FEDERAL CHAMBER OF AUTOMOTIVE INDUSTRIES

Supplementary Submission
to the
Productivity Commission

Inquiry into Post 2005 Assistance Arrangements for the Automotive Manufacturing Sector

August 2002

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1. GENERAL COMMENTS

The Federal Chamber of Automotive Industries (FCAI) has acknowledged that the Commission's Position Paper provides a constructive contribution to the consideration of options for policy arrangements to apply to the Australian automotive industry after 2005.

It is clear that the Commission has extended considerable effort to closely examine the views of a wide range of stakeholders in the development of the Position Paper and to develop a sound understanding of many of the issues and challenges confronting the automotive industry in Australia today.

The Position Paper makes a number of important observations about the nature of the Australian and international automotive industries. It is pleasing that the Commission recognised the significant advances made by the industry in Australia in recent years, including the advance of product development capabilities, the positive response to emerging export market opportunities, a strong customer focus and extensive links with global vehicle and component suppliers.

Notwithstanding these gains, the Commission has identified a number of potential threats and challenges, which could undermine the industry's future prospects. These include the risk of adverse exchange rate movements; changes in fleet purchasing practices; economic downturns or political instability in key export markets; and the possibility that some of Australia's trading partners may increase protection or undertake other measures to attract or retain automotive investment to the detriment of Australian interests. In addition, the Commission has suggested that there is considerable scope to address existing weaknesses in workplace relations arrangements and low production volumes to enhance the industry's competitiveness and future viability.

FCAI welcomes the Commission's acknowledgement of the desirability of establishing a clear policy path, providing greater certainty for the industry, over a period of at least 5 years, and preferably 10 years, beyond 2005.

FCAI accepts the goal that assistance arrangements for the Australian automotive industry should ultimately move into alignment with other manufacturing industries. However, the Chamber believes achievement of this objective needs to be balanced against at least the following two considerations:

- the competing policy environment affecting decisions about the location of international automotive investment in other competing markets, particularly within the Asia Pacific region; and
- the adjustment costs associated with the transition to a lower assistance environment.

Competitive Policy

FCAI's initial submission to the Commission emphasised the importance of ensuring that Australia remains an attractive location for 'mobile' international automotive industry investment:

> *"Investment in new models, major car components (such as engines) and R&D are the life-blood of the industry. Without continued re-investment the industry will quickly decline. When making investment decisions, parent companies take a global view, with investment being allocated to the overseas subsidiaries that will provide it with the greatest returns and best meet their global objectives and strategies. Therefore the four Australian vehicle manufacturers are in constant competition for investment with other subsidiaries of their parent companies.*

The Australian policy environment should not be established in isolation from the realities of this global policy environment. If Australian policy is significantly less supportive of automotive investment than that in place in competing investment locations, despite the inherent competitiveness of the Australian industry, investment may be lost to overseas production centres where the policy environment is more favourable."

FCAI (2002), p. 69.

Further, it was noted that:

"[C]ompetition among nation states, and regions within them, to attract and retain automotive industry investment is intense. In the Asian region little movement has occurred in terms of improving market access. In North America and Europe policy is providing significant support for investment and innovation."

"Unlike industries such as agriculture that depend on immobile assets, land and climate, the automotive industry depends on attracting a highly mobile asset – investment capital. If Australian vehicle manufacturers are to successfully compete for the investment that is required for their growth, it is essential Australia's policy settings for the automotive industry are comparable with those in place in countries competing with Australia for automotive investment."

FCAI (2002), p. 58.

The Australian industry has taken significant steps to increase its attractiveness as a location for automotive investment in recent years. The industry has made strong gains in productivity and quality. Moreover, despite the small size of the Australian market relative to major international markets, some Australian manufacturers have demonstrated the ability to cost effectively design, engineer and produce innovative, high quality variants of vehicles capable of fulfilling niche demands in international markets.

