

Submission: EU – Australia Free Trade Agreement Negotiations

Department of Economic Development,
Jobs, Transport and Resources

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The Victorian Department of Economic Development, Jobs, Transport and Resources (DEDJTR) welcomed the joint statement by the Australian Prime Minister, the President of the European Council and the President of the European Commission on 15 November 2015 announcing commencement of the process towards a comprehensive and high-quality Free Trade Agreement (FTA). We also welcome the opportunity to provide input to the Department of Foreign Affairs and Trade (DFAT) on issues relevant to a possible FTA between Australia and the EU. We acknowledge the importance of Australia's bilateral engagement with this market, and look forward to developments in the relationship that are in the best interests of the Victorian economy.

The Victorian Government is committed to achieving a stronger economic and trade relationship with the EU, and regards it as one of our most important traditional trade and investment partners. Despite our already well established relationship, there are real opportunities to strengthen and build on this and realise greater benefits for both markets.

A comprehensive reciprocal FTA between Australia and the EU could have a significant impact in strengthening the business relationship between the two economies. DEDJTR is keen to assist DFAT's consultations with exporters and investors to identify and target the most significant barriers to trade and investment in both markets. We will work closely with DFAT to help develop a detailed understanding of all issues relating to Victoria's trade and investment with the EU prior to and during negotiations. In particular, this may include:

- identifying all restrictions (tariffs, non-tariff barriers and regulatory arrangements) on trade between Australia and the EU;
- documenting the extent and impact of these restrictions;
- determining how an FTA could address these restrictions;
- analysing the impact of removing these restrictions at the national, state and industry levels;
- analysing the potential FTA within the broader context of both countries/regions existing multilateral/plurilateral/bilateral trade agenda; and
- analysing the potential FTA within the context of the Federal Government's current export policies and programs, and its emphasis on domestic economic reform as a necessary complement to trade liberalisation.

Trade policy context

Negotiations for an EU-Australia FTA will take place in a global trade environment characterised by a complex blend of multilateral, regional and bilateral agreements. While it is noted that comprehensive FTAs may complement and provide momentum to wider multilateral trade objectives, we encourage the Commonwealth Government to keep the World Trade Organisation (WTO) Doha Development Round of trade negotiations at the forefront of Australia's trade policy agenda.

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The December 2015 World Trade Organisation (WTO) agreement to remove export subsidies involving 160 countries will also have an impact on negotiations with the EU. It has been estimated that the agreement will scrap \$15 billion worth of subsidies, with the United States (US) and EU responsible for \$11 billion of those. The EU has utilised domestic production and export subsidies in the agriculture sector for many years, which are claimed to distort global prices for products such as dairy. However, the WTO agreement does not eliminate industry provided subsidies or domestic agricultural subsidies used by the US and EU, among others, to reduce production costs and risks for their own producers. An FTA with the EU could therefore build on this agreement by targeting domestic subsidies in the EU that effectively disadvantage Victorian exports, especially in agriculture.

It is also important that any FTA with the EU provides equivalent opportunities for Australian exporters and investors as are given to other EU FTA partners such as the Republic of Korea. This includes the Transatlantic Trade and Investment Partnership (TTIP) trade deal which is currently under negotiation between the EU and the US, potentially creating the world's biggest free trade zone.

Victorian and EU economic relationship

Goods Exports

The EU is an important market for Victoria, with two-way merchandise trade worth \$14.04 billion in 2014-15, representing 15.5 per cent of Victoria's merchandise trade (Australia's two way trade with the EU is only 10.9 per cent of total merchandise trade). The balance of trade massively favours the EU by \$11.51 billion. In 2014-15 the EU was Victoria's second largest trading partner (behind China), fifth largest merchandise export market (behind China, USA, New Zealand and Japan) and second largest source of merchandise imports (behind China).

Victoria accounted for 25.3 per cent of Australia's merchandise trade with the EU, considerably higher than Victoria's 17.7 per cent share of Australia's merchandise trade. This is primarily due to the Port of Melbourne being a major importation hub for manufactured goods for Australia.

Victoria's merchandise exports to the EU were worth \$1.27 billion in 2014-15, having decreased 27 per cent over the last three years from 2011-12's peak of \$1.74 billion. Victoria's major exports to the EU consist mainly of food and fibre products (wool \$155m, fruit & nuts \$126m, oil-seeds \$71m, leather \$54m), as well as medicaments (\$103m), pharmaceuticals (\$70m), measuring and analysing instruments (\$30m) and perfumes and cosmetics (\$25m). Victoria's chief export destinations in the EU are the United Kingdom (\$273m), Germany (\$220m), Netherlands (\$146m), Italy (\$144m) and France (\$115m).

