

61 3 9359 7482

The logo for Ford Motor Company of Australia Limited, featuring a checkered pattern on the left and the company name in a bold, sans-serif font.

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6 May 2003

Secretary  
Senate Economics Legislation Committee  
Room SG-64  
Parliament House  
CANBERRA ACT 2600

Fax: (02) 6277 5719

Dear Sir/Madam

**Subject: Supplementary Submission on Designs Bill 2002 and Designs  
(Consequential Amendments) Bill 2002**

Thank you for the opportunity of appearing before the Senate Economics Legislation Committee on 2 May. As agreed, Ford Australia is making a supplementary submission to elaborate on some specific points raised during the appearance.

- (1) **Strategic Importance of Design:** Ford Australia firmly believes that a highly skilled design capability is critical to its competitiveness and ability to deliver new vehicles in tune with the specific demands of Australia motorists. This design capability and the domestic design of cars like the Ford Falcon, has also increasingly spread to the wider supplier community where key Australia component producers including many small/medium businesses from regional centres, have also developed their own design/engineering capability. This capability has not only ensured that locally-designed cars like Ford Falcon have the highest levels of local content among Australian-made cars, but it has also facilitated the entry into key export markets by component producers like PBR (brakes), ION (transmission) and MTM (door latches).

It has been suggested in the academic literature that design is more critical to the success of agile firms than is production itself. A study by the State Government of Victoria in 1996 highlighted the importance of design to the competitive success of the Australian automotive industry. "Design for Agility" found market fragmentation and shrinking product life cycles meant that time to market was now a critical ingredient of business success. This meant competitiveness for Australian automotive producers had shifted from the physical act of producing goods and services, to the design and development of solutions that meet customer needs.

Extensive market research in Australia has also demonstrated the importance of a car's appearance in buyers choosing a particular model. In fact, the appearance/style/looks of a new car are given as the most important single

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reason for buyers choosing a new car. This is followed by other factors such as price, previous satisfaction/experience with a particular brand or model and value for money.

A benefit that can accrue from companies like Ford Australia having the "design ownership" of their core product, and consequent high level of design capability, is an ability to meet the challenges of changing consumer demands in a way that delivers significant national benefits. An illustrative example of this is the Ford Territory, a new Australian-designed and built all-wheel-drive vehicle that will go on sale in the second quarter of 2004. The Ford Territory, the first vehicle of its type ever to be designed and made in Australia, was displayed for the first time at the recent Melbourne Motor Show. It is designed to adapt to the changing needs of Australian motorists, offering car-like styling and vehicle dynamics with the versatility of a four-wheel-drive or people mover. The Ford Territory will be built on the same Broadmeadows assembly like as the Ford Falcon. It shares a number of components with the award-winning BA Falcon, but has a completely different underbody structure, unique front suspension and an all-wheel-drive system incorporating global technology. Its introduction will represent a significant boost to Australia's component industry and trade balance with 60% of Ford Territory sales forecast to substitute for currently imported vehicles.

The Ford Territory will be the result of a \$500 million investment by Ford Australia. The business case behind the corporate approval of this major new investment was a tight one and contingent upon the achievement of new vehicle and replacement parts sales targets. It also assumed a stable tariff and ACIS Program. Without such an environment, this new vehicle would not be viable.

#### NATIONAL ECONOMIC BENEFITS OF FORD TERRITORY

- GDP would be higher than otherwise by about \$500 million a year;
- Aggregate consumption would increase by around \$280 million a year;
- Australia's terms of trade would improve by \$1.6 billion over lifecycle;
- Government's budgetary position would improve by up to \$200 million annually;
- Aggregate employment would increase by 4000 jobs in 2005.

(source: Ford Australia/Centre of Policy Studies, Monash Model)

- (2) **Design Registrations:** Ford Australia began design registering "must match" replacement parts in the early 1990s. It did so to ensure as wide a volume base as possible over which to amortise its significant design costs, particularly as the Australian new vehicle market was becoming increasingly segmented at the time with the entry of many new brands and models to the market. Ford Australia has currently been granted design registrations for 57 "must match" parts in Australia. Of course, over time, these design registrations will expire.

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Ford Australia has long contended that the design registration of spare parts does not have a negative impact on pricing. It has attached a table to this submission that shows a representative sample of design registered spare parts for Ford Falcon and Holden Commodore versus the same parts for some other popular new car models where the parts are not design registered in Australia.

- (3) **Impact of New Legislation:** Ford Australia believes the new legislation could lead to a reduction in the range of goods, including motor vehicle spare parts, that can be granted design registration. This reduction is in addition to the effective reduction that will emerge from the "right of repair" provision that is proposed to apply to spare parts and reflects a requirement of a new threshold test. This test means a design will need to be both new and distinctive versus the present requirement that it be either new or original. It is very difficult to quantify the likely impact of this change given that it involves subjective judgements to be made about goods/parts that currently do not yet exist. However, the company has received professional advice that it is quite possible fewer designs will be registerable under the new legislation. To the extent that Ford Australia cannot register "must match" parts, or loses sales volumes to the "right of repair" provisions, its design costs will need to be amortised over a smaller volume base. This will inevitably mean these costs will be recouped from higher new vehicle or parts prices.

While it is very difficult to quantify the potential impact, Ford Australia also believes it is very difficult to quantify the community benefits, if any, that could accrue from the proposed changes. In the absence of such cost/benefit information, Ford Australia is strongly recommending that spare parts not be treated differently than other goods.

