



9TH MAY, 2002

Productivity Commission Automotive Industry Inquiry

Submission prepared by South Pacific Tyres

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EXECUTIVE SUMMARY

As a prominent and long-standing manufacturer in Australia, South Pacific Tyres (SPT) is pleased to contribute this submission to the automotive industry Productivity Commission.

SPT's history as a manufacturer of high quality Australian-made tyres spans over 100 years. We employ close to 4000 people across our new tyre manufacturing, truck and aircraft tyre retreading, and retail sales network in Australia and New Zealand.

Recent history has been extremely turbulent for tyre manufacturing in Australia. Faced with increasing pressure from over capacity in the global tyre industry, and the proliferation of low-cost Asian imported tyres, SPT instigated a major program of reform to ensure its competitiveness and viability in Australia, long-term.

This meant consolidating new tyre manufacturing in Australia at the company's Somerton (Victoria) factory, and the subsequent closure of three plants.

Whilst decisions like this have been at the cost of employment, they have been absolutely necessary to position SPT to remain a long-term, viable manufacturer.

SPT intends to maintain its dominant position as the nation's largest tyre manufacturer, and continue to service both OE and replacement markets. To facilitate this, it is the company's strong submission that assistance continues to be provided from the Federal Government in the form of:

- Capping new tyre import tariffs at 10% beyond 2005;
 - Maintenance of the ACIS program in its current form beyond the proposed expiry date, to enable SPT to continue leading-edge research and development and capital investment;
 - Removing the unfair 5% import duty preference on tyres imported from developing countries;
 - Removing the unnecessary 3% import duty on raw materials imported under the tariff concession scheme, and
- Providing incentives for Australian tyre manufacturers to discharge their obligations as product stewards by support for the National Industry Recycling Strategy.

This gives rise to the key question the Government must consider when developing manufacturing policy that is likely to affect our business:

Should Australia have a tyre manufacturing sector at all?



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INTRODUCTION

South Pacific Tyres (SPT) is Australia's largest manufacturer, marketer and retailer of Australian-made and imported passenger, light truck, truck and industrial tyres. Based in Melbourne, SPT employs close to 4000 personnel in Australia in areas as diverse as new tyre manufacturing, truck and aircraft tyre retreading, and tyre and automotive services retailing (sales). Annual sales typically approach \$1 billion.

The company's history in Australia dates back over 100 years through its ownership of the premier Dunlop, Goodyear and Olympic Tyre brands. In addition to these high profile brands, SPT is the proprietor of the major retail brands Beaufreaires, Goodyear Auto Service Centre, and Dunlop Super Dealer.

In 1987, South Pacific Tyres was formed as a 50/50 joint venture entity between the US-based Goodyear Tire and Rubber Company, and the Australian-based Pacific Dunlop Limited (now Ansell Limited).

The joint venture has provided valuable outcomes for Australia in terms of research and development and technology. SPT would be pleased to provide the Commission with additional information on these outcomes. Access to the global Goodyear network has enabled significant gains to be made in the area of intellectual property and technology transfer to and from Australia, which has provided enormous benefits to SPT and the local industry generally. The joint venture partners are committed to ongoing investment in capital equipment and research and development, necessary for SPT to retain market leadership.

A program was instigated in 2000 to reform the business to ensure its competitiveness and survival in Australia for the future. This was in response to financial losses caused by global pressures facing the tyre industry, including significant excess capacity and exposure to low-cost Asian imported tyres.

Outcomes included consolidation of new tyre manufacturing at the company's Somerton (Victoria) factory, and subsequent capital investment in this facility taking it to world-class standards. This investment has brought leading edge equipment and technology to Australia, in line with requirements of original equipment customers to continue to supply locally manufactured tyres.

SPT has also heavily invested in its truck tyre retreading business, particularly in regional Australia where the company has commissioned two truck tyre retreading facilities in the past 18 months (Albury and Ballarat), bringing the number of SPT retreading plants to 13.

Once the outcomes of the reform plan are realised, SPT will be well-placed to remain a viable and successful manufacturer and marketer of high-quality Australian-made tyres, and a major employer of Australian workers.

