional program to improve the image of Australian wine. It has run

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educational activities and held seminars and wine fairs for this purpose, also participating in FOODEX Japan 2001 at the Makuhari Messe in March 2000.

- iii) The main export customers for Australian wine are the UK, the U.S., New Zealand and Canada, which account for over 70% of its market, with exports to Japan in 8th place, accounting for only around 2%.
- iv) In terms of its promotional image, Australian wine is in the “middle price” range (1000 to 2000 yen) and “value for money” bracket (the same quality (and equivalent taste) to wine from other countries, but cheaper and of consistent quality). It does, however, suffer from the lack of a particular cachet in the eyes of the general consumer, usually being selected only on the basis of price range in liquor stores.
- v) In response to the view that Australian wine should be promoted more actively in Japan, it is pointed out that the cost-effectiveness of promoting goods to Japan is poor compared to other countries (in other words, the promotional costs entailed in achieving the same effect are higher in Japan due to heavier PR charges), which is an understandable explanation.
- vi) The key to promoting Australian wine is surely to increase the number of people who drink it out of personal preference.

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(Reference) Changes in (still) wine imports from key countries

Unit: top line 1,00c/s (= 9 kl), bottom line overall share of imports %

Country	1995	1996	1997	1998	1999	2000
France	3,850 46%	3,243 39%	4,886 42%	11,645 42%	6,030 42%	5,855 41%
Italy	1,197 14%	1,609 19%	2,114 18%	5,077 18%	2,546 18%	2,829 20%
U.S.	963 11%	946 11%	1,058 9.2%	2,610 9.4%	1,830 13%	1,706 12%
Germany	1,656 20%	1,597 19%	1,603 14%	1,909 6.9%	1,622 11%	1,274 12%
Chile	43 0.5%	220 2.9%	616 5.4%	3,066 11%	715 4.9%	952 8.9%
Australia	191 2.2%	205 2.4%	273 2.4%	618 2.2%	500 3.5%	570 4.0%
Spain	267 3.2%	246 2.4%	378 3.3%	1,144 4.1%	627 4.3%	525 3.7%
South Africa	35 0.4%	81 0.9%	163 1.4%	257 0.9%	133 0.9%	160 1.1%
Argentina	4 -	14 0.1%	90 0.8%	482 1.7%	117 0.8%	97 0.7%
Total	8,454	8,382	11,501	27,705	14,487	14,251

(Source) Ministry of Finance

Case Voices to point out the lack of selling by Australian companies: motor vehicles

Japanese automotive manufacturer A produces and sells motor vehicles in Australia. There is the "Access Australia" campaign in Australia, targeting Japanese companies with sales calls once every two years. In 1999, a hybrid car based on the Opel Corsa (a concept car made from 100% Australian parts) was taken to the Japanese motor manufacturers to convince them to buy locally produced parts.

At the same time, the procurement manager has been trying to increase local content ratio for Company A's components as part of the company's global procurement strategy, regardless of the campaign based on an Australian concept car. The company currently has business relationships with more than 300 primary tier component manufacturers, and its Procurement Division and Technical Development Division are working to source low-cost / high-quality components.

TENTATIVE TRANSLATION

As part of the Australian campaign, just under 1,000 of Company A's staff attended a briefing session in 1999, without any new business being generated as a result. One reason for this is the lack of follow-up work from the Australian side, and the company has apparently indicated as much to the Australian Embassy in Japan.

The Australian Embassy in Tokyo is encouraging companies to revitalize local production and local parts procurement, but there is little enthusiasm for selling this to local component manufacturers as a business idea. European companies are felt to have the same impression.

