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Australian Productivity Commission
Mr Mike Woods & Mr Philip Weickhardt
Commissioners
automotive@pc.gov.au

FUTURIS AUTOMOTIVE INTERIORS
(AUSTRALIA) PTY LIMITED
ABN 43 065 993 553

GLOBAL HEAD OFFICE
80 Turner Street Port Melbourne
Victoria 3207 Australia

POSTAL ADDRESS
PO Box 94 Port Melbourne
Victoria 3207 Australia

T +61 3 9644 4222
F +61 3 9645 3292
E inside@futurisautomotive.com
W futurisautomotive.com



Re: Automotive Transformation Scheme (ATS) Amendment Recommendations

Futuris Automotive strongly believes that a number of changes are immediately required to the Automotive Transformation Scheme (ATS) to assist the automotive component producers (ACPs) in Australia to transform their businesses so that they can continue to be relevant in Australia in light of the recent announced closures of all three motor vehicle manufacturers (Ford, GM Holden and Toyota) in Australia by 2017.

ATS in Australia is currently controlled and managed under the auspices of the following legislation:

1. Automotive Transformation Scheme Act 2009
2. Automotive Transformation Scheme Regulations 2010
3. Automotive Transformation Scheme Order 2010

It is Futuris Automotive's view that ACIS (Automotive Competitiveness Investment Scheme) and ATS, have contributed significantly to the development of skilled R&D capability within the Australian Automotive sector.

For example in our case, Australia serves as a highly innovative, engineering focused "design" centre for our Asian and global manufacturing activities. The development in Australia of strong design & development expertise and full life cycle capabilities has enabled Futuris to secure and deliver into production, a number of global motor vehicle manufacturer (MVP) supply contracts.

The Futuris engineering team in Australia (110 technical employees) has undertaken a number of design & development programs for off-shore production, including programs for the Thailand, China and North American markets. The team has recently completed work on new programs with Ford (Thailand), Tesla Motors (USA) and SAIC (China).

The long-term future of core engineering activity and automotive R&D by Futuris Automotive in the Australian market is highly reliant on the continuation and adjustment of ATS. Notwithstanding the contribution already made by ATS to automotive R&D in Australia, Futuris Automotive believes that there is an urgent need for a number of changes to ATS through to 2020. To assist with the transformation of the ACP sector in the transition to zero automotive vehicle manufacturing in Australia, we suggest a number of amendments be made in the following areas:

1. Accelerated payment methodology;
2. Lifting of 5% cap on supplier claims;
3. R&D benefit used for Australian production; and
4. Removal of split between MVPs and ACPs.

1. Accelerated Payment

There are two alternative amendments that we consider would greatly assist the transformation and sustainability of ACP's, as follows:

Alternative One

Under the current terms of ATS an ACP is entitled to make a claim on a quarterly basis for eligible R&D expenditure and this is then modulated and paid through ATS to the ACP in the timeframe prescribed in the Automotive Transformation Scheme Order 2010.

Futuris Automotive believes that payments due to ACPs for ATS related claims should be accelerated to allow the ACP to utilize the funds in its business. At present, payment for a particular approved quarterly claim is spread over the future eleven (11) quarters (a 33 month period). Futuris Automotive believes that all existing ATS receivables on the books of ACPs should be paid in a lump sum immediately, rather than blending it out between now and 2017.

All future ATS claims should then be made on a quarterly basis, as is the current practice; however the payment for this should then be made to the ACP within 30-90 days (during the following quarter). This would allow the ACP to use these funds to transform their businesses through diversification or expansion. In some cases the funding may also assist with the burden of closure costs, thereby negating some of the impact to the Federal Government of the MVP closures.

This will require an amendment Automotive Transformation Scheme Order 2010, which sets out the methodology and timing of quarterly ATS claims and subsequent payments to ACPs.

Alternative Two

Clause 3.14, entitled 'Inalienability of payments' of the Automotive Transformation Scheme Regulations 2010, stipulates that:

- (1) *A payment of assistance under the Scheme may only be made to an ATS participant.*
- (2) *An ATS participant's payment, or entitlement to a payment, is inalienable, except with the written approval of the Secretary.*
- (3) *For the avoidance of doubt, subregulation (2) prohibits a transfer by means of, or in consequence of, a sale, an assignment, a charge, an execution, a bankruptcy, an insolvency or any other means.*

We understand that this clause means that if a business is sold or goes into administration/liquidation, the ATS receivable owed by the government to that business is null and void. Critically, this clause inhibits the ability of the business to securitize the receivable with any financial institution.

