

CHIEF EXECUTIVE

1 JUL 2004

BY

TT 12 May 04
Submission No: 11



ABN 53 008 550 347

30 June 2004

The Chair
Joint Standing Committee on Treaties
Parliament House
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Dear Sir

I am writing on behalf of the Federal Chamber of Automotive Industries (FCAI) to contribute to the Committee's current inquiry into the proposed Australia-Thailand Free Trade Agreement.

The FCAI is the peak industry organisation representing vehicle manufacturers and the major importers of passenger cars, four wheel drives, light commercial vehicles and motor cycles in Australia.

FCAI recognises that bilateral preferential trade agreements, of the kind envisaged between Australia and Thailand, form a legitimate part of an appropriate and balanced trade policy. For such agreements to be contemplated they should support Australia's overall trade policy objectives and result in a proportionate strengthening of market access arrangements for Australian exporters, in return for increased access to the Australian market.

As with any such preferential agreement, it has to be considered that the pattern of benefits and costs will not be evenly distributed across all participants in the industry. However, FCAI believes that, on balance, the proposed agreement between Australia and Thailand is consistent with Australia's broad trade policy objectives and does secure reciprocal market access gains for Australian exporters.

Accordingly, FCAI urges the Committee to support the implementation of this agreement and to recommend the passage of necessary enabling legislation, as soon as possible.

Australia-Thai Trade in Automotive Products

The table, below, highlights the extent trade in automotive products between Australia and Thailand over the past five years.

Australia-Thailand Automotive Trade: 1999-2003

	1999	2000	2001	2002	2003
Exports	\$m	\$m	\$m	\$m	\$m
Vehicles	28.7	33.0	26.2	0.2	1.6
Parts	10.2	10.8	15.0	23.0	29.2
<i>Total</i>	<i>38.9</i>	<i>43.8</i>	<i>41.2</i>	<i>23.2</i>	<i>30.8</i>
Imports					
Vehicles	564.1	751.8	564.0	621.5	891.9
Parts	69.7	103.4	115.8	112.7	168.3
<i>Total</i>	<i>633.8</i>	<i>855.2</i>	<i>698.8</i>	<i>734.2</i>	<i>1,060.2</i>

As the table shows, Thailand has been a significant and growing source of imports of vehicles and automotive components in recent years. Thailand now rates as Australia's fourth largest source of automotive products, overall. Indeed, it is interesting to note that over the past two years, Thailand has overtaken South Korea, in terms of the value of vehicles imported to Australia. In particular, Thailand accounts for a significant volume of imports of light commercial vehicles to Australia (principally 'pick-up/cab-chassis variants').

In contrast, the table shows that the overall level of Australian automotive exports is negligible and, if anything, has declined in recent years. Until 2001, Australia was exporting a modest quantity of medium-sized cars in 'completely knocked down' (CKD) form. However, in the past couple of years, this trade has been supplanted by an expansion in the capacity of Thai domestic industry.

While in some respects it could be observed that the Australian and Thai automotive industries offer a degree of complementarity, it is clear that this has not been fully reflected in the growth of two-way trade in automotive products. In large part, this can be attributed to the extent of tariff and non-tariff barriers which, until now, Australian exporters have faced in securing access to the Thai market.

Market Access Arrangements

The proposed FTA offers Australian exporters significant opportunities for improved access to the Thai market as a result of the reduction and removal of tariffs on automotive components and vehicles. In particular, from the final text of FTA, it is noted that the Thai Government has committed to the following:

- For passenger cars with an engine capacity exceeding 3000cc, the existing tariff of 80 per cent will be eliminated on entry into force.

- For passenger cars with a engine capacity of less than 3000cc, existing tariffs of 80 per cent will be reduced to 30 per cent on entry into force and then phased to zero by 2010, in equal annual instalments.
- Phasing of tariffs for most automotive components, according to the following scale:
 - For those items with existing tariffs greater than 20 per cent, tariffs will be reduced to a ceiling of 20 per cent on entry into force and then phased to zero by 2010.
 - For those items with existing tariffs of 20 per cent, tariffs will be reduced to 16 per cent on entry into force and then phased to zero by 2010.
 - For items with existing tariffs of 10 per cent, tariffs will be reduced to 8 per cent on entry into force and reduced in increments to zero by 2009.
 - For most items with existing tariffs of less than 10 per cent tariffs will be reduced to a maximum of 5 per cent on entry into force and then be eliminated by 2007 or 2008.
 - Tariffs on a specified list of automotive components are to be eliminated on entry into force, as part of a reciprocal 'zero for zero' arrangement.

For its part, the Australian government has agreed to a range of measures providing preferential market access to imports of vehicles and automotive components as follows:

- Tariffs on all types of vehicles will be eliminated on entry into force.
- Tariffs on most automotive components, currently applied at either 10 per cent or 15 per cent, will be reduced to 5 per cent on entry into force and then eliminated by 2010.

It is noted that while the concessions achieved in the agreement significantly reduce the existing tariff barriers faced by Australian automotive exporters, other obstacles do remain. In particular, Thailand continues to levy significant domestic excise taxes on vehicles at varying rates, based on engine capacity. Given that most Australian cars are in the upper-medium or large size range, future exports of such vehicles to Thailand will continue to incur excise at rates of 41-48 per cent. By comparison, excise on passenger cars with smaller engine capacities and light commercial vehicles is levied at lower rates (35 per cent and 3-18 per cent, respectively).

Rules of Origin

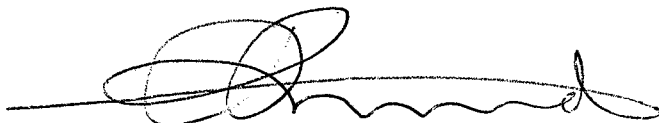
The rules of origin which are to apply under the proposed agreement are also an issue of key interest to the Australian automotive industry. These are detailed in Chapter 4 of the FTA and associated annexes.

As with the recently concluded Australia-United States FTA, the rules of origin in this agreement represent a significant departure from those adopted in other preferential agreements which Australia has entered into. Indeed, it is understood that the rules of origin adopted in this agreement were modelled on those applied under the United States-Singapore Free Trade Agreement.

In most instances there is a requirement that items have undergone a change in tariff classification from one heading, or related group of tariff headings, to a different heading. For some items, the agreement also provides that origin may be conferred if a minimum level of 'regional value content' (RVC) calculated on the basis of the 'transaction' (or adjusted 'FOB') value of the final product, using a build-down method (i.e. the value of non-originating materials is subtracted from the adjusted FOB value of the item). For most automotive products the minimum RVC threshold prescribed in the agreement is 40 per cent, a requirement that all current Australian manufactured vehicles would have little difficulty complying with.

I trust these brief observations will assist the Committee's deliberations on this matter. Once again, on behalf of FCAI, I would urge the Committee to support the implementation of the Australia-Thailand FTA and to recommend the passage of the necessary enabling legislation.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P M Sturrock', with a long horizontal line extending to the left.

P M STURROCK
Chief Executive