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COVER STORY

Sweeping changes are expected when Australia's three remaining car makers shut their doors, writes SAM HALL.

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The Australian automotive landscape is on a fast road to change. Our country is facing a motoring industry without local car manufacturing, leaving behind a heavily depleted components supply sector and fewer associated jobs.

But the news is not all bad. The advent of new technology, coupled with fewer restrictions around industry requirements, means Australian buyers could soon expect unprecedented safety, efficiency and choice in the new car market. There is hope the demise of manufacturing will free up federal government funds for incentives for greener, safer vehicles.

Here, we look at how Australia's automotive landscape is set to change between now and 2017, once Holden, Ford and Toyota have shut up shop.

CAR SAFETY

With ever-improving technology and tightening standards, car design and protection will continue to improve road safety in Australia.

Car safety is being emphasised by emerging technologies including self-steering, autonomous emergency braking and vision-enhancement systems.

Volvo has long led the safety charge with a lofty claim to mitigate all deaths and injuries in its vehicles by 2020. But the Swedish car maker isn't alone in its pursuit of ultimate safety. Luxury car makers, including Japanese marque Infiniti, are integrating new safety technology into some of their offerings.

One example is Infiniti's so-called Backup Collision Intervention System, which uses computer analysis, radar and sonar sensors on the rear bumper to automatically apply the brakes if a large object, animal or child is detected while reversing.

That crash avoidance is a large part of the safety push.

Moves are afoot to fully align the controversial Australasian New Car Assessment Program with the European NCAP equivalent, meaning the adoption of important advanced safety technologies could be fast-tracked in Australia.

ANCAP chairman Lauchlan McIntosh said the benchmark for safety was forever shifting and would evolve significantly in the next three years.

"There's a raft of new technologies in terms of collision avoidance rapidly coming in; by 2017, we're going to see a huge amount of change in new cars and maybe even in retrofitting."

NEW CAR PRICES

There are several factors at play - the most important of which is the Australian dollar - but the general consensus is that car prices will hover around current levels in the coming years.

Key to pricing movements are free trade agreements Australia is negotiating with South Korea, Japan, **China** and India. Once ratified, those deals will eliminate a 5 per cent tariff applied to vehicles imported from those countries.

Free trade agreements are already in place with the US and Thailand, which between them account for about one quarter of the cars sold here.

Once the new deals materialise, cars should theoretically be about 3 per cent cheaper. But as Toyota showed last month with its Corolla sedan, which is now imported from Thailand, prices might not necessarily go down. Instead, car makers could add more equipment. Or they could simply retain the savings to allow for future fluctuations in the Australian dollar.

"The FTA with South Korea won't necessarily **lead** to price changes, because there are so many different factors at play," a Hyundai spokesman told Drive. "We wouldn't rule out price drops - it's definitely possible - but it's too early to say."

SECOND-HAND IMPORTS

A push to introduce new laws for second-hand imports could materialise once Holden, Ford and Toyota stop manufacturing here.

Second-hand importers claim there is no reason to continue enforcing restrictive laws designed to protect local car makers. Currently, about 1000 vehicles a month are imported into Australia under the restrictive Registered Automotive Workshop Scheme. Some were built before 1989, or are vans or specialist and enthusiast vehicles brought in from Japan through loopholes.

Stakeholders from Australia met New Zealand representatives in Sydney last month to establish an industry association and remove federal regulations that impede second-hand imports.

Such regulatory changes would make the price of near-new used cars considerably cheaper, particularly sports and luxury models that can cost many multiples of identical models overseas. That, in turn, would put pressure on new car prices, with some buyers instead opting for a similar alternative from overseas.

A Productivity Commission report released in January recommended the removal of barriers to importing second-hand cars, citing increased choice and reduced prices as consumer benefits. The Australian Automobile Association and the Federal Chamber of Automotive Industries joined new car importers in publicly criticising the plan.

Second-hand imports account for 50 per cent of sales in the New Zealand market, contributing to an average fleet age of 14 years.

Australia's new vehicle market is already one of the most fragmented and competitive in the world, with about 60 different brands.

EFFICIENCY/EMISSION STANDARDS

With European countries preparing to enforce stricter emission standards from later this year, Australia is lagging behind in its pollution benchmarks for new cars.

In the past, emission standards in Australia have been enforced with consideration to the vehicle and engine development flexibilities of local car makers, which have been largely hamstrung by their conventional, larger-capacity engines. However, this will change with the car makers' respective closures.

Europe is preparing to phase in strict Euro 6 emission standards from September. By 2017, Australia will have begun enforcing similar rules, meaning stricter benchmarks for nitrogen oxides (NOx), total hydrocarbon (THC), non-methane hydrocarbons (NMHC), carbon monoxide (CO) and particulate matter (PM) pollutants.

Originally, the former Labor government proposed Euro 5 measures in 2012 and Euro 6 from 2016, but postponed both at the urging of the vehicle industry.

The Federal Chamber of Automotive Industries has expressed concerns about inferior fuel standards in Australia, and the effect that will have on introducing Euro 6 measures.

The other variable in emission standards in Australian is the mass introduction and **sale** of the electric car. Despite more than a decade on **sale**, hybrid cars still account for only 1 per cent of the market.

