

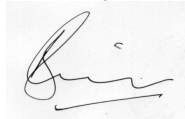
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Australia-European Union Free Trade Agreement  
Europe Division  
Department of Foreign Affairs and Trade  
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I thank the Department of Foreign Affairs and Trade for its letter of 24 November, 2015, inviting me to make this submission to the Department on the prospective Australia-EU FTA.

The views expressed herein represent the author's professional views only as an analyst, researcher and consultant on EU political and economic affairs. This submission does not represent the views of Monash University, its affiliated institutions, or its officials, employees or representatives in any way.

Sincerely,



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<sup>1</sup> Brief author biography: Dr. Remy Davison holds the Jean Monnet Chair in Politics and Economics at Monash University, a lifetime Chair awarded by the EU Commission to distinguished scholars in the field of European integration. Dr. Davison holds a Ph.D. (Commerce and Political Science) from the University of Melbourne. He is Australia's foremost expert on the Single European Market. He was appointed a Global Expert by the United Nations, New York, in 2011. He has researched and published in the area of EU integration for over 25 years. He is also Associate Director and former Acting Director of the Monash European and EU Centre. He is a former Vice-President of the Contemporary European Studies Association of Australia (2001–02); Research Fellow at the Contemporary Europe Research Centre, University of Melbourne (1997–2009); and editor of the *Australasian Journal of European Integration*. He has held appointments in International Business, and International Political Economy at the universities of Melbourne, Monash, ANU, Tasmania, La Trobe and Griffith. Dr. Davison is a regular contributor to both Australian and international media, including *Voice of America*, *Wired* and Bloomberg TV. He is the author of *The Political Economy of Single Market Europe* (2011) and *The New Global Politics of the Asia-Pacific* (three editions, 2004, 2012, 2016).

<sup>2</sup> *Disclosure of interests*: Dr. Davison's Jean Monnet Chair is an international Chair appointment funded by the Commission of the European Union. Dr. Davison is also a direct and indirect recipient of research funding from various European Union-funded Centres in Europe, the United States, Asia, Australia and New Zealand. He is a member of the European Consortium for Political Research (ECPR) and the Council for European Studies (CES), Columbia University, New York.

## 1. Overview

The European Union (EU) is the only major trading partner with which Australia does not have a free trade agreement (FTA). The lack of a FTA with the European Union (EU) represents a critical missing link in Australia's network of important regional, bilateral and plurilateral trade agreements. Since 1989, Australian governments have sensibly pursued regional economic integration strategies that have concentrated upon liberalizing the markets of Australia's closest trade partners in the region. Although Northeast and Southeast Asia have been the principal foci of the strategies, both the Pacific and the Indian Ocean regions have been priority areas in recent years.

In 2012, Australia and the EU commemorated 50 years of formal diplomatic relations. In 2008, the Commonwealth government signed the EU-Australia Partnership Framework Agreement. In 2015, the bilateral relationship moved an important stage further, with Foreign Minister Bishop signing the EU-Australia Framework Agreement.<sup>3</sup>

The EU is Australia's largest investment partner; of the EU member countries, Britain ranks second only to the United States, measured by net stock of investment, while the Netherlands, Germany and France have a significant inward investment presence in Australia. Switzerland, a non-EU member, but a country integrally linked with the European Single Market through bilateral treaties, is also a significant investor in Australia, ranking sixth in 2015 (DFAT, 2015).

Australia's network of free trade agreements with its Asia-Pacific partners has developed rapidly since the foundation of the Asia-Pacific Economic Cooperation in 1989. Since the 2000s, Australia has signed bilateral FTAs with Singapore (2003); the United States (2005); Thailand (2007); South Korea (2014); Japan (JAEPA) (2015); and China (2015). An Australia-India FTA is also currently under negotiation. In addition, Australia has also promulgated a number of multi-country plurilateral agreements within the region, including the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) (2014-15) and the Trans-Pacific Partnership (2015).

Although Australia's recent FTA strategies have been focused primarily upon geoeconomic integration with the Asia-Pacific and Indian Ocean regions, the EU as both a source, and destination of goods, services and investment continues to play a key role in the Australian economy. Approximately half of Australia's machinery and transport imports originate from the EU, with chemicals (~17%) and manufactured goods and miscellaneous manufactures (~20%) comprising the bulk of Australia's imports from the EU.

