



DEMOS

THE MCKELL INSTITUTE

The Social Benefits *of* Economic Ties

THE SCOPE FOR AN AUSTRALIA-UK
FREE TRADE AGREEMENT

MAY 2018

ABOUT THE MCKELL INSTITUTE

The McKell Institute is an independent, not-for-profit, public policy institute dedicated to developing practical policy ideas and contributing to public debate.

For more information phone (02) 9113 0944 or visit

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AUTHORS



SOPHIE GASTON

Sophie Gaston is Deputy Director of Demos think tank, based in London. She founded and leads Demos'

International Research programme and conducts major citizen-focused projects on social and cultural crises, political change and populism, the media and democracy.

Sophie also oversees the organisation's external affairs, and is the editor of the organisation's Demos Quarterly journal. In addition to her work at Demos, Sophie provides consulting to a range of not-for-profit and start-up organisations, and advises on risk forecasting to help governments and businesses understand the economic and political consequences of social crises.

She has previously held research and strategic roles in a range of UK and international NGOs, the civil service, and private sector, and has previously worked as a political speechwriter. Sophie holds a master's degree in political communication and is a Fellow of the Royal Society of the Arts.



EDWARD CAVANOUGH

Edward was the former Manager of Policy at The McKell Institute. He has authored major public policy reports into diverse issues such as economic inequality, international trade, and industrial relations, and has presented his research at public forums, on radio, and on television. He holds an MA in International Relations from The University of Sydney, and a BA in History & Political Science from the University of Adelaide.



MARA HAMMERLE

Mara is the Manager of Policy at the McKell Institute. Prior to starting at McKell, she worked as a casual academic in the Department of Economics at Macquarie University. She has experience publishing on smart cities, active learning and the practitioner-academic divide. Mara is currently studying a Master of Economic Analysis at the University of Sydney and holds a Bachelor of Economics from Macquarie University.



TOM STARTUP

Tom is an Associate Researcher in Demos' Modern Economy programme, as well as a freelance researcher and writer on economics, politics and philosophy. Formerly Head of Public Sector Research at Deloitte and a Senior Policy Analyst at the Prime Minister's Strategy Unit, he has published reports on poverty, property taxation, local government and the Private Finance Initiative, as well as contributed to government white papers. He has degrees from Oxford University and University College London.

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FOREWORD

As the United Kingdom moves towards leaving the European Union, there are national conversations to be had on trade policy, which have not taken place for generations. We cannot be certain of how the different constituencies of interest groups, unions, political parties and businesses will come together in this public debate, nor the extent to which citizens will feel compelled to have their voices heard.

It is also unclear how successful the Government will prove in explaining and balancing the myriad trade-offs involved in free trade agreements, although newspaper headlines about Indian visas and American chlorinated chicken suggest there is a steep learning curve ahead.

We have seen first-hand in focus groups how citizens' social, cultural and political insecurities can encourage them to turn against long-held orthodoxies on economic growth and international engagement. Many citizens are, for example, willing to trade economic prosperity for a stronger sense of community. Global connectivity can be seen as a threat, rather than an opportunity. Across the West, populist leaders are seizing on these anxieties, and presenting trade as a mechanism for vulnerability, not for strength.

This paper is intended as a resource to start a conversation about how, in an age of increasing social and economic insecurity, governments could take a proactive approach to securing public support for free trade agreements –

specifically, to embed a greater sense of social value in their design, to help citizens feel a greater stake in their benefits. The intention is not to curb the myriad economic opportunities that can be realised from FTAs, but rather to ensure these are balanced with the social and labour market protections that citizens clearly value. In doing so, free trade can be positioned as a tool to strengthen not only national economic growth, but also individual standards of living and well-being.

There clearly is tremendous symbolic utility for both Britain and Australia in developing an enhanced trading relationship, and given the significant cultural, political and people-to-people affinities shared between them, we consider such an FTA as offering the best possible conditions as a prototype for such experimentation.

This paper outlines practical measures to underpin such an approach, which we argue could help both governments to seize the initiative on free trade, in an age where the argument no longer feels settled.



SOPHIE GASTON
DEPUTY DIRECTOR,
DEMOS



SAM CROSBY
EXECUTIVE DIRECTOR,
MCKELL INSTITUTE

EXECUTIVE SUMMARY

“Never in history has there been such a happy, swollen, distance-obliterating pipeline of people and ideas and goods and services, and as that flow increases in pace and volume let us remember that our success is made possible and guaranteed by the ideals we share.”

**UK FOREIGN SECRETARY
BORIS JOHNSON**

27 JULY 2017¹

For many observers and actors in political and policy circles in the United Kingdom and Australia, the notion of an Australia-UK Free Trade Agreement (FTA) is somewhat of an inevitability. Since the UK voted to leave the European Union in June 2016, voices in both London and Canberra have grown louder in support of such an Agreement, creating a confidence amongst advocates of even closer Australia-UK ties that such a deal will come quickly once the UK regains full control over its trade policy.

However, while the prospects for an Australia-UK free trade agreement are highly favourable, it is vital that any deal is advanced in a manner that achieves real and lasting economic, social and environmental outcomes for both nations, and ensures that the workforces of both Australia and the UK are left better off, not worse, as a result of the deal.

The prospective Australia-UK free trade deal comes at a pivotal moment in the economic and political histories of both nations. While the UK's Brexit vote is the most obvious economic shift in that nation's history for generations, Australia too is seeing a resurgence in populist political voices espousing more protectionist economic measures. These trends come at a time where internationally, a scepticism towards globalisation and free trade in particular is rising. This is perhaps most notable in the United States — a nation that leads a world economy defined by liberalised global trade, but paradoxically has seen opposition towards that order reach fever pitch.² Donald Trump's election as US president served as a punctuation mark on this growing trend in the US, formalising a wide section of the US population's angst against a global economic system many felt simply doesn't deliver for them.

It is in this context that the prospective Australia-UK FTA carries even more importance. While trade negotiators in Australia and the UK should maintain their immediate focus on delivering good economic outcomes through a prospective FTA, policy-makers should also be aware that a successfully delivered, highly beneficial and highly transparent FTA between the two nations could help arrest some of the growing scepticism in both states against vital economic institutions such as liberalised trading regimes. Noting this broader importance for the prospective Australia-UK FTA, this report overviews the economic relationship between both nations, describes the potential benefits an FTA could bring for both states, and outlines the key principles that should be placed front and centre to ensure the Australia-UK deal garners popular support, and serves as a template for future negotiations.

This report begins by outlining the existing economic relationship between the UK and Australia. While neither Australia or the UK consider each other a primary trading partner, there already exists a genuinely significant economic relationship. Trade in goods and services has been growing in recent years, but investment between both economies is particularly substantial. Additionally, the transfer of labour between the UK and Australia and vice-versa is high. These attributes demonstrate the potential economic benefits a further liberalisation of this bilateral economic relationship could bring to both states.

In Part 2, the report outlines the political and policy context for an FTA between Australia and the UK. Since the UK voted to leave the European Union in June 2016, policy leaders and political figures in both the UK and Australia have voiced strong support for an Australia-UK

FTA. While it is argued that such a deal is not the top economic priority for either state, such a deal would still be extremely beneficial for both countries due to the significant symbolic value it carries for both sides. For the UK, a quickly negotiated and successful Australia-UK FTA would demonstrate that its post-Brexit trading future looks bright. For Australia, such a deal would help create closer ties with a valued economic and cultural partner.

Building on this strong political support, Part 3 of this report argues why an Australia-UK FTA is so important. It argues that the prospective deal's importance is considerable, because of the period in which it is being negotiated. Should the deal deliver real, tangible, positive economic results for both countries in a way that furthers the rights and future prospects of workers, it could help arrest a surge in populist, inward-looking economic sentiments that are becoming more appealing in both states.

Finally, Part 4 of this report lays out the six key principles that should be adhered to if the Australia-UK FTA is to succeed and provide a positive and popular model for future FTAs, including: strong labour provisions, independent and transparent cost-benefit analyses, an adequate scope that acknowledges the strong bilateral investment and labour mobility between Australia and the UK, the exclusion of any Investor State Dispute Settlement mechanism, environmental safeguards, and supply chain safeguards. These key principles, if adhered to, would ensure that the FTA's benefits for workers and ordinary citizens are maximised in both states, and provide a template for future FTAs for both the UK and Australia.

RECOMMENDATIONS

RECOMMENDATION 1

The Australia-UK FTA must include labour provisions that further the rights and future prospects of workers in both states.

RECOMMENDATION 2

Both participants in the Australia-UK FTA must transparently and independently publicise the costs and benefits such a deal could bring, setting a precedent for future negotiations and garnering public support.

RECOMMENDATION 3

The scope must be adequate to deliver tangible benefits to both economies, and should therefore include provisions regarding trade in both goods and services, investment, and labour mobility.

RECOMMENDATION 4

The deal should *not* include an Investor State Dispute Settlement provision, in order to maintain transparency and generate broader public support.

RECOMMENDATION 5

Environmental safeguards should be incorporated into the deal, reflecting both Australia and the UK's commitment to reducing emissions and improving the global environment.

RECOMMENDATION 6

The Australia-UK FTA should be used as an opportunity for both states to ensure the standards of supply chains across all industries meet a minimum standard to help eradicate global transgressions of workers rights, and end modern slavery.

QUICK FACTS

SCOPE FOR A UK-AUSTRALIA FTA

- The UK and Australia enjoy a modest but significant economic relationship, which in terms of trade is more significant for Australia than for the UK.
- The UK has a trade surplus with Australia. While the surplus peaked in 2013 and has since declined, it nevertheless increased by £3 billion between 1999 and 2016.
- The relationship is more significant in services than it is in goods: the UK is Australia's fifth largest market for service exports, and Australia is the UK's sixteenth biggest market.
- There are also significant flows of investment as well as large flows of tourists and holiday-makers between the two nations. However, the numbers of workers moving between the two states is relatively small.
- There is currently strong political will for an FTA.
- One way in which concerns about the social and economic impacts of the FTA can be addressed is through the use of "social provisions" within the FTA. A preliminary analysis suggests there are some areas where both the UK and Australia might wish to improve their labour market protections.
- Accordingly, as the UK regains control of trade policy outside the EU, there is a strong case for prioritising an FTA between the two countries. For the UK, this could be an important model FTA, which it could then use for building new trading relationships around the world. For Australia, it would be an important stage in expanding its trade with Europe.



