



**HOLDEN**

30 April 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

I understand that the Senate Select Committee on the Free Trade Agreement between Australia and the United States of America has invited submissions to support the current inquiry into this agreement. With volume growth a key element of our future business strategy, Holden maintains a strong interest in trade policy as a means towards enhanced market access, and we appreciate the opportunity to contribute to the Committee's deliberation on this agreement.

As you may be aware, Holden has been supportive of the Government's efforts to increase market access for Australian industry through bilateral trade agreements such as those currently being finalised with the United States and Thailand. In regard to the AUSFTA, Holden provided the Department of Foreign Affairs and Trade with two submissions during the negotiation process, which presented our views in more detail. In these submissions, Holden outlined a view that the main benefit of this agreement is the increased economic growth as a result of market liberalisation, particularly in Australia, which will lead to flow on benefits for vehicle sales. In addition, benefits will also flow to Holden in the form of greater opportunities for vehicle exports, reducing duties on automotive products traded between the two countries, and the creation of new opportunities for closer integration of our operations with those of General Motors.

For your reference, I have attached a more detailed account of Holden's position on this free trade agreement, as recently provided to the Joint Standing Committee on Treaties, which is based on these earlier submissions.

The views expressed in our previous submissions have largely been taken into account in the negotiations and we are supportive of the outcomes as described in the draft text of the agreement and in particular, the ambitious outcome that has been achieved for automotive tariffs. We commend the Government's efforts to negotiate early access to one of the world's most significant economies and believe that this provides a considerable opportunity to increase trade in automotive goods between both countries.

I would also like to express my sincere appreciation for the Government's efforts to ensure that Holden was consulted at each stage of the process, ensuring that we understood the negotiations and that our views were being appropriately represented. In my view, this contributed to the strength of the final outcome achieved.

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 welcome the opportunity to appear before the Committee to present Holden's views.

Yours sincerely

A handwritten signature in black ink, appearing to read "Alison Terry". The signature is fluid and cursive, with the first name "Alison" written in a larger, more prominent script than the last name "Terry".

Alison S. Terry  
Executive Director – Corporate Affairs



**Submission by**



**HOLDEN**

to the

**Senate Select Committee**

April 2004

**Free Trade Agreement between Australia and  
the United States of America**

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## Overview

Holden is a wholly owned subsidiary of General Motors (GM), the world's largest vehicle manufacturer. Holden employs around 9,200 people Australia-wide and has produced more than six million vehicles. The company's major operating facilities are located at Fishermans Bend (technical centre, administration, and engine manufacturing plant), Dandenong (service parts operation) and Lang Lang (proving ground) in Victoria; as well as at Elizabeth (vehicle manufacturing plant) in South Australia.

In recent years, Holden has evolved from a domestic manufacturer into an internationally competitive global company, exporting vehicles and engines to a diverse worldwide market. In 2002, Holden exports contributed \$1.1 billion to Australia's balance of trade. Since 1998, Holden's exports have increased from under 3000 vehicles per annum to 36,069 vehicles in 2003. Holden predicts that by 2005 its export revenue earnings will increase further, buoyed by global sales of V6 engines from the new engine facility in Melbourne, continued exports of Monaros to the US and through export programs to other world markets. By this time we anticipate that Holden's vehicle export business will account for around one third of annual vehicle production.

Holden's ability to maximise its opportunities as a global manufacturer of vehicles and engines is critical to its future success. Holden's strategic direction for growth requires both an expanded share of the Australian domestic market through broadening of the product range as well as expanded export volume. To support our aspirations for growth, improved market access, particularly to emerging markets in our region as well as large developed economies such as the United States (US), is of primary importance. This can ensure that the increasing globalisation of the automotive industry is an opportunity rather than a threat.

Accordingly, Holden welcomes the free trade agreement between the United States and Australia and sees the agreement as a robust outcome for the Australian economy.

In Holden's view, the agreement will strengthen the already significant automotive trade between the US and Australia and provides increased opportunities for both countries to import and export vehicles, engines and components. The flow-on effects from stronger economic growth should benefit the entire automotive industry and drive competition in the marketplace. The agreement will foster closer business relations with the United States and will provide the best possible opportunities for Australian carmakers and component manufacturers seeking to export to the United States. In particular, the agreement will provide flexibility for our business, as opportunities exist for two-way trade in vehicles and components. In addition, opportunities exist for Australian component manufacturers. Several Australian component suppliers have already found niche opportunities in the US and these opportunities may magnify considerably under this agreement.



