



SUBMISSION TO THE COMMITTEE:

Foreign Affairs, Defence and Trade – Standing Committee

RE: EXPORT FINANCE AND INSURANCE CORPORATION AMENDMENT
(SUPPORT FOR COMMONWEALTH ENTITIES) BILL 2016 [PROVISIONS]

SUBMITTED BY:

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To whom it may concern,

The GDK Group (GDK) makes the following submission in support of the current bill before Parliament relating to the Export Finance and Insurance Corporation (EFIC) Act 1991.

The proposal to expand the powers of EFIC to allow direct lending to small & medium enterprises is an amendment that would bring enormous benefits to Australian exporters, by making them more competitive in the global market place, and providing a new array of strategic resources to enhance SME's international operations.

WHO WE ARE

The GDK Group is a family owned manufacturing business operating in Australia for over 30 years. Located in Wetherill Park, Sydney, and employing over 100 staff, GDK has grown to be one of Australia's largest architectural joinery and commercial furniture manufacturers. As a second generation family company, GDK has grown substantially these past few years on the back of export growth into SE Asia. All of GDK's products are proudly 100% Australian designed and manufactured, and exported into Asia.

REASONS FOR THE ESTABLISHMENT OF EXPORT OPERATIONS

In 2013, GDK embarked on a plan to triple its business, by investing into new automated machinery and production processes at its Wetherill Park manufacturing facilities. Given the multi-million dollar investment in state of the art fully automated manufacturing, GDK needed new markets in which to sell its products once the new line came online.

GDK targeted its range of Acoustic panelling products, and architectural joinery solutions into a dynamic and fast moving market, SE Asia; a market full of opportunity for the company's products. With the SE Asian economies having a vast appetite for the latest products and solutions in the building and architectural industries, and given its close proximity to Australia, GDK established a presence in Singapore in the latter half of 2013.

The business decided to establish itself in Singapore due to its pro-business climate, secure and efficient financial & legal systems, and due to its reputation as a key Asian architectural hub; GDK's key target market.

EARLY EXPERIENCE DEALING IN ASIA

As a new entrant into the SE Asia market, GDK was exposed to many of the typical teething issues that confront new business entrants:

- Understanding local business practices
- Establishing networks with the local architectural community
- Establishing relationships with building and construction companies
- Obtaining local certification for its products in the market

On top of these issues, the business quickly learnt that business interests and meetings in one country lead to immediate needs and follow ups in other countries due to the way project stakeholders operate in SE Asia; An architect who decides to specify our products is domiciled and operates out of Singapore, but has their projects being built in another country. This means that there would be a requirement for our firm to meet with project builders in another country in short course after meeting the Singaporean based architect. This hurdle added to the list of complexities in operating within the region.



Although such practices could be dealt with on a fly-in/fly-out basis in the early days of operations, it became unfeasible extremely quickly, given the unprecedented demand for our products and services. Despite this demand, GDK learnt that it could not close off all the deals it could have picked up due to a local concern;

“Who can I (client) talk to, if I have a question, or if something happens? I don't want to wait for an answer or a person all the way from Australia.”

By not having an on the ground presence, GDK was limiting itself, and exposing itself to what we knew were unfounded uncertainties about our performance, but that our potential clients did not know, because we were physically not on the ground to provide assurance, and a local contact for our clients to call if they needed to.

Therefore, despite the unique selling proposition of GDK's architectural product solutions of which there was a demand, that missing component, the local presence to provide customer surety, prevented GDK from securing the contracts that it could have otherwise picked up.

