



# **Austal Submission - Productivity Commission Draft Report on Australia's Export Credit Arrangements**

30 March 2012

**This Page Intentionally Left Blank**

## Table of Contents

<b>A</b>	<b>INTRODUCTION .....</b>	<b>5</b>
<b>B</b>	<b>AUSTAL OVERVIEW .....</b>	<b>5</b>
<b>C</b>	<b>AUSTAL'S MARKETS .....</b>	<b>5</b>
<b>C-1</b>	<b>EXPORT FOCUS.....</b>	<b>6</b>
<b>C-2</b>	<b>IMPORTANT MARKET CHARACTERISTICS .....</b>	<b>6</b>
<b>C-2.1</b>	<b>Commercial vessel market – highly international.....</b>	<b>6</b>
	C-2.1.a Customer profile .....	6
<b>C-2.2</b>	<b>Defence vessel market – strong domestic preference .....</b>	<b>7</b>
	C-2.2.a Customer profile .....	7
<b>C-2.3</b>	<b>Position in overall shipbuilding market.....</b>	<b>7</b>
<b>D</b>	<b>EFIC SUPPORT FOR AUSTAL .....</b>	<b>8</b>
<b>D-1</b>	<b>EXPORT SALES .....</b>	<b>8</b>
	D-1.1 Direct benefits of EFIC supported sales .....	9
<b>D-2</b>	<b>SUPPORT FOR EXPANSION .....</b>	<b>9</b>
<b>E</b>	<b>FLOW ON EFFECTS OF EFIC SUPPORT .....</b>	<b>10</b>
<b>E-1.1</b>	<b>Flow on to Small and Medium Enterprises.....</b>	<b>10</b>
	E-1.1.a SME Benefit Case Studies .....	11
<b>E-1.2</b>	<b>Flow on to other future business .....</b>	<b>12</b>
	E-1.2.a Case Study: Benchijigua Express to Littoral Combat Ship .....	12
	E-1.2.b Case Study: Euroferrys Pacifica to WestPac Express to Joint High Speed Vessel.....	12
<b>F</b>	<b>AUSTAL'S EXPERIENCE IN THE FINANCE MARKET .....</b>	<b>13</b>
<b>F-1</b>	<b>PROCESS .....</b>	<b>13</b>
<b>F-2</b>	<b>RATES AND AVAILABILITY .....</b>	<b>13</b>
<b>F-3</b>	<b>MARKET GAPS .....</b>	<b>13</b>
	F-3.1 Type of vessel.....	13
	F-3.2 Customer / transaction characteristics.....	14
<b>F-4</b>	<b>CURRENT MARKET CONDITIONS.....</b>	<b>15</b>
<b>G</b>	<b>CONCLUSION.....</b>	<b>16</b>

## Table of Figures

<i>Figure 1 International fast ferry fleet sizes. Source: Fast Ferry International Database 2012 .....</i>	<i>6</i>
<i>Figure 2 Value of Austal export contracts supported through EFIC and other sources .....</i>	<i>9</i>

## **A INTRODUCTION**

As an award winning and long time exporter, Austal welcomes the opportunity to provide our views on Australia's Export Credit Arrangements.

One of the longest and most important business relationships among the many we have around the world is with the Export Finance and Insurance Corporation (EFIC). EFIC has played a key role in helping a broad range of international clients purchase our vessels. In doing so it has helped our company – and the many others whom we do business with – to grow, diversify, and create new skills and capabilities.

Although we have grown internationally, the need for export finance support in our markets is as at least as great as it has ever been. Our Australian export business has, in fact, contracted in real terms over the last few years. Any restriction of Australia's export credit facilities would inevitably result in further contraction in our export business and the many benefits it generates.

This submission is structured in the following manner:

- Austal Overview
- Austal's Markets
- EFIC support for Austal
- Flow on Effects of EFIC support
- Austal's Experience in the Finance Market

## **B AUSTAL OVERVIEW**

Austal is a global defence prime contractor. The company designs, constructs and maintains revolutionary platforms such as the Littoral Combat Ship (LCS) and the Joint High Speed Vessel (JHSV) for the United States Navy, as well as an extensive range of patrol and auxiliary vessels for defence forces and government agencies globally.

