



NSW Trade with the European Union

by John Wilkinson

1 Introduction

In earlier e-briefs, the NSW Parliamentary Research Service examined the trading relationship between NSW and the emerging economies of China and India, and with the more developed economies of Japan and the USA. This companion paper looks at the State's trading relationship with another of its established trading partners, the European Union (EU).

Owing to the prominence of our relationship with the United Kingdom, historically and to a lesser extent in contemporary terms, a separate section on the trade relationship between the UK and NSW is included in a later section of this e-brief.

2 Emergence of the European Union

By way of background, it can be noted that the EU has reached its current membership of 27 in the following key stages:

1957 France, West Germany, Italy, the Netherlands and Luxembourg establish the European Economic Community (EEC).

1973 Britain, Denmark and Ireland join the EEC.

1981 Greece joined the EEC.

1986 Spain and Portugal joined the EEC. A Single European Act was passed by all member governments, providing for the creation of a single market.

1992 The Treaty of Maastricht is concluded, creating the European Union (EU).

1995 Sweden, Finland and Austria join the EU.

2004 Eight Eastern European nations join the EU (Poland, Hungary, Czech Republic, Slovakia, Slovenia, Estonia, Latvia and Lithuania). Two Mediterranean island nations also join: Cyprus and Malta.

2007 Two more Eastern European nations join the EU: Bulgaria and Romania¹

A further development is that, on 1 January 2002, Euro coins and banknotes entered circulation, becoming the official currency of the Eurozone, which currently consists of 17 of the 27 member states.

3 Australia and the EU

3.1 Political and Commercial Relations

Australia's historical relationship with the countries of the EU is diverse and complex. Migration after the Second World War from all parts of Europe, but especially from the countries of Southern Europe, broadened Australia's ethnic make-up, at the same time opening possibilities for cultural and economic developments.

Before then, the United Kingdom was the foundation stone of the ties, economic and otherwise, between this country and those of the current EU. Until just after World War II, 86% of all private and public investment in Australia was British.² International trade was largely with Britain. In the 1880s, 75% of Australian exports went to the United Kingdom, a figure that had fallen to 48.9% by 1939.³

After 1945 Australia's trade with Britain continued to decline in relative terms. 1965-66 was the last financial year in which the majority of Australia's exports went to Britain.⁴ This decline is illustrated in the table below, compared to trade with Japan and the USA. The comparable trading figures for France, Italy and West Germany are also set out for the same period, showing most notably a rise in the proportion of German imports and falls in exports to France and Italy.

**Australian Exports to selected countries:
1952-53 to 1972-73 (%)⁵**

	1952-53	1972-73
UK	41.23	9.68
Japan	9.64	31.1
USA	6.64	12.21
France	8.72	3.03
W Germany	2.57	3.28
Italy	5.13	2.15

**Australian Imports from selected countries:
1952-53 to 1972-73 (%)⁶**

	1952-53	1972-73
UK	41.76	18.63
USA	16.57	20.87
Japan	0.91	17.93
France	1.80	1.83
W Germany	2.64	6.99
Italy	1.02	2.10

What these figures suggest most clearly is the start of the relative decline of traditional trading markets and the rising importance for Australia of Asia. But if the EU has tended to decline in relative terms as a trading partner, it remains very significant, especially in certain areas. For example, the *ABS Year Book Australia: 2005* observed that, for 2003-04, at \$4.9b medicaments were Australia's most valuable commodity imports, with the United Kingdom supplying 22% of the total.⁷ Overall, for both NSW and Australia, in 2011-12 the EU was the second-largest source of merchandise imports.

It is also the case that, even after the UK joined the then European Community in 1973, British investment in Australia continued at a relatively high level, estimated at \$76 billion in 1997, second only to investment from the USA.⁸ Indeed, Britain in particular and the EU as a whole remains a significant source of foreign investment, as set out in section 6 of this e-brief.

