

Sustainable Development Strategy: The Automotive Sector Experience

Cedric de Meeus, Manager, Environmental Affairs
The Society of Motor Manufacturers & Traders

For those of you who are not familiar with the SMMT, we are the organisation that speaks on behalf of the industry in the UK. We're about 600 members and represent vehicle manufactures as well as service providers in the after market. I'm going to share an experience in what we have done with motor manufacturers to start addressing some of the sustainability challenges and what SMMT has done as a sector organisation to bring the various actors together.

I think you'll agree that the first part of the sustainability equation is a sustainable market so I will quickly go over the sector profile and a market overview before diving into the sustainable development equation. The automotive sector in the UK has continued to make an important contribution to the economy of this country with a turnover of about £44bn, (slide 3) which represents a share of total UK manufacturing of just under 10%. It has remained a very significant employer in the UK with over 800,000 people employed in this country – directly employed by the automotive sector and it contributes about 10% to total UK exports. For those of you who have come here today by car you surely will have noticed that there are many, many cars on the road today. In the UK, there is an estimated 31.1m vehicles.

If we look at car production over the last few years you can see on the graph (slide 4) that production has decreased significantly between 1999 and 2001. The market was indeed impacted by heavy restructuring that took place over the last three to four years and this has included a shift in activities. For instance, you will probably all know that Ford doesn't manufacture cars in this country any more, it only manufactures engines and this has impacted vehicle manufacturers themselves but as well the entire supply chain. I will come back later on to the importance of the supply chain.

As you can see also we are expected and once this restructuring has taken place and new production facilities are up and running the production will pick up and this has been seen from last year in 2002. In terms of the market itself the message is very different as 2002 was a record year (slide 5). We've never sold as many cars as last year. The UK has out-performed the rest of Europe. Where as Europe last year fell in terms of market by about 3%, the UK market grew at about 4.3% and there are several reasons for this growth. It's an increase in competition, which resulted in drops in prices. Driving is becoming cheaper. There are an increasing number of models in each vehicle segment. Vehicles are safer, are cleaner, are better equipped and also importantly there has been in 2001/2002 the introduction of a new fiscal framework which is entirely based on the environmental performance of your car. In other words, it is based on the CO₂ emissions of your vehicle, which is a very interesting fact and makes the consumer - and we've heard by the first speaker, the importance of the consumer and the responsibility of the consumer - increasingly aware of the environmental impact of the product.

Now, this slide (slide 6) shows the bigger picture and we can see there a range of issues ranging from air quality to congestion, safety, manufacturing and what it shows is that automotive manufacturers have to balance a wide range of issues just as aerospace companies must do. These, in most cases, are competing pressures. So if we take the example of safety and comfort. In the majority of cars you will buy today you have electric windows, electric seat adjustment, air conditioning, ABS, navigation aids, mobile phones, etc, etc, etc and this is increasingly demanded by the consumer as being part of the vehicle. However, these improvements and increase in safety and comforts in the vehicle has resulted in increasing weight. This increase in weight can result in an increase in fuel consumption and this means an increase in CO₂ emissions. So these are clearly competing factors. However, the automotive industry has taken mitigating actions to ensure that actually CO₂ emissions have been reduced by 8.8% compared to 1995 new car averages. If we look at mobility and congestion I think the motorcar is enormously successful in meeting the demands of mobility for society and many people regard it as a personal right, however, we'll all agree that with today's growth rate in motor vehicles it is not sustainable and congestion is not a sustainable outcome of the use of motor vehicles.

So these are two rather obvious examples but what it shows is that manufacturers are facing a number of competing pressures which requires them to make progress not just in environmental performances of their vehicle but also economic and social terms and this is what sustainability is all about. Sustainability is required to adopt a holistic approach to business and the impacts of business. We have here definitions of sustainability – you can read them by yourselves (slide 7). The UK government's definition and the way the public understands sustainability and the way we believe we can meet these objectives or meet this definition is by meeting three objectives simultaneously. That is to maintain high and stable levels of growth and employment by effective environmental protection and by ensuring social progress.