Key to the ongoing viability to this business are the capping of tariffs at 10% post-2005, the maintenance of the ACIS program, removing the 5% import duty preference for tyres imported from developing countries, and removal of the 3% import duty on raw materials imported under the tariff concession scheme.

It is these major areas this Productivity Commission submission addresses.

TARIFFS POST 2005

It is no exaggeration to say that the decision as to whether or not to reduce tariffs further on imported tyres will determine the very viability of Australian tyre manufacturing.

It is therefore South Pacific Tyres' strong submission that, in order to ensure the long-term survival of a local manufacturing base, the tariff rate be equalised at 10% from 2005.

The global tyre market is highly competitive and, in Australia, this has meant a trend towards cheap imports flooding the market.

Imported tyres, notwithstanding the current 15% tariff (or 10% in the case of developing countries), are extremely price competitive. Their ability to undercut local products further from 2005 speaks for itself and, in an industry characterised by low margins, the reduction to 10% presents a significant challenge for local manufacturers.

While companies like Goodyear and Pacific Dunlop have demonstrated a commitment to retaining a manufacturing presence in Australia despite the forecast tariff reduction, any further decrease in the rate will force their hand.

SPT is firm in its commitment to local manufacturing, although no sustainable business case can feasibly be mounted to maintain such a presence in a zero or close-to-zero tariff environment. In short, factories will close, hundreds will lose their jobs and a legacy of more than a century of tyre manufacturing in Australia will be lost.

SPT appreciates the Government's commitment to promoting free trade through a program of tariff reduction in the vehicle sector and elsewhere, and we urge the Commission to consider the real world impacts on our sector, including:

- Significant job losses as SPT and others move out of manufacturing;
- The resulting impact on local economies where SPT has a current manufacturing presence;
- The loss of technological expertise;
- The impact on vehicle manufacturers who benefit from a local manufacturing presence, and
- The impact on suppliers nationally.

For SPT, tariff reductions and their impact on our industry is not an academic question, nor one that requires extensive economic modelling to appreciate.

The reality of the global tyre market is stark:

- Zero or close-to-zero tariffs will price Australian-made tyres out of the market because our competitors are from larger economies, produce far greater volume, and in most cases operate with far lower labour costs, sub-standard health and safety regulations, and inadequate environmental considerations.
- Tyres manufactured in such economies have an unfair advantage over Australian-made tyres because large quantities are produced for their highly protected domestic markets. This achieves significant manufacturing efficiencies which translate into substantially reduced export prices into the Australian market.
- Until these economies remove their own trade barriers, opening them to competition in their home market, Australian manufacturers should not be forced to surrender their protection against this unfair trade competition.

ACIS

SPT regards ACIS as integral to its future as a tyre manufacturer in Australia and we strongly submit that it be retained beyond its current expiry date of 2005.

ACIS is an intelligent approach to industry assistance, in that it provides an incentive for companies to invest in capital, and research and development in order to retain their high standard of manufacturer and competitive technological edge.

Since 1999 SPT has invested close to \$64 million in capital equipment and research and development, earning just over \$8 million in ACIS credits.

If SPT is to set about improving productivity so as to be even more competitive in the long term, this sort of investment is crucial. In turn, the role of ACIS is crucial to ensuring SPT can continue to make a financial investment in essential capital and research and development.

SPT has an aggressive strategy in ACIS eligible capital equipment and research and development, proposing to invest over \$60 million over the next three years. Beyond 2005, the ability to continue this level of investment will be severely compromised without ACIS.

Indeed, SPT submits ACIS must be maintained beyond 2005 at a level that allows the sector to invest with confidence and maintain global competitiveness.

There is no doubt that the removal or reduction of ACIS in 2005 will mean a significant decline in research and development and capital equipment investment. In conjunction with further tariff reductions, this will have a devastating impact on our sector and throughout the vehicle manufacturing industry.

INTERDEPENDENCY OF AUSTRALIA'S AUTOMOTIVE INDUSTRY

Like most Australian manufacturing sectors, the automotive industry comprises a number of companies that are increasingly interdependent on each other for maintaining competitiveness and long-term viability.

SPT and the Australian tyre manufacturing industry form a critical part of the automotive industry's supply chain as a major supplier of original equipment products to vehicle manufacturers Ford, Mitsubishi, General Motors and Toyota.