QUICK FACTS

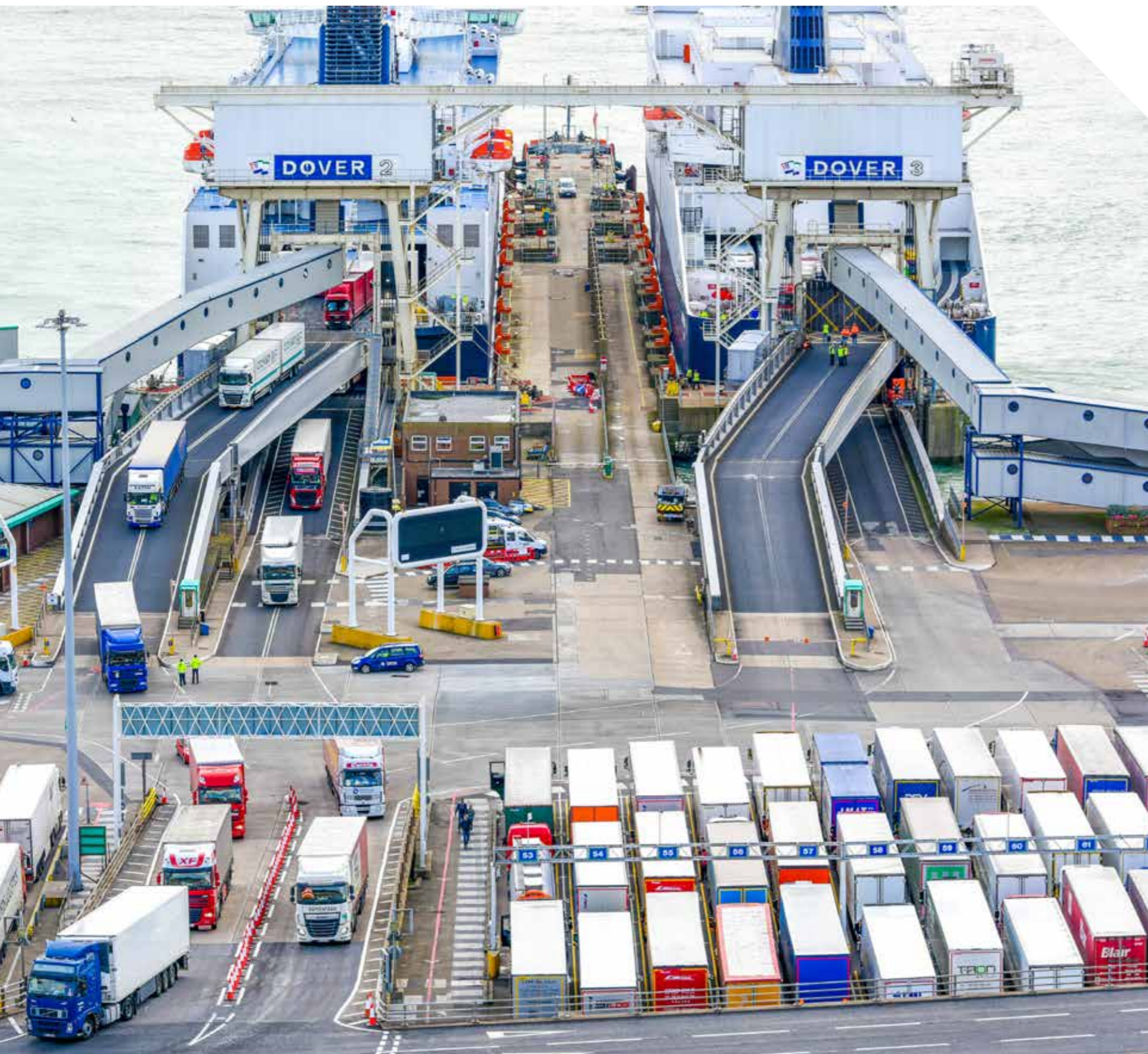
OPPORTUNITIES FOR THE UK

-  Australia is the sixteenth largest market for UK goods and services and the thirteenth largest for UK services. Excluding EU nations, Australia is the fourth largest market for UK services.
-  In services, transportation and travel are the UK's major exports to Australia.
-  In goods, the UK's major exports are passenger motor vehicles, pharmaceutical-related products and alcoholic beverages.
-  In 2016, the UK received the third highest amount of Australian Investment Abroad, valued at \$76.14 billion.
-  Australian firms have invested over £350 billion in the UK.
-  Around 80,000 Australians visit the UK each year. Australians are the fourth largest group of tourists in the UK.
-  Britons generally hold more favourable views towards free trade than many of their European neighbours. Surveys indicate that more than 30 per cent of British citizens would like to see an Australian FTA prioritised immediately after Brexit – ranking fourth of all countries.³
-  There is strong political momentum for an FTA, with support from the Prime Minister, as well as International Trade Secretary, Liam Fox. The former Australian High Commissioner, Alexander Downer, has also thrown his weight behind a future FTA. However, Brexit creates a great deal of uncertainty around the timing and details of any future trade deal.

QUICK FACTS

OPPORTUNITIES FOR AUSTRALIA

-  The UK is the eighth biggest market for Australian exports and the seventh largest source of imports.
-  Focusing on services in particular, the UK is the fifth largest market for Australian service exports and the second largest source of service imports.
-  By far the biggest goods export to the UK is gold, which reflects over 53 per cent of total merchandise trade.
-  The biggest service exports to the UK are travel and transportation.
-  In 2016, the UK was the fifth largest source of foreign direct investment into Australia.
-  Australia is a popular destination for UK visitors, with over 100,000 visiting each year.
-  Britons made up the second-largest nationality to use 457 visas, right behind India, and around 34,000 British citizens were on the visa in early 2017. The aim of the 457 visa was to allow skilled workers to work for an approved sponsor in Australia for a maximum of four years. In March 2018, the 457 visa was abolished and replaced with the new Temporary Skill Shortage (TSS) visa.
-  Public attitudes towards FTAs are generally positive,⁴ but becoming more sceptical.⁵ However, the Australian public have positive attitudes towards the UK.⁶
-  There is currently considerable political support for a UK-Australia FTA. The Australian government has committed to ensuring a speedy transition to FTA negotiations after Brexit,⁷ with Malcolm Turnbull stating he wants to sign an FTA with the UK as soon possible following Britain's departure from the EU.⁸
-  However, some are arguing that Australia would do better to prioritise a deal with the EU, India or Indonesia. While Malcolm Turnbull aims to move quickly with the UK following Brexit, he first wants to secure a FTA with the EU.⁹

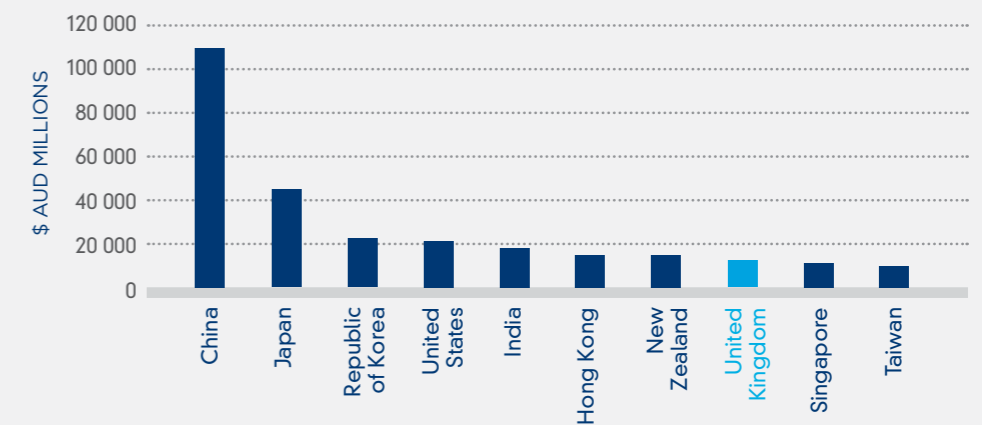


PART ONE: THE ECONOMIC CONTEXT

How significant is the economic relationship?

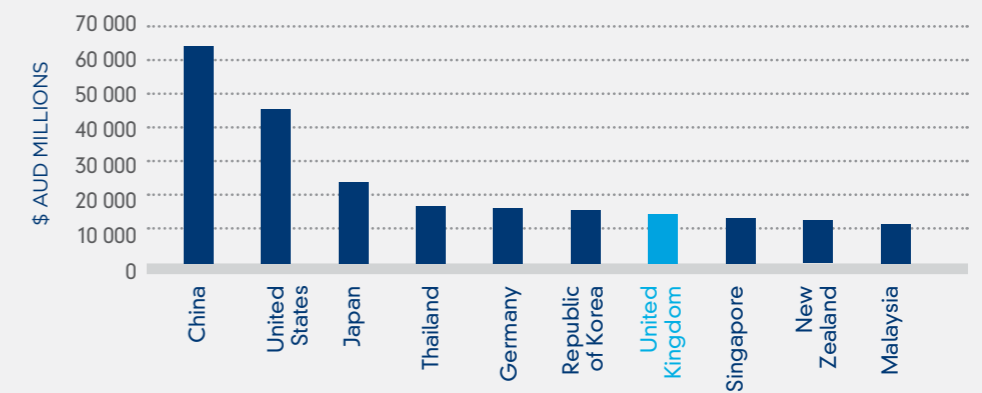
Australia and the UK have a modest economic relationship. It is more significant for Australia than for the UK, partly due to the different size of the two economies. For Australia, the UK is its eighth biggest market for exports, amounting to about 3.4 per cent of exports. The UK is the seventh biggest source of imports. The UK is Australia's most important export market outside the US and Australasia.

FIGURE 1.1 TOP 10 EXPORT MARKETS FOR AUSTRALIA



Source: Department of Foreign Affairs and Trade 2017¹⁰.

FIGURE 1.2 TOP 10 IMPORT MARKETS FOR AUSTRALIA



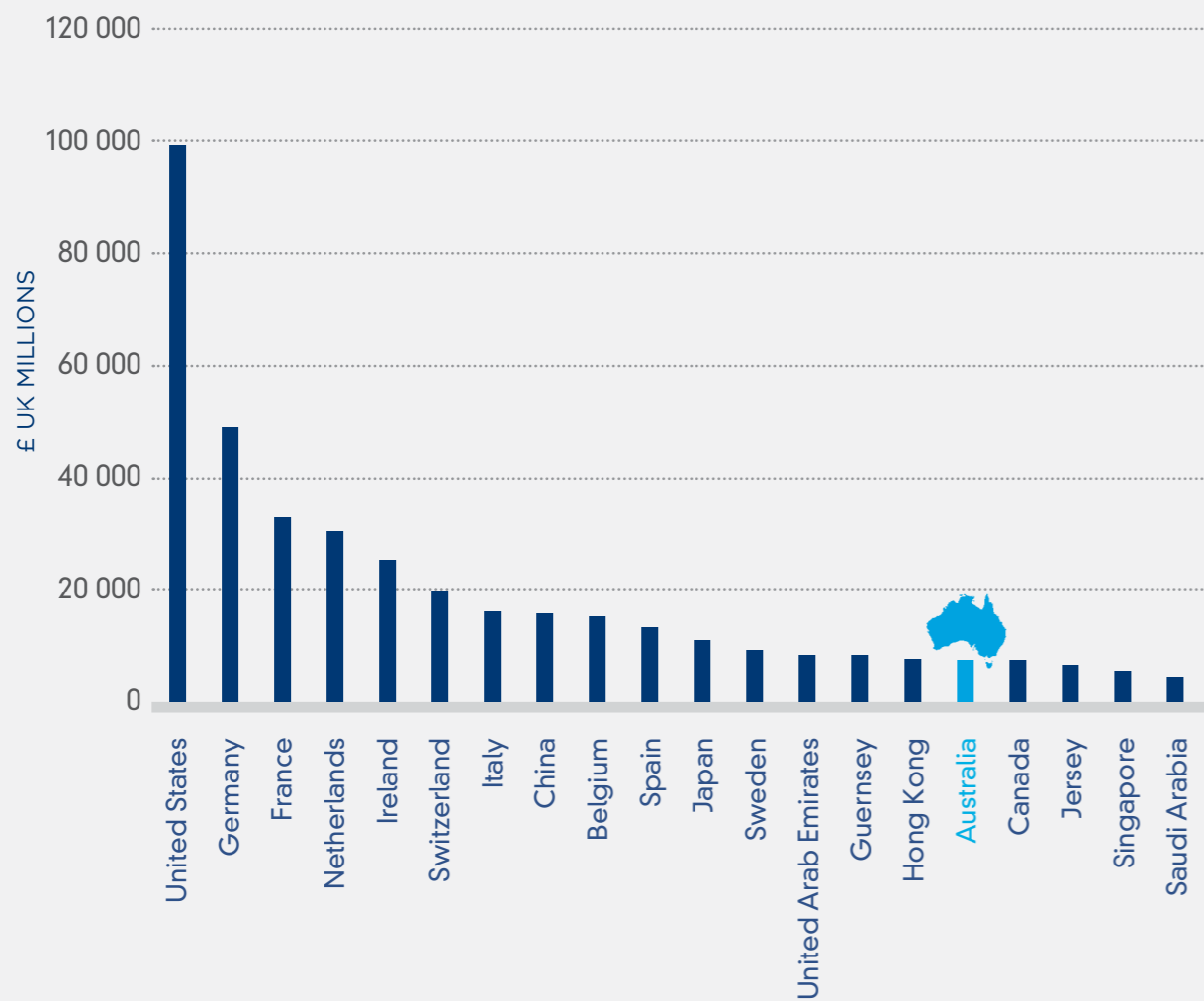
Source: Department of Foreign Affairs and Trade 2017¹¹.



