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# The long and twisting road to a trade agreement between Australia and the European Union (State of play in 2024)

Institute for International Trade

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## Abstract

In the 21st century Australia and the EU hold similar positions on international trade policies and the need to take world trade law beyond the WTO rules established thirty years ago and whose reform is stymied by the consensus requirement. However, negotiations for a modern deep bilateral trade agreement did not begin until 2017, collapsed in 2021, and have failed to reach a conclusion in 2024. This paper traces the background to the failure, which contrasts to successful EU-Canada and EU-New Zealand agreements. Sentimental ties to the UK and influence of UK attitudes, fluctuating relations with France, and lack of interest in and by other EU members have all contributed to Australian ambivalence towards an EU agreement, even as trade and investment ties have grown stronger and attitudes towards the world trade system have converged.

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# 1. Australia-EU relations up to the 1990s

Australia's relations with the European Union (EU) began with mutual neglect that quickly degenerated into antipathy on the Australian side.<sup>1</sup>

When the Treaty of Rome was signed in 1957, the UK was Australia's main economic partner. Australia may have had some sympathy with European federalism as a road to peace, but the arrangement was largely seen through British eyes as the common market rather than a "Community". Economic calculus drove the UK's decision to apply for membership in 1961-3 and 1967 and through these episodes Australia came to realize that the UK would dump its preferential arrangements for Commonwealth countries in favour of accessing the common market — a realization that came as a major shock to members of the Australian elite for whom the British connection had been the bedrock of Australian international relations. When UK accession did come in 1973, Australia went from being a preferred source of agricultural products to a non-preferred supplier facing rapid losses in the UK Market. The problem was later exacerbated by creation of EU agricultural surpluses, which were sold on world markets, depressing the prices received by Australian farmers selling to non-EU markets.

The common agricultural policy (CAP) would dominate Australian perceptions of the EU for decades. It did not help that the Trade Ministry was held by the leader of the Country Party (later the National Party), John McEwen (1956-71)

and Doug Anthony 1971-2 and 1975-82), who would be especially attuned to farm interests.<sup>2</sup> Nevertheless, the anti-CAP rhetoric was overblown, as in John McEwen's statement from the 1960s:

"The concept of some 300,000,000 people in Europe establishing for the first time in modern history free trading between themselves, with a towering tariff barrier surrounding them to keep the rest of the trading world outside, represents through Australian eyes a picture of the most gigantic obstacle to international trading in world history." (cited in Elija and O'Neill, 2018, 61)

Nor did petulant actions help, as in Doug Anthony's walk-out from the 1982 General Agreement on Tariffs and Trade (GATT) Ministerial Meeting in Geneva because the EU would not put the CAP on the table. As late as 1997, Prime Minister John Howard referred to the CAP as an "anti-Australia policy" (McKenzie, 2018, 257) and in 2002 he stated that "the European Union's predatory trading behaviour is infinitely worse than that of other countries" (Murray 2018, 212, citing Australian *Hansard*).

For the EU, Australia was of peripheral interest. The internal market and enlargements from six to nine in the 1970s and from nine to twelve in the 1980s were more pressing. EU external trade policy created a pyramid of trade preferences which acted in lieu

of a foreign policy with neighbouring Mediterranean countries and European Free Trade Association (EFTA)<sup>3</sup> members at the top, followed by former colonies in Africa, the Caribbean and the Pacific, and by developing countries receiving Generalised System of Preferences (GSP) treatment. Australia was one of a handful of market economies facing the EU's Most Favoured Nation (MFN)<sup>4</sup> tariffs, together with Canada, Japan, New Zealand, South Korea, Taiwan and the USA (Pomfret, 2021b, 38). Only the centrally planned economies were lower down the pyramid.

The Whitlam government attempted in 1974 to establish regular bilateral meetings at ministerial level, but little was achieved before he lost power (Benvenuti, 2018, 197-8). Malcolm Fraser tried to continue the détente but a 1977 visit to Brussels was disastrous as he was perceived to be lecturing EU officials, while the Australian side complained about the arrogance of Brussels bureaucrats. A visit by John Howard later in the year was equally fruitless and may have influenced the future prime minister's view of the EU. In 1979 there was a slight thaw as the EU committed to including agriculture in the Tokyo Round of GATT negotiations. However, Australia saw this as only a beginning. With the hope of encouraging further reform Australia began to redirect exports away from the EU and in 1980 increased trade barriers on imports of

1. I will use EU to cover the organization created by the 1957 Treaty of Rome, even though its name evolved from the European Economic Community to the European Communities and only in 1993 to European Union.

2. Several commentators (e.g. Capling, 2001, 92-3) highlighted a rift between the then separate Trade Ministry and the Department of Foreign Affairs, which took a broader and more accommodating approach to the EU, but under coalition governments in which the Deputy Prime Minister held the Trade portfolio the Trade Ministry would prevail.

3. After the UK and Denmark joined the EU in 1973, EFTA consisted of Austria, Portugal, Sweden and Switzerland. Today EFTA consists of Iceland, Liechtenstein, Norway, and Switzerland.