TENTATIVE TRANSLATION

2. Basic Statistics of Japan and Australia

(1) Trade Statistics

Fig. 2-1-1 Trend of Japanese and Australian Trade

Unit: million US\$

			1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Annual Growth Rate in 1990s
Japan	Export	World	287,664	314,845	339,864	362,602	395,226	443,047	411,302	421,067	387,955	419,207	4.3%
		Australia	6,926	6,504	7,055	7,732	8,720	8,104	7,411	4,970	8,020	8,446	2.2%
		Asia	90,146	105,902	117,620	136,813	158,421	193,453	181,551	177,534	134,975	156,933	6.4%
		Australia/World	2.4%	2.1%	2.1%	2.1%	2.2%	1.8%	1.8%	1.2%	2.1%	2.0%	
		Asia/World	31.3%	33.6%	34.6%	37.7%	40.1%	43.7%	44.1%	42.2%	34.8%	37.4%	
	Import	World	235,289	236,612	232,809	241,630	274,181	336,027	349,597	338,646	281,243	310,733	3.1%
		Australia	12,359	12,965	12,409	12,253	13,574	14,514	14,228	14,546	12,989	12,808	0.4%
		Asia	68,074	74,533	76,112	83,762	98,094	124,126	131,784	126,112	105,016	123,827	6.9%
		Australia/World	5.3%	5.5%	5.3%	5.1%	5.0%	4.3%	4.1%	4.3%	4.6%	4.1%	
		Asia/World	28.9%	31.5%	32.7%	34.7%	35.8%	36.9%	37.7%	37.2%	37.3%	39.8%	
Australia	Export	World	38,965	41,873	42,464	42,529	47,440	52,977	60,257	63,097	55,938	56,004	4.1%
		Japan	10,232	11,496	10,737	10,466	11,613	12,184	12,019	12,438	10,909	10,779	0.6%
		Asia (excluding Japan)	11,651	14,262	15,596	16,178	18,826	22,268	26,227	27,267	20,665	21,661	7.1%
		Japan/World	26.3%	27.5%	25.3%	24.6%	24.5%	23.0%	19.9%	19.7%	19.5%	19.2%	
		Asia/World	29.9%	34.1%	36.7%	38.0%	39.7%	42.0%	43.5%	43.2%	36.9%	38.7%	
	Import	World	39,137	38,754	40,741	42,466	50,081	57,478	61,557	61,787	60,767	65,386	5.9%
		Japan	7,308	6,799	7,375	8,086	8,868	8,880	7,999	8,453	8,373	8,804	2.1%
		Asia (excluding Japan)	7,131	8,483	9,703	10,332	11,960	13,893	15,819	16,824	17,611	20,228	12.3%
		Japan/World	18.7%	17.5%	18.1%	19.0%	17.7%	15.4%	13.0%	13.7%	13.8%	13.5%	
		Asia/World	18.2%	21.9%	23.8%	24.3%	23.9%	24.2%	25.7%	27.2%	29.0%	30.9%	

(Source) IMF; "Direction of Trade Statistics Yearbook", various years

Fig. 2-1-2 Japanese Trade by Industry

TENTATIVE TRANSLATION

Unit: billion Yen

Export

	1995			2000		
	World	Australia	A/W	World	Australia	A/W
Total Export	41,531	759	1.8%	51,654	924	1.8%
Foodstuff	200	5	2.3%	227	4	1.9%
Textiles	836	10	1.1%	915	6	0.7%
Chemicals	2,829	37	1.3%	3,805	34	0.9%
Non-metallic Manufactures	514	7	1.4%	602	8	1.3%
Metals and metal-products	2,699	43	1.6%	2,852	35	1.2%
Machinery other than electric	10,010	155	1.5%	11,096	148	1.3%
Electrical machinery	10,647	92	0.9%	13,670	107	0.8%
Transport Equipment	8,428	309	3.7%	10,828	457	4.2%
Precision Instruments	1,942	31	1.6%	2,773	31	1.1%
Others	3,426	71	2.1%	4,887	93	1.9%