Before I outline the way we have approached and what we've put together in order to address these sustainability challenges I would like to clarify two things. First of all I think sustainability is very good but what is the real message for business such as the automotive sector or the aerospace sector. I believe that first of all there is or there must be recognition by all parties that development and progress is essential to sustainability.

Secondly, new technologies are needed and technologies which are significantly better or more efficient, probably by a factor of ten at delivering the services people need in terms of the demand on the earth's resources. And I strongly believe that this requires innovation in which business is best placed to deliver.

Also, you may wonder why do we need a sectoral approach (slide 9). First of all there is strong government support and the government for a number of years has asked sectors and different companies within a sector to come together and develop a strategy and a long-term vision. Secondly, because it provides a facilitated process. It enables us to bring the different actors together and define their vision together. Thirdly, it's a tool. It's a tool to respond to global trend and stakeholder expectations – you will all be very familiar with that. It enables the different actors to be transparent about what they do, what their activity is, about their objectives and about how they see the future. It's a tool to develop and communicate an integrated vision in the case of the automotive sector. For example, it enables us to spin out how we see the development of low carbon transport. You will all agree it's not up to one single transport to work and make efforts to reduce congestion but it needs to come from all the different actors. It's also a tool to assess and measure individual

and collective processes and that is a very useful tool and enables us to identify areas where improvement is most needed.

So how do we do it? When developing a sustainability strategy the starting point is to realise that it is not a defined or a fixed target. It's a constantly evolving set of ideas and principles. So that requires us to develop a vision or a strategy, which will be the foundation of any future work, and it also requires the identification of key issues of sustainability. So in developing our strategy we've decided to base it on the three pillars of sustainability, i.e. economics, environmental and social and take the cars or the product's entire lifecycle into account from design to manufacture, use and disposal. In terms of the main themes and some of these themes may be familiar to many of you, we need to look at economic development and efficiency. A clean balance sheet is essential to any sustainable business. CO₂ and climate change or low carbon transport, resource utilisation, employment in the community, the supply chain and responsible product use. These are the main themes that we have identified that need to be addressed with a certain matter of urgency.

So the sectoral approach was to develop this sustainability strategy, which we did in the year 2000. One particularity of it is that our members sign onto the strategy. In 2000 we had 11 signatories, today we have 18 signatories, which represent over 50% of the sector's turnover. What this strategy does is, it outlines our commitment or the vehicle manufacturer's commitment. It outlines the problems, it is transparent, it recognises what the issues are and which issue needs to be addressed and what they are committed to. It also includes a commitment to report to us who manage this process on an annual basis on the progress in meeting the challenges and it provides, as I mentioned before, a strategic framework and reporting platform to join everybody's efforts together.

Who is involved? SMMT member companies are signatories. You have a few logos there, which are familiar household names (slide 12). Then what it shows as well is it's not only vehicle manufacturers it is the supply chain that is invited to take part. Any part of the supply chain whether you are a global vehicle manufacturer or a small component manufacturer here in the UK - everybody is invited. It is managed by the SMMT, by the environment group where I am based and it's aimed at first of all policy makers both in this country and the European Union to show our commitment to our progress and show that there is a recognition by all actors that there is a need to go forward.

It is aimed at a variety of stakeholders ranging from the financial community to NGOs and pressure groups but it is also aimed at our own members. As I said, the member companies that participate are signatories. I am concentrating much of my time in trying to persuade more companies to take part in this effort.

The way it works is that every year we put an annual sustainability programme together and we try to address certain issues that are identified as being a priority by ourselves and by our members by the signatories. In 2000 I mentioned that we released our strategy in our first annual report. To be honest this first annual report was not very good (slide 13). It was recognised by many organisations as not being very good so we focused our attention in 2001 in developing a reporting framework that can be used. We spent a lot of time doing that for sector level reporting and this is a framework which is still used today and which enables us to produce better reports such as this one. I have a few copies, by the way, with me. Feel free to help yourselves.