The biggest electric limitation is cost - they cost thousands of dollars more than otherwise equivalent cars - and there is also the problem of range anxiety, whereby people worry if they can make it to the next charging point.

However, with no car makers to subsidise post-2017, the federal government could free up funding for green car incentives. Such programs already exist overseas, offering reduced registration premiums, cash-back schemes or designated driving lanes for drivers of hybrid or electric cars.

FUEL PRICES

It is the \$64,000 question: how will fuel prices change between now and 2017?

According to motoring associations, there is no accurate way to predict fuel prices, because the two biggest pricing indicators - the Australian dollar and the price of motor gasoline - can vary significantly from day to day.

In the past 10 years, the price of regular unleaded petrol increased about 40 per cent.

NRMA spokesman Peter Khoury said it was difficult to predict the future trends of petrol prices beyond two or three weeks.

"For a dramatic change in petrol prices, you would need to see a significant increase in mogas price and a significant fall in the Aussie dollar," he said.

"The Australian dollar is still fairly strong at the moment and it's quite difficult to forecast anything that could happen in the coming months that would cause prices to increase drastically."

Khoury said the ongoing threat of global **oil** shortages had abated with the discovery of new deposits.

With the impending death of the local manufacturing industry, there is some uncertainty around the future of LPG in Australia. Ford and Holden vehicles dominate the LPG market, but their looming deadline will soften demand.

Khoury pointed to the emergence of LPG in **China** and the steady increase in international demand as reasons LPG would continue to be sold in Australia.

Like petrol, LPG pricing fluctuates readily and is difficult to predict. It is also seasonal commodity, usually spiking in price during the European winter, when indoor heating usage peaks.

PERFORMANCE CARS

Australians have grown up on a healthy diet of larger-capacity, V8 muscle cars for decades, and that trend will likely continue, with the Ford Mustang confirmed for about 2015 and General Motors saying it could produce right-hand-drive versions of the Camaro and Corvette. Chrysler and its Dodge brand, too, are looking to take advantage of the demise of locally produced V8s, with the potential for right-drive versions of the next-generation Dodge Charger and Dodge Challenger.

But the key considerations for future performance are increasingly in new engine technology and forced induction.

Only last month, German car maker Porsche confirmed it was working on four-cylinder derivatives for the Boxster and Cayman, and Jaguar is reportedly considering a similar move for its evocative F-Type.

The sledgehammer V8s once commonplace on powerful sedans are also being eschewed by smaller-capacity units with turbochargers. Mercedes-Benz, Audi and BMW have each downsized their hero car engines in a bid for improved efficiency.

Most car makers feel there will still be a market for V8s, but that they will be limited to performance models, and even then in limited applications.

Another revelation in performance is the use of hybrid drivetrains in higher-end vehicles. Porsche, Ferrari, McLaren and BMW have each developed supercars that team conventional petrol engines with electric motors, enhancing performance while improving efficiency.

MANUFACTURING

With Holden, Ford and Toyota confirming they will cease their car-making **operations** by 2017, manufacturing in Australia will undergo huge structural change over the next few years. However, as the pending Productivity Commission report is expected to outline, automotive manufacturing can continue.

Despite their immediate reliance on Holden, Ford and Toyota, component makers are working to diversify their **operations** in a bid to survive beyond 2017. The components sector currently comprises about 150 individual tier-one firms, many of which are beginning to produce goods for overseas markets with help from federally funded transition schemes.

"The opportunities for suppliers outside Australia are in exporting complex, high value-add components, or selling engineering services or plant/capital to emerging markets or partnering joint-ventures with emerging auto industries," Federation of Automotive Product Manufacturers chief executive Richard Reilly said.

One such program already in place is Nissan Castings, a subsidiary of Nissan Motor **Company** Australia. The **company's** Dandenong plant is one of the enduring remnants from when Nissan ended its car manufacturing **operations** in Australia in 1992, and an example of how component suppliers can survive beyond 2017. In 2011, Nissan Castings secured a \$160 **million** contract to manufacture components for Nissan's electric Leaf, which is sold in 35 countries.

Flying the flag for vehicle manufacturing in Australia post-2017 will be the little-known heavy industries sector. Currently, Iveco, Kenworth, Volvo Trucks and Mack Trucks (a subsidiary of Volvo Trucks) manufacture or assemble products in Australia.

Iveco employs about 600 workers, including 35 engineers, across its Dandenong truck-making division and one Iveco product, the Acco, comprises 90 per cent Australia-produced parts and is built for the local market.

Iveco Australia general manager Stavros Yallouridis said heavy-industry manufacturing should take on greater importance with the demise of the car-making sector.

"We have a full manufacturing plant here, which includes pressing and those associated skills," he said.

"We currently manufacture about 800 to 900 vehicles in Australia each year ... It's not an easy task, but we're definitely not in a position like the car manufacturers [where there is not a viable business case]."

The car makers will also maintain a presence.

Ford will continue to staff about 1500 workers for engineering and design in Victoria, while Holden will retain its global design centre. Holden's performance arm, HSV, has vowed to continue its **operations** post-2017.

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