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IMPACT ASSESSMENT

Accompanying the document

Recommendation for a Council Decision

authorising the opening of negotiations for a Free Trade Agreement with New Zealand

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INTRODUCTION

The Commission services conducted this Impact Assessment, supported by an external independent study carried out by LSE Enterprise and an online public consultation, in preparation of Commission decisions to request authorisations from the Council to launch negotiations for free trade agreements (FTAs) with Australia and New Zealand, respectively.

The aim of this Impact Assessment is to assess the EU-Australia and EU-New Zealand trade and investment relationship, identify problems and corresponding options on the further developments of these relations and assess the impact of these options.

Once the negotiating directives are approved by the Council and negotiations are underway more detailed analysis will be undertaken in the framework of Sustainability Impact Assessments (SIAs), which will be conducted for each FTA. SIAs, using quantitative and qualitative approaches complement the Impact Assessments by conducting a more in-depth analysis of the likely impacts of the future agreement on the three pillars of sustainable development and on human rights. They also include wide-ranging, continuous stakeholder consultation. SIAs are carried out by external consultants. The findings of the SIAs will feed into the negotiation process to help steer the negotiations and provide recommendations and propose flanking measures to maximise the benefits of the agreement and prevent or minimise any potential negative impacts.

Overview of the current EU-Australia and EU-New Zealand relations

The EU has very good political relations with Australia and New Zealand based on shared values of democracy and human rights. The EU has well-developed trade and investment relations with Australia and New Zealand, sharing many view points on trade policy and the working of the multilateral trade system. However, while Australia and New Zealand have concluded numerous FTAs, the EU does not have preferential bilateral trade arrangements with either of them. This leaves the EU's economic operators with comparably less favourable conditions to access these markets.

Australia and New Zealand are among the fastest-growing developed economies. According to World Bank data Australia's GDP in 2015 was US$1,340 billion, its GDP growth rate 2.3% and per capita GDP US$56,328; New Zealand's GDP in 2015 was US$174 billion, its growth rate 3.4% and per capita GDP US$37,808.

EU-Australia bilateral trade and investment relations

The EU is one of Australia's biggest trade and investment partners. The bilateral trade in goods was worth €45.5 billion (2016), trade in services was worth €29.3 billion (2015) and EU foreign direct investment (FDI) stock in Australia was worth €145.8 billion (2015), while Australian FDI stock in the EU was worth €25.1 billion (2015). Australia is the EU's 15th largest export market for goods while the EU is the largest foreign direct investor in Australia.

EU-Australia trade relations are governed by the World Trade Organisation (WTO) rules. In addition, the EU and Australia have bilateral agreements on mutual recognition in relation to conformity assessment, certificates and markings as well as on trade in wine.

The Joint Statement of 22 April 2015[1] by the EU's High Representative for Foreign Affairs and Security Policy and Vice-President of the Commission and the Australian Foreign Minister highlighted the need to further strengthen the bilateral trade and investment relationship. This was followed by a Joint Statement of 15 November 2015[2] by the leaders of the EU and Australia, who agreed to commence work toward the launch of negotiations for an FTA.

EU-New Zealand bilateral trade and investment relations

The EU is one of New Zealand's biggest trade partners and its second largest investor. The bilateral trade in goods was worth €8.1 billion (2016), trade in services was worth €4.3 billion (2015) and EU FDI stock in New Zealand was worth €9.8 billion (2015), while New Zealand FDI stock in the EU was worth €4.5 billion (2015).

EU-New Zealand trade relations are governed by the World Trade Organisation (WTO) rules. In addition, the EU and New Zealand have bilateral agreements on mutual recognition in relation to conformity assessment and on sanitary measures applicable to trade in live animals and animal products.

In a joint statement of 25 March 2014,[3] the leaders of the EU and New Zealand set out objectives for deepening the partnership. This included a reflection process on enhancing trade and investment relations. This was followed up by another Joint Statement of 29 October 2015[4] in which the leaders of the EU and New Zealand committed to start the process for negotiating an FTA.

Trade policy developments

Both Australia and New Zealand have an active trade agenda and concluded FTAs with several partners including China, South Korea, and all countries from the Association of Southeast Asian Nations (ASEAN). Both Australia and New Zealand participate in the Trans-Pacific Partnership (TPP) and are engaged in the Regional Comprehensive Economic Partnership (RCEP) and other bilateral negotiations such as with India. These agreements provide preferential access for goods, services and investment originating from these countries to Australia and New Zealand. From the Australian and New Zealand perspective, the EU, their biggest trade and investment partner, is a "missing link", as there is no FTA between both sides.

Despite their specificities, Australia and New Zealand remain similar countries. Australia and New Zealand have a highly developed Trans-Tasman Single Market covering trade in goods, services, government procurement, mutual recognition arrangements, etc. This close cooperation and shared cultural, legal and political heritage results in similar regulatory environments. Patterns of EU exports to Australia and New Zealand are very similar. To a large extent, so are the problems encountered by EU stakeholders. The structures of EU imports of goods from Australia and New Zealand are different reflecting the predominant export oriented economic activities of each country: mining, natural resources for Australia and agriculture (sheepmeat, and fruits and vegetables) for New Zealand.

Bilateral political relations

[1] http://eeas.europa.eu/statements-eeas/2015/150422_04_en.htm
[2] http://europa.eu/rapid/press-release_STATEMENT-15-6088_en.htm
[3] http://europa.eu/rapid/press-release_STATEMENT-14-83_en.htm
[4] http://europa.eu/rapid/press-release_STATEMENT-15-5947_en.htm?locale=en

In 2015, the EU concluded negotiations for framework agreements with Australia and New Zealand respectively. The EU-New Zealand Partnership Agreement on Relations and Cooperation (PARC) was signed on 5 October 2016 and the process for signature of the Framework Agreement with Australia is under way. These political agreements provide a comprehensive policy framework of the bilateral relations with Australia and New Zealand, respectively. They also contain some trade and investment provisions, which are of a non-preferential nature, i.e. they do not contain specific (preferential) market access provisions (such as elimination or lowering of import tariffs or removal on non-tariff barriers), or specific trade rules or regulatory issues.

While trade and investment remain one of the cornerstones of the EU's bilateral relations with Australia and New Zealand, the bilateral trade and investment frameworks with Australia and New Zealand are not as advanced as cooperation in the political and sectoral fields.

Political level contacts with both countries made it apparent that it is politically not feasible to foresee negotiations for comprehensive trade and investment arrangements with one of them only. The Commission took the political decision to move towards launching negotiations with both countries in parallel. The Commission Communication 'Trade for All' set out the intention to prepare the agreements with both Australia and New Zealand in parallel. The Inception Impact Assessment[5] (IIA) followed this approach, which was not questioned in the comments received on the IIA. Taking into account both, the similar nature of the two countries, and the calendar of our engagement with them, the Impact Assessment was conducted together. This facilitated and created synergies during the public consultation. Combining the two countries in one single Impact Assessment also allows to measure the combined impact (e.g. on the sensitive beef and dairy sectors) with a view to taking the appropriate decision.

1. WHAT IS THE PROBLEM AND WHY IS IT A PROBLEM?

1.1. What is the issue that may require an action, what is the size of the problem

What are the general issues at stake?

The 'Trade for All'[6] Communication of the Commission has three key general policy messages that are also applicable to the trade and investment relationships the EU has with Australia and New Zealand. EU trade policy needs to be:

- effective: trade needs to actually deliver on its promise of new economic opportunities. That means addressing the issues that affect today's economy. It also means providing the means and information necessary to ensure SMEs, consumers and workers can take full advantage of - and adapt to - more open markets. It also means improving implementation and enforcement of our trade rights.
- transparent: opening up negotiations to more public scrutiny by publishing negotiating directives and key negotiating texts from negotiations.

[5] The IIA was posted on the Commission websites in February 2016. http://ec.europa.eu/smart-regulation/roadmaps/docs/2015_trade_040_aus_nz_trade_agreement_en.pdf
[6] http://ec.europa.eu/trade/policy/in-focus/new-trade-strategy/

- based on values: first of all, this means safeguarding the European social and regulatory model at home. It also calls for using trade agreements and preference programmes as levers to promote, around the world, European values like sustainable development, human rights, fair and ethical trade and the fight against corruption. The EU also leads a reform of investment policy globally which is taking into account these non-economic values of societies.

As highlighted in the 'Trade for All' an ambitious programme of multilateral and bilateral negotiations is needed to deliver the full potential from trade. The initiative aiming at opening of FTAs negotiations with Australia and New Zealand is anchored among the concrete initiatives listed in 'Trade for All'.

What are the specific problems?

The cumulative impact of the FTAs concluded by Australia and New Zealand with other non-EU countries means that **EU economic operators face comparably less favourable conditions to access the Australian and New Zealand markets**. Even though Australia and New Zealand have a low level of applied import duties, there are some products that are subject to relatively high tariffs levied by either of the countries. The following concrete cases should be highlighted in particular:

- As a result of FTAs between Australia and in particular the US, Japan, South Korea and China, in practice it is only the EU that has to pay import duties to import its cars to Australia. The situation will be similar in New Zealand's case when the TPP or other bilateral FTAs would enter into force. EU automotive exports are the most significant export items; EU exports of automotive products including cars to Australia amounted to €5.7 billion (18% of total EU exports to Australia) and to New Zealand €0.4 billion (15% of total EU exports to New Zealand)
- There are relatively high tariffs in Australia and New Zealand for processed agricultural and food products, which is an area where the EU is globally competitive. For example tariff peaks of applied most-favoured nation (MFN) duties that are applicable to EU exports for certain dairy products reach 16% in Australia and 5% in New Zealand. Final bound duty rates, which Australia and New Zealand could use under WTO rules, are even higher.

EU companies are the biggest source of FDI in Australia and the second largest in New Zealand. Only five EU Member States[7] have bilateral investment protection agreements with Australia, while no Member State has any similar agreement with New Zealand. EU investors are subject to different treatment depending on which Member States they originate in in Australia. **EU investors are in a less favourable position compared to investors from countries** which Australia and New Zealand have included investment protection in their FTAs or bilateral investment protection agreements**.** EU investors face stricter screening thresholds than investors from other countries (e.g. the US, China, Japan and Korea) that have already concluded FTAs with Australia or New Zealand. Furthermore, the existing BITs that EU Member States have with Australia include outdated investor-state dispute settlement mechanisms, that no longer are in line with the EU's new approach to investment policyes as set out in the 'Trade for All'.

[7] These EU Member States are: Czech Republic, Hungary, Lithuania, Poland, and Romania. All five BITs with Australia include an old-style investor-to-state dispute settlement mechanism.

The existing sectoral agreements address some limited sector-specific issues:

- conformity assessment for both Australia and New Zealand (these mutual recognition agreements(MRAs) cover a limited number of industrial sectors);
- trade in wine in the case of Australia; and
- trade in animal products in the case of New Zealand.

The limited scope of the current agreements, which address non-tariff measures only within their respective scope, and the absence of tariff liberalisation as well as any further opening of service and public procurement markets create **unnecessary burdens and additional costs for EU businesses**, including small and medium sized enterprises (SMEs), and an **unfulfilled potential for trade in goods and services**.

Non-tariff market access barriers EU business face in both markets include:

- Australian **biosecurity measures** impede exports of European products such as pork and poultry products by placing onerous or costly sanitary and phytosanitary (SPS) requirements on exporters and exporting country authorities. New Zealand plant health measures impede some exports from the EU.

- Some **technical regulations, conformity assessment procedures and standards** in Australia and New Zealand result in an unnecessary burden and cost to EU businesses in cases where standards are not recognised or fully aligned (e.g. motor vehicles, olive oil).

- Some **impediments remain to further accessing the government procurement markets** as some local content requirement or price preference polices are in place in Australia. Australia is in the process of joining the WTO Government Procurement Agreement (GPA), but its current legislative framework does not cover some public utilities. Large infrastructural developments in Australia (such as those linked to mining and transport) and in New Zealand (such as those linked to the Christchurch earthquake rebuilding) would provide important new opportunities for European companies. New Zealand has joined the WTO GPA, but its market opening does not cover sub-central entities.

- There is insufficient **protection or enforcement of intellectual property rights (IPR)**, such as copyrights, trademarks and designs (e.g. inadequate customs enforcement of IPR at the border, replica furniture in Australia, and a shorter period of copyright protection afforded to works in New Zealand than in the EU). There is also **insufficient protection for geographical indications** (GIs) in particular of EU foodstuffs, such as cheeses in Australia and New Zealand. EU products with GIs are confronted with imitations and face unfair competition in Australia and New Zealand.

The limited scope of existing agreements also means that the **EU's overarching trade related objectives cannot be achieved with respect to Australia and New Zealand**. This is due to the lack of relevant substantial bilateral enforceable rules, and the lack of general enforcement mechanism in the bilateral trade and investment frameworks. These overarching objectives include trade and sustainable development and promotion of EU values and standards (such as labour rights and environmental, health, consumer protection, and business and human rights,) and facilitating trade and investment for SMEs.

Stakeholders in general, in their responses to the public consultation, noted the existing market access obstacles as problems, in particular existing tariff barriers, sanitary and phytosanitary (SPS) and other non-tariff measures, inadequate protection of IPR including geographical indications, obstacles to government procurement, investment protection and the need for further regulatory cooperation. The non-profit sector stakeholders in addition highlighted the importance of further strengthening social, environmental and other standards, such as animal welfare standards, to bring these to the highest level.

1.2. What are the drivers of the problem?

Some of the drivers are related to specific problems the EU faces with Australia and New Zealand, while others are more general in nature, but apply to the specific context of the EU trade and investment relations with Australia and New Zealand.

Problem **drivers relating to specific problems**:

- While both Australia and New Zealand generally apply low **import tariffs**, there are tariff peaks in particular in the transport equipment, chemical, electrical machinery, textile and clothing, and food sectors. Furthermore, both countries could increase applied tariffs to their considerably higher bound levels under WTO rules. There are no bilateral agreements providing preferential (better than MFN) market access to EU goods.
- Due to Australia's and New Zealand's FTAs with other partners, **goods from other countries such as the US, China, Japan, South Korea do not or will not face such tariffs.**
- **Bilateral MRAs**[8] do not cover all key sectors or need complementary measures to reflect the latest EU regulatory developments to bring their full benefits to EU companies.
- **Australia has a strict and different SPS regime**. Australia had been criticised for being unduly stringent and protectionist on, for example, market access for pork.
- **The EU-New Zealand Agreement on sanitary measures** in live animals and animal products was updated in 2015[9] to boost existing trade relations in products of animal origin. However the agreement **does not cover plant health issues** therefore does not facilitate trade in products of plant origin.
- **Different approaches to the protection of IPR, in particular geographical indications** in Australia and New Zealand compared to the EU **leads to insufficient protection of EU GIs,** including in particular for foodstuffs, in Australia and New Zealand
- **The EU-Australia wine agreement,**[10] which protects wine GIs, recognition of wine-making technologies and terms used on labels, does not yet include all wine GIs that the EU aims to protect. **Its scope is also limited** (i.e. does not cover spirits or foodstuffs).

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[8] covering, electromagnetic compatibility (EMC), low voltage equipment, machinery, medical devices, pressure equipment, telecommunication terminal equipment (TTE) and Good Manufacturing Practise (GMP) Inspection and Batch Certification for medicinal products. In the case of Australia, the MRA also covers automotive products. Further information: https://ec.europa.eu/growth/single-market/goods/international-aspects/mutual-recognition-agreements_en

[9] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:JOL_2015_175_R_0009

[10] https://ec.europa.eu/agriculture/wine/third-countries_en#australia

- There are some remaining **sectoral restrictions to accessing markets for services** in Australia (e.g. postal and express delivery, distribution and professional services) and New Zealand (e.g. distribution services, telecommunication).
- New Zealand's membership of and Australia current application process to join the of the Government Procurement Agreement (GPA) do not ensure the **best possible access to the public procurement markets** in Australia and New Zealand for EU businesses.
- Due to higher **investment screening thresholds,** investors from other countries that have already concluded FTAs with Australia and New Zealand face fewer barriers to investment.
- There is no modern, **investment protection** for all EU investors. Only five EU Member States have bilateral investment treaties in place with Australia and there is none between any EU Member State and New Zealand. Furthermore, the existing BITs that EU Member States have with Australia include investor-state dispute settlement mechanisms, which are not in line with current EU approach.

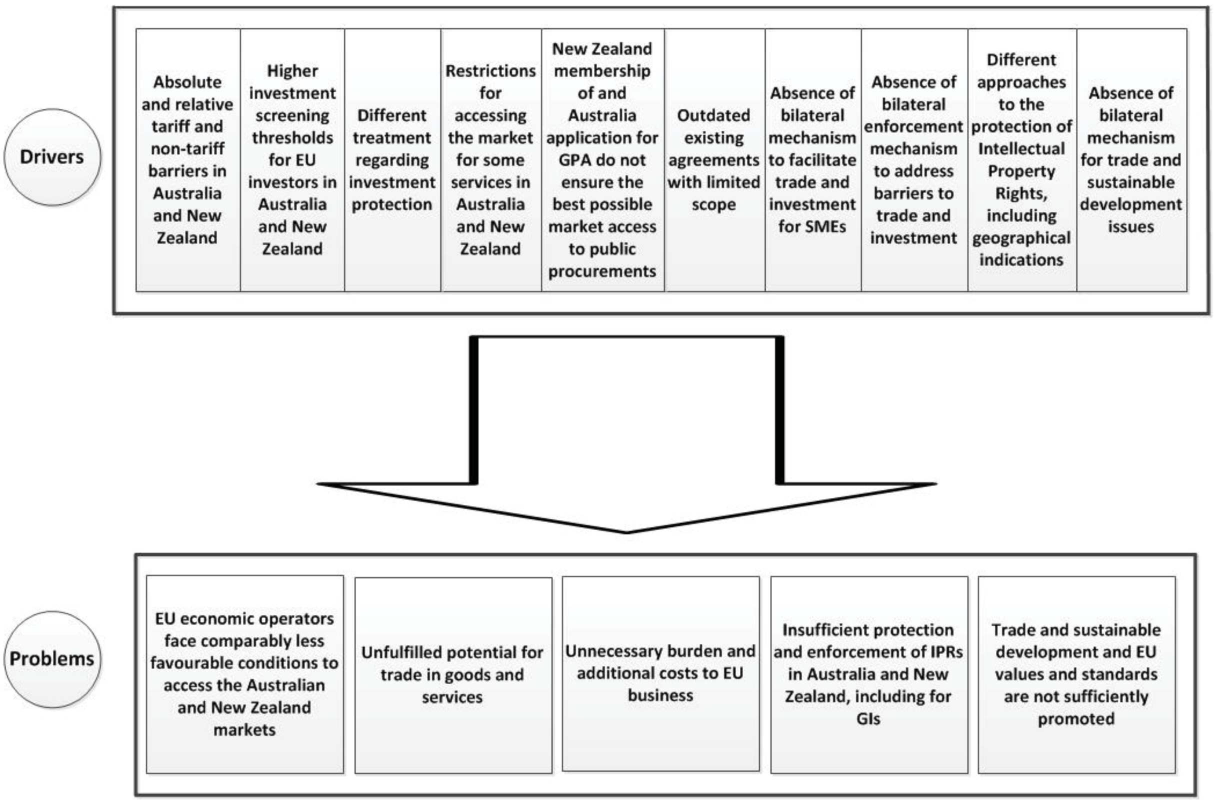
Problem **drivers relating to general issues**:

- There are **no bilateral binding enforcement mechanisms to address effectively barriers to EU trade and investment** in Australia and New Zealand.
- There is **no mechanism to address new trade issues** such as digital trade bilaterally.
- There is **no dedicated binding bilateral mechanism to facilitate trade and investment for SMEs**.
- The political framework agreements or the sectoral agreements provide no binding **bilateral mechanisms for trade and sustainable development issues**.

The above list of problem drivers is derived from the **stakeholders'** responses to the public consultation complemented by the expertise of the Commission through working on market access issues raised by EU Member States and businesses relating to Australia or New Zealand, and the information gathered during the regular EU-Australia Trade Policy Dialogue and the EU-New Zealand Trade Talks and other similar fora. The business sector stakeholders pointed out the tariff and non-tariff measures, the gaps in the existing sectoral agreements and issues related to services, investment and public procurement. The non-profit sector stakeholders noted, in particular, the current lack of any measures to efficiently address the impact of trade on social and environmental aspects of sustainable development.

1.3. Problem tree

The chart on the following page highlights the problems identified to the principal causes, groups them thematically and links them to the actual or potential consequences for the EU-Australia and the EU-New Zealand relations respectively, in the form of a "problem tree".



1.4. How would the problem evolve, all things being equal?

The identified problems appear to persist and increase as Australia and New Zealand progressively implement their new FTAs with other partners. If no policy action is taken, European manufacturers, the services industry, traders and their workforce as well as consumers and regulators would forgo potential additional benefits.

For example the current relative tariff barriers will increase as Australia and New Zealand implement their FTAs and progressively phase out tariffs for non-EU countries, while EU exports would continue to face full MFN tariffs. The problems, and possible loss of market and income associated with inadequate protection of IPR such as geographical indications, would likely increase.

1.5. Has any fitness check/retrospective evaluation been carried out of the existing policy framework? What was concluded from the evaluation / fitness check?

No evaluation been carried out as there are no overarching bilateral preferential trade and investment frameworks with either Australia or New Zealand.

2. WHY SHOULD THE EU ACT?

The main objective of the policy intervention is twofold, to create more favourable conditions for further increasing trade and investment between the EU and Australia and the EU and New Zealand respectively, while implementing the general EU trade policy objectives as set out in the 'Trade for All' Communication.

This objective is in line with the Council conclusions on trade of 21 November 2014[11] which underlined that *trade in goods, services and investment can make a significant contribution to achieve the aims at the core of the 'Strategic Agenda for the Union in times of change'* and expressed that *building on the tangible progress made in the EU's bilateral trade agenda, efforts should be devoted to pursuing agreements with key partners*.