Australia's exports to the EU totalled over \$A22 billion in 2014. Commodities (~24%), fuels and lubricants (~22%) crude materials (~20%) and manufactures (~9%) predominate, with machinery, transport goods, food, beverages and tobacco having a significant niche presence.<sup>4</sup> The EU is a particularly important market for Australian wine producers, since the conclusion of the Australia-EU Wine Agreement in 1994, which saw Australian winemakers achieve mainstream market success throughout Europe. In 2008, the amended Wine Agreement was renewed, taking into account the

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<sup>3</sup> See European External Action Service (EEAS) (2015).

<sup>4</sup> See Kreab and Gavin Anderson (2013) and DFAT (2015).

intellectual property (IP) accords of the Final Act of the Uruguay Round of GATT (GATT-1994), that dealt with product labeling, including geographical indicators such as ‘champagne’. The 2008 Agreement also gave Australian wine producers specific IP protections for over 100 geographical indicators (Markovic 2013).

As noted above, the bilateral investment relationship is also of strategic importance to Australia. The EU invests \$A100 billion in Australia each year. Approximately 2,800 European firms account for 28% of all foreign direct investment (FDI) in Australia, with \$A143 billion in net FDI stock in 2011 (Kreab & Anderson, 2013). Australia is also a major outward investor in the EU, with European countries hosting almost \$A40 billion in Australian-sourced FDI and portfolio investment in 2012.

This strategic importance extends to smart manufacturing in Australia, including R&D and production of advanced composites, such as carbon fibre. Major EU firms with a significant R&D and manufacturing presence in Australia include Siemens (smart energy grid solutions); Ansaldo (rail transport); CAF (light rail); SAIPEM (LNG pipeline engineering); GlaxoSmithKline and AstraZeneca (pharmaceuticals); BAE Systems (defence); and GDF Suez/Engie (electricity generation). A number of firms are also substantial exporters; the pharmaceutical sector is noteworthy in this regard, with \$A4 billion in exports in 2012. Firms such as AstraZeneca and Homart Pharmaceuticals have achieved significant market growth in China and Asia with Australian-made products.

## **2. Preferential trade agreement literature**

There has been considerable criticism of bilateral, plurilateral and regional FTAs throughout the last 20 years, as these have become the preferred means by which free trade areas can be established relatively quickly, in comparison with the lengthy WTO process of multilateral trade negotiations.

Criticism of PTAs, which are relevant in this context to the EU, include findings that ‘small’ FTAs bring few benefits to large blocs. For example, according to estimates, the EU-ROK FTA has delivered only 0.1% GDP in gains to the EU economy, thus suggesting that there may be few dynamic gains from promulgation of a ‘small’ FTA. However, the trade figures belie this; EU exports to ROK (2015) have increased 35% in the three years since the promulgation of the FTA (EU Commission, 2015: 3).

Critiques of PTAs also assert that all bilaterals and plurilaterals are becoming uneven (i.e., they can match the GATT/WTO, but also exceed WTO standards) (E15, 2013: 10–12). This means there is no consistency to FTAs (the “noodle bowl” effect). One of the world’s most respected trade economists, Jagdish Bhagwati, Professor of Economics and Law at Columbia University, New York, has consistently criticized the ‘noodle-bowl effect’ of cross-cutting bilateral, plurilateral and regional FTAs, arguing that they do much to undermine the MFN<sup>5</sup> principle of GATT/WTO multilateralism (Baldwin 2006). Bhagwati’s claims are serious and convincing. Trade diversion and investment theories are well-established and substantiated by both economic modeling and empirical testing. All preferential trading areas (PTAs)<sup>6</sup>

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<sup>5</sup> Most Favoured Nation.

<sup>6</sup> The PTA acronym also refers to ‘Preferential trade agreement’.

produce diversionary effects. Bilaterals, in particular, favour the negotiating side with the greater market power. In this particular case, the EU, given its much greater market power, would be reasonably expected to define the operational parameters, as well as the 'red lines' (e.g., the CAP) drawn around any Australia-EU FTA negotiations.

