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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.

	No. of seats		% of vote	
	2004	2007	2004	2007
House of Representatives^a				
Labor Party	60	83	37.6	43.4
Liberal Party	74	55	40.5	36.3
National Party	13	10	5.9	5.5
Australian Democrats	0	0	1.2	0.8
Australian Greens	0	0	7.2	7.8
Family First	0	0	2.0	2.0
One Nation	0	0	1.2	0.3
Independents & others	3	2	4.4	3.9
Total	150	150	100.0	100.0
Senate^b				
Labor Party	28	32	-	-
Liberal Party	33	31	-	-
National Party	6	6	-	-
Australian Democrats	4	0	-	-
Australian Greens	4	5	-	-
Family First	1	1	-	-
Others	-	1	-	-
Total	76	76	-	-

^a Federal elections held on October 9th 2004 and November 24th 2007. ^b Party representation from July 1st 2008.

Source: Australian Electoral Commission.

Electoral system **Compulsory** universal direct suffrage over the age of 18

The last national elections took place on 24 November 2007; the next ones are due later in 2010, though no date has been set yet. A review of electoral divisions (constituencies) for the federal elections is currently under way in the State of Victoria.

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 majority government under PM Kevin Rudd is currently in office.

Prime minister:	Kevin Rudd
Deputy prime minister, also responsible for education, employment and workplace relations:	Julia Gillard
Agriculture, fisheries & forestry:	Tony Burke
Broadband communications & the digital economy:	Stephen Conroy
Defence:	John Faulkner
Environment & heritage:	Peter Garrett
Families, community services & indigenous affairs:	Jenny Macklin
Finance & administration:	Lindsay Tanner
Foreign affairs:	Stephen Smith
Health & ageing:	Nicola Roxon
Human services:	Joe Ludwig
Immigration & citizenship:	Chris Evans
Industry, science & research:	Kim Carr
Trade:	Simon Crean
Transport & regional development:	Anthony Albanese
Treasury:	Wayne Swan
<i>Attorney-general:</i>	<i>Robert McClelland</i>
<i>Reserve Bank governor</i>	<i>Glenn Stevens</i>

1.2 Domestic politics

The federal election held on 24 November 2007 saw the Labor Party sweep into government, ending over 11 years of Liberal-National coalition rule and delivering Labor's first victory in five elections. The new composition of the House of Representatives (the lower house) sees Labor with a comfortable

majority of 83 seats against the Liberal-National coalition with 65 seats and independents with two. On a two-party-preferred basis, the swing against the coalition (and hence towards Labor) amounted to about 5.6%, allowing Labor to secure its highest two-party-preferred vote since the Second World War. Among the 23 seats lost by the coalition was the Sydney seat of Bennelong, which had been held by the previous prime minister, John Howard; it was only the second time in Australia's history that a serving prime minister had failed to retain his own seat in a federal election. Labor is also currently in power in every state and territory.

On entering the final year of his first term of office, **PM Kevin Rudd** continues to enjoy high approval ratings. His government steered the economy successfully through the global recession, and Mr Rudd's standing with the public has also been boosted by a series of popular decisions made soon after his election in November 2007, including ratifying the Kyoto Protocol on greenhouse gas emissions, issuing a public apology to Aborigines and reintroducing collective bargaining in the workplace. The strongest criticism levelled at the government has been over its management of the public finances, but budget deficits helped the economy to avoid recession in 2009, a singular feat among developed economies. Mr Rudd is expected to call a general election in late 2010, and it is unlikely that he will be dislodged from office.

Despite Labor's clear lead in opinion polls, **the opposition** Liberal-National coalition has seen a small revival since its new leader, Tony Abbott, took over in December 2009. Although some of this may have been due to problems within Labor, the coalition, at least at this early stage, also appears to have benefited from the straight-talking approach and right-wing views of Mr Abbott, which have been most apparent in his opposition to the government's legislation for a carbon emissions trading scheme, the Carbon Pollution Reduction Scheme (CPRS). However, there remain divisions within the coalition over its climate change policy, with former opposition leader Malcolm Turnbull threatening to cross the floor and vote in favour of the CPRS. This lack of unity could hold back the coalition's revival.

1.3 Climate Change

The government will pursue its attempt to enact legislation for the implementation of a carbon emissions trading scheme from 2011. The government's long-term target is to cut greenhouse gas emissions by 60% of their 2000 level by 2050. Under the original scheme, annual caps were to be set for the first five years (from 2010), followed by longer-term five-year 'gateways' (specifying upper and lower bounds for the emissions path) would be set for 2020 and 2025. This pattern would be rolled forward over time. The gateways are intended to provide longer term signals for investors, although it is not clear how financial markets would use this 'upper and lower bound' information to price future emissions permits.

