



ABN 67 008 411 452

The Manager
Automotive Innovation Programs Section

Via email – ANMP@innovation.gov.au

28 June 2012

Dear Madam / Sir

I am writing on behalf of the Board and members of the Federation of Automotive Products Manufacturers (FAPM).

The FAPM is an association of manufacturers engaged in the production of a comprehensive range of automotive products. It was formed in 1958 and currently comprises just over 100 member companies, employing more than 41,000 people with sales of over \$8.5 billion.

I want to thank you and AusIndustry for the opportunity to comment on the federal government's Automotive New Markets Initiative Consultation Framework Paper May 2012.

Overall, FAPM is very supportive of the announcement of the ANMP, acknowledging that Australian automotive component suppliers will need assistance to broaden their customer and product base, both domestically and internationally, given the move by the vehicle manufacturers to global platforms.

The automotive supply chain is interested in all three, complimentary elements of the program.

We do however have some comments on the current contents of the Framework Paper. We have outlined some comments and suggestions on a number of aspects of the ANMP and the initiative overall.

I would ask that they be considered prior to the finalisation of the programs' guidelines.

Please contact me on (03) 9863 2404 if you would like further information on this submission.

Yours sincerely

A handwritten signature in blue ink that reads "Richard Reilly".

Richard Reilly
Chief Executive

Automotive New Markets Initiative (ANMI)

Summary of recommendations

- *That AusIndustry consider offering a more favourable funding ratio to firms that commit to a collaborative approach to undertaking the project.*
- *That the definition of a company's eligibility be clarified.*
- *That the ANMI minimum grant should be reduced to \$50,000.*
- *That AusIndustry limit the grant funds available for any single company to \$2 million over the life of the program.*
- *That AusIndustry consider guidelines that encourage re-tooling activities.*
- *That the grant duration be increased from two years to three years with the option of a six month extension.*
- *That the number of assessment rounds be increased from two per year to three or preferably four per year.*
- *That the final guidelines make clear that grant eligible expenditure is taken from the commencement of the ANMP project or acceptance of the final application by AusIndustry, whichever is later.*
- *That the Automotive Supplier Advocate be consulted by the ANMP Assessment Panel when determining grant applications.*

Automotive New Markets Initiative (ANMI)

Automotive New Markets Program (ANMP)

Grantee dollar contributions

FAPM is supportive of the contribution ANMP will make to every project ie. for every dollar contributed by the applicant company, ANMP will contribute a dollar.

The 1:1 ratio is certainly more attractive for supply chain companies for a number of reasons. As you would expect, access to cash for investment purposes is limited at the current time. Firms are facing substantial challenges given the overall state of the automotive sector due to the reduction in vehicle production volumes.

One of the criticisms of the now defunct Green Car Innovation Fund was that its funding ratio of 3:1 (one government dollar for every three dollars invested by the company) was too onerous and did not provide an appropriate incentive for companies to apply for a grant. This new ratio is more attractive and should provide a clear incentive for companies to apply.

Consortia application

FAPM has been supportive and encouraging of its members undertaking investments and projects that are collaborative in nature.

Allowing consideration of consortia applications is a positive move and should be encouraged by consortia applications being looked at more favourably than individual company applications in some way. Collaboration within the supply chain and where applicable between supply-chain firms and researchers, is vital to its existence and should be encouraged at all times.

Alternatively, an incentive to participate in a consortium might be an alteration of the funding ratio for the project, with consortium members receiving a more favourable ratio, for example two dollars of ANMI funding for every one dollar committed by the consortium.

Recommendation

That AusIndustry consider offering a more favourable funding ratio to firms that commit to a collaborative approach to undertaking the project.

Eligibility of applicants

There appears to be a slight inconsistency in the definition of an eligible company for this grant.

To be eligible, the applicant must be ".....an Australian producer of automotive components...."¹. Further, the section reads, that to be eligible to apply for a grant, the company must demonstrate that it "must be a supplier to an original equipment manufacturer for passenger motor vehicles".²

A company can be a producer of automotive components without actually supplying directly an OEM. This is the definition of tier 2 or tier 3 suppliers. We understand that the program is open to all

¹ ANMI Consultation Framework Paper, May 2012, page 3

² Ibid – page 3

members of the supply chain and not only tier 1 suppliers. This point should be made clearer in the guidelines.

The need for an applicant company to have undertaken and successfully completed an independent business capability development activity to improve its competitiveness and business sustainability is fully supported by FAPM.

