Australian Government
Department of Foreign Affairs and Trade

Inquiry into the provisions of the Export Finance and Insurance Corporation Amendment (Support for Commonwealth Entities) Bill 2016

Submission to Senate Foreign Affairs, Defence and Trade Legislation Committee

22 December 2016

Submission of the Department of Foreign Affairs and Trade to the Inquiry into the provisions of the *Export Finance and Insurance Corporation Amendment (Support for Commonwealth Entities) Bill 2016* by the Senate Foreign Affairs, Defence and Trade Legislation Committee.

Introduction

1. The Department of Foreign Affairs and Trade (DFAT) strongly supports the *Export Finance and Insurance Corporation Amendment (Support for Commonwealth Entities) Bill 2016* (Bill).

2. The Bill will allow Commonwealth entities and companies to access the financial expertise of the Export Finance and Insurance Corporation (Efic) subject to approval by the Minister for Trade, Tourism and Investment; and ensure Efic is able to support a wider range of innovative Australian small to medium sized enterprises (SMEs) to grow internationally.

About the Export Finance and Insurance Corporation

3. Efic, as the Australian Government's export credit agency, provides tailored financial services to support viable Australian businesses in their international operations.

4. Efic seeks to fill the 'gaps' in the provision of financial support for exports and overseas investment. Efic's services are provided on a commercial basis and only when the private market is unwilling or unable to provide adequate support.

5. Under the *Export Finance and Insurance Corporation Act 1991* (Efic Act), Efic is mandated to:

a. Facilitate and encourage Australian export trade;

b. Encourage banks and other financial institutions to finance exports; and

c. Provide information and advice on financing and insuring Australian exports.

6. Efic's focus is on assisting exporting SMEs and those in the export supply chain and Australian businesses operating in emerging markets. These are the areas in which Australian businesses are least likely to be able to access adequate export-related finance they require to achieve international success. In providing assistance, Efic works closely with private financiers to provide working capital, bonding, buyer finance, project finance and medium to long-term insurance products. Importantly, Efic does not provide support to SMEs where the export could result in net job losses in Australia.

About the *Efic Amendment (Support for Commonwealth Entities) Bill 2016*

7. The Bill includes amendments which would allow Efic to make available its specialist financial capabilities to Commonwealth entities and companies, subject to approval by the Minister for Trade, Tourism and Investment. This change would offer opportunities to lower government service delivery costs by leveraging existing resources within the Commonwealth, thereby avoiding the need to establish new institutions for every government financing programme.

8. These amendments would enable Efic to support the operation and administration of Commonwealth financing programmes, regardless of whether there is a connection to exports. Under the amendments, Efic cannot provide loans or guarantees to support Commonwealth financing programs, but can advise on the appropriate structure of a loan as well as manage the loan on behalf of the Commonwealth entity. Efic would be permitted to charge a fee for any assistance it provides, on a cost recovery basis.

9. The Bill also involves amendments which would enable Efic to provide loans to a wider range of SMEs by extending the current definition of 'Australian export trade' used for Efic guarantees to Efic loans. This definition appropriately focuses on the actual benefits flowing back to Australia from export trade, rather than on where goods are manufactured or purchased.

10. This change addresses an inconsistency in the Act which currently treats guarantees and loans differently. By applying the same definition to both guarantees and loans will simplify business applications for Efic support, by making available a loan for the same purpose as a guarantee. This avoids the need for businesses to approach their financial institution for a loan and thereby lowers costs. And invoking the same test for both guarantees and loans would increase the consistency in Efic's approach to assessing whether an SME is eligible to receive Efic support.

11. Therefore, Efic would be able to more efficiently and effectively support a wider range of SMEs, including those involved in – or seeking to be involved in – global supply chains, SMEs investing overseas to expand their sales, or SMEs looking to provide services directly to retail customers. Although Efic already has the ability to provide guarantees to these innovative SMEs, the Bill will allow Efic to better meet their needs through the provision of direct loans.

Context of the Proposed Changes

12. In its current form, the Efic Act does not permit Efic to make available its expertise to Commonwealth entities and companies. However, there is latent demand within the Commonwealth to leverage Efic's specialist expertise. This is demonstrated by Efic's provision of services to the Northern Australia Infrastructure Facility (NAIF).

13. Efic was only able to provide services to the NAIF through a specific and consequential amendment to the Efic Act. The Bill unlocks the potential for Efic to provide assistance to Commonwealth entities and companies in the operation and administration of financing programs, subject to approval by the Minister for Trade, Tourism and Investment.

14. The Bill also builds on the 2015 amendment to the Efic Act which enabled Efic to lend directly to SMEs. The 2015 amendment was an important first step to improving Efic's ability to support SMEs. The 2015 amendment was subject to Senate Committee inquiry. The Committee recognised the significant improvement to Efic's lending arrangements and recommended passage of the Bill through the Parliament unamended.