SPT provides 100% of tyres fitted to Ford vehicles built in Australia and 100% of Mitsubishi vehicles built for export in Australia. From the third quarter of 2002, SPT will provide 35% of tyres fitted to Toyota vehicles built in Australia. SPT also provides tyres for the Isuzu N series product sold in Australia.

Additionally, SPT plays a major role in Australia's passenger vehicle manufacturing industry by working with new vehicle manufacturers throughout the research and development phase of new car development. In this capacity, SPT contributes leading-edge research conducted locally, that directly supports new vehicle production.

Further, SPT is a major customer of local producers of goods and services of raw materials essential for new tyre manufacturing, and truck and aircraft tyre retreading¹. Examples of major suppliers to SPT include Bekaert-BHP Steel Cord which supplies steel necessary for the wire rims in every tyre SPT manufacturers and Continental Carbon, which supplies carbon black – an essential raw material of every tyre.

¹ Refer appendix one: "SPT Suppliers"

Further reductions in tariffs beneath 10%, and any attempts to scale back the ACIS scheme would seriously undermine SPT's viability in Australia long-term. This would have an obvious and immediate spin-off effect on SPT's major suppliers through their loss of a significant customer.

In addition to the direct customer/supplier relationship SPT has established with its major suppliers, the company and its brands are significant users of Australia's transport industry in the transfer of raw materials and products between its factories throughout Australia and 700-plus network of company-owned, licensed and franchised retail stores.

Any loss of SPT as a new tyre manufacturer caused by pressures that threaten its overall competitiveness and viability would clearly have a dramatic and immediate effect on Australia's transport industry, through lost business and revenue from any void created by SPT's absence in the market place.

FUTURE INDUSTRY TRENDS

Future trends for the Australian tyre industry – in particular the manufacturing sector – are contingent on the outcomes of this Productivity Commission, and require:

- The capping of tariffs at 10% beyond 2005; and
- The maintenance of research and development assistance programs such as ACIS to ensure intellectual property can continue to be developed and kept in this country.

That said there are three further issues SPT is conscious of as part of its progressive plans to remain a competitive, successful Australian manufacturer and employer.

Developing Country Preferences

The preferential tariff levels in place for developing countries such as South Korea make a mockery of the so-called 'level playing field'².

This is particularly so when considered that 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 Australian government has its own role to play in helping to make the Australian automotive manufacturing industry more competitive. Part of this role is to ensure that these trade barriers, particularly the indirect ones, are broken down and export opportunities are opened up.

The importing of low-cost Asian tyres is a real ongoing threat for South Pacific Tyres and the tyre manufacturing sector generally in Australia.

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

Tariff Concessions for Necessarily Imported Raw Materials

For many years, the Federal Government allowed local manufacturers who cannot source essential raw materials from within Australia to claim exemption from payment of customs duty when such materials must be imported to Australia.

² Refer appendix two: "Developing Countries that Export New Tyres to Australia"

Approximately five years ago, the Federal Government removed this exemption and imposed a 3% minimum duty. The reasons given at the time were that budget deficiencies required imposing additional revenue sources on manufacturers. Clearly, these reasons no longer apply.

A strong recommendation from this Commission to the Federal Government for the reinstatement of the original 100% tariff concession on the duty payable on such imports will have a significant impact upon the Australian tyre manufacturing industry.

A similar request was made by Australian tyre manufacturers in the course of the previous inquiry. The Commission refused to make any such recommendation. SPT renews this request.

Recycling Strategy

As a responsible manufacturer, SPT is aware of the need to continue to raise the standards in the area of tyre recycling.

SPT is committed to participating in and funding an aggressive recycling strategy in conjunction with Bridgestone and the Australian Tyre Manufacturers' Association that seeks to identify a commercially viable solution for tyre recycling in Australia.

For the past 10 years, SPT has lobbied the Federal Government to support the implementation of appropriate legislation that would underpin this national industry strategy. Without such legislation, industry is left with merely a voluntary scheme of limited effect.