## Australian Automotive Industry

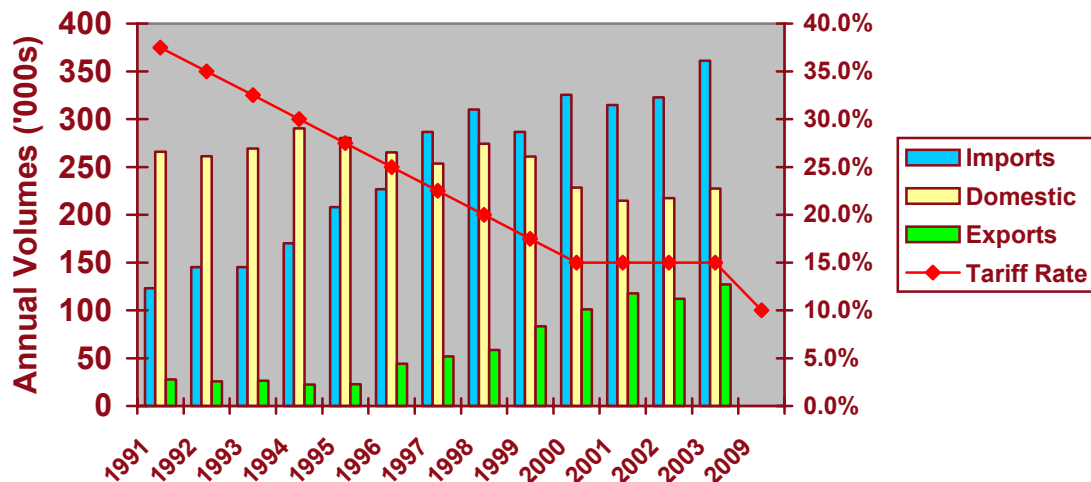
Australia is a small player in the global automotive industry. In 2003, global production of vehicles (cars and trucks) was 58,579,494, while production in Australia totalled 408,184, representing less than 7 out of every 1000 vehicles built world-wide.

The last 20 years have seen substantial restructuring in the Australian automotive industry driven by tariff reductions, which have improved affordability and grown the total market. While the local manufacturers' share of the total market has declined as a result of tariff reduction, the industry has become more competitive, which has created opportunities for growth through export as illustrated in Chart 1.

The Australian market is mature and cyclic and future growth is expected to be steady. As opportunities for expanded volumes are limited in the Australian automotive market, and are generally confined to the sports utility/light commercial vehicle segments, the future of the Australian automotive industry will become increasingly reliant on continued export growth. As a result, market access to the large, growing economies in the world will be vital to future success.

In responding to the challenges, Holden's fundamental strategy has changed. Holden products are now competing in the domestic and global markets and we now have a footprint in ASEAN, Korea, the Middle East, the United Kingdom and the United States. There is global interest in Holden products and the Pontiac GTO program signals the start of ongoing cooperation with the US on future programs.

The US is the largest automotive market in the world and the free trade agreement provides an opportunity for the Australian automotive industry to grow.



**Chart 1: Decline in locally manufactured vehicles' share of domestic market, offset by export volume growth**





## **Australia/US Free Trade Agreement**

Holden considers that the Australia/US free trade agreement will provide opportunities to foster closer business relations and an overall benefit for the Australian economy.

For Australia, there are opportunities for increased growth and dynamism through access to the large US market. It is our expectation that the free trade agreement will increase Australian exports to the US, thus enhancing the growth rate of Australia's national economy. The expanded growth rate should benefit the entire Australian automotive industry and drive competition in the marketplace, resulting in greater demand for motor vehicles, and Holden would share in this market expansion.

The strong Australian automotive market will afford opportunities for US vehicle manufacturers, particularly as the SUV/light commercial sector continues to grow. In addition, there is a significant benefit from improved access to the large US market and especially, the large US supplier industry.

An even greater benefit, however, is the boost to the dynamism of the Australian economy that is likely to occur if the US service industry enters the Australian services market and raises prevailing standards of performance. It is our view that the Australian services sector will benefit from a greater exposure to the higher level of dynamism and aggression of the US services sector. In addition, other niche opportunities are evident if some of Australia's growing areas of expertise in biotechnology and aspects of specialised systems development are considered. As a result of these developments the expected increase in economic benefit will flow on to higher per capital income, and, in turn, higher vehicle sales.

