BRIDGESTONE AUSTRALIA LTD.

SUBMISSION TO THE PRODUCTIVITY COMMISSION

"POST 2005 ASSISTANCE ARRANGEMENTS FOR THE AUTOMOTIVE MANUFACTURING SECTOR"

10th MAY 2002

Contents

Executive Summary

The automotive industry in Australia has benefited significantly from the support of the Commonwealth Government through the Automotive Competitiveness and Investment Scheme ("ACIS"). Other means of support to the OEMs and various component producers by governments of all levels have been provided in recognition of the fact that the health of the automotive industry is vital to so many sectors of the economy who contribute to or benefit from the automotive industry's continued existence, health and well being.

Recent rises in the sales of new vehicles suggest that the automotive industry is gradually strengthening. No one would be in doubt that there is much to achieve before it could be said that the industry is in a healthy state and able to survive withdrawal of current levels of government assistance in the near future.

The introduction of ACIS provided a window of apparent certainty for a period of 5 years. This was welcomed by the industry and Bridgestone Australia Ltd ("BSAL") as a means of delivering some certainty for future business planning. The impact of modulation down to the factor of 0.75 for the 4th quarter in 2001 and the more recent reduction to 0.71 for the 1st quarter in 2002 has now introduced a level of uncertainty for future investment decisions. The trending downward of the modulation factor is of considerable concern in that anticipated benefits arising from ACIS with respect to possible investment in plant and equipment and R & D activities have been diluted significantly. Notably, and even more concerning, is the fact that this level of modulation took place within the first year of the life of the scheme.

The continued reduction in tariffs will have a severe impact on the automotive industry in Australia. If reductions are to be made then they should be undertaken in step with the rest of the countries who are also competing in the automotive market. There is no need for Australia to be "leading the pack" and heading over the cliff, ahead of the rest of the world.

In addition to this, several major trading partners with Australia in the general Asian region have been afforded "developing nation" status, meaning that their current tariff rates are 5% below those of any other nation. An example of developing nations include Korea and China – both countries with industrial might far exceeding that of Australia, and which receive an unfair advantage in supplying their already cheap product to Australian markets. This concept of "developing nation" status must be reconsidered with respect to countries such as Korea and China.

Recommendations

The principal recommendations of BSAL to the Commonwealth Government are summarised as follows:

1.1 ACIS

The continued operation of ACIS is strongly recommended. It does, however, require some "fine tuning" and the following options are put forward as being critical to ensure that its intended policy objective of developing and maintaining a viable automotive industry are achieved.

1. Firstly, an option would be to **top up** the $2,000,000,000 pool of funds so that all participants can gain access to intended benefits. The reality of ACIS is that there is no appropriation of funds but rather a reduction in revenue to the Commonwealth, through duty payable. The level of ACIS benefits is in reality diluted for entities operating in a profit situation because receipt of the credits results in a situation where a portion of the pool of funds are returned to the Commonwealth in the form of income tax. The true cost to the Commonwealth is not the full $2 billion in such cases. In fact the investment in ACIS by the Commonwealth returns benefits to both the business sector and the government.

2. Secondly, the ideal situation would be to adopt the first option but also implement a **rolling ACIS system** where it is continued indefinitely subject to the Government being able to provide a 5 year "period of notice" of terminating the scheme. This would overcome the stop/start situation of ACIS Mark I or ACIS Mark II etc and provide a degree of ongoing certainty for participants. Changes in policy settings with respect to the fine tuning of legislation could be undertaken with much shorter notice of say 12 months so that fine tuning of corporate budgets and planning could be achieved without the current major distortion of modulation.

It is this latter option that is strongly recommended.

1.2 Tariff Levels

1. **It is recommended that tariff levels at 10% be maintained at least until 2010 to provide stability.** It is strongly recommended that it must be maintained for a longer period of time until countries in which our competitors are based agree to commitments to a clear timetable of reductions at similar levels.

2. **It is recommended that developing nation status and concessional tariff levels be reconsidered for the majority of Australia's Asian trading partners.**

Bridgestone Australia Ltd – A Profile

2.1 Our Structure

Bridgestone Australia Ltd. (BSAL) is an Australian company listed on the Australian Stock Exchange. It is 60% owned by Bridgestone Corporation of Japan and 40% is publicly held in Australia. The main operations of BSAL involve the manufacture and distribution of Passenger motor vehicle, Light Truck and Truck tyres. In addition, BSAL runs a small business manufacturing natural rubber carpet underlay and also a small golf products distribution business.

