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**Jean Monnet Paper**

**The Centre of Excellence for EU-Australia Economic  
Cooperation: Roundtable with Mr Volkmar Klein**

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## Roundtable Briefing Paper

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Roundtable with Mr Volkmar Klein, Member of the German Parliament,  
organised by ANUCES in collaboration with KAS Australia

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### **Ms Anne McNaughton (Director, ANUCES):** Opening Remarks

After acknowledging traditional ownership and introducing Mr Volkmar Klein, began by briefly noting that Germany has always made significant efforts in terms of soft diplomacy, science diplomacy, and regional engagement in the so-called Indo-Pacific, before passing to Mr Klein for his thoughts.

### **Mr Volkmar Klein (Member of the Bundestag for Siegen-Wittgenstein):**

Considered three broad themes within German/European-Australian collaborative space – peace, energy, and trade. Noted that there have been a lot of changes both within Germany and Europe, as well as in terms of collaboration with Australia.

On peace: Everyone is interested in ensuring that conflict not be escalated, but what should be done to this end? This calculus changed on a private and sovereign level in February with the Russian invasion. Many people in Germany, especially with good friends like the Greens typically believing that all weapons are a threat to peace (whereas the CDU has always believed in the utility of a strong military), have since February changed their tack and become overnight experts in heavy weaponry. They now share the conviction that weapons delivery to Ukraine helps avoid further escalation. Sovereign states have changed their tack as well – think Finland and Sweden, who have become fully convinced of the wisdom of joining NATO, especially if Putin is successful in Ukraine. That outcome would in all likelihood precipitate further attacks against Georgia, Transnistria, and the Balkans are afraid as well. It is this reality which has galvanised the belief that strength is important for states like Finland and Sweden. Note as well that, although escalation should be avoided, there is a balance there – if Putin learns that our reaction is apathy, he will surely continue. So too, if China learns this, Taiwan is at direct risk.

On energy: Russian gas dependency is a huge issue. Maybe this is the result of not finding the right answers after the beginning of the war, back in 2014 – maybe Germany got its sums wrong at that time. Even with the invasion of 2014, lots of people did not evaluate the risks properly, whether in politics or business. No amount of risk assessment was sufficient; indeed, had any conception of sovereign risk with Russia been sustained, there would have been a price attached to Putin's current action. This is where Australia comes in – note the Australia-Germany Advisory Group, and the recommendation for Germany to have a Liquid Natural Gas ('LNG') terminal. That there was no risk calculus on Russian energy meant that Germany did not see this as economically viable. As such, Germany's

coast is free from LNG terminals, unlike most of the rest of Europe. The parallels with Greece in the global financial crisis are stark; the spreads between Germany and Greece were tiny, even though the risks were huge. Had the risk been calculated better, we might have avoided the global financial crisis.

On trade: We can already see in Europe a shift to exploit the last cost advantages. It's not only the goal of companies; they want to stabilise supply chains as well. Many more investments are being made in the Balkans on account of supply chain reliability than in, say, China. Given that, there's a chance for the Balkans to cultivate more investments, and, in turn, possibly the same opportunities for Africa as well, with a knock-on effect for development and engagement in this space. Our aim should be to learn the lessons of collaboration between good friends and value-sharing partners, with reliable energy supply and geography at the heart (consider hydrogen and the Indo-Pacific). One of the Australia-Germany Advisory Group recommendations was to keep a handle on the region more broadly, rather than just focusing on Australia, but with a view to the Pacific islands as well. This is true equally for the Europeans, but in terms of focusing on Africa and the Balkans

**Mr James Batley (Distinguished Policy Fellow, ANU Coral Bell School of Asia Pacific Affairs):**

From Australia's point of view, it's a time of real anxiety vis-à-vis the Pacific for two reasons. One is China – indeed, there was debate for a time in Canberra about whether China's impact in the Pacific was disruptive on purpose or simply by accident, which has now been resolved in favour of the former (that it is indeed deliberately disruptive). China is seeking to disrupt and undermine traditional relationships, and undermine weak governance especially in Solomon Islands – this is consistent with its strategy towards Australia as well. The other thing giving us anxiety is the broad suite of development problems afflicting the region – chiefly climate change in the small island states, as well as fundamental issues of governance (perhaps *the* binding constraint on faster development and poverty reduction). Solomon Islands and Papua New Guinea have got profound development issues, and their social structures seem opposed to state development.