Austal also designs, installs, integrates and maintains sophisticated communications, radar and command and control systems.

Austal benefits from its position as a world leader in the design, construction and support of customised, high performance aluminium vessels principally for the commercial high speed ferry market, an achievement gained over a period of nearly 25 years.

Austal's primary facilities comprise a combined defence and commercial shipyard in Henderson, Western Australia; a dedicated defence shipyard in Mobile, Alabama; and a dedicated commercial shipyard in Balamban, Philippines.

The company also provides vessel support services from its facilities in Australia, the United States, Asia, Europe, the Caribbean, and the Middle East.

All of these activities are carried out by business units that are wholly-owned by Austal Limited. Listed on the ASX, Austal Limited is headquartered in Western Australia and virtually all of its shares are Australian-owned.

## **C AUSTAL'S MARKETS**

As mentioned, Austal's current position has developed principally as a result of success in the international high speed ferry industry. Austal would not be what we are today were it not for our ongoing ability to develop, design and manufacture world leading products for that niche market sector.

## C-1 Export focus

---

Likewise we would not have been able to do that without being able to sell those vessels at sustainable prices to international customers. Our business is, and always has been, export driven.

Of the 246 vessels Austal has sold to date, more than 75% by number have been for customers outside Australia. In value terms the percentage would be much higher.

## C-2 Important market characteristics

---

That statistic, however, hides some key market characteristics of relevance to Austal's relationship with export finance.

### C-2.1 Commercial vessel market – highly international

The first of these is that the market for ferries and other non-defence vessels is extremely export oriented: nearly 93% of our non-defence vessels have been for customers outside Australia.

In value terms that percentage is even higher because the vessels sold domestically have been comparatively small and simple tourism vessels, not the higher value fast ferries we export. We have, in fact, never sold a fast ferry to an Australian customer. Since 2001 domestic sales have accounted for just 3% of our revenue from this market.

#### C-2.1.a Customer profile

As it is the size and stature of the borrower, not the supplier, that determines the ability to obtain finance it is important to consider the nature of the commercial vessel customer base.

Customers in Austal's commercial vessel markets tend to be privately held, often family-run businesses of small to medium size.

For example, in the key fast ferry market, more than half of all operators have a single high speed ferry, and over 80% have three or less (Figure 1). The vessel(s) is/are normally the company's primary asset(s).

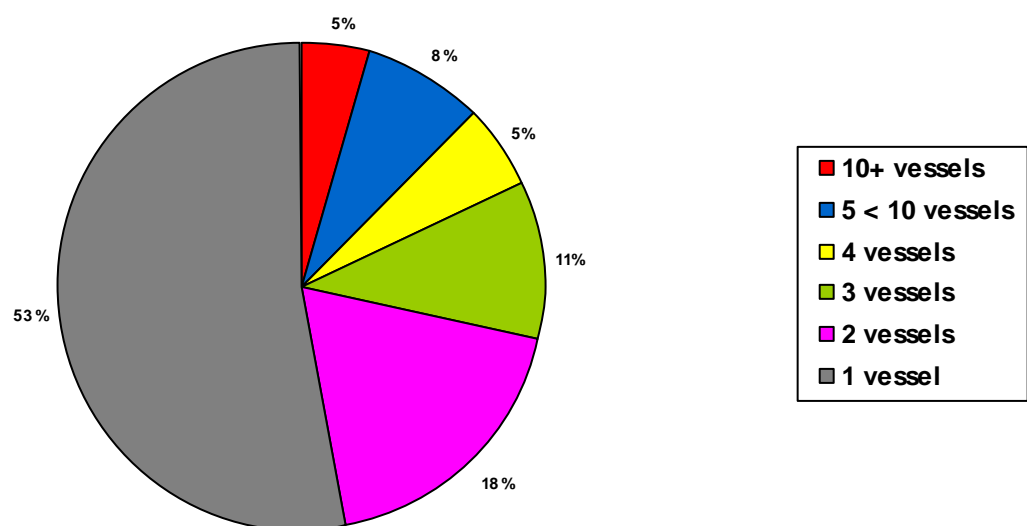


Figure 1 International fast ferry fleet sizes. Source: Fast Ferry International Database 2012

Businesses of this size do not typically have ready access to a broad range of finance options, generally being reliant on retail banks with little experience or interest in financing ship acquisitions.

