

20 March 2012

The Commissioners
Australian Productivity Commission

Dear Commissioners

Re: Review of Australia's Export Credit Arrangements – Draft Report

We have had a recent opportunity to review your draft report and provide the follow submission and comments for your further consideration.

Company Background:

Lean Field Developments Pty Ltd (LFD) is a recently registered company headquartered in Brisbane and providing pipe laying, cable laying and facility design and installation services primarily to the Oil & Gas, CSG, Mining and Agricultural industries. The Company has operated since early 2010 and was formed by a management team with many years of relevant experience including the design and installation of coal seam gas, shale gas and water gathering systems in the North American market.

LFD was attracted by the new CSG and evolving shale gas industries in Australia where large scale developments were, and are, in the main, in the detailed engineering/contract letting stages. This is a new industry to Australia where the skill and experience in installing gas and water gathering systems on a large scale with specialist equipment was and is in very short supply.

LFD is privately funded by its shareholders, employs 70 people and has capacity and plans to increase that number to approximately 130 with contract starts throughout 2012.

LFD has sought contracts for services with the major LNG Export Proponents in the CSG industry in Queensland. That industry will require services offered by LFD not only for their project construction periods of 2-4 years but for the life of the projects, 20-30 years, as replenishment and new wells are required to be connected due to the depletion of old wells. The connection of gas wells to compression facilities is an integral part of the Export Plant process.

All LNG Export Proponents are major corporations operating in the global market and require contractors to provide construction performance and defects liability period bonds. Similarly, LFD has opportunities to provide its services to major companies in several overseas countries and all have similar requirements for performance and defects liability bonds.

LFD Experience with Bond Market:

The construction performance and defects liability bond providers, **acceptable to major companies**, are limited to the major banks and 3-4 insurance companies in Australia (Bond Providers).

Bond Providers all have essentially the same criteria for companies seeking bonds; (a) minimum of 3 years trading in Australia and (b) a minimum annual turnover of \$20 million for those 3 years.

Start-up companies, no matter how well credentialed, cannot get construction performance bonds and defects liability bonds in Australia without providing 100% cash collateral security thereby severely reducing working capital and growth opportunities.

EFIC has provided a bond facility to LFD in order that it may secure works on LNG export projects.

Draft Findings & Recommendations:

DRAFT FINDING 4.1

There can be sound commercial reasons why private providers do not offer some products or do not cover some types of applicants — in which case there is not a market failure.

DRAFT FINDING 6.1

The concept of the market gap can cover circumstances where there is no market failure that would warrant EFIC support.

DRAFT RECOMMENDATION 10.2

There is some evidence that there may be market failures in relation to the provision of export finance products to newly exporting small and medium-sized enterprises (SMEs). Until it is next reviewed, EFIC's role on the commercial account should be limited to demonstrating to the private sector that providing export finance to newly exporting SMEs can be commercially viable. EFIC must demonstrate that this can be done on the same basis as the private sector — with price covering the full economic cost of provision. This role should be reflected in the Export Finance and Insurance Corporation Act 1991 and in the Minister for Trade's Statement of Expectations.

The Assistant Treasurer stated in the Terms of Reference; *"As set out in the Statement of Expectations, EFIC operates under a "market gap" mandate – it is only to provide services to viable projects where the private sector is unwilling or unable to provide support."*

Whichever way the Commission choose to look at the deficiencies in the market, the stark reality is that the bond products mentioned are not available to start up SME's and very often new export entrants.

The submission to the Commission by ANZ Bank dated December 2011 sets out many of the difficulties experienced by SME's with private sector providers and the presence of the "market gap".

"Private sector has limited appetite to support smaller but expanding exporters.."

Astutely, ANZ state *"In the Trade Finance/SME, where banks generally take a relatively rigid "scorecard" approach to risk and controls, EFIC may sometimes be able to take a more pragmatic view. This is primarily due to EFIC's ability to undertake a high level of due diligence, especially around historical performance, contract terms and management ability. They are able to consider factors other than pure financial matrices, for example, growth prospects and strategic positioning of the industry."*

In LFD's experience this is exactly what EFIC did. In considering and assessing LFD's application for Bond Facilities EFIC conducted a detailed due diligence of LFD's technical capability, systems, controls, contract terms and management.

