VOLVO TRUCK AUSTRALIA PTY LTD
TRUCK FACTORY - WACOL

20 June, 2000.

The Productivity Commission,
P.O. Box 80,
BELCONNEN ACT 2616

Dear Sirs,

RE: **REVIEW OF AUSTRALIA'S GENERAL TARIFF ARRANGEMENTS**

We are in receipt of the Productivity Commission's draft report on the review of Australia's general tariff arrangements and have noted with great concern the Commission's options to the Government, in particular, the preferred option of elimination of the general tariff on the 1st July, 2001.

As you would be aware from our original submission to the Commission on the 19th January, 2000 and subsequent information provided on that submission by our Consultant, Mr. Colin Davey of Mayne Logistics E A Rocke, at the public hearings held in Sydney on the 27th and 28th January, the majority of componentry used by Volvo Truck Australia in the assembly of their vehicles at the Wacol Plant, enters Australian duty free under a Policy By-law which has been in force since the opening of our Wacol operations in 1972. As such, there is negligible benefit to be gained by Volvo and other truck assemblers with the removal of the general tariff. However, in direct contrast to this, our competitors, being the importers of completely built-up units (CBUs), stand to gain substantial benefits from tariff reduction.

In 1972 when the assembly plant was opened in Brisbane, CBUs attracted an import duty of 35 %. This is in comparison to the current 5% which will be eliminated in less than twelve (12) months if the Commission's preferred view is adopted by the Government.

Since its beginning the operation at Wacol has required constant rationalisation, not only to adapt to the changing duty regimes which have been implemented by the various Governments, but also to ensure its continued cost/productivity viability. Over the past five (5) years overhead spending at the plant has been reduced by some 35%, whilst at the same time, in excess of $5 million has been invested to improve the efficiency, safety and work environment which in turn has led to significant reductions in truck assembly costs as well as providing a safer working environment.

This latest rationalisation program has been part of the managerial initiatives implemented to maintain the future of the factory as part of Volvo's global manufacturing organisation. As a result of the changes made during the above period, Volvo Truck Australia, Wacol Factory has progressed from a possible closure five (5) years ago, to being regarded today as one of the best operations in the Volvo global organisation.

However, the rationalisation has not come without a price, with both the workforce of 180 personnel and profit margins being affected. In the current extremely competitive environment and due to the suppressed production directly related to supply and demand, profit margins on assembled trucks are relatively low in comparison to many other industries.

The elimination of the general tariff in line with the Government's commitment to APEC and the World Trade Organisation, will no doubt occur at some time in the future. However, the immediate elimination of tariffs, rather than in 4½ years time, will have a major impact on the assembly plant to the extent of possible closure.

Such a course of action would have a substantial impact on many Australian Companies who are currently supplying parts to our Wacol operation. The past three (3) years have seen the Australian content of our vehicles increased by over 30% up from approximately 20% of the value of a fully assembled vehicle to almost 30% on today's price. This is due primarily to Volvo's strategy of developing local agencies or suppliers in respect of specific componentry.

Volvo currently spends in excess of $25 million per annum with local suppliers. As such, the closure of the factory would not only affect the 180 staff working at Wacol, but would have a substantial effect and possible closure on a number of local suppliers and manufacturers.

As with many manufacturing organisations, a large proportion of the costs associated with the Wacol plant are "fixed" and accordingly, not affected by the rise and fall in production. Naturally however, such fixed costs also dictate the minimum level of production to be maintained for the operation to remain viable.

There is very little prospect in the foreseeable future that the Australian market will grow to the extent that major increases in production are needed to meet demand. As such, the potential to grow in our industry lies primarily in our ability to gain a greater overseas market share.

Whilst our overseas trading partners such as the USA with 25% tariffs on imported trucks, continue to maintain such high tariff barriers, our ability to penetrate their markets is greatly reduced. It seems totally illogical for Australia to be advocating the removal of our final 5% tariff claiming that this will give us greater bargaining power with our overseas trading partners. History would not seem to support such a conclusion.

Australia's geographical disadvantage in relation to much of the industrialised world together with our small population in comparison to these other countries, we believe are aspects which should be seriously considered before Australia "gives away" any bargaining power it may have in relation to our remaining general tariff rates.

Volvo at this point in time will not support further tariff reductions from the present rates. Given the opportunity of delayed implementation of any further Tariff reductions and the continued current program of rationalisation at our Wacol plant, at some time in the future, it would be hoped that the operation would be in a position to be both secure in its viability and contribution to the Australian community should such tariffs be eliminated.

Yours faithfully,
VOLVO TRUCK AUSTRALIA PTY LIMITED
TRUCK FACTORY – WACOL

GARY SILVERSIDES
GENERAL MANAGER