



ABN 67 008 411 452

Australia-India Comprehensive Economic Cooperation Agreement
Free Trade Agreement Division
Department of Foreign Affairs and Trade
RG Casey Building
John McEwen Crescent
BARTON ACT 0221

5 August 2011

Dear Sir/Madam

I am writing on behalf of the members of the Federation of Automotive Products Manufacturers (FAPM).

FAPM is an association of manufacturers engaged in the production of a comprehensive range of automotive products. It was formed in 1958 and currently comprises just over 100 member companies, employing more than 41,000 people with sales of over \$8.5 billion.

Our members are very excited about the current and future opportunities available through the relationship between the Australian and Indian automotive component sectors. FAPM members have already firmed up a range of commercial relationships with both vehicle manufacturers and component makers in India. We welcome closer cooperation with our industry colleagues in India.

For our part, FAPM has recently updated and re-signed a Memorandum of Understanding (MOU) with our counterpart organisation in India, the Automotive Components Manufacturers Association of India (ACMA).

This MOU recognises the significant possibilities for the expansion of bilateral trade and investment between Australia and India in the automotive sector. It acknowledges and hopes for the possibility for joint collaborative activity and technological cooperation between Australia and India in the automotive component sector and wishes to see closer cooperation among the members of our two associations.

FAPM is encouraging of a Free Trade Agreement (FTA) with India, as we see increased access to the Indian automotive market for Australian automotive component manufacturers as a positive for our sector.

But this access is not only limited to the passenger motor vehicle market; the size and depth of the Indian motor bike/scooter market can also provide opportunities for the Australian automotive supply chain.

Our members must have free and fair access to the Indian automotive market and want to reiterate to Australian FTA negotiators that the automotive component sector is a key area of manufacturing in both countries.

Federation of Automotive Products Manufacturers

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The Indian Automotive Market¹

Clearly, the automotive sector in India is very large and is on a growth trajectory.

The estimated turnover for the Indian automotive industry in the 2010/11 financial year (ending March 2011) is A\$69 billion (the vehicle industry turnover approximately A\$49 billion). The estimated size of the automotive components sector is A\$26 billion with exports for of approximately \$5billion per annum.

Production figures include:

- Passenger Vehicles 2.35 Million – approximately 19% exported
- Commercial Vehicles 0.57 Million – approximately 8% exported
- Three Wheelers 0.62 Million – approximately 28% exported
- Two Wheelers 10.51 Million – approximately 11% exported

The projected growth of the industry is staggering.

2010/11 growth over 2009/10 is approximately 27 per cent for passenger motor and commercial vehicles, 20 per cent for three wheelers and 25 per cent for two wheelers.

There is a strong presence of local vehicle manufacturers and most global multinational vehicle manufacturers are also present in India. There is a huge component sector, with over 600 companies.

India's installed passenger vehicle manufacturing capacity is currently approaching 3.5 million and the industry directly employs 600,000 people, with over 12 million indirectly employed.

The Indian automotive industry contributes nearly five per cent of India's GDP, 22 per cent of its manufacturing sector and is one of the highest contributors to State and Federal Government finances. Again, the size of the Indian automotive industry presents real opportunities for Australian component manufacturers to enter global supply chains.

The Indian Government has in place an Automobile Plan covering the period 2006-2016. It was released in January 2007 with the ultimate goal of making India a global hub for small car production.

It has clearly defined goals. It aims to increase industry turnover to \$145 Billion by 2016 from \$35 Billion at present and to increase export revenue from \$4.1 Billion today to \$35 Billion in 2016.

These goals are expected to see the automotive industry contribute around 10 per cent to India's GDP and between 30-35 per cent to its manufacturing industry.

The current level of import duty on automotive components is 10 per cent. We are of the understanding that this percentage may be falling as well.

There have been issues recently with loss of vehicle production due to under capacity constraints among the Indian component suppliers.

Lack of investment by these companies has seen component shortages over the last few years. With vehicle production expected to increase as per above, there can be opportunities for Australian suppliers to fill gaps created by lack of available supply from indigenous suppliers.

Free Trade Agreement

FAPM's view is that Australian automotive suppliers must continue to have open access to the Indian automotive market and the domestic Australian industry must not be disadvantaged in any FTA between our two countries.

¹ Australian Trade Commission – April 2011

The prospects for growth and the potential supply of automotive components and/or technology for Australian suppliers are encouraging. Australian companies are participating in trade missions to India to try and develop professional relationships with the aim of entering the Indian automotive supply chain. They see opportunities for their businesses and are taking active steps to form new business relationships.

Thailand FTA

By way of contrast, FAPM wanted to highlight some of our views on the 2004 FTA between Thailand and Australia. We thought they might be informative and relevant when negotiating the current agreement with India.

There is a general view among Australian suppliers that the FTA negotiated with Thailand is “all one way”, meaning the Australian industry has not benefited from this agreement. This one way traffic has occurred primarily because Thailand has replaced tariffs with other, non-tariff trade barriers.

A submission by a member company to a parliamentary committee in 2009 highlights some of the continuing limitations to market access for both Australian vehicles and components.² For example:

- Thailand is able to sell vehicles duty free under the ASEAN FTA, provided the ASEAN content is 40% of the total product value. This provides a disincentive for the Thais to import product from Australia, despite the FTA Australia and Thailand have in place
- The balance of automotive trade figures clearly demonstrate that the FTA with Thailand has not resulted in increased automotive component export from Australia. Since the FTA was introduced, Australian imports from Thailand of passenger motor vehicles has risen 356% and vehicle parts 147%, while Australian exports to Thailand of vehicle parts have risen 123%. Additionally, exports of passenger motor vehicles are negligible.
- An excise or sales tax is charged based on the engine capacity of a vehicle which has worked against Australian-made sports utility vehicles and in favour of smaller, Thai-produced SUVs. The Thai excise tax on the Australian-made Ford Territory rose from 29 per cent to 50 per cent soon after the FTA was signed, reducing its sales.³

These examples above, resulting from the introduction of the FTA with Thailand, are related for illustrative purposes and should raise a cautionary note in all Indian/Australian FTA negotiations.

The automotive component sector sees enormous opportunities in the Indian automotive market.

A free and fair trade agreement between the two countries is to be encouraged. We want to reinforce our industry's experience with the Thai FTA and urge that these lessons be known to those negotiating the current FTA with India.

I would be happy to discuss these views in more detail.

Yours sincerely



Richard Reilly
Chief Executive

² Submission to Economic Development and Infrastructure Committee, Parliament of Victoria by Robert Bosch (Australia) Pty Ltd, 31 July 2009

³ <http://www.drive.com.au/Editorial/ArticleDetail.aspx?ArticleId=50289>