Towards Sustainability

The UK Automotive Sector

THE MOTOR INDUSTRY SMMT™

Fourth Annual Report

The Society of Motor Manufacturers and Traders

The Society of Motor Manufacturers and Traders (SMMT) exists to provide services and support for the UK industry and, since 1902, has provided a focus to reflect its ever changing needs and interests. With over 600 members, the society supports a large range of companies representing the whole value chain including vehicle manufacturers, component suppliers, research, design and engineering companies and many others. Representation to government at home and abroad on key industry issues, national and international events and exhibitions and promotion, reliable data, information and practical advice are available to any company whose business development relies on the success of the motor industry. SMMT plays a central role in the working life of the automotive sector.

In March 2000, SMMT together with 11 founding signatories launched the UK automotive sector's sustainability strategy 'Towards Sustainability' which outlines the industry's commitment to balance economic progress with environmental care and social responsibility. Today the strategy is supported by 24 signatories.

Signatories to the UK Automotive Sector Strategy for Sustainable Development

- Audi
- Bentley Motor Cars
- BMW Group
- Dunlop Tyres Ltd
- ERF Ltd
- Ford Motor Company Ltd
- GKN Driveline Ltd
- Honda of the UK Manufacturing Ltd
- Jaguar Cars Ltd
- Land Rover UK Ltd
- LDV Ltd
- MG Rover Group Ltd
- Nissan Motor Manufacturing (UK) Ltd and Nissan
- Technology Centre Europe
- Perkins Engines
- Rolls-Royce Motor Cars Ltd
- SEAT
- Skoda Auto
- Toyota GB plc and Toyota Motor Manufacturing UK Ltd
- Unipart Group of Companies
- Vauxhall Motors Ltd
- Volex Wiring Systems
- Volvo Car UK Ltd
- Volkswagen Group UK Ltd
- Volkswagen Commercial Vehicles

Content

Report coverage

Unless otherwise stated:

- The data in this report relates to the 2002 calendar year
- The sector data relates to the UK automotive sector
- Signatory data relates to the 24 signatories to the sectoral strategy for sustainable development

This fourth Annual Report follows the format of the Global Reporting Initiative (GRI) sustainability reporting guidelines. The format has been adapted for sector level reporting rather than the corporate level for which the guidelines are designed.

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1 Chief Executive Statement

Welcome to our fourth annual sustainability report. This report provides an insight into the automotive sector's activities in the UK in 2002 and summarises the sector's performance in meeting the objectives outlined in our sustainable development strategy.

The SMMT sustainable development strategy is now supported by 24 large member companies. This confirms the strong commitment of our sector to address the challenges of sustainability and to improve the performance, individually and collectively, of both our products and manufacturing operations. The performance achieved by the signatories on all three pillars of sustainability is encouraging and trends are moving in the right direction. On a more global basis, four of the signatory companies also form the core of the Dow Jones Sustainability Index's Automotive Industry Group, which affirms our members' commitment to the highest standard of corporate citizenship.

Throughout the year we have listened to and worked with a broad group of stakeholders, including employees, investors, customers, NGOs, industry, regulators and government agencies. They have all assisted us in focussing our efforts to improve our performance towards meeting the needs and expectations of the wider society. However, conflicts in aspiration sometimes prevail and there is a need to balance the demands made on the sector in terms of air quality, CO_2 emissions and safety, with a view to maintain industry's competitiveness in Europe and further afield.

The 2002-2003 period was challenging in many ways. Some difficult business decisions were taken, sometimes resulting in contraction or even relocation, but we believe that our sector will be better for it. It was also a time of success. After many months of restructuring, the UK automotive sector reaffirmed its position as Europe's second largest new car market, with new car registration reaching a record 2.5 million units and manufacturing volumes growing for the first time since 1999. Importantly, the sector also remained an employer of choice with over 840,000 employees directly dependent on the automotive sector.

While we are proud of our achievements to-date, we do recognise that we have much more work to do and we are committed to continue to work in partnership with our stakeholders. We would welcome any feedback which readers of this report may have.

Christopher Macgowan
Chief Executive SMMT

2 Executive Summary and Key Performance Indicators

The data presented in this fourth Annual Sustainability Report outlines sector's performance in meeting its commitment to balance economic progress with environmental care and social responsibility and illustrates the considerable progress that has been achieved, in terms of manufacturing as well as product performance. The number of signatories to the sustainability strategy has grown from 11 in 1999 to 24 in 2003, which demonstrates the sector's commitment to addressing the challenges of sustainability.

Table 2.1 Key Performance Indicators	1999	2000	2001	2002
Number of signatories	11	18	18	24
Economic Performance (Sector)				
Automotive manufacturing sector turnover (£billions)	£44.2bn	£42.5bn	£42.3bn	£43.1bn
Total number of cars and CVs produced (UK)	2.02m	1.81m	1.68m	1.82m
Total new car registrations (UK)	2.19m	2.22m	2.45m	2.56m
Economic Performance (Signatories)				
Signatories' combined turnover (£billions)[a]	£20.1bn	£21.03bn	£24.39bn	£35.73bn
Total number of vehicles produced by signatories	1,972,528	1,527,642	1,470,659	1,441,794
Product Environmental Performance				
Average new car CO_2 emissions (g/km)	185	181	177.7	174.2
Average new car fuel economy (miles per gallon)	38.5	38.9	40.3	40.9
Number of models meeting Euro IV	15	51	75	116
Company Operational Performance (signatories)				
Total combined energy use (GWh) Energy used per vehicle produced (MWh/unit)	6,110 3.1	7,013 3.9	6,857 4.3	6,681 4.0
Total combined water use ('000m^3) Water use per vehicle produced (m^3/unit)	– –	9,620 5.3	10,105 6.2	9,108 5.6
Total combined CO_2 equivalents (tonnes) CO_2 equivalents per vehicle produced (tonnes/unit)	1,821,586 1.08	2,182,926 1.1	2,149,771 1.3	2,142,706 1.2
Total combined emissions of VOC (t) VOC emissions per vehicle produced (kg/unit)	4,019 2.9	7,137 4.4	6,926 4.6	6,240 4.2
Total combined waste to landfill (tonnes) Waste to landfill per vehicle produced (kg/unit)	54,954 –	80,399 40.3	121,207 66.4	70,896 40.5
Social Performance (signatories)				
Signatories' average staff turnover	–	10%	7.6%	7%
Signatories' combined number of employees	95,214	100,036	96,357	89,455

[a] *This figure includes manufacturing turnover as well as sales turnover*

Following a slowdown in 2000-2001, manufacturing volumes for the sector grew by about 8 per cent in 2002. This trend is not reflected in the signatories' performance. This is mainly due to shifts in activities in 2001 resulting in, amongst other things, one major signatory stopping its passenger cars production in the UK. The 2002 new car market reached a record total of 2,563,631 units, bettering the previous record total set in 2001 by 4.3 per cent and with signatories contributing to it by over 95 per cent. The market growth was very much concentrated on the supermini segment (7.4 per cent growth) and diesel vehicles (38 per cent growth). The indicators summarised in Table 2.1 show that signatories made significant progress in improving their environmental performance, both in terms of product performance and company operational performance. Notably, wastes-to-landfill was reduced by over 40 per cent and total combined energy used was down by almost three per cent, despite having additional signatories contributing to the figures. Total combined water use was also reduced by 10 per cent, the lowest combined figure since it started to be measured in 1999. Social indicators show that employment amongst signatories was down by seven per cent on 2001 levels. This is a direct impact of the restructuring period which resulted in numerous companies having to contract, restructure or even relocate. However, the sector remains a key employer in the UK and signatories have concentrated on maintaining their competitiveness by investing over £1.5billion in existing facilities and processes in 2002. Importantly, the sector has continued to engage positively with its stakeholders on a wide range of issues, including responsible product use and low carbon vehicles.

3 Sector Profile

Table 3.1 Sector fact Sheet	1999	2000	2001	2002
Automotive manufacturing sector turnover	£44.2bn	£42.5bn	£42.2bn	£43.1bn
Share of total manufacturing turnover	9.6%	9.1%	9.1%	9.3%
Total net capital investment	£2.13bn	£2.08bn	£2.23bn	£2.17bn
Automotive sector value added	£7.7bn	£7,8bn	£8.97bn	£9.42bn
Total employees directly dependent on the automotive sector	867,000	849,000	835,800	847,100
Value of exports	£19.1bn	£19.8bn	£18.0bn	£20.9bn
Percentage of total UK exports	11.5%	10.5%	9.5%	11.2%
Sector value added share of UK GDP	3.9%	3.4%	3.9%	3.9%
UK sector share of global passenger car production	4.5%	4%	3.7%	4%
No. of UK volume passenger car manufacturers	–	9	9	11
No. of UK commercial vehicle (CV) manufacturers	–	10	10	9
Number of cars and CVs produced	2.02m	1.81m	1.68m	1.82m
New car registrations	2.19m	2.22m	2.45m	2.56m
Cars and Light CVs on the road	29.5m	29.9m	30.5m	31.3m

The UK remains home to the largest number of vehicle manufacturers in Europe and includes producers from America, Japan and Europe. The UK automotive manufacturing sector is a significant contributor to the country's economy and generates a turnover in excess of £43billion which equates to 9.3 per cent of the UK's total manufacturing turnover. Exports from the sector total over £20billion, or 11 per cent of the country's total exports. It also remains a large employer with 847,100 people being directly dependent on the automotive sector.

The automotive sector in the UK, as globally, is constantly changing and adapting to challenging commercial, regulatory and technological trends. From the drive to sustainable development, through the research and viable commercialisation of hydrogen power-trains and relentless cost down pressures along the supply and distribution chain, the automotive sector is a highly competitive structure. In recent years, UK firms have taken a number of important steps to enhance productivity and ensure that they remain competitive. The outcome is a smaller volume car sector than previously expected, with developments in premium and specialist marques and engine assembly.

