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## **EU-AUSTRALIA TRADE RELATIONS - CURRENT STAGE AND FUTURE CHALLENGES**

### **Introduction**

The present-day world economy is a global system, characterized by multifaceted and dynamic changes. The pace of these transformations has increased considerably in recent years and the world trade system has undergone profound transformations. The aspects of shifting of the economic development pole towards Asia in combination with the difficult situation in multilateral negotiations within the World Trade Organization (WTO) have led to a conclusion that better access to other markets becomes one of the priorities of the trade policy in many countries, including the entire EU. These objectives have been indicated numerous times in various EU strategies and communications aiming at highlighting the necessity of maintaining external economic relations. The significance of EU's priority partners in the new generation of bilateral trade agreements, including ASEAN countries or South Korea, has also been stressed. However, it was not until the year 2015 when the EU proposed the new trade and investment strategy "Trade for All – Towards a more responsible trade and investment policy" that the significance of Australia as Europe's close partner, sharing European values and playing an important role both in the region of Asian Pacific and in multilateral forums, has clearly been stated. Also, the strategy emphasized that reinvigorating these relations should be prioritized.<sup>1</sup>

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<sup>1</sup> European Commission 2015, Trade for All – New EU Trade and Investment Strategy, [http://ec.europa.eu/trade/policy/in-focus/new-trade-strategy/index\\_en.htm](http://ec.europa.eu/trade/policy/in-focus/new-trade-strategy/index_en.htm) (22.04.2018).

Importantly, one has to notice that the abovementioned strategy, on the one hand, highlights the importance of multilateral trade system, including granting WTO the central role in developing and executing legal regulations in all fields of the international trade, but on the other hand, initiating bilateral free trade agreements with multiple countries has been announced recently, which proves the coexistence of seemingly contradictory systems of multilateralism and regionalism. It has to be emphasized that the EU plays a crucial role in the development of the world trade system, predominantly by its active participation within the WTO initiatives, also in regional initiatives.

Hence, it seems that the main assumptions of this strategy have become the starting point for taking more specific actions in the field of regulating trade relations between the EU and Australia. It is worth noting that while Australia has concluded numerous free trade agreements with other countries, the EU has not yet developed any bilateral free trade agreement with the country. Consequently, EU companies have access to the Australian market on relatively less favorable conditions.

One of the main challenges in this context is also the problem of the United Kingdom's withdrawal from the European Union, which requires re-regulating mutual relations between the UK and Australia as it is the UK which is the traditional key partner among all Member States. Thus, this change may affect the entire Union trade.

The aim of the paper is to present the results of research concerning the analysis of the EU-Australia trade relations and to indicate the perspectives of the potential future deal, also in the context of changes in the geographic structure of the EU (Brexit). Due to the extent and complexity of the subject, the author has focused on selected aspects of the problem.

The Polish literature on the subject is limited due to a lack of papers accounting for the current scene. Thus, the research method employed in the article is grounded on the analysis of English-language publications, resources from official ministerial websites as well as the WTO, Asian Development Bank and European Commission materials. The considerations presented in the paper are also based on the analysis of statistical data originating from reports of international organizations. In its methodological assumptions, the research is based mainly on the study of international economy, especially the area which refers to the theory of economic integration and trade regionalism, as well as trade policy.

### **The institutional foundations of the EU-Australia partnership**

While developing diplomatic ties between the EU (EC) and Australia began at the beginning of the 1960s, it was not until the first decade of the 21<sup>st</sup> century that more specific actions in the field of regulating mutual relations were undertaken. The

reciprocal relations are based on the 2008's EU-Australian Partnership Framework, which is updated annually and regulates the partnership in numerous fields, such as protecting against climate change, environmental protection, energetics, education, and political and developmental cooperation within Asia-Pacific region. Although certain sectoral agreements in the EU-Australia relations do exist, to this day there is no overarching bilateral agreement between the two. One of the most crucial instruments enabling this partnership on commercial grounds is the Mutual Recognition Agreement between the EU and Australia, which aims to facilitate trade as far as industrial products are concerned, especially by reducing technical barriers, including assessment procedures as well as the EU-Australia Wine Agreement.<sup>2</sup>

In their joint declaration from April 2015,<sup>3</sup> Australia along with the EU representatives highlighted the necessity to maintain and reinforce bilateral trade and investment relationships. The following measure taken to ensure the partnership was the joint statement from November 2015<sup>4</sup> in which the parties agreed upon taking such steps that would initiate the negotiations on a free trade agreement. The main objective of this proposal is the development of more favorable conditions allowing for an increase in the trade volume and facilitating investment activity between the EU and Australia.<sup>5</sup> The proposal is in line with the objectives of "Trade for All" strategy, in which the necessity to further develop bilateral relations by eliminating the trade and investment barriers in a comprehensive way was repeatedly stressed. The strategy highlighted Australia's significance as Europe's close partner that shares European values and views on multiple matters and plays an important role both in Asia-Pacific region and in multilateral forums. Stronger economic ties with this country would provide solid foundations for deepening integration with expanded value chains in this region; reinvigorating these relations should be prioritized.<sup>6</sup> The aforementioned objectives are fully in line with the Treaty on European Union (TEU), according to which the EU shall "encourage the integration of all countries into the world economy, including

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<sup>2</sup> European Commission, 2018, Trade picture – Australia, <http://ec.europa.eu/trade/policy/countries-and-regions/countries/australia> (16.04.2018).

