Australian Institute of Export

Member of the Export Council of Australia

29th March 2012

Export Credit Arrangements
Productivity Commission
LB2 Collins Street East
Melbourne Victoria 8003

Dear Sirs,

<u>Productivity commission draft report: Australia's Export Credit Arrangements</u>

The Institute of Export, as a member based body representing Australia's Export Community, is very concerned with the draft findings of the commission and its' recommendations for the future role of EFIC. We would like to position our response in the context of current events internationally and locally that are impacting on Australia exporters:

1. As the Commissioners would be aware, there are serious headwinds facing Australian exporters internationally, which include the high AUD, very slow recovery in North America and Europe, and flowing from that reduced demand, pressure on Asian export growth and requirements for inputs.

2. Coupled with this has been a tightening of credit for international transactions by banks, both locally and abroad (see local and international bank submissions). There is additionally a concern that the Basel 111 regulatory standards, if adopted in Australia, will increase the capital requirements for trade transactions, leading to an increase in trade pricing and reduced facilities for trade financing.

3. We have monitored the response to the weak trading conditions at home by the US and a number of European Governments; who are stridently pushing for more exports by their companies, and putting in place support mechanisms, including 'whole of government' programs, to grow international sales and help the domestic economies. Their focus, not surprisingly, is on Asia and this will have, and is having, a competitively negative impact on the fortunes of Australian exporters in the region.

4. In Australia, Austrade recently undertook a review of it's operation, and as a result has stepped back from active export support into North America and Europe (save for a couple of key sectors like Education and Clean Energy) and focused it's resources on helping Australian companies enter the markets of Asia, Africa and South America.

Driving Excellence in International Trade

ABN 98 004 378 287
Export House, Level 2, 22 Pitt St, Sydney NSW 2000
GPO Box 1076, Sydney NSW 2001
tel: +61 2 8243 7400 | fax: +61 2 9251 6492
info@aiex.com.au | www.aiex.com.au

It would seem logical that our trade financing arm of government should have the products and the mandate to assist in this endeavour. We sincerely doubt that the Banks can be coerced into taking on new financing undertakings into these more risky destinations, at least not without some Government support as EFIC can provide. (The Australian Banks have to their credit developed increasing representation in Asia, and have also been active in big ticket Australian resource financing and support . However not a lot has changed for vanilla trade financing for the SME sector of the economy)

The strategy by Austrade is also focused on established or "internationally ready" exporters, as they have the know-how to be successful in new markets, seemingly at odds with the smaller end of the SME segment that the commission suggests be the focus for EFIC.

The Mortimer Review (2008) and the Trade 20/20 Outcomes Report (2009) both recognized the difficulty small to medium exporters faced in accessing finance for their international growth. In response to direct requests to the former Trade Minister, Simon Crean, for financial assistance for SME's, both EFIC and Austrade combined to increase awareness and visibility of trade products and their suppliers via the Export Trade Navigator website in 2010/11.

As noted above, from our observations not too much has changed in the trade finance products available from our Banks, or in their capacity to provide facilities to this sector. And this is where the support services provided by EFIC are necessary and needed. From observation the approach to the financing of trade by Banks in Asia can be different. They do feel comfortable advancing funds or facilities against Letters of Credit for instance, for established traders, so perhaps one could argue that there is a market failure in the provision of trade finance facilities in Australia.

We do not believe that withdrawal of EFIC's support for larger offshore projects, the limit of SME support to companies under $25m turnover, restrictions on support offerings, or an artificial limit of 3 transactions per customer are reasoned or rational findings.

The depth of sentiment displayed by those lodging responses to the draft report is a sign of how out of touch with prevailing market conditions our exporters, and banks, believe these draft findings to be.

The view that our local banks and financiers are ready to step in to take the financing capability over from EFIC, at either the large corporate or SME sectors is certainly not evident by any responses to this draft review.

The submitted responses from exporters also clearly indicates that they are unable to get their local financiers interested in their offshore financing needs in the main, and how without EFIC support many of these transactions would not occur.

ABN 98 004 378 287
Export House, Level 2, 22 Pitt St, Sydney NSW 2000
GPO Box 1076, Sydney NSW 2001
tel: +61 2 8243 7400 | fax: +61 2 9251 6492
info@alex.com.au | www.alex.com.au

The Allens' and Clifford Chance submissions, and that of others clearly articulates that without ECA support, Australian business bidding for term projects into developing countries would not be considered.

The commission's findings point out that there is a strong and liquid pool of funds available in Australia for investment; it's just that vanilla term trade deals into offshore markets is not where our Bank's wish to lend. Unless of course the international risk aspects have been wrapped up by an EFIC facility. And as the Bank's point out, there isn't the available segment funding to support the depth of resource sector projects currently on the table.

There are no recurrent costs to Government in the running of EFIC, and in fact a dividend is paid. So there is no reduction in costs to be gained by initiating the draft findings, and potentially a more risky portfolio would ensue with a focus on smaller SME's.

EFIC, we believe, has performed admirably as an ECA in treading a very careful line by not competing with, but complementing, the existing private financiers in the market, still supporting a good number of exporters to achieve sales into often difficult markets, and building a respected and skilled team in international credit assessment and structuring. These are complex transactions, and certain industry sectors have a greater need (eg shipbuilding where the asset is literally 'floating') and industry confidence will not be sustained on the back of "we'll support your first 3 sales and then you are on your own". If the private sector had appetite for these transactions they would be there on day one.

In summary we strongly disagree with the draft findings on the scope and direction of EFIC's future activities, and would furthermore encourage that there be an amendment to the EFIC act to allow support to be provided for Australian businesses expanding into overseas markets (as recommended in the Mortimer report).

The services provided by EFIC are an important part of the mix that contribute to Australia's international competitiveness.

Yours sincerely,

Ian Murray
Executive Director
Australian Institute of Export

Peter Mace
General Manager
Australian Institute of Export

ABN 98 004 378 287
Export House, Level 2, 22 Pitt St, Sydney NSW 2000
GPO Box 1076, Sydney NSW 2001
tel: +61 2 8243 7400 | fax: +61 2 9251 6492
info@aiex.com.au | www.aiex.com.au