The AUSFTA will also increase adjustment pressures generally on the Australian economy, which will be to our benefit. For Australian businesses to be successful in capitalising on the opportunities presented by the free trade agreement with the US, we must become more innovative, flexible and agile in our business practices.

Generally, there are substantial complementary features between several aspects of the US and Australian economies. In the case of manufacturing industry, Australian companies are essentially low volume specialists, while the most competitive of the US producers are high volume specialists. Australia's most dynamic industries will have opportunities to find niches in the US for their particular expertise.

From Holden's perspective, the development of a free trade agreement with the US has been a key objective. The US has been identified, after the Middle East, as the single most attractive market opportunity for Holden outside Australia. In addition, Holden is already one of the largest importers of engine components and transmissions from the US and the agreement will afford benefits to Holden as this trade continues into the future, particularly in terms of the flexibility provided to exchange vehicles and components with the US.



## **Policy Considerations**

To take advantage of the various opportunities that are being presented to the automotive industry, we have the following comments regarding the specific policy issues that have been addressed in this agreement.

### **Tariff Barriers**

Our understanding of the market access arrangements for automotive products is as follows:

- Tariffs on all automotive parts and components in both countries are to be eliminated on implementation of the agreement.
- US tariffs on all passenger vehicles/automobiles and light trucks (SUVs, minivans, pickup trucks) will be eliminated on implementation of the agreement.
- Australian tariffs on vehicles in the light commercial segment (including 4WDs, SUVs, minivans, and pickup trucks) will be eliminated on implementation.
- Australian tariffs on passenger motor vehicles will be reduced to 8% on implementation, and phased down on a linear basis to 0% by 2010. The preference margin being accorded on implementation represents 2%, given that Australia's tariff rate on passenger motor vehicles is reducing to 10% in 2005.

Holden welcomes this outcome and sees this as a significant opportunity to increase trade with the largest automotive market in the world. In 2003, 19.8 million cars and trucks were sold in North America representing 34 per cent of global vehicle sales of 58.6 million. Trade figures from the Department of Foreign Affairs and Trade show the United States was the second largest export destination for Australian automotive products in the 2002-03 financial year, at about \$900 million, behind Saudi Arabia. The United States was the second largest automotive product importer to Australia in 2002-03, totalling \$2.5 billion, behind Japan.

In view of the substantial trade that already exists between the two countries, the ambitious outcome that has been achieved on automotive tariffs is likely to create further prospect for export for both countries.

Both Holden and GM in North America stand to benefit from this agreement. Holden sees one of the main advantages provided by the agreement as increased flexibility to exchange vehicles between the two markets. The US builds large SUVs/LCVs, while Australia specialises in rear wheel drive vehicles. Holden is already exporting 18,000 Pontiac GTOs per annum to the US, which currently face a passenger vehicle tariff of 2.5 per cent. Duty savings on these exports will occur as a result of the elimination of the 2.5 per cent tariff. Having started the Pontiac GTO program, the agreement provides us with opportunities for greater cooperation with GM on future programs. In addition, further opportunities are presented for Holden in the domestic market to fill product gaps in our vehicle range with suitable vehicles from the US.



There are also benefits to be derived from the related component trade between the two countries. As previously mentioned, Holden is already one of the largest importers of engine components and transmissions from the US and significant savings will be afforded to Holden as a result of the elimination of tariffs on automotive components imported from the US. In terms of Australian component manufacturers, there are already some specialist suppliers exporting to the US and the agreement provides further opportunities for these and other companies to expand this activity.

## **Non Tariff Barriers**

### ***Harmonisation of Standards***

The Australian Government has adopted a policy of harmonising the Australian Design Regulations (ADRs) with the United Nations Economic Commission for Europe (UNECE). The design requirements for a vehicle in the United States market are governed by the Federal Motor Vehicle Safety Standards regulations. It is understood that the US intends in principle to harmonise its domestic standards with the UNECE standards, through a convergence process.

Technical regulations have been considered in Chapter 8 of the draft text. The intent of the text is that positive consideration be given to regulations applying in either country but that each country may apply its local regulations where it considers them to be more appropriate. Both countries have agreed to facilitate the acceptance of each other's conformity assessment procedures (Article 8.6).

