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**Statement to the Productivity Commission's Public Hearing
on the Position Paper on Review of Industry Assistance to the
Automotive Industry**

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INTRODUCTION

South Pacific Tyres (SPT) welcomes some of the findings and recommendations presented in the Productivity Commission's Position Paper.

However SPT concurs with the view of the Australian Tyre Manufacturers Association – of which we are a part – that some of the recommendations are not far-reaching enough to enable a business forum for viable tyre manufacturing in Australia, long-term.

We are pleased to take this opportunity to present some of our concerns regarding several of the issues presented in the Position Paper, and would like it noted on the record our willingness to work with the Commissioners to overcome our concerns, and enable policy and legislation to foster a business environment that will make SPT to be profitable and successful.

COMPANY OVERVIEW

SPT is the largest manufacturer and retailer of Australian manufactured and imported tyres, and is the custodians of Australia's most well-known wholesale and retail brands in the form of Goodyear, Dunlop and Olympic Tyres.

Our manufacturing operations comprise new passenger, light truck and four wheel drive tyre facilities in Australia and New Zealand, and we operate numerous truck tyre retreading facilities throughout regional Australia.

Our distribution and retail sales and service network operates Australia-wide at over 700 company-owned and franchised Beaufreaires, Goodyear Auto Service Centre, and Dunlop Super Dealer stores.



We employ close to 4000 people across our Australian and New Zealand manufacturing, retreading and retail networks.

We are the leading tyre company in Australia in terms of employment, product range, volume and sales.

We have invested over \$100 million in the previous two years to reform our business for long-term viability.

Our intention is to continue to grow our industry-leading position in the marketplace, for the long-haul.

Continued Government support in the form of maintaining appropriate tariff conditions, assisting in gaining access to potential export markets and providing incentives for continued research and development is essential for our long term survival.

RESPONSE TO POSITION PAPER

South Pacific Tyres is pleased the Commission has considered the views of Australian vehicle and components manufacturers as part of its Review of Automotive Assistance.

Our response to specific issues raised in the Position Paper needs to be considered in the context of progressive moves to modularisation being undertaken by original equipment manufacturers, which comprise a significant proportion of our customer base.

As OEMs adopt a modular approach to their manufacturing operations, increasing responsibility is being asked of component suppliers such as SPT to take on aspects of production that are relevant to the products we make.

In order to comply with the requirements of our OE customers, SPT – and other tyre manufacturers – will need to make significant investment in capital and equipment, as the industry in total adopts this modular approach.

It is, therefore, our strong submission that the Productivity Commission includes specific recommendations that will lead to policy that makes it viable for us to confidently invest in our future, to comply with the requirements of our OE customers, whose business is essential for our existence.



MODULARISATION

It is generally accepted that Australia's major vehicle manufacturers will bring out new models of locally produced vehicles in the period 2005 – 2008. These new models will require extensive tooling upgrades to enable local production, and SPT needs to be able to confidently invest in our own plant and equipment to continue to supply locally manufactured tyres.

SPT requires assistance from Government in a number of areas in order to confidently make this investment over a number of years.

ACIS

For SPT to make capital and equipment investments required to continue to manufacture locally produced tyres for Australian OEMs, it is SPT's strong submission that financial incentives for research and development continue.

We note the Commission has provided three options for the continuation of an 'ACIS type' scheme.

Of the three options, SPT's preference is for Option 2: that ACIS funding continue with a net present value provided over 10 years at a uniform rate, ceasing in 2015. In this way, SPT will be able to continue to invest in capital, plant and equipment to meet the needs of our OE customers.

Further, we would prefer a higher rate of funding over a shorter period, versus a lesser rate over a longer time frame, to enable SPT to make the necessary investments modularisation will require in the short-term.

Presently, OEMs are given ACIS preference over component manufacturers by a ratio of almost 2 to 1 (65%:35%).

As the industry generally moves towards modularisation, the pressures of investing in this area will progressively fall on component manufacturers. SPT therefore encourages the Commission to recommend a separate funding pool for component manufacturers, as they take on more of this investment responsibility.

For example, it is likely that OEMs will request tyre manufacturers to take on a more active involvement in tyre and wheel assembly.

Going forward, the total vehicle volumes produced in each state are approximately equal, dominated by Holden in SA, and Toyota slightly ahead of Ford in Victoria.



It can therefore be assumed that the requisite plant size in each case is about the same, needing the capability each to assemble in excess of one million tyres to wheels each year. This equates to approximately 5000 per day.

