# The Trans Pacific Partnership and its Implications for Australian Businesses

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# The Volkswagen Scandal – The high cost of corporate deceit

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THE TRANS PACIFIC PARTNERSHIP AND ITS IMPLICATIONS FOR AUSTRALIAN BUSINESSES

By Rachel O’Neill. Head Teacher HSIE, Newtown High School of the Performing Arts, NSW.

Introduction
Changes in the global economy and government trade policies have significant impacts on Australian businesses. Expansion in global trade over recent decades has seen businesses benefit from increased access to global markets whilst also facing greater competitive pressures. The Australian Government engages in international trade talks to create bilateral, regional and multilateral trade agreements, to take advantages of the benefits of free trade and investment flows. With failure to reach agreement at a multilateral level over the past two decades, the Australian government has pursued a range of bilateral free trade agreements (FTAs) as well as regional trade agreements (RTAs). The Trans Pacific Partnership (TPP) is one such regional agreement.

This article will provide a brief overview of the Trans Pacific Partnership in terms of its implications for Australian businesses. Whilst the full ramifications of the TPP are yet to be determined and the agreement cannot come into force until all member nations ratify it in its entirety, it offers some potential benefits and raises a range of issues.

About the Agreement
The Trans Pacific Partnership agreement was finalised in October 2015, between 12 countries in the Asia Pacific region. Amongst other outcomes, 98% of tariffs on goods, services and resources are to be removed by member countries.

Dubbed a “new generation trade agreement” by the World Bank, the TPP is designed to remove or reduce tariff and non-tariff barriers (NTBs) but also to free up investment and generally make it easier for firms to ‘do business’ across borders.

The signatory countries to the TPP are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States, and Vietnam. These nations comprise 40% of the world’s economic output and 33% of global trade.

Australia’s goods exports to TPP nations were 33% of our total exports in 2014. Growth of the middle class population in the Asia Pacific region presents opportunities for Australian exporters.

Whilst the agreement seeks to remove tariffs on a range of products, tariffs in this region are already relatively low, facilitated by bilateral trade agreements. However other forms of protection, known as non tariff barriers (NTBs), are also targeted.

The TPP does not include China. Nor does it include a number of other countries in the region such as India, Indonesia or Thailand. The signatory nations hope to expand membership of the agreement to other nations in the region.

The TPP has created agreed rules relating to business travel visas, customs requirements, and competition policy and placed restrictions on special treatment of state-owned enterprises and restrictions on local content rules of origin. It will also, controversially, create external tribunals under the Investor-State Dispute Settlement (ISDS) provisions, to which businesses/countries can go to settle disputes, with the potential to override national courts. Importantly, the TPP aims to promote growth in service exports around the region, with services being a significantly large proportion of GDP and employment of nations but a comparatively much smaller proportion of trade.

The TPP, once it is ratified by all the member countries, will also:

• introduce common regulation to make it easier to conduct business
• introduce common rules regarding intellectual property rights such as copyright and internet domain names, to streamline transactions and reduce business costs
Free up foreign investment rules. For example, under the TPP the threshold at which Australia’s Foreign Investment Review Board screens proposals for foreign investment into Australia would be ‘quadrupled’ to $1.094b, outside “sensitive sectors such as media and telecommunications”. This would, for example, give investment access for Canada’s pension funds and Malaysia’s property investors.

**Student activities**

1. Who are the signatories to the TPP?
2. What does the term ‘Trans’ refer to in this context?
3. What type of an agreement is the TPP? How is it different from the other types of trade agreements mentioned?
4. Outline the significance of the TPP and what it is aiming to achieve.
5. How much of world trade does the TPP encompass and is there scope for expansion?
6. Which countries that Australia has strong trade ties with are not included in the TPP?

**Why has the Australian government joined the TPP?**

The Australian government believes that, by exposing inefficient producers to increased competition, markets in Australia should become more competitive. Australia already has bilateral FTAs with a number of the TPP signatories, including Japan, US, New Zealand, Chile, Malaysia, Singapore, Brunei and Vietnam. The Government’s plan is that the TPP will enhance market access to these economies, plus create new market access to the other member economies. In addition to the direct impacts, there is a belief that there will be overall long term benefits associated with developing regional and global supply chains via this type of agreement.

**Impact on industry sectors**

Australia’s Department of Foreign Affairs and Trade believes the TPP will create beneficial impacts for businesses in a range of industry sectors.