BSAL has two operating wholly owned subsidiary companies involved with the manufacture and sale of truck tyre retreads using the Bandag method, under licence from Bandag Inc. of the USA.

BSAL also has a 49.5% share of Bridgestone TG Australia Pty. Ltd. (BSTG). The remaining 50.5% of this company is owned by Toyoda Gosei Co. Ltd based in Nagoya, Japan. BSTG manufactures automotive components for the Australian car manufacturers. Their product range comprises rubber seals and sealing systems, sun visors, air bags, steering wheels and some plastic componentry.

BSTG is totally reliant on the Australian car manufacturing industry for its future operation.

2.2 Key Milestones in Australia

BSAL and its predecessor companies have been operating in Australia for over 60 years. The initial operations were known as **SA Rubber Mills** and operated under that banner until the 1960's when taken over by Uniroyal.

Uniroyal was involved in the establishment of the Tyre Factory at Salisbury SA and the manufacture of the first Steel Belted Radial Tyre in Australia in the early 1970's.

In 1980 Bridgestone Corporation of Japan bought out Uniroyal and BSAL was created. Since then, BSAL has been a key supplier of tyres and automotive components to the Australian car manufacturing industry as well as a major supplier of tyres to the aftermarket. BSAL now supplies one in every 5 tyres sold in Australia with the majority of these being made in Australia.

2.3 Our Product Range

BSAL distributes Bridgestone, Firestone and Bandag products in the Australian market. In addition, it also supplies a variety of generic brands such as Panther, Elite, Skypower, Enduro, Europa and Caliente. The tyres sold in Australia includes passenger, light truck, truck, industrial and agricultural tyres. Its Bandag subsidiary also supplies truck tyre retreads to the Australian transport industry.

Our associate company, BSTG, supplies airbags, steering wheels, sunvisors, rubber weather sealing systems and plastic components to all 4 Australian car manufacturers.

2.4 Our Markets

BSAL's main market is Australia. Tyres are exported to the Middle East, South Africa, Brazil and New Zealand to support Australian vehicles exported to the regions.

BSTG supplies the 4 Australian car manufacturers. It is totally reliant on these 4 customers.

2.5 Product Sales and Technology

BSAL sells approximately 3 million passenger car tyres, over 400,000 light truck tyres and over 200,000 truck tyres to the Australian market annually. This represents over 20% of the Australian tyre market.

The Australian public is provided access to the latest technology offered by Bridgestone worldwide. This technology provides Australians greater levels of safety in tyres (see press articles attached on Bridgestone DONUTS technology).

2.6 Employment & Skills Development

The BSAL Group (including BSTG) employs over 2,000 Australians in all States of Australia with the major concentration of employees being in South Australia. The employees come from a variety of racial and religious backgrounds.

BSAL prides itself on being an equal opportunity employer.

BSAL conducts training nationally for its own employees as well as the employees of over 200 of its franchisees. Training within Bridgestone has advanced to a very high level. It is now a **Registered Training Organisation**, and all vocational training provided to the tyre centres have received National Accreditation. This covers Certificate Level II Tyre Fitter to Certificate Level IV Frontline Management thus giving everyone an equal opportunity for advancement within the industry. Our training has set the bench make for others to follow within the tyre industry.

2.7 R & D Activities & Innovation

BSAL undertakes R&D activities associated with its tyres manufacturing facilities at Salisbury in South Australia. Tyres provided to the Australian car manufacturers are developed specifically for Australian conditions or specific export destinations and to suit the vehicles to which they are fitted.

While there are significant technology transfers from Bridgestone Corporation of Japan, there are significant amounts of "fine tuning" which occur in Australia. The Salisbury manufacturing facility boasts a technical department charged with development work and this team works with the Australian vehicle manufacturers on specific tyre and vehicle development projects for the Australian and, more lately, Middle Eastern markets, Brazil, South Africa and New Zealand markets.

2.8 Capital Investments

The BSAL Group has invested between $14 million and $20 million per year in capital expenditure in the past 5 years. Capital expenditure has been enhanced in the past 18 months by the introduction of ACIS, allowing BSAL to improve quality, innovation and productivity in the factory. Despite this, the local manufacture of tyres is still a marginal business and long-term certainty is required to facilitate higher levels of capital expenditure.

The major thrust of the expenditure has been in the following:

- Quality improvements at all factories
- Occupational health and safety projects
- Productivity improvement projects
- Operating system changes and improvements

These projects have enhanced the ability of BSAL to manufacture to world's best practice to enable it to compete with imported products. Still further work is required to enable BSAL to survive in a lower tariff environment.

