20th March 2012

Australia's Export Credit Arrangements – Draft Report

Comments from Greyhound Australia

Background

Greyhound Australia is the only national coach company operating in Australia and currently employs over 600 people and is growing rapidly. We are 100% Australian owned. As such our understanding is that we would not meet your proposed new classification as a newly exporting SME and be unable to use EFIC. This should be of significant concern to the Commission and to other Australian owned companies.

The traditional market we operate in is highly competitive and is probably best defined as regional travel. In this market we move over 1.3 million people per annum to 1100 destinations daily and offer a commercially competitive service to many locations, to and from regional Australia, where there is no form of public transport.

We are in addition a major player in the regional tourism market where without us many small local tour operators in remote locations would not be able to attract the backpackers coming to Australia every year. To that end in October 2011 Greyhound acquired the well known youth transport operator, Oz Experience.

The business has in recent times undergone a major review of its strategy and key to our growth now, and in the future, has been the development of our market leading "Bus in Bus out" resource services offer. Our investments in this space, made purely on a commercial basis, have given Greyhound a platform to become a much more diverse business. The rest of the letter will concentrate on how your proposed changes would negatively affect another company of our size should they all be implemented.

Resources Offer

All our resource contracts are commercial and in confidence and as such I will only provide generic information.

In calendar year 2011 Greyhound moved circa 1 million passengers on our buses for the resource industry. We expect this to grow to 5 million movements per annum by 2014 from work we have already won.

In this space we move mining labour, to and from locations, primarily between a:

- Town and an airport
- Airport and a mine site
- Airport and a mining camp
- Mining camp to a mine site

We do this with a strong focus on safety and efficiency. Without us, or our competitors, there would be many more vehicles on already difficult to drive regional roads with the likely effects of:

1. More accidents
2. More work and more money required to upgrade roads for passenger cars
3. A higher cost of mining operations due to the relative costs of car versus mass travel on a bus

Greyhound now has contracts with all the major resource houses and has significant operational centres that are growing rapidly in Qld, SA and WA all geared to servicing the resource market.

We have engaged with EFIC since December 2011 to help secure a Bank Guarantee for one contract. The EFIC team have assisted Greyhound very professionally, and on what I would assess as on a fully commercial basis, in securing one aspect of funding that was a required contract component to win this business.

Resources and Bank Guarantees (BG's)

Your report correctly talks about the need for businesses, on occasion, to provide BG's to resource projects so that should anything negative happen to the service provider that the contract owner can quickly bring in another company with little cost impact to the project. These guarantees for SME's and companies much bigger, such as a Greyhound, can be a significant financial drain on limited capital resources as the size of the contracts involved in providing services to resources are seeing multi million dollar BG requirements.

Given the global tightness in the capital markets that have continued to exist since the GFC in 2008 these are becoming virtually impossible to attain from commercial banks unless 100% cash backed which many companies cannot afford.

For most businesses to service a major resources project they require significant upfront investments in people and equipment and when added to the need for substantial cash backed BG will often mean the work cannot be bid for. This is likely to see the resources sector be dominated by global service providers rather than the emergence of local Australian companies being able to participate fully in this sector.

The Report's Findings

I have extracted the key points from your webpage that are relevant to our concerns and have added some commentary on these.

1. The Export Finance and Insurance Corporation (EFIC) has been established to facilitate and encourage Australian export trade through the provision of financial services. It provides these services on a commercial account and manages the national interest account on behalf of the Australian Government.

From our experience we believe they are fulfilling this mandate and deem this current mandate to be entirely appropriate.

2. The rationale for EFIC operating a commercial account should be to address the limited number of market failures in financial markets that impede otherwise commercially viable export transactions.

We would judge the requirement for significant amounts of cash backing as a market failure, since it reflects an anomalous situation stemming from the GFC credit crisis from which financial markets have yet to fully recover.

3. At present EFIC's activity on the commercial account is largely focussed on large corporate clients and often repeat customers. The Commission has found no convincing evidence to indicate there are failures in financial markets that impede access to finance for large firms, or for domestic resource projects. EFIC should not continue to provide finance to large corporate clients or for domestic resource projects on the commercial account.

Clearly we disagree with the last two sentences. Under the proposed classification a company like Greyhound would be seen as a large corporate client. We would suggest that the commission looks at the total costs of providing services to mining in the set up stages of projects rather than a simple newly exporting SME classification. This should afford EFIC a much more sensible mandate where they can assist Australian owned companies, of a variety of scales, enter or grow in the resources sector.

4. The Commission's preliminary assessment is that there may be some instances of information-related failures in financial markets, and that these failures may impede otherwise commercially viable export transactions. To the extent that they exist, these information-related failures are only likely to affect newly exporting small and medium-sized enterprises (SMEs) accessing export finance.

Again we would judge the newly exporting SME category as inappropriate when dealing with commercial projects of many billions of dollars.

5. Until it is next reviewed, EFIC's commercial account objective should be to address the information-related failures in financial markets that affect newly exporting SMEs. EFIC's role should be to demonstrate to the private sector that providing export finance to these exporters can be commercially viable.

Clearly we feel that the SME classification is not correct.

6. EFIC must provide export finance services on the same basis as the private sector. This means EFIC should:

- charge a price covering the full economic cost of provision
- be subject to competitive neutrality policy including earning an appropriately benchmarked rate of return on equity, setting prices commensurate with the level of risk undertaken, and paying a tax equivalent charge and a debt neutrality fee
- publish information on the transactions it approves on the commercial account, including the name of the firm, price and other terms of provision.

We agree.

7. EFIC’s commercial account product range should be limited to guarantees. When directed by the Minister for Trade, the product range on the commercial account may extend to reinsurance, for a limited period, to cover sovereign and country risk insurance provided to SMEs.

Again it is the SME issue classification that we challenge as appropriate.

greyhound Australia

We hope that the above gives the commission some further perspective and would once again like to state that in our dealings with EFIC we have found them to be commercially astute and believe the current mandate to be appropriate.

We ask for no favours in managing our business but believe that some of your proposals will make other companies have significant difficulty in winning resource contracts. We would ask you to review the newly exporting SME mandate classification in the context of the scale required for Australian companies to participate in major resources development projects (the encouragement of which participation is a policy objective of the Australian Government).

Yours Sincerely

Neil Taylor
Chief Executive
Greyhound Australia