

20 March 2012

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

By email: exportcredit@pc.gov.au

Dear Sirs,

Productivity Commission draft report on EFIC

This letter serves as a submission in connection with the Productivity Commission's draft report on EFIC.

The Kempe Engineering Group of Companies ("Kempe") is an Australian based group comprising principally engineering and asset service business streams in the primary aluminium, mining & resource and energy sectors. Kempe is a Geelong based organisation that has provided substantial employment in Australia and ex-pat opportunities for the purposes of its export projects. A large part of Kempe's annual turnover has been derived over the past 15 years from exports into the international primary aluminium sector.

Kempe won the Victorian Government's regional exporter of the year award in 2010.

Kempe's export focus has been associated with the design, manufacture, supply & installation of substantial equipment lines used in aluminium smelters. Its export contracts have covered both brownfield and greenfield projects in North & South America, Europe, the Middle East, India and Africa.

Kempe is a privately held Australian group however its traditional principal competitors are large Canadian, French and German based listed companies, not Australian companies. In our experience these competitors invariably have substantial ECA support aimed at providing them with a competitive position in the tendering process. We have been greatly assisted over the years in competing with offshore companies by the support that EFIC has been able to provide us in the form of bonds and working capital required for project purposes. Whilst the initial support provided by EFIC was an alternate to support that our Australian bankers were not able to supply, in recent years as project sizes increased the EFIC support that has been provided was an extremely important and integral part of project bond matrices that we had to submit for the projects and that we would not have otherwise been able to package through sole reliance on our Australian bankers.

Kempe believes that the proposed SME definition being limited to a \$25m turnover is inappropriate. That limitation would effectively preclude us from continuing to seek EFIC's support in connection with our international tendering into an important market sector in which SME's by that definition do not participate. As noted above, our competitors in this sector are listed companies with large capital bases. We operate in a somewhat niche area which is highly focused on technology (bringing with it research and development in Australia) and are not, for example, simply one of a large number of manufacturers of consumer goods seeking to export. Given the demise of general manufacturing in this country it is quite appropriate that an agency such as EFIC should be able to provide targeted support to high value export even on a repeat basis.

A key point arising from the Commission's draft appears to be the proposition that EFIC's role should be limited to assisting newly exporting SME's to demonstrate to the private sector that providing export finance to these entities "can" be commercially viable. As a general comment it appears to us that the proposed restrictions on EFIC's charter are inward looking being focused on information-related failures likely to affect newly exporting SME's accessing export finance and do not adequately take account of EFIC's globally outward looking strategic role in supporting exporters seeking to succeed on the "world stage". This strategic support role (as opposed to the inward looking proposed role) has been a key factor in Kempe's export success story.

In our view the proposals mooted in the draft report will serve to stymie the development of export activities such as those conducted by Kempe. For example, we may well be precluded from participation in large future projects by virtue of these proposed changes which will obviously curtail the bringing of export work back to this country. In addition, the proposed changes would in our opinion negatively impact niche areas of technology research and development in this country because of the loss of future projects and potentially facilitate the loss of Australian based "players" in global technology-intensive industries such as primary aluminium smelting.

I trust that these comments assist.

Yours faithfully,

Grant Kempe
Managing Director