2.9 Technology Developments & the Supply Chain

BSAL is undertaking a major project with respect to Customer Relation Management (CRM) systems to significantly improve supply chain efficiencies with suppliers and customers. This project has been one that BSAL had earmarked as being critical to its ongoing development. The benefits accruing from ACIS with respect to certain expenditure on this project has enabled aspects of the project to be brought forward and hence has resulted in greater efficiencies sooner than anticipated. The CRM project facilitated the implementation of new business processes, roles and responsibilities and measurement reporting.

2.10 Community Recognition

BSAL has received numerous awards from businesses and communities alike. Some of its awards are listed below.

1990	**Ford Q1 - Quality Assurance rating.**
1992	**Nomination for Toyota Supplier of the Year.**
1993	**Certificate of Merit - Supplier of the Year FCAI (Federal Chamber of Automotive Industries)**
1993	**UAAI "A" Rating (UAAI - United Australia Automotive Industry)**
1993	**Accreditation to AS3901/ISO9001 (First Bridgestone Factory worldwide)**
1993	**Winner Toyota Supplier of the Year.**
1994	**Winner Supplier of the Year FCAI.**
1996	**Federal Chamber of Automotive Industries - Quality Circle Award**
1997	**Achieve QS9000**
1997	**Winner Supplier of the Year FCAI**
1997	**Winner Toyota Supplier of the Year**
1997	**GM Supplier of the Year**
1998	**National Parks of South Australia Inc.(Good Business Environment Award)**
1999	**Mitsubishi Motors of Australia Ltd. Supplier of the Year**
1999	**General Motors - QSTP Award**
2000	**General Motors - QSTP Award**
2000	**Achieve ISO14001 for Salisbury Tyre & BSTG factories**
2001	**South Australian Manufacturer of the Year EPA Eco-Efficiency Award (BSTG)**
2001	**General Motors - QSTP Award (7 Consecutive Years of Global Recognition)**

BSAL is also a proud supporter of the **Peter Brock Foundation**. Together with its Bridgestone Tyre Centre network, they provide 10 vehicles nationally to transport leukaemia patients to and from hospital to receive treatment.

2.11 Our Contribution to the Economy

BSAL is a major taxpayer in Australia. Taxes paid include:

- Company tax on profits made
- Payroll tax on wages and salaries paid
- Fringe benefits tax on employee benefits
- GST collected around $4 million per month
- Other taxes including stamp duties, BAD, import duty

In addition to this BSAL **employs over 2,000 people** who are able to pay income tax on their earnings. BSAL also takes it's environmental, OHS&W, and community responsibilities seriously. BSAL is a good corporate citizen.

2.12 Our Future Directions

BSAL operates in a mature industry in Australia where returns are small and there are few barriers to prevent importers competing in this market.

BSAL's capital requirements in the past have been high. Its operating costs are high compared with many countries supplying competing products such as Indonesia, Korea and China.

BSAL's future is, to some extent, in the hands of the consumer. Many consumers have little or no regard for the country of manufacture of the products that they buy. They are concerned primarily with price. While BSAL is competitive, then consumers generally prefer to buy the Bridgestone Australian products because they are better and they are suited to Australian conditions. This message is sent strongly in much of our marketing activities.

However, with ever increasing labour costs in Australia, it is becoming increasingly difficult to compete with the Asian imports. Unless some protection is maintained the Australian manufactured tyre may disappear, along with many hundreds of jobs for Australians. The "level playing field" is a myth used by economists to justify exporting Australian jobs to cheaper cost Asian countries. Exporting finished tyres to those Asian countries mentioned is almost impossible with their high barriers to entry.

Australia must not lose its manufacturing capabilities. Maintenance of a 10% tariff would at least give some allowance for the inequities in the labour markets in competing countries.

BSAL wants to remain an Australian manufacturer and supplier of quality tyres. This can only happen with some level of protection.

Supply Side Policies

3.1 ACIS Incentives

The type of eligible expenditure under the ACIS legislation incurred by BSAL includes Type D and Type E investment expenditure. These eligible categories of expenditure have facilitated and brought forward investment in plant and equipment as well as the undertaking of research and development activities.

The **modulation** of the ACIS incentives has **diluted** the anticipated levels of assistance to the automotive industry. This is a key reason why the scheme should be extended beyond 2005 in order to ensure that participants are able to adjust their businesses properly to the impact of the lowering of the tariff rate to 10%. The view is commonly held that the impact of modulation will not fully enable many participants to achieve the degree of readiness required for this significant reduction in the tariff rate.