### Agriculture

The agreement has reduced tariffs in agriculture, an industry subject to significant protection levels. Australian agricultural businesses face potential gains in relation to beef, sheep meat (mutton and lamb), wool, pork, cereals and grains, dairy, rice, sugar, cotton, wine, horticulture, and seafood.

Some examples include:

**Wine:** Elimination of wine tariffs in Canada (upon TPP coming into force), Malaysia (within 15 years of TPP), Vietnam (within 11 years), Mexico (3 years) and Peru (immediately for table wine and within 5 years for other wine). Wine is a growing export industry in Australia.

**Dairy:** Elimination and reduction of tariffs, and quota improvements will increase market access in Japan, the US, Canada and Mexico for a range of milk and cheese products, benefitting Australian dairy farmers, some immediately and others over time.

**Sugar:** Increased access to the US sugar market of 65,000 tonnes per year plus 23% of future increased sugar quotas, expected to increase sugar exports to 400,000 tonnes by 2020. Australian sugar farmers are unhappy with what they see as a very small gain in potential access.

### Resources, energy and manufactured goods

Australia has previously negotiated FTAs with most TPP nations and Australian producers already face low tariff barriers to exports of resources, energy and manufactured goods. The TPP should see remaining barriers removed plus provide new market access into Peru and Vietnam. The TPP will eliminate tariffs on a range of products to Peru and Vietnam such as iron ore, copper, liquefied natural gas and refined petroleum.

Tariffs will be eliminated on a range of manufactured goods. For example:

- Elimination of tariffs on iron and steel exports to Canada at the commencement of the TPP; and of exports to Vietnam within 10 years
- Elimination of tariffs on industrial paper products to Mexico at start of the TPP and on to Peru within 10 years
- End of excise tax credits for domestically produced automotive parts in Malaysia, a non tariff barrier that acted as an incentive for Malaysian manufacturers to use locally produced parts rather than import Australian parts.

Australian manufacturers to potentially benefit from these tariff removals include paper producers.
Services

The service sector in Australia contributes significantly to GDP but accounts for only 20% of total exports, making it important in terms of exports but also indicating room for substantial growth. The TPP agreement aims to remove significant trade barriers, create easier operating conditions and provide access to new markets. The main service areas affected are:

- Telecommunications
- Education
- Transport and logistics
- Financial services
- Mining
- Professional, technical and other business
- Health
- E-commerce
- Mining

Some of the decisions designed to improve trade in services include:

- Commitment to allow cross-border electronic payment services for credit and debit card transactions, designed to make it easier for Australian businesses to conduct business globally as it will be easier to make and receive payments – easier for the business and easier for customers.

- “Guaranteed market access” for investment advice and portfolio management of collective investment schemes and insurance of risk relating to transport and freight. Australian banks and other financial service providers stand to gain from increased market access.

- Guaranteed access for Australian lawyers in a number of countries and some US states in provision of legal advice on contracts on a fly-in fly-out basis; and for engineers, urban planners and architects in a range of countries.


- Commitments to guarantee access to a number of key markets for Australian universities and vocational education services including online services.

- The agreement aims to enhance competition, trade and investment in relation to e-commerce: Guarantee to allow service providers and investors to transfer data across borders as part of business activity; businesses will not be compelled to build data storage infrastructure locally or to use local service providers, i.e. they will be able to store customer data in the home country.

- Commitments by some countries to give access to a range of mining service providers in areas such as engineering and environmental services. This could benefit businesses such as Australasian Mining Services Pty Ltd and Environmental Engineers International Pty Ltd.
Temporary entry of business persons

The TPP creates shared rules making business travel easier, whereby intra-firm transferees, Australian business people with specialist knowledge and Australian business people wanting to pursue business opportunities in TPP countries will have greater certainty on length of stay without being subject to economic needs tests or visa quotas.

