

## **Inquiry into the Future of Australia's Automotive Industry**

### **Summary of questions**

#### **Questions Taken on Notice from the Senate Hearing**

1. What barriers do automotive exporters face in India (tariffs, quotas, NTMs etc)?
2. What have been the various changes in trade figures since TAFTA came into force? (Including how many cars – in number – do we export to Thailand?)
3. How many cars do we export to Malaysia, Thailand, South Korea, India?
4. Does Malaysia have behind-the-border barriers to car imports? Does ROK (for example, motor vehicle insurance)?
5. How much does Thailand export to Australia in the auto sector (repeating question 2 in part)?
6. Is there a mechanism for addressing NTMs in TAFTA
7. Can the McKinsey report referred to by Mr Berne be provided to Senator Xenophon?
8. Do you deal with any applications, new investment proposals, for automotive manufacturing? How many have you dealt with? In terms of new investment-attraction measures, what figures can you point to that your department has been party to facilitating, in the last 18 months. And any other sectors in manufacturing.
9. What incentives does the department have available to attract investment when we compare these other countries in our region? Do you have any specific financial incentives to improve the business case for investment in Australia?

#### **Additional questions on notice for the Department of Foreign Affairs and Trade and the Australian Trade Commission from Senator Xenophon**

1. What programs does the department have for automotive component manufacturers, and advanced manufacturers more broadly, to promote and foster export opportunities?
2. What role do non-tariff barriers play in restricting the ability of Australia's component makers to successfully export into the vehicle production processes?
3. As noted in submissions to the Productivity Commission inquiry, to what extent are Australian component manufacturers disadvantaged by bilateral and regional trade agreements?
4. Is updated information available on the following export facilitation programs in relation to the value of assistance to the automotive manufacturing industry:
  - Export Market Development Grants
  - Tradex *Referred to DoIS*
  - Duty Drawback? *Referred to Customs*
5. How many automotive manufacturers have accessed export market development grants?
6. Are there any other export facilitation programs that support the automotive manufacturing exporters?
7. Is the Export Finance Investment Corporation currently providing finance to any automotive component manufacturers or advanced manufacturers, more broadly?

## **Answer to Questions Taken on Notice from the Senate Inquiry**

### **1. What barriers do automotive exporters face in India (tariffs, quotas, NTMs etc)?**

Automotive exports to India currently face tariffs of up to 10 per cent on auto components, 20 per cent on commercial vehicles, and tariffs ranging between 60 per cent and 100 per cent on passenger motor vehicles (these vary based on engine capacity and price). Tariffs on motorcycles range between 60 per cent and 75 per cent based on engine capacity.

Automotive exporters may also face non-tariff measures (NTMs) related to some of India's technical regulations, and customs procedures and valuations. For example, India is not a party to the United Nations Economic Commission for Europe 1958 agreement on automotive standards; instead, India maintains its own unique technical regulations.

Nonetheless, in the submission made by the Federation of Automotive Products Manufacturer (FAPM) to the Australia-India Comprehensive Economic Cooperation Agreement negotiations in 2011, FAPM highlighted the significant possibilities for the expansion of bilateral trade and investment between Australia and India in the automotive sector, and the encouraging prospects for the potential supply of Australian automotive components and/or technology.

### **2. What have been the various changes in trade figures since TAFTA came into force? (Including how many cars – in number – do we export to Thailand?)**

The Thailand-Australia Free Trade Agreement (TAFTA) entered into force on 1 January 2005. Between 2003-04 (the last full financial year before the TAFTA entered into force) and 2013-14):

- Australia's total exports of goods and services to Thailand increased by 82 per cent in value terms to A\$5.6 billion
- Imports of goods and services from Thailand increased by 201 per cent to A\$13.2 billion
- Total bilateral trade between Australia and Thailand increased by 151 per cent to A\$18.8 billion.

Between 2004 and 2014 Australia's exports to Thailand, of automotive vehicles and automotive parts, increased by 21 per cent to A\$54 million

Between 2004 and 2014 Australia's imports from Thailand, of automotive vehicles and automotive parts, increased by 349 per cent to A\$5.3 billion

### **3. How many cars do we export to Malaysia, Thailand, South Korea, India?**

In 2014, there were no cars exported from Australia to South Korea, Malaysia and India. In 2014 there were around 20 cars exported to Thailand.