The propensity of Australian manufacturers is to differentiate their vehicles through a range of tyre sizes, from 15" - 18". This indicates at least two lines and back-up manual fitting and balance machines would be required of SPT.

Including the option to purchase existing equipment from OEMs the, estimated set up cost per plant is AUD\$ 3,500,000.

TARIFF REDUCTIONS

SPT's position on proposed tariff reductions in its initial submission was that tariff's remain capped at 10% beyond 2005. We renew this submission as part of this hearing, as a fixed, indefinite tariff of 10% offers a trading environment for SPT conducive to the most viable future for our business.

That said we acknowledge the view of the Commission that tariff rates as they apply to the automotive sector will continue to fall, over time.

Of the three options the Commission has proposed on tariff reductions beyond 2005, SPT's preference is for Option 3: that tariffs are left at 10% until 2010, and then reduced by 1 percentage point a year so as to achieve the rate of 5% in 2015.

Of the three options presented by the Commission, Option 3 enables a trading environment in which SPT can remain viable, but more importantly continue to invest in the capital, plant and equipment that will be required if we are to continue to supply tyres for locally produced vehicles.

Further, SPT has established each 1% reduction in the tariff on imported tyres equates to a loss of \$2 million in lost profits when it is considered that the benefits of reduced tariffs are passed on to the consumer.

Importers will pass tariff reductions through to the consumer by way of lower prices. Because SPT produces locally – and imports significantly from New Zealand with no tariffs – we will be at a competitive disadvantage when tariffs drop compared to an importer who is paying tariffs.

Based on local production of 10,800 tyres per day, and our projected F'03 imports from New Zealand, this disadvantage represents \$11.4 million in today's dollars. This is based on 5% of the ex-factory cost in Australia and New Zealand.



TARIFF CONCESSION SCHEME

SPT endorses the view of ATMA and the Commission, that the 3% duty on raw materials imported for the manufacture of local products be abolished.

We renew our request that the Commission recommend that the Government reinstate the original 100% tariff concession on the duty payable on such imports.

DEVELOPING COUNTRY PREFERENCES

Preferential tariff levels in place for developing countries such as South Korea are unfair and contradict the notion of a 'level playing field'.

This is compounded when it is considered tyres manufactured in South Korea and other countries that receive a preferential tariff, are made at a fraction of costs in Australia, from behind protection of indirect and direct global trade barriers.

The importing of low-cost Asian tyres is an ongoing threat for South Pacific Tyres.

This is compounded by the protection offered to other South-East Asian tyre manufacturers in the Philippines, Thailand, Malaysia and Indonesia which also provide both tariff and non-tariff barriers to imports, making it difficult for SPT to gain access to these potential export markets.

We renew our request that the Commission recommend that the Government remove this unfair preferential tariff, and that it becomes more proactively involved in freeing up non-tariff trade barriers that prohibit SPT's export capabilities to potential markets.

INDUSTRY TRAINING AND ACCREDITATION

SPT is actively involved in training and accreditation programs that benefit the whole of the Australian tyre manufacturing and retail industry.

It is our submission that in the absence of a manufacturing base, our involvement in this important area would be severely limited, and would, therefore, adversely affect the whole of the Australian tyre industry.



ROAD SAFETY

SPT endorses the Commission's references to the implementation of more stringent road worthiness requirements, and submits these requirements be extended to more stringently include the roadworthiness of tyres.

It is also important to note that Australian road conditions are unique in the world, and that tyres produced locally by SPT are specifically designed and manufactured for local conditions.

SPT suggests that if policy was implemented that threatened the viability of local tyre manufacturing, imported tyres may not be specifically designed and built for local conditions.

ENVIRONMENT/RECYCLING

SPT, through its role in ATMA, supports the funding and implementation of a National Waste Tyre Management plan, and suggests the Commission give more thought to highlighting the need for other industry participants to follow this initiative, in its final report.

We further support ATMA's view that Government considers a reward/incentive scheme for manufacturers who are proactive in addressing environmental, waste and recycling issues.

CONCLUSION

South Pacific Tyres is committed to manufacturing in Australia long-term, as evidenced by our investment of over \$100 million in the previous two years in implementing a business reform plan designed to deliver profits, and ensure our future.

In preparing our submission to this Commission, we have adopted a consultative approach in speaking to our customers, local, state and federal government representatives, and the industry association we are a part of.

Whilst the Commission did not proactively request a meeting with SPT in preparing its Position Paper, SPT notes for the record its doors are open to the Commission, as it prepares its final recommendations.

Thank you.

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