Manufacturing

The UK is home to 11 leading volume vehicle manufacturers, nine commercial vehicle production facilities and numerous suppliers. Whilst growth for the sector has remained low for the last few years, the most intense effect from the recent period of restructuring in the sector has eased and vehicle assembly in the UK recovered in 2002. Manufacturing volumes grew by about eight per cent to 1.82 million vehicles. Several plants are sustaining this upward trend whilst another major volume manufacturer is intensifying production with the aim to add a further 50,000 vehicles to its capacity. However, a modest fall has occurred in volumes for commercial vehicles. This was due to the closure of two key facilities. For both cars and CVs, export markets remained key, with over 60 per cent of production being exported.

The Market

Total registrations in 2002 rose for the third consecutive year, with almost 1million more new cars registered than 10 years earlier. The 2002 new car market reached a total of 2,563,631 units, bettering the previous record total set in 2001 by 4.3 per cent and breaking the 2.5 million barrier for the first time. The market growth in 2002 was very much concentrated on the supermini segment, which rose by 7.4 per cent, and diesel vehicles, registrations of which rose by 38 per cent (see Section 7 for more details). 2002 was also an exceptionally good year for commercial vehicle (CV) registrations with a total of 322,258 units or a 2.8 per cent growth on 2001 levels.

4 Sectoral Sustainability

4.1 The Sectoral Sustainability Strategy

Since its launch in 1999, the SMMT sustainable development strategy 'Towards Sustainability' has remained the backbone of annual sustainability programmes and reports. The strategy, which is reviewed on an annual basis (internally and/or externally), continues to provide an adequate and up-to-date framework to:

- develop a vision of sustainable mobility
- address the sector's environment, economic and societal pressures
- assess the sector's performance across the triple bottom line

The strategy is now supported by 24 member companies, all of which are key players in the UK automotive industry and together generate a large proportion of the sector's turnover. The signatories were delighted to be joined by another key player in the UK, Volkswagen Group (UK) Limited, who became a signatory to the sustainability strategy earlier this year.

Table 4.1 Signatories to the UK automotive sustainability strategy

Founding Signatories	New Signatories	Leavers
1. BMW Group Ltd	12. ERF Ltd (2000)	Tennex Europe Ltd (2001)
2. Bentley Motor Cars Ltd	13. Honda of the UK Manufacturing Ltd (2000)	
3. Dunlop Tyres Ltd	14. Jaguar Cars Ltd (2000)	
4. Ford Motor Company Ltd	15. Land Rover UK Ltd (2000)	
5. GKN Automotive Ltd	16. MG Rover Group Ltd (2000)	
6. Nissan Motor Manufacturing (UK) Ltd and Nissan Technology Centre - Europe	17. Perkins Engine (2000)	
	18. Volvo Car UK Ltd (2000)	
7. Rolls Royce Motor Car Ltd	19. LDV Ltd (2001)	
8. Toyota (GB) PLC and Toyota Motor Manufacturing UK Ltd	20. Audi (2003)	
	21. SEAT (2003)	
9. Unipart Group of Companies	22. Skoda (2003)	
10. Vauxhall Motors Ltd	23. Volkswagen (2003)	
11. Volex Wiring Systems	24. Volkswagen Commercial Vehicles (2003)	

The activities undertaken under the umbrella of the sustainability programme vary from year to year (see Table 4.2 for details). Key areas and challenges requiring attention are identified by both signatories and stakeholders on an annual basis and are integrated into the programme. During last year's stakeholder consultation, much of the discussions revolved around two themes:

A. Sustainable mobility and the need to better understand/define the different elements of it and assess what has been achieved to-date in the UK

B. The sector's important role in promoting 'responsible product use' and raising awareness of key environmental and security issues

Signatories decided to make these two issues the focus of this year's programme. The objectives were twofold. Firstly, to enable the sector to engage proactively on a range of key topics and available tools, taking into account the vehicle's entire life cycle, and linking it to driver behaviour and consumer choice. To this end, SMMT has published a consumer guide on responsible driving entitled 'Driving for the Future – Your Guide to More Responsible Driving'. The second objective was to further develop the sector's understanding and vision of sustainable mobility. A discussion paper was developed and will be the focus of the 2003 stakeholder engagement programme.

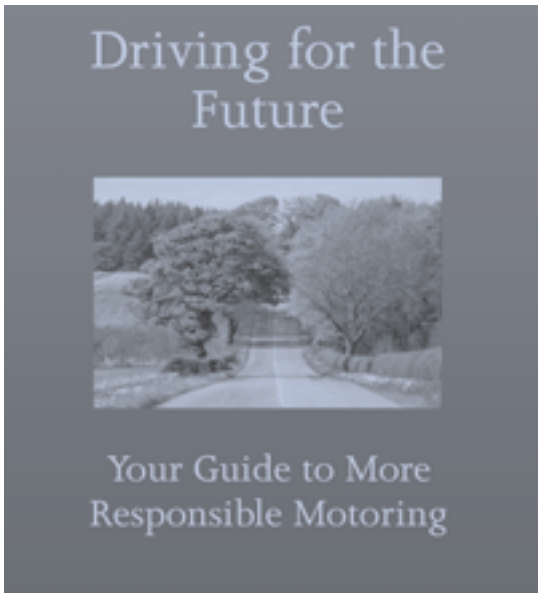


Table 4.2 SMMT sustainability programmes		
Year	Programme	Outcome/deliverable
1999	Launch of SMMT's sustainability strategy 'Towards Sustainability' and First Annual Sustainability Report	• Sustainability Strategy • First Annual Report • Stakeholder engagement (desk-based)
2000	Best practice programme on sector-level sustainability reporting	• Best practice guidelines on sector-level sustainability reporting • Second Annual Report (GRI-aligned) • Stakeholder group dialogue
2001	Best practice programme on integrating sustainable development principles in the UK automotive supply chain	• Business case for sustainable development in the automotive supply chain • Supply chain seminars • Best practice guidelines: 'Integrating sustainable development into the automotive supply chain' • Third Annual Report (GRI-aligned) • Multi-stakeholders dialogue
2002	Best practice programme on 'responsible product use'	• Driving the Future – Your Guide to More Responsible Driving • Sustainable mobility – a discussion paper • Multi-stakeholder dialogue • Fourth Annual Report (GRI-aligned)

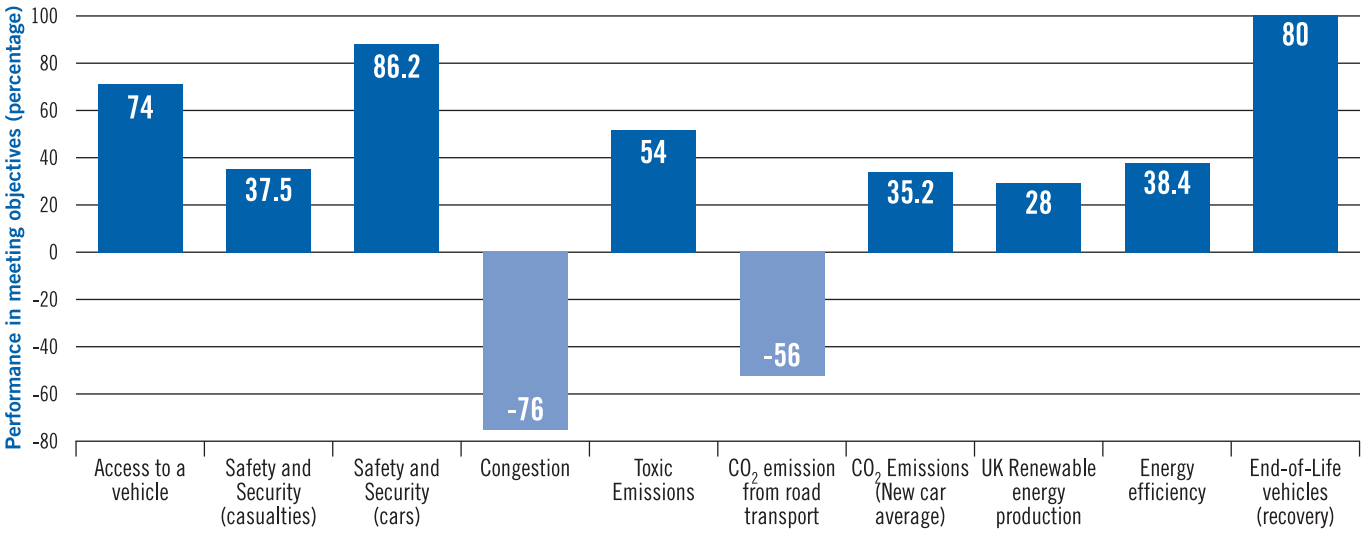
4.2 Sustainable Mobility

In 2002, a number of key areas where sustainability challenges arose and involved the vehicle's entire lifecycle were identified, including climate change, investments, economic development, economic efficiency, communities, employment, pollution and resource utilisation. While signatories have made substantial progress, individually and collectively, in improving their performance in these areas, they identified the need to develop a better understanding of how these areas are interlinked. In other words, how do we define 'sustainable mobility' and what have we achieved to date?

Figure 4.1 summarises some of the performances achieved in the UK to-date. For each indicator, a medium to long-term objective has been identified. Some of these objectives are aspirational and not hard targets set by industry or government. Others are actual targets set by government in policy papers such as the Energy White Paper. In most cases, the period 1990-1992 forms the baseline against which performance is measured. The bars show the progress in meeting the objectives (in percentage). Detailed explanations for each indicator are provided in the discussion paper which can be downloaded from www.smmt.co.uk.