### **4. Does Malaysia have behind-the-border barriers to car imports? Does ROK (for example, motor vehicle insurance)?**

Australia has identified and discussed a range of non-tariff measures with Malaysia, including import licensing arrangements; excise duties on cars that increase with engine size; excise credit rebate schemes for local content; and customs valuation methodologies.

The quantitative cap on the total number of imported vehicles in a given year has not applied to Australia since MAFTA's entry-into-force in 2013.

Australia has worked with other automotive producing countries to put pressure on Malaysia to review and reform its non-tariff measures, including in bilateral and regional trade negotiations and at the WTO.

Korea maintains a number of NTMs that restrict the ability to market imported cars in Korea. These include: higher insurance premiums being charged for imported cars than for Korean cars; environmental regulations which penalise some foreign vehicles (e.g. fuel economy tailpipe emissions audits); and the adoption of unique technical standards, including safety standards.

Importantly, the Korea-Australia Free Trade Agreement (KAFTA) includes a review mechanism to address existing and new NTMs on a case-by-case basis.

**5. How much does Thailand export to Australia in the auto sector? (repeating question 2 in part)**

This is answered in question 2 - \$5.3 billion in 2014.

**6. Is there a mechanism for addressing NTMs in TAFTA?**

The Thailand Australia Free Trade Agreement (TAFTA) reaffirms both parties' obligations on non-tariff measures (NTMs) under the WTO. TAFTA also requires both parties to ensure that NTMs are applied transparently and in a manner that does not create unnecessary obstacles to trade between the parties. However TAFTA, like other FTAs, does not cover internal taxes (including excise duties) that are applied consistently with WTO obligations.

The TAFTA Joint Commission and Market Access Implementing Committee provide mechanisms for discussing trade issues, including NTMs. Thailand's excise duties on motor vehicles were pursued in these forums.

**7. Can the McKinsey report referred to by Mr Berne be provided to Senator Xenophon?**

"A Road Map to the future for the auto sector", October 2014

**8. Do you deal with any applications, new investment proposals, for automotive manufacturing? How many have you dealt with? In terms of new investment-attraction measures, what figures can you point to that your department has been party to facilitating, in the last 18 months. And any other sectors in manufacturing.**

One of the Government's five national investment priority areas announced in early 2014 is advanced manufacturing, services and technologies (AMS&T). This is focussed on the attraction of foreign investment that assists in the commercialisation of Australia's globally competitive strengths in materials science and technologies; medical science and technologies; and the digital economy and ICT. Austrade's 2013/14 Annual Report notes that Austrade contributed significantly to 72 inwards investment outcomes, of which 27 were in AMS&T. Five of these outcomes were in materials science.

**9. What incentives does the department have available to attract investment when we compare these other countries in our region? Do you have any specific financial incentives to improve the business case for investment in Australia?**

Austrade does not provide any financial incentives to attract foreign investment.

## **Answers to additional questions on notice for the Department of Foreign Affairs and Trade and the Australian Trade Commission from Senator Xenophon**

### **1. What programs does the department have for automotive component manufacturers, and advanced manufacturers more broadly, to promote and foster export opportunities?**

- Over the last six years Austrade has responded to the changing global automotive market with a three-pronged strategy to assist Australian automotive suppliers to
  - identify new auto OEM opportunities;
  - identify new overseas markets; and,
  - transition into new sectors such as Aerospace/Defence, Rail, Mining and Oil and Gas.
- Our strategy is focused on the major areas of projected global demand and growth aligned with those areas of Australia's comparative advantage.
- Austrade's Automotive Supply Chains Market Initiative targets opportunities in the aftermarket sector and with major OEMs in Thailand, Malaysia, Mexico, India and Indonesia., focusing on new vehicle programs and their key Tier 1 suppliers to create procurement and partnership/joint venture opportunities.
- Austrade has provided market insights and arranged specific OEM automotive missions to Thailand (2013), Indonesia (2012, 2014), Malaysia (2013, 2014) and India (2011, 2013) and facilitated business meetings with offshore OEMs like Ford, General Motors, Toyota, Mahindra, Tata and Tesla. In all these missions, Austrade collaborated with Australia's Automotive Envoy programme, peak industry associations and state governments.
- Austrade is assisting automotive suppliers transition to the aerospace, rail, oil and gas and mining equipment sectors. For example, organisations such as Ferra Engineering, Broens industries, Hofmann Engineering, Marand and Groundmaster Engineering have transitioned to the aerospace sector and continue to receive assistance in market and through Austrade's Global Value Chain Access initiatives in countries such as Singapore, India, Poland and Brazil.

