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**Article**

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# THE EUROPEAN UNION'S TRADE RELATIONS WITH AUSTRALIA

Ludmila Borta\*

**Abstract:** *The European Union is a major player in the world economy and also the largest trading player on the global scene, accounting for about 20% of world imports and exports. The elimination of trade barriers within the EU confirmed its commitment to global trade liberalisation as it is an important part of multilateral trade negotiations. Apart from WTO trade agreements, the European Union concluded a number of bilateral trade agreements with certain countries and regions in the world. The aim of this paper is to present the EU-Australia trade relationship, Australia being an important trading partner of the EU. The trade flows between them includes both agricultural and non-agricultural products. The database that has been used is represented by the information published by the European Commission and the Australian Government. In conclusion, we found that both EU imports from Australia and EU exports to Australia are dominated by non-agricultural products.*

**Keywords:** trade relations; EU's imports; EU's exports; Australia; trade partnership

**JEL Classification:** F1; O24; Y10

## INTRODUCTION

Considering the total area of a country or a region, Australia is the sixth-largest country in the world, comprising the continent of Australia, a number of smaller islands, and the island of Tasmania. This country is a territory which has six states, namely Victoria, Tasmania, Queensland, South Australia, New South Australia, and Western Australia. Australia is a wealthy country with a market economy and a relatively high GDP per capita. With the European Union, Australia enjoy a constructive and substantial bilateral relationship, having a number of formal bilateral agreements with this region and its institutions.

As an economic and commercial bloc, the European Union constitutes one of the largest trading and investment partners of Australia. With its abundant natural resources, Australia is well placed to be a reliable and an efficient supplier of energy to the European continent for many years to come. Australia and the Union cooperate closely in the Asia-Pacific region, to enhance security, stability and good governance. The Australia-EU Partnership Framework of 2008 is designed to be revised regularly. Key areas of cooperation are: security; development cooperation; climate change, environment and energy;

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science and research; and education and training. As regards to bilateral economic and trade relationship, EU and Australia have a convergence of views on many global economic issues. Europe is now a major market for wine and for medicines from Australia. The European Union services market (particularly in the education and tourism sectors) is a major market for Australian service providers, product niches being found in the food and beverage industries (European Union brief: Australia`s relations with the European Union, 2013).

It is known that trade stimulates global economic growth, for the benefit of all participating countries and regions. Globally, international trade rules are set both on multilateral base and on bilateral/regional base. Thus, the European Union has developed, apart from its participation in WTO rounds, a significant number of bilateral/regional trade agreements with certain countries and regions in the world, including Australia. Trade liberalisation allows the most competitive European companies to compete with those from other countries, in fair competition. As a world`s major trading player, the European Union is considered by Australian authorities an important market which can offer for Australian citizens opportunities to have access on European both agricultural and non-agricultural products. Trade between the EU and Australia includes many groups and sectors of products.

## **1. THE TRADE PARTNERSHIP BETWEEN THE EUROPEAN UNION AND AUSTRALIA**

For the EU, and also for many countries and regions from the whole world, trade has many benefits. In this way, the EU can procure the best products and services for its citizens, increased trade offering a greater variety of goods to consumers, at lower prices. As the world`s largest trading bloc, more trade for the European Union means more economic growth which can help to overcome the economic and financial crisis. Trade also implies more jobs and makes it easier to exchange innovative or high-technology products, and reducing poverty. Competition in the European Union can be boosts as well as competitiveness, trade agreements making it easier to do business.

The EU and Australia enjoy a broad-based trade relationship and on many international trade issues the European Union and Australia are like-minded. Australia is an important trade partner of the European Union. In today`s international trade environment, they share many common concerns (for example, the risks of protectionism and the issue of raw materials). Their economic and trade relations



are based on the EU-Australia Partnership Framework of October 2008. At the same time, the European Union and Australia cooperate both multilateral, on the Doha Round of the World Trade Organisation of world trade talks and trade in services and investment issues (the objectives of the European Union for this round are also: to agree a new set of rules to govern the use of trade defence instruments; in market access negotiations for the services trade and for the industrial goods sector; to further improve the WTO rules on subsidies that distort the production of industrial goods etc.), and bilateral to facilitate trade in industrial products between them by reducing technical barriers, including mutual recognition of conformity assessment procedures (Countries and regions: Australia, 2012).