The assessment highlights the very considerable challenges that sustainable mobility presents to the motor industry as well as other parts of society. It shows the need for developing a more integrated approach and the need for co-operation between all sectors of society, including industry, business, government and consumers (i.e. drivers). Such an approach needs to combine economic instruments, new technologies, infrastructure investments and other policy actions, at both UK and EU levels.

Figure 4.1 Sustainable Mobility and Passenger Cars



This assessment also shows that improvements have already been made in many of the areas discussed in the paper, with the exception of congestion and CO_2 emissions from road transport.

- Household access to vehicles has improved significantly over the last decade.
- New car safety is increasing across all segments and casualties are decreasing annually.
- Emissions from new vehicles are decreasing: (a) Toxic emissions: regulated emissions have decreased significantly over the last ten years and the introduction of vehicles meeting the Euro IV standard will ensure further significant reductions in emissions of toxic pollutants, both in terms of overall contribution and individual vehicle performance; (b) CO_2 emissions: fuel economy and the related CO_2 emissions of new vehicles are also improving continuously. However, the overall contribution of the road transport sector to total UK CO_2 emissions is increasing, despite improved performance of individual vehicles which have been partly offset by a significant increase in traffic in the UK.
- Although still limited, renewable energy is increasingly being made available in the UK and its development will play an important role in the transition to sustainable mobility.
- New vehicles are designed to have a high recovery rate (over 95 per cent). The actual recovery in the UK has reached 80 per cent and is expected to increase as the End-of-Life Vehicle legislation is implemented in the UK.

Congestion, on the other hand, remains a critical area to be tackled in the UK. Amongst other things, the automotive sector is working with government agencies on the development and introduction of technologies (intelligent transport systems - ITS) that will enable to control traffic more efficiently, with the aim of reducing congestion.

The UK automotive sector is fully committed to improving its performance across all areas discussed in this paper and continues to contribute to the development of a sustainable transport system in the UK and further afield. The automotive sector in the UK is committed to:

- assuming its responsibility and ensuring that the environmental impacts of the motor car are minimised through the continued development of cleaner technologies, materials and manufacturing processes.
- continuing to engage with all relevant stakeholders through, amongst other things, the Low Carbon Vehicle Partnership, the SMMT sustainability programme and other sectoral activities.
- reviewing its performance on an annual basis and making the results publicly available through the annual SMMT sustainability report.
- the continued promotion of responsible product use and raising awareness of key environmental and security issues.

5 Product Environmental Performance

This section summarises the sector's achievements in improving the environmental performance of new vehicles. Key indicators are summarised in Table 5.1.

Table 5.1 Product Environmental Performance Indicators	1999	2000	2001	2002
UK average new car CO_2 emissions (g/km)	185	181	177.7	174.2
UK average new car fuel economy (mpg)	38.5	38.9	40.3	40.9[a]
Number of models meeting Euro 4 emissions standard	15	51	75	116
Sales of alternative fuel/hybrid vehicles (no. units)	4,255	5,506	4,026	4,350
End-of-Life (ELV) vehicle recovery rate (%)	77%	80%	–	–

[a] *this figure is an SMMT estimate. The official figure from government statistics was not available at the time of writing.*

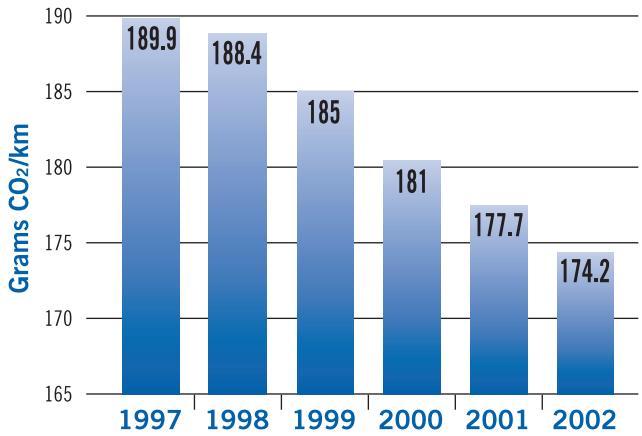
5.1 Fuel Economy and Carbon Dioxide (CO_2) Emissions

Strategy commitment: *continue to improve new vehicle fuel efficiency*
EU commitment: *reduce CO_2 emissions by 25% between 1995 and 2008 across Europe*

Performance

Average new car CO_2 emissions have fallen to 174.2 g/km, an 8.8 per cent reduction on 1995 levels. Figures from 2002 show that the UK continues to make progress and is moving in the right direction. CO_2 emission and fuel consumption have fallen for the six consecutive years since data was recorded. This is the result of substantial technical innovation (e.g. fuel stratified injection, improved aerodynamics, use of lightweight materials) which has enabled improvements of the performance of new vehicles. But the data also shows that the market is shifting into lower CO_2 emitting vehicles (i.e. supermini segment) and diesel fuelled vehicles. With the introduction of the CO_2-based vehicle excise duty and company car tax, as well as other schemes such as the London Congestion Charge, a vehicle's CO_2 performance has become increasingly important and will become increasingly so in the years to come.

UK Average New Car CO_2 Emissions



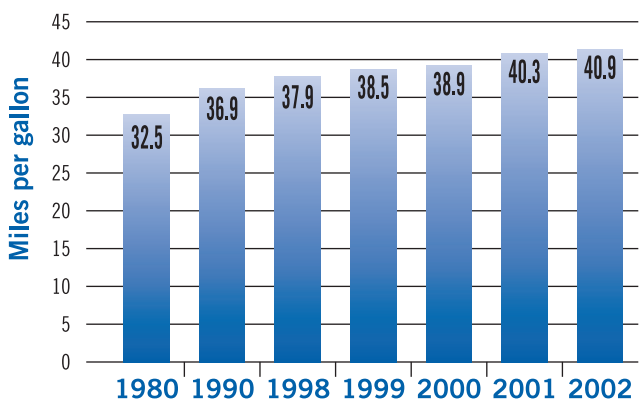
CO_2 Profile of the New Car Market

The chart on the next page shows that the market distribution by CO_2 bands with a peak around 180g/km for 1997 has been eradicated. The distribution has become more evenly spread although there is still a small peak at around 160g/km. Importantly, the proportion of cars under 140g/km is continuously increasing, reaching 13.6 per cent in 2002, up from less than four per cent in 1997. However, currently only two per cent of new registrations have emission below 120g/km.

When looking at the new car market by segment, the following trends emerge:

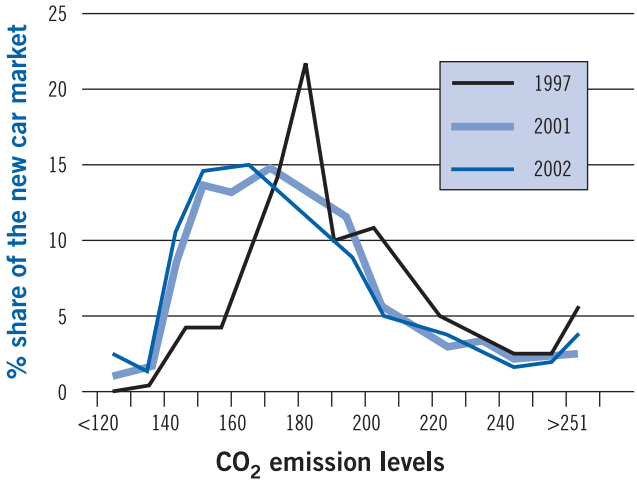
- All segments, bar the sports cars, reported a decline in CO_2 emissions in 2002.

UK Average New Car Fuel Economy



- Smaller cars tend to have lower CO_2 emissions, thanks to their lighter weight.
- Supermini and lower medium segment cars account for 60 per cent of the total new car market and both have below average CO_2 values. The mini segment has the lowest average CO_2 emissions, at 146g/km. The largest segment - the supermini sector - has seen average CO_2 emissions fall from 161g/km in 1997 to just 149g/km by 2002.
- Executive cars reported the largest fall in CO_2 emissions in 2002, down 5.1 per cent on 2001 levels due to increased diesel penetration within the sector.
- Multi purpose vehicles (MPVs) have seen their average emissions fall by 16 per cent since 1997, twice the market average rate, reflecting downsizing in product and increased diesel sales.
- Dual purpose 4x4s and luxury cars have also seen a 10 per cent or more reduction in average CO_2 levels between 1997 and 2002.

Carbon Dioxide Profile of the New Car Market



Low Carbon Vehicles

Reducing CO_2 emissions from new cars remains a major objective for vehicle manufacturers. They have been focused on reducing carbon emissions from new cars for decades, and as we have seen above, have already achieved significant progress. In order to achieve further reductions, manufacturers are working on a number of initiatives.

- **Conventional fuels:** The development of petrol and diesel technologies continues to lead the reduction in new car emissions. Efforts to reduce the weight of vehicles through the use of aluminium, carbon fibre and plastics, improve their recyclability and maximise energy efficiency all serve to minimise the lifetime environmental impact of a vehicle. The widespread availability of direct injection systems for petrol engines will be the next major step, although their true potential will not be recognised until the introduction of zero sulphur fuels. Conventional fuels are likely to dominate the immediate future.

- **Alternative Fuels:** A number of alternative fuelled vehicles (AFVs) are available today in the UK – Liquid petroleum gas (LPG), compressed natural gas (CNG), bi-fuels, biodiesel, hybrids and electric vehicles (EVs). Other technologies such as fuel cells are also being looked at by almost all manufacturers but are not yet available commercially. Hydrogen, which is considered as a long-term objective, is also being investigated by several manufacturers. While the technology is improving, it will not be available until an environmentally sustainable source of hydrogen can be identified.

