

Australia's Export Credit Arrangements.

Draft report by the Productivity Commission.

Comments by Mr Malcolm Stephens CB

Introduction

I have read with interest the draft report on Australia's Export Credit Arrangements. I have a number of comments but, as background to my comments, perhaps I could stress two or three points about my own background.

I now have about fifty years experience of this area in many countries. I was the Chief Executive of the oldest ECA in the world (ECGD of the UK) for 5 years and recommended and implemented the privatisation of ECGDs Short term business in the 1990s which "broke the mould". I was the President (for 3 years) and then the Secretary General (for 6 years) of the International Union of Credit and Investment Insurers (the Berne Union). I was a Visiting Fellow of the IMF and wrote for them what is perhaps still the standard work in this area (The Changing Role of Export Credit Agencies). I was also the Chief Executive of the London Chamber of Commerce and Industry. I have chaired and been a director a number of specialist brokers in the export and trade credit insurance field. I currently advise one of the largest private export credit and political risk insurers (Zurich) and the Chinese ECA (Sinasure). I spent 5 years as the Export Finance and International Trade Director of the Barclays Bank Group. I advised DFAT at the time of the privatisation of EFIC Short term business. Finally, I am confident that I have advised more Governments and private insurers in this area than any other consultant in the world.

General.

There is no such thing as a typical ECA. They come in all shapes and sizes and vary greatly in their structure, status and in the range of products and facilities they offer. The key test for any ECA is not how they differ from or resemble an ECA in another country, but how effectively they fit in with the national financial and commercial infrastructure in which they operate and the role they play in helping supporting exporters to be internationally competitive – in other words, to help to ensure that exporters get excellent and internationally competitive products and facilities and world class service.

Plugging Gaps.

Plugging or filling gaps is, in practice as opposed to theory, a very difficult concept, not least since the private insurance/reinsurance markets and banking markets are constantly changing.

Furthermore, it is in the real world extremely difficult for an ECA to be "mothballed" against possible future need. Market experience and up-to-date expertise are vital if exporters and those who finance them are to be able to access internationally competitive services and products.

An ECA cannot be continually entering, dropping out and re-entering the market place. Some continuity is essential.

Breaking Even and being Commercial.

This is an area where slogans abound – usually unhelpfully.

Probably the key point about export credit insurance is that it is insurance. Thus, spread of risk and some stability of premium income are crucial

In my view and experience, it is an impossible dual mandate for an ECA to be told both that it is only to take risks which private insurers will not accept while, at the same time, avoiding losses and operating on a commercial basis.

Concentration of risk (both in terms of sectors and geographical location) is a common feature for all ECAs – especially in the area of medium and long term credit (MLT) exports. This simply reflects the traditional make up, nature and destination of MLT exports from the country concerned.

Capital Goods, Project and Manufacturing Goods Exports

Capital goods and manufacturing goods exporters currently face both great difficulties and very tough international competition.

In addition, the capacity and willingness of private insurers to underwrite MLT risks - which has always been limited - has now reduced significantly, both in the wake of the GFC and large losses in other non-life sectors. It is simply not true that the private sector can fully meet all the legitimate needs and requirements of exporters needing to offer MLT credit to their buyers. This is clearly illustrated both by the increased business levels of the ECAs and by the greater co-operation between private and public insurers in MLT export credits and political risk insurance.

Moreover, there can no disputing the fact that capital goods and manufacturing exporters are faced with a significantly reduced MLT risk appetite of financing banks. And the liquidity challenges facing many banks often make it difficult for them to fund MLT credits, even those credits which are the beneficiary of ECA facilities.

Two other points are relevant.

- (a) First, capital goods, project and manufacturing goods exports are normally carried out by larger companies. There is nothing sinister about this. Such activities normally require larger balance sheets. It is therefore totally normal for ECA MLT activities to be concentrated on larger companies and usually on a relatively small number of such companies. The SME role in such exports is often limited and frequently restricted to a sub-contracting role.
- (b) Second, Australian exporters currently struggle to be competitive due to the high Australian \$ - so financial packages which are internationally competitive are absolutely vital – and these have to take full and direct account of the role which ECA facilities play in the financing packages offered by their competitors in other countries.

The Acid Test.

The acid test for the kind of Recommendation made in this draft report is, in my view and experience, a simple one.

It is “What is or would be the impact of the Recommendation(s) on Australian exporters and Australian exports – especially in terms of capital and manufactured goods?”

I can see no full or detailed treatment of this question in the draft Report.

Yet, a Minister or Government cannot reasonably be expected to make any judgement or decisions on the Report in the absence of this information.

Based on my own long experience and detailed knowledge of practices in other – competing – countries, I would judge that the impact on exports and exporters would be both immediate and significant, unless it were to be matched by directly comparable measures impacting on ECA activities and facilities in other countries – which seems extremely unlikely at a time of faltering international demand, uncertain trends in world trade and excess capacity in manufacturing/project goods producing sectors. I can see no sign of other countries taking such measures.

Detailed Points.

Recommendation 10.2 is puzzling both in that it is not at all clear what this would mean or involve in practice and also that it fails to recognise the special challenges SMEs face in all countries in terms of private insurers and banks and brokers being willing to concentrate resources or to give more priority to them and their special problems. And, again in the real world, what would be the likely impact on SMEs of reducing EFICs activities in the SME area (again recognising all that ECAs in other countries still do in the SME area, even within the European Union) and in terms of SMEs facing significantly higher costs and reduced facilities?

I can see no logic or practical value in Recommendation 10.5. What would it achieve? And why choose 3, rather than 2 or 4?

It is always difficult to argue against transparency and disclosure, but Recommendation 10.6 must take full account of the legitimate needs and wishes of Australian exporters and their banks, not least in terms of the impact of such disclosure on their internationally competitive position were this to be implemented.

Tailpiece.

Having authored many reviews and reports in this area, my honest view is that this draft Report is unusual in terms of the apparent absence of explanations and, especially, of justification or supporting evidence of the impact of the implementation of the Recommendations. This does not improve the report.

In addition, I am old fashioned enough to believe that the job of consultants working in this kind of area is to move beyond the theoretical or philosophical and to examine the practical real world situation and facts – especially what is and is not being done in other competitor countries – and to produce Recommendations which are firmly based on this.

This draft Report gives all the appearances of having begun with preconceived Recommendations and only then going on to produce what is rather limited and sometimes seemingly conflicting supporting/justifying evidence.

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