# Ex-ante study of the EU-Australia and EU-New Zealand trade and investment agreements – Executive Summary

Multiple Framework Contract TRADE 2014/01/01

Request for services TRADE2015/C2/C16

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# EXECUTIVE SUMMARY

## Objectives of the study

Currently, the European Union (EU) and Australia (EU-AUS) as well as the EU and New Zealand (EU-NZ) are considering to start negotiating bilateral Free Trade Agreements (FTAs). Indeed, both Australia and New Zealand are close partners to the EU. Thus, comprehensive economic relations could provide further integration in the wider region. The EU-Australia and EU-New Zealand trade and investment relations take place in a wider political and economic context. This is defined by the potential for further liberalization and for regulatory cooperation between the EU and the two countries with already existing high standards respectively. Regulatory cooperation may have positive feedback effects beyond access to the markets of the EU, Australia and New Zealand.

The current study aims at examining exisiting barriers to trade and investment between the EU and Australia and between the EU and New Zealand, respectively; estimating impacts of removing or reducing these barriers to trade and investment flows on a sectoral basis; and analysing economic, social, environmental and human rights impacts of such policy change. Thereby it is feeding into the Commission's impact assessment.

The regional economic architecture emerging in the Asia-Pacific presents another reason for the EU to conclude comprehensive and ambitous agreements with Australia and New Zealand. This is addressed in the comparative analysis of EU-AUS and EU-NZ flows in goods and services, investment and public procurement with a reference group of countries in light of parallel FTAs, as well as through the assessment of existing studies modelling FTA impacts on the EU, Australia or New Zealand.

The project is an analysis with qualitative and quantitative elements of both an EU-AUS FTA and an EU-NZ FTA. The quantitative analysis is being based on the CGE model employed by DG Trade, that uses the dynamic GTAP 9 model and distinguishes two policy scenarios: "conservative" and increased liberalization". The study provides the following output, as stipulated by the ToR and as specified in 12 tasks:

- Provision of a description of the current trade and investment relationships between the EU and Australia, and the EU and New Zealand.
- Identification and quantification of existing barriers for investment and public procurement, and conduct qualitative analysis of existing barriers for trade in agricultural goods and food between the EU and Australia, and the EU and New Zealand.
- Estimation of the potential costs and benefits of removing or reducing barriers to trade and investment, and to participation in public procurement markets for producers and consumers in the EU, Australia, and New Zealand.
- Estimation of the overall impact on trade and the economy of the EU, Australia, and New Zealand, particularly on GDP, employment, wages, and outputs of key sectors, based on the Commission's CGE model and additional analyses.
- Estimation of the potential implications of the removal or reduction of barriers to trade and investment flows for third countries (with a focus on developing countries, and Least Developed Countries (LDCs)), based on the Commission's CGE model and additional analyses.
- Analysis of the likely social and environmental impacts of the liberalization scenarios on the EU, Australia, and New Zealand.

- Analysis of the likely human rights impacts of the liberalization scenarios on the EU, Australia, and New Zealand.

**Trade and investment relations: EU-AUS and EU-NZ**

With regard to macroeconomic trends, our key findings concerning the potential impact of both an EU-Australia and an EU-New Zealand FTA show first an intensive, relatively stable (partly growing) trade and investment relation between the EU and AUS and the EU and NZ respectively. Trade barriers are limited, but for some sectors quite substantial.

**Trade with both countries** is intensive. The EU's major sector imports from **Australia** are coal, minerals, metal, machinery, and chemical products. Australia's major imports from the EU are machinery, chemicals and motor equipment, together accounting for almost €25 billion of €31 billion of total EU exports to Australia (rank 20 in total EU trade). EU services exports to Australia are characterized by relatively high volumes of transport services, communication services and financial services accounting for 45%, 15% and 11% of total EU services exports respectively. Concerning EU services imports from Australia, transport services and financial services are the most important sectors accounting for 57% and 7% of total EU services imports respectively. As concerns foreign direct investment, FDI from the EU to Australia has strongly increased from €51.6 billion in 2004 to €115.3 billion in 2014. As concerns FDI stocks held in the EU, Australia's investment stock amounted to €26.4 billion in 2014.

Agricultural goods and processed agricultural goods are the major sources of EU imports from **New Zealand**. Ruminant meat and vegetable/fruit comprised the largest parts of imports, followed by beverages/tobacco imports. Total EU exports to New Zealand amounted to €4.6 billion in 2015 (rank 50 in total EU trade). The EU's major exports groups are manufactured and industrial products. Concerning EU services imports from New Zealand transport services are the most important sectors accounting for 80% of total EU services imports respectively. Concerning foreign direct investment, EU FDI in New Zealand amounted to €7.2 billion in 2014. New Zealand's investment stocks in the EU have been comparably low since 2004. In 2014, New Zealand's FDI stock in the EU amounted to €3.3 billion.