Import

	1995			2000		
	World	Australia	A/W	World	Australia	A/W
Total Import	31,549	1,367	4.3%	40,938	1,596	3.9%
Foodstuff	4,784	297	6.2%	4,966	327	6.6%
Raw Materials	3,084	280	9.1%	2,642	312	11.8%
Mineral Fuels	5,023	476	9.5%	8,317	651	7.8%
Chemicals	2,309	15	0.6%	2,855	20	0.7%
Textile	2,313	2	0.1%	2,642	1	0.0%
Non-metallic Mineral Manufactures	585	15	2.6%	534	17	3.1%
Metals and metal-products	1,864	89	4.8%	1,953	130	6.7%
Machinery & Equipments	7,997	38	0.5%	12,924	37	0.3%
Others	3,590	156	4.3%	4,105	101	2.5%

(Source) Japan Tariff Association; "The Summary Report on Trade of Japan "

Fig. 2-1-3 Change of Trade Partner of Japan and Australia

TENTATIVE TRANSLATION

**Japan
Export**

Unit: million US\$

	1990			1995			1999		
	Countries	Value	%	Countries	Value	%	Countries	Value	%
1	USA	91,121	31.7%	USA	122,034	27.5%	USA	130,195	31.1%
2	Germany	17,926	6.2%	Germany	20,328	4.6%	Taiwan	29,069	6.9%
3	Korea	17,499	6.1%	Korea	31,292	7.1%	China	23,450	5.6%
4	Taiwan	15,461	5.4%	Taiwan	28,984	6.5%	Korea	23,089	5.5%
5	Hong Kong	13,106	4.6%	Hong Kong	27,780	6.3%	Hong Kong	22,148	5.3%
6	UK	10,817	3.8%	UK	14,073	3.2%	Germany	18,698	4.5%
7	Singapore	10,739	3.7%	Singapore	23,006	5.2%	Singapore	16,345	3.9%
8	Thailand	9,150	3.2%	Thailand	19,719	4.5%	UK	14,249	3.4%
9	Australia	6,926	2.4%	China	21,934	5.0%	Netherlands	12,055	2.9%
10				Malaysia	16,802	3.8%	Thailand	11,358	2.7%
11				Netherlands	9,921	2.2%	Malaysia	11,153	2.7%
12				Australia	8,104	1.8%	Philippines	8,783	2.1%
13							Australia	8,446	2.0%
Total Export		287,664	100.0%		443,047	100.0%		419,207	100.0%

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Import

	1990			1995			1999		
	Countries	Value	%	Countries	Value	%	Countries	Value	%
1	USA	52,842	22.5%	USA	75,880	22.6%	USA	67,529	21.7%
2	Hong Kong	12,744	5.4%	China	35,922	10.7%	China	43,070	13.9%
3	Australia	12,359	5.3%	Korea	17,330	5.2%	Korea	16,138	5.2%
4				Australia	14,514	4.3%	Australia	12,808	4.1%
Total Import		235,289	100.0%		336,027	100.0%		310,733	100.0%

TENTATIVE TRANSLATION

Australia

Unit: million US\$

Export

	1990			1995			1999		
	Countries	Value	%	Countries	Value	%	Countries	Value	%
1	Japan	10,232	26.3%	Japan	12,184	23.0%	Japan	10,779	19.2%
2	USA	4,283	11.0%	USA	3,358	6.3%	USA	5,398	9.6%
3	Korea	2,213	5.7%	Singapore	2,831	5.3%	Taiwan	2,666	4.8%
4	NZ	1,952	5.0%	Korea	4,474	8.4%	Korea	4,046	7.2%
5	Singapore	1,805	4.6%	NZ	3,833	7.2%	NZ	4,190	7.5%
Total Export		38,965	100.0%		52,977	100.0%		56,004	100.0%

Import

	1990			1995			1999		
	Countries	Value	%	Countries	Value	%	Countries	Value	%
1	USA	9,424	24.1%	USA	12,595	21.9%	USA	13,773	21.1%
2	Japan	7,308	18.7%	Japan	8,880	15.4%	Japan	8,804	13.5%
3	UK	2,701	6.9%	Germany	3,831	6.7%	Germany	3,758	5.7%
4	Germany	2,568	6.6%	China	2,871	5.0%	China	4,257	6.5%
5	NZ	1,715	4.4%	UK	3,452	6.0%	UK	3,492	5.3%
Total Import		39,137	100.0%		57,478	100.0%		65,386	100.0%

