

March 10, 2004

The Honorable Robert B. Zoellick
United States Trade Representative
600 17th Street, N.W.
Washington, DC 20508

Dear Ambassador Zoellick:

Pursuant to Section 2104 (e) of the Trade Act of 2002 and Section 135 (e) of the Trade Act of 1974, as amended, I am pleased to transmit the report of the Industry Sector Advisory Committee on Transportation, Construction, Mining, and Agricultural Equipment for Trade Policy Matters regarding the U.S.-Australia Free Trade Agreement, reflecting the consensus of the full Committee on the proposed Agreement.

We congratulate the Administration and the Office of the U.S. Trade Representative staff for their success in concluding these negotiations.

Sincerely,

A handwritten signature in cursive script that reads "Christopher M. Bates".

Christopher M. Bates
Chair, ISAC 16

The U.S.-Australia Free Trade Agreement (FTA)

Report of the
Industry Sector Advisory Committee on
Transportation, Construction, Mining & Agricultural Equipment
For Trade Policy Matters (ISAC 16)

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**Industry Sector Advisory Committee on Transportation, Construction, Mining, and
Agricultural Equipment for Trade Policy Matters (ISAC 16)**

**Advisory Committee Report to the President, the Congress, and the U.S.
Trade Representative on the U.S.-Australia Free Trade Agreement**

I. Purpose of the Committee Report

The purpose of this report is to provide the consensus advice of the Industry Sector Advisory Committee on Transportation, Construction, Mining, and Agricultural Equipment for Trade Policy Matters (ISAC 16) regarding the U.S.-Australia Free Trade Agreement.

II. Executive Summary of Committee Report

The U.S.-Australia Free Trade Agreement provides for the elimination of tariff and non-tariff barriers to trade between the United States and Australia in a manner that provides for equity and reciprocity within the primary industrial sectors currently represented by the Committee: motor vehicles and motor vehicle equipment.

Key areas within the negotiated agreement of interest to ISAC 16 members include:

- Elimination of tariffs on products certified as meeting defined rules of origin;
- Removal of non-tariff measures;
- Assured equivalent tariff treatment and market access for remanufactured as well as new motor vehicle components and assemblies; and
- Improved protection of intellectual property rights.

ISAC 16 members agree that the U.S.-Australia FTA will enhance the export opportunities of the U.S. motor vehicle and motor vehicle parts and equipment industries, while fostering improved protection of U.S. intellectual property and market access for this vital American industry in Australia.

ISAC 16 is pleased that U.S. negotiators were successful in addressing the industry's request for simplified, NAFTA-consistent rules of origin for motor vehicle products; and 2) equivalent market access for remanufactured and new motor vehicle components used in the repair and servicing of motor vehicles. These U.S.-Australia FTA provisions provide a clear model for other bilateral free trade agreements being negotiated and the Free Trade Area of the Americas (FTAA) negotiations.

III. Brief Description of the Mandate of ISAC 16

The current membership of ISAC 16 includes representatives of U.S. manufacturers of automobile and trucks; motor vehicle cab chassis; motor vehicle components, modules, and assembled systems; and components for agricultural and construction equipment, but not final manufacturers of such equipment. These sectors are the focus of this report. The railway and mining equipment industries are not currently represented on ISAC 16.

IV. Negotiating Objectives and Priorities of ISAC 16

For the U.S. motor vehicle products industry, the U.S.-Australia Free Trade Agreement is the single most important and commercially meaningful bilateral FTA that the U.S. has entered into outside of North America. Two of the three largest U.S. manufacturers of motor vehicles – Ford Motor Company and General Motors – produce over 70% of all passenger vehicles made in Australia (over 200,000 vehicles last year). Ford and General Motors, along with DaimlerChrysler, sold over 340,000 cars and light trucks in Australia last year, about 42% of total vehicle sales in 2003. In fact, Australia's annual new passenger vehicle sales are more than double those of every single country that the United States has signed a bilateral free trade agreement with in the last ten years.

