

**EU Monitor**

# AUKUS to torpedo the EU- Australia FTA?

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The EU-Australia Free Trade Agreement is at risk of disintegrating following Australia's decision to join the new tripartite security pact with the United States and the United Kingdom, known as AUKUS. The new initiative, which centres around procurement of nuclear-powered submarines for Australia, replaces Australia's existing submarine development program – a €55 billion contract secured by France in April 2016. Negotiated in secret, the announcement of AUKUS has blindsided many, most strongly of which is perhaps France.

The Franco-Australian submarine program was not without its problems; it had been experiencing delays as well as budget and procurement issues.<sup>1</sup> But the deal had been made in good faith and reflected a trend toward a deepening of strategic ties between France and Australia.<sup>2</sup> While certainly a shock to French officials, contractually speaking Australia was within its rights to cancel the deal. It will, however, be required to pay some level of compensation to be negotiated in the coming months and years.<sup>3</sup>

Australia has form when it comes to backing out of such deals. Prior to the French securing the contract to build Australia's submarine program, Japan was originally chosen by then Prime Minister Abbott to build the new submarines only to be later dropped in favour of France.<sup>4</sup>

Now Australia has dropped France and a diplomatic row has thus ensued. French officials were not warned of Australia's intentions and thus feel betrayed. Officials have labelled Australia's move as "unacceptable behaviour" and a "stab in the back"<sup>5</sup>. France has taken some of its strongest diplomatic measures seen in recent times in the wake of the decision. President Macron has recalled of the French Ambassador to Australia, an action only undertaken once back in 1995.

There are many aspects to understanding Australia's decision to join AUKUS. Geopolitics, strategic convergence and national interests seem to be at the heart. Moreover, the decision puts emphasis on stronger trust with more traditional allies and members of the so called 'Anglosphere'. In the last 15 or so years, Australia had been trying (rather successfully) as it were 'run with the hare and hunt with the hounds' – cooperating with a variety of likeminded partners, and balancing between its economic interests and value divergences with China.

Australia has decided that its security interests and more closely aligning with its traditional partners outweigh the diplomatic fallout likely anticipated by its decision to join AUKUS. What has perhaps come as a bit more of a shock to Australia, if not at least cause for concern, is France's threatening to take measures to make the EU-Australia FTA collapse. This in some sense is a shame as there were only two

<sup>1</sup> <https://www.politico.eu/article/why-australia-wanted-out-of-its-french-sub-deal/>

<sup>2</sup> <https://www.dfat.gov.au/geo/france/vision-statement-on-the-australia-france-relationship>

<sup>3</sup> <https://www.france24.com/en/europe/20210919-france-accuses-australia-and-us-of-lying-over-cancelled-submarine-contract>

<sup>4</sup> <https://www.smh.com.au/politics/federal/lost-the-plot-how-an-obsession-with-local-jobs-blew-out-australia-s-90-billion-submarine-program-20210913-p58r34.html>

<sup>5</sup> <https://www.smh.com.au/politics/federal/lies-and-treason-france-could-suspend-military-co-operation-and-trade-talks-20210918-p58stj.html>

more rounds of negotiations anticipated. Unravelling all of the work already achieved seems a huge waste, especially as both sides see the potential to gain in certain areas from an FTA.

France is within its rights to be displeased with the decision given it is losing a huge amount of investment. France is not a small-time player, it is a major global power with considerable geopolitical and geoeconomic weight. It knows where to hit Australia where it hurts, or at the very least, where to squeeze to try and get a more favourable outcome. France is understandably not happy about being treated this way and will be eager to make clear its displeasure.

But France is not acting purely out of spite. There are real reasons for concern, particularly in the realm of EU security. The French could perceive the US, who lead the new security pact, as again acting in a way that undermines the Transatlantic alliance and thus European security. This is something the EU has very recent and vivid memory of from the Trump years. France in particular might feel as though this latest development further stresses the need for EU strategic autonomy.

Macron is also a central figure in all of this. With Merkel's imminent departure, the position of de facto leader of the EU will be vacated and Macron likely thinks he is the man to fill the void. Macron is no stranger to flexing his muscles on behalf of the EU.<sup>6</sup> Moreover, the French President is seeking re-election in April 2022 so he needs some political

wins in the end of what has been an otherwise difficult presidential term that has largely failed to deliver meaningful domestic reform. Threatening Australia with the cancellation of the FTA is a way in which Macron can stand up for both France and the EU and highlight his leadership prowess.

