

*The Australia-EU FTA:
Agriculture, food and wine issues*

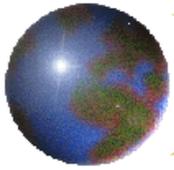
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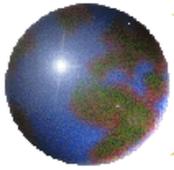
Seminar on the ***Australia-EU FTA: Agribusiness Opportunities and Challenges***,

University of Adelaide, 6 October 2017



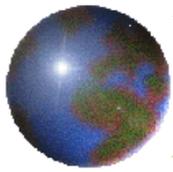
Context

- ✚ In response to stalled WTO activity, EU is seeking more deep bilateral free trade agreements (FTAs)
 - ▣ including with Australia and NZ
- ✚ Populist pushback against globalization (Brexit, Trump) adds to the value of new deep FTAs
 - ▣ ideally as stepping stones to freer multilateral trade
- ✚ Offers an **opportunity for Australia**
 - ▣ ... coincident with our opportunities for regional (TPP11, RCEP, Pacific Alliance) and other bilateral FTAs (UK post-Brexit, Hong Kong, India, Indonesia, Peru)



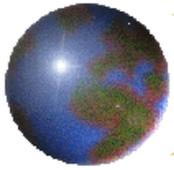
Outline

- ✚ Trade negotiation processes and timelines
- ✚ Agric issues in a possible **Aust-EU FTA**
- ✚ Consequences of **Brexit** for, eg, wine trade



Sequencing of steps in light of Brexit

- ❖ 1. UK first needs to decide on its initial post-Brexit external trade commitments to WTO members
- ❖ 2. UK will negotiate an exit fee (EU wants €60b) and then a new trade agreement with EU27
- ❖ 3. Independently, UK and EU27 can begin now to re-negotiate trade agreements with other countries
 - ❖ **but** UK can't conclude any before steps 1 and 2 are concluded, which may be as much as 2 years after 29 March 2019
 - => **prolonged uncertainty** for investors & consumers

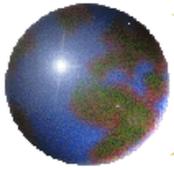


UK's choices

- ⊕ Become the Hong Kong of Europe?
 - ⊞ No, would require too much industrial re-structuring
 - including for UK farmers: they want **more**, not less, support

- ⊕ Adopt EU external tariffs at WTO?
 - ⊞ Simplest/quickest for goods, services still complex
 - But requires dividing EU28 ag. TRQs between UK & EU27

- ⊕ Negotiate a customs union with EU27?
 - ⊞ Unlikely, as UK wants control of **immigration** & does not want to be under **European Court of Justice**
 - ⊞ So, likely to be a UK-EU27 **FTA** (free trade agreement)
 - which Theresa May describes as 'boring'

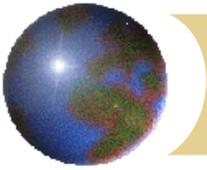


Australia's choices

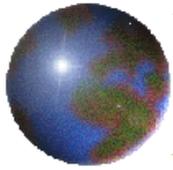
- ❖ 1. Need to agree on UK's trade commitment at **WTO**
 - ❖ including division of EU28 agric TRQs between UK & EU27

- ❖ 2. **Aust-EU27 FTA negotiations** to begin late 2017
 - ❖ but can't conclude before 1, and may be worth also waiting to see outcome of UK-EU27 FTA negotiations

- ❖ 3. **Aust-UK FTA talks** could begin now too
 - ❖ but UK can't conclude any FTA until it has formally left EU28 and established its new default (MFN) commitments at WTO
 - ❖ makes sense for AU to also wait to see UK-EU27 FTA details?