In addition, empirical data sets dealing with a number of FTAs demonstrate that diversionary effects genuinely occur, although results vary considerably. Economists generally employ the gravity model framework for testing as it accounts for general equilibrium effects. The impact of preferential FTAs is clear. For example, Moktan (2008) finds a statistically significant and positive impact upon export trade in the South Asian Association for Regional Cooperation (SAARC) once the preferential trade agreement was promulgated. SAARC produced clear evidence of positive trade creation.

The findings of Fernandez et al (2010) show that, in RTAs, countries entering a preferential FTA are almost never affected negatively. However, countries that do not enter the PTA experience negative trade diversion effects. Fernandez calculates that the EU's consolidation of its internal market (1986–2007) led to trade diversion, ranging from 2.5% to 7.9% for a number of third countries, including Morocco (most negative impact) to China (least negative). Australia is not included as one of the country case studies, but it appears reasonable to assume that the impact would be around the average (~ 5.2%).

Data testing in the Americas by Martin-Mayoral et al (2016) examines the impact of RTAs and PTAs in North, Central and South America with widely differentiated results. MERCOSUR<sup>7</sup> exhibits both trade creation **and** trade diversion effects. However, they also find that NAFTA countries are 'natural' trading partners (supporting the geographical proximity-RTA hypothesis), whereas the fragmentary nature of Latin American RTAs, 'have not resulted in a comprehensive, profound and consolidated common market.' (Martin-Mayoral et al, 2016).

In summary, differentiated trade and investment diversionary effects vary according to the rules and scope of the PTA. In the case of an Australia-EU FTA, there is virtually no published modeling. A scoping study is required to investigate the static and dynamic trade effects of a bilateral FTA. The type and extent of any inclusions and exclusions in any prospective Australia-EU FTA will heavily influence trade and investment outcomes. Existing evidence demonstrates that PTAs that create more trade and investment than they divert tend to produce welfare-positive outcomes.

### **3. Agricultural access issues**

The EU has operated a centralized set of policies governing agricultural production, subsidies and protection since 1962. In 1968, this was formalized as the Common Agricultural Policy (CAP). At its peak, prior to 1992, the CAP consumed as much as 66% of the EU General Budget, including funds disbursed under the European Agricultural Guidance and Guarantee Fund (EAGGF).

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<sup>7</sup> MERCOSUR comprises Argentina, Brazil, Paraguay, Uruguay and Venezuela. Its associate countries are Bolivia, Chile, Peru, Colombia, Ecuador and Suriname.

The CAP has been structurally, politically and economically integrated within the EU food production, import, processing and export systems for over half a century. EU governments and institutions, including the Commission and Parliament, regard the CAP as a strategic policy, and it has proven politically difficult to undertake major reforms of the CAP within the constraints of both domestic-level and EU-wide politics. The CAP has occasionally been labeled ‘the glue that holds the EU together’, given its privileged fiscal and political position within the EU system. The agricultural lobbies, although less influential than during their peak in the 1960s and 1970s, remain well-financed, well-organised and politically activist in core EU countries, such as France, Germany, Italy, Spain, Portugal and Poland.

The CAP is responsible for the majority of trade distortions in the global agricultural market. The market access regime is complex and protected by a wall of high tariffs. Third-country imported foodstuffs into the EU are generally rendered uncompetitive due to CAP subsidies. In specific food sectors, such as fruit, EU firms have substantial interests in Central and Latin American producers and have implemented concessional tariff access for imported fruit via the African, Caribbean and Pacific (ACP) agreements, which date from the Lomé I Convention of 1975, and are currently governed under the ACP Cotonou framework, which will operate through 2020. The EU gradually increased sugar market access, although imports comprise only approximately 15% of the EU market. The 2013 reforms eliminate the sugar quota by 2017, incentivizing beet sugar producers to re-enter global sugar export markets, thus making significant falls in world sugar prices highly likely. Consequently, Australian sugar producers, together with those in Brazil, are likely to face falling world market prices and intense competition from EU beet growers producing refined white sugar for global export markets.

