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AUTHOR:

Stefan SCHULZ
Directorate-General for External Policies of the Union
Policy Department
WIB 06 M 085
rue Wiertz 60
B-1047 Brussels

Feedback to stefan.schulz@europarl.europa.eu is welcome

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ABOUT THE EDITOR

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1 POLITICAL SITUATION

1.1 Political structure

Official name	Commonwealth of Australia
Form of state	Federal democracy
Legal system	Based on the constitution of 1901

National legislature

Bicameral: the House of Representatives of 150 members is directly elected by a preferential voting system for a three-year term; the 76 members of the Senate are directly elected by proportional representation for six-year terms, with one-half of Senate seats up for election every three years, usually coinciding with elections for the House of Representatives. The Senate may not initiate or amend money bills. In certain circumstances the Governor-General may dissolve the entire Senate.

Electoral system

Compulsory universal direct suffrage over the age of 18

The last national elections took place on 21 August 2010; the next regular ones would be due in 2013. A review of electoral divisions (constituencies) for federal elections in Victoria was completed in late 2010; a similar exercise is currently under way in the State of South Australia.

Head of state

Queen Elizabeth II, represented in Australia by Governor-General Quentin Bryce, who was sworn in on 5 September 2008.

State legislatures

Five of the six states have bicameral legislatures; that of the sixth (Queensland) is unicameral.

National government

A cabinet, presided over by the prime minister, is appointed by the governor-general on the basis of party strength in the House of Representatives. A Labor minority government under PM Julia Gillard is currently in office, supported by one Green and three Independent MPs.

1.2 Domestic politics

Early federal elections were called last summer, after Julia Gillard had replaced PM Kevin Rudd in an attempt to keep the Labor Party in government. Mr. Rudd's ratings had fallen dramatically in 2010, due to badly handled plans for a carbon trading scheme and a mining windfall tax.

Held on 21 August, the elections produced a "hung parliament", neither Labor nor the Liberal-National coalition winning a majority of seats (*see detailed results overleaf*). It took PM Gillard nearly three weeks to negotiate the support of the single Green MP and three Independents, providing a 76 vs. 74 majority. Many observers therefore see a high probability for the next elections being called before the regular, 2013 deadline.

2010 Federal Election results:

Party	Seats 2007	Seats 2010	% in 2010
Australian Labor Party	83	72	37.99
Liberal	55	44	30.46
Liberal National Party of Queensland	-	21	9.12
The Greens	-	1	11.76
The Nationals	10	7	3.73
Country Liberals	-	1	0.31
Independents	2	4	

As the Speaker of Parliament traditionally comes from the government party, but has only a casting vote, the practice was amended to have a deputy speaker from the opposition 'paired' with Speaker Jenkins, so as to preserve the balance of forces. Other compromises imposed by the unusual constellation include the creation of an independent Budget Office, as well as improved access to debates and committee work for the 'cross-bench' MPs. With all this, the latter have only pledged support for budget and non-confidence votes, reserving the right to examine other legislative bills on their individual merits.

Prime minister: Julia Gillard

Deputy prime minister & treasurer: Wayne Swan

Key Cabinet members:

Agriculture, fisheries & forestry: Joe Ludwig

Attorney-general: Robert McClelland

Climate change & energy efficiency: Greg Combet

Defence: Stephen Smith

Finance & deregulation: Penny Wong

Foreign affairs: Kevin Rudd

Immigration & citizenship: Chris Bowen

Trade: Craig Emerson

Reserve Bank governor: Glenn Stevens

Announcing **policy priorities for 2011**, PM Julia Gillard listed fiscal consolidation, in the form of a return to surplus on the budget by fiscal year 2012/13 (July-June); overcoming capacity constraints, particularly in relation to skills and levels of participation in the workforce; progress on climate change and carbon pricing; implementing the healthcare reform agenda; and reforms to education, including the introduction of a national curriculum.

The intertwined issues of **population growth, immigration and border security** will also continue to figure high on the agenda. Border security and the arrival of asylum seekers by boat have become inextricably linked in the public mind, not least because the government has failed to put the number of maritime arrivals into context: According to data from the Refugee Council of Australia, around 5,650 "boat people" were intercepted by the authorities in 2009-10, but the annual number of people who arrive by plane and overstay their visa is around eight times larger. The problem of boat people resurfaced in mid-December, when at least 48 asylum seekers drowned off Christmas Island after their boat had evaded Australian sea patrols. The government has come under pressure to toughen policies towards refugees and increase the effectiveness of maritime patrols.

