

Ford Motor Company of Australia Limited

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Review of Bilateral and Regional Trade Agreements
Productivity Commission
GPO Box 1428
Canberra City ACT 2601

By email: tradeagreements@pc.gov.au

Dear Sir/Madam

Subject: REVIEW OF BILATERAL & REGIONAL FREE TRADE AGREEMENTS

We write in response to an invitation for comment on the impacts of bilateral and regional free trade agreements. We appreciate the opportunity to participate in the Productivity Commission's consultation process. Our submission will focus on matters where we have specific experience.

Background

Ford Australia is a leading automotive manufacturer. Its core products are the Ford Falcon and the Ford Territory, for which the company has full design, engineering, manufacturing and sales responsibility. Ford Australia employs approximately 4,000 people at its locations in Geelong and Broadmeadows, Victoria. In addition, there are more than 200 independently owned Ford dealerships nationwide which provide employment to thousands of Australians. Ford Australia also has a major impact on activity and employment in the local automotive components sector from which it sources significant components. In 2009, Ford Australia sold 96,506 locally manufactured and imported vehicles. Ford Australia is also a significant exporter of design and engineering services. It had a lead role in the design and engineering of the Ford Figo, a new small car that is to be manufactured in India. A further project presently underway is the design and engineering leadership of a new light commercial vehicle to be sold in more than 100 countries. This project represents one of the most significant automotive R&D initiatives undertaken in Australia.

Ford's Position on Trade Policy

Ford Australia has supported the efforts of Australian Governments to achieve improved market access for Australian exports through the WTO system. In view of the slow-moving nature and complexity of multilateral trade negotiations, Ford has also supported the pursuit by Australian Governments for comprehensive multilateral and bilateral agreements to be separately negotiated with key trading partners. Ford has therefore supported the negotiation of free trade agreements with the United States,



Thailand and Singapore, as well as the recently concluded Australia-ASEAN-New Zealand (AANZFTA) free trade agreement.

Ford is supportive of comprehensive FTAs that can complement the WTO system, provided it makes good sense to do so. Where there are genuine complementarities between negotiating countries with respect to their automotive manufacturing industries and fair potential trade opportunities, Ford supports the efforts by Government to secure comprehensive and mutually beneficial market access. Ford has therefore encouraged the Government's efforts in pursuing an FTA with the GCC group of nations. This is a significant export market for Australian automotive product.

In instances where the benefits to the Australian automotive industry are less clear, Ford has advocated a very cautious approach be adopted in negotiations. This is particularly relevant given the present economic state of the global automotive industry, and with particular regard to significantly larger economies. In these cases, such as with Japan, China and Korea, Ford does not see any opportunity for tariff phasing arrangements which are at variance to the Federal Government's broader MFN automotive industry policy arrangements. Japan and Korea, for example, are automotive powerhouse economies with very low levels of import penetration. Automotive producers from both countries already have dominant positions in the Australian market.

Ford Australia's Experience with Free Trade Agreements

Ford has experienced significant behind-the-border issues subsequent to the signing of the Australia-Thai FTA which has had the effect of substantially limiting its opportunity for trade growth with this economy. Prior to the execution of the FTA, Ford had identified a worthwhile trade opportunity for its locally manufactured SUV model, the Ford Territory. The two nation's automotive manufacturing industries were seen to have a complementary character, with Australia specialising in the production of medium-to-larger vehicles such as the Ford Falcon and Territory, and the Thai industry more oriented towards the manufacture of smaller cars and pick-up trucks. Ford viewed the Thai-Australia Free Trade Agreement (TAFTA) as providing an opportunity for the export of the Ford Territory in worthwhile volumes, particularly in view of the fact that the Thai market, like Australia, is right-hand drive.

However, subsequent to the signing of the agreement, but before it came into force, the Thai government announced a new structure for motor vehicle excise taxes. The new structure established new categories of excise tax based on engine capacity. In addition, the government created a category for Pickup Passenger Vehicles (PPV) and levied a 20 per cent excise tax on these types of vehicles. The Ford Territory with an engine displacement of greater than three litres had a 50 per cent excise tax levied and was categorized as an SUV vehicle whereby a main competitor was classed as a PPV despite having almost the same characteristics as the Ford Territory. The effect of this new domestic taxation structure was to place the Ford Territory at a significant price disadvantage, seriously eroding its potential competitiveness. Consequently, the trade opportunity originally identified has evaporated and exports of the Ford Territory to Thailand remain inconsequential.

More broadly, automotive trade with Thailand remains heavily skewed in Thailand's favour. Since the introduction of the TAFTA, there have been significant increases in

the volume of motor vehicle exports from Thailand into Australia, with only very modest increases in reverse trade. Thai automotive exports to Australia were worth \$A4.13 billion in 2008 compared to \$A1.16 billion in the year immediately prior to the introduction of the FTA. Australian automotive exports to Thailand, however, were \$A69 million in 2008 compared to \$A45 million. Ford therefore is a strong advocate of having a review mechanism in situations where FTA outcomes have not met expectations established during negotiations. Ford Australia was also very disappointed that the automotive access arrangements under the Australian–Thai FTA were not immediately incorporated in the Australian-ASEAN FTA.

Similarly, in the negotiations presently underway with Malaysia, where 'AANZFTA-plus' outcomes are being sought, Ford urges the negotiators to take account of the existence of any non-tariff barriers. Ford Australia is supportive of the Australian Government's objective in seeking to achieve 'AANZFTA-plus' outcomes through enhanced bilateral agreements, and believes there is scope to do so with regard to outcomes negotiated under the AANZFTA in relation to automotive trade.

In 2008, automotive exports from Australia to Malaysia totalled A\$19.0 million, and automotive imports from Malaysia to Australia were worth A\$81.1 million. This represents a significant, total two-way trade value in automotive of A\$100 million. Ford Australia believes an enhanced free trade agreement between Australia and Malaysia could provide an opportunity to grow this level of trade with particular opportunities for Australian exporters. However, such an opportunity would obviously be contingent on any trade agreement being a comprehensive one.

Conclusion

Mutually beneficial agreements which provide fair trading opportunities and genuine, reciprocal market access must be both the objective and outcome of any negotiated FTA. In these circumstances, Ford Australia is an advocate of trade liberalisation policies. Where the relative benefits to domestic industry are less clear, likely to be lopsided or unfavourable, Ford Australia does not support any preferential concession to the prevailing domestic automotive policy arrangements for automotive trade.

Ford also advocates a formal review process to address and resolve any issues or unintended consequences arising post-implementation of a free trade agreement. As outlined above, it has been difficult to extract any significant benefit for Australian automotive vehicle exports under the TAFTA due to the prevalence of the behind-the-border barriers since constructed. The effectiveness of trade liberalisation with regard to the Australian auto industry has been substantially limited in this case.

Additionally Ford Australia is supportive of a consistency in approach to negotiations to ensure business compliance costs are minimised with respect to understanding and implementing negotiated trade agreements. A consistent approach would also assist with quality outcomes already negotiated being more broadly applied in subsequent agreements. Ford is therefore supportive of Australia's participation in the Trans-Pacific Partnership (TPP) Agreement, which it believes offers an appropriate forum to unlock some important opportunities associated with negotiating consistent, high quality outcomes in relation to trade agreements.

Ford Australia trusts its comments are of interest and value to the Commission during

its review. We would be happy to elaborate on the issues raised in this submission if required. The writer can be contacted on (03) 9359 8068, or via email ehaug@ford.com.

Yours sincerely

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Confidential attachment