Under the European Union-Australia Partnership Framework these two regions have agreed especially on the following issues:

- to recognise their shared values and close economic, politic, cultural and historical ties;
- to acknowledge the challenges of globalisation;
- to support the multilateral and bilateral cooperation;
- the EU-Australia dialogue in support of foreign policy and global security interests;
- to recognise the need for heightened effective international cooperation in an increasingly interdependent world;
- to recognise the importance of two-way trade between the European Union and Australia;
- to reaffirm their commitment to the development of a healthy world economy in accordance with the principles of the WTO;
- to recognise the value of the multilateral trading system;
- to promote the multilateral rules-based trading system;
- to expand and consolidate the bilateral trade relationship;
- to cooperate on environment, energy security, etc.;
- to enhance bilateral/regional cooperation and coordination in relation to the Asia and Pacific region;
- to strengthen cooperation in innovation, science, research, technology (Australia-European Union Partnership Framework *n.d.*).

In regard to international trade and the positive effects it provides for the world economy and world trading system, Australia and the European Union share the same basic values. Investments and



trade are important elements of the relationship between the EU and Australia. As we mentioned earlier, their trade interests are pursued through a rules-based multilateral trading system (the World Trade Organisation), but also the European Union and Australia consider that the system of that organisation can be complemented on a bilateral basis by "WTO plus" Free Trade Agreements.

The collaboration between Australia and the European Union are based on shared interests to deepen their close cooperation on the multilateral system. These two regions are agreed to work towards a comprehensive outcome of the Doha Round (the WTO) as soon as possible through regular dialogues on different trade policy issues of mutual concern that may be treated within a multilateral framework. The EU and Australia exchange information on policy approaches to FTAs (Free Trade Agreements) and on their respective FTA agendas. For these objectives the EU and Australia have agreed to take a number of actions, which desired outcomes have been:

- a broader and stronger trade and investment EU-Australia partnership;
- to cooperate in shaping the international trade policy agenda;
- stronger EU-Australia business-to-business linkages;
- to cooperate on implementation of G20 Leader`s Commitments (G20 members account for 80% of global trade and for 85% of the world economy);
- a mechanism that simplified the resolution of Sanitary and Phytosanitary (SPS) and/or food safety issues between the European Union and Australia;
- to finalise negotiations on a Comprehensive Air Transport Agreement between the EU and Australia. This agreement might provide a practical framework for cooperation on aviation environment issues, enhancing market access and investment opportunities;
  - to strengthen aviation relations between them;
  - to develop the bilateral trade relationship;
  - to increase capacity for dialogue on proposed new regulations on bilateral trade, reducing risk of adverse impact of new regulations;
- stronger EU-Australia government-to-business linkages (Australia-European Union Partnership Framework *n.d.*).



## **2. THE EU'S TRADE WITH AUSTRALIA**

The European Union and Australia work together in the G20 context to promote global economic growth and recovery. They agree to meet the current challenges facing the international economy, the trade being for them an important element. The EU, as a commercial bloc, constitutes for Australia one of the largest trading partners. The EU's market access is generally open for imports of goods and services from Australia. Both regions are disappointed by the current impasse in Doha Round (WTO) negotiations and share ambition to overcome the current challenges to achieve a successful outcome in the WTO Doha Round of multilateral trade negotiations (European Union brief: Australia's relations with the European Union, 2013).

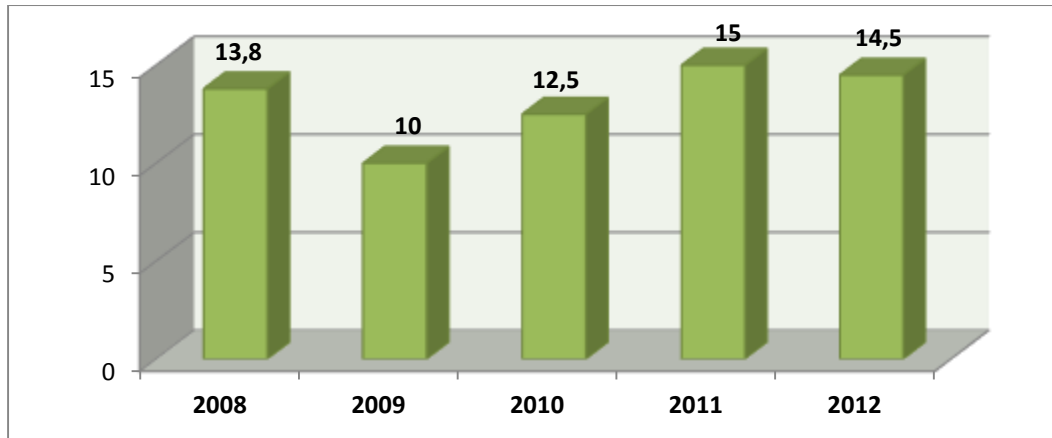
Australia is an important trading and economic partner of the European Union. In 2011, it ranked as the 15th largest trading partner after China and Japan. In 2012, total trade in goods amounted to 48.3 billion euro. By Standard International Trade Classification (SITC) section, the EU's imports from Australia are dominated by commodities and transactions (accounting for 24.7%), mineral fuels, lubricants and related materials (accounting for 22%), and crude materials, inedible and except fuels (accounting for 20%). While EU's exports to Australia have much more focused on machinery and transport equipment (accounting for 52% of total EU's exports to Australia) (Countries and regions: Australia, 2012).

