

Senate Foreign Affairs, Defence and Trade Legislation Committee
Inquiry into the Export Finance and Insurance Corporation Amendment (Equity Investments
and Other Measures) Bill 2021

QUESTIONS ON NOTICE

**1 – Inquiry into the Export Finance and Insurance Corporation Amendment (Equity Investments
and Other Measures) Bill 2021**

Topic: Export Finance Australia – equity investments – minority stake

Senator Larissa Waters

Question

The DFAT/EFA submission lists a number of constraints that will be put on EFA's equity power, including that equity investments will be limited to a minority stake "unless there is a compelling reason otherwise". What kinds of reasons would be considered compelling enough for the Australian government to take a majority stake in an enterprise?

Answer

The expectation is Export Finance Australia's (EFA) equity power, if enacted, would be used sparingly and that a majority equity position would be taken only in exceptional circumstances. The kinds of reasons for employing the equity power would be determined by national interest considerations and based on advice from the Department of Foreign Affairs and Trade (DFAT) and other relevant government agencies.

**2 – Inquiry into the Export Finance and Insurance Corporation Amendment (Equity Investments
and Other Measures) Bill 2021**

Topic: Export Finance Australia – equity investments – stranded asset risks

Senator Larissa Waters

Question

Will EFA consider also putting constraints on taking an equity stake in fossil fuel investments, given the significant and growing stranded asset risks associated with that industry?

Answer

EFA will conduct rigorous due diligence on all equity transactions. This includes a careful assessment of financial risks associated with any transaction and, where relevant, market and other factors that may impact the financial stability of the relevant investment. EFA has an excellent track record of providing sound financial advice to Government. The Government will continue to rely on EFA to deliver robust due diligence assessments, noting the Government is responsible for decision making, and is liable for any losses, on the National Interest Account.

Senate Foreign Affairs, Defence and Trade Legislation Committee

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3 – Inquiry into the Export Finance and Insurance Corporation Amendment (Equity Investments and Other Measures) Bill 2021

Topic: Export Finance Australia – equity investments – due diligence processes

Senator Larissa Waters

Question

Will the due diligence and risk assessment guidelines proposed for equity investments include environmental and social factors, such as analysing gendered impacts of the investment?

Answer

Consistent with EFA's existing processes, due diligence and risk assessments for equity investments will include environmental and social factors, which includes considering gender impacts. For more information, please refer to DFAT's supplementary submission to the inquiry, provided to the Senate Foreign Affairs, Defence and Trade Legislation Committee on 17 August 2021.

4 – Inquiry into the Export Finance and Insurance Corporation Amendment (Equity Investments and Other Measures) Bill 2021

Topic: Export Finance Australia – equity investments – emissions, climate change impacts and stranded asset risks

Senator Larissa Waters

Question

Will the emissions, climate change impact or stranded asset risk of a potential investment project be considered? If so, how?

Answer

Financial, environmental and social factors will be considered in the assessment of any investment proposal.

There are a range of policies and directives that EFA must take into account when assessing transactions and projects. These include the Ministerial Statement of Expectations, as well as international standards and benchmarks EFA is required to have regard to, such as the OECD Arrangement on Officially Supported Export Credits, the World Bank's International Finance Corporation Performance Standards and the OECD Common Approaches. In addition, EFA is a signatory to the Equator Principles, a risk management framework for determining, assessing and managing environmental and social risk in projects.

Senate Foreign Affairs, Defence and Trade Legislation Committee

Inquiry into the Export Finance and Insurance Corporation Amendment (Equity Investments and Other Measures) Bill 2021

EFA will assess investments by conducting appropriate due diligence. This includes due diligence on environmental and social issues, which includes consideration of climate-related risks.

5 – Inquiry into the Export Finance and Insurance Corporation Amendment (Equity Investments and Other Measures) Bill 2021

Topic: Export Finance Australia – equity investments – host nation interests

Senator Larissa Waters

Question

How will considerations of the interests of the host nation factor into decisions about whether to make an equity investment?

Answer

Use of the equity investment power could include equity investments in overseas infrastructure projects.

The Statement of Expectations for EFA, made by the Minister for Trade, Tourism and Investment, requires EFA to “reasonably satisfy itself through due diligence... [that] the infrastructure project is appropriate for the relevant nation and the governance surrounding project procurement is sound”. EFA’s due diligence processes include debt sustainability analysis and compliance with a range of international economic, financial, environmental and social risk standards.

The Government enhanced EFA’s ability to invest in overseas infrastructure projects in 2019 to enable EFA to more actively support Australia’s step-up in the Pacific and the Government’s agenda for an open, inclusive and prosperous Indo-Pacific.