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COVER NOTE

From: Secretary-General of the European Commission,
signed by Mr Jordi AYET PUIGARNAU, Director

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To: Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of
the European Union

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Subject: COMMISSION STAFF WORKING DOCUMENT EXECUTIVE SUMMARY
OF THE IMPACT ASSESSMENT Accompanying the document
Recommendation for a Council Decision authorising the opening of
negotiations for a Free Trade Agreement with Australia

Delegations will find attached document SWD(2017) 292 final.

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COMMISSION STAFF WORKING DOCUMENT
EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT

Accompanying the document

Recommendation for a Council Decision

authorising the opening of negotiations for a Free Trade Agreement with Australia

{COM(2017) 472}
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Executive Summary Sheet

Impact Assessment on Recommendations for Council Decisions authorising the opening of negotiations for Free Trade Agreements with Australia and New Zealand respectively

A. Need for action

Why? What is the problem being addressed?

The EU's new trade policy described in the Commission Communication 'Trade for All' sets out that the EU approach to trade policy will become more effective to deliver economic results, will be more transparent, and will not only project interests, but also values. These overarching objectives include trade and sustainable development and the promotion of EU values and standards (such as human rights, labour rights, and environmental, health and consumer protection) and facilitating trade and investment for SMEs. An ambitious programme of multilateral and bilateral negotiations is needed to deliver the full potential from trade. This anchors the initiative aiming at opening of FTAs negotiations with Australia and New Zealand which is included among concrete initiatives listed in 'Trade for All'.

EU businesses face relatively less favourable conditions of access to the Australian and New Zealand markets compared to non-EU countries that have concluded free trade agreements (FTAs) with Australia and New Zealand. Even though Australia and New Zealand have a low level of applied import duties, for some products both countries levy comparatively high tariffs, coupled with non-tariff barriers including different rules.

The limited scope of existing sectoral agreements in place, both with Australia and with New Zealand, also means that the EU's overarching trade-related objectives cannot be achieved with regard to Australia and New Zealand because there are few relevant bilateral rules that are substantive and enforceable, and no general enforcement tools in the bilateral trade and investment frameworks.

What is this initiative expected to achieve?

Level the playing field with other countries that already have preferential treatment due to their FTAs with Australia and New Zealand.

Realise the untapped potential of enhanced trade and investment flows between the EU and Australia and between the EU and New Zealand. This can be achieved by reducing existing barriers to trade and investment, taking into account the EU's agricultural sensitivities, and by exploring forward-looking regulatory cooperation in selected areas as appropriate.

Provide a new framework with comprehensive, progressive and up-to-date sets of rules for EU-Australia and EU-New Zealand trade and investment relationships. This is also with a view to the political framework agreements that were recently concluded with both Australia and New Zealand respectively.

What is the value added of action at the EU level?

The main objectives of policy intervention are twofold: to improve specific conditions for boosting the EU's trade and investment with Australia and with New Zealand, while implementing the general EU trade policy objectives as set out in the 'Trade for All' Communication. Under Article 3 in conjunction with Article 207 of the Treaty on the Functioning of the European Union (TFEU) only the EU can negotiate trade agreements. Under Article 5(3) of the Treaty on European Union (TEU), the subsidiarity principle does not apply in areas of exclusive EU competence.

B. Solutions

What legislative and non-legislative policy options have been considered? Is there a preferred choice or not? Why?

Three policy options were identified.

Option A ('baseline scenario') means continuing with the current framework, but this could lead to a relative deterioration in the bilateral trade relationship while not achieving the objectives.

Option B would include the baseline scenario and improved implementation of the existing sectoral bilateral agreements or further sector-specific agreements building on the existing bilateral sectoral agreements.

Option B was not developed further because it is not politically viable for either Australia or New Zealand.

Option C would provide for two parallel modern and comprehensive agreements — one with Australia and another with New Zealand. These would involve a major effort to eliminate tariff and non-tariff barriers, liberalisation and facilitation of services and investment, protection of investment, and provision for further regulatory cooperation, while taking into account existing sensitivities and exceptions. This option is divided into sub-options depending on the level of ambition: C1) a conservative, partial liberalisation scenario and C2) an increased liberalisation scenario including full liberalisation of import tariffs for goods. Option C was underpinned by the parallel discussions with Australia and New Zealand on defining the scope of the future FTAs.

The preferred option for the EU would be option C2, modified by taking into account some notable

sensitivities of agricultural sub-sectors, as also demonstrated by the analysis of the impact assessment.
Who supports which option?
The European Commission and the Australian and New Zealand authorities respectively support option C, as the most beneficial for each side. The majority of business sector stakeholders are also in favour of new FTAs with Australia and New Zealand respectively to further enhance economic ties. The notable exceptions are business stakeholders of some EU agricultural sub-sectors, who are not in favour of full liberalisation of specific products. The non-profit sector stakeholders underlined the importance of maintaining high levels of standards for the social, environmental, consumer and other fields, and to safeguard the governments' right to regulate. These are in line with the objectives of the EU policy for FTAs.
C. Impacts of the preferred option
What are the benefits of the preferred option?
The preferred policy option has a positive overall economic impact on the EU, Australia and New Zealand. For the EU, this option is estimated to generate a change in real GDP of close to 0.02 %, which, given the size of the EU economy, is considered significant (€4.9 billion) in the long term. Economic welfare increases by €4.8 billion in the long term. For Australia, real GDP is estimated to grow by 0.20 % (€4.2 billion) and economic welfare by €1.8 billion in the long term. For New Zealand, real GDP is estimated to grow by 0.52 % (€1.3 billion) and economic welfare by €0.6 billion in the long term. This option would provide an overall large economic benefit, while taking into account the sensitivity of specific agricultural sub-sectors. Social impacts (notably wages and employment) are likely to be slightly positive in the EU, Australia and New Zealand. Overall effects on economic and social human rights (adequate standard of living, right to work, social protection) and other rights derived from welfare gains would be positive.
What are the costs of the preferred option?
As a usual consequence of a reduction in trade barriers, increased economic activity would result in slightly higher greenhouse gas (CO ₂) emissions (an increase in Australia by 0.38 % and New Zealand by 0.64 %, and in the EU by 0.04 %), and a decrease in the rest of the world, leading to a marginal increase globally in the long term. The EU envisages provisions in the agreement on principles of environmental protection in a trade and sustainable development chapter. Trade liberalisation could lead to some transitional unemployment (reallocation) in a few sectors. In particular, increased market access in primary agriculture may negatively affect the rural employment of small farmers in the EU.
How will businesses, SMEs and micro-enterprises be affected?
The preferred policy option would include comprehensive lowering of barriers to goods and services for EU exports and investments in Australia and New Zealand. Provisions that simplify customs procedures and administration benefit small exporters and so are very important for small and medium-sized businesses (SMEs). In addition, provisions on bilateral cooperation to enhance SMEs' access to information would improve transparency.
Will there be significant impacts on national budgets and administrations?
No significant impacts are expected from the FTAs on national budgets and administrations. (The direct impact on the EU budget would be negative due to foregone tariff revenue.)
Will there be other significant impacts?
No.
D. Follow up
When will the policy be reviewed?
After conclusion, entry into force and implementation, the new FTAs would be monitored, with the help of monitoring indicators. Regular consultations with stakeholders would ensure effective follow up of their implementation. The FTAs would be evaluated after being in force for sufficient time to ensure the availability of meaningful data.