In recognition of these strong connections, in 1997 the Howard Government sought to further Australia's association with the European Union by concluding a joint declaration on Australian-EU relations. In regard to trade, the declaration underscored the intention of the partners to:

strengthen, expand and diversify our bilateral trade in goods and services as well as investments. . .⁹

In 2008, just under a year after gaining office, the Rudd Government concluded a European Union-Australia Partnership Framework. The second objective of the partnership framework declared that it was the aim of the two jurisdictions to "consolidate and expand the bilateral trade and investment relationship".¹⁰

3.2 Australia's Position in the EU's Total Trade

As indicated by the tables below, Australia is only a relatively small participant in the EU's overall trade. Moreover Australia imports from the EU far more than it exports:

EU's Exports to Selected Destinations (as % of all Exports): 2011¹¹

USA	17.0%
China	8.9%
Switzerland	7.9%
Russia	7.1%
Australia	2.0%

EU's Imports from Selected Sources (as % of all Imports): 2011¹²

China	17.3%
Russia	11.8%
USA	10.9%
Norway	5.6%
Australia	0.7%

3.3 Australia's Trade and Investment Relations with the EU

In 2011-12, the current 27-member EU was the fourth-largest destination for Australia's exports, with Britain accounting for 40% of all total Australian exports to the EU's member states. This is shown in the table below.

Australia's Exports to Britain/EU: 2011-12¹³

Britain	\$8 bn
European Union	\$19.8 bn

In contrast, Britain's share of EU imports into Australia is far smaller, accounting for only 16% of EU imports into Australia in 2011-12:

Australia's Imports from Britain/EU: 2011-12¹⁴

Britain	\$6.9 bn
European Union	\$42.3 bn

On an overall level, the EU is Australia's second-largest source of imports, and Australia's fourth-largest destination for exports:

Australia's Imports by Selected Sources: 2011-12¹⁵

China	\$43.4 bn
European Union	\$42.3 bn
USA	\$27.5 bn
Japan	\$20.3 bn

Australia's Exports to Selected Destinations: 2011-12¹⁶

China	\$76.3 bn
Japan	\$51.2 bn
South Korea	\$22 bn
European Union	\$19.8 bn

Australia's principal merchandise imports from the EU are essentially secondary products, in exchange for which Australia's exports to the EU are mainly primary products. Medicaments and cars rank high on the list of EU imports to Australia. This is indicated in the accompanying tables:

Australia's Main Merchandise Imports from the EU: 2011 (by value)¹⁷

Medicaments (incl. Veterinary)	\$5.7 bn
Passenger Motor Vehicles	\$4.2 bn
Civil Engineering Equipment and Parts	\$1.2 bn

Australia's Main Merchandise Exports to the EU: 2011 (by value)¹⁸

Coal	\$4.6 bn
Gold	\$4.4 bn
Oil-seeds and Oleaginous Fruits (Soft)	\$1.1 bn
Alcoholic Beverages	\$671m

In respect to services, Australia also imports from the EU more (by value) than it exports:

Australia's Services Trade with the EU: 2011¹⁹

Imports from the EU	\$13.1 bn
Exports to the EU	\$8.2 bn

For imports as well as exports, the main items of services traded between Australia and the EU belong to the same three categories:

Australia's Main Services Imports from the EU: 2011 (by value)²⁰

Travel	\$5.7 bn
Transport	\$2.2 bn
Other Business Services	\$2 bn

Australia's Main Services Exports to the EU: 2011 (by value)²¹

Travel	\$5.2 bn
Transport	\$1.1 bn
Other Business Services	\$1.1 bn

4 New South Wales Trade with the EU

NSW merchandise imports from the EU are substantial, amounting to 22.6 per cent of total imports in 2010-11. The slightly higher figure shown in the following table is for Europe as a whole.

NSW Merchandise Import Sources by Geographic Region (%): 2008-09 to 2010-11²²

	2008-09	2010-11
Asia	52.9	54.0
Europe	26.9	25.4
Americas	16.0	14.8
Oceania	3.5	3.5
Africa	0.7	2.4

NSW merchandise exports to the EU, amounting to 5.4% of the total, are significantly smaller than the State's merchandise exports to Asia and less than to most other regions. Again, the figures shown in the following table are for Europe as a whole, which indicate a proportional decline in recent years.

NSW Merchandise Export Markets by Geographic Region (%): 2008-09 to 2010-11²³

	2008-09	2010-11
Asia	73.6	75.1
Americas	9.2	8.7
Oceania	8.2	8.0
Europe	7.2	6.3
Africa	1.9	1.9

The following table illustrates the major merchandise items imported from the EU.

NSW: Selected Major Merchandise Imports from the EU (by value): 2010-11²⁴

Medicaments (including Veterinary)	\$4.6 bn
Passenger Motor Vehicles	\$1.5 bn
Organo-Inorganic Compounds	\$836 m
Pharmaceutical Products (excluding Medicaments)	\$593 m
Miscellaneous Manufactured Items (not elsewhere specified)	\$449 m
Total all Imports	\$18.4 bn

The accompanying table shows the State's merchandise exports to the EU.

