

POLICY BRIEF #1

EU-Australia SME Trade Export Landscape



EXECUTIVE SUMMARY

The Covid-19 pandemic is having significant ramifications on small and medium-sized enterprises (SMEs). Businesses are facing numerous challenges to keep their personnel safe and healthy, shift to remote working, maintain revenue, reduce costs, manage operational risks, respond to opportunities and prepare for the future. With 25 million SMEs in Europe, the EU has relaxed its fiscal rules to provide member states with maximum flexibility. The Corona Response Investment Initiative is making €37 billion available (healthcare systems, SMEs, workers and vulnerable sectors of the economy). In addition, it is providing €28 billion in unallocated EU funds. The EU is providing €8 billion to at least 100,000 SMEs and small mid-

cap companies. The European Investment Bank is providing a further €20 billion in working capital lending to SMEs. Altogether, EU-level funding totals €93 billion (Dombrovskis, 2020). On March 30, the Australian Government announced a \$130 billion Job Keeper Payment to assist keeping Australians in jobs. The Government is providing temporary cash flow support of up to \$100,000 for eligible SMEs, and not for profit organisations (NFPs) (Australian Government, 2020).

While the Covid-19 pandemic is undoubtedly affecting businesses both financially and economically, it is also providing them with opportunities to transform business models and operating models in ways that render them better adapted and responsive to internal and

external challenges, especially within the context of the EU-Australia FTA.

AUSTRALIAN SMES AT HOME AND BEYOND BORDERS

Between 4-15 May, the 7th round of the EU-Australia free trade negotiations took place online due to the Covid-19 travel restrictions. Discussions focused on most areas, including technical barriers to trade, sustainable development, goods, services, geographical indication and rules of origin (Delegation of EU to Australia, 2020).

Australia currently holds 11 Free Trade Agreements (FTAs) with 18 countries, including with major Asia-Pacific economies of China, Japan, Republic of South Korea, Malaysia, New Zealand, Singapore and Thailand, as well as with Mexico, Canada and the United States of America (Ibid, 2019). The FTAs cover approximately 70.8 per cent of Australia's total two-way trade in goods and services. Once all FTAs currently under negotiation or active consideration are concluded, Australia's share of two-way trade in goods and services with FTA partners will reach 87.8 per cent (Australian Government, 2019).

On February 2018, the Australian Joint Standing Committee on Foreign Affairs, Defence and Trade recommended that the Australian Government seek to render FTAs more relevant to Australian SMEs. While awareness of opportunity is one

issue, SMEs have been limited also by their size and the costs involved in export.

Nevertheless, the European Parliament has articulated the potential benefits clearly. The Parliament pointed to the potential benefits SMEs could harness if they were to deepen their engagement with FTAs, such as better access to a wider range of more competitively priced imports, strengthened engagement in Global Value Chains (GVCs), improved access to overseas investment capital and new technologies, new employment opportunities, and a competitive edge for goods and services exports, (European Parliament, 2019).

The nature of Australia's goods exports is highly concentrated and controlled by a few large businesses, with only 272 businesses accounting for 82 per cent of all goods exports. Although goods exports have increased by \$75 billion since 2007, the biggest 0.5 per cent of exporters were responsible for \$67 billion (89%) of that growth (Export Council of Australia 2018, p.5). Small businesses account for 35 per cent of Australia's GDP and employ 44 per cent of Australia's workforce.

Over the past decade, the value of SMEs' exports has remained stagnant at around \$12 billion per year, while the value of exports of large businesses increased by 48 per cent between 2006-07 and between 2015-16 increased from \$155 billion to \$231 billion. In most industry

sectors (e.g. agriculture, mining and manufacturing) large businesses have driven export growth even though small businesses account for more than half (59%) of all exporters. In 2016-17 there were 30,674 small businesses exporting goods, which comprises a small proportion of total small businesses in Australia (ASBFEO, 2019). However, this is a notable increase from 2013-14 whereby 19,965 small businesses exported goods which accounted for 44 per cent of all businesses exporting goods.

Proportion of goods exporting businesses by size

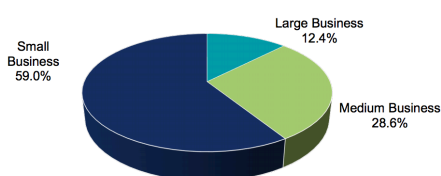


Figure 1: Proportion of exporters of goods

Source: ABS 5368.0.55.006 - Characteristics of Australian Exporters, 2016-17 and ASBFEO calculations

According to data from ABS, the primary sector for small business exporters are the retail trade (43%) and agriculture, forestry and fishing (40%) (ASBFEO, 2019). Interestingly, in terms of percentage value, the construction industry accounts for the highest contribution by small businesses (10.47% of the total value). Although the number of small businesses exporters is significant, their contribution to the total value of exports is relatively small. In total, small businesses contribute \$2.5 billion to the value of exports out of a total of \$291 billion. This represents 0.9 per cent of the total.