15. Efic is now better able to help SMEs bridge the finance gap when their bank is unable or unwilling to assist. With Efic's support, SMEs can tap into new overseas markets and grow their exports. Importantly, Efic's focus on supporting SMEs is paying dividends. During the course of the last financial year, Efic helped over 110 SMEs through the provision of 191 transactions with a total value of $155 million.

16. The value of exports for Australia is being increasingly derived from innovation and design and other products which have a high intellectual property content. In order to maximise export success for the future, Australian SMEs recognise that there is a growing need to become more involved in global and regional supply chains, to invest overseas and to be able to provide services directly to retail customers. While Efic is currently able to provide guarantees to these innovative SMEs, it could provide more efficient and effective support through the provision of direct loans. Pursuant to the amendments, SMEs that apply for and receive a loan, rather than a guarantee, could save up to an estimated $12,000 per application, given the relative ease of providing a loan compared to a guarantee.

17. The Bill, therefore, proposes to extend the definition of ‘Australian export trade’ currently used for Efic guarantees to loans. The current definition requires that transactions entered into by Efic involve a ‘benefit’ flowing back to Australia from overseas.

18. For relevant transactions, Efic conducts appropriate due diligence to ensure that such benefits are clearly defined. A ‘benefit’ can extend beyond the flow of profits back to Australia from the overseas sales to include the benefits of opening up new export markets or requiring additional Australian goods or services in order to deliver on the export. Importantly, Efic will only provide support where a determination is made that the transaction will not result in any net job losses for Australia.

19. The implementation of the ‘benefits test’ for loans will ensure that the export will result in a benefit flowing back to Australia.

20. The following five case studies highlight how the Bill could provide economic benefit to Australia and maintain or boost Australian jobs.

<u>Case study 1: Western Sydney-based family business manufacturing acoustic panelling and design finishes</u>

This SME recently received an Efic guarantee in order to build on its overseas expansion strategy and to capitalise on further opportunities in Asia. The company needed to set up an office and showroom in Singapore. From this base, it would be able to more easily showcase the specialist design work, already being undertaken by Sydney staff, to buyers in the region. The Bill gives innovative SMEs like this one the ability to benefit from an Efic loan, resulting in potential cost and time savings. By increasing its exposure to the Asian market, the company has successfully grown from an initial team of eight staff to close to 100 Sydney-based staff and now exports its products to several Asian countries.

<u>Case study 2: Western Australian geosciences company exporting innovative geology and geophysics services and software</u>

This SME was awarded a contract to install computer hardware onto six vessels and onto one land-based location in the UAE. It needed additional working capital to expand its offices in the UK, US and Malaysia. Given the offshore challenges associated with its expansion, the company had to approach both its bank and Efic for support. Efic was able to provide funding support, via the provision of two separate guarantee facilities with the company’s bank. However, this process could have been made simpler, quicker and more efficient, had Efic been able to provide a single loan.

Case study 3: Small charter company running whale-watching tours out of Brisbane and the Gold Coast

This SME wanted to increase its capacity to meet the needs of the growing number of Chinese visitors. With its bank unable to help, they approached Efic. However, Efic could not assist because under the existing legislation, Efic can only provide a loan if the company is providing services to a business, not directly to retail customers. The Bill will enable Efic to service companies regardless of who they are providing services to and will also ensure SMEs, like this tourism provider, will be able to capitalise from growing numbers of foreign tourists.

Case study 4: Sydney-based textiles company producing premium swimwear

This SME required more working capital to upscale production to meet its expanding overseas orders, but was unable to obtain all necessary finance from its bank. However, Efic was unable to help because some of the company's low-value production was based overseas. This Bill will overcome this situation, by enabling Efic to support businesses where the commercial benefit of the exports clearly flows back to Australia. In this circumstance, the export value is in the innovative intellectual property and design, rather than assembly.

Case study 5: NSW-based innovative SME specialising in digital transcription and captioning services

Following this company's success domestically and in the UK, it needed to establish an operations hub in Manila to assist with its global growth strategy.

Unable to receive the necessary finance from its bank for this investment, they requested finance from Efic. While Efic was able to provide support, it could only do so in the form of a guarantee to the company's Australian bank. This amendment will enable Efic to provide direct loans to such innovative SMEs when required. A direct loan can be more efficient and lower costs for SME exporters.

Conclusion

21. The Bill is an important step to unlocking Efic's potential to provide specialist services to Commonwealth entities and companies, and to enabling Efic to support a wider range of innovative Australian SMEs to succeed in the global market place. Although the amendments contained in the Bill are relatively minor, their economic impact will be significant. The Bill will ensure that Efic remains agile and able to respond to the needs of complex Government financing arrangements and to SMEs wishing to grow internationally.