
EUROPEAN PARLIAMENT

Working Documents

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DOCUMENT 546/78

Report

drawn up on behalf of the Committee on External Economic Relations

on economic and trade relations between the EEC and Australia

Rapporteur: Mr M. MARTINELLI

1.2.2

By letter of 21 June 1978 the Committee on External Economic Relations requested authorization to draw up a report on economic and trade relations between the EEC and Australia.

Authorization was given by the President of the European Parliament in his letter of 13 July 1978.

On 19 September 1978 the Committee on External Economic Relations appointed Mr MARTINELLI rapporteur.

It considered the draft report at its meeting of 28 November 1978 and unanimously adopted the motion for a resolution and the explanatory statement with one abstention on 19 December 1978.

Present: Mr Kaspereit, chairman; Mr Scott-Hopkins, vice-chairman; Mr Martinelli, rapporteur; Mr Baas, Lord Castle, Mr Fitch, Mr Galluzzi, Mr Mitchell (deputizing for Mr Didier), Mr Mont, Mr Radoux, Mr Rossi and Lord St. Oswald.

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The Committee on External Economic Relations hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

MOTION FOR A RESOLUTION

on economic and trade relations between the EEC and Australia

The European Parliament,

- having regard to the memorandum submitted by the Australian Government;
 - having regard to the report of the Committee on External Economic Relations (Doc. 546/78),
1. Points out that, in its particular part of the world, Australia is a natural partner for the Community because of the close political, cultural and economic ties which have always existed between Australia and the United Kingdom and all the countries of the European Community;
 2. Draws attention to the fact that, even more than in the past, the Community will have to turn to Australia for supplies of raw materials, and that Australia's natural links with Europe will make it possible for Europe to rely on an uninterrupted supply of these raw materials;
 3. Believes that the Community, in the light of the close traditional bonds linking the two sides, should consider Australian requests with the greatest sympathy and, wherever possible, seek solutions which go towards meeting the requirements of the Australian economy;
 4. Is of the opinion that the Community and Australia, in view of the nature of the trade problems which have arisen between the two sides, should seek appropriate solutions in the framework of the multinational trade talks in Geneva, but that this should not rule out Community efforts to improve its trade relations with Australia on a bilateral basis;

5. Believes that the Community should, in bilateral contacts, point up the opportunities there are for Australian exports of non-agricultural products. An increase in such exports could help Australia to reduce its trade deficit with the EEC;
6. Is of the opinion that the Community must view sympathetically the demand for greater access to the Community market while paying due regard to the interests of Community producers;
7. Urges that the Community, in considering Australian requests for access to Community markets for agricultural products competing with produce from certain Community regions, also take account of the needs of the Community's farming areas following enlargement of the Community. The Community should undertake a careful study and assessment of the likely future consequences of Australian exports to the Community should the latter agree, in whole or in part, to the Australian requests;
8. Hopes that Australia will duly recognize the Community's efforts to make up for the reduction in its imports of certain agricultural products over the past few years by opening its own markets for Australian steel exports during a particularly difficult period and tripling its imports of Australian coal in the period 1973-1977, despite the large supplies of Community coal. These examples bear witness to the Community's awareness of the problems facing the Australian economy and to its desire to take positive action to help restore the trade balance between the two sides in the interest of both parties;
9. Invites Australia to review its industrial policies as regards the European Community's export possibilities;
10. Draws attention to the new wave of industrial protectionism in Australia;
11. Points out the opportunities available for Community investments in Australia and the country's desire to avail of Community technological expertise;
12. Considers that there is scope for extending relations between the Community and Australia in other sectors besides trade;
13. Instructs its President to forward this resolution, together with the relevant report, to the Council and the Commission of the European Communities.