There has been a lot of diplomatic attention in the region – the US (says it) is coming on strong, and Japan's always been there, but the challenge is coordination. Friends and allies are pulling more or less in the same direction, but lining that up more effectively is another challenge going forward

**Ms Beth Orton (Development Policy Centre Manager, ANU Crawford School of Public Policy):**

The Development Policy Centre sits within the Crawford School, and focuses on development and aid efficacy in the Pacific. The challenge, following James, in terms of the Pacific Islands is trade – think remoteness, low urbanisation, distance from markets, limited infrastructure and governance. The larger states like Papua New Guinea and Solomon Islands do have export markets (think timber), but the smaller states are really highly dependent on aid, and have a very low amount of foreign exchange. As James mentioned, for Papua New Guinea and the Solomon Islands, both have a youth bulge (that is, a high proportion of young people with limited employment prospects, often engaged

in under- and informal employment). The Development Policy Centre advocates for migration opportunities within the region; that is, labour mobility schemes and temporary migration, especially from Melanesia (which has had very few opportunities for its people to move to big economies). Remittances are key in this calculus too – as an example, Tonga receives more in remittances than in aid.

**Associate Professor Matthew Sussex (Fellow, ANU Strategic and Defence Studies Centre):**

Perhaps Australia and Germany have come to a joint realisation in recent years; perhaps this has come too late. In the German (*Wandel durch Handel*) and Australian contexts alike, both states assumed that trade would change state behaviour. Think Australian efforts to make China amenable via trade. Both Australia and Germany have realised that some states don't want to be changed in that way. Lessons about interdependence and the failures of *Wandel durch Handel* have been visible in the case of Russia since about 2006-2008. Russia actively constructs trade overdependencies while smashing the world order, whereas China wants to supplant the order and usurp the US via programs like the Belt and Road Initiative; for them, fragmenting that order through new investment alternatives is a great idea. China has a huge war chest to that end, too – think supply chains, logistics, and the provision of internet in places like the Solomon Islands. Australia/the US does not have the same disposable capital to put to these ends. The dollar figure behind western efforts is simply too small, and focus on governance will not be enough. The other challenge regarding peace and de-escalation is that figures like Putin see de-escalation as weakness (think Biden admitting that the US won't get involved in Ukraine under any circumstances; basically giving a green light). The paradigm has shifted now, and we're looking at deterrence. That challenges Germany to take a political leadership role, and massively repair and refit the Bundeswehr. Similarly, Australia cannot deter China alone, nor deter by denial – we need integration into the American approach to security management in the Indo-Pacific. The worry is that a US commitment to Europe or the Indo-Pacific, though witnessed, remains a bit of a heroic assumption. We need to plot out a plan B.

**Ms Anne McNaughton:**

The CES is committed to cultural diplomacy, the support of dialogue, and supporting and understanding the *other*. Kasia can speak to this – this important human work which goes on perhaps under the radar, but remains essential as a complement to the economic, trade, and security space