FCAI reiterates its emphasis that international shareholders will determine future investment decisions having regard to the competitive position of the policy environment in Australia, relative to that available in alternative investment locations. Accordingly, we urge the Commission to take this fact into account in seeking to identify all appropriate policy options that the Government may consider to apply to the Australian automotive industry after 2005.

Adjustment Issues

The Commission's Position Paper acknowledges that the policy calculus is more complex than in the past:

> *"But with assistance to the industry now much lower, the allocative gains from further reductions in government support are much smaller. Indeed, the quantitative modelling undertaken for this inquiry suggests that these gains could even be outweighed by small, but adverse shifts in the aggregate price of Australia's exports relative to its imports."*
>
> *Productivity Commission (2002) pp. XXII-XXIII*

Moreover, as the Position Paper states:

> *"With the static resource allocation and terms of trade effects being both relatively small and largely offsetting, 'dynamic' considerations that are not encapsulated in quantitative modelling assume much greater importance in formulating future assistance policy."*
>
> *Productivity Commission (2002), p. XXIII*

Included among these ‘dynamic’ considerations are the adjustment costs for the industry and particular regional areas that could occur as a result of reductions in the prevailing level of assistance.

The Chamber agrees with the Commission’s assessment that the industry has successfully demonstrated a capacity to adjust to significant changes in the policy environment over the past decade and a half. However, the costs of the adjustment that the industry has undergone during this period should not be underestimated, nor should the importance of appropriate policy settings to help facilitate this adjustment by reducing the disruption and dislocation resulting from the loss of investment in some areas. FCAI further agrees with the Commission’s observation that, as assistance gets lower, some of the required adjustments necessary to accommodate any further reductions in support become harder.

FCAI is pleased to note that the Commission, in considering appropriate policy options to apply to the industry after 2005, has sought to ensure that the industry will have time to adjust to the prospect of future changes in the policy environment:

> *“In formulating its tariff and ACIS options, the need to give the industry adequate time to adjust to a lower assistance environment has been uppermost in the Commission’s mind. For much the same reason, the Commission has also suggested that changes to the tariff on second hand vehicles or to government purchasing arrangements would not be appropriate at this time. And it has argued that changes in environmental policies impinging on the industry should have regard to the capacity of firms and the industry to make the necessary changes to their operations.”*
>
> *Productivity Commission (2002), p. 137*

FCAI notes the Commission's assessment of the potential risks and impact of further significant adjustment for the industry and for particular regional areas which have the highest concentrations of automotive investment.

FCAI believes that such considerations favour the development of policy arrangements over a time horizon that best fits the cycle of investment decisions in the industry. Accordingly, FCAI welcomes the Commission's acknowledgement that the industry's desire to establish a clear basis for policies affecting the industry over a period of preferably 10 years from 2005, appears to be a reasonable request.

2. TARIFF OPTIONS

In its submission the FCAI proposes that the tariff on passenger motor vehicles should be maintained at 10 per cent beyond 2005.

While the Chamber acknowledges that there may ultimately be scope to reduce the tariff below this level, it believes that such changes should only occur with the achievement of significant and meaningful improvements in access to other international markets, particularly within the Asia Pacific region.

Unilateral Reduction of Tariffs

In contrast, each of the options for future tariff policy advocated by the Commission in its Position Paper, involves the establishment of a predetermined timetable for reduction in tariffs on motor vehicles and automotive products to a target of 5 per cent over the period to either 2010 or 2015.

