

8 June 2004

Chair
Senate Select Committee on the Free Trade Agreement between Australia and the United States of America
The Senate
Parliament House
Canberra ACT 2600

Dear Sir

FREE TRADE AGREEMENT BETWEEN AUSTRALIA AND THE UNITED STATES

Thank you for the opportunity to appear before the Senate Select Committee recently, and to provide Holden's views on the proposed free trade agreement between Australia and the United States.

During the proceedings a number of questions were raised, which required further clarification.

You will recall that following my opening address the initial questions were addressed to me by you. In the first of these questions you asked about the percentage of General Motors' products that are made in Australia.

In 2003, General Motors' worldwide production totalled 8,594,605 vehicles. In the same year, Holden manufactured around 153,321 vehicles at our vehicle assembly facility in Elizabeth, South Australia, which represents 1.8% of General Motors' total production.

In a later question, you sought information about how the AUSFTA would impact jobs at Holden and cited a Monash University report that suggested that there would be job losses in the car industry in Victoria.

While Holden has not undertaken any specific analysis of the impact of the agreement on employment, we have indicated in our submission that our belief is that the main benefit afforded by the AUSFTA is in strengthening the Australian economy. In Holden's view, the Australian economy will benefit from increased growth and dynamism through access to the large US market, particularly if the US service industry enters the Australian services market and raises prevailing standards of performance.

Consequently, the flow-on effects from stronger economic growth will in our view benefit the entire automotive industry and drive competition in the marketplace, thereby enhancing vehicle and component trade. In turn, this is likely to strengthen the competitive position of Holden's operations and their continued sustainability, which is an encouraging outcome with respect to future employment opportunities.

Your final question concerned the impact of the agreement on the local content of Holden vehicles and this was also a theme in a subsequent question from Senator Conroy regarding our utility.

During the negotiations, the Government ensured that Holden was well informed on the status of discussions surrounding such aspects of the FTA as Rules of Origin. Our original calculations to determine whether Holden vehicles (including our utility) would meet the minimum regional value content (RVC) requirement indicated that over a range of exchange rates, our vehicles would be eligible for preference under the agreement. At the time of this analysis we did not include US sourced components in the calculation of local content. However, as Holden sources certain components for its vehicles from the US, this situation is now enhanced as goods that are of US origin can be considered in this calculation.

Your final question also raised the broader issue of whether the agreement would change the local content of the vehicle. While the agreement provides immediate benefit in terms of the elimination of tariffs on components, it is only one of the many factors that are considered in sourcing decisions. You may be aware that the industry operates with long lead times for product development, which also impacts planning and implementation activities with respect to potential new manufacturing sources. It is unlikely that the agreement will have an immediate impact on such decisions, but the benefits provided by the agreement will certainly form part of future considerations.

Later in the proceedings, Senator Harris raised an issue with regard to the number of vehicles that are produced in left hand drive and right hand drive configurations around the world.

In 2003, the total world production of vehicles was 58,579,494, but we have been unable to determine the proportion of those produced in either left hand drive or right hand drive configurations. However, we have been able to determine the breakdown for General Motors. As mentioned earlier, General Motors produced 8,594,605 vehicles in 2003 and around 690,000 of these were for right hand drive markets. This represents approximately 8% of General Motors' total production.

With regard to whether there would be any market advantage for Australian manufacturers to produce left hand drive vehicles, in fact this opportunity has already been recognised and local manufacturers such as Mitsubishi, Toyota and Holden all have export programs to left hand drive markets. In Holden's case, of the 36,069 vehicles that were exported in 2003, 25,877 of these vehicles were for left hand drive markets.

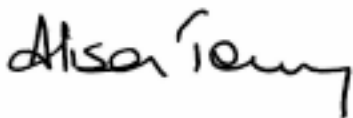
Finally, Senator Brandis inquired as to the aggregate number of exports for all Australian manufacturers.

Data obtained from the Federal Chamber of Automotive Industries indicates that there were 118,149 vehicles exported by Australian manufacturers in 2003.

I hope that this additional information has provided the Committee with sufficient clarification of the matters raised at the Hearing.

In closing, I appreciated the opportunity to appear before the Committee and provide Holden's comments on this agreement. I look forward to the outcomes of the Committee's considerations of the agreement and encourage efforts to ensure that the agreement can be implemented as soon as possible.

Yours sincerely



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