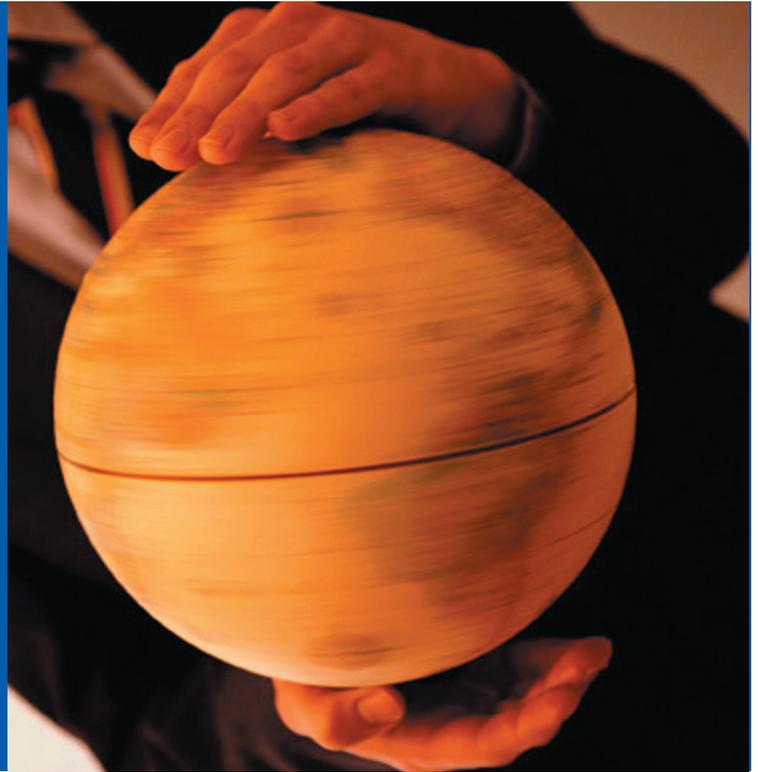




# Thailand – Australia Free Trade Agreement

General Information



The signing of the Thailand Australia Free Trade Agreement (TAFTA) opens an opportunity for Australian automotive component suppliers to establish new international operations in one of the region's most dynamic automotive centres.

Relations between Australia and Thailand are already close with bilateral merchandise trade currently valued at around \$6 billion. The TAFTA will have different impacts on different sectors, according to levels of protection and patterns of comparative advantage. Of this, bilateral automotive trade is around A\$1 billion, most of which is Thai exports of light commercial vehicles to Australia.

The Australian and Thai vehicle industries are complementary, with Australia having a competitive advantage in medium-large car production, while Thailand is a centre for light commercial vehicle production.

## Thailand's Auto Industry

After textiles and electrical goods, automotive is Thailand's third largest manufacturing industry. The industry expanded rapidly in the late 1980s as a result of strong economic growth and the successful attraction of inwards investment.

There are currently 17 vehicle producers and 600 component companies in Thailand concentrating on light commercial and passenger motor vehicles (PMVs). These manufacturers comprise both foreign owned entities, such as GM, Ford and Toyota and Thai owned companies.

In 2003, 265,000 PMVs were produced in Thailand, consisting mainly of small-scale assembly operations for the domestic market. On the other hand, light commercial vehicle production is large-scale and focused on both domestic and export sales. 490,000 light commercials were manufactured in 2003.

As Thailand continues to experience rapid economic growth, its expanding middle class is driving PMV demand. Thailand is also positioning itself as the automotive hub of South East Asia, often referred to as the 'Detroit of the East' highlighting the significance of the opportunity.

Opportunities for the component sector may exist in the export of certain high-value components, in addition to services in the areas of training, technology transfer, design and engineering. Countering this, Australian companies need to be aware of how the increased access that Thai companies have to this market will affect their competitive position.

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## The Thailand – Australia Free Trade Agreement (TAFTA)

On 19 October 2003 Prime Minister Howard announced the successful conclusion of free trade negotiations with Thailand. The TAFTA was signed by the two countries in July 2004 and, the passage of relevant legislation through the Australian and Thai Parliaments is expected to come into force on 1 January 2005.