**Dr Katarzyna Williams (Deputy Director, ANUCES):**

Culture and cultural diplomacy are the most efficient way of developing ties – strong ties – between peoples and cultures. We realise at this time of tension that we can use those most attractive assets of ours – art, culture, and society – as essential tools in building up the rules-based global order. Its importance however is not necessarily recognised, though Europe's reframing to Indo-Pacific is both positive, and needs more attention. One of the ANUCES' projects, *Culture and International Relations: Europe and the Indo-Pacific*, which is delivered jointly with colleagues in Singapore, has a view to divining the importance and significance of culture and cultural diplomacy, and identifying cultural best practices and opportunities for cultural outreach in the Indo-Pacific. This contributes to strengthening the European image in the region, as well as to the groundwork necessary to ensure

security and deepened relations, to build trade, and to extend digital connections. The ANUCES looks forward to opening the Centre of Excellence later in the year, with a view to expanding knowledge of trade impacts. This Centre will seek to develop both the competences and resources necessary to equip young people to participate in democratic society. It's a three-year project which, though in its early stages, is already growing and changing, with a view to building our strength in this area.

**Dr Béatrice Bijon (Associate Dean International, ANU College of Arts and Social Sciences):**

To complement what Kasia said, noting terms like human rights and inclusivity – these are foundational principles. The arts and social sciences have a fundamental role in the research underpinning the governance changes we hope to see. In terms of human rights, we are considering particular features like land and their importance for culture – how will we deal with the flow of migration that comes from sea level rise? How do we care for these people? There is amazing work being done by all sorts in Europe at the moment about *care*. COVID has shown us our vulnerability, and had us consider how might we adapt to vulnerability as a society. This question is essential to political and social stability in the region, and social science research is key to the public policy solutions to this. Culture is essential to prosperity – consider that, in France, culture comprises some 5% of GDP. Contrast too indigenous communities in Western Australian, and how the health of those communities is determined in part by access to land and culture, and how culture functions as a source of care.

**Ms Anne McNaughton:**

Note also that there are interesting provisions on wellbeing in the Maori context in the EU-New Zealand Free Trade Agreement, these reflecting the building-in of such perspectives into European trade diplomacy.

**Mr Paul Gretton (Senior Research Associate, ANU Centre for European Studies):**

My work at the Productivity Commission focused especially on productivity as it related to the domestic economy, and pushed things like energy, telecom and transport reform. Relevantly, as a public service advisor, it was especially persuasive to argue in a fashion which was founded both logically and quantitatively. My current work, by contrast, focuses on the evolution of the world economy over the next 50-100 years. The balance of economic gravity is likely to move quite substantially away from the OECD group and towards the non-OECD group (Africa, South America, and Asia). The other facet of this is that, though China has had a growth spurt especially after joining the World Trade Organisation, it is looking like converging closer to the structure of a 'regular' economy. Note however that others will rise, and that though economic gravity might move from the OECD, so too it will come to move from China. China has achieved a great deal of this from trade surpluses, and as a result its capacity to fund exercises like the Belt and Road Initiative will, if not disappear, diminish. The economic modelling, globally, suggests as much. Putting climate change to one side, and looking at 'western' society, we are especially reliant on energy. The question then comes – how much energy would the world need if the non-OECD used as much as the OECD? The order of magnitude is huge. The important question thus arises – how are you going to supply that energy (as a product supply, not geographical, issue)? What technologies will make that possible? Plenty of research, whether into improving existing systems like wind or advancing new systems like fusion, is being directed to this question. It is seen by many that this is *essential* to

ongoing development, if living standards and growth are to be maintained, especially given the limited nature of carbon sources. In summary, two streams of thought – the expected significant change in economic gravity, and the technological challenge of supplying energy into the future.

**Dr Emma Aisbett (Associate Professor, ANU College of Law):**

My academic background is of working at the intersection between environment, development, and international economic law, with a current interdisciplinary and cross-sectoral focus on changing Australia from a huge exporter of embedded emissions towards being a renewable exporter. Supply certification is an example of this, and Europe and Germany are marked out as leaders in this regard. These are understudied and underused options – as against constrictive trade agreements, international green economy collaborations are much more open, and allow the diversification of supply chains in a much more expansive manner. Australia and Singapore are currently negotiating one, and Australia could well look to extending this kind of agreement to Germany. Things like a system for definitive carbon accounting are essential to that kind of cooperation to avoid falling foul of mechanisms like the EU CBAM. If we're to make a fair and efficient trading system, being aware of the looming challenge of climate change, we need to be pursuing these kinds of options.