Not everyone is convinced

There are a number of individuals and groups who have concerns regarding the TPP, ranging from criticism to strong opposition. Some of these concerns are:

• negotiations were held in secret
• hard to quantify some benefits, e.g. impact of reducing preferential treatment of SOEs
• relatively small impact on economic growth and benefits to industries
• many decisions are not due to be implemented for a number of years, and a range of issues have not yet been agreed upon, placing doubt on its claimed benefits
• some improved access for Australian agricultural producers could be outweighed by competitors having the same access to markets in Japan, Malaysia and Singapore
• concern over the effect on Australia’s Pharmaceutical Benefits Scheme (PBS) and the potential for prescription medicines to become more expensive (the government says they won’t!)
• opposition in Australia to the Investor-State Dispute Settlement (ISDS) provisions, which would give foreign companies the right to sue Australian governments for laws that harm their interests

• Regional trade agreements can have negative impacts on non member nations and can actually restrict global economic growth and trade by benefitting inefficient member economies at the expense of other efficient economies
• Concerns have been raised by the ACCC which recommends extensive analysis of the impact of intellectual property provisions on competition and consumers, prior to enacting it.
• Australian sugar farmers are disappointed with limited access to the US market which remains heavily protected

Economic modeling by the World Bank forecasts the TPP will add less than 1% to Australia’s GDP by 2030

Not quite a done deal

The TPP will only come into force 60 days after it has been ratified by the Parliaments or Governments of all 12 member nations. It is not yet a done deal – it still needs to be ratified by the governments of each country, and this has to be all or nothing ratification, meaning countries cannot amend the agreement; further, it may require changes to national legislation in parliaments.
Conclusion

Australia has been at the forefront of efforts to liberalise trade for over 30 years, through unilateral decisions to reduce tariffs as well as participating in bilateral and multilateral trade negotiations and driving protection reduction in the Asia-Pacific region. This is due to the economic benefits associated with increased trade, creating access to new markets, promoting economies of scale and exposing businesses to competition, as well as the increased output and lower costs that are generated when economies specialize in producing those goods and services in which they have a comparative and competitive advantage.

The rapid expansion of trade that began in the 1980s was the culmination of developments in the forces of globalization including improvements in communications and transport technology and government actions to liberalise trade around the world. It was typified by businesses using global sourcing and developing a global supply chain. That expansion appears to be coming to an end and is compounded by reduced demand for exports from China and slow global recovery from the GFC. Seen in this context, the TPP could well be the impetus to provide a boost to trade in goods and especially in services as well as investment in the region. However, protection of agriculture in the US and Japan continues, and remains significantly high in service industries. For example average protection levels in services are estimated at around 17% in Canada, Australia and Japan and 44% in Mexico, according to the Peterson Institute for International Economics (The Economist). Clearly more work is needed to liberalise trade.

Nevertheless, the Australian government believes that this latest RTA will create new trade and investment opportunities for Australian businesses, increasing our economic and financial integration in the Asia Pacific region, facilitating the development of regional supply chains, culminating in increased economic growth and employment outcomes.

Student activities

11. There are positive and negative aspects but ‘the danger is not in signing the agreeing but in not signing the agreement’. Comment.

12. Define ‘intellectual property’. Might industry giants such as Apple, Google or large pharmaceutical companies aggressively seek to protect or extend their copyright and intellectual property rights to the extent that consumers’ choices are restricted?

13. A potential conflict exists in the ‘investor-state dispute settlement clause’. It is claimed that large companies could sue governments over laws which hurt their commercial interest. (Phillip Morris tobacco has challenged Australia’s changes to plain paper packaging of cigarettes). Challenges are expensive to defend and may threaten a country’s sovereignty to make laws for its citizens. Is this a legitimate concern?

14. There is an element of trust involved in an agreement that was hammered out in secrecy and where amendments cannot be made. Is this unreasonable or simply the tradeoff in achieving an agreement of such complexity?

15. Both the government and the opposition endorse the broad scope of the agreement. Place yourself as a farmer. Which aspects of the TPP agreement would excite you or alternatively make you feel apprehensive?

16. Define these terms: World Bank, economies of scale, globalisation, supply chain.
References, websites and further reading


‘Trade wins, Twelve countries reach an agreement on trans-Pacific trade’, The Economist, 5/10/2015


‘The Trans-Pacific Partnership, Every silver lining has a cloud’, The Economist, 10/10/2015

‘Free Exchange, A serviceable deal’, The Economist, 14/11/2015


www.polesy.com.au

www.enviroengineers.com.au
On 18 September 2015, the US EPA announced that Volkswagen had installed a ‘defeat device’ software code in diesel vehicles sold from 2009-15. Four days later, the Volkswagen Group admitted that 11 million cars worldwide had been fitted with software intended to deceive emissions testing.

