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Potential Benefits of an Australia-UK Free Trade Agreement

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OUTLINE



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BREXIT

The UK left the European Union on 31 January 2020

- The **Withdrawal Agreement** focused on
 - financial obligations
 - rights of UK citizens residing in the EU and of EU citizens residing in the UK
 - the Irish border
- During the **transition period**, until 31 December 2020, the UK continues to observe EU policies while negotiating an agreement on future EU-UK relations, to take effect on 1 January 2021



The Transition Period

UK-EU negotiations on future trade relations – acrimonious and unfinished – general belief that 15 October is a deadline for any agreement to be ratified before 2021 – PM Johnson appears to be unworried

Mr Johnson - completing the UK's exit from the EU without a trade deal would still be a "good outcome" *Financial Times* (London), 7 September 2020

If no trade agreement is completed by the end of the year, the UK won't have any formal deal with the EU - which in 2019 accounted for 43% of UK exports and 51% of UK imports.

Differing premises:

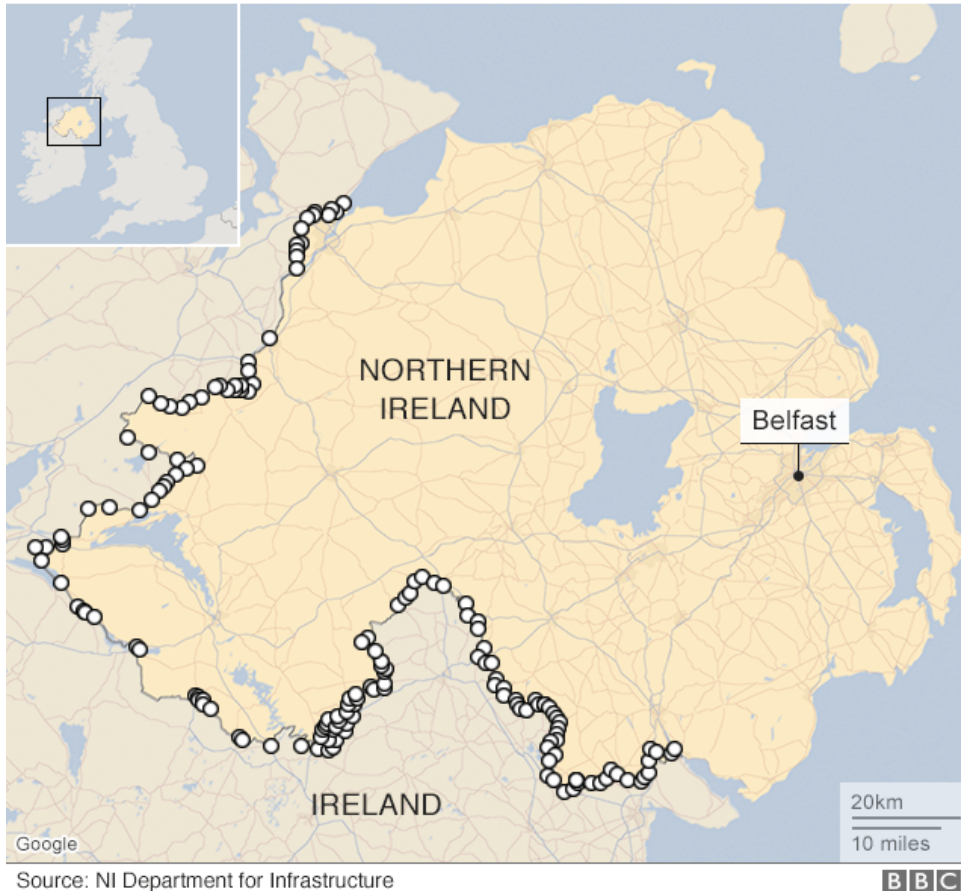
- the EU seeks a legal agreement consistent with maintaining the Single Market (*acquis communautaire*)
- For the UK bilateral bargaining to obtain the best deal on trade while maintaining UK policy independence
- Key issues (apart from agreement on tariffs etc) impeding agreement are:
- Fishing - EU wants access to UK fishing areas, UK wants access to EU fish markets
- Ireland – all parties want no hard border but how can that be reconciled with differing trade & other policies?
- Who regulates implementation? – the UK refuses to be bound by decisions of the EU's European Court

Deteriorating bilateral relations

- **UK Global Tariff** (UKGT), published May 2020, is a “new tariff tailored to the needs of the UK economy”
- **The internal market bill** published on 9 September overrides commitments on Ireland in the Withdrawal Agreement and foresees more active use of industrial policy (*more on this later*)

1. Ireland

208 road crossings on Northern Ireland - Republic of Ireland border



All parties want to avoid a return to the hard border associated with the Troubles.