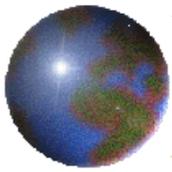


*Agricultural issues in a possible
Australia-EU FTA*

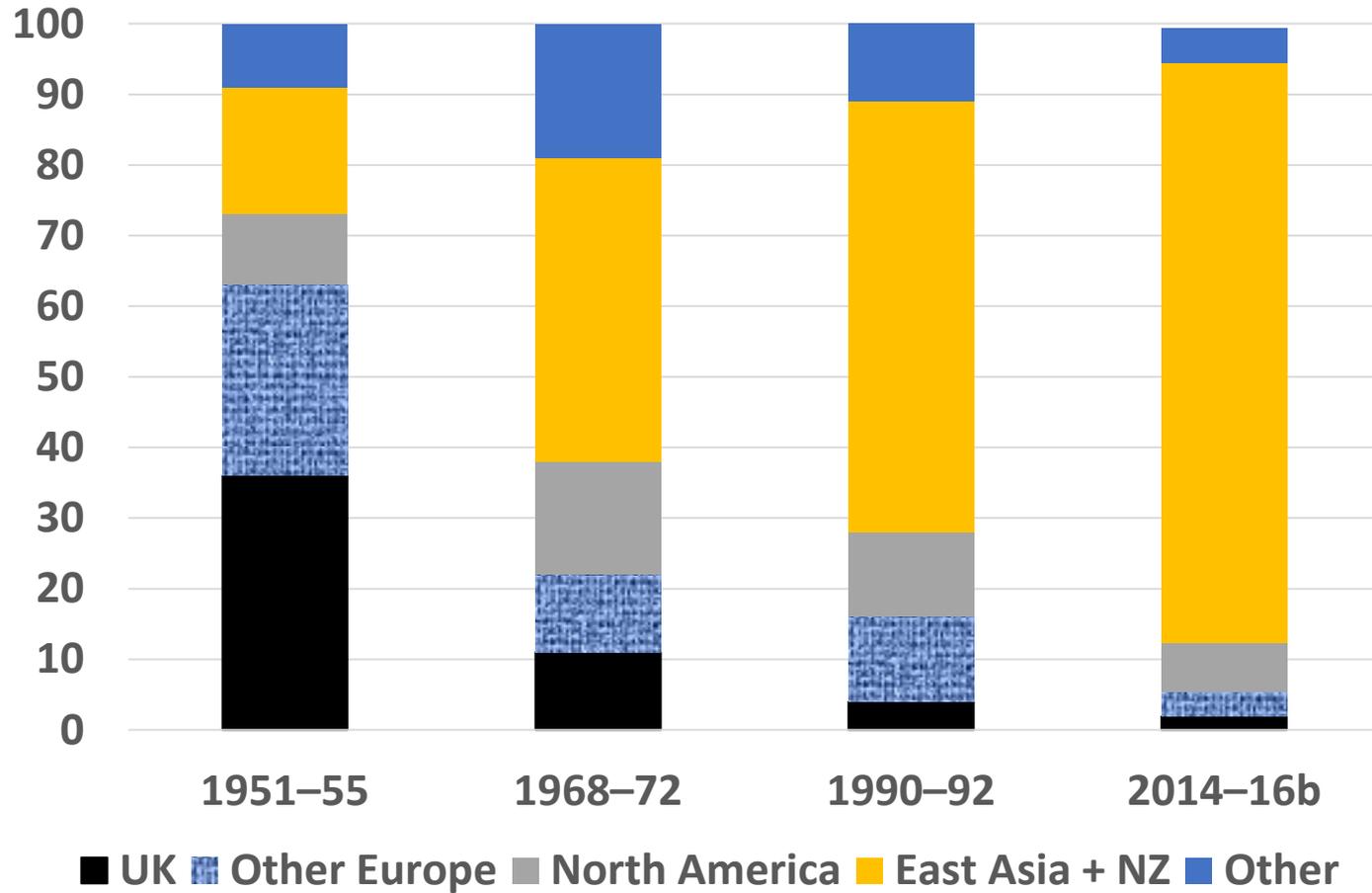


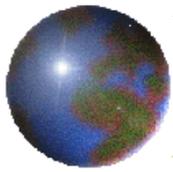
EU28's share of Australian exports

- ✦ Fallen from >60% in 1950s to <5% today for all goods, and even for ag&food products



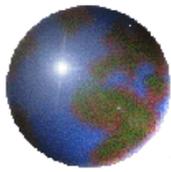
Destination of Australia's goods exports (%)





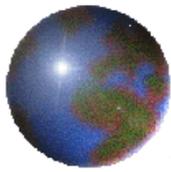
EU28's importance in Aust exports

- ✚ Fallen from >60% in 1950s to <5% today for all goods, and even for ag & food products
 - ✚ but EU is twice as important for **Aust services exports** as it is for goods exports
 - much of which **facilitate agric goods exports**
 - ✚ and EU supplies 1/4th **inward FDI to Australia**, including into ag&food enterprises
- => services, and FDI, will be impt. part of FTA negotiations



