

1 April 2009

The Secretary
Senate Select Committee on Climate Policy
Department of the Senate
PO Box 6100
Parliament House
CANBERRA ACT 2600

Submission via email to climate.sen@aph.gov.au

Dear Sir/Madam

Subject: Submission to Senate Select Committee on Climate Policy

We write in response to a public invitation for comment regarding an inquiry into policies relating to climate change and other related issues by the Senate Select Committee on Climate Policy. Our contribution will provide some background material and address those specific terms of reference where Ford Australia has particular knowledge and expertise.

Background

Ford Australia is a leading automotive manufacturer. Its core products are the Ford Falcon and the Ford Territory, for which the company has full design, engineering, manufacturing and sales responsibility. Ford Australia employs more than 4,000 people in Geelong and Broadmeadows, Victoria. In 2008, Ford Australia sold more than 104,000 locally manufactured and imported vehicles. Ford Australia is also a significant exporter of design and engineering services. A leading project presently underway is the design and engineering leadership of a new light commercial vehicle to be sold in more than 80 countries. This project represents one of the most significant automotive R&D initiatives undertaken in Australia.

In 2007, Ford Australia announced its intention to manufacture the Ford Focus in Australia, beginning in 2011, for both local and regional export markets. Ford Australia presently exports vehicles to South Africa and New Zealand. Ford Australia exported more than 4,000 vehicles in 2008.

Competitive Environment

The automotive manufacturing industry in Australia has been confronted by difficult economic conditions for some time. This situation has been exacerbated in recent months by the impact of the global financial crisis. As a result, a number of economies have introduced market stimulus measures. In Australia, key initiatives have included a 30 per cent investment allowance for capital goods bought by businesses between December 2008 and June 2009.

Within the above mentioned context, Ford Australia believes it important that appropriate time is allowed to design and implement the very best quality and most efficient climate change policy. Ford Australia also believes prevailing economic conditions are an important consideration in the timing of new abatement initiatives, particularly when similar initiatives are not being introduced at this time by key trading partners. However, Ford Australia has also long advocated the inclusion of transport into any proposed emissions trading scheme as the primary fuel efficiency mechanism used in Australia, and as part of a true, multi-sectoral approach to the issue of carbon emissions abatement.

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 passenger car and utility vehicles have been sold. The company has also promoted the uptake of biofuels and has introduced clean-diesel variants of its Ford Focus and Ford Mondeo passenger cars. It has also announced its intention to introduce the Ford Fiesta Econetic in late 2009. This clean diesel car, when measured to the European test cycle, has a CO₂ emission level of less than 100gms CO₂/km.

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".

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 increased in 2008 by more than 34 per cent compared to a year earlier. 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 therefore 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.

Eco-Driving and In-Use Energy Efficiencies

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.

Ford and Climate Change

At Ford, the science of climate change is clearly acknowledged. The company is investing a significant share of its annual \$6 billion plus global R & D budget in seeking to be part of the solution. Solutions being developed cover innovative energy reduction initiatives and a range of technologies including direct injection, hybrid, hydrogen fuel cells and flexible fuel vehicles.

Australia's car manufacturing industry will also be impacted by climate change policies on more than one front. It will impact energy use in the industry's extensive production facilities, it will impact the cost of input materials like metals and plastics and it will significantly impact the way people perceive, purchase and use motor vehicles. The significance of climate change to the automotive industry is why Ford Motor Company has been to the forefront of global policy initiatives. It is why the corporation sought to quickly gain as much experience as possible by direct and early participation in such initiatives as the UK Emissions Trading Scheme and Chicago Climate Exchange.

Locally, it is also why Ford Australia was the first motor vehicle manufacturer to join the Greenhouse Challenge Programme. It is also why Ford Australia has fed into the Ford Motor Company's annual global Greenhouse Report; one of the first and most comprehensive reports of its type in the world.

Ford Australia is also an active participant in the Federal Chamber of Automotive Industries (FCAI) Industry Code for an industry target 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. In fact, preliminary indications are that the FCAI nearly achieved reaching the target in 2008; two years ahead of schedule. Due to its broad vehicle type coverage – all vehicles up to 3.5 tonnes and a strong market dependence on petrol – this target is one of the most comprehensive in the world.

Ford and Emissions Trading

At Ford, we believe the inclusion of transport is fundamental to the integrity of a broad-based emissions trading scheme and, over time, should provide an important consumer signal on the need for behavioural change. We also believe the inclusion of transport in the scheme is an important contributor to the scheme being a true multi-sector program.

By including transport in a well designed and implemented emissions trading program, Australia can take a global leadership position. Land transport is not included in overseas schemes such as the European trading scheme. Some economists have suggested the alternative mandatory CO₂ emission level proposed for the automotive industry by the EU is a poor regulatory approach which could cost hundreds of Euros for every tonne of CO₂ saved.

Ford Australia acknowledges a preference for market based abatement mechanisms. It also acknowledges that the proposed emission trading scheme will impact on its manufacturing activities. It is difficult to precisely quantify the impact, but it could well be in the annual order of many millions of dollars via increased energy costs covering direct and indirect emissions from company and supplier facilities. This will affect the industry's competitiveness, particularly versus imported vehicles from economies like Thailand where similar schemes do not exist. The increasing presence of such imported vehicles in the Australian marketplace means there will be extremely limited opportunity for domestic manufacturers to offset these increased costs with higher prices, particularly as the proposed introduction of the scheme in 2010 will coincide with a drop in the passenger car import tariff from 10% to 5%.

Ford Australia has also questioned the proposed approach to defining trade-exposed, emissions intensive industries as part of the Carbon Pollution Reduction Scheme. By focussing on emissions and revenue, we believe the proposed scheme has overlooked the fine margins to which globally-exposed industries like automotive actually work. These margins mean a relatively small cost movement in a particular input can have a significant impact on the relative competitiveness of the local product as a whole. In addition, local manufacturers will be disadvantaged over time in the distribution of their vehicles. In the case of Ford Australia, for example, vehicles manufactured at Broadmeadows are mainly distributed to dealerships throughout Australia by road transporter. Following a 12 month transition, these transporters will most likely incur a trading scheme liability on their fuel use. Imported vehicles, however, are delivered to capital cities by international shipping with very limited subsequent road transporter use. The international shipping will not incur trading scheme liability just as the manufacturing of many of these vehicles will not incur liability.

Conclusion

Ford Australia competes for custom in one of the most open and competitive automotive markets in the world. There are 59 brands offering more than 350 models from 26 source countries in the Australian market. This relative openness effectively characterises the Australian automotive industry as one that is very trade-exposed. In light of this and the prevailing economic conditions, Ford Australia has therefore supported the concept of

emissions trading, but has urged a cautious approach be taken in introducing any such scheme, with the emphasis placed on designing the lowest cost, highest quality scheme.

We trust the matters raised in our submission are of assistance to the Committee. We would be happy to discuss these issues in greater detail. The writer can be contacted on (03) 9359 8068 or at ehaug@ford.com.

Yours sincerely

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