

No.1 Martin Place  
SYDNEY NSW 2000  
GPO Box 4294  
SYDNEY NSW 1164  
AUSTRALIA

Telephone	+61 2 8232 3470
Fax	+61 2 8232 6928
Internet	www.macquarie.com.au

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Export Credit Inquiry  
Productivity Commission  
LB 2 Collins Street East  
MELBOURNE VIC 8003

Email: [exportcredit@pc.gov.au](mailto:exportcredit@pc.gov.au)

Dear Commissioners

**Re: Australia's Export Credit Arrangements**

Macquarie Capital Group Limited (**Macquarie**) is pleased to make this submission to the Productivity Commission in relation to its inquiry into Australia's Export Credit Arrangements.

One of Macquarie's main areas of interest and expertise is in advising corporations to develop large scale infrastructure and resource projects in Australia and globally. These projects create substantial employment opportunities and support the expansion of Australian exports of commodities and services, and involve the raising of large volumes of capital, particularly debt capital, to enable them to be developed economically.

Current market conditions

Australia as net importer of capital has previously relied upon European, British, Asian and other offshore lenders to provide a significant portion of debt capital to fund large scale capital projects. In recent years Macquarie has seen the stresses in the bank debt market from the global financial crisis affect the appetite and ability of these banks to provide funding to Australian borrowers. Since mid-2011, this effect has been compounded by the well-documented sovereign-debt related liquidity issues of European banks (particularly French and German) that had continued to deploy substantial funding in Australian projects throughout 2008-2010.

The Australian bond market is not currently a realistic alternative source of funding for these projects because it has not developed the depth or breadth of market issuance and demand required. There have been positive developments in the expansion of the Australian bond market since 2009 and over time this may lead to it becoming a viable alternative for some of the funding required. However, given the scale of funding required to deliver a number of these projects currently being developed and those in the

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development pipeline, all sources of debt capital should be encouraged to support these projects and therefore the broader Australian economy.

In the absence of strong, deep funding sources there is a high probability that important resource and infrastructure projects will not be able to be funded and developed as fast as they may otherwise be. There is a genuine risk that a lack of available capital will result both directly, and indirectly via cost impact, in Australian projects not proceeding with the benefits of resource development occurring in other resource-rich countries.

#### Role of Export Credit Agencies (ECAs)

Export credit agencies have the ability to provide important support to the financing of large scale projects in a number of ways:

- Broad financial skill base to analyse prospective projects
- Deep networks with other ECAs that can assist other financial market players to access other ECAs for support
- Attract commercial bank liquidity by providing sovereign backed guarantees to lending
- Ability to develop confidence and build momentum with other financiers when their involvement in a debt process is known
- Ability to provide funding where funding may not otherwise be available because of scale and market conditions. For example the PNG LNG project's US\$16.5 billion-plus funding task and US\$14 billion debt funding was seen as extremely challenging before the project could go ahead after receiving US\$8.3 billion funding either directly from or supported by ECAs (60% of its total debt funding. The figure is over 80% if Sponsor loans of US\$3.75 billion are excluded)
  - US\$5.65 billion direct funding from JBIC (US\$1.8bn), US-EXIM (US\$2.2bn), China EXIM (US\$1.3bn) and EFIC (US\$350m)
  - US\$2.65 billion ECA supported facilities (US\$800m by US-EXIM, US\$900m by SACE, US\$950m by NEXI)

Macquarie is aware of a number of other large scale projects in Australia currently in the development stage that will rely heavily on the support of ECAs for debt funding. We also believe that the support and assistance of an organisation like Export Finance Insurance Corporation (**EFIC**) can aid the development of the Australian bond market which we view as vital to the ongoing stability of funding for Australian companies and projects.

#### Summary

Our experience in dealing with EFIC is that they have the team of highly skilled and knowledgeable individuals which can assist and facilitate the financing of large scale projects of national importance to Australia.

Yours faithfully

**Macquarie Capital Group Limited**

**David Bennett**  
Executive Director  
Macquarie Capital

**Greg Levy**  
Division Director  
Macquarie Capital