The Commission's Position Paper argues that reciprocity does not provide a sensible basis for setting assistance policy. In particular it is stated that:

> *"Given that the Australian vehicle market is small and our automotive tariffs are already relatively low, the value of any bargaining coin in these contexts [WTO negotiations and the current exploration of a number of bilateral free trade agreements] would be limited. In the Commission's view, therefore, efforts by Australia to use its remaining automotive assistance as a negotiating lever to secure better access to overseas markets would have little prospect of success."*
>
> *Productivity Commission (2002), p.83*

However, the response to the *Review of General Tariff Arrangements* (Productivity Commission 2000) seems to indicate that the Australian Government believes that there is scope to link future changes in tariff arrangements to progress in securing better access to international markets for Australian exporters:

> *"These changes [past tariff reductions] have delivered greater efficiency to our manufacturing industries. It is now time to consolidate and call upon the rest of the world to catch up with Australia's lead."*
>
> *Costello and Minchin (2000)*

Accordingly, FCAI is concerned that Australia should not prematurely agree to further concessions that may undermine our competitiveness as an investment location, without further testing the scope for meaningful progress on trade and investment issues.

While supporting the objective of reducing tariffs on automotive products, FCAI contends that this should be done in keeping with Australia's efforts to secure improved access to other markets for Australian exporters.

Australia's International Obligations

FCAI believes that prospective applied rates of tariff of 10 per cent for vehicles and automotive products are in no way inconsistent with Australia's international trade obligations or objectives, either in respect of the achievement of the APEC Bogor goal for the achievement of 'free and open' trade and investment by 2010, or the reduction of barriers to trade in industrial products in the forthcoming WTO round.

The Bogor goal does not mandate any given level of tariff on vehicles or automotive products to be achieved by 2010. Rather, individual APEC economies undertake to pursue actions that contribute to the achievement of the Bogor objectives on a voluntary and non-binding basis.

To reinforce the position articulated in FCAI's initial submission (p.71), under current policy settings Australia's vehicle market and automotive industry are characterised by:

- an internationally high level of import activity;
- a wide diversity of available brands and models;
- competitive levels of vehicle affordability; and
- significant levels of international investment.

As yet other developed nations within APEC have provided no firm indication of their timetable, or intention to remove existing tariffs on vehicles or automotive products (for example, the United States 25 per cent tariff on light trucks).

Moreover, as stated in FCAI's initial submission, we do not believe that maintenance of automotive tariffs at 10 per cent, for a period beyond 2005, will constrain Australia's ability to negotiate further liberalisation of bound rates for industrial tariffs in the context of the forthcoming WTO round. Australia's bound rates of tariff for most automotive products are set at rates of between 25 per cent and 40 per cent. There is considerable scope to negotiate reductions in bound rates from these levels without impacting upon current or prospective applied rates.

An Additional Tariff Option

The Commission's Position Paper presents three options for automotive tariffs after 2005. Each of these options involves the progressive reduction of tariffs over a predetermined timetable, until they are aligned with general manufacturing tariffs at

5 per cent. The Commission states that the longest period that it could reasonably contemplate for this alignment to occur is a 10-year period beyond 2005.

FCAI urges the Commission to consider the inclusion of a further option which would see automotive tariffs maintained at 10 per cent beyond 2005.

While not demurring from the ultimate objective of aligning automotive tariffs with that of other manufacturing industries, it would be open to the Australian Government to consider future reductions in automotive tariffs, below 10 per cent, in the context of a range of possible future developments, including the following:

- Progress in reducing barriers to trade in industrial products in the forthcoming WTO round;
- Progress toward implementation of the APEC goals of ‘free and open’ trade and investment throughout the Asia Pacific region;
- Implementation of bilateral free trade agreements, including possible agreements currently being considered with Thailand and the United States;
- Australian involvement in regional free trade agreements, including the development of a future agreement with AFTA; and
- Australia’s competitive standing as a location for international automotive investment.

Of course, under existing policy automotive tariffs are scheduled to fall from the current rate of 15 per cent to 10 per cent on 1 January 2005, and to remain at that level in the absence of the passage of legislation by the Australian Parliament to further alter the rate.

3. RENEWAL OF ACIS

The Automotive Competitiveness and Investment Scheme (ACIS) has a number of objectives. While it is true that one of these is the provision of support to the industry in the transition to a lower tariff environment, this is not the sole objective underpinning the existing scheme.