The relevance of this to the current inquiry is government initiatives that aid a cleaner and less wasteful manufacturing process and the use – wherever possible – of recycled materials, is a part of the wider framework of encouraging efficiency and international competitiveness.

SPT recommends the Commission considers the initiatives that can be afforded to the Australian automotive manufacturing industry:

- To encourage best practice and cleaner and more responsible manufacture and production of goods;
- To facilitate greater producer responsibility and accountability for the recycling of automotive waste;
- To deter the importation of second-hand tyres which form a direct threat to locally made tyres and compound the problem of responsible disposal, and
- To offer incentives for Australian manufacturers which are prepared to take part in recycling joint ventures or even use waste materials for further manufacture.

Australian automotive manufacturers should be encouraged by direct government assistance, not only to be efficient and internationally competitive manufacturers, but also environmentally responsible producers of goods for the Australian community.

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APPENDIX ONE – SPT SUPPLIERS

Supplier	Residential State	Post Code
A.E Baker & Co	Victoria	3061
Action Bearing Distributors Pty. Ltd	Victoria	3073
Active Engineering	Victoria	3044
Active Scales	Victoria	3074
Adchem	Victoria	3155
AGL	Victoria	8001
AGL Electricity	Victoria	3000
Air Liquide Australia Limited	Victoria	3020
Air Systems Engineering	Victoria	3078
Ajax Chemicals	Victoria	3192
Akron Engineering	Victoria	3061
Akzo Nobel	New South Wales	2142
ALH	Victoria	3072
ALH	Victoria	3072
Allen & O'Brien Pty Ltd	Victoria	3020
Alsafe Safety	Victoria	3189
ANCO Australasia Pty Ltd	Victoria	3031
Anco Australasia Pty Ltd	Victoria	3031
Ancor Chemicals	New South Wales	2124
Apollo Engineering	Victoria	3081
APS Chemicals	Victoria	3192
BASF	New South Wales	2144
BayerAustralia Ltd	Victoria	3170
Bee Engineering Pty Ltd	Victoria	3074
Bekaert-BHP Steel Cord Pty Ltd	Victoria	3214
Betzdearborn	Victoria	3207
Bribros Pty Ltd	Victoria	3205
C J Pearce Pty Ltd	Victoria	3012
Cabot Australia Oty Ltd	Victoria	3018
Capitol Commodities	Victoria	3079
Castrol Australia Pty Ltd	Victoria	3012
Champion Pty Ltd	Victoria	3803
Chemical Marketing	Victoria	3140
Chep	Victoria	3169
Chubb Electronic Security	Victoria	3051
Chubb Fire	Victoria	3172
Chubb Security	Victoria	3051
Chubbs	Victoria	3051
Cleanaway	Victoria	3169
Cling Adhesive	Victoria	3074
Colross Plumbing	Victoria	3055
Commercial Minerals	Victoria	3195

Compair (Australasia) Ltd	Victoria	3149
Continental Carbon Australia Pty Ltd	New South Wales	2231
Corke Instrument Engineering Pty Ltd	Victoria	3025
Corporate Express Australia	Victoria	3149
Creanova Asis Pacific Pty Ltd	Victoria	3175
Cytec Australia Holdings Pty Ltd	Victoria	3127
Degussa Australia Pty Ltd	Victoria	3205
Devote	Victoria	3062
Dow Corning Australia Pty Ltd	Victoria	3123
Dussek Campbell	Victoria	3026
ECOLAB	Victoria	3192
Electro Air Industrial Supply	Victoria	3011
Ensign	Victoria	3070
Eurest	Victoria	3121
Exide Australia Pty Ltd	Victoria	3122
Exxon Mobil Chemicals	Victoria	3001
Fernz Speciality Chemicals	Queensland	4077
Fordham Electrics Pty Ltd	Victoria	3081
G.T & J.A Jones Pty Ltd	Victoria	3175
Global	Victoria	3058
Goodpack Australia	Victoria	3071
Halco Engineering Pty Ltd	Victoria	3194
Highway Tyres Service Pty Ltd	Victoria	3177
Honeywell Measurex	Victoria	3155
Honywell Polymers Aust Ltd	Victoria	3004
Horlock Air Conditioning Service	Victoria	3450
Hydraservice	Victoria	3061
Hydro-Chem Pty Ltd	Victoria	3192
IMI Norgren	Victoria	3178
Incitec	New South Wales	2162
International Sales and Mktg	Victoria	3190
Invetech	Victoria	3012
J & J Thompson	Tasmania	7250
Jim's Mowing	Victoria	3113
Jim's Mowing Commercial	Victoria	3112
John Thompson Package Boilers	Queensland	4076
John Thompson Package Boilers	Victoria	3170
John Thompson Package Boilers	New South Wales	2164
Kara Holding Co. Pty Ltd	Victoria	3105
Karagata Nominees Pty Ltd	Victoria	3122
KayCee Fire Protection Pty Ltd	Victoria	3155
Kedo Engineering Pty Ltd	Victoria	3043
King Gee	New South Wales	2208
Kuehne and Nagel	Victoria	3043
Larvik Igment Australia Ltd	Victoria	3012
Lepchem Australia Pty Ltd	Victoria	3072
Lever Industrial	Victoria	3180