Relative importance of EU27 & UK in Australian exports

- ❖ **UK accounts for about half** Aust services exports to EU, & half our FDI inflows from EU
 - ❖ e.g. UK has 52% of foreign agric land ownership in Aust
- ❖ But in 2015, **UK represented just 23%** of Aust ag&food **exports to EU28**
 - ❖ and **only 13%** of Aust ag&food **imports from EU28**



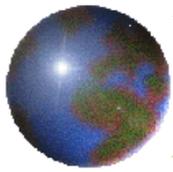
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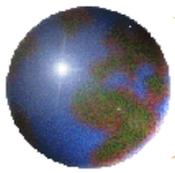
⇒ An FTA with EU27 is more important for Aust ag&food than an FTA with UK?

-- not necessarily, depends on extent of barriers and prospects for their preferential reduction/removal

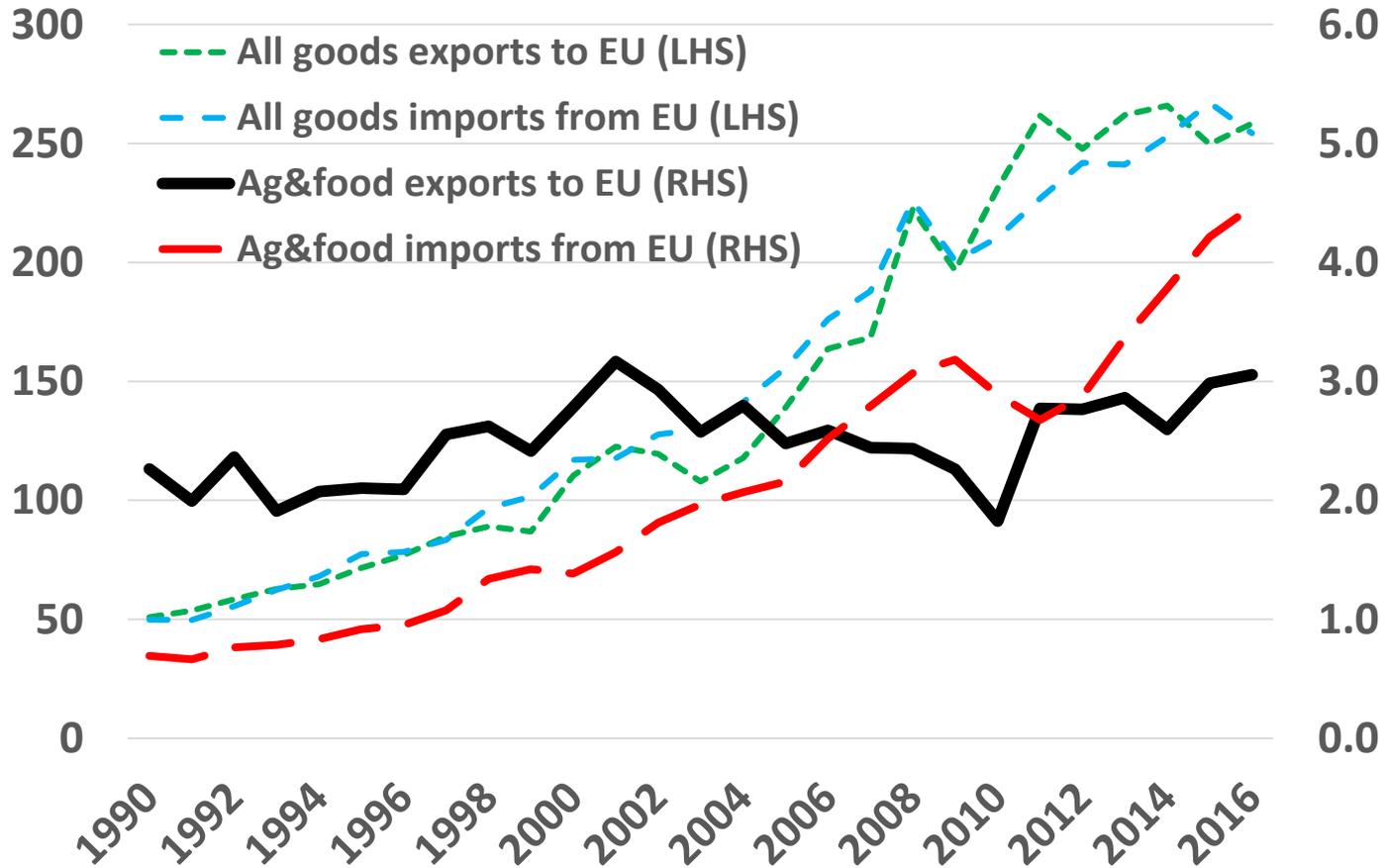