NSW: Selected Major Merchandise Exports to the EU (by value): 2010-11²⁵

Miscellaneous Manufactured Items (not elsewhere specified)	\$197 m
Medicaments (including Veterinary)	\$179 m
Uncoated Flat-Rolled Iron and Steel	\$134 m
Alcoholic Beverages	\$121 m
Wool and other Animal Hair (including Wool Tops)	\$104 m
Total all Exports	\$1.9 bn

Set out below are the merchandise trade exports and imports for selected EU countries, showing that Germany is

now a larger trading partner for the State than the UK, ranked sixth in terms of total trade, against the UK's eleventh.

NSW Merchandise Trade Exports and Imports for Selected EU Countries: 2010-11²⁶

	Exports % share	Imports % share	Total trade % share/ rank
Germany	0.6	5.3	3.9 [6]
UK	1.4	3.9	3.1 [11]
Italy	1.2	2.9	2.4 [12]
France	0.3	2.2	1.6 [16]

Note that the above tables do not include trade in services. No disaggregated figures seem to be available for individual Australian States.

5 New South Wales trade with the UK

Paralleling the State's trade with the EU as a whole, imports to NSW from the UK far exceed exports from NSW to the Britain.

New South Wales-UK Trade: Imports and Exports (2010-11)²⁷

Imports	\$3.1 billion
Exports	\$520.1 million

The main items, amongst the State's imports and exports from the UK, are set out below.

NSW: Top 5 Imports from the UK by Value (2010-11)²⁸

Medicinal and Pharmaceutical Products	\$913.2 m
Miscellaneous Manufactured Items	\$451.3 m
Organic Chemicals	\$308 m
Road Vehicles	\$277.7 m
Alcoholic Beverages	\$138.1 m

NSW: Top 5 Exports to the UK by Value (2010-11)²⁹

Miscellaneous Manufactured Items	\$229.1 m
Alcoholic Beverages	\$77.3 m
Meat and Meat Preparations	\$25.2 m
Electrical Machinery/Apparatus	\$21.7 m
Medicinal and Pharmaceutical Products	\$18.2 m

6 Key Sectors in NSW Investment and Trading Relationships with the EU/UK

Investment

As a bloc, the EU is the foremost investor in Australia. The UK itself contributes almost three quarters (74%) of all EU investment. The figures for total foreign investment stocks (shares, bonds etc.) for the EU (and the UK), contrasted with those for the USA (the largest single investor in Australia) are as follows:

Australia: EU/USA/UK Total Foreign Investment Stock in Australia (2011)³⁰

European Union	\$637.2 billion
USA	\$555.9 billion
UK (as component of EU investment)	\$470.8 billion

As a block, the EU is the also the foremost investor in Australia in respect to foreign direct investment or FDI (investment which gives the investor a controlling interest in a company or similar entity). The UK itself contributes almost half (49%) of all EU foreign direct investment. The figures for total FDI for the EU (and the UK), contrasted with those for the USA (the largest single foreign direct investor in Australia) are as follows:

Australia: EU/USA/UK Total Foreign Direct Investment in Australia (2011)³¹

European Union	\$143.4 billion
USA	\$122.4 billion
UK (as component of EU investment)	\$69.7 billion

EU/UK Company Activity in NSW

A number of large European companies operate in Australia. The following companies are based in Sydney:

- ALDI
- Astra-Zeneca
- Bayer
- Deutsche Bank
- Diageo
- Electrolux
- HSBC
- Laing O'Rourke
- Pernod Ricard
- Philips
- Reckitt Benckiser
- SAP
- Unilever
- Vodafone

NSW Companies Operating in the UK

According to the Sally Robson, "A total of \$53.1 billion of Australian capital, at the end of June 2000, was invested by Australian firms in the UK."³² More recently the NSW Department of Trade and Investment has estimated that, in 2010, there were 1,500 Australian companies operating in Britain. NSW-based companies doing business in the UK included the following:

- Boral
- Cochlear
- Commonwealth Bank
- Lend Lease
- Macquarie
- ResMed
- Westpac³³

Sectors of Trade

Minerals

Only a very small proportion of minerals (effectively coal) is shipped

from NSW to the EU. In 2010-11, out of 121,801,000 tonnes of coal exported from the State, Europe took only 521 tonnes (0.4%).³⁴

Services

As mentioned above, tourism is Australia's most important services export to the EU. Tourism Research Australia (TRA) has estimated that, between 2011 and 2012, UK visitors alone were the second largest group of tourists (by nationality) travelling to Australia, as illustrated below.