Australia’s leadership of the Cairns Group in 1989 resulted in the incorporation of agricultural subsidies on the GATT multilateral trade negotiation (MTN) agenda for the first time. Negotiations during the Uruguay Round of GATT initially produced far-reaching reforms of CAP agricultural subsidies in the EU, North America and Japan (Benvenuti 1998). However, these reforms were scaled back substantially by the Blair House II agreement in 1993, following considerable resistance to Blair House I from the French government in particular, jeopardizing the completion of what ultimately became GATT-1994.

The EU instead undertook the McSharry reforms in 1992, reducing subsidies and placing quotas and production ceilings on a range of foodstuffs. The EU undertook further CAP reform in 2003–05, in the background of the WTO Millennium/Doha MTNs. The CAP’s 2005 and 2013 reforms, although initiating further cuts in EU fiscal support and reforming import quotas, nevertheless maintained substantial subsidies for the EU’s large agri-businesses in particular.

The 2004 Fifth Enlargement of the EU, incorporating 10 new member countries from central and eastern Europe further consolidated the political and economic importance of the CAP in transitional EU economies.<sup>8</sup> For example, the Polish and Romanian economies have large, politically-sensitive agricultural sectors

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<sup>8</sup> The Sixth Enlargement (2007) extended EU membership to Bulgaria and Romania. The Seventh Enlargement (2013) saw the accession of Croatia.

The CAP has gradually increased sugar market access, particularly in the isoglucose sweeteners segment, although imports comprise only approximately 15% of the EU market. The 2013 reforms eliminate the sugar quota by 2017, incentivizing domestic beet sugar producers to re-enter global sugar export markets, thus making significant falls in world sugar prices highly likely. Consequently, Australian sugar producers, together with those in Brazil, are likely to face falling world market prices and intense competition from EU beet growers producing refined white sugar for global export markets.

EU fruit and vegetable growers and exporters have also suffered considerable market losses due to sanctions placed upon Russia since March 2014. Russia was the largest consumer of EU fruit and vegetable produce, and the Russian government has also responded to EU sanctions by placing its own import bans upon various EU food sectors. Australian food growers and exporters have also faced similar issues, as the Russian government retaliated against Australian sanctions in response to the loss of the MH-17 civilian airliner over Ukraine in 2014.

It is this submission's view that the CAP, as an internal EU policy, has only undergone reform as a result of internal pressures, such as consistently-large fiscal commitments and declining public support for the policy in the face of high food prices. External pressure upon the EU to reform the CAP, notably, from Prime Minister Fraser in 1977, and during the Uruguay and Doha Rounds of MTNs, failed to produce substantial reform or any genuine market access gains for third countries.

Consequently, this submission shares the view of H.E., the Ambassador to the EU and NATO that any prospective AEUFTA should **not** attempt to negotiate a comprehensive agricultural agreement. Such an approach would divert negotiators from both DFAT and the EU Commission away from goods, services, IP regulation, public procurement and investment market liberalization measures that are likely to result in positive-sum gains for both sides, as well as delivering outcomes that will provide predictability and certainty for Australian businesses across a wide range of market sectors.

However, this submission's view is that Australia should explore the possibility of negotiations on specific market issues in agricultural sectors in key markets where Australia seeks access (e.g., sugar; beef; wheat; dairy; and seafood). Partial success in any of these areas would be of direct economic benefit. However, the view expressed here reiterates that agriculture should essentially be a **side issue** in these negotiations that should not sidetrack or place obstacles in the path of a comprehensive FTA covering virtually all market access issues except agriculture.

This view is based upon the fact that Australian governments have long been reticent to initiate AEUFTA negotiations in the absence of an agricultural access agreement.<sup>9</sup>

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<sup>9</sup> This particular point has a long history in Europe-Commonwealth relations. In 1963 and 1967, President de Gaulle unilaterally vetoed UK entry into the EEC. Later primary research revealed that de Gaulle was primarily concerned with EEC market access of agricultural-exporting countries from the British Commonwealth, which he believed would destroy the nascent CAP. De Gaulle specifically singled out the efficiency of Australian agriculture as a threat to European farming. When the Heath Government finally negotiated the Britain's terms of entry into the EEC in 1972, the UK was forced to

However, the specific removal of any requirement for an agreement on agriculture would permit the negotiation process to progress far more quickly, as negotiators would be focused upon a comprehensive agreement without having to confront the domestic campaigns from EU groups with a vested interest in resisting CAP reform. In this respect, ‘side agreements’, which attempt to place certain food sectors with an FTA’s parameters, would also be likely to produce considerable opposition from within the EU.

