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## **Productivity Commission Review of Australia's Automotive Manufacturing Industry**

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### **Public inquiry response**

The Productivity Commission has reviewed the ongoing debate concerning the future of the car industry since 1990. In its review of the Automotive Industry in 1997, the Productivity Commission stated that the automotive industry would face important decisions about its future:

“In reality, the industry’s future will be determined by the actions of the foreign parent companies of the four car assemblers. While there are many possible directions these firms could follow, the Commission believes that the decision of each parent will be driven by either of two stark, and contrasting views of the role of the Australian subsidiary,

The first view will see the subsidiary as an integral part of the parents global strategy, with opportunities for Australia determined by Australia’s underlying strengths; that is, its people, its institutions, and the performance of its governments.

The second view would see the Australian subsidiary through the distorted prism of the level of assistance provided by the Australian community.

The Commission hopes that whatever the level of assistance provided to the industry after 2000, the first view is the one that prevails.”

Unfortunately, the second view has prevailed in 2013. The whole “co-investment” agreement in providing Government assistance is to ensure that the industry remains in Australia and guarantees jobs. But if sales of the motor vehicle being produced in Australia are falling, (Commodore sales in Australia decreased from 94,642 in 1998 to 30,532 in 2012<sup>1</sup>) then how can jobs be guaranteed?

Domestically, sales in the local car market have declined from 85 per cent in 1986 when there were tariffs to 29% in 2004, to 17% in May 2008, 14.1 per cent in 2010 to 7.7 per cent in 2011.<sup>2</sup> Buyers of large vehicles have shifted from large passenger vehicles to SUV’s. The growth and popularity of the high polluting SUV’s is alarming. Unlike Australia, both China and the United States have imposed tight standards and imposed very (non-tariff) high excise taxes on large fuel inefficient passenger vehicles.<sup>3</sup>

The Productivity Commission should examine whether any proposed restructure of the Motor Vehicle Industry can manufacture cars that can compete with global

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<sup>1</sup> M Skulley, Australian Financial Review 8 February 2013, “End of an Era”

<sup>2</sup> VFACTS National Report Vehicle Sales, Federal Chamber of Automotive Industries, December 2012

<sup>3</sup> H. Oliver, K Gallagher, D Tian, 2009, Harvard Kennedy School, China’s Fuel Economy Standards for Passenger Vehicles.

markets and satisfy international mandatory fuel efficiency and or carbon emission standards. Internationally, car manufacturers are required to design and manufacture vehicles that meet such standards and are supported by the Government, not only financially, but also with the introduction of fiscal measures that encourage the uptake of such vehicles and limits the importation of fuel inefficient, high carbon emitting vehicles.

### **Competing international requires the introduction of mandatory fuel efficiency and carbon emitting standards.**

The largest global car manufacturers have mandatory fuel efficiency standards and or carbon emitting standards that supports the technological development of new fuel-efficient low carbon emitting vehicles. For example, leading car manufacturers have introduced the following mandatory CO<sub>2</sub> emission or fuel efficiency standards: European Union - by 2015 the average emissions of all new passenger vehicles must be: 130gCO<sub>2</sub>/km (equivalent to 5.6 litres per 100 kilometres); by 2020 the average emissions of all new passenger vehicles will reduce to 95g/CO<sub>2</sub>/km (equivalent to 4.09L/100k); Japan 2015: 125g of CO<sub>2</sub>/km (equivalent to 5.38L/100 km); China 2015: 7L/100km (equivalent to 162gCO<sub>2</sub>/km).<sup>4</sup>

To meet the stringent targets, car manufacturers will have no choice but to develop hybrids and electric vehicles. In 2010 Toyota Motor Europe (TME) was confirmed as the automotive industry leader with the lowest emissions of 112.2g/km, well below the industry average of 140g/km. To say there is no future growth in hybrid and electric vehicles is a misnomer considering sales of Toyota and Lexus full hybrid vehicles passed 3.5 million mark worldwide.<sup>5</sup>

The Australian Government issued a Discussion Paper in 2011 on the future Light vehicle CO<sub>2</sub> emission standards for Australia. But the former Australia Government failed to mandate CO<sub>2</sub> emission standards. The former Government had proposed mandatory standards of 190g of CO<sub>2</sub> per kilometre by 2015 and 155g of CO<sub>2</sub>/km by 2024<sup>6</sup>. But such proposed standards fail to meet the above international standards and are not recommended.