Victoria's merchandise imports from the EU have remained relatively stable over the last several years and were worth \$12.78 billion in 2014-15. Victoria's major imports from the EU consist primarily of manufactured goods; passenger motor vehicles (\$2.02bn), medicaments (\$660m), pharmaceuticals (\$498m), measuring and analysing instruments (\$304m) and goods vehicles (\$281m). Major sources of imports are Germany (\$3.78bn), UK (\$1.85bn), Italy (1.62bn), France (\$1.13bn) and Spain (\$748m).

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Services Exports

The EU is also a particularly important market for Australian services exports, with total exports of approximately \$10.2 billion in 2014/15. The key markets within the EU are the UK (\$4.90bn), Germany (\$1.19bn), France (\$757m), Italy (\$563m), Ireland (\$528m) and the Netherlands (\$463). Within these markets, travel services dominate (mainly tourism), with financial and business services also of significance.

Tourism from the EU to Victoria is considerable and while growth from the largest market, the UK, has remained flat over the last several years, other significant markets such as Germany, France and Italy have seen annual average growth over the last five years approximately five per cent. There were 367,00 overseas visitors to Victoria from these four markets (16 per cent of total overseas visitors to Victoria) for the year ending September 2015.

Although there are no EU countries among Victoria's top ten source markets for international students, in 2014 there were around 9,400 students from the EU enrolled in Victorian institutions, representing over 5 per cent of Victoria's total international student market. The top six source countries were Italy (1,790), UK (1,395), Greece (1,177), Spain (929), Germany (833) and France (777), which in total made up 73 per cent of all EU enrolments in Victoria.

Investment

The EU is one of Victoria's primary sources of foreign direct investment (FDI). According to figures from fDi Markets¹, close to 40 per cent of FDI projects into Victoria have come from the EU, contributing over a third of total capital expenditure from FDI projects².

The UK is the largest source of investment followed by Germany, France, Italy and Spain. The food and beverage industry has attracted significant investment, as has renewable energy (wind), software and IT, business services and retail. Recent major investors include Acciona (Spain), Aldi (Germany), Renewable Energy Systems (UK), IKEA (Sweden), GSK (UK), Rabobank (Netherlands) and DHL (Germany).

Negotiating principles

The Victorian Government recommends that the Federal Government publicly outline its principles and objectives at the outset of the EU FTA negotiations. These should include:

- i. The FTA should be comprehensive in scope, covering trade in goods, services and investment and tariff and non-tariff barriers;
- ii. The FTA should result in significant and lasting net economic benefits;
- iii. The FTA should be implemented fully within a reasonable timeframe;
- iv. The FTA should be as simple to understand and implement as possible in order to maximise uptake by eligible firms;

¹ An FDI tracking database that utilises media releases and other public information.

² fDi Markets does not measure all inward FDI into Victoria. Estimates suggest it may measure between 5-10 per cent.

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- v. The FTA should not impinge on the right of governments to regulate on social and environmental matters, for example laws relating to public health, safety and welfare;
- vi. Australia should receive most favoured nation (MFN) treatment across the 28 EU member states; and,
- vii. The Commonwealth Government should assist any Australian industries and/or regions which face significant structural adjustment issues as a result of an EU-Australia FTA.

Opportunities/Barriers to Trade

A comprehensive EU-Australia FTA could provide a number of opportunities to expand Victoria's exports to the region and improve our competitive position in the global market. Key interests and benefits include:

- Strengthening Victoria's trade and investment relationship with the EU;
- Removing/reducing barriers to trade in goods, especially for food, beverage and manufactured goods (medicaments);
- Expanding services linkages and investment ties; and
- Enhancing regulatory cooperation in specific sectors of interest to business, promoting mutual recognition in key areas and improving harmonisation of processes and technical requirements.

Agriculture

Over 30 per cent of Victoria's exports to the EU worth nearly \$400 million are agricultural products, including wool and fruit and nuts. Some of these exports to the EU have grown significantly in recent years, for example fruit and nut exports have increased from \$16 million in 2010-11 to \$110 million in 2014-15.

Negotiations of an FTA should consider current tariff, quota and certification requirement barriers to entry especially with meat, dairy and horticulture.

EU agriculture is heavily subsidised by world standards. The European Agricultural Guarantee Fund (EAGF) provides direct payments to farmers under the EU's Common Agriculture Policy. The EAGF expenditure in 2014 was €44.3 billion (30% of the EU budget), with 91 per cent of this funding (€41.7 billion) being provided as direct aids to 7.6 million beneficiaries. France receives the largest share of payments (€7.8 billion), followed by Spain (€5.1 billion), Germany (€5.1 billion), Italy (€3.9 billion) and the UK (€3.2 billion).

Any FTA negotiations between the EU and Australia need to consider these subsidies and their impacts on prices and free trade. Victorian agriculture would welcome improved market access to the EU market and given Victoria's competitive advantage in food production, this would represent a vital gain as part of an FTA with the EU.

Through industry consultation DEDJTR has identified a number of tariff rate quota and non-tariff barriers that effectively operate to impede exports from Victoria to the EU, especially for agricultural

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products (see Table 1). For example, restrictions relating to the enforcement of geographical indications are having an impact on some food exports from Victoria, such as feta cheese. It is our hope that FTA negotiations would aim to address key behind the border barriers either directly as part of the agreement or through side letter commitments to liberalise the EU market.

