

Submission by PolyPacific Pty Ltd

SUMMARY OF PROPOSALS:-

1. Retain 10% post 2005 through to 2010 and then 5%.
2. Maintain the 5% thereafter as indication that this industry is strategic and valued within Australia and recognises the disadvantage of scale.
3. Raise the 4WD tariff to the industry norm.
4. Tariffs maintained at these levels should be dependent upon Local management control on localisation programs, including engineering/design functions.
5. Investigate the pricing of imports (particularly small cars) re Dumping.
6. Encourage OEMs to look again at the small car sector rather than all fight for the large car sector. Perhaps a value tariff could apply to a certain vehicle class, in the same way that there is second-hand car classification.

INTRODUCTION

PolyPacific was formed in 1980 and is an Australian owned manufacturer of Polypropylene Compounds. These plastic raw materials are based on locally produced polypropylene and incorporate a range of modifiers, reinforcements and additives. (e.g. glass fibre, thermoplastic rubber, talc, UV stabilisers etc.)

The applications for these materials are diverse, ranging from large bumpers weighing several kilograms to small trim components of a few grams. Examples of these components can be viewed in our Automotive Application brochure (supplied separately), as well as on our web site www.polypacific.com.au

PolyPacific's manufacturing and technical centre is at Dandenong, Victoria and around 70% of its output is for the Auto Industry. All of its products have been developed in its own R&D facility. It is QS9000 and ISO 14001 certified, and is the largest supplier of plastic raw materials to the Australian Auto Industry.

In October 1997, PolyPacific commenced manufacturing in Malaysia through its 100% owned company, PolyPacific Polymers Sdn Bhd, at Pt Klang. This company also has a similar involvement and reliance on the auto sector in Malaysia. Both companies are supported by the in-house technology developed at its Dandenong R&D centre, and hence technology is exported/transferred to Malaysia. The result is positive and profits are returned to PolyPacific Australia.

PolyPacific's market development staff is heavily involved in the future model programs both at OEM's and at Tier 1 suppliers, where continuing cost pressure and innovation drives material and application developments.

In respect of this Inquiry, our future is heavily dependent on the health of the local plastic auto-component manufacturing sector, and from where we sit we make the following comments that may assist in your deliberations.

1. LINKAGES BETWEEN SECTORS

Raw material suppliers (plastic or other) have not been included in the past assistance programs (e.g. export facilitation) nor the current one (we applied to ACIS but were rejected even though we supply direct to an OEM) and one suspects that in assessing the impact of changes and linkages, this sector has been excluded. We have never really understood why this has been the case because it does add to the overall size of the Auto Industry and to local added value with less reliance on imports.

Given the general decline in manufacturing in Australia, any further decline in the Government commitment to the Automotive Manufacturing sector adds to the 'death by a thousand cuts' type of process whereby support industries such as raw material manufacturers, mould makers, plastics processors, and all their associated design/technology functions etc. face shrinking markets. These areas are highly skilled and the development of technology to support the Auto Industry is then available to other manufacturing sectors.

We submit therefore that where possible all the linkages be included. Additionally the auto industry provides a wide skill base for manufacturing as a whole and should continue to be regarded as a strategic industry for Australia.

2. SCALE AND PERFORMANCE

Unlike polymer plants in Australia that have fallen short of world scale and the latest technology, PolyPacific's plant at Dandenong is world scale. Its capacity at over 50,000 tonne per annum is significant and compares favourably with international competitors. Its product technology has been developed in-house and incorporates the latest processing technology.

The cost-down pressure within the Auto industry is unrelenting and with so much of the variable cost base (in plastics) dependent upon global factors such as the price of oil, there are limits as to what is achievable with current products. As part of the productivity improvement process through VA/VE proposals, PolyPacific continues to develop and offer substitutes to other locally made compounds (utilising 100% imported feedstocks) used in Automotive applications. A high percentage of PolyPacific's feedstocks are produced locally and have a tariff of 5% (eg polypropylene). This is the same

tariff level as the imported feedstocks, as substitution is recognised as a determinant in any TCO application. Others may argue that materials 'not made here' should be duty free, but that does not recognise substitution occurs and Australian feedstocks would be disadvantaged. Of course any reduction of the 5% applying to polypropylene would then allow a similar reduction in these other polymers.

The **extent and speed** with which the OEM's can take up these VA/VE type cost improvements tends to be the limiting factor in terms of productivity savings.