Companies need be able to demonstrate that they are fully committed to improve their businesses through participation in programs like those conducted by the Automotive Supplier Excellence Australia (ASEA) and Enterprise Connect. As you know, FAPM is a member of the ASEA Steering Committee.

Companies need to be able to demonstrate that they have a genuine need for government funding in order to undertake the project. From a policy perspective, this is a reasonable eligibility criterion to have; in practice this criterion can often cause issues during assessment.

The Assessment Panel needs to be cognisant of the fact that a company must be able to show that it is not sufficiently financial to be able to undertake the project solely from their own resources, while simultaneously demonstrating to government that if it does receive grant assistance, it has the financial resources and wherewithal to undertake and complete a project.

Historically, this has always been a fine line for a company to argue and a criterion that the assessment panel needs to be aware of when determining successful applicants.

Recommendation

That the definition of a company's eligibility be clarified.

Size of the grant

FAPM recommends that the minimum size of a grant should be reduced to \$50,000 from the current \$100,000.

A \$100,000 project (grant of \$50,000) is a sizeable project for FAPM members in the SME category (of which many are members of the supply chain), and a discrete project of this amount can achieve considerable returns for the company.

From an assessment perspective, there is no difference in the amount of work to be completed by AusIndustry and the Assessment Panel for a \$100,000 ANMI project compared to a \$2 million ANMI project.

The cost of a project will ultimately be determined by the resources required to complete an eligible activity or activities. The project's activities and commercialisation prospects need in-depth assessment; the costs incurred in undertaking the activities, while important, are generally similar regardless of the magnitude of those costs.

If AusIndustry is concerned about the smaller nature of a \$50,000 grant application, a streamlined process could be introduced whereby all projects requesting grants of between \$50,000 and \$100,000 could be assessed and agreed to not by the delegate, but by another bureaucratic mechanism. This has been done previously in other grant programs (ie. R&D START) and worked well for projects at the lower end of the grant scale.

By way of contrast and in support of a \$50,000 minimum grant application, the new Australian Government's \$200 million Clean Technology Innovation Program has a grant range between \$50,000 and \$5 million.

Recommendation

That the ANMI minimum grant should be reduced to \$50,000.

Limit of 2 grants per company

FAPM does not agree that a company should be limited to two grants.

This spurious limit will most likely disadvantage the very companies that ANMP was established to assist.

FAPM disagrees that there is a need to provide equity as described in the draft guidelines. Grants under the program should only be awarded to companies that rate sufficiently highly under the finalised merit criteria.

If a company fails to meet the required level of merit, it should not receive a grant. Conversely, if a company rates sufficiently highly against the stated merit criteria, it should receive a grant for that project.

By artificially limiting the number of grants per company, and by way of example, the guidelines are disadvantaging a company which is applying for its third, meritorious project against a company which has submitted a single, grant application for an inferior project.

FAPM is very comfortable for a small number of companies to dominate the funding of the program through accessing multiple grants if indeed those projects are deemed sufficiently worthy of grant funding. By definition, projects that didn't receive grant funding have been deemed by AusIndustry to not be of sufficient merit to receive grant funding.

AusIndustry should be encouraging highly meritorious projects to be considered for funding. If the outcome is that a company, over the four year program period, has three or more great projects on its books, then it should be encouraged to access funding, not limited in applying.

Otherwise, AusIndustry risks allocating grant funds to projects of insufficient merit, based purely on a timing issue of which round the applications were considered in.

Projects should be awarded grant funding on merit only.

A more equitable way of encouraging supply chain firms to apply for grant funding would be to limit the total grant funds accessible by any one company over the four year period of the program to \$2 million.

This alternative limitation would allow companies to submit as many grant applications as it considered appropriate given the opportunities that may arise over a four year period.

This eliminates the possibility that a company is successful in obtaining two grants in the first 18 months of the program, and in year three, unable to apply for another grant in pursuit of meritorious project.

Recommendation

That AusIndustry limit the grant funds available for any single company to \$2 million over the life of the program.

Activities supported by ANMP

FAPM supports the proposed activities that are outlined in the draft ANMP guidelines. They are comprehensive and will give every opportunity to supply chain firms to develop projects in many areas of their businesses to broaden their customer and product base, both domestically and internationally.

However, FAPM believes that for the purposes of the ANMP, some activities should carry more weight than others. We are strong advocates of re-tooling activities and how ultimately, re-tooling investment will secure a clearer future for those companies wishing to manufacture non-automotive products and indeed, new automotive products especially those for global vehicle platforms.

Recommendation

That AusIndustry consider guidelines that encourage re-tooling activities.

