

PRACTICING INTERNATIONAL MANAGEMENT CASE

Driving the Green Car Market in Australia

High fuel costs and concerns over climate change are just two factors that have caused Australia's once booming automotive industry to stall in recent years. Although car exports stood at a respectable \$5.2 billion in 2008, making it one of the country's top ten export earners ahead of more traditional exports such as wine, wheat, and wool, there has been a significant change in consumer preferences. While the market was once dominated by demand for large passenger cars, consumers both domestically and abroad now want smaller cars with lower fuel consumption.

As well as demands for change from car buyers, the industry has also been facing the double whammy of pressures on costs from within. Longstanding plans to cut trade tariffs and quotas that had protected the industry since 1985 have been causing alarm about what the future might hold because there is now even less incentive to build cars locally. Although the automotive industry around the world has been suffering in the deep financial downturn of the time, any further pressure on Australian car manufacturing would undoubtedly have a devastating effect. Australian carmakers build about 320,000 vehicles a year and employ about 65,000 people. Many others are also engaged in associated industries that benefit from the large market.

When Mitsubishi closed the last of its manufacturing plants in 2008, leaving just three automakers operating in the country (local subsidiaries of Ford, Toyota, and General Motors), the government could see it was time to act. To add a sense of urgency, Ford Australia announced plans to cut 450 jobs, as industry figures showed car sales down 11 percent from the year before.

The solution was a proposal to spend \$3.4 billion between 2011 and 2020 on a fund to transform the Australian automotive industry into the green car market. The intention is to use the fund to help the manufacturers still involved in that country with the costs of developing new technologies for alternative energy vehicles and encourage them to make any existing environmentally friendly models in Australia.

The initiative caught the attention of Japanese car giant Toyota, which is one of the many international automakers racing to offer more fuel-efficient models in the wake of fuel prices hitting record highs around the world as well as increased environmental concerns. Toyota's business plan is to reach a target of selling 1 million hybrid cars by the early part of the next decade, and to accomplish this goal, it needs to more than double production of the vehicles. The Japanese company was already building its Camry hybrid in Japan, as well as in Kentucky in the United States and in a

joint venture factory in China. In 2008, thanks in part to the strength of the Australian dollar, it had been weighing an alternative plan to import engines to Australia from its Kamigo plant in Japan.

In September 2010, after months of discussion, Toyota announced a \$300 million upgrade of its plant in western Melbourne. Under the investment, which has been partly funded by taxpayers through a \$63 million payment from the Green Car Innovation Fund, as well as an injection of cash from the local Victorian administration, the Altona engine plant will produce 100,000 hybrid engines and four-cylinder new generation engines each year from the second half of 2012. The plan is that the Australian-made engines will be exported into other countries that manufacture Toyota's Camry and Hybrid Camry.

Toyota's more environmentally sustainable engines will consume 4.5 percent less fuel and produce 5 percent fewer greenhouse gas emissions than the current equivalent. The Australian government says the initiative will secure as many as 3,300 jobs, including existing direct and indirect jobs, and would anchor Toyota's operations in the country for years to come.

According to Toyota executives, the support provided by the Green Car Innovation Fund was the major factor in the project going ahead when they weighed it against other alternatives, including transferring production to the home market in Japan.

Thinking Globally

1. What do you think were the chief factors involved in Toyota's decision to undertake FDI in Australia rather than build its hybrids in Japan?
2. Why do you think Toyota decided to adapt the existing plant in Melbourne rather than build one from the ground up elsewhere in Australia? List as many reasons as you can, and explain your answer.
3. What do you think the decision to manufacture in Australia rather than in its domestic factories will do to the company's reputation at home? How much attention do international customers pay to the location where their automobiles are assembled?
4. What do you see as the pros and cons of Toyota's approach to managing FDI?

Sources: "Japanese Auto Manufacturers in the Australian Market and the Government Industry Assistance Spending," *The Otemon Journal of Australian Studies*, 34, 2008; "Toyota Plant to Deliver Greener Engines", Drive Web site (www.drive.com.au), September 10, 2010; "Review of Australia's Automotive Industry", Australian Policy Online Web site (www.apo.org.au), July 22, 2008.