



19 January 2012

Export Credit Arrangements
Productivity Commission
LB2 Collins Street East
MELBOURNE VIC 8003

Dear Sir/Madam

**SUBMISSION TO PUBLIC INQUIRY INTO AUSTRALIA'S EXPORT CREDIT
ARRANGEMENTS AND THE ROLE OF THE EXPORT FINANCE AND
INSURANCE CORPORATION (EFIC)**

I refer to the above public inquiry and set out below Austal Limited's submission.

Austal is the world's leading designer and manufacturer of high speed aluminium ships. The Company commenced operations in Henderson, Western Australia in 1988 manufacturing small tourist vessels and passenger ferries. The level of sophistication and technological innovation of Austal's products has increased substantially over the course of the last 24 years. Today Austal produces the world's largest and fastest high speed aluminium ships for the global ferry industry and also produces two types of revolutionary new ships for the U.S. Navy. The Company employs some 3,000 people in a global manufacturing operation which is spread across three countries.

Austal's business is and always has been export driven. Whilst the skill base required to manufacture our type of complex vessels existed in Western Australia, the market for Austal's products has always been international. Well over 95% of the 230 ships that Austal has built over the years have been exported whether it is a commercial, civil defence or military client.

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Accordingly, we have always been a very internationally focused organisation and have developed an extensive global network of contacts and partners. Of all of these relationships, one of the longest and most important has been our relationship with EFIC. EFIC has played a key role in facilitating the sale of many of our commercial vessels to our international clients through participation in the buyers financing structure. EFIC's participation has firstly helped the client to secure their total financing requirement (through the provision of a secured guarantee) and typically has also helped to reduce the cost of the overall finance package.

EFIC's participation has often been cited by our commercial clients as a pre-condition to the sale of our vessels. This is typically the case when the commercial lending sector in a client's own country is unable to fund a transaction and EFIC steps into "fill the gap". Austal views EFIC's role in supporting this type of acquisition finance as being critical to our ability to continue to sell Australian manufactured vessels to international clients.

The turmoil in global financial markets in recent years has seen a number of traditional commercial lenders either fully or partially withdraw from the market, thereby reducing the number of alternative funding sources available to commercial clients. Compounding this situation, with the current upheaval in European capital markets (Europe is a traditional core export market for Austal Australian manufactured vessels), EFIC's role in facilitating our transactions, and thereby maintaining the jobs of our Australian manufacturing skill base, becomes all the more important.

In this regard, Austal considers that there is substantial opportunity to enhance the role that EFIC plays in these difficult economic times to support Australian manufacturing jobs. Austal would like to see EFIC's role broadened to take on a greater level of participation in the direct financing of our vessels. This would include direct funding of transactions, residual value financing, direct asset ownership and leasing/chartering of vessels to clients. It is important to note that we do not believe that such an enhanced level of participation would need to continue indefinitely, but at least until there is a return to long term patterns of normality in the financial markets.

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Apart from facilitating the sales of our products, Austal has also sought EFIC's assistance to facilitate the expansion of our wholly owned international subsidiary. In 2010, Austal sought EFIC's assistance to support a U.S. capital raising that was being undertaken to fund US\$165 Million of capital works related to a US\$4 Billion contract that Austal was competing for from the U.S. Navy. Due to the uncertainty associated with the status of the tender process at that time, Austal's panel of commercial banks were unable to support the Company's funding requirement. Had EFIC not "bridged the gap" and supported Austal's U.S. financing activities at a crucial time, then the eventual award of this strategic contract would have been at great risk.

Austal firmly believes that EFIC has a key role to play in facilitating the business activities of Australia's exporters. In this current environment where Australia's exporters are faced with the twin challenges of unprecedented strength in our currency and globally uncompetitive labour costs, Austal would like to see EFIC's role enhanced so that we can continue to compete globally from Western Australia.

Please do not hesitate to contact me if you have any queries in relation to this submission.

Yours faithfully,

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CHIEF FINANCIAL OFFICER

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