In the proposed scheme, evolving caps would be subject to annual legislation by parliament, making them subject to continual lobbying pressure. In this regard, the rejection of the scheme by the Senate in December 2009 does not bode well. The scheme had been criticised both by a number of business leaders, as introducing costs that will not be faced by firms in competing economies, and by environmental groups for lacking ambition.

The issue of climate change will be prominent in the run-up to the next election. Australia has been ravaged by drought in the past decade, and in 2009 the country suffered the most lethal forest fires in its history. 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.

However, there have been increasing murmurs of discontent over the CPRS and its potential economic costs. The lack of progress at international climate change talks in Copenhagen, in December has led to doubts over whether Australia should be taking such painful measures to address climate change when other, larger polluters are dragging their heels.

The opposition will look to play on such concerns in 2010, while promoting its own scheme that will involve paying companies and individuals to undertake projects that reduce the country's carbon emissions. Mr Abbott plans to find the money for this scheme from unspecified spending cuts in other areas. Unlike the government's cap-and-trade scheme, this approach would avoid rendering Australian firms less competitive in international markets.

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 remains 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.

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 will remain in Iraq on logistical and air surveillance duties. 1000 Australian troops also remain in Afghanistan under NATO command.

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. The new government in Canberra has signalled a lighter touch to Australian involvement in regional affairs. The difference with the previous government was highlighted early by the ratification of the Kyoto protocol, and PM Rudd's apology to Australia's indigenous people - two policy areas of particular interest to Pacific Island states. Rudd also announced willingness to trial a Pacific labour mobility scheme, which would allow Pacific islanders to take up seasonal employment in Australia.

In March 2008, Mr 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 2007, 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, the most recent over several employees of Rio Tinto group, one of them an Australian citizen, who were sentenced on 29 March to lengthy prison terms for bribery and theft of commercial secrets. With elections looming, PM Rudd may face domestic pressure to stand up to China over this and other issues. Those irritants however should not distract significantly from a trade relationship which is beneficial to both sides, and will encourage closer ties between the two countries.

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.

Talks on an FTA with China are under way, the latest (14th) round of negotiations was held in Canberra from 24 to 26 February, after a 14-month pause. Quarantine and investment regulations and Chinese government subsidies to industry remain potential hurdles. The federal government is also pursuing FTAs with Malaysia, the UAE and Japan. 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

New GDP data, published by the Australian Bureau of Statistics (ABS) on 3 March 2010, appear to confirm Australia's success in evading most of the ill-effects of the global downturn. Indeed, the ABS's latest data also revise upwards GDP growth in recent quarters, adding up to a healthy 1,3% of growth for 2009 and indicating that the economy is doing even better than the government previously thought, prompting the Economist Intelligence Unit to call Australia "*a very lucky country*"¹.

¹ eiu.com - ViewsWire, March 3rd 2010

Domestic demand was spurred by generous additional first-home buyer grants that were available until the end of 2009, as well as low mortgage interest rates (even after increases in the last three months of 2009) and spending on public housing as part of the federal government's stimulus packages. These government measures have now run out however, while expected rises in interest rates, will cut into the discretionary income of Australia's highly indebted consumers. Meanwhile, increased demand for commodity exports, which helped support growth in 2009, is expected to be partly offset by resuming import demand.

As a result, analysts expect Australian GDP growth of 2.3% in 2010, and forecast 2.7% for 2011.² While these growth rates certainly represent a welcome recovery from 2009, they remain below the economy's trend rate of growth of 3% a year over the past decade.

Average headline consumer price **inflation** was limited to 1.8% in 2009, as weak demand under the crisis failed to test capacity constraints in the economy and global prices for commodities, particularly oil, fell from the highs that they had reached in 2008. However, underlying inflation remains high, and the monetary and fiscal loosening implemented in 2008-09 is expected to cause a moderate acceleration in headline inflation. Import pressures should however be contained by a strong Australian dollar, while wage demands ought to remain moderate. The EIU's baseline forecast is for inflation to accelerate to an annual average of 2.6% in 2010-11.

Traditionally fairly tight, Australia's **labour market** took an obvious dent under the economic crisis, but rebounded fairly quickly. Conditions continued to improve in January 2010, with unemployment falling to 5.3%, from 5.5% in December. January also saw the largest monthly increase in employment since December 2006, following large gains already made in late 2009. Part-time employment dominated the increase in jobs, but full-time employment also expanded. Most of the jobs created went to men, reflecting a demand for construction workers created by the government's stimulus spending. Job creation was very uneven across the states, with Victoria, the second-most populous state, accounting for the bulk of new jobs.

