



## Speech to National Europe Centre

### EU-Australia trade symposium

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Ladies and Gentleman, distinguished guests

The EU and Australia have enjoyed strong overall relationship for many years, based on a foundation of shared history and shared values.

Our bilateral cooperation spans a number of areas – many of them relevant to the EU-Australia trade and business relationship.

I will review key aspects of the EU-Australia trade and business relationship, and examine some of the challenges it faces in the context of a changing global trade and investment landscape. The key questions I will ask in this regard are – can these challenges be managed? If so, how? And importantly, how can we turn these challenges into opportunities to foster a stronger bilateral trade and business relationship?

#### EU in the world

As noted in some of yesterday's presentations, the European Union is the **largest economy in the world**, accounting for roughly **30%** of global gross national product, or \$A19.3 trillion in 2006. This is **10% larger** than the next largest economy, the United States, which

**The EU as a global economic power**

- **The largest economy in the world**
  - 30% of world GDP (\$A19.3 trillion in 2006)
  - 10% larger than the US (\$A17.5 trillion in 2006)
- **The world's largest trader**
  - 20% of global trade in goods and services
  - In goods, largest exporter and world's second largest importer
  - In services, both largest exporter and importer in the world
- **A competitive economy**
  - 6 out of the 10 most competitive countries are EU Member States (Source: World Economic Forum)
  - 8 Member States are in the top 15 countries forecast to have the best business environment in 5 years (Source: Economist Intelligence Unit)

had an estimated GDP of \$A17.5 trillion.

The EU is also the **world's largest trader**, accounting for approximately **20%** of global trade in goods and services. In goods, the EU is the world's largest exporter and the world's second largest importer. In services, it is both the largest exporter and the largest importer in the world.

6 of the world's 10 most competitive countries are EU Member States, with 25 out of 27 Member States featuring in the top 50. The Economist Intelligence Unit forecast last year that 8 EU Members States would be in the top 15 countries worldwide with the best business environment over the next five years.

The EU, therefore, commands **economic muscle** that should not be overlooked.

### EU-Australia trade and investment relationship

Australia benefits from a strong, competitive EU economy. Although the focus in media and political circles has tended to be on Australia 's trading relationships with Asian economies, in fact, the EU has been Australia 's **largest two-way trading partner** for over 20 years - as noted by many speakers in yesterday's session.



The infographic features a blue background with a map of Australia and the EU flag in the top left. The title is in large yellow font. Below it, three bullet points are listed in white text, each with a yellow dash. The European Union logo and name are in the bottom right corner.

**The EU as Australia's largest trading partner**

- Australia's largest two-way trade partner for over 20 years
  - Goods (EU is Australia's **largest** source of imports and **third largest** export market)
  - Services (EU is **largest** exporter and importer of services to and from Australia)
  - Investment (EU is Australia's **largest** investor and **second largest** destination for Australian investment)

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In goods, the EU is Australia 's **largest source of imports**, and recently regained its ranking as the **third largest export market** for Australian goods.

Reflecting the EU's lion share of world services trade, the EU has consistently been both the **largest exporter and importer of services** to and from Australia.

Importantly, in investment, the EU also plays a leading role, which is often overlooked. The EU is **Australia 's largest investor** , accounting for 33% of total inward investment stock (\$A480bn). This is comfortably ahead of the next largest investor, the United States , with a 25% share (\$A363bn).

Furthermore, the EU is also the **second largest destination** for Australian investment overseas, accounting for a 31% of total Australian investment stocks in 2006.

### Bilateral cooperation

Our overall business and trade relationship is built on a very strong foundation - but our relationship extends further than this. We have a number of instruments to facilitate bilateral trade – including an agreement on trade in wine, currently Australia 's largest export to the EU. We also have a bilateral agreement on the mutual recognition of conformity assessment bodies in major industrial sectors. Both these agreements are designed to tackle behind-the-border barriers faced by Australian and EU exporters in accessing each other's market.

And Australia and the EU maintain a regular annual dialogue on issues relevant to the bilateral relationship.

### But is it all really that rosy?

So even if it would appear that the EU-Australia relationship is going forward into the 21st century on a very sound footing, we could legitimately ask ourselves, is this really the case? Can we sit back and look forward to plain sailing in our relationship in the future? Or does our relationship face challenges that we must confront?