3.2 ACIS Critical Projects

The capital expenditure undertaken in our Salisbury tyre factory of approximately $6 million per year is ACIS critical. Details of this expenditure are confidential. Without ACIS and the tariff protection continuing, capital spending will reduce, further jeopardising the future of this facility in Australia.

3.3 Current R & D Assistance

The main Government support for automotive R&D without ACIS is the 125% tax concession. The R&D activity must, among other things, involve, in simple terms, systematic, investigative and experimental activities that involve innovation or high levels of technical risk, and are carried on for the purpose of acquiring new knowledge; or creating new or improved materials, products, devices, processes or services.

From BSAL's perspective a major issue with the R & D tax concession in respect of BSAL's operations is its limited scope. Last financial year, BSAL made a tax loss and would have been unable to make use of the 125% tax concession. A further factor is the fluctuating and diminishing level of assistance arising from changes in the corporate tax rate.

Because the Bridgestone group is global, the location choices in which R&D is carried out are many. If BSAL had to rely solely on the 125% tax concession (effectively 7.5 cents in the dollar at a company tax rate of 30%), it would have to look very closely at alternative locations for carrying out the substantial R&D required to support our products. Economic and community benefits arising from performing that R&D in Australia may then be lost.

3.4 Taxation, Industrial Relations & Microeconomic Reform

The raft of microeconomic reform that has taken place in Australia in recent years has resulted in major changes in the business community. Whilst change is not being discouraged it is submitted that it does impact on longer term planning and decision-making. From the taxation perspective, the changes emanating from the Ralph Review are multitudinous and particularly extensive and complex. These changes have been accompanied by the introduction of the GST in Australia, which has also been the source of considerable change and restructuring of certain business practices.

On a State and Territory level there have been changes to various taxation regimes with respect to stamp duty, payroll tax and financial institutions duty that have occurred in conjunction with the federal reforms. In addition to these changes there are the constant rises in government fees and charges, which are not designated as taxation measures but which have the same impact with respect to the raising of government revenue.

Coupled with these reforms there have also been changes to the industrial relations environment with the entrenchment of EBA regimes and other workplace reforms. There has been a major issue arising with respect to failed ventures and the subsequent economic welfare of former employees (eg. Ansett).

Of critical importance to the automotive industry with respect to IR issues is the need for a stable and viable approach to dealing with disputes. The recent dispute involving Tenneco has had ramifications across the total automotive industry in Australia. A clear result has been the grinding to a halt of the production lines of new motor vehicles. The reliance on all component manufacturers as integral parts of the supply chain cannot be underestimated. Suggestions of sourcing product from overseas is not necessarily considered to be a long term solution as alternative sources of supply may also face problems arising from IR issues, or indeed, a raft of other problems with importing componentry. For instance, there could be a corresponding impact arising from a waterfront dispute. It is submitted that resolution of local disputes is a more manageable situation that trying to deal with overseas related supply issues.

In summary, there have been major elements of change that the automotive industry (as well as others) has had to deal with at an unprecedented level.

3.5 Long Term Planning

The nature of the automotive industry in Australia, like any other country, requires that lead times between new models is typically a 3 to 5 year process. This means that budgeted costs and associated planning is, of necessity, detailed and thorough taking into account as many known variables as possible. The introduction of significant factors, which are uncertain in nature, has the potential to distort planning and investment decisions. Changes in government assistance schemes which are not measured or certain over the longer term can be destabilizing and discourage potential investment decisions due to uncertain costs or returns on investment arising from very tight margins, which are typical in the automotive sector.

The introduction of ACIS provided a window of apparent certainty for a period of 5 years. This was welcomed by the industry and BSAL as a means of delivering some certainty for future business planning. The impact of modulation down to the factor of 0.75 for the 4th quarter in 2001 and the more recent reduction to 0.71 for the 1st quarter in 2002 has now introduced a level of uncertainty of future investment decisions. The trending downward of the modulation factor is of considerable concern in that anticipated benefits arising from ACIS with respect to possible investment in plant and equipment and R & D activities have been diluted significantly. Notably, and even more concerning, is the fact that this level of modulation took place within the first year of the life of the scheme.

The levels of future modulation, if they continue at the current rate, may make the value of the scheme very marginal. If this occurs, the policy objectives of encouraging greater investment and innovation are likely to be measured as largely unsuccessful. ACIS will not have provided the support the industry needs to cope with the reduction in the tariff rate to 10%. It is therefore critical that ACIS be continued until at least this objective is reached.