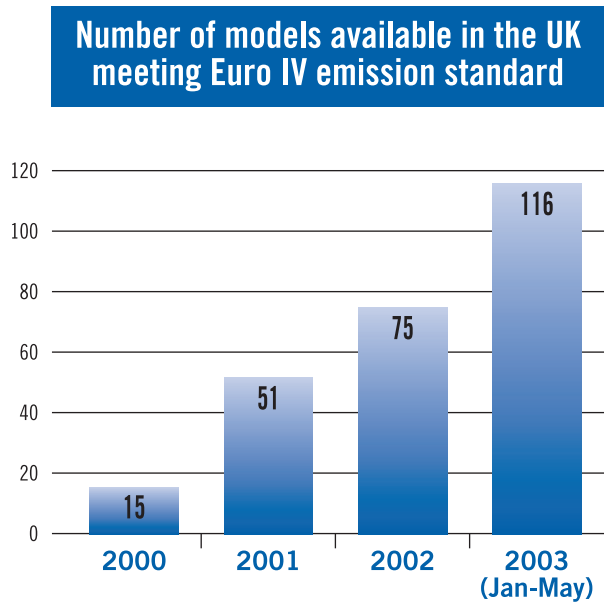
While the strategies adopted by manufacturers to develop and market AFVs are wide-ranging and interest continues to grow, their sales and market penetration is low in comparison with the overall market. One of the difficulties is also to collate realistic data as, for example, many LPG conversions are done after the first registration and are therefore not picked up by the market data. The data shows that the registration of electric cars was down from the 2001 rate whereas the registration of bi-fuelled vehicles (petrol/gas) rose significantly (12 per cent). It is expected that the AFV market will, on the whole, continue to grow. Indeed, interest in AFVs continues to grow, especially in view of the recent introduction of the congestion charge in London. Manufacturers are also stepping up their efforts to increase the number of AFVs brought to the market. However, while a large number of alternative fuel technologies are being developed, the correct and definite route remains unclear. What becomes increasingly clear is that long-term solutions revolve around the continuing development of hydrogen fuel cells.

5.2 Tailpipe Emission Standards and Expansion of Cleaner Technology

Strategy commitment: *to continue to research, develop and bring cleaner technologies to the market to improve tailpipe emission standards*

Exhaust Emissions

Vehicle tailpipe emissions of toxic pollutants have been significantly reduced over the last 10 years. When Euro III became fully effective in January 2001 (i.e. all new cars sold in the UK were Euro III compliant), carbon monoxide emissions were cut by 35 per cent and emissions of hydrocarbons and nitrogen oxides were cut by over 70 per cent on 1992 levels. When Euro IV will be introduced in 2005, these emissions will be further reduced by 62 per cent and 85 per cent respectively (on the 1992 base). However, a number of manufacturers already achieve better performance than that legally required and already meet the performance standard set by Euro IV (petrol and diesel). The number of models available in the UK that already meet the Euro IV standard increased to 116 (January 2003-May 2003). In 2002, almost 20 per cent of the cars sold by the signatories were meeting the Euro IV standard (one signatory achieved 100 per cent and three were over 50 per cent).



Expansion of Cleaner Technologies

Several interesting areas of research are currently being pursued by vehicle manufacturers, some of which are already beginning to enter the marketplace. Diesel Particulate Filters of a number of different types have been in development and these offer the potential to clean up diesel emissions beyond the already stringent Euro IV levels.

Hybrid drive vehicles, which combine advanced petrol engines with an electric powertrain, also show potential to reduce emissions (especially in urban cycle). Manufacturers are also looking into the future development of diesel/electric hybrid cars which could be available in the next two-three years. The sector also continues to explore the use of gases, with CNG and LPG vehicles in series production as well as the development of a conventional engine which can use hydrogen. Bio-fuels in blend strengths up to five per cent when added to conventional fuels also merit attention in the short to medium term because they can be applied to existing vehicles and do not require expensive infrastructure investment. The level of effort going into the development of fuel cell vehicles is also not to be forgotten (see previous section of Low Carbon Vehicles).

5.3 Vehicle Recycling

Strategy commitment: *to continue to facilitate efforts to improve the level of material recovery from End of Life Vehicles (ELV)*

The UK government will implement part of the End of Life Vehicle legislation in November 2003 and complete it around April 2004. The European legislation came into effect in April 2002 and seeks to increase the level of re-use and recycling of vehicles, to improve standards at sites processing ELVs and further limit the use in new vehicles of material harmful to the environment. Member states must set up a collection system for ELVs ensuring all vehicles are transferred to an authorised treatment facility. They must also set up a de-registration system including certificates of destruction to be issued when a vehicle is scrapped. The UK government has announced that last owners of vehicles will continue to have responsibility for any costs associated with the disposal of ELVs until 2007. Government is yet to detail the arrangements post-2007 when manufacturers will be required to meet all or a significant part of the costs involved in providing the free take back of an ELV that has negative value.

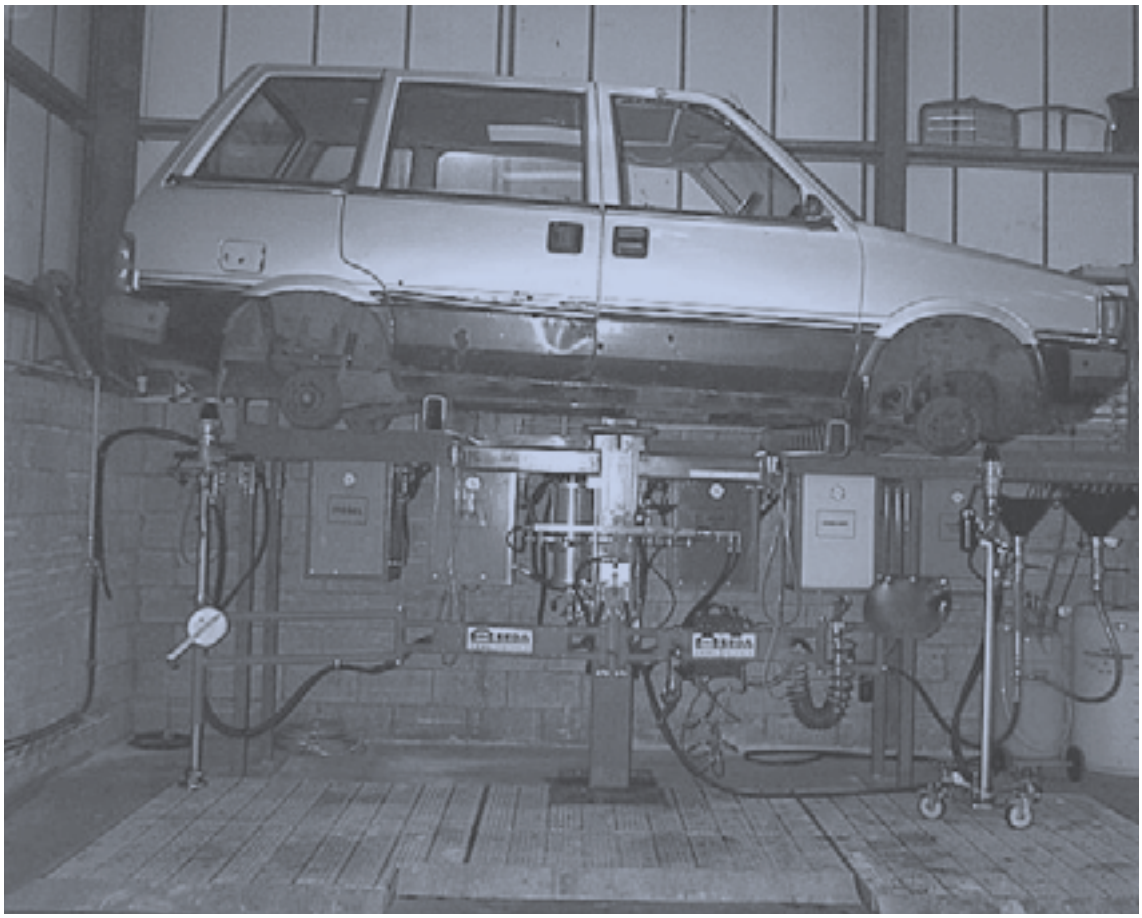
A requirement of the ELV Directive is to increase recycling and re-use targets to 80 per cent by 2006 and to 85 per cent by 2015 within overall recovery targets of 85 and 95 per cent respectively. Currently between 78 to 80 per cent by weight is economically recovered, reused or recycled by the existing infrastructure of which about 73 per cent is metal. The 2006 recovery quota of 85 per cent can be met when Authorised Treatment Centres (ATF) de-pollute vehicles to the requirements of the Directive and direct the materials for further treatment.

To ensure that when today's new vehicles become ELVs in 2015 and beyond, vehicle manufacturers are applying a number of key concepts:

- Design for Recycling
- Specification of recyclate for component manufacture
- Plastic marking (over 50g)
- Dismantling manuals or entries in the International Dismantling Information System (IDIS)

This enables manufacturers to produce and certify (by type approval) vehicles that are recoverable by design to at least 95 per cent by weight. Moving from 85 per cent to 95 per cent to meet the 2015 target of around 200,000 tonnes of material will be more difficult and investment in thermal treatment processes to produce energy and feedstock materials for recycling may prove to be the best option environmentally and economically.

The photo below shows a typical ELV depollution rig.



6 Company Operational Environmental Performance

Strategy commitment: *to continue to control and reduce the environmental impact of company operations*

This section summarises the environmental performance of signatories in relation to manufacturing and operations. Unless stated otherwise, the data presented is the combined results for all signatories. Where possible the data has been normalised so as to present trends, without being affected by continuously changing circumstances among signatories.