Indeed, the challenges faced by our relationship should not be underestimated. Although there has been a tendency in the past to take each other for granted – we are both stable, reliable partners – the future may not be quite so rosy for the EU-Australia trade and business relationship.

The EU's share of total two-way trade with Australia has remained fairly stable since 2001. But the rate of growth in EU-Australia trade has not matched the rate of growth of Australia's other major trading partners – including most prominently China.

In 2006, China's two-way trade with Australia had grown by an impressive 107% from 5 years ago (albeit from a relatively small base). Its share of total Australian trade has been steadily rising, doubling from 5% in 2001 to 10% in 2006.

Compared to this, the rate of growth of EU-Australia two-way trade for the same time is a healthy but more modest at 26% - although this partly reflects the maturity of our relationship and the fact that it is already well-established.

The message to draw out from this data is, I believe, that while the EU remains Australia's largest two-way trading partner – a position, as I have mentioned, that it has occupied for over 20 years – this may not be the position we hold in the future, as rates of growth of other countries' two-way trade continue to outstrip our own over a longer period.

Notwithstanding the picture that emerges from the aggregate data, the EU is an especially important partner for Australia in services and investment. On 2006 data, the EU accounted for 21% of total two-way trade in services with Australia – a share which has remained more or less constant over the last five years. This compares to China's still small share of 5% of two-way services trade, which increased from half that share (2.5%) five years ago.

It is also significant to note that China's total share of investment stocks in Australia **did not even total 1% of the EU's share** in 2006.

So while the aggregate picture may be a little discouraging in terms of our future relationship, in fact particular sectors – especially services and investment – possibly provide cause for optimism about the ongoing strength and longevity of our trading relationship.

Accordingly, it seems to me that our relationship could secure a bright future in value-added products such as services, such as advanced manufactures, and the interface between these two sectors. The Australian Trade Minister, Simon Crean, has already signalled that this will be a priority area for Australian trade policy.

The EU has much in common with Australia in this regard, with services accounting for roughly 70% of the EU economy, and an even higher proportion in Australia. The recent services directive adopted by the EU, which is due to be implemented at the end of 2009, will further strengthen the EU internal market for services and provide enhanced opportunities for Australian business.

But, from a broader perspective, there are many other challenges facing our relationship.

As recent reports have suggested, Australia is a relatively remote country from major OECD markets.

European immigration to Australia has declined in recent years, especially relative to the large numbers of European immigrants that settled in Australia after the Second World War and that have largely



**But is it all that rosy?**

- Faster growth of Australian two-way trade with other partners – e.g. China
  - While EU share of Australian two-way trade has remained relatively stable over the last 5 years, this may not continue in future
  - Services and investment – scope for deepening the bilateral trade relationship?
- Australia relatively remote from major OECD markets
- Declining rate of EU immigration in recent years
- Australia a medium-sized economy (21 million people; 1.5% world trade; 14<sup>th</sup> largest economy)
- Ongoing Australian criticism of Europe's Common Agricultural Policy

European Union

contributed to the development of people to people, cultural, scientific and economic exchanges with their former home countries.

The argument has also been made that Australia is not an especially important market – it has a population of only 21 million, accounts for only 1.5% of world trade, and is the fourteenth largest economy in the world.

There are other challenges that are thrown up specifically in the context of the EU-Australia relationship.

Australia's historically strident views of Europe's Common Agricultural Policy have been what some might call a "thorn in the side" of an otherwise healthy relationship. This is notwithstanding the fact that genuine reforms to the CAP are ongoing, and have come a long way from 10, even 5 years ago. It is also notwithstanding the fact that the EU is on the whole an open economy – especially so in the areas of services and manufactures, which are much more important to the world economy.

We would welcome further public recognition from Australia that Europe has embarked upon a path of genuine reform in this area of agricultural policy.

Finally I would add that there are still a lot of so-called "euroscepticism" – or perhaps even more Euro ignorance – in Australia that doesn't always help the development of a good business relationship.

