

31 August 2008

Committee Secretary
Senate Select Committee on Fuel and Energy
Department of the Senate
PO Box 6100
Parliament House
CANBERRA ACT 2600

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

Dear Sir/Madam

Subject: Submission to Senate Select Committee on Fuel and Energy

We write in response to a public invitation for comment regarding an inquiry into the impact of higher fuel prices and other related issues by the Senate Select Committee on Fuel and Energy. 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 one of Australia's largest private sector investors in research and development. It is a leading automotive company with approximately 5000 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 over the next decade. 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.

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 an impaired operating environment for Australian motor vehicle manufacturers. The sustained appreciation of the Australian dollar,

escalating commodity prices for raw materials such as steel, aluminium and petro-chemical based products, supplier insolvencies, climate change concerns, 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 the recent spikes in the cost of oil and 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 is a major contributing factor.

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

In recent years, 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 75,000 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.

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.

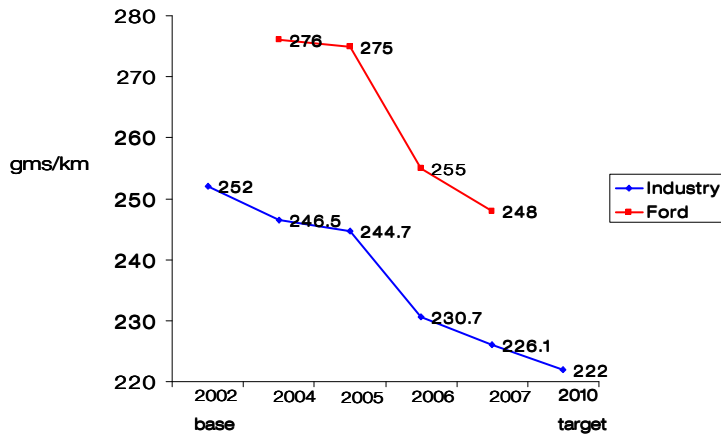
Climate Change and Emissions Trading Scheme

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.

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%)



Conclusion

In summary, Ford Australia is of the view that there is no silver bullet when it comes to picking one alternative fuel technology over another, and would encourage policy makers to adopt a technology neutral stance to allow those investing to determine the best methods in delivering the desired outcomes to the market. The automotive industry in Australia is well placed to cherry pick from a global variety of technologies from a range of suppliers. This diversity of choice is of huge benefit to local companies when developing future fuel strategies.

Ford Australia competes for custom in one of the most open and competitive economies in the world. There are some 50 brands offering more than 350 models from 20 source countries in the Australian market. Consistent with this wide choice at the time of vehicle purchase, motorists should also be able to elect their particular fuel type; whether petrol, diesel, LPG or biofuels, in a competitive market environment.

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

Elly Haug
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