4. The MFN tariff rate is the customs duty levied on imports from other WTO members.

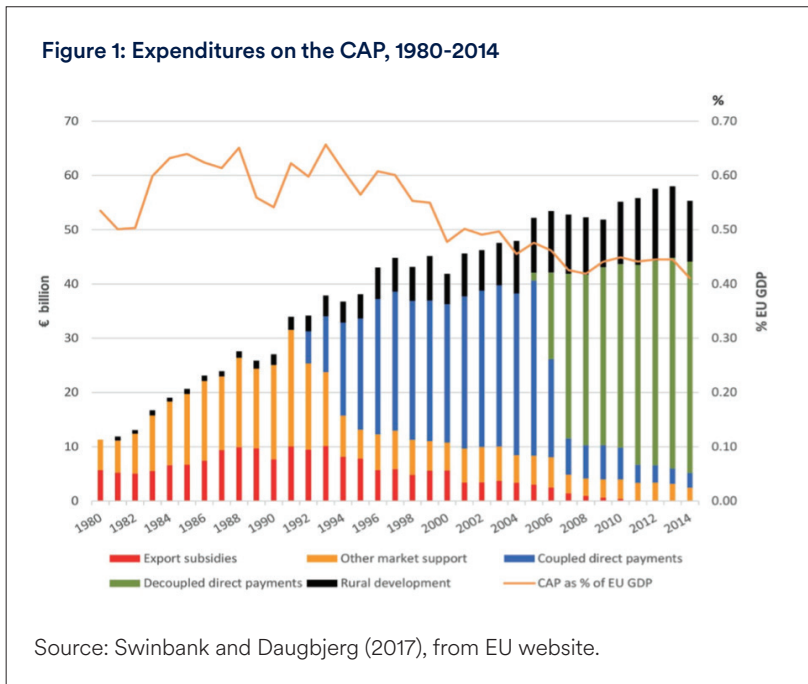
EU wine and brandy.<sup>5</sup> The nadir was reached at the 1982 GATT Ministerial.

The Hawke-Keating governments set the basis for a shift from the adversarial relations of the 1972-82 decade. By forming the Cairns Group of agricultural exporters as a lobby group for including agriculture in the Uruguay Round of GATT negotiations, Australia adopted a more positive, and ultimately successful, challenge to the CAP.<sup>6</sup> The 1990 Montréal GATT ministerial was a turning point; the EU acknowledged that, without credible promises of CAP reform, it risked collapse of the Uruguay Round negotiations with potentially serious implications for the multilateral trading system. Conclusion of the Uruguay Round in 1994 saw agriculture lose its exceptional status and EU agricultural policy reforms between 1993 and 2003 transformed the CAP from a protectionist regime based on price support to a system of rural income support decoupled from output levels (Figure 1).

Australian policymakers were deaf to EU counter-complaints about Australia's high tariffs on manufactures and strict biosecurity regime that acted as a large non-tariff barrier to agricultural imports. When Australian trade barriers were substantially reduced in the decades after 1983, the visibility of European cars, appliances, clothing and footwear undermined the assumption that Australia was too distant to be a significant market for EU exporters.<sup>7</sup> Given the incidence of Australia's high trade barriers, trade liberalization led to disproportionately more trade with Continental Europe than with the UK, which was a less competitive supplier of cars, appliances, and clothing and footwear.



John McEwen left in the cold as UK applies to join the European Common Market



5. The Fraser government toyed with the idea of using uranium exports as a bargaining chip or for resource blackmail to force CAP reform (Benvenuti, 2018, 199). The Fraser government appeared to view the EU through national relations, with the UK and Germany as potential allies against French agricultural intransigence, and hoped to change the CAP by arguments or threats without considering reciprocal reduction in Australian trade barriers on EU exports.

6. This did not improve relations with the EU. At a workshop in Brussels in June 2019 on EU-Australia Relations (Matera and Murray eds., 2020): a senior EU trade official reminisced that in the 1990s his colleagues considered the Australian-inspired Cairns Group to be "the devil incarnate".

7. In the post-1983 economic reforms, Australia committed to open multilateralism and abandoned protectionism. Implementation was slow in key sectors; textiles and clothing imports were only liberalized when the Multi Fibre Arrangement was terminated on 1 January 2005 and the car industry, on life support from government assistance, lasted until 2017. Importantly, in the 21st century the major political parties' bipartisan consensus on liberal trade held.

## 2. Conflicting Australian views of Europe's place in the world and of EU structures

Liberal Party leaders from Robert Menzies through to John Howard, Tony Abbot and Foreign Minister Alexander Downer were Anglo-oriented, convinced of the important special relationship between Australia and Britain (but not necessarily of a special link to Europe).

John Howard and Tony Abbott supported Brexit and saw it as evidence of EU failure. Some media commentators were also dismissive of the EU, e.g. in 2011 The Australian columnist Greg Sheridan described the EU as “a wretched failure” (quoted in Yencken, 2018, 19).

Labor Party leaders were less interested in Europe. Although Whitlam revived relations in 1974, little was actually done before his ouster in 1975. The Hawke-Keating governments were strongly impressed by the rise of Northeast Asia and its positive implications for Australia, a position repeated by Kevin Rudd and Julia Gillard and especially their Treasurer Wayne Swan, who all saw Europe as an economically stagnant part of the world of limited relevance to Australia (Yencken, 2018, 18-19).

Between these positions there was little recognition of the EU as a major economic partner for Australia or as one of the three major centres of the global economy.

In general, Australian media relied on London sources for their European news. Thus, British attitudes towards the EU as an economic arrangement rather than a process towards ever closer political union and as a collection of sovereign nation

states rather than a federation were widely assimilated. This was associated with contradictory views of the Commission as a powerful unelected executive and of the nation states, especially France, Germany and the UK, as the true centres of power in Europe. In the aftermath of the Brexit referendum the Australian media appeared much more receptive to a UK-Brexititeer narrative of the EU as a dysfunctional institution than to the European perspective emphasizing the solidarity of the EU27 in the negotiations (in contrast to the chaotic UK politics and negotiating positions).

There was little attempt by the Australian media or political leaders to understand and explain the evolving division of competences between the EU and national governments even though an extraordinary amount of time and effort was spent by European leaders on such matters. Admittedly, it was hard to keep track of the arcane arguments at endless conferences between Maastricht in 1992 and Lisbon in 2007 to agree on an updated successor to the 1957 Treaty of Rome (Gilbert, 2012) but attempting to assess the outcomes should have been considered a worthwhile exercise.<sup>8</sup>



The High Representative of the European Union for Foreign Affairs and Security Policy, Federica Mogherini, and Australian Minister for Foreign Affairs, Julie Bishop, sign the EU-Australia Framework Agreement on 7 August 2017 – negotiations began June 2018.

8. Considering the changing composition of the Australian population between 1945 and 1975 (Appendix 1), the lack of interest in the EU is surprising. In practice, Australia's relations with continental Europe have been dominated by France (Appendix 2).