EXPLANATORY STATEMENTI. INTRODUCTION

1. Australia is a trading partner of the first importance for the European Community. There are several reasons for this. First, the Australian market is an important trade outlet for the Community, while Australia has been a major supplier of raw materials to the Community in the past and will become still more important in the future. The Community needs raw material supplies from Australia which, with its political structure and its special ethnic links with Europe, could represent an especially reliable source of supply. Australia is a natural partner for Europe in this part of the world because the political and trade links between the 'island continent' and Europe go back many generations and are marked by a high degree of continuity and trust.

2. A number of problems arose following accession of the United Kingdom to the Community and led to a reaction by the Australian Government, which wanted to keep its exports to the Nine at the same level as to the UK before accession. Britain's membership of the Community meant a change in the terms under which Australia could export to the United Kingdom, since Australian products were considered by the European Community as products originating from a third country. Following the accession of the UK to the Community, Australia, which had geared its own productive system, particularly in the agricultural sector, to the needs of the British market, found itself producing agricultural and industrial goods which no longer had free access to that market.

3. The Australian Government then began submitting a series of requests to the Community with a view to reopening the British and European markets to its products. As far as the Community was concerned, these requests, as will be seen below, appeared unacceptable in the light of the need to ensure the viability of various sectoral policies (especially the common agricultural policy). At the present time the two sides are trying to reach an agreement which will satisfy the needs of both parties equally.

4. Before considering in more detail the various contacts which have taken place between the two sides, it may be useful to take a brief look at the Australian economy to allow a better assessment of the importance and scope of the problem.

II. BASIC DATA ON THE AUSTRALIAN ECONOMY

5. Australia is a continent of 7,682,300 km² in area with a population of 13,915,500¹. Australia's area is therefore equal to 4/5 of the United States. Since the second world war the population has almost doubled, half of this increase being the result of immigration at an annual rate of about 1%. In 1976 the gross domestic product was US\$ 84,400 million (\$6,252 per capita), compared to a 1977 per capita gdp in the Community of \$6,039.

6. The main feature of Australia's economic structure is that, although it is a highly industrialized country, agriculture plays a significant part. Although this sector provides only 6% of jobs and contributes only 7% to gross domestic product, it accounts for 46% of Australian exports. With 151.7 million sheep (1975), Australia supplies about three-tenths of the world's wool (4,493 million cwt. of washed wool in 1975), providing the major source of agricultural export revenue. Among the other major agricultural products are beef (32 million head of cattle and 2 million cwt. of meat in 1975, lamb (over half a million cwt.), cereals (some 12 million tonnes of wheat), cheese and dairy products and sugar (over 3 million tonnes in 1976-78).

7. Australia is one of the world's largest producers and exporters of minerals. Iron ore is the most important in terms of production and quantities exported; Australia is also a major producer of coal, bauxite (world leader), lead, zinc and copper, nickel (fourth largest producer in the world) and heavy mineral sands. In the case of three of these resources - iron, lead and mineral sand - Australia is already the world's largest exporter, and in the eighties it may become one of the most important petroleum producing countries (20 million tonnes in 1975) and will be able to supply some 70% of its own needs. Reserves of crude oil are at present estimated at about 336 million tonnes. Finally, Australia has vast deposits of uranium (estimated at about 20% of world resources in 1977), and, according to a Government statement of August 1977, it will be mined and exported, taking account of safeguard agreements.

8. 27% of the working population of Australia is employed in the manufacturing industry (1976) and produces more than 25% of gross national product. Among the wide range of Australian industries mention may be made of the steel industry (which in 1976, produced 8 million tonnes of crude steel), the aluminium industry, shipbuilding, chemical products, the automobile industry, the aviation industry, electrical and electronic products, textiles and clothing.

¹ Europa Yearbook 1978

9. Australia had overall balance-of-payments deficits of 1,020 million Australian dollars in 1975-76 and 492 million Australian dollars in 1976-77. Trade has been in balance for the past few years; in 1976-77 imports and exports reached record levels. Exports increased in volume and value. In terms of value the biggest increases were recorded for wool, metal ores, coal, metal products, meat, chemical products and sugar. At the same time, imports of machinery, transport equipment, oil, chemical products and plastics, paper, textiles and food products increased.

