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Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Submission to Senate Economics Legislation Committee inquiry on the Automotive Transformation Scheme Amendment Bill (2014)

Dear Sir,

Hella Australia Pty Ltd is an automotive lighting manufacturer based in Mentone, Victoria. We develop and manufacture lighting equipment for each of the OE PMV (passenger motor vehicle) car companies in Australia: Toyota, Ford and Holden.

We have benefited from the ATS scheme since its inception as ACIS, and the funding support made available has been critical to meet the investment demands necessary to develop and manufacture uniquely local lighting solutions for our OE customers. The level of volumes, and short model lives experienced in the Australian industry, have meant that support via the ATS and previous ACIS scheme were essential to meet the competitive pricing required to secure local production.

The funding available from these schemes has enabled Hella Australia to develop investment and operating plans which have been supported by our international Head Office. This in turn has ensured that we have continued to invest in our Operations (average \$4.0 to \$5.0 million per annum), and also continue to employ in excess of 250 employees (engineers, factory workers, service professionals) at our plant in Mentone. It is clear that the support offered via these schemes has been repaid many times over by the economic activity that our company has generated over the period of the schemes.

Hella Australia has also invested independently into the development of non-PMV lighting designed to meet mining and heavy industry usage as well as fixed lighting applications. The ability to develop into these products and markets has also been indirectly assisted by the funding from these schemes.

Given the announcements made by each of the car companies, it is clear to Hella Australia that our ability to be able to maintain the current level of operations is now under threat. We are engaging in serious strategic reviews with our head office aimed at determining future operational options. These discussions are framed by our planned performance over the current PMV close-down period.

In our view, it is essential that the level of funding arrangements offered by the current ATS scheme must be maintained in their current structure. Our strategic plans and investment budgets have been based on continued access to these funds – subject to our eligible development and investment claims. Any structural changes to these plans that would reduce our claims could severely damage our performance to plan, and would be inconsistent with our strategic plans to develop future engineering and manufacturing opportunities in Australia. Put simply, it will be a matter of credibility with our head office.

A second issue that is of concern to Hella Australia, is the impact of the 5% sales cap on eligible claims against the ATS scheme. We do not believe that it was an intention of the original scheme to artificially restrict access to legitimate claims based on the R&D and investment expenditure of component manufacturers due only to the absolute volume reductions of the car companies. Our level of involvement with our individual OE customers will continue at relatively consistent levels through to 2017, but the elimination of these OE customers one-by-one over that time frame will have the impact of reducing our eligible sales under the sales cap.

A third issue which is of major concern to Hella Australia, is the impact of terminating claims against the scheme prior to the end of 2020. The process of making claims against the scheme applies a 12-quarter moving average. In effect, this will mean that legitimate claims made by component producers after Q1 2015 will potentially be restricted. The Explanatory Memorandum to this enquiry suggests that keeping the claims process open through the first quarter of 2018 will alleviate this problem, but based on the mechanics of the claim process this appears fundamentally wrong. In fact, once we have processed our claim for the last quarter of 2017, there will effectively be almost 2 quarters of full claims value that will not have been processed, and these unfulfilled claims will relate in a cascading way to legitimate expenditure that occurred during the period Q2 2015 until Q4 2017.

On a separate point, it is our opinion that claims against the scheme will decline naturally, now that the closure decisions have been made by the local car companies. The structure of the scheme will mean that this decline will happen over time – but it may mean that the Government will achieve some of its financial objective anyway – and without implementing these unilateral changes.

Our recommendations regarding suggested reductions to “Stage 1” of the scheme are as follows:

- No changes to the funding arrangements through to 2017/18;
- Given the industry confirmation that all OE manufacture will cease at the end of 2017, the scheme remains open through to the end of 2020 to allow all eligible expenditure that occurred up until Q4 2017 to be fully claimed;
- A relaxation of the sales cap to eliminate artificial restrictions based on the impending car company closures.

The second issue to be considered as part of this Senate review relates to the early termination of the ATS scheme on 1 January 2018. In addition to the points that we have made above, we are also concerned about the impact this particular decision will have on our ability to develop longer term operating plans that are acceptable to our head office. It seems to us, that by reworking the ATS scheme after 2017, there will be opportunities for existing industry resources and infrastructure to be re-directed into other viable operations, which will ensure new economic activity post PMV manufacture in Australia. This may need levels of further economic review by the affected parties.

In summary, Hella Australia has benefited from the funding support offered by these schemes, but has sensibly used these funds to develop our operations in Australia. Any decision to restrict access to this funding will not serve the industry or the general economy well, and any legitimate claims should be able to be claimed fully by participants. Finally, the significant level of current operations of this industry in Australia still need some certainty to manage future transition opportunities.

Yours sincerely,

Olavi Rantala
Chief Executive Officer
Hella Australia Pty Ltd