Investec
Capital Markets

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20th March 2012

Productivity Commission
Locked Bag 2 Collins Street East
Melbourne
VIC 8003

Dear Presiding Commissioner

RE: Productivity Commission Draft Report, *Australia's Export Credit Arrangements*, February 2012 ("Draft Report")

INTRODUCTION

By way of introduction Investec Bank plc ("INVESTEC") is a specialist bank based in the United Kingdom but with international operations including a subsidiary in Australia.

The signatory to this letter, Chris Mitman, leads INVESTEC's business and relationships with all Export Credit Agencies ("ECAs") and Multilateral Agencies ("MLAs") globally, including with EFIC.

Chris has been active in the Export Credit market for over 20 years, living and working in Europe, Australia and Asia with transaction experience with all major OECD and non-OECD ECAs globally. He is regularly invited to present at international conferences and specialist industry events.

It should be noted INVESTEC is relatively unique in the ECA market in that:

1) the vast majority of INVESTEC's business is with ECAs outside Australia. Thus this submission is an objective assessment and response to the Draft Report based on our experience of what other ECAs globally offer.

2) INVESTEC is predominantly an ADVISOR to customers wishing to use ECA support for their projects. In this capacity we regularly advise Importers / Borrowers on the relative merits of each national ECA programme.

3) INVESTEC is also a USER of ECA supported loans for power projects it is developing in South Africa, Europe and Australia. Thus in our submission we can give an Importer's perspective on the need for and type of ECA support in the current market.

SUBMISSION

We have reviewed the Draft Report and wish to make the following comments with respect to the Productivity Commission's inquiry into Australia's export credit arrangements.

As we understand it the Draft report recommends a reduction in EFIC's mandate, namely:

- EFIC should not provide finance to medium and large corporates nor support their exporting activities
- EFIC should not continue to provide finance for domestic resource projects on the commercial account
- EFIC's commercial account objective should be to address the information-related failures in financial markets that affect newly exporting SMEs, and
- EFIC's commercial account product range should be limited to guarantees

We do not support the adoption of these recommendations.

Critically we believe that the Draft Report does not adequately consider or reflect:

1) The fundamental role ECAs play in trade promotion
2) The impact of Basel III
3) The impact of the Global Financial Crisis ("GFC")
4) The activities and recent changes being made by EFIC's peer group (and importantly COMPETITOR) ECAs globally

Taking these in turn:

1) *Fundamental role ECAs play in trade promotion.*

   Most countries in the world have a national Government established ECA whose role is to promote exports and trade in the national interest of the country concerned.

   ECAs are therefore a well established and proven mechanism for Governments to promote trade be it through, inter alia: (a) pre-export finance (enabling the export) (b) bonding/guarantees (credit enhancing the exporter's performance) and / or (c) supplier / buyer credits (offering repayment terms to the overseas buyer whether through direct loans or guarantees).

   Proposing to cut back EFIC's current operating mandate limits their (and the Australian Government's) ability to be relevant to and supportive of the exporting community and the jobs and value it creates for the nation.

   It also risks giving the wrong message to the market about Australian Government support for trade.

Such a move would also be in stark contrast to the stance currently being taken by other major OECD and non-OECD Governments and their ECAs who are actively growing their activities to boost trade (see point 4 below) and export led growth in the face of the GFC. There is significant data available from public sources and in other submissions which reflect this fact.

Australia is a commodity producer inter alia and the extraction and shipment of these can require significant pre-export infrastructure finance. It is logical that EFIC is involved and supports this critical investment activity in partnership with the private sector in order to support future exports.

It can also be argued in the medium term that but for such Government support / ECA activity (which, unlike the private financial sector, looks not just to short term profit incentives) sustainable, value add export industries cannot be developed (in Australia's case its world leading aluminium ferry design and manufacturing industry).

In this regard, whilst SME support is of course important, continued support of medium and large corporates and therefore jobs in these companies and industries (and in SME sub-contractors) is also critical.

One only has to look at companies such as Rolls Royce, GE, Bombardier, Huawei, Ericsson, Nokia, Siemens, Vestas etc. who continue to receive significant support from and work in partnership with their national ECA to retain customers / markets as well as develop new ones.

2) *Impact of Basel III*

Basel III is already having a significant impact on banks' ability to FUND competitively, particularly for longer tenors. For this reason ECAs are increasingly seen as market gap providers of long term infrastructure finance to industry - for both OECD and non-OECD based borrowers / projects. For instance many foreign ECAs support projects in Australia. In this regard for INVESTEC's power project developments, ECAs are increasingly seen as an important source of long term credit support AND funding (see 4 below). The Collgar Wind Farm which INVESTEC developed, utilised ECA credit support and *funding* from Denmark (see note 4 below)

3) *Impact of the GFC*

In addition to Basel III the GFC has further constrained liquidity in the banking system which, to varying degrees, is undergoing significant de-leveraging. A natural consequence of this deleveraging is the exit of many banks from long term infrastructure finance. This has directly led to the increased involvement of ECAs in supporting OECD based borrowers / projects either to extend tenors beyond those the market can support (but which are needed by the project) as well as funding (see note 4 below).

4) *Activities and recent changes being made by EFIC's peer group*

EFIC's peer group of ECAs have increased the *volume* of export credit activities significantly since the beginning of the GFC. Again there is significant publicly available data as well as data included in other submissions to support this fact.

Of significance for the Commission is the trend for ECAs to introduce (or look into the introduction) of schemes to address the Basel III / GFC induced liquidity shortfall amongst the traditional bank lenders in this market.

For those ECAs with existing direct lending programmes we are seeing an increased use of those by borrowers. Examples include USA and Canada.

For those ECAs with existing guarantee / insurance programmes we are seeing the introduction of funding programmes. Examples include Norway, Finland and Denmark.

In the UK there are on-going high level consultations between banks and Government about ways in which the export credit programme may be adapted to facilitate the funding of UK exports.

In light of this clear trend towards introduction of direct funding schemes amongst its peers, we believe there is a danger that Australian export finance may become uncompetitive if unilateral changes are made to EFIC's mandate to restrict its funding activities.

Conclusion

We would be pleased to discuss any aspects of this submission further if required.

Yours faithfully

Chris Mitman
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