In making these comments, the obvious question that arises is “What needs to be done?” It is submitted that there are a number of options available that should be considered. Firstly, an option would be to top up the $2,000,000,000 pool of funds so that all participants can gain access to intended benefits. The reality of ACIS is that there is no appropriation of funds but rather a reduction in revenue to the Commonwealth, through duty payable.

It is also worth noting that the level of ACIS benefits is in reality diluted for entities operating in a profit situation because receipt of the credits results in a situation where a portion of the pool of funds are returned to the Commonwealth in the form of income tax. The true cost to the Commonwealth is not the full $2 billion in such cases. In fact the investment in ACIS by the Commonwealth returns benefits to both the business sector and the government.

Secondly, the ideal situation would be to adopt the first option but also implement a rolling ACIS system where it is continued indefinitely subject to the Government being able to provide a 5 year “period of notice” of terminating the scheme. This would overcome the stop/start situation of ACIS Mark I or ACIS Mark II etc and provide a degree of ongoing certainty for participants. Changes in policy settings with respect to the fine tuning of legislation could be undertaken with much shorter notice of say 12 months so that fine tuning of corporate budgets and planning could be achieved without the current major distortion of modulation.

3.6 The Impact of State and Local Taxes

The various States and Territories have a range of revenue raising measures that impact on the automotive industry. These taxation regimes typically include payroll tax, stamp duty, land tax and debits tax. Some jurisdictions have their own particular regimes that are not replicated in other States or are not nationally imposed by all. An example of this would be in South Australia where the Emergency Services Levy is imposed on landholders.

A major impediment for BSAL is the differing rules that apply from one jurisdiction to the next for certain taxes. A prime example of this situation is payroll tax that has differing annual deduction entitlements, differing rates of tax and differing definitions of wages for the jurisdictions in which BSAL conducts its various businesses. Due to the fact that BSAL employs staff in South

Australia, Victoria, New South Wales and Queensland we are required to lodge payroll tax returns each month in each jurisdiction. This requires us to keep up to date with 4 different legislative regimes. This in itself is a cost to business, which distracts BSAL from its core operations of manufacturing tyres.

It is accepted that the States have a right to raise revenue from whatever source they are legally competent to do so. At issue is the lack of consistency and commonality in definitions. This problem is further compounded when the requirement to base workers compensation obligations on a definition of “wages” - which is not only different between States but also different to the definition in the same State for payroll tax purposes. There are similar parallels that can be readily drawn with other taxes, such as stamp duty. A simple example is the definition of what is dutiable property for stamp duty purposes. Each jurisdiction has its own understanding/definition of what is dutiable with no apparent reason for differences.

In summary, it is submitted that the States and Territories need to be strongly encouraged to get common definitions such as “wages” and “dutiable property” agreed upon in order to make what is an unnecessarily complicated business cost simpler to administer.

It is also important to note in the context of the employment taxes, which have been addressed above, that similar issues also apply to other “wage” related taxes and imposts such as superannuation, annual leave, long service leave etc that there are also significant differences in treatments between jurisdictions.

In addition to the above there is also the consideration of a comparison between what is faced in Australia and what level of similar costs are imposed in countries where competitors to Australian industry are based. Australia has a particularly complex and intricate regime of employment taxes compared with other countries. For example, very few countries have a comparable payroll tax system. Malaysia is one of the few where the tax is directed to the funding of training costs.

It is mostly the countries who have had their historical origins as part of the British Commonwealth who find themselves with taxes similar to that in Australia. Examples of this may be found in countries like India, Malaysia, South Africa and Singapore. Various comparisons that have been made over the years have drawn the conclusion that the cost base for Australian industry is generally higher than our competitors which means that other factors of quality and reliability of supply need to be relied upon as a distinguishing feature. It is clear that this makes it that much harder to compete in environments where safety and quality requirements are less rigorous than that of Australia. This comment in no way suggests that we should “lower the bar” with respect to safety or quality. It is simply a statement of fact.

Automotive Tariff Rates

4.1 The Rate in Australia

The Australian automotive industry has over the last 20 years, been subjected to a substantial phase-down in tariff assistance. The rate of duty on most imported components has fallen from 45% in 1988 down to the current rate of 15%. This rate is set to fall further to 10% on 1 January 2005 (5% for developing countries). Further reductions are anticipated in 2010 when the APEC rate for Australia is to be Free.