<sup>3</sup> EEAS 2015, Joint Declaration, Towards a closer EU-Australia Partnership, [http://eeas.europa.eu/statements-eeas/2015/150422\\_04\\_en.htm](http://eeas.europa.eu/statements-eeas/2015/150422_04_en.htm) (15.04.2018).

<sup>4</sup> European Commission 2015, Statement of the President of the European Commission Jean-Claude Juncker, the President of the European Council Donald Tusk and the Prime Minister of Australia Malcolm Turnbull, [http://europa.eu/rapid/press-release\\_STATEMENT-15-6088\\_en.htm](http://europa.eu/rapid/press-release_STATEMENT-15-6088_en.htm) (10.04.2018).

<sup>5</sup> The general objectives include: facilitating economic growth by the development of trade; creating jobs and employment opportunities as well as increasing prosperity; amplifying benefits for consumer; improving competitiveness of Europe in the global market; intensifying cooperation on issues related to trade with the partner country.

<sup>6</sup> European Commission 2015, Trade for All – New EU Trade and Investment Strategy, [http://ec.europa.eu/trade/policy/in-focus/new-trade-strategy/index\\_en.htm](http://ec.europa.eu/trade/policy/in-focus/new-trade-strategy/index_en.htm) (22.04.2018).

through the progressive abolition of restrictions on international trade”<sup>7</sup>. Recommendations to the Council about initiating the negotiations pertaining to the trade agreement with Australia appeared among the elements of the EC trade package from September 2017.<sup>8</sup>

The aforementioned EU strategy “Trade for All” also stresses the complementary character of bilateral agreements in relation to actions undertaken within the WTO. On the one hand, further regional bilateral trade deals are planned, on the other hand, emphasis is put on the necessity of reinvigorating multilateral negotiations under the aegis of the WTO.<sup>9</sup> In the context of these considerations, it must be emphasized that this strategy has provided a basis for further negotiations with the important Asia-Pacific region, including a trade deal with Australia. However, the main point was to be granted mandate from Member States to initiate FTA negotiations.<sup>10</sup>

It must be noted that Australia, similarly to the EU, implements a many-track trade policy. It is connected to the active participation in the multilateral negotiations not only within the WTO (including TiSA, ITA2, GPA) but also concluding bi- or multilateral Regional Trade Agreements (RTAs).<sup>11</sup>

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<sup>7</sup> Article 21 (2e) TEU. See more: European Union, 2016, Official Journal of the European Union, C 202, Volume 59, 7 June 2016, p. 29; European Commission, 2017, Recommendation for a Council Decision authorising the opening of negotiations for a Free Trade Agreement with Australia, Brussels, 13.9.2017, COM(2017) 472 final, [http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2017:472:FIN \(04.04.2018\)](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2017:472:FIN (04.04.2018)).

<sup>8</sup> It is also connected with a trade deal with New Zealand. These deals will be based on successful agreements with e.g. South Korea and Canada; Australia (and New Zealand) will become key trade partners of the EU. See: European Commission, 2017, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, A Balanced and Progressive Trade Policy to Harness Globalisation, Brussels, 13.9.2017, COM(2017) 492 final, [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52017DC0492&from=en \(15.04.2018\)](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52017DC0492&from=en (15.04.2018)).

<sup>9</sup> It is particularly significant against the background of the current situation in the world trade: the threat of protectionism is growing and crucial entities manifest waning interest in the management system of the world trade, which forces the EU to take up the role of the leader in this regard. What is more, the last XI Ministerial Conference of December 2017 did not contribute to breaking the WTO negotiations deadlock. Cf.: European Commission, 2017, State of the Union 2017 – Trade Package: Commission unveils initiatives for a balanced and progressive trade policy, Brussels, Press release, 14 September 2017 [http://europa.eu/rapid/press-release\\_IP-17-3182\\_en.htm \(13.04.2018\)](http://europa.eu/rapid/press-release_IP-17-3182_en.htm (13.04.2018)).

<sup>10</sup> As well as with New Zealand. See: European Commission 2015, Statement of the President of the European Commission Jean-Claude Juncker, the President of the European Council Donald Tusk and the Prime Minister of Australia Malcolm Turnbull, [http://europa.eu/rapid/press-release\\_STATEMENT-15-6088\\_en.htm \(10.04.2018\)](http://europa.eu/rapid/press-release_STATEMENT-15-6088_en.htm (10.04.2018)).

<sup>11</sup> According to the WTO, RTAs are reciprocal trade agreements between two or more partners. What is important, those agreements may also be established between countries not belonging to the same geographical region. See: WTO, 2018, Regional trade agreements and the WTO, [https://www.wto.org/english/tratop\\_e/region\\_e/scope\\_rta\\_e.htm \(25.04.2018\)](https://www.wto.org/english/tratop_e/region_e/scope_rta_e.htm (25.04.2018)).

## **Australia – basic characteristics of the country and its trade relations with the world**

Australia is a strong, highly developed economy. In 2016, the country was ranked the 14<sup>th</sup> largest economy in the world with their share in the world's GDP at the level of 1.6%. It is worth noting that it was also the fifth largest economy in Asia-Pacific region with China, Japan, India, and South Korea holding their leading positions. Australia ranked even a higher position in 2016's global classification of economies with highest GDP per capita. The pace of growth of Australian economy reached the value of circa 2.9% in the time-span between 2000 and 2016.<sup>12</sup>

It has to be stressed that from the mid 2000's the share of the EU and US trade in Australia's total trade has been reduced in favor of Asian countries, especially China, which corresponds with the global trend, lasting for almost two decades now, naming the 21<sup>st</sup> century the Age of Asia.<sup>13</sup> By exporting carbon and iron ore to a region with a high demand of raw materials, Australia seems to have made the most out of the fact that the economic pole has shifted towards Asia.