The consequence of these views, combined with Australia's relative remoteness, its relatively small population and economy, and its small proportion of world trade, is that some in Europe may be inclined simply not to bother. Some may be more attracted by the lure of high-growth Asian economies with populations far greater than Australia and indeed than Europe.

But this is certainly not my view – nor is it the view of the European Commission.

There are many reasons why I would refute the thinking I have outlined above. I will mention just a few of them.

### Scope for enhanced partnership

- Australia a medium sized market of affluent consumers
- Australia is a "springboard" to Asia
- Australia is well-positioned in the South Pacific region
- Australians are well known for their entrepreneurial spirit
- What Australia and the EU have in common on trade policy is far greater than any differences

First of all, Australia is a medium-sized market of affluent and discerning consumers – a perfect fit, in many ways, for Europe's strong suit in value-added exports of services and manufactures.

Second – to turn the argument about the "tyranny of distance" on its head – Australia is a springboard to the high growth Asian economies that I just mentioned.

Importantly, it offers the advantages over and above other countries in the region: low sovereign risk; a predictable business environment; a stable political system; a well-established set of institutions and rules; and a commitment to the rule

of law.

These are features, incidentally, which I believe Australia and Europe share – making them even more natural partners in trade and business.

Australia is also well-positioned in the South-Pacific region, which is a very important area for Australia and Europe alike.

We place a great deal of importance on our development partnerships with the Pacific Island countries, and to assist these countries in every way we can on the path to development; to their integration into the world economy; to tackling challenges in relation to the environment and climate change. In this

regard, Australia and the EU have many similar policy objectives, and our cooperation in this area has been growing steadily – although we should expand this cooperation still further.

Third, Australians are well known for their entrepreneurial spirit.

This makes Australia and the EU natural collaborators in research and development – which both Australia and the EU recognise as critical for boosting our status as knowledge economies. Importantly, the EU and Australia have had longstanding cooperation in this field, with 110 joint research projects under the umbrella of the EU's Framework Programmes from 2002-2006, which were worth a collective total of some €970 million – roughly equivalent to \$A1.6 billion. As noted by one of the speakers yesterday, the EU's latest Framework Programme has funding of some 50 billion euros – roughly equivalent to \$A85 billion – which provides even greater opportunity for EU and Australia research collaboration.

In this area of research, there could be scope for even more enhanced cooperation in developing new technologies to tackle the problem of climate change – noting that the EU and Australia share much in common in their approach to climate policy, which is one of the greatest challenges facing our planet today.

Importantly, both Australian and European leaders have now recognised that climate change represents opportunities as well as risks – opportunities for new economic sectors to flourish in the areas such carbon abatement and low-carbon products and technologies.

These synergies between Australia and Europe could very well represent a new frontier in our close bilateral trade and investment relationship, and provide yet further scope for deepening and broadening our cooperation.

And on trade policy, what Australia and the EU have in common is in fact far, far greater than any differences between us.

### **In area of trade policy, we share many common objectives**

The EU and Australia are committed to working together to do all within their power to guide the Doha Development Round to a successful conclusion – because both the EU and Australia share the belief that the biggest gains from trade liberalisation are possible through the multilateral system.

We both see the benefits from lowering barriers to trade, and we both benefit from our status as active traders on the world stage.

As I have mentioned, the EU is on the whole an open economy – especially in the areas of greatest significance to the global economy such as services and manufactures – and Australia and the EU have a shared interest in tackling these issues at the WTO.



**The way forward**

- **Scope for enhanced bilateral trade cooperation in:**
  - Regulatory/behind the border barriers to trade
  - Expanding the coverage of existing agreements (e.g. MRA)
  - Air services liberalisation
- **New strategic partnership, which currently foresees 5 pillars of cooperation**
- **But possible to extend our cooperation still further into new areas, eg.**
  - Parallels with Europe's Lisbon Strategy and Australia's integrated trade, industry and infrastructure policy
  - Visa facilitation

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In the context of the WTO, we also have a shared interest in tackling barriers to trade that go beyond the traditional tariff barrier.

Our cooperation in the WTO on all these issues has been close and productive. We look forward to this cooperation continuing in future to bring about a successful conclusion to the DDA round.