# 3. Warmer relations from the mid-1990s to 2016

The number of EU-Australia agreements started to increase in the mid-1990s.



An Agreement on Scientific and Technical Cooperation and the first European Community – Australia Wine Agreement were both signed in 1994. Negotiations towards a framework agreement stalled in 1997 because Australia refused to include human rights in a trade agreement. Nevertheless, relations started to unfreeze with the signing in 1998 of a Euratom-Australia Cooperation Agreement and a Mutual Recognition Agreement.<sup>9</sup>

However, in the 1990s Australian interest was turning to northeast Asia. This would be accentuated when the resource boom began at the end of the 1990s and East Asian countries were clamouring for energy and mineral resources. For its part, the EU showed little interest in Australia; the EU Commission’s 2006 ‘Global Europe’ White Paper did not even mention Australia as a priority country with which to establish deeper trade relations (Messerlin and Parc, 2018, 38).

Australia-EU interactions picked up after 2006 with many agreements signed, culminating in the 2015 Agreement to Commence Negotiations for a Free Trade Agreement (Matera and Murray, 2018, 182). The agreement was presaged in the EU’s 2015 trade strategy report *Trade for All* which foresaw agreements with Australia and New Zealand as “a platform

for deeper integration with wider Asia-Pacific value chains” (EU, 2015, 32). The improved relationship was not based on trade alone, e.g. a joint statement in 2016 by Australian Foreign Minister Julie Bishop and EU High Representative for Foreign Affairs and Security Policy, Federica Mogherini, stated that the relationship “is based on shared values and a common commitment to the rule of law, global norms and support for international stability and security” (Murray, 2018, 216).

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One reason for better relations in the twenty-first century was the diminished importance of agriculture whose share of Australian GDP was less than 5% by 2016. Agriculture remained a significant export activity but far less important than in 1950 when it accounted for six-sevenths of Australian exports. On the eve of UK accession to the common market, agriculture accounted for 44% of Australian exports; by 2016 this share had fallen to 15 percent (Table 1).

**Table 1: Sectoral shares of Australian gross exports, percentages**

	Agriculture	Mining	Manufacturing	Services
1950	86	6	3	5
1970	44	28	12	16
1990	26	41	14	19
2016	15	48	14	23

Source: Anderson (2018, 169)

9. The mutual recognition agreement was an important trade facilitation measure, ensuring EU-wide accreditation of Australian certification facilities for several products (Matera and Murray, 2018, 183). The 1994 and 2008 wine agreements removed some technical barriers to trade facing Australian wine exports.

A second reason was the convergence of EU and Australian views on trade policy (Pomfret, 2020). Both had reduced average tariffs to under 5%. Both were coming to recognize the importance of improving access to imported inputs as a source of greater productivity, illustrated most clearly in the phenomenon of global value chains (GVCs). The shared reaction of the EU and Australia to the rise of GVCs, lack of progress in WTO negotiations, and need to extend world trade law to WTO+ issues,<sup>10</sup> led both to move cautiously towards comprehensive open regionalism. For Australia, the 2008 Australia-New Zealand-Association of Southeast Asian Nations (ASEAN) FTA was the most comprehensive trade agreement that Australia had negotiated apart from the Closer Economic Relations

with New Zealand, and the 2009 Australia-Chile agreement indicated that Australia's vision was not limited to the Southeast Asia region. Similarly, the EU started cautiously by concluding trade agreements with smaller South American countries; the EU-Korea agreement was more substantial, and WTO+ negotiations were initiated with the other G7 countries (the USA, Japan and Canada).

In 2016, the EU28 (including the UK) was Australia's biggest investment partner in terms of inbound investment and similar in size to the USA in terms of outbound Australian investment (Table 2). Roughly half of the total Australia-EU investment flows involved the UK and half involved the other 27 EU members. Australia-EU investment flows are dominated by portfolio investment in both

directions. With respect to FDI flows into Australia, the main issues are related to investment-screening and limits on equity.

A striking example of the rise of GVCs was the rapid growth of car production in Eastern Europe after the end of Communism. Major car producers invested heavily in Eastern Europe, especially in Poland, Hungary, the Czech Republic and Slovakia, which became the world's largest producer per capita in the early 21st century. Research and development remained in company headquarters and components were sourced from across the EU for final assembly in eastern Europe. After General Motors closed its last Australian factory in 2017, production of the Holden marque shifted to Poland (Sourdin and Pomfret, 2017).

**Table 2: Foreign investment stocks, 2016, A\$ billion**

Australia Inbound		Australia Outbound	
USA	860.9	USA	617.4
EU27	556.7	UK	350.5
UK	515.5	EU27	260.5
Japan	213.5	Japan	108.3
ASEAN	127.0	New Zealand	106.9
China	87.3	ASEAN	97.5
New Zealand	74.7	China	87.9

Source: Thangavelu and Findlay (2018, 191).



A Holden Astra rolls off the assembly line at the GM factory in Gliwice, Poland, September 2016.

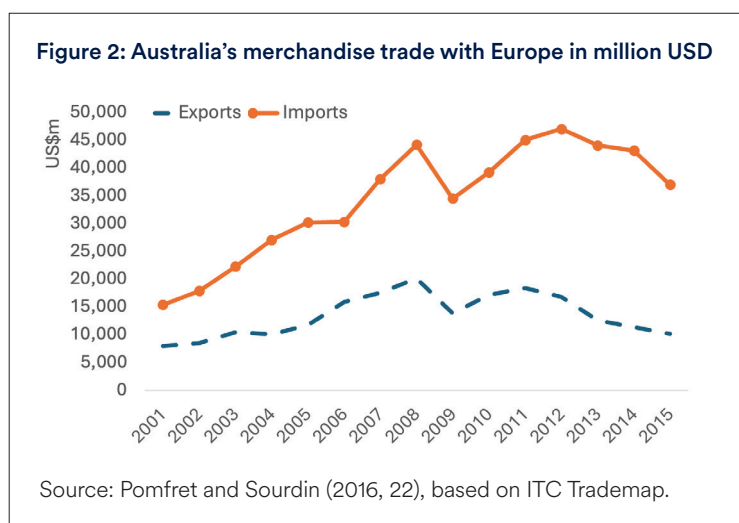
<sup>10</sup>. Meaning the extension of WTO trade law into areas not currently covered by the WTO's Agreements.