### **Australia's average carbon emissions for new passenger vehicles are not internationally competitive**

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<sup>4</sup> Center for Climate and Energy Solutions, Comparison of Actual and Projected Fuel Economy for New Passenger Vehicles, sighted at <http://www.c2es.org/federal/executive/vehicle-standards/fuel-economy-comparison> on 9 April 2013

<sup>5</sup> Toyota leads industry with lowest fleet wide CO<sub>2</sub> average in Europe, <http://www.toyota.eu/about/pages/newsdetails.aspx?prid=705&prs=Corporate&prrm=pressrelease>

<sup>6</sup> Australian Government Department of Infrastructure and Transport, Light vehicle CO<sub>2</sub> emission standards for Australia – Key Issues Discussion Paper – 2011, sighted at [http://www.infrastructure.gov.au/roads/environment/co2\\_emissions/files/Light\\_Vehicle\\_CO2\\_Standards\\_Discussion\\_Paper.pdf](http://www.infrastructure.gov.au/roads/environment/co2_emissions/files/Light_Vehicle_CO2_Standards_Discussion_Paper.pdf)

In 2011, Australia's national average carbon emissions from new passenger vehicles were 46 percent higher than in the European Union (198g/km compared to 136g/km)<sup>7</sup>. Australia's national average carbon emissions from new passenger and light commercial vehicles performance have not improved significantly since the IEA reported on Australia's performance in a 2006 survey of 19 IEA member countries. In this survey, it was reported that Australia had the least efficient road passenger transport and one of the lowest levels of new passenger vehicle fuel efficiency in the world, and that the gap was expected to widen.<sup>8</sup>

**Australian manufactured new passenger vehicles have higher CO2 emissions than the national average.**

The average emissions of the three Australian car manufacturers: Ford Australia (238gCO<sub>2</sub>/km), General Holden (217g CO<sub>2</sub>/km) and Toyota (181gCO<sub>2</sub>/km) were 210g/km in 2012, higher than the national average of 199g CO<sub>2</sub>/km.<sup>9</sup>

**Absence of standards allows Australian motor vehicle industry to continue manufacturing fuel inefficient and high carbon emitting vehicles.**

The former federal governments handout of \$2.17 billion over the past 12 years has produced another fuel inefficient and high emitting Holden VF Commodore with CO<sub>2</sub> emissions that would be equivalent to the average carbon emissions of the 2012 Holden Commodore of 249g/km, and fuel efficiency of 9.8 litres/100km.<sup>10</sup> The new Commodore will be relabelled as "Chevrolet SS" and exported to the United States market in 2014.<sup>11</sup>

However sales of the new Chevrolet SS will most likely be limited because of the US average fuel economy standards, called Corporate Average Fuel Economy Standards (CAFE) that applies to light duty vehicle, fleets (passenger and light duty trucks). In 2011, the CAFE standards were 27.3 miles per gallon (mpg) (8.6Litres/100km), which will decrease to 35.5 mpg (6.6 L/100 kilometres) by 2016 and 54.5 mpg (4.32L/100km) by 2025.<sup>12</sup> The higher CAFE standards are aimed at pushing US automakers to build smaller and lighter vehicles, encouraging the development of alternative vehicles and fuels in the market.

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<sup>7</sup> Australian Government, National Transport Commission, *Carbon Dioxide Emissions from New Australian Vehicles 2012* <<http://www.ntc.gov.au/filemedia/Reports/CO2EmissionsNewAustVeh2012InfoPa.pdf>> at 14 October 2013.

<sup>8</sup> Australian Government Minister's Task Group on Energy Efficiency, *Report of the Prime Minister's Task Group on Energy Efficiency July 2010* <[http://ee.ret.gov.au/sites/default/files/documents/03\\_2013/report-prime-minister-task-group-energy-efficiency.pdf](http://ee.ret.gov.au/sites/default/files/documents/03_2013/report-prime-minister-task-group-energy-efficiency.pdf)> at 14 October 2013, 126.

<sup>9</sup> National Transport Commission, *Carbon Dioxide Emissions from New Australian Vehicles 2012.*, sighted on <http://www.ntc.gov.au/filemedia/Reports/CO2EmissionsNewAustVeh2012InfoPa.pdf>

<sup>10</sup> National Transport Commission, *Carbon Dioxide Emissions from New Australian Vehicles 2012.*, sighted on <http://www.ntc.gov.au/filemedia/Reports/CO2EmissionsNewAustVeh2012InfoPa.pdf>

<sup>11</sup> The Motor Report, 16 February 2013, Holden Commodore Returns to US: 2014 Chevrolet SS Unveiled, sighted at <http://www.themotorreport.com.au/55972/holden-commodore-returns-to-us-2014-chevrolet-ss-unveiled>

<sup>12</sup> P Bastani, J Heywood, and C Hope, January 2012, U.S. CAFE Standards, Potential for meeting light-duty vehicle fuel economy targets, 2016-2025, sighted at [http://web.mit.edu/sloan-auto-lab/research/beforeh2/files/CAFE\\_2012.pdf](http://web.mit.edu/sloan-auto-lab/research/beforeh2/files/CAFE_2012.pdf)

Nor should Ford Australia's announcements that it will stop manufacturing cars in Australia by 2016 come as a surprise. To continue manufacturing in Australia was unsustainable. Ford Australia could not continue operating when the domestic sales were declining and the vehicles could not be exported.