### **2.1. EU's Imports from Australia**

In 2012, the value of total trade in goods and services of Australia increased approximately 1.5%. In volume terms, total trade of this country increased 7%, compared to 2011. The European Union accounted for 13% of Australia's total trade. The value of total exports of Australia decreased by 4%, but export volumes increased by 7%. Exports of this continent to members of the European Union fell 9%. According to statistical database published by Australian government, in 2012, principal exports of Australia to the European Union were dominated by the following products: gold; coal; oil-seeds and oleaginous fruits, soft; confidential items of trade; lead; medicaments (including veterinary); other ores and concentrates; alcoholic beverages; etc. (Composition of Trade Australia 2012, 2013, p. 101).



**Figure 1 - EU's imports from Australia (billion euro)**



Source: Own processing after the European Commission Statistics

In 2012, Australia was for the European Union one of the major import partners (namely, the 26th import partner). The European Union's imports from Australia accounts for 0.8% (14.5 billion euro) of total EU's imports. In Figure 1 we present the evolution of the level of values of EU's imports from Australia for five years, from 2008 to 2012. Thus, it can be seen clearly that the economic and financial crisis of 2007-2008 has a negative impact on trade relations between Australia and the European Union. With the global economic crisis, the European Union entered recession in the second quarter of 2008. The subsequent recession was the longest and deepest in the EU's history, lasting until the second quarter of 2009 with a total contraction of 5% (measured as a decline in GDP from peak to trough). According to European Commission, the value of EU's imports from Australia decreased by 28% in 2009 compared to 2008. Thus, in 2009, the level of exports from Australia to the European Union decreased from 13.8 billion euro to 10 billion euro. This trend was a reflection of the value's level of EU's imports from World which decreased by 22% in 2009 compared to 2008. But, in 2010 and in 2011 the value of European Union's imports from Australia was increased approximately 20% for each year compared to the previous year. In 2012, those decreased 3% compared to 2011. The value of imports from Australia represent approximately 1% of total EU imports for each those five years.

**Table 1 - EU's imports from Australia, by SITC section (2012)**

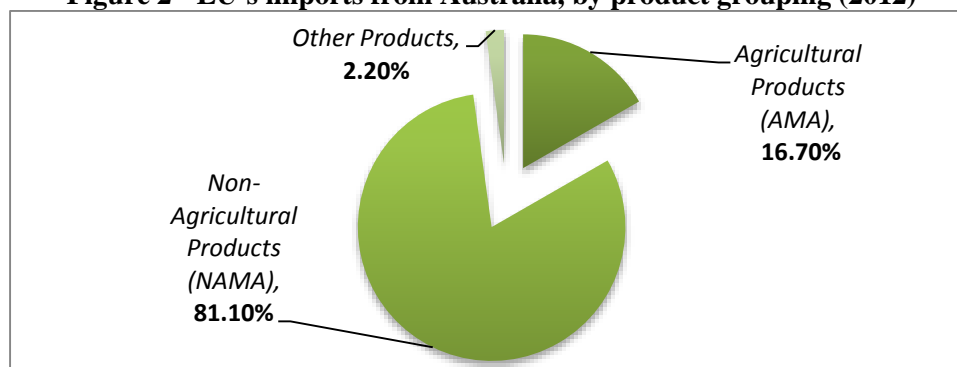
SITC Sections	Value (billion euro)	Share of total (%)	Share of total EU import (%)
Commodities and transactions n.c.e.	3.581	24.7	4.9
Mineral fuels, lubricants and related materials	3.197	22.1	0.6
Crude materials, inedible, except fuels	2.910	20.1	4.1
Manufactured goods classified chiefly by material	1.371	9.5	0.8
Machinery and transport equipment	884	6.1	0.2
Chemicals and related prod, n.e.s.	728	5.0	0.5
Miscellaneous manufactured articles	639	4.4	0.3
Beverages and tobacco	567	3.9	7.5
Food and live animals	496	3.4	0.6
Animal and vegetable oils, fats and waxes	10	0.1	0.1
Total	14.479	100	0.8

