Export Credit Arrangements
Productivity Commission
LB2 Collins Street East,
Melbourne VIC 8003

29th March 2012

Dear Sir/Mdm.

New South Wales Business Chamber (NSWBC) welcomes the opportunity to respond to the productivity Commission's recent inquiry into Australia's Export Credit arrangements. The Chamber is one of Australia's largest business support groups, helping over 25,000 businesses each year.

Founded in 1825, we've worked with thousands of businesses, from sole traders to large corporates, and have developed into a leading business solution provider and lobbying group with tremendous strengths in international trade, workplace management, industrial relations, work health and safety, HR, and improving business performance.

The Chamber supports the efforts of the Export and Finance Investment Corporation (EFIC) to expand the nation's export performance through its work with small to medium enterprises and trade exposed industries more broadly. The following points address some of the key areas raised in the report, and hope to highlight the importance of EFIC.

- Competitive Neutrality: EFIC's role as an enabler of export activity often means that it would be asked to consider risks a commercial provider may consider outside of their parameters. Should the agency be made to comply with competitive neutrality practice, a number of areas where a provision for taking on risk (i.e. certain trading partners with low credit ratings and foreign aid projects) would not be able to be undertaken, despite these areas possibly being in the national interest. Financial institutions may support a particular export arrangement on the basis that they could upsell other services such as domestic bank accounts. This is clearly not part of EFIC's remit and suggests the agency is not competing directly with the private sector on an even basis.

- Market gaps and Information asymmetry: the different information access for SME's suggest that EFIC continue to play a role to assist smaller firms. This is particularly the case for new exporters who would often lack the sophisticated understanding of export financing. While other financial institutions can offer similar services, the pricing of these services for new exporters may be a threshold decision on whether they access export insurance or not. Changes would expose new export market entrants to disproportionately high risk, and is inconsistent with the government's export development objective to assist Australian companies to succeed in international business.
EFIC also can play a role prior to market gaps (and by extension, market failure) occurring. Large insurance companies by nature of their structure are exposed to risk internationally, and this risk also has the potentially affect Australian exporters. Should a significant insurer fail (a number of international firms required significant bailouts during the GFC) then export arrangements could be jeopardised. EFIC would be well placed to take over those arrangements to

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ensure continuity at commercial terms, allowing companies to maintain trading relationships.

- Project finance and insurance: While EFIC has supported large projects and companies, it is clear that many smaller domestic suppliers benefit from access to such large projects. Some of these contracts are in exposed industries or regional areas. Placing significant constraints on access to EFIC's services may have adverse impacts on specific industries such as manufacturing, which already have to contend with a difficult international trading environment and a high Australian dollar.

Further to the points above, it should be recognised that EFIC deals with companies across the economy. This suggests different ease of market access and different capital requirements depending on the company's particular trading requirements.

On this basis, the government should be cautious placing arbitrary rules around the number of times a firm can use EFIC. A better approach could be to allow access for a certain number of arrangements (i.e. three times) and then increase the cost gradually until the company is paying commercial rates. At such time, EFIC can no longer provide services and refer the company to the private sector. Although brief, we have raised the above issues to highlight that significant changes to the EFIC regime will disadvantage firms unevenly. This is likely to produce a counter-intuitive result of encouraging potential and existing exporters to reconsider their international focus on business opportunities. In turn they could focus their efforts on the domestic market which is not in Australia's best interest. .

Yours Sincerely

Ian Bennett

Senior Manager, international trade
NSW Business Chamber