

AUSTRALIAN TYRE MANUFACTURERS'  
ASSOCIATION  
SUBMISSION  
TO THE  
PRODUCTIVITY COMMISSION INQUIRY  
INTO POST 2005 ASSISTANCE FOR THE  
AUTOMOTIVE INDUSTRY

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## 1. EXECUTIVE SUMMARY

1. The retention of existing tariff levels for the automotive industry must be considered as a separate and distinct issue from the continuance of other assistance measures.
2. Tariff levels must be maintain for as long as our major trading partners continue with direct and indirect barriers which inhibit the export programs of Australian tyre manufacturers, and at least until 2010.
3. The continued maintenance of existing assistance measures, particularly ACIS, is necessary in order to attract sufficient funding from overseas for tyre manufacturing capital improvement programs and research and development programs.
4. Australian must compete for this funding against all other tyre manufacturing countries. The existence of ACIS, and of a rational tariff regime which keeps tyre manufacturing viable in Australia until all direct and indirect barriers to trade are broken down worldwide, makes investment in tyre manufacturing in Australia attractive.
5. Without these measures, however, it is unlikely that any such overseas investment will be made in tyre manufacturing in Australia.
6. If there is no such investment, then Australian tyre manufacturers will be unable to produce state-of-the-art tyres for the original equipment market and may lose this market.
7. If Australian tyre manufacturers lose any significant proportion of their original equipment market to importers then it may no longer be commercially viable to manufacture tyres in Australia in the medium term.
8. The Federal Government must do more to assist tyre manufacturers by:
  - (a) curtailing the importation of imported used passenger tyres;
  - (b) removing the unfair 5% "developing country" tariff concession from major tyre producing nations;
  - (c) removing the 3% tariff impost upon the importation of necessary raw materials for tyre manufacture; and

- (d) providing appropriate incentives for tyre manufacturers and other responsible automotive product stewards who seek to implement Recycling Programs.



## **2. GENERAL COMMENT ON THIS SUBMISSION**

This submission is directed specifically at matters of concern to Australian tyre manufacturers.

However, most of what we say is applicable to the automotive industry as a whole.

In relation to the automotive industry as a whole, Australian tyre manufacturers fully support the submissions made by FAPM and FCAI, except to the extent that they conflict with the content of this submission on specific tyre related issues.

## **3. INDUSTRY INFORMATION AND PERFORMANCE**

### **(a) KEY AUTOMOTIVE INDUSTRY SECTOR LINKAGES**

The Australian tyre manufacturing industry shares with the rest of the local automotive industry its integral connectiveness and mutual industry support.

In the case of tyre manufacturers, this extends widely because of its unique manufacturing, storage and distributions challenges.

Interdependency in the tyre industry has grown significantly over the past decade. This has been brought about not just by the need to generate efficiencies in the supply of raw materials and in manufacturing. Because of their shape and size, improved cooperation between manufacturers and suppliers in inventory control and in the distribution of tyres has been essential to maintaining competitiveness.

Without the continued support of tyre manufacturers, a number of supplier industries would face economic ruin. Any further contraction of the Australian tyre manufacturing industry would have repercussions for these industries and also other industries which, in turn, depend on them.

The key feature of integration is the close cooperation between vehicle assemblers and tyre manufacturers. There are huge logistical advantages in situating tyre manufacturing plants close to vehicle assemblers.

Being near neighbours also creates advantages in continuing to develop appropriate technology and in improving and adapting tyres more closely to the more demanding performance levels of ongoing new vehicles assembly programs and to consumer needs.

In practical terms, this connectiveness is vital, as it means that Australian consumers have access to high-technology tyres suitable not only to modern motor vehicles but adapted to the unique features of Australia's driving conditions.

**(b) KEY LINKAGES WITH THE ECONOMY**

The two Australian tyre manufacturers employ approximately 6500 Australians with a wage bill approaching \$300 million. It is impossible to calculate the revenue generated and wages paid by other industries with which tyre manufacturers are interconnected.

What this means is that, in this industry and in a number of others, there will be a significant job loss if Australian tyre manufacturers cease production.

Whilst there are many highly skilled workers who will find other employment if this happens, the great majority of those employed in the automotive industry and in its interconnected industries will either find that their skills are not needed elsewhere in the economy or will lack the skills or attributes to find further employment easily or at all.

**(c) PERFORMANCE OF THE TYRE MANUFACTURING INDUSTRY SECTOR**

*(i) OUTPUT*

SPT have recently closed two of their older plants in order to focus and improve production at its Somerton plant. This is just part of an ongoing rationalisation process undertaken by both manufacturers over 20 a period.

This has not significantly affected output.

Tyre manufacture is now concentrated in two modern plants, one in Melbourne and the other in Adelaide.

In recent years, output has been continually adjusted to take into account a constant erosion of market share caused by pressure from imported tyres, particularly in the lower price, high volume, ranges.

Production is adequate to meet the demands of the local market both as to original equipment and replacement tyres.

*(ii) PRODUCTIVITY*

Over the past five years, industry productivity levels have been maintained or improved when compared to overseas benchmarks.

The most significant gains in productivity occurred during the period 1985 to 1997 in the wake of the Button reforms. Most of the realisable objectives of productivity improvements had been achieved during this period. Future gains will only be small by comparison.

Australia manufacturers will never be able to attain all relevant international efficiency benchmarks because of the small scale of manufacture operation as compared to overseas models. Allowing for this difference, Australian manufacturing processes and techniques compare favourably with overseas best practice.

*(iii) PROFITABILITY*

The scale and complexity of the tyre manufacturing process means that profitability is strongly dependent upon maintaining production output at a consistently high level at all times. In Australia, production output has been dependent on maintaining market share, which has been notoriously inconsistent.

In the Australian market, maintenance of a consistent market share by local manufacturers has not been possible in recent years. The continued erosion of their market share caused by import pressure threatens to make tyre manufacture unprofitable in Australia.

Over the past three years, both Australia manufacturers have operated either unprofitably or at seriously reduced profit levels. This is a result of oversupply in the market and gross downward pressure on prices, and not of inefficiency at either the level of local production or distribution. It is a trend experienced in all major developed countries. It is likely to continue.

The trend is exacerbated in Australia because of the small scale of manufacturing operations and the burden on inventory and distribution costs caused by the physical size of the country and the distribution of its population.

*(iv) RETURN ON INVESTMENT*

In an effort to retain their market position, in recent years, Australian tyre manufacturers have significantly increased their investment in both capital works and research and development.

Despite this, they continue to lose market share, not because their tyres lack appropriate quality or technical innovation, or are not price-competitive, but because the open nature of our economy encourages low-priced importers and hence severe price competition.

Both increased capital cost and lost revenue have placed enormous pressure on the ability to return investment to shareholders.

*(v) PRICES AND AFFORDABILITY*

At no time in Australia's history have tyres had higher levels of quality and performance, or been more long-lasting, or cheaper, than now.

In the Australian market, for tyres of a comparable technological standard, there is little difference in price between Australian manufacture tyres and their imported competitors.

However, consumers seeking to replace their tyres no longer have a simple choice. They are faced with a bewildering variety of brand names and countries of origin, tread patterns, tyre characteristics, even subtle differences in tyre sizes. Many of these differences are superficial and have nothing to do with the standard to which the tyres is manufactured.

The level of consumer consciousness of the qualities which differentiate good tyres and better tyres is very low. Most consumers differentiate on price alone.

Australia manufacturers continue to focus on tyres with high levels of safety characteristics, which endure and which match the demands of Australian road conditions and climate. To integrate this with a competitive pricing structure is an enormous challenge.

(vi) *QUALITY*

Tyres manufactured in Australia are of an uncompromisingly high standard. Modern tyre manufacturing techniques, however, make it difficult to differentiate objectively to consumers improvements in performance, safety levels or endurance.

Tyre manufacture, whether local or overseas, generally has attained a very high standard. Built into the modern automotive tyre are a number of safety and endurance features which enable the tyre to handle safely, exceed performance expectations, and operate for long periods, even despite driver neglect and abuse.

Future quality improvements in tyre manufacture will only ever be incremental, and difficult to translate to consumers, wherever the tyres are made.

The main incentive to improve tyre performance standards in Australia, as elsewhere, comes from the requirements of local vehicle manufacturers to produce tyres which match the other high-performance characteristics of their new production models.

*(vii) INVESTMENT*

Australian tyre manufacturers have invested heavily in capital works, on improvements and efficiencies in the supply chain, in inventory management, quality control, and occupational health and safety.

The local industry strives to maintain the levels of investment of comparable overseas plants. This has only been made possible in recent years because of ACIS.