(Source) IMF; "Direction of Trade Statistics Yearbook", various Issues

TENTATIVE TRANSLATION

Fig. 2-1-4 Trend of Japanese and Australian Trade in Services

Unit: million US\$

			1990	1991	1992	1993	1994	1995	1996	1997	1998	Share in 1998
Japan	Export	Total	43,340 3.9%	44,829 3.4%	49,069 9.5%	53,219 8.5%	58,297 9.5%	65,274 12.0%	67,724 3.8%	69,302 2.3%	62,412 -9.9%	100.0%
		Transportation	17,750 0.2%	17,558 -1.1%	18,466 5.2%	18,929 2.5%	20,313 7.3%	22,506 10.8%	21,592 -4.1%	21,824 1.1%	21,270 -2.5%	34.1%
		Travel	3,721 21.0%	3,612 -2.9%	3,591 -0.6%	3,552 -1.1%	3,478 -2.1%	3,224 -7.3%	4,083 26.6%	4,329 6.0%	3,743 -13.5%	6.0%
		Government Service	2,210 -16.3%	1,371 -38.0%	1,448 5.6%	1,608 11.0%	1,521 -5.4%	1,308 -14.0%	1,341 2.5%	1,166 -13.0%	617 -47.1%	1.0%
		Other Service	19,790 8.6%	22,468 13.5%	25,565 13.8%	29,130 13.9%	32,985 13.2%	38,236 15.9%	40,708 6.5%	41,983 3.1%	36,782 -12.4%	58.9%
	Import	Total	88,030 9.6%	86,612 -1.6%	93,032 7.4%	96,303 3.5%	106,356 10.4%	122,626 15.3%	129,962 6.0%	123,454 -5.0%	111,833 -9.4%	100.0%
		Transportation	26,650 6.8%	26,426 -0.8%	27,146 2.7%	28,896 6.4%	31,705 9.7%	35,924 13.3%	33,598 -6.5%	31,111 -7.4%	28,385 -8.8%	25.4%
		Travel	5,477 26.8%	5,543 1.2%	26,824 383.9%	26,846 0.1%	30,703 14.4%	36,764 19.7%	37,050 0.8%	33,009 -10.9%	28,806 -12.7%	25.8%
		Government Service	610 7.0%	685 12.3%	709 3.5%	816 15.1%	907 11.2%	1,078 18.9%	1,288 19.5%	1,375 6.8%	1,128 -18.0%	1.0%
		Other Service	35,840 11.0%	35,554 -0.8%	38,353 7.9%	39,746 3.6%	43,041 8.3%	48,859 13.5%	58,025 18.8%	57,959 -0.1%	53,514 -7.7%	47.9%
Australia	Export	Total	10,408 14.0%	11,111 6.8%	11,220 1.0%	11,942 6.4%	14,185 18.8%	16,156 13.9%	18,531 14.7%	18,537 0.0%	16,163 -12.8%	100.0%
		Transportation	3,799 11.9%	3,971 4.5%	3,661 -7.8%	3,868 5.7%	4,316 11.6%	4,711 9.2%	5,103 8.3%	4,991 -2.2%	4,334 -13.2%	26.8%
		Travel	13,417 25.3%	13,854 3.3%	4,735 -65.8%	5,220 10.2%	6,564 25.7%	7,873 19.9%	9,072 15.2%	8,782 -3.2%	7,273 -17.2%	45.0%
		Government Service	386 9.7%	357 -7.5%	346 -3.1%	330 -4.6%	418 26.7%	415 -0.7%	425 2.4%	431 1.4%	352 -18.3%	2.2%
		Other Service	1,978 11.5%	2,151 8.7%	2,458 14.3%	2,524 2.7%	2,886 14.3%	3,157 9.4%	3,931 24.5%	4,334 10.3%	4,205 -3.0%	26.0%
	Import	Total	14,124 5.5%	13,770 -2.5%	13,767 0.0%	13,412 -2.6%	15,458 15.3%	17,110 10.7%	18,606 8.7%	18,869 1.4%	17,304 -8.3%	100.0%
		Transportation	5,101 -1.4%	5,023 -1.5%	4,505 -10.3%	4,498 -0.2%	5,479 21.8%	6,260 14.3%	6,647 6.2%	6,473 -2.6%	5,942 -8.2%	34.3%
		Travel	7,748 24.0%	7,362 -5.0%	3,891 -47.1%	3,672 -5.6%	4,325 17.8%	4,979 15.1%	5,786 16.2%	6,136 6.0%	5,370 -12.5%	31.0%
		Government Service	459 28.6%	391 -14.8%	407 4.1%	382 -6.1%	394 3.1%	419 6.3%	409 -2.4%	417 2.0%	392 -6.0%	2.3%
		Other Service	4,354 7.8%	4,489 3.1%	4,936 10.0%	4,861 -1.5%	5,260 8.2%	5,452 3.7%	5,763 5.7%	5,844 1.4%	5,601 -4.2%	32.4%