However, the most significant aspect of the relationship is in relation to services. In 2016, the UK was the fifth largest market for Australian service exports (amounting to 4.1 per cent of the total), and the second largest source of service imports (6.7 per cent of the total).¹²

However, for the UK, Australia is somewhat less significant: it is the sixteenth largest market for UK exports (goods and services combined). However, it is the seventh largest non-EU destination. In goods, Australia ranks twenty-first largest but in services it is the thirteenth largest market. Excluding EU nations, Australia is the fourth largest market for UK services.¹³

FIGURE 1.3 TOP 20 EXPORT MARKETS FOR THE UK



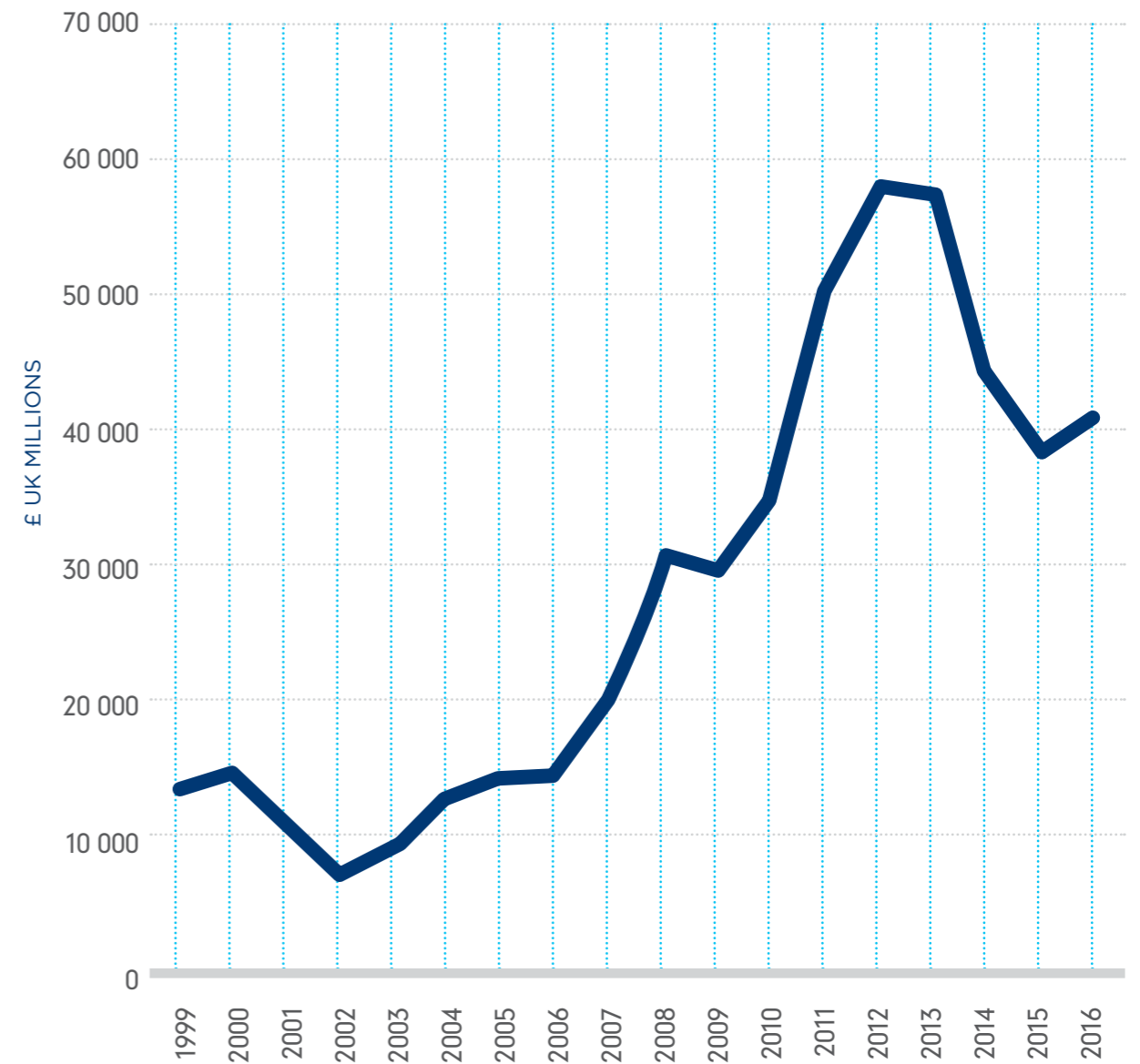
Source: Office for National Statistics 2017¹⁴

For imports, Australia is even less significant. It ranks as only the twenty-seventh largest source of imports for the UK. In goods terms, it is relatively insignificant — ranking just thirty-fifth. But once again, in services it is more significant: it is the fifteenth largest source of UK service imports.¹⁵

Trade patterns over time

Generally speaking, the UK has run a growing trade surplus with Australia. However, the surplus peaked in 2013 and has since declined considerably.

FIGURE 1.4 TRADE SURPLUS (UK £M)



Source: Office for National Statistics 2017¹⁶

Since 1999, UK exports to Australia have more than doubled while imports from Australia have also grown but more slowly.

FIGURE 1.5 EXPORTS TO AND IMPORTS FROM AUSTRALIA



Source: Office for National Statistics 2017¹⁷

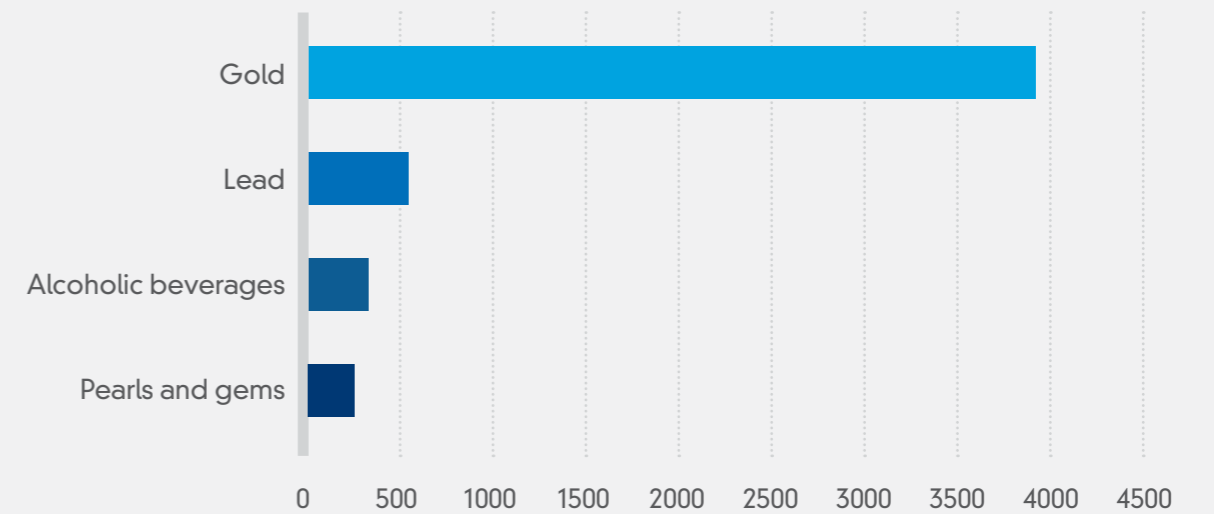


What sort of goods and services are traded?

GOODS

In 2016-2017, by far the most significant export to the UK from Australia was gold. Gold accounted for A\$3.91 billion, or 53.6 per cent of total merchandise trade. Reflecting Australia's focus on mining, gold was followed by lead, alcoholic beverages and pearls and gems.

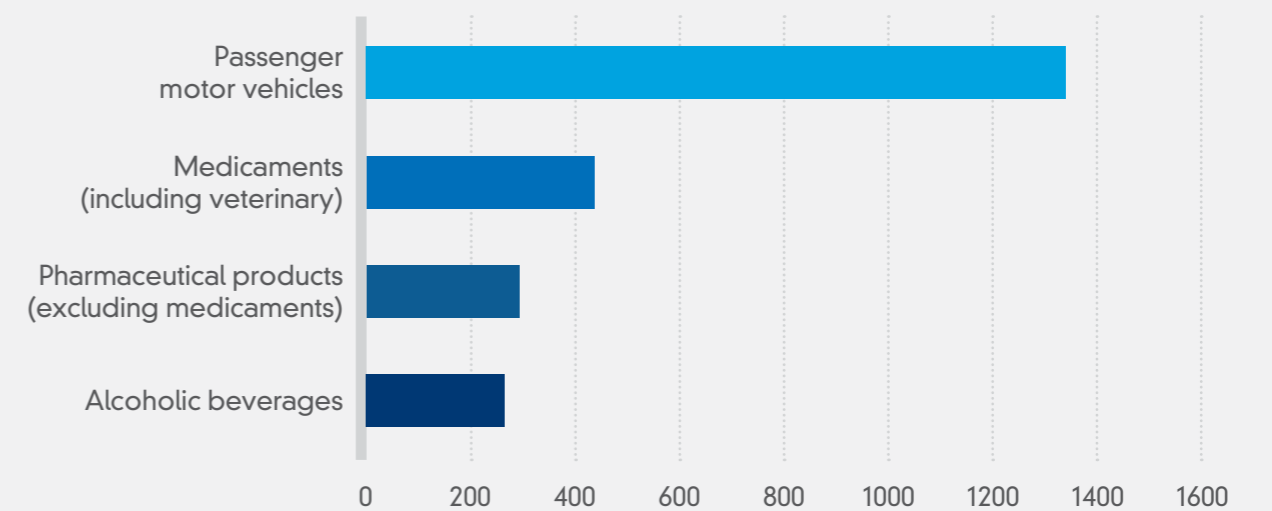
FIGURE 1.6 MAJOR EXPORTS TO THE UK (A\$ MILLIONS)



Source: Australian Government, Department of Foreign Affairs and Trade 2017¹⁸

On the other hand, the largest export from the UK to Australia in 2016-2017 was passenger motor vehicles, which amounted to A\$1.34 billion. This was followed by pharmaceutical-related products and alcoholic beverages.

FIGURE 1.7 MAJOR IMPORTS FROM THE UK (A\$, MILLIONS)

