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7 November 2008

Vehicle Fuel Efficiency Consultation
C/- Department of Environment, Water,
Heritage & Arts
GPO Box 787
CANBERRA ACT 2601

BY Email: vfedpaper@environment.gov.au

Dear Sir/Madam

Subject: VEHICLE FUEL EFFICIENCY-DISCUSSION PAPER

We write in response to an invitation for comment pertaining to a public discussion paper titled Vehicle Fuel Efficiency. We appreciate the opportunity to provide comment on issues canvassed in the paper. Our contribution will provide some background material and address specific issues and topics where Ford Motor Company of Australia Limited (Ford Australia) has particular knowledge and expertise. We have also contributed to a submission by the Federal Chamber of Automotive Industries.

Background

Ford Australia is one of Australia's largest private sector investors in research and development. It is a leading automotive company with approximately 4800 employees and extensive design, engineering and manufacturing facilities located in Broadmeadows and Geelong, Victoria. Its core products are the Ford Falcon and the Ford Territory. In 2007, Ford Australia sold 108,071 locally-manufactured and imported vehicles. A further 5,800 locally manufactured vehicles were exported, primarily to New Zealand and South Africa.

In 2006, Ford Australia announced a new strategic direction for the company, including significant investment in new projects and accompanying facilities. A key element of this new strategy was an expansion of Ford Australia's product development capability, and its enhanced role as a design and engineering "Centre of Excellence" for the Asia Pacific and Africa region.

Ford Australia also announced in 2007 its intention to manufacture the Ford Focus in Australia beginning in 2011 for domestic and regional export markets. This will be the first small car manufactured in Australia in a decade.

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Competitive Environment and Effect of Rising Oil Prices

The Australian automotive manufacturing industry is presently facing significant challenges, many global in nature. While these factors have previously confronted the automotive industry, it is their confluence that has created a seriously impaired operating environment for Australian motor vehicle manufacturers. The sustained appreciation and recent volatility of the Australian dollar, escalating commodity prices for raw materials such as steel, aluminium and petro-chemical based products, supplier insolvencies, climate change responses, and increasing market fragmentation due to the relative openness of our economy are of themselves very important determinants of market health. Overlaid with this have been ongoing higher fuel prices, which have not only added to business costs but led to shifts in consumer preferences and purchasing behaviour.

These shifts in consumer buying behaviour are evident when considering the recent experience of the industry's large passenger car segment, in which the locally manufactured model Ford Falcon competes. Sales in this segment represented 13.8% of total industry sales in the period January to July 2007. For the same period this year, that share has fallen to 11.4%, a loss of some 13,000 units year over year (*source: Jul 2008 VFacts*). Whilst it is problematic to attribute this decline to just one cause, community concern over the recent higher oil prices and climate change are major contributing factors.

As in global markets, the Australian market is reacting to these recent changes at a far greater pace than automotive manufacturers are able to adapt due to the long lead times associated with new vehicle design and development programs.

Ford Australia's Leadership in Alternative Fuels

Ford Australia has taken a leadership role in the development and promotion of alternative fuels. It was the first Australian manufacturer to complement its supply of petrol fuelled vehicles by offering dedicated LPG variants of the Ford Falcon. Since their introduction in 1999, more than 80,000 dedicated LPG Ford Falcon vehicles have been sold. Ford Australia invested heavily in its development of LPG products because of the economic and environmental advantages it could offer motorists and because of the ready existence of a national fuel distribution network.

Ford Australia is also participating in the development of the biofuels industry. This particularly applies to the development of the ethanol industry where the widespread adoption of E10 blended petrol could provide a significant new market opportunity for primary producers. All new petrol-engined vehicles sold by Ford Australia can operate on E10 blended petrol. Since January 2006, Ford Australia's locally built vehicles (Falcon and Territory) carry E10 information labels on the inside of the fuel filler caps. This label is designed to provide information clarity and also regularly remind motorists they can use E10 blended petrol where available.

Ford Australia believes there is considerable opportunity for biofuels industry growth with E10 blended petrol. The achievement of the industry's growth potential will be highly dependent on the building and maintenance of consumer demand. Ford Australia believes a biofuels industry based largely on "market pull" will be an inherently sounder industry than one based largely on "production push". Government initiatives undertaken with the biofuels industry designed to promote stronger consumer awareness and demand for E10 blended petrol may be worthy of consideration.

The introduction of new low-sulphur fuel standards has also seen a rapid increase in the range of diesel passenger cars – particularly from Europe – available to Australian consumers. Sales of diesel powered passenger cars are up substantially in 2008 versus those of a year ago, and Ford Australia has recently added diesel variants to its Focus and Mondeo model range. Diesel technology, which can make a significant contribution to lower greenhouse gas emissions, has been extensively developed in Europe where it accounts for approximately half of all new car sales. It is expected that the sales of diesel passenger cars in Australia will continue to rise. Diesel technology is a further example of an alternative passenger car fuel with environmental advantages (versus petrol) where there is an existing national distribution structure for the fuel.