Similarly, this objective is also in line with the Council conclusion on trade and investment of 27 November 2015[12] that supported the *conclusion of ambitious, comprehensive and mutually beneficial bilateral trade and investment agreements and calls on the Commission to work to advance negotiations […] in the Asia-Pacific region.*

The action is also fully in line with the Communication 'Trade for All - Towards a More Effective, Transparent and Responsible Trade and Investment Policy[13]' which highlights that the EU needs to move forward bilateral relationships in order to deliver jobs and growth. This can be done by tackling trade and investment barriers in a comprehensive way while securing the EU's high level of social and environmental protection and contributing to other policy objectives, such as sustainable development and the particular needs of SMEs.

In particular the 'Trade for All' Communication highlighted that "*Australia and New Zealand are Europe's close partners, share Europe's values and views on many issues, and play an important role in the Asia-Pacific region and in multilateral settings. Stronger economic ties with these countries will also provide a solid platform for deeper integration with wider Asia-Pacific value chains. Strengthening these relationships should be a priority."*

According to Article 5(3) of the Treaty on European Union (TEU), the subsidiarity principle does not apply in areas of exclusive EU competence. The common commercial policy is listed among the areas of exclusive competence of the Union in Article 3 of the Treaty on the Functioning of the European Union (TFEU). This policy includes the negotiation of trade agreements under Article 207 TFEU.

In line with the principle of proportionality, all reasonable policy options are presented below in order to assess the likely effectiveness of such policy action.

3. WHAT SHOULD BE ACHIEVED?

3.1. General objectives

The EU's general objective on economic and trade relations derives from the TFEU, which in Article 3(1)(3) establishes the EU's exclusive competence for the common commercial policy. Furthermore, Article 206 provides that the overall objective of EU policy on economic and trade relations is to '*contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and on foreign direct investment, and the lowering of customs and other barriers*'.

As established by Article 205 of the TFEU, the common commercial policy also serves the more general objectives of the Union's external action as described in Article 21 of the TEU.

[11] http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/145908.pdf
[12] http://data.consilium.europa.eu/doc/document/ST-14708-2015-INIT/en/pdf
[13] http://trade.ec.europa.eu/doclib/docs/2015/october/tradoc_153846.pdf

The general objectives of this initiative are in line with the general EU trade policy and include concretely:

- promoting smart, sustainable and inclusive growth through the expansion of trade[14] and investment and relevant rules;
- creating job opportunities and welfare gains[15];
- increasing consumer benefits (e.g. in terms of choice, availability, price and maintaining high standards);
- improving Europe's competitiveness in global markets; and
- Strengthening cooperation on trade-related issues with a like-minded partner.

3.2. Specific objectives

In respect of future EU-Australia and EU-New Zealand economic and trade relations, the general objectives set out above would translate into the following specific objectives:

- reap the benefits of enhanced trade and investment flows between the EU and Australia and between the EU and New Zealand respectively by reducing barriers for trade and investment, taking into account the EU agricultural sensitivities, and by exploring forward-looking regulatory cooperation in appropriately selected areas, such as public procurement, intellectual property investment protection and to increase opportunities through specific mechanism and simplified procedures for SMEs;
- level the playing field with other countries that already enjoy preferential treatment due to their FTAs with Australia and New Zealand;
- provide a new framework with comprehensive, progressive and up-to-date set of rules for the EU-Australia and EU-New Zealand trade and investment relationships including for the promotion of sustainable development in line with the general EU trade policy objectives. This is also to be seen in the light of the political framework agreements recently concluded with the two countries.

Just over half of all **stakeholders**' who responded to the public consultation considered that the EU's current bilateral relationship with Australia and New Zealand is not satisfactory and should be improved, while about one fifth were satisfied. The priority sectors and types of objectives identified by stakeholders generally fall into the following categories: reducing existing trade and investment barriers, providing a level playing field with non-EU competitors and creating a comprehensive and up-to-date framework to address broader issues related to sustainable development.

3.3. Consistency of the objectives of this initiative with other EU policies

The objectives described above are fully consistent with, and indeed stem from the principle that the EU should *encourage the integration of all countries into the world economy, including through the progressive abolition of restrictions on international trade*[16].

[14] COM(2010) 2020, "Europe 2020: A strategy for smart, sustainable and inclusive growth", March 2010. "Trade, Growth and World Affairs". Trade Policy as a Core Component of the EU's 2020 Strategy", 2010, available at: http://trade.ec.europa.eu/doclib/docs/2010/november/tradoc_146955.pdf

[15] 36 million jobs in the EU depend directly or indirectly on trade.

The objectives are also in line with the Europe 2020 Communication which announced that the European Commission would draw up a trade strategy in 2010 including *proposals for high-level strategic dialogues with key partners, to discuss strategic issues ranging from market access, regulatory framework, global imbalances, energy and climate change, access to raw materials, to global poverty, education and development*.

By contributing to the multilateral trading system, deep and comprehensive FTAs can usefully reinforce the possible benefits from the multilateral process. In particular they improve trading conditions, not just for the partners who are parties to bilateral agreements but also by providing benefits via MFN treatment to other WTO members, where this results from the agreement in question (e.g. through the reduction of NTBs or the binding services commitments).

The objectives are also fully consistent with the objectives set out by the European Commission's Communication 'Small Business Act for Europe' (2008) and 'Small Business, Big World' (2011). Supporting SME's activities outside the EU is also embedded in the EU's overall competitiveness strategy as outlined in the Europe 2020 Communication on Industrial Policy.

The objectives also comply with the principles established in the TEU stipulating that EU's policies and actions should aim to *consolidate and support human rights*[17] and to *help develop international measures to preserve and improve the quality of the environment and the sustainable management of global natural resources*[18] in the manner set out in Chapter 5 of this document.

The objectives are consistent with other EU policies and with the Charter of Fundamental Rights.

Finally, the objectives are also fully consistent with the Juncker Commission's top priority to get Europe growing again, to increase the number of jobs without creating new debt,[19] the Investment Plan[20] and the specific priorities set out by the Commission Work Programme for 2017.[21]

4. WHAT ARE THE VARIOUS OPTIONS TO ACHIEVE THE OBJECTIVES?

With a view to achieving the objectives set out in Chapter 3, this chapter outlines options which were considered in the course of the impact assessment.

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[16] Article 21 (2) (e) TEU.
[17] Article 21 (2) (b) TEU.
[18] Article 21 (2) (f) TEU.
[19] http://ec.europa.eu/priorities/jobs-growth-investment/index_en.htm
[20] http://ec.europa.eu/priorities/jobs-growth-investment/plan/index_en.htm
[21] http://ec.europa.eu/atwork/key-documents/index_en.htm in particular No12 in Annex 1 http://ec.europa.eu/atwork/pdf/cwp_2017_annex_i_en.pdf

A) No EU policy change (baseline scenario)

The baseline scenario continues to operate under the framework already in place for bilateral relations and continue to use existing sectoral bilateral agreements covering only a very limited number of sectors. The existing sectoral agreements are by their nature limited in their scope to specific sectors covering some non-tariff barriers for industrial products (MRAs with both Australia and New Zealand), animal products (in the case of New Zealand) and trade in wine (in the case of Australia). The economic modelling tool (see chapter 5 and Annex 4) projects this baseline scenario into the long term for it to be comparable with the policy scenarios.

B) Options of improving implementation and enforcement

B1) Improved implementation scenario

This option would be the baseline scenario and improved implementation of the existing sectoral bilateral agreements.

The current MRAs with Australia and New Zealand cover a number of sectors, and sectoral annexes (e.g. low voltage electric equipment (LVD), telecommunication terminal equipment (TTE) of Good Manufacturing Practices (GMP) for pharmaceuticals) that could be modernised within the current framework. However earlier analysis showed that these kind of agreements delivered relatively limited benefits[22]. Furthermore, this option would not address tariff and non-tariff barriers in other sectors for goods, barriers to trade in services and investment. In the case of the status quo (option A), it would also mean that important policy areas, such as related to trade and sustainable developments, digital trade and SMEs would not be addressed. This option, overall, would be unsuited to address the EU broader trade policy objectives.

B2) Sectoral agreements scenario

This option would consider further sector-specific agreements in addition to and building on the currently existing bilateral sectoral agreements.

Further sector-specific agreements[23] (e.g. wine agreement with New Zealand, or veterinary agreement with Australia) would likely provide additional benefits related to their specific, limited sectoral scopes, as also noted by some of the stakeholders active in the sectors concerned. However, they would not be able to address or provide new, modern frameworks for the overall bilateral economic relationship with Australia and New Zealand. Past experience shows that such sectoral agreements are not always feasible (e.g. the earlier negotiations for an EU-New Zealand wine agreement were abandoned) as no sufficient mutual interest could be gathered on a sectoral basis. The administrative burden of participating in several sectoral agreements needs to be considered, as negotiating and managing these in parallel will involve higher administrative burden than in negotiating

[22] Commission Staff Working Paper SEC(2004)1072 Priorities for Bilateral/Regional trade related activities in the field of Mutual Recognition Agreements for industrial products and related technical dialogue http://ec.europa.eu/DocsRoom/documents/6802/attachments/1/translations/en/renditions/native

[23] Alternative policy instruments, such as non-regulatory alternatives, self- or co-regulation and market-based solutions would not be able to address tariff and non-tariff barriers for goods, barriers to trade in services and investment, as these must be subject to international agreements in line with World Trade Organisation (WTO) rules.

comprehensive bilateral FTAs with Australia and New Zealand. Ensuring policy coherence among several parallel and potentially overlapping initiatives would present some challenges.

Options B1 and B2 were not developed further during the impact assessment due to the above-mentioned reasons and also because both Australia and New Zealand only aim at comprehensive bilateral FTAs with the EU. Options B1 and B2 would thus fall short of expectation and would meet a refusal from Australia and New Zealand to engage.

C) Modern and comprehensive EU-Australia and EU-New Zealand free trade agreements scenario

This option would provide for two modern and comprehensive agreements – one with Australia and another with New Zealand. These FTAs would involve a major effort to eliminate tariff and non-tariff barriers, liberalising and facilitating services and investment, protection of investment, as well as further regulatory cooperation.

Option C includes ambitious objectives that are in line with best FTA practice for **removing barriers to services and investment, public procurement, and for providing rules covering IPR including geographical indications, competition policy, investment protection, SMEs, energy and raw materials, transparency, dispute settlement, customs and trade facilitation**, and sustainable development. As part of the EU general policy more recent EU FTAs include an ambitious **Trade and Sustainable Development** chapter with robust labour and environmental protection provisions, which refer to ILO Conventions, other ILO instruments and multilateral environmental agreements; specific provisions encouraging trade practices and schemes that support and promote sustainable development goals (e.g. corporate social responsibility, voluntary sustainability assurance schemes etc.); a dedicated institutional set-up combining governmental and civil society involvement so as to foster transparency, accountability and dialogue; as well as a tailored mechanism to address disputes involving third party assessment.

Option C would also need to take into account existing sensitivities and exceptions, and is further divided into two sub-options depending on the level of ambition to be aimed at regarding trade in goods:

C1) Conservative, partial liberalisation scenario

C2) Increased liberalisation scenario including full liberalisation of import tariffs for goods

Both of these sub-scenarios provide for comprehensive FTAs as described above, but with different levels of ambition for liberalising trade in goods.

- In terms of tariffs, option C1 includes full tariff elimination for industrial goods and an asymmetric tariff elimination for agricultural products, i.e. for EU agricultural exports to Australia and New Zealand full liberalisation, while EU imports of agricultural goods from Australia and New Zealand are subject to substantial liberalisation while keeping the status quo (such as existing treatment of tariff rate quotas (TRQs) or tariffs) for EU sensitive sectors such as rice, cereal, sugar, fruit and vegetables, ruminant meat (i.e. beef and sheepmeat) and dairy. Option C2 includes full tariff elimination across the board.
- Option C1 does not assume any reduction of non-tariff barriers (NTBs), while option C2 includes their reduction for all non-agriculture goods sectors at a 10% rate (based on ad-valorem equivalent) by Australia and New Zealand, while. The effect of reducing NTBs in the agricultural sector was not modelled due to the lack of reliable

datasets. Therefore it was not possible to quantify the impact of the expected reductions of agricultural NTBs that make up a significant part of NTBs flagged by stakeholders or otherwise identified by the Commission and the external study.

Overview of differentiated assumptions for trade in goods in options C1 and C2

	Option C1	**Option C2**
Tariff	Full liberalisation by the EU for all industrial products and most agricultural products apart from selected sensitive products: rice, cereal, sugar, fruit and vegetables, ruminant meat and dairy Full liberalisation by Australia and New Zealand for all products	Full liberalisation by the EU for all products Full liberalisation by Australia and New Zealand for all products
Non-tariff barriers	No change	No change by the EU A 10% cut of NTBs by Australia and New Zealand modelled for industrial goods[24]

The assumptions are **asymmetric in the tariff and non-tariff barriers aspects**. These reflect the Commission's expert judgement of the likely negotiations in view of the asymmetric situation of existing tariff structure and also based on the FTAs the EU, Australia or New Zealand negotiated with other partners. These existing FTAs – to a variable degree – include long phase out periods for tariffs, partial liberalisations (TRQs or not zero final duties) or other specific treatment of sensitive products. The negotiations are not expected to impact on the EU regulatory framework that could be classified as a non-tariff barrier. On the other hand the pull of the EU's large market could reasonably induce some changes in the domestic regulatory framework of Australia and New Zealand.

The **stakeholders**' responses to the public consultation in general suggest the need to address tariff and NTBs for goods in a differentiated manner. While the submissions in general call for strong ambition in addressing existing services and investment. Stakeholders' have different views on tariff liberalisation in the agricultural sub-sectors considered sensitive from the perspective of EU producers. Some European stakeholders called for existing tariffs or other arrangements (such as TRQ) not to liberalised. This view is shown in the different assumptions in options C1 and C2 in terms of the level of tariff liberalisation on the EU side. The conservative tariff liberalisation under option C1 would result in a lower level of ambition overall concerning trade in goods and therefore less scope for achieving EU objectives for reducing NTBs. This borne out by the difference in the assumed NTB reductions under options C1 and C2. However, the importance of trade and sustainable development does not depend on the assumed level of liberalisation. Therefore there are no different assumptions on this under options C1 and C2.

[24] NTB reduction is modelled as a percentage cut of the ad valorem equivanlent of the NTBs Agricultural NTBs are not modelled due to methodological issues. See Annex 4 for more details on methodology.

5. WHAT ARE THE IMPACTS OF THE DIFFERENT POLICY OPTIONS AND WHO WILL BE AFFECTED?

This chapter analyses the impacts of the different policy options outlined in Chapter 4 on a number of different levels. It firstly examines the overall economic impacts resulting from the different policy options for strengthening EU-Australia and EU-New Zealand bilateral trade and investment relations. Then it looks at impacts on specific sectors, SMEs and Least Developed Countries (LDCs), and covers environmental, social and human rights impacts. The administrative and budgetary impacts are also assessed, as well as the administrative capacity of Australia's and New Zealand's customs authorities to implement the new agreements.

The analysis focuses on the impacts for the EU, Australia and New Zealand, respectively. It does not present detailed results at EU Member States' or regional level which could be misleading for methodological reasons. Firstly, an assessment by Member State or by region would be difficult to conduct due to lack of data and it would not lead to further insights on the overall benefits of the trade agreement. For example, estimates of the level of NTBs for goods at Member State or regional level by sector are not available. Therefore the impact of reducing sector-specific NTBs would differ across depending on their sector-specific trade exposure and the specific products they have problems with in trading. Secondly, statistics on international trade in goods are accurate at EU level. At Member State level trade can be over-estimated or underestimated mainly due to the "Rotterdam-effect", i.e. a Member State receiving a good from a non-EU country is not necessarily the Member State of final destination and a Member State sending a good to a non-EU country is not necessarily the Member State of origin of the good. Even if basic data on originating goods and NTBs were available, an attempt to assess the impact for sectors at the level of Member States or regions where the sectors are in particular concentrated could still result in misleading identifications given the widespread intra-EU supply chains and different value-added elements (including intermediate products, services, non-tangible elements such as IPR, etc.) from across the EU.

The analysis in this chapter is based on the economic modelling performed by the Chief Economist Unit of DG TRADE, the study carried out by external consultants (a consortium led by LSE Enterprise) commissioned by the European Commission, and the assessment and information available to the Commission including the stakeholders' input to the public consultation.

5.1. Model and assumptions

As regards assessing the economic impacts of the various scenarios throughout chapter 5, the quantitative analysis stems from the economic modelling carried out by the Chief Economist Unit of DG TRADE, in some areas (e.g. on CO_2 emissions) complemented by the external study. For the simulations made in the quantitative analysis, the global quantitative CGE (Computable General Equilibrium) model GTAP (Global Trade Analysis Project) and its most recent database V9, with a base year of 2011 were used. The projection horizon of the economic modelling is 2030.

The description of the analytical model used, including its limitations, can be found in Annex 4. However, the main features should be highlighted at this stage to help the reader better understand the results:

- The general model projects trade flows in the longer term, factors in the measures impacting on trade flows and calculates, using a series of assumptions, what the impact of reduced bilateral barriers might be on trade flows. FTAs are made up of market-access liberalisation measures covering goods, services and investment, and there are rules-based provisions. It is not possible to model rules, such as intellectual property rights. While rules included in FTAs would certainly increase the level of certainty and decrease risk for business, it is very difficult to capture these through a model. The modelling, therefore, looks at tariff liberalisations that would happen as a result of the FTAs, reductions of NTBs and binding of market openings in services.
- The CGE model and the underlying GTAP database cannot separate in smaller parts (disaggregate) the ruminant meat sector to beef and sheepmeat. This methodological limitation therefore cannot fully model the complexity of the ruminant meat imports from Australia and New Zealand into the EU. Each sub-category, i.e. beef and sheepmeat has further special sub-groups (i.e. fresh or frozen, products, different cuts, grass or grain-fed beef, etc.). In addition Australia and New Zealand use various TRQ for their exports to the EU.
- To understand output results, it is necessary to consider the following model restriction. The model cannot expand the factors of production (as might be the case in reality) but instead pulls them across to the most efficient sector. This partially explains the decline in output in some sectors when production is increasing in other sectors (hence "general equilibrium").
- The model was run to simulate the impact of the two parallel FTAs one with Australia, and the other with New Zealand. While the figures on changes to bilateral trade flows (i.e. EU-Australia and EU-New Zealand) are separated, only the combined impact is measured for the EU output, reallocation of labour and consumer price index (CPI).
- The model works with what is called a 'fixed employment closure', meaning that the overall number of jobs is not set to change, and that labour market adjustments take place through wage changes. This approach is commonly used for this type of analyses since there is no established theoretical framework linking the functioning of labour markets to CGE models. However, the fixed employment closure approach provides information on shifts between sectors thus indicating in sectors in which employment is likely to increase and decrease as a result of the new agreement.
- The modelling provides figures for the impact of reduction of NTBs on trade in goods, in option C2. However, as robust estimates could not be established for reductions of NTBs for trade in agricultural products, a qualitative assessment of agricultural NTBs has been provided in the external study. This would mean that the likely impact of NTB reduction as modelled by the CGE simulation for EU exports is probably underestimated.
- For cross-border services, the assessment of likely NTB reduction is more difficult than for goods. This is mainly due to the nature of service trade liberalisation, which usually takes place through binding, i.e. a commitment by the negotiating partner not to raise the levels of existing barriers, thus removing uncertainty in terms of risks for economic operators. The impact of this is difficult to estimate since this is not a traditional cut in trade barriers. At the same time, it is acknowledged that removing uncertainty through binding has a value. Previous empirical work in this area has found that, on average, binding corresponds to a 3% reduction in trade costs. Australia, New Zealand and the EU are engaged in negotiations for the plurilateral Trade in Services Agreement (TiSA) that would also provide additional measures for facilitating trade in services.

- The model does not contain data on the economic impacts of liberalisation in the areas of public procurement and investment or on the impact of rules regarding investment protection, or protection of IPR (e.g. geographical indications). This was because of the difficulty in quantifying these impacts. Hence the modelling results are likely to underestimate the benefits the FTAs can generate.

All the limitations duly considered, the **CGE model remains the best tool in the methodological toolbox of economists to quantify** the impact of trade agreements. In this context, it should be mentioned that administrations around the world, including in EU Member States, and also in Australia and New Zealand rely on CGE modelling to analyse the impact of trade policies. The Chief Economist Unit of DG Trade actively engages in exchanges with the research community to stay at the forefront of methodological progress in trade policy analysis. Recently advanced approaches have not been able to offer convincing alternatives. Essentially all the limitations of the CGE model identified above are inherent to competing approaches, too.

5.2. Policy option A: the baseline scenario

On the one hand, Australia and New Zealand both have open, liberal and rules-based economies, and possess highly developed regulatory systems. This creates environments that are open and which make foreign trade and investment easier. Australia and New Zealand are among the WTO members with the lowest bound and applied tariffs for goods and the lowest trade restrictiveness for services. In addition, both Australia and New Zealand, along with the EU are pursuing multi- and plurilateral trade liberalisation via various channels. They are all party to the updated Information Technology Agreement (ITA2), and are participating in the negotiations for the Trade in Services Agreement (TiSA) and the Environmental Goods Agreement (EGA). New Zealand joined the WTO Government Procurement Agreement (GPA) in 2015, while Australia is in negotiations to join the GPA. These multi- and plurilateral arrangements could bring additional benefits to the EU-Australia and EU-New Zealand trade and investment relationship independent of the bilateral frameworks.

On the other hand, it can be assumed that no further reduction of regulatory trade costs and no substantial further growth of bilateral trade and investment volumes should be expected from continuing the status quo. The current bilateral frameworks, notably the absence of preferential arrangements for trade and investment, preclude further gains in overall welfare in either the EU or Australia and New Zealand. Under this scenario any changes in the EU-Australia and EU-New Zealand trade and investment relationships would therefore be only those that could be attributed to changes in the respective economies, the multilateral trade system and in the world economy at large. In particular the status quo (the baseline scenario) would not address the comparative disadvantage of EU exports and investments in Australia and New Zealand resulting from preferential arrangements (i.e. FTAs) between Australia and New Zealand respectively and other non-EU countries. The status quo would also mean that important policy areas, such as those related to trade and sustainable development, digital trade and SMEs, would not be addressed.

