



. BRIDGESTONE AUSTRALIA LTD
. SOUTH PACIFIC TYRES
(a partnership between
Pacific Dunlop Tyres Pty Ltd
and Goodyear Tyres Pty Ltd)

AUSTRALIAN TYRE MANUFACTURERS' ASSOCIATION LTD

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POST 2005 ASSISTANCE ARRANGEMENTS FOR

THE AUTOMOTIVE MANUFACTURING SECTOR

COMMENTARY OF

AUSTRALIAN TYRE MANUFACTURING INDUSTRY

ON THE PRODUCTIVITY COMMISSION POSITION PAPER

JULY 2002

SUMMARY

In general, Australian tyre manufacturers welcome the findings and recommendations of the Position Paper. However, ATMA has concerns on several issues raised in the Position Paper.

TARIFF OPTIONS

Tyre manufacturers note that three options are proposed by the Commission for continuation of tariff arrangements for the industry post 2005 and that these represent the only options which the Commission is prepared to consider.

Offered only these three choices, tyre manufacturers would prefer Option 3.

As one reason for rejecting Option 3, at page 123 of the Position Paper, the Commission suggests that:

" .. this option imposes the least adjustment pressure on the industry."

Tyre manufacturers do not agree that Option 3 imposes adjustment pressure on our sector of the industry any less critical for industry survival than does Option 2.

In choosing Option 2, the Commission has not take into account that there will already be one "sudden drop" in tariff levels from 15% to 10% in 2005.

Amongst others, two factors:

- the ongoing impact of industry globalisation, and
- chronic world over-production of tyres,

will themselves place extraordinary demands upon on local tyre manufacturers in 2005 and in the ensuing five year period, without even considering the impact of tariff "adjustment pressure."

When compounded by these two factors, the impact of a sudden drop in tariff levels in 2005, followed by a further dramatic fall to 5% in 2010, will be catastrophic to local tyre manufacturers.

ATMA would prefer that, commencing in 2006, tariffs decline by one percentage point per year from 15%, to a base of 5% by 2015.

Tyre manufacturers will only remain viable in Australia if they can maintain their present pre-eminent position as manufacturers of leading-edge technology tyres. To do so, they must continue to attract appropriate interest from their overseas parents, both financial, technical and logistical.

The prospect of two sudden tariff drops upon tyre manufacturers within the space of a decade will strongly discourage both Bridgestone Japan and Goodyear US from making these essential investment and technical partnership decisions in the interests of the Australian industry.

No substantiation is given for the statement that:

"the Commission does not consider that the industry needs another 10 years after 2005 to prepare itself to operate within a 5% tariff rate."

This statement is inconsistent with the reality that the impact of globalisation and chronic oversupply will be long-term, sustained and substantial.

In choosing the middle ground offered by Option 2, perhaps the Commission has attempted to strike a compromise between the needs of the industry, represented by Option 3, and the submissions put forward on behalf of consumer and other similar groups, best expressed by Option 1.

To endeavour to reach such a compromise between submitting parties may be a laudable sentiment, but it does not substitute for a focussed confrontation by the Commission on the realities facing the industry.

The only sound objective is to create the right environment for tyre manufacture in Australia to remain World-competitive. ATMA's submission is that a ten-year staged tariff reduction up to 2015 will do this. If this submission is rejected, the only option which comes anywhere near achieving this objective is Option 3.

Option 3 has some, albeit diminished, prospect of assisting the flow of capital and loan funds into Australia to secure a continuation of Australia's leadership role in the development of tyre manufacturing technologies and in the maintenance of its position at the forefront of technological excellence. For the reasons stated above, Option 2 cannot achieve this objective.

In the opinion of tyre manufacturers, Option 2 sends a signal to overseas investment that the industry will be abandoned after 2010. Why, then, would the major tyre manufacturers invest in a local industry with such a short life-span?

The growth in the automotive industry which is predicted by the major industry associations to attain 4.5%, presupposes no sudden drop in tariff rates but an ongoing support for the industry, founded upon a gradualist and sensitive approach to tariff reduction.

ACIS Proposals

Tyre manufacturers support the continuation of ACIS after 2005.

ATMA and its members do not support the splitting of ACIS into two capped funding pools, one each for producers of vehicles and for suppliers. ATMA members believe ASIC at or near its present form will prove itself the principal stimulus to industry growth in the coming decade and would not suggest attempting to "tweak" a process that appears to be working well.

Reforms to Tariff Concession System

At paragraph 6.1, the Commission indicates that it has previously recommended that the 3% tariff duty on imported business inputs not produced in Australia be removed. Reference is made to Report "PC 2000" on tariff reform.

There is no indication whatsoever that the Government has heeded this call.

The existence of this restriction is a gross, unnecessary and embarrassing impediment to the profitability of local tyre manufacturers.

The 1997 Report of the Commission on the Automotive Industry (No. 58) made no reference to this proposal. This is despite the vigorous submissions made by ATMA and its members at the time of the previous Inquiry in support of the removal of the 3% tariff duty. In this earlier inquiry, industry submissions went unheeded.

ATMA and its members are heartened by the recommendation now made by the Commission. However, its members consider that, in its final report, greater emphasis needs to be given to this recommendation and its rational needs to be considered and strengthened before the Government will sit up and take notice.

Relationship Between Safety And Environmental Policies And Industry Policy

At Paragraph 7.3, the Commission lists certain recommendations on proposed policy changes to take advantage of the linkages between safety and environment policy issues on the one hand, and industry policy generally.

ATMA is disappointed that no reference was made at this stage of the report to its detailed submission on the role which all manufacturers in this sector must play as product stewards to plan for the proper disposal of waste

products created by their manufacturing effort, and that no significant recommendations were made as to appropriate rewards for manufacturers who champion this cause.

ATMA and its members consider that they are world leaders in developing responsible policies and practices for extended consumer responsibility by manufacturers. This addresses the very issue raised in this section of the Paper.

In its submission, ATMA showcased its National waste tyre management strategy. The Commission needs to give more thought to highlighting the need for other industry participants to consider following this initiative, and as to what support it is prepared to give to the recommendations raised in the ATMA submission on this issue.

Further, there was no mention of ATMA's policies in discouraging the use of used tyres on passenger motor vehicles because of the implications for the safety of drivers and passengers.

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