

Chapter 2

Overview of the bill

2.1 The Export Finance and Insurance Corporation Amendment (Direct Lending and Other Measures) Bill 2014 (the bill) expands Efic's current powers under the *Export Finance and Insurance Corporation Act 1991* (the Act).

2.2 The purpose of the bill is to:

- allow Efic to provide direct loans for export transactions involving all goods (not just capital goods);
- extend the competitive neutrality arrangements under the Efic Act to cover all of Efic's operations;¹ and
- make minor technical amendments.²

2.3 During his second reading speech, the Minister for Small Business, the Hon Bruce Billson MP, explained the rationale for the bill:

The Abbott government recognises the importance of finance as the oxygen of enterprise to small business and is refocusing Efic to increase its capacity to finance small- and medium-sized businesses seeking to capitalise on global trade opportunities. The vast majority of Australia's exporters are small- and medium-sized enterprises, but traditionally they find it more difficult to secure export finance through banks, particularly when exporting to emerging markets...Australian Bureau of Statistics data shows that only five per cent of Australian goods exports are capital goods. And yet, under the current Efic Act, Efic can lend directly in support of capital goods but not all goods. This means Efic cannot lend for exports of many of the products in which Australia excels, like pharmaceuticals, or consumer goods like food and wine. For example, this means Efic can support the export of cows, but not milk...This amendment will also support the government's deregulation agenda and benefit exporters by reducing the time and paperwork required to access Efic support. The new direct lending arrangements will remove the need for exporters of non-capital goods to obtain a guarantee from Efic before they can secure funds from a bank, which doubles the due diligence processing time and requires two sets of documentation and legal fees.³

1 Explanatory Memorandum, *Export Finance and Insurance Corporation Amendment (Direct Lending and Other Measures) Bill*, p. 2.

2 T Dale, *Export Finance and Insurance Corporation Amendment (Direct Lending and Other Measures) Bill 2014*, Bills Digest No. 55, 2014–15, Parliamentary Library, 25 November 2014, p. 3.

3 The Hon Bruce Billson MP, Minister for Small Business, *House of Representatives Hansard*, 22 October 2014, p. 11615.

2.4 The key provisions of the bill are contained in five items of Schedule 1 and three items of Schedule 2.

2.5 In Schedule 1, a number of minor technical amendments are made in Items 1, 2 and 5 by inserting descriptive titles of subsections. Substantive changes are made in Items 3 and 4, which remove the requirement that Efic can only provide direct loans to exporters of capital goods. Item 3 changes the definition of an 'eligible transaction' by replacing 'capital goods' with 'goods' and Item 4 repeals the definition of 'capital goods'.

2.6 Schedule 2 of the bill enables the Minister to specify a number of payments Efic must make to the Commonwealth in order to achieve competitive neutrality. These include a debt neutrality charge, guarantee fees and tax-equivalent payments.⁴ Competitive neutrality aims to promote healthy competition between public and private businesses by minimising the competitive advantage government businesses may have over private sector financiers due to their Government ownership. This reflects a recommendation made by the Productivity Commission in its 2012 inquiry into Efic.⁵

Financial impact

2.7 While the Explanatory Memorandum states that the bill 'will have no direct financial impact', it may have indirect implications for the Commonwealth in two ways:

- the Commonwealth Government funds Efic directly through providing capital and also guarantees its borrowings. Changes to Efic's operations may impact on Efic's costs or profits, in turn impacting on the costs or benefits it provides to the Commonwealth; and
- Schedule 2 of the bill broadens the competitive neutrality requirement, creating the capacity for increased cash-flow from Efic to the Commonwealth.⁶

4 T Dale, *Export Finance and Insurance Corporation Amendment (Direct Lending and Other Measures) Bill 2014*, Bills Digest No. 55, 2014–15, Parliamentary Library, 25 November 2014, p. 2.

5 Productivity Commission, *Australia's Export Credit Arrangements*, 31 May 2012, p. 35.

6 Explanatory Memorandum, *Export Finance and Insurance Corporation Amendment (Direct Lending and Other Measures) Bill*, p. 2.