Overall the status quo would result in a comparatively deteriorating environment for European exports and investment, compared to their main competitors from non-EU countries.

The economic modelling tool, within its limits, projects this baseline scenario to the stimulation horizon by using projections e.g. with respect to GDP growth[25]. This baseline scenario is compared with the policy scenarios options C1 and C2 that are based on the same long-term projections and include the parameters of the policy choices as defined in the respective scenarios. So, for example, the EU export as projected by the model in the long term in option A is compared to the relative change under options C1 and C2 in the equivalent projection horizon. The figures for gains in trade provided for option C2 can, thus also be interpreted as an estimate of untapped trade potential.

5.3. Policy Option C: comprehensive FTAs with Australia and New Zealand, respectively – overall economic impact

The comparison of option C represents the change between option A and option C using the long term projections for both. Over the long term, the EU-Australia and EU-New Zealand FTAs are estimated to have a positive impact on real **GDP** for the EU, Australia and New Zealand. New Zealand will see a positive change in real GDP of 0.28% in the conservative scenario and of 0.52% in the increased liberalisation scenario. In absolute values the gains are between €0.7 billion and €1.3 billion. Similarly, the simulations indicate that Australian real GDP will increase by between 0.13% (conservative scenario) and 0.20% (increased liberalisation scenario). In absolute values the gains correspond to between €2.7 billion and €4.2 billion respectively. The gain in real GDP for the EU is estimated to range between 0.01% (conservative scenario) and 0.02% (increased liberalisation scenario), i.e. about €2.1 billion and €4.9 billion in absolute value in the two scenarios respectively.

In terms of economic **welfare** (an economic indicator that compares the change in consumer utility), the impact on the EU, Australia and New Zealand is positive. In absolute values, the EU's gains in the long term vary between €2.6 billion (conservative) and €4.8 billion (increased liberalisation). Australia's welfare gains in the long term vary between €0.9 billion (conservative scenario) and €1.8 billion (increased liberalisation). New Zealand's in the long term vary between €0.4 billion (conservative) and €0.6 billion (increased liberalisation).

The EU would increase its exports to Australia and New Zealand more than the two countries would increase their exports to the EU. The EU increases its exports to Australia by 16.4% and 33.3% respectively in the conservative and increased liberalisation scenarios. Similarly, Australia increases its exports to the EU by 6.9% and 11.1% respectively in the two scenarios. EU exports to New Zealand are projected to increase by 14.2% and 32.4% respectively. Similarly, New Zealand exports to the EU would increase by 10.5% and 22.2% respectively. (The relative higher growth of exports from New Zealand compared to Australia could be explained by the higher ratio of New Zealand exports that have currently higher tariffs in the EU such as ruminant meat and dairy.)

Main impacts of the options C1 and C2 - GDP, welfare, and bilateral exports in the two scenarios in the long term

Variable	Scenario	EU	Australia	New Zealand
GDP (% change)	Conservative	0.01	0.13	0.28
	Increased	0.02	0.20	0.52

[25] Cf. annex 4 for additional details and the sources of the projections used.

	liberalisation			
GDP gain (€ billion*)	Conservative	2.1	2.7	0.7
	Increased liberalisation	4.9	4.2	1.3
Welfare gain (€ billion*)	Conservative	2.6	0.9	0.4
	Increased liberalisation	4.8	1.8	0.6
EU-Australia bilateral exports (% change)	Conservative	16.4	6.9	-
	Increased liberalisation	33.3	11.1	-
EU-New Zealand bilateral exports (% change)	Conservative	14.2	-	10.5
	Increased liberalisation	32.4	-	22.2

* US dollars were converted to euros at $1.1095 to €1

5.4. Policy Option C: comprehensive FTAs with Australia and New Zealand, respectively – impact on sectoral competitiveness

Overview

EU-Australia

The CGE modelling indicates growth of exports for all sectors apart from minor decreases in EU exports of rice (on a very low basis).

In terms of relative change of sectoral output in the long term the situation is mixed. Under option C1 the changes are insignificant for the EU and marginal for Australia apart from for meat, motor vehicles and machinery. Under option C2 the relative output changes for the EU are more pronounced and negative for ruminant meat, fruit and vegetables, sugar and electric equipment, while positive for motor equipment and machinery. For Australia relative output changes are particularly positive for ruminant meat, sugar, rice, oil seed, beverages and tobacco, and utilities and negative for machinery, motor vehicles, gas, and chemicals.

This quantitative analysis indicates that the overall positive impact (based on export growth, sectoral output growth) in the EU would be on motor equipment, machinery, chemicals and services sectors under both options C1 and C2, albeit in a varying degree, while the main negative impact would be on the fruit and vegetables sectors under option C1 and on the ruminant and sugar sectors under option C2.

EU-New Zealand

The CGE modelling indicates growth of exports and imports for all sectors apart from minor decreases of EU exports of some agricultural sub-sectors (rice, cereals fruit and vegetables and fibres and other crops - all of these have low base of trade volumes) and New Zealand exports of energy (coal, oil, gas) and minerals to the EU.

In terms of relative change of long term sectoral output the situation is mixed. In option C1 the changes are insignificant for the EU while for New Zealand there is growth for fruit and vegetables, other animal products and beverage and tobacco, textiles, chemicals and services sectors and decrease for a number of agricultural sectors (cereals, sugar, ruminant and other meat and dairy) as well as motor vehicles and machinery. In option C2 the relative output changes for the EU are combined and described above under the overview for EU-Australia. For New Zealand relative output changes are particularly positive for ruminant meat, fruit and vegetables, beverage and tobacco, while some other agricultural and industrial sectors (wood and paper, chemicals, motor vehicles and electrical equipment) would experience negative relative long term output changes.

This quantitative analysis indicates that the overall positive impact (based on export growth, sectoral output growth) in the EU would be on motor equipment, machinery, chemicals and services sectors under both options C1 and C2, albeit in a varying degree, while the main negative impact would be on the fruit and vegetables sectors under option C1 and on the ruminant, dairy, and fruit and vegetables sectors under option C2.

Industrial sectors

Chemicals (including pharmaceuticals)

EU-Australia

EU exports of chemicals to Australia were 19% of total EU exports in 2015 (€6.1 billion[26] out of which pharmaceuticals were €3.9 billion). EU imports of chemicals were less significant (€0.6 billion of which about half was pharmaceuticals). The bilateral trade in chemical products, taking into account the large base, are projected to grow significantly: EU exports by 7 or 20% and Australian exports by 10 or 11% under options C1 and C2 respectively. This would offer sizeable business opportunities, even though this is not reflected in sectoral output changes in the EU due to the very large base of EU production.

EU-New Zealand

EU exports of chemicals to New Zealand are similarly significant, making up 14% of EU's current exports (€0.6 billion, out of which pharmaceuticals were a bit less than half). EU imports of chemicals are of a smaller magnitude, but still relatively important among non-agricultural imports from New Zealand (7% of total, €0.2 billion). The bilateral trade of chemical products are projected to grow significantly in both directions, up to 29% in the long term (EU exports by 9 and 27% in option C1 and C2 respectively and New Zealand exports by 29 % in both options. This makes the chemical sector a relatively significant source of new business opportunities.

Transport equipment, including motor vehicles

EU-Australia

EU exports of transport equipment to Australia were 23% of total EU exports in 2015 (€7.1 billion, of which automotive products were €5.7 billion). EU imports of transport equipment were much smaller (€0.2 billion, of which about one quarter was automotive products). Bilateral trade, especially EU exports of motor equipment is projected to grow very significantly (EU exports by 38 or 52% and Australian exports by 14 or 16% under options

[26] The trade figures for current bilateral trade flows are from European Commission trade data as processed by DG TRADE and publicly available at:
http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113346.pdf and
http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113425.pdf

C1 and C2 respectively). Therefore this sector accounts for a very large overall gain in export value also considering the large existing trade.

Australia maintains a 5% import duty for cars, which in effect is only applied to cars imported from the EU as Australia has dismantled tariffs for the EU's competitors. The elimination of this comparative disadvantage alongside the reduction of NTBs it would further contributes to the significant increase of projected EU exports in the long term.

The relative sectoral output change for the EU is +0.2 for both options C1 and C2 due to the very large base of EU production. For Australia, in terms of sectoral outputs motor equipment is the most negatively affected and would see its output reduced by around 1.4% in the conservative scenario and by 1.7% in the increased liberalisation scenario. It is important to note that all current Australian domestic car assembly operations will cease in the coming years. Therefore the Australian domestic automotive production is expected to contract significantly regardless of the impact of the EU-Australia FTA.

EU-New Zealand

The most important sector for the EU in its trade with New Zealand concerned is transport equipment, which accounts for 28% of EU's current exports (€1.3 billion, out of which automotive products made up about half). EU imports of transport equipment are of a smaller magnitude, accounting for 2% of total imports (€70 million, out of which automotive products made up only one tenth).

For bilateral trade in motor equipment, EU exports especially are projected to grow significantly in the long term (EU exports up by 23 or 44% and New Zealand exports up by 13 or 14% under options C1 and C2 respectively). Therefore this sector become a significant source for new EU export opportunities even though this is not reflected in sectoral output changes in the EU due to the very large base of EU production. New Zealand would experience a rather large negative change in output (1.4% 2.7% under options C1 and C2 respectively). However, this change would come on a relatively small base as New Zealand does not have a major automotive industry.

<u>Machinery and electric equipment</u>

EU-Australia

EU exports of machinery (including electric equipment but not including transport equipment) to Australia were 24% of total EU exports in 2015 (€7.5 billion). EU imports of machinery were much smaller (€0.7 billion). EU exports are projected to grow very significantly (EU exports up by 21 or 61% and Australian exports up by 9 or 10% under options C1 and C2 respectively). Therefore this sector accounts for a very large overall gain in export value, also considering the large existing trade. However, the relative sectoral output change for the EU is only +0.2% for machinery (in option C2) and -0.1% for electric equipment and other manufactured products. For Australia, in terms of sectoral outputs the machinery sector would be one of the most negatively affected and would see its output reduced by around 2.0% in the increased liberalisation scenario, while the electric equipment and other manufactured products would experience an increase of 0.2%.

EU-New Zealand

EU exports of machinery (including electric equipment but not including transport equipment) to New Zealand were 26.1% of total EU exports in 2015 (€1.2 billion). EU imports of machinery were much smaller (€0.2 billion). EU exports are projected to grow very significantly (EU exports up by 19 or 62% under options C1 and C2 respectively and New Zealand's exports up by 9% in both options). Therefore this sector accounts for a very large overall gain in export value also considering the large existing trade. However, the relative sectoral output change for the EU is small, as shown in the section above (+0.1% for machinery and -0.1% for electric equipment and other manufactured products). For New Zealand, in terms of sectoral outputs the machinery sector would be the most negatively affected and would see its output reduced by around 2.9% in the increased liberalisation scenario, while the electric equipment and other manufactured products would experience a decrease of 0.1%.

Agriculture

EU-Australia

EU-Australia trade value[27][28] in agriculture products were €4.8 billion in 2015 (EU exports €2.8 billion, 9% of total, EU imports €2 billion, 21% of total). The share of agricultural goods in total EU exports to Australia (8.8%) is higher than that in the overall EU trade in agricultural goods (7.2%). Australia was the 13th largest export market for EU agricultural exports while Australia was the 19th largest source of EU imports. The top five exported EU agricultural products were: chocolate and confectionary, spirits and liqueurs, pasta and biscuits, pork and wine. The top five imported agricultural products were: oilseed (canola, mostly used for bio-diesel production in the EU), wine, tropical fruits and nuts, bovine meat and animal fibre (including wool).

The CGE modelling shows that in the long term, as the result of an EU-Australia FTA, EU exports of dairy and, to a lesser extent, fruit and vegetables, other food and beverages would increase. Among the EU imports there would be significant relative (in percentage terms) increases would occur for ruminant meat, beverages, dairy, sugar, cereals and rice under both options C1 and C2.

The relative changes in the long term EU sectoral output would generally be marginally negative results in the increased liberalisation scenario with the exception of ruminant meat, which would experience the biggest decrease. Australia would experience sectoral output growth for ruminant meat, sugar, rice, oilseeds and, to a lesser extent, cereals, fruit and vegetables and dairy.

EU-New Zealand

EU-New Zealand agricultural trade is asymmetric, reflecting the underlying historical[29] trade relationship. The bilateral trade in agriculture products was €2.9 billion (EU exports €0.4 billion, 10% of total, EU imports €2.5 billion, 71% of total) in 2015. The share of EU agricultural exports to New Zealand (9.6%) is higher than that of the overall extra-EU trade (7.2%). New Zealand is not a major export market for the EU though, whereas it was the 11th

[27] The statistics for agricultural trade in 2015 is from European Commission trade data as processed by DG AGRI and publicly available at http://ec.europa.eu/agriculture/trade-analysis/statistics/index_en.htm
[28] The categories for the statistics of the current trade and the aggregations for the CGE modelling are not necessary compatible, therefore the current trade figures given are only indicative.
[29]see in particular: Protocol No 18 on the import of New Zealand butter and cheese of the accession treaty of the United Kingdom and other countries: OJ L 73, 27.3.1972.

largest source of EU imports. The top five exported EU agricultural products were: pork, milk powder and whey, food preparations, wine and preparations of vegetables, fruit or nuts. The top five imported agricultural products were: sheep meat, wine, fruit, animal fibre (wool) and casein.

The CGE modelling shows that the EU-New Zealand FTA would result in a long-term increase of EU exports of other meat (e.g. pork), dairy and, to a lesser extent, other food and beverages. Among New Zealand's exports, significant relative increases would occur for dairy, ruminant meat, fruit and vegetables and other food. While the percentage increases for imports of sugar and rice are significant, the underlying actual trade flows are negligible.

As also noted above, the relative changes in the long term EU sectoral output would generally be marginally negative, with the exception of ruminant meat, which, in the increased liberalisation scenario, would experience the biggest decreases. New Zealand would experience sectoral output growth for ruminant meat, fruit and vegetables and - to a smaller extent - dairy, and a decrease for most other sectors.

Sugar

EU-Australia

While Australia is a significant global sugar exporter, the EU-Australia sugar trade fluctuates depending on price levels. In general it is limited (EU exports €11 million; EU imports €7 million in 2015). This is largely due to the current EU import tariff and the limited TRQ available to Australia. The CGE modelling shows significant growth in Australian sugar exports to the EU (in percentage terms) in the increased liberalisation scenario (124% under option C2, no change under option C1). Given the low volume of current imports the actual projected increased trade would not be significant. It is worth noting that stakeholder input to the public consolation showed major differences on the desirability of liberalising cane sugar imports into the EU. In addition a stakeholder pointed out that sensitivity of the EU's Outermost Regions over special sugar[30] should also be taken into account.

EU-New Zealand

Between EU and New Zealand the underlying actual trade flows of sugar are not significant (EU exports €11 million, EU imports €2 million in 2015). New Zealand is not a major producer or exporter of sugar, so no major sugar exports to the EU are expected.

Fruit and vegetables

EU-Australia

EU-Australia bilateral trade in fruit and vegetables (EU exports: €31 million, EU imports: €261 million in 2015) mostly consists of imports of Australian nuts (€219 million). The effect modelled on exports by the CGE analysis shows a small change of magnitude in current EU exports (8% and 9% increase under options C1 and C2 respectively) and a somewhat bigger increase of Australian exports (20% under both options C1 and C2).

Australia currently maintains some measures that negatively impact on EU exports (e.g. anti-dumping measures on canned tomatoes, SPS measures on certain vegetable seeds). However

[30] E.g. unrefined cane sugar.

the FTA is expected to provide the necessary frameworks to address such issues more effectively.

EU-New Zealand

EU-New Zealand bilateral trade in fruit and vegetables (EU exports €9 million, EU imports €394 million in 2015) mostly consist of imports of apples, kiwifruit and onions from New Zealand. The effect modelled on exports by the CGE analysis shows no change in the magnitude of EU exports (2% and 3% increase under options C1 and C2 respectively), while there is a sizeable increase of imports from New Zealand (39% and 38% under options C1 and C2 respectively).

When assessing the impact of these increased imports it is worth noting the counter-seasonality[31] of most fruit and vegetables imports. This means that a certain amount of New Zealand's produce is not directly competing with EU domestic production, but rather with produce from other Southern hemisphere producer countries (i.e. kiwifruit).

The existing commercial cooperation and mutual investment is also significant in this sector. For example, EU and New Zealand investors own fruit orchards in each other's territory, or engage in further cooperation, such as New Zealand imports kiwifruit from the EU in the off-season. New Zealand maintains some measures that negatively impact on EU exports (e.g. anti-dumping measures on preserved peaches, SPS measures on plant breeding material). The FTA is expected to provide the necessary frameworks to address such issues more effectively. Overall the increase of fruit and vegetable imports is not expected to have a major impact on EU production (the sectoral output change according to the CGE modelling would be -0.2% in the long term).

<u>Dairy</u>

EU-Australia

EU exports of dairy products (€203 million in 2015) mostly include cheese, milk powder and whey. Australia has already some preferential access to the EU market through TRQs for some types of cheese but EU imports remain small (€1 million in 2015). The CGE analysis shows a significant increase of EU exports (48% and 49% under options C1 and C2 respectively). The import growth (1% and 87% under options C1 and C2 respectively) is limited in value, due to the small base of current Australian dairy exports to the EU.

Australia currently maintains some measures that negatively impact on EU exports (e.g. biosecurity related measures on certain cheeses, insufficient protection of geographical indications). The FTA is expected to provide the necessary frameworks to address such issues more effectively, although this effect is not modelled, as explained earlier. Overall the FTA would provide sizeable new export opportunities for the EU producers.

EU-New Zealand

New Zealand is the world's largest dairy exporter accounting for one third of global trade in dairy products. New Zealand's dairy production is extensive; it relies largely on pasturage and its expansion is limited by resource constraints (i.e. availability of suitable land and water) and competition for the same resources from other domestic sectors such as ruminant meat production.

[31] Some fruits and vegetable imports do not occur in the season in which they are grown in the country of destination.

EU trade with New Zealand in dairy products is moderate, especially in light of the amount of these products traded by the EU and New Zealand with other partners (EU exports: €51 million, EU imports: €100 million in 2015). EU-New Zealand dairy trade consists mostly of EU exports of milk powder and whey and EU imports of butter and cheese. New Zealand has significant preferential access to the EU through TRQs for butter and, to a lesser extent, cheese though these are not fully used presently because of the in-quota tariff rates are high.

The CGE analysis shows a significant increase of EU exports (27% and 29% under options C1 and C2 respectively), and imports (0% and 134% under options C1 and C2 respectively). However, these relative changes would mean limited negative change for overall EU domestic production and consumption.

There are also increasing sectoral cooperation and investments by New Zealand's dairy sector in Europe. This cooperation makes it easier to supply other, Asian markets, thereby taking advantage of the seasonal nature of milk production and, more importantly, specialisation (such as EU-produced whey and its derived products).

New Zealand currently does not provide sufficient protection of geographical indications for EU dairy products. The FTA is expected to provide the necessary frameworks to address such issues more effectively. However, this effect is not taken into account in the CGE modelling.

Ruminant meat (beef and sheepmeat)

EU-Australia

The EU-Australia bilateral trade in meat is important (EU exports: €258 million – essentially all pork; EU imports: €338 million – out of which €211 million is bovine meat and €102 million is sheepmeat). EU exports of meat products (beef, pork and poultry) face various SPS barriers in Australia.

Australia is a leading world exporter of beef and sheepmeat exporting large quantities to Asia and the US. Australia has preferential access to the EU through various TRQs for beef and sheepmeat. The CGE modelling projects no change essentially in EU exports of meat products (1% and 2% in options C1 and C2 respectively). However, this modelling does not take into account a possible reduction of NTBs such as SPS measures. The FTA is expected to provide the necessary frameworks to address such issues more effectively.

Australian exports of beef and sheepmeat to the EU are currently limited by the size of TRQs and high out–of-quota tariffs. Under option C2, Australian exports of ruminant meat are projected to grow more than fivefold (539%) there is no substantial change under option C1. The CGE modelling, due to its limitations, cannot divide the ruminant sector into beef and sheepmeat, and cannot fully simulate the complexity of trade of the different product categories of ruminant meat. Nevertheless this finding is in line with another relevant study[32] undertaken by the Commission.

EU-New Zealand

New Zealand is also a leading exporter of beef and especially sheepmeat. EU-New Zealand bilateral trade in meat is very significant (EU exports: €70 million – essentially all pork; EU imports: €1,142 million –of which €943 million for sheepmeat and €80 million for beef). EU exports of some meat (poultry) products still face SPS measures in New Zealand. However

[32] Cumulative economic impact of future trade agreements on EU agriculture
http://ec.europa.eu/agriculture/trade-analysis/impact-assessment_en

the modelling does not account for a possible reduction of NTBs such as SPS measures. The FTA is expected to provide the necessary frameworks to address such issues more effectively.

Due to historical connections, New Zealand exports a very large proportion of sheepmeat to the EU. It is free from duties under a very large TRQ. New Zealand also benefits from preferential access for beef, although for a much smaller quantity. In practice New Zealand does not fill its large sheepmeat TRQ and could, under the current circumstances, increase its duty free exports by about 40%. The reason that New Zealand exporters do not use this opportunity is that they pursue other lucrative export opportunities in Asia and elsewhere.

New Zealand exports of ruminant meat are projected to grow by 25% under option C2 (there is no substantial change under options C1). This is very significant due to the large base of mostly sheepmeat exports to the EU. As noted above, CGE modelling does not allow for disaggregation of beef and sheepmeat. While the CGE modelling shows that ruminant import from New Zealand would grow significantly the currently unfilled sheepmeat quota suggests that expansion of such magnitude is unlikely to happen. New Zealand accounts for about 85% of the total EU imports of sheepmeat (in addition Australia accounts for about 10%).

The sheepmeat market is affected by seasonality, which is linked to the counter-seasonal lambing season in the Southern hemisphere, as a significant part of EU imports from New Zealand (and Australia) are chilled (fresh) lamb. While there is an overlap, the impact on EU domestic producers is less significant than the overhead trade figures would suggest, while EU consumers benefit from the year-around supply of chilled lamb. New Zealand exports of beef are currently limited by the size of current TRQs and high out-of-quota tariffs (i.e. the MFN tariffs that imports pay outside of the TRQ).