1.3 Climate Change

Always prone to extreme weather conditions, Australia has been ravaged by drought in the past decade, and in 2009 the country suffered the most lethal forest fires in its history - only to be hit by very heavy rains and ensuing flooding in recent weeks (*see Annex III*). Many Australians feel that these events reflect the effects of global warming. Australia is also the world's largest per-head emitter of greenhouse gases. Together these factors have made climate change a prominent issue with the electorate.

Reception for government plans, aiming to cut greenhouse gas emissions by 60% of their 2000 level by 2050, has been very mixed however, with many concerned about the economic implications of Australia taking such painful measures to address climate change while other, larger polluters are dragging their heels. Furthermore, proposed annual legislation setting emission caps laid the "**Carbon Pollution reduction scheme**" - (CPRS) open to continual lobbying pressure. Together with other tax issues exploited by the opposition, it finally cost PM Rudd his job and Labor, its majority. The Gillard government has yet to re-open the file, made more difficult by contradictory messages from voters in the recent election, who claim to want "greener power" but appear less keen to bear the associated cost.

In September 2008, Prime Minister Rudd had announced the creation of a \$100 million **Global Carbon Capture and Storage Institute** to speed up the development of carbon capture and storage technology. Through this Institute, launched in April 2009 with the European Commission as a founding member, the Rudd Government will work cooperatively with other countries to help reduce the amount of CO₂ released into the atmosphere.

1.4 International relations

Australia's international relations were for a long time centred on the UK and the Commonwealth. Although substantial changes in Australia's international orientation have occurred in recent decades (and remain ongoing), it still actively engages in Commonwealth affairs. Australia has close trade and diplomatic links with its regional neighbours and is active in regional organisations. It played a leading role, in particular, in the formation of the Asia-Pacific Economic Co-operation (APEC) forum, the broad-based organisation linking Pacific Rim countries. Australia is a member of all the major international organisations, including the UN, the IMF and the OECD.

Under the Rudd government, Canberra remained aligned with the Western powers but at the same time attempts to raise its regional profile and bring more influence to bear in the Asia Pacific region. There is no indication so far that Ms Gillard intends any major shifts in foreign policy. In particular, Australia's 1,500 troops in Afghanistan are set to remain there until Afghan forces can assume their full role, although public support for the mission is waning as casualties mount.

The **United States** and Australia have long been allies and remain close, despite Mr Rudd breaking ranks by withdrawing Australian troops from Iraq and signing the Kyoto Protocol: President Obama now works toward a withdrawal from Iraq as well, and his target of reducing US carbon emissions by 80% in the period to 2050 is even more ambitious than Labor's goal of reducing Australian emissions by 60% over the same period. A phased withdrawal of Australian troops from Iraq began on 1 June 2008, although 200 Australian personnel remain in Iraq on logistical and air surveillance duties.

Australia has a particularly close relationship with **New Zealand**. In 1966 the New Zealand-Australia Free-Trade Agreement was implemented. This was replaced in 1983 by the Australia New Zealand Closer Economic Relations (CER) trade agreement. In 1988 the two countries agreed to implement free trade in goods from July 1990. After three years of negotiation, the government signed Australia's largest free-trade agreement (FTA), a three-way deal between Australia, the Association of South-East Asian Nations (ASEAN) and New Zealand on 28 August 2008. The government expects the FTA to boost regional GDP by US\$48bn over 11 years, but the final form of the deal has not yet been revealed. Australian dairy, beef and horticultural producers are expected to gain improved market access to ASEAN, as are legal, accounting and engineering firms. However, the FTA is also expected to result in the immediate elimination by Australia of tariffs on imports of textiles and footwear from ASEAN countries. Points of friction remain, including those relating to Australia's strict quarantine laws. Both countries are signatories of the ANZUS defence treaty with the US. However, New Zealand's decision in 1985 to ban nuclear-capable ships from its ports led the US to suspend joint military exercises within the ANZUS pact.