In recent years, government-backed entities have become more significant potential customers for Austal commercial vessels, at least in part because of the difficulties commercial customers face in obtaining finance. While government ownership/control can bring with it greater financing capability, it also introduces sovereign risk. In our experience, commercial banks are unwilling to take on this risk without support from EFIC.

Government buyers also often have an expectation or desire that the Australian Government demonstrate support for Austal. Participation of EFIC in the buyer's financing structure is a key way in which this can be achieved.

These various factors mean that EFIC can, and indeed does, have an important role in this market.

### **C-2.2 Defence vessel market – strong domestic preference**

The second market characteristic is that our defence vessel business, and indeed defence shipbuilding generally, is heavily domestic: in our case only 29% of our defence vessels have been exported.

In value terms that percentage would be much lower.

Market studies we have undertaken indicate that, for our product types, just over half of all vessels are built in the buyer country, with a further 40% built in neighbouring countries.

With only approximately 7% sourced internationally, a figure that includes ships donated by the buyer country, achieving export sales in this market is challenging.

This means that any additional benefit we, as exporters, can provide is critical to securing this work. Competitive, government-backed finance is certainly one of the ways in which Austal and other Australian exporters are able to add value.

#### *C-2.2.a Customer profile*

Customers for defence vessels are, almost without exception, government entities. This introduces sovereign risk and also, often, an expectation or desire on behalf of the customer that the Australian Government demonstrate support for Austal. Participation of EFIC in the buyer's financing structure is a key way in which this can be achieved.

Importers of defence vessels are typically smaller countries, in particular those without sufficient domestic industry capability to produce the vessels they require. For example Austal's defence exports have been to Kuwait, Yemen, Bermuda, Malta, and Trinidad and Tobago – none of which have a shipbuilding capability of note.

Typically these smaller, developing economies have higher levels of sovereign risk associated with them. As previously mentioned in our experience, commercial banks are unwilling to take on this risk without support from EFIC.

These various factors mean that EFIC can, and indeed does, have an important role in this market.

### **C-2.3 Position in overall shipbuilding market**

A third key point to understand is the general nature of our business, and indeed that of the other significant participants in Australia's commercial shipbuilding industry. That is that we are active in what is a very small niche of the global shipbuilding industry.

Australian commercial shipbuilding is heavily focussed on the design and manufacture of lightweight aluminium vessels. This is because, over many decades, Australia has proven to be uncompetitive against other countries in the manufacture of steel ships, primarily as a result of labour costs.

Aluminium ships represent a tiny fraction – something like 3% by number<sup>1</sup> – of global shipbuilding output because its benefits are only applicable in a small number of vessel operation types.

Australia, however, accounts for a large share – approximately one-third<sup>2</sup> – of that aluminium vessel construction.

These two facts have implications when considering financing arrangements for the types of ships Austal, and Australia, produces because it affects the level of interest in financing these projects. This is discussed in Section F.

## **D EFIC SUPPORT FOR AUSTAL**

As noted in the draft report, a significant percentage of EFIC's business has been directed towards customers of Australia's shipbuilding industry.

### **D-1 Export Sales**

---

Certainly EFIC has played a key role in facilitating the sale of many Austal vessels to overseas clients through participation in the buyer's financing structure.

EFIC's participation has firstly helped the client to secure their total financing requirement (through the provision of a secured guarantee) and typically has also helped to reduce the cost of the overall finance package.

EFIC's participation has often been cited by clients as a pre-condition to the sale of our vessels. This is typically the case when the commercial lending sector in a client's country is unable to fund a transaction and EFIC steps in to "fill the gap".

For government clients, the willingness of EFIC to support Austal-related transactions is often viewed as a form of government-endorsement of Austal, which provides an additional intangible benefit of EFIC's activities.

However, as Figure 2 indicates EFIC has by no means been the sole source of finance and finance support for our overseas clients. Some clients are able to finance their projects through other means.<sup>3</sup>

For those that have been unable to completely finance the acquisition through other means, EFIC has provided valuable contributions to enable purchasers to commit to export sales that would otherwise not proceed.