But it is true that our cooperation on trade-related issues could extend still further. We could develop a new generation of agreements that go beyond traditional WTO disciplines, and forge even better business to business relations. For example, we could enhance bilateral cooperation in tackling regulatory and behind the border barriers in each other's market – with many speakers noting yesterday that this represents the “new frontier” of tackling impediments to trade, as traditional tariff barriers have diminished worldwide. We could expand the coverage of existing agreements – such as the Mutual Recognition Agreement – to new sectors. We could negotiate a comprehensive air services liberalisation agreement – and indeed, we are taking active steps to do so.

I firmly believe that we should build on our strength to take a forward- looking approach of where our cooperation can extend in the coming years. Now is the time to be putting all of our ideas on the table in terms of new frontiers of EU-Australia cooperation – which is why I am very pleased to have heard some of the ideas that were suggested at yesterday's session.

Lastly, in response to the challenges and pitfalls that our relationship may face in the future, may I say that we warmly welcome opportunities to strengthen our relationship in cooperation with your newly elected Australian government.

When the political will is there, it is amazing what can be achieved.

It is with great pleasure that I note that PM Rudd has already signalled his intention to visit the European Commission's headquarters in Brussels – an intention which we warmly welcome, and which we hope will be reciprocated by the visit of our President of the Commission, Barroso, in due course.

This visit would be the first by an Australian Prime Minister for many years.

It is a unique opportunity to review the many areas where the EU and Australia have a common approach to tackling issues – from the challenge of climate change to enhancing our economies' competitiveness through an integrated approach to skills, productivity and infrastructure.

It is also with great pleasure that I note that a number of senior Australian Ministers have already gone, or are soon planning to go, to visit the European Commission in Brussels . The very first of these – the “first cab off the rank”, as you tend to say here in Australia – was Trade Minister Simon Crean in January this year. And Innovation Minister Kim Carr just last week.

During their meeting, Minister Crean and our Trade Commissioner, Peter Mandelson, agreed that Australia and the EU share much in common in their approach to trade policy

As David Spencer mentioned to this symposium yesterday, Australia and the EU are currently looking at developing a new partnership framework for enhanced bilateral engagement in the 21st century.

This new key partnership agreement provides a unique opportunity to review our relationship and develop a strategic approach to managing the challenges and risks I have just mentioned.

Currently, five key pillars of cooperation are foreseen under the new partnership agreement - security; Asia-Pacific; energy, climate change and the environment; trade; and research, education and innovation.

But as I have mentioned, there is scope to extend this cooperation still further into new areas – areas where our cooperation has not existed before. I have already mentioned a few of these.

But there are others – including the synergies between Europe 's response to globalisation and what the Australian government is trying to achieve in its integrated approach to infrastructure, skills, and boosting competitiveness. We could also consider enhanced cooperation on visa issues to facilitate even greater people-to-people links between Australia and the EU.

Indeed, with the right framework and the right amount of political will, these challenges can be turned into opportunities to enhance our relationship still further.

## Conclusion

May I conclude now, ladies and gentleman, by saying that notwithstanding the challenges facing the EU-Australia relationship, there is much cause to be optimistic about the future of our relationship, for the reasons I have just mentioned.



**A bright future for EU-Australia cooperation**

- EU and Australia start from a very strong foundation
- New partnership agreement a historic opportunity to deepen and broaden our engagement into new areas

European Union

Contrary to what some might think, Europe sees Australia as a valuable partner in the Asia-Pacific region – a region in which Europe will increasingly have a bright future. The draft Lisbon treaty, which is currently awaiting ratification by the 27 Member States of the Union, will create an even more integrated and dynamic Europe, with a strengthened international voice in key policy areas. As the European Union continues to evolve and diversify, so too do the opportunities for strengthening the EU-Australia relationship.

Importantly, the EU and Australia start from a very strong foundation.

Our bilateral cooperation on a range of areas, including on the DDA round, and on issues such as education, research, development, and security, will remain strong and robust.

There is real scope to broaden our cooperation on climate policy, including on developing new technologies, products and services for a future low-carbon economy, as well as on the Pacific, on security, and on the host of bilateral trade issues I have mentioned.

And with the right political will, we can transform our relationship into a strategic partnership for the 21st century.

Thank you