U.S. motor vehicle product exports to Australia totaled over \$1 billion in 2003, including:

- \$261 million in passenger cars, light trucks, sport utility vehicles and buses;
- \$107 million in medium/heavy trucks; and
- \$656 million in motor vehicle parts and equipment.

The U.S. imported \$336 million in motor vehicle products from Australia last year, resulting in a U.S. sectoral trade surplus of over \$650 million. U.S. motor vehicle sector exports to Australia represent about 8% of total U.S. exports to Australia.

The negotiating objectives of ISAC 16 included:

- Accelerated removal of Australian tariffs on products within the scope of ISAC 16;
- Establishment of appropriate rules of origin for products eligible for such tariff reductions to ensure that the benefits of free trade accrue to the U.S. and Australia and their producers as parties to the Agreement;
- Elimination of non-tariff measures associated with those products, including uncertainty regarding the market access and customs treatment of remanufactured parts for motor vehicles;
- Expanded Australian commitment to improved protection of intellectual property and more open government procurement.

ISAC 16 believes that these goals have been fully met in the final agreement.

Australia currently applies substantially higher tariffs on most categories of motor vehicles and motor vehicle parts than does the United States. Examples include:

	<u>Current Tariff Rate</u>	<u>U.S.-Australia FTA Tariff Staging Period</u>
Passenger automobiles	5-15%	0% by 2010
Light trucks and sport utility vehicles	5-15%	0% immediate
Medium and heavy trucks	0-5%	0% immediate
Motor vehicle parts	5-10%	0% immediate

As the above table indicates, under the U.S.-Australia FTA, Australia will eliminate tariffs on light trucks, sport utility vehicles and parts immediately; on medium/heavy trucks immediately; and on passenger automobiles by 2010.

Australia does not discriminate against imports of remanufactured motor vehicle parts. However, many countries around the world do, and therefore ISAC 16 has established a goal of ensuring – in all pending bilateral, regional, and multilateral free trade agreements – explicit provisions ensuring equal customs treatment (elimination of tariffs and non-tariff measures) of new and remanufactured motor vehicle parts.

For economic and environmental reasons, remanufactured parts are gaining an expanding share of world markets. Historic restrictions on imports of “used” goods have been used in many countries to deny equal customs treatment of high-quality, remanufactured goods. The U.S.-Australia FTA, along with other recent bilateral FTAs the United States has negotiated, are addressing this problem to ensure equal treatment.

Another ISAC 16 goal has been to encourage broader international use of a simplified set of rules of origin for motor vehicle products based on the NAFTA “net cost” calculation method. This was achieved in the U.S.-Australia FTA, and gives impetus to other bilateral and regional free trade negotiations that are pending.

In addition, ISAC 16 supports the provisions in the U.S.-Australia FTA that will enhance Australia’s protection of intellectual property rights and enhance market access in the area of government procurement.

V. Advisory Committee Opinion on Agreement

All members of ISAC 16 reviewed this report and concluded that the U.S.-Australia Free Trade Agreement provides for the liberalization of trade between the United States and Australia in a manner that provides for equity and reciprocity in the areas of motor vehicles and motor vehicle parts and equipment. ISAC 16 members agree that the U.S.-Australia FTA will substantially enhance the export opportunities of these two closely connected major U.S. industries, while fostering improved protection of U.S. intellectual property and market access in government procurement for U.S. motor vehicle products of all types in Australia.

VI. Membership of Committee

Members of ISAC 16 include:

- Chris Bates, President & CEO, Motor & Equipment Manufacturers Association (Chairman)
- Stephen Collins, President, Automotive Trade Policy Council
- Lee Kadrich, Vice President, Government Affairs & Trade, Automotive Aftermarket Industry Association
- Stephen Latin-Kasper, Director, Market Data and Research, National Truck Equipment Association
- Curt Magleby, Washington Affairs Manager, Ford Motor Company
- Mustafa Mohatarem, Chief Economist, General Motors Corporation
- Linda Spencer, Director, Government & International Affairs, Specialty Equipment Market Association
- Thomas Trueblood, Director, Green Diesel Technology Public Affairs, International Truck and Engine Corporation