



19 July 2004

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Dear David

I am writing on behalf of the Federal Chamber of Automotive Industries (FCAI) in response to the Department's request for public submissions in relation to the joint FTA feasibility study between Australia and China.

The FCAI is the peak industry organisation representing vehicle manufacturers and the major importers of passenger cars, four wheel drives, light commercial vehicles and motor cycles in Australia.

The prospect of a free trade agreement between Australia and China raises a number of significant issues for the Australian automotive industry.

FCAI recognises that preferential trade agreements can form a legitimate part of an appropriate and balanced trade policy. As a general rule, it is our view that for such an agreement to be contemplated it should support Australia's overall trade policy objectives and result in a proportionate strengthening of market access arrangements for Australian exporters, in return for increased access to the Australian market.

The table below (over page) summarises overall trade in automotive products between Australia and China. The overwhelming majority of trade in automotive products between Australia and China has been in the form of automotive components and it can be seen that there has been a sizeable (and growing) balance in favour of China. To date trade in built up vehicles has been negligible.

Given the rapid growth and development occurring in China's automotive industry it seems inevitable that the extent of interaction with Australia's automotive sector will increase over coming years.

**Table1: Australia-China Automotive Trade: 1999-2003**

	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Exports	15.8	5.3	14.2	16.8	56.5
Imports	132.1	173.8	197.9	166.3	246.5
<i>Balance</i>	<i>-116.3</i>	<i>-168.5</i>	<i>-183.7</i>	<i>-149.5</i>	<i>-190.1</i>

It is difficult to assess the overall impact a free trade agreement with China would have on the Australian automotive industry. The Australian automotive market is already very open by international standards. The Australian automotive market is characterised by a wide variety of brands and models with imports accounting for around 70 per cent of total vehicle sales. Tariffs on passenger cars and most automotive components are due to be reduced from current levels of 15 per cent to just 5 per cent by 2010. Tariffs on other categories of vehicles have been at 5 per cent for some time. In addition, there are few, if any, significant non-tariff barriers affecting access to the Australian market.

Thus, even in the absence of a free trade agreement it is clear that there will be minimal barriers to increased Chinese exports of vehicles and automotive components to Australia in the future. By 2010, a free trade agreement between Australia and China would yield only a small margin of preference to Chinese automotive products entering the Australian market. However, by that time China is projected to have significantly increased its capacity as one of the largest automotive producers in the world and it is likely that within this period China will also emerge as a significant exporter of automotive products.

The situation facing potential Australian automotive exporters and investors seeking enhanced access to the Chinese market is less clear. While China's accession to the WTO has seen a considerable opening of the Chinese market and increase in the apparent transparency of regulations applying to trade and investment in the Chinese automotive sector, a more fulsome assessment of the extent of China's compliance with its WTO obligations needs to be undertaken.

As recently as 1 June 2004, China has announced a new automotive industry policy framework. While this new policy framework appears calculated to align with China's commitments and obligations under various WTO agreements, some restrictions remain in the regulation of inwards trade and investment. Accordingly, it is to be hoped that the feasibility study will clarify the full extent of issues which should be encompassed in negotiations for a possible free trade agreement between Australia and China. From the standpoint of the Australian automotive industry this would need to include a wide range of areas including tariffs; rules of origin; distribution arrangements; trade-related investment requirements; technical regulations; application and enforcement of intellectual

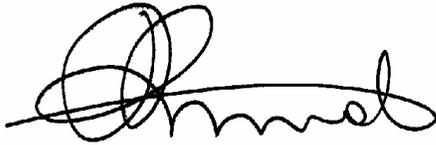
property regulations; customs valuation and administration issues; and anti-dumping safeguards.

At this stage FCAI retains an open mind about the prospects of a free trade agreement between Australia and China. For such an agreement to be supported by the Australian automotive industry it would be necessary to establish that such an agreement will result in net new opportunities for the Australian automotive industry and that any resulting diversion of trade or investment with other trading partners can be kept to minimal levels.

Accordingly, we encourage the Australian government to continue to consult with the Australian industry as the feasibility study moves forward. For our part, FCAI is keen to continue assist in facilitating this process and representing the collective interests of the Australian automotive industry to government.

I trust that this clarifies some of the issues which FCAI sees as important in this context. I look forward to the opportunity to provide further input to the feasibility study in the near future.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P M Sturrock', written in a cursive style.

P M STURROCK  
Chief Executive