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Editorial Comment

• Free trade benefits also coming from Thailand deal

Whilst there has been considerable focus and public discussion on the implications of the new free trade agreement with the United States on long-term prospects for Australia's automotive manufacturers, less is being said about the implications of the Australia-Thailand Free Trade Agreement, set to come into effect later this year.

As was originally forecast in submissions to the Productivity Commission's 2002 inquiry into the automotive industry - and in a globalised market - Australia's ability to sustain domestic production of customised models for the local market will increasingly come under challenge. Any ability to 'spin-off' substantive exports of such customised models (eg: Monaro's and Utilities), will help sustain economic volume production.

The outlook for automotive component and related service exporters, is also bright. Whilst Thailand currently maintains an 80% tariff on imports of large passenger motor vehicles, and 60% on goods vehicles (which will both be eliminated when the Agreement comes into force), smaller vehicle tariffs - those with engines of less than three litres - will immediately fall from 80% to 30%, phasing to zero by 2010.

Presumably, as Thai's buy more Aussie cars, a ready trade in spare parts will develop that - due to warranty considerations - will need to be sourced from Australia. Further, and as Thai tariffs fall to zero over the first few years of the new FTA, there will be opportunities for local automotive parts makers to break into regional vehicle supply chains.

Realistically, none of this is going to happen overnight. However, with more US vehicles and parts likely to be making their way into our market, and more opportunities to export Australian vehicles/parts to both the USA/Thailand (as well as other regional markets), it might be time to revisit long-term strategic business plans, especially those relating to how business growth can be aided by more effective ACIS participation.

ACIS cleared under AUSFTA rules for now

Australia's Automotive Competitiveness Investment Scheme (ACIS) has been given the 'thumbs up' under special provisions attached to the draft of the proposed Australia-United States Free Trade Agreement (AUSFTA).

Clarification of the position of ACIS under AUSFTA is not contained in the substantive draft trade agreement, but in a list of special understandings (called 'Sideletters') reached between Australian and United States negotiators during the course of their discussions leading to the substantive draft FTA.

The position for ACIS going forward under AUSFTA is outlined in a letter from US Trade Representative, Robert Zoellick, to Australian Minister for Trade, Mark Vaile. In the letter, Zoellick references negotiations under Article 2.8 of the proposed AUSFTA (which relates to the 'Waiver of Customs Duties'), thus targeting the critical role ACIS plays in allowing firms to offset duties on imported automotive products through the use of credits earned on either their own exports, or transferred-in from other exporters.

Given enabling legislation for the post-2005 ACIS Scheme has already been approved by Parliament, Article 2.8 effectively seals any further changes to the Scheme by requiring: "a Party shall not adopt any new waiver of customs duties, or expand with respect to existing recipients or extend to any new recipient the application of an existing waiver of customs duties, where the waiver is conditioned, explicitly or implicitly, on the fulfilment of a performance requirement."

Exchange of letters on ACIS status

A second paragraph to this Article further states, "neither Party may condition, explicitly or implicitly, the continuation of any existing waiver of customs duties on the fulfilment of a performance requirement." A 'performance requirement' under AUSFTA principally involves: "a given level or percentage of goods or services to be exported," and domestic goods or services of the Party granting a waiver of customs duties or an import license being "substituted for imported goods or services."

Related provisions also apply to the application of a 'preference' for local goods, the specification of 'a given level or percentage of domestic content', or specifications of 'volume or value of exports', or to the amount of foreign exchange inflows.

Returning to Zoellick's letter to Mark Vaile, it is then stated, "the United States has examined the provisions of Australia's Automotive Competitiveness Investment Scheme and affirms that, as at this day, ACIS does not contain any performance requirements as defined in Chapter Two (National Treatment and Market Access for Goods). Chapter Two, in essence, outlines the full scope of agreed tariff and non-tariff concessions under the founding FTA.

The reference to Chapter Two of AUSFTA brings into play requirements that, moving forward after formal conclusion of the Agreement, "each Party shall progressively eliminate its customs duties on originating goods of the other Party."

The details of such eliminations are outlined in a separate document (Annex 2-B), and relate to the removal of duties on almost all automotive products from the day the new agreement comes into force. This is prospectively 1 January 2005, assuming US Congress approval is secured before the November presidential elections.

Australian tariffs on imported finished passenger motor vehicles will remain consistent with the post-2005 schedule already put in place by the Government, but are proposed to be phased out gradually between AUSFTA entry into force and 2010, when rates fall below 5%. Australian tariffs on all other automotive goods, in particular, car parts and commercial vehicles, will be eliminated from the day of the Agreement.

