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HOLDEN

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BY:.....

8 July 2004

Chair
Joint Standing Committee on Treaties
Parliament House
Canberra ACT 2600

Dear Sir

FREE TRADE AGREEMENT BETWEEN AUSTRALIA AND THAILAND

I understand that the Joint Standing Committee on Treaties has invited submissions on the free trade agreement between Australia and Thailand.

As previously outlined to the Committee in relation to the free trade agreement with the United States, increasing market access is important to Holden's future success. Accordingly, trade policy is of significant interest to our business and we appreciate the opportunity to contribute to the Committee's deliberation on this agreement.

You will be aware from recent submissions to the Committee that Holden has been supportive of the Government's efforts to increase market access for the Australian automotive industry, and has been an active participant in discussions to encourage regional free trade agreements, particularly with Thailand, for several years. Holden has previously indicated support for the Thailand Australia Free Trade Agreement and welcomes it as an opportunity to expand General Motors' presence in this rapidly growing market in the Asia Pacific region and, in particular, Holden's export opportunities as part of General Motors.

In turn, Holden hopes that the Thailand Government's decision will highlight the benefits of a free trade agreement to other Asia-Pacific markets, and we have seen positive steps forward in this regard with the recent announcement that ASEAN will begin negotiations on a free trade agreement with Australia and New Zealand.

Australia has been operating within a tariff structure far lower than many of its neighbours for some time, and in Holden's view, the agreement offers significant benefits for Australian automotive exporters. Thailand has maintained a relatively prohibitive structure of automotive tariffs of up to 80 per cent for vehicles and 42 per cent for components. This compares with Australia's 15 per cent tariff, which will reduce to 10 per cent in 2005. The reduction of tariffs for exports to Thailand affords opportunities for Holden and other Australian carmakers and component manufacturers to build a critical mass of production, which will be important in ensuring the ongoing viability of the industry in Australia.

You may be aware that Holden's trade with Thailand is already quite substantial. In 2003, Holden's imports of vehicles and components from Thailand totalled \$343 million, or around one third of the \$1 billion of automotive products imported that year by the Australian automotive industry from Thailand. Holden currently imports both the Zafira and Rodeo models in volumes of approximately 600 and 24,000 units per annum, respectively, from General Motors' facility in Thailand for sale in the Australian market. In addition, Holden has recently commenced a low volume export program to Thailand that initially involves two models, the Chevrolet Lumina LTZ and Chevrolet Lumina S. Holden also imports

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components from Thailand, mainly wheels and tyres, for use in our Australian manufactured vehicles.

Thailand's automotive sector has seen significant growth in the last few years and we understand that the market is expected to grow to around 580,000 units in 2004. At the same time, the Australian market continues to grow to record levels and forecasts suggest that it may reach close to 1 million vehicles in 2004. Holden considers Thailand as a complementary market to Australia, as Australian manufacturers specialise in large passenger vehicles while Thailand primarily produces small vehicles and light trucks. In addition, significant opportunities exist for the local supplier industry to increase their volumes through improved access to the Thai market for components, or perhaps through joint-venturing with their Thai counterparts.

In view of the strength in both markets and the opportunities afforded to complement the products within these markets, Holden anticipates that the free trade agreement could increase two-way trade between our countries.

In considering the specific policy issues that have been addressed in this agreement, tariff barriers and rules of origin are of interest to Holden and our comments on these aspects of the agreement are as follows:

Tariff Barriers

The most significant policy issue addressed in this agreement was that of tariffs on automotive goods. Thailand's prohibitively high tariffs have limited opportunities for the Australian automotive industry and the agreement has achieved substantial improvements for our industry with the reduction, and in some cases the elimination, of tariffs on vehicles and components.

The outcomes on tariffs for automotive vehicles and components, as Holden understands them, are described in Tables 1 and 2 in Attachment 1.

Table 1 describes the phasing arrangements for automotive vehicles. For passenger cars with an engine capacity greater than 3000cc, the current 80 per cent tariff will be eliminated from entry into force of the agreement. For passenger cars with an engine capacity of less than 3000cc the 80 per cent tariff will be immediately reduced to 30 per cent and then will be phased in equal steps to zero by 2010.

For components, Table 2 outlines the phasing arrangements for Australian component exports to Thailand. On implementation of the agreement, the current tariff rate on a component will be halved to determine its phasing modality. For example, if the tariff rate is currently 30%, then on implementation its duty rate becomes 15% and will then be phased according to the schedule in Table 2. The exception is for components currently at 42%, which fall to 20%, on entry into force of the agreement.