# 4. Evolving EU-Australia trade patterns up to 2016

By 2015, the EU accounted for just over 5 percent of Australian exports (the fifth largest destination) and 18 percent of Australia's imports (the second largest origin).<sup>11</sup>

Australia-EU trade changed dramatically between 2000 and 2015, driven by two main factors: the energy boom that led to a large improvement in Australia's terms of trade and value of primary product exports (mainly coal, gold and minerals), and expansion of the EU to include Eastern European countries. The resource boom exacerbated a pattern of Australia running trade surpluses with East Asia and trade deficits with Europe and North America. While Australian exports to the EU doubled between 2001 and 2011 and then slackened (Table 3), the revenues from resource exports to Asia fuelled even stronger growth of Australian imports from Europe (Figure 2).



**Table 3: Major Australian exports to the European Union, 2001-2015, in million USD**

HS code		2001	2005	2010	2011	2012	2013	2014	2015
<b>TOTAL</b>	<b>All products</b>	<b>7,967</b>	<b>11,751</b>	<b>17,211</b>	<b>18,368</b>	<b>16,774</b>	<b>12,584</b>	<b>11,388</b>	<b>10,153</b>
27	Coal	1,130	2,626	3,706	4,296	3,260	2,492	2,128	2,070
71	Gold, silver, diamonds	580	611	5,056	5,684	5,114	2,464	1,896	1,477
26	Zinc, lead, copper etc	586	981	1,171	1,244	1,434	894	1,167	738
90	Medical equipment & apparatus	223	505	589	769	685	682	750	694
12	Oil seed	110	37	190	1,051	1,141	1,155	714	690
22	Wine	561	993	770	716	693	594	547	475
84	Machinery & parts	309	452	463	533	494	507	530	432
02	Meat of Beef and sheep	166	207	276	390	349	401	483	415

Source: Pomfret and Sourdin (2016, 31), based on ITC Trademap.

11. The other top five export markets in 2015 were China (32%), Japan (16%), South Korea (7%) and USA (5%) and the other top five sources of imports were China (23%), USA (11%), Japan (7%) and South Korea (5%).

Part of the reason why EU countries have remained attractive trade partners has been that the costs of international trade between Australia and EU countries have remained low relative to trade costs between Australia and other countries, despite the distance between Europe and Australia (Table 4). The Eastern European EU members started to adopt EU practices in the 1990s and after the 2004 EU accession joined the border-free Schengen zone. Led by major car companies, producers began to locate labour-intensive parts of the production process in the Eastern European countries with the strongest manufacturing traditions, investing in large car assembly plant in Poland, Hungary and Czechoslovakia. In the 21st century, Slovakia became the location of choice, helped by Slovakia's adoption of the euro in 2009.<sup>12</sup> The same process that was bringing the Eastern European countries into a more integrated EU economy was also reducing their costs of international trade so that by 2007 it was as cheap to trade with Australia from Slovakia as from Germany, in sharp contrast to the situation in the 1990s when trade costs from Slovakia were double or treble those from Germany to Australia. In the 21st. century the 2004 cohort of EU members rapidly became exporters of manufactured goods, and increased exports from Eastern Europe to Australia were dominated by cars (Sourdin and Pomfret, 2018). The 2004 EU enlargement benefited Australia by providing attractive cars that fitted many Australian consumers' preferences and budgets, and rapid economic growth in the Eastern European markets provided markets for Australian exports.

In 2015, the biggest EU exporters to Australia remained the older EU members

**Table 4: Trade costs on exports to Australia (percent of value at port of export)**

	1995	2000	2005	2007
Czech Republic	14.0	10.0	8.5	8.4
Hungary	8.4	4.6	5.0	3.6
Poland	9.6	8.7	5.2	6.1
Slovakia	10.8	18.5	7.7	3.3
Germany	5.3	5.1	4.5	4.0
UK	5.7	3.6	3.8	2.9
All Australian imports	6.7	5.7	5.5	4.9

Source and Notes: trade costs are defined as the gap between the value of goods free on board (fob) at the port of export and their value at the port of import (cif) before tariffs. Trade costs = (cif-fob)/fob are calculated from Australian Bureau of Statistics data, as described in Pomfret and Sourdin (2011).

led by Germany, the UK, Italy, France, and the Netherlands (Table 5). Exports from Germany, France, Italy and the Netherlands grew from 1990 to 2015 at remarkably consistent cross-country rates between 267 percent and 276 percent. The laggard among the big exporters was the UK with 1990-2015 growth of just under 100 percent. In the decade 2005-15, the ten Central and Eastern European countries that joined the EU in 2004-7 all doubled their exports to Australia. Of the 28 EU members in 2015, those with the fastest growing exports to Australia over the 2005-15 decade were Slovakia (1,645 percent), Latvia (478 percent), Cyprus (453 percent), Czech Republic (343 percent), Romania (253 percent), Estonia (196 percent), Hungary (155 percent), Lithuania (136 percent), Bulgaria (116 percent), and Poland (110 percent).<sup>13</sup> The top Eastern European exporters - the Czech Republic,

Poland, Hungary Slovakia, and to a lesser extent Romania - all exported over \$100 million to Australia in 2015.

Trade patterns provide significant background to the preparations in 2016-17 for trade negotiations between the EU and Australia. Australia as an export market was shifting up on the radar of the older EU member countries, with the striking exception of the UK. Although imports from Australia were still predominantly coal and minerals, some Australian brands were gaining greater salience, such as Westfield shopping malls and Aesop stores in Paris or Milan. The rapid export-led growth in the larger post-2000 members added a further dimension to EU-Australia trade relations. Although the connection between trade and investment flows and trade negotiations is difficult to establish, increased economic connectivity is surely a positive setting for negotiating a trade agreement.

