

**FEDERAL CHAMBER OF
AUTOMOTIVE
INDUSTRIES**

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30 April 2004

Secretary
Senate Select Committee on the Free Trade Agreement
between Australia and the United States of America
Suite S1.30.1
The Senate
Parliament House
CANBERRA ACT 2600

Dear Sir

I am writing in relation to the select committee's call for public submissions in relation to its inquiry into the proposed Free Trade Agreement between Australia and the United States of America.

I note that the Federal Chamber of Automotive Industries (FCAI) has recently made a submission on this issue to the Joint Standing Committee on Treaties (JSCOT). This submission canvasses a number of views and issues which are likely to be equally relevant to the select committee's terms of reference.

I am therefore pleased to be able to forward to you a copy of the FCAI's submission to the JSCOT. I note that this also contains as an attachment a statement issued on 9 February 2004 by the FCAI President, in response to the finalisation of negotiations with the United States.

I trust that these documents will be useful to the select committee in its deliberations.

Kind regards

Andrew McKellar
Director – Government Policy

PETER M. STURROCK
CHIEF EXECUTIVE



FEDERAL CHAMBER
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20 April 2004

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Chair
Joint Standing Committee on Treaties
Parliament House
CANBERRA ACT 2600

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-United States 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 has taken a close interest in the development of a free trade agreement between Australia and the United States over the past year. I should record at the outset that the level of consultation with our industry by officials from the Australian negotiating team, as well as relevant Ministers and their staff, has been exemplary throughout this process. At each stage of the negotiations the views of FCAI and its member companies have been canvassed and we are comfortable that the views expressed have been taken into account in determining the Government's final position, as reflected in the proposed agreement.

Overview of FCAI Position

FCAI recognises that bilateral preferential trade agreements, of the kind envisaged between Australia and the United States, 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.

In a statement issued on 9 February 2004, the FCAI President indicated that the outcome of the negotiations would provide significant opportunities for the Australian automotive industry to increase exports to the United States over the next few years (refer Attachment). This claim is based upon the United States agreement to eliminate all customs duties on vehicles and automotive components upon entry into force of the FTA.

Mr Polites also acknowledged that the agreement would likely result in some additional competitive challenges for the Australian industry. Under the terms of the agreement, imports of vehicles and automotive components from the United States will receive preferential access to the Australian market. This may have some impact on future trade and investment patterns, although it is difficult to assess how far-reaching any such outcomes may be in the long-term.

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 the United States is consistent with Australia's broad trade policy objectives and does secure reciprocal market access gains for Australian exporters.

Automotive Trade between Australia and the United States

Table 1, below highlights the significant extent of two-way trade in automotive products between Australia and the United States over the past five years.

Table1: Australia-United States Automotive Trade: 1999-2003

	1999	2000	2001	2002	2003
Exports	\$m	\$m	\$m	\$m	\$m
Vehicles	263.32	375.87	605.00	547.73	254.31
Parts	462.68	491.59	485.87	522.17	494.44
Total	725.99	867.46	1,090.87	1,069.90	748.75
Imports	\$m	\$m	\$m	\$m	\$m
Vehicles	570.41	734.69	787.93	1,002.78	936.00
Parts	1,272.30	1,510.65	1,476.46	1,447.99	1,289.29
Total	1,842.71	2,245.34	2,264.39	2,450.77	2,225.29

Table 1 shows that Australian exports of vehicles and automotive components recently peaked at \$1.09 billion in 2001 and while the value of automotive exports has fallen since then, the United States remains one of Australia's top three automotive export destinations, by a clear margin. Much of the decline over the past two years is due to a fall in exports of Australian made passenger cars to the United States, resulting from the influence of US' market conditions and model life-cycle considerations.

Table 1 also shows that the imports of automotive parts have generally outweighed imports of vehicles by a significant margin.

Separate sales data, produced by FCAI shows that sales of sports utility and four-wheel drive vehicles imported from the United States' (around 8,500 units in 2003) significantly outweighs the number of passenger cars sourced from the United States (around 500 units in 2003). It is also understood that a significant proportion of the value of vehicle imports from the United States is accounted for by heavy trucks, although FCAI does not have reliable sales figures for these vehicles by country of origin.

Market Access Arrangements

The market access arrangements described in Chapter 2 and associated annexes of the draft free trade agreement are a key area of interest for the Australian automotive industry.

The FCAI has consistently argued that improved access to markets of key current and potential trading partners is essential if the industry is to continue to build on the recent export successes achieved by the Australian automotive industry. We have also acknowledged that where such improved market access opportunities exist it may be appropriate for Australia to provide proportionate and reciprocal improvements in access to its domestic market.