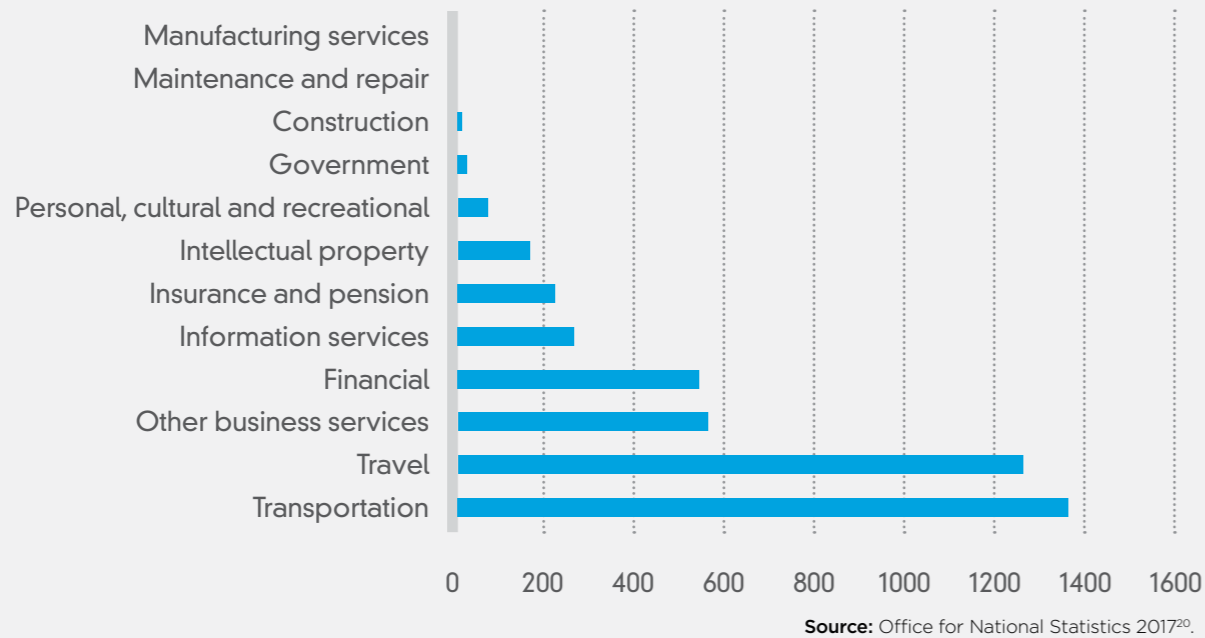


Source: Australian Government, Department of Foreign Affairs and Trade 2017¹⁹

SERVICES

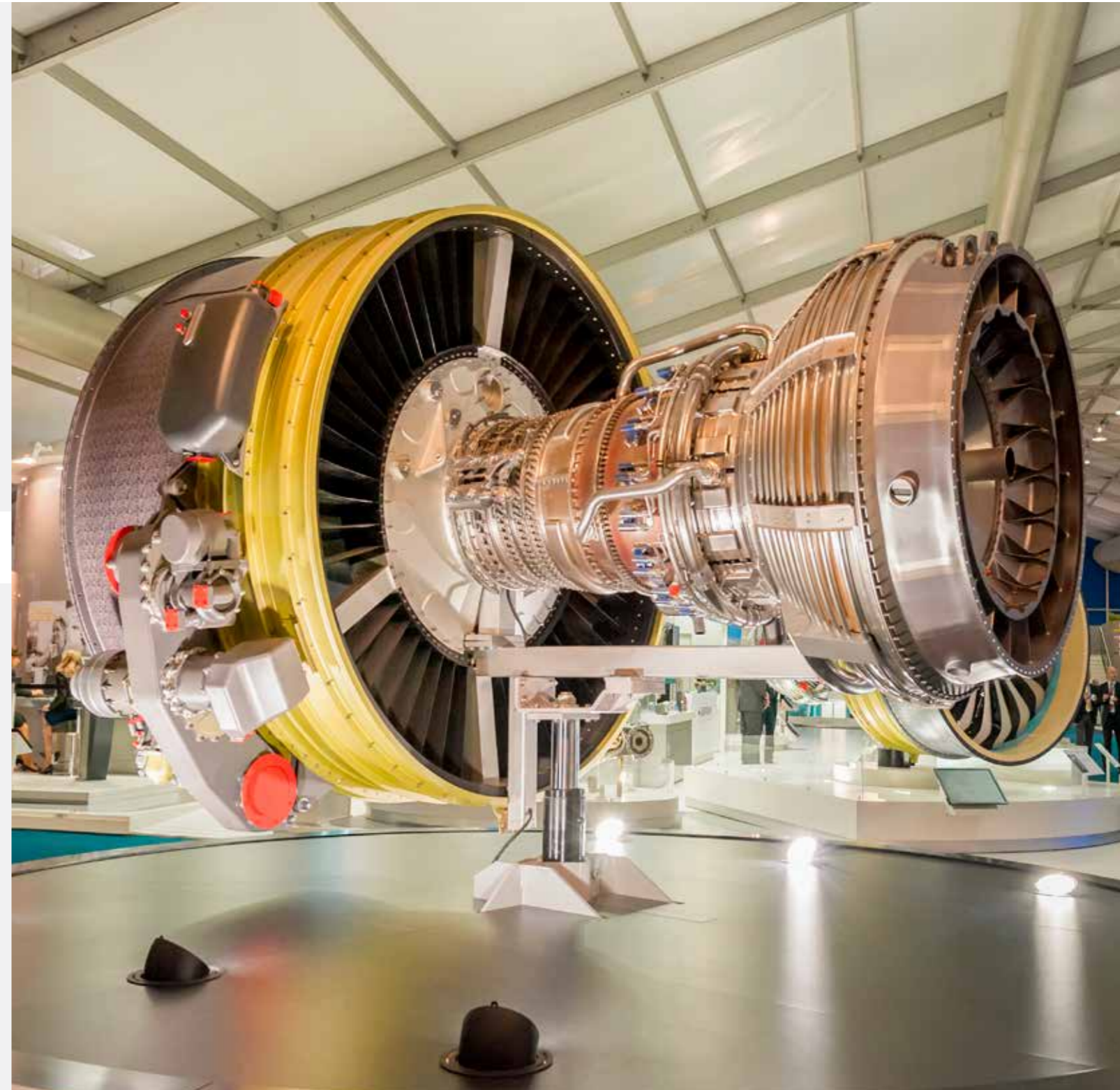
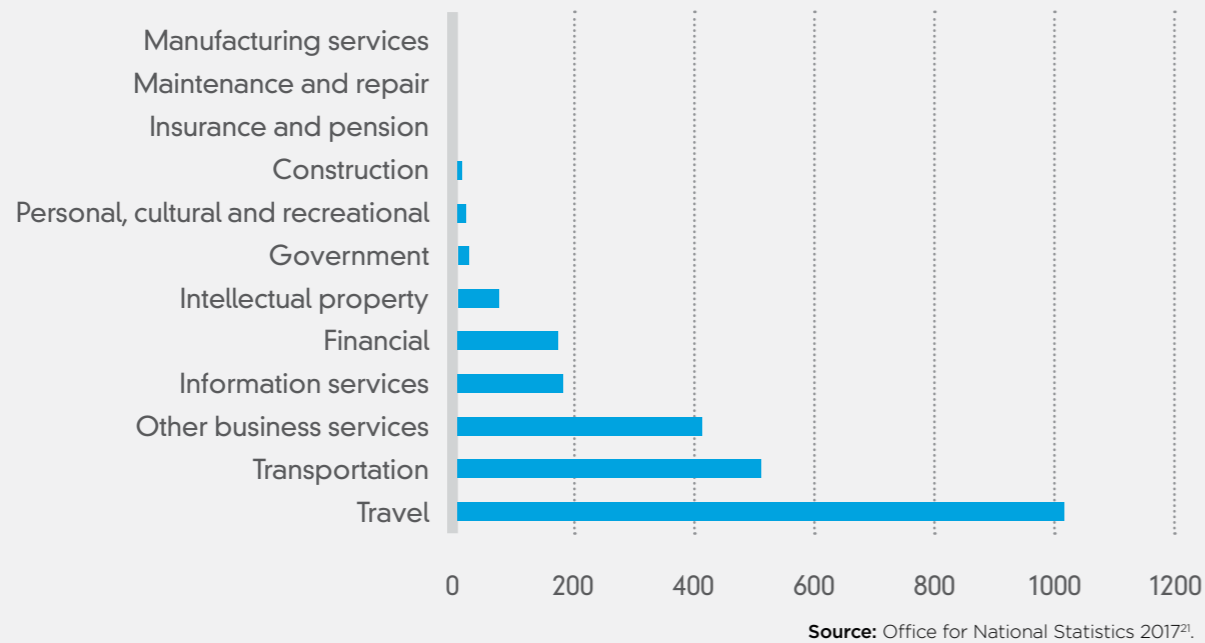
From a British perspective, the largest service exports are transportation (£1.4 billion) and travel (£1.3 billion). After that, other business services (£559 million) and financial services (£541 million) are also quite significant.

FIGURE 1.8 SERVICE EXPORTS TO AUSTRALIA FROM UK (£ MILLIONS)



For Australia, travel is also a significant source of income, generating over £1 billion. Transportation services is the next largest earner (£510 million), followed by other business services (£403 million).

FIGURE 1.9 SERVICE IMPORTS TO UK FROM AUSTRALIA (£ MILLIONS)

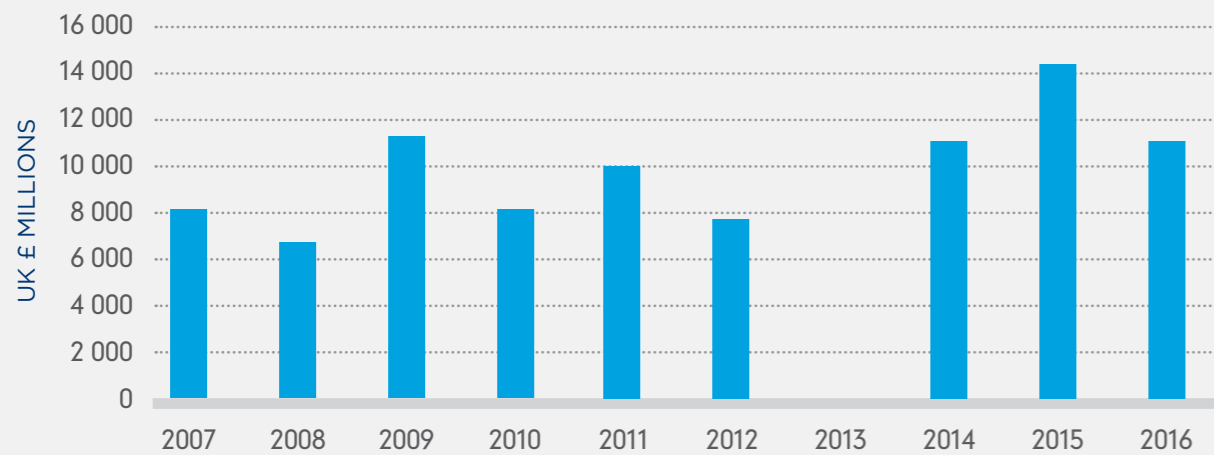


What are the investment levels between the UK and Australia?

As well as trade, there are also significant flows of investment between the two nations.

Australia has invested over A\$350 billion into the UK.²² Flows of net Foreign Direct Investment (FDI) into the UK from Australia were £11.14 billion in 2016. The overall inward FDI position of Australian firms into the UK has consistently been over £11 billion since 2014.

FIGURE 1.10 INWARD FDI INTO UK FROM AUSTRALIA (£ MILLIONS)



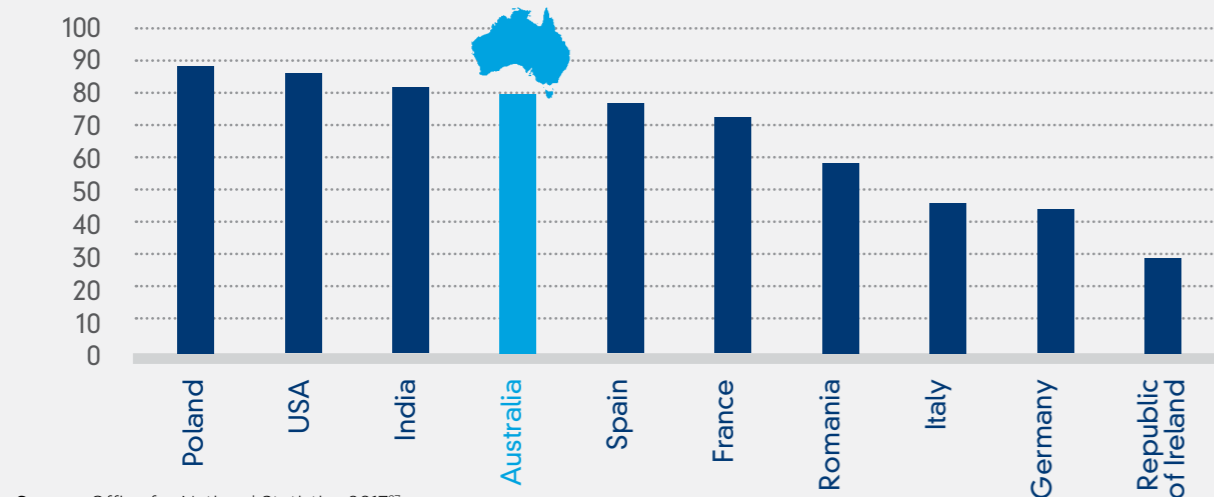
Source: Office for National Statistics 2017;²³ Note data for 2013 is unavailable.

In 2016, the UK was the fifth largest source of foreign direct investment into Australia, contributing \$16.81 billion.²⁴ The United Kingdom also received the third highest amount of Australian Investment Abroad (AIA), valued at \$76.14 billion.²⁵

How common is migration between Australia and the UK?