(Source) IMF; "Balance of Payments Statistics Yearbook", various Issues

TENTATIVE TRANSLATION

Fig. 2-1-5 Japanese Trade in Services by Country

Unit: 100 million Yen

Export

	1995			1999		
	World	Australia	A/W	World	Australia	A/W
Total	61,573	1,461	2.4%	69,354	1,442	2.1%
Transportation	21,229	507	2.4%	26,051	697	2.7%
Sea transport	13,943	-	-	17,030	295	1.7%
Air transport	7,287	-	-	8,999	401	4.5%
Travel	3,048	68	2.2%	3,909	127	3.2%
Other Services	37,299	886	2.4%	39,394	618	1.6%
Communication services	474	9	1.9%	874	23	2.6%
Construction services	6,200	47	0.8%	6,555	19	0.3%
Insurance services	278	3	1.1%	-84	-22	-
Financial services	294	55	18.7%	2,316	20	0.9%
Computer and information services	-	-	-	1,427	4	0.3%
Royalties and licence Fees	5,668	70	1.2%	9,310	74	0.8%
Other business services	23,021	705	3.1%	17,947	484	2.7%
Personal, cultural, and recreational services	130	1	0.8%	276	2	0.7%
Government services, n.i.e.	1,231	2	0.2%	771	16	2.1%

Import

	1995			1999		
	World	Australia	A/W	World	Australia	A/W
Total	115,471	3,448	3.0%	130,859	3,567	2.7%
Transportation	33,790	1,258	3.7%	34,777	1,029	3.0%
Sea transport	21,663	-	-	22,197	325	1.5%
Air transport	12,130	-	-	12,506	698	5.6%
Travel	34,644	1,660	4.8%	37,196	1,714	4.6%
Other Services	47,032	530	1.1%	58,886	824	1.4%
Communication services	799	4	0.5%	1,604	21	1.3%
Construction services	3,019	11	0.4%	4,928	34	0.7%
Insurance services	2,347	37	1.6%	2,672	21	0.8%
Financial services	440	0	0.0%	3,089	12	0.4%
Computer and information services	-	-	-	3,366	115	3.4%
Royalties and licence Fees	8,881	13	0.1%	11,213	33	0.3%
Other business services	30,025	453	1.5%	29,605	550	1.9%
Personal, cultural, and recreational services	517	0	0.0%	1,284	16	1.2%
Government services, n.i.e.	1,009	12	1.2%	1,126	21	1.9%

(Source) Bank of Japan, International Department: "Balance of Payments Monthly" various Issues