Australia's active participation in restoring law and order within its **Pacific islands** neighbourhood is not new. It participated in the 1999 UN-sanctioned action in East Timor and has worked with other countries to stabilise Papua New Guinea's (PNG) secessionist province, Bougainville. In 2003 it led a regional peacekeeping force to help improve law and order in the Solomon Islands. Australia also continues to provide substantial assistance to countries affected by the end-2004 Indian Ocean tsunami. Relationships are well established generally, but the combination of Australian outspokenness and Asian reserve occasionally gave rise to discord.

In March 2008, then PM Rudd set out an approach in his landmark Port Moresby Declaration, committing his government to '*a new era of cooperation with the island nations of the Pacific*'. The Declaration symbolizes Australia's commitment to develop Partnerships for Development, and to improve governance, increase investment in economic infrastructure, and achieve better outcomes in health and education with Pacific island nations. Other aspects of the Declaration include assisting Pacific island nations to achieve their Millennium Development Goal targets and meet the challenge of climate change. Pacific Partnerships will assist these nations to strengthen the economic performance and governance frameworks they need to achieve this.

Australia's relationship with **Indonesia** deteriorated sharply in 1999, in the wake of East Timor's vote for independence and the subsequent deployment there of a UN peacekeeping force led by Australia. More recently, relations have improved, buoyed by generous assistance from Australia to Indonesia in the wake of the December 2004 tsunami. The Bali attacks of 2002 and 2005 highlighted Australia's proximity to the world's most populous Muslim country, but also brought closer co-operation between the two governments. The Lombok treaty on security co-operation was signed in November 2006, committing both nation to co-operation and consultation and intelligence-sharing in counter-terrorism, law enforcement, defence matters as well as on maritime and aviation security.

China became Australia's largest trade partner in 2009, and continued strong import demand from that country helped Australia to avoid recession after the 2008 financial crisis. In 2009 there was a series of diplomatic rows between the two countries. Those irritants however should not distract significantly from a trade relationship which is beneficial to both sides.

With regard to its external **trade relations**, as a member of the "Cairns Group" of agricultural exporters, Australia has been dissatisfied with the WTO's lack of progress on the Doha round (for which the Liberal government mostly blamed EU inertia). As a consequence it is active in seeking bilateral free-trade agreements (FTAs) with its trading partners.

Australia and Singapore signed a free-trade agreement in 2002, Australia's first since the Australia-New Zealand Closer Economic Relations Agreement (which was signed almost two decades ago). The Singapore-Australia Free Trade Agreement (SAFTA) eliminates tariffs on goods, and also provides a more transparent framework for trade in services, as well as for investment and regulation across a number of sectors. Free-trade agreements (FTAs) with both the US and Thailand came into effect on 1 January 2005, though small issues are likely to continue to hamper bilateral relationships. US pressures over wheat export procedures serve as a reminder that there are still aspects to Australian economic management that others can justifiably object to.

FTA negotiations with China are under way, and set to start with Japan in 2011. The federal government is also pursuing FTAs with Malaysia and the United Arab Emirates. After initial uncertainties about its welcome, Australia also appears firmly committed now to the East Asia Summit project of a regional free trade bloc which could rival the EU and NAFTA.

2 THE ECONOMY

2.1 Economic structure

Economic activity is focused on Australia's eastern seaboard, where most of the population reside. In recent years, New South Wales generates around 34% of Australia's GDP, Victoria 25% and Queensland 17.5%. There is a sharp divide in economic performance between the states; typically, growth in South Australia and Tasmania is well below the overall levels for Australia, and Western Australia is heavily dependent on the volatile mining industry.

As in most developed countries, the services sector generates the bulk of GDP. The largest service industry is finance, property and business services. Other major services industries include retail and wholesale trade, transport and communications, and construction. The most rapidly growing service industry over the past five years has been health and community services with an average annual growth of 4.6%. Manufacturing of machinery and equipment, accounts for around 11% of GDP.

Contrary to popular belief in Europe, mining and agriculture are small in terms of Australia's GDP (less than 10% combined). However they do account for a large share of exports (close to 70%), and played a key role in pulling the country through the 2009 economic crisis.