While there is no "silver bullet" technology that can provide all the economic and environmental answers, there exists a "chicken and egg" type scenario with regard to automotive manufacturers investing in the development of alternative fuel vehicles and the types of fuel distribution networks and infrastructure being invested in by fuel distributors. Ford Australia has elected to invest a significant part of its R&D budget in those alternative fuel technologies that are both affordable for motorists and that have readily accessible and widely available distribution networks.

Climate Change and Emissions Trading Scheme

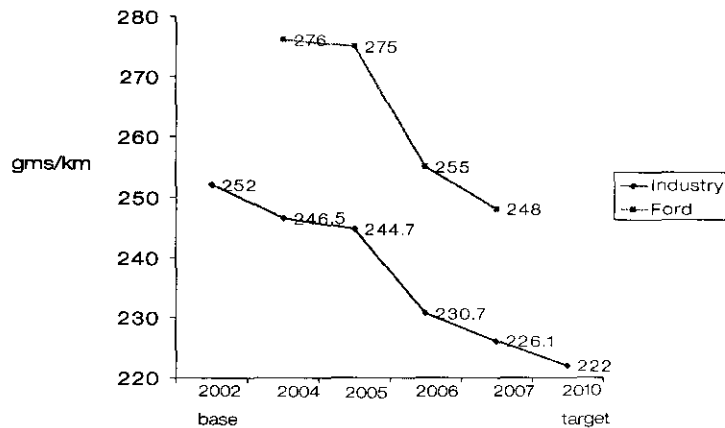
The Australian automotive manufacturing industry continues to invest heavily in improving both the fuel efficiency of its vehicles and their environmental impacts. Ford Australia is an active participant in the Federal Chamber of Automotive Industries Industry Code for an industry target on a sales-weighted basis of 222 grams CO₂/km at 2010. The industry, and Ford, whose improvement in recent years has been greater than the industry average rate, have made significant progress toward the achievement of this target (refer Table 1 below). Due to its broad vehicle type coverage – all passenger cars, commercial vehicles and SUVs up to 3.5 tonnes – this target is one of the most extensive in the world. Significant progress has been made in recent years through a mix of technology, alternative fuels and segmentation changes.

Ford Australia believes that transport must be included in any proposed national emissions trading scheme as part of a true multi-sectoral approach to the challenges of climate change. Ford has long acknowledged the science of climate change and is working with industry participants to be part of the solution. For any impact to be significant, however, there must be a comprehensive, market based mechanism capable of sending a clear signal to consumers and resulting in changed behaviour. Current market segmentation changes have demonstrated that people do change their buying preferences in response to fuel price movements.

Table 1

CLIMATE CHANGE

AVERAGE CO2 EMISSIONS (VEHICLES UP TO 3.5 TONNE)



(Note: 2002 - 2010 Task = 12%)



Future Policy Options

The automotive market in Australia is one of the most competitive in the world. It is also one of the most fragmented with more than 50 brands and 350 different models from more than 20 source countries. This broad diversity means it is critical any selected policy options have a strong market signal. It will not be possible for the CO2 footprint of the transport sector to be significantly reduced overtime without such signals.

It is for the abovementioned reason that Ford Australia has been a strong supporter of the inclusion of road transport in the Carbon Pollution Reduction Scheme, which is due to be introduced from 2010. A fundamental foundation of this scheme is its cross-sectoral equity. The inclusion of transport in this emissions trading scheme will represent a world-first for Australia. Consistent with the Government's objective that this scheme provide for an efficient and lowest cost way of reducing greenhouse gas emissions, Ford Australia believes the inclusion of transport reflects a superior approach to that taken in a number of overseas jurisdictions. In those jurisdictions, policy options have focussed on supply-side initiatives. A key illustrative example is the CAFÉ scheme which has been used in the United States. Ford Australia submits that a major contributor to the present plight of the automotive industry in the US has been the absence of a consumer price-signal in the CAFÉ scheme. In this context, there has been a significant and long-running disconnect between the legislative demands placed on producers and the market place demands of consumers. Only in more recent times has the dramatically increasing price of gasoline seen consumers change their vehicle-type preferences.

Ford Australia is disappointed the public discussion paper has elected not to consider potential fuel efficiency improvements that can be secured via such initiatives as eco-driving and enhanced vehicle maintenance. By adopting such an approach, policy-makers are only focussing on new vehicle sales. Given the average age of the national vehicle fleet, adopted initiatives will therefore take a considerable period of time to filter through the full national fleet. An aggressive promotion of eco-driving, for example, would be genuinely complementary to an emissions trading scheme. It would easily provide for equity, efficiency and simplicity.