It is our understanding that the United States' government has agreed to comprehensively eliminate customs duties on vehicles and automotive components as follows:

- tariffs on passenger cars (and other vehicles classified to 8703), currently 2.5 per cent, to be eliminated on entry into force;
- tariffs on goods carrying vehicles (classified to 8704, including light trucks) currently 25 per cent, to be eliminated on entry into force;
- tariffs on vehicle chassis fitted with engines (classified to 8706), currently between 1.6-4 per cent, to be eliminated on entry into force;
- tariffs on vehicle bodies (classified to 8707), currently 2.5-4 per cent, to be eliminated on entry into force; and

- tariffs on a wide range of automotive parts and accessories, mainly currently 2.5 per cent, to be eliminated on entry into force.

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 passenger motor vehicles, currently 15 per cent (but scheduled to be reduced to 10 per cent from 1 January 2005), to be eliminated by 1 January 2010.
- tariffs on other vehicles, including 'off- road' vehicles (classified to 8703) and goods carrying vehicles (classified to 8704) currently at 5 per cent, to be eliminated on entry into force; and
- tariffs on automotive parts and accessories, mainly currently 15 per cent (but due to be reduced to 10 per cent on 1 January 2005) to be eliminated on entry into force.

A literal interpretation of the text of the draft agreement suggests that tariffs on passenger cars will be reduced in stages as shown in Table 2, below. We understand that there may have been some minor variation from these arrangements agreed to in the understanding reached between the negotiating parties. While the impact is unlikely to be of material consequence we expect that this will be clarified once the text of the agreement is finalised.

Table 2: Australian PMV Tariff Rates 2005-2010

	2005	2006	2007	2008	2009	2010
General Rate (%)	10	10	10	10	10	5
AUSFTA Rate (%)	8	6.5	5	3.0	1.5	0

The tariff staging arrangements for passenger cars were sought by Australian negotiators in close consultation with FCAI and individual Australian vehicle manufacturers. As the FCAI President acknowledged in his statement of 9 February 2003, they provide the local industry some time to adjust to the new arrangements in this segment of the market (refer Attachment).

As a final point to note, we understand, that the scheduled \$12,000 duty on imports of used passenger motor vehicles will be eliminated, although it is unclear whether this should occur in a single step (from 1 January 2010) or in equal annual instalments (as implied by the draft text). Notwithstanding this measure, we understand that the requirements for any used or second hand vehicle entering Australia from the United States will continue to be regulated under the provisions of the *Motor Vehicle Standards Act 1989*. This Act and its associated regulations have recently been amended to address a number of

previous shortcomings and to implement more rigorous safety requirements for key categories of imported used vehicles. Provided these amended arrangements prove to be effective there is little risk that imports of used vehicles from the United States will change as a result of the terms of this agreement.

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 5 of the draft agreement and associated annexes.

The rules of origin in this agreement represent a significant departure from those adopted in other preferential agreements which Australia has entered into.

Under the longstanding Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) and the more recent Singapore-Australia Free Trade Agreement (SAFTA), for example, the rules of origin for most manufactured goods are based upon the uniform dual requirements that:

- the last process of manufacture should have occurred with the free trade area; and
- at least 50 per cent of the allowable cost of manufacture (or 'ex-factory cost') must represent 'qualifying expenditure'.

In contrast, the rules of origin in this agreement are based on different criteria which can vary in application from product to product. 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 completely different heading. For some items, the agreement also provides that origin may be conferred if a minimum level of 'regional value content' (RVC) is achieved. In most instances RVC is measured on the basis of the 'transaction' (or adjusted 'FOB') value of the final product, calculated using either a 'build-down' method (in which the value of non-originating materials is subtracted from the final value), or a 'build-up' method (in which the value of originating inputs are added and calculated as proportion of the final value of the good). However, for a range of key automotive products RVC is to be determined using an alternative 'net cost' method.

In principle, the 'net cost' approach is quite similar to the ANZCERTA and SAFTA, 'ex factory cost', approach. The main differences appear to be that 'net cost' includes some non-factory related general and administrative costs but excludes royalties, whereas 'ex factory cost' measure does not.

Details of the rules of origin for these automotive products are summarised in Table 3 (over page).