2.2 Economic performance

Having successfully weathered most of the global downturn, Australia's economic growth slowed to just 0.2% in seasonally adjusted quarter-on-quarter terms in the third quarter of 2010. This was down from 1.1% in the second quarter, and represented the weakest performance since the final quarter of

2008. However, the economy is currently undergoing a change, as private-sector activity should take over from government stimulus spending, but did so only sluggishly given uncertainties over the election outcome and the longer-term effects of widespread flooding.

Real **GDP growth** is projected to remain fairly stable in 2011, at 2.6%, following an estimated expansion of 2.7% in 2010. Analysts expect a renewed acceleration in 2012-15, with growth exceeding 3% a year.

Average headline consumer price **inflation** was limited to 1.8% in 2009, but rose in the first half of 2010 as monetary and fiscal loosening combined with recovering global commodity prices. However, the strength of the Australian dollar has contained increases in import prices. Inflation is estimated at 2.8% for 2010 as a whole, and expected to moderate to an average of 2.4% in 2011.

Traditionally fairly tight, Australia's **labour market** took an obvious dent under the economic crisis, but rebounded fairly quickly. Conditions continued to improve through 2010, and a surge in job creation in November ensured that the unemployment rate continued to fall, despite a record participation rate. Unemployment fell to 5.2% in the month, from 5.4% in October.

In the **external sector**, thanks to the resilience of Asian markets, the volume of demand for Australia's exports remained relatively high during the global recession. Falling commodity prices however resulted in a sharp drop in the total value of merchandise exports for 2009. The merchandise trade account is estimated to have reverted to surplus in 2010, following the return of prices for iron ore and coal exports to their 2007 highs. In many cases the improved prices have been locked into contracts until March 2011, meaning that even if spot prices fall again exporters will continue to receive high prices. Reflecting the cost of servicing high levels of foreign debt, the income deficit will remain the main weakness of a current account which will thus stay in deficit, with the shortfall expected to averaging 2.9% of GDP in the coming years.

2.3 Fiscal Policy

According to Treasury forecasts, a combination of faster economic growth, high prices for Australia's commodity exports and a fall in stimulus spending will lead to a narrowing of the cash deficit to the equivalent of 3% of GDP in fiscal year 2010/11 (July-June) and 0.8% in 2011/12, from 4.2% in 2009/10. Unlike the authorities in most developed countries, Australia's government is not under urgent pressure to reduce the budget deficit. The public finances are relatively healthy, and painful spending cuts are not needed. Based on calendar-year data published by the OECD, the Economist Intelligence Unit forecasts budget deficits equivalent to 1.5% of GDP in 2011 and 0.1% in 2012, following an estimated shortfall of 2.7% in 2010. The budget is forecast to return to surplus in 2013-15.¹

3 EU-AUSTRALIA RELATIONS

Apart from being important trade and investment partners for each other, the EU and Australia share common concerns with regard to the Asia-Pacific Region. The EU has been involved in peace-keeping efforts in the Asia-Pacific region, such as Cambodia and East Timor. Australia's Foreign and Trade

¹ eiu.com - Country Report, January 1st 2011

Policy White Paper explicitly recognises the role of the European Union as a global actor and the advantages in strengthening bilateral relations with an increasingly integrated Europe.

3.1 Legal and Institutional Framework

The **EU-Australia Partnership Framework** was adopted at the annual Foreign Ministers' meeting held in Paris on 29 October 2008. This document has the status of a political declaration, not of an international agreement. Replacing and merging the 1997 Joint Declaration on relations between Australia and the European Union, and the 2003 Agenda for Cooperation, it provides a solid basis for the bilateral relationship, with an emphasis on practical cooperation.

Although trade remains an important underpinning for the bilateral relationship, the overall political and economic relationship has over the years matured and developed to focus more broadly on global and regional challenges such as environment and climate change, energy, security and counter-terrorism, stability in the Asia-Pacific region and cooperation in the WTO.

Cooperation and coordination takes place at all levels, including annual Foreign Ministers' consultations, annual Senior Officials Meetings alternating between Brussels and Canberra and a range of sectoral dialogues (trade, agriculture, environment, etc).

Meeting in October 2010, PM Gillard and Commission President Barroso discussed the possibility of further developing the bilateral relationship.