This scandal has created serious implications for the car making giant whose vision is to offer “attractive, safe and environmentally sound vehicles which can compete in an increasingly tough market and set world standards in their respective class”.

Let’s delve deeper into #dieselgate to understand how and why this happened and examine the significant implications of this corporate deceit on the company, the customers and the wider community.

The Volkswagen Group – Company Overview

The Volkswagen Group (VW) with its headquarters in Wolfsburg, Germany, is one of the world’s leading automobile manufacturers and the largest carmaker in Europe. In 2014, VW increased the number of vehicles delivered to customers from 9,731 million in 2013 to 10.137 million. Their share of the world passenger car market amounts to approximately 12.9%.

VW operates 119 production plants in 31 countries globally, selling to customers in 153 countries. Every weekday, 592,586 employees worldwide produce nearly 41,000 vehicles, and work in vehicle-related services or other fields of business. VW comprises 12 brands across Europe: Volkswagen Passenger Cars, Audi, SEAT, ŠKODA, Bentley, Bugatti, Lamborghini, Porsche, Ducati, Volkswagen Commercial Vehicles, Scania and MAN. VW has approximately 340 subsidiary companies split between the Automotive and Financial Services Divisions.

In 2015, VW sold 9.93 million vehicles to customers despite the emissions scandal and its fall-out. That was down slightly on its 2014 sales figure of 10.14 million, and more than the 9.73 million vehicles delivered in 2013. However, this 4.8% drop is the first time the brand has posted a fall in sales in 11 years.

US Context: Clean Air Act 1970

Different governments have created different requirements and standards for car production regarding criteria such as fuel efficiency, emissions and safety. The Clean Air Act 1970 is one such US federal law, administered by the Environmental Protection Authority (EPA), designed to control air pollution on a national level.

This Act requires vehicle manufacturers to certify to the EPA that their products “will meet applicable federal emission standards to control air pollution” to ensure they aren’t causing undue harm to the environment. By making and selling diesel engine vehicles with ‘defeat devices’ that allowed for higher levels of air emissions than were certified to EPA, VW violated two important provisions of the Clean Air Act.

Figure 1.
Dieselgate: Scandal Breaks!

VW has been accused by the EPA of installing software on 482,000 diesel cars in the US that allowed it to cheat emissions tests, potentially exposing people to harmful pollutants at levels of 40 times the acceptable standard and respiratory conditions such as asthma.

The software code used was intended to detect when an emissions test was being conducted, and altered emissions controls for better compliance. During testing, the car immediately switched into a lower performance mode that cut engine emissions sufficiently to pass the test. When the testing was completed, the car reverted to its normal driving mode, where pollutants far exceeded permissible levels. Virtually impossible for anyone unaware to identify, the inconsistencies were discovered unexpectedly by professional engineers who were surprised by their findings.

As part of an international campaign to market ‘clean’ diesel vehicles, Volkswagen sold 11 million cars worldwide, an estimated 77,000 in Australia and nearly a half-million in the United States, that were supposedly ‘clean’ – they were not!

Corporate Deceit – Why?

A number of possibilities have been suggested as to why VW knowingly ‘cheated’ government regulators and customers.

Internal Pressures: Pursuit of Growth (US Market Focus)

VW has been working hard to try and surpass Toyota as the world’s biggest car company and part of their growth strategy has been to increase its small share of the American market. Making more SUVs (a popular local car preference) was one part of this, as was trying to increase American market interest in fuel-efficient diesel engines. This strategy is proving to be effective given that VW and Toyota reported global deliveries of 5.04 million and 5.02 million units in the first half of 2015 (so VW has edged out Toyota by a narrow margins). More recent figure show a fall in sales in the second half of 2015.

External Pressures: Car Industry Culture

There is talk that many car manufacturers are regularly involved in ‘trickery’ to cheat various tests across various markets. For example, it has been argued that it is possible that some companies are using software trickery to cheat on Europe’s tests on fuel efficiency. In many countries, the certification processes can be open to manipulation.

External Pressures: Maximising Shareholder Value at All Costs

There is a myth in finance that a company’s goal to maximise shareholder value conflicts with broader social and environmental aims. Believing that investors care only about the stock price, and not the impact on society, is the myth. Perhaps this myth was behind VW’s decision to install ‘defeat software’ to cheat on emissions tests. Shareholders’ judgment of this move was evident from the immediate market reaction, which saw the share price drop by a third, wiping billions from VW’s value. Clearly, unethical behaviour negatively affects share value.