These tariff reductions increased competition in the Australian automotive market to such an extent that the share of the local vehicle producers has fallen from around 60% in the early 1990s to less than 40% today. Annual domestic sales of locally produced passenger vehicles in Australia have fallen from around 275,000 vehicles in 1995 to currently less than 230,000. These changes also impacted adversely on domestic component producers supplying the domestic OEMs. BSAL lost available base markets from which to further grow our business because of this situation. It is envisaged that growth that may occur is more likely to come from an expanding export market for motor vehicles. This outcome would be reliant on a situation where tyres are not imported to satisfy the additional demand of the OEMs and the product required is sourced from the local market.

BSAL has developed future plans based on the expectation that the current legislated tariff rates of 15% up to the end of 2004 and 10% thereafter will not be changed. BSAL would be very concerned if those rates were reduced further.

It takes years to develop new products and to have those products accepted by the OEMs. Our production and supply is often linked in with the cycle of new model releases. BSAL has incurred considerable costs in up-front investment in product development predicated on expected volumes from the domestic OEMs at the legislated tariff rates. If those volumes did not eventuate due to further tariff-induced market erosion, it would have a detrimental impact on our business – an impact unrelated to either our efficiency or performance.

Countries with “developing country” status currently receive additional tariff benefits of up to a 5% reduction. It is submitted that this situation, whilst at its inception may have been appropriate for the designated countries, it is no longer appropriate in some cases. The following is a suggested alternative approach.

	Actual Tariff rates 2000 to 2004	**Proposed tariff rates 2005 to 2010**
Australia	15%	10%
Developed “developing countries”	10%	10%

It is recommended that this situation be reconsidered with respect to those countries where they have clearly reached such a level of development that they have now become major competitors in the global market. For example, the status of Korea and China as recognised participants in global markets has improved significantly in recent years. It is acknowledged that there are many considerations that are linked with the rationale behind this special status. It is submitted that there is no good reason for not reviewing or reconsidering the position of these countries that receive favourable consideration.

4.2 Current Government Policy

In 2000, the Government considered the issue of Australia's general tariff rates and chose not to reduce the 5% duty rate on most imported dutiable goods on the grounds that "such benefits would be relatively small".[1]

It is the view of BSAL that the 10% duty rate on imported automotive products to apply from 2005 to also be a low duty rate. It is low compared with historical duty rates for automotive products and low compared with many of the duty rates applying in countries in which Australian companies are trying to develop markets for automotive products. If there are small community benefits from reducing a 5% duty then there would be small benefits also from reducing the 10% duty on automotive components to apply from 2005.

In addition, there seems to be little value in Australia reducing its duty rate on automotive products below 10% as it heads into negotiations with APEC members leading up to the implementation of the Bogor Goal in 2010. Australia is likely to need some 'bargaining tool' to offset offers on automotive products by other countries with tariff rates well in excess of those applying to Australia's automotive imports.

4.3 The Impact of Uniform Tariff Rates

It is BSAL's view that, as far as possible, industries should have a common tariff rate to minimize potential resource distortions arising from one sector of an industry being favoured over another sector. BSAL sees no reason why this current balance should be changed.

BSAL strongly opposes any suggestion that the tariff rate on automotive components should be reduced to lower costs for the local OEMs.   Other than the potentially adverse effect this would have on our own operations, it would be contrary to the principle of a uniform industry rate. It would also substantially increase the effective rate of assistance to the OEMs to a level well above that of manufacturing industry and certainly well above that for the manufacture of automotive components. In the longer term it will also place an unfair disadvantage on the OEMs with respect to their capacity to compete with importers who may be enjoying the benefits of tariff protections and other incentives in the country of origin.

[1] Costello. P. (Treasurer) and Minchin, N. (Minister for Industry, Science and Resources) 2000, 'Government Response to the Productivity Commission Report on Australia's General Tariff Arrangements', *Media Release*, T00/116PC, 19 December.

BSAL also strongly opposes any suggestion that automotive components be removed from the list of goods that are excluded from Tariff Concessions. A Tariff Concession may be granted if there are no substitutable Australian made goods which have a use corresponding to the use of the imported goods. In 1994, the Government announced amendments to Schedule 2 of Customs Regulation185 (generally known as the Excluded Goods Schedule) to ensure that any goods of a kind used as replacement components in passenger motor vehicles are excluded from the Tariff Concession System. There

are good reasons for supporting this approach not the least of which is administrative simplicity for Customs and the avoidance of unnecessary costs for local component suppliers in opposing Tariff Concession applications.