*(viii) RESEARCH AND DEVELOPMENT*

Through long-term technology associations with their overseas principals or partners, Australian tyre manufacturers remain at the forefront of the development and use of advanced technology in tyre manufacture.

Both manufacturers have well-entrenched research and development facilities at their own manufacturing plants. There are also significant research and development protocols in place between local and overseas facilities of the parents or partners. There is a daily interchange of technical information between these local establishments and international research and development establishments, all aimed at maintaining state-of-the-art tyre manufacture in Australia.

Not only do these facilities constantly improve technology in the making of tyres for the Australian market, they also work with their international partners on adapting tyre manufacturing technologies to Australian export markets such as the Middle East, Brazil and South Africa.

*(ix) SKILLS*

Continued improvements in manufacturing techniques, inventory management and distribution have only been capable of implementation because the skills levels and active cooperation of employees within the industry. This has been augmented throughout the course of rationalisation of the Australian tyre manufacturing industry over the past 20 years.

The level of skills possessed by employees within the Australian tyre manufacturers industry is high by world standards.

*(x) WORK PRACTICES AND TRAINING*

As part of improving manufacturing efficiencies and raising levels of productivity, both tyre manufacturers have instituted programs to streamline work practices, have encouraged employees to undertake additional training in order to manage technological change and have worked closely with all levels of employees to raise safety levels, and to reduce wastage.

The level of competence of work practice and training amongst tyre manufacturing employees has increased markedly over the past five years.

*(xi) ACHIEVING SCALE ECONOMIES*

SPT have closed two of their older plants. In fact, one of them operated efficiently, but on a scale which was too small for modern manufacturing and distribution purposes.

The remaining plants have appropriate world-standard plant and equipment, and are at an adequate level of manufacturing efficiency. However, by international standards their capacity is small.

*(xii) TECHNOLOGY TRANSFER*

The sophisticated level of exchange between Australian tyre manufacturers and their overseas parents referred to above ensures a higher level of technology transfer advantageous to both Australian manufacture and to the Australian economy generally.

*(xiii) COMPARISON WITH EQUIVALENT INTERNATIONAL EXPERIENCE*

As detailed above, Australian tyre manufacturers have constantly worked with their international parents or partners to ensure the maximum uptake of international best practice in manufacturing techniques, technology utilised in tyre manufacture and in developing efficient work practices and a highly skilled workforce.

**(d) INVESTMENT BY AUSTRALIAN TYRE MANUFACTURERS INDUSTRY: 1997 TO 2002**

Over the past five years, Australian tyre manufacturers have invested approximately \$40 million per annum on capital expenditure and on research and development directly made possible as a result of the assistance offered to industry by Government.

**(e) TYRE INDUSTRY PROFITS AND RETURN ON INVESTMENT: LOCAL MARKET VERSUS EXPORT MARKET**

The export market for Australian tyres is small, proportionate to the local market.

In order to gain access to, and market share in, export markets, Australia manufacturers have generally been required to sell into such markets on terms which are initially uneconomic, that is, with a pricing structure far below what is commercially viable. There is little, if any, initial return on investment. As the market matures, and brand recognition grows, hopefully, prices will be adjusted to a realistic level.



However, tyre exports represent less than 10 percent of total turnover.

**(f) ROLE OF AUSTRALIAN TYRE MANUFACTURERS IN THE GLOBALISED TYRE MANUFACTURING AND AUTOMOTIVE INDUSTRIES**

*(i) REGIONAL MARKET ALLOCATIONS (ACCESS TO EXPORT MARKETS)*

Tyre manufacture mirrors the position in relation to vehicle manufacture and manufacture of major automotive components generally. That is, the demands of globalisation dictate that only the most effective plants access available export markets. Generally, this means plants which are of most recent construction and/or plants with large capacity. Australian tyre manufacturing plants constantly strive to fit this profile.

Australian tyre manufacturers must gain the consent and approval of their principals or parents before being able to compete in export markets. This consent or approval requires Australian tyre manufacturers to satisfy the principal or parents that, out of all other potential sources of tyres for such market, they can most efficiently service it.

Australian tyre manufacturers have gained success in recent years in brokering access through this process into markets in the Middle East, Brazil, South Africa, the United Kingdom, and the United States.

The scope for further expansion is limited. Nevertheless, Australian tyre manufacturers are proud of their achievements as exporters and intend to pursue comprehensive but realistic export programs.

*(ii) INVESTMENT DECISIONS*

Expenditure on capital works and other means of improving efficiency have been made in Australia with the consent and for corporation of their parents and partners, Goodyear Tire and Rubber Co. Inc. and Bridgestone Japan. Both companies recognise the importance of maintaining a manufacturing

presence in Australia. Their decision to continue this support is dependent upon Australia manufacturers being able to maintain or increase capacity, keep abreast of developments in manufacturing technology and generally to remain technologically competitive. Their long involvement in the Australian industry means that they have a clear understanding of the difficulties which face the Australian industry in this regard.

They are conscious of the need to help develop export markets whilst maintaining a balance between the obligations to Australia manufacturers and to manufacturers in other countries.

The decision to continue to commit to capital expenditure and other financial works in Australia will always be difficult. These decisions require forward planning. Such planning can only be made when there is certainty about future prospects for the industry particularly for government assistance.

Australian manufacturers are in competition for the capital resources of their parents with the tyre manufacturing industries of other countries, particularly in South-East Asia. Present conditions, particularly in light of present government assistance, are reasonably favourable to Australian manufacturers.

However, any change in Australia government policy towards the industry will seriously impact upon this decision-making.

*(iii) PROSPECT OF FURTHER GLOBAL INTEGRATION AND AUSTRALIA'S ROLE*

For as long as Australian manufacturers exist, they will be under the control or strong influence of large tyre manufacturers, such as Goodyear or Bridgestone Japan. These companies will ensure that Australia manufacturers are fully integrated into the global industry.

The only likely trend in future global integration is for tyre manufacture to cease in Australia altogether. There is a possibility that one tyre manufacturer only may cease operation. In recent times, neither manufacture has indicated that this as a possibility, at least under present economic and government policy conditions.

**(g) IMPLICATIONS ON LOCATION OF R&D ACTIVITY IN THE CONTEXT OF GLOBALISATION**

To some extent, technology, and research and development, for tyre manufacture is a common feature of all developed countries. In other words, these activities could take place in any developed country and, to that degree, it would not be essential for them to take place in Australia.

The first qualification to this is that Australian motor vehicles have some unique performance and technology characteristics which Australian-developed research and development processes and personnel are most adept at utilising.

The second point is that, in the replacement market, Australian roads and the Australian climate, together with the unique geographic and physical characteristics of Australia, have led to the development of tyres which optimise safety performance and endurance under Australian motor conditions, for example in the areas of compounding and adjustment to hot conditions and long periods of high-speed interurban driving.

These special skills and this body of knowledge would be lost in the event that tyre manufacture ceased in Australia. Australian consumers would be the worse for this loss.

Unless forced to do so by economic necessity, Goodyear and Bridgestone would be reluctant to abandon this resource given the unique requirements of the Australian new vehicle market and the special requirements of the Australian driving environment.

This “homegrown” technology and the skills and adaptability of the workforce which had developed at, have been instrumental in Australia developing new tyres for export markets, particularly in the Middle East Brazil and South Africa.

**(h) FACTORS INFLUENCING DEMAND FOR AND AFFORDABILITY OF MOTOR VEHICLES IN AUSTRALIA 2002 TO 2012**

From the point of tyre manufacturers, any decrease in demand will, of course, lead to a reduced demand for original equipment tyres. Original equipment tyre production provides the constant throughput and predicability necessary to keep down unit cost of production. Any loss of original equipment business because of reduced demand for new vehicles would have a serious impact upon Australian tyre manufacturers. It would force at cost of production and reduce profit margins significantly.

**(i) EFFECT OF EXCHANGE RATE MOVEMENTS ON IMPORTED TYRE PRICES**

Anecdotal evidence suggests that the recent competitiveness of the Australian dollar and the position of the Yen has made tyre export from Japan less commercially viable. However, the level of export of tyres from Japan and Australia, particularly in the important passenger tyre sector, has shown no sign of diminishing despite exchange rate movements.

*(i) EFFECT OF DEPRECIATION OF AUSTRALIAN DOLLAR ON COST OF TYRE IMPORTS*

Because of the small proportion of locally manufactured tyres which are destined for export, the depreciation of the Australian dollar has had only a small effect on the level of exports from Australia.