With a long, shared cultural history, there are significant flows of people between Australia and the UK. Specifically, in terms of visitors who come to the UK for less than 12 months, Australia is the fourth largest source of short-term migrants, with around 80,000 Australians entering the UK for a short-term stay in 2015.²⁶

FIGURE 1.11 SHORT TERM MIGRANTS INTO UK BY COUNTRY OF RESIDENCE 2015 (000S)

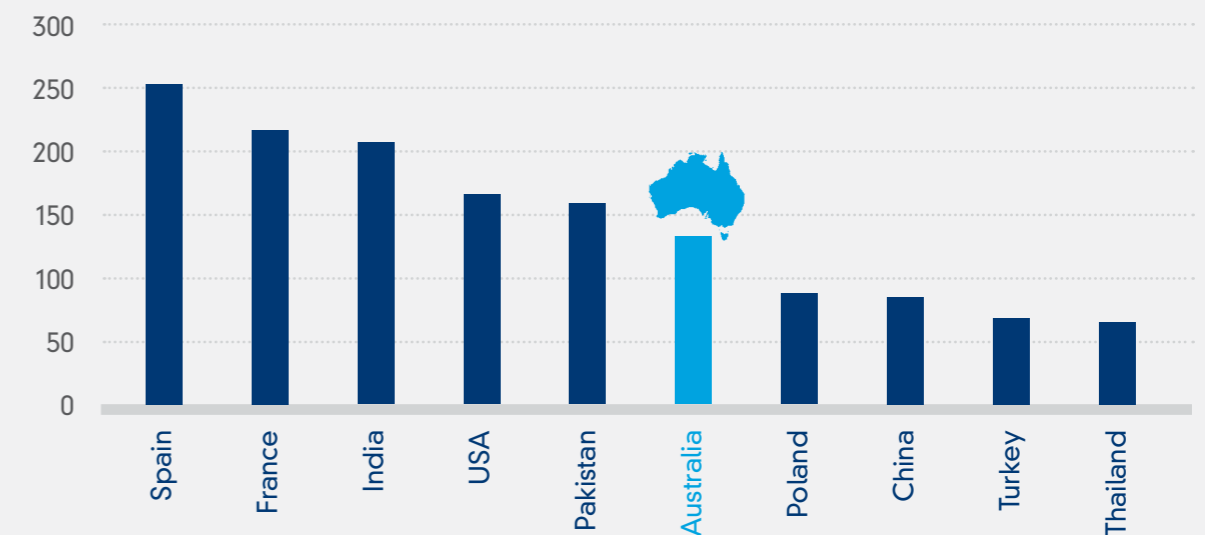


Source: Office for National Statistics 2017²⁷



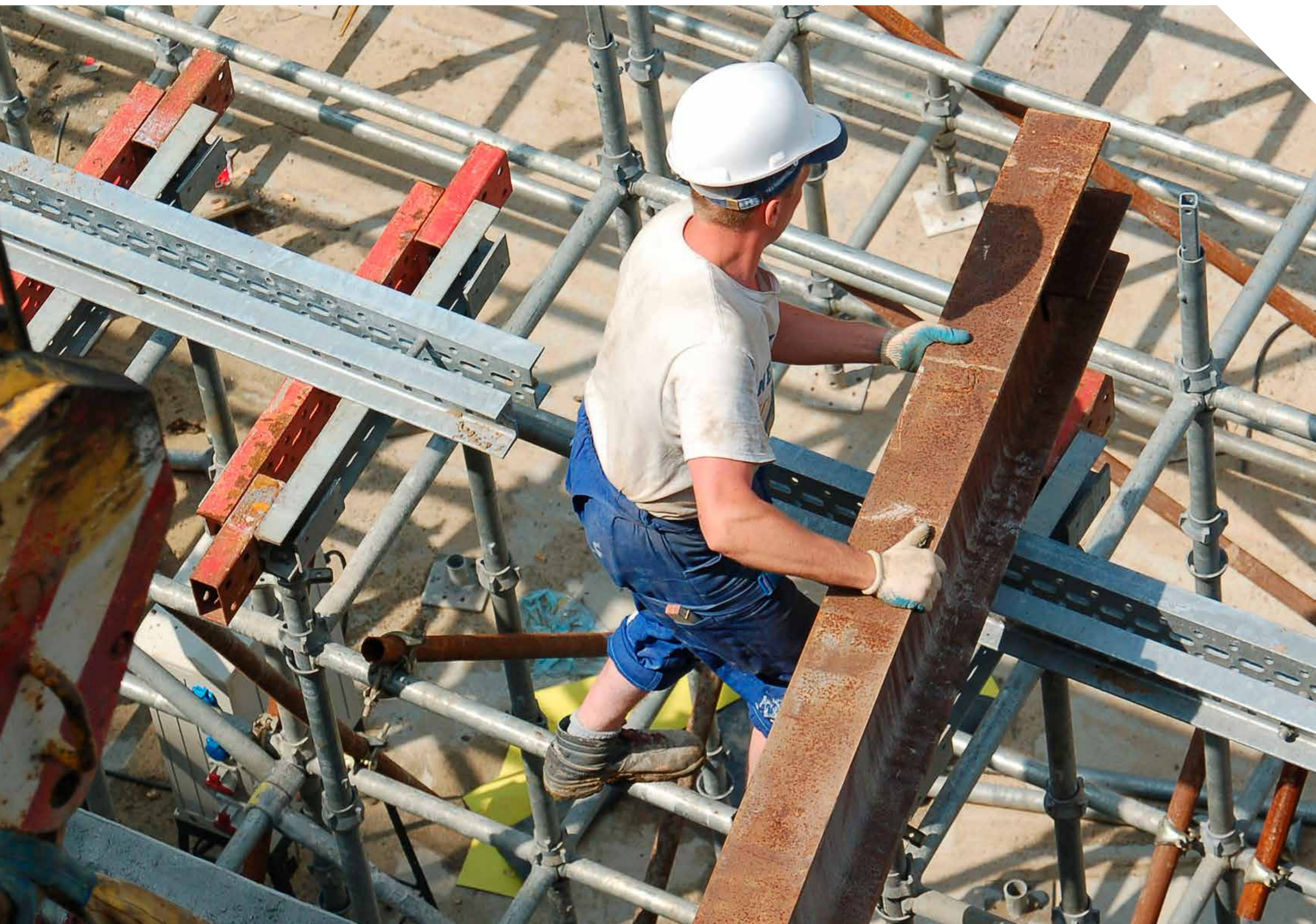
Australia is also a significant destination for UK visitors. As of 2017, it is the sixth most popular destination for short-term migrants from the UK, although this market appears to be somewhat exposed to currency fluctuations.³¹

FIGURE 1.12 SHORT TERM MIGRANTS FROM UK BY DESTINATION 2015 (000S)



Source: Office for National Statistics 2017²⁹

The vast majority of short-term visits are for tourism or holiday reasons. If an Australian wants to come to the UK to work, they generally require a visa unless they are playing in a sports match, performing in a concert or attending a conference. If a person wishes to transfer to the UK branch of an Australian company, they require a Tier 2 visa.³⁰ These visas allow workers to stay and work in the UK for typically up to 5 years. However, workers must be sponsored by their employer, be able to prove they have sufficient savings and have an appropriate salary (usually at least £30,000 per year or the 'appropriate' rate for the job - whichever is higher).³¹



Alternatively, Australians can apply for a Tier 5 visa, which are intended for people coming for a short time to do training, research or work experience. Again, a sponsor is necessary, and applicants need to be able to prove they have sufficient savings.³² Each year, around 21,000 visas are issued to Australians and there was a 17 per cent increase in Tier 2 work visas between early 2017 and early 2018.³³

Comparatively, to work in Australia, UK residents are required to hold one of several types of Australian working visas. While there are multiple types of working visas for UK citizens to seek if they choose to work in Australia, the most common visas are Working Holiday Visas, and Temporary Skill Shortage (TSS) visas. Australian Working Holiday visa holders are permitted to do any kind of work of a temporary or casual nature for typically up to one year. The main purpose of the visa is holiday and travel so work for longer than six months with any one employer is not allowed.³⁴

Foreign workers wishing to seek employment in Australia for a longer-term must now apply for a Temporary Skill Shortage (TSS) visa. This visa replaced the Temporary Work (Skilled) visa (subclass 457 visa) in March 2018.³⁵ The TSS allows a holder to work at an approved business in an approved occupation for between one and four years, depending on the nominated occupation, the visa stream and individual circumstances.³⁶ While still in place, Britons made up the second-largest nationality to use the visas, right behind Indians, with around 34,000 British citizens on the visas in early 2017. Between 2012 and 2017, around 18,000 Britons were granted the visa each year.³⁷

PART TWO: THE POLITICAL AND POLICY CONTEXT

Political context in the UK

Ever since the UK voted to leave the EU in 2016, the Prime Minister and senior Government ministers in the UK have highlighted the potential for, and importance of, forging new trading agreements with countries outside the EU. Notably, this has included the USA³⁸, India³⁹, Canada⁴⁰, China⁴¹, and Australia.⁴² The UK will also wish to establish an FTA with the EU post-2019, depending on the outcome of the forthcoming Brexit negotiations. As the Prime Minister explained in January, 2017:

“At the heart of the plan I set out earlier this week, is a determination to pursue a bold and ambitious Free Trade Agreement between the UK and the European Union. But, more than that, we seek the freedom to strike new trade deals with old friends and new allies right around the world as well.”⁴³

However, for a variety of reasons, an FTA with Australia has increasing political momentum. Relations between the UK and Australia are positive, and there is a long history based on common social, cultural and people-to-people ties. For the UK, the establishment of an FTA with Australia — particularly one that could feasibly be struck relatively quickly — would have a number of political benefits for the current Government, demonstrating that the nation is ready to forge such deals outside the EU, and offering a model that could be replicated more widely with other historical partners.

Another reason for prioritising a deal with Australia is the fact that FTAs with other major economic powers, although potentially of greater economic significance, may carry larger practical and political obstacles. For example, the Prime Minister’s visit to India in 2016 after the Brexit vote, which was intended to reassure regarding the UK’s healthy trading prospects, was somewhat overshadowed by the lack of agreement between the two leaders on how immigration would factor into a potential future FTA.⁴⁴ Similarly, although President Trump has spoken positively about the prospects of a UK-US Agreement, his rhetoric to put ‘America First’, and the uphill battle his administration already faces to encourage his ongoing support for existing trade relationships, suggests any such deal is likely to face a number of hurdles.⁴⁵ The huge political and citizen backlash that arose when Liam Fox, UK Secretary of State for International Trade, argued that the current ban on chlorine-washed chicken should be lifted to secure a trade agreement with the US has further hampered the possibility of securing such a deal.⁴⁶



Political context in Australia

The concept of an Australian-UK FTA has strong support with senior ranks of government (including the Australian Minister for Trade) and would be supported by the current opposition should it form government in coming years.

Australia's current Government, the centre-right Liberal-National Coalition, has a strong historic connection with the incumbent Conservative government in the United Kingdom. Many members of the Australian government, notably including the former Prime Minister Tony Abbott, have been vocal supporters of UK's decision to leave the EU, with this support being driven by their confidence that it could lead to even stronger economic and political relations with the United Kingdom.

Australian foreign and trade policy enjoys a tradition of strong bipartisanship, with both major parties of government, the centre-right Liberal-National Coalition and the centre-left Labor Party, being strong advocates for the proliferation of free trade. Indeed, a certain element of 'point scoring' has crept into Australian political debate, with both major parties regularly touting the number of FTAs they managed to secure in government as a key campaigning tool. This suggests that, although it is possible that a change of government could occur at the next scheduled Australian federal election in late-2018/early-2019, any progress towards an Australia-UK FTA would likely continue irrespective of future electoral results.

Additionally, Australia was among the first nations to declare its interests in pursuing an FTA with the United Kingdom after the June 2016 Brexit vote. In September 2016, the trade ministers of the United Kingdom and Australia established a 'Trade Working Group' that would meet twice annually beginning in 2017 to discuss the parameters of a 'future ambitious and comprehensive Australia-UK Free Trade agreement'.⁴⁷ This early commitment from the Australian government to a prospective FTA with the UK signals its clear intention to be among the first nations to enter into an FTA with the UK after it formally leaves the European Union.