Source: Own processing after the European Commission Statistics

For to present a classification of products that represent import goods of the European Union in 2012, we chose the Standard International Trade Classification (SITC). This is a product classification of the United Nations used for external trade statistics, allowing for international comparisons of commodities and manufactured goods. Thus, in 2012, the Australian's exports of commodities and transactions to the European Union accounted for 24.7%, in the value of 3.581 billion euro. This Standard International Trade Classification was the important section of EU's imports from Australia, registering the highest value of total EU imports from that country (14.479 billion euro). In Table 1, we can see that the next major sections of Australia's exports to the European Union was: mineral fuels, lubricants and related materials (22.1%), and crude materials, inedible, except fuels (20.1%). The least important section was animal and vegetable oils, fats and waxes. This accounted for 0.1% of total imports of the European Union from Australia, in the value of only 10 billion euro.



**Figure 2 - EU's imports from Australia, by product grouping (2012)**



Source: Own processing after the European Commission Statistics

In Figure 2, we can see that the EU's imports from Australia was dominated, in 2012, by non-agricultural products, accounting for 81.1% (11.744 billion euro). These include different categories of products, such as: fuels and mining products (17%); chemicals (5%); iron and steels (0.3%); machinery and transport equipment (6%); clothing (0.1%); etc. The agricultural products (food, inclusive fish, and raw materials) accounted for 16.7%, namely 2.415 billion euro, of total EU imports from Australia.

## **2.2. EU's Exports to Australia**

In 2012, Australia was for the European Union one of the major export partners (namely, the 12th export partner). The EU's exports to Australia accounted for 2% (33.85 billion euro) of total EU exports. In regard of access of the European Union's exporters to Australian market, the EU's exporters has faced several trade barriers which have affected them. According to European Commission, these barriers include the following:

- the operation of the Industrial Chemicals Act of 1989 and the National Industrial Chemicals Notification and Assessment Scheme is a cause of concern. The problem surrounds the export of European Union products containing chemical ingredients and their entry for sale in Australia;
- EU producers have faced some difficulties to defend their rights in Australia, especially in the food and spirits sector;
- Australia still applies very strict microbiological criteria for some milk products, which in practice can prevents some of those to be placed on the market of Australia;

- the Australia automotive industry has benefited from a range of programmes over the years aimed at encouraging an export orientated industry. It is to encourage investment and innovation in the Australian automotive industry, and rewards production, investment and Research and Development through the quarterly issue of import duty credit to registered participants;

- Australia levies a 33% sales tax, known as the Luxury Car Tax, on all imported and domestically produced cars valued over a specified threshold. This tax is in addition to the duty of 10% (passenger cars) or 5% (commercial vehicles) and a Good and Service Tax of 10%;

- in Australia, imports of second-hand passenger cars are subject to an ad valorem tariff rate of 5% since 2010;

- authorities of Australia applies unjustified import restrictions on a number of animals and animal products relating to BSE (Bovine Spongiform Encephalopathy);

- Australia does not have legislation to efficiently prevent counterfeit products. The presence of counterfeit products results for leading European brands in lost sales;

- Australia has a strict import regime for pig meat and pig meat products, including specific requirements for heat treatment and de-boning of the meat;

- Australia applies unjustified import restriction on chicken meat relating to Infection Bursal Disease;