It would not appear to have had any significant impact upon the level of imports of tyres into Australia, either. This may well be because any impost on cost as a result of disadvantageous movements in exchange rates have been absorbed by the importers.

Another tactic of importers has been to increase the level of inventory within Australia in anticipation of such exchange rate movements, and reduce import levels during periods when it is uneconomic.

**(j) COMPARISON OF DOMESTIC TYRE PRICES WITH PRICES IN OTHER DEVELOPED COUNTRIES:**

*(i) ABSOLUTE AND RELATIVE AFFORDABILITY.*

It is difficult to make any conclusive statements on any comparison of domestic tyre prices with those in other similar economies.

This is because of the bewilderingly wide range of tyres and sizes of tyres available, particularly in the passenger segment.

Whether in Australia or overseas, consumers at almost every conceivable price point are catered for by a number of competing manufacturers and brands.

*(ii) IMPACT OF TAXATION*

Changes in Australia's taxation policy appear to have had little impact upon consumer preference or the level of sales of tyres in the Australian market.

**(k) ANTICIPATED CHANGES IN DEMAND FOR TYRES: 2002 TO 2022 IN LIGHT OF CHANGES IN TYPES OF VEHICLES**

This issue must be addressed at two levels. In relation to original equipment, changes in demand for tyres are dependent entirely upon demand movements relating to new vehicles.

In the replacement market, it must be accepted that Australia is mature market, in which only small incremental growth in the total market is possible.

Australian manufacturers are extremely optimistic about their prospects for further developing export markets over the next 20 years. However, until existing direct and indirect tariff barriers are removed, exports will only ever comprise a small proportion

of the total Australian tyre manufacturing market. Success or failure in export market will have some impact upon profitability in the long-term, but little impact in the short term.

However, Australian manufacturers must export to survive, as with any automotive manufacturing industry. For export to remain viable, however, domestic taxation and economic conditions must be favourable for manufacture in Australia.

**(l) CHANGES IN RELEVANT EXPORT MARKETS**

Demand for Australian tyres will continue to grow in many countries. In relation to tyres, it is difficult to predict which countries will become the main target of Australian export marketing activity.

**4. INDUSTRY OPPORTUNITIES AND IMPEDIMENTS**

**(a) EMERGING OPPORTUNITIES FOR THE AUSTRALIAN TYRE MANUFACTURING INDUSTRY AND AUTOMOTIVE INDUSTRY**

*(i) DOMESTIC MARKET*

The most likely areas of growth for the Australian tyre manufacturing industry are the recreational vehicle and off-road vehicle sectors.

There should be an increased demand for high-performance tyres, not only in the performance vehicle sector, but also in the large and medium vehicle size categories.

The more widespread use of recent innovations such as run flat technology and the use of silicon and other differentiating compounding technologies may help create new niches for local manufacturers.

Again, growth in the local tyre manufacturing industry is interdependent with the growth of the local vehicle manufacturing industry, not only in the OE sector, but also in the replacement market, as the overall size of the market determines the level of uptake of replacement tyres.

(ii) *EXPORT MARKET*

This sector is the most exciting prospects for tyre manufacturers. If Australian tyre manufacturers can achieve a greater market presence in their target export markets, and in any new markets and maintain reasonably constant sales levels, they will secure a buffer against the vagaries of the domestic market.

In other words, at this stage at least, tyre manufacturers do not see export markets as substituting for or replacing local markets, but as a buffer against loss of the local market to cheaper imports, and as a means of ensuring and maintaining constant level of throughput in controlling fixed costs.

The most significant impediment to Australian manufacturers in accessing export markets are the presence of direct and indirect barriers to entry into those markets.

Fundamental to the existence of these trade barriers is the determination of many countries to maintain a vehicle manufacturing base and to use protectionism as a means of ensuring its survival and prosperity at any cost.

To this end, various means, both subtle and otherwise, have been placed in the way of tyre manufacturers accessing these markets.

**(b) EXISTING NICHE MARKETS FOR AUSTRALIAN TYRE MANUFACTURING INDUSTRY**

As stated above, there are emerging niche markets for recreational and off-road vehicles, and in relation to high-performance tyres which Australian tyre manufacturers are well positioned to exploit.

This advantage cannot be maintained or exploited unless existing levels of Government support for research and development and capital improvement programs are maintained.

Australian manufacturers have always sought to provide the full range of choices to Australian consumers and to either manufacture or source from overseas tyres to fit every conceivable vehicle sold or used in the Australian market.

The trade-off for this is that it is therefore not possible, given the size of the Australian market, to maintain production of a full range of tyre within Australia or to maintain research and development facilities to address issues in all these markets.

However, given the right economic conditions and level of assistance, the Australian industry can make the necessary choices to maximise potential use of research and development and other resources to attack these key niche markets which have the best prospects for future growth.

**(c) STRENGTHS IN DESIGN PRODUCTION OR DISTRIBUTION, SIZE AND TYPE OF TYRES**

Australian tyre manufacturers' existing facilities for research and development and the development and introduction of new tyre products are very high.

Because of the challenges posed by Australia's size and demographic distribution, most manufacturers have highly developed and sophisticated distribution and warehousing systems, backed up by skilled staff.

These are strengths which enable them to survive in the local market in which equip them to meet export challenge.

These are a direct result of continue government support over the past 20 years both for the Australian tyre manufacturing industry and for the automotive industry generally.

Their existence as a resource to industry and to Australia generally is jeopardised by any significant reduction in the level of support by government for this industry.



**(d) EFFECT UPON TYRE MANUFACTURING INDUSTRY OF MICROECONOMIC REFORMS IN OTHER SECTORS**

In its submissions to previous inquiries, Australian tyre manufacturers emphasised that the kind of microeconomic reforms which would optimise development of them industry were in the areas of taxation reform, particularly, a depreciation allowance regime more focused upon a manufacturing industry willing to expand, waterfront reform, improvements in efficiencies of transport, particularly rail and road, and appropriate employment and workplace relations reforms.

This submission remains valid today.

**(e) EXTENT THESE REFORMS HAVE COMPENSATED FOR REDUCTION IN DIRECT ASSISTANCE**

Tyre manufacturers have no evidence than any microeconomic reforms achieved to date have had any significant or direct positive impact upon under the tyre manufacturing industry or the automotive industry as a whole.

If direct assistance to the industry is further reduced, it is most unlikely that any such microeconomic reform will prove an adequate substitute.

**(f) WHAT FURTHER MICROECONOMIC REFORMS WOULD ASSIST AUSTRALIAN TYRE MANUFACTURING INDUSTRY TO BECOME MORE INTERNATIONALLY COMPETITIVE**

Whilst it is conceded that there have been some positive developments in addressing issues of microeconomic reform in recent times, in almost all of these areas, the Federal Government must do far more if it is to encourage further overseas investment in the Australian tyre manufacturing industry.

The cost of getting manufactured goods to the market is the most significant impediment to expansion of export activity.

The other is constituted by indirect barriers to trade in target countries which include prohibitive costs at point of arrival and in distribution.

This makes it all-important that there are reforms in all these microeconomic areas on the home front. These will significantly reduce the cost to industry of transporting goods to the wharf and on their way overseas, and will greatly assist the export drive.

**(g) IMPEDIMENTS TO THE LONG-TERM VIABILITY OF THE TYRE MANUFACTURING SECTOR**

This submission confined itself to impediments upon the long term viability of our sector. Most of what we say is applicable to industry as a whole. Tyre manufacturers fully support the submissions made by the vehicle manufacturers and the automotive components industry associations on this point.

**(h) PROBLEMS ASSOCIATED WITH SMALL MANUFACTURING SCALE AND LOCAL MARKET**

As highlighted above, it is inevitable that Australian tyre manufacturers will continue to be hamstrung by the small size of the domestic market, by the fact that our manufacturing plants are small-scale, and by direct and indirect trade barriers which prevent large-scale export activity.

The cost of labour is also relevant factor. This is not as decisive as in the past, as labour costs in Japan career and United States a probable.

Scale should not be treated as a problem in isolation for Australian tyre manufacturers. Tyres are imported into Australia from over 40 countries. Some manufacturers send to Australia the excess stock generated from their highly protected local manufacturing bases, at prices which reflect only the bare cost of production. Technically, these goods may be “dumped,” in breach of Australian anti-dumping law, but this is generally impossible to prove.

To produce the requisite scale of operation, many other overseas manufacturers, especially from newly emerging economies, utilise high-technology plants, generally paid for or subsidised by government and/or foreign investment to an extent inconceivable to Australians, further subsidised by the cheap or subsidised provision of power and other essential services, utilising non-unionised, relatively cheap labour, and rendered even less expensive to operate by only nominal adherence to internationally recognised workplace practices, waste management techniques and environmental protection measures.