Yet regardless of the declining sales, in January 2012 the Australian Government committed a further \$34 million in assistance, to keep Ford Australia producing the current models until 2016. The funding provided a short-term solution to save jobs, but failed to provide any long-term goals. Unless the Australian Government, Unions, and the local car industry implements international standards and practices, and supporting fiscal measures, Australia's car industry will continue to hemorrhage.

**Recommendation:** It has been submitted that the mandatory fuel efficiency and carbon emission standards should be introduced and harmonised with international targets.<sup>13</sup>

### **Imposing charges and taxes on all new cars sold that fail to abide by the mandatory fuel efficiency and CO2 emission standards**

In the EU, the shift to hybrids and electric vehicles was encouraged by imposing some form of CO2 motor vehicle taxes on purchase price; through registration taxes, or by imposing a bonus-malus system where either a penalty charge is imposed when purchasing a high emitting vehicle or a bonus is paid when buying a low emitting vehicle. In 2011, 30 per cent of total new passenger car registrations in the EU, (emitted 101-120g CO2/km) compared to .5% of new car passenger sales in Australia.

Failure by the Australian Government to introduce such incentives or penalties will make it difficult for the local car industry to manufacture and sell domestically and internationally low emission or alternative fuel vehicles such as electric cars.

This was evident when the former Australian Government attempted to "reinvent the car industry" and prepare it for a low-carbon future by introducing "A New Car Plan for a Greener Future." In June 2008, Australian taxpayers funded \$35 million to assist Toyota to "assemble" 10,000 hybrid Camry's a year. Despite aggressive advertising by Toyota in 2010, the National Transport Commission reported that only 6,400 hybrid Camry's could be sold, mostly to fleet car buyers. Local car manufacturers such as Toyota will be discouraged from increasing their production volume of hybrids or alternative fuel vehicles in Australia if there is no growing domestic demand. This cannot be achieved without the introduction of fiscal instruments to encourage the uptake of such vehicles.

### **Countries imposing charges and taxes on imported high carbon emitting vehicles regarded as a non-tariff barrier**

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<sup>13</sup> A Mortimore, 2011 "Mandating emission targets can significantly reduce Road Transport Emissions in Australia" Critical Issues in Environmental Taxation – Volume IX: Environmental Taxation in China and Asia-Pacific: Achieving Environmental Sustainability through Fiscal Policy.

The Federal Chamber of Automotive Industries chief executive Tony Weber does not appear to acknowledge the importance of the international fuel efficiency standards, given his comment in the Australian Financial Review on 9 April 2013. Mr Weber claims Thailand's excise taxes on cars has a negative impact on exports of cars to the country, and provides the example that the Ford Territory is advertised in Thailand at a "retail price of \$99,000, twice the Australian price." Mr Weber believes "Australia needs to beat down non tariff barriers across South-East Asia for the domestic car manufacturing to remain viable."<sup>14</sup>

The high excise taxes in Thailand are meant to discourage the acquisition of fuel inefficient, high emitting vehicles such as the Ford Territory. However, if Australia had imported a vehicle that had emissions of no more than 120g of CO<sub>2</sub>/km, then the excise taxes would have been cut from 30 per cent to 17 per cent.<sup>15</sup>

Likewise, imposing such charges on all new cars sold in Australia would also discourage the uptake of high carbon emitting vehicles imported into the country and would encourage the sales of fuel efficient cars manufactured in Australia such as the GM Holden Cruze and the Toyota Camry hybrid. It would also encourage and support the local car industry in designing and manufacturing new models that meet such standards.

### **Recommendation**

To compete internationally the Australian Government needs to impose additional penalties and charges to discourage consumers from choosing new passenger vehicles that fail to meet fuel efficiency and CO<sub>2</sub> emission targets.

### **Additional Government funding**

To meet fuel efficiency and CO<sub>2</sub> emission targets requires additional funding by Governments. On 23 May 2013, the former Minister for Industry and Innovation, Greg Combet said that the financial support provided to Australia's auto industry was among the lowest in the world: \$18 per capita compared with \$90 in Germany, \$265 in the US and \$334 in Sweden.<sup>16</sup> This is true, but all the above countries are investing in the most technologically advanced fuel efficient or alternative fuelled vehicles that will meet the above stringent mandatory emission targets. Funding is not provided for the "upgrade" of high carbon emitting vehicles such as the GM Holden VF Commodore, which would require less 'per capita' investment.