TENTATIVE TRANSLATION

(2) FDI Statistics

Fig. 2-2-1 Trend of Japanese Outward and Inward FDI

Unit: 100 million Yen

		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Total of 1990s	Annual Growth Rate in 1990s
Outward	World	83,527	56,862	44,313	41,514	42,808	49,568	54,094	66,229	52,169	74,390	565,474	-1.3%
	Australia	5,392	3,476	2,783	2,124	1,337	2,561	852	2,048	1,776	956	23,305	-17.5%
	A/W	6.5%	6.1%	6.3%	5.1%	3.1%	5.2%	1.6%	3.1%	3.4%	1.3%	4.1%	
Inward	World	4046	5896	5306	3,586	4,327	3,697	7,707	6,782	13,404	23,993	78,744	21.9%
	Australia	33	4	0	9	31	2	5	1	1	66	152	8.0%
	A/W	0.8%	0.1%	0.0%	0.3%	0.7%	0.1%	0.1%	0.0%	0.0%	0.3%	0.2%	

(Source) Ministry of Finance

TENTATIVE TRANSLATION

Fig. 2-2-2 Japanese FDI by Industry

Outward FDI

Unit: 100 million Yen

	1990			1995			1999		
	World	Australia	A/W	World	Australia	A/W	World	Australia	A/W
Food	1,211	170	14.0%	811	23	2.8%	16,628	9	0.1%
Textile	1,162	2	0.1%	1,008	-	-	290	-	-
Lumber&Pulp	454	-	-	351	77	21.9%	129	-	-
Chemical	3,363	7	0.2%	2,079	6	0.3%	1,889	4	0.2%
Metal	1,533	40	2.6%	1,498	262	17.5%	1,626	18	1.1%
Machinery	2,137	16	0.7%	1,810	6	0.3%	1,110	-	-
Electrical	8,358	56	0.7%	5,190	-	-	18,237	2	0.0%
Transport	2,741	229	8.4%	1,939	390	20.1%	5,333	-	-
Others	1,759	8	0.4%	3,549	24	0.7%	1,951	3	0.2%
Total Manufacturing	22,718	527	2.3%	18,236	789	4.3%	47,193	37	0.1%
Farming & Forestry	224	93	41.6%	134	25	18.5%	90	19	21.6%
Fishery	87	3	3.5%	54	2	3.5%	29	-	-
Mining	1,958	1,043	53.3%	1,034	363	35.1%	1,028	281	27.3%
Construction	437	2	0.4%	385	20	5.2%	203	-	-
Trade	9,035	487	5.4%	5,149	314	6.1%	4,324	45	1.0%
Finance&Insurance	11,802	290	2.5%	5,272	130	2.5%	11,026	2	0.0%
Service	16,716	855	5.1%	10,350	212	2.0%	4,812	120	2.5%
Transportation	3,162	28	0.9%	2,206	5	0.2%	3,091	6	0.2%
Real Estate	16,210	1,951	12.0%	5,813	698	12.0%	2,358	447	18.9%
Others	11	2	20.1%	-	-	-	9	-	-
Total Non-manufacturing	59,642	4,755	8.0%	30,395	1,768	5.8%	26,968	919	3.4%
Branches	1,167	110	9.4%	938	4	0.5%	229	-	-
Ground Total	83,527	5,392	6.5%	49,568	2,561	5.2%	74,390	956	1.3%

TENTATIVE TRANSLATION

Inward FDI

Unit: 100 million Yen

	1990			1995			1999		
	World	Australia	A/W	World	Australia	A/W	World	Australia	A/W
Food	43	-	-	41	-	-	15	-	-
Textile	26	-	-	23	-	-	2	-	-
Rubber&Leather	1	-	-	21	-	-	70	-	-
Chemical	636	-	-	1,095	-	-	603	-	-
Metal	225	-	-	1	-	-	179	60	33.6%
Machinery	1,164	-	-	182	-	-	8,652	-	-
Petroleum	45	-	-	20	-	-	135	-	-
Glass & Ceramics	9	-	-	0	-	-	57	-	-
Others	134	-	-	29	-	-	85	-	-
Manufacturing Total	2,283	-	-	1,412	-	-	9,797	60	0.6%
Telecommunication	30	-	-	53	-	-	3,300	-	-
Construction	13	-	-	1	-	-	22	-	-
Trading	1,065	4	0.4%	679	1	0.2%	3,485	0	0.0%
Finance&Insurance	159	-	-	1,001	-	-	5,115	4	0.1%
Service	384	1	0.1%	491	0	0.0%	2,058	1	0.0%
Transportation	18	-	-	12	-	-	22	-	-
Real Estate	35	-	-	16	-	-	168	1	0.6%
Others	59	-	-	32	-	-	25	-	-
Non-Manufacturing Total	1,763	4	0.3%	2,284	2	0.1%	14,196	6	0.0%
TOTAL	4,046	4	0.1%	3,697	2	0.0%	23,993	66	0.3%

