

Issue No 9 - 24 June 2002

## Editorial Comment

### • *Bright future for component manufacturers in FTA deals?*

Prime Minister John Howard's recent sojourn to Washington in pursuit of a US-Australia Free Trade Agreement remains hamstrung by President Bush's need to secure a free hand from the US Congress in pursuing such trade agreements.

Under the famed 'Trade Promotion Authority' (TPA), Bush might theoretically be able to push through on a deal with Australia leaving legislators to only accept or reject, but not amend, any trade deal into which the President finally entered.

As such, there is a possibility hard issues such as agriculture, open trade in ETMs and capital flows could be addressed in Government to Government negotiations, leaving it to Congress - despite displeasures with elements of the final agreement - with having to either give the 'thumbs up' or 'thumbs down' on what many consider a key initiative for one of the United States' most loyal allies in the international war against terrorism.

Hopefully Howard's address to the joint sitting of Congress - as evidenced by the standing ovation at its conclusion - is a pointer to Congress deciding against putting 'speed humps' into TPA legislation to overly protect sensitive American products.

Assuming a deal can be done with Washington, the prospects of a Free Trade Agreement with Japan also offers major opportunities for local automotive components manufacturers to leverage new products into vehicles destined for 'first-world' markets.

After all, these are the vehicles which will include the newest and most advanced technologies now being forced on automotive manufacturers by Western Government's keen to see safer vehicles, and better environmental outcomes - both in terms of fuel consumption and the recyclability of materials used in cars.

With ACIS now delivering considerable investments in R&D and P&E designed to bring Australia up to scratch - and in many cases, past - current world benchmarks, perhaps there is a real case for ACIS Mk II to be pitched at ensuring local component manufacturing is well positioned as a global supplier of the vast array of 'new-age' components for the next generation of automotive vehicles.

*Disclaimer - Before relying on the information contained in this newsletter, users should independently verify its currency, completeness and relevance for their own purposes, and should obtain any proper professional advice. In particular, users should seek more detailed independent professional advice before making any investment/business decisions.*

## Momentum builds towards Automotive report

With over 30 submissions now logged on the Productivity Commission website as being received for its inquiry into post-2005 Automotive industry competitiveness and assistance issues, a considerable base of information about the industry and its prospects is now accumulating in advance of its end-July draft report.

One of the most substantive, and impressive submissions, is that prepared by the Federation of Automotive Products Manufacturers (FAPM), which provides an comprehensive overview of the Australian Automotive Components Industry, international trends in automotive manufacturing, plus a comparative assessment of global policies adopted by different nations to encourage automotive components manufacture.

In terms of Government-sponsored 'tools' to build industry competitiveness - compared to production environments overseas, the submission makes a strong case for continuation of the ACIS Scheme post-2005, saying that without an ACIS Mk2 from 2006 to 2010, the nation 'would be uncompetitive' against both developed and developing country automotive producers, in terms of providing support for automotive investment.

The submission also draws attention to the level of company-specific assistance provided by all levels of Government in Australia, theoretically designed to attract direct investment into Australian automotive assembly operations. It says the impact of this assistance in swinging new investments Australia's way 'is hard to assess' when compared to quite substantive assistance provided in the Southern States of the US, as well as many Asian countries. Certainly, says the FAPM, "without ACIS, the direct support provided in Australia is rather piecemeal."

The submission further notes that, without ACIS, relying solely on the 125% tax concession/definition or R&D "would make the Australian Automotive industry very uncompetitive in global decisions to locate and undertake automotive R&D." Its says with a local corporate tax rate of 30%, the effective subsidy of the 125% R&D tax concession is around 7.5%. The FAPM considers this to be "well below R&D support available for the automotive industry in most of the (developed) countries."

## Track record of AusIndustry ACIS audits

ACIS participants having had the pleasure of an AusIndustry Audit, and coming through relatively unscathed - that is, no Unearned Credit Liability (UCL) assessment - can now breathe a sigh of relief. This reflects the hard up-front work in data gathering, training and methodology set-up, which should see them through the rest of the Scheme.

Unfortunately, not all participants have been so fortunate. Ineligible sales, incorrect treatment of tooling as R&D, the claiming of tooling as P&E when sold to the customer, claiming ineligible R&D, double-dipping contracted R&D and general misinterpretation and/or misunderstanding of ACIS guidelines and regulations, are known to have generated a significant number (and value) of UCL's. With 25% of ACIS participants already audited, and 75% to go, perhaps the UCL wave is still to hit. So it time for a reminder for clients to revisit methodologies and claims made, to assure compliance under the Scheme's entitlements, **before the audit!**

TCF Services provides free 'health checks' for ACIS participants, and generates an 'in-confidence' report for each client on its findings. We also provide observations on current practices, as well as recommendations for improvement where systems or methodologies appear to be lacking. If key issues remain unclear, TCF Services can also make representations to AusIndustry to test the eligibility of contentious items.

**Are you claiming maximum benefits under the ACIS Scheme?** Do you have questions needing to be answered with an innovative ACIS solution? If so, feel free to contact our team if we can be of service.

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