The European Commission exercises the power to negotiate FTAs on behalf of the 27 member states, however without France's backing the agreement is untenable. France has always been one of the EU's more reluctant member states when it comes to trade deals, having stalled and collapsed them in the past. The Transatlantic Trade and Investment Partnership in 2016 was undermined by then President Hollande. More recently, apprehension to trade agreements can be seen in President Macron's decision to stall the Mercosur deal with South America. France always takes a defensive position vis-à-vis EU trade deals given its desire to protect its agricultural producers. It dragged the chain about the mandate to open FTA negotiations with Australia in the first place.<sup>7</sup> Australia, as a major exporter of agricultural products, is no exception. With some improved EU market access for Australia potentially set to be afforded in the forthcoming EU-Australia FTA, France is set to lose out a little on this front and has thus been consistently apprehensive of the deal.

France is not alone in the EU in its firm stance toward Australia. President of the European Commission von der Leyen has also jumped on board in condemning Australia's perceived lack of

<sup>6</sup> <https://www.cnn.com/2021/09/20/will-france-try-to-edge-out-germany-after-merkel-leaves-office.html>

<sup>7</sup> <https://www.politico.eu/article/eu-australia-trade-deal-runs-aground-over-submarine-furore/>

integrity.<sup>8</sup> EU trade negotiators are notoriously tough and finding a compromise is not an easy process for any third country. Chair of the European Parliament’s trade committee Bernd Lange has too made clear his “decreased willingness to compromise”.<sup>9</sup> He has hinted that decreased trust might lead to member states seeking “more safe nets” in the trade agreement. However, von der Leyen’s rhetoric has been a little less dramatic. She has instead noted that Australia must apologise and explain its behaviour prior to FTA negotiations resuming as normal.<sup>10</sup> With that said, this diplomatic row could present an opportunity for von der Leyen to demonstrate the capability of her ‘geopolitical commission’ by demanding even greater concessions from Australia.

There are arguments for and against trying to salvage the FTA. The obvious argument in favour is that negotiations have come so far that cancelling them would cause instability and wasted efforts similar to past cancelled FTAs. A liberalisation of trade in services seems both sensible and necessary to address shortages in talent. Mutual recognition of qualifications is also an obvious winner as both sides share high standards in terms of training and business *modus operandi*. Thus, making it easier for both to have their qualifications recognised in each other’s territories seems practical. Visa liberalisation is also universally considered a good thing. Mutual affording of a UK-style Tier 5 mobility policy would allow youth from both sides to attain a fast visa,

enabling citizens to spend longer in each other’s territories with the right to work.

There are however some Australian circles that express their ambivalence toward an FTA with the EU based on a pure trade perspective. For example, if the agreement were to collapse, not adopting EU intellectual property regulations would yield a net benefit for Australia.<sup>11</sup> It could be argued that it is naïve to think that a submarine contract for the French would do much to soften the protectionists in the EU.

What the FTA more strongly symbolises are diplomatic ties between the EU and Australia. FTAs are, in substantial part, political tools that produce a ‘head turning effect’. It is naïve to believe that the EU would soften its tough negotiating approach just because Australia had the submarine deal with France.

Important to note is that even without an FTA, trade will still go ahead. The EU represents more of a niche market for Australian exports so there is some truth to this phrase in the EU-Australia context. The same could be said for the EU. If recent EU trade agreements such as the one with Canada are anything to go by, the FTA with Australia as a whole is expected to provide modest benefits to a handful of sectors.

Australia joining AUKUS is an acknowledgement of the gravity of security situation in the Indo-Pacific.

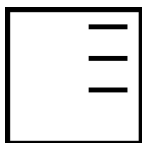
<sup>8</sup> <https://www.theguardian.com/australia-news/2021/sep/21/aukus-row-european-union-demands-apology-from-australia-over-frances-treatment-before-trade-talks>

<sup>9</sup> <https://www.politico.eu/article/eu-australia-trade-deal-runs-aground-over-submarine-furor/>

<sup>10</sup> <https://www.theguardian.com/australia-news/2021/sep/21/aukus-row-european-union-demands-apology-from-australia-over-frances-treatment-before-trade-talks>

<sup>11</sup> [https://www.dfat.gov.au/sites/default/files/dr-hazel-v-j-moir-aeufta-submission\\_0.pdf](https://www.dfat.gov.au/sites/default/files/dr-hazel-v-j-moir-aeufta-submission_0.pdf)

The fact that it does not include the EU nor its member states is perhaps too an acknowledgement of how the EU lags behind in terms of security and defence from a geopolitical perspective. Moreover, the decision was made with the confidence of the opposition, the Labor party, who too were consulted about AUKUS. At the end of the day, Australia has acted in its national interests and that ought to be expected of any state. Australia may suffer on the trade front but the FTA remains salvageable should sensible rhetoric and effective diplomatic skills prevail.



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