Both Australia and the US have affirmed their existing rights and obligations to each other under the WTO Technical Barriers to Trade (TBT) Agreement (Article 8.2) and have agreed to use, to the maximum extent possible, international standards (Article 8.4). In addition, both parties have agreed to establish a mechanism to address issues raised by either party relating to the development, adoption, application or enforcement of standards, technical regulations or conformity assessment procedures (Article 8.9)

Holden's position on harmonisation of standards has not changed from our initial submissions and we are supportive of these outcomes. Holden had proposed during the negotiations that no special changes be made in the motor vehicle standards of either country in relation to the proposed free trade agreement. Each country should retain its current arrangements, and vehicles imported into either country should conform to that country's standards.

### ***Government Procurement***

The liberalisation of the Australian Government Procurement policy will not provide opportunities for US built vehicles, as automobiles have been excluded from Annexure 15 - A, B and C and this outcome is consistent with the position outlined by Holden in an earlier submission.



Exclusion was an objective for the Australian automotive industry as Government preference for purchasing locally produced vehicles currently underpins volumes in relation to domestic market sales, representing 29.1 per cent of the total domestic vehicle manufacturing volumes in 2002. As a result, the Government purchasing policies are of significant importance to the Australian vehicle manufacturing industry.

## Rules of Origin

The development of appropriate rules of origin for automotive products was of significant importance to Holden.

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.

We understand that the outcomes on rules of origin for specified automotive products as described in the draft text of the agreement are as follows:

- An auto-specific Rule of Origin (ROO) will be established to determine eligibility for preferential treatment under the Agreement. The ROO will use the “net cost” method for calculating the Regional Value Content (RVC), with the minimum requirement for RVC of 50% to qualify for preference. The net cost method does not include most post production cost, such as sales promotion, marketing, after sales service costs, royalties, shipping and packing costs. However, not all components used in automotive manufacture will be subjected to the net cost method for RVC and may be the subject of alternate methods such as the build up or build down methods.
- In addition to the above, the ROO for vehicles will also include a “change of tariff classification” requirement, which will ensure that the vehicle undergoes a manufacturing process in the country of one of the two parties.

From Holden’s perspective, our first preference was to ensure that, in developing a free trade agreement with the United States, consistency was maintained with other arrangements and while this has not been achieved, the rules for determining origin provide an adequate test to ensure that preference is only being given to the parties to the agreement.

Holden was particularly supportive of the requirement to have both a change of tariff classification **and** a 50% minimum regional value content requirement based on the net-cost methodology, to ensure that the Australian market is protected from a possible influx of cars, particularly used cars, originally manufactured outside the US.

Unfortunately, not all goods used in automotive manufacture are covered by the above ROO for automotive goods. The exclusion of a number of automotive components has created some added complexity, as different rules will be applied to these components.



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## Conclusion

In summary, Holden believes that the outcomes of the Australia/US free trade negotiations provide the best possible opportunity to encourage two-way trade between Australia and the US.

The main benefits that we see flowing from the AUSFTA can be summarised as follows:

- The AUSFTA is a robust outcome for the Australian economy and provides opportunities to foster closer business relations with our parent company.
- The Australian economy will benefit from increased growth and dynamism through access to the large US market. In particular, the boost to the dynamism of the Australian economy that is likely to occur if the US service industry enters the Australian services market and raises prevailing standards of performance is a significant potential benefit.
- As a result, the flow-on effects from stronger economic growth will benefit the entire automotive industry and drive competition in the marketplace - vehicle and component trade may be enhanced by this agreement.
- The agreement provides increased flexibility for both Holden and GM. There are enhanced opportunities for two-way trade that allow both companies to take advantage of their individual strengths. Holden has begun an export program to the US (Pontiac GTO) and the agreement provides potential opportunities to work with GM on future programs. In addition, the agreement allows greater flexibility for both Holden and GM as we will be able to take advantage of our individual strengths. In particular, there are opportunities to fill product gaps in each market.

As mentioned earlier in this submission, market access is critical to Holden's future success as it underpins our aspirations for growth through increased exports. Holden encourages the Committee to support the agreement and ensure that it is implemented as soon as possible to allow the benefits afforded by the agreement to be realised.