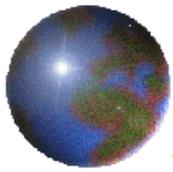
Value of Aust-EU28 ag&food trade

- ✚ Ag&food exports from EU28 to Aust: growing almost as fast as its exports of other goods
- ✚ Ag&food exports from Aust to EU28: **not grown at all since 2000**
 - ✚ & now less than EU's ag&food exports to Aust.



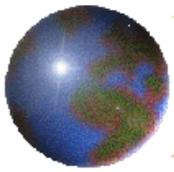
Value of Aust trade with EU28: ag&food exports not growing (AUD billion)





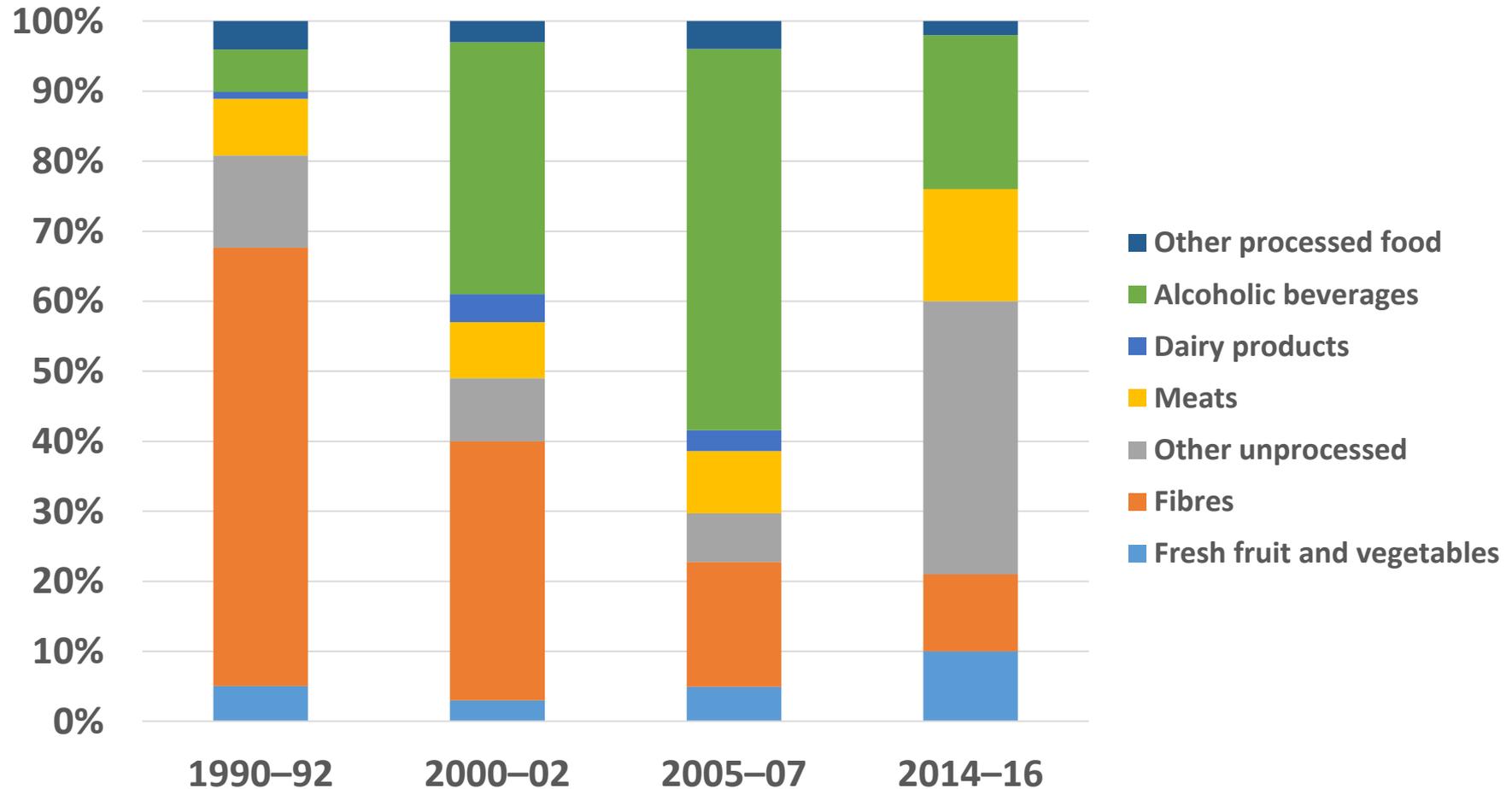
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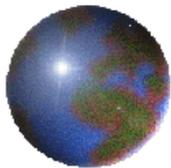
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 - ✦ and **Aust ag&food exports** to EU are **mostly unprocessed**, apart from wine, whereas ag&food exports from **EU to Aust are mostly processed**