- (4) **Revenue Base:** Ford Australia does not publish financial information showing a precise break-down of sales revenues between vehicle sales and replacement parts sales. However, as indicated in discussions with the committee, the broad split between the two is approximately 90/10 in favour of vehicle sales. This should also be viewed in the context of the high capital costs/low returns which characterise the automotive manufacturing industry. Companies like Ford Australia are required to invest hundreds of millions of dollars in new product design and development before one dollar of consumer revenue is received. In addition, vehicle manufacturers are also required to maintain comprehensive inventories of spare parts well beyond the sales life of a new vehicle.
- (5) **Overseas Experience:** Ford Australia is a subsidiary of Ford Motor Company. Ford Motor Company is the world's second largest automotive company. It was founded in 1903 and is headquartered in Dearborn, USA. Its corporate brand portfolio includes Ford, Mercury, Mazda, Aston Martin, Jaguar, Lincoln, Volvo and Land Rover. These automotive brands are complemented by the Company's ownership of Ford Credit - the industry's largest automotive finance organisation, and Hertz - the world's largest car rental company.

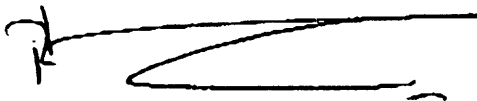
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As part of its extensive global operations, Ford Motor Company creates considerable intellectual property which can sometimes be covered under design, patent and copyright legislation in various jurisdictions. The corporation recognises the value of its intellectual property and has a global policy of protecting this property where it is able to do so. Because of significant differences that do exist in legislation between jurisdictions, it is difficult to make comparisons. However, Ford Australia does believe the experience of the European Union has some valuable lessons for Australian policy-makers. As outlined in the explanatory memorandum of this legislation (paragraphs 44 & 45), the European Union has abandoned plans for uniform EU-wide policy.

Please contact me on (03) 9359 7142 if you have any queries.

Yours faithfully



**Russell Scoular**  
Government Affairs Manager

**Attachment:** Comparative Pricing Comparison

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Ford Australia

Comparative Replacement Parts Pricing

Part Description	Ford P/N	Design Registered				Toyota Camry Sedan	Mazda 626 Sedan	Hyundai Accent Sedan	Toyota Corolla Sedan
		Ford BA Falcon Sedan	Holden Commodore VY Sedan	Magna Sedan	Toyota Camry Sedan				
Front Bumper	BA17C831AP	\$229.00	\$215.00	\$149.00	\$200.00	\$345.42	\$151.61	\$250.00	
Bonnet	AY16612A	\$307.00	\$295.00	\$352.00	\$420.00	\$402.66	\$306.79	\$350.00	
Rear Qtr. Panel RH	AYF27846A	\$250.00	\$239.00	\$256.00	\$158.00	\$457.63	\$359.44	\$685.00	
Boot Lid	AYF40110A	\$297.00	\$325.00	\$256.00	\$400.00	\$482.95	\$199.03	\$645.00	
Rear Bumper	BA17D781AP	\$237.00	\$250.00	\$182.00	\$230.00	\$384.90	\$159.02	\$353.00	
Front Fender	AY16005A	\$155.00	\$189.00	\$173.00	\$230.00	\$188.30	\$152.55	\$300.00	
<b>Subtotal</b>		<b>\$1,475.00</b>	<b>\$1,513.00</b>	<b>\$1,369.00</b>	<b>\$1,638.00</b>	<b>\$2,261.86</b>	<b>\$1,328.44</b>	<b>\$2,593.00</b>	

Headlamp Assy (R) BA13005A	\$203.00	\$187.00	\$153.00	\$200.00	\$420.92	\$181.69	\$200.00
Tail Lamp Assy (RH) BA13404A	\$103.00	\$129.00	\$240.00	\$210.00	\$159.89	\$84.18	\$184.00
Front Door Glass (R) ERF21410A	\$126.00	\$137.00	\$145.00	\$70.50	\$143.46	\$154.02	\$292.00
Radiator Support As AYF10922A	\$193.00	\$115.00	\$220.00	\$147.00	\$281.09	\$190.68	\$560.00
Fuel Tank BA9002A	\$495.00	\$585.00	\$531.00	\$645.00	\$465.00	\$459.36	\$260.00
Drivers Side Airbag BAF043B13A1	\$385.00	\$300.00	\$386.00	\$206.00	\$515.05	\$900.00	\$770.00
<b>Grand Total</b>	<b>\$2,980.00</b>	<b>\$2,955.00</b>	<b>\$3,043.00</b>	<b>\$3,116.50</b>	<b>\$4,247.27</b>	<b>\$3,298.37</b>	<b>\$4,849.00</b>

**CHEAPEST**

Base Vehicle Price \$34,560.00 \$31,650.00 \$33,780.00 \$32,405.00 \$33,785.00 \$18,853.00 \$21,840.00

**BEST VALUE**

Parts Grand Total as & of Vehicle Price 8.62% 9.37% 9.01% 9.62% 12.57% 17.50% 22.20%

\*Any non-Ford pricing that has been referenced in this exercise has been obtained from Autoquote and from individual enquiries to dealers. This pricing was obtained during the month of April, 2003. Every effort has been made in undertaking this comparison study to ensure the information presented is true and correct.

NB. All quoted prices are GST inclusive