6.1 Environmental management

Table 6.1 Environmental Management Indicators	1999	2000	2001	2002
Number of signatories	11	18	18	24
Number of manufacturing sites covered by SMMT's sustainability strategy	40	44	45	43
Number of manufacturing sites with a certified Environmental Management System	26 (65%)	35 (79%)	37 (82%)	35 (81%)
Number of companies having minimum environmental standards applying to UK-based suppliers	–	11 (65%)	12 (67%)	12 (52%)

Despite the fact that the number of signatories this year has increased to 24, the number of manufacturing sites covered by the SMMT sustainability strategy has fallen by two. This is explained by the fact that all new signatory companies do not manufacture in the UK, as well as the closure of two major facilities during the 2001-2002. This also explains the reduction in the number of facilities having a certified environmental management system. However, over 80 per cent of the sites covered by this report have remained certified to ISO 14001 standards. The figures also show that a consistent number of signatories apply a minimum environmental standard to UK-based suppliers. In most cases it relates to ISO 14001 certification, the recyclability of product or the use of recyclable material in products.

6.2 Resource Use and Emissions

This section summarises signatories' performance in relation to resource use and emissions and provides trends for the period 1999-2002. It should be noted that base data changes every year and it should be taken into account when assessing the data (for example, an increase in the number of signatories will most likely result in an increase in the combined turnover as well as an increase in the combined use of resources). Table 6.2 provides trends for key indicators.

Energy and CO_2 Equivalents

The total combined energy use reported for all signatories decreased slightly (0.4 per cent) on 2001 levels. The data shows that, out of the 18 signatories who reported in 2001, 12 have reduced their total energy consumption in 2002, some by as much as 33 per cent. However, much of the increase or reduction in energy use is related to production volumes as the majority of signatories who increased their total energy use also saw an increase in production volumes. But the relation is not proportional – for example, one signatory increased its total energy consumption by 24 per cent but increased its production volume by more than 70 per cent. Another signatory increased its total energy use by 1.4 per cent and increased its production volume by 12.5 per cent. These manufacturers have increased their total energy use but reduced the total energy used per unit of production. Looking at downward trends, one signatory, for example, reduced its energy consumption by 25 per cent but production volume by only 0.4 per cent – here again, the energy use per unit of production has been reduced. Such trends are reflected in the combined results for all signatories, which is a step in the right direction as the energy use per unit of production is progressively decreasing.

Table 6.2 Resources and Emissions Indicators	1999	2000	2001	2002[d]
Number of signatories	11	18	18	24
Total combined turnover	£20,111m	£21,035m	£24,399m	£35,738m
Total combined number of employees	95,214	100,036	96,357	89,455
Total number of vehicles produced by signatories	1,972,528	1,572,642	1,470,659	1,441,794
Input				
Total Combined Energy use (GWh)	**6,110**	**7,013**	**6,857[a]**	**6,681**
Energy use (kWh) per employee	64,175	70,108	71,166[a]	74,685
Energy use (kWh) per £1million turnover	303,828	309,717	281,036[a]	186,943
Energy use (MWh/unit) per vehicle produced[b]	3.1	3.9	4.3[a]	4.0
Total Combined Water use ('000m^3)	**-**	**9,620**	**10,105**	**9,108.47**
Water use per employee (m^3/employee)	-	96.2	104.9	101.8
Water use (m^3) per £1million turnover	-	457	414	255
Water use (m^3) per vehicle produced[b]	-	5.3	6.2	5.6
Output				
Total Combined CO_2 equivalent (tonnes)[c]	**1,821,586**	**2,182,926**	**2,149,771**	**2,142,706**
CO_2 equivalent (tonnes) per employee	19.3	21.8	22.3	23.9
CO_2 equivalent (tonnes) per £1million turnover	90.6	95.3	88.1	59.9
CO_2 equivalent (tonnes) per vehicle produced[b]	1.08	1.1	1.3	1.2
Total Combined Emissions of VOC (kg)	**4,018,951**	**7,136,682**	**6,926,340**	**6,240,100**
Emissions of VOC (kg) per employee	42.2	71.3	71.9	69.7
Emissions of VOC (kg) per £1million turnover	199.8	339	284	174.6
Emissions of VOC (kg) per vehicle produced[b]	2.9	4.4	4.6	4.2
Total Combined Waste to landfill (tonnes)	**54,954**	**80,399**	**121,207**	**70,896.81**
Waste to landfill (tonnes) per employee	0.6	0.8	1.3	0.8
Waste to landfill (tonnes) per £1million turnover	2.7	3.7	4.9	2.0
Waste to landfill (kg) per vehicle produced[b]	-	40.3	66.4	40.5
Total Combined Packaging waste for recovery (tonnes)	**10,900**	**20,272**	**16,768**	**17,053**
Packaging waste (tonnes) for recovery per employee	0.11	0.20	0.17	0.3
Packaging waste (tonnes) for recovery per £1million turnover	0.5	0.9	0.7	0.7
Packaging waste (kg) for recovery per vehicle produced[b]	5.6	10.5	8.4	8
Total Combined Packaging waste for recycling (tonnes)	**1,802**	**5,058**	**6,344**	**5,801**
Packaging waste (kg) for recycling per employee	18.9	50.5	65.8	61.4
Packaging waste (kg) for recycling per £1million turnover	89.6	240	260	153
Packaging waste (kg) for recycling per vehicle produced[b]	1.1	2.5	3.5	2.8

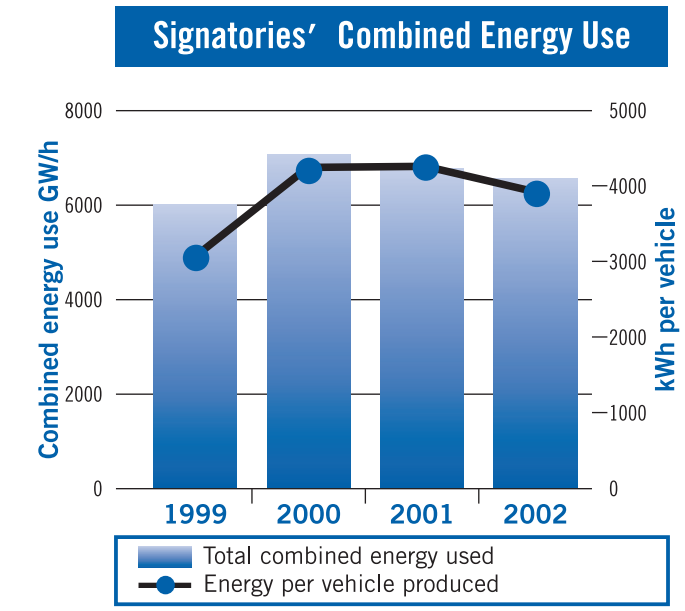
[a] The total combined energy consumption figures for 2001 has been adjusted with data not available at the time of publication. It does not affect in any way the analysis and conclusions of the Third Annual Report.

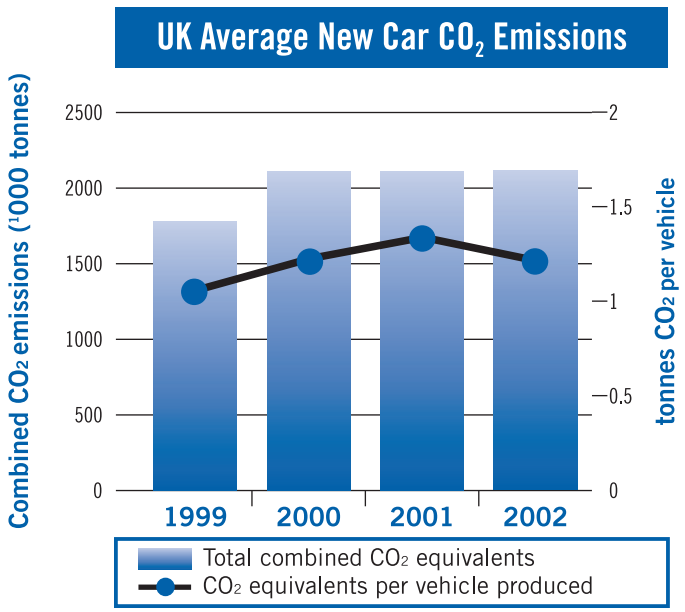
[b] The 'per vehicle' normalisation only takes into account the data of those signatories who assemble and/or manufacture vehicles in the UK. It does not take into account data from component manufacturers and/or vehicle importers.

[c] Does not include CO_2 from logistics and transport

[d] Does not include that of Rolls Royce which was not operating during the 2002 calendar year.

Taking vehicle manufacturers into account (not component manufacturers or vehicle importers), the average energy use per vehicle produced has been reduced slightly on 2001 levels (seven per cent) to four MWh per vehicle. This is despite a reduction in vehicle production (by signatories) which usually results in an increase in energy use per vehicle, even if the total combined energy goes down - this suggests that vehicle manufacturers in the UK are becoming increasingly energy efficient. This trend is also reflected in both the combined CO_2 emission (which went down by just over three per cent on 2001 levels) and CO_2 emission per vehicle produced (which went down by seven per cent on 2001 levels). The trends in performance are illustrated in the two graphs below.





The percentage of renewable energy being used by signatories in 2002 remained very low (0.01 per cent). Most of the energy used in 2002 remained average grid electricity, although some signatories now use natural gas as the main source of energy.

Last year we started to survey signatories on their transport-related energy consumption and related CO_2 emissions. Interesting data was collated but not all signatories were in a position to provide figures, mainly due to the fact that transport is subcontracted and the data is not easily obtainable. This, however, is an issue which is being increasingly looked at for both efficiency and environmental reasons. The textbox illustrates how one signatory achieved significant energy and CO_2 savings from changing the transport used for spare parts.