Overall

The full removal of the current tariff barriers and TRQ limitations (primarily for beef and Australian sheepmeat) would negatively impact EU production and producers under option C2. The CGE modelling projects a 1.2% decrease of sectoral output for the EU ruminant sector due to the combined impact of the FTAs with Australia and New Zealand. This figure, however, needs to be viewed in the light of the above analysis, especially the very significant EU imports of sheepmeat (€1,045 million from Australia and New Zealand), compared to EU imports of beef (€291 million from Australia and New Zealand). The results from the modelling are likely overestimate the actual impact in the case of New Zealand due to the specific circumstances of sheepmeat trade (in particular the unfilled TRQ).

Alcoholic beverages

EU-Australia

EU-Australia bilateral trade in alcoholic beverages (wines, spirits and beer) was sizeable (EU export: €559 million, mainly spirits and wine; EU imports: €485 million, almost exclusively wine). The EU and Australia have a wine agreement that provides for recognition of wine-making practices and protection of geographical indications, but no tariff liberalisation.

EU-New Zealand

EU-New Zealand bilateral trade in alcoholic beverages (wines, spirits and beer) was sizeable (EU exports: €60 million, mainly spirits and wine; EU imports: €369 million, almost exclusively wine).

Overall the CGE modelling looks at a larger sectoral aggregation for beverages and tobacco, but alcoholic beverages is the largest sub-group in this category. The CGE modelling projects a moderate increase of trade both ways for beverages and tobacco. However, the increase would appear to have no impact on the sectoral output in the EU.

Services

EU-Australia

EU services exports to Australia were worth €18.6 billion, while imports were €7.8 billion in 2014. EU exports services sectors would make modest gains in bilateral exports of about 7%, while imports would be at 9%. For the EU there is no measurable impact on sectoral output for services. For Australia (in both the conservative and the increased liberalisation scenarios), most of the gains lie in the transport services and communication services sectors.

EU-New Zealand

EU services exports to New Zealand were worth €2.2 billion, while imports were €1.3 billion in 2014. In the conservative and increased liberalisation scenarios EU services' sectors would make modest gains in bilateral exports of about 7% and 8% respectively, while imports increase by 9 and 8%,. As noted above, there is no measurable impact on sectoral output for services in the EU. For New Zealand most of the relative output change occurs in the utilities and communications sectors.

It is important to point out that the relatively modest gains for projected bilateral services trade with Australia and New Zealand are partly due to the constraints in the modelling: as stated in point 5.1 above, fixed labour closure is applied, meaning that any change in demand would impact on the prices rather than on the volumes. This leads to gains in the services' sectors being underestimated. Furthermore, the quantitative analysis does not contain estimates on the positive effects of liberalisation in public procurement, in view of the difficulty in quantifying such provisions.

5.5. Impact on SMEs

The external study showed that in addition to tariff barriers regulatory trade barriers including regulatory heterogeneity (i.e. the existence of different regulatory frameworks in different countries) may have a greater impact on SMEs than on larger companies. SMEs generally have more limited financial resources and lower human resource capacities than larger companies. Therefore they are less equipped to handle differing regulatory frameworks, deal with diverse national regulatory bodies and absorb risks. This is especially the case when operating in diversely regulated, intensely competitive markets, particularly those dominated by large and long-established companies.

As a consequence of heterogeneous non-tariff trade barriers, many SMEs are effectively prevented from engaging in international trade. This has adverse consequences for intra-industry competition, cross-country innovation spill-overs, and economic convergence. It is very important for SMEs to have provisions that speed up and simplify customs procedures and paperwork. This would mean less costs and red tape, which can disproportionately impact small exporters. Specific provisions under the comprehensive FTAs on SMEs and bilateral cooperation would contribute to improving such transparency for SMEs.

Statistics available show that EU SME exporters are prevalent in “wholesale, retail trade and repair” services, “manufacturing”, “professional, scientific and technical activities”, “transportation and storage” services, “construction” services, “accommodation and food” services, “information and communication” services, “administrative and support” services, and “agriculture, forestry and fishing” sectors.

Options C1 and C2 have similar general implications for SMEs. Option C1 features a conservative scenario that would provide comparatively less benefits for enterprises, including SMEs, due to no reduction of NTBs in Australia and New Zealand. Option C2, by contrast, would provide more benefits in terms of more ambitious provisions for NTB reduction and rules that would be able to reduce trade costs also for SMEs.

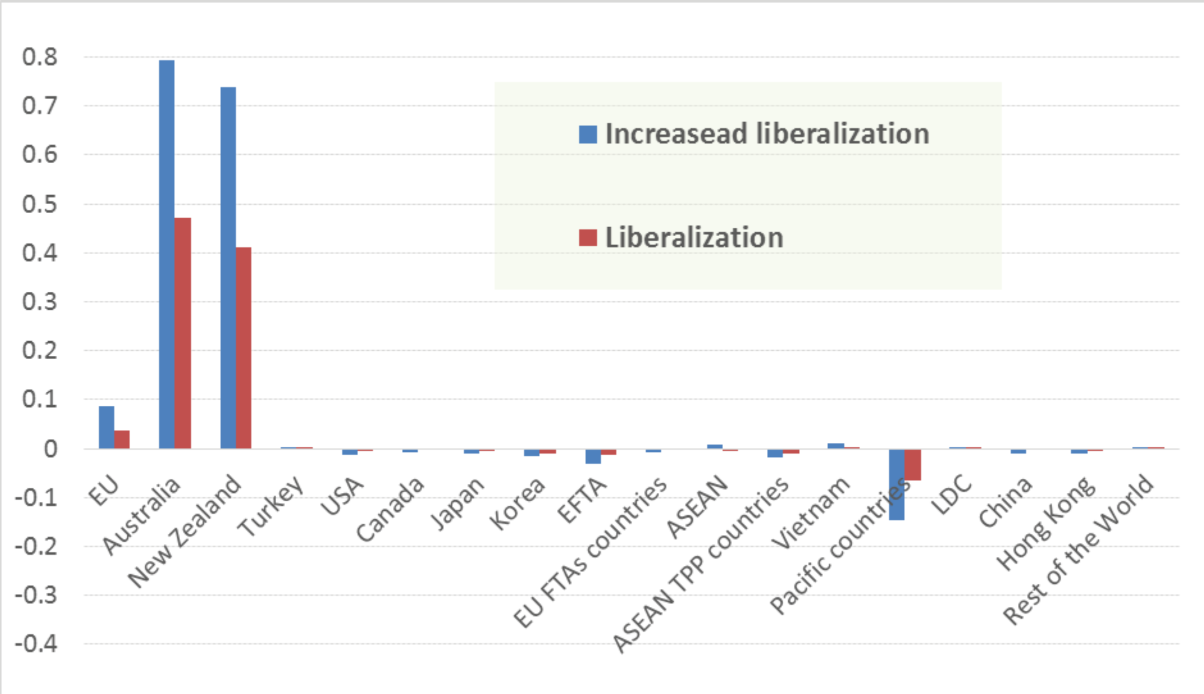
As concerns the quantitative impact of FTAs with Australia and New Zealand on EU SMEs, both changes in sectoral output and in sectoral exports as projected by the CGE model are marginal under option C1. SMEs producing dairy products, wood and paper products, food products, textiles products are likely to benefit more. SME service providers in transport, communications and business services are also likely to see rising exports as the result of the FTAs.

Under option C2 sectoral changes in bilateral exports are significant for a number of sectors in which EU SMEs are strong exporters. Accordingly, EU SMEs active in the manufacturing of wood and paper products, textiles, chemicals products, metal products, non-metal products, motor equipment, machinery and electrical/electronic components are likely to benefit most from liberalisation measures that go beyond tariff eliminations and effectively aim to reduce regulatory differences. The size and direction of the estimates matches the literature on non-tariff trade barriers and how NTBs particularly hinder the internationalisation of SMEs.

5.6. Impact on Third Countries, in particular Least Developed Countries (LDCs)

Based on the summary of CGE modelling results, LDCs in general will not experience a change in their GDP due to the EU-Australia and EU-New Zealand FTAs, while they will increase total trade. This is due to a large increase in trade with the EU that compensates for a decline in trade with Australia, New Zealand and other partners. On the other hand, a small sub-set of Pacific countries would encounter a small (0.2%) decline in their total exports in the long term under option C2, due to a reduction in their trade with Australia and New Zealand. This result is partly due to CGE modelling limitations, and is not supported by further qualitative analysis. Exports from Pacific island countries to the EU are not in direct competition with the exports of Australia and New Zealand. Pacific island countries continue to benefit from the existing Pacific Economic Partnership Agreement and current preferential arrangements under the EU's General Scheme of Preferences (GSP), including for LDCs the "Everything but Arms" (EBA) arrangement, as well as Australia's and New Zealand's GSP schemes. Pacific island countries could benefit separately from further improved access to Australia and New Zealand under the PACER Plus agreement. This is a regional trade agreement including Australia, New Zealand and most of the Pacific Island countries that is currently being negotiated.

Percentage change of total exports under the two scenarios, (long term)



5.7. Environmental impact

As noted above (chapter 4, point C) sustainable development is an overarching policy objective of the EU. Trade policy also has its role to play. The inclusion of Trade and sustainable development (TSD) provisions in EU FTAs is a key tool in this regard. The aim of TSD provisions is to maximise the potential of increased trade and investment, among others to environmental protection, including the fight against climate change, and to engage with partner countries in a process which includes and enhances dialogue, transparency and civil society involvement. Provisions also allow for independent and impartial review. Such engagement will allow to raise awareness of these policy objectives and to draw more attention to ratification of the relevant conventions and to enhance the quality of their implementation. In addition, it will allow an exchange of best practice in dialogues, leading to timely mitigation.

The results of the Environmental Performance Index (EPI[33]) assessed the overall environmental performance of Australia and New Zealand on six main aspects: water resources, fisheries, biodiversity, forest, climate and energy. Australia ranked 13th worldwide, while New Zealand ranked 11th, and both countries ranked above the EU average.

Australia performs better than the EU averages on air quality and health impact, while it scores much lower on fisheries and climate and energy, which is its worst performing category, due to its trend in carbon emissions for electricity generation. Minor differences are observed for water and sanitation and water resources, where Australia tops the ranking.

New Zealand performs better than EU averages in terms of air quality and health impact. However, it lags behind on agriculture and scores very low in nitrogen balance sub-category, ranking 141st, as well as on forestry and fisheries. The EU and New Zealand show very similar scores for climate and energy and water resources.

[33] The index is provided by Yale Centre for Environmental Law & Policy (YCELP) and the Centre for International Earth Science Information Network (CIESIN) at Columbia University

Quantitative analysis:

CO_2 emissions

CO_2 emissions will increase in all three trading partners in both C1 and C2 scenarios. New Zealand increases its CO_2 emissions the most, ranging between 0.29% and 0.64% respectively in the conservative and increased liberalisation scenarios. The figures for Australia are 0.12% and 0.38% in the two scenarios, while in the EU the increases in CO_2 emissions are negligible and 0.03% and 0.04% in the conservative and increased liberalisation scenarios respectively.

Percentage change in CO2 emissions in options C1 and C2

	Conservative (C1)	Increased liberalisation (C2)
EU	0.03	0.04
Australia	0.12	0.38
New Zealand	0.29	0.64

In parallel to the marginal increase of CO2 emissions in the EU, Australia and New Zealand, the CGE modelling simulation projects decreases in almost all other countries. This suggests that overall; the FTAs are expected to have only a negligible, though negative, impact on CO2 emissions globally over the long term.

Qualitative analysis:

Air pollution

While the CGE model does not provide estimates on the impact of air pollution, some insight can be gained by exploring air pollution (sulphur oxides (SO_X) and nitrogen oxides (NO_X)) by sectors. In the EU and New Zealand the major sources of NO_X are transport, while in Australia, the largest source of NO_X is industrial combustion. Although the sectors that are expected to benefit most from the FTAs in the EU involve combustion processes, the impact is very small and therefore does not pose particular concern.

Biodiversity

The expansion of the agricultural sector in Australia (to a small extent the rice, sugar and cereals sectors) and New Zealand (in the animal and the fruit and vegetables sectors) could pose some potential threat to biodiversity. The long term increase in land use and intensity in New Zealand and the inefficient use of nitrogen fertilisers pose some limited concerns about the potential negative implications for ecosystems.

Land use change

The external study also provides additional quantitative analysis for land use intensity[34] change calculated on the basis of the CGE simulation results. Land intensity is expected to experience a negligible increase (0.55%) in the EU. This is largely due to the expected increase in some agricultural sectors such as animal farming. Australia is expected to experience a moderate increase (0.98%) on land use intensity most likely due the expansion of the ruminant meat and some agricultural sectors. A similar moderate increase (0.99%) is,

[34] Land use intensity is measured by total land used over output. An increase in land use intensity can result from an expansion of or a shift towards more land intensive sectors.

expected in New Zealand, most likely due the expansion of the ruminant meat and the vegetable and fruit sectors. This suggests that land use would increase by about 1%.

Overall, the findings of the analysis point to a minor impact of both FTAs on the environment. The expected impact on global emissions is negligible as it is mitigated by the fact that the FTA favours relatively less energy- and emission-intensive sectors, leading to a reallocation of production towards cleaner sectors in the EU. Although some of the sectors that could benefit most from the FTA in Australia and New Zealand are environmentally sensitive, such as oil and coal and some agricultural production, the long-term impact predicted by the CGE modelling is limited, even in the increased liberalisation scenario. The only area of limited concern is a potential pressure on biodiversity by the expected expansion of some of the agricultural sub-sectors in New Zealand and Australia. In the EU there could be potential negative impact on biodiversity in the case of reduction of sheep farming, as a part of such farming takes place in high nature value land.

The policy to include ambitious trade and sustainable development provisions in EU FTAs is expected to have a positive environmental impact overall in both Australia and New Zealand. The aim of these provisions is to maximise the potential contribution of increased trade and investment for environmental protection. This would include, among others, the fight against climate change, and threats to biodiversity and promotion of sustainable management of natural resources, such as forestry and fisheries, through the improved engagement with the partner countries based on international rules and agreements and through a process with dialogues, transparency and civil society involvement.

Stakeholders from the non-profit sector and as the business sector noted the importance of enforcing environmental rules and not lowering standards. Non-profit sector stakeholders noted specific issues such as maintaining high biosecurity standards (to mitigate risk to biodiversity) and addressing harmful fishery subsidies.

5.8. Social impact

Similarly to the environmental aspects the overarching sustainable development policy objective also applies to labour and social aspects. The aim of trade and sustainable development (TSD) provisions in EU FTAs is to maximise the potential of increased trade and investment to the decent work agenda and to engage with partner countries in a process which includes and enhances dialogue, transparency and civil society involvement. Provisions also allow for independent and impartial review. Such engagement will allow to raise awareness of these policy objectives and to draw more attention to the ratification of the relevant conventions and to enhance the quality of their implementation. In addition, it will allow for an exchange of best practice in dialogues, leading to timely mitigation. The TSD provisions contain commitments on adherence to core ILO standards and conventions and effective implementation in law and in practice, the pursuance of high levels of labour protection, and the effective enforcement of and non-derogation from domestic laws in these areas, in order to prevent a ‘race to the bottom’. Specific provisions encouraging trade practices and schemes that support and promote sustainable development goals, such as Corporate Social Responsibility, are also included in the TSD provisions.

Quantitative analysis

Wages[35]

In the long term real wages will increase for all trade partners under the two scenarios with the largest increases in New Zealand. For New Zealand, real wages will increase around 0.3% in the conservative scenario for both unskilled and skilled labour. In the increased liberalisation scenario, real wages of unskilled labour and skilled labour will increase by around 0.8% and 0.6% respectively.

For Australia the figures are 0.2% (both unskilled and skilled) in the conservative scenario and around 0.3% (both unskilled and skilled) in the increased liberalisation scenario.

Given the difference in respect of the size of the economy and the labour markets, the EU would experience a negligible increase in real wages in both the conservative and increased liberalisation scenarios. Both unskilled and skilled real wages would increase between 0.02% and 0.05% in both scenarios.

Reallocation of jobs

The modelling suggests a reallocation of EU labour primarily towards the motor equipment sector (0.22 and 0.28% in options C1 and C2 respectively for both skilled and unskilled labour), which is in line with the increase in output of motor equipment seen above. On the other hand, the fruit and vegetables sector would experience the largest decline in labour in the conservative scenario (-0.19%) while the ruminant meat sector would experience the largest decline in labour in the increased liberalisation scenario (-1.21%), followed by the sugar sector (-0.23%). As above, this seems to reflect increases in exports from Australia and New Zealand in these sectors. The reallocation of labour in other sectors is marginal or negligible in the long term.

The impact of the EU-Australia FTA on reallocating labour from one sector to another in Australia is mixed. In general agricultural and food-related sectors are allocated labour (the highest gains are for oil seed sector under option C1 and the ruminant meat sector under the options C2), while other sectors see mostly negative changes (e.g. the automotive and machinery sectors).

The pattern for New Zealand is different. This is because most sectors are impacted negatively as labour is mostly reallocated to ruminant meat (only under option C2) and the fruit and vegetable sectors (under both options C1 and C2)

Qualitative analysis

All EU Member States ratified the core International Labour Organisation (ILO) conventions[36]. Australia and New Zealand have ratified most of these, except the minimum

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[35] Other indicators, i.e. consumer prices and welfare are analysed under the next chapter 5.10 dealing with consumer impacts.

[36] In its 1998 Declaration on Fundamental Principles and Rights at Work, the International Labour Organisation (ILO) established four core labour standards that are deemed universal and have since served as a benchmark for the protection of workers' rights: 1) freedom of association and the effective recognition of the right to collective bargaining; 2) the elimination of all forms of forced or compulsory labour; 3) the effective abolition of child labour; 4) the elimination of discrimination in respect of employment and occupation. These four core labour standards are protected by the following eight fundamental conventions:

1. Freedom of Association and Protection of the Right to Organise, 1948 (Convention 87)
2. Right to Organise and Collective Bargaining, 1949 (Convention 98)
3. Forced Labour, 1930 (Convention 29)
4. Abolition of Forced Labour, 1957 (Convention 105)

age core convention (ILO 138). In addition, New Zealand has not ratified the convention on freedom of association (ILO 87). Nevertheless Australia and New Zealand, in practice provide sufficient protections for workers' rights. However, even some core labour standards remain subject to individual cases before the ILO.

Freedom of association and right to collective bargaining

Cases relating to freedom of association and the effective recognition of the right to collective bargaining are among the most common those reviewed by the ILO.[37] Analysis of the external study reveals several cases across the EU and in New Zealand where freedom of association and the right to collective bargaining are being infringed upon. This comes in a general context of declining trade union membership.

Child labour

The fact that Australia and New Zealand have not ratified ILO Convention 138 concerning Minimum Age for Admission to Employment does not mean that child labour is necessarily more common than in the EU. Australia has the legislative and institutional frameworks in place to address the requirements of Convention 138, and previously conducted a compliance assessment on in 2012/2013; Australian law and practice was found to be compliant with the Convention. However a timeframe for ratification has not yet been set. Such labour is also regulated under domestic laws and other ILO conventions ratified by Australia and New Zealand in different sectors (Conventions 10, 58, 59). However, the ILO has recently highlighted inadequate monitoring of preventing children from doing hazardous work, especially in the construction, agriculture and hospitality industries. This issue has also been raised in a recent study by the New Zealand Work and Labour Market Institute at Auckland University of Technology.

Work done by children under the age of 15 is generally concentrated in services (restaurants, supermarkets, petrol stations) or family work (cleaning, household assistance), which do not have a direct impact on international trade flows. In addition, work done by children exists in agriculture, and mostly consists of working on family farms. The prospect of increased trade and investment opportunities - as the result of the EU-Australia and EU-New Zealand FTAs – are not expected to negatively impact on the current child labour practices.

Elimination of discrimination in respect of employment and occupation

Despite ratifying and applying ILO Convention 100 concerning equal remuneration and Convention 111 on discrimination in respect of employment and occupation, the external study highlights the existing gender-, race- and disability-based discrimination in Australia and New Zealand, in particular the enduring gender pay gap. The records of Australia and New Zealand in this regard are comparable with that of EU Member States. The EU-Australia and EU-New Zealand FTAs may positively impact the gender pay gap through direct or indirect trade effects. For example salaries in exporting sectors are on average higher than in other sectors. Conversely, the impact of an EU-Australia and EU-New Zealand FTAs on the gender pay gap is likely to be uneven across sectors, reflecting the sectoral effects described above.

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5. Minimum Age, 1973 (Convention 138)
6. Worst Forms of Child Labour, 1999 (Convention 182)
7. Equal Remuneration, 1951 (Convention 100)
8. Discrimination (Employment and Occupation), 1958 (Convention 111)

[37] International Labour Organisation (ILO) Committee of Experts on the Application of Conventions and Recommendations (CEACR)

Cooperation activities

The external study has highlighted cases where cooperative mechanisms could be most effective, such as the participation of unions, labour and human rights organisations in the monitoring of the FTAs' labour provisions.

The policy to include ambitious trade and sustainable development provisions, covering, among others, effective implementation of ILO fundamental principles and rights at work and cooperative provisions in EU FTAs, is expected to have an overall positive social impact.

Stakeholders noted the importance of maintaining social standards. Non-profit sector stakeholders noted specific issues related to education and social security and stated their belief that these sectors should not be subject to trade liberalisation.

5.9. Impact on consumers

Consumers may be affected in various ways by the potential enhancements in the EU's trade and investment relations with Australia and New Zealand. Impacts may be felt in areas such as expenditure, prices and choice.

For New Zealand, **consumer prices** would increase negligibly under option C1 (0.02%) and marginally under option C2 (0.14%). By contrast, for Australia consumer prices would go down under both options (-0.13% and -0.14% respectively). For the EU, options C1 and C2 would both bring a negligible increase in consumer prices (0.03% and 0.06% respectively). The smaller change sin the EU should be viewed in light of the different size of the overall economies, and the relative importance of bilateral trade to the EU, Austaralia and New Zealand.