Thus, Australian foreign policy, which was traditionally concentrated on relations between the EU and the US, has been undergoing a wide range of changes in recent years. The evolution of power structure in the global economy and the shift of the economic development pole towards Asia, particularly the Far East, have caused a variety of transformations, including changes within Australia's foreign economic policy which resulted in gearing the country's attention to the partners from its immediate area (the so-called "Australia's pivot to Asia").<sup>14</sup> However, it has to be noticed that China, which is one of Australia's key trading partners, poses a certain threat to the power structure in the region. China's aspirations to take the economic lead of the region were intended to have been partially neutralized by the US-led TPP. Interestingly, US's withdrawal from this agreement, seen as a demonstration of protectionism in Trump's trade policy, has caused a fundamental shift in this respect. Against this background, alternative RTAs between Australia and other countries from the region (including ASEAN, South Korea and Japan) are of the utmost importance to the country as they allow for toning down China's economic expansion in the region, at least to a certain extent. However, despite its engagement in Asia-Pacific economy, Australia ex-

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<sup>12</sup> Geometric mean (Australian GDP noted an average year-to-year increase by 2.87%) calculated on the basis of: Asian Development Bank, 2017, Key Indicators for Asia and the Pacific 2017, 48th edition, <https://www.adb.org/sites/default/files/publication/357006/ki2017.pdf> (15.04.2018).

<sup>13</sup> WTO, 2013, WTO NEWS: SPEECHES — DG PASCAL LAMY, 'Asian Century' means shared prosperity, responsibility and multilateral agreements Lamy, [https://www.wto.org/english/news\\_e/sppl\\_e/sppl269\\_e.htm](https://www.wto.org/english/news_e/sppl_e/sppl269_e.htm) (10.05.2018).

<sup>14</sup> Australia's pivot to Asia is by no means an isolated case. A number of countries are currently implementing the policy of trade diversification and paying more attention to Asian markets since they have enormous economic potential.

presses a great interest in developing economic partnership with the EU, which is demonstrated by country's consent for initiating the process towards a "comprehensive and high-quality FTA" with the EU.<sup>15</sup>

As for Australia's participation in multilateral organizations of the economic character, the country is one of the members of G20, UN, and numerous UN agencies. Its membership also includes WTO, OECD, and IMF. The fact that the country joined the Asian Infrastructure Investment Bank is not without significance here as the infrastructural development in the region will not only boost the demand for Australian raw materials but also contribute to trade intensification in the Asia-Pacific area. Moreover, it is worth noting that Australia is a major exporter of LNG, with a significant potential for development, grounded on its abundant resources of natural gas.<sup>16</sup>

Experts are optimistic about Australia's economic prospects. Its good economic performance stems from the fact that Australia maintains a strong level of domestic demand and experiences a growth in export income, obtained as a result of satisfying the high demand for raw materials in Asia. It has to be emphasized that basic resources like raw materials are the foundation of Australian exported goods. They comprise over 68% of the country's total exports. When analyzing the commodity structure in Australia's external trade, one notices certain asymmetry in trade these goods, which is linked to the prevalence of raw materials and agricultural products in export (iron ore, coal briquettes, gold, wheat, crude petroleum) and the dominance of processed goods in import (cars, refined petroleum, computers, crude petroleum, packaged medicaments).<sup>17</sup>

The structure of the economy of this country is characterized by a well-developed sector of services (73.3% of share in the structure of the GDP in 2016).<sup>18</sup> Selected macroeconomic indicators, as compared with the EU, are presented in the table 1.

Australia is one of the few countries which seems to have weathered the world economic crisis 2007/2008+ with a noticeable economic growth (see Table 2) and, indeed, evaded an economic downturn. However, these spectacular effects were achieved partly as a result of the dynamism of the Asian markets.<sup>19</sup>

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<sup>15</sup> Department of Foreign Affairs and Trade, 2018, Australia-European Union Free Trade Agreement, <http://dfat.gov.au/trade/agreements/aeufta/Pages/aeufta.aspx> (5.04.2018).

<sup>16</sup> It is related to free trade agreements signed by Australia with South Korea, China and Japan – countries that are major consumers of Australian LNG. Australia's share is on the rise, which is facilitated by zero rate of import duty on this raw material. See more: Department of Industry, Innovation and Science, 2018, <https://industry.gov.au/resource/UpstreamPetroleum/AustralianLiquefiedNaturalGas/Pages/default.aspx> (15.04.2018).

<sup>17</sup> Asian Development Bank, 2017, Key Indicators for Asia and the Pacific 2017, 48th edition, <https://www.adb.org/sites/default/files/publication/357006/ki2017.pdf> (15.04.2018).

<sup>18</sup> Ibid.

<sup>19</sup> OECD 2010, OECD Economic Surveys: Australia, <https://www.oecd.org/eco/46467368.pdf>, p. 3 (10.04.2018).

