

**ATMA SUBMISSION  
IN RELATION TO  
CONSULTATIVE  
STUDY INTO  
PROPOSED  
AUSTRALIA/  
CHINA FREE-  
TRADE  
AGREEMENT**

**AUSTRALIAN TYRE MANUFACTURERS' ASSOCIATION LTD**

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BRIDGESTONE AUSTRALIA LTD  
SOUTH PACIFIC TYRES  
(a partnership between  
Pacific Dunlop Tyres Pty Ltd  
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### ATMA SUBMISSION IN RELATION TO CONSULTATIVE STUDY INTO PROPOSED AUSTRALIA/ CHINA FREE-TRADE AGREEMENT

#### Introduction:

Australia has two tyre manufacturers:

- South Pacific Tyres Pty Ltd., (SPT) which markets the brands Dunlop, Goodyear and Olympic and which operates out of manufacturing plants in Melbourne.
- Bridgestone Australia Ltd, (BSAL), situated in Adelaide, which markets the Bridgestone and Firestone brands.

These long-established Australian companies employ thousands of Australians both directly in the manufacture of tyres and indirectly through their supply and distribution networks.

Australian tyre manufacturers distribute a wide range of tyres of all sizes and descriptions. Local manufacture is supplemented by imports, where required.

Local manufacturers supply approximately 50% of the replacement tyre market. They supply almost all the original equipment tyres for vehicles made in Australia. About 8% of output is exported, many as original equipment tyres on vehicles made for the Australian market.

Ever since tariff barriers were substantially reduced in the early 1980s, imported tyres have steadily encroached into the Australian replacement tyre market.

The consequential lower local factory output has raised the unit cost of manufacturing tyres in Australia, making it marginal, at best, at the present time.



Australian-made tyres encompass the best of modern tyre technology, utilise state-of-the-art manufacturing processes which are environmentally friendly, and are marketed and serviced efficiently to the Australian market.

Nevertheless, they have continued to lose replacement market share, particularly to tyres made in and exported from countries which have high direct and indirect barriers to international trade.

These barriers enable such tyre manufacturers to produce larger volumes at a lower cost of production to service their home markets. As a result, they can target the Australian market with surplus tyres made cheaper than those locally produced. For example, Taiwan, Malaysia, Thailand and Korea exported in excess of 60% of their tyre production annually to markets such as Australia. The proportion of locally produced Chinese tyres which are exported is unknown.

If Australian tyre manufacturers had the same free access to the tyre markets of these neighbouring markets, particularly to China, they may be able to increase their export effort substantially.

Without an avenue to these export markets, and because of the mature nature of the Australian automotive market, our industry has no means of expanding to achieve real growth, to reduce production costs and to escape its present, marginal, existence.

There are not insignificant exports of Chinese -made tyres into the Australian market. Some of these are "friendly" exports, that is, by prior arrangement with Australian manufacturers, they come from plants owned by Goodyear Tire and Rubber Inc. (a 50% owner of SPT, and in the process of purchasing the balance from Ansell Ltd) or from Bridgestone Firestone Inc., which is wholly owned by Bridgestone Japan (a 60% owner of BSAL). A significant, but unknown, proportion is made by local Chinese manufacturers.

Under the Automotive Plan sanctioned by this government in 1996, and extended as a result of the recent Productivity Commission Inquiry, tariffs on imported passenger car tyres (which inevitably include many light truck tyres with dual suitability) will remain at 15% until 1 January 2005, and then reduce to 10% until 1 ssJanuary 2010.

There is significant China tyre manufacturing overcapacity and the real but unascertained capacity for it to exploit the export market.



Tyres can be made more cheaply there than here, because of the large volumes produced, and the resultant low unit cost of manufacture, particularly labour cost.

The sudden lowering of tariffs on car tyres imported from China may mean a substantial increase in the volume of such importation at very competitive prices.

As a result, it may exacerbate the market situation outlined above, with Australian manufacturers losing a further significant share of the replacement car tyre market, and with resultant lower local output increasing the unit cost of production at Australian tyre plants dramatically. These market forces may render tyre manufacture in Australia uneconomic and may force the closure of existing plants.

If, as a result of implementation of any freetrade agreement between Australia and China, tariff barriers to automotive trade were lowered or eliminated, it is inevitable that, in a very short time, Australia would be compelled to grant similar concessions with respect to trade between it and both Japan and Korea, and other Southeast Asian economies, whether through an FTA or otherwise.

This will further worsen the economic picture for local manufacturers. All these economies can export significant volumes into the Australian tyres replacement market.

Given such conditions, it is highly unlikely that Australian manufacturers will retain any significant share of the replacement tyre market. Tyre manufacturing may disappear overnight in Australia.

