

9/12/2008

**Bridgestone Australia Ltd.**

**Commentary of Bridgestone Australia Ltd. on the  
Productivity Commission Position Paper**

## ***Summary***

Bridgestone Australia Ltd. finds the Commission's position paper on the Review of Automotive Assistance a well balanced document in general.

There are still certain key areas where Bridgestone Australia Ltd. does not agree with the findings in the position paper. There are also other areas where the Commission has not reached a definite conclusion. Bridgestone Australia Ltd. would like to provide its comments on these areas outlined below.

## ***Tariff***

The position paper outlines three options for tariffs post 2005. There are two other options that Bridgestone Australia Ltd. prefer over the three suggested in the position paper. One option as suggested by the Australian Tyre Manufacturers' Association is for tariffs to be reduced from 15% in 2005 by 1% each year to 5% by 2015. Another option is for tariffs to remain at 10%.

However, of the three options suggested by the commissioner, Bridgestone Australia Ltd. would strongly recommend the implementation of option 3, which is to see tariff rates maintained at 10% until 2010 after which tariff rates are reduced by 1% each year to 2015.

The reasons for supporting this option are as follows:

1. It would provide the government the necessary time for microeconomic reforms suggested in the position paper. These areas have a significant impact on Bridgestone Australia Ltd.'s operation and cost and is directly related to Bridgestone Australia Ltd.'s viability in this country.
2. It would provide Bridgestone Australia Ltd. the necessary time to implement work place reforms and skilling for further productivity improvements.
3. It would provide the necessary lead time to further strengthen our local production facilities.
4. It would be a gradual change to our operation rather than a sudden one.
5. It would provide the necessary time for us to re-negotiate buying contracts, some of which are not up for renewal until 5 years from now.
6. It would enable us to plan and restructure our company better to brace ourselves for increased competition.

Bridgestone Australia Ltd. raised the matter of Developing Country preferences in its submission to the inquiry. However, no reference is made to this matter in the position paper. Bridgestone Australia Ltd. would like to know the commissioner's view on why countries like Korea Republic, Malaysia, Thailand, Indonesia and others should still continue to enjoy Developing Country preferences.

It is our recommendation that Developing Country preferences be removed altogether from 2005. At the very least, the list of countries receiving this preferential treatment should be reviewed. Most of these countries have greater industrial might than Australia but still attract this special benefit. In most instances, Australian automotive exports to these countries receive the opposite treatment as a result of their highly protective policies.

9/12/2008

The highly protective policies of these so called developing countries also cause a major impediment to Bridgestone Australia Ltd. in attracting investment funding from its parent company (see last paragraph under *ACIS* heading).

Bridgestone Australia Ltd. welcomes the recommendation that the 3% revenue duty on raw materials be abolished. It is an unnecessary impost on production cost and goes against the nature of the recently introduced Goods and Services Tax system.

### ***Labour related matters***

Bridgestone Australia Ltd. believes that the on-cost associated with employment is too high. Approximately 40% in addition to normal wages make up additional cost to employment. These covers matters such as workers' compensation, payroll tax, long-service leave, superannuation etc.

Bridgestone Australia Ltd. agrees with the Commissioner's findings that workers' compensation costs are increasing despite decreasing claims cost. This is another unnecessary cost burden on manufacturing cost in Australia – one that other countries do not have to face.

Workers' compensation matters are further complicated by the different legislation that exists in each state.

Bridgestone Australia Ltd. also recommends that payroll tax be reviewed. Payroll tax is a tax on employment and is a disincentive for employers to put on more staff. As with workers' compensation legislation, payroll tax also suffers from the complication of

9/12/2008

different legislation in each state. With Labour governments now in power in each state, there appears to be an opportunity to have the complexities of this tax reviewed.

## **ACIS**

Bridgestone Australia Ltd. welcomes the commissioner's recommendations that ACIS should continue until 2015. Of the three options outlined in the position paper, Bridgestone Australia Ltd. would support option 2 where ACIS continues for a further 10 years ceasing in 2015.

Option 2 would assist and encourage Bridgestone Australia Ltd. to make further investments in its local operation which would strengthen its viability for the future. However, there are some aspects relating to ACIS outlined in the position paper which is of concern to Bridgestone Australia Ltd.

1. The split of ACIS funding to two pools – Bridgestone Australia Ltd. does not see any reason why vehicle producers should be advantaged by a larger portion of the fund (65%) whilst Component Producers and others (of which there are many more) have to share the remaining 35% of ACIS funds.
2. Modulation – modulation of ACIS funding creates uncertainty for Bridgestone Australia Ltd. especially when it comes to attracting further investment from its parent company Bridgestone Corporation. Often capital investments from overseas are based on certain funding availability from its local subsidiary.
3. Capped funding – whilst Bridgestone Australia Ltd. understands the reason to have the funding capped, it believes that the cap should be reviewed in line with CPI.

Bridgestone Australia Ltd. has to compete with other Bridgestone subsidiaries in the Oceania region to attract capital funding from Bridgestone Corporation. However,

9/12/2008

uncertainty in ACIS credits poses a barrier to Bridgestone Australia Ltd. in attracting investment funds from our parent company. This, coupled with tariff policies and labour on-cost makes Australia an unattractive country to invest in. For example if Bridgestone Corporation were to invest in its Thailand subsidiary, that benefit could flow-on to Australia due to its low protection policy. Conversely, investments made in Australia will find difficulty to flow to other countries such as Thailand or Malaysia due to their highly protective policies.