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March 20, 2012

Export Credit Arrangement
Productivity Commission
Locked Bag
2 Collins Street
East Melbourne VIC 8003

Dear sir/madam

A. Context

Whittle Consulting is a family owned firm, that provides strategic mine planning services to mining companies globally. Our vision is to transform the global mining industry and its economic outcomes whilst becoming the global standard for cash flow optimization across the industry. Companies that use our services get an increase of between 5-35% NPV in their projects through the use of our proprietary software tools and techniques.

We currently grow our revenues at approx 80-100% PA. Increasingly our revenue is coming from overseas companies who are using our services. [Currently approx 65% of total revenues]

We generate jobs in Australia [6 FTEs in the past couple of months] and are proud to work with the largest of multi-national mining corporations [Rio Tinto, Anglo American, Gold Fields] Mid Caps and Junior miners.

In our projects, we usually agree to provide services over a 2-3 month period during which time we incur costs [payroll, taxes, overheads, software development etc] and are paid in the months following. This leads to a financing gap especially around our working capital. As our growth increases, so too does this gap.

B. Our contact with EFIC

EFIC provides guarantees for working capital. We are currently investigating the use of this product because it is impossible for Australia's Big 4 banks to provide working capital finance on overseas receivables. This is despite the fact that the bulk of our receivables from "blue chip or A rated " credit risk clients. The banks in Australia simply do not provide credit in this area.

Through EFIC, we believe we can get some of the working capital finance we need. This is a vital component of our growth strategy, which invariably means more employment in Australia, more taxes paid with greater wealth and intellectual property accruing to Australia's national benefit.

Without the assistance of EFIC, the hurdles to financing internally generated growth, by unnecessarily diluting the current ownership interests of the shareholders are real.

C. Our view on the draft report

We would strongly support the following recommendations of your report:

DRAFT RECOMMENDATION 5.2
EFIC's definition of a small to medium-sized enterprise should be limited to firms with annual turnover of less than $25 million.

DRAFT RECOMMENDATION 10.2
There is some evidence that there may be market failures in relation to the provision of export finance products to newly exporting small and medium-sized enterprises (SMEs).

DRAFT RECOMMENDATION 10.3
Amendments to the Export Finance and Insurance Corporation Act 1991 (EFIC Act) should be made to:
· *reorient EFIC's objective to addressing information-related market failures in financial markets affecting newly exporting small and medium-sized enterprises (SMEs) seeking access to export finance*
· *specify that EFIC is to demonstrate to the private sector that providing export finance to newly exporting SMEs can be commercially viable*
· *clarify that assistance is only to be provided in respect of export contracts as currently defined in the EFIC Act.*

C1. Our Comment

We do not believe that EFIC should serve the interests of large corporations. These are already served by the financial markets and do not represent the "growth engine" of our economy.

It is rare to find a government instrumentality that actually does assist an SME in the growth of our business. We applaud the Productivity Commission's findings that this is the core of EFIC and should be the only focus of EFICs business.

D. Suggested amendments to other recommendations:

D1. We read with interest DRAFT RECOMMENDATION 10.1

EFIC's support for onshore resource projects should cease, as there is no clear market failure affecting access to finance for these projects. A direction, to this effect should be issued by the Minister for Trade as soon as possible. The Australian Government should not broaden the eligibility criteria under Part 4 of the Export Finance and Insurance Corporation Act 1991 (EFIC Act). Specifically, the EFIC Act should not be amended to allow EFIC to enter into loans for the export of non-capital goods.

D1. Our Comment

We do not sell goods. We sell services. The 21st century is the century of gaining a competitive advantage by selling intellectual property packaged up in such a way that it provides a compelling value proposition for clients. This is what we do. It is a service not a tangible product.

We believe that the Act may discriminate against this emerging part of the growth economy. Manufacturing "goods" is on the decline in Australia. Selling services is a different sort of business with other business models and requires specific service related financing.

D1. Our Suggested Amendment

We would therefore suggest that you consider how Part 4 can be amended to specifically include the financing of services.

These are less tangible than goods and as such more difficult for the bankers to review and take a risk on financing. That said if we as a company have done the same serve successfully for 80+ clients, have been paid and are capable of delivering more of these services, this should also be a strong indicator of the efficacy of the outcome. We would therefore recommend that EFIC consider this specific problem for SMEs and how it could address this “information gap”.

D2. We also read with interest DRAFT RECOMMENDATION 10.5

A limit of three transactions per client should normally apply to EFIC’s future operations.
Proposals to exceed the three transaction limit should require explicit approval by the Board (and not by a delegate), notified to the Minister for Trade and be included in an independent audit of EFIC’s operations to ensure consistency with its demonstration role.

D2. Our Comment

What is the rationale for stopping at three transactions? If there is an information gap for 3 transactions, there is likely to be the same gap for 10, 20 or 103 transactions. Such a gap does not suddenly disappear after 3 transactions.

If the information gap remains then EFIC has “temporarily” assisted the SME, then left it to deal with the market. In our case, the gap is a function of the fact that we do more and more export related sales. The gap is widening not closing the more we grow our business.

We also note in your example in Box 3 of Environmental Systems and Services that this company’s overseas success will in fact lead to a larger market gap and is likely to follow the trajectory we have outlined above. Is it EFICs desire to leave them “high and dry” once they sniff initial success as a small business or enable them to mature as a mid-sized business?

D2. Our Suggested Amendment

An alternative could be to use the limit you are suggesting. Once a company reaches $25m [or more] in turnover, it ceases to be eligible for EFIC funding. In many ways it will have developed a network of financiers by this stage who are able to understand the specifics of the business and provide for its needs accordingly.

E. General Comments

We note with interest, the under-utilisation of EFICs balance sheet. Figure 2 outlines the income from capital employed with a significant element of EFICs income arising from its “treasury operations”. We sense that EFICs balance sheet in need of some reinvigoration. Given the level of potential assistance EFIC is capable of providing to

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SME and the current level of activity, this does appear to be an area in need of urgent attention.

We believe that EFIC, with the charter and objectives you are suggesting, would be able to significantly increase its SME origination business to play a pivotal role in SME export development and more specifically for those companies exporting services.

F. Conclusion

As we have outlined above, it is extremely rare for a government instrumentality to enable an SME to do anything. EFIC is a rare exception.

Its balance sheet would be wisely used to seed the growth of the next generation of large companies in a country full of monopolies, duopolies and oligopolies.

The SME challenge EFIC faces, is one we embrace wholeheartedly and trust it will directly enables our growth in due course.

Your sincerely

Partner