



OFFICE OF THE CHAIR

ACRE Secretariat
51 Allara Street, Canberra City ACT 2601
GPO Box 1564, Canberra ACT 2601
Phone (02) 6243 7338
ACRE.secretariat@ret.gov.au
www.acre.gov.au

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Export Credit Arrangements
Productivity Commission
LB 2 Collins Street East
Melbourne VIC 8003

By email: exportcredit@pc.gov.au

Dear Sir/Madam,

Productivity Commission Inquiry into Australia's Export Credit Arrangements

I am writing on behalf of the Australian Centre for Renewable Energy (ACRE) Board in response to the above inquiry considering the Export Finance and Insurance Corporation (EFIC).

ACRE welcomes the opportunity to contribute to an inquiry on the role of EFIC, which fills an important market gap in providing export finance and insurance services to assist Australian exporters. As ACRE's focus is on assisting renewable energy companies, the Board's comments are confined to this sector.

The role of ACRE

ACRE commenced operations in October 2009. The Vision of the ACRE Board is to have national electricity markets delivering competitively priced renewable energy, sourced from a diverse range of technologies. To achieve this vision, ACRE promotes the development, commercialisation and deployment of renewable energy and enabling technologies to improve their competitiveness in Australia. ACRE is responsible for delivering a number of Australian Government renewable energy programs supporting companies that are commercialising products for Australian and international markets.

Renewable energy has a vital role to play in Australia's transition to a low-carbon economy. Future growth in the sector through increased government support, the incentive of a carbon price and a growing global demand for more sustainable sources of energy will create employment and export opportunities for Australia. As Australian companies increase their involvement in global markets, there may be benefit in EFIC engaging more actively with the renewable energy sector and increasing the promotion of its services to the industry.

Barriers to renewable energy investment

Difficulty in obtaining capital is a key barrier for many renewable energy companies. The reluctance of lenders to finance renewable energy projects reflects the large capital requirements, long time horizons and high risk that investors perceive is attached to renewable energy projects. The ability of project developers to secure power purchase agreements on commercially viable terms is another significant barrier. Lenders often lack an understanding of the sector, including of the technologies and the way projects are funded. These barriers are particularly acute for small and medium-sized companies. The ability of large-scale renewable energy (non-wind) project developers to secure a power purchase agreement on commercially viable terms is another significant barrier.

International support for renewable energy exporters

In 2005, the Organisation for Economic Cooperation and Development (OECD) implemented a trial rule allowing for government loan terms of up to 18 years for loans relating to renewable energy and setting a guide for minimum interest rates. This rule has been extended to 2013. ACRE notes that EFIC has made provision for the 18-year term, consistent with the OECD guidelines, but does not promote this as a renewable energy initiative.

A number of countries have established specific renewable energy products to assist exporters. The US Export-Import (Ex-Im) Bank administers the Environmental Exports Program, which provides export assistance for environmentally beneficial projects, including renewable energy projects or facilities. In 2010, the Ex-Im Bank established the Solar Express Initiative to help small solar power producers enter export markets. Under this scheme, Ex-Im Bank can consider project financing for producers seeking loans of between US\$3 million and US\$10 million.

Denmark's Eksport Kredit Fonden (EKF) is a major supporter of renewable energy, with 40 per cent of Danish export guarantees provided to wind energy exporters (mainly to OECD countries). EKF offers a Cleantech Guarantee, incorporating a range of finance options including direct loans and insurance for clean energy instruments such as carbon credits, energy savings and power purchase agreements on which project financing may be contingent.

EFIC's role

Many renewable energy companies are small and are yet to generate significant turnover. However, EFIC could potentially play a key role in assisting renewable energy companies once they grow. There could be value in increasing awareness of EFIC's products and services among the sector and also consider the merits of tailoring its loan and insurance products to the renewable energy sector. For instance, EFIC could consider offering specific renewable energy export loans or green finance insurance to exporters of renewable energy and enabling technologies.

Of course any greater expansion of EFIC into the renewable energy space would need to be consistent with the objectives of the \$10 billion Clean Energy Finance Corporation and measures should be taken to ensure no overlap between the two organisations. Consideration may also be given to any specialised role for EFIC in renewable energy, even once the CEFC is established in terms of its expertise with respect to exporting.

It is the ACRE Board's view that measures such as these are likely to improve the effectiveness of the support provided through Australian Government renewable energy programs such as the Australian Renewable Energy Agency by opening up export opportunities for successful renewable energy companies.

Thank you for the opportunity to provide a response to this inquiry on behalf of ACRE. I would be happy to respond to any request for further detail or clarification regarding this submission.

Yours sincerely,

Mary O'Kane