Managers need to consider the ‘Triple Bottom Line’ of people, planet and profit. Corporations must balance shareholders’ desire for returns with looking after other stakeholders and respecting the environment. Research shows that cutting research and development (R&D) to meet short-term earnings targets or to maintain a desired credit rating is associated with lower shareholder value later on.

Internal Pressures: A Failure of Leadership?

While it is still too early to know where to lay the blame in the VW scandal, leadership failures such as this are often due to a failure in character (not a lack of skills or commitment) leading to performance problems for management, organisations and their stakeholders.

Interestingly, on 23 September 2015, Martin Winterkorn announced his resignation from the CEO position after a crisis meeting of the company board and two days later Matthias Müller was named CEO. Mr. Müller was the head of the Porsche marque within the VW corporate umbrella.

Figure 2. New CEO, Matthias Müller
Student activities
1. Outline the size, position and importance of Volkswagen in the automobile market?
2. Simply, what did Volkswagen do to perpetrate the ‘dieselgate’ scandal?
3. Which business goals led to the policy of corporate deceit?
4. Is there a conflict between short and long term goals?

Actions, Reactions and Implications
So far, Volkswagen’s corporate affairs strategies in response to global scrutiny have been focused on transparency. The company has admitted an error in judgement and promised to remedy the situation for its consumers, promising swift and immediate action as shown in an official statement by the former CEO:

“I personally am deeply sorry that we have broken the trust of our customers and the public… we will cooperate fully with the responsible agencies, with transparency and urgency, to clearly, openly and completely establish all of the facts of this case” (Martin Winterkorn, Volkswagen’s CEO)

Profit Warning Issued: Financial Impacts
Volkswagen is now facing up to $US 18bn in penalties under the US Clean Air Act, which permits fines of up to $US 37,500 per car.

“Estimates from Credit Suisse peg the costs of #Dieselgate at a worst-case scenarios of $87 billion. This would make the VW scandal almost 60 percent more costly than the BP Deepwater Horizon spill” - from Oilprice.com

Further to this, potentially 11 million VW diesel cars are implicated worldwide, including Australia. While no formal charges or penalties have been handed out yet, Volkswagen will likely need to repair the fault at the very least. However, the reaction from the general public through social media suggests that many may demand refunds instead.

The violations could also invite charges of false marketing by government regulators, a vehicle recall (482,000 vehicles are under a recall order in US) and payment to car owners, either voluntarily or through lawsuits. News sources speculate a criminal charge for the deception is certain.

In practice, the punishment may be a lot less severe given past cases of negligence. General Motors ignored ignition switch problems for many years (costing 124 lives) and was fined just $900m; in 2014 Toyota paid $1.2bn when settling a criminal investigation into ‘unintended acceleration problems’ which affected 8.1m vehicles.

VW has issued a profit warning, saying it had set aside $US 7.27bn to deal with the penalties it faces which has contributed to VW posting its first quarterly loss in at least 15 years.

Share Price Takes a Hit: Financial Impacts
VW saw its stock price tumble about 30% in the days following the EPA’s announcement that the automaker manipulated software to hide the emissions its cars produce. The share price fell from approximately $160 to around $110 within days of the announcement.

Social Media Reaction: Marketing Impacts
Stakeholders have, of course, been inundating Volkswagen on social media with three major concerns. Many customers are claiming they can no longer trust any of VW’s specifications, sales staff are asking how the scandal will hit their livelihood, and other customers are highlighting the implications to health of so many VWs on the road with higher emissions than previously thought. However; there are also many VW supporters and loyal customers pledging their allegiance. On Facebook, many state their love for VW in spite of this scandal.
VW Brand Perceptions Still Strong: Marketing Impacts

After the scandal broke some predicted a severe decline in the value of the VW brand, one of the most trusted in Germany. UK-based Brand Finance estimated that losses could reach 30%, making it worth $US 21bn. Swiss-based Interbrand, which measures brand value differently, suggested the loss was likely to be much smaller, down 9% to $US 12.5bn.

However, despite the scandal, market research suggests that the long term damage to the brand could be much smaller than predicted.

