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5 April 2012

Export Credit Arrangements
Productivity Commission
LB 2 Collins Street East
Melbourne VIC 8003

By email: exportcredit@pc.gov.au

Dear Sir/Madam,

Productivity Commission Inquiry into Australia's Export Credit Arrangements

I am writing on behalf of the Australian Centre for Renewable Energy (ACRE) Board in response to the above inquiry considering the Export Finance and Insurance Corporation (EFIC). ACRE welcomes the opportunity to make a further submission in response to the draft report and elaborate on its submission dated 22 December 2011.

This supplementary submission is in two parts. The first covers the potential for further cooperation between the Australian Trade Commission (Austrade) and EFIC in promoting EFIC services, particularly with renewable energy companies. The second comments on two of the Commission's draft recommendations with relevance to ACRE. These are recommendation 10.2 concerning evidence of market failures in provision of export finance to newly exporting small and medium-sized enterprises (SMEs) and recommendation 10.6 concerning the publication of transaction details for SMEs supported by EFIC.

Cooperation between Austrade and EFIC

The experience of staff delivering ACRE programs and policy outcomes is that awareness of EFIC products among the renewable energy sector is low. ACRE believes that there is scope for Austrade to work more closely with EFIC with a specific focus on building awareness in the renewable energy sector of EFIC's products and services. This cooperation could take the form of collaborating on product development for renewable energy exporters or on specific projects using Austrade's international expertise to tailor products and approaches to exporters.

As Australian renewable energy companies increase their involvement in global markets, closer cooperation between EFIC, Austrade and exporters may be beneficial to the development of this emerging industry.

Comment on Draft Report Recommendations

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).

ACRE agrees with recommendation 10.2 and believes that there is evidence that these market failures may be particularly acute for renewable energy companies.

Companies developing and commercialising renewable energy and enabling technologies face difficulty obtaining finance for projects due to large capital requirements, long time horizons

and perceptions of high technology risk in renewable energy projects. The availability of export finance assistance from export credit agencies in countries such as Denmark and the United States has been critical to the development of renewable energy technologies in those countries.

Australia's renewable energy sector has potential comparative advantages over its counterparts due to the innovative capability of research institutions such as the Commonwealth Science and Industry Research Organisation (CSIRO) and the Australian Solar Institute (ASI). Technologies with export potential include ocean energy, geothermal technologies and enabling technologies such as energy storage and grid integration. ACRE, and its successor the Australian Renewable Energy Agency (ARENA) is supporting companies to commercialise these technologies through programs such as the Emerging Renewables Program and the Renewable Energy Venture Capital Fund.

Government support plays a key role in 'de-risking' projects. Successful first-of-a-kind power generation projects are crucial to substantially reducing perceptions of risk and establishing the 'bankability' of projects, furthering wide scale deployment of renewable energy technologies. This 'learning by doing' element is critical to the initial development phase of renewable energy companies.

EFIC may consider offering specific products to exporters of renewable energy and enabling technologies. These products could be designed to demonstrate that renewable energy companies present commercially viable export opportunities, capable of delivering a revenue stream to investors and financiers.

Recommendation 10.6 - Within a month of execution, EFIC should publish information on the transactions it approves on the commercial account, including the name of the firm, price and other terms of provision...

ACRE agrees with recommendation 10.6 and believes that the publication of transactions executed by EFIC would be an important measure to correct the information failure which currently exists with financiers and investors considering renewable energy projects.

As SMEs in an emerging industry, renewable energy companies often encounter difficulties obtaining finance as they lack the balance sheet to meet funding requirements. Financiers also place a premium on renewable energy project financing as they are not familiar with the risks involved in such transactions and do not fully understand the project risks involved.

EFIC support for renewable energy technology exporters and publication of these transactions should help provide valuable information to the market, building confidence in renewable energy investment by alleviating risk perceptions. It is the ACRE Board's view that measures such as these are likely to improve the effectiveness of the support provided through Australian Government renewable energy programs such as ARENA by opening up export opportunities for successful renewable energy companies.

Thank you for the opportunity to provide a response to this inquiry on behalf of the ACRE Board. I would be happy to respond to any request for further detail or clarification regarding this submission.

Yours sincerely,

Mary O'Kane