These contributions are not simply financial. EFIC's participation has been instrumental in bringing other banks into the deal.

---

<sup>1</sup> Source: Austal internal research

<sup>2</sup> Source: Austal internal research

<sup>3</sup> Since 2001, 64% of export sales, by value, have not had EFIC involvement.



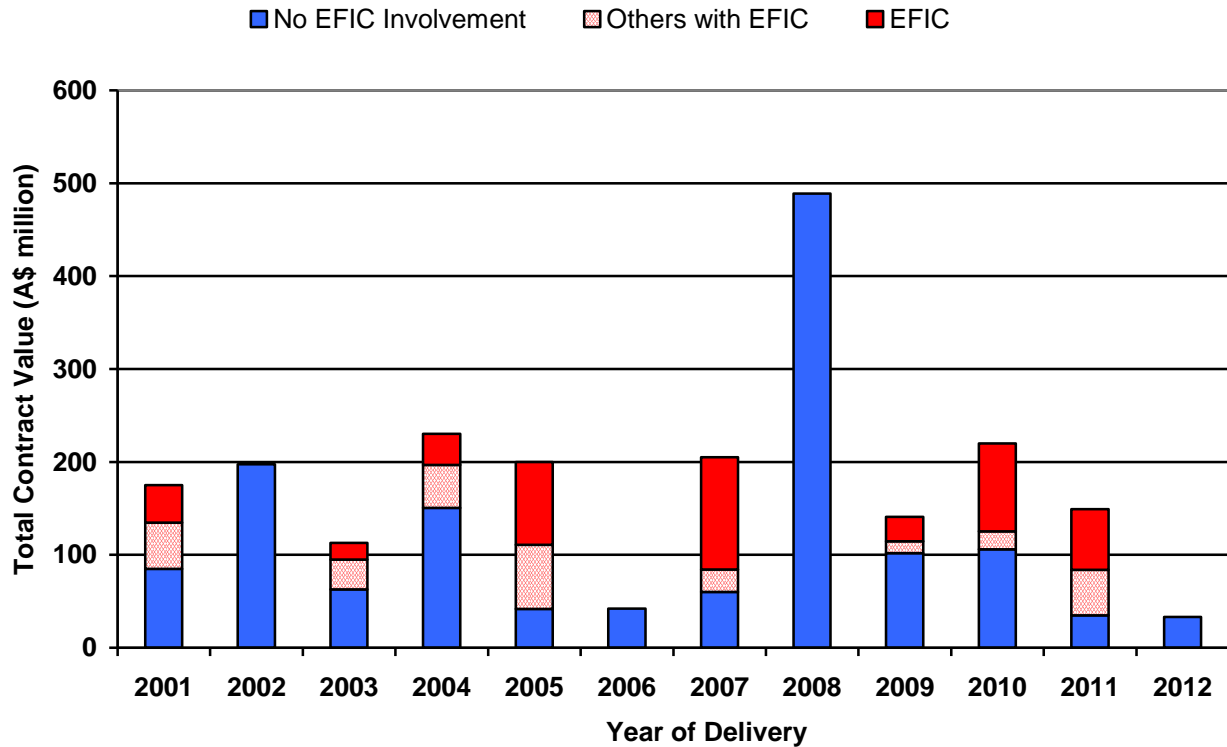


Figure 2 Value of Austal export contracts supported through EFIC and other sources

#### D-1.1 Direct benefits of EFIC supported sales

Over the course of the last decade, EFIC's involvement has meant Austal's export sales have been nearly 60% higher than they would otherwise have been.

The benefits of those EFIC-supported projects include:

- Nearly \$800 million in export revenue for Australia
- Approximately 3,400 person-years of direct full time employment at Austal – that is 340 jobs for 10 years
- Support for Austal's apprenticeship program and other skills development activities contributing to development and retention of industry capability of national strategic importance
- Investment in infrastructure and technology development of national strategic importance and leading to further exports
- At least \$1.1 billion additional value to the local economy as a result of the multiplier effect<sup>4</sup>
- Additional employment and other multiplier effects into the local economy
- International business for Austal suppliers leading to additional exports
- Flow-on effects leading to future Austal contracts

#### D-2 Support for expansion

Apart from facilitating the purchase of our products, Austal has sought EFIC's assistance to facilitate the expansion of our wholly-owned international subsidiary, the profits of which are repatriated back to Australia.