Contribution of small business exporters to each industry category

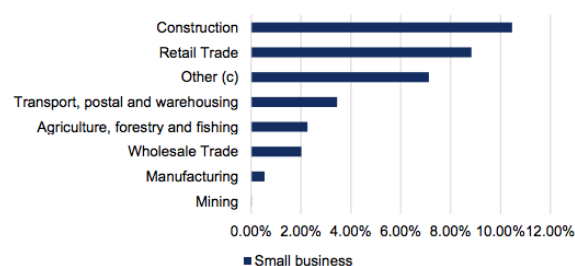


Figure 2: Contribution of small business exporters to each industry category

Source: ABS 5368.0.55.006 - Characteristics of Australian Exporters, 2016-17 and ASBFEO calculations

In response to the obstacles SMEs face when entering foreign markets, the Australian Government has devised several initiatives aimed at increasing SMEs' engagement in trade. This has formed part of Australia's whole-of-Government approach (ASBFEO, 2019; European Commission, 2018).

EU SMES AT HOME AND BEYOND BORDERS

SMEs are the engine of the European economy. More than 99 per cent of all businesses in the EU are SMEs, and two-thirds of all private sector jobs are created by SMEs. SMEs generated approximately 3.39 trillion euros in 2012 which is almost 30 per cent of the EU's GDP (UPS, 2014). An estimated 23 million SMEs account for approximately 70 per cent of EU jobs (European Commission, 2019a). According to Cernet et al. (2014), SMEs are vital for the growth of the EU as together they comprise most of the total number of exporting firms and represent one-third of the total export value. In 2018, there was an estimated 25.1 million SMEs in the EU with a large majority of these being micro-sized businesses (employing fewer than nine people). A

further 1.47 million enterprises were small firms with between 10 to 49 employees and approximately 236 thousand were medium-sized firms that had 50 to 249 employees (Clark, 2019).

While SMEs are prominent within the EU, few small businesses in Europe export beyond the EU. On average, SMEs are responsible for 35 per cent of total direct exports to FTA partners. Between 2014 and 2015, exports by SMEs to the represented FTA partners showed overall higher growth than SME exports to non-FTA countries (European Commission, 2018). Exporting SMEs make up 13 per cent of all SMEs in Europe. Germany and Italy have the largest number of exporting SMEs and Belgium the least. However, Belgium has the highest proportion of SMEs that export, beating the European average by over 3 per cent. The strong performance by Belgium SMEs is partly attributable to exports from its industrial sector, which is also a high-performing sector in Germany and Italy (Ibid, 2018).

Between 87 per cent and 100 per cent of exporting SMEs ship to countries within the EU. The primary exports for EU SMEs who export outside of the EU are the United States (53%), European countries outside the EU (49%) and Asia (47%). In addition to these countries and regions, EU SMEs are likely to export to North America (52%), Africa (21%), the Middle East (21%), South America (20%), Australasia (19%), and Central America/ Caribbean (14%) (UPS, 2014). For those EU SMEs who export, the

industrial sector is the most likely to be exporting outside the EU: industrial (67%), retail (59%), high tech (59%), healthcare (58%), and automotive (40%). The United States is the top export destination country outside Europe across all sectors: high-tech (66%), industrial (56%), healthcare (55%), retail (46%), and automotive (27%). Sector exports to European countries outside the EU are also substantial: retail (55%), high-tech (53%), healthcare (48%), industrial (47%) and automotive (33%) (UPS, 2014).

IMPLICATIONS AND RECOMMENDATIONS

As Australia and the EU continue the FTA negotiation process, it is imperative for SMEs to better understand how FTAs work and for the Australian Government to continue supporting and developing necessary strategies and initiatives to encourage and support this process. The recent Australian Government initiatives which are aimed at increasing SME's engagement in trade as part of a 'Whole-of-Government' approach, is proving to be valuable and effective in encouraging Australian businesses to be more internationally competitive by enabling industry sectors to build capability and stronger industry systems through collaborative and industry-led approach (Australian Government, 2019).

The Covid-19 pandemic is prompting businesses to adapt and innovate their business and operating model so that workers can work in a covid-19-safe environment and to ensure that

they are equipped with the necessary measures to deal with the new circumstances.

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