In terms of **economic welfare** (this is an economic indicator that compares the change in consumer utility), the impact on the EU, Australia and New Zealand would be positive. In absolute values, in the long term the EU's gains would vary between €2.6 billion (under the conservative option) and €4.8 billion (under the increased liberalisation option). New Zealand's and Australia's welfare gains would also be positive (see also the figures under point 5.4.).

The EU's policy not to lower standards for safety, the environment and in other areas will also ensure that the current level of protection is upheld. In both Australia and New Zealand there is already a high level of food and product safety and regulatory frameworks that ensure general consumer protection. Therefore the FTAs are not expected to have any immediate impact in this area. Instead the intended improvements to regulatory cooperation could result in higher protection in these areas in the future.

Expanding trade would provide more choices for consumers in the EU, Australia and New Zealand (e.g. due to counterseasonality of some agricultural products). Consumers could also benefit indirectly from cooperation on consumer protection.

In their responses to the public consultation s**takeholders** highlighted the importance of maintaining the EU's high level of consumer protection. Many stakeholders believe that the FTAs will have a positive impact on consumers.

5.10. Impact on human rights

As described under the environmental and social impacts, EU FTAs address trade and sustainable developments issues, and thus also labour-related human rights. It is also important to note that EU policy is to establish standard human rights clauses in political framework agreements such as the EU-Australia Framework Agreement and the EU-New Zealand Partnership Agreement on Relations and Cooperations. These agreements provide an overarching framework for, among others, human rights aspects of the bilateral relationships. Trade agreements are designed to become part of the overall institutional framework for bilateral relations, to further EU objectives on human rights.

Context and overview of the human rights situation

Australia

Overall Australia has a positive human rights record domestically and is heavily involved in advocating human rights in the Indo-Pacific region and internationally. Human rights in Australia are protected by a democratic governmental process, freedom of the press and a separate judiciary, even if human rights are not explicitly outlined in a Bill of Rights. There are a healthy number of NGOs and independent agencies who both advise the government and promote human rights. Freedom of speech and religious beliefs are protected. Australia appointed a full-time Human Rights Commissioner, and also announced additional measures to provide a safety net for women and children at high risk and took further efforts towards gender equality and upholding the rights of persons with disabilities.

Despite this overall positive assessment, Australia recognises human rights are a priority area for policy action. The social situation for indigenous people notably remains a priority area for any government and despite the moves towards more explicit recognition of indigenous rights, additional action is needed to improve on every indicator. UN agencies (incl. UNHCR), UN rapporteurs as well as domestic and international human rights groups have also voiced concern about Australia's policy towards refugees and asylum seekers arriving in Australia by boat. During the UN's UPR (Universal Periodic Review[38]), Australia was encouraged to review its detention and asylum policies, to close the gap between indigenous and non-indigenous peoples and to ratify a number of key international human rights' instruments, including the Optional Protocol to the Convention against Torture.

Through its dialogues (on security, counter terrorism, and migration) the EU engages with Australia on migration policy and on countering radicalisation and terrorism. In 2015, the EU and Australia agreed to maintain regular formal exchanges on international human rights' issues.

The EU-Australia Framework Agreement (FA), initialled in March 2015 includes the respect of human rights as one of essential elements of the bilateral framework. Since the FA creates an overall institutional framework, other specific agreements, such as the future EU-Australia FTA will become an integral part of the overall bilateral relations as governed by this FA. This institutional framework will help to ensure that human rights considerations are fully taken into account. The FA will also provide opportunities to further enhance dialogue and cooperation on human rights issues.

New Zealand

[38] UPR is an UN process, which involves a review of the human rights records of all UN Member States

Human rights in New Zealand are sufficiently protected under national laws and in accordance with international human rights conventions. In general, the country's human rights situation is considered positive. New Zealand has an independent Human Rights Commission.

Following the 2014 UPR recommendations, New Zealand has adopted legislation to address the prevention of torture and ill treatment (notably through the Vulnerable Children Act) and cyberbullying (through the Harmful Digital Communication Act). New Zealand has acknowledged the need to prioritise child poverty, family violence and gender issues (i.e. gender pay gap and the prevention of violence against women). The government is well aware of these challenges and is making a genuine effort to address them.

The EU and New Zealand hold regular human rights consultations in international fora, including at the UN.

The EU-New Zealand Partnership Agreement on Relations and Cooperation (PARC) was signed on 5 October 2016. The PARC includes the respect of human rights as one of the essential elements of the bilateral framework. Since the PARC creates an overall institutional framework, other specific agreements in the future, such as the future EU-New Zealand FTA will become an integral part of the overall bilateral relations as governed by the PARC. This institutional framework will help to ensure that human rights considerations are fully taken into account. The PARC will also provide opportunities to further enhance dialogue and cooperation on human rights issues.

Assessment of impacts of the different options on human rights

The analysis of the human rights impact of trade-related policy initiatives focuses on the potential impacts of the different trade policy options under consideration. The specific human rights likely to be affected by the FTAs with Australia and New Zealand have been identified below. This report includes analysis of the potential impact on human rights of the particular trade measures under consideration.

The potential economic, social, human rights and environmental impacts of the eventual agreements will be examined in more details through independent Sustainability Impact Assessments (SIAs). The SIAs will rely on a wide-ranging, continuous consultation of stakeholders – notably civil society – in the EU, Australia and New Zealand. The SIAs will be finalised ahead of the initialling of the agreements and their findings will feed into the negotiating process. The SIAs will aim to: (a) assess the likely effects of the agreement on sustainable development and human rights in the EU, the partner country and other relevant countries, especially LDCs; and (b) to make recommendations and propose flanking measures to maximise the benefits of the agreement and prevent or minimise any potential negative impacts.

The **public consultation** asked stakeholders to identify likely impacts, including on human rights. Respondents considered that improved employment (such as the number and quality of jobs, household income and wages) and the affordability of essential goods and services would be the most positively affected areas. Some respondents were concerned about the potential harm to social and labour rights, but stated that this could be limited, if there was only a conditional liberalisation, one which ensured a level playing field.

Having combined the stakeholders' feed-back with the main findings of other independent assessments, most importantly the recent UPRs of Australia (2015) and New Zealand (2014), the following particular rights, with a closer relationship to the economy were selected for closer assessment.[39]

- availability and affordability of essential goods or services / right to an adequate standard of living;
- right to health;
- rights of indigenous peoples; and
- business and human rights.

Direct impact on human rights is difficult to isolate because there are a number of different political frameworks (i.e. dealing with different areas) that have an impact on them and the generally recognised high level of human rights enjoyed in the EU, Australia and New Zealand. Therefore the impact on human rights is limited mostly to the indirect promotion of social and economic rights, such as the right to an adequate standard of living, the right to health, or the right to work.

Options C1 and C2 also have the potential to lessen the gender gap in employment, as they would create overall employment opportunities, and raise the overall standard of living. In addition, the EU policy of including civil society dialogue mechanism in its FTAs and greater transparency in general would contribute to the enjoyment of human rights related to business, while other elements of the envisaged FTAs would provide important benchmarks (e.g. reference to international conventions and multilateral agreements).

Availability and affordability of essential goods or services / Right to an adequate standard of living

Overall, increased market access is estimated to lead to welfare gains (see table under point 5.4). Real GDP is also estimated to rise under both options. Import prices for essential products would not experience significant change. In option C1 the projected changes in the consumer price index (CPI) would be negligible in the long term. It is worth noting that for the EU and New Zealand the CPI would increase while for Australia it would decrease. In option C2 the changes are bigger, but still negligible for the EU and negative for Australia (that is the average consumer price level would fall). For New Zealand the CPI change is more apparent (+0.29%) and is likely the result of increased exports of some agricultural products and overall wage increases. Welfare gains and the rise of GDP, coupled with increasing wages, would more than compensate for the increase in the CPI. Also, the modelling results show that the wage increase is predicted to be more significant in the unskilled category thus proportionally providing more benefits to unskilled workers.

However, while the overall standard of living is expected to grow, increased market access for primary agriculture may negatively affect the standard of living and traditional lifestyle of small farmers in the EU. Adverse impacts on rural employment in the EU are possible, both skilled and unskilled agricultural labour may face adverse consequences.

Right to health

Both Australia and New Zealand have highly developed health systems that include government-run pricing and reimbursement schemes for pharmaceuticals. Trade agreements

[39] Impacts on environmental issues (including the right to a clean environment) and social and labour issues (including the rights to enjoyment of just and favourable conditions of work, and to social security, including social insurance) were assessed under separate points 5.7. and 5.8. Therefore they are not repeated here. These particular rights, however, are included in the summary table.

negotiated by the EU, Australia and New Zealand, respectively with other partners have not altered the running of these schemes or led to higher costs for medicines.

Comprehensive FTAs between the EU and Australia and New Zealand respectively under options C1 and C2 could lead to decreasing existing import duties and further streamlining of regulatory cooperation on pharmaceuticals (e.g. closer cooperation on Good Manufacturing Practices).

Comprehensive FTAs would include a guarantee that would preserve the parties' ability to regulate in the public interest to achieve legitimate public policy objectives such as the protection and promotion of public health.

Rights of indigenous peoples

Depending on the specific situation, trade agreements[40] can include exceptions and carve-outs to ensure the respective governments' ability to adopt measures that preserve the rights and preferences for indigenous peoples.

Australia

Australia's Aboriginal and Torres Strait Islander peoples today make up approximately 3% of Australia's population. However, successive governments have faced challenges in their policies towards the Aboriginal population. The "reconciliation" movement is said to have begun with the 1967 referendum to remove clauses in the Australian Constitution that discriminated against indigenous Australians. The referendum established citizenship status and confirmed voting rights for all indigenous Australians. Australian government policy towards Aboriginal and Torres Strait Islanders has enjoyed bipartisan support since the launch of the "Close the Gap" campaign in 2006. The campaign's goal is to close the health and life expectancy gap between Aboriginal and Torres Strait Islander peoples and non-indigenous Australians by 2030. The Progress and Priorities Report 2016, issued by the Close the Gap Steering Committee pinpointed the major challenges especially in the health sector. The passing of legislation acknowledging indigenous Australians as the first inhabitants of Australia in March 2013 constituted an important and positive first step towards constitutional recognition.

Australia's trade policy takes account of the rights of indigenous peoples and of the need to retain the flexibility to implement policies favouring aboriginals. An example of such policies in the economic field is the specific reservation of local public procurement in favour of indigenous people.

New Zealand

Maori, the indigenous inhabitants of New Zealand, make up about 15% of New Zealand's population. The Treaty of Waitangi (1840) is at the heart of the relations with Maori in New Zealand. The Waitangi Tribunal established under the Treaty of Waitangi Act (1975) is charged with investigating and making recommendations on claims brought by Maori relating to actions or omissions of the Crown (state) that breach the promises made in the Treaty of Waitangi.

New Zealand, in all its FTAs since 2011, includes a so-called "Waitangi-clause" to safeguard the primacy of the Treaty of Waitangi and to retain the flexibility to implement domestic policies favouring Maori. It is expected that a future EU-New Zealand FTA would also

[40] For example: the Comprehensive Economic and Trade Agreement (CETA) between Canada and the EU

include such a clause, but in any case a future FTA would not hinder New Zealand's ability to carry out appropriate polices regarding the rights of Maori.

Business and human rights

Comprehensive trade agreements include broader trade and sustainable development provisions in their agreements, including corporate social responsibility (CSR). This recognises the role of private businesses in promoting and furthering labour rights. Their role is complementary to the role of states.

Australia

There is a growing awareness in Australia about the need to recognise the relationship between business and human rights. Since 2014 a Supply Chains Working Group comprising experts from government, business, industry, civil society, unions and academia has been examining ways to address serious forms of labour exploitation in the supply chains of goods and services. The first national dialogue on business and human rights took place in 2014 at the initiative of the Global Compact Forum Australia and the Australian Human Rights Commission (AHRC). In 2015 the AHRC, together with Australian Centre for Corporate Social Responsibility and the Global Compact Network Australia, produced a report[41] mapping how Australian businesses currently deal with human rights issues in their supply chains. The report highlighted labour rights abuses such as child labour, slavery, trafficking, unfair wages and unacceptably poor working conditions.

New Zealand

The Human Rights Commission’s "Caring Counts" report in 2012 highlighted unequal pay among carers for the elderly. In October 2015 employers and unions agreed to a government proposal to set up a joint working group to draw up principles to deal with pay equity claims under the Equal Pay Act. In April 2016, the UN Human Rights Committee, in its concluding observations on the sixth periodic report of New Zealand, noted that there remains a 'significant wage gap between women and men, which disproportionately affects low-income women, especially Maori and Pasifika women'. The gender pay gap has shrunk over the past 17 years, but the most recent figures show stagnation in this indicator.

Summary of potential impacts on particular rights

The table[42] below sets out potential effects that stem from the FTAs, including from the EU’s intention to include a trade and sustainable development chapter with specific principles of environmental protection and labour rights (see also the first paragraphs of points 5.8. and 5.9. above, respectively).

Particular rights		**Options C1 and C2**

[41] Human rights in supply chains: Promoting positive practice https://www.humanrights.gov.au/sites/default/files/document/publication/2015_AHRC_ACCSR_HR_in_supply_chains_0.pdf

[42] Option A was not included in this table as the status quo would have no direct or indirect impact on particular human rights. As options C1 and C2 both foresee an ambitious Trade and Sustainable Development chapter these are not further differentiated.

Right to enjoyment of just and favourable conditions of work (incl. child labour, freedom of associations and collective bargaining)	EU	Direct effect: 0 Indirect effect: +
	Australia	Direct effect: + Indirect effect: +
	New Zealand	Direct effect: + Indirect effect: +
Right to clean environment	EU	Direct effect: 0 Indirect effect: 0/-
	Australia	Direct effect: 0 Indirect effect: 0/-
	New Zealand	Direct effect: 0 Indirect effect: 0/-
Availability and affordability of essential goods or services[43] Right to an adequate standard of living	EU	Direct effect: + Indirect effect: +
	Australia	Direct effect: + Indirect effect: +
	New Zealand	Direct effect: + Indirect effect: +
Right to enjoyment of the highest attainable standard of physical and mental health, Right to health	EU	Direct effect: 0 Indirect effect: +
	Australia	Direct effect: 0 Indirect effect: +
	New Zealand	Direct effect: 0 Indirect effect: +
Rights of indigenous peoples	EU	Direct effect: 0 Indirect effect: 0
	Australia	Direct effect: 0 Indirect effect: +
	New Zealand	Direct effect: 0 Indirect effect: +
Business and human rights	EU	Direct effect: 0 Indirect effect: +
	Australia	Direct effect: + Indirect effect: +
	New Zealand	Direct effect: + Indirect effect: +

5.11. Governance impact

Australia and New Zealand have well-developed anti-corruption and anti-fraud governance structures comparable with those of the EU. Australia and New Zealand are consistently ranked by various organisations among the least corrupt countries. The EU-Australia Framework Agreement and the EU-New Zealand Partnership Agreement on Relations and Cooperation already include provisions on good governance, cooperation on anti-corruption and anti-fraud.

Comprehensive FTAs under options C1 and C2 would include transparency rules to ensure good involvement and consultation with stakeholders and the publication of rules and measures impacting international trade and investment. Enhanced rules for public

[43] "Essential goods or services" includes as a minimum: water; essential foodstuffs; clothing; essential primary healthcare; basic shelter and housing; and the most basic forms of education.

procurement under both options would prescribe transparency, fairness, legal predictability and judicial review and would thus have a positive impact.

In line with the longstanding EU policy on trade agreements, a dedicated set of provisions under a specific trade and sustainable development chapter would ensure promotion of environmental and labour standards. Anti-fraud provisions are included in comprehensive FTAs negotiated by the EU and would also be included in FTAs with Australia and New Zealand.

In line with the "Trade for All" Communication, the inclusion of dedicated anti-corruption provisions in the future agreements would be considered in order to increase cooperation and participation of government and civil society in the fight against corruption.

5.12. Administrative impact

In the context of the potential FTAs with Australia and New Zealand, administrative impact means the costs incurred by economic operators and public authorities in meeting legal obligations stemming from the new framework for trade and investment relations with the two countries. These could include obligations to (i) provide information on their action or production, either to public authorities or to private parties, (ii) register and enforce certain obligations and rights, (iii) carry out cooperation activities, etc.

The administrative impact of the options C1 and C2 can be assumed to be of similar magnitude. However, the impact under option C2 would be greater because the larger number of changes to NTBs would require more intensive cooperation between regulatory bodies.

The details of implementation and associated administrative costs would depend on the negotiated provisions. In general, the provisions and therefore the associated administrative costs are expected to be in line with other comparable agreements. This may require setting up additional institutional bodies to deal with EU-Australia and EU-New Zealand trade and investment relations. However, it would not be necessary to set up completely new types of administrative action. The reduction of trade barriers and cooperation in the area of good regulatory practice can reduce administrative costs and create mutual benefits.

5.13. Assessment of administrative capacity of Australian and New Zealand customs to implement the agreement (notably on application of rules of origin)

Australia's and New Zealand's customs rules include provisions on non-preferential and preferential rules of origin, while preferential rules of origin are also set out in FTAs to which the two countries are party. Australia[44] (since 1966) and New Zealand (since 1972) have granted an autonomous, non-reciprocal preferential arrangement, the general system of preferences (GSP), to developing countries. This arrangement involves administering preferential rules of origin requirements.

Due to their respective extensive networks of FTAs and GSP schemes, both Australia and New Zealand have the expertise and infrastructure to deal with the rules of origin mechanism. Both countries are familiar with different methods of verifications and administrative assistance that were included in their different FTAs. The EU and New Zealand have also concluded negotiations for a bilateral Customs Cooperation and Mutual Administrative Assistance Agreement, which is expected to be signed in 2017.

[44] Australian System of Tariff Preferences (ASTP)

Therefore, it can be concluded that Australia and New Zealand possess developed administrative capacity to properly and effectively implement the provisions of rules of origin in their future bilateral FTAs with the EU.

5.14. Impact on the budget of the European Union

Options C1 and C2 would have limited effects on the budget of the EU. This is because a large part of the current EU imports from Australia and New Zealand are subject to low or zero tariffs. Based on the projected pattern of EU imports from Australia and New Zealand in the long term and the average tariff rates applied currently, annual foregone revenue from eliminating tariffs under options C1 and C2[45]is estimated as follows.

- Option C1: €146 million for the EU-Australia FTA and €100 million for the EU-New Zealand FTA.
- Option C2: €166 million for the EU-Australia FTA and €208 million for the EU-New Zealand FTA.

In reality, the actual impact on the EU budget would also include indirect impacts in terms of changes in tariffs on imports from third parties, and in VAT-linked and GNI-linked resources. These would likely raise the EU's overall revenues under both options, and so compensate for a part of the above-mentioned foregone revenue.

6. <u>HOW DO THE OPTIONS COMPARE?</u>

This Chapter links both the positive and negative impacts of each policy option described in Chapter 5 directly to the objectives mentioned in Chapter 3. The different policy options were compared using criteria of effectiveness in achieving the objectives, efficiency, and coherence with overarching EU policy objectives. The analysis looks not only at the trade and economic impacts (including on SMEs and specific sectors), but also their impacts on consumers, and the environment, social and human rights, as well as budgetary and administrative impacts.

6.1. Positive and negative effects of the policy options

<u>*Option A: Baseline*</u>

It is reasonable to assume that no further reduction of trade and investment costs can be expected from the current arrangements, beyond resolving some smaller market access barriers and the impact of the expected growth of economic activity unrelated to bilateral trade and investment relations. The baseline option would mean that the growth of bilateral trade and investment flows would likely continue along with the expansion of the relevant economies, but there would be no new drivers for additional growth of bilateral trade and investment volumes, and therefore no significant further gains in overall welfare could be expected in the EU, Australia or New Zealand. It would also mean that a comparatively less favourable environment for European exports and investment in Australia and New Zealand would further deteriorate relative to the competitors from non-EU countries.

[45] The difference between the two options is the modelled impact of keeping the status quo under option C1 for EU imports from Australia and New Zealand of a number of sensitive agricultural sectors.

It is worth noting that the impact could be distributed unevenly across the EU, Australia or New Zealand reflecting regional differences. However the "Rotterdam effect" and complex value chains do not enable to pinpoint the overall regional differences. Extrapolating from specific sectors concentrated in specific regions could be misleading. This aspect is valid for projections of option A as well as options C1 and C2.

Option C1: comprehensive FTAs with conservative liberalisation assumptions

For the EU, this option is estimated to generate a change in real GDP of close to 0.01%[46], (€2.1 billion) in the long term. Economic welfare would increase by €2.6 billion in the long term, while EU goods and services exports to Australia and New Zealand are estimated to grow by in the long term by 16.4% and 14.2% respectively.

For Australia, real GDP is estimated to grow by 0.13% (€2.7 billion), and economic welfare increases by €0.9 billion while Australian exports to the EU would grow by 6.9%in the long term.

For New Zealand, real GDP is estimated to grow by 0.28% (€0.7 billion) and economic welfare increase by €0.4 billion while New Zealand exports to the EU grow by 10.5% in the long term.

Option C2: comprehensive FTAs with increased liberalisation assumption

For the EU, this option is estimated to generate a change in real GDP of close to 0.02%. Given the size of the EU economy, this can be considered as significant (€4.9 billion) in the long term. Under this option economic welfare would increase by €4.8 billion in the long term, while EU exports to Australia and New Zealand are estimated to grow in the long term by 33.3% and 32.4% respectively.

For Australia, real GDP is estimated to grow by 0.20% (€4.2 billion) and economic welfare increase by €1.8 billion, while Australian exports to the EU would grow by 11.1% in the long term.

For New Zealand, real GDP is estimated to grow by 0.52% (€1.3 billion) and economic welfare increase by €0.6 billion, while New Zealand exports to the EU would grow by 22.2% in the long term.

This option would provide an overall much larger economic benefit. However the full liberalisation of the EU's sensitive agricultural sectors would mean a notable negative impact on the ruminant meat sector as measured by sectoral output and job reallocation.