<sup>4</sup> Based on a multiplier effect of 2.38 which has been used in economic analyses of the Western Australian marine industry prepared for the State Department of Commerce and others

In 2010 Austal sought EFIC's assistance to support a US capital raising being undertaken to fund US\$165 million for capital works related to a US\$4 billion US Navy Littoral Combat Ship contract Austal was competing for.

Due to the uncertainty associated with the status of the tender process at the time, Austal's panel of commercial banks were unable to support the company's funding requirement.

Had EFIC not bridged the gap and supported Austal's US financing activities at a crucial time, the eventual award of this strategic contract would have been at great risk.

## **E FLOW ON EFFECTS OF EFIC SUPPORT**

The draft report places great emphasis on suggesting that EFIC's activities should be focussed on supporting Small to Medium Enterprises (SMEs) to enter the export arena, and that support should be shifted away from larger companies with established export activities.

While Austal fully supports assistance being provided to SMEs, in our view it is important to recognise that:

- EFIC's financial support is provided to the buyer, not the supplier. Therefore the supplier's export experience and financial standing are essentially irrelevant to the ability to obtain finance for the proposed acquisition.
- EFIC's role is to help facilitate exports from Australia, not to act as a business incubator. Other Government programs, such as the Export Market Development Grants (EMDG) scheme, are specifically directed towards SMEs to assist them establish export business.
- The apparent under representation of SMEs in EFIC's business can be attributed to the lower values of export transactions conducted by those businesses and the correspondingly lower requirement for those transactions to be financed.
- That supporting export sales involving larger Australian businesses provides real and tangible benefits to Australian SMEs.

### **E-1.1 Flow on to Small and Medium Enterprises**

In the context of supporting SMEs to achieve export success, Austal's contribution and commitment to local industry is strong and has demonstrable benefits. The extent of this contribution has been clearly influenced by the export contracts which EFIC has helped facilitate.

Austal has been responsible for providing tangible support and assistance in generating growth and capability enhancement for SMEs and facilitating their expansion into overseas markets.

Under Austal's Global Supply Chain local industry is provided with ready access to supply opportunities in the wider international marketplace. This can be through:

- Austal's new vessel construction programs including those undertaken in Australia for the export market;
- Direct supply to programs at Austal's shipyards in the United States and the Philippines; and
- Support of Austal's international Regional Service Centres, currently located in Europe, the Middle East and the Caribbean.

Austal construction programs at the Australian facilities draw a high level of local resourcing through the Austal supply chain. Approximately 75% of Austal material is sourced from, and 79% of Austal expenditure takes place with, suppliers within Australia and New Zealand – most of them SMEs.

An open supply chain ensures the opportunities are available for all interested suppliers and this adds to the generation of new capability in SMEs.

The sale of goods and services for the construction of the Littoral Combat Ship (LCS) and the Joint High Speed Vessel (JHSV) at Austal's US shipyard contributes approximately \$9 million in export revenue to Australian industry and the Australian economy each year.

Austal has provided assistance to local companies by leveraging involvement through Austal's US shipyard, and several of these companies have subsequently established operations in the United States. Austal can use its understanding of the US market to assist SMEs in focusing on areas of local US industry where product and service gaps exist.

#### *E-1.1.a SME Benefit Case Studies*

There are several local SMEs whose export success has been positively influenced by Austal and who acknowledge this beneficial impact. Some examples of how Austal supply chain incumbents can be assisted by Austal to achieve international success in their own right are described in this section.

##### *E-1.1.a.i PT Metalwerx Pty Ltd*

Based in Malaga, WA this company undertakes the manufacture of switchboards for Austal. A beneficial offshoot of this is that Austal also supports its sister company indirectly through PT Metalwerx who subcontracts the powder coating to this company. In addition to supplying ships sold for export from Australia, both of these companies have benefited from the Austal work performed in the United States on the LCS and JHSV programs.