There are signs however that the recovery in employment may have largely run its course: Total numbers of job advertisements in major metropolitan newspapers and on the Internet declined by 8% in January, although they remained well above the cyclical low that was reached in July 2009.

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. Still, the trade deficit is estimated to have narrowed by over a third in 2008, as import demand collapsed owing to a contraction in domestic demand. In 2010-11 the trade deficit should widen again as import demand recovers. Prices for Australia's commodity exports are also unlikely to quickly return to their 2008 highs. 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 firmly in deficit, with the shortfall expected to averaging 4.5% of GDP in the coming years.

² eiu.com - Country Report, March 1st 2010.

2.3 Economic and Fiscal Policy Outlook

Much as for other OECD countries, Australia's main policy priority currently is the orderly withdrawal of the emergency stimulus measures that were introduced in 2008-09 to shield the country from the global financial and economic crisis. In early February the treasurer, Wayne Swan, announced that the government's deposit guarantee scheme would be withdrawn by the end of March 2010, as the major banks no longer require the guarantee.

The Reserve Bank of Australia (RBA, the central bank) raised the official cash rate (OCR) by 25 basis points three times between October and December 2009, taking the rate to 3.75%. These are seen by analysts as the first in a series of interest rate increases that would imply an adjustment in the RBA's monetary policy stance, from its current loose setting to one that offers gentler support to domestic demand. Since the economy has avoided a recession and appears to be on the path to recovery, concerns about economic growth now recede before the need to prevent inflationary pressures from building.

After a flurry of cash handouts in late 2008 and early 2009, the government has begun to withdraw its fiscal stimulus, focussing on new infrastructure projects in the second half of 2009, and will continue to do so in 2010-11. The withdrawal of fiscal stimulus is expected to begin to detract from GDP growth in the first quarter of 2010, and this is likely to remain the pattern until mid-2011. The government expects its stimulus measures, together with weak revenue growth, to result in a fiscal deficit equivalent to 4.7% of GDP in fiscal year 2009/10 (July-June), before economic recovery and scaled-back stimulus spending should enable the deficit to narrow to 3.6% of GDP in 2010/11 and 2.1% in 2011/12.

3 EU-AUSTRALIA RELATIONS

The EU has been Australia's largest trading partner for the last fifteen years. Similarly, the EU is also the largest source of foreign investment in Australia, the second major destination for Australian investments abroad and the largest partner for Australian bilateral trade in services for at least sixteen years. Australian exports to the EU are mainly agricultural products, and Australia is the 20th largest trading partner of the EU. 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 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. [Prime Minister Rudd](#) most recently visited the European Commission in April 2008 (see Annex 4.).

3.1 Legal and Institutional Framework

Most recently, 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 and up-to-date basis for the bilateral relationship in the years to come, 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).

The new Partnership document provides the framework for arrangements for Ministerial and officials-level dialogue on key bilateral and international political, economic and trade issues. Besides this, there are also regular senior-level contacts in the margins of international meetings and fora.

This document states that the two sides aim to hold annual EU-Australia Ministerial Troika Consultations in the capital of the EU Member State holding the Presidency. These focus in particular on foreign policy and international security issues. There are also annual Australia-EU Troika Expert Meetings focusing specifically on regional issues in Asia and Oceania. The European Commission also holds regular discussions with the Australian government at various levels and in various fora, mostly on an annual basis: EC-Australia Ministerial Consultations; EC-Australia Senior Officials Meetings, alternating between Brussels and Canberra; EC-Australia Trade Policy Dialogues and EC-Australia Agricultural Trade & Marketing Experts Meetings; EC-Australia Joint Science and Technology Cooperation Committee; High Level Dialogue on Environment; Senior Officials dialogue on migration and asylum.

3.2. Trade and Investment Relations

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 medicaments, 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: While the EU level of tariffs for industrial products is not higher than 5%, Australia still applies tariffs of a maximum of 10% (textiles, footwear, motor vehicles and parts) and 17,5% for clothing for EU exports. However, these tariff peaks are due to reduce to 5% by 2015. The applied tax of 25 % on luxury cars from the EU is not concerned by the latter reduction. Conversely, conditions for access of agricultural products to the EU market are affected by the operations of the Common Agricultural Policy, where the EU maintains high levels of self-sufficiency in primary agricultural products, including meat, dairy products and wheat. Particular Australian complaints concern the alleged insufficient access of sheep meat, beef and dairy products to the EU market. The Australians believe that the conclusion of the DOHA round negotiations will be central to the resolution of the current economic crisis, and advocate an open economic approach and a move away from protectionism. They expressed specific concern over the EU's recent move to provide subsidies to the dairy industry.

