
Submission to the
Department of Foreign
Affairs and Trade's
Asian century country
strategies



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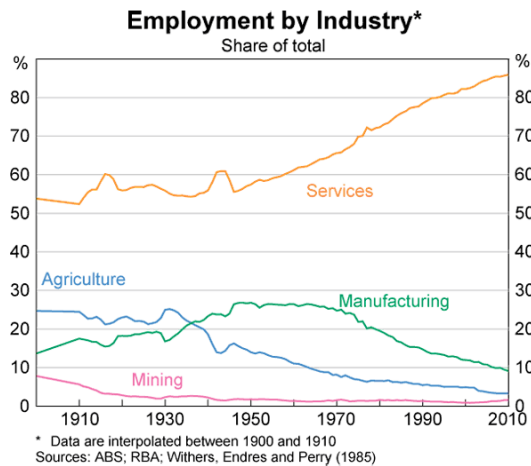
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OVERVIEW

The FCAI welcomes the opportunity to respond to a request received from the Secretary of the Department of Foreign Affairs and Trade (DFAT) on 5 April 2013 concerning the development of country strategies for Japan, China, Indonesia, India and South Korea, as mandated by the *Australia in the Asian Century White Paper*.

The FCAI is the peak industry organisation representing vehicle manufacturers and importers of passenger motor vehicles, 4wds, light commercial vehicles and motor cycles in Australia and has a strong interest in this matter. Given the complexities surrounding these issues, this submission discusses general strategic imperatives relating to automotive manufacturing and trade policy than addressing specific issues relating to the individual countries in question.

Manufacturing is a significant part of the Australian economy and makes economic contributions far beyond its size. Domestic manufacturing represents around 9 per cent of the economy's activity, compared to agriculture (around 3 per cent), and mining (around 7 per cent).¹ By employment, manufacturing is also considerably more significant than either agriculture or mining.² The industry directly employs 48,000 people, of which around 17,000 work at Ford, GMH and Toyota.



The Australian automotive manufacturing industry is one of Australia's most advanced industries. It deploys advanced manufacturing techniques, technologies and adds value through the broader economy far beyond its manufacturing core. Today the industry consists of three subsidiaries of multinational manufacturers of motor vehicles, Ford, General Motors Holden (GMH) and Toyota, as well as hundreds of parts manufacturers, ranging from small Australian producers to companies that are also subsidiaries of very large multinationals, such as Bosch.

Each of the domestic automotive manufacturers are well integrated into their respective parent company's global supply chain, as are many of the Australian suppliers. This includes strong and effective relationships with businesses across the region, and particularly through Japan, Korea and China.

¹ <http://www.rba.gov.au/publications/bulletin/2010/sep/1.html>

² <http://www.rba.gov.au/publications/bulletin/2010/sep/1.html>

ENGAGEMENT WITH ASIA: EFFECTIVE MARKET ACCESS

Engaging with our region is an important foreign and trade policy objective. As the Asian Century White Paper identifies, Australia is increasingly reliant on these countries for our continued prosperity and access to increasingly sophisticated consumer goods. To be effective, however, engagement with the region must represent the needs and interests of Australian industry. Accordingly there must be complementarities between trade policy, industry policy and industry capability.

This is particularly the case with motor vehicles. The Australian passenger car market is now one of the most open and progressive automotive markets in the world in relation to tariff levels and overall protection. Australian automotive tariffs reduced on 1 January 2010 from 10 per cent to 5 per cent, resulting in an average tariff rate of around 3.5 per cent, as cars imported from countries with which Australia has FTAs are landed without being subject to any tariff. 1.1 million new passenger motor vehicles were sold in Australia in 2012. Nearly 51 per cent of all cars sold in Australia in 2012 were sourced from Japan, China, South Korea, India and Indonesia. 88 per cent of all motor vehicles sold in Australia in 2012 were imported.

While this competition is undoubtedly good news for consumers, bringing quality vehicles at low prices and improved safety and emissions outcomes, it has contributed to tougher times for Australia's domestic manufacturers, with around 220,000 motor vehicles produced domestically (down from 325,000 in 2008, of which 160,000 were exported). In an industry where economies of scale are important in achieving cost competitiveness the current lack of volume is a real disadvantage, both in itself and in flow on to major parts makers.