##### *E-1.1.a.ii Ayres Composite Panels*

Ayres Composite Panels has worked with Austal for over 15 years, providing an internal light weight panel system that is used in the full range of Austal vessels. When Austal established its US shipyard, Ayres Composite Panels was provided with an opportunity to enter the US market. It is now the preferred supplier for the lightweight panel system installed on the JHSV and the LCS for the US Navy and is also now supplying other US Defense programs and the US commercial vessel market.

##### *E-1.1.a.iii Veem Engineering*

Veem is a company based in WA that supplies high quality metal alloy and bronze casting such as propellers, shafts, ride control fins and foils to the international market. Austal use Veem products on the LCS and JHSV programs and virtually all vessels exported from Australia.

##### *E-1.1.a.iv International Maritime Services (IMS)*

International Maritime Services is based in WA and specialises in providing personnel for vessel commissioning trials and delivery.

The company performs extensive amounts of work at Austal's Australian shipyard. As a result it has been able to develop an international reputation and contacts network to expand internationally. The company now has an office in Singapore, and provides services to shipowners and shipyards overseas.

As a direct result of its work with Austal in Australia it is currently contracted to supply Trials Captains and crew and operational training under the LCS and JHSV programs, and also has a long term manning contract for a motor yacht based in Europe.

#### *E-1.1.a.v Other examples*

Fire protection system supplier CBG Systems and safety equipment manufacturer Liferaft Systems Australia are other examples of Australian companies that commenced business supplying Australia's export shipbuilders and which have since grown to be exporters in their own right. This includes supplying their products for the LCS and JHSV programs.

### **E-1.2 Flow on to other future business**

Successful export contracts, which would not have been possible without EFIC support, have led directly to future business. This additional business has and will continue to amplify the benefits of that initial EFIC support to Austal, its suppliers and the economy generally.

A key reason for this is that in both commercial and naval shipbuilding the ability to demonstrate the success of your product in one market or application is critical to it being accepted for others.

Two key examples of this relate to Austal's current US Navy programs, which are potentially worth over US\$5 billion in revenue, and which also have substantial intangible benefits in demonstrating the capabilities of Austal and its products to other potential customers worldwide. In addition to repatriating profits to Australia, the programs also directly support Australian exports, both from Austal's Australian operations and Australian suppliers to the programs (including those described in Section E-1.1).

#### *E-1.2.a Case Study: Benchijigua Express to Littoral Combat Ship*

In 2005 EFIC provide partial finance to a Spanish company, which acquired a new type of fast ferry from Austal. The ferry, *Benchijigua Express*, uses a unique trimaran hullform which was developed through extensive research and development at Austal with a key aim of improving motions while at sea.

Early in the discussions that led to the eventual contract the owner identified that an innovative and tailored finance package would be equally as important as Austal's ability to design and construct the innovative and revolutionary design.

Austal worked to source lenders and investors who would help create a financial structure that would meet the owner's objectives. EFIC and an international bank became key partners in this process which resulted in achieving a sale.

The commercial and strategic benefits of that transaction continue to this day. In particular, Austal was able to utilise the ferry hullform as the basis of its LCS offer to the US Navy. Critically, because of the earlier ferry sale the US Navy gained comfort from its proven performance capabilities, which it physically tested while the ferry was in operation.

Austal has subsequently secured awards for 12 LCS for the US Navy; contracts which are worth well over \$4 billion.

The original sale, and those of the LCS, have also facilitated further trimaran product development which Austal anticipates will continue to provide a competitive advantage in both the commercial vessel and naval markets, resulting in further sales.

#### *E-1.2.b Case Study: Euroferrys Pacifica to WestPac Express to Joint High Speed Vessel*

In 2001, EFIC provided partial finance to another Spanish company that acquired what, at that point, was the largest catamaran fast ferry Austal had built.

In a similar manner to the LCS case described in Section E-1.2.a, that hullform was subsequently used for a theatre support vessel (*WestPac Express*) which has been used

by the United States Marine Corps for over a decade. That was the first time the US military had used such a vessel.

The proven success and pedigree of that ship was instrumental in raising the US military's interest in high-speed vessel technology, leading to the United States Navy's JHSV program. In particular, it was instrumental in Austal securing a contract, worth up to US\$1.6 billion, for 10 JHSVs.