Current UK – Australia trade policy

As a member of the European Union, the UK's trade policy has been entirely administered by the EU for decades. While there is no current FTA between the EU and Australia, in 2008, the EU-Australia Partnership Framework was finalised - designed to encourage trade in mostly industrial products, and involving mutual recognition of conformity to certain standards.⁴⁸ There is a tentative agreement to begin negotiations for an FTA between the EU and Australia in the near future.

However, in the meantime, Australian goods and services entering the UK are currently subject to EU tariffs, quotas and other restrictions, based largely on the World Trade Organisation framework. In some cases, for example, animal products such as beef, these are quite restrictive and an Australia-UK FTA might be seen as a potentially lucrative way of increasing exports.⁴⁹

The UK was once a major export market for Australian produce, particularly agriculture, and the trade profile of such industries suffered when the UK joined the European Union, encouraging Australia's pivot towards more profitable regional markets.⁵⁰ Today, Australia can sell its services to the UK, but, being outside the Single Market, those firms doing so will face more regulatory and licensing hurdles than comparable EU companies. There is significant potential for a new FTA to restore and enhance lost agricultural trade between Australia and the UK, however recent public debate on this issue in the UK has highlighted some of the challenges in play due to divergences in agricultural standards. In particular, the issue of hormone-treated beef stoked vociferous opposition in Britain and underlined the difficult task facing the Government after Brexit to explain the trade-offs contained within such negotiations to a sceptical public.⁵¹

Trade policy in Australia

Australia currently has ten FTAs in force. These include agreements with New Zealand, Singapore, US, Thailand, Chile, ASEAN, Malaysia, Korea, Japan and China. There are also three FTAs that have been concluded but are not yet in force and eight FTAs currently under negotiation. Those FTAs that have been concluded include those with the Gulf States, India, Indonesia, the Pacific region and Hong Kong, an Environmental Goods Agreement with WTO members, an economic partnership with the ASEAN market and the Trade in Services Agreement (TiSA) between Australia, the EU and the United States.⁵² In March 2018, the Comprehensive and Progressive Treatment for Trans-Pacific-Partnership (TPP-11) was signed, following the withdrawal of the US from the Trans-Pacific Partnership (TPP). The TPP-11 incorporates the provisions of the original TPP, with the exception of a limited set of provisions that are to be suspended.⁵³

The Trade in Services Agreement (TiSA) — a services-only trade agreement being led by Australia, the EU and the US and involving 23 countries — is of particular significance.⁵⁴ The purpose of this agreement is to open-up trade in services by removing non-tariff and regulatory barriers. It aims to cover a broad range of services, including financial services, telecommunications, transport and professional services. The talks were supposed to conclude in 2016, but the agreement has not yet been finalised.⁵⁵ If the UK leaves the EU, it's possible that it will join the group of nations negotiating the TiSA.

Goods that are currently imported into Australia are subject to the *Customs Tariff Act 1995*. Australia also has commitments under the World Trade Organisation on export subsidies, tariffs and quotas. Businesses importing into Australia must comply with current government regulations, duty taxes, permits and quarantine treatments that apply to imported goods. Imports that violate these standards can be seized by the Australian Department of Immigration and Border Protection.

Public attitudes towards closer economic ties

Both the UK and Australia are countries with broadly liberal, free-market economies. In the UK, despite the vote for leaving the EU, the vast majority of citizens (90 per cent) still favour retaining a free trade agreement with the EU⁵⁶ — with the decision to leave based less on economic constraints and more on the movement of people and judicial oversight. Surveys conducted by YouGov indicate that Britons will prioritise trade with the United States, the European Union, China and Australia — in that order — after Brexit, indicating there is a strong level of support for the development of a swift Australia-UK FTA.⁵⁷

For decades, Australia has been a supporter of trade liberalisation and has committed itself over the years to reducing trade barriers and other restrictions. In Australia, public attitudes towards free trade agreements are generally positive, but like many nations, have grown more sceptical over time. According to a recent survey, 48 per cent of citizens think FTAs benefit Australia, with 30 per cent thinking they are harmful. A majority thought they were good for Australia's relations with other nations.⁵⁸ Other surveys have reached similar conclusions.⁵⁹ The National Trade Survey conducted by the Australian Chamber of Commerce and Industry found that a majority of the respondents considered potential free trade agreements with India and Indonesia to be key government priorities.⁶⁰

However, there are also some concerns in Australia about free trade and foreign investment. Some are uncomfortable about the levels of foreign investment, particularly from China. Australia has been resisting Chinese demands to grant it the same investment rights as those given in the United States and New Zealand due to the lack of support from the public and certain government bodies for investment from China.

Furthermore, the preferential and discriminatory nature of FTAs have been frequently raised as an issue by the Productivity Commission, which questions the extent to which such agreements

benefit the Australian economy.⁶¹ The Australian International Business Survey of 2015 captured data from over 1200 Australian businesses from 19 different sectors, and even though approximately 71 per cent of the respondents exported to at least one market where an FTA was in operation, there was widespread ignorance about the existence of certain FTAs and how these could benefit their businesses.⁶²

Nonetheless, Australians are generally positive about the prospect of closer economic ties with the UK. While there is no specific public polling on the issue of an Australia-UK Free Trade Agreement from the perspective of Australian citizens, the Lowy Institute's annual 'feelings thermometer' — which measures Australians' feelings towards other countries on a 0-100 degree scale — finds that Australians consistently favour the UK highly. Only Canada and New Zealand have rated 'warmer' on this scale.⁶³ While these measures do not specifically relate to the issue of free trade, they do suggest that Australians are receptive of a closer engagement with the United Kingdom. This positive sentiment towards the United Kingdom, coupled with the Australian public's support for free trade more generally, suggests the political case for an Australia-UK Free Trade Agreement would be highly likely to succeed in Australia.

Early developments of an Australia-UK FTA

In 2016, Australia and the UK agreed to establish a bilateral Trade Working Group to begin scoping out the parameters for a future Free Trade Agreement. An initial meeting was held in December 2016 between UK Minister for Trade Policy, Lord Price CVO and Australian Minister for Trade, Tourism and Investment, Steven Ciobo MP. The group aims to meet annually, beginning in early 2017.

The former Australian High Commissioner, Alexander Downer, has spoken warmly about the prospects for a deal.⁶⁴ However, he also highlighted that an FTA might have to include looser restrictions on immigration for Australian workers.⁶⁵ Polling suggests, however, that the British people are more favourable towards Australian immigration than towards many other nations.⁶⁶ Coupled with the political imperative for the UK to demonstrate its success in negotiating agreements, suggests that immigration will not be an obstruction.⁶⁷ Tony Abbott, the former Australian Prime Minister, has called for a simple FTA between the two nations,⁶⁸ a view seemingly shared by current Prime Minister Malcolm Turnbull.⁶⁹

Liam Fox, the UK International Trade Secretary, has made a personal submission to Australia's Joint Standing Committee on Foreign Affairs and Trade in support of a potential FTA.⁷⁰ However there are some signs that the mining industry, for example, is more interested in an FTA with India or Indonesia.⁷¹ At the same time, Australia is in the midst of early talks with the EU about an FTA.⁷² Recent public debate regarding the opening of British food markets to Australian produce through such trade agreements⁷³ suggests that forging an accord around agricultural standards will stand as a crucial hurdle to the political and public acceptance of an FTA in Britain.





PART THREE: WHY AN AUSTRALIA-UK FTA IS SO IMPORTANT

The debate surrounding the prospective Australia-UK free trade agreement comes at a pertinent time in the economic histories of both Australia and the United Kingdom, and indeed the world. For the past several decades, the political consensus towards embracing free trade has been largely inarguable. While there are often controversies surrounding specific elements of certain FTAs, they have proliferated exponentially since the broad liberalisation of the global economy in the 1980s.

While the 1947 signing of the General Agreement on Tariffs and Trade (GATT) — an international deal that sought to lower protectionist walls throughout the global economy in the wake of the Second World War — was the first step towards widespread liberalisation, only in recent decades have bilateral and multilateral trade agreements become commonplace. Australia alone currently has ten FTAs and numerous other forms of trade agreements or investment agreements in force, while the European Union, in which the UK will remain a full Member until 2019, has over fifteen in place, with many more currently being negotiated.⁷⁵

The liberalisation of global trade has also coincided with rising living standards in both the developed and developing world, with annual Gross National Income per capita rising on average from around US\$1000 in the mid-1970s to US\$10,000 today, adjusted for inflation.⁷⁶ However, while wealth has been broadly increasing, these past decades of economic growth have also exacerbated income and wealth inequality.⁷⁷ Nevertheless, it is widely established that liberalised trade helps both developed and developing economies while protectionist measures make it harder for states to maintain long-term economic growth.

This prevailing orthodoxy, however, is now being questioned across the world, particularly after the shock that rippled through the global economy in 2008-2009: the Global Financial Crisis. Since the crisis, the climate of scepticism and hesitancy towards globalisation and liberalised trade has risen in both Australia and the UK as well as internationally.⁷⁸ A successfully negotiated Australia-UK FTA that ensures protections for workers and positive growth prospects for both participating states would help calm public scepticism and ensure that both nations can engage with the global economy with increased public confidence.

Public attitudes towards free trade and global markets

One of the pre-eminent challenges for any nation in its pursuit of a more open economy is ensuring that workers who are disrupted by a liberalising economy are listened to, accommodated and supported as economies transition. Mansfield and Muntz articulate the challenge facing most economies as they embrace increasing openness:

“ Open trade increases the demand for skilled workers....As the demand for such workers rises, so do their wages. Conversely, heightened trade decreases the demand for low-skilled labor and depresses its wage rate since goods produced using such labor intensively can be produced more efficiently abroad.”⁷⁹

This impact on lower-skilled workers must be addressed in all free trade agreements to ensure that the domestic workforce is not left significantly worse off as, when this occurs, the support for open economies dwindles.

Spilker et al. argue that the implementation of genuine safety nets are vital in order to generate public support for globalisation and economic openness:

“ In essence, social safety nets, which are at the heart of this so-called ‘compensation hypothesis’, redistribute income from individuals benefiting from economic openness to those experiencing negative effects. By implication, social safety nets should also mitigate opposition to economic openness.”⁸⁰

This basic rule, however, has not been satisfied in recent years across much of the developed world. In the UK, wage stagnation has been endemic since the financial crisis,⁸¹ while in Australia, wage stagnation for many workers on median incomes or lower has also become entrenched.⁸² At the same time, higher income earners in both countries are continuing to benefit from the openness of their economies. The basic ‘compensation hypothesis’ principals outlined by Spiker et al are simply not being adhered to to the extent that is required to maintain widespread public confidence in a globalised economic outlook.

It should be noted that public levels of support for globalisation, free trade and open economies are not simply motivated by personal self-interest, but also by a commitment to the national interest. While the self-interest narrative is common and widely utilised in the academic literature regarding the determinants of support for globalisation, concerns over national well-being also influence many citizens’ preferences. Previous Demos research has shown that citizens’ assessment of the value of globalisation differs between regional, national and personal levels.⁸³

This ‘sociotropic’ response to globalisation is part of a two-sided challenge for governments who advocate for more open economies. These governments must ensure that individuals are not adversely affected but also clearly state and explain the benefits to the broader economy. Simple rhetorical justifications will fail to garner the required public support to ensure trade deals

continue to proliferate. Rather, evidence-based arguments must also be paired with empathetic understanding of the emotions behind citizens’ collective and individual interests.

While Australians and Britons remain prosperous on a global scale, the financial crisis has encouraged them to feel less certain about their economic futures and public confidence in established economic norms and institutions – including free trade – has been severely impacted. For many citizens, globalisation has come to symbolise the erosion of national agency against global interests, which may not always satisfy national interests. The idea that their national governments hold limited influence over the forces that shape their wellbeing has coincided with falling levels of trust in national institutions and a rising anti-establishment sentiment.⁸⁴ As the IMF has noted,⁸⁵ it has also encouraged citizens and governments to support protectionist policies to safeguard industries they believe are crucial to their prosperity from global market interventions.

