



AUTOMOTIVE INDUSTRY GROUP

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AUTO INDUSTRY REVIEW

The report into the Australian automotive industry, conducted by a panel headed by Steve Bracks, was due to be handed to the Federal Government on 31 July 2008. It is anticipated that the report will be released to the public shortly. The HWL Ebsworth Automotive Industry Group will issue an update once the report is published.

GREEN PAPER

On 16 July 2008 the Federal Government released its Carbon Emissions Green Paper (Paper). The Paper sets out the blueprint for a National Emissions Trading Scheme (Scheme) to be introduced by 2010. In essence, the Scheme will require industries that generate carbon pollution to purchase permits for every tonne of greenhouse gas that they emit. A copy of the paper, along with fact sheets, is available at <http://www.climatechange.gov.au/greenpaper/index.html>.

The Paper does not directly consider the Scheme's application to the automotive manufacturing industry in Australia. However, it would appear from the Paper that automotive component producers will not be required to purchase permits. The Scheme will affect a number of input costs for automotive component producers. The Scheme will apply to fuel. However, for the first 3 years of the Scheme the Government will reduce fuel taxes on a cent for cent basis to offset the impact on fuel prices associated with the introduction of the Scheme. This mechanism will be reviewed at the end of three years. Consequently, for at least three years, the Scheme will not affect transport costs associated with the manufacture of automotive components.

The two main areas where the Scheme will affect manufacturers, including automotive component producers, is in respect to electricity and raw materials. The electricity generation, mining and steel production industries are all emissions intensive and will be required to purchase carbon permits. This will increase the cost of their products which will be passed on to end users such as automotive component producers.

The paper makes it clear that the Scheme is projected to cause a 16% increase in electricity prices and a 9% increase in gas prices by 2010-2011. Absent any agreement with OEM's to absorb price increases resulting from the implementation of the Scheme, automotive component producers will be left to absorb these costs. This will potentially have a detrimental affect on the competitiveness of the automotive component sector in Australia as against other countries which do not have carbon trading schemes.

The Paper provides stakeholders with the opportunity to make written submissions to the Government in relation to the development of the Scheme. The closing date for making submissions is 10 September 2008. Submissions can be forwarded to emissionstrading@climatechange.gov.au

ENTERPRISE CONNECT

The Federal Government has launched Enterprise Connect, a new program designed to assist small and medium sized enterprises (SMEs). The Enterprise Connect program will establish 10 business centres around Australia. These business centres will then provide experienced business advisors to work directly with SMEs providing:

1. A free business review that will help identify how the SME can improve its business strategies and operations;
2. Benchmarking of business and manufacturing processes against best practice;
3. Help in finding latest research, technology and organisational knowledge to improve products and efficiency;
4. Links to prototyping and testing facilities to turn ideas into products; and
5. Help to cut through red tape and get the best access to government programs.

Access to Enterprise Connect is open to SMEs that have turned over between \$2 and \$100 million in the previous financial year, are solvent, involved in manufacturing or the supply chain, have traded for the last three years and have not received similar government assistance in the past three years.



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Additional information, including application forms, is available at www.enterpriseconnect.gov.au

ACCC GUIDANCE ON CARBON CLAIMS

The ACCC has released a paper that provides guidance for companies wishing to make claims about the carbon credentials of their product and avoid contravening the *Trade Practices Act 1974* (Cth) (Act). The paper, entitled “*Carbon Claims and the Trade Practices Act*” provides guidelines for companies making claims about:

1. Carbon Offsets;
2. Carbon Neutrality
3. Low carbon Emissions; and
4. Footprint Calculators.

The view of the ACCC that claims in relation to each of these factors are prone to ambiguity and therefore the possibility of leading consumers into error. In order to avoid any misunderstanding and potential prosecution for contravention of the Act the ACCC recommends that businesses should disclose all relevant facts and explain exactly what is meant by the claim being made. This is particularly the case with claims of carbon neutrality. The ACCC points out that there is no universally accepted definition of this term. Many consumers are likely to interpret a claim of carbon neutrality as meaning that the net climate impact of the business or product is zero. Companies should clearly explain what is covered by their claim of carbon neutrality and exactly what is covered by any offset, including whether it is a forward offset (i.e. offsets that are not already realised or will take a long time to be realised, such as tree planting).