Merit Criteria

FAPM concurs with the stated merit criteria as stated in the Consultation Framework Paper.

Grant duration

We believe that the proposed 2 year time on grant applications is too short and should be extended to 3 years, with the option of applying for a 6 month extension.

Member feedback to FAPM on this issue clearly indicates that the timeframe required to bring new products and processes to market in the automotive industry (especially internationally) will exceed 2 years in all but unusual instances.

This is particularly the case when trying to finalise the project through its successful commercialisation. In some cases, the proof of concept and R&D activities may be able to be undertaken and finalised in the proposed timeframe, but the commercialisation activities will not be. The commercialisation activities are where the success of the project will ultimately be determined.

Recommendation

That the grant duration be increased from two years to three years with the option of a six month extension.

Assessment process

FAPM believes that the proposal to only hold two rounds a year is insufficient to enable supply chains firms to identify and capture prospective commercial opportunities, both domestically and internationally. Our members have given this feedback quite clearly.

We are fully aware of the resource constraints of AusIndustry and the ANMP Assessment Panel but taking into account the timing guidance in the consultation paper, the following scenario is probable.

Assume that the application rounds close on 30 September 2012 and 31 March 2013 ie. 6 months apart. If an opportunity arises for a member of the supply chain on 15 October 2012, the next round of funding it can apply for is five and a half months away.

The Assessment Panel in this example will convene no later than 30 April 2013, with the Program Delegate giving delegated approval to the Assessment Panel's recommendations approximately two weeks after that, meaning that companies will find out whether they are successful in the grant application in late May 2013 for an opportunity arising over six months prior.

As an industry, we have to be able to move faster than this to take advantage of opportunities as they arise.

FAPM's preferred option is that there are four rounds per annum, closing at the end of February, May, August and November each year. A quick decision can be made and the potential for lost opportunities is minimised.

Notwithstanding our preferred option above, as a minimum, we would recommend three rounds per annum, closing at the end of February, June and October.

Instigating three if not four rounds per year will not necessarily add to the administrative burden of AusIndustry and the Assessment Panel, as the number of applications will be spread over more rounds, making the process more conducive to the needs of industry. We believe more assessment rounds will allow companies to respond more effectively to the commercial opportunities that present themselves.

Recommendation

That the number of assessment rounds be increased from two per year to three or preferably four per year.

Eligible expenditure

FAPM concurs with the eligible expenditure as stated in the Consultation Framework Paper.

One point on clarity – the draft guidelines state that “...which cannot be before the date the Program Delegate accepts the application for assessment,.....”.³ Can this be clarified?

Is this date referred to when the final application is accepted by AusIndustry and date-stamped as having been received? Is acceptance by AusIndustry the same as acceptance by the Program Delegate?

Recommendation

That the final guidelines make clear that grant eligible expenditure is taken from the commencement of the ANMP project or acceptance of the final application by AusIndustry, whichever is later.

Ineligible activities

As these are standard exclusions in grants' programs, FAPM concurs with the ineligible activities as stated in the Consultation Framework Paper.

³ Ibid – page 6.

Business Capability Support

FAPM is a strong supporter of its members improving their overall capabilities and is consequently a key supporter and champion of ASEA. We are fully supportive of companies needing to complete a business capability support assessment and an improvement activity prior to submitting a project under ANMP.

FAPM is willing to liaise with all three governments and offer its views on organisations that apply to provide the business capability support under ANMI.

Automotive Envoy and Automotive Supplier Advocate

FAPM strongly supports the continuation of the Australian Automotive Envoy position and commends the government for allocating funds to keep this important market initiative operating.

Feedback from members and indeed FAPM is that Mr Bracks AC and Mr Conomos AO have been invaluable resources to members when leading supplier missions overseas and been able to offer strategic advice to companies.

They provide high level leadership for the missions but more than that, have been able to assist and facilitate supplier introductions to OEMs and larger tier 1 companies; visits that either would not have occurred or been more difficult to arrange had they not been leaders of a mission.

The new position of Automotive Supplier Advocate is a positive initiative and is welcomed by FAPM. The domestic focus of the Advocate marries neatly with the overseas focus of the Envoy position. FAPM is willing to provide any input to government on the 'job description' of the Advocate position.

We would also recommend that the advice of the Automotive Supplier Advocate be sought by the Assessment Panel in relation to applications under the ANMP. We believe the Advocate could provide a level of industry knowledge that would prove invaluable to the Assessment Panel's determination of which applicants were successful in obtaining grant funds.

Recommendation

That the Automotive Supplier Advocate be consulted by the ANMP Assessment Panel when determining grant applications.