Of course, Australian manufacturers, who faithfully discharge all their obligations to their employees, the community and environment, but at a significant cost, can never achieve this scale operation and, therefore, can never compete in this environment.

**(i) EFFORTS OF AUSTRALIAN TYRE MANUFACTURERS TO REDUCE COST DISADVANTAGE CAUSED BY SMALL SCALE**

As detailed above, for over 20 years, with the assistance of their international partners and proprietors, Australian tyre manufacturers have undertaken a systematic and significant overall of their entire manufacturing and distribution process to improve efficiencies in all areas of their activity.

In the early years, these contributed to a significant improvement in the cost of production.

Now that Australian manufacturing and distribution processes are approaching world benchmarks, and given the size of our operations, further improvements are harder to obtain.

Nevertheless, efforts continue to increased levels of exports and further improve efficiencies and the cost of production.

Nevertheless, there is no real answer to problems of scale and the impediments to improve efficiencies posed by the sheer size of Australia and its population distribution.

Despite all these problems and as a result of the efforts of industry, in partnership with government, Australian tyre manufacture has reached unsatisfactory and sustainable level of efficiency.

**(j) FUTURE POTENTIAL TO REDUCE COST DISADVANTAGE**

For the future, maintenance of acceptable levels of expenditure on capital works and on other related improvements, and on research and development are essential.

A clear and sustained focus on export must also be maintained.

Microeconomic reforms coupled with effective Federal Government lobbying of our international trade targets to gain greater access to their markets will also contribute to the efficiency of this industry.

**(k) INFLUENCE UPON RANGE AND VOLUME OF TYRES SOLD IN AUSTRALIA BY CURRENT TARIFF AND TAX ARRANGEMENTS**

The current tariff and taxation regime makes no difference to either the range, tyre, volume or price of tyres sold in Australia. It enables local manufacturers to offer a full range of products at all price points to Australian consumers. Present policy does not prevent free and full access to the market by any importer. If anything, the present regime, coupled with sophisticated use of exchange rate fluctuations, favours importers.

In other words, the maintenance of the existing tariff and taxation regime will continue to have no bearing on consumer choice, or the standard, availability or price of the tyre product.

However, a reduction of existing tariff and taxation regime may well reduce consumer choice. Loss of a manufacturing base will mean loss of the personnel and, eventually, of the technology, which has continued to adapt locally-made tyres to local conditions to the advantage of Australian consumers.

**(l) IMPACT UPON TYRE MANUFACTURING INDUSTRY AND CONSUMERS OF GST (RETENTION OF TAX ON LUXURY MOTOR VEHICLES)**

Australian tyre manufacturers are unable to find any measurable effect upon the level of sales or the profitability of their industry as a result of the invitation of the GST taxation regime.

**(m) SIGNIFICANCE OF CURRENT TAX ARRANGEMENTS UPON DECISIONS OF MAJOR COMPANIES TO MAINTAIN THEIR OWN FLEET VEHICLES**

Australian tyre manufacturers are a major supplier of replacement tyres to the Australian vehicle fleet industry.

Any change in Government policy which has the effect of causing a significant reduction in the size of this fleet will have a negative impact upon the Australian tyre manufacturing industry.

**(n) EXTENT OF NEED FOR REFORM OF STATE AND LOCAL GOVERNMENT TAXES AND CHARGES IMPACTING UPON TYRE MANUFACTURING INDUSTRY**

As with all other industries operating in the respective States, tyre manufacturers find burdensome the need to paid the significant level of state taxes (payroll tax, stamp duty, land tax and debits tax) imposed upon them.

Tyre manufacturers also find that it is an impediment to their proper operations that the taxation regimes differ from State to State.

There is a significant administrative cost involved in employing staff to carry out the different calculations required in order to meet the individual requirements of each State, for example, in relation to payroll tax calculations, or workers compensation insurance requirements.

Tyre manufacturers urge the Commission to recommend that the Federal Government broker rationalisation and harmonisation of these State and Territory tax regimes.

**(o) EFFECT UPON AUSTRALIAN TYRE MANUFACTURING INDUSTRY OF CHANGES IN INDUSTRIAL RELATIONS AND WORKPLACE REFORM ENVIRONMENT**

Australian tyre manufacturers have always sought to maintain good working relations with their workforce and its representatives.

Therefore, tyre manufacturers cannot refer to any particular change to the industry as a result of these reforms.

**(p) EXTENT OF ANY CHANGES TO MANAGEMENT AND WORK PRACTICES**

The overall improvement of the efficiency of the Australian tyre manufacturing industry in Australia has been very much the result of the partnership between management and employees.

Improvements in work practices, rather than workplace reform itself, have contributed significantly to the overall rise in levels of manufacturing and distribution efficiency.

Tyre manufacturers intend to cooperate with workers and their representatives to focus on the remaining workplace issues which require attention, but, as major issues have already been addressed, do not anticipate significant improvements in the future.

**(q) COMPARISON OF LOCAL MANAGEMENT AND WORK PRACTICES TO INTERNATIONAL INDUSTRY BEST PRACTICE**

Australian management and work practices compare most favourably with those in place in comparable overseas situations.

**(r) EXTENT TO WHICH ANY FURTHER IMPROVEMENT IN WORK PRACTICES WILL HELP AUSTRALIAN TYRE MANUFACTURING INDUSTRY TO COPE WITH REDUCTIONS IN ASSISTANCE**

Whilst constantly vigilant to ensure that workplace relations are maintained and improved, tyre manufacturers do not see that any problems associated with work practices have a direct

bearing on their profitability or sustainability at the present time.

**(s) EXTENT TO WHICH INDUSTRIAL RELATIONS AND WORKPLACE REFORM PRACTICES ARE IMPEDING PROGRESS IN COPING WITH REDUCTION IN ASSISTANCE**

Australian tyre manufacturers do not seek a direct connection between workplace reform practices and what has occurred today within the industry, or in coping with the potential reduction in assistance.

They simply see improvement in workplace relations and in work practices as part and parcel of becoming a more efficient and effective tyre producer and distributor.

In that context, of course, the maintenance and continued refinement of proper and effective workplace practices is essential in the event that assistance is further reduced.

Sadly, however, any reduction in present levels of assistance, particularly of tariff levels and the ACIS scheme, would so seriously threatened the viability of the manufacturing industry in Australia, that manufacturing may have to cease. Therefore any workplace reform or improvement would cease to have relevance.

**(t) EXTENT TO WHICH AUSTRALIAN TYRE MANUFACTURERS ARE ENCOUNTERING SIGNIFICANT TRADE BARRIERS BOTH TARIFF AND NON-TARIFF IN DEVELOPING EXPORT MARKETS**

As discussed above, the existence of those direct and indirect barriers to trade in present or potential export market countries is an everyday reality for tyre manufacturers.

They are encountered in most countries to which Australian tyre manufacturers now export. They also exist in all of their potential new markets.

In some instances, the global tyre community is already establishing a manufacturing presence in countries which have erected significant barriers to imported tyres. Australian manufacturers will never be part of this initiative.

To a lesser extent, to the disadvantage of Australian manufacturers, there has been export penetration into these markets from third country sources, particularly China and other low-cost base producers.

**(u) EXTENT TO WHICH THESE INITIATIVES MAKE AUSTRALIA'S EXISTING OR POTENTIAL EXPORT MARKETS VULNERABLE**

If both such trends continue, these potential export markets will be lost to Australian tyre manufacturers forever.

**(v) EXTENT OF GOVERNMENT ASSISTANCE TO COMPETITORS IN EXISTING OR POTENTIAL AUSTRALIAN EXPORT MARKETS FOR TYRES**

Generally, the greatest level of assistance to competitors in these markets is afforded by the Government in such countries to local manufacturers. These governments seek to maintain a viable tyre manufacturing industry, and indeed an automotive industry, even at the price of heavy subsidies or by gross intervention in the marketplace.

This market strength also enables such local tyre manufacturing to establish a tightly held and comprehensive distribution network for their local product which importers find difficult, if not impossible, to penetrate.

**(w) MANUFACTURING COST COMPARISON BETWEEN AUSTRALIA AND THOSE COMPETITORS**

In markets which Australian tyre manufacturers already target or to which they would like to export, there are some significant cost advantages to local manufacturers, some of which is brought about by Government intervention. This is particularly so in relation to labour costs. However, the cost of raw materials, which is a significant component of the overall cost, is not dissimilar the most such countries.



Therefore, the differences are reflected much more in the level of direct and indirect assistance and subsidy to the manufacturers in these countries.