Table 1. Selected macroeconomic indicators of Australia in comparison with the EU

Indicator	Australia			EU		
	2006	2010	2016	2006	2010	2016
Population (million, 2016)	24.1			508.4		
GDP (Current price, billion EUR)	623	943	1 137	12 255	12 800	14 824
GDP per capita (PPP)	<b>37 457</b>	<b>41 513</b>	<b>48 899</b>	<b>29 754</b>	<b>33 611</b>	<b>37 852*</b>
Share in world GDP (PPP, %)	1.1	1.0	1.0	21.2	19.0	16.7
Global exports of goods (billion EUR)	97.0	159.7	172.8	1 152.5	1 353.2	1 745.2
Global imports of goods (billion EUR)	112.1	154.4	182.2	1 368.3	1 529.4	1 708.3
Global exports of services (billion EUR)	26.3	35.2	48.1	452.4	569.5	819.8
Global imports of services (billion EUR)	26.5	39.0	51.4	381.4	461.6	689.4
Share in world trade in goods (%)	1.5	1.7	1.6	17.5	15.8	15.1
Global FDI inward stocks (billion EUR)	252.3	415.5	504.6*	2 022.7	3 145.1	5 744.9*
Global FDI outward stocks (billion EUR)	221.1	354.6	372.2*	2 746.0	4 219.4	6 891.6*

For EU – trade with extra EU; \*2015

Source: Asian Development Bank, 2017, Key Indicators for Asia and the Pacific 2017, 48th edition, <https://www.adb.org/sites/default/files/publication/357006/ki2017.pdf> (15.04.2018); European Commission, 2017b, DG Trade Statistical Guide 2017, [http://trade.ec.europa.eu/doclib/docs/2013/may/tradoc\\_151348.pdf](http://trade.ec.europa.eu/doclib/docs/2013/may/tradoc_151348.pdf) (10.04.2018).

Table 2. GDP increase over the period of 2005–2016 [%]

Years	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>GDP</b>	3.2	3.0	3.7	3.7	1.8	2.0	2.4	3.6	2.6	2.6	2.4	2.6

Source: Asian Development Bank, 2017, Key Indicators for Asia and the Pacific 2017, 48th edition, <https://www.adb.org/sites/default/files/publication/357006/ki2017.pdf> (15.04.2018).

As far as the world trade is concerned, in 2016 Australia was the 16<sup>th</sup> largest exporter in the world, exporting goods valued at USD 190 bn (1.5% share in the world merchandise export) and the 15<sup>th</sup> largest importer (USD 196 bn and 1.5%, respectively).<sup>20</sup>

Merchandise imports from China<sup>21</sup> increased significantly from the mid 2000's and China is Australia's largest trading partner, while Australia is the main source of resources for China. Bilateral relations are characterized by intense trade bonds. As for the total trade, China accounted for 28.2 % (EUR 114.0 bn)

<sup>20</sup> When excluding intra-EU (28) trade. See: World Trade Statistical Review 2017, [https://www.wto.org/english/res\\_e/statis\\_e/wts2017\\_e/wts2017\\_e.pdf](https://www.wto.org/english/res_e/statis_e/wts2017_e/wts2017_e.pdf), p. 103 (5.05.2018).

<sup>21</sup> It consists mainly of manufactures such as clothing, telecommunications equipment and computers.

of Australia's total trade in 2017. The EU was the second largest trading partner, accounting for 11.5% (EUR 46.6 bn),<sup>22</sup> followed by Japan, accounting for 11.1% (EUR 44.8 bn). The US held the fourth position in Australia's total trade with their share at the level of 7.3% (EUR 29.6 bn), while South Korea ranked as the fifth leading trading partner of Australia (5.5%; EUR 22.4).<sup>23</sup>

Table 3. Share of exports and imports to/from top 5 trade partners in total imports and exports of Australia in selected years

Partner	1990	1995	2000	2005	2010	2015
<b>Export share (%)</b>						
<b>China</b>	2.46	4.33	5.67	11.49	25.10	32.22
<b>Japan</b>	26.24	22.98	19.79	20.28	18.94	15.90
<b>South Korea</b>	5.68	8.44	7.47	7.85	8.90	7.09
<b>US</b>	10.99	6.33	9.84	6.71	4.00	5.43
<b>EU</b>	13.14	10.64	10.71	10.78	8.06	5.12
<b>Import share (%)</b>						
<b>China</b>	2.66	4.99	7.82	13.69	18.75	23.02
<b>EU</b>	24.83	24.62	21.38	23.21	18.28	17.16
<b>US</b>	24.09	21.90	20.06	13.91	11.11	11.24
<b>Japan</b>	18.67	15.45	13.17	10.99	8.66	7.37
<b>South Korea</b>	2.39	2.91	3.81	3.33	3.40	5.47

Source: ARIC, 2018, Asia Regional Integration Center, <https://aric.adb.org/> (10.04.2018).

Among the remaining top ten partners, the ranking includes countries from the Asia-Pacific region sequenced as follows: India, Thailand, Malaysia, New Zealand, Singapore with their share at the level of 3.4; 3.3; 2.9, 2.9 and 2.6% in Australia's overall trade, accordingly. These economies together accounted for almost 80% of the total Australian trade in 2017.<sup>24</sup> It is worth noting that the trade relations with these countries are covered by RTAs (bilateral or plurilateral) at different stages of advancement.

Australia has been building its treaty base. The array of agreements concluded by Australia extends on an annual basis. This trend has a growing tendency, primarily due to the great number of RTAs that are presently under negotiation. As far as Australia is concerned, it amounts to nearly 30 regional agreements, more than half of which are still subject to negotiation.<sup>25</sup>

The process of concluding bilateral RTAs, initiated at the beginning of the 1980s, has become the driving force for trade between Australia and the fastest-growing economies of the Asia-Pacific region, on which concentrated the first

<sup>22</sup> In 2016 the share was almost 15%.

<sup>23</sup> European Commission, 2018, Trade picture – Australia, <http://ec.europa.eu/trade/policy/countries-and-regions/countries/australia> (16.04.2018).