12. Despite formal commitment in their accession treaties to do so, the Czech Republic, Hungary and Poland have still not adopted the euro. The 2007 entrants, Bulgaria and Romania, are in neither Schengen nor the euro zone. In 2023, Croatia joined the Schengen zone and adopted the euro.

13. Luxembourg was included under Belgium until 2003 in the COMTRADE database.

**Table 5: Australian imports from EU countries, in million USD and percentages**

	Import value 2015	Share of imports from EU 2016	Share of imports from EU 2005	Share of imports from EU 1995	Import growth 2005-15	Import growth 1990-2015
Belgium	1,239.10	0.033	0.036	0.037	17%	269.83%
France	3,267.45	0.088	0.131	0.091	-16%	267.51%
Germany	9,226.92	0.249	0.230	0.248	35%	266.85%
Italy	4,326.69	0.117	0.113	0.105	29%	276.04%
Luxembourg	18.44	0.000	0.000	0.000	808%	1,635.82%
Netherlands	1,586.35	0.043	0.034	0.033	59%	270.64%
Denmark	844.72	0.023	0.025	0.016	12%	354.76%
Ireland	1,561.52	0.042	0.051	0.023	3%	1,082.28%
UK	5,302.60	0.143	0.164	0.225	9%	99.45%
Greece	150.16	0.004	0.004	0.003	30%	237.20%
Portugal	142.63	0.004	0.004	0.004	10%	231.18%
Spain	1,524.93	0.041	0.035	0.024	49%	860.43%
Austria	822.57	0.022	0.026	0.015	8%	411.43%
Finland	529.01	0.014	0.023	0.036	-22%	125.53%
Sweden	1,438.18	0.039	0.053	0.075	-9%	122.45%
Cyprus	16.67	0.000	0.000	0.000	453%	3,223.02%
Czech Republic <sup>b</sup>	629.63	0.017	0.005	0.002	343%	1,816.17%
Estonia <sup>a</sup>	45.56	0.001	0.001	0.000	196%	37,464.65%
Hungary	409.32	0.011	0.005	0.002	155%	1,902.03%
Latvia <sup>a</sup>	16.03	0.000	0.000	0.000	478%	14,039.94%
Lithuania <sup>c</sup>	33.79	0.001	0.000	0.000	136%	50.51%
Malta	17.07	0.000	0.000	0.000	81%	1,475.11%
Poland	572.78	0.015	0.009	0.002	110%	1,842.26%
Slovakia <sup>b</sup>	344.23	0.009	0.001	0.000	1,645%	26,939.45%
Slovenia <sup>a</sup>	76.74	0.002	0.002	0.001	56%	441.37%
Bulgaria	40.53	0.001	0.001	0.000	116%	1,292.43%
Romania	100.65	0.003	0.001	0.001	253%	1,133.95%

Source: Pomfret and Sourdin (2016, 30), based on data from UN COMTRADE

Notes: a 1992-2015; b 1993-2015; c 2006-15.

# 5. A golden era of EU-Australia relations 2017-21

In April 2017 the EU and Australia announced a joint scoping exercise on a future trade agreement.

This was against a background of the EU concluding deep trade agreements with Canada (CETA) and Japan, and Australia signing the similarly comprehensive Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). All these agreements, as well as the Regional Comprehensive Economic Partnership (RCEP) signed in 2020 by Australia, New Zealand, China, Japan, Korea and the ten ASEAN countries, had similar chapter structures (Table 6).

The Trans-Pacific Partnership had been negotiated by twelve countries but was torpedoed when President Trump refused to ratify the agreement in January 2017. With minor modifications, the remaining eleven countries concluded the CPTPP which entered into force in 2018. The EU-Canada agreement was signed in 2014 and applied in September 2017. The EU-Japan agreement was signed in July 2018 and agreement in principle was reached by the EU and Mexico in April 2018. Negotiations with Australia and New Zealand were both launched in June 2018.

Negotiating deep integration agreements is neither easy nor quick and both parties recognized that concluding an Australia-EU agreement would take time. The EU commitment to transparency during negotiations and to placing trade in a context of broader commitments sat uneasily with Australian preferences for confidential negotiations and

separating issues like human rights and climate change from trade negotiations. Agriculture would require hard bargaining on issues such as EU tariff quotas on beef, sheep meat and sugar (and quota revision would be further complicated by Brexit) and on geographical indicators (is prosecco a sparkling wine from the Veneto region of Italy or a grape variety?) but agriculture was now far less important to the Australian economy than it was half a century earlier.

From 2017 to 2021, EU-Australia negotiations proceeded smoothly.<sup>14</sup> Eleven rounds of negotiations took place at 3–4-month intervals in Brussels or Canberra or by video conference. Joint press conferences of the lead negotiators were amicable, and everything appeared to be progressing smoothly even through the disruption of the COVID pandemic in 2020-1. The report on the eleventh round in June 2021 observed that:

“Discussions were held in a good and constructive atmosphere and showed a shared commitment to negotiate an ambitious and comprehensive agreement. 26 working groups and sub-groups met covering almost all areas of the future trade agreement

Negotiators continued discussing the textual proposals that had been submitted for the different chapters, and the respective comments received.”