**(x) COMPARISON BETWEEN AUSTRALIAN BUSINESS CLIMATE AND GOVERNMENT SUPPORT WITH THAT OF OTHER TYRE MANUFACTURING COUNTRIES**

Again, tyre manufacturing industries in most of these countries are supported by an interventionist and very active Government committed to maintaining and expanding a manufacturing base, whatever cost is necessary.

The kind of assistance and subsidies offered not only enable such manufacturers to dominate the local industry, but also creates an excellent base for an aggressive export program.

These factors create a tyre manufacturing industry in such countries of a sufficient size and standard to maintain a competitive edge in their home market, particularly as to price. In many instances, trade practices laws are not as comprehensive or as regularly enforced as in Australia, allowing the use of additional commercial weapons to defeat any overseas competitor.

All these factors mean that these manufacturers have enormous resources to resist any concerted effort by exporters to penetrate their market.

**(y) STRENGTHS AND WEAKNESSES IN AUSTRALIAN TYRE MANUFACTURERS COMPETING TO SUPPLY OVERSEAS CUSTOMERS**

Generally speaking, Australian tyre manufacturers are worthy competitors in the international export market.

Australian manufacturers have many strengths to offer in competing for export markets. Their ability to speedily produce special orders particularly in small for limited quantities, developed to service the local market, can be readily adapted to suit such needs in the export arena.

Australia's strength in research and development also means that manufacturers here can adapt export orders to the tailored requirements of an overseas market with a speed and adaptability not always matched by competing importers.

Australia's relative isolation from key markets, and the cost of transporting and shipment of goods are significant weaknesses.

**(z) IMPLICATIONS FOR AUSTRALIAN TYRE MANUFACTURERS FROM GOVERNMENT INITIATIVES**

*(i) REDUCTION IN NATIONAL AVERAGE FUEL CONSUMPTION*

Much of the research and development involved in tyre manufacture, both here and overseas, is aimed at improving the "roll resistance" of tyres. Significant improvements in fuel consumption can be achieved with improved roll resistance.

The continued presence of a strong research and development activity as part of an Australian tyre manufacturing base will mean that there will be a clear focus on achieving any government initiatives in this regard.

*(ii) HARMONISATION OF ADRS*

One impediment to the commercial viability of accessing export markets has been the need to send tyres to Europe in order to obtain ECE 30 Certification prior to export into countries outside Europe which only recognise this Standard.

Therefore, Australian tyre manufacturers had worked closely with relevant Federal Government Instrumentalities in seeking to harmonise the ADRs in line with EEC requirements, so that this certification process can take place in Australia.

Australian tyre manufacturers welcome these initiatives.

*(iii) ROAD SAFETY AND ENVIRONMENTAL INITIATIVES*

Australia tyre manufacturers are proud of the safety record of their products. They have lobbied the Federal Government diligently with a view to encouraging the State and Territory

Governments to impose imposing uniform in-service maintenance and safety standards for tyres.

Australia tyre manufacturers had supported every such initiative develop both at State and Federal level.

One initiative which will have a significant direct bearing upon the commercial viability of tyre manufacturers in Australia relates to waste tyre recycling.

For many years, Australian tyre manufacturers have lobbied the Federal Government to assist in the implementation of a national strategy for the management of waste tyres and waste tyre derived material.

These efforts finally bore fruit 18 months ago when the Federal Environment Minister announced a study into such a strategy.

Tyre manufacturers have cooperated fully in development of a strategy so far, based upon this study.

One possible outcome of this activity is the imposition of an excise on tyre manufacturers for each tyre unit produced. This will depress the market for new tyres without giving consumers any real or clear objectives to be achieved by this additional tax.

Tyre manufacturers have put forward an alternate strategy which incorporates the excise, but also provides for an alternative scheme involving a voluntary advance recycling fee worked into the price of the tyre.

The aim of this strategy is to facilitate an industry-based solution to the problems of tyre recycling, with minimum market distortion and maximum utilisation of market forces.

At the same time, the strategy is a means whereby tyre manufacturers discharge in a direct way their "product stewardship" obligations.

Tyre manufacturers believe that, ultimately, recycling is the responsibility of industry and not government.

The real advantage of the proposed industry recycling strategy is that it will enable tyre manufacturers to work in partnership with the recycling industry, as well as with other elements of the tyre industry itself, to create new commercial ventures generating employment and this is activity within Australia, with minimum legislative and marketplace interference.

The impact of any excise or other tax on manufacturers may be to render manufacture in Australia no longer economic.

By contrast, the result of implementation of the scheme sponsored by industry will be neutral as regards local tyre manufacture, or tyre importation, whilst generating positive results, both short and long term, for Australian industry as a whole.

One outcome of this Inquiry should be a strong recommendation of support for this scheme which does not impose a burden on industry but which creates employment and wealth generating opportunities, and for any similar recycling automotive industry schemes.

**(aa) IMPLICATIONS FOR AUSTRALIAN TYRE MANUFACTURERS OF RATIFICATION OF KYOTO PROTOCOL**

If the adoption by Australia of the tenets of the Kyoto protocol require tyre manufacturers to purchase tradeable credits or otherwise impose upon manufacturers an additional cost burden, tyre manufacturing in Australia will become significantly less competitive.

This will have a dampening effect upon efforts to encourage further investment in capital improvements and expansion and upon research and development for the tyre industry in Australia. It will send the wrong signal to countries like United States, whose tyre industry has been long term and significant supporters of our industry.

**(bb) ADVERSE OR BENEFICIAL EFFECT UPON AUSTRALIAN TYRE MANUFACTURERS OF OTHER GOVERNMENT PROGRAMS AND REGULATIONS**

*(i) IMPORTED USED PASSENGER TYRES*

In many developed countries, industries have arisen which trade in the international marketing of scrap tyres. This is because the cost of disposal in the home country is prohibitive and it makes economic sense to export them.

For example, Japan generates approximately 100 million scrap tyres around and exports about 17 million of them. Most are sold as new tyres in China and India. A few find their way to Australia.

These tyres are scrap, that is, damaged or worn out. Worse, some have been improperly stored after removal from the vehicle, have gathered dirt, and harbour mosquito larvae inimicable to health, which may find their way into Australia together with the scrap tyre.

There is a legitimate and long-standing business in importing scrap tyres for use as casings on retread tyres. However, casings dealers usually weed out the damaged tyres and discarding them prior to export or immediately upon arrival and such business activities should not be disadvantaged.

However, some Australian businesses import whole containers of waste tyres sight unseen from these countries and, rather than use them as casings, sell them to unsuspecting consumers in the Australian market in competition with new and retreaded tyres, exposing consumers to health and safety risks, as well as impacting upon the profitability of the new and retreaded tyre industries.

To prevent such practices, in the mid-1990s, Australian tyre manufacturers lobbied the Federal Government to impose punitive tariff measures against such importers.

Despite this, without consultation with industry, the State Environment Protection Agencies or any other body, the Federal Government agreed to a tariff binding which kept tariff levels for used tyres at 15%, thereby creating an international market for waste tyres.

Since then, all sectors of the legitimate tyre industry, not just manufacturers, have lobbied vigorously but without success for some other controls to be placed upon these importations by the Federal Government.

Given that over one billion tyres were scrapped during 2001 worldwide, there is a significant possibility that Australia could be flooded with a sufficient volume of these dangerous tyres to jeopardise the future of tyre manufacturing and retreading in Australia.

Concerted action is needed from the Federal Government to ensure that this does not happen.

The commission is encouraged to recommend to the Government positive and immediate action to remedy this anomaly.

*(ii) DEVELOPING COUNTRY PREFERENCES*

Traditionally, importers of goods to Australia from countries regarded by Australia as "developing" have been granted a 5% concession on the duty they would otherwise pay.

Of course, these preferences are not relevant under a 5% tariff regime.

However, in the case of high-volume commodities such as tyres with a tariff regime at 15%, this 5% differential assumes significant proportions.

It means that imports from a number of Australia's significant trading partners, such as China and Korea, which cannot possibly be any longer described as "developing," are able to export large quantities of tyres to Australia at a 10% tariff rate.

They have gained significant market share because of this unfair competitive advantage.

The fact is that any economy which can afford a substantial automotive and tyre manufacturing industry could never be described as "developing."

Despite intense industry lobbying by industry for over 10 years, the Federal Government has persistently refused to provide this rudimentary form of assistance to Australian tyre manufacturers, by imposing a simple requirement that importers from these countries pay the same rate as other importers from countries which have sophisticated automotive manufacturing industries.