With respect to footprint calculators that allow consumers to calculate the effect of them using a particular product or service, all assumptions or qualifying information should be given. For example, calculations of emissions from a motor vehicle. To avoid potential misrepresentation, such a calculator should disclose assumptions such as weight of the vehicle, speed and type of driving (i.e. city or country).

Claims of low carbon emissions should be clarified. Such claims could be interpreted as meaning low emissions in relation to similar products, so low as to be almost negligible or low for the life of the product. Companies making such claims need to be specific and explain exactly what is meant by the low emissions claim.

The ACCC also advises companies purchasing carbon offsets to be careful. Purchasers need to be sure that the offsets being offered by an offset provider will cover the emissions that the offset is purchased to counter. Purchasers should obtain contractual commitments from the offset provider to provide replacement offsets if the project doesn't deliver anticipated carbon reductions or is destroyed, for instance if a tree plantation is destroyed by fire. The potential pitfalls from carbon offset and neutrality claims has been revealed by the ACCC's prosecution of GM Holden over advertisements for SAAB motor vehicles (covered in our February edition of the Automotive Industry Update). So far this is the only such prosecution but it serves as a warning that the automotive industry needs to be careful in the way that it advertises its carbon credentials.

CHINESE DOMESTIC DEMAND SLOWING

A number of economic factors have combined to cause a slowing of demand for new vehicles in the Chinese market. On 20 June 2008 the Chinese Central Government lifted the price of petrol by 16.5%. On top of this, the steep decline in the Chinese stock market has affected the availability of funds and the desire to purchase new vehicles. 10% of the Chinese population is reported to have investments in the stock market. This year the Shanghai stock market has dropped by close to 49%. As a consequence of these factors, many people are no longer able to afford or willing to purchase new vehicles. However, despite a drop in domestic demand, Chinese manufacturers are still increasing production. The result of this is likely to be an increased surplus of vehicles which will need to be exported. Consequently, decreased domestic demand may lead to a greater effort by Chinese manufacturers to develop export markets.

BMW TAKES ACTION AGAINST CHINESE CAR MAKER

In a recent decision, a Munich Court has banned the importation and sale of the Shuanghuan CEO in Germany. The Court ruled that the CEO too closely resembles the BMW X5 and that Shuanghuan is infringing BMW's design rights. BMW commenced legal action last September after a German importer announced its intention to import the CEO into Germany.

VOLVO SALE?

In what looks to be the final step in the dismantling of the former Premier Automotive Group (PAG), Ford has reportedly engaged in preliminary discussions with a number of manufacturers for the sale of Volvo. Volvo is the last remaining manufacturer in the PAG stable following the sell off of Aston Martin and the recent sale of Jaguar and Land Rover to Tata Motors of India. Reports indicate that Ford has held preliminary talks with Renault and Dongfeng, China's third largest auto manufacturer. Ford sources have acknowledged that it has been having informal discussions with interested parties, although Ford says it has no plans to sell the company.

US AUTO MANAGEMENT BRIEFING SEMINARS – TRANSCENDING TURBULENCE

The Centre for Automotive Research is hosting a series of seminars considering the current turmoil in the global automotive industry and the outlook for the future. The Seminars will take place in Michigan in the United States during the week of 11 – 15 August 2008. Throughout the week, sessions will be conducted by key players in the US and global automotive industry. Speakers will address such topics as: the impact of globalisation on manufacturing and the growing need for innovation in products and processes. Further information on the seminars and registration forms can be found at <http://mbs.cargroup.org/2008/content/view/15/59/>



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