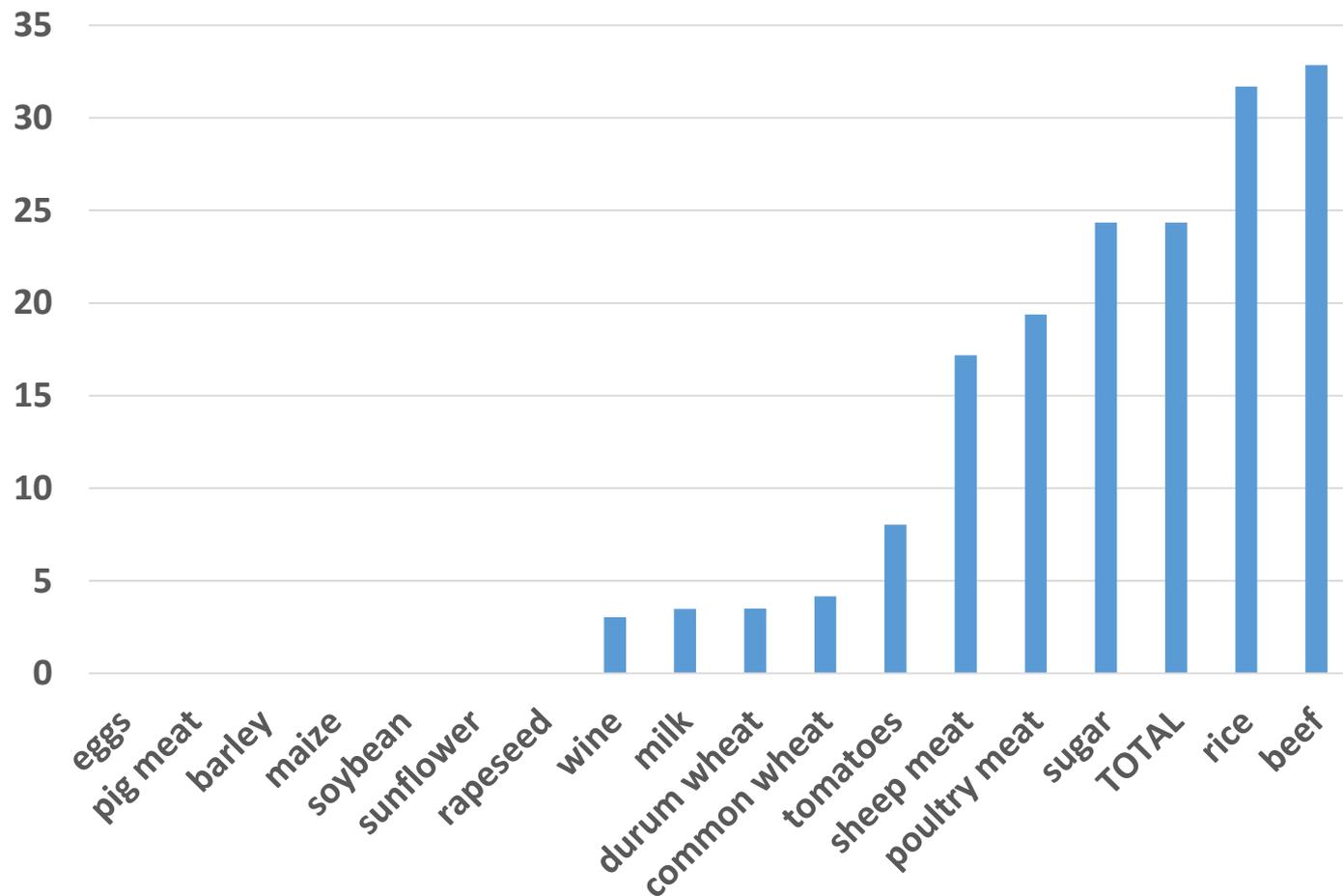
Australia's ag&food exports to EU28:

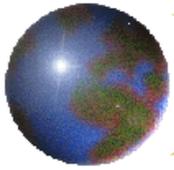
wine replaced wool, before it too shrank





Nominal rate of assistance to EU28 farmers, 2014-16 (%)





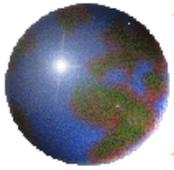
EU ag&food import barriers to target

✚ **TRQs**

✚ **NTMs (esp. SPS and TBT)**

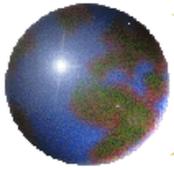
- ✚ EU and Australia have been the subject of more notifications in relation to SPS and TBT matters at WTO than any other member

=> Lots of scope for lowering barriers?



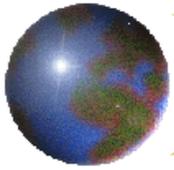
EU ag&food import barriers to target

- ✚ **Tariff rate quotas (TRQs)** provide some market access to EU at concessional rates for the most politically sensitive products
 - ✚ Scope for expanding EU market access for beef, rice, sugar, poultry, sheep meat
 - Depends first on how EU28's TRQs are divided between UK and EU27 at WTO because of Brexit
 - Aust has very small quotas compared with main suppliers, notably New Zealand in lamb and dairy products



EU ag&food import barriers to target

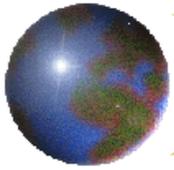
- ❖ **Quarantine (SPS) restrictions:** as in Australia, the EU has them to protect plant, animal and human health
 - ❖ But they also provide economic protection to EU farmers from import competition



EU ag&food import barriers to target

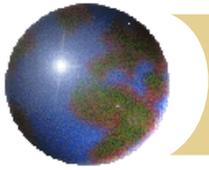
❖ **Other technical barriers to trade (TBTs)**

- ❖ Plenty of scope for harmonization or mutual recognition of tech standards, labelling, etc.

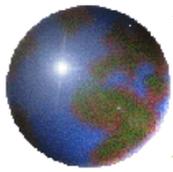


What might EU demand of Australia?

- ✦ EU may take an offensive position on pigmeat
- ✦ If Aust demands freer access to EU wine market, EU will want cut to our 5% tariff on wine & spirits
 - ✦ & may wish to re-open **Australia-EU Wine Agreement**,
 - ✦ & broaden **geographical indications** to other products
 - Might that nudge Australia toward exploiting its potential comparative advantage in a wider range of high-value niche food products?