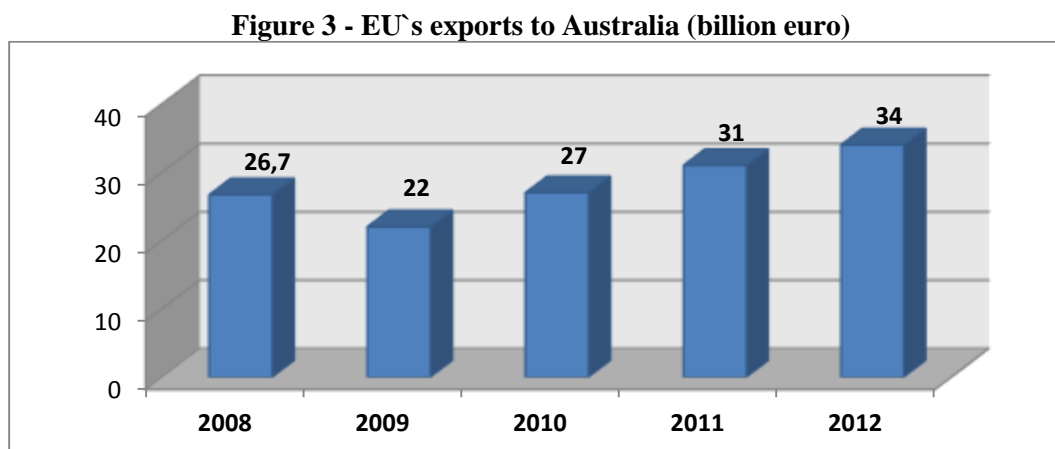
- Australia operates a 29% value-based Wine Equalisation Tax on wine consumed in this region, but provides a capped rebate which effectively exempts over 90% of domestic producers from the Wine Equalisation Tax;

- numerous discriminatory policies and other restrictions remain that are discouraging for companies of the European Union wishing to enter Australian market. In particular, EU`s suppliers could be at a disadvantage in relation to procurement at the state level, as there is no obligation on state governments to treat all suppliers in a non-discriminatory manner; etc. (Barrier fiches: Australia, 2013).

In 2012, the value of imports of Australia increased 7%, and import volumes increased also approximately 7%. Australia`s imports from members of the European Union increased 4.5%, compared to 2011. According to statistical database published by Australian government, in 2012, principal imports of Australia from the European Union were dominated by the following products: medicaments (including veterinary); passenger motor vehicles; confidential items of trade; miscellaneous



manufactured articles; goods vehicles; vehicle parts and accessories; measuring and analysing instruments; medical instruments (including veterinary); ships and boats; electrical machinery and parts; household-type equipment; industry specific machinery; machinery and transport equipment; manufactures classed by material; food and live animals; alcoholic beverages; chemicals and related products; pharmaceutical products; etc. (Composition of Trade Australia 2012, 2013, p. 101-102).



Source: Own processing after the European Commission Statistics

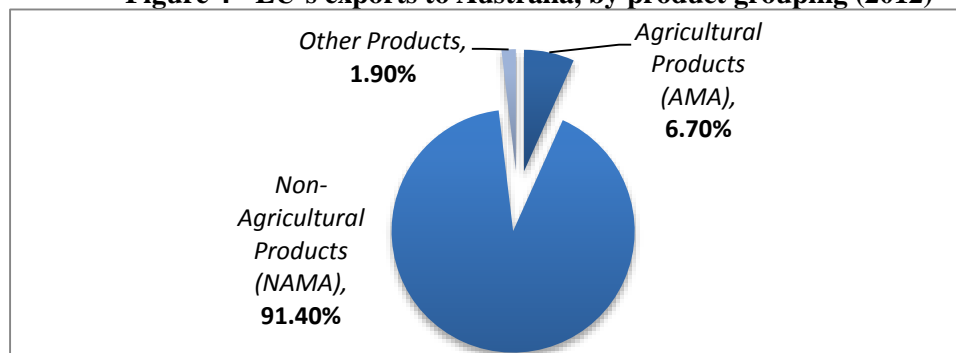
In Figure 3 we present the evolution of level the values of EU's exports to Australia for five years, from 2008 to 2012. Thus, it can be seen clearly that the global economic crisis of 2007-2008 has a negative impact on trade relations between Australia and the European Union. According to European Commission, the value of EU's exports to Australia decreased by 18%, in 2009 compared to 2008. Thus, in 2009, the level of imports to Australia from the European Union decreased from 26.7 billion euro to 22 billion euro. This trend was a reflection of the value's level of EU's exports from World which decreased 16.5%, in 2009 compared to 2008. But, in 2010 and in 2011 the value of EU's exports to Australia was increased approximately 23% and 15.6%, respectively, compared to the previous year. In 2012, the value of those also increased, but only by 8.6% compared to 2011. The values of exports to Australia represent approximately 2% of total EU exports for each those five years.