**Trade barriers** in Australia and New Zealand are on average low; this holds for goods and services trade. However, there are a few tariffs peaks in agriculture, clothing and textile. In addition, some NTBs reflect not only producer and food industry interests, but also in environmental and social, even societal concerns. These NTBs are differing between Europe, AUS and/or NZ despite their cultural proximity.

The CGE model is giving evidence for overall positive effects on macroeconomic variables. In short, the impact of an EU-AUS FTA and an EU-NZ FTA respectively on **aggregate economic trends** is expected to be broadly positive in the long turn. Yet, as is often the case in trade liberalization, many of these benefits will be broadly dispersed over time and across industries, while negative externalities will be concentrated in a small number of sectors, mainly in the agricultural industries.

In more detail, we find positive effects on GDP for the EU, Australia and New Zealand, with a relatively minor impact in percentage terms in the long run for the EU. GTAP data analysis also predicts greater *aggregate* benefits under increased liberalization. In addition there is mixed but limited effects on sectoral output, with greater impact on Australia and New Zealand than in the EU. The sectors in Europe expected to be most challenged under the increased liberalization scenario are dairy and ruminant meat. High quality agricultural products such as wine have a potential to gain from the FTAs. In manufacturing, the results suggest that European producers will gain in most sectors.

**FDI flows are expected to increase** for Australia and the EU as well as New Zealand and the EU under both scenarios.

With respect to **government procurement**, the analysis provides an overview of the legislative frameworks regarding public procurement in both Australia and New Zealand and analyses potential barriers in the procurement markets. The qualitative analysis show that the EU, New Zealand and Australia would gain from the liberalization of public procurement.

As concerns the impact of an EU-AUS FTA as well as an EU-NZ FTA on **SMEs** in the EU, both FTAs would improve SMEs abilities to access to new markets and international networking, as well as reducing SMEs administrative costs due to lower entry and operating costs. In addition, SMEs would indirectly benefit from trade and investment liberalization as they are part of various domestic (home region, home country) and global supply chains.

The model predicts positive long-term welfare effects for the EU and both Australia and New Zealand and **limited but positive wage effects** for both unskilled and skilled workers in each trading partner – the impact being relatively more significant in Australia and New Zealand than the EU. In line with output predictions, the model also predicts sector-specific reallocation of labour under increased liberalization, affecting sectors in agriculture that would be subject to increased competition (e.g. ruminant meat, dairy, sugar) and manufacturing (chemicals, motor equipment, wood paper, etc.). With regard to **compliance with ILO standards**, our analysis reveals that besides the EU both Australia and New Zealand provide strong protection for workers' rights but that even core labour standards remain subject to cases before the ILO.

Both the quantitative and qualitative analyses come to the conclusion that **consumers in the EU, Australia and New Zealand largely benefit from proposed EU FTAs** with Australia and New Zealand. The issues addressed by the literature are largely confirmed by the respondents of the public stakeholder consultation of the European Commission, who generally see potential gains for consumers in various dimensions ranging from lower consumer prices to better information available to consumer. CGE results point to aggregate welfare effects that are positive for the partners in both FTAs; under both liberalization scenarios.

The **environmental assessment** finds that both the EU-AUS FTA and the EU-NZ FTA will have only a minor impact on the environment. The expected impact on global emissions is negligible as the FTA favours relatively less emission intensive sectors leading to a relocation of production towards cleaner sectors in both countries and the EU. Similarly, the FTAs are not likely to induce pressure on energy demand, nor constitute a concern for air pollution and natural resources such as forestry and fisheries. The only area of limited concern refers to a potential pressure on ecosystems and biodiversity exercised by the expected expansion of the agricultural sector that is characterized by a highly inefficient use of inputs such as water and nitrogen.

Both FTAs will not diminish **human rights** in the EU, Australia and New Zealand in general. The findings of our analysis point to a more likely positive than negative impact with respect to human rights. This conclusion is supported by input received from stakeholders in Australia and New Zealand, where submissions to ongoing stakeholder consultations point to the positive impact of the potential FTA on the access and enjoyment of specific rights. The study explored the impact on the parties' obligations in ensuring that "the conclusion of any trade agreement does not impose obligations inconsistent with their pre-existing international treaty obligations, including those to respect, protect and fulfil human rights". By looking at the consultation process in Australia, New Zealand and the EU, we conclude that there are sufficient opportunities for stakeholders to voice their concerns.

The impact of both FTAs on **third countries, in particular LDCs** seems to have a slightly negative but negligible effect on their national income. The national income of LDCs is expected to decline by 0.001% in the increased liberalization scenario in the long term. The results also indicate minimum impact on the reallocation of workers in the LDCs.

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