While free trade remains popular in both Australia and the United Kingdom overall, rising concerns about inequality and skepticism concerning the national benefits of international engagement are turning attentions inward in both countries. In the United Kingdom, the Labour Party won unexpected support for its 2017 General Election manifesto promising the re-nationalization of major industries. In Australia, which has experienced some of the disruptions felt by other advanced economies in the immediate aftermath of the crisis since 2013, attitudes towards globally competitive markets have also hardened.⁸⁶

One notable shift has been the decline in traditional manufacturing and the Australian automotive industry. While manufacturing broadly maintains a strong future in Australia as it embraces more diversity and newer technologies,⁸⁷ the highly publicised collapse of the national automotive sector ensured that Australians no longer felt immune from the ruptures occurring throughout the global economy. Scapegoats for these changes are often centred on three separate but highly interlinked issues: immigration, the globalisation of the Australian economy and, increasingly, free trade.

Australia has managed to negotiate a number of landmark free trade agreements in the decade since the financial crisis. Deals with China, Japan and South Korea have all gone into force, with the Australian Parliament also ratifying the Trans-Pacific Partnership in 2015, prior to the United States’ withdrawal from this multilateral agreement. While these free trade deals have generally been supported by the Australian public, concerns over the impact to certain industries have also been voiced. As traditional manufacturing has gradually declined in Australia, so too have associated industries. The China-Australia FTA has, in many people’s eyes, further undermined these industries, with fears that Chinese manufactured goods may be more readily ‘dumped’ into the Australian economy and Chinese workers may be too readily imported,⁸⁸ damaging local business prospects and potentially undermining long-term support for free trade agreements like those between Australia and China.

The Trans-Pacific Partnership (TPP) has been particularly controversial in the Australian context because of its perceived impact on Australian sovereignty and the potential economic damage it may cause to the Australian economy. Although the TPP has been signed by Australia and all signatory states, the decision of US President Donald Trump in January 2017 to remove the United States from the deal led to it being stalled until the Comprehensive and Progressive Agreement for Trans-Pacific-Partnership (TPP-11) was signed in March 2018 in Santiago, Chile. Although the US is now reconsidering their decision to leave the TPP,⁸⁹ controversy remains surrounding its perceived support of big business at the expense of workers.⁹⁰

There were two key reasons why the TPP was so controversial within Australia, and learning from these can ensure future FTAs do not repeat the same mistakes. The first was a lack of clear evidence in the Australian context regarding the specific economic benefits of the deal. No cost-benefit analysis was provided to the Australian public highlighting the specific number of jobs that would be created or the specific growth in GDP that could be expected from such a deal.



Instead, the Government relied primarily on simply arguing that the TPP — like all free trade deals — would automatically be beneficial to the economy. The failure to specifically explain the benefits for Australia that the TPP would bring undermined the Government's ability to gain support of it.

ISDS provisions are highly controversial in Australia and shouldn't be part of an Australia-UK FTA

The second controversial element of the TPP was its inclusion of an Investor State Dispute Settlement (ISDS) provision that would see disputes between companies and states being settled in private arbitrations.⁹¹ ISDS provisions are among the most controversial elements of any free trade deal. Proponents argue that they are vital in ensuring the specifics of a free trade deal are adhered to by all parties and that ISDS provisions encourage businesses to engage with foreign signatories to FTAs. Opponents, however, argue that ISDS provisions undermine state sovereignty, allowing private enterprises to legally challenge foreign states without

the transparency that would be expected in national or international courts of law. In the case of the TPP, the ISDS provisions were particularly controversial in Australia due to the unrelated legal dispute between a major tobacco manufacturer and the Australian Government that occurred at the same time as early negotiations of the TPP.⁹²

The tobacco company attempted to sue the Australian Government after it introduced laws mandating that all tobacco products be sold with plain packaging. Using a clause within an Australia-Hong-Kong bilateral investment treaty (BIT), the tobacco company attempted to sue Australia for millions of dollars. While ultimately unsuccessful, the lengthy legal proceedings cost Australian taxpayers and made the prospect of similar future legal challenges under ISDS provisions highly controversial. As this report argues, an ISDS provision is not necessary in the context of an Australia-UK FTA. Excluding such a provision will not only make the deal less controversial and expedite the negotiation process but it will also allow the Australia-UK FTA to garner wider support amongst the public in both countries.

Despite controversy concerning ISDS provisions and the impacts of free trade agreements in Australia and the palpable scepticism towards globalisation in both Australia and the UK, the concept of free trade remains one of the few ways in which both Australia and the United Kingdom can further elevate the living standards of their populations. To advance support for free trade agreements, however, the voices of opponents should not be sidelined in debates. Instead, their genuine concerns must be acknowledged and addressed. For the United Kingdom, a new era of agency in trade policy-making offers the opportunity to learn from other countries' past mistakes in the design and development of FTAs. Such an Agreement with Australia — a nation of close cultural and social ties — offers the opportunity to build a new prototype for best practice.

Beyond trade: The Australia-UK Economic Partnership

One of the challenges free trade agreements will have going forward is the damaged brand that the concept of free trade carries in certain sections of the community. The term 'free trade'

is, also, an oversimplification of what a free trade deal typically constitutes. While all free trade deals work towards lowering tariffs and protections between signatory states to make the exchange of goods between the partners simpler and cheaper, such deals are negotiated on a sectoral basis, with many free trade deals including protections for vital industries within each country. This reality should be extrapolated and clarified in any free trade agreement, as doing so helps foster public support by helping allay fears communities may have about the disruption an FTA may bring to domestic industries.

One option for re-engaging the public with such agreements is by focusing on how FTAs are branded in order to expand their popular support and enable them to extend their mandate beyond the traditional pillars of a standard FTA.

An Australia-UK Economic Partnership,

rather than an Australia-UK Free Trade Agreement, would allow greater room for negotiators to include provisions regarding the Australia-UK investment relationship and liberalised labour mobility and to expand the focus on the trade of goods to ensure services are also front and centre.

PART FOUR: PRINCIPLES THAT SHOULD DEFINE AN AUSTRALIA-UK FTA

Considering the importance of an Australia-UK FTA, it is essential that the prospective deal includes provisions that ensure its long-term success and that benefits for the British and Australian economies and communities are realised. This report argues that there are six key provisions that must be included if the prospective deal is to meet this objective and garner the public support necessary to ensure its longevity.

THESE PRINCIPLES ARE:

1. **LABOUR PROVISIONS AND PROTECTIONS** — the deal should further the rights and future prospects of workers.
2. **CLEARLY DEFINED BENEFITS** — both states should transparently outline the costs and benefits of the proposed deal to garner widespread public support.
3. **AN ADEQUATE SCOPE** — the deal should include provisions that liberalise trade, services, investment and labour mobility between both states.
4. **ENSURING TRANSPARENCY** — the deal should not include an ISDS provision but should include a state-state dispute settlement mechanism to ensure investor confidence.
5. **ENVIRONMENTAL SAFEGUARDS** — the deal should support both states' existing commitments to environmental protection and climate change and ensure these are not undermined.
6. **SUPPLY-CHAIN SAFEGUARDS** — the deal should ensure both states commit to responsible oversight of global supply chains.





**PRINCIPLE 1:
LABOUR MARKET
AND SOCIAL PROVISIONS**

One of the potential barriers to a UK-Australia FTA is a concern (on both sides) that a deal could lead to undesirable social or economic consequences. This might include, for instance, a loss of jobs in some industries or a worsening of environmental outcomes. Equally, one party to the Agreement might object to the FTA design because it believes the other party has an unfair advantage by virtue of having weaker labour laws, environmental regulations or social protections. This is the idea behind the widely-used critique that trade agreements lead to “social dumping”.

One way in which these concerns can be addressed is through the use of “social provisions”. Social provisions refer to the inclusion within trade agreements of agreed changes in laws, social policies, and regulations which then become a condition of the trade agreement. These provisions typically cover labour market and environmental outcomes but may be broader. Such provisions were pioneered by the US as part of its original 1994 NAFTA negotiations. Since then, they have grown in popularity. By June 2013, fifty-eight of the 248 trade agreements that were in force and notified to the WTO contained labour provisions.⁹³ So far, social provisions have generally been used in agreements between either a developed nation and a developing one or between two developing nations. However, there is growing interest in how they might be used in FTAs between two developed nations.

The scope for social and labour market provisions in a UK-Australia FTA

In order to better understand where social provisions could be used in a UK-Australia FTA, we have analysed the difference in standards in some key areas of labour market and social policy. The results are summarised in table 2.1.

TABLE 2.1 DIFFERENCE IN STANDARDS IN SOME KEY AREAS OF LABOUR MARKET AND SOCIAL POLICY

ISSUE	ROOM TO IMPROVE	CURRENT STANDARDS
Freedom of association, collective bargaining and the right to strike	AUSTRALIA	For the past thirty years, there has been discussion as to whether Australia is in breach of labour law standards relating to freedom of association, collective bargaining and the right to strike. These concerns have not gone away since the introduction of the <i>Fair Work Act 2009</i> , which has been criticised by academics ⁹⁴ and the ACTU ⁹⁵ for placing restrictions on the right to strike, on what areas parties can bargain on, on union right of entry to workplaces and on provisions that can stop industrial action if it could cause significant harm to the economy. One academic points out that Australia is the only country to specifically outlaw pattern bargaining (where a trade union gains a new and superior entitlement from one employer and then uses that agreement as a precedent to demand the same entitlement or a superior one from other employers). ⁹⁶
Freedom of association, collective bargaining and the right to strike	UK	As made clear in the Treaty on the Functioning of the European Union, the EU lacks competence in the areas of “pay, the right of association, the right to strike or the right to impose lock-outs”. ⁹⁷ Such industrial relations matters are to remain the prerogative of the Member States in compliance with the standards set by the International Labour Organization (ILO). There is a question mark concerning whether the UK’s labour laws meet international standards regarding freedom of association and collective bargaining – in particular, the right to strike. A report by Full Fact found that a good case can be made that UK strike regulations are among the toughest of European advanced industrial states, especially if one gives particular weight to the burden placed on trade unions by the procedural requirements of giving notice and holding a ballot. ⁹⁸ The <i>Trade Union Act (2016)</i> aims to substantially reduce industrial action by introducing even more extensive balloting and notice requirements. As such, “there remains scope for challenge of the recent UK balloting and notice requirements within the ILO and under Council of Europe human rights mechanisms.” ⁹⁹
Maternity leave	AUSTRALIA	As detailed in <i>Making the most of Brexit</i> , the UK has exceeded EU requirements in parental leave. ¹⁰⁰ Mothers in the UK receive thirty-nine weeks of paid leave. They receive 90 per cent of their weekly salary for the first six weeks and then that or £145.18 per week, whichever is lower, for the remaining 33 weeks. ¹⁰¹ However, Australian mothers receive just eighteen weeks paid maternity leave at minimum wage, with no payments available to families where the primary caregiver has an annual salary above \$150,000 per annum.
Minimum wage	UK	Australia’s national minimum wage is currently \$18.29 per hour. ¹⁰² This compares to the UK’s current rate of £7.83 per hour – the equivalent of A\$14.43.
Youth unemployment services	UK	The UK has a high level of young people who are classified as not in education, employment or training (NEET). The UK might consider Australia’s integrated approach, which is targeted at young people regardless of their activity status. It recognises that young people are often in both the labour market and education and provides support to a higher age than the limited support provided to 16- to 19-year-olds in the UK. ¹⁰³
Childcare costs	UK	According to the OECD’s <i>Society at a Glance report (2016)</i> , families in the UK are spending 33.8 per cent of their income on full-time childcare – more than twice the OECD average for childcare. In comparison, Australian families spend 15.7 per cent of their income on childcare. ¹⁰⁴
Support for working mothers	AUSTRALIA	Some argue that Australia should invest in affordable childcare to tackle the gender gap in NEET rates. Young women are 50 per cent more likely to be NEET than young men and this difference is entirely driven by mothers with young children. 48 per cent of NEET women report that they would like to work, however, the lack of childcare solutions and insufficiently flexible working arrangements prevent them from seeking a job. Indeed, enrolment rates in pre-primary education for 3- and 4-year-olds in Australia are among the lowest across the OECD. ¹⁰⁵

This analysis shows that, despite the UK and Australia being developed countries with broadly similar economies and labour markets, there are nonetheless some significant differences that could be a source of tension in the negotiation of an FTA. From another perspective, the negotiation of an FTA might be an opportunity for both Australia and the UK to improve their labour market protections in various ways.