In addition to transitional support, ACIS was instigated with the intention of providing a competitive incentive for renewed and additional international investment in the Australian industry. For administrative reasons, the scheme also incorporates the Duty Free Allowance (DFA) which the Government agreed to continue indefinitely in 1997. The DFA, now delivered in the form of uncapped ACIS production credits, is designed to partially offset the impact of tariff assistance for domestic component producers on the input costs of vehicle manufacturers.

Impact of ACIS

A recent study (Deloitte Touche Tohmatsu 2002) commissioned by FCAI and the Federation of Automotive Product Manufacturers (FAPM), which involved all four vehicle manufacturers and 44 automotive component producers, shows that ACIS is having a substantial impact on activity levels in the Australian automotive industry.

As Table 1 indicates, the results of the study show that production, investment and R&D levels are all likely to be significantly higher, over the period to 2005, than if ACIS had not been implemented. *It should be noted that figures relating to ACP impacts in Table 1 apply only to those firms that responded to the survey and have not been extrapolated to provide an estimate of the total impact of ACIS for all participants in this category.*

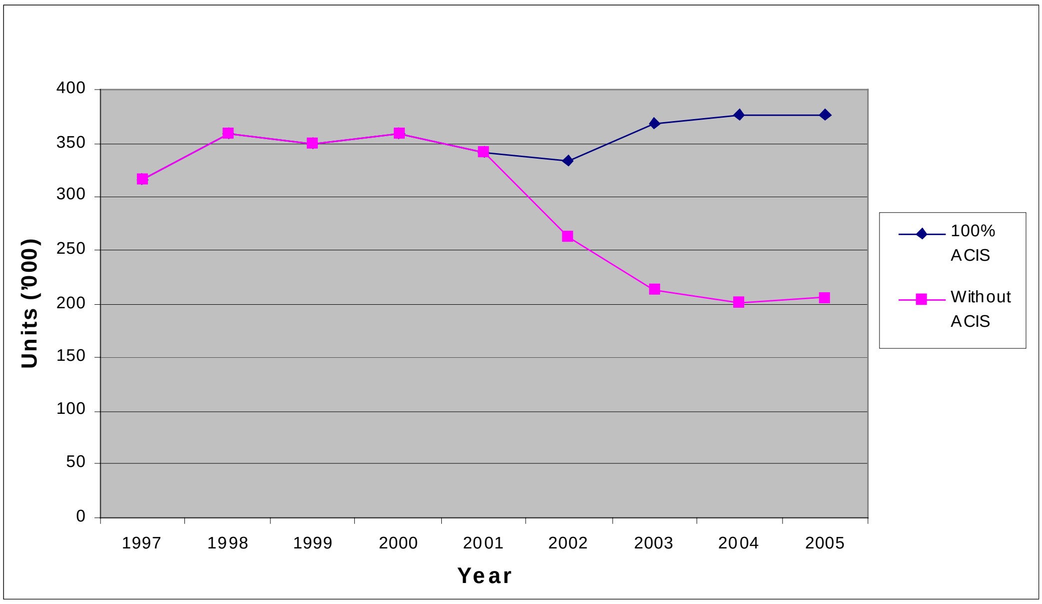
It should also be noted, that responses were provided on the basis that the rate of modulation had been kept at 1.00. The study was unable to accurately determine the impact of the reduction in the modulation rate to 0.71. More recent anecdotal responses from FCAI members suggest that this will potentially have a material and adverse impact on a number of forthcoming expenditure proposals.