Energy and CO_2 savings from transport for vehicle parts

One signatory has made radical changes to its spare part delivery systems. Stock orders are now delivered from various suppliers in continental Europe by train directly into the UK warehouse for unloading/loading. Empty parts carriages and those that contain parts for the re-manufacturing programmes are returned to Europe via the same trains. This has led to a reduction in the company's impact in terms of vehicle emissions, fuel savings, and road traffic reduction. The project has eliminated approximately 60 return journeys by articulated lorry per week. Considering the UK leg of the journey only, it eliminated 205 miles per trip which amounts to an estimated saving of 4,080 gallons of fuel per week and 212,160 gallons per year. While train journeys also have an impact, this has enabled the company to significantly reduce the impact of its operations on UK roads, and directly reduce CO_2 and regulated emissions.

Water

Combined total water consumption for all signatories has decreased by almost 10 per cent on 2001 levels, actually bringing it below 2000 levels. Water use per vehicle produced also went down by almost 10 per cent on 2001 levels.

Waste to Landfill

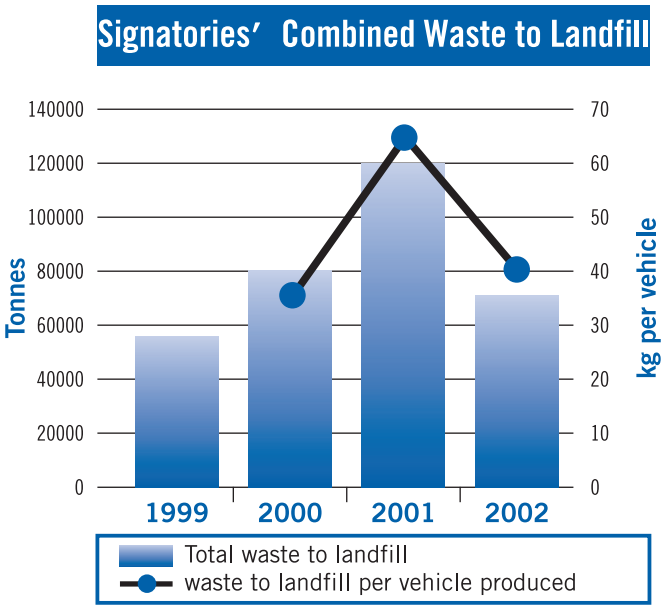
Last year, waste to landfill was identified as a problematic area, due to a sharp increase in both total combined results as well as per vehicle manufactured. This increase was explained by the changes in activities of many signatories,

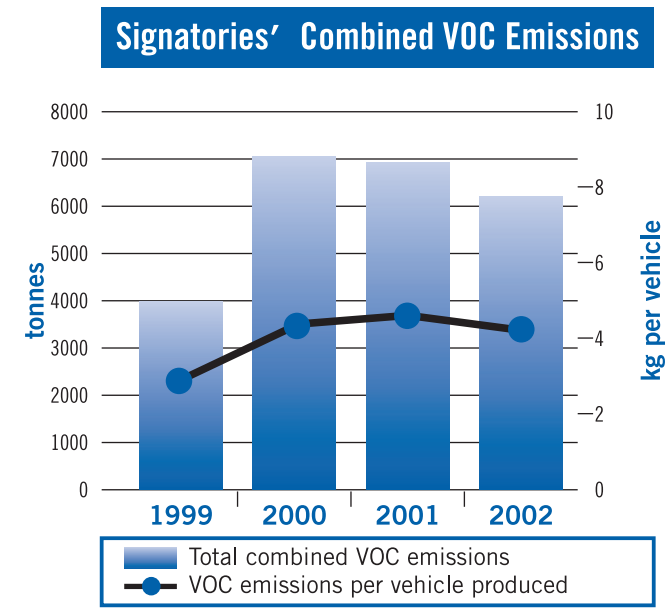
the construction of new facilities and the disposal of unusually large quantities of construction and demolition waste. As predicted, this overall waste production was reduced significantly in 2002 and it is foreseen to be further reduced for 2003, as all new facilities will be in full operation. The data shows that total combined waste to landfill was reduced in 2002 to 70,896 tonnes, or over 40 per cent on 2001 levels. This also resulted in a decrease in waste to landfill per vehicle produced of just under 40 per cent.

Signatories also continued to provide data on their packaging waste obligations. Packaging waste has traditionally been a major source of waste and signatories are constantly looking at ways of reducing or eliminating packaging waste. The data shows that packaging waste for recovery increased by just under two per cent on 2001 levels to 17,053 tonnes. However, the data for vehicle manufacturers only shows a reduction in packaging waste for recovery which explains the five per cent reduction in packaging for recovery per vehicle manufactured. Total combined packaging waste for recycling went down by eight per cent on 2001 level to 5,801 tonnes. This also resulted in a reduction of packaging waste for recycling per vehicle produced of just under 20 per cent.

VOC Emissions

Volatile organic compound (VOC) emissions arise mainly from vehicle painting operations. Vehicle manufacturers have continued to make significant investments to better control or reduce VOC emissions. This is reflected in the overall reduction in VOC emissions from signatories – VOC emissions were reduced by 10 per cent on 2001 levels which brought down VOC emissions per vehicle manufactured by 7.7 per cent, from 4.6 kg to 4.25 kg per vehicle.





7 Economic Performance

7.1 Contribution to the UK Economy

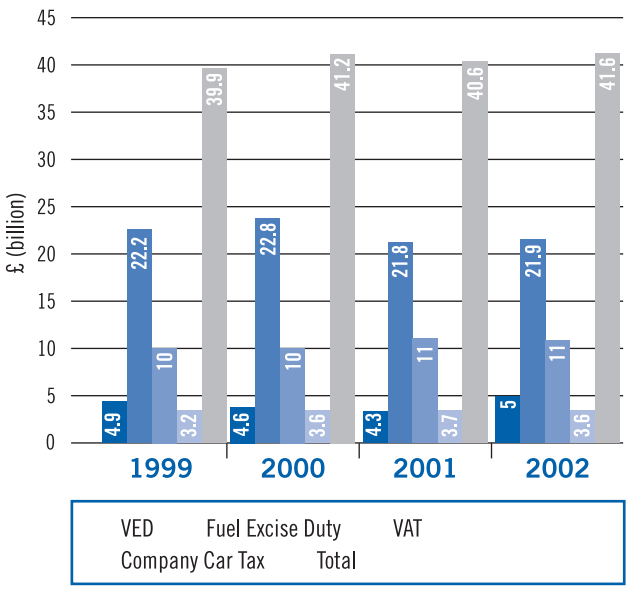
The UK automotive sector continues to make an important contribution to the UK economy with an estimated total manufacturing turnover of £43billion which represent 9.3 per cent of the total UK manufacturing turnover. The combined turnover of signatories[a] grew significantly on 2001 levels, due to improved performance as well as the addition of four key new signatories.

Table 7.1 Contribution to UK Economy	1999	2000	2001	2002
Value of UK Automotive Exports	£19.1bn	£19.8bn	£18.0bn	£20.8bn
Expenditure on Business R&D	£1145m	£929m	£930m	£960m
Sector share of total GDP at market price	0.8%	0.8%	0.9%	0.9%

Taxation

Most businesses and individuals have a keen interest in taxes related to motoring. In total, the £41billion raised from the various taxes on buying, owning and using vehicles accounts for nearly 11 per cent of all government tax revenues. Value added tax related to sales of vehicles and fuel remains another significant source of revenue from motoring, accounting for about £11billion in 2002 compared to £6.2billion in 1991. Vehicle licensing taxes are another significant source of revenue with an estimated £4.9billion taken in 2002. Less than 10 per cent of this is accounted for by heavier commercial, other trade and specialist vehicles; most is collected from passenger cars and light commercial vehicles.

Income tax and national insurance contributions related to the private use of company cars and fuel (and to a much lesser extent vans) is the final major source of taxation from automobiles. In 2002, this package of taxation accounted for over £3.6billion.



Trends in vehicle prices

In the past four years, the average price of new cars has consistently fallen. Contributing factors include intense competition between vehicle manufacturers and the focus on price variations across Europe by the UK's Competition Commission. The findings of the Competition Commission in 1999 suggested that UK car prices were around 10 per cent more expensive. It was also recognised that higher car prices in the UK were related to the strong appreciation of the pound and differences in the tax rates on the purchase of vehicles.

However, new car prices have fallen by more than 10 per cent since that report, thanks to a combination of cut-price deals in showrooms and the strengthening of the Euro. A European New Car Price Index[b] assessed retail prices in the UK and shows that retail prices in the UK are level with the average price of new cars in the Euro currency zone.

[a] Note that the combined turnover for signatories includes manufacturing turnover as well as sales turnover.

[b] Produced by eurocarprice.com in association with PricewaterhouseCoopers.

7.2 Commercial Competition and Economic Prosperity

Strategy commitment: *To continue to seek economic growth and secure competitiveness in the global environment*

Table 7.2 Economic Indicators	1999	2000	2001	2002
UK Automotive manufacturing sector turnover	£44.2bn	£44.5bn	£44.2bn	£43.1bn
Signatories combined turnover[a]	£20.1bn	£21.03bn	£24.4bn	£35.7bn
Total UK number of new cars produced	1,786,623	1,641,317	1,492,146	1,629,744
Total UK number of new CVs produced	185,905	172,442	192,872	191,267
Total UK number of new vehicles produced	1,972,528	1,813,759	1,685,018	1,821,011
Total no. of new vehicles produced by signatories	–	1,572,642	1,470,659	1,441,794
Total number of new cars registrations	2,197,615	2,221,647	2,458,769	2,563,631
Total number of new CVs registrations	288,100	298,043	313,411	322,258

[a] *This figure includes manufacturing turnover as well as sales turnover*

Overview

The UK is home to the largest number of vehicle manufacturers in Europe and includes producers from America, Japan, as well as Europe. The UK is also host to a huge number of low volume vehicle manufacturers, and is the principal location of specialist sports car manufacturers in the world.

