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Dear Dr Dermody,

Senate Inquiry - Future of Australia's Automotive Industry

At the recent hearing in Adelaide I took a question on notice from Senator Xenophon. As transcribed at <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;db=COMMITTEES;id=committees%2Fcommsen%2Fbcca1620-6d2e-477d-b142-1f971b50a283%2F0004;query=id%3A%22committees%2Fcommsen%2Fbcca1620-6d2e-477d-b142-1f971b50a283%2F0000%22>, the question was:

Mr van de Loo, could you take on notice what you said about loans, about how you see that working and if you think there is anything further you would like to add to that. Thank you.

Please find my answer to this question below:

Automotive Innovation Loan Fund

- The ATS funds that are likely to be unspent should be placed in a perpetual loan fund for companies that are solely or primarily engaged in the automotive sector.
- This fund should lend money for R&D and early-stage commercialisation to new ventures that are developing and commercialising automotive technology.
- Applications should be assessed on a competitive basis, by a panel comprised of industry/business leaders. The majority should not be from the automotive industry but from other advanced technology sectors to avoid the undue influence of entrenched automotive thinking. Selection criteria should be based on the following:

- To ensure a sustainable competitive advantage globally, preference should be given to intellectual property (IP) rich ventures;
- A clear path to commercial success should be demonstrated in a detailed business plan.
- The maximum size of loans should be big enough to facilitate ambitious projects; larger projects (say over \$30m) should be split into stages of \$30m or less with subsequent loans contingent on milestones being met.
- The loan should be repayable at an agreed rate from gross profits (eg 15% of gross profits to be applied to the loan).
- A low interest rate (eg Reserve Bank rate) should be applied.
- To ensure that only ventures with good commercial prospects are funded the loan should not exceed 300% of cash funds (i.e. not in-kind etc) provided by the company. To give start-up ventures a better chance to raise this capital loans should be granted subject to this capital being secured within a set timeframe (e.g. 6 months).
- Loan repayments and interest should accrue back to the fund to enable it to continue in perpetuity. A portion of the fund should be invested in a manner similar to, or as part of, the Australian Government Future Fund to ensure that there will be sufficient funds to enable it to be perpetual.
- The application, reporting and acquittal process should be as free of bureaucracy as practicable, and the time frame from application to approval should be short (ideally four weeks, no more than six). The process followed by the South Australian government's excellent Innovation Voucher Program (IVP) could be used as a guide.
- To protect the interests of the Loan Fund, the Fund should have the option to convert the loan to equity.

Yours faithfully,

Paul van de Loo MIEAust CPEng
Founder and Technical Director