Table 1: Impact of ACIS

	MVPs		ACPs	
	$m	**%**	**$m**	**%**
Production	+ 16,693	64.7	+ 2,855	24.0
P&E Investment	+ 1,328	97.7	+ 291	47.0
R&D Investment	+ 713	149.5	+ 343	64.7

Note: Figures represent the value of additional expenditure attributed to the incentive provided by ACIS, relative to the level that would have otherwise prevailed over the period 2002-2005, assuming rate of modulation equals 1. Expenditure for 2001 was taken as an 'actual' figure; respondents were not asked to provide counterfactual estimate of expenditures for this year.

Chart 1: Impact of ACIS on MVP Production Volumes

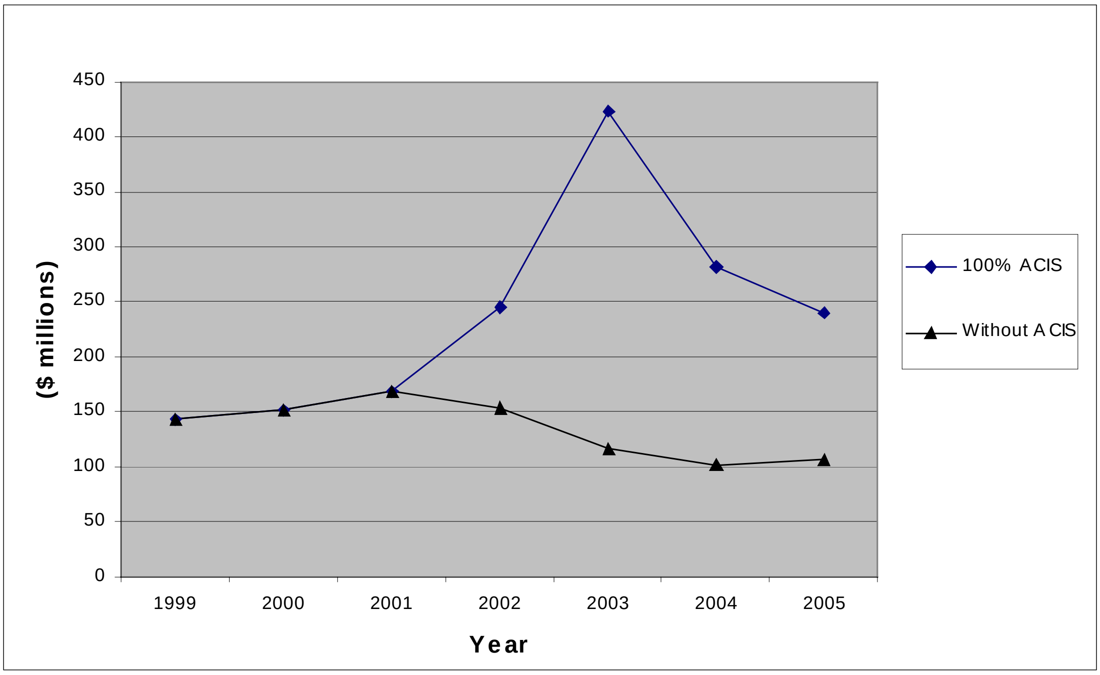


In broad terms, the study reached a number of important conclusions about the impact of ACIS on vehicle producers. Some of these can be summarised as follows:

- ACIS is likely to provide a crucial underpinning to the ability of vehicle manufacturers to attract and maintain investment by their parent companies and international shareholders. As Chart 1 suggests, in the absence of ACIS, production of vehicles would have been projected to decline by around 170,000 units a year over the period to 2005.

- ACIS is critical to vehicle producers winning global mandates to undertake major new investments in Australia.
- ACIS benefits are proving effective as an incentive for both ‘own use’ and contract R&D by vehicle producers, even though ACIS in its current formulation does not directly reward ‘own use’ R&D undertaken by vehicle producers. Chart 2 illustrates the purported impact of ACIS on total projected R&D expenditure to be undertaken over the period to 2005.

Chart 2: Impact of ACIS on MVP R&D Expenditure



- ACIS is aiding the industry’s transition to a freer regional trade environment. Vehicle producers expressed confidence that they would be able to further increase exports and operate at more economic volumes as international markets open up.