As with the LCS program, Austal's participation in that program continues to provide a competitive advantage, especially in terms of our ability to demonstrate and sell proven capability.

## **F AUSTAL'S EXPERIENCE IN THE FINANCE MARKET**

### **F-1 Process**

---

Austal assists customers who have difficulty accessing financing with exploring possible solutions and introducing them to financiers drawn from our international pool of potential financiers. Austal works continuously and proactively to expand this pool to maximise the probability of identifying suitable finance sources for our customers.

For any given project, if the potential customer requests assistance, and Austal considers their project may be viable, we will contact several financiers on behalf of the customer to determine their interest in supporting the project. EFIC is included in that contact group if, as is often the case, there is no immediate interest from commercial banks to fully meet the finance requirements.

### **F-2 Rates and Availability**

---

In Austal's experience, when compared on a like-for-like basis the rates offered by EFIC are no lower than those offered by commercial banks.

Austal's customers, therefore, have no reason to prefer EFIC to other potential financiers except in one critical regard: availability.

EFIC, in line with its mandate, is typically more willing to fund the portion of a project which other financiers do not have the appetite to finance. In other words, they are more willing to finance the gap provided, of course, they see the project to be commercially viable.

### **F-3 Market Gaps**

---

In our experience, any financier's interest to participate in a project typically depends on criteria including:

- Type of vessel
- Size of the customer / transaction
- Location of the customer / operation
- Ownership of the customer
- Whether the customer is an experienced ship operator or a start-up venture
- Current market conditions

Each of these criteria can and do create gaps in the market.

#### **F-3.1 Type of vessel**

There are, unfortunately, only a small number of commercial financiers who are interested in supporting transactions involving high-speed vessels.

This gap can be attributed, at least in part, to information-related failure.

If transportation finance is considered a specialist business sector, then shipping is an even more specialised sub-sector. As explained in Section C-2.3 the high-speed vessel market in which Austal's clients operate is an extremely small part of that sub-sector.

Private sectors providers, therefore, can and do simply decide not to participate in the market because the global market is so small and specialised, and the costs of acquiring information to support decision making comparatively high. As a result many believe the return does not justify the costs and risks. This is especially true when those costs and risks are compared to finance markets that are larger, better understood and have known high rates of return. This can lead to what are commercially viable transactions being rejected without consideration in favour of 'traditional' business.

This is true even within specialist ship financiers who opt to concentrate on the larger, better documented, globally trading markets such as container, tanker and bulk cargo shipping.

Given the comparatively high participation of Australian exporters in the high-speed aluminium vessel shipbuilding industry<sup>5</sup>, EFIC has, in our view, established a much better understanding of the market than other financial institutions. This not only better positions it to participate in transactions – its presence in transactions provides encouragement to the commercial sector to also participate.

This is important, because in Austal's experience, those commercial financiers also limit the scope of the deals they are willing to participate in based on other factors. Typically this means they are only willing to finance a portion of a project, creating a funding gap.

### **F-3.2 Customer / transaction characteristics**

In some cases, commercial financiers are not willing to participate at all in deals that do not fall under their mandate. Projects, regardless of their viability, may be excluded based on:

- Size of the customer / transaction
  - As explained in Section , the majority of commercial high-speed vessel operators are relatively small businesses. They may well only acquire one vessel in the business's lifetime; that vessel is likely to be of comparatively low value;<sup>6</sup> and also likely to be the business's principal asset. Such transactions have a higher level of risk but the financier is not incentivised by the prospect of high financial rewards or future transactions.
  - In other instances, the vessel and transaction may be of considerably higher value<sup>7</sup> but again may be the business's principal asset. In these cases the transaction may be too high considering the risk profile (or perceived risk profile based on limited market understanding) and financiers' desires to maintain a balanced portfolio. Austal has previously experienced that situation with EFIC when it was adjudged to be over-exposed on ship-related finance and reduced its support for loans accordingly, regardless of the merits of individual transactions.
- Location of the customer / operation
  - Some financiers limit their financing activities to certain geographic areas based on country risk or other factors. This may preclude financing ships based on either the country of domicile of the owner, or the country or countries in which the ship may operate.