<sup>24</sup> Ibid.

<sup>25</sup> ARIC, 2018, Asia Regional Integration Center, <https://aric.adb.org> (10.04.2018); WTO, 2018, RTA-IS, <http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx> (18.04.2018).



deals signed by Australia (see table below). It was as late as 2005, when the trade deal with the US (and Thailand) entered into force. Moreover, the negotiations on the future agreement with China started at that time and would last a decade.

Table 4. Australia's FTAs (as of March 2018)

FTA	Status/year
<b>ASEAN-Australia and New Zealand Free Trade Agreement (AANZFTA)</b>	<b>signed and in effect: 2010</b>
<b>Australia-Chile Free Trade Agreement (ACIFTA)</b>	<b>signed and in effect: 2009</b>
Australia-Colombia Free Trade Agreement	proposed/under study: 2009
Australia-EU Free Trade Agreement	proposed/under study: 2015
Australia-Gulf Cooperation Council Free Trade Agreement	negotiations launched: 2007
Australia-Hong Kong [China] Free Trade Agreement	negotiations launched: 2017
Australia-Mexico Free Trade Agreement	proposed/under study: 2006
Australia-New Zealand - Pacific Alliance (Mexico, Chile, Peru and Colombia) FTA	negotiations launched: 2017
<b>Australia-New Zealand Closer Economic Relations Trade Agreement</b>	<b>signed and in effect: 1983</b>
Australia-Peru FTA	signed but not yet in effect: 2018
Australia-UK Free Trade Agreement	proposed/under study: 2017
Australia-United Arab Emirates Free Trade Agreement (now Australia-GCC Free Trade Agreement)	discontinued: 2006
<b>Australia-[Republic of] Korea Free Trade Agreement (AKFTA)</b>	<b>signed and in effect: 2014</b>
Comprehensive and Progressive Agreement for Trans-Pacific Partnership	signed but not yet in effect: 2018
Comprehensive Economic Partnership for East Asia (CEPEA/ASEAN+6)	proposed/under study: 2005
Free Trade Area of the Asia Pacific	proposed/under study: 2014
India-Australia Free Trade Agreement	negotiations launched: 2011
Indonesia-Australia Comprehensive Economic Partnership Agreement	negotiations launched: 2012
<b>Japan-Australia Economic Partnership Agreement (JAEPA)</b>	<b>signed and in effect: 2015</b>
<b>Malaysia-Australia Free Trade Agreement (MAFTA)</b>	<b>signed and in effect: 2013</b>
Pacific Agreement on Closer Economic Relations (PACER) Plus	signed but not yet in effect: 2017
<b>Papua New Guinea-Australia Trade and Commercial Region</b>	<b>signed and in effect: 1991</b>
<b>People's Republic of China-Australia Free Trade Agreement (ChAFTA)</b>	<b>signed and in effect: 2015</b>
Philippines-Australia FTA	proposed/under study: 2014
Regional Comprehensive Economic Partnership	negotiations launched: 2013
<b>Singapore-Australia Free Trade Agreement (SAFTA)</b>	<b>signed and in effect: 2003</b>
<b>South Pacific Regional Trade and Economic Cooperation Agreement</b>	<b>signed and in effect: 1981</b>
<b>Thailand-Australia Free Trade Agreement (TAFTA)</b>	<b>signed and in effect: 2005</b>
Trans-Pacific Partnership (TPP)	discontinued: 2018
<b>United States-Australia Free Trade Agreement (USAFTA)</b>	<b>signed and in effect: 2005</b>

Source: ARIC, 2018, Asia Regional Integration Center, <https://aric.adb.org> (10.04.2018).

Besides bilateral agreements, Australia takes part in building agreements consisting of multiple economies. A notable example is the gradually expanding, owing to varied levels of economic development, AANZFTA or Australia's participation in negotiations of the US-led TPP, which was reactivated after the US withdrawal by the remaining 11 members in March 2018 under the name CPTPP, which is referred to as Australia-Canada-Japan-led agreement.<sup>26</sup>

Thus, despite Australia's close cultural and civilizational ties with the Euro-Atlantic region, the Asia-Pacific region is currently enjoying a considerable advantage with regard to economic issues.

### General characteristics of the EU-Australia trade

The EU-Australia relations mainly concentrate on trade in goods. The European Union is the second largest trade partner of Australia in terms of trade flows and Australia is currently (2017) placed 18<sup>th</sup> among the key trade partners for the EU. It is worth drawing attention to the long-standing surplus in the trade balance achieved by the EU.<sup>27</sup>

Table 5. EU trade in goods with Australia (2006–2017)

Year	Imports			Exports			Balance bn EUR	Total trade bn EUR
	Value bn EUR	% Growth between cur- rent and pre- vious year	% Extra-EU	Value bn EUR	% Growth between cur- rent and pre- vious year	% Extra-EU		
2006	13.099	-	1.0	21.763	-	1.9	8.664	34.862
2007	13.461	2.8	0.9	23.907	9.9	1.9	10.446	37.368
2008	13.791	2.5	0.9	26.700	11.7	2.0	12.909	40.491
2009	9.928	-28.0	0.8	21.948	-17.8	2.0	12.019	31.876
2010	12.461	25.5	0.8	26.972	22.9	2.0	14.511	39.433
2011	14.958	20.0	0.9	31.174	15.6	2.0	16.216	46.131
2012	14.533	-2.8	0.8	33.933	8.9	2.0	19.400	48.465
2013	10.172	-30.0	0.6	32.051	-5.5	1.8	21.879	42.223
2014	9.202	-9.5	0.5	29.559	-7.8	1.7	20.357	38.761
2015	9.575	4.1	0.6	31.495	6.6	1.8	21.919	41.070
2016	13.101	36.8	0.8	32.398	2.9	1.9	19.298	45.499
2017	13.006	-0.7	0.7	34.632	6.8	1.8	21.626	47.638

Source: European Commission, 2018, Trade picture – Australia, <http://ec.europa.eu/trade/policy/countries-and-regions/countries/australia> (16.04.2018); MADB, 2018, [http://madb.europa.eu/madb/statistical\\_form.htm](http://madb.europa.eu/madb/statistical_form.htm) (10.04.2018).