- ACIS is having a significant impact on the technical efficiency of vehicle producers, by enhancing their production capabilities. This found form in a number of areas, including:
- the range of products offered;
- the introduction of new production technologies sourced locally or from overseas;
- productivity gains;
- improvement in manufacturing costs;
- process efficiency gains;
- process flexibility costs;
- improvements in process organisation/innovation;
- quality improvements;
- introduction of new technology; and
- development of a more skilled workforce.

FCAI intends to make a copy of the final report of this study available to the Commission.

Extension of the DFA

The DFA was a legacy of the previous local content schemes, giving motor vehicle producers an entitlement to import, free of duty, original equipment components worth up to 15 per cent of the value of production for the Australian and NZ markets. As mentioned previously, the DFA was intended to provide at least partial compensation for the impact of tariff on the cost of original equipment component inputs for motor vehicle producers.

As part of its response to the previous review of the industry in 1997, the Government decided that the DFA should be continued. For practical reasons, however, the scheme has since been absorbed into ACIS, in the form of the uncapped production credits (Sec. 42 (1) of the *ACIS Administration Act 1999*).

FCAI believes that consistent with the Government's earlier decision, the DFA should continue uncapped and be treated as a separate and distinct issue to evaluation of the appropriate quantum of funding and design of the $2 billion capped elements of ACIS.

Funding Options

The Commission's Position Paper presents three indicative options for the level of funding and time-profile of a renewed ACIS after 2005, as follows:

1. Funding of $2 billion to $2.8 billion provided over five years, ceasing in 2010.
2. Funding with an equivalent net present value, provided over 10 years at a uniform rate, ceasing in 2015.
3. Funding with an equivalent net present value, provided over 10 years ceasing in 2015, with funding for the second five-year period set at half that for the first five-year period.

A key issue in considering each of these options is the need to determine the appropriate quantum of funding for a renewed ACIS.

With respect to the $2 billion capped elements of ACIS, only a year and a half into the current program, it is clear that the demand for ACIS credits is much stronger than projected when the scheme was initially designed and implemented. As Table 2 shows the total level of unmodulated capped ACIS credits over the period 2001-2005 is projected to be around $2.6 billion. At this level, in order to comply with the

$2 billion cap, ACIS credits will need to be modulated by an average of around 0.71 over the remainder of the period to end-2005.

Table 2: ACIS Projections 2001-2005 ($m)

	2001	2002	2003	2004	2005	Total
MVP Capped Credits	231	224	293	321	254	**1,323**
ACP Credits	213	217	252	255	252	**1,189**
AMTP Credits	7	9	10	12	12	**50**
ASP Credits	2	2	3	3	3	**13**
Total Credits	**453**	**452**	**558**	**591**	**521**	**2,575**

Note: Figures are compiled on the basis of actual modulated activity to June quarter 2002. A modulation rate of 1.00 has been applied to projected activity taken from ACIS business plans from September quarter 2002.

FCAI has undertaken some preliminary projections of the cost of a renewed ACIS scheme, over the period 2006-2010. These are summarised in Table 3, below. These projections take into account the impact of projected growth in production values, plant and equipment investment and R&D, which more than offset the effect of the lower tariff at 10 per cent.

Table 3: ACIS Projections: 2006-2010 ($m)

	2006	2007	2008	2009	2010	Total
MVP Capped Credits	301	316	299	300	312	**1,528**
ACP Credits	231	243	262	267	261	**1,264**
AMTP Credits	13	13	14	15	15	**70**
ASP Credits	3	3	3	4	4	**17**
Total Credits	**547**	**576**	**579**	**585**	**593**	**2,879**

On the basis of these projections it can be seen that the level of demand credits in a renewed ACIS would again exceed $2 billion by a significant margin.