Australian foreign trade

(in millions of dollars fob)

| | 1971/72 | 1972/73 | 1973/74 | 1974/75 | 1975/76 | 1976/77 |
|---------|---------|---------|---------|---------|---------|---------|
| Imports | 4,008 | 4,121 | 6,085 | 8,080 | 8,240 | 10,414 |
| Exports | 4,893 | 6,214 | 6,914 | 8,726 | 9,640 | 11,647 |
| Balance | + 885 | +2,093 | + 829 | + 646 | +1,400 | +1,233 |

Source: Central Statistical Section, Australian Dept. of Overseas Trade

10. Agricultural products and minerals account for about 77% of Australian exports, but the percentage of industrial products is increasing continually and is at present just above 20%. Exports of minerals increased from 100 million Australian dollars in 1956/66 to 650 million dollars in 1975/76.

11. Far more pronounced, however, are the changes in Australian trade patterns, as the following table shows:

Exports

(% of total)

| | 1948/49 | 1958/59 | 1971/72 | 1972/73 | 1973/74 | 1974/75 | 1975/76 | 1976/77 |
|-------------|---------|---------|---------|---------|---------|---------|---------|---------|
| to: | | | | | | | | |
| EEC 9 | 61.5 | 48.9 | 18.8 | 20.1 | 16.3 | 15.3 | 14.8 | 16.0 |
| of which UK | 42.4 | 31.4 | 9.2 | 9.6 | 6.6 | 5.4 | 4.2 | 4.5 |
| USA | 6.0 | 17.2 | 12.6 | 12.2 | 10.8 | 9.6 | 10.1 | 8.6 |
| Japan | 1.4 | 7.6 | 27.8 | 31.1 | 31.2 | 27.6 | 32.6 | 33.9 |

Imports

(% of total)

| | 1948/49 | 1958/59 | 1971/72 | 1972/73 | 1973/74 | 1974/75 | 1975/76 | 1976/77 |
|-------------|---------|---------|---------|---------|---------|---------|---------|---------|
| from: | | | | | | | | |
| EEC 9 | 54.6 | 49.1 | 34.4 | 32.4 | 27.9 | 29.6 | 27.0 | 24.8 |
| of which UK | 50.1 | 38.6 | 20.9 | 18.6 | 13.9 | 15.0 | 13.5 | 10.9 |
| USA | 10.0 | 13.6 | 21.8 | 20.9 | 22.2 | 20.6 | 20.1 | 20.7 |
| Japan | 0.4 | 3.8 | 15.7 | 17.9 | 17.8 | 17.6 | 19.5 | 20.6 |

Source: OCSE, Commonwealth Statistician - Overseas Trade

The most spectacular change has been the reduction of Australia's trade dependence on the United Kingdom, namely from 50% of exports in 1958/59 to 18.6% in the year of the UK's accession to the Community and 16.9% in 1976/77; and for imports, from 42% in 1948/49 to 9.6% in 1972/73 and to 4.5% in 1976/77. Since 1966/67 Japan has been Australia's main export market and last year took at least one-third of the country's total exports. Imports from Japan have not increased so sharply, but nevertheless reached one-fifth of the total last year. Japan is now the major market for Australian wool, iron ore and coal: it is also a major importer of other raw materials.

12. Other Asian countries are increasing their imports of Australian products; New Zealand is the biggest single market. Trade between the United States and Australia has remained relatively stable during the seventies, taking about 10% of Australian exports and supplying some 20% of its imports.

13. Despite the relative decline in British exports, the European Community remains Australia's principal supplier; however, Australia exports more than twice as much to Japan as to the Community.

