

29 November 2005

Emissions Trading Working Group
Secretariat
The Cabinet Office
GPO Box 5341
SYDNEY NSW 2001

Dear Sir/Madam

Subject: NATIONAL EMISSION TRADING SCHEME CONSULTATION

We write in response to a recent invitation for comment on issues relating to a national emission trading scheme which are currently under study. We apologise for the delay in forwarding these comments. Because of this lateness, we will limit our submission to specific comment on the issue of trade exposure and to providing the Working Group Secretariat with a broad outline of Ford Australia's general approach toward enhanced energy efficiency and consequently reduced greenhouse gas emissions.

It is Ford Australia's view that competitive market pressures are driving significant reductions in the energy intensity of the automotive manufacturing industry. A fundamental issue in the successful pursuit of these reductions is maximum operating flexibility.

Ford Australia is a leading automotive company with extensive design, engineering and manufacturing facilities. Its core products are the Ford Falcon and new all-wheel-drive Ford Territory. These vehicle lines are complemented by a broad portfolio of imported products from Europe, Asia and North America including the Ford Focus, Ford Fiesta and Ford Courier. Ford Australia employs more than 5600 people in Geelong and Broadmeadows, Victoria. In 2004, Ford Australia sold 135,172 locally manufactured and imported vehicles with sales revenues from vehicle and parts sales of more than \$4.0 billion. Ford Australia is ultimately owned by the Ford Motor Company in Dearborn, Michigan.

Ford Australia's focus on energy efficiency is underpinned by business and environmental imperatives, and centres on the two key areas of its business activities; firstly the company's own manufacturing operations where electricity and gas are the main energy sources and secondly the motor vehicles produced by the company where petrol and liquefied petroleum gas are the main in-use energy sources. In both cases, energy represents an operating cost which can be reduced through a mix of appropriate new technology investments and enhanced process or operating methodologies.

In recent years, Ford Australia has made significant investments in reducing unnecessary energy usage in both its manufacturing facilities and in its locally designed and engineered vehicles. A key driver of this activity has been the emergence of a highly competitive automotive market in Australia. In recent years, the automotive manufacturing industry has undergone a considerable transformation with significant reductions in historical assistance levels such as tariffs. This has contributed to the emergence of one of the most competitive automotive markets in the world where more than 50 different brands (Ford, Volvo, Jaguar etc) and 350 different models (Falcon, Territory, Focus etc) from 20 source countries are now available in Australia. In such a congested marketplace, a manufacturer's success will inevitably be dependent on sought-after and high value product. Cost-effective manufacture will obviously be of significance to the value equation.

The abovementioned competitive intensity, much of it derived from emerging vehicle production nations such as Thailand, Korea, Malaysia and South Africa, is a strong illustration of the trade exposure of the Australian motor vehicle manufacturing industry.

Ford Australia acknowledges that much of the historical discussion on trade exposure issues has been focussed on those sectors significantly dependent upon selling their products in global export markets. However, the company submits that the globalisation of the Australian economy over recent years means this narrow perspective is no longer appropriate. In the case of the Australian automotive manufacturing industry there is a strong prima facie case that it is now as significantly trade exposed as those traditional export focussed industries of agriculture and resources. In addition to the product diversity mentioned above, the automotive sector's trade exposure can be illustrated by the fact that some 70% of the 955,229 new vehicles sold in Australia in 2004 were imported. This competitive intensity resulting from the exposure, facilitated by declining tariffs and a high \$A value, has contributed to an 18% reduction in the price of new vehicles, as mentioned by ABS consumer price index data, in recent years. Ford Australia strongly submits that the automotive manufacturing industry's significant trade exposure must be taken into consideration when assessing the likely sectoral impacts of any national emissions trading scheme.

Ford Australia firmly believes the maximum operating flexibility is necessary in such an external environment if the best possible commercial and societal benefits are to be achieved. This recognises that the best solutions will be achieved via a focus on cohesive market-driven actions that can promote energy efficiency and conservation as opposed to a more rigid approach.

Ford Australia has reservations as to the appropriateness of Australia seeking to implement a national emissions trading scheme ahead of its trading partners. The domestic industry's ability to pass on any direct/indirect costs in the abovementioned automotive market is severely limited.

Ford Australia has sought to pursue flexible energy saving initiatives under a broad systemic framework. With regard to its manufacturing facilities, the company has an environmental management system which is certified to the ISO14001 standard. This approach, with a focus on procedures, process and program, provides a consistent worldwide system for a global company like Ford Motor Company. It also carries the credibility of third party certification. From Ford Australia's perspective, the benefits of ISO14001 have included:

- improved environmental performance,
- cost reductions,
- a single management system, standard and process,
- improved relationship with regulatory agencies,
- increased company competitiveness.

Within the broad framework provided by the ISO 14001 standard, Ford Australia has also secured accredited licensee status at both its manufacturing sites with the Environmental Protection Authority in Victoria. It was also the first automotive manufacturer to become a signatory to the Federal Government's Greenhouse Challenge Program. Under both the EPA licensee and Greenhouse Challenge program, Ford Australia has achieved target reductions in energy use via a wide suits of initiatives. For example, the company's initiatives have included the use of highly fuel efficient B-Triple trucks between Geelong and Broadmeadows, automation, by robotics of press lines to reduce idling time and an extensive "lights off" program. The benefits of the company's initiatives can be seen from Ford Australia's 2004 Greenhouse Challenge Report where the company's gas and electricity, totalled 3.51 tonnes of CO2 equivalent for every vehicle produced; an 18% reduction since 2002. This reduction was achieved via a mix of energy efficiency initiatives and an increase in production volumes.

In addition to its own initiatives, Ford Australia has also worked actively among its supplier community to reduce energy consumption in their facilities. More than 85% of the company's Australian suppliers are certified to ISO14001. This certification is part of a global initiative by the Ford Motor Company. Ford Australia has also worked with external groups such as the Energy Smart Leaders Program in Victoria and North Link-Nietl, which ran a Greenhouse Challenge recruitment program among small to medium businesses in Melbourne.

Ford Australia has also participated via the Federal Chamber of Automotive Industries in a series of voluntary agreements since 1978 with the Federal Government to improve the energy efficiency of motor vehicles. These agreements have sought to reduce the national average fuel consumption of vehicles sold in Australia via the introduction of new technologies, reductions in vehicle mass and wider use of smaller vehicles.

Ford Australia believes this voluntary code approach, which has achieved fuel savings of more than 30%, is well suited to the Australian automotive industry structure where flexibility is paramount in an environment where manufacturers focus on the domestic manufacture of medium to larger cars, have a reliance on global technology developments and have a largely petrol oriented passenger car market. Ford Australia is also the Australian industry leader an alternative fuels with its dedicated Egas (LPG) Ford Falcon vehicles accounting for some 10% of model sales. Over time, Ford Australia can foresee the greater use of hybrid and fuel cell vehicles.

The Australian emphasis to date has largely focused on the fuel efficiency of new vehicles. However, Ford Australia believes significant energy efficiency opportunities also exist in the area of greater in-use energy efficiency. This could involve greater use of intelligent transport systems, eco-driving type programs and in-serve vehicles maintenance programs. For example, eco-driving programs in Europe have demonstrated that drivers can reduce fuel consumption by up to 25% simply by adapting some straight forward driving and maintenance procedures.

We trust the matters raised are of assistance to the Secretariat. We would be happy to discuss the issues in greater detail. The writer can be contacted on (03) 9359 7142.

Yours sincerely,

Russell Scoular
Government Affairs Manager