3.2. Trade and Investment Relations

The EU has been Australia's largest trading partner for fifteen years, until overtaken by China in 2009. The 16th largest trading partner for the EU, Australia is a key market: The EU exports three times as many goods and twice as many services to Australia as it imports from the country. The EU is also the largest source of foreign investment in Australia, and the second major destination for Australian investments abroad

Australian exports to the EU are mainly agricultural products (notably wine), but also mineral and energy commodities (non-monetary gold, coal, iron), and machinery and transport material, chemical products, wool and textiles. EU products exported to Australia comprise mostly medicines, motor vehicles, machinery, telecommunication equipment, and paperboard.

In spite of the successful bilateral trade relations overall, a number of irritants remain for both sides, mainly concerning issues of market access: Australia still applies tariffs in excess of the EU's ceiling of 5% for a range of industrial products, while the CAP's self-sufficiency objectives limit access of Australian sheep meat, beef and dairy products to the EU market.

3.3 Cooperation in the field of Education

Bilateral cooperation in the field of education and training between Australia and the EU began in 2002. Since then, the cooperation has resulted in a total of seven joint pilot projects being carried out between 2002 and 2006. The European Commission co-funds three **EU centres at Australian universities** to promote the study of the EU, to increase the understanding of the EU project in Australia, to highlight the EU-Australia relationship and to encourage and stimulate greater interest in EU affairs across schools, government, industry, academia, the media and the public at large. The three centres are run by the Australian National University; Monash University and the Innovative Research Universities Network (encompassing La Trobe, Macquarie, Newcastle, Flinders, Murdoch and Griffith Universities). Total EU investment in the three centres amounts to €2.5 million over 3 years.

3.4 Police Cooperation and Visa Issues

The EU cooperates with Australia on a number of regional projects or processes relevant for the fight against terrorism and organised crime in South-East Asia. These include the Jakarta Centre for Law Enforcement Cooperation and the Bali Process on combating human trafficking. An **Australia-Europol Agreement** was signed on 20 February 2007.

Australia announced the establishment of a new **visa platform (eVisitors)** in 2008, which no longer makes any distinction between citizens of those Member States which joined the EU on 1 January 2004 or later, and those of other EU Member States.

Together with the USA and Canada, Australia is engaged in negotiations with the EU on a new agreement governing the transfer of **Passenger Name Record (PNR)** data. The Commission explained its approach in a communication of 21 September 2010². The European Parliament reaction, and the reservations it expressed in its resolution of 11 November 2010³, did raise some concern in Australia, where the traditional emphasis on security and immigration control has only been strengthened by experiences of Islamist terrorism in the region.

3.5 Inter-parliamentary relations

Relations between the European Parliament and the Parliament of Australia go back 30 years, having been fully established in 1981, shortly after the first direct elections to the EP. They have been proceeding with great regularity since then, with the 33rd IPM held in Brussels on 27/28 April 2010, and the 34th scheduled for 21-25 February 2011 in Australia.

The agenda for the upcoming IPM runs the gamut from prospects for a new EU - Australia Treaty through agricultural, education and immigration issues to environment and climate change post Cancun, global economic and financial issues and foreign relations and security in the Asia - Pacific region.