FINANCIAL CONSTRAINTS TO EXPANDING OVERSEAS OPERATIONS

As GDK re-aligned its strategy to have a local presence in SE Asia, the issue of raising capital to fund the firm's SE Asia expansion quickly came to fruition. Having re-invested substantial profits and raised additional external funding from local banks, to fund its new automated line, GDK had no additional avenues in which to raise additional funds for its overseas expansion. Although the firm's lenders were supportive of efforts to expand internationally, as they saw the benefits of the additional revenue to that the new manufacturing lines could fulfil, the banks were unwilling to lend for the expansion due to:

- the overseas operations being outside of their scope of understanding and expertise,
- lack of market knowledge,
- credit unwillingness to support the deal as it is outside the banks' lending scope (overseas investment)

To this end, GDK was stuck in not having access to the capital it needed to have a permanent on the ground presence, and to secure orders that clients were willing to issue to the firm. Over a multi-month period in which local financiers were unwilling to lend GDK the capital required, GDK lost out on many hundreds of thousands of dollars worth of export orders, all due to the simple fact that the firm did not have a permanent presence in the market.

HOW EFIC SUPPORTED GDK

GDK's introduction to EFIC was one of the most beneficial opportunities to ever have presented itself. GDK were introduced to an organisation that not only understood our firm's ambitions, but understood our challenges, our strategy, and was willing to assist us to reach those goals.

After a comprehensive approval process, EFIC provided GDK an 'Overseas Direct Investment Guarantee' (ODI) to our financier; a security the bank required to on-lend GDK the capital that we required to provide an on the ground presence in Singapore. With these funds, GDK has been able to establish a fully staffed Office and showroom in Singapore, grow the firm's permanent staff count to five (5) including sales, technical and support staff, and provide local and comprehensive marketing materials, allowing the firm to respond promptly to client requirements in this extremely hyper-competitive market.

By having a dedicated presence on the ground in Asia, GDK's clients have obtained the confidence and comfort they need to issue orders to our firm; they can look/feel/touch our products in the showroom, they can see that our firm is more than just one sales person, and that we have made a commitment to the region; an important and unique point, as they know that they have someone to call and see if they ever need to.

If not for EFIC's support, GDK would not have been able to see the success it has so far achieved come to fruition. In a hyper-competitive market, GDK has completed numerous prestigious projects right across



SE Asia including, Singapore, Indonesia and Philippines, and thus established a solid foundation to secure numerous forward orders in the coming years.

WHY GDK SUPPORTS THE AMMENDMENT ENABLING EFIC TO LEND DIRECTLY TO BUSINESSES WISHING TO INVEST OVERSEAS

EFIC's understanding and support of GDK has been beyond exceptional. However, the frustrations and costs involved in dealing with local financiers has been both strenuous and costly; given GDK's involvement in the hyper-competitive SE Asia market, such road blocks have directly impacted on our ability to secure projects, and to the firms' bottom line.

By way of example, the cost to GDK in not dealing directly with EFIC can be summarised below:

- Establishment & banking fees that exceeded \$30,000.00 (to financier)
- Annual fees in-excess of \$10,000.00 (to financier)
- Extra Interest costs in excess of \$40,000.00 p/annum (to financier)
- Total cost since establishment of EFIC facility: \$100,000.00+
 - This represents costs that would otherwise not have been incurred (nor continue to be) by GDK and make GDK more competitive in the market, if EFIC were able to lend directly to GDK

These fees and interest are on top of the fees and interest that GDK pay to EFIC for the ODI that is in place; fees paid understandably so, given the financial benefit EFIC is extending to GDK. Furthermore, other costs on top of this relate to the lost opportunities from not being able to deal directly with EFIC that include the time and money lost to establish a facility, and the projects lost during that time (values exceeding many hundreds of thousands of dollars.)

Such extra over costs directly hinder Australian SME's ability to compete in the global marketplace, and given the ever changing and ever increasing competitive landscape, Australian exporters need every opportunity available to them to increase their competitiveness. In such a fast changing international marketplace, the proposed amendments to EFIC's charter will allow EFIC to support Australian SME exporters in a way that is up to date with the realities of a modern, fast paced & hyper-competitive marketplace, by providing:

- Faster access to capital to respond to an ever-changing global market-place; and,
- Better value capital that enhances Australian SMEs competitiveness

Yours Faithfully,

Nikolas Simic
Director