ECIPE PRESENTATION

# AUSTRALIA-EU FTA: IS IT A SOLUTION?

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# » Shifting trade priorities in Brussels

## From the World Trade Organization to bilateral FTAs

- Initial worries about Global Europe (2006) ”undermining the multilateral system” now expunged
- Strategy to negotiate services, non-tariff barriers, IPRs (WTO+ issues) in exchange for dismantling legacy protectionism in agriculture and industrial tariffs

## Yet little economic value in small FTAs for Europe

- EU FTAs so far (EU-Korea FTA, Canada, Singapore) typically bring less than 0.1% increase in EU GDP
- Thus, refocusing on ’big’ trading partners and plurilaterals in the Commission’s trade policy communication of 2010
- Culminating in TTIP with the US.
- Less interest or support in EU-Japan and other Asian-Pacific trading partners

## The EU is the cradle of regionalism

- Strong supporter of regional integration
- But difficulties (failed?) to negotiate with other regional (ASEAN and Mercosur)

# » The Challenges of the EU in the Asia-Pacific

## Struggling with how to respond to emerging markets, the crisis and the rise of Asia

- » Industrial policy increasingly more prominent feature in EU economic policy
- » Trade policy to address overcapacities in EU manufacturing
- » However, the influence of the EU is shrinking – the EU share of world GDP will be halved in 15 years
- » Budget to sustain common agricultural policy (CAP)?

## Competing trade agreements: Trans-Pacific Partnership, RCEP, ASEAN Single Market

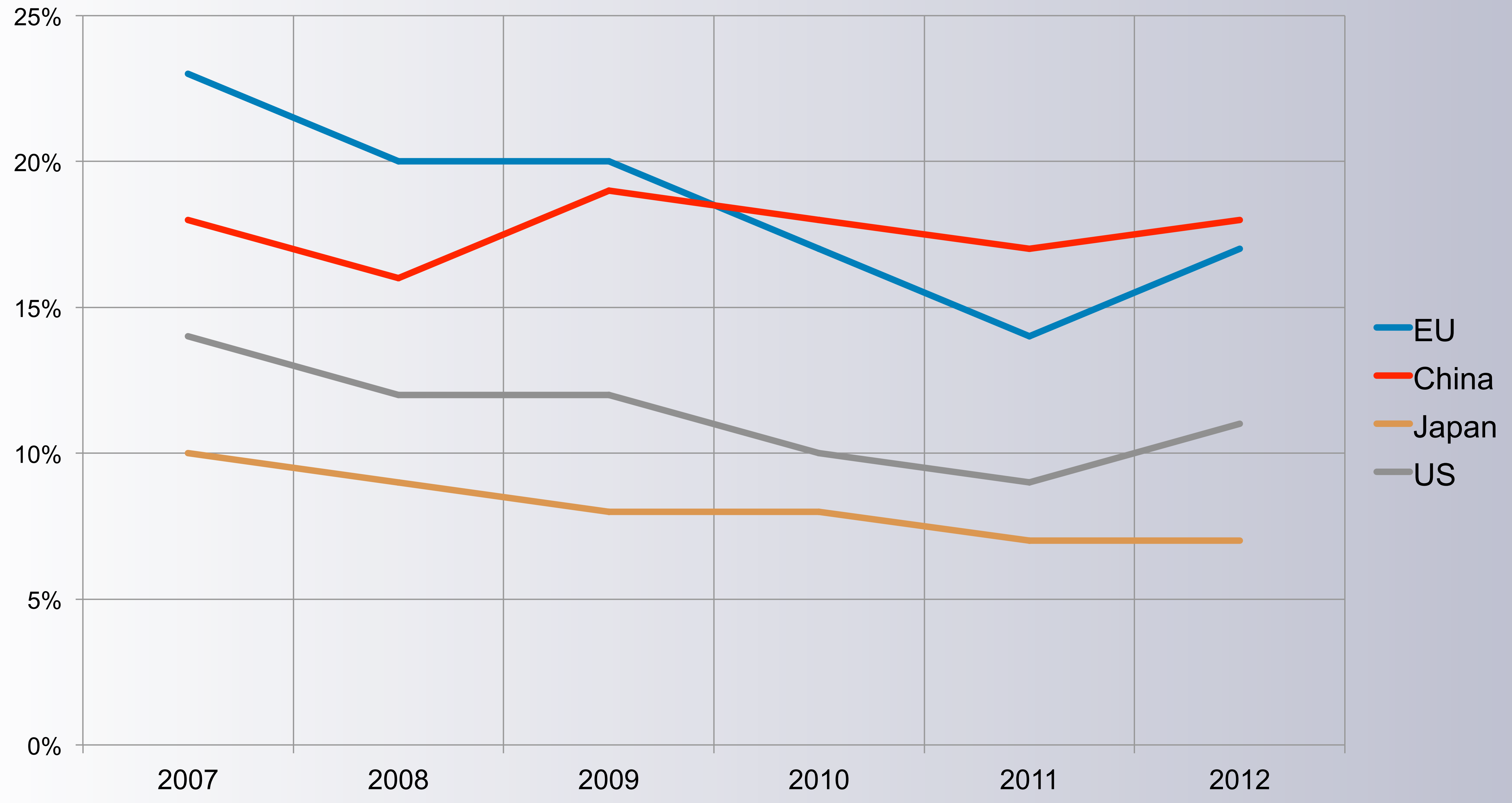
- » The Brussels trade community has serious doubts whether the TPP can be concluded, thus does not take this risk seriously – yet.
- » ECIPE studies (2012) shows the negative effects on the EU from trade diversion from either TPP or RCEP both exceed the gains from TTIP
- » Thus, concluding individual FTAs in Asia-Pacific is about shoring up our existing market shares in these countries – do we want to stay in business or not?