4.4 The Tyre Industry & Free Rates

The tyre industry in Australia has experienced a multitude of challenges during the past decade. At present estimates suggest that industry turnover is over a billion dollars and that approximately 3,500 people are employed within the industry. The industry comprises two major tyre manufacturers and other smaller retreading organisations.

Demand for tyres differs depending on the nature of the business but both are sensitive to economic trends. BSAL receives demand for tyre products from commercial motor vehicle manufacturers in Australia. The demand for replacement tyres comes mainly from individual consumers and is highly dependant on the economic conditions and consumer confidence. Where the market is in decline, individuals choose cheaper tyres such as retreads in preference to the original manufactured product.

As the bulk of BSAL’s operations relate to developing tyre products for the four domestic motor vehicle manufacturers, there is a heavy reliance on these four manufacturers. Should one of the manufacturers cease to continue domestic production in Australia, demand for BSAL product will decrease and further impinge on BSAL’s ability to compete against cheaper overseas product.

The level of imports in the industry is high and continuing to increase. An estimated 55% of domestic demand for tyres relates to imported tyres. Major sources of imports are Japan, South Korea, USA, Spain and New Zealand. Developing countries such as Thailand, China and Taiwan have also entered into the domestic Australian market. Without tariff protection BSAL cannot compete with low priced, inferior quality imports in situations where the economic climate is stagnant. In contrast the level of exports in the industry are low because of an overcapacity of tyres globally.

As a consequence of the oversupply of tyres in the global market, and the relatively small domestic tyre market of Australia, there is the real concern that cheaper imported product will squeeze out the Australian manufactured product because of the subsidies afforded to them by overseas governments and the lack of tariffs imposed by the Australian Government. Overseas suppliers may also be advantaged in that they have access to cheaper labour costs than Australia and have greater access to raw materials.

Trade Access & Demand Issues

5.1 Domestic Automotive Demand

There is a range of factors that influence demand in the automotive market in Australia. These include economic conditions, taxes on vehicle purchases, taxes on vehicle use, traffic congestion issues and availability of public transport, sourcing decisions of OEMs, import tariffs, effectiveness of advertising etc. It is not always possible to identify a particular factor as having an impact on demand and it is often a combination of events that will influence demand. Thus these factors may be influencing factors rather than determining factors.

For example, rates of stamp duty range up to 5% of the acquisition value of the motor vehicle. This cost could be sufficient to deter a purchaser depending on personal circumstances such as accessibility to public transport or financial circumstances or other personal views not quantifiable.

Whatever be the circumstances of the decision to purchase it is submitted that cost factors and prevailing economic conditions are, in the majority of cases, strongly influencing issues. Thus, a reduction in the price of a product is likely to be a determining factor in the making of an acquisition that would otherwise not be feasible.

It is submitted that, in the case of tariffs, there can be no absolute certainty that a reduction in tariffs will lead to a corresponding reduction in prices. Narrow margins for importers and their suppliers may, if there was a tariff reduction, simply lead to an increase in price if there is stable demand for a product or limited production capacity.

5.2 The World Market

It is generally agreed that there is an overcapacity for the manufacture of tyres in global markets. The manufacturers in Australia find themselves competing with companies in other jurisdictions who have fundamentally lower cost bases than that available to the two manufacturers in Australia. Around twenty years ago there were approximately six tyre producers in Australia.

Ironically the contraction in demand has in part come about due to the increase in technology and the manufacture of tyres, which are of better quality and more durable. This has resulted in potentially less demand from aftermarket sales, which is a key element of the industry's supply network. This however, is a trend that is not exclusive to the tyre industry alone. Similar examples may be found in the production of exhaust systems and braking systems where there is a greater reliance on stainless steel and other more durable raw materials.

In many ways the issue of quality acceptable to a market continues to underly the equation. Emerging markets such as China appear to be looking for increased levels of production with outputs that are affordable to the purchasers. The issue of quality is often less important compared with price. This makes competitive activity difficult for a production centre such as Australia where quality is of much greater significance.

Reduction of barriers to entry into Australia such as tariffs is likely to have the unintended consequence of importing potentially inferior products. Of particular concern in this regard is the issue of importation of second hand tyres. It is recognised however that this is a debate for another forum. Accompanying our submission is a video recording which addresses some of our concerns in this regard.

5.3 Access to Overseas Markets

The capacity to export product overseas is often not an issue of production volume capability but rather a factor of other barriers to entry. The most obvious barrier to entry is that of tariffs. In the case of some neighbouring countries there are tariffs on motor vehicles ranging from 40% up to 300% (Malaysia) and on components ranging up to 46% (Thailand). Clearly these levels of tariffs are a clear signal that imports of Australian product into those jurisdictions are unwelcome.

