



344 New Cleveland Road
Tingalpa QLD 4173
Brisbane / Australia
Telephone: +61 7 3907 9800
Facsimile: +61 7 3907 9888
Email: mail@ferra.com.au

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Committee Secretariat
Foreign Affairs, Defence and Trade Committee Department of the Senate
PO Box 6100
Parliament House
Canberra
ACT 2600

Dear Committee Secretariat

Please find enclosed Ferra Engineering's response to the inquiry pertaining to the Export Finance and Insurance Corporation Amendment (Direct Lending and Other Measures) Bill 2014 (Bill).

Thank you for the opportunity to contribute to the inquiry into the matter.

Yours faithfully

A handwritten signature in black ink, appearing to read "Arthur Gaka", followed by a horizontal line extending to the right.

Arthur Gaka, CPA
Manager, Finance and Business Planning

FERRA ENGINEERING PTY LTD SUBMISSION

EXPORT FINANCE AND INSURANCE CORPORATION AMENDMENT (DIRECT LENDING AND OTHER MEASURES) BILL [PROVISIONS] 2014

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SECTION 1 – INTRODUCTION

1.1. Ferra Background Information

Ferra Engineering Pty Ltd (Ferra) specialises in the design, development, production, maintenance and logistical support for defence equipment, release systems, and structural components as well as electromechanical subsystems for fixed and rotary wing aircraft.

Ferra is a supplier to international civil and defence programs both directly and through primary civil and defence manufacturers including Lockheed Martin, Boeing, EADS, Raytheon, Parker, BAE, Northrop Grumman, General Dynamics and Pratt & Whitney.

Our company has a long-term commitment to the aerospace market and is dedicated to supporting customers throughout their systems' service life. Ferra has extensive in-house component manufacturing facilities including a range of computer numeric controlled machines.

Ferra's goal is to continue be a 'Supplier of Choice' for high performance subsystems and components for leading systems manufacturers whilst growing to a position of long-term sustainability as a key strategic Australian civil and defence aerospace manufacturing capability.

1.2. The Bill

The Export Finance and Insurance Corporation Amendment (Direct Lending and Other Measures) Bill 2014 proposes two substantive changes.

Schedule 1 - Direct Lending (Including minor technical amendments).

Schedule 2 - Competitive Neutrality

SECTION 2 – SUBMISSION

2.1. General

This section provides Ferra's responses to the schedules above. The opinions expressed here are informed by Ferra's experience as a supplier for Australian and international aerospace civil and defence industry programs.

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2.2. Direct Lending

Ferra has a good long standing working relationship with EFIC and is globally competitive winning the Boeing International Supplier of the Year 2011 out of 17500 other suppliers. EFIC has helped to address limited access to finance, capital investment for growth and working capital requirements that the company has faced in light of its growing export sales which now stand at 85% of sales.

The direct lending bill is of particular interest to Ferra as well as other Australian SME's as it helps to address key problems faced by exporters. I feel the bill will help partially offset barriers to export growth. There are two areas where Ferra feels this bill will assist industry as a whole.

2.2.1 Reduced Lending Costs.

2.2.2 Streamlining procedures and Receipt of Funds

2.2.1 Reduced Lending Costs.

Direct lending will enable reduced lending cost which ultimately decreases cost to the customer and increases value of products being sold. Currently all companies using EFIC pay a margin to their lender as well as a margin to EFIC. They also pay an establishment cost to EFIC as well as an establishment cost to their incumbent bank. The overall position is a double up in fees and interest rate margins dependant on company risk profile that global customers will not pay for.

Currently before a bid or tender is done an Australian SME wanting to grow their exports through EFIC faces duplicated costs from their incumbent bank and EFIC. This puts Australian companies in an uncompetitive position which is further compounded if companies are competing or bidding against US or European based companies with access to cheaper funding. Direct Lending will also give EFIC greater ability to tailor lending products decreasing administration related costs faced by smaller companies.

We believe that direct lending will help companies to take advantage of the free trade agreements that the Australian government has put in place. It will aid in increasing Australian global competitiveness by Australian SME's through access to lower lending margins giving Australian SME's a greater chance to win extra work.

2.2.2 Streamlining Procedures and Receipt of Funds.

It is Ferra's view that direct lending will streamline procedures as well as ensure that Australian SME's receive timely funding to enable them to enact export contracts.

Currently on top of duplicating fees and interest rates as mentioned in 2.2.1 there is a duplication of credit procedures meaning that 2 proposals have to be done for both EFIC and incumbent lender as well as documentation. This is not efficient as SME's have to input a lot of expensive resources and time into the application. This diverts core competence of companies to applying for finance instead of focusing on operations.

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Australian SME's are under constant cost pressures from the global economy and competitor's in countries such as China. This means that with all the duplication costs to be incurred under current scheme some SME's are likely to forego export contracts as they have no access to viable finance. This will increase unemployment which will present an extra burden and cost to government in terms of social welfare.

3.0. Competitive Neutrality

The second aspect of the bill addresses competitive neutrality in line with direct lending. In theory the recommendation has sound logic but in the real world SME's with limited access to finance will be affected by this proposal.

Schedule 2 - Competitive Neutrality will effectively nullify any advantage Australian SME's would get compared to larger corporations with access to cheaper capital. Ferra recommends the government reviews competitive neutrality with a view on how this proposal will affect SME's as they will form the bulk of the lending base needing assistance.

4.0. Conclusion

Ferra believes that the Export Finance and Insurance Corporation Amendment (Direct Lending and Other Measures) Bill [Provisions] 2014 should be passed as it will enable Australia to increase export revenues generated by Australian SME's. The bill would enable companies to expand without added burdens resulting from duplication of lending criteria and applications which increase cost.

Our final recommendation would be that no changes be made to competitive neutrality. This will aid Australian SME's and help increase Australian exports, decrease unemployment and increase Australian global competitiveness.