# » The EU must mitigate the competition from the TPP

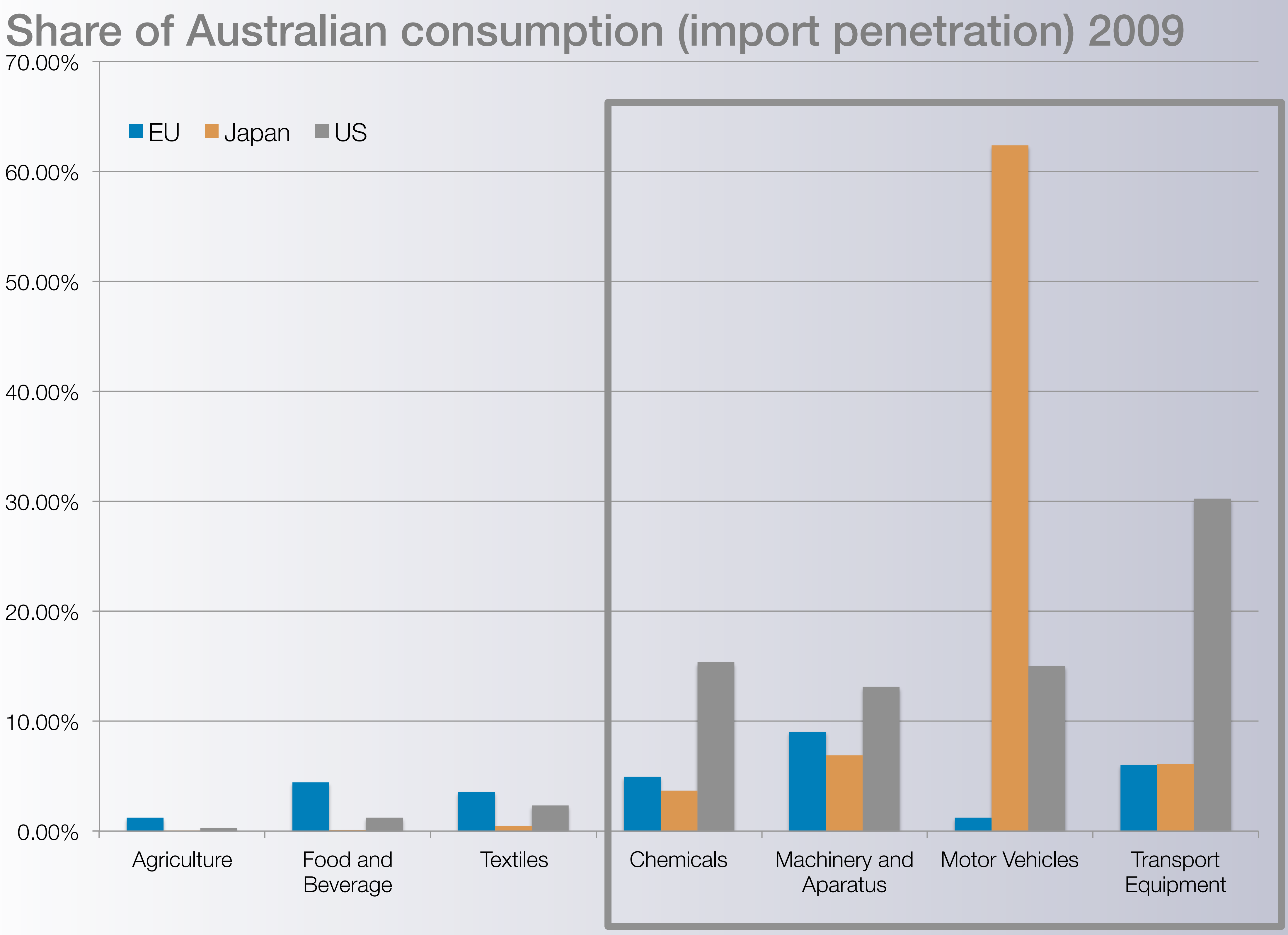
| Country | Average applied tariff, MFN (%) 2000-today | Ease of doing Business (Rank) 2000-today | Real growth in trade (%) 2000-today | Services restrictiveness (1-100) 2000-today | A top 20 EU trading partner? (rank) 2012 | Number of criteria fulfilled |
|---|---|---|---|---|---|---|
| | | | Already negotiated a FTA with the EU | | | |
| Singapore | 0.63 | 1 | **7.9** | 22.7 | **Yes (14)** | **2** |
| Canada | 3.88 | 8 | 1.2 | **51.1** | **Yes (12)** | **2** |
| Peru | **8.92** | **58** | **8.3** | 24.6 | No (51) | 3 |
| Mexico | **14.17** | **49** | 4.6 | 35.8 | **Yes (16)** | **3** |
| Chile | 6.62 | **41.7** | **7.1** | 9.5 | No (35) | 2 |
| | | | Currently negotiating a FTA with the EU | | | |
| United States | 2.96 | 3.7 | 3.1 | **65.2** | **Yes (1)** | **2** |
| Japan | 6.76 | 13.3 | 2.7 | 48.8 | **Yes (7)** | **1** |
| Malaysia | 4.26 | 23 | **5.3** | 25.4 | No (24) | 1 |
| Vietnam | **18.2** | **90.3** | **17.2** | 30.1 | 32 | 3 |
| | | | Currently not considered by the EU | | | |
| Australia | **8.88** | 9.3 | **5.9** | **58.9** | **Yes (15)** | **4** |
| New Zealand | 4.02 | 2 | 3.9 | **52.2** | No (56) | 1 |
| Brunei | 5.15 | **91** | 2.2 | 4.4 | No (102) | 1 |