Even at this level it seems inevitable that the scheme would be subject to the constraints of ongoing severe modulation, resulting in a further reduction in the level of effective assistance provided by the program after 2005.

Accordingly, FCAI submits that renewal of the currently capped elements of ACIS with funding of at least $2 billion over a five-year period 2006-2010 would be the minimum position supported by the industry. As previously indicated, FCAI also submits that the DFA should continue uncapped, in line with the Government’s 1997 decision.

Separate Funding Pools

The Commission’s Position Paper acknowledges that there is a case for establishing separate funding pools for vehicle producers and component manufacturers within a renewed ACIS.

Indeed, it is worth noting that it was the original intent of Minister’s that the current scheme would incorporate such a feature when it was announced:

> *“ACIS will have two related sub-schemes.” …. “For the purposes of commencing the scheme’s operations there will be a notional allocation of $1,300 million for the PMV manufacturer sub-scheme and a notional allocation of $700 million for the component producer sub-scheme.”*
>
> *Fischer and Moore (1997)*

A key issue in considering the practical implementation of such a modification is the appropriate split of benefits between categories of participants in a renewed ACIS.

One issue of contention for vehicle manufacturers associated with the operation of ACIS in its current form has been the impact of stronger than expected growth in demand for credits from ACP participants. Most recent estimates project that MVP participants will receive ACIS credits worth around $991 million (49 per cent of available funding), while all other categories will receive $1,009 million (51 per cent). This represents a significant and material deviation from the initial expectations of motor vehicle producers and from the notional allocations indicated by Ministers, as quoted above.

Accordingly, the Chamber would be concerned that segmentation of a renewed scheme, on the basis of the current allocation between the major categories of eligible participants, could undermine future growth in investment by vehicle manufacturers.

FCAI submits that the determination of the appropriate split between separate funding pools should be determined by way of agreement between industry and the Government, once in-principle decisions on the quantum of funding and time profile for a renewed scheme have been finalised.

As noted previously, FCAI rejects the notion that those elements of ACIS that are uncapped today should be capped in a renewed scheme. FCAI believes it would be inappropriate to include these elements of a renewed scheme in the calculation of separate funding pools.

Other Design Issues

The Position Paper indicates that the Commission does not favour significant modifications in the design of a renewed ACIS, including possible changes in eligibility criteria for different categories of participant or types of expenditure to be supported under the program.

Notwithstanding, the findings of the Deloitte‘s study described above and the Commission’s observations about the fungible nature of ACIS credits (p. 94), a number of vehicle manufacturers have indicated that there may be merit in restructuring ACIS support to provide a stronger direct incentive for vehicle manufacturers to undertake investment in ‘own use’ R&D.

FCAI’s initial submission suggested that consideration could be given to ways of enhancing support for innovation and investment in the industry and the Chamber retains an open mind on the efficacy of introducing appropriate modifications to the design of the program to support these objectives.

FCAI believes this is an issue which should be determined in consultation between industry and the Government, once in-principle decisions have been taken on the quantum of funding and time profile for a renewed ACIS.

4. INDUSTRIAL RELATIONS ISSUES

FCAI welcomes the Commission’s observations about the substantial progress that has been made over the last decade or so, to improve the flexibility and productiveness of automotive workplaces (pp. 40-41).

Nonetheless, as FCAI’s initial submission acknowledged significant issues remain to be addressed to bring some Australian workplaces up to world best levels. Moreover, as a number of recent disputes illustrate, the industry also remains vulnerable to the disruptive impact of disputes at key points in the supply chain.

FCAI agrees with the Commission’s preliminary finding that significant progress in improving workplace outcomes is unlikely until all firms and all employees see it as in their joint interests to work together to further the prospects of their enterprises and the industry.

FCAI reiterates the support expressed in its initial submission for currently proposed legislative amendments to strengthen the integrity of genuine bargaining arrangements and the introduction of secret ballots to help reduce the risk of unnecessary and illegitimate industrial action.