Overseas Tourists Visiting Australia (by Major Source): 2011-12³⁵

New Zealand	1,229,000
UK	578,000
China	530,000
USA	433,000
Japan	311,000

British travellers to NSW, by number, peaked in the boom that preceded the global financial crisis. The recent decline in British tourist numbers is highlighted below.

British Tourists Visiting Australia and NSW: 2000-01/2006-07/2011-12³⁶

	Australia	NSW
2000-01	534,600	357,100
2006-07	684,700	439,800
2011-12	562,700	313,600

NSW continues to take over 50% of all British visitors to Australia. Correspondingly, according to modelling by Tourism Research Australia, NSW receives over 50% (over \$½ billion) of all UK tourists' expenditure in Australia.

Modelled International Visitor Expenditure by British Tourists in Australia: 2011-2012³⁷

NSW	\$529 million
Queensland	\$345 million
Victoria	\$286 million
Western Australia	\$265 million
South Australia	\$60 million

Primary Products

With the exception of canola oilseeds (used in the production of margarine), NSW primary product exports to the EU are only a small percentage of the State's exports worldwide. The principal primary product exports to the EU are itemised below:

Oilseeds (Canola): In 2011, NSW exported canola oilseed to the EU to the value of \$139.6 million. With the total value of the State's exports of canola for 2011 valued at \$163,102,000, over 85% of NSW canola exports go to the EU. The principal European destinations for NSW canola are as follows:

NSW Canola Exports to the EU: 2011³⁸

Belgium	\$84.2 m
Germany	\$33.4 m
Netherlands	\$22 m
Total All Exports to EU	\$139.6 m
Total Exports to All Destinations	\$163.1m

Wine. In terms of the State's commodity exports to the EU, wine exports are second in rank after canola. In terms of wine exports from NSW, only the USA outranks the EU as a destination.

NSW Wine Exports (Principal Destinations: 2011 (%))³⁹

USA	53%
UK	24%
China	5%
Canada	4%
Germany	4%

In 2011, the value of the State's wine exports to the EU amounted to 23% of all the State's wine exports. The value exported was as follows:

NSW Wine Exports to the EU (by Value): 2011⁴⁰

European Union	\$119m
Total NSW Wine Exports	\$516m

Wool. Wool exports are third, in rank, amongst the State's primary product exports to the EU. On an overall level, NSW wool exports to the EU are only 13% of the State's total shipments of wool. The two principal export destinations are Italy and the Czech Republic:

NSW Wool Exports to the EU: 2011⁴¹

Italy	\$84.4 million
Czech Republic	\$32 million
Total All Exports to EU	\$114.3 million
Total Exports to All Destinations	\$867.8 million

Wheat. Only a small percentage of the State's wheat (3.5%) goes to the EU, of which almost all goes to Italy. The difference between NSW exports to the EU (by value), as compared to the rest of the world, is highlighted below:

NSW Wheat Exports: 2011 (by Value)⁴²

Italy	\$51m
Total NSW Wheat Exports	\$1.5bn

Beef. An even smaller percentage of the State's beef (2.2%) goes to the EU, the greater proportion of which goes to the UK.

NSW Beef Exports: 2011 (by Value)⁴³

UK	\$14.2 million
Netherlands	\$6 million
Germany	\$1.4 million
Total All Exports to EU	\$23 million
Total Exports to All Destinations	\$1 billion

7 CONCLUSION

While the focus of Australia's trading relationships is now on Asia, the countries of the EU continue to be of great importance. The same applies in respect to NSW, especially in such areas as tourism and the importation of medicaments and cars. For the

State, as for Australia, in 2011-12 the EU was the second-largest source of merchandise imports. Further, Britain in particular and the EU as a whole remains a very significant source of foreign investment in Australia, including foreign direct investment.