Manufacturing

Manufacturing volumes grew by about eight per cent in 2002. UK car production is forecast to rise modestly to 1.65 million units in 2003, some 20,000 units above 2002 levels. The gains are expected to be focused on export markets as Europe recovers and as new investment in UK plants comes on stream. CV output is forecast to remain broadly on par with last year's level in 2003, at 195,000 units, but could see better growth towards the 215,000 unit mark as European recovery lifts demand.

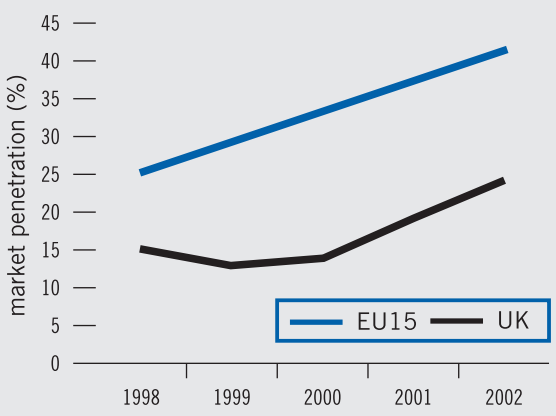
The UK Market

The 2002 new car market reached a record total of 2,563,631 units, bettering the previous record total set in 2001 by 4.3 per cent and breaking the 2.5 million barrier for the first time. Following a 22 per cent hike in 2001, registrations by private buyers grew by two per cent in 2002. The large fleet sector also saw registrations rise by 5.7 per cent while business sale (sales to companies with fewer than 25 vehicles) rose by 10.3 per cent. Both large fleet and business volumes reached record levels in 2002. The market growth was very much concentrated on the supermini segment, which rose by 7.4 per cent in 2002, and diesel vehicles, registrations of which rose by 38 per cent in 2002.

2002 was also an exceptionally good year for commercial vehicle (CV) registrations with a total of 322,258 units or a 2.8 per cent growth on 2001 levels. Demand for heavy vans was again the basis for the market's development, with continuing strong demand for car type pick-ups. Short term trends look uncertain with demand weakening, possibly at the lighter end of the truck market.

The Year of Diesel Growth

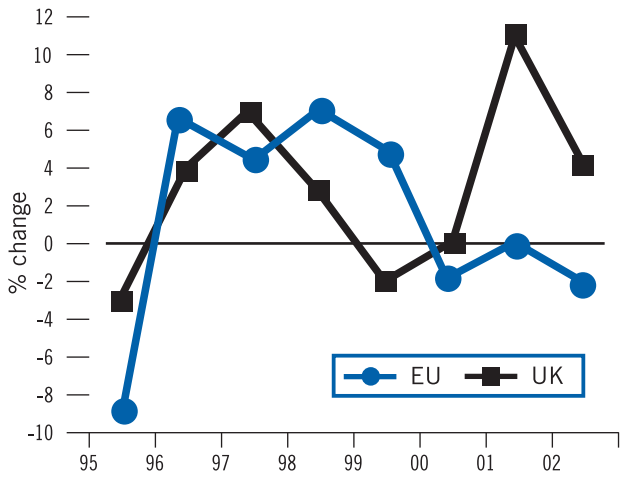
2002 was the year of diesel growth with registrations rising by 38 per cent and reaching a best-ever 602,623 units. The UK diesel market has shown 35 consecutive months of growth (to July 2003) and in each month has outpaced the overall market's growth rate. The market penetration of diesels rose to its highest ever level in 2002, at 23.5 percent. Diesel demand shows no sign of slowing, as buyers take advantages of the new generation of greener diesel models offering cheaper motoring as well as tax breaks for lower CO_2 emissions. Diesel penetration in Europe averaged 40.9 per cent in 2002 (according to figures from ACEA), well above the UK average. EU diesel volumes have risen by 22 per cent since 2000. UK diesel penetration did rise to match the European average by 1994 but has since failed to keep pace with diesel demand growth across Europe, although it has reported the best EU growth rate in each of the past two years.



A European Perspective

In 2002, the UK also cemented its position as Europe's second largest new car market, behind Germany. Furthermore, of the five biggest new car markets in Europe, the UK alone increased sales in 2002. Whilst the UK secured a 4.3 per cent growth for the year, the German new car market dropped by 2.6per cent, the French market dropped by 4.9 per cent, the Italian market dropped 5.9 per cent and the Spanish market dropped by 6.6 per cent. The UK Market share was 18.3 per cent, or a 3.4 per cent increase from a low of 14.9 per cent in 1999. Across the whole of the EU, the market fell by 2.8 per cent last year. This represents the steepest decline since 1995. Although UK volumes are expected to cool in 2003, the market is expected to remain Europe's second largest.

Change in volumes, 1995-2002



Trends and Driving Forces

(a) Restructuring

In response to over-capacity world-wide and a series of other market related issues companies have had to make some tough strategic and trading decisions on assembly in the UK. Some have trimmed their presence, but others have sustained and are expanding car and CV output. The outcome is a smaller volume car sector than previously expected, with developments in premium and specialist marques and engine assembly. UK-based component supply opportunities too, after seemingly enhanced in the mid 1990s, have been constrained and eroded as assemblers reduce the share of components sourced from UK plants. However, the component sector is still very significant and retains the potential for further redevelopment should the business and economic conditions once again favour enhancement and extension of current production plans.

(b) Competitiveness

In the fiercely competitive global automotive industry, UK firms are continuously taking important steps to enhance productivity and ensure that they remain competitive. UK companies recognise the need to benchmark themselves against the best in the world and adopt principles of best practice. As a result, a number of initiatives have been developed through partnerships and industry-led programmes (e.g. Foresight Vehicle), collaborative projects and further development in workforce practices (e.g. Industry Forum).

Foresight Vehicles

Foresight Vehicle is the UK's national automotive R&D programme aiming to promote technology and stimulate suppliers to develop and demonstrate market driven enabling technologies for future road vehicles which must satisfy increasingly stringent environmental requirements as well as meeting expectations for safety cost, performance and desirability. SMMT manages the administration of the programme on behalf of the Department of Trade and Industry.

(c) Investments

The 1990's were characterised by strong growth in investments, capacity and jobs. More particularly, there was a significant and sustained flow of inward investment from Japan, US and Europe. However, inward investments have slowed down since restructuring started in 2000. The negative figures for inward investments reflect a net disinvestment in the UK by foreign parent companies. Despite this, automotive companies in the UK continued to focus on increasing their competitiveness and sustained annual net capital investments of more than £2billion annually. Signatories to the strategy maintained annual capital investments above the £1.2billion mark.

Table 7.3 Investments	1999	2000	2001	2002
Auto manufactiring sector net capital investment	£2.13bn	£2.08bn	£2.23bn	£2.17bn
Inward direct investment into auto manufacturing	£3.48bn	£2.73bn	-£852m	-£225m
Expenditure on business research and development	£1.14bn	£929m	£930m	£960m
Signatories combined UK investments	–	£1.28bn	£1.22bn	£1.52bn

7.3 Employment

Strategy commitment: *To continue to secure and enhance employment opportunities where appropriate*

Table 7.4 Employment Indicators	1999	2000	2001	2002
Value of UK Automotive Exports	**867,000**	**849,100**	**835,800**	**847,100**
• Automotive manufacturing	260,000	251,600	237,300	229,400
• Automotive supply and use	607,000	597,500	598,500	617,700
Signatories total combined employees	**95,214**	**100,036**	**96,357**	**89,455**

The UK automotive sector continues to make an important contribution to the UK economy with an estimated 847,100 people directly dependent on the automotive sector. The above figures show that, employment increased by about 1.5 per cent on 2001 level. This trend however was not reflected in signatories' data – employment dropped by about seven per cent.

Much stronger growth in the service sector saw well over 1.1million more jobs added. Since 1998 key manufacturing companies and sectors have contracted, restructured and, in many instances, relocated abroad. Global economic recovery is expected to be a positive influence on trade and manufacturing demand from 2002 to 2004. For 2003 and 2004 output growth could be back above 2.5 per cent per annum, however, the jobs outlook could be for further modest job losses.

7.4 Supply Chain Efficiency

Strategy commitment: *To support Industry Forum and work to enhance supply chain efficiency*

In 2002, a number of signatories continued to support the activities of Industry Forum and operated supplier development networks. Purchasing decision-making processes are increasingly influenced by the ability of suppliers to demonstrate their environmental and sustainability management capabilities. Specific activities that were undertaken recently included

- Assistance on environmental and sustainability reporting
- Assistance on the provision of information regarding restricted substances and recyclability of components
- Environmental training on topics such as the European End of Live Vehicles Directive.

Supplier Development

During 2002, one signatory undertook supplier development activities with 11 UK-based suppliers. Activities included: Improvement Potential Diagnosis (1 organisation), Process Improvement Activities (7 organisations), Logistics Study (2 organisations) and 2nd tier improvement Activity (1 organisation).

Greening their supply chains

Two signatories have embarked on a programme to 'green' their supply chains since 1998 and have been assisting their suppliers to introduce environmental management systems and pursue certification to ISO14001. In 2002 they undertook work in relation to energy efficiency and natural resources. Participating suppliers managed to reduce both energy and water consumption by five per cent. They recently started a new phase of the programme which will last for five years with a budget of £7million to improve the sustainability awareness and performance of their suppliers. The programme will also look at introducing sustainability criteria in supplier selection decision, which will extend the initiative's reach along the supply chain.