As FCAI has previously indicated, while it acknowledges that there are provisions within the existing legislation that manufacturers may use, consideration should be given to further amendments to provide increased protection against disputes which cause significant disruption to third parties within the industry and to increase penalties for non-compliance with court decisions.

To this end FCAI has also endorsed proposals that would allow the Australian Industrial Relations Commission (AIRC) to implement a so-called ‘cooling off period’, to suspend ‘protected’ industrial action to allow for conciliation or mediation of a dispute; or to terminate the right to take industrial action where it is demonstrated that significant damage is likely to be caused to innocent third parties.

5. TAXATION POLICY

FCAI welcomes the Commission’s assertion that the luxury car tax has a number of deficiencies and that there may be a case for abolishing this tax.

The Chamber supports the Commission’s assessment that, at the very least, there are grounds for raising the threshold above which the luxury car tax applies.

FCAI reiterates its support for the eventual abolition of the luxury car tax. As indicated in our initial submission, the Chamber believes that as an immediate measure the threshold for the tax should be increased to restore earlier relativities with significant pricing points in the Australian vehicle market. On this basis, the Chamber believes it would be necessary to increase the threshold from its current level of $57,009 to around $78,000.

6. SAFETY AND ENVIRONMENTAL ISSUES

Vehicle and Related Standards

FCAI concurs with the Commission’s finding that delayed introduction in Australia of more stringent emission standards will not, of itself, prevent vehicle producers from upgrading engine technologies to meet emission standards in global markets.

However, as noted the availability of higher quality fuels (in particular, higher octane and lower sulfur content) is likely to be a key determinant of the timing of the future uptake of new engine technologies in the Australian market.

FCAI acknowledges the Commission’s observation about the need to take account of the capacity of the oil-refining sector to adjust and undertake necessary re-investment to accommodate the requirements of more stringent fuel quality standards. Moreover, as the Commission points out, the impact on fuel prices, and thus on vehicle operating costs, would be another important consideration (Productivity Commission 2002, p. 68).

In past submissions to Government FCAI has advocated introduction of early action incentives (such as a lowering of excise on low sulfur petrol) to encourage more rapid uptake of improved quality fuels in the Australian market.

Fuel Consumption Targets

FCAI welcomes the Commission’s observation about the importance of consultation with the automotive industry in the setting of future fuel consumption targets and the need for policy makers to take account of all of the costs of more stringent targets.

However, the Chamber does not accept the assertion, made by the Australian Greenhouse Office in its submission to the Commission (AGO 2002), that achievement of the Government's stated target for a 15 per cent improvement in average fuel consumption, over 'business as usual' by 2010, translates into an objective of 6.3 litres per 100 kilometres.

This assertion appears to be contradicted by the findings of a study undertaken on behalf of the AGO by ACIL Consulting (1999) to determine appropriate and feasible options for future average fuel consumption targets:

> *"If the NAFC target is to be achievable without disrupting the economic viability of the local manufacturers then, based on our understanding of what would be a feasible and realistic timetable for the introduction of new technology, a figure of around 6.7 litres/100 km would appear to be a realistic lower limit for the target."*
>
> *ACIL (1999)*

As noted by the Commission the industry has proposed a 'cooperative' target of 6.8 litres per 100 kilometres by 2010. This proposal remains open for further discussion between industry and the Government. The Chamber is hopeful that these discussions will be progressed over coming months. FCAI points out that the achievement of such a target would be dependent on a range of factors, including the more widespread uptake of higher octane (95 RON) petrol and introduction of very low sulphur petrol to facilitate the introduction of a range of advanced engine and emission control technologies.

FCAI notes the Commission's observation that, given the shortcomings of average fuel consumption targets as an instrument for reducing fuel consumption, it could be appropriate to examine other ways of pursuing this goal. FCAI would be concerned to better clarify what such alternative approaches might entail before assessing their merit.

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