One poll conducted suggested that the majority of Germans (55%) still have ‘great faith’ in Volkswagen, with over three-quarters believing that other carmakers are equally guilty of manipulation. Another survey by management consultancy Prophet reported that two-thirds of Germans say they still trust Volkswagen.

A survey by Northwestern University’s Kellogg School of Management said that nearly 50% of US consumers had either a positive or very positive impression of Volkswagen, while 7.5% had a “very negative” impression.

Broader Concerns: German Exporting Industry & European Car Maker

Some fear that the whole export industry of Germany may be affected in the wake of the VW scandal. Germany’s economic strength is based on the belief that German production will “offer a high level of reliability trustworthiness and engineering prowess” - much of which relates to the automotive industry. The VW scandal may have undermined this trust.

There are also concerns that the scandal could lead to broader damage for the car industry hit the shares of car companies across Europe within days, with shares of Daimler AG, BMW AG, and French car makers Renault SA and PSA Peugeot Citroën all suffering sharp falls. This reflects general concerns about the truth and accuracy of claims made by all car makers.

Management and Internal Processes: HR Impacts

As already mentioned, the former CEO Martin Winterkorn stepped down just days after the scandal broke and the company also suspended five high-ranking executives (Head of Brand Development, Head of R&D Technical Development, Head of R&D Engine and Transmissions Development).

At the same time, it was reported that in addition to the internal revision process to investigate the incidents, the supervisory board of VW hired American law firm Jones Day to carry out an independent external investigation and audit.

VW Scandal Worldwide Repercussions

Australia: The Australian Competition and Consumer Commission (ACCC) is investigating VW for possible violations of consumer and safety standards. On 19 November 2015, ABC News Australia reported that more than 90,000 VW, Audi and Skoda diesel vehicle owners had filed a class action lawsuit against VW in the country’s Federal Court.

Norway: Norway’s prosecutors have opened a criminal investigation into possible economic crimes committed by VW.

United Kingdom: The Department for Transport announced that it would begin re-testing cars from a variety of manufacturers to ensure the use of ‘defeat devices’ is not industry wide.

Student activities

5. What does Volkswagen’s promise of ‘transparency’ following the revelations mean in this context?

6. Outline any financial penalties that Volkswagen could potentially face.

7. Brandpower is a powerful marketing tool. To what extent has the VW brand been tarnished?

8. Australian consumers have filed a ‘class action’ lawsuit. What does this mean?
The End of Diesel Cars?

Increasingly strict controls on carbon emissions in global markets are creating challenges for car makers, especially in developing diesel engines. In America, the standards are more demanding than they are in Europe for diesel cars. Mazda and Honda, both accomplished diesel engine producers, have had trouble complying with them. Europe has set a carbon-dioxide goal of 95g/km average for all car makers by 2021. More stringent fuel economy standards are being introduced in markets such as China, America and Japan.

If car makers cannot build diesel engines that deliver low emissions while maintaining high fuel efficiency and staying affordable then perhaps there will be no future for diesel engines in mass-market cars which are difficult and expensive to develop.

Perhaps hybrids and very efficient small petrol engines are the way forward. In fact, back in February Volkswagen called for more investment in electric vehicles, a zero-emission solution that virtually eliminates EPA certification procedures. Volkswagen has been involved in research and development initiatives for electric vehicles as well as an effort to boost the electric vehicle charging network in the US.

VW are not the only ‘bad guys’

The markets have unfortunately become used to shocks in the car industry, but the Volkswagen story is a little different. Safety issues at Toyota (decelerators), GM (ignition switches and airbags), and Honda/Takata (airbags) were failures of safety and quality oversight from the board level down. Volkswagen’s was a deliberate decision to program each car to cheat emissions tests. Either way, this scandal highlights the need for consumer protection, quality management processes and greater Corporate Social Responsibility across industries.

VW’s efforts were clearly focused on short-term profits; they were not focused on the long-term health of the company’s brand, its customers, or the environment. Consciously deceiving regulators and consumers may have served their immediate needs, but it has compromised their longer term position in the global market.