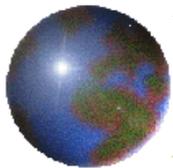


*Consequences of Brexit for
agricultural trade: the case of **wine***



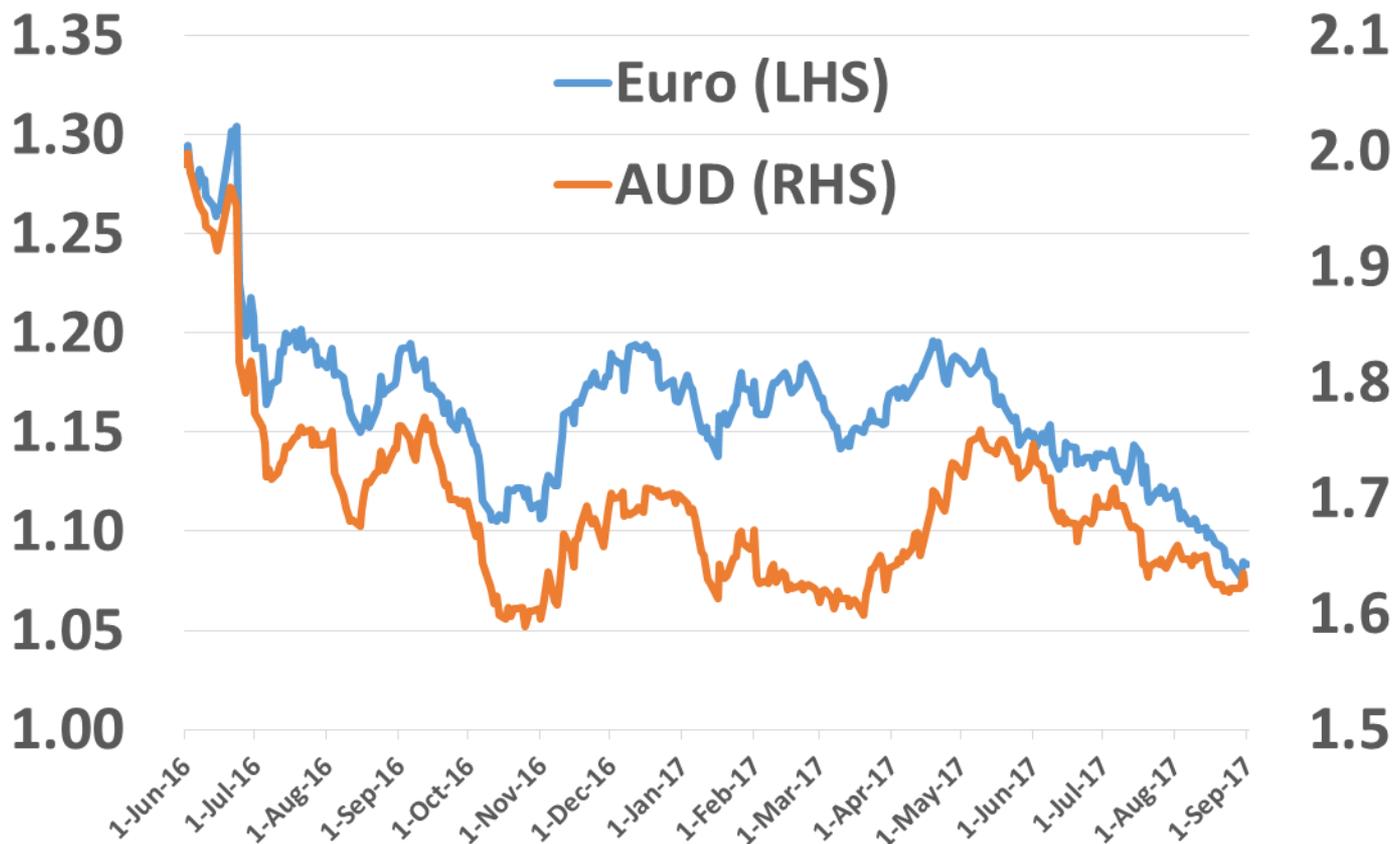
Brexit's effects on wine: initial thoughts

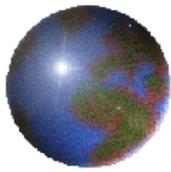
- ❖ Conventional wisdom of a 'hard' Brexit: if there was no UK-EU FTA, EU27 wine exporters would face more competition from non-EU vignerons in UK
- ❖ However, that's **only a part of the likely story**
 - ❖ Current UK wine tariff is small rel. to excise tax
 - ❖ Short-term outcome also depends on extent to which Brexit affects UK incomes, and the pound