EFIC were professional at every level of their assessment and took the time to understand the LFD business and its risks. EFIC rated LFD a Low Risk Potential and in our view private Bond Providers would come to the same conclusion had they the process to conduct the same review.

EFIC's charges were market rate commensurate with the high quality of evaluation. LFD has not encountered a Provider prepared to undertake the business AT ANY PRICE.

LFD submits that the Commission should recognise that there is a market gap in respect to the provision of financial products to SME's and that EFIC is the only Provider in the market capable of filling it.

DRAFT RECOMMENDATION 5.2

EFIC's definition of a small to medium-sized enterprise should be limited to firms with annual turnover of less than \$25 million.

LFD submits that the draft recommendation to define SME's as entities with a turnover of \$25m or less is not appropriate for all industries.

The Commission has identified that there is a concentration of EFIC finance facilities to large companies in the construction industry. That industry typically has very large turnover and very small margins and an industry participant's (particularly SME's) turnover may fluctuate significantly from year to year.

In LFD's opinion the concentration of large construction companies in EFIC's portfolio could be risk diluted through support for SME's to secure components of large projects.

Setting turnover criteria for the definition of SME's without reference to other measures, including sustainability, will discriminate against some growth industries.

LFD proposes that Draft Recommendation 5.2 be amended to allow EFIC to set the benchmark turnover for the definition of an SME on an industry by industry basis.

DRAFT RECOMMENDATION 10.3

Amendments to the Export Finance and Insurance Corporation Act 1991 (EFIC Act) should be made to:

- *reorient EFIC's objective to addressing information-related market failures in financial markets affecting newly exporting small and medium-sized enterprises (SMEs) seeking access to export finance*
- *specify that EFIC is to demonstrate to the private sector that providing export finance to newly exporting SMEs can be commercially viable*
- *clarify that assistance is only to be provided in respect of export contracts as currently defined in the EFIC Act.*

LFD submits that point 1 of Draft Recommendation 10.3 should be amended to delete the word "newly" on the basis that there is no sound reason for excluding SME's who have otherwise qualified but have previously exported.

LFD agrees with point 2 of Draft Recommendation 10.3.

LFD submits in relation to point 3 of Draft Recommendation 10.3 that the Act should clarify that assistance may be provided in respect to export contracts and eligible export transactions. An eligible export transaction should be re-defined to include the provision in Australia of goods and services principally for the production or manufacture of capital goods or commodities that are exported from Australia.

DRAFT RECOMMENDATION 10.5

A limit of three transactions per client should normally apply to EFIC's future operations. Proposals to exceed the three transaction limit should require explicit approval by the Board (and not by a delegate), notified to the Minister for Trade and be included in an independent audit of EFIC's operations to ensure consistency with its demonstration role.

LFD submits that placing a limit on the number of transactions for any individual EFIC client is inappropriate because it presupposes that alternate providers will be willing to provide facilities or products following that specified number of transactions.

LFD proposes that Draft Recommendation 10.5 be amended to allow EFIC to set the maximum number of transactions having regard to all the circumstances of the particular client and their industry.

Recommendations Generally:

LFD believes the Australian Government should be funding and otherwise supporting EFIC to expand its role in the provision of financial products to the export industry and entities supporting the export industry.

The area of greatest need is with SME's who also have the greatest potential to increase employment, introduce innovation and penetrate new markets. Domestic industry promoting exports must be supported by Government where there are barriers to entry created by the lack of private sector financial products.

Australia must export if it wishes to reduce unemployment, diversify domestic industry and increase productivity.

RBA governor Mr Glen Stevens stated this week that "boosting productivity growth is the only way for Australians to improve their living standards".

EFIC has a vital role in providing SME's with the means of seizing opportunities to contribute to the welfare of the Australian economy.

Yours faithfully
Lean Field Developments Pty Ltd


Chairman