A summary of the key changes in tariff rates for the automotive sector is highlighted in the following tables below.

### Thai Tariff Changes

Category	Current Tariff	Tariff at 1 January 2005	Ongoing reductions	Final tariff
<b>Passenger Motor Vehicles</b>				
Large (>3000cc capacity)	80%	0%	–	0%
Goods vehicles	60%	0%	–	0%
Other	80%	30%	6 percentage points per year till 2010	0%
<b>Engines, components, parts and accessories</b>				
Automotive components, parts & accessories	Up to 42%	Up to 20%	Phased Reduction to 2010	0%
Engines	30%	15%	Phased Reduction to 2010	0%
<b>Other</b>				
Other Automotive tariffs	< 20%	0%	–	0%

### Australian Tariff Changes

Category	Current Tariff	Tariff at 1 January 2005	Ongoing reductions	Final tariff
<b>Passenger Motor Vehicles</b>				
PMVs	15%	0%	–	0%
Commercial vehicles	5%	0%	–	0%
<b>Engines, components, parts and accessories</b>				
Automotive components (general), parts & accessories	5-15%	5%	Reduction to 0% in 2009	0%
Specified components*	5-15%	0%	–	0%

\* Specified components include a list of up to 26 specific items including chassis, bodies, hoses, ball or roller bearings. For a complete list please refer to the Annex 4.1 to the TAFTA.

### Improving Two-Way Trade in Vehicles

The elimination of Thailand's 80 per cent tariff on large PMVs, combined with the growing affluence of Thai consumers provides an opportunity for Australian made PMVs and all-wheel-drive vehicles such as the Adventra and Territory.

With the existing tariff structure, Thailand imports only 4 per cent of annual vehicle sales. In this context, Australia's car manufacturers have welcomed the agreement, and any expansion of their activities will have obvious flow-on benefits for the Australian component sector.

Light commercial vehicles produced in Thailand already have a strong presence in the Australian market, which would also be expected to rise following the agreement.

### Two-Way Trade in Auto Components

Less than 1 per cent of Thailand's component import market is supplied by Australia – which indicates enormous existing potential for increased sales of Australian product under the new TAFTA arrangements.

It is anticipated that there will be specific opportunities for the exports of engines, transmissions, brakes, mirrors, wheels, seat belts and body panels to Thailand.

Improved accessibility to the Thai market for Australian component producers could also create opportunities to improve their economies of scale via production increases.

Australian toolmakers have already forged alliances with their Thai counterparts, leading to product and service exports to the country.

Automotive components imported from Thailand will become cheaper, and Australian manufacturers need to assess what threat or opportunity this presents.

The TAFTA is a reality, and companies need to consider how to best take advantage of the opportunities presented.

**Regardless of the ultimate impact, those Australian companies who best understand how their competitive position will change, and what opportunities may be created will capitalise on the TAFTA.**

### Services and Investment

Australia has a well-developed automotive engineering and design capability, with significant exports of automotive services to the region.

The movement of labour and services between Australia and Thailand will be made easier as a result of the TAFTA. Consequently, there will be enhanced opportunities for companies to export their engineering, design and technical expertise to Thailand. There are also motor vehicle service and repair opportunities in the aftermarket sector.

**For some companies, the TAFTA may provide the first and best opportunity to step outside Australia, enhancing their standing as suppliers to global OEMs.**

Through its Board of Investment, the Thai Government offers a range of incentives for those companies considering investing in Thailand.

## Standards and Conformance

There are a number of synergies between the Australian and Thai automotive markets, including the formal recognition by Thailand of Australian Vehicle Standards. For a number of years, Thailand has been focused on the development of its suite of automotive standards. The wave of international OEM investment in the country has meant that suppliers are expected to meet relevant global standards, such as ISO and TS requirements. Additionally, both countries employ the right hand drive format, which may streamline market access for certain component manufacturers. There are also global platform similarities, with the Camry being manufactured in both the Australian and Thai markets. Ultimately, the trade exposure that the TAFTA will provide is likely to see some convergence in government set standards around issues such as vehicle emissions. The Thai Industrial Standards Institute co-ordinates standards requirements, and Australian companies should investigate these, and the expectations of potential customers when assessing market potential.

