

Guest Editorial

Taking Australia-European Union Relations Forward into a New Era

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From the earliest days of Australia's official relations with the European Union – our first Ambassador to the then European Communities was appointed in 1962 – Australia supported the goal of European integration as a force for stability and peace.

This is not an abstract objective for us. Our cultural and political heritage resulted in Australia being drawn into Europe's security affairs during the twentieth century at a high cost.

Even when viewed with a century of historical perspective, the scale of that sacrifice is astounding.

In the Great War, from a population of fewer than five million, more than 400,000 Australian men enlisted, of which over 60,000 were killed and 156,000 wounded or taken prisoner.

In the Second World War, Australians fought in campaigns across Europe, the Mediterranean and North Africa.

Our decisions to take part in these military campaigns reflected the perception at the time that Australia's security and prosperity were intertwined with that of the United Kingdom and Europe.

By the time of the Great War, Australia had only recently achieved federation – the joining together of the six separate British colonies in one new nation had occurred in 1901.

At that time, Australia was heavily linked to the UK in almost every conceivable way, culturally, socially, legally and politically.

We were particularly dependent on the UK as an export market – primarily for our agricultural products – and as a source of investment and consumer and capital goods. And Australia looked to the UK as a guarantor of our security.

The Second World War changed Australia fundamentally. In particular, we confronted our geostrategic and economic realities. The Australian mainland had

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come under attack for the first time in our history. The fall of Singapore brought into stark relief the need for Australia to confront the challenges of our geography. From those grim days has grown Australia's extraordinarily strong alliance relationship with the United States.

Those events also marked a shift in Australia's economic history, although that lagged behind the developments on defence and security.

Concerns about the economic outlook for the UK after the war created pressure in Australia for actions to diversify our trade and investment links.

The case for diversification was clear. In the 1950s, the share of Australian exports to the UK was just short of 40% of the total. Eighty per cent of Australia's beef and 90% of our butter went to the UK at that time.

Moves by the UK to pursue membership of the European Economic Community (EEC) had the effect of stepping up Australia's push to diversify. It also began a long period of trade tensions between Australia, the UK and the EEC as Australia sought to minimize the loss of its market in the UK.

The first major step in that diversification effort took place in 1957 when Australia concluded a commerce agreement with Japan. By the mid 1980s, Australia had successfully developed major markets in East Asia. By that time, the share of our rural exports destined for the UK had reduced to less than 2% of the total.

But the political and economic difficulties of the adjustment process were significant. The task was made even more problematic by the decision by the EEC to introduce large-scale export subsidies to dispose of its agricultural surpluses. These subsidies squeezed out Australian exports from some markets and distorted global prices.

Australia invested considerable time and political capital in the 1960s and 1970s in arguing for fair and reasonable agricultural access to the UK and EEC markets and for the introduction of global trade rules in the GATT – the WTO's predecessor – to liberalize agricultural trade and address trade-distorting measures.

Unfortunately, there were very few positive returns on these efforts. When the UK ultimately joined the EEC, Australia was left with very modest quotas that imposed significant limitations on our main agricultural exports.

Our campaign in the GATT did not achieve much progress on agricultural trade reform until the GATT's Uruguay Round of multilateral negotiations in 1994 produced an outcome that marked a first step in bringing agriculture within the scope of global trade rules.

The disagreements on agriculture generated considerable baggage which impacted on the overall Australia-EEC-EU trade relationship, in many respects constraining the development of a deeper and broader political relationship.

Several developments in recent years have gone some way towards creating the conditions for an improved relationship.

First, the EU agreed to end its agricultural export subsidies and to implement reforms to its Common Agricultural Policy that introduced more market-oriented programs and practices.

Second, as the WTO's Doha Round of multilateral negotiations struggled, and as globalization intensified, governments around the world increasingly began to look to bilateral and region-wide trade agreements as a way to improve access to markets and create the kind of rules-based economic integration architecture demanded by many in the business community.

For Australia and the EU – as longstanding supporters of the multilateral trade rules system as embodied in the GATT and WTO – this shift to bilateralism had particular resonance given that we had largely sought to advance our bilateral trade relationship through the negotiations in Geneva.

Australia bit the bullet with bilateral free trade agreements in the early 2000s, concluding deals with Singapore (2003) and the US and Thailand (2005). These were followed by agreements with Chile (2009), ASEAN (2010), Malaysia (2013), ROK (2013), China and Japan (2015) and the CPTPP-TPP11 (2018).

For its part, the EU concluded an FTA with Mexico in 1997, Chile in 2002, ROK in 2010, and most recently with Canada, Japan, Singapore, Vietnam and Mercosur.

As both Australia and the EU expanded their networks of preferential trading partners, arguments began to be raised in support of Australia-EU FTA.

More recently, we have seen a fundamental threat to the multilateral trading system from a number of sources which are pushing the system to breaking point. That has put Australia and the EU in the same boat as advocates for reforms to ensure the system remains effective.

In parallel with these major trade policy and negotiations developments, there have also been big changes in the reality of Australia-EU economic relations over the past twenty years.

Today, the EU is Australia's second largest trading partner and biggest two-way investment partner. In line with the structure of both economies, two-way services trade is strong, and growing. Today, the EU is Australia's largest services trading partner.

In the past few years, these real world economic trends – along with a range of other factors – have begun to translate into a lift in intensity in Australia-EU cooperation across the board.

Australia and the EU agreed in 2017 on a bilateral Framework Agreement that is bringing greater strategic direction and focus to cooperation and dialogue on

foreign and security policy. That was followed in 2018 by the launch of bilateral FTA negotiations.

These steps and several others have underscored the extent to which we share broad values and see mutual value in cooperating more in a more volatile world which is characterized by a shifting of powers in the Indo-Pacific, and a rise of political populism, economic nationalism and antiglobalization.

We have seen a retreat from multilateralism in some quarters, and a questioning of the international institutions that have underwritten global peace and prosperity.

Alongside these shifts, there has been enormous growth in the Indo-Pacific, the emergence of AI and digital technologies, the threat of climate change and the ever more complex security agenda, ranging from terrorism to cyber to new forms of interference and disruption.

Both Australia and the EU have a major interest in shaping a region that meets our interests. Both Australia and the EU are pursuing complementary initiatives in the region. In the EU's case, it is the Asia connectivity strategy. And Australia recently announced the establishment of the Australian Infrastructure Financing Facility for the Pacific which is aimed at infrastructure development in the island developing states of the Pacific.

There is much to be gained by us cooperating and coordinating across this agenda to maximize the impact of our investments but also to avoid duplication.

We have a shared interest in not only defending the existing system but ensuring it stays relevant and effective. We must do what we can to avoid a return to the failed protectionism of the past. We need to work to revive the WTO's negotiating function. Progress towards a successful plurilateral deals, for example on e-commerce, would bring much needed confidence to the system.

An ambitious Australia-EU FTA is an opportunity to open new market opportunities, to craft new rules with the potential for multilateral application and to contribute to a global process of competitive liberalization.

Both sides see a successful FTA as an opportunity to generate commercial benefits and to signal our support for trade and for the rules-based trading system. It is also an opportunity to address scepticism of trade at the public level and to demonstrate the benefits of trade and investment.