- ¹ Alain Monnier, "The European Union at the Time of Enlargement" in *Population-E*, vol.59, no.2, 2004, pp.315-316; Rebecca Morgan, *Enlargement 2007: Romania, Bulgaria and the Path to European Union* (MA Thesis, University of Canterbury, 2009), p.47.
- ² Gregory Pemberton, *All the Way: Australia's Road to Vietnam* (Allen and Unwin, Sydney, 1987), p.1.
- ³ Brian Pinkstone, *Global Connections: A History of Exports and the Australian Economy* (Australian Government Publishing Service, Canberra, 1992), pp.64, 101.
- ⁴ Pinkstone, n.3, p.183.
- ⁵ ABS, *Official Year Book of Australia: 1974* (Canberra, 1975), p.324.
- ⁶ ABS, *Official Year Book of Australia: 1974* p.324.
- ⁷ ABS, *Year Book Australia: 2005*, ABS Catalogue 1301.0, p.830.
- ⁸ In 1997, British investment in Australia was estimated by the ABS to be \$76 billion (second only to the \$89.5 billion invested by the USA). See ABS, *International Investment Position: Australia*, ABS Catalogue 5306.0 (Canberra, 1997), p.17.
- ⁹ See "Joint Declaration on Relations between the European Union and Australia", 26 June 1997, on the [website](#) of the Council of the European Union.
- ¹⁰ See European Union – Australia Partnership Framework" on the [website](#) of Stephen Smith (Foreign Minister in 2008).
- ¹¹ See European Commission (Directorate General of Trade), [EU Bilateral Trade and Trade with the World: Australia](#).
- ¹² European Commission (Directorate General of Trade), n.11.
- ¹³ ABS, [International Trade in Goods and Services: Australia](#), ABS Catalogue 5368.0 (Canberra, 2012), p.31.
- ¹⁴ ABS, [International Trade in Goods and Services: Australia](#), p.31.
- ¹⁵ ABS, [International Trade in Goods and Services: Australia](#), p.31.
- ¹⁶ ABS, [International Trade in Goods and Services: Australia](#), p.31.
- ¹⁷ Department of Foreign Affairs and Trade (DFAT), [Australia's Trade with Europe:](#)

- ¹⁸ [including the European Union](#) (DFAT, Canberra, 2012), p.6.
- ¹⁹ DFAT, n 17, p.6.
- ²⁰ DFAT, n 17, p.74.
- ²¹ DFAT, n 17, p.74.
- ²² DFAT, [Australia's Trade by State and Territory: 2010-11](#) (DFAT, Canberra, 2012), p.25. Note the % share for 2010-11 has been re-calculated.
- ²³ DFAT, n.22, p.25. Note the % share for 2010-11 has been re-calculated.
- ²⁴ DFAT, n.22, p.30.
- ²⁵ DFAT, n.22, p.30.
- ²⁶ DFAT, n 22, p 23.
- ²⁷ [Country Brief: The United Kingdom](#) (NSW Department of Trade and Investment, 2011).
- ²⁸ [Country Brief: The United Kingdom](#).
- ²⁹ [Country Brief: The United Kingdom](#).
- ³⁰ Australian Bureau of Statistics, *International Investment Position: Australia*, ABS Catalogue 5352.0 (ABS, Canberra, 2011). Table 2 (Foreign Investment in Australia: Level of Investment by Country, and by Country Groups, by Type of Investment and Year).
- ³¹ Australian Bureau of Statistics, *International Investment Position: Australia*, ABS Catalogue 5352.0 (ABS, Canberra, 2011). Table 2 (Foreign Investment in Australia: Level of Investment by Country, and by Country Groups, by Type of Investment and Year). For information on earnings from UK FDI investments abroad see – K Wilkie ed, *Business Monitor MA4: Foreign Directs Investment Involving UK Companies 2010*, Office for National Statistics (2012)
- ³² Sally Robson, *International market Entry: Determinants of Australian Exports and Direct Investment in the United Kingdom* (Master's of Business Thesis, Queensland University of technology, 2003), p.11.
- ³³ [Country Brief: The United Kingdom](#) (NSW Department of Trade and Investment, 2011).
- ³⁴ Information provided by the NSW Department of Trade and Investment (Division of Resources and Energy).
- ³⁵ Tourism Research Australia (TRA), [International Visitors in Australia: March 2012](#) (TRA, Canberra, 2012), p.9.
- ³⁶ See "Facts and Figures" on the [website](#) of DestinationNSW.
- ³⁷ Tourism Research Australia, n.34, p.45.
- ³⁸ Information provided by the commodities (oilseeds) section of Australian Bureau of Agricultural and Resource Economics and

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- Sciences (ABARES) and by the NSW Department of Trade Investment and Regional Infrastructure Services (DTIRIS).
- ³⁹ Information provided by Wine Australia (formerly the Australian Wine and Brandy Corporation).
- ⁴⁰ Information provided by Wine Australia (formerly the Australian Wine and Brandy Corporation).
- ⁴¹ Information provided by the commodities (wool) section of ABARES and by DTIRIS.
- ⁴² Information provided by the commodities (wool) section of ABARES and by DTIRIS.
- ⁴³ Information provided by the commodities (wool) section of ABARES and by DTIRIS.

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