---

<sup>5</sup> See Section C-2.3

<sup>6</sup> The majority of fast ferries would be in the A\$3 million to A\$10 million range

<sup>7</sup> Large high speed vehicle-passenger ferries are of the order of A\$100 million



- Nature of the operation

- Financiers tend to wish to limit their exposure on 'new' operations. It is important to recognise that financiers may consider an operation to be 'new' if any single aspect of the operation is different from what has taken place before. For example, a new ship type (eg high-speed ferry) operating on a proven route, with a proven operator may be considered 'new'. This poses specific issues for ship acquisitions in our sector because the reason for acquiring a new ship is, generally speaking, to provide an alternative solution rather than replace on a 'like-for-like' basis.
- Although public-private partnerships and private financing initiatives are increasingly being examined by governments for defence vessels, this is a specific area that many financiers exclude from their activities.

- Ownership of the customer

- Financiers naturally consider the financial standing and structure of the customer. However the private finance market can limit its scope even when the customer is financially sound. This is particularly the case where there is government involvement in the customer's operations be that as a public authority, partial or full government ownership, or government subsidised/licensed operations. This is almost always the case for defence vessels and often the case for ferries due to their use in public transportation services. As noted in Sections and , this introduces sovereign risk, which in our experience commercial banks are typically unwilling to take on without support from EFIC.

#### **F-4 Current market conditions**

---

The turmoil in global financial market in recent years has seen a number of traditional commercial lenders either fully or partially withdraw from the market, thereby reducing the number of alternative funding sources available to commercial clients.

In the specialised area of shipping finance, for example, it has been reported that 13 of the world's 19 largest shipping banks have stopped new lending to the industry.<sup>8</sup> As noted in Section F-3.1, shipping banks already have limited interest in our specific market sectors.

One of the world's leading shipping and transportation banks has made it clear that it expects that Export Credit Agencies will step in to support acquisition of new ships:

*"2012 will be a year, relatively equal to 2011. I don't think you will see big changes. ECAs will take care of newbuildings to a large extent. There will be five to six of us in the market on the commercial side doing business. There will be a reduction in shipping portfolios among major banks except DNB and Nordea."*<sup>9</sup>

Mr. Dagfinn Lunde  
Member of the Board of Managing Directors  
DVB Bank

Compounding this is the current upheaval in European capital markets. Europe is a traditional core export market for Austal's Australian manufactured vessels, in particular the larger, higher value fast ferries.

---

<sup>8</sup> Bloomberg, March 10, 2012. <http://www.bloomberg.com/news/2012-03-09/biggest-shipping-banks-withdraw-new-funding-lender-dvb-says-1-.html>

<sup>9</sup> Marine Money Asia Edition—Volume 7 Issue 4 February 13, 2012

*“New Basel III regulations are causing European banks to reconsider their exposure to shipping and, ironically, most European banks are unable to fully fund their shipping loan portfolios in USD.”<sup>10</sup>*

Mr. Harris Antoniou  
Global Head of Energy, Commodities and Transportation  
ABN Amro

In light of this, there is certainly a significant market gap at present and EFIC’s role in facilitating transactions for Austal customers, and thereby maintaining the jobs of our Australian design and manufacturing skill base as well as those of our suppliers, becomes all the more important.

## **G CONCLUSION**

Austal considers that Australia’s current export credit arrangements should at very least be maintained and preferably expanded.

Any reduction in their scope or applicability, including those suggested in the draft report, will be detrimental to Australian exports, adversely affecting exporters, their local suppliers and the many thousands of individuals who benefit from those activities.

This is particularly true given current economic and financial market conditions, where Australian exporters are faced with unprecedented strength in the Australian dollar, high labour costs (particularly affecting manufacturing industries) and severely curtailed finance availability for potential overseas customers.

Austal believes there is a strong case for broadening EFIC’s role to take on a greater level of direct financing of Australian-built vessels. This would include direct funding of transactions, residual value financing, direct asset ownership and leasing/chartering of vessels to clients. It is important to note that we do not believe that such an enhanced level of participation would need to continue indefinitely, but at least until there is a return to long term patterns of normality in the financial markets.

---

<sup>10</sup> Remarks made at Capital Link International Shipping Forum, March 2012. Source: Fairplay