6.2. Summary table of the effects of the different policy options

Criteria	**Options**		
	A	**C1**	**C2**
General objectives	**0**	+	++
Promoting smart, sustainable and inclusive growth through the expansion of trade	0	+	++

[46] The projected increases for options C1 and C2 are compared to the option A projected by the CGE model in the long term, thus these would indicate additional gains in the long term compared to the baseline.

Creating job and labour opportunities and welfare gains	0	+	++
Increasing benefits to consumers (i.e in terms of choice, availability and price)	0	+	++
Improving Europe's competitiveness in global markets	0/-	+	++
Strengthening cooperation on trade-related issues with a like-minded partner.	0/-	+	++
Specific objectives	**0**	**+**	**++**
Reap the benefits of enhanced trade and investment flows between the EU and Australia and between the EU and New Zealand by reducing existing barriers for trade and investment, and	0	+	++
- exploring forward looking regulatory cooperation in select areas as appropriate	0	+	++
- taking into account the EU agricultural sensitivities	0	+	--
Level the playing field with other countries that already have preferential treatment due to their free trade agreements with Australia and New Zealand.	0/-	+	++
Provide a new, up-to-date framework for the EU-Australia and EU-New Zealand economic relationships in the light of the political framework agreements that were recently concluded with both Australia and New Zealand respectively.	0	++	++
Overall effectiveness	**0/-**	**+**	**++**
Efficiency (time and resources spent in relation to estimated effectiveness)	0	+	++
Coherence with overarching EU policy objectives (for example, outlined in the EU 2020 strategy)	-	+	+
Gains from simplification effects	0	+	++

6.3. Identification of a preferred policy option

The two sub-scenarios of option C would be preferable to the baseline scenario (option A) for all criteria.

Overall, option C2 appears the most preferable option based on the summary table in point 6.2 above, apart from one major exception for EU agricultural sensitivities. The assumption for option C2 includes full liberalisation of all agricultural sectors, including sensitive sectors. Such full liberalisation would likely have significant negative impact on these specific sectors. On all other criteria, option C2 (the FTAs with increased liberalisation scenario) would be more beneficial for all criteria than option C1 (the conservative FTAs scenario). This is because, as outlined above, additional economic and other gains can be obtained by reducing NTBs and from increased convergence of regulatory frameworks to facilitate trade and related business operations. Closer trade and investment cooperation facilitates trade and creates more economic growth, and thus leads to more job creation opportunities and a higher increase of welfare gains. Accordingly, option C2 (the FTAs with increased liberalisation scenario) performs better when weighed against the criteria of effectiveness, efficiency and coherence partly due to the planned reduction of NTBs. In turn, it also creates more benefits from simplification effects, which would be particularly beneficial for SMEs.

As a consequence, the preferred option for the EU would be option 2, albeit with some special provision for sensitive agricultural sectors to mitigate the otherwise negative impact expected on specific sectors. In particular, EU sensitivities must be taken into account for the ruminant meat, dairy and sugar sectors (the latter only in the case of Australia). For these sectors the existing trade policy approach of partial liberalisation, for example through TRQs could be used. Partial liberalisation in these sectors on the EU side, however, would result in less forthcoming negotiating positions from Australia and New Zealand and could lead to a less ambitious overall outcome than in the modelled assumption under option C2. However, it is not currently possible to ascertain the precise extent, if any, to which the outcome would diverge. The outcome of the scoping exercises identified Australia's and New Zealand's clear political will to seek a high level of ambition that would correspond to the scenario under option C2, while the Commission maintained that the EU's agricultural sensitivities needed to be taken into account.

This preference is also in line with joint political declarations of the EU leaders – Commission President Juncker and European Council President Tusk - and Australian Prime Minister Turnbull and New Zealand Prime Minister Key, respectively.

On 25 February 2016, the European Parliament adopted a resolution[47] on the opening of FTA negotiations with Australia and New Zealand. Among others, the EP resolution "*considers that the full potential of the Union's bilateral and regional cooperation strategies can only be realised by concluding high-quality FTAs with both Australia and New Zealand in a spirit of reciprocity and mutual benefit*" and "*believes that the negotiation of two separate, modern, ambitious, balanced and comprehensive FTAs with Australia and New Zealand in accordance with the specific features of those economies is a pragmatic way of deepening the bilateral partnerships and further reinforcing the existing, already mature bilateral trade and investment relationships*".

The preference is consistent with recent and ongoing established policies both in the EU and in Australia and New Zealand to negotiate ambitious and comprehensive FTAs, such as those recently concluded between the EU and Canada (CETA). The most recent comprehensive agreements, such as CETA, provide a useful example to demonstrate the scope, and provide further clarity what issues would fall inside and outside of such a proposed ambitious and comprehensive FTA.

7. HOW WOULD ACTUAL IMPACTS BE MONITORED AND EVALUATED?

7.1. Operational objectives

The operational objectives are to:

[47] European Parliament resolution of 25 February 2016 on the opening of FTA negotiations with Australia and New Zealand (2015/2932(RSP)) http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P8-TA-2016-0064&language=EN&ring=B8-2016-0250

- provide reciprocal and effective market opening for goods, services and investment (including through access to government procurement), based on a high level of ambition and taking into account the EU agricultural sensitivities;
- tackling barriers in a comprehensive way, along with effective implementation and enforcement, without leaving room for new barriers to replace old ones, including for small- and medium-sized companies;
- ensure a high level of protection of investment and IPR, including geographical indications both vis-à-vis Australia and New Zealand;
- strengthen dialogue and cooperation on regulatory frameworks (including SPS measures, standards, technical regulations and conformity assessment procedures) and administrative practices to improve regulatory coherence;
- contribute to the shared objective of promoting sustainable development including through trade-related provisions on labour and environment; and
- support and promote EU values and standards such as human rights, labour rights and environmental, health and consumer protection.

7.2. Future monitoring and evaluation

Monitoring and evaluation of the operational objectives will have to use several data collection methods. This is because not all objectives are equally quantifiable and some monitoring may depend on a qualitative evaluation based, for example, on feedback from stakeholders through a survey. Moreover, the monitoring needs will depend on the outcome of the negotiations with Australia and New Zealand respectively. Therefore the needs identified in this impact assessment will need to be updated once the negotiations have been concluded.

Monitoring can be facilitated by short- and medium-term analysis of the measurable **indicators** mentioned in the table below such as changes in the relative value of bilateral exports and imports as well as the change (number, value and share) of public procurement tenders secured by EU companies in Australia and New Zealand.

Concerning the operational objectives, the same is valid for monitoring tariff reductions and changes in trade flows, as these become apparent in tariff schedules and trade statistics. However, a more complex set of indicators is necessary for monitoring reductions in the cost of NTBs. Convergence of standards and changes in regulations and law can be analysed in a qualitative manner by gathering information on the legal and administrative measures, their implementation and any related impact on trade and investment.

To analyse whether transparency has increased, whether more information is available and whether there is a general perception that the cost of doing business has gone down, surveys could be carried out among stakeholders.

Monitoring indicators:

Operational objectives	Indicators	Unit of measurement	Source of data	Target
Provide reciprocal and effective market opening for	Value of bilateral trade in goods and	bn €, % change	Eurostat Australian	Increase the value and share of

goods, services and investment (including through access to government procurement), based on a high level of ambition	services Value of EU's share in total trade of Australia or New Zealand Number of public procurement tenders won by EU bidders, value of bids	% change Number of tenders won, bn €, % change	statistics Statistics New Zealand	bilateral trade Increase in value and number of tenders won by EU bidders in Australia and New Zealand
Tackling barriers in a comprehensive way, along with effective implementation and enforcement, without leaving room for new barriers to replace old ones, including for small- and medium-sized companies	Number of trade barrier cases resolved	Number of trade barriers resolved	DG TRADE (MACFLOW database)	Decrease of number of trade barrier cases
Ensure a high level of protection of investment and IPR, including geographical indications both vis-à-vis Australia and New Zealand	Value of investment Number of registered/protected GIs Exports of GI products	bn €, % change Number of registered/protected GIs volume and change of exports of GI protected products	DG TRADE/DG AGRI Australian and New Zealand government departments	Increase of number of protected GIs, increase of FDI
Strengthen dialogue and cooperation on regulatory frameworks (including SPS measures, standards, technical regulations and conformity assessment procedures) and administrative practices to	Number of policy areas where regulatory coherence has been improved	Number of policy areas	DG TRADE, Australian and New Zealand government departments	Increase of number of policy areas

improve regulatory coherence				
Contribute to the shared objective of promoting sustainable development, including through trade-related provisions on labour and environment Support and promote EU values and standards such as human rights, labour rights and environmental, health and consumer protection	Monitoring of implementation of relevant international conventions Number of meetings promoting these objectives	Number of meetings	Monitoring reports of international organisations DG TRADE, other Commission departments, EEAS Australian and New Zealand government departments	Increased number of areas with satisfactory situation

Please note:

- *All operational objectives are to be measured once a year*
- *The baseline for all operational objectives is 2017*

<u>*Evaluation*</u>

The effects of any agreements concluded with Australia and New Zealand will undergo in-depth evaluation once they have been in force for sufficient time to ensure availability of meaningful data. This is in line with the commitment made in 2015 Communication 'Trade for All — Towards a more responsible trade and investment policy'.

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Annex 1 - Procedural information

The Directorate-General (DG) for Trade is the lead service for this Impact Assessment Report (Agenda planning: 2015/TRADE/40).

An Inter-service Steering Group (ISG) was established on 13 November 2015 inter alia for the purpose of this Impact Assessment. The ISG included all other relevant services of the Commission - Secretariat-General, Legal Service, DG Communication, DG Economic and Financial Affairs, DG Internal Market, Industry, Entrepreneurship and SMEs, DG Competition, DG Employment, Social Affairs and Inclusion, DG Agriculture and Rural Development, DG Energy, DG Mobility and Transport, DG Climate Action, DG Environment, DG Research and Innovation, Joint Research Centre, DG Communications Networks, Content and Technology, DG Maritime Affairs and Fisheries, DG Financial Stability, Financial Services and Capital Markets Union, DG Regional and Urban Policy, DG Taxation and Customs Union, DG Education and Culture, DG Health and Food Safety, DG Migration and Home Affairs, DG Justice and Consumers, Service for Foreign Policy Instruments, DG Trade, DG Neighbourhood and Enlargement Negotiations, DG International Cooperation and Development, DG International Cooperation and Development, DG Humanitarian Aid and Civil Protection (ECHO), Eurostat, DG Informatics, DG Budget - and the European External Action Service (EEAS).

The ISG has met six times: 27 January 2016, 17 June 2016, 28 July 2016, 27 October 2016, 24 January 2017 and 9 February 2017.

The evidence used for the impact assessment included input by stakeholders to the public consultation (see Annex 2); a quantitative econometric modelling simulation (see Annex 4) and external expertise via the study commissioned to feed into the impact assessment (see Annex 5). Furthermore the external study also uses evidence from a broad range of sources, including the published submissions to the stakeholder consultations that the Australian[48] and the New Zealand[49] governments conducted concerning their FTAs with the EU.

In addition, information, evidence and results gained from other related studies and analysis were also considered such as the Commission's study on the cumulative effects of trade agreements on the agricultural sector[50].

The draft Impact Assessment Report was submitted to the Regulatory Scrutiny Board (RSB) on 14 February 2017 and was examined during the RSB meeting of 15 March 2017.

Brief overview on how the Board's recommendations have led to changes compared to the earlier draft:

Recommendations of the Regulatory Scrutiny Board	**Modifications to the Impact Assessment Report**
(1) The report does not adequately describe	The report was amended to clarify the

[48] http://dfat.gov.au/trade/agreements/aeufta/submissions/Pages/submissions.aspx

[49] https://www.mfat.govt.nz/en/trade/free-trade-agreements/agreements-under-negotiation/eu-fta/call-for-public-submissions-on-the-proposed-eu-fta/

[50] http://ec.europa.eu/agriculture/trade-analysis/impact-assessment_en

the broader policy context and the multilateral objective of the initiative: whether it aims to address specific shortcomings of the existing bilateral trade relationships or whether it is part of a broader strategic agenda to modernise EU FTAs with partner countries.	twofold objectives of the initiative to address (a) specific concerns related to the existing EU trade relations with Australia and New Zealand (b) in line with the general EU trade policy. (IAR sections 2, 3, 4 and 5.) The report was amended to better describe Australia and New Zealand specific problems concerning non-tariff barriers, investment, services and public procurement. The report was amended to explain the estimation of untapped trade potential. (IAR section 5.) The report was amended to explain the rationale for assessing jointly instead of separately the impacts of FTAs with Australia and New Zealand. (IAR section 1.) The report was amended to clarify the relationship between this Impact Assessment and the subsequent Sustainability Impact Assessments to be conducted once the negotiations have started. (IAR introduction.)
(2) The report insufficiently qualifies the results of the modelling exercise and other supporting evidence.	It was made more explicit that the report relies on stakeholders' input, economic modelling, external study and reflects the Commission's expert judgment. The report was amended to better explain the baseline scenario and the projections of the economic modelling. (IAR sections 4 and 5)
(3) The level of ambition in terms of social, labour and environmental standards is unclear.	The report was amended to clarify the level of ambition and scope of the proposed agreements relating to sustainable development. Possible flanking policies could be identified at a later stage as part of the Sustainability Impact Assessment process. (IAR introduction and sections 4 and 5.)
(4) The report does not sufficiently elaborate on some elements of the options and their related impacts.	The report was amended to clarify the reasons for discarding sectoral agreements (option B2); the actual differences between the scenarios options C1 and C2; and elaborated further on the feasibility of an asymmetric tariff and NTB reductions. The report was amended to provide further clarifications on the challenges to identify likely geographical distribution of impacts resulting from the proposed FTAs. (IAR

	sections 4 and 6.)
(5) The reporting of the consultation results lacks specificity.	The summary of the stakeholder consultation was amended to more precisely reflect the categories of stakeholders expressing different views. (Annex 2.) Input from the open public consultation was supplemented with the Commissions' information from the regular dialogues that the Commission maintains with stakeholders and its trading partners. (Across all sections of the IAR, in particular on problem definition and drivers, and assessment of impact.)

Annex 2 - Stakeholder consultations

The information and views in this Annex do not necessarily reflect the official position of the European Commission. It summarises the input by the stakeholders who participated in the public consultation on the future of economic and trade relations between the EU and Australia and New Zealand, respectively.

The **Inception Impact Assessment**[51] (IIA) **was published in February 2016 and open for comments**[52]. The Commission received two comments on the IIA, one from an EU based company describing a particular barrier regarding organic fertiliser certification and organic farming in Australia and New Zealand, and one from an Australian citizen noting that in his view Australia's human rights situation is not on the level of the EU Charter of Fundamental Rights.

1. Background on the online public consultation

The online public consultation[53] was designed to gather detailed views relating to the future trade and economic relationship between the EU and Australia and New Zealand, respectively to feed into the Impact Assessment Report on the potential Free Trade Agreements (FTAs) between the EU and Australia and New Zealand, respectively.

Between 11 March and 3 June 2016, the Commission carried out an **online public consultation**, which was launched on the DG Trade website and posted on 'EU Survey'[54] (the Commission's on-line tool for conducting such public consultations). Stakeholders - interested parties within the EU and in third countries - were invited to answer 51 questions. The Commission received 108 answers from a wide range of respondents. Stakeholders' responses were published (unless when respondents indicated otherwise by the respondent) via EU Survey.[55]

2. Overview of respondents of the online public consultation

Altogether 108 responses were received:

- 89 responses via the online EU Survey tool, and
- 19 responses in the form of a letter or pdf document describing the respondent's views.

Responses were received from a wide range of respondents representing industry associations, private companies and citizens in the EU as well as Australia and New Zealand who feel they could be affected by FTAs with those countries.

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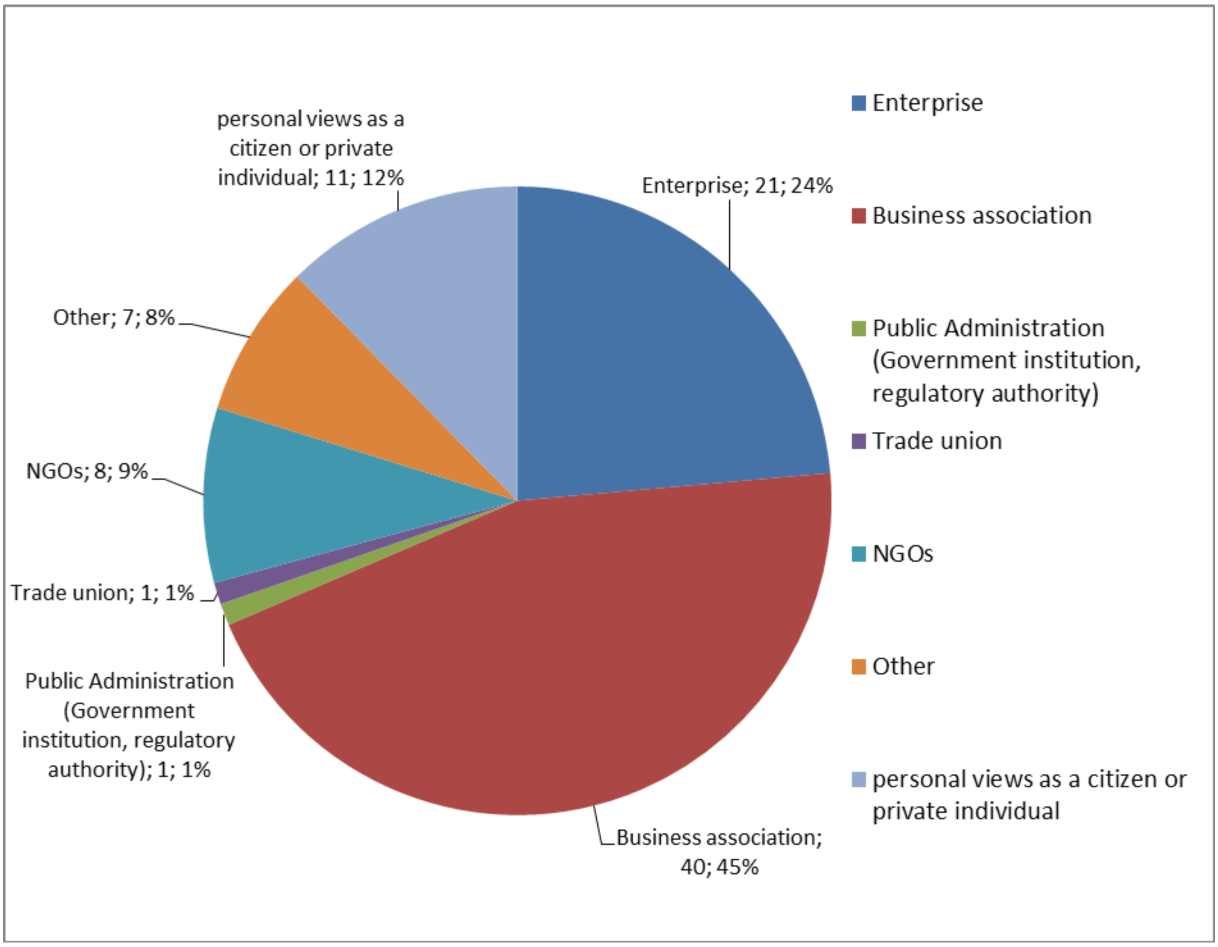
[51] http://ec.europa.eu/smart-regulation/roadmaps/docs/2015_trade_040_aus_nz_trade_agreement_en.pdf
[52] http://ec.europa.eu/smart-regulation/roadmaps/index_en.htm
[53] Online public consultation on the future of EU-Australia and EU-New Zealand trade and economic relations http://trade.ec.europa.eu/consultations/index.cfm?consul_id=195
[54] https://ec.europa.eu/eusurvey/runner/AUZ_NZ
[55] http://trade.ec.europa.eu/consultations/index.cfm?consul_id=195

A significant part of the submissions came from business associations and enterprises representing the **agricultural sector** (meat, dairy, sugar, wine and spirits, fruit and vegetables). Nearly half of the submissions came from the EU-wide **business associations**: farming, food products, beverages, food and beverages service activities, and textiles and clothing. In general, one can observe a broad coverage of all the industrial sectors as submissions also include sectors covering chemicals, metals, minerals, electrical equipment, manufacturing, retail trade.

In terms of size of enterprises there was a fairly even distribution of replies from SMEs (10) and large companies (11).

There were a relatively smaller number of submissions by civil society (NGOs, 8, trade union 1) and individual citizens (11).

Figure 1: Breakdown of respondents by category[56]



In terms of **geographical distribution**, most of the respondents are based in one of the 28 EU Member States (75%) including from a respondent based in one of the EU's outermost regions. New Zealand-based submissions (13.5%) outnumbered Australia-based submissions (3%). Replies also came from stakeholders established outside of the EU: Switzerland, Chile and the US (8%).

[56] Figure resulting from the analysis of the on-line submissions on the EU Survey website.

Almost half of the respondents declared being involved in trade between the EU and Australia. However, only 18% of them appear to have investments either in the EU (for Australia-based respondents) or in Australia (for EU-based respondents). As regards the EU and New Zealand, 48% of respondents are involved in trade between the two countries and half this ratio has investments in either the EU or New Zealand.

3. Limitations of the consultation

Firstly, as in any such online public consultation, the replies submitted by the respondents **cannot be regarded as a representative sample of all stakeholders**. This is intrinsic to this method of consultation (including that the number of questions and the length of the questionnaire has to be balanced with the aim of collecting as much and comprehensive information as possible, in a period of three months). Therefore numerical weights of different submissions do not necessarily correspond to the representativeness of that opinion among the stakeholders. For example among the business sector respondents a single company's unique issue might not necessarily be of systemic importance, while a consolidated submission by a large business organisation could provide insight of general issues that have a broadr, cross-cutting impact. To avoid possibly misleading interpretations this summary does not attempt to numerically weigh the submissions.

Secondly, more than 2/3 of the respondents were from the business sector (either enterprises or business associations), while the non-profit sector (non-governmental organisations, trade unions, private citizens, etc.) provided relatively few responses. Responses from the **business sector focused on market access** (both for more liberalisation or pointing out sectors that should be protected from further liberalisation) and trade rules, while the responses from the **non-profit sector pointed out the need to preserve high standards** for consumers, social and environmental aspects, public services, educations, social security and animal welfare, among others as well as the importance of **inclusive, transparent negotiation process**.