Our initial thought last year when we looked at our report was at least the signatories would be recognised, as all are household names. We then recognised the need to get the whole of the supply chain involved into this programme so all our effort last year was to disseminate these activities, disseminate the strategy, disseminate the commitment from the vehicle manufacturers to address these challenges and encourage as many companies from the entire supply chain to take part in this initiative.

This year we have looked at what issues are around us and we have noticed the attention of policy makers and decision makers are very much based on the consumer. We have seen the introduction of the congestion charge and we thought it is important, and we have a responsibility to make sure that consumers have the right tools and the right information to make an adequate purchasing decision as well as adequate use of the product they purchase. Therefore, we have decided to, with the signatories, to develop a 10-20 year vision on sustainability and this is not looking into a crystal ball and trying to figure out what's going to happen in 20 years but rather measure what is our impact today and what we believe is sustainable system will look like or ought to look like.

Secondly, we have decided to produce a sustainable motoring guide which will provide information to the user as to how they can reduce their impact in the way they use the vehicle as well as what information is available to make a better purchasing decision.

I mentioned one part of the commitment from the signatories is to report to us on an annual basis of their performance. This enables us to produce this report that outlines the industry's economic, social and environmental performance. It's aligned with the GRI framework. GRI stands for Global Reporting Initiative, which is a standard reporting framework that is adopted by many companies around the world, and it's conducted according to an agreed set of indicators. In other words, the SMMT puts together a reporting sheet every year with a number of indicators; economic, social and environmental which each signatory is required to fill as completely and precisely as possible and this enabled us to produce this report (slide 14). It spells out our vision and our objectives and provides an annual review of our strategy. As I mentioned, sustainability is a constantly evolving set of ideas that requires us to review our strategy and our report on an annual basis and this is done in the report. It spells out further commitment.

We've heard also today that dialogue is crucial. We are strong believers in that. We have an annual stakeholder dialogue programme. Every year we invite all our stakeholders to sit around one table and discuss what the industry has done – what it's done good, what it's done bad and where we should focus on. This is the outcome of these programmes. Again it's in this report. And then finally obviously it outlines the performance in economic, social and environmental terms.

We've been doing that for three years now. What are the lessons learned? As I said in the very beginning it has been three very tough years. Business has been difficult, vehicle manufacturers are struggling to make money but this didn't stop all of the signatories remain fully committed to this. They are pushing the SMMT to take this forward and to maintain progress and that is despite the difficult economic situation so this situation has no impact on SMMT's sustainability programme and our members' commitment (slide 15).

We have also found out that the supply chain plays a crucial role in the transition to sustainable development. First of all there are an increasing number of standards that are introduced by, for instance, vehicle manufacturers. 'I saw 14,000 in 1' is the most obvious one. Unless you are certified to 'I saw 14,000 in 1' you will not be eligible to do business with them. This is increasingly the case.

There is an increasing set of standards and regulations that requires you to take the entire products lifecycle into account. End of life vehicles – INDS – which is a data management system – in order to implement and operate in accordance with the regulations it is not only up to the vehicle manufacturer but again it needs strong communication between all actors and the whole of the supply chain and this also applies to these competing pressures we have looked at before. For instance, recyclability. This requires product innovation hence a very close engagement with the different parts of the supply chain but also with the different actors involved in transport. Our first speaker this morning mentioned that in order to address the challenges of sustainability for transport, we need to work with all actors – aviation, automotive, train. We need to work with all parts of the civil society – the consumer as the user has his role to play but also with government and industry.

And then finally, and we've heard this several times today, sustainability is a long-term goal and there is indeed a long road ahead. Thank you for your attention.

Chairman: Thank you very much, Cedric, for that clear position of where SMMT is at the moment. I think the message is that setting policies and performance reporting in this area has been a feature of the activities of many individual companies. It's now moving into industry sectors and incumbent on them to pick up on this area.