Trade between Australia and the Community

(US\$ million)

| | 1973 | 1974 | 1975 | 1976 | 1977 |
|------------------------------------|---------|---------|---------|---------|---------|
| Australian imports: | | | | | |
| - from the EEC | 1,867.0 | 2,893.9 | 2,640.1 | 2,692.9 | 3,046.1 |
| - from the UK | 991.7 | 1,403.4 | 1,395.2 | 1,238.7 | 1,325.0 |
| Australian exports: | | | | | |
| - to the EEC | 1,872.1 | 1,980.8 | 1,990.1 | 2,524.1 | 2,393.6 |
| - to the UK | 840.1 | 730.2 | 606.5 | 712.2 | 605.9 |
| Trade balance in favour of the EEC | + 3.9 | + 913.1 | + 650.0 | + 168.8 | + 652.5 |

Source: ECSC

Whilst the Community takes 15% of Australian exports and supplies 24% of its imports, less than 2% of Community exports go to Australia. Trade with Australia is largely complementary. About 96% of Community exports to Australia consist of industrial products, about half of them transportation equipment. Australia supplies the Community with raw materials (it is, for example, the Community's main supplier of zinc and aluminium), agricultural products and various special products.

14. However, the past few years have seen an important change in the breakdown of Australian exports to the Community. Food, drink and tobacco represented 28% of the total in 1973; this percentage had dropped to 16.5% in 1977. Whilst exports of industrial products (20.5%) and raw materials (47%) have remained stable, those of energy products have increased from 2.5% to 16% in the same period. Community imports of coal and iron ore increased sharply over the period 1972-76. As regards industrial products, Community imports of steel increased significantly: 100,000 tonnes in 1975, 564,000 tonnes in 1976 and 512,000 tonnes in 1977.

15. Trade with the United Kingdom, traditionally Australia's major trading partner, has been steadily declining since the end of the war. This tendency grew stronger as Commonwealth Preference was gradually phased out and as the United Kingdom was included in the operation of the Common Agricultural Policy.

16. The Common Agricultural Policy has had a considerable impact on dairy-produce and beef and veal exports; the overall share of beef and veal and mutton and lamb (the latter not subject to the CAP) fell from 10% in 1972/1973 to 1% in 1975/76. In fact, in the four-year period 1973-77 exports to the Community of veal and beef, lamb and mutton, cereals, sugar and fresh fruit fell by about 80% (although exports to the rest of the world of the same products rose by some 25% and, in fact, reached a record level for beef and veal). However, restrictions on imports to the Community of beef and veal in the period 1974/76 were of a temporary nature, and the fall in Australia's agricultural exports to the EEC can be attributed to other (i.e. non-CAP) factors, such as agreements, deriving from the Lomé Convention, on Community imports of ACP sugar.

III. RELATIONS WITH AUSTRALIA

17. As indicated in the introduction, relations between the EEC and Australia went through a critical phase, owing mainly to the accession of the United Kingdom to the Community. Australia had been one of Britain's main suppliers of agricultural products, especially beef and veal. The Australian economy had been geared to the requirements of the British market. Not unexpectedly the United Kingdom's accession to the Community meant a considerable change in Australia's trade outlets. Some of the difficulties which arose at the time remain unsolved to this day. On both sides there is a desire for broader and closer mutual relations. However, the reservations of Australia about the Common Agricultural Policy, and those of the Community about Australian protectionism are symptomatic of problems which should be seen in a wider context and need to be appropriately resolved.

18. Vis-à-vis Europe, Australia represents one of the major sources of raw materials, and in the years to come her importance as a supplier of these is bound to increase. The Australian continent is rich in just those resources which the Community's economy needs, and is a uranium producer with some of the world's richest reserves. Today, there are 184 nuclear power stations operating in the world, but soon¹ - in 1985 - if all goes according to plan, there will be at least 500.