This issue may also be compounded by other critical factors such as:

- Import licensing
- technical regulations and standards
- investment measures
- rules for the valuation of goods at customs
- approvals to distribute product
- business licences
- quota schemes
- trade bloc arrangements
- local content schemes

The above factors are potentially inhibitive and may be exacerbated by long and protracted consideration through government administrations. It is submitted that for Australia to continue to open our Australian market without a corresponding commitment to the lowering of barriers by our trading neighbours would be both unfair and unreasonable on our local industry. It is submitted that funds allocated to facilitate access to overseas markets may do little to overcome some of the above barriers and may be better used in focusing on developing existing industry activities and the local market.

In fact, arguably one of the greatest determinants that assist or hinder access to export markets is the fluctuation in the exchange rates which are continually occurring. It is these variations that often prove to be the reason for profit or loss for an industry that is operating on very tight margins.

5.4 APEC and 2010

If the full Bogor Goal of Free trade between the developed countries in APEC is achieved, it will have a significant impact on the Australian automotive industry. The United States, Mexico and Canada are large suppliers of automotive components. Each has the potential under Free trade to make substantial inroads into the Australian automotive components market. By 2010, the People's Republic of China may well be a major automotive components supplier also.

It has recently been announced that Toyota Motor Corp is preparing to move some elements of production from Japan to China in order to cut costs. It is understood that both the Honda Motor Co and the Nissan Motor Co are also making increased investment in China due to the lower costs of production when compared with countries such as Japan. It could not be ruled out that Australia could see itself in a similar situation to that of Japan in this regard.

While some markets will open up more for Australian component suppliers in 2010, it is not at all clear that there will be net benefits to the local industry. The developing countries within APEC are likely to maintain their relatively high tariffs on Australian exports until 2020 – including Malaysia (42%) and Thailand (up to 46%). Both Canada (6%) and the United States (2.5%) have lower current tariff rates on automotive components than do Australia and in that sense have relatively more to gain.

Low tariffs on imports and Free trade within APEC ensure that Australia has little future in the production of commodity type automotive components, particularly as a competitor on the global front. Our comparative advantage lies in providing technologically advanced automotive components coupled with the relevant high level of quality.

The Environment & Safety Issues

6.1 Levels of Safety Standards

Every Bridgestone tyre is manufactured to a standard. In addition to that are additional features that contribute to active and passive safety. One example of that is the Bridgestone DONUTS technology (see media reviews attached).

6.2 Environmental Impact Issues

The Bridgestone Group is committed to ensuring that it fulfils its responsibilities as an environmentally aware manufacturer and retailer. Manufacturing operations are conducted under applicable legislation and hold, or have applied for, all relevant environmental licences and permits. **ISO14001** certification has been obtained at our plants throughout Australia.

In October 2001 BSTG was awarded the **EPA's Eco-Efficiency Award** as part of the South Australian Manufacturer of the Year Awards. BSTG was competing against a broad range of over 70 other companies for this inaugural award. Whilst the award recognised the quality of the eco-friendly manufacturing system in place it should be noted that there were other benefits which flowed from this activity. For example, it facilitated the implementation of improvements that led to lower cost structures in manufacturing processes that could be replicated by other businesses facing similar issues.

BSAL is also in the process of registering for the **Greenhouse Challenge**.

BSAL and the Future

7.1 Elements of Competitive Industry Policy

BSAL competes in a highly competitive industry where there are little or no barriers to entry.

The company has fought hard to compete in a very competitive market flooded with an influx of cheap tyres. These tyres are often manufactured in countries that do not have the high costs associated with employment and running a business in this country.

In the truck market for example, over 50% of truck tyres are now imported. BSAL remains the only truck tyre manufacturer in Australia. If further protection is removed, it will certainly contribute to the total demise of truck tyre manufacturing in Australia.

7.2 Growth and Benefits

Future growth is a key objective for BSAL in the future. It is critical to its survival and the current employment of its Australian workforce.

The benefits from a company such as BSAL continuing to operate in Australia, rather than moving offshore are significant, particularly in South Australia. This is so with respect to employment opportunities and contributions to the local economies in which the businesses operate. The respective councils also support this view at the local government level.

The provision of a scheme such as ACIS has facilitated the continued operation of BSAL in this country. The policy of the Commonwealth Government to acknowledge and support the Australian automotive industry is commended. It is submitted that the automotive industry in this country is a key and vital component of the manufacturing sector that could not be replaced.