<sup>26</sup> E. Majchrowska, Promoting free trade in Asia-Pacific – CPTPP as an answer to Trump's protectionism, 2018 (in print).

<sup>27</sup> European Commission, 2018, Trade picture – Australia, <http://ec.europa.eu/trade/policy/countries-and-regions/countries/australia> (16.04.2018).

The EU trade in goods with Australia is of complementary character. Australia's exports to the EU are dominated by mineral commodities and agricultural products while EU's exports to Australia are predominantly manufactured goods (see Table 6).

Table 6. Commodity structure of trade flows between the EU and Australia – top five most vital groups of products (HS section) in 2017

Imports from Australia		Exports to Australia	
HS section	% Total	HS section	% Total
V Mineral products	32.9	XVI Machinery and appliances	25.1
XIV Pearls, precious metals and articles thereof	20.9	XVII Transport equipment	22.4
II Vegetable products	10.1	VI Products of the chemical or allied industries	17.2
XV Base metals and articles thereof	6.1	IV Foodstuffs, beverages, tobacco	6.5
XVI Machinery and appliances	5.0	XVIII Optical and photographic instruments, etc.	5.7

Source: European Commission, 2018, Trade picture – Australia, <http://ec.europa.eu/trade/policy/countries-and-regions/countries/australia> (16.04.2018).

The commodity structure of Union import from Australia is dominated by basic products (coal, fruit, gold), whereas EU's exports to Australia are dominated by industrial products. The most important goods imported by Australia were: automobiles, drugs and pharmaceutical products, machines and transport equipment, measuring instruments, alcoholic beverages, airplanes, parts and light commercial vehicles. Australia's largest trade partners among Member States are Germany, the United Kingdom, the Netherlands, Italy and France.

Table 7. EU countries as trade partners of Australia in 2017 (bn EUR, share in brackets)

Countries	Imports from Australia	Exports to Australia	Total trade
<b>EU 28</b>	13.006	34.632	47.638
<b>Germany</b>	1.844 (14.2%)	9.549 (27.6%)	11.393 (23.9%)
<b>United Kingdom</b>	4.397 (33.8%)	5.061 (14.6%)	9.458 (19.9%)
<b>Netherlands</b>	2.135 (16.4%)	2.737 (7.9%)	4.872 (10.2%)
<b>Italy</b>	0.599 (4.6%)	3.825 (11.0%)	4.424 (9.3%)
<b>France</b>	1.068 (8.2%)	2.630 (7.6%)	3.698 (7.8%)

Source: Author's own elaboration, based on: MADB, 2018, [http://madb.europa.eu/madb/statistical\\_form.htm](http://madb.europa.eu/madb/statistical_form.htm) (10.04.2018).

The data in the table indicates that nearly 34% of the total Australian export to the EU was directed to the traditional trade partner – the UK – whereas

over half of Australia's imports from the EU originated in Germany, the UK and the Netherlands.

As far as trade in services with Australia is concerned, it is also characterized by a substantial advantage of Union export to Australia (see Table 8).

Table 8. EU-Australia total trade in services (bn EUR)

Year	EU Imports	EU Exports	EU Trade Balance
2012	8.5	18.9	10.4
2013	8.0	19.2	11.2
2014	7.9	18.8	10.8
2015	9.9	19.6	9.7
2016	8.3	18.8	10.5

Source: European Commission, 2018, Trade picture – Australia, <http://ec.europa.eu/trade/policy/countries-and-regions/countries/australia> (16.04.2018).

Australian investments in the EU amounted to EUR 19.1 bn in 2016 (inward stocks). Over the same period, EU investments in Australia (outward stocks) reached EUR 161.5 bn.<sup>28</sup> The countries which invest most in Australia include the United States, the United Kingdom, Japan and the Netherlands. On the other hand, the European Union constitute the largest source of foreign direct investments, in terms of a group of countries.

### **Conclusions – perspectives and challenges of the EU-Australia trade relations**

As far as the prospects of the EU-Australia trade cooperation are concerned the following issues should be taken into account: current trade barriers, the Brexit issue, potential FTA with the EU, regulating mutual relations between Australia and the UK after its withdrawal from the EU as well as the current situation in the global trade, related to such factors as the protectionist trade policy adopted by the US.

Taking into consideration a rather low position of Australia in the EU foreign trade (14<sup>th</sup> position in exports, 30<sup>th</sup> in imports and 18<sup>th</sup> in total trade with the share of 1.3% in 2017) and falling EU's share in Australian total trade it seems that the two partners do not take full advantage of their potentials in reciprocal trade. An opportunity to stimulate cooperation may be taking specific steps towards more thorough regulation of trade relations between the EU and Australia and signing a comprehensive free trade agreement.