(Source) Ministry of Finance

TENTATIVE TRANSLATION

(3) Statistics on Movement of Natural Persons

Fig. 2-3-1 Movement of Natural Persons between Japan and Australia

Unit : 1,000

Arrival

Purpose	1990			1995			1999			Share in 1999	
	World	Australia	A/W	World	Australia	A/W	World	Australia	A/W	World	Australia
Total	3,504.5	53.3	1.5%	2,934.4	52.1	1.8%	4,901.3	137.6	2.8%	100%	100%
Busines	209.0	4.7	2.2%	105.3	2.5	2.4%	364.5	11.2	3.1%	7%	8%
Short term	2,705.5	44.2	1.6%	2,724.6	47.3	1.7%	3,679.2	119.0	3.2%	75%	87%
in 15 days	507.1	1.7	0.3%	1,214.7	1.4	0.1%	1,552.0	0.1	0.0%	32%	0%
in 90 days	2,198.5	42.5	1.9%	1,509.9	45.8	3.0%	2,167.2	119.0	5.5%	44%	86%
College or precollege student, trainee	144.2	0.6	0.4%	60.7	0.7	1.2%	167.5	2.7	1.6%	3%	2%
Others	445.8	3.7	0.8%	43.9	1.6	3.6%	690.2	4.6	0.7%	14%	3%

Depature

Purpose	1990			1995			1999			Share in 1999	
	World	Australia	A/W	World	Australia	A/W	World	Australia	A/W	World	Australia
Total	10,997.4	423.4	3.9%	15,298.1	744.4	4.9%	16,357.6	683.8	4.2%	100.0%	100.0%
Busines	1,606.5	32.4	2.0%	2,276.6	36.5	1.6%	2,495.1	41.5	1.7%	15.3%	6.1%
Study or technical training	121.6	4.3	3.5%	165.3	8.7	5.3%	186.8	10.1	5.4%	1.1%	1.5%
Sightseeing	9,085.3	381.0	4.2%	12,685.2	693.7	5.5%	13,452.9	624.7	4.6%	82.2%	91.3%
Others	183.9	5.8	3.1%	171.1	5.4	3.2%	222.8	7.6	3.4%	1.4%	1.1%

(Source) Ministry of Justice, Minister's Secretariat, Judicial System and Research Department: "Annual Report of Statistics on Legal Migrants"

TENTATIVE TRANSLATION

(4) Recent Economic Development of Japan and Australia

Fig. 2-4-1 Economic Scale and Growth Rate of Japan and Australia

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Annual growth rate in 1990s
Japan (Billion Yen)	430,040	458,299	471,064	475,381	479,260	483,220	500,310	509,645	498,499	495,375	
Growth rate	7.5%	6.6%	2.8%	0.9%	0.8%	0.8%	3.5%	1.9%	-2.2%	-0.6%	1.6%
Australia (Billion A\$)	393.66	399.89	416.11	438.11	464.14	491.59	521.70	549.29	579.14	610.67	
Growth rate	6.7%	1.6%	4.1%	5.3%	5.9%	5.9%	6.1%	5.3%	5.4%	5.4%	5.0%

(Source) IMF; "International Financial Statistics Yearbook 2000 "

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Fig. 2-4-2 Comparison of Economic Scale between Japan and Australia in1999

	Japan	Australia	Jap/Aus
Surface area (km ²)	378	7,741	0.05
Population (million)	127	19	6.68
Total GDP (million US\$)	4,395,083	389,691	11.28
per capita GDP (US\$)	34,607	20,510	1.69

(Source) World Bank, "World Development Report 2000/2001"