Further, the Australian and UK governments should both use the negotiation of an FTA to improve workers' rights regarding:

- Setting government procurement requirements that ensure that all work contracted out by any level of government includes minimum labour standards, including safe and sustainable rates of pay, that must first be complied with before a prospective tenderer can be awarded work.
- Mandatory skills testing in appropriate circumstances to ensure that workers from both countries are not subject to standards being undercut.
- Safeguards to ensure that provisions of an FTA are unable to circumvent or undercut provisions in existing safety nets and enterprise agreements.

How social provisions might be incorporated

There are various different ways social provisions could be introduced into, or alongside, an FTA. One possibility is that changes in labour market protections could be outlined in a Labour Development Plan (LDP), which is agreed to as part of the FTA.¹⁰⁶ An LDP would:

- Have time-bound commitments. Rather than requiring compliance from the outset, a LDP could contain specific targets to be reached by certain points in time.
- Negotiate commitments specific to country contexts. The UK and Australia both have strengths in their labour market protections.

The FTA could have tailored commitments aimed at bringing Australia up to the UK's level, and vice-versa.

- Positive incentives rather than economic sanctions.

Alternatively, if this is considered unacceptable, there are other, softer, ways in which countries might seek to harmonise their policies. For instance, instead of making specific, time-bound commitments, the two nations might instead agree to a statement of "aspirations" or "shared values", including long-term goals they would work towards on their own timetables.

Since social provisions are a new field and have not yet been established between two developed nations, a UK-Australia FTA would provide an ideal opportunity to experiment and find out what can be achieved.

PRINCIPLE 2: DEFINING THE ECONOMIC BENEFIT TO BOTH STATES

As described in Part 3 of this report, transparency regarding the specific economic benefits of a prospective Australia-UK FTA is necessary to guarantee public support in both countries. While economic theory stipulates that more liberalised trade is beneficial to economies, clarity around the nature of these benefits is required to help generate public approval of any FTA. Additionally, the nature of FTAs vary depending on the participating states. The Australia-UK FTA will focus on liberalising trade barriers in certain industries that may not be included in a deal including Australia or the UK and any other trading partner. Accordingly, both prospective signatories of the Australia-UK FTA should be able to publically outline the benefits the deal would bring, providing honest estimates regarding the impact of the FTA on key economic indicators such as job creation, industry-specific economic growth and the broader impact to GDP.

A 'Better Off Overall Test' should be considered

The proliferation of bilateral and multilateral free trade agreements over the past several decades has coincided with a significant transformation of the nature of work itself. The evolution of certain industries and the rise of technological innovation has promoted employment insecurity in some sectors and these trends have become linked in some citizens' minds to the concept of free trade. One way of mitigating public reservations about the impact an FTA might have on their livelihoods is the inclusion of the industrial relations principle of a 'Better Off Overall Test', or BOOT.

In Australia, a BOOT is a key part of any industrial relations decision that amends workers' pay. There is regulation in Australia that stipulates that no changes to rates of pay can leave workers worse off overall. Effectively, any decreases in pay rates during certain working periods must be mitigated by an increase in rates during other working periods. The BOOT provides workers with the assurance that they will not see their living standards materially decline because of decisions fundamentally out of their control.

The principle of a BOOT could similarly be applied to a free trade agreement. Both the UK and Australia should be able to make the case to voters that they will not be materially worse off after the FTA goes into force and/or that any members of the workforce negatively impacted by the deal would have access to compensation and employment transition options, in line with the principles of a Better Off Overall Test.

PRINCIPLE 3: AN ADEQUATE SCOPE

As noted earlier, the Australia-UK economic relationship is modest for both states. While trade in goods and services remains notable, neither country considers the other a primary trading partner. For the UK, the European Union and the United States remain its leading economic partners and will likely continue to do

so even after the UK leaves the EU. For Australia, China, the United States and Japan dominate its economic engagement with the world. Nonetheless, there are significant investment flows between the UK and Australia, cultural, social and people-people relations are significant and the symbolic value of such an agreement remains high.

Considering the current state of the economic relationship between Australia and the UK, it is vital that the scope of the prospective trade agreement reflects and builds upon the strengths of the existing economic relationship. Accordingly, an Australia-UK FTA should include provisions surrounding investment and labour mobility — two core components of the existing economic relationship — in addition to a more liberalised exchange of goods and services.

PRINCIPLE 4: ENSURING ONGOING TRANSPARENCY

A chief concern for opponents of free trade deals in the past has been a lack of transparency in both the negotiation phase of FTAs as well as in the long-term once they have been signed into law. It is essential that the benefits and challenges associated with the prospective deal are clarified and that the public in both signatory states are aware of the stages involved in the process. Moreover, a best practice model would specify clear points at which citizens are able to make collective or individual representations through an open period of consultation.

Transparency, however, should not stop once an FTA has been signed into law. The administration of trade deals, and particularly the arbitration of disputes between investors and states, should be conducted through established legal processes and not through subnational, behind-closed-doors arbitrations between aggrieved investors and representatives of either the United Kingdom or Australia. Investor State Dispute Settlement (ISDS) mechanisms have caused significant controversy in international trade deals. In the

case of an Australia-UK FTA, the arguments for the inclusion of an ISDS do not have enough merit to include such a provision.

A state-state dispute settlement mechanism should be included

One of the most common arguments in favour of including ISDS provisions in a free trade deal is the notion that businesses need protection from potential state violations of free trade provisions. This argument holds more water in negotiations between politically stable states and less politically stable states, where the investors from the more stable state often expect an ISDS provision to be included in a deal. This inclusion provides the more stable state with a mechanism to recoup lost investments should a less stable state's political situation deteriorate to such an extent that the principles guiding a free trade deal are compromised. This argument, however, has no merit in the case of a prospective Australia-UK FTA. Both states have robust, stable and largely predictable political environments and both have advocated strongly in a bi-partisan fashion for a liberalised global economy. In this case, investors can be confident that the strong relationship between Australia and the UK would ensure the principles mutually agreed to in an FTA would be adhered to in an ongoing way by both states.

Although an ISDS provision is not necessary in the case of an Australia-UK FTA, there will still be demands by investors for safeguards and protections for their investments. Accordingly, the Australia-UK FTA should include provisions that enable investors to flag a perceived violation with their own state, which in turn could raise this violation with the state perceived to have violated the terms of the FTA. In a hypothetical scenario where a UK investor feels aggrieved with an Australian legislative change it feels violates the terms of the FTA, it could raise this issue directly with the UK government, which could in turn negotiate on behalf of the aggrieved investor directly with the Australian authorities. Such

a system would provide an investor with the reassurance they need to maintain confidence throughout their investment, while making it unnecessary to include a highly controversial ISDS provision.

PRINCIPLE 5: ENVIRONMENTAL SAFEGUARDS

The proposed trade deal should ensure that environmental standards are harmonised between the two respective trading partners, demonstrating the commitment of both states to improving the global environment and transitioning towards low carbon economies. Traditionally, the inclusion of environmental protections in free trade deals has been difficult – particularly when these trade deals are between developed and developing states. Bernauer and Nguyen argue that, while many in the industrialised world have attempted to “link environmental protection issues with trade liberalisation within the WTO and beyond”, often leaders in the developing world consider this “green protectionism”.¹⁰⁷

As a global consensus has been reached in recent years surrounding the need for international action on climate change, the challenges for the developing world in transitioning towards a low carbon economy have become evident. A balance between development and environmental protection has been difficult to find for many developing countries and has often impeded international negotiations surrounding climate change action.

However, the prospective Australia-UK FTA does not include challenges to the same degree. Both states have clearly voiced a commitment to combating climate change and moving towards low carbon economies. As signatories to the Paris Climate Accord, it is important that both Australia and the UK realise their respective commitments to confronting this international challenge. Under Environment Secretary Michael Gove, the UK Government has recently sought to frame itself as a world leader in environmental action,¹⁰⁸

indicating there could be substantial scope for these issues to be incorporated into the nation's future trading agreements.

As the economics of energy transitions towards a place in which renewables become more viable, both countries will lower their traditional dependence on coal-fired power. This movement is already happening in both Australia and the UK. The Australian state of South Australia, for example, relies on just under 50 per cent renewable energy, with large investments in wind and solar. And in the UK, the percentage of energy being generated by renewable sources has increased significantly, at times generating half of total demand nationally.¹¹⁰ In 2017, the UK experienced its first day where coal was not required as a source of power¹¹¹ and 81 per cent of Britons are supportive of renewable energy.¹¹²

Accordingly, an Australia-UK FTA should include provisions to improve collaboration in this increasingly important space. Labour provisions could be included that provide easier mobility between the two economies for highly skilled labour in the environmental and renewable energy sector and other provisions could involve formal state-state collaboration with major science bodies and government departments. Australia's Commonwealth Scientific and Industrial Research Organisation (CSIRO) already has a working relationship with the UK Met Office on climate change research.¹¹³ These ties could be expanded to further formalise collaboration in the pursuit of mutually desired climate and economic outcomes.

PRINCIPLE 6: SUPPLY CHAIN SAFEGUARDS

An Australia-UK FTA provides an opportunity for both partners to renew a commitment to ensuring global supply chains do not facilitate labour exploitation. The UK has made a notable commitment to ensuring that UK-based businesses do not import goods that have, at some stage, been associated with modern slavery. The *Modern Slavery Act (2015)* focuses

on ensuring the most abhorrent abuses of human dignity do not occur in the UK. Initially, the Act did not include supply chain provisions but this was amended to ensure that certain “commercial organisations...must prepare a slavery and human trafficking statement for each financial year of the organisation”.¹¹⁴

Australia does not currently have a Modern Slavery Act in force, but there has been a bi-partisan commitment to introduce legislation into the parliament. The Australian and UK governments should use negotiations of a free trade agreement to harmonise supply chain oversight. In doing so, both countries would be able to move towards the establishment of a broader international supply chain standard and help eradicate the scourge of modern slavery.

Further considerations

A number of aspects regarding the nature of a future Australia-UK FTA and barriers to its implementation remain unanswered. These include whether the FTA would include both goods and services and which non-tariff barriers, such as product standards, regulatory differences and subsidies, might prove obstacles to an FTA. In light of TiSA, it is important to assess how any service-based agreement would dovetail with TiSA negotiations and whether the agreement would need to wait until after TiSA is concluded. Finally, both the UK and Australian governments should consider what exactly they can agree upon before 2019 (when the UK regains control of trade policy).

CONCLUSION

An Australia-UK FTA is an important deal that would deliver tangible benefits for both countries and, if executed with a strong emphasis on social, labour and environmental provisions and conducted in a spirit of transparency, could help arrest growing scepticism in both countries regarding globalised trade and its economic impact.

This report has outlined the strong existing economic and political relationship between Australia and the UK, the economic potential an FTA would deliver, the importance of such a deal and the key principles that should guide it.

One important pre-requisite for a successful bilateral trade deal is that there is strong political will on both sides. That is clearly the case for an Australia-UK FTA, with both countries having already begun scoping out the possibility of a future agreement.

While levels of trade between the two nations are relatively modest compared to other trading partners, there is still scope for a deal to yield moderate economic benefits for both parties. Perhaps more important is the long-shared history and values between the nations, a similar political and legal system and the symbolic opportunity the deal presents to reaffirm these ties. Furthermore, the opportunity to encourage a 'race to the top' on social policy and environmental protections presents a unique platform for both nations to take bold steps in improving the standards that so often form the basis of free trade opponents' objections.

Therefore, we believe that an Australia-UK trade deal could be an important "proof of concept" for the UK post-Brexit and an important first step in building a new template for socially conscious international trade agreements with the potential to halt, if not reverse, the anxieties that have arisen for citizens in many developed nations concerning the national impacts of global connectivity.



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CONTACT THE MCKELL INSTITUTE

T. (02) 9113 0944 **F.** (02) 9113 0949 **E.** mckell@mckellinstitute.org.au

PO Box 21552, World Square NSW 2002

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