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

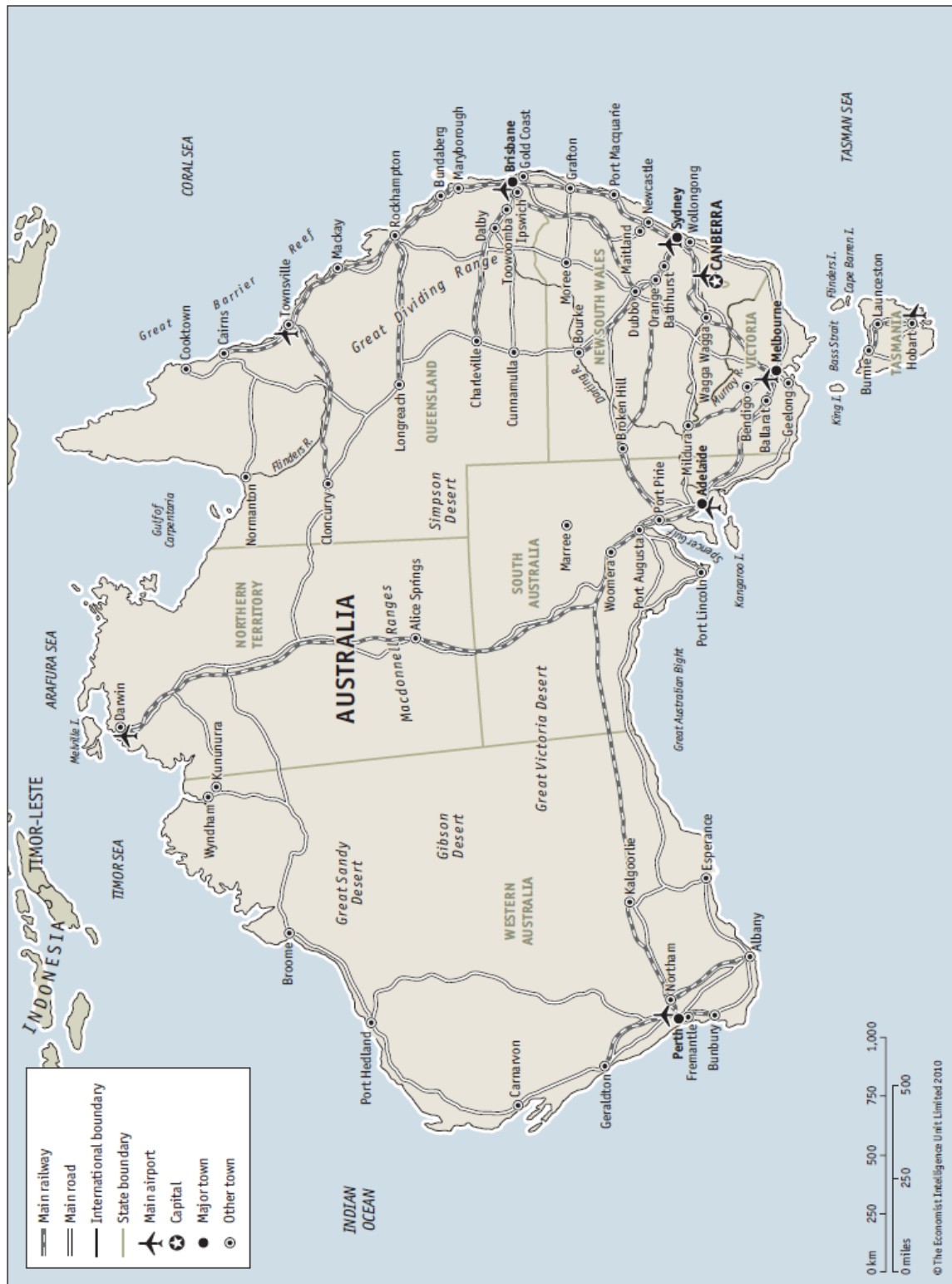
Research Universities Network (encompassing La Trobe, Macquarie, Newcastle, Flinders, Murdoch and Griffith Universities). Total EU investment in the three centres amounts to €2.5 million over 3 years. The last call for proposals in higher education and vocational training took place in 2008 and resulted in the selection of [five successful EU-Australia projects](#). So far a total of 12 joint projects have been supported involving 92 European and Australian institutions and over 900 student exchanges.