This significant Federal Government policy failure has been a real contributing factor in the present financial instability of the Australian tyre manufacturers industry.

Industry can think of no reason why tariff levels for all tyres imported into Australia should not be consistently 15%. It urges the Commission to make a strong recommendation that all such tariff concessions be immediately removed with respect to tyres.

*(iii) 3% TARIFF CONCESSION IMPOST.*

Until recently, raw materials which could not be sourced locally by manufacturers could be imported free duty if an appropriate tariff concession application was made.

At the beginning of its first term of office, the present Government was faced with a budget deficit. One of the measures aimed at redressing this deficit was to withdraw the concession, but require payment of 3% duty instead of the general rate of duty, and thereby raise additional revenue.

Tyre manufacturers cannot source all of their raw material requirements in Australia. They import significant quantities of such materials.

The income derived by the Federal Government from the position of this 3% duty is insignificant when compared to the size of the total budget, which has not been for some years operated in deficit.

However, for an industry which is struggling to make a profit, and is operating "in deficit," payment of this duty can represent the difference between a profit and loss, and between survival and termination of activities.

Tyre manufacturers urge the Commission to request that the Federal Government initiate a review as to whether there is any longer the requirement to maintain the 3% duty impost upon local manufacturers.

## **5. POST 2005 ASSISTANCE ARRANGEMENTS**

### **(a) INFLUENCE OF PREVIOUSLY CURRENT GOVERNMENT ASSISTANCE UPON AUSTRALIAN TYRE MANUFACTURERS**

#### *(i) STRUCTURE*

Current assistance arrangements have ensured the continued presence in Australia of two tyre manufacturers.

If these assistance arrangements had not been put in place, it is possible that one or both tyre manufacturers may have ceased production in Australia.

#### *(ii) COMPETITIVENESS*

The continued operation of two tyre manufacturers in Australia has ensured true competition in the marketplace and has provided consumers with a competitive choice both as to the range and price of tyres offered in the market.

Without the presence of local manufacturers, vehicle manufacturers would have had to source original equipment tyres from outside Australia, which may add to the cost of new vehicles.



In the replacement market, the presence of local manufacturers ensures that consumers are offered a choice of tyres throughout the entire vehicle range and at every price point.

*(iii) INVESTMENT DECISIONS*

The introduction of assistance arrangements in 1996 and the implementation of ACIS have resulted in the expenditure by tyre manufacturers approximately \$50 million per annum on capital expenditure and research and development.

These funds would have been committed elsewhere in the world, but for the existence of be a scheme and the benefits of Australia's tariff regime, and had not the Australian tyre industry been able to assure their overseas parent or partner of the continued support of the Australian Government for the industry in Australia.

*(iv) PERFORMANCE*

Assistance arrangements have ensured that Australian tyre manufacturers have remained truly competitive.

The arrangements have enabled local manufacturers to pursue a vigorous programme of upgrading and augmenting their plant and equipment in line with development overseas. They have ensured the consolidation of their research and development programs in coordination with their overseas parents or partners. They have allowed tyre manufacturers to offer local vehicle manufacturers appropriate technology for use in tyres for new vehicles and maintain this important business.

**(b) EFFECT UPON RELATED INDUSTRIES**

The continued operation of tyre manufacturers in Australia has, in turn, secured the continued operation of raw materials suppliers, plant and equipment providers, and transport industries which are totally or predominantly dependent upon the business of tyre manufacturers to remain solvent.

**(c) EFFECT UPON COMMERCIAL USERS AND CONSUMERS**

The previously current assistance arrangements have maintained the viability of tyre manufacturing in Australia. Local tyre manufacturers and their related distributor operations have been able to continued to provide deliveries pursuant to the medium and long term contractual arrangements which they have made but only with private retailers, but also pursuant to government and semi-Government contracts.

Had local manufacturers not been able to continue in operation and, therefore, not been able to continue with these contractual arrangements, then these customers may not have been able to locate alternate sources of tyres at the competitive price.

**(d) ADJUSTMENT OF AUSTRALIAN TYRE MANUFACTURING TO TARIFF REDUCTION FROM 30 PERCENT TO 15 PERCENT**

Tyre manufacturers had been operating under a 15% tariff regime since the early 1990s. They had already made the appropriate adjustments to their business operations to ensure their continued business operations.

**(e) IMPACT UPON:**

*(i) PROFITABILITY*

Inevitably, it has been less profitable for local tyre manufacturers who operate under a 15% tariff regime as compared with a 30% system.

*(ii) PRICES*

Whether or not there had been changed to Australia's tariff regime, the open nature of the replacement tyre market over the past decade, and the worldwide chronic oversupply of stock, which has prompted a surge in tyre imports, would have ensured a natural suppression of price increases relative to increases in cost of raw materials.

To some extent, the impact of this price submission has been offset by the process of modernisation and improved efficiency of tyre manufacture in Australia, which has made tyre production, at least in the replacement market, less costly. In turn, to a degree, the reduction of tariffs prompted an acceleration of this process.

*(iii) COSTS*

As stated above, the cost to manufacture replacement tyres would have reduced over the past decade whatever the tariff regime.

The reduction of tariff rates to 15% in the early 1990s compel tyre manufacturers to bring forward development of their modernisation and efficiency programs, thereby reducing costs.

*(iv) EFFICIENCY*

Significant gains in efficiency were made in the early years after reduction of tariff levels to 15%. There are now few areas left in the tyre manufacturing process where any further efficiencies can be achieved, given the size and scale of tyre manufacturing operation in Australia. However, efficiency would have been the hallmark of tyre manufacture in Australia whatever tariffs were imposed upon its competitive products.

What has prompted the considerable investment required in upgrading plant and operational practices to secure these efficiencies since 1990, and over the past five years in particular, was not only the tariff rates, ACIS, and other benefits themselves, but the knowledge that they will subsist until 1 January 2005.

In other words, it was the certainty of the arrangements which attracted the investment as much as their substance.

**(f) CAN AUSTRALIAN TYRE MANUFACTURING INDUSTRY OPERATE WITHOUT CURRENT ASSISTANCE**

Tyre manufacturers are adamant that the future of tyre manufacturing operations in Australia without continued Government assistance to the same or similar level as now is very bleak.

Certainly, the financial assistance provided so far to enable tyre manufacturers to pursue large-scale capital works upgrading and improvement, and to maintain and build upon their levels of research and development has been valuable, and will be essential for the future.

However, despite this important government contribution, most of the necessary expenditure has come from the parents or partners of the Australian manufacturers themselves as a result of a comparative worldwide evaluation of where this funding may be best spent.

The Australian industry has attracted this kind of investment against overseas competition as much because of the transparency and clarity of the programme which was presented to industry by government in 1996, as from the amount of funding itself.

An Australian based tyre manufacturing industry will not survive after 1 January 2005 unless it is able to present to its investors in bidding for future investment capital the same kind of certainty, transparency and clarity offered by the present assistance arrangements.

Of course, if the proposed assistance arrangements offer industry less financial reward than the present arrangements, then the task of local manufacturers becomes much more difficult.

What makes the task practically impossible is if the proposed future Government funding arrangements are not intended to operate for at least five years, are uncertain in their presentation, or unfair or unclear in their application.

For them to remain viable, capital works and research and development expenditure must be maintained by Australian tyre manufacturers at least at the same levels as now through to the end of this decade.

If not, quite quickly, Australian tyre manufacturing will cease to be world competitive. If that happens, vehicle manufacturers will look to overseas to meet their high-technology original equipment requirements. If original equipment contracts are lost to Australian tyre manufacturers, in turn, manufacturing of replacement tyres, of itself, will be insufficient to justify continued operation of their plants.

In other words, in this scenario, manufacturing operations will either be wound down to a minimal level, or cease altogether. This may not happen overnight, but the process will be set in train if it is clear that the necessary investment cannot be justified.

Manufacturers need to be able to assure their investors within the next 12 months that the assistance levels offered by government will be adequate until the end of this decade, so as to justify this expenditure.

**(g) IF NOT, WHAT BENEFITS DO AUSTRALIAN TYRE MANUFACTURERS PROVIDE WHICH JUSTIFY DIFFERENTIAL TREATMENT**

Australian tyre manufacturers maintain a substantial workforce. Many had spent all or the greater part of their working life in this industry and have constantly upgraded their skills. Likewise, the numerous Australian companies which supply raw materials, store or transport the tyres, also have a mature and specialised workforce.

The Australian community benefits from securing the long-term viability of these jobs.

Tyre manufacturing in Australia has developed significant expertise, personal skills, and knowledge-base on tyre technology development and engineering, built up over 100 year period.