The Australian emphasis to date has largely focused on the fuel efficiency of new vehicles and development of alternative fuel technologies. However, Ford Australia believes significant energy efficiency opportunities also exist in the area of greater in-use energy efficiency. This represents practical ways in which motorists can reduce their present fuel expenditure, and could involve greater use of eco-driving type programs and in-service vehicle maintenance programs. For example, eco-driving programs in Europe have demonstrated that motorists can reduce fuel consumption by up to 25% simply by adopting some straight-forward driving and maintenance practices. A program supported by Ford in Germany has involved the training of some 8,000 drivers since 2000 and has demonstrated potential national savings in Germany alone of more than 25 million tonnes of CO₂ annually. Ford Australia believes this area of opportunity and its application to Australia worthy of further consideration. Such an initiative is extremely low cost, and can be immediately accessed by all motorists covering a national fleet of some 12 million vehicles as opposed to an annual new vehicle market of approximately one million vehicles. It would also assist all motorists in dealing with the price signals inherent overtime in an emissions trading scheme. Furthermore, a focus on eco-driving would provide a useful impetus to encouraging interest in, and the uptake of, new technologies.

As mentioned earlier in this submission and also shown in Table 1, there has been a marked reduction in the average level of CO₂ emissions in recent years. Market segmentation trends have considerable momentum, and can be expected to continue in forthcoming years, particularly through the introductory years of the proposed Carbon Pollution Reduction Scheme. Local vehicle manufacturers and importers can be expected to address such consumer demands via the introduction of new technologies, a broader range of alternative fuels and new smaller-engined vehicles. Given the diversity of brands and models in the marketplace, Australia is in a very good position to be able to utilise a broad range of technologies from Europe, Asia and North America. The Federal Government's Green Car Innovation Fund can be expected to facilitate the "cherry-picking" of such technologies. In this context, Ford Australia believes there is no "silver bullet" where a particular technology should be preferred over another technology. Policies should be technology neutral. Ford Australia therefore opposes any scheme or policy which seeks to promote specific technologies. Firstly, such an approach is inequitable. Secondly, the pace of technological change is such that a government-driven incentive program based on specific technologies is very unlikely to be capable of keeping pace with the market. Furthermore, registration and stamp-duty type discounts are unlikely to be of sufficient scale to promote significant change to consumer preferences. It is also extremely difficult to gauge the degree of additionality such discounts may achieve.

Ford Australia believes there is no need for a mandatory fuel efficiency or CO2 emissions scheme in Australia. Firstly, such a scheme would be an expensive duplication of the proposed emissions trading scheme. Secondly, it would be inequitable among vehicle suppliers whose specialisation varies across vehicle types, particularly local producers. Thirdly, it would represent a form of "double taxation" in that vehicle producers and consumers would both be levied the cost of emission reduction. It would also be very difficult to establish an appropriate target and timeframe recognising the diversity of product sources for the Australian market. Fourthly, it would reduce the true consumer price signal and interest in new technologies that would be provided by an emissions trading scheme and strong promotion of eco-driving.


Ford Australia also believes Governments should take great caution in using purchasing practices to drive policy outcomes. The pace at which some State Governments have moved their purchasing priorities to smaller cars has placed considerable pressure on the local automotive industry, which cannot adjust its vehicle mix at the same pace.

In the abovementioned context, Ford Australia believes Australia is well positioned to pursue further improvements in motor vehicle fuel efficiency. Firstly, it has announced a wide-ranging carbon pollution reduction scheme. This scheme will incorporate a world-first with its inclusion of transport. There is also an expectation that fuel prices will rise once the scheme moves beyond a relatively short transitional period. Secondly, the Federal Government has announced its plans to introduce a substantial Green Car Innovation Fund to actively encourage the uptake of more sustainable technologies. Thirdly, there is strong market-driven pressure on vehicle manufacturers and importers to significantly reduce the CO2 footprint of their vehicles. Fourthly, there is already a strong information flow to consumers via such initiatives as the Green Vehicle Guide and windscreen labels. A strong national promotion of eco-driving would neatly complement these initiatives; the results of which can be widely and regularly reported by an FCAI industry code.

Ford Australia believes any additional policy initiatives would be duplicative, and would be extremely unlikely to be cost-effective.

We trust the topics canvassed in this submission are of assistance. We would be happy to discuss these issues in greater detail. The writer can be contacted on (03) 9359 7142 or at rscoulal@ford.com.

Yours sincerely



Russell Scoular
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