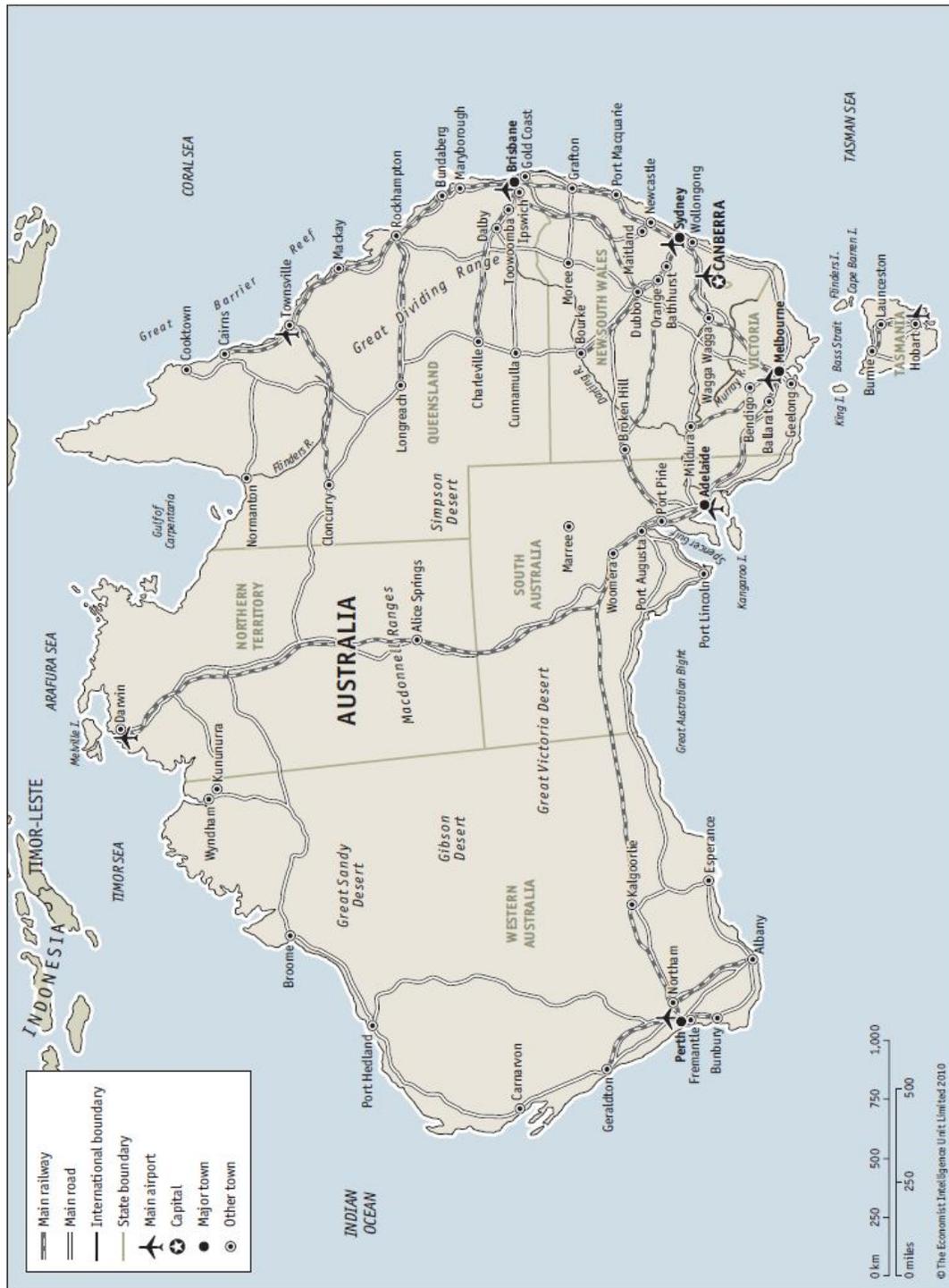
In order to improve on the once-yearly meetings, the Australian side has recently suggested a number of measures. These include six-monthly **video-conferencing** to follow up on issues raised at the last IPM and prepare the next one. The first such video-conference is to take place this summer.

The beginnings of a **staff exchange** programme have also taken place, with a senior staffer of the Australian Parliament spending September 2010 at the European Parliament in Brussels.