Ireland is in the EU Single Market and, if the UK is not, then there must be controls at the point of entry to check that any goods entering the Single Market meet its conditions, including paying import duties. **This is non-negotiable for the EU27.**

Northern Ireland is part of the United Kingdom of Great Britain and Northern Ireland – any distinction is unwelcome for the UK.

- The Withdrawal Agreement mandated customs checks in the Irish Sea so that NI exports to the EU would remain consistent with the EU Single Market
- But UK appears to be undermining enforcement of that policy – and does not recognize jurisdiction of the EU Court.

2. UK Trade Negotiations

An ambitious agenda for a government with no international trade expertise before Brexit

- **USA – announced 5 May**

- market access concerns include, e.g. access of chlorinated chicken or genetically modified farm products to the UK market – which will increase EU negotiators' determination to maintain an effective border and hence sharpen the Ireland issue

- **Japan - 9 June negotiations on a trade agreement began with Japan looking to scrap UK auto tariffs while London seeks benefits for its financial services and textile industries.**

- to some extent the deal is extending terms of the 2019 EU-Japan agreement which lowered tariffs on agricultural products such as wine and cheese from Europe while scrapping the EU's 10 percent tariff on Japanese automobiles in its eighth year and immediately removing those on auto parts.
- The UK is seeking to reduce uncertainty facing Japanese car and electronic companies that have moved some of their European operations to other countries such as Germany and the Netherlands.
- the clock is ticking insofar as absent a new agreement, the terms of the EU-Japan agreement will no longer apply to the UK after December 2020.

- **Australia and New Zealand – proposed trade agreements announced on 17 June**

The UK government also expressed interest in agreements with other countries such as Canada, and in joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

- With Canada negotiations may be complicated by lobbying from Canada's powerful dairy industry that felt too many market accession concessions were offered under CETA and opposes significant access for British cheese.

3. Australia's Trade Agreements

As listed at: <https://www.dfat.gov.au/trade/agreements/Pages/trade-agreements>

Australia's free trade agreements (14 - listed with the entry-into-force date).

- [Australia-New Zealand \(ANZCERTA or CER\)](#) – 1 January 1983
- [Singapore-Australia \(SAFTA\)](#) – 28 July 2003
- [Australia-United States \(AUSFTA\)](#) – 1 January 2005
- [Thailand-Australia \(TAFTA\)](#) – 1 January 2005
- [Australia-Chile \(ACI-FTA\)](#) – 6 March 2009
- [ASEAN-Australia-New Zealand \(AANZFTA\)](#) – 1 January 2010 for eight countries: Australia, New Zealand, Brunei, Burma, Malaysia, the Philippines, Singapore and Vietnam. For Thailand: 12 March 2010. For Laos: 1 January 2011. For Cambodia: 4 January 2011. For Indonesia: 10 January 2012
- [Malaysia-Australia \(MAFTA\)](#) – 1 January 2013
- [Korea-Australia \(KAFTA\)](#) – 12 December 2014
- [Japan-Australia \(JAEPA\)](#) – 15 January 2015
- [China-Australia \(ChAFTA\)](#) – 20 December 2015
- [Comprehensive and Progressive Agreement for Trans-Pacific Partnership \(CPTPP\)](#) - 30 December 2018
- [Australia-Hong Kong \(A-HKFTA\)](#) – 17 January 2020
- [Peru-Australia \(PAFTA\)](#) – 11 February 2020
- [Indonesia- Australia Comprehensive Economic Partnership Agreement \(IA-CEPA\)](#) – 5 July 2020

FTAs under negotiation (7)

- [Australia-European Union Free Trade Agreement](#)
- [Australia-Gulf Cooperation Council \(GCC\) Free Trade Agreement](#)
- [Australia-India Comprehensive Economic Cooperation Agreement](#)
- [Australia-United Kingdom Free Trade Agreement](#)
- [Environmental Goods Agreement](#)
- [Pacific Alliance Free Trade Agreement](#)
- [Regional Comprehensive Economic Partnership \(RCEP\)](#)

3. Australia's Trade Agreements

Why so many and what do they contain?