3.4 Police Cooperation and Visa Issues

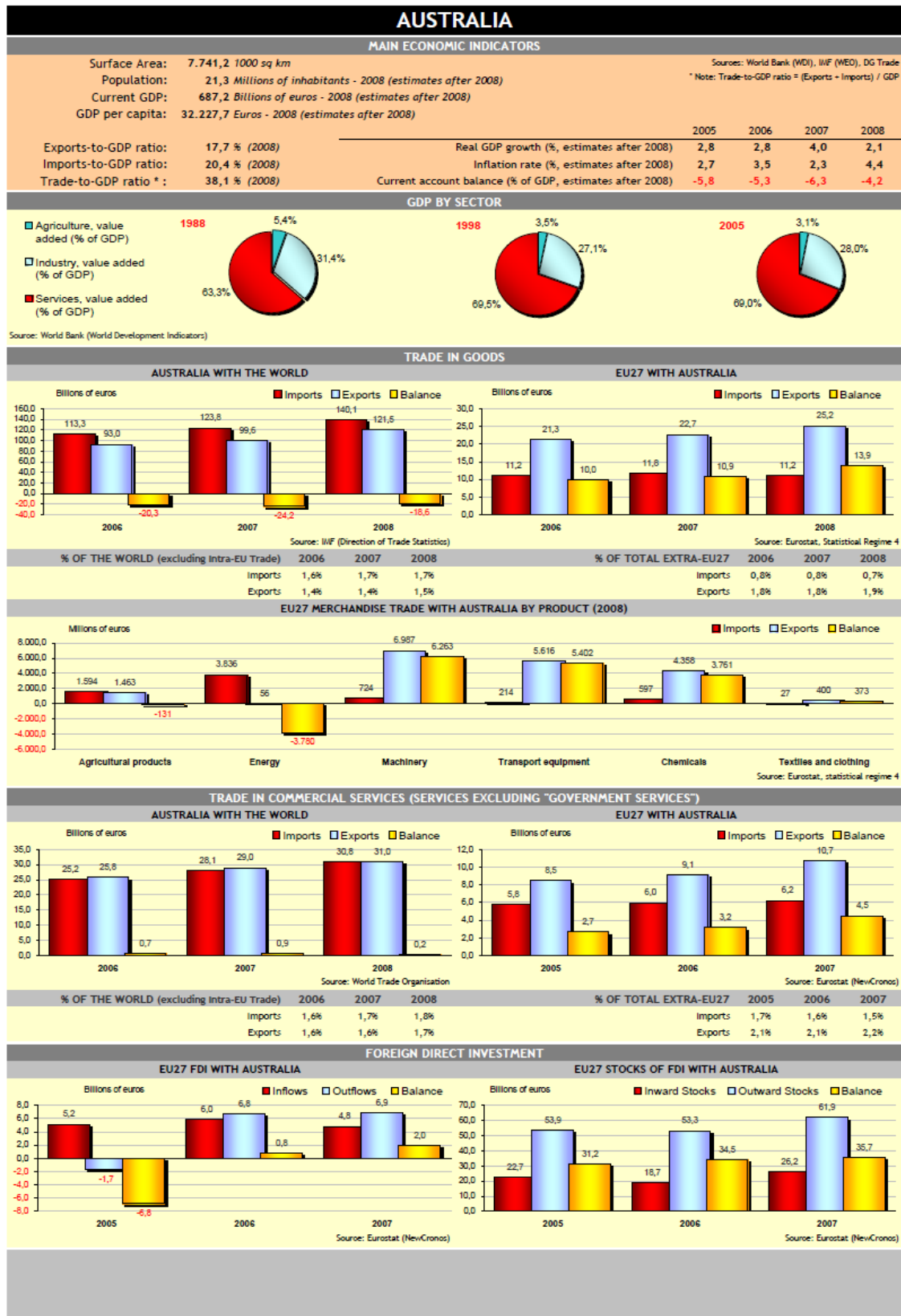
The EU cooperates with Australia on a number of regional projects or processes relevant for the fight against terrorism and organised crime in South-East Asia. These include the Jakarta Centre for Law Enforcement Cooperation and the Bali Process on combating human trafficking. An **Australia-Europol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

ANNEX I: MAP OF AUSTRALIA



ANNEX II: EU-AUSTRALIA TRADE FIGURES



Source: European Commission, DG Trade, September 2009