## » The trade diversion is very real with or without the TPP

### Share of total Australian imports, 2007-2012



## » The EU is already outcompeted on some of its most successful products in Australia



# » Australia – ”the last one left out” in the region

## Australia ticks many boxes for the EU

- Similar in size to our biggest finalised FTA to date (Canada)
- Growing and dynamic trading partner (above average growth in trade)
- Despite the easiness of doing business in Australia, there are relatively high regulatory divergences with the EU.
- Relatively high tariffs and services that could be dismantled in a FTA

## However, the EU more important to Australia than vice versa

- The EU is Australia’s #4 export market – larger than India
- The EU is Australia’s #2 supplier – only China is a bigger supplier
- Australia exports same volume of services to ASEAN (many developing or non-service economies) as to the EU: potential for growth
- However, for the EU, proximity still counts: Turkey, Norway and Switzerland are bigger markets than Australia

# » Historic and strategic perspectives on EU-Australia

## A common cultural and geopolitical heritage and interests

- Shared experiences of the world wars
- Shared economic, cultural and societal values – not only with the UK
- The EU influence in Asia-Pacific is primarily built on the EU as a trade bloc, and leveraged on the attractiveness of the Single Market for Asian exports
- However, this leverage is shrinking due to our relative (not absolute) decline
- The EU lacking a geopolitical footprint in Asia, and needs a strategic partner or a gateway to extend its values

## The risks of 'losing Australia' (and thereby Asia) to competing market integration have never been bigger

- Prospects of the EU successfully negotiating with other major Asian countries with similar values (notably Japan) look less optimistic
- There is simply no 'plan B' to negotiating a FTA with Australia

# » Final points

## 1. Diversion effects to the EU are very, very real

» With or without trade agreements as catalysts

## 2. There are sectoral benefits for the EU

» The EU is underperforming in some of its most successful sectors

## 3. Specific regulatory issues between Australia and the EU

» Environmental standards, safety standards, SPS issues

## 4. Agricultural exports to the EU

» The EU is already about to open up unilaterally

» Alternatively, agricultural concessions in TTIP and other FTAs

» Beef, lamb, wheat markets are opening and growing

## 5. Australian FTA sets high standards

» Potential for a high standard FTA, relying heavily on mutual recognition

» The EU should be able to learn how to complete the Single Market