By the middle of 2021 most chapters had been drafted and the remaining sources of dispute — access to EU markets for specific Australian farm products (beef, sheep meat, and sugar) and Australian recognition of specific geographical indicators (feta and prosecco) and abolition of the luxury car tax — seemed ripe for a grand bargain at the final stage.<sup>15</sup>

14. The shared perception was that an agreement would be mutually beneficial, although it was hard to quantify benefits that arise primarily from reducing trade costs and non-tariff barriers to trade. A study prepared for the EU reported small benefits relative to GDP for the EU and slightly larger for Australia, which is consistent with earlier studies (EU, 2017, 36). Plaisier et al. (2009), using a CGE model and GTAP7 database for 2004, estimated small benefits from free trade agreements between the EU and Australia + New Zealand: national income in Australia and New Zealand would increase by €1.6 billion in the short run and €3 billion in the long run, while EU national income would increase by €3.4 billion in the short run and €7.5 billion in the long run; all of these numbers are small relative to national income (c. 0.25 percent for Australia/NZ and less than 0.1 percent for the EU). At the sector level, the biggest projected gain by far for Australia arose from reducing EU restrictions on dairy imports and for the EU the biggest projected gains were from increased car, textile and clothing exports, all of which reflect high trade barriers in 2004 which have since been reduced.

15. Documents and preliminary text of the agreement are available at [https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/australia/eu-australia-agreement/documents\\_en](https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/australia/eu-australia-agreement/documents_en) The above quotation was on the EU website at NEWS ARTICLE 17 June 2021, Directorate-General for Trade.

**Table 6: Chapter structure of CPTPP compared to RCEP and the EU-Canada agreement**

CPTPP	RCEP	CETA	CPTPP	RCEP	CETA
1. definitions	1	1	16. competition policy	13	17
2. market access for goods	2	2	17. SOEs & monopolies		18
3. rules of origin	3	A	18. intellectual property	11	20
4. textiles & apparel		A	19. labor		23
5. custom administration	4	6	20. environment		24
6. trade remedies (AD&CVD)	7	3&7	21. cooperation & capacity building	15	25
7. SPS	5	5	22. competitiveness & investment facilitation		
8. TBTs	6	4	23. development		22
9. investment	10	8	24. SMEs	14	
10. services	8	9	25. regulatory coherence		12&21
11. financial services	8	13	26. transparency & corruption		27
12. temporary migration	9	10	27. administration & institution provision	18	26
13. telecoms	8	15	28. dispute settlement	19	29
14. e-commerce	12	16	29. exceptions & general provisions	17	28
15. public procurement	16	19	30. final provisions	20	30

Notes: RCEP's 20 chapters have similar coverage to CPTPP, with slightly different ordering, a single chapter for services, and omitting CPTPP chapters 4, 17, 19, 20, 22, 23, 25 and 26. CETA chapters 11 (mutual recognition of professional qualifications) and 14 (international maritime transport services) did not have separate CPTPP chapters but could be included within the existing CPTPP chapter structure. A = included in annexes.

## 6. The break and its aftermath

On 16 September 2021 Australian Prime Minister Scott Morrison announced the formation of the AUKUS alliance<sup>16</sup>, with a promise to deliver nuclear-powered submarines to Australia, and cancellation of Australia's submarine construction contract with the French contractor, Naval.

The French government was furious not just with the decision but with Morrison's duplicitous behaviour in keeping the AUKUS negotiations secret from France until the outcome was announced (Fowler, 2024). When asked by an Australian journalist whether he thought Morrison was a liar, Macron famously responded in English: "I don't think - I know" (Fowler, 2024, 113).

EU-Australia trade negotiations were collateral damage. Between June 2021 and October 2022, a single round of negotiations took place in February 2022 and the Report on that round showed little progress.

Meanwhile following a 2016 referendum and protracted negotiations, the UK left the European Union on 31 January 2020. During the transition period, until 31 December 2020, the UK continued to observe EU policies while negotiating an agreement on future EU-UK relations, to take effect on 1 January 2021. Brexit's short-term impact was thus limited as the UK rolled over EU rules. Many EU trade agreements were also adopted by the UK as continuity agreements. Australia was an exception, as EU-Australia negotiations were on hold, and the UK and Australia entered bilateral FTA negotiations. The UK-Australia agreement, signed on 17 December 2021 and entered into force on 31 May 2023, would be touted by UK Prime Minister Johnson as the first all-new British trade agreement. In practice, the UK-Australia agreement followed the already negotiated draft chapters of the under-negotiation EU-Australia trade agreement, while neither the UK nor Australia were concerned about geographical indicators.

A potentially more significant strengthening of Australia-UK economic relations has been UK accession to the CPTPP (Pomfret, 2023a). The UK application was accepted in June 2021, negotiations concluded in March 2023, and the Protocol of Accession was signed on 16 July 2023; entry into force will take place once the UK and CPTPP Parties have finished their legislative processes to ratify the accession. The CPTPP is the benchmark for a WTO+ trade agreement whose signatories already include Canada, Japan, and Mexico, and whose structure is similar to EU deep agreements (Table 6), and whose application queue includes China. Given the need for consistency between such arrangements (e.g. contradictory rules in the Canada-EU agreement and CPTPP would create unnecessary complexities for exporters to

Canada), the CPTPP can be viewed as the most advanced trade agreement in an era when WTO reform is stymied by the need for consensus (Pomfret, 2023b; 2024).

Meanwhile across the Tasman Sea, New Zealand's negotiations with the EU, which were technically distinct but often seen as moving in tandem with EU-Australia negotiations, were concluded in June 2022 after twelve rounds of negotiations and entered into force in May 2024. Like Australia, New Zealand is a member of APEC and signatory of the CPTPP and RCEP. The UK signed a free trade agreement with New Zealand on 28 February 2022, two months after Australia. In sum, the picture on trade agreements is similar for Australia and for New Zealand, apart from the stalled EU-Australia agreement.