8 Social Performance

8.1 Responsible Product Use

The motor car is making a major contribution to improving the quality of life by giving us unprecedented opportunities in terms of mobility and freedom. However, with these opportunities come responsibilities - those of minimising the environmental and social impacts associated with the use of motor vehicles. The UK automotive industry recognises its responsibilities - to ensure that the environmental impacts of the motor car are minimised through continuing to develop cleaner and more efficient technologies, materials and manufacturing processes. However, individual motorists also have the responsibility to use motor vehicles in a sensible and disciplined way, with a view to minimising the impact of their mobility needs.

The above clearly reminded us that industry has an important role to play in promoting responsible product use and raising awareness on key environmental and security issues. To this end, a consumer guide has been developed to assist individual motorist and provide practical advice on buying, using and disposing of vehicles in a responsible way.

8.2 Road and vehicle Safety

Vehicle Safety

Vehicle manufacturers are fully committed to ensure that the vehicles they produce provide the highest possible level of safety performance to vehicle occupants and other road users (including pedestrians). In the last 20 years, a large number of safety features have been incorporated into vehicles and vehicles have become safer, as illustrated by the results of NCAP tests.

The NCAP programme tests all the most popular new cars in the UK and manufacturers take the testing seriously - in a number of cases, manufacturers have modified designs and brought forward system improvements to improve ratings. The safety ratings range from one star to five stars. It is considered that those vehicles that achieve a four or five star rating provide the highest level of safety for occupants. The results of the tests carried out on new models during the 2002-2003 period (to-date) show that out of 58 models tested, 50 have been awarded four or five stars and eight have been awarded three stars or less. That is 86 per cent of models being awarded four or five stars and therefore providing the highest level of safety.

Vehicle Safety Features

Today's new vehicles include a large number of safety features, some of which are particular to a manufacturer or model. These include:

- Adaptive Restraint Technology System (ARTS) uses ultrasonic sensing technology to monitor the weight, position and whether those in front are wearing seat belts. This information is used to reduce possible injury by determining whether to deploy the airbags at normal, or a reduced rate of inflation.
- Anti-lock braking (ABS) with Emergency Brake Assist (EBA). EBA helps the driver in an emergency when maximum power is not being applied, assessing the urgency with which the driver hits the brake pedal and instantly applying maximum available braking power if it is needed.
- Dynamic Stability Control (DSC) system reacts to and controls both understeer and oversteer, while Traction Control helps provide optimum tractive power under acceleration by preventing the drive wheels from spinning when pulling away or cornering.
- Adaptive Cruise Control (ACC) uses microwave radar technology to overcome the need for the driver to adjust speed – either by disengaging cruise control manually or applying the brakes - when approaching slower traffic on the road ahead, ACC automatically adjusts the throttle (and may also apply limited braking) to reach a speed that is compatible with traffic ahead.

8.3 Stakeholder Engagement

Strategy commitment: *Continue to engage positively with external stakeholders*

Engagement with external stakeholders has continued to be a prevalent element of the SMMT sustainability programme. SMMT and its members are committed to building enduring, long-term and high quality relationships with all stakeholders, including employees, suppliers, customers, shareholders and the communities in which the sector does business.

The Low Carbon Vehicle Partnership

The Low Carbon Vehicle Partnership (LowCVP) was launched in January 2003 and is an action and advisory group that brings together government, industry, environmental and other stakeholder groups to promote

the shift to low carbon vehicles and fuels in the UK. One of the main aim of the partnership is 'engagement'. It aims to provide a forum for industries and other stakeholders to engage proactively in the shift of low carbon vehicles and fuels. Members of the partnership get together in Working groups and pool their expertise to take the objectives and tasks of the Partnership forward. The partnership focuses on passenger cars, buses, commercial vehicles, R&D, low carbon fuels and supply chains. SMMT has been involved setting up the partnership and is committed to remain involved throughout the existence of the partnership. A number of signatories are also involved, both at a partnership board level and within working groups.

8.4 Employee Development

Strategy commitment: *Continue to improve the skills, facilities and opportunities available for employees*

The development of employee-focussed initiatives continued throughout 2002. The initiatives undertaken by signatories included on-site improvement, employee consultation, improvement in training opportunities and safety improvements.

Health and safety

The improvement of Health and Safety (H&S) standards remains a priority for signatories, as well as the sector as a whole. In addition to setting H&S and training targets, two philosophies are usually applied: (a) develop members to increase skill and application of core competencies, to raise the performance of key business indicators, and (b) facilitate members' realising and utilising their maximum potential, thus achieving the organisational goals in a motivational climate.

Raising H&S awareness amongst employees continued to be a particular focus of attention amongst signatories in 2002. Specific initiatives undertaken by signatories are listed below. Many of these activities are not necessarily new activities as some have been in place for many years, but rather an illustration of the continued effort and initiatives implemented by signatory companies.

- Revision to site policies and dissemination of site policies
- Team leader and zone manager awareness training
- Certification to OHAS 18001
- Introduction of revised/new H&S management systems
- Development of H&S best practice guidelines
- Medical centre programme and physiotherapist workplace talks
- Fire safety awareness programme (inc. off-site safety)
- Introduction of H&S module training
- Implementation of a lifting equipment tagging system
- Standardisation of OHS&E notice boards
- Do's and don'ts competition
- Promotion of strong and effective safety committees

Training Opportunities

The need for job and non-job related training is continuously assessed and revised. The indicator used to measure progress in training opportunities is 'average number of training days per employee'. Not all signatories are able to provide such information as, in some instances, it may be difficult to differentiate between training days, seminars and conferences. However, the data from those signatories who provided the information shows that it varies between two and 10 days per employee, with an average of four training days per employee. But practice ranges widely amongst signatories. Two examples are provided below:

- One signatory used 5,000 training course places throughout 2002. Courses were of a variety of length, ranging from one hour to degree level.
- Another signatory does not measure training days across the business. The production system encourages the business to track output over input. Therefore, the company has used competency matrices, skills profiles, training and versatility matrices to track associates' competence. These matrices also allow the manager to then create a development path to close any skill gaps. This may be through formal training or on the job training. Their measurement tracking database ensures a prompt response when issues arise.

Employee Consultation

Signatories have implemented a wide variety of initiatives promoting dialogue with employees. These initiatives are diverse and differ from one company to another. A few examples are provided below. Here again, the examples provided below may not necessarily be new activities implemented specifically in 2002, but rather are an illustration of the continued effort by signatory companies to further develop and improve employee consultation.

The Circle

A 'circle' is a small team of associates who decide voluntarily to tackle a problem that will improve their working area. The method of doing a circle is straightforward

1 Form a circle and elect a circle leader
2 Look at the problems in the work place
3 Choose a theme that the circle can tackle effectively. The circle should be able to tackle the theme using their own resources and that can be solved within four-five months
4 Set an action schedule and targets. The targets should be measurable and timely
5 Understand the current situation
6 Analyse the data to find a cause by using the company's quality tools
7 Choose a countermeasure that tackles the real cause of the problem, is easy to implement and monitor and is low cost
8 Check the effectiveness of the countermeasure. If the problem has only been partially solved then the root cause has not been found and further work is required

If the problem has been solved, the circle then makes a brief presentation. The company rewards the best circles by sending them to other factories around the world to present their ideas. The benefit to the company is that the quality of the product improves, the working environment improves, customer satisfaction is increased and associates work as a team.

Diversity Surveys

Diversity surveys have been implemented to make sure the company understands the issues that face its employees and is working on actions to remedy highlighted areas. This is accompanied by a company suggestion scheme. This works to promote ideas from all associates and have a mechanism for recognising the associate who put the idea forward. In addition, the production system encourages natural work groups. This allows associates to be responsible for changes to their work environment or processes if the changes will add value to the business or streamline our production. Many parts of the manufacturing plants use natural work groups to promote self-improvement ideas.

Another signatory encourages employee consultation by implementing:

- Plan for People Working Group that is represented by a cross function of employees, its task is to review the current people issues and processes across the company and identify improvements. The areas the group look at are communications, Training & Development, Working Environment, Sports & Social Activities etc.
- Investors in People Working Group that is represented by employees from different functions across the business. The group monitors the employees' views and comments through regular audits against the Investors in People Standards. Any deficiencies identified are reported to Executive Level and areas for development are actioned.
- Employee Council held monthly where the company, Convenor and Senior Representatives from the Trade Union discuss the company business plan.
- Ideas for Success (IFS) employee suggestion scheme.

Staff Turnover

Staff turnover was selected as an indicator to measure employee satisfaction. Whilst not all signatories were able to provide this information, the data provided (by 14 signatories) shows that employee turnover ranges from two to 8.7 per cent, with an average of seven per cent. This is down from 7.6 percent in 2001 and 10 per cent in 2000.

8.5 Community Involvement

Strategy commitment: *To continue to engage positively with external stakeholders*

The automotive sector fosters communication, dialogue and involvement with the community in which it operates. The sector aims to be accountable for its social impacts and establish a long-term and positive relationship with the community. Signatories engage with the communities through a wide range of initiatives which include:

- Company charitable support (education, regeneration, arts and sports)
- Employee charitable support and volunteering
- Educational partnerships
- Vehicle loans
- Community Grants Scheme

One signatory has adopted and promotes a strategy based on the notion of Sustainable Community Development. This notion builds on the company's strong reputation for delivering knowledge and know-how to community projects in place of cash. The concept behind Sustainable Community Development is simple: the company can teach or coach community groups in ways that can deliver self-funding or resource sharing. Through this programme, the company plays the role of a catalyst rather than a resource itself.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Comments

Every effort has been made to ensure that the content of this report was correct at the time of going to press. We hope that you have found the information in this year's publication useful and informative.

SMMT encourages the widest participation and is interested to hear from you on any aspect of this report. Should you wish to comment or be involved in the future development of the sustainability report, please contact us at sustainability@smmt.co.uk. This report is also available as a downloadable PDF from our website: www.smmt.co.uk.

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