This has been compounded by the current high value of the Australian dollar. The Reserve Bank has identified that for Australian manufacturing to remain internationally competitive in this environment that moving further up the value-added chain is necessary:

Inevitably, the high exchange rate means that the manufacturing industry has little choice but to move up the value-added chain in order to compete.³

This is also true of automotive manufacturing. For its part, the domestic automotive manufacturing industry has already been doing its bit to become more internationally competitive. Australian motor vehicle manufacturers are leaders in design capability and lean manufacturing and they have responded forcefully to the combined effect of changing consumer sentiment and the persistently high Australian dollar through the introduction of new and innovative products. But these steps are insufficient of themselves.

In order for Australia's automotive manufacturers to continue operating in Australia they require production scale. Producing only for a small domestic market which has around 67 individual brands bidding for the same consumer base is unrealistic as Australian manufacturers cannot achieve the required scale to justify the significant investment required. An example where significant scale has been achieved is Toyota Australia's initiative to start exporting four cylinder engines from January 2013 to Thailand and Malaysia under TAFTA and AANZFTA. This is a positive development and supports volume production of engines at the new \$330 million engine facility opened in Altona in December 2012 whilst deepening integration of Toyota Australia into Toyota's regional operations. Toyota Australia had planned to also export engines to Vietnam under AANZFTA, but was unable to after Vietnam gave preferential access to Japan on engine tariffs, which made a significant change to the business case resulting in engine sourcing being maintained from Japan.

³ <http://www.rba.gov.au/speeches/2012/sp-dg-070312.html>

Unfortunately the good news stories are too few and far between. While Australian automotive manufacturers do continue to export, the combined impact of the Australian dollar and lack of opportunities in export markets has seen this drop off in recent years.

While government cannot provide assistance to relieve the impact of the high Australian dollar, more effort can be made to assist in gaining effective market access to our trading partners as part of a globally competitive policy framework for automotive manufacturing. Indeed, while the Australian automotive market has been progressively opened up to a greater degree of international competition and integration with the global industry, Australian automotive exporters continue to face significant barriers to access in key markets. A greater focus on export opportunities in our region for Australia's domestic automotive manufacturers would help contribute to building up scale of our automotive manufacturers.

The platform for a viable and vibrant Australian manufacturing industry demands that the Australian Government gain reciprocity of access to overseas markets to enable investment in design and manufacturing to reap the benefits of economies of scale. In some Asian markets, free trade agreements have been negotiated. Despite this, to date our industry finds that non-tariff barriers remain despite these FTA's, meaning that the commercial opportunities for our manufacturers are limited. Even the Productivity Commission recognizes the failure of Australia's trade policy to gain commercially viable export opportunities for Australian business, noting that:

...businesses have provided little evidence that Australia's BRTAs have generated significant commercial benefits. The information available suggests that, where benefits accrue, they are mainly to existing exporters.⁴

To be effective, the Australian automotive manufacturing industry believes that more work needs to be done to remove both tariff and non-tariff barriers in our key trading markets. This applies in particular to our trading partners in Asia, many of whom are developing (and seeking to protect) automotive industries within their borders. These countries protect their automotive industry in various ways despite, in most cases, their auto industries being vastly greater in scale than Australia's. For instance, Thailand produces around 2.5 million vehicles per year, of which around half are exported, compared to Australia's 2012 production of 220,000 vehicles.

An example of non-tariff barriers hurting Australian exports to the region relates to Ford's recent experience with Thailand. Despite a comprehensive Free Trade Agreement being negotiated in 2005 that has seen the elimination of 94 per cent of Thailand's tariff and quota barriers on imports from Australia (with the remaining tariffs phasing to zero in 2015 or 2020) Ford's efforts to export the Ford Territory to Thailand have been hindered because of the imposition of non-tariff barriers including an excise tax (which is applied as a multiplier to the relevant imposed duty), interior tax and VAT that push the price to an uncompetitive \$100,000 equivalent, far above the price of a comparable locally made product.⁵ Clearly the imposition of such non-tariff barriers means that the Ford Territory cannot get volume in the Thai market, despite its market leading qualities.

⁴ *Bilateral and Regional Trade Agreements*, Productivity Commission Research Report November 2010, p.107

⁵ www.manufacturelink.com.au/news/view/australian-made-cars-11195.aspx

CONCLUSION

As small domestic manufacturers, Australia's automotive manufacturing companies require export markets and market support to succeed. This is important for reasons of manufacturing scale and capacity. Scale will help ensure the survival of the Australian automotive manufacturing industry. While the FCAI welcomes further integration with our trading partners through Asia and beyond we believe that there needs to be effective reciprocity of access as part of an internationally competitive policy framework for automotive manufacturing.