Thirdly, it should be recalled that this Impact Assessment Report is aimed at informing the Commission's recommendation to open negotiations and negotiate with Australia and New Zealand respectively, **without knowing the eventual outcome of the negotiations**. The potential economic, social, human rights and environmental impacts of the eventual agreements will be examined by means of independent Sustainability Impact Assessments (SIAs), which will be carried out by external consultants simultaneously with the negotiations.

The SIAs will rely on a wide-ranging, continuous consultation of stakeholders – notably civil society. The SIAs' findings will feed into the negotiating process. The SIAs will aim to: (a) assess the likely effects of the agreement on sustainable development and human rights in the EU, Australia and New Zealand and other relevant countries, especially Least Developed Countries (LDCs); and (b) to make recommendations and propose flanking measures to maximise the benefits of the agreement and prevent or minimise potential negative impacts.

4. Summary of stakeholders' contributions by issue

4.1. Current state of play of bilateral trade and economic relations

More than half of the respondents consider that the current state of the EU's bilateral economic relations with both countries is not satisfactory. Around 20% of them think otherwise.

A significant part of the respondents, who were not directly affected, was not aware of the existing sectoral agreements between the EU and Australia and New Zealand, respectively, i.e. the EU-Australia Mutual Recognition Agreement, the EU-Australia Wine Agreement, the EU-New Zealand Mutual Recognition Agreement and the EU-New Zealand Veterinary Agreement. Those of the respondents who were aware of these agreements often note that further improvements should be made.

According to certain respondents, the **EU-Australia Mutual Recognition Agreement** (MRA) has contributed positively to the EU-Australia trade relation (bilateral harmonisation of standards and technical regulations) and has led to specific results such as conformity of assessment for automotive products and low voltage electrical equipment at the point of export. Further improvements to be considered would be the assessment of implementation and consideration of potential review, upgrade and expansion of the agreement to other sectors including agriculture, standards for the digital environment, more cooperation on General Manufacturing Practice (GMP) inspections and a framework for MRA of qualifications and diplomas in the professional services sectors.

Some stakeholders note the positive impact of the **EU-Australia Wine Agreement** that has led to an increase of trade in wine. A respondent underlines that this agreement was supposed to facilitate dealing with differences with regard to wine GIs but that it has not worked in all cases for European GIs.

A number of respondents noted that the **EU-New Zealand Veterinary Agreement** has helped to reduce many potential trade irritants in the trade of animals and animal products between the EU and New Zealand. The agreement has led to specific results such as the rapidity of consignment clearance at port of entry and resultant cost reduction from fewer inspections, the ability to resolve minor issues in paperwork through improved communication and cooperation, increased EU pork sales to New Zealand, increased import of lamb from New Zealand, less complicated veterinary certification and the recognition of equivalence of sanitary measures between the two sides. The 2015 amendments of the agreement have helped to further streamline requirements and facilitate trade into the EU including expediting listings of food establishments.

Finally, the **EU-New Zealand Mutual Recognition Agreement** has, according to some stakeholders, led to certain improvements and represents a useful basis for mutual recognition of testing and conformity assessment, providing cost-savings for exporters while preserving important policy objectives.

In general, one can observe a general trend in the contributions from all types of stakeholders based in the EU as well as in the partner countries showing support for further improving the EU's sectoral bilateral economic and trade arrangements with both Australia and New Zealand.

4.2. Overview of priority sectors

Respondents were asked to identify priorities in the EU-Australia and EU-New Zealand trade and economic relationship. Many respondents, mainly the EU-based producers' associations insist on the necessity to take into account the **sensitivities of the agriculture sector**.

The EU based business respondents indicate the following **general priorities**:

- the reduction of tariff barriers (for all the sectors, goods and services) and non-tariff barriers (SPS and TBT);
- clear, simple to use, strict and efficient rules of origin;
- the reduction of cross-border transaction fees and shipping costs, the simplification of import rules within the EU and in New Zealand/Australia in terms of export documents;
- the promotion of best practices such as more transparency, those related to animal welfare or to farm management;
- the facilitation of Foreign Direct Investments (FDI);
- a high level of investment protection with neutral and efficient investor-to-state dispute settlement;
- strong protection and enforcement of Intellectual Property Rights (IPR) including geographical indications (GIs);
- more regulatory cooperation (e.g. for pharmaceuticals);
- the harmonisation of norms and standards; and
- a strong chapter on sustainability in the production chains and business practices and of an appropriate environment chapter with provisions to best ensure proper and effective wildlife protection, biodiversity conservation and reductions in logging. This latter point was also echoed by respondents from the not-for-profit sector in the EU and in partner countries as well.

Priority sectors were then detailed according to each sector's interests.

A significant share of business sectors respondents based in the EU and in the partner countries indicates that the **agri-food sector** and market access for food and agricultural products should be treated as a priority in negotiations. Stakeholders mention barriers due to insufficient protection and enforcement of GIs, agricultural tariffs and quarantine requirements, non-tariff barriers, SPS concerns and regulatory divergences. The development of agriculture industry is also mentioned as a priority for the sector as further cooperation could yield further trade through technology exchange. Stakeholders cite products requiring specific attention: meat (beef, sheepmeat), dairy products, other animal products (e.g. wool), fruits and vegetables (e.g. kiwifruit, apple, and avocado), processed fruits and vegetables (e.g. canned peaches, tomatoes), olive oil, and sugar. As regards **alcoholic beverages** respondents highlight their priorities in the case of Australia: the elimination of import tariff and equalisation of excise tax rates for whisky and other spirits; and in the case of New Zealand: the early adoption of the Geographical Indications Act. Moreover, stakeholders also mention the protection of producers' traceability information and the use of logistic hubs.

Business respondents based in the EU underline their interest in the **automotive industry** and that trade agreements that Australia has concluded result in a less favourable conditions for EU products exported to Australia and New Zealand. Business respondents from the EU also note that luxury car tax applied in Australia functions as a barrier. Stakeholders from the **pharmaceutical/chemicals sector** highlight the regulatory aspects and protection of IPR as priorities. Similarly other EU business respondents also underline market access for **chemicals,** (renewable) **raw materials and energy. Other** business respondents from their respective **industrial sectors** noted as their priorities by respondents: machine building, electronics, infrastructure, railway, and mining equipment. Respondents also note local content requirement**, standards, testing and certification issues.** Business respondents in the EU as well as from the partner countries highlight **public procurement** as a priority area.

Business respondents note their priorities as regards the **services sector**: service liberalisation, professions, review of how recognition of professional qualifications has worked bilaterally between New Zealand and Australia, construction services, ICT, engineering and architectural services, healthcare, water management and aviation. Business respondents also note the need of facilitation of two-way **investment**.

Finally, respondents were asked to suggest **how the EU should pursue these priorities**. On one hand, several respondents suggest to **pursue an ambitious trade** strategy that will enable exporters and investors, particularly SMEs to benefit from future FTAs once concluded including strengthening regulatory cooperation with both countries. On the other hand, some of the EU business respondents suggest the **exclusion of specific products** from the future FTAs (e.g. bovine meat, sugar and high sugar-containing products) while not-for profit sector respondents suggest not covering certain **issues linked with societal choices** such as education system and social security. Some business respondents note that they consider the **EU should concentrate on other priorities**.

4.3. Trade in Goods

A number of business respondents in the EU and partner countries consider that import tariffs (or similar measures) hinder trade between the EU and Australia and New Zealand, respectively.

The main sectors in which/products for which **EU** business respondents experience problems are agriculture and food products (beef meat, pig meat, dairy, processed food products, fresh and dried fruit, nuts, processed fruit & vegetables, confectionary, processed fishery products, alcoholic drinks), semi-finished plastics, textile and clothing, cars and car parts, machine building, electronics, chemicals, and (renewable) raw materials.

While according to some respondents both Australia and New Zealand encounter problems when exporting dairy and meat to the EU (beef, lamb, sheep, pork and poultry). **Australian** business respondents underline the limited market access in the EU for their specific agricultural products (sugar, cereals, dairy, and fruit and vegetables). **New Zealand** business respondents also note problems when exporting to the EU (for example, in: horticultural products, sparkling wine, Bluefin tuna, tomatoes, honey, kiwifruits, berries, apricots and onions).

Some business respondents in the EU and in other countries note potential problems with current practices in **customs procedures and border enforcement;** however, respondents did not provide details on the type of problem encountered.

A number of business and also non-business respondents in the EU and in the partner countries consider that differences between EU and Australian and New Zealand **regulations or standards** hinder trade activities between the three countries, such as divergent standards, technical regulations, conformity assessment procedures and sanitary and phytosanitary (SPS) measures. Stakeholders also mention the different interpretations of EU regulations and standards among EU Member States.

4.4. Trade in Services

Some business respondents consider that there are barriers to trade in services between the EU and Australia and New Zealand. Some business respondents suggest that potential FTAs with both countries should deliver more commitments on cross-border trade in services (incl. ensuring cross-border data flow and ban possible local server requirements) or that it should capture the improvement of GATS offers provided by Australia and New Zealand in their other FTAs such as the Trans-Pacific Partnership (TPP) as negotiated.

Some business respondents identify specific barriers impacting on them. For example, because of the rules which are due to come into force on taxation of e-services, one of the respondents had to decide not to supply such services to consumers in Australia and New Zealand.

According to Australian business respondents, improvements should be made on the EU side regarding the lack of market mobility for Australian professionals within the EU (i.e. foreign lawyers and insurance providers). Market access to the EU for other services sectors – financial services, air transport services, and, road transport services – are also noted as of concern. The respondents point out that the aim should be to ensure that third country service suppliers can benefit from reforms of the EU's internal market for services.

A business stakeholder note that the EU should call for sub-federal regulatory reform of the service economy and expect a greater integrationist commitment from the Australian States and Territories. Another remark is that the EU should be concerned with the registration difficulties for foreign architects in Australia and with Australia's reluctance to liberalise trade in postal, courier and telecommunications services, including broadband.

Stakeholders from the non-profit sector underline the importance of preserving public services, the governments' right to regulate and propose exclusion of certain sectors such as certain type of educational services from the scope of the future agreements.

4.5. Investment

A few EU business respondents indicate concrete barriers to direct investment flows between the EU and Australia/New Zealand and equally, some of the respondents consider that there are problems regarding investment protection, discriminatory treatment of investors/investment or that investors from other jurisdictions receive preferential treatment in the EU or Australia or New Zealand.

Some EU business respondents identify specific barriers to EU investments:

In Australia:

- Equity cap in telecom and national airlines;
- FDI screening - compulsory notification and possible authorisation requirements; and
- Some existing sectoral restrictions should be lifted: postal & express delivery; distribution services (car sector: e.g.); professional services (legal and accounting); financial services, gambling and betting, aviation, in maritime transport, etc.

In New Zealand:

- Under New Zealand's thin capitalisation rules there are limits on the "deductibility" of interest in relation to the debt of a New Zealand taxpayer who is controlled by a non-resident;
- Equity cap in telecom, and national airlines carrier; and

- Lack of commitments in distribution services (franchise); restrictions on agriculture related services, as well as R&D services.

Stakeholders put forward different opinions on investment dispute resolution, a non-profit respondent opposed, while a number of EU business sector respondents advocated the inclusion of such a mechanism.

4.6. Intellectual property rights

Some EU business respondents note that there are problems of protection and enforcement of IPR in Australia and New Zealand; a few business respondents from the partner countries consider that there are problems in the EU.

EU business respondents advocate for strong IPR provisions and highlight a number of specific issues:

- Protection of EU geographical indications (GIs) should be a *sine qua non* of FTAs with Australia and New Zealand (in particular for foodstuffs and agricultural products), and call for the implementation of the GI Act in New Zealand and for an update and an effective application of the EU-Australia wine agreement with additional new GIs to be included.
- Shortcomings in terms of earlier resolution of patent disputes, including injunctions and appropriate compensation for damages.
- Patent term extension (PTE) for pharmaceuticals, improved mechanism of preventing infringing generic medicine entry, and not to raise the threshold for inventive step assessment.
- Problems regarding registration of new plant variety (kiwifruit propagating material) in New Zealand.

A number of New Zealand and Australian business respondents note that the EU's system for protecting GIs potentially reduces their ability to produce and market certain products (e.g. cheese types using names considered to be generic in New Zealand and Australia).

4.7. Public procurement

Some business respondents from the EU and the partner countries consider that there are difficulties for them to access public procurement in Australia, in New Zealand and in the EU.

Some EU business respondents call for Australia to join the Government Procurement Agreement (GPA) of the WTO and also for more commitments from New Zealand. Business respondents recommend that future agreements between the EU and Australia and New Zealand, respectively should **go further than their respective GPA market openings** (offer) and include **all levels of government** and local entities. Certain EU business respondents underline barriers they face in both Australia and New Zealand, such as the homologation process prior to procurement, the expensive procedure and the fact that few evaluation criteria are objective.

According to EU business respondents, as regards Australia, the EU should be concerned with the **protectionist** (**'Buy Local'** or 'Australian Made') motivations behind a major part of its government procurement policy, particularly at the sub-national level, as well as the

Australian Government's support for Australian private bidders in their attempts to win tenders through the Australian Industry Participation Plan.

According to some New Zealand based business respondents, there are also a number of examples of public procurement **policies in the EU that discriminate** against New Zealand products.

4.8. Competition environment

Some respondents across different categories of stakeholders consider that the regulatory framework ensures fair competition in Australia and New Zealand. A few respondents take the opposite stance. Certain EU business respondents underline that problems encountered with regard to **fair competition,** and also note their concerns related to **anti-dumping measures** in New Zealand and in Australia.

A number of business sector respondents identify issues seen as problems relating to competition environment and anti-dumping measures impacting on them:

EU business stakeholders note that in Australia and New Zealand:

- Renewal of several anti-dumping duties for which there is no evidence that import would cause, or threat to cause, a serious impairment of the domestic industry (e.g. canned peaches).
- Request for **safeguard measures** on EU products for which there is a lack of sound justification (e.g. tomatoes). Issues regarding postal services
- **State Trading Enterprises** in the agriculture and fisheries sector as an issue.
- **Export subsidies in the textiles and leather sector**, and export facilitation in the automotive sector.

Australia and New Zealand business stakeholders note that in the EU:

- **Complex competition policy**, difficulty to navigate and ensure compliance with, particularly for smaller firms or non-EU firms.
- Existence of competition distortion due to European additional costs concerning production model, environment-friendly production rules, low labour costs, different standards concerning breeding, transport and slaughter.
- Some aspects of EU policy – such as the system for **protecting Geographical Indications** – may raise concern of fair competition.
- One stakeholder suggests that anything that can streamline **investment approvals** or give New Zealand and Australian firms' greater certainty about their obligations under EU competition law as early as possible would be welcomed.

A non-profit sector respondent notes that foreign companies should not be offered special rights or advantages over the domestic ones.

4.9. SMEs

Stakeholders were asked to identify which sectors pose particular challenges to SMEs in the EU, in Australia and in New Zealand. EU business sector respondents note **tariff barriers, rules of origin, customs procedures, and technical barriers to trade**. Other sectors such as

services, investment, IPR, government procurement, dispute settlement, competition policy, trade unions, SPS and the divergence of standards of production were mentioned by a few respondents.

According to business sector respondents, the future FTAs with Australia and New Zealand would **benefit SMEs** by inducing more output and more employment due to higher exports, cheaper production costs through cheaper imports, facilitated trade with other countries due to converging standards, technology transfer, possibility to move from lower to higher value added products/services, lower costs for import requirements, increased business cooperation between SMEs.

Business sector respondents also mentioned specific sectors expected benefits from the future FTAs such as the EU cane refining sector and more options regarding sourcing cuts of meat where there is a deficit supply in the EU.

4.10. Consumers

Respondents were asked to give their opinion on the potential impact on consumers from the reduction of barriers to trade and investment between the EU and Australia and New Zealand. Many respondents believe that the impact would be positive for consumers. Other respondents did not answer the question, or had no opinion.

Respondents across different segments of the stakeholders consider that the impact for consumers of liberalisation of trade and investment between the three countries will be positive as regards specific outcomes such as:

- Prices of goods and services;
- Choice of goods or services;
- Quality of goods and services;
- Safety of goods and services;
- Information available to consumers; and
- Protection and enforcement of consumer rights.

Some EU based non-profit sector respondents note concerns such as regarding education, which according to a respondent, should not be part of the future FTAs as it would have negative effects on quality, price, access and equity. Other non-profit sector respondents in the EU note the importance of maintaining the existing high standards.

4.11. Trade and sustainable development

Respondents were asked to give their opinion on the **social impact** from the reduction of barriers to trade and investment between the EU and Australia and New Zealand. The non-profit sector respondents underlined in general the need to maintain the existing EU social, environmental and human rights standards.

A significant part of the respondents believe that there will be an impact on consumers in the EU and Australia and New Zealand. According to the different types of respondents, areas related to social issues that could be **positively affected** by the reduction of barriers to trade and investment **in the EU** are predominantly: employment in terms of number of jobs and employment in terms of quality of jobs. Respondents also consider that the household income, wages and the affordability of goods and services will be impacted in a positive manner. More specifically, non-business respondents underlined the need to pay attention to the free and equal access to education, to ensure the participation of NGOs in the negotiations process and to have a solid chapter on social and environmental sustainability.

As regards social issues, labour rights and human rights **in Australia**, respondents in the EU and Australia consider that employment – number of jobs, quality of jobs, wages and the affordability of essential goods and services will be the most **positively affected** areas. Some respondents stressed that ensuring a level playing field through **conditional liberalisation could mitigate the negative impact** of the barriers removal on social and labour rights.

With regard to **New Zealand**, areas which will be **positively affected** according to respondents from the EU and New Zealand are: number of jobs, quality of jobs, wages, household income and the affordability of essential goods and services.

Then, a significant part of the respondents considers that the reduction of barriers to EU-Australia/EU-New Zealand trade and investment will have an **environmental impact** in the EU, in Australia and in New Zealand. However, respondents have **mixed assessment when defining which areas** will be the most affected ones **either in a positive or negative manner**. For example, some respondents consider that future FTAs will have a positive effect on climate change, including greenhouse gas emissions, but almost the same number believe the effect will be negative.

Some respondents underlined that if there is a negative impact, it could be mitigated by:

- Recognising laws arising from international treaties as regards environment;
- Excluding environment-friendly sectors;
- For the EU, protecting the model of production, working for its maintenance, as it engenders precious ecological services (landscapes, hedges, biodiversity); and
- Encouraging equivalence and a level playing field through conditional liberalisation.

A non-profit sector respondent considers that more trade generated by FTAs would lead to more pollution.

Finally, many respondents consider that the EU and Australia/New Zealand should co-operate further in order to **promote adherence to internationally agreed principles, rights, and agreements on labour and the environment**. Respondents consider that it could be achieved through cooperation on reaching the Sustainable Development Goals and within international organisations by promoting membership in and compliance with all relevant environment-focused conventions and international agreements by implementing all agreed multilateral and other standards (such as animal welfare).

4.12. Other issues

Respondents were asked to define whether they consider that **issues related to energy and raw materials** (for example, measures aimed at increasing transparency, ensuring non-discrimination and limiting anti-competitive practices, addressing renewable energy related issues) should be addressed in the bilateral EU-Australia and EU-New Zealand economic cooperation frameworks. A number of EU business respondents consider this an important issue to be addressed in EU-Australia and EU-New Zealand relations. In this regard, respondents suggest a number of policy areas and the type of possible actions:

- The EU should promote a larger uptake of **renewables** (PV, wind and bioenergy) in Australia and New Zealand.
- Recommend inclusion of strong **provisions on access to energy and renewable raw materials** in the future FTAs.
- Construction of a regulatory system scrutinising **supply chains for conflict minerals.** (Self-certification of responsible importers of tin, tantalum, tungsten and gold originating from conflict affected and high-risk areas, and a greater level of transparency throughout the minerals supply chain. The EU should continue taking an active role in raw materials diplomacy and engage - together with trading partners - with regions where many smelters and refiners are located.)

A significant part of respondents considers that trade and investment agreements between the EU and Australia and New Zealand, respectively should include **specific provisions on improving future regulatory coherence** (for example, measures providing for cross-cutting disciplines in order to develop and implement more efficient and more compatible regulations). As policy areas and type of possible actions regarding regulatory coherence, respondents suggested:

- Harmonisation of technical standards, regulatory cooperation (agriculture, chemicals, biosecurity).
- Minimum standards of treatment for foreign investors and investor state dispute settlement in cases of arbitrary treatment and/or expropriation.
- Product approval and accreditation processes should be standardised and the same in EU and Australia.
- Considering a sector specific annex for spirits in future FTAs (to facilitate trade and improve cooperation in the development and transparency of regulations affecting such trade).
- Alignment of beer and cider standards (e.g. permissible ingredients) and labelling requirements.
- Considering an Information and Communication Technology (ICT) Regulatory Chapter.
- Making sure there is reciprocity, in terms of trade facilitation, IPR and competition policy.
- The successes of the Veterinary Agreement in achieving ongoing regulatory coherence around animal products sanitary issues can and should be extended into other areas.

Other issues raised by respondents:

- Additional **trade barriers** in Australia: rigid technical requirements in the chemical sector (note registration, documentation, customs procedures), quantitative restrictions in the vehicle sector.
- In relation to **services**, trade barriers are: distance, fragmentation of Australian ‘common’ market, lack of mobility of high-skilled professionals, also for short term assignments.
- **Sector specific considerations** related to rules of origin: sugar, sugar containing products, (prevent the export of non-originating sugar) motor vehicles and car parts

(commercially relevant rules) textile and clothing (follow the principle of a "double transformation").

- **Animal welfare** issues in particular were noted by a number of non-profit sector respondents.

In general, many respondents consider that future FTAs between the EU and Australia and New Zealand, respectively would benefit the stakeholders in the EU and in Australia and New Zealand and would present new opportunities for exporters and investors in these markets.

Annex 3 - Who is affected by the initiative and how?

