

Ford Motor Company of Australia Limited

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Australia-Indonesia FTA Feasibility Study
Department of Foreign Affairs & Trade
John McEwen Crescent
BARTON ACT 0221

By Email: indonesia.ftastudy@dfat.gov.au

Dear Sir/Madam

Subject: AUSTRALIA-INDONESIA FTA STUDY

Thank you for the invitation to provide input toward the Australia-Indonesia FTA Study. We appreciate the opportunity to participate in the department's consultation process, as we have actively done in a number of other trade policy initiatives.

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 more than 5000 people in Geelong and Broadmeadows, Victoria. In 2006, Ford Australia sold more than 114,000 locally manufactured and imported vehicles. In 2006, Ford Australia announced a new, innovation-focused, strategic direction for the Company including significant investment in new projects and accompanying facilities of more than \$1.8 billion over the next decade.

A key element of this new strategy is an expansion of Ford Australia's product development capability, and its enhanced role as a design and engineering "centre of excellence" for the Asia Pacific and Africa region. One of the first major projects under this umbrella is the design and engineering leadership of a new light commercial vehicle to be sold in more than 80 countries. This project represents one of the most significant automotive R & D initiatives undertaken in Australia. In July 2007, Ford Australia announced a further element in its investment strategy with the confirmation it would be manufacturing the Ford Focus in Australia beginning in 2011. This car will be sold locally and in regional export markets. It represents the first small car to be built in Australia for many years.

Automotive trade between Australia and Indonesia is modest, and significantly in favour of the latter country. In 2006, it totalled \$212 million consisting of imports of \$147 million and exports of \$65 million. Automotive components represented more than 85% by value of the trade. There has also been some more recent growth in vehicle trade. In the 10 months ended October 2007, there were 361 light commercial vehicles imported from Indonesia.

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Ford Australia believes there is opportunity for growth in automotive trade, and closer industry-to-industry co-operation, between the two countries. This could be of benefit to both Indonesia and Australia in that the industries of the respective countries are largely complementary. In addition to increased vehicle and OEM component trade, the possible closer co-operation could include specific developmental and training initiatives in such areas of process improvement, quality assurance and employee training. However, the opportunity for mutual growth can only expect to be realised if worthwhile, early and genuine market access is available to both participants in any free trade agreement.

Ford Australia believes the question of a bi-lateral free trade agreement with Indonesia should be considered under the broader umbrella of the present free trade agreement negotiations between Australia, New Zealand and ASEAN. To the extent that such bilateral negotiations could energise the broader ASEAN negotiations, in much the same way that FTA negotiations can assist the broader, but slow, WTO multi-lateral negotiations, they should be welcomed.

Like all free trade agreement negotiations, Ford Australia believes it vitally important that any negotiations with Indonesia incorporate an emphasis on both tariff and non-tariff barriers, and a clear understanding there will not be new NTBs post any trade agreement. Non-tariff barriers are particularly pervasive in the regional automotive industry. If they are not effectively addressed, it is not possible for the sought-after benefits of any free trade agreement, however small, to flow. Alternatively, any benefits may well be very lop-sided.

An example of this is the free trade agreement between Thailand and Australia. Since the FTA was introduced in 2005, automotive exports from Thailand to Australia have more than doubled in two years to a record \$2.37 billion in 2006. This momentum has continued in 2007 with vehicle exports up to 48% to 129,000 units in the ten months ended October. However, exports from Australia have increased only modestly to a paltry \$75 million in 2006. The rapid growth of the automotive industry in Thailand and its increasing range of passenger and light commercial vehicles meant the pace and level of trade growth would always favour the Thai industry. However the opportunity for the Australian automotive industry to even modestly benefit from the Australia-Thailand FTA with new vehicle exports were seriously eroded by some vehicle excise tax changes introduced in Thailand only weeks after the FTA between the two countries was signed.

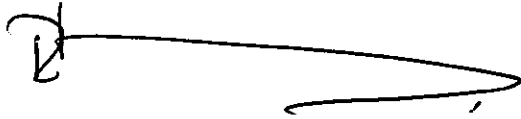
In the case of Indonesia, there are a number of impediments, beyond border tariffs, to automotive trade. An example of this is the application of Indonesian national standard (SNI) marking requirements to such automotive components as tyres and glass. This means, for example, that any such replacement parts shipped from Australia in support of a vehicle export program would be required to be tested at an appointed laboratory and individually marked to secure the necessary certification. This is a bureaucratic process and is both cumbersome and costly.

A current impediment to the growth of the automotive market in Indonesia are the present luxury taxation arrangements. These arrangements are significantly influenced by such factors as engine capacity, fuel type, body type, passenger capacity and vehicle mass. Ford Australia believes these complex taxation arrangements distorts the

8 marketplace in Indonesia and would not be conducive to boosting the market access of Australia-sourced vehicles under a free trade agreement. A lowering of the tax rate and streamlining of its complexities would mean greater consumer choice via a broader range of more environmentally friendly and higher quality vehicles at lower prices for Indonesian motorists. Ford Australia firmly believes this objective must be a key ingredient of any free trade agreement negotiations.

Ford Australia would be happy to elaborate on the issues raised in this letter. The writer can be contacted on (03) 9359 7142.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Russell Scoular', with a long horizontal flourish extending to the right.

Russell Scoular
Government Affairs Manager