Table 1: Industry Feedback on EU-Australia FTA Negotiations

Peak body	Comments on EU-Australia FTA Negotiations
<p>Australian Horticulture Exporters Association</p>	<ul style="list-style-type: none"> • The recent WTO decision to eliminate agriculture export subsidies is an important decision that will lead to a more level playing field over time for Australian exporters. • The EU adheres to Global Good Agricultural Practices (GAP) standards (an internationally recognised set of good practice farm standards). Through certification, producers demonstrate their adherence to Global GAP standards. • Exporters need to show they comply with production standards as determined by the Global GAP certification scheme. • Producers are required to pay for certification which represents a significant barrier to market access for many horticulture exporters. <p>An additional barrier for the industry is the high cost of air freight for exports into EU. Unlike to Asian markets there are no direct routes into the EU.</p>
<p>Australian Meat Industry Council</p>	<ul style="list-style-type: none"> • The EU is a significant, high value market for beef; however Australian beef has been significantly constrained by import quotas over the last 30 years. • Since 2010, Australia has gained entry to the EU for grain-fed beef via the US negotiated High Quality Grain Fed Beef quota, under the terms of non-country-specific access. • The quota is currently 48,200t in size, and beef exports to the EU have increased substantially in the last 3 years as a result. • FTA negotiations should seek to protect this quota access or ideally establish a country-specific quota. More info at: http://www.beefcentral.com/features/beef-2015-report/seek-separate-beef-quota-access-to-eu-customers-urge/ • Australian sheep meat exports to the EU are limited by a 19,186 tonne carcass weight equivalent Tariff Rate Quota. • New Zealand is a significant competitor and negotiated much higher quotas to the EU in the late 1970's. • EU FTA negotiations should seek to raise the existing quota for sheep meat exports.

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Peak body	Comments on EU-Australia FTA Negotiations
Grains Industry Market Access Forum	<ul style="list-style-type: none"> • The EU has fairly free trade for Australian exports of grains; key markets include Italy (durum wheat), Belgium and Holland (canola). • In 2009 the EU implemented the Renewable Energy Directive (RED) which set regional renewable energy targets. This increased canola demand in the EU, which recently became the most valuable market for Australia’s canola exports. • The RED imposes compliance and audit requirements and costs on Australian growers to ensure that the canola is produced sustainably. • Strict labelling requirements in the EU act as a disincentive for Australian exporters of genetically modified (GM) produce, and enable non-GM canola producers to enjoy a large premium for their product. • Australian canola exporters are vulnerable to changes in the RED or changes to the acceptability of GM canola.

Professional Services

Services trade between the EU and Australia is becoming increasingly important, with two-way services trade worth over \$26 billion in 2014-15. Traditional and well established export markets such as the EU are especially high value destinations for professional services exports from Victoria. It is therefore important that any barriers to growing exports of these services are addressed as part of any FTA negotiations. Of particular importance to professional services are issues affecting mutual recognition of professional qualifications, Victorian businesses establishing a presence in the EU market and ease of movement of persons between the two markets.

People to People Links

Victoria is a diverse multicultural society and is home to a large number of European migrants notably from the UK, Italy and Greece. The large number of migrants from Europe and the UK arriving in the post war period has had a major impact on shaping the economic and cultural landscape of Victoria. As at the last Census, almost half a million Victorians were born in an EU country and over 3.5 million Victorians identified with an EU country ancestry. These strong people to people links represent a valuable resource and opportunity to build investment and trade between Victoria and the EU.

Ease of travel and migration between Australia and the EU is an important foundation of our continuing relationship and trade/investment links. Working and travelling in Europe provides an opportunity for many Victorians to learn about the rich culture of EU countries, develop new skills and accelerate careers and professional development. The free movement of people between the two communities has enriched and strengthened both regions and it is important that migration policies of both the EU and Australia recognise this mutually beneficial relationship.

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Summary and Conclusion

Victoria supports the negotiation of an EU-Australia FTA, recognising the potential to increase commercial opportunities for Victorian businesses through better market access and engendering a culture of continued trade and investment liberalisation across the EU. As negotiations commence, the Federal Government should work closely with state/territory governments to obtain meaningful intelligence and input from companies actually trading with or investing in the EU.

The proliferation of trade agreements in which Australia is involved has brought many benefits. However in negotiating new agreements, the Federal Government needs to focus on ensuring outcomes are transparent and easy to use for businesses. In some cases, existing FTAs are highly complex and technical, involving different rules of origin and tariff classifications as well as overlapping with other international trade agreements. With the estimated uptake of FTAs by eligible business considered relatively low in Australia, ensuring that businesses are consulted throughout the negotiation process and informed about how to use FTAs once they are finalised is vital to realising the benefits of these agreements in practice.