In response, the Australian Government has eliminated all tariffs on automotive vehicles and component tariffs will be reduced to 5 per cent from entry into force of the agreement and will be eliminated in 2010.

In Holden's view, the most significant outcome of the agreement has been the immediate elimination of Thailand's 80% tariff on large passenger motor vehicles and we commend the Government's efforts to achieve this end result. As mentioned, Holden has commenced a low volume export program to Thailand and we expect the TAFTA will enable that program to become much larger in future years. In addition, the reduction and removal of Australia's import duties on automotive goods will also provide cost savings to Holden for the vehicles and components that we import from Thailand.

Rules of Origin

The development of appropriate rules of origin for automotive products has been of significant importance to Holden in recent bilateral negotiations.

The primary purpose of a rule of origin is to ensure that the benefits of a free trade agreement only accrue to parties to the agreement, while at the same time ensuring that the rules and methodology are as straightforward and simple as possible to use and administer.

With regard to the development of Rules of Origin (ROO), Holden's general position has been to maintain consistency with other arrangements. While the emerging trend has been to develop a value-based approach, our preference in both the AUSFTA and the TAFTA has been to adopt a cost-based methodology without tracing, to establish eligibility for tariff preference. This type of approach offers transparency in the calculation of regional value content, particularly in those countries with strict enforcement policies, greater certainty of outcomes and is supported by generally accepted accounting standards.

We understand that the outcomes on rules of origin in TAFTA are based on those contained in Annex 3 of the US-Singapore FTA, which requires that a change of tariff classification and a regional value content of 30 per cent or greater be achieved, using a price based methodology. More specifically, TAFTA has adopted product specific ROO, which may include the following requirements:

- Change of Tariff Classification, or
- Regional Value Content (RVC) - which varies from 40% to 75% depending on the industry, but is 40% for most automotive goods, or
- Both of the above

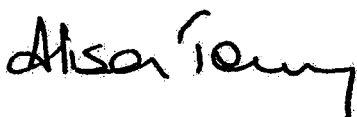
It should be noted that most goods within the automotive industry require both a change of tariff classification and a RVC of 40 per cent to be considered as originating goods. Exceptions to this generalisation include engines, which only require a change of tariff classification and engine components, which have the option of using either a change of tariff classification or a RVC of 40 per cent. The requirement to meet a minimum RVC of 40 per cent should not present any difficulties for Holden in terms of our imported or exported goods.

As mentioned, the negotiations with Thailand have resulted in the adoption of a price-based methodology for determining regional value content. While Holden has been supportive of the alternative cost-based methodology due to the greater transparency in outcomes, we appreciate that for developing countries this methodology may be difficult to adopt.

In closing, I would like to reiterate our support for the efforts by the Government to negotiate early access to one of the significant automotive markets in the Asia-Pacific region. Holden believes that the agreement provides substantial opportunities for companies in both countries to increase trade in automotive goods. Accordingly, Holden recommends that the Committee support the outcomes as described in the draft text and encourages efforts to ensure that the agreement can be implemented as soon as possible.

Again, thank you for the opportunity to contribute to the Committee's consideration of this agreement. I would welcome the opportunity to appear before the Committee to present Holden's views if required.

Yours sincerely



Alison S. Terry
Executive Director – Corporate Affairs

Attachment 1 – Tariff Outcomes for Vehicles and Components

Vehicle Type/ Component	Australian Exports to Thailand		Thai Exports to Australia	
	Now	After TAFTA	Now	After TAFTA
PMVs with Engine Capacity \geq 3L	80%	0	15	0
PMVs with Engine Capacity $<$ 3L	80%	30% reducing 6% each year to 0 in 2010	15	0
LCVs	60%	0	5	0
Components	3% - 42%	Phasing to 0 by 2010 as described in Table 2	10% - 15%	0 – 5% but 0 for all by 2010

Table 1: Australia/Thailand Vehicle and Component Tariffs

Adjusted Component Tariff (X)	2005	2006	2007	2008	2009	2010
X $>$ 20%	20%	16%	12%	8%	5%	0
16% $<$ X $<$ 20%	16%	12%	8%	5%	5%	0
12% $<$ X $<$ 16%	12%	8%	5%	5%	0	0
8% $<$ X $<$ 12%	8%	8%	5%	5%	0	0
5% X $<$ 8%	5%	5%	5%	0	0	0
X $<$ 5%	X or 5%, whichever is lower	X or 5%, whichever is lower	0	0	0	0

Table 2: Phasing Schedule for Components