The ScoMo-BoJo bromance: Scott Morrison and Boris Johnson at the August 2019 Biarritz G7 Summit



16. Australia, United Kingdom, United States of America.

# 7. A new start?

Morrison's Liberal Party were defeated in the May 2022 general election.<sup>17</sup> The Labor government led by Anthony Albanese as Prime Minister and Penny Wong as Foreign Minister promised a new approach to both Europe and China, although there was no question of abandoning AUKUS.<sup>18</sup>

Negotiations on the EU trade agreement returned to a more regular schedule with round 13 in October 2022 and, rounds 14 and 15 in February and April 2023. In July 2023, the EU offered a final deal which Australia rejected. A revised deal was expected to be discussed at the October 2023 G7 meeting in Osaka, but Australia walked out of negotiations, as Australia and the EU each accused the other of being unwilling to compromise. Australian agriculture minister, Murray Watt, said

the EU had not offered enough access for beef, sheep, dairy and sugar exporters. The EU offer on geographical indicators might also have been too restrictive, particularly for products like parmesan, feta and prosecco. Despite its diminished share of GDP, Australia's farm sector can still drive the trade agenda vis-à-vis the EU. The same may be true of the EU; agriculture and environment issues have prevented the EU from concluding agreements with Mercosur and with India.

17. There is a symmetry in Morrison's ditching of the French connection after the Australian 2019 election and Boris Johnson getting Brexit done after the UK 2019 election. Both were out of office within a few years and their parties lost the next general election, but for the new governments in 2022 in Australia and 2024 in the UK the splits with France and the EU were irreversible in the short run. Australia-EU relations should be easier to revive than the UK's EU membership.

18. Restoring economic relations with China was the greater priority, following the abrasive anti-China policies of PM Morrison and restrictions imposed by China in 2020 on barley, coal, lobsters, and other Australian exports. Progress was facilitated by Chinese willingness to dismantle the barriers and by the WTO as a forum for resolving disputes through diplomacy. The restrictions were mostly lifted in 2023, with the WTO panel playing a high-profile role in inducing China to lift the punitive tariffs on Australian barley in August 2023 (Laurenceson, 2023; Pomfret, 2024).

# 8. Conclusions: where will it all end?

When it comes to trade policy, the gains from trade are too good to be ignored. In the second half of the 20th century the costs of international trade fell due to technical developments (especially containerization and the jet aircraft) and trade policy liberalization.

Such trade cost reductions have been especially important for Australia which may in earlier decades have suffered from the tyranny of distance from major economic centres (Blainey, 1966). Inefficient and inconsistent rules and regulations remain, but it is accepted that lowering the costs of international trade is mutually beneficial, and trade costs continue to fall. How is such streamlining to be achieved: is it by the “Brussels effect” of the EU establishing regulations that the world adopts (Bradford, 2020) or is it by overlapping consistent trade agreements such as the CPTPP, RCEP, CETA and so forth?

Globalization and increased international trade like any economic changes create winners and losers, and losers may express their opposition through the ballot box. The success of anti-globalizers like

Donald Trump in the USA or European politicians on the right and left cannot be denied, but populists in power find that, while their policies may have short-run success, they soon start to fail.<sup>19</sup> Closer economic relations between the EU and Australia are likely but the path will not necessarily be smooth as those fearing losses, notably farm interests, resist change. Bilateral negotiations aimed at extending WTO rules to new areas may, without goodwill, be thwarted by intransigence. The Australian political system with its short three years electoral cycle (and hence almost continuous election campaigning) and lack of checks on the leadership of the majority party encourages mercurial policy changes (submarines) and well-organized interest groups (agriculture). Although EU negotiators may start with

a broad mandate, their position may become inflexible if a member state draws a red line on an issue (prosecco).

International political and strategic relations are harder to foresee. The USA is currently focussed on China as a threat to US global leadership. The EU and Australia do not face similar challenges, but their policy options may be determined by the evolution of US-China relations. The EU is adopting an Indo-Pacific strategy and the official position towards China is that “The EU sees China as a partner for cooperation, an economic competitor and a systemic rival”.<sup>20</sup> Australian policy since 2019 could be described in similar terms. In sum, Australia and the EU may have shared interest in pursuing less confrontational policies relative to China, and they certainly have shared interest in preventing erosion of world trade law.<sup>21</sup>

19. Using a large database of populist leaders from the left and the right, Funke et al. (2023) find that the preferred policies of protection against imports and fiscal deficits have positive short run effects that turn increasingly negative after 10-15 years.

20. In the December 2023 EU China Relations factsheet, this is followed by “However, EU-China relations have become increasingly complex due to a growing number of irritants” (<https://www.eeas.europa.eu/eeas/eu-china-relations-factsheet-en>), and EU policymakers are under pressure to follow US trade policies such as high tariffs on imports of electric vehicle from China

21. This is already evident in their joint participation in the the Multi-Party Interim Appeal Arbitration Arrangement (MPIA), whose signatories recognise binding arbitration on disputed decisions of the WTO’s dispute settlement body (Pomfret, 2024).



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# Appendix 1: The European presence in Australia

In the first half of the 20th century, migrants to Australia were primarily from England, Ireland and Scotland. The influx of English-born migrants was maintained over the second half of the century by immigration policies aimed at increasing Australia's population. Over one million migrants from the United Kingdom came to Australia between 1947 and 1981, mostly under the Assisted Passage Migration Scheme. Other European countries from which high numbers migrated to Australia as part of Australia's post-war migration program included Italy, Malta and Greece. Substantial numbers of immigrants have also come from former Yugoslavia and Eastern Europe.

In the 1971 census, Italy was the second highest country of birth after England. Between 1947 and 1976, over 360,000 Italian migrants came to Australia to work in agriculture and major infrastructure projects; about one-fifth of these arrived

under the 1951 Italian Assisted Migration scheme. By the early 1970s, as economic conditions in Italy improved, more Italian-born people were leaving Australia than entering. In 1971, the Italian-born population peaked at 290,000 but had declined to 163,000 by 2021. Despite the decrease in the number of overseas-born Italians, the number of second-generation Australians with one or both parents born in Italy increased from 322,000 in 2016 to 347,000 in 2021. The number of Australians reporting an Italian ancestry also increased from 1 million in 2016 to over 1.1 million in 2021, making Italian the seventh largest ancestry in Australia, behind English, Australian, Irish, Scottish, Chinese, and German ancestry.<sup>22</sup>

Despite the large number of Australians with non-British European heritage, support for European connections have remained almost invisible. In contrast, the attachment to the British connection

and the monarchy has remained strong, including among some powerful members of the elite, represented in politics by followers of Prime Ministers Menzies and Howard.<sup>23</sup> A referendum on becoming a republic was rejected in 1999; it was believed that a majority supported the change but disagreed with the proposed method of selecting the head of state (Higley and McAllister, 2002). In the 21st century the salient feature of Australian foreign policy debates has been the choice between maintaining traditional Anglosphere connections, reflected in the "Five Eyes" intelligence agreement with the USA, UK, Canada and New Zealand, and strengthening relations with leading economic partners in East Asia. When Prime Minister Malcolm Turnbull proposed a third option of collaboration with the EU and India, there was little interest in Parliament or among the wider population.

