Westpac

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Export Credit Arrangements
Productivity Commission
By email: exportcredit@pc.gov.au

Attention: Carole Gardner

Dear Carole

Westpac appreciates the opportunity to provide this post draft report submission to the Productivity Commission's Inquiry into Australia's Export Credit Arrangements.

Scope of this submission

The broad role and rationale for Export Credit Agencies has been extensively canvassed in the Commission's draft report, as well as in many initial and post-report submissions. Accordingly, this submission does not repeat those arguments; instead focusing on specific areas where ECA's (particularly EFIC) play an important role in facilitating transactions that might otherwise not occur.

Direct support

EFIC and its counterpart ECAs provide a range of enabling mechanisms to transactions of widely varying scale and complexity. Westpac and our clients have specifically benefited from EFIC's trade finance style facilities, risk participation support and credit enhancement instruments (guarantees). In no case have we seen evidence that EFIC is providing such support inappropriately, or in a way that 'crowds out' commercial institutions. Quite to the contrary, in our observation a number of transactions have proceeded *only* because of EFIC or other ECA support, due to commercial constraints in areas including total funding availability or lack of sufficient credit appetite.
We do not share the Commission's sanguine view about the current funding climate in global markets. The widely reported withdrawal of many foreign banks from Australia, combined with ongoing liquidity pressures in global financial markets and a large resources-related project pipeline has placed considerable pressure on the Australian major banks.
Particularly in substantial infrastructure transactions where non-or limited-recourse SPV project structures are in place, ECA participation can be critical in achieving the volume and tenor of committed funding required for financial close.
This support need not be in the form of direct participation in funding syndicates. A more likely scenario is the provision of a guarantee or similar credit enhancement to support part of the debt package. Rather than crowding out private participation, this support has the opposite effect of actually allowing it where it might not otherwise be possible. Two notable transactions where such

ECA participation has been critical are the PNG LNG project and the Wiggins Island Coal Export Terminal transaction.

Westpac notes the Commission's view that other potential project funding sources such as superannuation and retail bonds may obviate or reduce the need for EFIC participation in deals of this type. Whilst a deeper and more liquid project finance market in these areas would be welcome, they are in their infancy and cannot currently meet the demand for funding created by the historically strong project pipeline in Australia at present. In Westpac's view it follows from the above that any substantial reduction in EFIC's mandate may put some of these key projects at risk of not proceeding, with the obvious negative impact on Australian exporters and in turn the wider economy.

Leadership and market signaling

Of equal importance to the direct project support it provides, EFIC's leadership role and high international credibility has an important signaling effect to both foreign ECAs and other project counterparties. This is a function of the sophisticated analysis, commercial acumen and global reputation that EFIC brings to transactions it is involved in. Westpac's view is that foreign ECA participation is therefore more likely in a domestic project to which EFIC is also providing support. Ultimately this further improves the likelihood of such a project obtaining the funding certainty to proceed.

Were EFIC's mandate to be substantially reduced, securing foreign ECA participation in such transactions is likely to become increasingly difficult, with obvious negative effects.

Conclusion

Australia currently faces a situation in which a huge project pipeline related to a once in a generation resources boom has intersected with substantial dislocation in global capital markets. A historically high currency has further added to the complexity facing Australian exporters. At such a time a professional, flexible and agile Export Credit Agency such as EFIC is an important part of a nation's armory. Westpac's view is that EFIC's current mandate is appropriate, relevant and important, and that the institution will play a key role in helping navigate the challenging waters ahead for our economy.

Regards,

Tony Masciantonio
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