**Table 2 - EU's exports to Australia, by SITC section (2012)**

SITC Sections	Value (billion euro)	Share of total (%)	Share of total EU import (%)
Machinery and transport equipment	17.638	52.1	2.5
Chemicals and related prod, n.e.s.	5.980	17.7	2.2
Miscellaneous manufactured articles	3.805	11.2	2.2
Manufactured goods classified chiefly by material	3.163	9.3	1.5
Food and live animals	1.492	4.4	2.1
Beverages and tobacco	625	1.8	2.2
Commodities and transactions n.c.e.	256	0.8	0.5
Crude materials, inedible, except fuels	215	0.6	0.5
Animal and vegetable oils, fats and waxes	105	0.3	2.3
Mineral fuels, lubricants and related materials	101	0.3	0.1
Total	33.845	100	2.0

Source: Own processing after the European Commission Statistics

For to present a classification of products that represent export goods of the European Union in 2012, we chose the Standard International Trade Classification (SITC). This is a product classification of the United Nations used for external trade statistics, allowing for international comparisons of commodities and manufactured goods. Thus, in 2012, the Australian's imports of machinery and transport equipment from the European Union accounted for 52.1%, in the value of 17.638 billion euro. This SITC was the important section of EU's exports to Australia, registering the highest value of total EU exports to that country (33.845 billion euro). The next major sections was: chemicals and related products (17.7.1%), and miscellaneous manufactured articles (11.2%). The least important section was mineral fuels, lubricants and related materials. This accounted for 0.3% of total exports of the European Union to Australia, in the value of only 101 billion euro.

**Figure 4 - EU's exports to Australia, by product grouping (2012)**

Source: Own processing after the European Commission Statistics

In Figure 4, we can see that the EU's exports to Australia was dominated, in 2012, by non-agricultural products, accounting for 91.4% (30.936 billion euro). These include different categories of products, such as: fuels and mining products (0.9%); chemicals (17.7%); iron and steels (1.5%); machinery and transport equipment (52.1%); textiles (0.7%); clothing (1.1%); etc. The agricultural products (food, inclusive fish, and raw materials) accounted for 7.1%, namely 2.413 billion euro, of total EU exports to Australia.

## CONCLUSIONS

Australia is not a major economy of the world like the USA, the BRICS countries or the European Union, but it is a wealthy country with a market economy. Only relying on a few issues - such as, Australia is one of the largest country in total area; it has abundant natural resources; and its geographic location (between the Indian Ocean and the South Pacific Ocean) - we can say that the European Union can be interested to developed trade relations with this island.

The EU-Australia trade relations have many benefits for each part of its partnership. They enjoy a broad-based trade relationship, Australia being a major trading partner of the European Union. Nowadays, this two regions shares many common concerns in regard to international trade environment. The European Union and Australia have agreed on many aspects, for example: to acknowledge the challenges of globalisation; to cooperate multilaterally and bilaterally; to recognise the value of the multilateral trading system; to cooperate regionally in relation to the Asia and Pacific region; etc. Trade is important element of the relationship between the European Union and Australia.

The EU's market access is generally open for imports of goods from that country. According to European Commission and Australian Government, in 2012, the value of EU imports from Australia increased compared to 2008, although it decreased compared to 2011. In 2012, Australia was the 26th major import partner of the EU. The economic and financial crisis of 2008-2007 has a negative impact on Australia-EU trade. In 2009, the value of Australia's exports to the EU decreased approximately 30%, compared to the previous year. In the next two years, the value of those was increased significantly.

In 2012, Australia was the 12th major export partner of the European Union. The value of EU's exports to Australia increased in that year compared to 2008 when the economic crisis affected the



international trade. In 2009, Australia`s imports from the EU decreased approximately 20%, compared to the previous year. In the next three years, the value of those increased. In last few years, EU`s exporters have faced several trade barriers, in regards to Australian market access, which have affected them.

Analysing the EU-Australia trade relations, we founded that, by product grouping, both EU`s imports from Australia and EU`s exports to that country was dominated by non-agricultural products, in 2012. Also, by SITC section (Standard International Trade Classification), the EU`s imports of commodities and transactions, mineral fuels, lubricants and related materials from Australia was the sections in the head of the list of EU imports. The EU`s exports to Australia was dominated by machinery and transport equipment.

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