It is noted these rules imply three main approaches to the determination of origin for these specified automotive products:

- For most automotive components, including spark ignition engines, there is a broad requirement for a change in tariff heading (or subheading), although this is waived if the RVC satisfies the 50 per cent threshold under the 'net cost' method.
- For engine parts and chassis fitted with engines it is understood that origin is to be determined only with reference to the level of RVC under the 'net cost' method. Although the language used in the draft text is arguably somewhat ambiguous in this regard, FCAI has been advised that this is being reviewed and may be clarified in the final text.
- For motor vehicles there is a dual requirement for a change in tariff heading *and* an RVC of not less than 50 per cent under the 'net cost' method.

Table 3: Rules of Origin for Specified Automotive Products

Tariff Items	Product Rule
8407.20; 8407.31-8407.34 Spark ignition engines	A change to subheading 8407.20, 8407.31-34 from any other heading; or no change in tariff classification is required provided there is a regional value content of not less than 50% under the Net Cost method.
8409 Parts for engines	No change in tariff classification is required provided there is a regional value content of not less than 50% under the Net Cost method.
8701-8705 Motor vehicles	A change to heading 8701 through 8705 from any other heading outside that group provided there is a regional value content of not less than 50% under the Net Cost method.
8706 Chassis	No change in tariff classification is required provided there is a regional value content of not less than 50% under the Net Cost method.
8707 Bodies	A change to heading 8707 from any other heading; or no change in tariff classification is required provided there is a regional value content of not less than 50% under the Net Cost method.
8708.10-8708.99 Parts and accessories for motor vehicles	A change to subheading 8708.10-8708.99 from any other subheading; or no change in tariff classification is required provided there is a regional value content of not less than 50% under the Net Cost method.

Concluding Comments

In the brief comments outlined above I have sought to outline some of the key areas of relevance to the Australian automotive industry arising from the proposed Australia-United States Free Trade Agreement.

I should reiterate that the industry has been closely consulted at each stage of the negotiations and I would like to take this opportunity to commend Australia's lead negotiator, Mr Stephen Deady and his colleagues in the negotiating taskforce for their professionalism and responsiveness throughout the process. Indeed, I should note that key aspects of the Government's negotiating position market access arrangements and rules of origin were adjusted as a result of this process of consultation, to take account of views expressed by the industry.

Accordingly, I would urge the Committee to support the implementation of the agreement and the passage of enabling legislation as soon as possible.

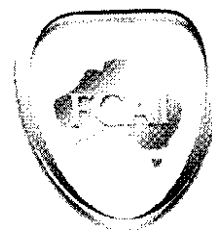
Yours sincerely

A handwritten signature in black ink, appearing to read 'P.M. Sturrock', with a large, stylized initial 'P' and a long, horizontal flourish extending to the right.

P.M. STURROCK
Chief Executive

FEDERAL CHAMBER OF AUTOMOTIVE INDUSTRIES

MEDIA RELEASE



Monday, 9 February 2004

FTA OPPORTUNITY FOR CAR INDUSTRY

The outcome of negotiations for a free trade agreement with the United States will yield significant opportunities for the Australian car industry to increase exports over the next few years, according to industry peak body the Federal Chamber of Automotive Industries.

FCAI President, Geoff Polites said the agreement by the United States to immediately eliminate all tariffs on all vehicles and automotive components was a significant win for the Australian industry.

"Several Australian manufacturers are already exporting passenger cars and components to the US. We hope that this agreement will further underpin the success these companies have had in establishing a foothold in the world's largest automotive market", said Mr Polites.

According to Mr Polites "the agreement also opens up the possibility that Australian manufacturers will be able to take advantage of new opportunities for exports of utility vehicles to the United States. Until now, the US 25 per cent tariff has been a prohibitive barrier to exports of this type of vehicle from Australia to the United States".

Mr Polites said that the outcome is likely to result in some additional competitive challenges for the Australian industry. "The Australian vehicle market is intensely competitive with a wide selection of brands and model types competing at very strong levels of affordability. We can be confident the industry will positively respond to ensure that Australian new vehicle buyers will get even better deals".

"Australian car producers have been working in an environment of declining assistance for many years. As a result, they have a proven track record of innovation in design and flexible, cost effective manufacture, so Australia will remain a very attractive location for future international automotive investment", he said.

Mr Polites said "the agreement provides for a gradual phase in of lower tariffs on passenger cars imported from the United States, giving the local industry some time to adjust to the new arrangements in this segment of the market".

"The industry has been closely consulted during the development of this agreement. We have had extensive opportunity to ensure our views have been put to Government since early last year. We expect to continue to work closely with the Government and the Australian Parliament to successfully finalise the process for implementation of this agreement".

For any further comment please contact:

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