A good example of how to deal with these issues within the framework of a bilateral FTA negotiation is the Singapore-Australia (SAFTA) FTA of 2003. SAFTA provides a case study of a successful, comprehensive FTA that specifically excludes an agricultural trade agreement. Notwithstanding this, Australia commands approximately 15% of the Singapore food and beverage market, albeit in a country with no substantial, traditional farming sector. In 2012-13, SAFTA trade totalled \$A29 billion, significantly outperforming the economists’ predictions after SAFTA’s promulgation in 2003.

#### **4. Advantages of concluding an AEUFTA**

As noted above, only a comprehensive market access framework incorporated into an AEUFTA would advantage Australia, particularly as Australia already has a very liberal trade and investment regime. One scoping study has concluded that there is considerable stakeholder support for a comprehensive, rather than sectoral AEUFTA, due to the certainty that a comprehensive agreement would deliver (see Kreab & Gavin Anderson Worldwide (2013)).

Several key advantages of a comprehensive FTA include:

- Policy transfer
- Technical harmonization of product and food labeling standards.
- Harmonization of rules of origin (RoO).
- Harmonized market access regimes.

A number of other key issues for Australia are discussed below.

##### *Market access issues*

The EU Internal Market regime is a single market and a single economic area with harmonized technical standards and relatively few technical, physical or fiscal barriers to trade. Its members include the EU-28 member states; the three EFTA countries, governed by the EEA Agreement; bilateral market access agreements with Switzerland; the Cotonou Agreements with the EU’s African, Caribbean and Pacific partners; and the Customs Union (CU) with Turkey.<sup>10</sup> A number of eastern European countries, including Georgia and Ukraine, have signed Association Agreements with the EU; these Agreements are generally recognized as a pre-accession phase of

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dismantle the Commonwealth Imperial System of Preferences (ISP), which had operated since 1931, giving Commonwealth countries preferential trade access to the UK market. See Moravcsik (1998).

<sup>10</sup> The EU-Turkey CU (1996) extended most of the Single Market’s trade and competition rules to Turkey. EU-Turkey trade quadrupled between 1996 and 2014.

transitional arrangements prior to the negotiation of full accession to the EU, and grant some tariff concessions to Associated countries.

The Single Market is based upon the ‘Four Freedoms’ (freedom of movement of goods, services, labour and capital). The EU, EEA and other partner countries have also launched the ‘Single Digital Market’ initiative, incorporating innovations in digital platforms and downloads. EU Commission President Juncker’s brief to Digital Single Market Commissioner Ansip in 2014 was ‘to make Europe a world leader in information and communication technology, with all the tools to succeed in the global digital economy and society.’ If the EU Commission gives concrete effect to the Digital Market, this will have profound consequences for the integration of EU member countries’ traditional reliance upon national telecommunications industry silos (Black and Renda, 2014).

In addition, the EU is currently undertaking an unprecedented raft of inter-regional and bilateral trade negotiations. The EU currently has bilateral FTAs with a number of Asia-Pacific countries, including Mexico and the Republic of Korea. The EU and Canada recently concluded the Canada-European Union Comprehensive Economic and Trade Agreement (CETA), which is awaiting ratification at time of writing. In addition, the EU and India are currently negotiating a FTA.

The EU-US are currently negotiating the Transatlantic Trade and Investment Partnership (TTIP), an ambitious ‘mega-regional’ agreement that would integrate the world’s two largest economies. In view of the EU’s completed Mexican and Canadian bilateral FTAs, this effectively means, should the TTIP be brought to a successful conclusion, that the EU will be integrated with the entire NAFTA<sup>11</sup> economy.