Euro and AUD per UK Pound

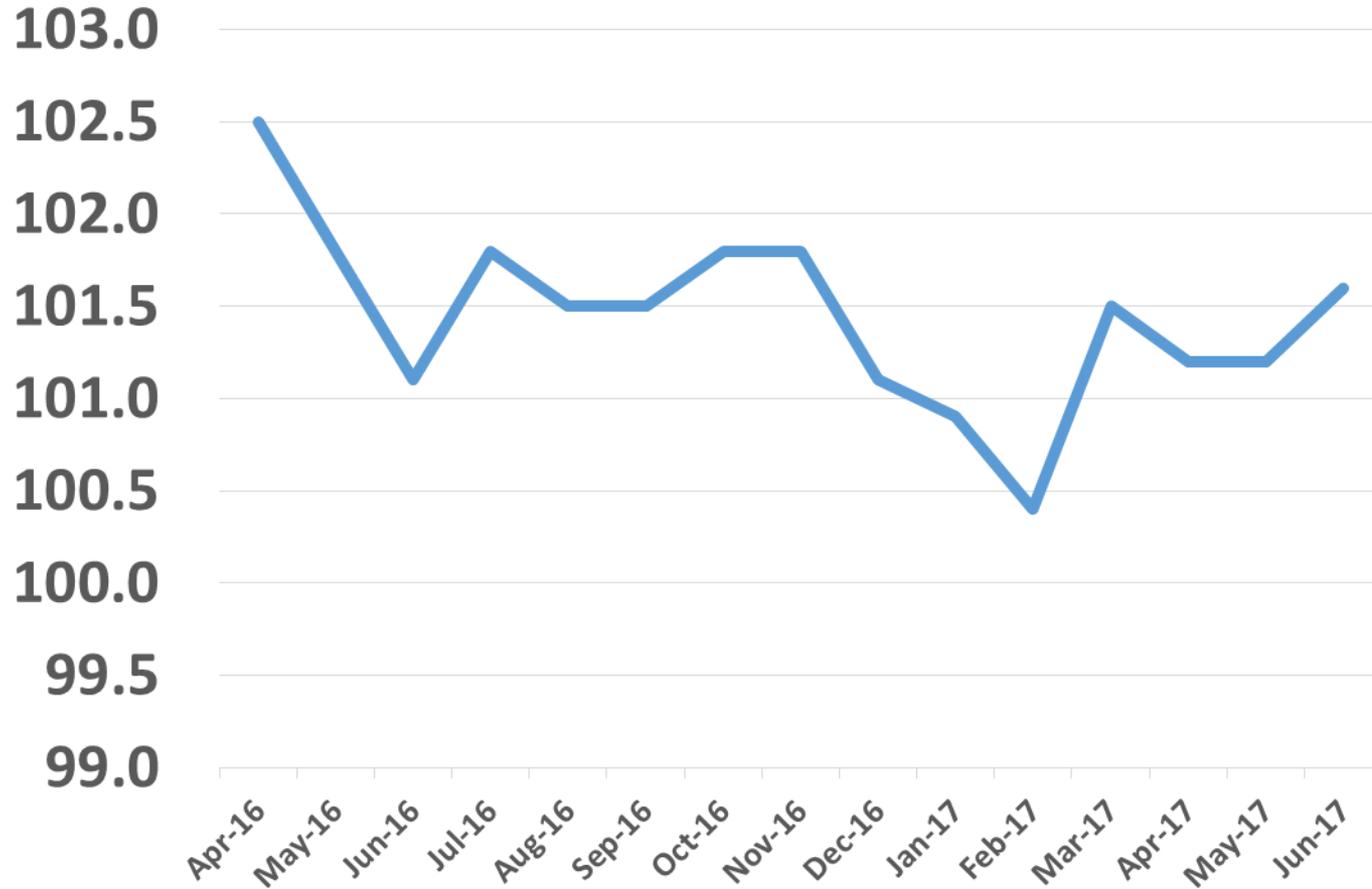
(1 June 2016 to 1 Sept 2017, Bank of England)

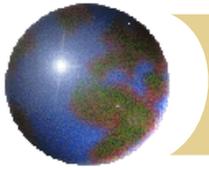




Real average weekly earnings in UK

(in Pounds, May 2015 = 100, (UK Office of National Statistics))





Thanks!

- ✿ Anderson, K., “Agricultural and Food Trade Policy Issues”, Ch. 8 in *Potential Benefits of an Australia-EU Free Trade Agreement*, edited by J. Drake-Brockman and P. Messerlin, University of Adelaide Press (forthcoming February 2018).

- ✿ Wine model results are at www.adelaide.edu/au/wine-econ
 - ✦ Anderson, K. & G. Wittwer, “The UK and Global Wine Markets by 2025, and Implications of Brexit”, WERC Working Paper 0217, July 2017 (forthcoming in *Journal of Wine Economics*)
 - ✦ Anderson, K. & G. Wittwer, “How Will Brexit Affect Australia’s Wine Exports?”, WERC Wine Brief No. 17, June 2017
 - ✦ Anderson, K. & G. Wittwer, “Impact of a ‘Softer’ Brexit on Wine”, WERC Wine Brief No. 18, July 2017