Additionally if a current plastics component has been designed and tooling sourced overseas (eg Japan) then the supply of the plastic material tends to be from that country and to change that to a more cost effective local alternative can be dictated by other considerations. (Full testing may be required plus engineering resources to validate performance etc.) Or the validation may be simply held up due to activity on the next model etc.

Hence the importance of a viable and strong **LOCAL** design/engineering function at the OEM's (coupled with Purchasing) which can, not only source cost effective components in Australia, but can also drive change during the model life. It is our view that this function is a key element in enabling localisation to be maximised to the overall cost benefit of the Industry and Australia. It enables local cost structures and advantages to be utilised even when a "world car" concept is being planned.

This leads to another point about scale. In the circulated Inquiry issues, mention was made about the Button plan and the 3 Assemblers instead of the current 4 and the number of models. We are not sure why this number (Button's) is regarded in your notes as ideal for sustainability? This assumes the original analysis was correct and that the assumptions re the world have not changed. The world has changed and we submit the Button objective is no longer valid.

Freezing tariffs at 10% in 2005 would not reduce the cost pressures/rationalisation process already happening in the Industry but it would recognise the fundamental difference in scale that exists in Australia. Compared to the major producing markets, even if 1-2 manufacturers remained in Australia, scale would still be insufficient given that the consumer would still want choices and variety.

In 2001 throughout the world there were 5 global platforms that exceeded 1 million vehicles per year (with a further 7 exceeding 800,000pa which is roughly the size of the Australian market). In 2006 it is forecast that there will be 11 platforms exceeding 1 million units pa and even allowing for trans-national production of these platforms, Australian scale will always be at a

disadvantage. Hence the ability to use local cost/skills advantages, build niche vehicles, have a relatively strong local base market and the freedom to export within the Corporate structures imposed by the global parents, are all important factors to be recognised.

The reduction to the current small numbers of models does have an added risk factor that may have been missed. The point is that in Australia for each of the 4 assemblers there is **complete dependence upon the success or 'failure' of the one model** that essentially has to stay in production for 2-3 years before any face-lift and longer before a complete change. Hence if the product package is wrong in the eyes of the consumer, be it styling or perceived performance value, then the OEM has no fall back position (eg Falcon). Large manufacturers overseas have several model lines and hence there can be a buffer effect in that they are not going to be so dependent on one model's success or failure.

The reduction to one model per OEM does have a considerable risk for this reason. Also it means that the OEM resources, and the supplier network, has distinct model cycles of activity that would be better spread over 2 models per OEM, with its potential for better utilisation and cost sharing. We are not in a position to illustrate cost benefits, but with the small car sector given over to imports, one has to question whether there is a case for one or more of the OEM's to manufacture and localise a small vehicle.

This raises another issue. Some small cars imported into Australia appear in some cases to be sold at prices here way below that in their source country and even larger vehicles may also be. **Is this dumping?** We note this issue is not raised but perhaps it should be, as it will restrict the potential for such production here. In fact it may be injurious to the development of the industry?

3. 4WD TARIFF PREFERENCE

We see no valid reason to maintain the preferential lower tariff with such a high percentage of these vehicles being used as **urban** vehicles. With the planned introduction of the locally manufactured 4WD/All-wheel drive versions, these tariffs should be set at the same level as the norm.

4 EXPORT MARKETS

In the past the ability to export cars from Australia appears to be governed by the overall product and manufacturing strategies of the overseas corporations. However more recent experience suggests that the emphasis has changed to one of being able to utilise the niche value of say, rear wheel drive cars, as well as the cost relativity compared to other sources. In addition the higher than average growth in the Sports Utility Vehicle (SUV) segment throughout the world, forecast at 6% compared to the overall average of around 2.6%, also highlights

the potential for the local industry to capitalise on its home design base and develop variations that would sell both domestically and in export markets.

Although there is a world trend to have a greater number of global platforms (see figures above re numbers above 1 million etc.) there is also a trend to a greater model/platform diversification. Simplistically this reflects the consumer preference for individuality and life style modes (eg the retro look Chrysler, the new Mini, the VW Beetle etc.). It is in this growth sector that opportunities should exist for smaller volume production with a high percentage of export demand.

5. GLOBAL INFLUENCES

In terms of global pressure from OEM's to reduce component and material cost, there is an underlying philosophy of seeking a purchase price that is the lowest common denominator in the global arena and then expecting that to be matched in each market. This cost pressure therefore exists throughout the Industry, regardless of any Tariff level or other Government assistance measures. With a 10% tariff maintained, one would therefore still expect productivity improvements to occur with flow on benefits to the consumer.

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