Export Finance and Insurance Corporation (Efic)

Public Hearing: 7 November 2014

Answers to Questions on Notice:

QUESTION ON NOTICE 1

Topic: Percentage of Efic support that is development aid focused

Hansard page: 1

Committee member: Ms Gambaro (Chair)

Question:

CHAIR: Thank you very much. I might start and then hand over to the deputy chair. I am sure there will be many questions. You say that Efic is primarily set up to help SMEs. Of the percentage of the loans that you finance in the region, how many of them are development aid focused and what percentage would be private companies seeking to enter new emerging markets?

Mr Hunter: I will probably take specific percentages on notice; but, to give you a feel for what we are doing more generally in the region, I will start with our portfolio in the financial year that just ended 30 June 2014. Ninety per cent of the transactions that we undertook were for SMEs. We undertook about 230 transactions during the course of the financial year; 206 of those transactions were in support of SMEs. In terms of how many of those specifically were into emerging and frontier markets, I would have to take that on notice. I do not know what the specific breakdown is off the top of my head.

Efic is supporting commercial transactions, so being specifically around development aid is not necessarily a criteria that we take into account. The first things we look at are if this is a commercially viable export opportunity and if it is something the private sector should be funding but is not funding, possibly because they are uncomfortable with the market of the export destination.

Answer:

In financial year 2013-14, approximately 60% of financial products or services Efic provided were in support of exports or investments in emerging and frontier markets. None had a specific 'development aid' focus.

Inquiry into the role of the private sector in promoting economic development and reducing poverty in the Indo-Pacific region

Joint Standing Committee on Foreign Affairs, Defence and Trade

QUESTION ON NOTICE 2

Topic: Efic's largest loss

Hansard page: 4

Committee member: Senator Gallacher

Question:

Senator GALLACHER: So what is your worst result? What is your biggest disastrous investment?

Mr Hunter: I have been the CEO only for 18 months. Efic has been profitable in 19 of the last 20 years. We have a very good record of underwriting. I would have to take on notice what the biggest loss we have ever had is. But we have a very good record of credit performance.

Answer:

Efic's largest loss on its Commercial Account is approximately $6 million. This figure excludes short-term trade insurance, which was sold to the private sector in 2003.

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QUESTION ON NOTICE 3

Topic: Efic's portfolio exposure to developing countries

Hansard page: 8

Committee member: Mr Ruddock

Question:

Mr Hunter: It is $150 million out of the book of $2 billion—that is 7½ per cent. That is for one country, which is Sri Lanka. Where we are helping is we are helping in the field of health care, medical services, water treatment plants; we assisted a company in exporting dairy cattle and putting in place infrastructure in a country that is only 20 per cent self-sufficient in the dairy area; we helped a small company called BP Solar in the green energy space. There is an example of 7½ per cent of our portfolio going to one country, Sri Lanka, and everything we are doing in that country is supporting—

Mr RUDDOCK: Would it take much to analyse your total portfolio to see to what extent the funding is going? It might be 7½ per cent out of the total, but it may be that the total is in fact 50 per cent—I don't know—going to poor, developing countries.

CHAIR: Could you provide that information?

Mr Hunter: We can, absolutely, Chair.

CHAIR: Not forgetting my first question was: how much is development aid focussed and how much is just commercial SMEs? I understand and I have your website here that you help companies going into Europe, North America and the Asia-Pacific. If you could give us a break down and out of those, if it would be possible—I think that is what Mr Ruddock is alluding to—how many would be solely development aid focused.

Answer:

As a guide, approximately 80% of Efic's portfolio by export or investment destination is to emerging and developing economies.

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QUESTION ON NOTICE 4

Topic: Ways to achieve the goals of this inquiry

Hansard page: 8

Committee member: Mrs Prentice

Question:

Mrs PRENTICE: Mr Hunter, you said you came here today to tell us what you do and what you do well. But perhaps for our benefit you could extrapolate how you feel the lessons you have learned could contribute to our achieving the goals in terms of this inquiry?

Mr Hunter: In my time at Efic what I have learned—

Mrs PRENTICE: You do not have to do it now.

Mr Hunter: I am happy to take that on notice.