Student activities

9. Are environmental laws and constraints driving Research and Development into alternative propulsion systems?
10. Toyota, GM and Honda have faced vehicle safety issues. List them.
11. Volkswagen’s transgression involved deliberate deceptive behaviour. Outline the grounds on which it failed as a responsible corporate citizen.
13. The US Clean Air Act can impose penalties for environmental breaches. Research and write a brief outline of the role of America’s Environmental Protection Agency. (EPA)

Further Information and Reading

VW Group Investor Relations for financial data, reports and press releases (http://www.volkswagenag.com/content/vwcorp/content/en/investor_relations.html)


NY Times: How Volkswagen Got Away With Diesel Deception (http://nyti.ms/JQyOC6)


For 57 years, Barbie has been a global cultural icon and a source of inspiration and imagination to millions of girls around the world.

But with her tiny waist, stick thin legs and petite frame, the Barbie doll has been accused of promoting an unhealthy body image by giving young and impressionable girls an unrealistic idea of what the female body should look like. In 1963, the doll came with a book entitled How to Lose Weight, with instructions to not eat! Research also found that, with her 36in chest and 18in waist, Barbie would lack the 17% body fat needed to menstruate. ‘Barbie Syndrome’ is a term that has been used to depict the desire to have a physical appearance and lifestyle representative of the Barbie doll. It is most often associated with pre-teenage and adolescent females but is applicable to any age group. A person with Barbie syndrome attempts to emulate the doll’s physical appearance, even though the doll has unattainable body proportion.

But now, in her biggest update since 1959, it’s out with the skeletal frame and thigh gap, and in with the curvy hips and thighs as the company has revealed three new body types. Mattel says it has ‘a responsibility to girls and parents to reflect a broader view of beauty’.

Barbie is getting wider hips and shorter legs as part of Mattel’s attempt to revive the world’s largest toy brand. Barbie will come in a new range of dolls with differing body types, hair, outfits and skin tones.

Several charities who champion healthy body image and assist those who struggle with eating disorders, have welcomed the changes.

Everywhere they go young people are bombarded with images of photo-shopped women, who have shapes that are just not real and not healthy.

Mattel, the creator of the toys, said the new range – which also boasts seven different skin tones – was designed to promote a healthy and realistic body image and would better reflect the diversity of those who play with the dolls.

The move follows years of decline for Barbie, which accounts for about $US1 billion in annual revenue. It was facing competition from other brands like “Frozen” and girl-oriented toys such as the Lego Friends line.

What these changes will do for sales remains to be seen, but they have generated some positive press for a brand that’s been criticised for years.
This is a smart move public-relations-wise given that parents are ultimately the ones making that purchase. It gives an extra incentive to expand the brand and gives fewer people a reason to say no.

Mattel are hoping that the new range, which features on the front cover of TIME magazine, will help boost sales of the world’s most popular doll. Estimates say three Barbies are sold every second but in October Mattel announced a 14% global drop in Barbie sales, the eighth consecutive quarter in which profits fell.

The project for the dramatic reinvention of Barbie was kept top secret and referred to simply as “Project Dawn” by the company. The new dolls will also boast 24 new hairstyles, including an afro, curly red hair and even long blue hair, a long way from the bright blonde locks traditionally associated with Barbie.

The company also hopes the new diverse range will appeal to “millennial mums”, who are more socially conscious and had a negative view of Barbie’s previously unrealistic proportions.

Student activities
1. Marketing is about keeping a product line fresh. But why would Mattell seek to change such a successful and iconic product?
2. Is there evidence that Barbie’s appeal has been harmful to girls?
3. Is the ‘wider hips, shorter legs’ makeover just a recognition that body shapes are getting larger or is it a response to body image criticism? Discuss.
4. Which of the marketing 4Ps is Mattell specifically addressing? Explain.
5. Could Mattel’s response to body image criticism be seen as positive corporate responsibility or just good public relations?
6. The original Barbie was a ‘leggy’ blonde portraying a cultural stereotype. How does the new range address this?
7. At what stage in the business life cycle was Barbie in prior to the makeover. Describe features of this stage.
8. Outline recent sales and revenue performance.
9. Define the term ‘brand’. Outline in marketing terms the processes that Mattel would have taken to reinvent and reposition Barbie
10. Define market segmentation. How has the Barbie brand been extended?
11. Barbies are for girls but mothers do the buying. How have social norms and expectations changed over time?

Research
12. Construct a timeline for the development of Barbie (and Ken) from humble beginnings in California.
13. Some of the top toy companies are Mattell, Hasbro, Lego and Jakks Pacific. For each brand compile a list of toys that they market. Is there evidence that the choice of toys is changing?