The former Federal Minister for Trade and Competitiveness, Mr Craig Emerson, blamed Ford Australia's lack of competitiveness because of Australia's high dollar.<sup>17</sup> Even without the high Australian dollar, the car industry will fail to export its cars because of its failure to satisfy international emission and fuel efficiency standards. If

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<sup>14</sup> The Australian Financial Review, 10 April 2013.

<sup>15</sup> FIA Foundation for the Automobile and Society, IEA, International Taxation Forum, UNEP, 2010, Improving Vehicle Fuel Economy in the ASEAN Region, sighted at [http://www.globalfueleconomy.org/Documents/Publications/wp1\\_asean\\_fuel\\_economy.pdf](http://www.globalfueleconomy.org/Documents/Publications/wp1_asean_fuel_economy.pdf)

<sup>16</sup> The Australian, "Government Handouts to auto makers are lost in a black hole" 24 May 2013.

<sup>17</sup> Craig Emerson, Federal Minister for Trade and Competitiveness and Minister Assisting the Prime Minister on Asian Century Policy, The Australian Government, 25 May 2013.

the Australian Government is serious about Australia exporting locally manufactured vehicles, then Government funding should be conditional upon such targets being met. If such targets had been mandated, the Australian Government would not have approved Ford Australia's answer to it fuel efficient vehicle- Eco Boost Falcon emitting 201g of CO<sub>2</sub>/km, costing taxpayers \$42 million. The same should apply to GM Holden's two new models proposed for 2022 that requires additional funding of \$1 billion.<sup>18</sup> By 2022, the EU CO<sub>2</sub> emission standards for new vehicles will be reduce to 95g of CO<sub>2</sub>/km .

### **International car manufacturers compete in designing new fuel-efficient, low carbon light motor vehicles**

Many of the above countries are now in a new form of competition in seeing who can manufacture the most fuel-efficient car. Ford Australia knew the change-taking place and opted out of the Australia market. For example the Ford Focus was rated as 2012 World's best selling car <sup>19</sup> and the multinational company is advertising that it offers "more choices of fuel efficient vehicles that any other car manufacturer, such as the 2013 Focus electric, 2013 Fusion hybrid, and the fully electric C-MAX Energi."<sup>20</sup>

Australia is behind the rest of the world, where overseas car industry's have resisted and lobbied against the demands imposed by their Governments, and argued that consumers undervalue fuel economy and will prefer imported vehicles and not locally manufactured fuel efficient vehicles. This called for Governments to support their own car industry through introducing incentives and disincentives such as penalties and charges. For example Ireland, similar to Australia's love of SUV's and large vehicles went from a market share of 34 per cent share in 2007 to 3 percent in 2010 because of the introduction of strong fiscal measures. This demonstrates how serious the game has become.

GM Holden is also facing decline in new vehicle sales. In 2012, VFACTS recorded a decline of 7%, but in the month of December 2012, decrease of 25.3%, was mostly from a 24.8% fall in Holden Commodore sales.<sup>21</sup> Holden Cruze sales also recorded a fall of 13.6%.<sup>22</sup>

### **Conclusion**

Many countries are discouraging consumers from buying high carbon emitting vehicles like the Ford Territory, which generally remain on road for more than 10 years. This will be the future trend given countries are reducing carbon emissions for the purpose of reaching their international obligations.

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<sup>18</sup> Roberts Peter, Death knell rings for carmaker's market share, Australian Financial Review, 24 May 2013

<sup>19</sup> James O'Toole, Ford Focus is the World's best selling car.

<http://money.cnn.com/2013/04/09/autos/ford-focus/index.html>

<sup>20</sup> Ford, Fuel Efficiency Options, sighted at <http://www.ford.com/green/fuel-efficiency/>

<sup>21</sup> VFACTS National, New Vehicle Sales December 2012

<sup>22</sup> ibid

If the Prime Minister says that the key to making cars in Australia successfully was to export the bulk of them and "... achieve a run of 100,000 units a year" <sup>23</sup> then the Australian car industry has no choice but to meet such international global emission's or fuel efficiency standards of other countries. Therefore if Australia is serious in manufacturing and exporting overseas, it must mandate fuel efficiency and carbon emissions standards to international levels or be left behind. In order to achieve this, the Australia Government will need to support the local motor vehicle industry with additional financial assistance and introduce fiscal measures to encourage the uptake of fuel efficient and lower carbon emitting vehicles.

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<sup>23</sup> Mayer, Sid, Owen Michael, "PM Backs Car Summit" The Australian May 25-26, 2013