22. This paragraph is based on the Australian Bureau of Statistics website <https://www.abs.gov.au/articles/cultural-diversity-australia>

23. The British connection helps to explain why Australian views on the EU have often reflected the views of the eurosceptic British media. The lack of interest in the EU since the negative shock of UK accession in 1973 may explain why many Australians are unaware of any evolution and continue to see a caricature of the EU from that time. See *Why Australia fails to understand the EU* at <https://iit.adelaide.edu.au/news/list/2022/01/13/why-australia-fails-to-understand-the-eu>

# Appendix 2: Historical relations between Australia and France

The French consulate established in Sydney in 1842 was the first foreign diplomatic presence in Australia.<sup>24</sup> This was a time of military and missionary rivalry in the Pacific islands. The French takeover of New Caledonia in 1853 was seen by some observers as a threat to the British colonies in eastern Australia. The Franco-British condominium over the New Hebrides (modern Vanuatu) was a compromise unsatisfactory to both sides, and often referred to as the pandemonium. After Federation in 1901, Australia's first spy, Wilson le Couteur, was sent to report on the situation in the New Hebrides and the prospects for a British takeover.

Relations improved with the entente cordiale between the UK and France, and Australian deaths on French battlefields in the 1914-18 war created strong bonds. Between the world wars Australia continued to be concerned about the security threat from New Caledonia, while France continued to see Australia as an agent for British domination of the Pacific. During World War II, Australia and the UK recognized the Free French government in New Caledonia, but General de Gaulle insisted that all communications from that government passed through his office in London.

Relations deteriorated after French nuclear testing in the Pacific began in 1966 and the Kanak renovation after 1969 started pressure for New Caledonia's independence. Formation in 1971 of the South Pacific Forum was viewed by France as a vehicle for anticolonialism. The Australian consul in New Caledonia was recalled at the suggestion of the French government in 1972 for advocating autonomy for New Caledonia. Tensions mounted in the 1980s. The sinking of the Rainbow Warrior in Auckland harbour in 1985 fuelled opposition to French nuclear testing, while Australia's signing of the 1985 Raratonga Treaty on a nuclear-free South Pacific angered France.<sup>25</sup>

The 1990s saw fluctuating relations between France and Australia. In 1990, Prime Minister Hawke was invited to visit New Caledonia; the first by an Australian Prime minister since 1941. President Mitterrand announced a moratorium on nuclear tests in 1992. They were reinstated in 1995 by newly elected President Chirac, and finally halted in 1996. The 1998 Noumea Accord put New Caledonian independence on the backburner. After a traumatic quarter century, bilateral relations over the next two decades would be increasingly positive. In 2014, François Hollande became the first French President to make an official visit to Australia. France also led the EU's development of a Strategy for Cooperation in the Indo-Pacific that was officially endorsed in October 2021.

The highlights of the rapprochement were the April 2016 submarine deal with Naval and the initiation of negotiations for an EU-Australia trade agreement. Besides being Australia's largest defence budget item ever, the submarines deal represented a shift in foreign policy as they were designed to form a defensive perimeter around Australia and Australia embarked on a tripartite Indo-Pacific strategy with France and India.<sup>26</sup> From the start the submarine project encountered subversive opposition within Australia's ruling Liberal Party from a more militarist and pro-US wing that had supported intervention in Iraq and expected to support the USA if it were involved in defending Taiwan. The preferred outcome of this group, led by previous PM Abbott, future PM Morrison and his successor as party leader Peter Dutton, and with former PM and Party patriarch John Howard in the background, was nuclear submarines that would be better suited to long-distance activity in the South China Sea.

On the surface, Australia's relations with France and the EU flourished in 2018-21. However, from the moment that Morrison

ousted Turnbull as Prime Minister in August 2018 and especially after his victory in the 2019 election Morrison and his allies were manoeuvring for a return to closer relations with the USA that would be sealed by a new submarine deal. Fowler (2024) describes the secret machinations that involved UK Prime Minister Boris Johnson, as well as an array of senior US generals and defence sector leaders. On 16 September 2021 Australian Prime Minister Scott Morrison announced the formation of the AUKUS alliance, with a promise of future delivery of nuclear-powered submarines to Australia, and cancellation of the submarine contract with Naval. Relations with France went into deep-freeze until Morrison was defeated in the May 2022 election.



Australian Embassy, Paris, November 2019.

24. The earlier parts of this Appendix draw from an ESAANZ seminar by Elizabeth Rechniewski on 7 September 2022

25. Accusations were often defamatory and personal and not short of hypocrisy. French observers criticized Australians for defending Kanak interests while mistreating aboriginals in Australia. Australian critics of nuclear weapons in the Pacific mentioned the USA and UK but reserved most of their criticism for France.

26. The first India-France-Australia Foreign Secretaries' Trilateral Dialogue was held on 9 September 2020.

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### **Kurna acknowledgement**

We acknowledge and pay our respects to the Kurna people, the original custodians of the Adelaide Plains and the land on which the University of Adelaide's campuses at North Terrace, Waite, and Roseworthy are built. We acknowledge the deep feelings of attachment and relationship of the Kurna people to country and we respect and value their past, present and ongoing connection to the land and cultural beliefs. The University continues to develop respectful and reciprocal relationships with all Indigenous peoples in Australia, and with other Indigenous peoples throughout the world.