**Mr Volkmar Klein:**

Follow up question: It is challenging to discuss international green economy collaboration, and hydrogen collaboration, when considering things like transport (shipping hydrogen for example). Maybe it would be better, from the green economy collaboration side, to process the iron ore Australia-side and use hydrogen to that end? Yet there are no projects, it seems, which are addressing this possibility. German companies are crying out for getting involved in ideas like this; if Australia were only shipping the raw iron, it would be so much easier.

**Dr Emma Aisbett:**

ANU, and Australian institutions elsewhere, have been considering where it makes the most sense to cut that supply chain. With huge solar resources alongside iron ore, it makes no sense for us to *make* the steel, but in terms of processing into iron ore, absolutely that's something that makes sense to do Australia-side.

**Mr Volkmar Klein:**

What is the smartest way to ship sunshine?

**Mr Paul Gretton:**

Well you would expect those companies involved in ore production to be interested in taking that next step. BHP used to do as much, except using coal, out in Whyalla.

**Dr Emma Aisbett:**

Andrew 'Twiggy' Forest and Fortescue Future Industries are looking now at being the world's largest hydrogen producer, with a view to getting green hydrogen going and a longer-lens view towards green iron and possibly even green steel

**Mr Paul Gretton:**

Casually it makes perfect sense – lots of factors would draw us towards taking that direction. We're geographically close to Asia, and its steel demand, not to mention the way in which people work in industry these days, and the heavy balance in favour of the fly-in-fly-out model. That enables the use of more remote facilities, and removes a significant barrier to viability. The other issue is finance – efficient capital markets, so that even if productive potential is wanting in the area, corporate capital can still flow to that region, are essential. To that end, bodies like the Foreign Investment Review Board, and the willingness of foreign investors to participate in these products are very important to addressing the question of viability

**Dr Emma Aisbett:**

It bears remembering however that the best renewable resources in Australia are now on indigenous lands. Native Title supervenes a lot of the best areas, and so the question now is ensuring sound outcomes for these communities, such that they are not cut out of the deal.

**Dr Béatrice Bijon:**

For example in Western Arnhem land, mines have been closed for violating traditional land. We cannot leave out of the climate change discussion the question: 'what about physical damage to the land?' We must keep the environment, and our effects on it, front and centre, otherwise our models proceed on denial. European social science research is amazing to this end, and their work informs government policy. As mentioned earlier, how care is involved, and how policies can empower local Indigenous communities to take these opportunities, must remain central. The conversation on Indigenous voice, and actually listening to that, is equally essential to informing our policies when it comes to Australia's traditional owners. That question of care is essential in how it empowers people. How do we change models? In the way that it empowers people, and with care as key to healthy democracies, are conversations that we need to keep at the fore.

**Ms Anne McNaughton:**

Engaging with the complexity of economic and non-economic questions is essential, and the integration of teams that can consider these questions together (rather than in silos) is the next step at both an academic and a policy-making level. In Australia we're still a bit siloed in that we consider economics distinctly from the social sciences. The way of the future is more agglomerated.

Directed to Mr James Batley: What of the challenges in Papua New Guinea in particular?

**Mr James Batley:**

Papua New Guinea has been the largest Australian aid recipient for quite some time now. The state is still in formation in many respects and, when considering accountability between citizens and their government, the structures are quite weak. That certainly helps explain the Solomons, but is equally true in Papua New Guinea, where you have a powerful elite which captures the state and resources and squeezes the development of institutions and governance. There is no simple answer to that. One immediate problem is the recent vote by Bougainville to separate, by a margin of some 97%, and which has had a knock-on and existential effect on the Solomons as well. Australia would probably prefer that Papua

New Guinea remains a unitary state; whether we see resurgent violence is an open question in that context.

## CLOSE OF ROUNDTABLE

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