The EU Single Market has operated a Common External Tariff (CET) since the completion of the EU Customs Union in 1968. The ‘1992’ Single European Market (SEM) project eliminated over 280 technical, physical and fiscal barriers to internal trade between 1987 and 1993 (Davison, 2011: 166–220). This period also saw vigorous reform of EU competition policy. This placed the EU and Australia on a roughly equal footing insofar as competition regulation is concerned, following Australia’s adoption of the *Competition Policy Reform Act* (Cth 1995). This means that responsibility for competition regulation is undertaken directly by the EU Commission, with portfolio responsibility held by the Competition Commissioner. All member governments are governed by a single administrative regime of competition regulation. Similarly, in Australia, the ACCC is responsible for implementing and administering the CPRA, rather than the former separate regimes administered by statutory regimes of the State governments. Standardization of EU product labeling has also benefited from a number of decisions from the EU courts. For example, recent decisions include labeling and control of organic products. Such product labeling standardization has progressively reduced business costs for distributors of foodstuffs, giving both EU and third-country wholesale distributors barrier-free access to the 500 million consumers in the EU Single Market, without facing the obstacles posed by NTBs. The EU-Australia Wine Agreements demonstrate how quality exports can have considerable market penetration. As at the end of 2014, Australian wine exports had risen to \$A1.82 billion per annum

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<sup>11</sup> The North American Free Trade Agreement (NAFTA), promulgated between the Canada, Mexico and the US in 1994.



(Australian Grape and Wine Authority, 2015). The volumes and scale permitted by exports to the EU have driven Australian wine production growth and exports globally throughout the last two decades. Other Australian beverages, such as beer, have long been successful in Europe. Major and independent brewery labels have experienced noteworthy market penetration, principally in the UK and Ireland, but Australian beers are also distributed widely throughout the EU.

### *Movement of natural persons*

There would be considerable advantages to both parties in the bilateral relationship if an AEUFTA adopted 'Mode 4' of the Third Protocol of the General Agreement on Trade in Services (GATS), adopted by the WTO in 1996 (WTO 2004).

'Mode 4' deals with the movement of natural persons, based upon an 'economic needs' test and labour market tests. Australia has operated a similar system via its 457 visa scheme for some years. Australian businesses have identified skilled labour mobility as a particularly important policy area that is designed to fill key positions where local labour availability is scarce. Equally, Australian firms operating in the EU view the ability of their Australian employees to work on a longer-term, but nevertheless temporary, basis in their European subsidiaries as a core objective. The AEUFTA should address this issue.

### *Recognition of professional qualifications and equivalence of qualifications*

Under the successive Framework Agreements, EU and Australian institutions and businesses have achieved a growing consensus upon mutual recognition of qualification. However, recognition has generally been on a country-by-country basis in Europe, rather than on a common, EU-wide basis. For example, neither France nor Australia recognize each other's diploma-level qualifications. In the accountancy profession, the European Communities (Recognition of Professional Qualifications) Directive<sup>12</sup> (European Commission, 2016) allows for the recognition of accountants who are admitted as qualified practitioners in the UK, or Australian members of Association of International Accountants (AIA).

The Commonwealth government has gone to some lengths to address this shortcoming by establishing the Australian Quality Framework (AQF) to support international worker mobility. The EU has adopted a similar common reference system, known as the European Qualifications Framework (EQF).<sup>13</sup> This was partly in response to professions, such as engineering, which identified the considerable difficulty of obtaining both visas and attaining recognition of qualifications. This was viewed as a complex technical non-tariff barrier (NTB) that the incorporation of a form of GATS Mode 4 into an AEUFTA would obviate (Engineers Australia, 2009: 7). The EQF was designed to standardize the recognition of skills in the 28 EU

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<sup>12</sup> Governed by Directive 2005/36/EC. Amended by Directive 2013/55/EC. See European Commission (2016).

<sup>13</sup> The EQF was transposed into all EU-27 member countries' national legislation by 2007.

member countries, plus the EFTA<sup>14</sup> countries. Under the EQF, numerical codes designating knowledge levels allow, for example, for direct comparison of the skills base of an electrical trades persons qualified in Poland seeking employment in the UK.

