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Automotive Industry Inquiry
Productivity Commission

Dear Sirs,

I attach a submission by Marplex Australia Pty Ltd.

Yours faithfully,

MARPLEX AUSTRALIA PTY LTD

P E BROOKSBANK
MANAGING DIRECTOR



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SUBMISSION TO

AUTOMOTIVE INDUSTRY INQUIRY

Marplex Australia Pty Ltd ("Marplex") wishes to comment on the Productivity Commission inquiry into assistance to the automotive industry as advertised in its Circular of 21 March 2002.

In general, Marplex endorses the detailed submission of the Plastics and Chemicals Industry Association ("PACIA"); the comments here relate to particular aspects of government policy and/or regulation as they may apply to Marplex as a supplier to the automotive industry.

We see the present inquiry as a chance for the government to correct some distortions in the system which make it look as if the automotive industry is more heavily protected than it really is. Our argument is that various taxes and regulations that have little basis in logic effectively force up input costs for the local industry, thereby impeding its survival and growth.

1. Marplex and the Australian Automotive Industry

Marplex is a manufacturer and marketer of engineering plastics, compounds and alloys with 33 employees and a turnover of circa A\$40 million. About 40% of our sales are to moulders, the so-called Tier 1 and Tier 2 suppliers, who manufacture components for the four OEMs. Automotive is our largest market sector, so we have a vested interest in the continuing viability of Australia's automotive industry. Of our current sales to the automotive sector, approximately 80% of the products were formulated by Marplex in our own R&D centre. They are manufactured for us by BASF Australia Limited and Austrim Nylex Limited in their Melbourne engineering plastics plants.

I believe Marplex would stack up well against any competitor anywhere in the world if only we were competing on a level playing field. We are strong technically, highly service-oriented and our costs of production (via our licencees) compare favourably with Western Europe and North America and are about equal with Asia.

So why is it a constant struggle to survive? Largely it is because of the place we occupy in the supply chain, but our plight is exacerbated by unfair and counter-productive government policies and regulations.

Marplex has to import virtually all its feedstocks at whatever global prices prevail (in US \$). On the other hand Marplex's customers, particularly in the automotive sector, are constantly seeking real term cost reductions. So we become the meat in the sandwich. We are led to believe that without the cost reductions they demand, our business would disappear. And in certain areas it has reduced; some plastic components which were formerly manufactured in Australia out of our materials are now fully imported. Bearing in mind that this is the claim made at current levels of protection for the OEMs, we are fearful of what the situation will be like under the legislated 2005 reductions in protection, let alone what it might be like if those levels were further reduced.

We can only repeat to you the story we are constantly told - that we simply must generate cost-downs in real terms because our customers (which at the end of the chain are the OEMs) won't be able to keep going if we don't. Looking from afar, you would have to think they have a valid point. Despite 15% and even the planned 10% being high protection levels versus other goods in general, for the automotive industry they are not. In our region of the world 15% the lowest automotive tariff by far. While automotive exports are growing (thank heavens, because the local OEM share of the domestic market has plummeted over the years) these exports tend to be to countries with no automotive industry, eg. the Middle East, not to our regional neighbours.

2. Government impacts on Marplex's Costs

Let me turn now to matters that simply add to the difficulties faced by companies such as Marplex for no logical reason.

2.1 Tariffs on Goods Not Produced in Australia

There are tariffs imposed on our feedstocks. As mentioned before, most of these feedstocks are not manufactured in Australia (and probably never will be) yet a 5% import tariff is imposed. What does this do? It simply adds a cost to our goods, which we have to try and pass on. In the end, this serves to negate some of the protection at the OEM end. The government is giving with one hand and taking away with the other. It just doesn't make sense.

Australian suppliers of plastics moulding machines are similarly caught in the net - there are no Australian manufacturers of most of the machines, yet they cop a 5% or 3% duty on the way in.

These illogical duties are simply burdening the Australian automotive industry (and other users of plastic materials) making them look less efficient than they really are. We ask the Commission to address this issue as a matter of urgency.