## Accessing the Opportunities

To make the most of the TAFTA, companies need to assess the opportunities and challenges presented by this new trading environment. Here companies should consider the following key areas:

1. Investigate who already supplies your products in (or into) the Thai market.
2. What are their key competitive advantages, and what can you bring to the customer in terms of improved products, processes or services?
3. Who are the key contacts within potential Thai customers? Is the customer an OEM or a first tier supplier? Does your product have to be a 'hard' component, or can you access the market through a licensing or technology arrangement? Are you able to improve your cost base by sourcing some inputs from Thailand?
4. How can you utilise existing customers in Australia and around the world to help you to win business in Thailand? GM, Ford and Toyota all have a significant presence in the country and would benefit locally through improved competitiveness of the supplier base.



## Case Studies

### PBR

PBR's trade with Thailand commenced in the early 1960's with the sale of various passenger and commercial vehicle replacement brake products. PBR was successful in winning a contract to supply brake callipers for the Ford / Mazda Auto Alliance J97A pick up trucks.

Import duties were excessive, which led PBR to invest approximately A\$9 million to set up a manufacturing facility on the Rayong industrial estate near the customer after securing some Thai Board of Investment concessions. Apart from PBR installing the latest technology in product and processing techniques, it was the extensive training of Thai nationals in Australia and on site in Thailand that were the critical success factors in PBR's Thai operation.

PBR's Thai presence provides the company with further global options to win new business. The impact of the TAFTA on PBR will be positive with export of components to Thailand ultimately becoming duty free.

Peter Culley, PBR's Vice President Aftermarket says:

**"To the extent that the TAFTA represents a building of relationships between the Australian and Thai automotive industries and fosters a greater mutual understanding the agreement is a positive move for Australia."**

### FMP (Bendix Mintex)

FMP has both a manufacturing operation and separate distribution business in Thailand that sells product from the Thai, Malaysian and Australian manufacturing businesses.

FMP had exported automotive friction materials to Thailand for many years, but in 1998 established a manufacturing plant in the Rayong industrial estate on the eastern seaboard.

FMP imports disc brake pads from Thailand to target specific aftermarket segments in Australia.

The reduction in duties flowing from the TAFTA will benefit both FMP's manufacturing and distribution businesses. FMP's presence in Thailand means that it is close to a major centre for automotive manufacturing in the region that is now opening its borders.

## Additional Information

There are a number of sources of information available about the TAFTA as well as a range of professional advisory services to assist businesses assess the impact of the agreement, and investigate opportunities.

### Rules of Origin

For more details on the rules of origin contact FAPM for a Rules of Origin brochure or download a copy at:  
Web: [www.fapm.com.au](http://www.fapm.com.au)

### Automotive Standards

#### Thai Industrial Standards Institute

Web: [www.tisi.go.th](http://www.tisi.go.th)

#### Standards Australia

Standards Australia  
GPO BOX 5420  
SYDNEY, NSW 2001  
Web: [www.standards.com.au](http://www.standards.com.au)

#### Department of Foreign Affairs and Trade (DFAT)

Tel: (02) 6261 1251 or (02) 6261 2373  
Web: [www.dfat.gov.au/trade/negotiations](http://www.dfat.gov.au/trade/negotiations)

#### Department of Transport and Regional Services (DOTARS)

Tel: (02) 6274 7111  
Web: [www.dotars.gov.au](http://www.dotars.gov.au)

#### Australia Thailand Business Council

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### Certificates of Origin

#### Australian Industry Group (AiGroup)

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#### Australian Chamber of Commerce and Industry (ACCI)

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### Thailand Contacts

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Chairman: Mr. Ajarin Sarasas

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Chairman: Mr. Chawalit Jariyawatsakul

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Chairman: Mr. Pramont Pongtong

#### Thai Automotive Industry Association

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#### Thailand Board of Investment

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