Australian vehicle assemblers or original equipment automotive component suppliers depend solely, or almost completely, on the original equipment market. The replacement market is relatively unimportant to them. On the other hand, in order to maintain output and contain production costs, tyre manufacturers must maintain a significant share of the replacement market, irrespective of their original equipment position.

Even if Chinese tariff barriers were removed, as a matter of corporate and national policy, many indirect barriers to trade and cultural and economic impediments stand in the way of Australian tyre manufacturers exporting into that market.

This means that there will be little export opportunity for Australian tyre manufacturers flowing from the entry into any FTA with the China.



On the other hand, to the owners of Australia's two tyre manufacturing operations, as a result of the impact of the FTA outlined above, it may then become economically attractive to abandon local manufacture, and for them to source their tyres for the Australian replacement market from China.

If this occurred, the real losers would be the Australian workforce which would be dslocated, and the Australian economy, which would be deprived of the benefit of taxes paid by local tyre manufacturers.

The Australia community would also lose the strategic benefit, handy in time of war or economic disruption, of being able to source manufactured tyres locally.

### **AUTOMOTIVE TRADE FROM CHINA TO AUSTRALIA**

An Australia China Free Trade Agreement may result in increased sourcing of original equipment (OE) tyres on vehicles imported from China to Australia.

However, the Australian tyre manufacturing industry anticipates a rapid and sustained increase in import levels of passenger vehicles from China to Australia. Nevertheless, it is highly likely that nearly all of these vehicles will have as original equipment tyres not sourced from Australian manufacturers.

This will result in a significant loss of business for Australian tyre manufacturers and threatens their survival as manufacturers in Australia.

### **AUTOMOTIVE TRADE FROM CHINA TO AUSTRALIA**

Tyre manufacturers do not anticipate that there will be any significant increase in the export of Australian manufactured vehicles to China in the foreseeable future if a free trade agreement is introduced.

However, if relevant niche markets in China can be developed by the Australian automotive industry, such an agreement may result in an increase in the number of vehicles manufactured in Australia and exported to the Chinese market.

If any such market develops, then maybe increased sourcing of OE tyres on vehicles imported to Australia from China. However, it is also possible that OE tyres will be fitted to such vehicles upon their arrival in China and will be manufactured there. If so, this increased trade will not provide any benefits to Australian tyre manufacturers.



## **REPLACEMENT MARKET FOR TYRES**

Little change is seen in direct trade in replacement tyres sourced from Australia to the Chinese market, as Australian tyre manufacturer's labour costs are significantly greater than those facing tyre manufacturers in China.

On the other hand, a significant increase is anticipated in the level of importation of replacement market tyres into Australia which are manufactured in China.

## **RAW MATERIALS**

There may be opportunities to develop cheaper sourcing of raw materials used in Australian tyre manufacture.

ATMA expects Australian vehicle producers to maintain their existing commitment to Australian vehicle manufacturing and hence to sourcing original equipment tyres from Australian tyre manufacturers.

Markets in China for Australian made vehicles (and, hence, for Australian made tyres) will not develop unless the parent companies of Australian vehicle assemblers take positive steps to ensure a growing Australian automotive manufacturing presence in China as a result of implementation of an ACHFTA.

## **SUMMARY**

There is considerable uncertainty among Australian automotive tyre manufacturers as to whether an Australia China Free Trade Agreement would result in a net benefit to their companies.

At this stage, Manufacturers believe an Australia China Free Trade Agreement would not add to the value of Australian production of automotive tyres.

Australian tyre producers may increase their current value of direct imports of China-sourced automotive tyres as a result of an Australia China Free Trade Agreement but they consider it unlikely they will be able to overcome the tariff barriers, direct and indirect, referred to above.

China remains a market for which market access by the tyre industry presents many problems and these market access policies must be addressed in any development of free trade agreement.



Any freeing up of access by Chinese manufacturers to the Australian tyre market must be staged process so as to ensure that it does not conflict with Australia's automotive passenger car plan. In particular, Australian tyre manufacturers must be allowed a period of adjustment agreed to in the Plan, that is, up to 2010 begin which to adjust to the inevitable steep increase in imports of motor vehicle tyres manufactured in China which would flow from any freeing up of trade relations between the two countries.

Although, for these reasons, they are yet to be convinced that such an agreement is in the best interests of the Australian economy or of local tyre manufacturer in particular, Australian tyre manufacturers want to be part of the consultative process between industry and government in the development of the terms of the proposed agreement.

A handwritten signature in black ink, appearing to read 'Greg Mackey', is written over the printed name.

**GREG MACKEY**  
Executive Director