### **2. What role do non-tariff barriers play in restricting the ability of Australia's component makers to successfully export into the vehicle production processes?**

NTMs implemented by Australia's trading partners have the potential to impede exports of Australian automotive components.

For example, DFAT is aware of some NTMs which have potential to provide preference to local production over Australian production in Malaysia and Brazil. In the case of Malaysia, the authorities maintain an excise credit rebate scheme which effectively means that local content added to vehicles manufactured in Malaysia can be deducted from the final excise value of the vehicle. This creates a preference for using local parts over imported parts. A similar scheme also operates in Brazil. DFAT has taken up discussions on both Malaysia's and Brazil's excise credit schemes at the WTO and in bilateral and regional trade fora.

Importantly, in the recently-concluded free trade agreements with Korea and Japan, Australia has negotiated review mechanisms to address existing and new NTMs on a case-by-case basis.

**3. As noted in submissions to the Productivity Commission inquiry, to what extent are Australian component manufacturers disadvantaged by bilateral and regional trade agreements?**

Free trade agreements can create opportunities for Australian component manufacturers by lowering barriers to trade, providing access to new markets and a platform for the sector to integrate into regional and global value chains. Many of Australia's trading partners have significantly higher tariffs on automotive products, often in the 10 to 30 per cent range.

In the recently concluded free trade agreements with Korea, Japan and China, Australia has secured the immediate or phased elimination of automotive and component import tariffs i.e. Korea's eight per cent tariffs on automotive parts were immediately eliminated under KAFTA, and China will eliminate tariffs ranging from six to 25 per cent on automotive parts within four years under the China-Australia Free Trade Agreement. Under the Japan-Australia Economic Partnership Agreement, duty-free access will continue for automotive parts.

Australia's bilateral FTAs with New Zealand, Singapore, Thailand, the United States, Chile and Malaysia have either bound tariffs on automotive components and parts at zero per cent or eliminated existing tariffs. Australia's regional FTA with ASEAN and New Zealand – the Agreement Establishing the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA) – has eliminated most tariffs on automotive components and parts, with remaining tariffs generally being phased down until they are eliminated. Only a small number of tariff lines in some Parties will not be eliminated by 2020. AANZFTA's provisions on regional cumulation should also support Australian companies tapping into regional supply chains.

The effect on individual companies and sectors of the economy of the lowering of tariffs, through both FTAs and through Australia's general reduction of our MFN tariffs, will depend on a range of factors, including the competitiveness of these companies and the comparative advantage of different sectors of the economy, particularly given broader trends in the economy (and associated impacts on cost of labour and capital and the value of the exchange rate). It is important to note that a significant amount of trade between modern economies is intra-industry trade, so that increased imports of some types of products in a particular industry could be associated with increased production and exports of other types of products in the same industry. The role of Australia's FTAs is to maximise the opportunities for companies to source competitive inputs, take advantage of overseas markets, and tap into supply chains, including through forming joint ventures and other partnerships with companies overseas, and through investment in both Australia and overseas markets.

**4. Is updated information available on the following export facilitation programs in relation to the value of assistance to the automotive manufacturing industry?**

- **Export Market Development Grants**

Table 1: Total EMDG grants to companies in the automotive sector between Grant Year (GY) 2009/10 and GY 2012/13

Grant Year	Grants Paid	Value of Grants Paid
2009/10	37	\$1,200,388
2010/11	23	\$903,501
2011/12	26	\$1,014,281
2012/13	21	\$822,111

Note: Grant year is the year in which the export marketing expenses were incurred. Grants are normally paid the year after the grant year (e.g. GY 2012/13 grants normally paid in FY 2013/14).