Vehicle manufacturers have the secure presence of the tyre industry skills base which they utilise in order to develop new ranges of tyres which have the appropriate levels of safety handling and endurance to meet standards which they set for the new vehicles, consistent with Australian driving conditions.

Tyre manufacturers are long established and well integrated into the local communities of which they form part. Many service industries are dependent upon the business which degenerated by the presence of the plant and of employees who live in nearby suburbs.

Consumers are ensured of the best possible access to full range of tyres required for vehicles and equipment operated in the Australian community. The presence of aggressive local manufacturers who make and distribute tyres of world-class standard, with their strong distribution networks, have ensured true competition as between them and importers, to the benefit of consumers. This reflects in the stability of the price of replacement tyres manifest over the past decade.

These benefits can only remain if appropriate Government assistance is given in order to offset the considerable expenditure required to maintain them.

**(h) PROGNOSIS FOR AUSTRALIAN TYRE MANUFACTURING INDUSTRY UNDER CURRENT ARRANGEMENTS**

At present, tyre manufacturers in Australia are experiencing difficulty in achieving appropriate levels of profitability and return on investment. They share this experience with manufacturers in most developed countries. Attempts to simplify the causes for this generally fail. Whilst there may appear to be an oversupply of tyres worldwide in the marketplace, the market for new tyres is expanding rapidly in the developing countries, particularly China South-East Asia and India. Many obsolete plants in Europe and other countries have been closed and new plants opened up in these countries. The effect of this re-positioning of the manufacturing base for tyres is yet to be determined.

The fact is that every vehicle manufacturing country maintains a strong and viable tyre manufacturing industry.

Tyre manufacturers have long memories, and understand that the present economic position is part of long-term cycle and that, inevitably, profitability will return to the industry.

For this reason, and despite this present economic position, in other countries, tyre manufacturers continued to pursue significant and long-term research and development and capital improvement programs. Australian manufacturers must do the same to remain competitive with them.

Australian manufacturers must also pursue a the vigorous export policy and must work with government to break down barriers to trade which inhibit this activity.

If all this happens, then the prognosis for the Australian tyre manufacturing industry in the medium to long term is very good.

**(i) WILL THEN BE SIGNIFICANT FURTHER RATIONALISATION**

There will be no further significant rationalisation of the Australian tyre manufacturing industry if the government keeps in place funding arrangements which other same or similar as those currently in operation.

As can be seen from what has been stated in the preceding subparagraph, tyre manufacturing is in a state of flux for a number of reasons. So far, the partners and parents of Australian tyre manufacturers have made a long-term financial commitment to continue tyre manufacturing in Australia.

SPT has undertaken a substantial rationalisation program over the past 12 months. Both manufacturers have reduced their workforce and rationalise both their production and their inventory and distribution significantly since 1990.

It is likely that the only further significant rationalisation possible is this is production altogether.

If the government maintains current assistance arrangements or introduces arrangements which are similar in benefit after 1 January 2005, then tyre manufacturing will continue in Australia.

**(j) IS THE CURRENT MANUFACTURING SITUATION SUSTAINABLE**

Current tyre manufacturing arrangements in Australia are only sustainable if assistance from Government is maintained at similar levels to the present.

Manufacturing of tyres in Australia is not sustainable without an ongoing expenditure on capital improvement and research and development. In turn, this requires a commitment of substantial funds from overseas. Local manufacturers believe this funding will be forthcoming when required if assistance levels remain intact.

If this occurs then tyre manufacturers will remain sustainable for the medium term.

**(k) IMPACT OF REDUCTION OF TARIFF BELOW 10 PERCENT AND REMOVAL OF DIFFERENTIAL TREATMENT TO TYRE MANUFACTURERS UPON:**

*(i) TYRE MANUFACTURING INDUSTRY*

Those possessing skills on tyre technology development and engineering will either be relocated overseas or their skills lost.

This will result in a substantial and irreplaceable loss to Australia of significant expertise and technical knowledge.

*(ii) EMPLOYEES*

Loss of tyre manufacturing in Australia places all these workers onto the job market. Because of their age, limited ability to relocate, lack of education and possession of skills applicable only to the industry in which they have worked for so long, most of these workers will either spent long periods in unemployment or never be re-employed. From being secure



wage earners and taxpayers, many will become wholly or partly dependent upon Federal funds.

*(iii) PARTICULAR REGIONS*

Tyre manufacturers have long been established in both Melbourne and Adelaide. Their employees had spent all or most of their entire working life in the neighbouring suburbs to these factories. A number of local businesses and service industries | wholly or partly dependent upon both industries themselves and workforce and their families.

The loss of the tyre manufacturing industry and, indeed, of any significant manufacturer or manufacturing base of the Australian automotive industry will have a devastating effect upon economy and social life of these regions.

*(iv) COMMERCIAL AND OTHER USERS OF TYRES*

Australian tyre manufacturers and their distribution outlets have long dealt with supply of significant volumes of tyres to government, semi government and institutional clients.

In the event that tyre manufacture ceases in Australia, these customers will have to be satisfied from imported tyres. There may be a cost penalty involved.

The present range of choice as to types and price of tyres available to Australian consumers is very much the result of the intense competition between local manufacturers and importers.

The range of tyres available to consumers would almost certainly contract in the absence of local manufacturing.

The removal of this intense competition may well force up the price of tyres.

*(v) EFFECT UPON INDUSTRY LINKAGES*

Vehicle manufacturers will be denied the media presence of this skills base in order to develop new ranges of tyres which have the appropriate levels of safety handling and endurance to meet

standards which they set for the new vehicles. True, they can source tyres from overseas. This would make Australia the only country making assembling vehicles which must import the necessary tyres. As a result, there is likely to be an additional significant cost penalty, which consumers are bound to bear.

**(l) APPROPRIATE PHASING MECHANISM IF AUTOMOTIVE TARIFF RATES ARE PHASED OUT ALONG APEC LINES**

Australian tyre manufacturers do not believe that it is appropriate for tariff rates for tyres to be phased out along APEC lines.

Any reduction in current tariff rates should be the result of negotiations which ensure that such rates are comparable with equivalent tariff rates of other APEC countries and all countries into which Australian tyre manufacturers now export or intend to export.

**(m) IMPACT UPON AUSTRALIAN TYRE MANUFACTURERS IF TARIFF RATES WERE 5% OR 0 IN 2010**

If it were announced formally, or even suspected, that tariff rates were to be reduced to 5% or 0 in 2010, in circumstances where there was no similar reduction proposed by any of our major trading partners or by any country into which Australian tyre manufacturers export or intended to export, Australian tyre manufacturers would not be able to attract the requisite capital investment to maintain their position as manufacturers of state-of-the-art tyres.

If they were unable to attract this investment, it is highly likely that Australian tyre manufacturers would lose their original equipment business to importers who could meet the technical requirements of vehicle manufacturers.

If Australian tyre manufacturers lost any significant portion of their original equipment market, it would no longer be economic to continue to manufacture tyres in Australia

**(n) EXTENT OF CHANGES TO TYRE MANUFACTURING INDUSTRY TO ALLOW IT TO BE VIABLE IN EITHER CIRCUMSTANCE**

On the above scenario, no change or modification to the industry would enable tyre manufacturing to remain viable in Australia if tariffs were reduced to 5% or 0 in 2010.

**(o) HOW MANY MANUFACTURERS WOULD REMAIN VIABLE**

It is difficult to conceive of either manufacturer remaining viable without the present tariff regime remaining in place at least until those countries to which tyre manufacturers now export awkward export also adopted the same tariff regime.

**(p) WOULD THAT POSITION CHANGE IF THE ENDPOINT WAS 2015**

No.

**(q) WOULD FURTHER TARIFF REDUCTIONS NEED TO BE ACCOMPANIED BY OTHER ONGOING INDUSTRY SUPPORT MECHANISMS**

In the opinion on tyre manufacturers, the present tariff regime is all that manufacturers have to assist them to remain viable in the home market for long enough to establish a viable export market for their product, especially in circumstances where most all or of the markets into which they export or wish to export maintain high direct and indirect barriers to trade.

There is no other support mechanisms which would enable manufacturers to remain viable if the existing tariff regime was essentially brought downwards without any, will move by other relevant countries.

**(r) HOW EFFECTIVE IS ACIS IN MEETING ITS OBJECTIVES**

It is the opinion of both manufacturers that ACIS has proved highly effective in maintaining the competitive edge of local tyre manufacturers.

Tyre manufacturers regard ACIS as a vital part of their planning strategy in remaining viable.