19. Experts estimate that world reserves of uranium which can be extracted at low cost do not exceed 2 million tonnes. Of this, over 380,000 tonnes are located in Australian territory. When it is remembered that, in 1976, world output of uranium was about 30,000 tonnes, it will be seen that Australian stocks represent a very considerable potential. For Europe, therefore, Australia represents a source of raw-materials supplies of capital importance not only for today, but also, and above all, for the future.

20. Australia, for its part, regards the Community as an important supplier of technological know-how and of investment for its own development and as one of its principal trading partners, together with the USA and Japan.

21. Australia is anxious to obtain concessions from the Community in the agricultural sector - a subject of great intrinsic difficulty. Australia's request to the Community has been presented in a Government memorandum submitted towards the end of 1977. In a series of exchanges between the Prime Minister, Mr Fraser, and the Commission President, Mr Jenkins and their staff in the course of 1978 it has proved impossible to reach agreement on Australia's demands. The consultations were mainly concerned with trade problems.

¹ See European Community No. 9/10, September - October 1978

22. It is important to keep in sight broader considerations which show the inter-relation of the interests and economic outlook for both sides in the years ahead. It should be remembered that, despite considerable fluctuations, the Community has consistently maintained a favourable balance of trade with Australia. Australia's trade deficit with the Community is comparable, in relative terms, to the Community's deficit in her trade with Japan.

Among the trade problems which the Community has been particularly anxious to resolve, are questions relating to recent Australian measures affecting Community exports to Australia of spirits, footwear, textiles, motor vehicles and domestic electrical appliances. The EEC has given favourable treatment to Australian exports of steel.

Australia's attention is concentrated mainly on EEC openings for Australian agricultural exports, especially beef and veal.

23. Since agricultural products account for 46% of total Australian exports, this concern is fully understandable. Australia's difficulties with the Community in the agricultural sector are directly attributable to the accession to the Community of the United Kingdom which had provided a huge market for Australian agricultural produce. Australian agricultural exports to other parts of the world have, in some cases, increased. Total Australian exports of beef and veal, for instance, reached record levels in 1977, despite shrinking exports to the Community.

24. But Australian requests to the Community concern principally those agricultural problems which are also the subject of the Geneva multi-lateral trade negotiations.

25. The Community's view is that solutions to problems in the area of agricultural trade, and particularly of trade in beef and veal, should not be sought in a bilateral, but rather in a multilateral context.

26. In the negotiations with Australia the Community also lays stress on the importance of, and the prospects for future trade and economic relations between the two sides in non-agricultural sectors. In respect of agricultural produce, and especially beef and veal, the Community would be willing to demonstrate the real opportunities of access to its markets which a suitable multilateral agreement could provide.

27. Of the remaining Australian requests, some are attended by practical difficulties, as for instance those concerning fruit and vegetables which are competitive with the output of the Mediterranean countries.

Essentially, the strain in relations between the two sides is attributable to the following two factors:

- Australia blames the Community for the effects of the Common Agricultural policy on its exports;
- the Community is suffering increasingly from the new wave of industrial protectionism in Australia.¹

28. In such a situation we feel that an effort must be made to avert any possible danger of a chain reaction. While we maintain that the Community as such is in no way responsible for the deterioration of trade relations between the two sides, we consider that, in view of the political relations in which Australia is Europe's natural partner in that region of the world, the Community should do its utmost to satisfy some of the Australian Government's demands.

29. Since the balance of trade between the two parties has been consistently in the Community's favour in recent years, it would be advisable, as the Australian Minister for Special Trade Representations, Mr Garland, has asked, to enable Australia to reduce its trade deficit with the Community as far as possible by providing appropriate outlets on the Community market, for the sake of restoring the good relations which have always characterized cooperation between the two sides.