## 5. How many automotive manufacturers have accessed export market development grants?

Table 2: Total EMDG grants to companies in the automotive sector between GY 2009/10 and GY 2012/13 (including Industry Class)

Grant Year/Sub-Sector	Grants Paid	Value of Grants Paid
<b>2009/10</b>	<b>37</b>	<b>\$1,200,388</b>
Automotive Electrical Component Manufacturing	2	\$148,850
Motor Vehicle Body and Trailer Manufacturing	2	\$23,614
Motor Vehicle Manufacturing	1	\$5,544
Other Motor Vehicle Parts Manufacturing	32	\$1,022,380
<b>2010/11</b>	<b>23</b>	<b>\$903,501</b>
Automotive Electrical Component Manufacturing	2	\$129,626
Motor Vehicle Body and Trailer Manufacturing	2	\$39,624
Motor Vehicle Manufacturing	1	\$21,103
Other Motor Vehicle Parts Manufacturing	18	\$713,148
<b>2011/12</b>	<b>26</b>	<b>\$1,014,281</b>
Automotive Electrical Component Manufacturing	4	\$151,827
Motor Vehicle Manufacturing	2	\$79,662
Other Motor Vehicle Parts Manufacturing	20	\$782,792
<b>2012/13</b>	<b>21</b>	<b>\$822,111</b>
Automotive Electrical Component Manufacturing	4	\$149,404
Motor Vehicle Manufacturing	3	\$175,163
Other Motor Vehicle Parts Manufacturing	14	\$497,544

Note: Grant year is the year in which the export marketing expenses were incurred. Grants are normally paid the year after the grant year (e.g. GY 2012/13 grants normally paid in FY 2013/14).

GY 2012/13 is the latest full year for which statistics are available.

Claims for GY 2013-14 are submitted in 2014-15 and are still being processed, there are 4 grant claims from this sector unprocessed as at 23 April 2015.

Table 3: Total EMDG grants to companies in the automotive sector in GY 2013/14 (up to 23/4/2015)

Grant Year	Grants Paid (to 23/4/2015)	Value of grants paid (to 23/4/2015)
2013/14	19	\$537,110

Table 4: Total EMDG grants to companies in the automotive sector in GY 2013/14 (including Industry Class) (up to 23/4/2015)

Row Labels	Grants Paid (to 23/4/2015)	Value of grants paid (to 23/4/2015)
Automotive Electrical Component Manufacturing	3	\$99,683
Motor Vehicle Body and Trailer Manufacturing	1	\$1,4182
Motor Vehicle Manufacturing	2	\$8,3049
Other Motor Vehicle Parts Manufacturing	13	\$34,0196
<b>Grand Total</b>	<b>19</b>	<b>\$537,110</b>

Table 5: Number of EMDG GY 2013/14 claims from firms in the automotive sector unprocessed @ 23/4/2015

Number of unprocessed claims	Gross value of unprocessed grants claimed
4	\$204,433

## 6. Are there any other export facilitation programs that support the automotive manufacturing exporters?

In addition to the points outlined in questions 1, 4 and 5 above, through its administration of the Asian Business Engagement Grant Program, Austrade is assisting 2014 grant recipient the Australian Automotive Aftermarket Association with their 'Asian Aftermarket Pathway Program' aimed at building linkages and collaboration with industry associations in Thailand and Indonesia. This program includes missions to both markets at the end of 2015.



**7. Is the Export Finance Investment Corporation currently providing finance to any automotive component manufacturers or advanced manufacturers, more broadly?**

For the 2014-15 financial year to March, over one-third of facilities to small to medium enterprises were in support of advanced manufacturers.

For the 2014-15 financial year to March, over one-third of facilities to small to medium enterprises (SMEs) were in support of advanced manufacturers. Although this does not include any direct support for automotive component exports, Efic has recently supported companies that have diversified from the automotive industry into other industries. For example:

- Marand  
A Victorian-based SME that supplies into the automotive industry, but is now also providing goods and services into the mining and aeronautical industries.
- Ferra Engineering  
A Queensland-based SME that now specialises in advanced defence and aerospace assemblies, and is subcontracted to provide parts into the Joint Strike Fighter program.