Fighting the world for US market share

In turn, the United States has agreed to remove, from day one of the Agreement, all tariffs on automotive products. This is not such a huge concession, as US tariffs on automotive products are already quite low. Still, duty free access for Australian exports will nevertheless provide a small margin of advantage against other foreign competitors, in an industry

where margins are renowned as already being slim. Greater opportunities for Australian manufacturers are seen from AUSFTA's prospective elimination of the 25% duty on light commercial vehicles and utilities.

Whilst commercial vehicles are no longer produced locally in mass quantities, AUSFTA does open-up the possibility of substantive exports of Australia's ubiquitous 'ute', assuming slick marketing is successful in turning American car culture away from its sole focus on 'pick-up' trucks.

Australia has also successfully negotiated an exemption to free trade under AUSFTA, relating to the A\$12,000 duty component previously imposed on the import of second hand motor vehicles under Section 17A of the Motor Vehicles Standards Act of 1989, and the Motor Vehicles Standards Regulations of 1989. Essentially, US authorities accepted this measure was related to Government policy in respects of road safety, and therefore, did not dispute the application of the additional duty component as a protectionist or trade-distorting (in terms of US exports) measure.

Committees to get to the bottom of free trade deals

To the chagrin of the Howard Government, the reinvigorated (and Mark Latham-led) Labor Opposition is holding out on its decision to fully endorse formal signature of AUSFTA. Two separate Parliamentary inquiries have now been raised to improve peoples' awareness of the full implications of what is being proposed.

A new Senate Select Committee inquiring into AUSFTA had its first (and private) meeting on 11 March to decide how it will proceed. The report of this committee will essentially decide whether Labor will support the FTA, or join with the minor parties and independents in the Senate to scuttle it. They can do this by rejecting any key legislative amendments or regulations needed to implement the deal.

The committee has three months from 1 March to report, although this could always be extended by the Senate. The Government is in a minority on this Senate committee, which is why a parallel examination of the proposed Agreement is being undertaken by the Joint (House and Senate) Committee on Treaties, within which the Government has a majority.

The Opposition is set to "co-operate" on the Treaties Committee, but all its energies will naturally go into the Senate committee, whose members comprise: Peter Cook, Stephen Conroy, Kerry O'Brien (ALP); George Brandis and Jeannie Ferris (Lib); Ron Boswell (National) and Len Harris (One Nation). Labor has a powerful team on this Committee, and most importantly, has Peter Cook in the chair.

Cook is a former Labor Trade Minister and signed the Uruguay WTO Agreement for Australia. He knows all about trade negotiations and what goes on behind the scenes. Conroy is the Labor Shadow Trade Minister, and O'Brien has a solid grounding in trade-related affairs as a former, and successful, Shadow Minister for Agriculture. George Brandis is one of the Liberals' most able Senators, and will be an aggressive defender of the FTA.

Ferris with a Diploma in Agribusiness from Monash, is a former long-time staffer to Ian McLachlan (a former Howard Defence Minister) and one of Australia's largest wool growers - as well as a former President of the National Farmers Federation. A wild card will be Ron Boswell, who in the last reshuffle was pushed out of the position of Parliamentary Secretary to John Anderson in favour of De-Anne Kelly. Boswell made it clear at the time he didn't jump, but was pushed.

Exposing internal opposition to the FTA

One matter the Senate committee will examine in detail (via access to official departmental notes on negotiations), is just what advice Trade Minister Vaile received from chief negotiator (Stephen Deady) late in the negotiations, when it was learned George Bush had personally rebuffed John Howard's plea for additional concession on beef, and any sort of concession on sugar. Deady has since stated publicly he was "disappointed" with the AUSFTA outcome, particularly for agriculture.

Also under investigation will be a leaked report from inside the Department of Foreign Affairs and Trade (DFAT), that Departmental head (Ashton Calvert) and US Ambassador (and former foreign affairs adviser to John Howard), Michael Thawley, took over the negotiations from Deady. These reports claim that at a time when DFAT was wavering over the value of the agreement, Thawley and Calvert assumed their own discussions with US Trade Representative, Bob Zoellick, which Deady was not privy to.

The detail of such discussions, which possibly included additional concessions by Australia to be taken-up in a new Committee on Trade in Goods to be established after AUSFTA's formal adoption, has not been released by the Government.



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