### *Education and research linkages*

Prior to 1997, Australia possessed only a single, dormant European Studies centre: the Centre for European Studies at Monash University, established in 1987. However, the European Commission, via its Jean Monnet Programme, as well as the large Framework Programmes, has made significant investments in joint scientific research and educational ventures in Australia.

In 1997, the EU Commission commenced funding of the National Europe Centre<sup>15</sup> at the Australian National University (ANU), which has continued to obtain more than €1.1 million funding every four years. In 2006, two more Europe Centres were funded by the Commission and opened at Monash University<sup>16</sup> and La Trobe, which headed the Innovative Universities consortium, which included Macquarie University, Sydney; The University of Newcastle; Flinders University, Adelaide; Griffith University, Brisbane; and Murdoch University, Perth.

The European Commission currently funds two Jean Monnet Chairs<sup>17</sup> and has made significant long-term commitments and investments into five European Union Centres:

- the European Union Centre at RMIT University, Melbourne
- the Hawke Centre at University of South Australia;
- the EU Centre for Global Affairs at the University of Adelaide;
- the EU Centre for Shared Complex Challenges at the University of Melbourne; and,
- the Centre for European Studies at the Australian National University, Canberra.

Australian researchers, academics and teachers are also recipients of substantial funding in areas ranging from the natural sciences, to engineering, medicine, law, commerce, the social sciences, humanities and the arts.

For example, the National Health and Medical Research Council (NHMRC, 2015) notes that Australian medical researchers have gained significant collaborative research funding under the recent EU Framework programmes, including the 7<sup>th</sup> Framework (2007–2013) and Horizon 2020 (2014–2020).

Australian expertise in European languages, business, legal systems and culture have experienced shortfalls and inadequate investment since at least the 1990s. Some of

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<sup>14</sup> EFTA, the European Free Trade Association, has only three remaining members (Iceland, Liechtenstein and Norway). It was integrated into the EU Single Market framework via the European Economic Area (EEA) Agreement of 1994. All Single Market Directives, Regulations and Decisions, as well as the internal market law decisions of the European Court of Justice (ECJ), have direct legal effect in the EFTA countries, plus Switzerland, with very few exceptions.

<sup>15</sup> Since 2010, renamed the ANU Centre for European Studies.

<sup>16</sup> The Monash European and EU Centre (MEEUC).

<sup>17</sup> The two Jean Monnet Chairs are Remy Davison (Monash) and Philomena Murray (Melbourne).

these gaps have been filled partially by EU-sourced funding. However, it is reasonable to anticipate that an AEUFTA would provide incentives for further funding by EU institutions of Australian research and educational initiatives, as well a rejuvenation of research collaboration with European public and private-sector partners.

## **5. Recommendations**

The EU Single Market delivers predictability to Australian exporters; the EU has harmonized market access regimes encompassing 28 countries, which are less complex for business to navigate than mega-regional agreements, such as APEC or the AANZFTA. An AEUFTA would also give Australian firms greater access to large EU public procurement markets. The EU is world's largest importer of commercial services, such as design, construction, tendering, outsourcing, legal services and telecommunication services.

This submission strongly supports the AEUFTA negotiations, as the absence of an EU FTA diverts both two-way trade and investment between Europe and Australia, particularly given that Australia's network of Asia-Pacific FTAs would be likely, in the long run, to discourage investment from Australia's largest investment partner. Under an AEUFTA, Australian firms would also gain greater access to the EU's very large public procurement markets. In addition, Australian universities possess the requisite knowledge bases and adequate basic resources to drive new, collaborative efforts with Australian and EU public and private sector enterprises across all areas of the natural sciences, social sciences and the humanities.

## **6, Concluding comments**

The TPP is one of the few FTAs that corresponds with 'WTO-plus' framework, exceeding the requisites of the existing WTO regime. The TPP is also a 'living agreement', meaning its provisions are dynamic, not static, thus allowing TPP members the option to adapt and develop the Partnership flexibly, according to requirements. TPP also includes high-standard disciplines, particularly in the area of the intellectual property (IP) chapter. This submission views the yardsticks established by the TPP should become the benchmark for Australia's current and future FTAs, and that the WTO-plus liberalization objectives fostered by the TPP should be extended to the AEUFTA negotiations.

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