Based on the proposed policy choice in question i.e. based on Option C2, which will nonetheless take into account the EU agricultural sensitivities, this Annex aims at:

- setting out the practical implications (such as key obligations or timescale) of the initiative for a representative enterprise and/or public administration (or particular groups or individuals if directly regulated),

- describing the actions that the enterprise or public authority might need to take in order to comply with the obligations under the proposed intervention and indicate wherever possible the likely costs to be incurred in meeting those obligations.

In the specific case of an Impact Assessment Report concerning negotiating authorisation/ directives, it is not possible at this stage to have a clear picture of the final provisions to be concluded at the end of the negotiating process.

Moreover, free trade agreements are not limited to specific sectors, or in terms of their application in time. They potentially cover all economic activities as from entry into force (and theoretically indefinitely). In this respect, the Communication 'Trade for All - Towards an More Responsible Trade and Investment Policy' highlights that EU trade policy is "for all": consumers, employees, small- and medium-sized enterprises, and the poorest in developing countries. Finally, trade operators can always use the non-preferential treatment.

In this context, at this very early stage, only a general and simplified attempt can be made to summarise the likely implications for the various groups of stakeholders (in each case both European, Australian and New Zealanders ones grouped together), as follows:

Exporting producers of industrial goods: will benefit from new trade opportunities and cost savings due to liberalisation and reduction of NTBs. Liberalisation of trade in services will also support further economic integration in manufacturing.

Exporting producers of agricultural products: as for industrial goods, the producers will benefit from new trade opportunities (except in the case of the EU for the sensitive agricultural sectors) and cost savings due to liberalisation. They will also have the benefit from more stable rules on sanitary and phytosanitary measures.

Small- and medium sized enterprises will benefit from new trade opportunities and cost savings due to liberalisation, as well as from provisions covering regulatory cooperation and other rules. See the related part of the Impact Assessment (chapter 5.5).

Traders will benefit from lower trade costs due to reduction or elimination of tariff and non-tariff trade barriers, and from increased trade opportunities due to the various ways of liberalisation under the agreement.

Service providers will also benefit from trade liberalisation, enabling new economic opportunities and cost savings.

Workers of the above mentioned businesses will also benefit from the new economic opportunities.
Consumers: see the related part of the Impact Assessment (chapter 5.9).

Authorities: see the related parts of the Impact Assessment (chapter 5.11).

Customs authorities: as there is an established practice for implementing FTAs in the EU´s, Australian as well as New Zealand customs authorities, the impact of the new agreements will be marginal in this context.

Third countries, notably LDCs: see the related part of the Impact Assessment (chapter 5.6).

Annex 4 - Analytical models used in preparing the Impact Assessment

AGGREGATION

The geographical and sectoral disaggregation chosen for the CGE simulations is shown in the two tables below. It is important to note that the model disaggregation is limited by the data source that is the elements and level of disaggregation of the model database[57].

Sector	Sector name	GTAP sectors
1	Cereals	2, 3,
2	Rice	1, 23
3	Vegetables, Fruits, nuts	4
4	Oil seeds, vegetable oils & fats	5, 21
5	Sugar	6, 24
6	Plant & animal fibres and other crops	7. 8, 12,
7	Ruminant meats	9, 19
8	Other animal products	10
9	Other meat	20
10	Dairy products	11, 22
11	Wood and paper products	13, 30. 31
12	Coal	15
13	Oil	16
14	Gas	17, 44
15	Minerals	18
16	Fishing	14
17	Other food products	25
18	Beverages and tobacco	26
19	Textile, apparel, leather	27, 28, 29
20	Chemicals, rubber, plastic	33
21	Petroleum, coal products	32
22	Metal products	35, 36, 37
23	Non-metallic minerals	34
24	Motor vehicles & transport equipment	38, 39
25	Machinery	41
26	Electronic equipment and other manufacture	40, 42
27	Electricity	43
28	Utility (construction, water)	46, 45
29	Transport	48, 49, 50
30	Communication and business service	51, 54,
31	Financial service and insurance	52, 53
32	Recreational and other services	55, 56, 57, 47

[57] GTAP 9, base year 2011

	Region	Remarks
1	EU	
2	Australia	
3	New Zealand	
4	Turkey	
5	USA	
6	Canada	
7	Japan	
8	Korea	
9	Other high income countries	EFTA, Mexico
10	ASEAN	
11	Pacific countries*	
12	LDCs**	ASEAN LDCs have been be included in ASEAN
13	China (and Hong Kong)	
14	Other developing countries	
15	Rest of the World (RoW)	

* Subject to modelling constraints

** A Country cannot be included in more than one region.

BASELINE

Step 1: Improving the market access representation

In order to build a comprehensive assessment of market access, the database has been amended introducing ad valorem equivalent (AVE) estimates of the non-tariff barriers in the manufacturing sectors. Additionally for the fruit and vegetables sector, an AVE for the entry price system of the EU has been introduced to the model that is to be shocked in the scenarios.[58] NTBs for agri-food sectors are ignored in the simulations for lack of a robust methodology of quantifying these barriers and the impact of their reduction.[59] As a final amendment to the database, AVEs of TRQs have been corrected to more realistically reflect TRQ fill rates. The calculated average tariff rate for motor vehicles and transport equipment imports into Australia was adjusted to take into account the actual nature of trade.

Additionally, FTAs that are not reflected in the GTAP database but have been concluded and implemented meanwhile are introduced. These are, for Australia and New Zealand:

- Australia-Japan

[58] Ad valorem equivalents of NTB are introduced 'on' the standard tariff variable already in the model. This has the inconvenience that they create government revenue even if this is not the case in the 'real' world. To minimise this, only the part of the NTB that is eventually reduced (cf. the section on scenarios) is added to the model.

[59] This is not to say that there will be no ambition in the negotiations to achieve progress on SPS issues.

- Australia-China
- Australia-Korea
- New Zealand-Korea
- TPP

For the EU:
- CETA
- EU-Singapore

To introduce such changes into the model, at 2011, a specific closure has been adopted. This closure ensures that the consistency of the database remains after the introduction of these estimates. In other words, since the database contains the "picture of the world trade" at 2011, any change to the data will have broader effects and change other variables from their observed values when the model finds a new equilibrium. The "alter tax" closure overcomes this issue by allowing the introduction of new data minimising the impacts of the changes on the value flows in the database.[60]

It is worth noting that a number of agreements are not included in the baseline, and therefore also not in the policy projections. It is not possible to model not final agreements, such as the Regional Comprehensive Economic Partnership (RCEP), the Trade in Services Agreement (TiSA) and Environmental Goods Agreement (EGA) that Australia, New Zealand or the EU are participating in. The EU and New Zealand are parties to, while Australia is in the process of joining, the WTO Government Procurement Agreement (GPA). However the GPA is not included in the model because there is no reliable methodology for modelling the impact of government procurement issues. The expansion of the Information Technology Agreement, to which all partners are members cannot be modelled, as the final schedule is not yet available.[61]

<u>Step 2: Updating database to long term</u>

Macro variables, GDP, population and labour force (skilled and unskilled) have been updated to 2030:

- GDP from the World Bank. To shock the GDP, usually endogenous, a standard swap with Total Factor Productivity has been implemented
- Population from the ILO
- Labour force from the ILO; The respective shares of skilled and unskilled labour CEPII
- Small increase in natural resources to reflect the developments around shale gas technology
- A productivity growth for energy inputs reflecting the implementation of the Kyoto and Paris agreements

<u>SCENARIOS</u>

[60] GTAP technical paper No. 12 https://www.gtap.agecon.purdue.edu/resources/res_display.asp?RecordID=315
[61] The fact that all these agreements are plurilateral ones is a coincidence, rather than a defining feature.

In order to simulate a modernisation of the FTA between EU and Australia and New Zealand, two scenarios have been simulated, labelled “Conservative” and “Increased Liberalisation”. In both of these scenarios, tariffs in the NAMA sectors are reduced to zero. However, liberalisation assumptions differ in other categories:

- Agricultural TRQs upon import into the EU, simulated by AVE (cf. above), are left unchanged in the first scenario, but abolished, (i.e. the corresponding AVE tariff reduced to zero) along with tariffs in the second scenario (“increased liberalization”).
- The EU entry price system for fruit and vegetables is left in place in the first scenario, but the corresponding AVE is reduced to zero in the second scenario (“increased liberalization”).

AVE of NAMA NTBs remains unchanged in the first scenario, but reduced by 10% of their values in literature for EU exports to Australia and New Zealand in the second scenario (“increased liberalisation”). For imports from Australia and New Zealand to the EU, no NTB reductions are simulated. The reason for this assumed asymmetry is twofold. Firstly EU barriers in key non-agricultural sectors are already rather low vis-a-vis the two countries.[62] Secondly past experience shows that as a result of negotiations, relatively smaller partners are more likely to adapt their internal regulation than large partners.

For services, a 3% AVE cut is introduced in both scenarios, embodying the effect of binding of existing liberalisation. The starting point for the approach is the observation that FTA negotiations usually lead to only a binding of the existing level of liberalisation in services trade (for the cases where this level is lower than the GATS commitments) as opposed to achieving new market access. However the insurance policy effect of binding current levels of liberalisation has a positive effect on services trade, equivalent to some degree of ‘real’ market access. The methodology applied for this and other IA simulations aims to translate this insurance effect into liberalisation parameter for CGE modelling. In an earlier study[63] such ‘binding’ has been quantified as being equivalent to a reduction of 3% in services barriers for the DDA negotiations among 46 participating countries.

RESULTS

GDP and welfare gains of the EU, Australia and New Zealand, which are extensively discussed in section 5.4 of the main report, are presented in table 1 of this annex. At this point it may be useful to mention that the database of the model is compiled in US dollars. Results for the end of the projection period (2030) are converted in Euros by the ECB/Eurostat rate recorded for 2015.

[62] EU requirements are largely based on international standards, and in most cases products can be placed on the EU market on the basis of the supplier's declaration of conformity. For areas where third-party assessment is required, mutual recognition agreements between the EU and both Australia and New Zealand are already in place

[63] Decreux, Y. and L. Fontagné (2011), Economic Impact of Potential Outcome of the DDA.

Table 1: GDP, welfare and overall exports results (long term)

Variable	Scenario	EU	Australia	New Zealand
GDP (% change)	Conservative	0.01	0.13	0.28
	Increased liberalisation	0.02	0.20	0.52
GDP gain (€ billion*)	Conservative	2.1	2.7	0.7
	Increased liberalisation	4.9	4.2	1.3
Welfare gain (€ billion*)	Conservative	2.6	0.9	0.4
	Increased liberalisation	4.8	1.8	0.6
EU-AustraliaUS bilateral exports (% change)	Conservative	16.4	6.9	-
	Increased liberalisation	33.3	11.1	-
EU-New Zealand bilateral exports (% change)	Conservative	14.2		10.5
	Increased liberalisation	32.4		22.2

* US dollars were converted to Euros as $1.1095 to €1 (ECB)

Table 2 shows the results for total exports of the three partner countries under the two scenarios. As has been the case for welfare and GDP, the percentage increases are a full order of magnitude smaller for the EU than for the two partners. This is quite natural given the relative size of the three economies.

Table 2: Change of the value of total exports (long term)

	Conservative	Increased liberalisation
EU	0.04%	0.08%
Australia	0.47%	0.79%
New Zealand	0.41%	0.75%

Tables 3-6 display the relative changes simulated under the two scenarios. EU bilateral exports to both countries increase strongest in the sectors of machinery and motor equipment and still strongly but somewhat less in the chemicals sector. Imports on the other hand, increase most strongly in some services sectors from Australia and in agri-food sectors, in particular ruminant meat, dairy and fruit and vegetables from New Zealand.

Table 3: EU exports to Australia and the effects of the two scenarios (long term)

Sector	Conservative	Increased Liberalisation
rice	0%	0%
cereals	0%	2%
veg_fruit	7%	9%
oil_seeds	1%	1%
sugar	0%	0%
fiber_crop	1%	4%
ruminant_meat	1%	2%
other animal	3%	4%
other_meat	1%	2%
dairy	48%	49%
wood_paper	21%	21%
fishing	5%	5%
coal	0%	117%
oil	0%	15%
gas	2%	2936%
minerals	1%	8%
other_food	11%	11%
bev_tob	7%	7%
textile	48%	104%
chemicals	7%	20%
oil_pcts	0%	4%
metal_pcts	22%	54%
no_metal_pct	22%	58%
motor_equip	38%	52%
machinery	21%	61%
ele_other	13%	59%
electricity	0%	-1%
utility	7%	8%
transport	6%	6%
communication	7%	7%
financial	7%	7%
other_serv	7%	7%
TOTAL	16%	33%

Table 4: Australian exports to the EU and the effects of the two scenarios (long term)

Sector	Conservative	Increased Liberalisation
rice	1%	113%
cereals	1%	53%
veg_fruit	20%	19%
oil_seeds	5%	5%
sugar	1%	124%
fiber_crop	2%	1%
ruminant_meat	1%	539%
other animal	24%	24%
other_meat	2%	2%
dairy	1%	86%
wood_paper	2%	3%
fishing	23%	23%
coal	0%	1%
oil	0%	0%
gas	1%	8%
minerals	0%	0%
other_food	75%	75%
bev_tob	17%	18%
textile	37%	38%
chemicals	10%	11%
oil_pcts	2%	2%
metal_pcts	4%	5%
no_metal_pct	21%	22%
motor_equip	14%	16%
machinery	9%	10%
ele_other	5%	5%
electricity	1%	1%
utility	11%	11%
transport	9%	9%
communication	9%	9%
financial	9%	9%
other_serv	9%	9%
TOTAL	7%	11%

Table 5: EU exports to New Zealand and the effects of the two scenarios (long term)

Sector	Conservative	Increased Liberalisation
rice	0%	0%
cereals	0%	4%
veg_fruit	2%	3%
oil_seeds	1%	1%
sugar	0%	0%
fiber_crop	2%	5%
ruminant_meat	1%	5%
other animal	0%	1%
other_meat	40%	42%
dairy	27%	29%
wood_paper	5%	4%
fishing	1%	1%
coal	-1%	96%
oil	0%	14%
gas	0%	2057%
minerals	1%	10%
other_food	12%	13%
bev_tob	6%	6%
textile	47%	101%
chemicals	9%	27%
oil_pcts	4%	8%
metal_pcts	21%	52%
no_metal_pct	18%	54%
motor_equip	22%	44%
machinery	20%	63%
ele_other	12%	53%
electricity	0%	0%
utility	8%	9%
transport	7%	7%
communication	7%	7%
financial	7%	7%
other_serv	8%	8%
TOTAL	14%	32%

Table 6: New Zealand's exports to the EU and the effects of the two scenarios (long term)

Sector	Conservative	Increased Liberalisation
rice	0%	35%
cereals	0%	5%
veg_fruit	39%	38%
oil_seeds	21%	20%
sugar	0%	425%
fiber_crop	8%	6%
ruminant_meat	0%	25%
other animal	11%	10%
other_meat	6%	5%
dairy	0%	134%
wood_paper	1%	1%
fishing	20%	20%
coal	0%	0%
oil	-1%	-1%
gas	-1%	-1%
minerals	-1%	-2%
other_food	54%	54%
bev_tob	15%	14%
textile	19%	18%
chemicals	29%	29%
oil_pcts	3%	3%
metal_pcts	16%	16%
no_metal_pct	5%	3%
motor_equip	13%	14%
machinery	9%	9%
ele_other	8%	7%
electricity	0%	0%
utility	9%	9%
transport	9%	8%
communication	9%	8%
financial	8%	8%
other_serv	8%	8%
TOTAL	11%	22%

Table 7 shows percentage changes in sectoral output in the three countries under both scenarios. Most of them are 0.1% or less for the EU, in particular in the conservative scenario. In the increased liberalisation scenario, more sectors are affected beyond this threshold. The ones with negative output changes are all agricultural subsectors, the ruminant meat sector with a 1.2% output decrease being the most strongly affected one. On the positive side, output increases more than 0.1% in the motor vehicles, machinery and gas sectors. It should be kept in mind, however, that the size of the latter sector in the EU is rather small.

For Australia and New Zealand, output of individual sectors in more strongly affected, which is natural given the smaller size of the two economies relative to the EU. Output gains are found to be concentrated in the agricultural and services sectors, with, however some notable agricultural sector contractions in New Zealand. Output losses occur mostly in the manufacturing sectors, in particular in those that were found above to witness strong increases in bilateral EU exports, however, again with some notable exceptions in both countries.

Table 7: Relative changes of sectoral output in the three partner countries (long term)

	Conservative			Increased liberalisation		
Sector	EU	Australia	New Zealand	EU	Australia	New Zealand
rice	0.0%	0.2%	-0.2%	-0.1%	0.4%	-0.3%
cereals	0.0%	0.0%	-0.9%	-0.1%	0.1%	-1.7%
veg_fruit	-0.2%	0.2%	2.6%	-0.2%	0.2%	2.2%
oil_seeds	-0.1%	0.4%	-0.3%	-0.1%	0.5%	-1.0%
sugar	0.0%	0.1%	-0.4%	-0.2%	0.7%	-0.8%
fiber_crop	0.0%	0.0%	0.0%	-0.1%	-0.2%	-0.9%
ruminant_meat	0.2%	0.1%	-0.3%	-1.2%	2.4%	4.2%
other animal	0.0%	0.2%	1.1%	0.0%	0.1%	0.4%
other_meat	0.0%	0.1%	-0.1%	0.0%	0.1%	-0.9%
dairy	0.1%	-0.3%	-0.9%	-0.1%	0.1%	0.4%
wood_paper	0.0%	-0.1%	-0.2%	0.0%	0.1%	-0.4%
fishing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
coal	-0.1%	0.2%	0.0%	-0.1%	0.3%	0.1%
oil	0.0%	0.2%	0.0%	-0.1%	0.4%	-0.1%
gas	-0.1%	0.3%	0.2%	0.7%	-0.9%	0.2%
minerals	0.0%	0.0%	0.1%	0.0%	0.0%	0.2%
other_food	0.0%	0.0%	0.3%	0.0%	0.0%	0.2%
bev_tob	0.0%	0.5%	0.8%	0.0%	0.6%	0.7%
textile	0.0%	0.3%	0.7%	0.0%	0.1%	-0.3%
chemicals	0.0%	0.1%	0.6%	0.0%	-0.5%	-0.3%
oil_pcts	0.0%	0.1%	0.3%	0.0%	0.3%	0.6%
metal_pcts	0.0%	0.1%	-0.2%	0.0%	0.1%	-1.1%
no_metal_pct	0.0%	0.1%	0.3%	0.1%	-0.1%	0.4%
motor_equip	0.2%	-1.4%	-1.4%	0.3%	-1.7%	-2.7%
machinery	0.0%	-0.4%	-0.6%	0.2%	-2.0%	-2.9%
ele_other	-0.1%	0.3%	0.3%	-0.1%	0.2%	0.1%
electricity	0.0%	0.1%	0.2%	0.0%	0.2%	0.3%
utility	0.0%	0.3%	0.8%	0.1%	0.6%	1.8%
transport	0.0%	0.1%	0.2%	0.0%	0.1%	0.3%
communication	0.0%	0.1%	0.2%	0.0%	0.2%	0.5%
financial	0.0%	0.1%	0.1%	0.0%	0.1%	0.3%
other_serv	0.0%	0.1%	0.2%	0.0%	0.1%	0.3%

Table 8 shows the effects on consumers and workers. Real consumer prices, embodied by the consumer price index (CPI) go down for Australia but increase for the other two partners. Naturally, the impacts are stronger in the increased liberalisation scenario, however, the factor by which the two scenarios differ is more pronounced for New Zealand.

Real wages which are corrected for the change in CPI and therefore represent a net effect on worker's purchasing power are only slightly affected in the EU, but more so in the other two countries, particularly in New Zealand. Unskilled workers in the increased liberalisation scenario gain as much as 0.78% by the agreement.

Table 8: Change in Consumer Price Index (CPI) and real wages in the two scenarios (long term)

	Conservative			**Increased liberalisation**		
	CPI	**Unskilled**	**Skilled**	**CPI**	**Unskilled**	**Skilled**
EU	0.03%	0.03%	0.02%	0.06%	0.05%	0.05%
Australia	-0.13%	0.20%	0.17%	-0.19%	0.33%	0.27%
New Zealand	0.02%	0.32%	0.27%	0.13%	0.78%	0.57%

Table 9 shows the impact of the two scenarios on CO2 emissions. For the EU these increases are negligible. For Australia and New Zealand, they amount, respectively, to 0.4% and 0.6% in the increased liberalisation scenario.

Table 9: Percentage change in CO2 emissions (long term)

	Conservative	Increased liberalisation
EU	0.03%	0.04%
Australia	0.12%	0.38%
New Zealand	0.29%	0.64%

Please note that some further results of the CGE modelling are described and used in the external study (Annex 5 to this Impact Assessment Report).

LIMITATIONS OF THE ANALYSIS

In terms of scenario assumptions, the main limitation is the fact that agricultural NTBs and potential reductions that can be achieved in the negotiations are not simulated. That will have the effect of understating the gain for the agricultural sector and its subsectors. However, various academic attempts to quantify agricultural NTBs or their reduction under FTAs in the recent past have proven unable to deliver robust results, which is the major reason we refrain from a quantitative analysis of the latter.

The model used for the simulations contributing to the IAR, is the dynamic GTAP model. Although it does simulate international capital flows, it is not possible to implement and simulate changes in bilateral investment policies. Therefore, the model analysis could not quantify the potential effects stemming from the investment chapter.

Similarly, the effects of opening markets for public procurement at various levels of administration and the strengthening of intellectual property rights had to be left out of the analysis and their potential value is not quantified.

Finally, we chose, as is common practice in Impact Assessments, a neoclassical closure for the model. Technically this means that factor supply is exogenous. In more practical terms, this means that in particular it is assumed that employment is fixed and therefore, no employment effects can be simulated. This choice reflects mainly the long-run perspective which we adopt when evaluating the effects of our trade agreements. It also reflects the widely recognised believe that trade, notwithstanding its significant positive effects on the economy, is not considered to have an effect on the so-called natural rate of unemployment.

Annex 5 - External study

The study of LSE Enterprise is available at the following link:

http://trade.ec.europa.eu/doclib/html/155505.htm