Answer:

There are many great Australian companies, both big and small, linking their products and technical expertise with a developing economy's desire to develop and provide better options for its population – the 'win win' that occurs with trade.

However, in many developing economies, viable Australian exports or projects can struggle to access all the export-related finance they need to succeed. This partly reflects the fact that the overseas focus of Australian banks can be quite narrow, domestic financial systems in many of these economies is undeveloped, and country risk can be high. By working with a range of other financiers (including Australian banks), Efic can help ensure that finance is available so that these viable projects or exports can go ahead.

Efic's mandate is to support commercially viable Australian exports, or projects, where there is a financing gap. We provide facilities on commercial terms and do not provide aid or concessional finance. Nonetheless, many exports or projects that Efic has supported are likely to provide strong developmental outcomes. Some examples are listed below.

1) *Outotec – Sri Lanka*

Over recent years, Efic has provided buyer finance to assist some innovative Australian companies operating in Sri Lanka. One such example is Outotec, which is developing drinking water treatment plants, transmission mains, distribution systems and associated infrastructure to supply clean drinking water to communities in Sri Lanka.

2) *Asian Development Bank (ADB)*

In 2011, EFIC signed a US$65m risk sharing agreement (later increased to US$90m) with the Asian Development Bank to help extend the commercial banking sector's capacity to support Australian exporters into some of Asia's most challenging markets. The agreement works within the ADB's Trade Finance Program (TFP), which provides guarantees and loans through banks to support trade in Asia.

Many companies in the least-developed economies of Asia struggle to access the trade finance they need to import, due to the weak state of their banks. This holds back business, limits job creation and growth in the developing economies and limits Australian exports.

Under the agreement, Efic shares the risk that ADB takes in guaranteeing letters of credit for exports of Australian goods to Bangladesh, Pakistan, Vietnam and Sri Lanka – all important future markets for Australian exports. This provides the TFP with additional capacity to support trade in those four countries.

3) *Environmental Systems & Services - Samoa*

Environmental Systems & Services Pty Ltd (ES&S), an advanced technology SME specialising in solutions in fields such as meteorology, seismology and geotechnical engineering, won a A$2.3m contract to provide equipment and training on weather forecasting and meteorological warning solutions in Samoa.

Under the contract, ES&S received periodic payments from its customer. However, the lag between when ES&S incurred costs and received payment meant that the company faced a working capital shortage and needed additional funding to perform the contract. To offset this, Efic provided a six month export working capital guarantee to ES&S' bank, enabling the bank to lend the same amount to ES&S to finance the subcontract works.

4) *PNG LNG project – Papua New Guinea (PNG)*

In 2009, Efic provided a US$350m loan to the PNG LNG project — a US$19b project being developed by a consortium of companies, including ASX listed Oil Search and Santos. The PNG government is also a substantial shareholder.

The bulk of the debt funding for the project was provided by export credit agencies from the US, Japan, Italy and China. Commercial banks provided less than US$2 billion of the US$14 billion debt finance, due to funding difficulties in global financial markets and the perception of high country and project risks.

The size of Efic's loan was in support of Australian content in the project. The project shipped its first gas in the June quarter 2014. Some estimates suggest that the Project is expected to contribute 20-25% of PNG's GDP per annum during its peak production phase.

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QUESTION ON NOTICE 5

Topic: Efic's clients

Hansard page: 8

Committee member: Senator Gallacher

Question:

Senator GALLACHER: In your notes here in your 2013 report you have got a note there to Xstrata Coal Queensland of $38.5 billion. They would hardly be a small or medium enterprise.

Mr Hunter: Without saying that, I would have to take that on notice. I do not know what you are referring to, sorry.

Senator GALLACHER: It is a list of your exporter/investor clients.

Mr Hunter: I will take it on notice. I do not have the information in front of me.

Answer:

In response to the global financial crisis and the banking crisis in Europe, in 2010 Efic signed risk participation agreements with Australian banks to ensure there was adequate capacity to provide trade finance to the buyers of Australian exports. Support provided in relation to exports by Xstrata Coal Queensland was under one of these agreements. These risk participation agreements expired in 2013 and have not been renewed given private market capacity.