The ACIS scheme targets those areas of investment which are essential to tyre manufacturers meeting the needs of the original equipment market and keeping pace with the technological developments of their import competitors.

**(s) UNINTENDED OR UNDESIRABLE IMPACTS OF ACIS**

One tyre manufacturer has highlighted that, in its opinion, the benefits received by industry as a result of the ACIS scheme had not been as great as originally foreseen.

Assuming ACIS benefits are received by company making a profit, and it makes additional profit as a result of such benefits, this is said to be because the government receives back 30% of such additional profit and the company is deprived of that proportion of the benefit.

This discounts the cost to the Government of providing ACIS benefits.

**(t) SHOULD A SIMILAR SCHEME BE EXTENDED BEYOND 2005**

Tyre manufacturers are adamant that a similar scheme should be afforded them after 1 January 2005.

Without such a scheme, tyre manufacturers will not attract the requisite capital investment to maintain commercial viability.

**(u) HOW SHOULD PRESENT SCHEME BE MODIFIED BEYOND 2005**

Tyre manufacturers recommend that the government should ensure that industry receives the full benefit of the ACIS scheme.

This should be done either by ensuring that the full benefit of the program is passed on to industry, including any unintended taxation benefit.

Alternatively, the government should consider a rolling ACIS scheme, in which industry has the certainty of knowing that benefits cannot be withdrawn without a significant advanced period of notice.

**(v) WOULD BE DIFFERENT ASSISTANCE MECHANISM BE APPROPRIATE IF TARIFF LEVELS WERE REDUCED**

This is a difficult question for tyre manufacturers to answer, when their future is so dependent upon Australian tariff levels not producing other than consistent with identical reductions by major trading partners.

The government would need to significantly augment its assistance in facilitating capital works and other capital improvement programs and on assistance to industry research and development projects. The cost of such augmentation may well exceed the level of benefits which would be provided under an ACIS scheme and may be difficult to distribute fairly or transparently between competing industry interests.

**(w) SHOULD FURTHER ASSISTANCE BE DISCONNECTED FROM TARIFF ASSISTANCE**

Tyre manufacturers seek the tariff level issue and the question of other assistance to industry as separate and distinct matters.

The maintenance of existing tariff levels send an important message to our trading partners that they will not have easy access to our tyre market without first granting us equivalent access to theirs.

The assistance issue is relevant to the question of where available funding for capital works and industry structural improvement as well as for research and development is spent on the world stage, and how Australia can position itself to attract the maximum amount of such available funding.

One issue should not be "traded off" against the other.

**(x) IMPACT OF OTHER GENERALLY AVAILABLE GOVERNMENT ASSISTANCE PROGRAMS UPON TYRE MANUFACTURERS R&D GRANTS, STRATEGIC INVESTMENT INCENTIVE PROGRAM, STATE GOVERNMENT GRANTS**

Australian tyre manufacturers benefit from existing research and development grants schemes. However, of themselves, these are not sufficient to justify the level of expenditure in Australia by the tyre manufacturing industry, through its international associates.

**(y) SHOULD CURRENT GOVERNMENT PURCHASING POLICIES IN RELATION TO LOCALLY MANUFACTURERS TYRES BE MAINTAIN**

There are many circumstances where these policies are justified for defence and other related strategic reasons.

Despite the rhetoric contained in the recent WTO agreement, all developed countries still pursuant vigorous government purchasing programs which blatantly favour local manufacturers.

In theory, no country should impose any such restrictions on trade. In reality, Australia should not make concessions, in circumstances where it is unlikely that any other of its major trading partners would be prepared to make similar concessions.

It would be grossly unfair to local industry for the Australian government to take such initiatives without obtaining any other such concessions from other countries in return. This would mean that our government would be instrumental in sacrificing market share enjoyed by local industry, in circumstances where it was unprepared to assist them in gaining access to other similar overseas markets in order to recover this loss.

**(z) SHORT-TERM IMPACTS OF TRADE LIBERALISATION UPON TYRE MANUFACTURERS FOR CURRENT AND POTENTIAL EXPORT MARKETS**

The export of Australian-made tyres is not commercially viable at the present time because of the impact of direct and indirect barriers to trade.

If true trade liberalisation occurred, Australian manufacturers would be able to compete successfully to attract the requisite funding for capital works and research and development to maintain their competitive edge.

In turn, if all direct and indirect barriers to trade with potential tight export countries were removed in fact and not only in theory, is highly likely the Australian manufacturers would develop a flourishing export industry.

**(aa) LONG-TERM IMPACTS**

The long-term impact of trade liberalisation would be true commercial viability for Australian tyre manufacturers.

**6. ADJUSTMENT ISSUES**

**(a) IF CURRENT ASSISTANCE IS LOST WILL THERE BE SIGNIFICANT ADJUSTMENT COSTS**

This is a difficult question for tyre manufacturers to answer as, if current assistance measures are removed, is highly unlikely that, in the medium term, tyre manufacturing will be commercially viable in Australia.

Another way of saying this is that the adjustment costs would so outweigh any potential profit that the exercise would never be justified commercially.

**(b) WHAT AUSTRALIAN REGIONS ARE VULNERABLE TO CHANGES TO THE AUSTRALIAN TYRE MANUFACTURING INDUSTRY AND RELATED INDUSTRIES**

Although there will be a significant impact upon the Victorian economy in the event that tyre manufacturing operations cease,

that impact is likely to be far more devastating in Adelaide and in South Australia generally.

This is particularly so if, at the same time, other major automotive industries in the Adelaide area are forced to cease operations.

**(c) IF CURRENT ASSISTANCE IS LOST HOW WILL THIS EFFECT EMPLOYEES IN MANUFACTURING AND RELATED INDUSTRIES AND IN OTHER ECONOMIC SECTORS**

Australian tyre manufacturers do not believe that any great number of its employees involved in manufacturing tyres will be able to easily to translate their skills into other industries.

As such, if tyre manufacturing ceases, unlikely to be unemployed for long periods, and even permanently.

Many would lack the personal resources to relocate themselves physically to places where new work may be available.

Many will be too old or simply lack the ability or the flexibility to be retrained or re-skilled.

**(d) SHOULD ASSISTANCE BE PHASED OUT TO MITIGATE ADJUSTMENT COSTS**

At some date, present assistance arrangements may need to be reviewed. Whenever that occurs, tyre manufacturers believe that this arrangement should be phased out over at least a five-year period.

**(e) WHAT HAS BEEN THE REGIONAL IMPACT OF REDUCTIONS IN THE TYRE MANUFACTURING WORKFORCE SO FAR**

Both Australian tyre manufacturers have shed significant portions of their workforce in the course of restructuring over the past 15 years.

This restructuring has had significant impact upon both regions where manufacturers are situated.



The level of skills of those workers retrenched has varied considerably. Many had developed reasonably high skills levels within the context of tyre manufacture. Tyre manufacturers believe that all retrenched employees have done great difficulty in finding alternate employment.

**(f) WHAT HAS BEEN THE IMPACT UPON THE QUANTITY AND MIX OF THE TYRE MANUFACTURING WORKFORCE AS A RESULT OF TECHNOLOGICAL IMPROVEMENTS**

There is no doubt that the level of skills required of tyre manufacturing employees has risen considerably during the course of the industry restructuring which has occurred during the past 15 years.

However, these skills do not readily translate into any other industry.

In the opinion of tyre manufacturers, its workforce has little or no mobility.

**(g) WHAT PROPORTION OF THE TYRE MANUFACTURERS' WORKFORCE IS VULNERABLE BECAUSE OF LANGUAGE, LACK OF MOBILITY AGE OR LACK OF SKILL IN LIGHT OF TECHNOLOGICAL CHANGE**

A considerable proportion of the workforce of tyre manufacturers is vulnerable but because of language deficiencies, inability to relocate, lack of portable skills, or simply because, as a result of spending the best part of their working life in industry, they cannot successfully faced the challenges of relocation.

**(h) WHAT WERE THE SUCCESSES AND FAILURES OF PREVIOUS LABOUR MARKET ADJUSTMENT PROGRAMS**

Tyre manufacturers do not consider that previous labour market adjustment programs have been at all successful. Their failure posed a significant hurdle for tyre manufacturers in negotiating further retrenchment programs with their workforce.

**(i) WHAT MEASURES WILL BEST ASSIST RETRENCHED WORKERS TO  
FIND EMPLOYMENT OUTSIDE THE AUTOMOTIVE INDUSTRY**

Tyre manufacturers hope that will prove necessary have to consider any further labour market adjustment programs.

**GREG MACKEY**  
**Executive Director**  
**10 May, 2002**