

Australia's European opportunity

Blog post by Chief Economist Gregor Irwin, 20 October 2017

While in Australia at the start of this month, one question that came up repeatedly was how Australia should approach its trade relationship with Europe.

Australia is on the verge of launching a formal trade negotiation with the EU. This comes just as the UK is negotiating its exit from the EU, which is why Australia is also 'scoping' a future deal with Britain. Australia must therefore decide how to balance its interests between the bit of the EU where the economic relationship is strongest - the UK - and the other 27 states.

The negotiation with the EU will be tough and there is scepticism in Europe that a deal will be reached before March 2019, which is when the UK is expected to leave the EU.

Australia's main offensive interests are in agriculture, where EU protectionism is deep-rooted, and wine, where there is also a strong producer interest. The EU, in return, wants to stop Australian producers marketing products with European place names, like Feta or Parmesan cheese. They also want to break down barriers to public procurement in Australia, with an eye on getting a slice of Canberra's planned A\$75bn infrastructure investment over the next ten years. That means challenging new rules that require the authorities to consider 'national economic benefit' when awarding contracts, as well as practices at state level.

There are potentially significant benefits for Australian consumers if the 5% tariff on imported EU cars is eliminated. And you can be sure that high-end producers, particularly in Germany, will have something to say about Australia's luxury car tax, which they feel unfairly targets them. But perhaps the bigger, long-term opportunity for Australian exports will come in services. With Australian farmers focused more on China than Europe, it may be that Australia's burgeoning service sectors, including professional and financial services, can secure better access to a vast market where the UK's dominance is now threatened by Brexit.

The negotiations with the UK will be even more complicated. The UK cannot formally negotiate trade deals until it has left the EU and its customs union, which is why for now the talks with Australia are about scoping. The EU's trade commissioner Cecilia Malmström will be keeping a close eye to ensure the UK does not step over the line, for fear that it will complicate the EU's negotiation. Australia will also want to know what the UK's trade relationship with the EU will look like in the future, particularly in areas like food standards or rules of origin affecting onwards exports to the EU, before getting down to serious talking.

But Australia will also enjoy some advantages in the negotiation with the UK. Agriculture is not as sensitive an issue as it is in other European countries and British consumers won't object to cheaper Australian shiraz. The UK and Australia could potentially reach agreements in services that could serve as a model for others, including the EU. And - let's be honest - the UK is desperate to

demonstrate that it can strike a trade deal with just about anyone. If Australia shares that urgency, the UK will concede more, even in sensitive areas, such as the visa regime.

It is possible that, if the EU talks drag on beyond March 2019, then negotiations with the UK could not only begin, but progress rapidly, to serve as a benchmark for the EU deal. The EU openly acknowledges that other countries getting preferential access is a good reason for urgency in its own negotiations.

While I'm sceptical about just how much an 'independent' UK trade policy can achieve after Brexit, Australia is one relationship where UK and EU interests are sufficiently divergent to mean the UK may have an edge in the negotiation.

So, what should Australia do? It's simple. Pursue both negotiations aggressively. Exploit the ambiguity between scoping and negotiating with the UK. And play one off against the other.

