AUSTRALIA-EU FTA: IS IT A SOLUTION?

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European Centre for International Political Economy (ECIPE)
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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

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Currently negotiating a FTA with the EU

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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
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