From the point of view of the European Union, it is of the essence that Australia has concluded numerous free trade deals with other countries, also –

<sup>28</sup> European Commission, 2018, Trade picture – Australia, <http://ec.europa.eu/trade/policy/countries-and-regions/countries/australia> (16.04.2018).

key trade partners of the EU, and that the EU does not have a bilateral free trade agreement with Australia. The trade relations between the Union and Australia are based on the MFN clause, thus, partners do not apply reciprocal preferential customs duties.<sup>29</sup> For this reason, EU enterprises have access to the Australian market on relatively less favorable conditions than companies from countries that are not part of the EU but have concluded free trade agreements with Australia. Even though the rates of customs duties on imports, levied by Australia, are generally low,<sup>30</sup> there are, however, relatively high tariffs on selected products, moreover, there also exist non-tariff barriers (e.g. stringent phytosanitary regulations or complicated registration rules for industrial and food products).

As far as barriers to the EU exports and investments to Australia are concerned, they include:<sup>31</sup>

- comparatively high tariffs rates for processed agricultural and food products (e.g. cheese, wine and spirits); Australian biosecurity measures block exports of products such as pork products from the EU;
- as a result of FTAs between Australia and the US, Japan, Korea and China, in practice, only the cars from the EU are levied import customs duties in Australia;
- despite the fact that the European Union is the largest investor in Australia, EU investors meet more rigorous screening procedures than investors from other countries that have already finalized FTAs with Australia. (e.g. the US, China);
- further significant efforts are needed to reduce the remaining obstacles to accessing the government procurement markets (some local content requirement or price preference polices are applied in Australia).

From the perspective of the Union trade policy, an FTA with Australia will ensure better market access and allow for mitigating the possible trade diversion effects emerging as an effect of RTAs in the Asia-Pacific region. As far as the Australian perspective is concerned, the EU is a natural partner because of numerous bilateral economic linkages, possible economic profits, as well as the extensive gains of progressive liberalization as well as integration in the world economy. Apart from the classic liberalization, an EU-Australia FTA will include issues such as competition, government procurement, IPR, trade and sustainable development, investment protection and regulatory cooperation. The aforemen-

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<sup>29</sup> The EU applied conventional rates of duty on goods imported from Australia, as it is the case with other few countries which have not signed any preferential trading agreement with the Union. It concerns New Zealand, Hong Kong and Taiwan as well as the US. This group also includes Japan and Singapore, however, the situation will soon change as negotiations with the two countries concluded and the agreements are awaiting signature.

<sup>30</sup> World Tariff Profiles 2017, [https://www.wto.org/english/res\\_e/booksp\\_e/tariff\\_profiles17\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/tariff_profiles17_e.pdf) (22.04.2018).

<sup>31</sup> European Commission, 2015, Inception Impact Assessment EC, [http://ec.europa.eu/smart-regulation/roadmaps/docs/2015\\_trade\\_040\\_aus\\_nz\\_trade\\_agreement\\_en.pdf](http://ec.europa.eu/smart-regulation/roadmaps/docs/2015_trade_040_aus_nz_trade_agreement_en.pdf) (20.04.2018).

Table 9. Active barriers in EU exports to Australia (as of February 2018)

<b>Title</b>	<b>Measure</b>	<b>Sector</b>	<b>Creation date</b>	<b>Key barrier</b>
Raw milk cheese standards	Other SPS import restrictions	Agriculture and Fisheries	02 Dec 2009	yes
Bovine animals and products (BSE)	Bovine Spongiform Encephalopathy (BSE) Animal health reasons	Agriculture and Fisheries	10 May 2004	yes
Pork meat import restrictions (PRRS/PMWS)	Porcine Reproductive and Respiratory Syndrome (PRRS) Animal health reasons	Agriculture and Fisheries	30 Dec 1997	yes
Poultry meat import restrictions (IBD-Gumboro Disease)	Infectious bursal disease (Gumboro disease) Animal health reasons Non-compliance with international standards	Agriculture and Fisheries	21 Jan 1998	yes
Chemicals bill 2017	Non-Tariff Barriers	Cosmetics	01 Nov 2017	no
Short data exclusivity protection of biological pharmaceuticals	IPR	Pharmaceuticals	15 Dec 2015	no
Luxury Car Tax	Internal Taxation	Automotive	08 Jul 1999	yes
Government Procurement	Government Procurement	Horizontal	22 Dec 2015	yes
Wine Equalization Tax Rebate	Internal Taxation	Wines & Spirits	22 Dec 2015	yes
„Alcopop’ tax	Internal Taxation	Wines & Spirits	22 Jun 2009	no
Steel testing standards	Non-Tariff Barriers Standards and Other Technical Requirements	Iron, Steel and Non-Ferrous Metals	17 Dec 2013	no
Geographical Indications for food related products	Legislation on Appellations of Origin and Geographic Indications	Agriculture and Fisheries	22 Dec 2015	yes
Furniture design protection	IPR	Other Industries	01 Dec 2014	no
Counterfeit products	IPR	Textiles and Leather	21 Dec 2015	yes

Source: MADB, 2018, [http://madb.europa.eu/madb/barriers\\_result.htm?isSps=false&countries=AU](http://madb.europa.eu/madb/barriers_result.htm?isSps=false&countries=AU) (15.04.2018).

tioned EU-Australia Partnership Framework will be taken into account in the planned FTA.<sup>32</sup>

The negotiating strategy will include Union agricultural sensitivities, therefore, complete liberalization of trade in this sector will not be feasible. As far as the specific treatment for sensitive agricultural products is concerned, it may contain, among others, longer periods for reducing tariffs as well as tariff quotas.<sup>33</sup>

Taking into account the fact that nearly 34% of Australia's exports to the EU were directed to the traditional trade partner – the UK, as well as the fact that the UK is also ranked second among Member States in terms of Australian imports, the problem of UK's withdrawal from the EU may be of great impact on the mutual relations since the EU, as a group, may lose its relevance to Australia. Brexit will primarily undermine the economic potential of the group (the UK is the second largest economy in the EU, responsible for 1/6 of its GDP). In turn, EU's attractiveness to foreign partners, including Australia, is going to drop, which may also weaken its position in the future, prospective trade deals negotiations.

