

Report of Study Mission

On Energy Induced Changes to the Structure of Trade

1983

Summary

SECTION 5: SUMMARY OF MISSION'S CONCLUSIONS

5.1 Energy Outlook

OPEC held the \$US29/barrel "marker" price through the northern summer until stockbuilding for the 1983/84 winter.

Thereafter, dollar prices will rise slowly (in the absence of misadventure) culminating ultimately in stronger real prices in the late 1980s, which could represent a third "oil shock".

5.2 Global Economic Outlook

The prevailing energy supply/demand/price conditions have removed a major constraint to short-term growth prospects and will add impetus to incipient recovery under way in major industrialised economies.

Notwithstanding this, a return to sustained global economic growth at satisfactory levels is constrained by structural problems in many developed countries and by debt and other problems in many developing and centrally planned economies.

Medium to long-term growth prospects would best be described as modest and fragile.

There is no immediate prospect of a return to the growth rates of the 1960s.

5.3 Outlook for the Japanese Economy

Of particular significance to Australia, however, are trends in the Japanese economy, given that Japan is by far our major market and is overwhelmingly dominant as a market for our energy and resource exports which have provided much of the export growth in the past decade.

Because of international and domestic factors Japan's economic growth prospects are now quite modest compared with the pre-1980, post-war period.

Progressively through the 1980s Japan's economic performance will conform more closely to the average of the OECD economies.

Slower growth and other problems have already reduced Japan's flexibility and dynamism and its capacity to adjust to changing circumstances.

Market growth prospects for basic materials and resources in Japan, including coal and iron ore, have been substantially reduced, reflecting both slower aggregate growth and structural factors.

Market growth prospects for other sectors of the Japanese economy, particularly in servicing personal disposable income, and in high technology industries, are relatively stronger.

5.4 Prospects for Australian Trade with Japan

The nature of Japanese economic growth, as against its absolute level, has increasingly become the major determinant of Australian trade prospects in Japan.

Structural changes in the Japanese economy and changing quantity and mix requirements for energy have been particularly important determinants of Australia's trade prospects.

A critical assessment of Japanese forecasts available to the Mission confirms that Japanese imports of energy and mineral raw materials will grow much more slowly than previously expected and, in some cases, will not grow at all.

Japanese basic industries will grow only very slowly, if at all, and will be a lagging sector in the Japanese economy. As a consequence:

- iron ore demand growth prospects are minimal, without an increase in market share, and the Japanese industry is already committed to a higher ore tonnage than will be needed until the 1990s;
- the position of coking coal is similar; with little prospect of growth in Japanese demand from Australia in the 1980s;
- but prospects for aluminium exports are reasonable, although the opportunities for new long-term export commitments have declined markedly.

Forecast electricity demand in Japan has been sharply reduced. The risk is that these forecasts will still prove to be optimistic. The new forecasts foreshadow little increase in Australia's steaming coal exports to Japan although there should be markets for natural gas, where commitments have been entered into by Japanese buyers, and uranium.

This depressed outlook for Australia's main exports to Japan is not simply a reflection of short-term cyclical factors but reflects quite fundamental structural factors that will continue in the foreseeable future.

In the present and foreseeable market conditions for resources trade with Japan, Australian suppliers simply have to meet the competition as effectively as possible.

The cost competitiveness of Australian exports will have a vital influence on Australia's performance.

The challenge now is to retain what we have already achieved and, if possible, to improve our market share in stable or declining markets, while vigorously pursuing new export opportunities outside the traditional range of commodities and in other countries.

5.5 Economic Forecasting in Japan

Japan's optimistic growth and resource requirement projections of recent years are in part a reflection of the general philosophy and psychology of economic forecasts by various Japanese agencies.