

The cloudy contours of tomorrow's Australia-UK relationship

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The future contours of the Australia-United Kingdom trade relationship are cloudier now than at any point during the post-Brexit referendum period, making it exceedingly difficult for businesses to plan for our future relationship.

Despite recent assurances of a two-year transition period following the UK's exit from the European Union by British Prime Minister Theresa May, recent developments illustrate how much uncertainty remains over the entire Brexit negotiation process.

At the top, a "disastrous" speech in Manchester served as the latest threat to Ms May's leadership, and led to some of her own MPs calling for her resignation.

Meanwhile the recent creation of a "Europe Unit" at Number 10 to determine the "substance and approach" to Brexit – despite the existence of a dedicated Department for Exiting the EU – creates the prospect of competing power centres for already-disjointed Brexit policy-making.

From Australia, the end result is a furthering muddying of the waters, making it difficult for businesses to plan for tomorrow's trade relations and take advantage of future opportunities with Australia's fifth-largest trading partner.

What Brexit means for Australia

Optimistically speaking, Brexit could bring Australia and the UK closer together both politically and economically through the sharing of best-practice expertise in areas like trade negotiation, as well as through greater promotion of commercial opportunities as Britain looks to strengthen its non-European trade.

The UK's trade negotiation skills have atrophied after decades as an EU member state, when these responsibilities migrated to Brussels. As former British cabinet member and European trade commissioner Peter Mandelson recently noted, this creates an opportunity for Australia to reintroduce Britain to the skills trade negotiation and policy-making.

Australia's trade negotiation skills are world-class, and capitalising on this strength could help the UK reach its goal of having around 40 FTAs in place when it leaves the EU - though many of these would likely be nearly identical to the EU's existing trade agreements.

On the business side, Brexit could open new opportunities and encourage both Australia and British companies to take a closer look at each other's markets.

For example, Britain is already Australia's sixth-largest food and drink trading partner, and the UK's Food and Drink Action Plan targets an additional £293 million in exports to Australia over the five years to 2020. This target is higher than those for Latin America or the Gulf region. The Action Plan identifies specific opportunities for British exporters in areas like ambient grocery products, as well as beer and cider.

Australian agricultural producers see great potential in a post-Brexit Britain not subject to EU trade restrictions as well.

Australia's SunRice says rice exports could increase up to 40-fold on current levels. Industry body Meat and Livestock Australia calls Brexit an "unprecedented" opportunity to enhance Australian red meat exports to the UK, and restore our competitiveness in what was once one of the largest markets for Australian red meat.

In services, preliminary discussions on easing travel restrictions have taken place. This could lead to visa liberalisation that frees up the movement of skilled labour, benefiting Australian professional service providers of all types.

Looking forward

Come mid-October, the next EU heads of government meeting could provide a bit of clarity and perspective from the European side as to the state of Brexit negotiations, though things will likely remain just as cloudy as they are today.

The EU will likely view the UK's reported offer of €20 billion to cover the shortfall in the EU's current budget period resulting from Brexit - as well as a lack of concrete proposals on the rights of EU nationals in Britain and questions over a "hard" Irish border - as insufficient in settling the "exit bill" before moving on to wider areas of negotiation.

For Australia, a new trade agreement with the UK would go some way toward removing barriers to market access and levelling the competitive playing field for Australian companies in Britain. While Australia has stated its willingness to enter into an FTA as soon as the UK is able, Chancellor Phillip Hammond suggested this may not come before 2022.

In the end, business needs certainty, and without it they will likely begin planning for the worst. British corporate leaders are warning just six months remain to stitch together a post-Brexit transition arrangement before companies begin triggering Brexit contingency plans - including shifting key operations to the continent.

Ever more visible cracks in the UK's Brexit team, continuing questions over Ms May's leadership, and seemingly irreconcilable divisions within the Conservative party itself leave little assurance that certainty is soon at hand.

While there are mutual opportunities for the UK for Australia to capitalise on as a result of Brexit, a lack of substantive progress on key issues regarding the UK's exit from the EU makes it exceedingly difficult for Australian businesses to plan for this future.

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