The agreements since 2003 are mainly about non-tariff barriers to trade, removing behind-the-border obstacles to trade, etc – “deep integration”

- The first was with Singapore – both Singapore and Australia have very low tariffs.
- Note overlaps
 - CPTPP includes Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam
 - RCEP includes ASEAN + China, Japan, Korea and New Zealand

Agreements on regulations are more valuable if they cover more countries

- rules on e-commerce and digitalization should ideally be universal, but difficult to achieve agreement at the WTO due to need for consensus
- Either reach a WTO plurilateral agreement or agree among like-minded countries in a mega-regional (e.g. CPTPP).

Modern trade agreements take longer to negotiate because the issues are more complex than simple tariff reductions

4. Potential Benefits of an Australia-UK Free Trade Agreement

Are Australia and the UK looking for a quick symbolic statement or do they want a more serious modern trade agreement?

“Australia is seeking an ambitious and comprehensive FTA with the UK that drives increased trade in goods and services, two-way investment, economic growth and job creation.” (<https://www.dfat.gov.au/trade/agreements/negotiations/aukfta>)

The DFAT website identifies six areas of a deep agreement (next slide).

Similar issues to Australia-EU agreement that is being negotiated since c.2017 (and in which the UK was a partner) – but the more the UK differentiates its tariff schedules and regulatory regime from that of the EU the harder bilateral negotiations are likely to be.

Such agreements are valuable but they take time to negotiate and are difficult to assess with any precision because beneficiaries from trade facilitation measures may well be exporters who do not yet exist

Minister Birmingham (and others) pick on SA wine as a potential beneficiary, but the serious obstacle to wine imports to the UK is not a trade barrier but excise taxes – and reduction in taxes on wine will be opposed by the UK beer and spirits lobbies

Australian negotiators will address tariff barriers on beef, lamb and dairy products, both in their own right and to level the playing field with New Zealand producers, but UK farmers are likely to put up strong resistance to any further market opening.

4. Potential Benefits of an Australia-UK Free Trade Agreement (from DFAT)

Services

- Australia will aim to secure commitments from the UK that strengthen our trade relationship across our priority services sectors, including commitments on mutual recognition of professional qualifications and providing greater certainty for professionals entering the UK labour market.

Digital trade

- Australia will seek commitments with the UK that will reduce digital trade barriers and assist Australians to engage with and benefit from the digital economy, complemented by provisions ensuring appropriate protections for consumers and for legitimate public policy objectives.

Goods

- Australia will seek improved market access for our goods exports, including agricultural products, through the elimination of tariffs, quotas and non-tariff barriers.

Investment

- Australia will seek modern and comprehensive investment rules that increase opportunities for Australian businesses entering the UK market, and enhance Australia's reputation as an attractive destination for UK investment.

High-quality rules and standards

- Australia will seek commitments on key sustainability issues, such as environmental protection and labour rights, that align with internationally agreed principles, standards and rules. We will also work to establish strong regulatory practice and compliance provisions that create a more predictable business environment for Australian companies.

Ease of doing business

- Australia will aim to address non-tariff barriers (NTBs) by assessing and removing trade-restrictive measures for trade in goods. Commitments seeking enhanced transparency for customs procedures will also make it easier for Australian companies to do business with the UK.

4. Potential Benefits of an Australia-UK Free Trade Agreement

The UKGT incorporates protection for British vested interests, who are unlikely to accept exceptions for Australia without a fight.

In terms of services, the UK will seek improved visa access and mobility for its professionals, which Australia may accept (although PM Morrison has already ruled out visa-free access) and an easier path for UK investment capital. Australia will seek the same in return

Improvements on bureaucratic process by the UK Home Office and Australian Department of Home Affairs will be welcomed.

Both sides want the agreement to streamline customs procedures, to improve mutual recognition of qualifications where practicable and to incorporate “best in class” rules in areas like intellectual property, electronic commerce and data flows.

clearer international rules in these areas will improve predictability for business, so all to the good.

As a recent [Lowy Institute report](#) concluded:

A deal between two liberalised economies on opposite sides of the globe is only ever likely to improve a small number of pain points for a small number of businesses in a small number of sectors. Good, boring policy.

Pacta sunt servanda (agreements must be kept)

The UK position appears to be that the UK Parliament is pre-eminent and any treaty ratified by Parliament can be over-ruled by Parliament

The **internal market bill** published on 9 September overrides commitments on Ireland in the Withdrawal Agreement and challenges the principle that international agreements must be kept

Without recognition of the principle, what is the value of international agreements which could become little more than a statement of intent by the government currently in power?

Contact

Thank you for your attention!

Any comments, questions, suggestions, please e-mail.

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