

## Editorial Comment

### • *The Economic outlook, ACIS and the need for modulation*

Recent developments and meetings between the FAPM and top ACP claimants under the ACIS program have highlighted uncertainties in both the international and local automotive industry and supply chain.

Fears of a downturn in the major global economies raise the likelihood of a flow-on effect in the volume of claims under ACIS as Australian capital expenditure plans are deferred, and R&D spending is accordingly reduced.

Although all Q3 Updated Business Plans have now been submitted, there is some doubt as to whether AusIndustry will have time to consider this data before a recommendation is due on modulation.

Industry is aware that projected claims under initial expenditure Plans lodged at registration indicate some resort to modulation would be a certainty. For many, it was not a matter of if modulation kicked in, but when. The level of 'oversubscription' by ACPs, AMTPs and ASPs was understood to be in excess of \$400m, which suggested a modulation rate of at least 0.8 for Q4 2001, or at the commencement of Q1 2002.

Is such a result in the national interest? The newly-elected Howard Government - not looking forward to the economic 'knock' now on its way to Australia following 11 September - might prefer the more pragmatic approach of continuing to pay full ACIS claims, whilst adopting a 'wait and see' approach to medium-term reductions in investment should consumer confidence (and auto sales) take a serious dive from mid-2002.

To assist in determining the level of modulation over the remaining 17 quarters of the Scheme, the new Department of Industry, Tourism and Resources will be requesting additional information from the larger claimants in relation to the following:

- (1) exchange rate implications,
- (2) percentage changes in demand for PMVs in the Australian market,
- (3) market share changes for locally built PMVs in Australia,
- (4) export volume changes, and
- (5) their associated impact on P&E and R&D expenditure.

Once such key variables are analysed and put before the new Minister, the Hon Ian Macfarlane, any decision to modulate in Q4 2001 will likely fall over into the New Year for announcement.

# The Australian Automotive Industry Advisor

## New man in charge of Industry and ACIS

In his third-term Ministry, Prime Minister Howard has appointed the Member for Groom (Qld), the Hon Ian Elgin Macfarlane, as the new Minister for Industry, Tourism and Resources (ITR) - replacing Nick Minchin, who assumes a new job as the Minister for Finance and Administration. Macfarlane is to be assisted in the ITR portfolio by the Hon Joe Hockey (Small Business and Tourism), and the Hon Warren Entsch, acting as Parliamentary Secretary to the new Minister.

## Feature Article: Contract R&D - Who claims and who misses out?

For ACPs, AMTPs and ASPs, by far the largest rewards and sustainable returns under the Scheme are those delivered under Section 13G of the ACIS Administration Regulations 2000. Whilst all participants in the Scheme and those that form part of the automotive supply chain would prefer to reap the full rewards of in-house R&D, this is not always possible, and therefore, leads to contracted R&D. However, contracted R&D is not automatically claimable, and several basic rules need to be established to determine who can and who cannot claim.

**Rule 1:** MVP's cannot claim investment in R&D for own use or benefit whether or not contracted or conducted in-house.

**Rule 2:** ACPs, AMTPs and ASPs who carry out R&D under a contract on behalf of another person, regardless of whether that person is an ACIS participant or not, are unable to claim any costs in relation to the R&D activities that it undertakes.

**Rule 3:** ACPs, AMTPs and ASPs who carry out in-house R&D or contract the R&D to another party to improve its own products and processes are able to claim the cost of the investment in R&D.

## - Sound unfair?

The R&D expenditure can only be claimed once and cannot be claimed if it is being carried out on behalf of another firm that has contracted the R&D. To prevent clawback provisions, apply the various tests internally depending on where your company sits in the supply chain to determine whether the contracted R&D is yours to claim. There are several good scenarios that can be applied to easily determine whether or not contracted R&D is claimable. These are available from the AusIndustry Customer Guidelines to Claiming Contracted R&D - October 2001, or contact any member of the TCF Services team (see below) for a determination.

## Situation Report on EFS Duty Credits

All claimants under the previous Export Facilitation Scheme need to be aware that EFS credits must be used by the 31st December or transferred through AusIndustry by no later than the 14th December. If credits are unused by end-December 2001, they will simply expire and no recourse exists to have them reinstated. If goods are re-exported in a situation where EFS credits were originally used, then reinstatement of credits cannot occur after end-December. TCF Services has accordingly flagged this situation with AusIndustry and the Australian Customs Service. On behalf of clients, we have made a request that the agencies consider allowing exporters to reclaim the duty which would otherwise have been paid under the Duty Drawback Scheme, whereby exporters have a mandatory 12 month period from the date of export to reclaim Duty in cash. We will keep you informed as to the outcome.

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