EEC-Australia balance of trade
(in million US dollars)²

Figures in parenthesis show change against previous year

| | 1973 | 1974 | 1975 | 1976 | 1977 |
|-----------------------------|--------------|---------------|--------------------------------|--------------------------------|---------------------------------|
| Federal Republic of Germany | +162.2 | +353.2 | + 83.0 | + 97.0 | +335.3 |
| U.K. | +151.6 | +673.2 | +788.7 | +526.5 | +719.1 |
| France | -255.3 | -215.0 | -168.6 | -304.9 | -286.1 |
| Italy | - 75.6 | + 15.2 | - 56.2 | -132.6 | -147.0 |
| Belgium-Lux. | - 38.9 | - 43.8 | - 71.8 | -114.8 | - 83.1 |
| Netherlands | + 41.2 | + 77.9 | + 34.7 | + 43.7 | + 58.1 |
| Denmark | + 14.8 | + 33.7 | + 23.8 | + 28.2 | + 20.6 |
| Ireland | + 3.9 | + 18.7 | + 16.4 | + 25.7 | + 35.6 |
| Total EEC | + 3.9 | +913.1 | +650.0 (-29%) | +168.8 (-74%) | +652.5 (+287%) |

¹ particularly in the following sectors: Brandy, cars, footwear, electrical household appliances, clothing

² Source: Community statistics 1978

IV. CONCLUSIONS

30. In the search for agreement on the points under discussion by the two parties, the following considerations should be taken into account. First, Australia is Europe's traditional partner in this region of the world. The island-continent's ties with Europe are of old standing and have always been very close not only at the economic and trade level but also at the level of political cooperation. Australia is, moreover, particularly receptive to contacts with Europe, because its population has strong cultural links with our own continent. It is important not to underestimate this consideration, because Australia possesses raw material resources which are essential for the development of our own industrial system. These political ties, and a climate of Australian public opinion close to the attitudes of the Community's peoples, would make of Australia a reliable source of raw materials. The political and economic importance of such a political and cultural relationship between Australia and our own peoples must be obvious.

31. This circumstance alone would be enough to justify an effort on the Community's part to meet, as far as possible, Australian demands. For it should not be forgotten that, in future, the Community is likely to find itself dependent, even more than in the past, on Australian raw material supplies.

32. Secondly, in the search for mutual agreement, the Community must, of course, protect its own interests as far as operation of the Common Agricultural Policy is concerned.

33. Australian requests include that for opening Community markets to certain agricultural products which are competitive with the output of the Community's Mediterranean areas. In examining Australian demands in the agricultural sector, a sector that is, in any case, notoriously sensitive, the Community authorities should keep in mind the problems which will arise in the agricultural sector in the context of enlargement.

34. It should be remembered that Australian demands for agricultural export outlets, the agricultural problems resulting from enlargement, and the series of agreements concluded by the Community with Mediterranean countries under its Mediterranean policy - all have more or less direct consequences for the Community's own Mediterranean agricultural production. It is important to remind ourselves that neither enlargement nor the Community's policies vis-à-vis third countries should in any way be allowed to prejudice the interests of the inhabitants of the Community's Mediterranean areas. It is they who so far have been the most disadvantaged by the operation of the Common Agricultural Policy, since the latter has mainly benefited agricultural production typical of northern Europe.

35. We believe the time has now come for the Community to recognize that its Mediterranean regions are also its least developed ones, and therefore to take account of the interests of these regions in all its actions in the sphere of external relations and to ensure that all its decisions are consistent with the Commission's initiatives for measures to assist Mediterranean agriculture.

36. It is our opinion that the nature of the trade problems existing between the two parties is such that solutions to them should more appropriately be sought within the framework of the Geneva multilateral trade negotiations. It is in that context that a global solution at the level of world trade is likely to be found to the problem of commercial exchange between the two parties, since the opening of new outlets and compensatory flows of trade may help to re-establish an overall trade balance.

37. This is not to say that the Community should not seek to improve its trade relations with Australia also at a bilateral level, particularly by improving opportunities for Australian non-agricultural exports. This would enable Australia to reduce its trade deficit with Community Member States.