For this reason, besides negotiating the deal with the EU, Australia's negotiations agenda also includes a bilateral free trade agreement with the EU, but, more importantly, the necessity of concluding the deal with the EU is described as a priority. M. Turnbull, the former Australia's prime minister<sup>34</sup> said that: "Australia will be ready for a trade deal with the UK soon after Brexit, but will try to do one with the EU first". He also said he hoped the EU deal could be concluded before the anticipated date of Brexit in March 2019.<sup>35</sup>

The position of the EU as Australia's trade partner has been diminishing over the years (over the period 1990–2015, its share dropped from approximately 13% to 5% in exports, and from almost 25% to 17% in imports to Australia, in total). Therefore, signing a trade deal with Australia is so significant from the European perspective. Based on the agreement, the partners will surely be on the way to further expand and deepen their relations. Particularly since it is intended to be a "comprehensive and high-quality FTA", covering the so-called WTO+ and even WTO-x issues.

The planned free trade agreement is definitely going to stimulate reciprocal trade, not only by a reduction of tariffs but also by eliminating barriers of the non-

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<sup>32</sup> European Commission, 2017, Ex-ante study of the EU-Australia and EU-New Zealand trade and investment agreements – Executive Summary, Prepared by LSE Enterprise Ltd., April – 2017, <https://publications.europa.eu/en/publication-detail/-/publication/555bc8bf-92af-11e7-b92d-01aa75ed71a1/language-en> (12.04.2018).

<sup>33</sup> European Commission, 2017, Launching Trade Negotiations with Australia and New Zealand, [https://ec.europa.eu/sites/ecas/files/ausnz\\_11\\_3.pdf](https://ec.europa.eu/sites/ecas/files/ausnz_11_3.pdf) (12.04.2018).

<sup>34</sup> M. Turnbull was replaced by S. Morrison in August 2018.

<sup>35</sup> Australia ready to do post-Brexit trade deal – but EU comes first, <https://www.theguardian.com/politics/2017/jul/10/australia-ready-to-do-post-brexit-trade-deal-but-eu-comes-first> (15.05.2018).

tariff character (technical standards). It is going to facilitate mutual investments. It will, therefore, contribute to increasing the competitiveness of the EU goods in relations with the countries with which Australia has already signed FTAs and which are vital trade partners for the EU (mainly, China and the US). The current situation in the world trade (influenced by, among other things, American protectionism) compels the European Union to intensify cooperation with other, more predictable, trade partners.

Stronger economic ties between the EU and Australia may become the foundation for increasing integration with the Asia-Pacific region, particularly since the EU acknowledges its importance for the global economy, which is evidenced by the negotiated and concluded trade deals with countries of this region.

### **Stosunki handlowe UE z Australią – stan obecny oraz wyzwania na przyszłość**

Wobec zastojów negocjacji na forum WTO priorytetem dla UE stały się dwustronne umowy handlowe. W przedstawionej w 2015 r. nowej strategii handlowej i inwestycyjnej EU "Trade for All" wyraźnie podkreślono znaczenie Australii jako bliskiego partnera Europy, dzielącego europejskie wartości oraz odgrywającego ważną rolę zarówno w regionie Azji Pacyfiku, jak i na forach wielostronnych. Zapisy tej strategii stały się punktem wyjścia do podjęcia konkretnych działań w zakresie pełniejszego uregulowania stosunków handlowych EU z Australią w postaci przyszłej wszechstronnej FTA. Ponadto, bieżąca sytuacja w handlu światowym (związana m.in. z amerykańskim protekcjonizmem) powoduje, że UE dąży do pogłębiania współpracy z innymi, bardziej przewidywalnymi partnerami handlowymi. Planowana umowa przyczyni się zatem do pobudzenia wzajemnej wymiany, co jest szczególnie ważne w świetle podpisanych już przez Australię umów FTA z innymi państwami, w tym także kluczowymi partnerami UE. Nie bez znaczenia pozostaje również kwestia Brexit'u.

**Słowa kluczowe:** Australia, FTA, handel międzynarodowy, regionalizm handlowy, UE

### **EU-Australia Trade Relations – Current Stage and Future Challenges**

Faced with a visible stagnation in negotiations within the WTO, the EU prioritized bilateral trade agreements. In the EU's newly-developed trade and investment strategy from 2015 named "Trade for All", Australia's significance as Europe's close partner sharing European values and playing an important role both in the Pacific region and multilateral forums was clearly emphasized. The main assumptions of this strategy have become the starting point for taking more specific actions in the field of regulating trade relations between the EU and Australia in the form of the forthcoming "comprehensive and high-quality FTA." Moreover, the current climate in the world trade (connected with e.g. American protectionism) is the cause of the EU's interest in developing partnership with other, more predictable trade partners. Hence, the agreement planned by the EU would contribute to the stimulation of reciprocal exchange, which is of great importance bearing in mind Australia's successfully signed FTAs with other countries, including those with EU's key partners. Finally, the question of Brexit is not without significance in this context.

**Key words:** Australia, EU, FTA, international trade, trade regionalism