If the rule applying to Alternative One cannot be amended to immediately allow the monetization of the ATS receivable, then we ask that this clause be amended, making the receivable transferable, thereby allowing securitization/monetization. This will give an ACP the ability to utilise its ATS receivable immediately, via securitization, to transform its business.

This will require an amendment to Part 3, 'Payments under the Scheme', Clause 3.14, entitled 'Inalienability of payments' of the Automotive Transformation Scheme Regulations 2010.

2. Lifting of 5% cap on supplier claims

We refer you to Part 3, 'Payments under the Scheme', Clause 3.11, entitled 'Sales-based cap for payment of assistance' of the Automotive Transformation Scheme Regulations 2010, which states that:

- (1) *For a particular ATS year, the payment of assistance under the Scheme to an ATS participant, other than during an eligible start-up period of the ATS participant, must not exceed 5% of the sales value of the ATS participant's goods and services for the previous year.*
- (2) *The payment of assistance to an ATS participant in an eligible start-up period must not exceed 15% of the eligible start-up investment amount of the ATS participant.*

ATS provides funding up to AUD 250 million a year for ACPs and MVPs through to 2020, but the amount that can be claimed is capped at 5% of their sales in the local market. With Ford closing in 2016 and Holden and Toyota in 2017, the scheme, which has funding to 2020, will not be accessible to ACPs if amendments are not made.

Futuris Automotive considers that the 5% cap should be lifted to 10% immediately, due to the substantially lower volume and hence lower revenue streams available to ACP's, and then following the closure of the three MVPs the cap should be completely removed to allow all Automotive R&D expenditure undertaken by an ACP to be claimable to 2020, regardless of the sales value of the ATS participant's goods and services in Australia.

This will require an amendment to Part 3, 'Payments under the Scheme', Clause 3.11, entitled 'Sales-based cap for payment of assistance' of the Automotive Transformation Scheme Regulations 2010.

3. R&D benefit used for Australian production

Under Part 1, 'Preliminary', Clause 1.5, entitled 'Definitions' of the Automotive Transformation Scheme Regulations 2010, sales value means:

- (a) *for the sale of goods produced in Australia by an ATS participant – the value of the goods sold reduced by the amount of sales tax payable on those goods; and*
- (b) *for the sale of services provided in Australia by an ATS participant – the value of the services.*

At present ATS provides a co-payment of 50c for every dollar spent by an ACP on R&D in Australia, but only for work on products sold in the domestic market. Domestic sales value will dwindle to nothing by 2017 and ACPs will not be able to claim any R&D from that point forward. This needs to be changed to allow an ACP to claim on any automotive R&D undertaken in Australia, regardless of whether the product is sold / produced in Australia or an overseas market.

This will require an amendment to Part 1, 'Preliminary', Clause 1.5, entitled 'Definitions' of the Automotive Transformation Scheme Regulations 2010.

4. Removal of split between MVPs and ACPs

Futuris believes that the 55/45 split between MVPs and ACPs and others, should be immediately removed and rather, just one pool exist, where quarterly applications are made on their merits and

modulation is applied - this will rectify the potential situation where one side of the split pool is modulated, whilst the other may be under-subscribed.

This will require an amendment to Part 3, 'Payments under the Scheme', Clause 3.10, entitled 'Capped assistance divided between MVPs and others' of the Automotive Transformation Scheme Regulations 2010.

In Summary

Futuris Automotive believes that ATS has, and can continue to, deliver significant benefits to the Australian automotive sector and therefore the Australian economy through to 2020.

Futuris Automotive is currently bidding on a number of global programs for start of production in the 2018-2020 timeframe and we need to determine quickly, where best we undertake the automotive R&D work for these programs.

It is Futuris' preference to continue to undertake this high-technology, high-end work in Australia, however before committing to this we need to understand the future position of ATS and have recommended a number of amendments to ATS, to allow for the transformation of our business, and other similar businesses. ATS makes undertaking automotive R&D work in Australia competitive with other regions, such as China, India or the US.

We hope that our recommendations will be reviewed and implemented. We are available at any time, at your convenience, to discuss these further.

Kind Regards

MARK DE WIT
MANAGING DIRECTOR

Futuris Automotive Group Ltd
80 Turner Street Port Melbourne
Victoria 3207 Australia