Luss Precision Engineering	Victoria	3016
Majortech Pty. Ltd.	Victoria	3168
Market Engineering Pty Ltd	Victoria	3042
Mathews	Victoria	3178
Mideco Dust Control Pty Ltd	Victoria	3134
Mitsubishi Australia Limited	Victoria	3000
Mobil Oil Australia Ltd	Victoria	3001
Monks-Harper Fabrications	Victoria	3164
Moore Industrial	Victoria	3186
Muse Construction Pty. Ltd	Victoria	3089
Nalco	Victoria	3053
National Can	Victoria	3068
National Fleet Network	Victoria	3149
National Starch	Victoria	3043
National Workforce	Victoria	3121
Nichimen Australia	Victoria	3000
NK Engineering Pty Ltd	Victoria	3058
Nuplex Resins	Victoria	3171
OPSM	Victoria	3039
Optec Pty Ltd	Victoria	3840
Pacific Elastomers	Victoria	3153
Pac System	Victoria	3090
Pac Systems	Victoria	3090
Pirtek Fluid systems Pty Ltd	Victoria	3189
Powergrip Industries (Aust) Pty Ltd	Victoria	3128
PRD Engineering	Victoria	3081
Process Chemicals	New South Wales	2077
Pulse		
Quenos	Victoria	3018
Quick Plumbing	Victoria	3081
Race Industries	Victoria	3074
Redfern Flinn Hoists	Victoria	3083
Redox Chemicals	Victoria	3026
Rema Tip Top Australia Pty Ltd	New South Wales	2200
Remi Mechanical	Victoria	3195
Remi Mechanical Plant Installations	Victoria	3195
Rentokil	Victoria	3207
Rhodia Australia Pty Ltd	Victoria	3168
Rockwell Automation Australia Ltd (RA)	Victoria	3130
Rodgers Bros Tyre Service	Victoria	3250
R & T Lubricants	Victoria	3192
Schenectady Australia Pty Ltd	New South Wales	2760
SF Industries	Victoria	3061
Sheas Gardening Service	Victoria	3340
SMC Pneumatics	Victoria	3168
Solutia Australia Pty Ltd	Victoria	3127
Sopura Australia Pty Ltd	Victoria	3153



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Southcorp Packaging	Victoria	3012
Spectrum Distributors	Victoria	3165
Startek	Victoria	3155
Sumitomo Australia	New South Wales	2000
Swift	Victoria	3067
Symex Holdings	Victoria	3207
Tiger Chemicals	Victoria	3051
Toyo Tyres Australia	New South Wales	2170
Trefil Arbed - Technichem	New South Wales	2073
TSS Company	Victoria	3803
Tyrewaste Pty Ltd	South Australia	5013
Umicore	Victoria	3012
Wacker Chemicals	Victoria	3150
Webb Conveyor Company	Victoria	3074
Wreckair Hire	Victoria	3168



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APPENDIX TWO – DEVELOPING COUNTRIES THAT EXPORT NEW TYRES TO AUSTRALIA AND RECEIVE PREFERENTIAL TARIFFS

Country
India
Indonesia
Malaysia
People's Republic of China
Philippines
Republic of Korea
Slovenia
Thailand