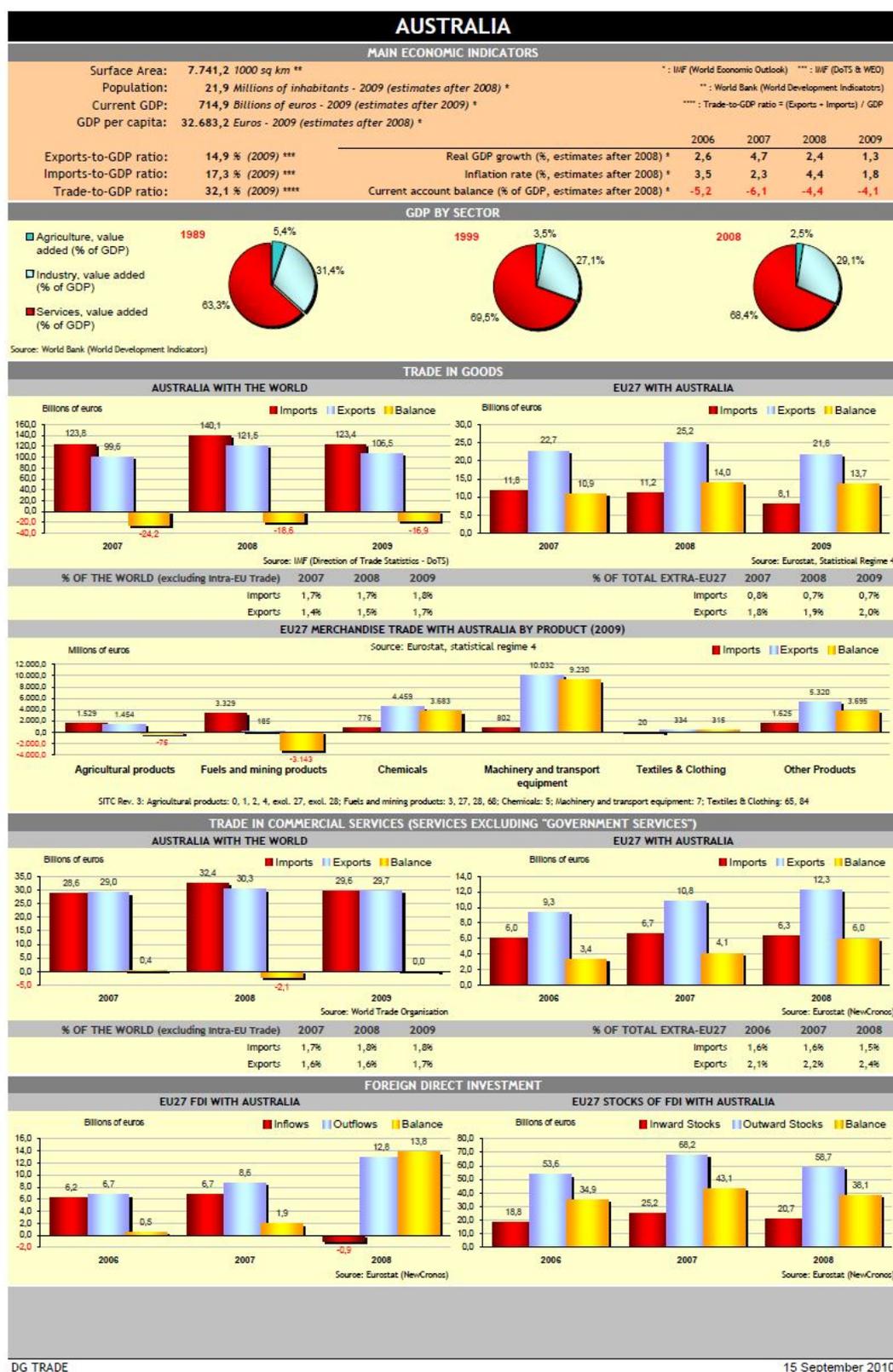
² COM (2010) 492 final

³ P7-TA (2010)0397

ANNEX I: MAP OF AUSTRALIA



ANNEX II: EU-AUSTRALIA TRADE FIGURES



Source: European Commission, DG Trade, September 2010

ANNEX III: THE FLOODING IN QUEENSLAND

After days of heavy rainfall around the New Year, the populous north-western state of Queensland, more often associated with severe drought, has been hit by its worst floods in decades, covering two thirds of its territory. The towns of Rockhampton and Toowoomba were particularly affected. Parts of Brisbane, Australia's third largest city (1.6 m), had to be temporarily evacuated. As of 14 January, 15 people have been killed and over 50 are still missing, prompting PM Julia Gillard to warn that the death toll could well rise significantly. The emergency is likely to persist, as rivers South of Brisbane have yet to peak.



With mining and farming severely disrupted, coal and food prices are likely to rise in the short term. Although Queensland may benefit from reconstruction over the longer term, damage is already estimated to run to 5 billion dollars and more, and recovery could take a long time.

Politically, the events are complicating a long-standing debate about water resource allocation in the Murray-Darling basin, which drains the whole South-East of the continent, its key agricultural region. After years of drought and overuse, the government is proposing to balance the interests of farmers, industry and residents in the area by reducing the irrigation quotas for farmers by around 30%. The heavy rains and flooding to the North are now being cited by those opposing these cuts.