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



Dear Sir / Madam,

Re: Australia's Export Credit Arrangements Draft Report

We refer to the Productivity Commission's Draft Report on EFIC's role commissioned by the Australian Government.

Gasco totally support EFIC's continuing role in funding export projects and local infrastructure projects where the final products are predominantly sold overseas; eg. LNG.

Without the support of EFIC, Gasco could not have financed and secured two major export projects in the Oil and Gas Industry. One project was in the UAE and the other for a major Malaysian Oil and Gas company in Turkmenistan. The two projects have been major successes and we have received positive customer feedback from our clients. Such projects result in multiplier benefits to Australia's reputation in the global oil and gas market. They also enhance future job prospects in the manufacturing and engineering segments of Australian industry.

EFIC has always acted in a professional manner and Gasco are extremely satisfied with their in-house knowledge and service. We are concerned that EFIC's role is under review because we regard EFIC as a necessity for companies such as Gasco who operate in Australia and the global market.

Many countries including Germany, Canada, USA, Japan, France and China have the support of Government export credit agencies (ECA) to provide funding on equal or more attractive terms to EFIC. A reduction in EFIC assistance will place Australian business at a major competitive disadvantage.

We regard EFIC as a necessary ancillary financier in our business second to our bankers. For most projects, Gasco typically utilizes the services of our banker, but for larger projects, where bankers support is not readily available, we have had bank guarantees underwritten by EFIC.

The main areas Gasco do not support within the draft findings and recommendations, are as follows:

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

The \$25M turnover per annum for SME's should not be implemented. The assistance mechanisms should remain to enable all companies to obtain finance assistance when required to increase Australia's exports, global reputation and jobs.

Although Gasco do not agree to a limit on turnover, if a limit must be implemented, it should be raised to at least \$500M turnover per annum.

Also, to implement this recommendation would make it impossible for EFIC to achieve a commercial rate of return comparable to the private sector providers which is one of the Productivity Commission's recommendations.

Draft Recommendation 8.3 – The Minister for Trade's Statement of Expectations should require the pricing of EFIC's commercial account transactions to reflect the full economic cost, including a commercial rate of return reflecting risk that is benchmarked against that of appropriately selected private sector providers (also Draft Recommendation 8.4)

Funding costs should not rise as EFIC customers are already paying a premium for market gap coverage. For Bank Guarantees / Performance Guarantees, the private banking sector is charging commonly 1.5% to 2% whilst EFIC equivalent cost is 3% to 4%, around double. Often end users will not accept the Federal Government guarantee and still require a Bank Guarantee from the supplier's bank incurring a cost from both the supplier's bank and EFIC facility to underwrite the Bank Guarantee. The cost of this requirement could be 6%.

Draft Recommendation 10.1 – EFIC's support for onshore resource projects should cease, as there is no clear market failure affecting access to finance for these projects. A direction to this effect should be issued by the Minister for Trade as soon as possible.

EFIC support of onshore resource projects, where the final commodity produced is predominantly exported, should remain. The recent LNG project boom is a great example where many Australian suppliers tendering for these projects, would not have been able to comply with the project proponents performance guarantee and milestone requirements without the support of EFIC facilities. This would have led to less projects being awarded to Australian suppliers which would be detrimental to the Australian economy. Gasco has funded a number of its smaller projects awarded in the LNG industry via its bankers. Should Gasco be awarded a larger project in the LNG industry, Gasco would rely upon EFIC to provide the market gap not available from its bankers due to the stringent Bank Guarantee requirements expected by the project proponent.

Draft Recommendation 10.4 - Amendments to the Export Finance and Insurance Corporation Act 1991 should be made to:

- ***Limit the financial products offered by EFIC on the commercial account to guarantees***

EFIC facilities should not be limited to guarantees. The working capital facility should not be discontinued. The Project owners often request non-negotiable milestone payments which are providing significant cash flow issues for Australian Industry and exporters. Often Australian exporters do not have the security available to obtain the necessary funding from their bankers to support the cash flow deficiency.

An EFIC facility which underwrites the bank's facility to provide a short term working capital facility, is an excellent tool to assist Australian companies in winning export projects. Australian companies are competing with other countries who provide up to 100% funding for their exporters.

Draft Recommendation 10.5 – A limit of three transactions per client should normally apply to EFIC's future operations.

The use of EFIC should not be limited to three transactions per client. EFIC is providing market gap facilities which are not available in the private banking sector. Therefore, many SME are unlikely to be able to fund their fourth transaction without EFIC support.

Also, due to EFIC's knowledge of the customer, its client's risk profile is expected to be lower for the 4th transaction than the first. To implement this recommendation will also make it difficult to achieve draft recommendations 8.3 and 8.4 to make a commercial rate of return benchmarked against private sector provider.

EFIC's role to support Australian companies to compete in the global market is a necessity. A reduction in EFIC's role is not supported by Gasco because it will reduce export earnings, Australian participation in major local infrastructure projects, our global reputation and employment within Australia. Australian industry is already struggling to compete with the high Australian Dollar and Global uncertainty and any changes to EFIC role will result in further economic uncertainty

Should you require any further clarification of the above, please do not hesitate to contact me.

Yours sincerely,

Nicholas Grzegorzyn
CEO / Managing Director