2.2 Payroll Tax

The second obstacle I'd like to address is the anti-employment tax, otherwise known as payroll tax. When you first go to explain this to potential foreign investors, they think you're pulling their leg. How could governments which claim they want to reduce unemployment happily go on justifying this monstrosity? In relation to our business with the automotive sector, again it simply adds a cost all the way through the domestic supply chain.

2.3 Stamp Duty

The next unnecessary handicap is the penalty for investing. We have a perfect case in point. An associate company of ours, Engineering Polymers Pty Ltd., is about to acquire the engineering plastics compounding plant of BASF Australia I referred to above. It is a brave investment in an industry under pressure. This company sought just a modicum of assistance - a waiver of stamp duty or even a deferment of the duty - but no, nothing could be done.

So into the government coffers will go a whole lot of money just to achieve a situation where the plant keeps going and jobs are saved. What a sick joke!

We commend the Commission to urge both Federal and State governments to take a close look at the long-term harm of some of the taxes they impose for revenue raising purposes.

2.4 **Approval Process**

A fourth unnecessary hindrance is the rigid application of an Australian approvals process (NICNAS) for certain chemical additives. Materials which have passed stringent tests in Europe, North America and Japan have for some reason or other to go through the same test routine in Australia or their entry is banned. The costs opposite the scale of usage here are large - Marplex cannot contemplate them in some cases and so we have to disqualify ourselves from making certain special compounds here. What happens? The fully compounded goods (embodying the very chemicals we are talking about) are imported, or worse still, the component goods are imported instead. We do not advocate dismantling the approvals process; simply that a sensible and pragmatic approach be taken to its implementation.

2.5 **ACIS**

We do not oppose ACIS: we applaud it, but we have been left out!

I would like to draw the Commission's attention to where a company like Marplex sits in terms of R&D on engineering plastics materials for the automotive industry. As previously stated, we have developed 80% of what we sell in our own laboratories. For a small company we have a sizeable technology team - 10 of our 33 employees. Because of our innovativeness (Marplex has developed a number of compounds and alloys specifically for Australian automotive application) we were strongly encouraged to apply for support under the ACIS scheme, but at the post we were disqualified on the grounds that we were a step removed from direct supply to the OEMs.

With the encouragement of Ford in particular, we are currently attempting to formulate products based on recycled plastics. If successful, this would have a double utility benefit - not only more plastic in cars bringing weight efficiency, but use of recycled plastics, bringing environmental benefits. So despite the fact that our technicians work constantly with the OEMs' engineers and designers to ensure that the materials presented to Australian moulders will work, we have been denied access to a scheme aimed at least in part at just this. Could we get a start in the race next time around - even from the back of the grid?

2.6 **Net Effects**

I estimate that our goods cost at least 6-7% more than they need because of the array of illogical taxes and charges described above. If the same goes for other suppliers to the local automotive industry then the OEMs' 10% protection level from 2005 will not in real terms amount to much - a big chunk of it will be blown away further up the supply chain if these anomalies aren't addressed.

And until there are significant tariff cuts on imported cars elsewhere in our region of the world, there is no case for a further cut to Australia's tariff on imported vehicles

3. Summary

This letter may sound like a big whinge. It is. But it is not about crying for handouts; it's simply about getting an even break so that we can more ably play our part in assisting the automotive industry. At the moment, we are thwarted in our endeavours by

- paying tariffs on materials not produced in Australia
- paying taxes for employing people
- paying taxes for the privilege of stopping businesses folding
- paying fees so that the approvals wheel can be reinvented at Australia's border, and
- being denied R&D support for our R&D work for the automotive industry.

We recognize that the governments' books must be balanced, but to do so by creating distortions which lead one to the wrong conclusions about an industry's viability is surely very dangerous?

We hope and trust that the Commission will give the OEMs themselves a breather in the interest of Australia, but we also draw the Commission's attention to inequities further up the supply chain to the automotive industry.

Yours faithfully,

MARPLEX AUSTRALIA PTY LTD

**P E BROOKSBANK
MANAGING DIRECTOR**