

Dissenting report by Senator Nick Xenophon

'UN-Efic-AL': Using an Arm of the Australian Government to Give a Leg up to Foreign Manufacturing – at the Expense of Aussie Jobs

1.1 At a point in time when manufacturing in Australia as a percentage of GDP has plunged by half in the last decade, and more than 200 000 local manufacturing jobs lost, this bill seeks to introduce provisions that would see the Australian Government's Export Finance and Insurance Corporation (Efic) able to support Australian companies set up manufacturing facilities offshore, in preference to here at home. This bill seeks to introduce bad law and must be opposed.

1.2 Whilst the Committee Report fairly draws out both the pros and cons of the impact that this legislative would have, it has grossly underestimated the risks of this legislation in the context of an economic sector in a perilous condition.

First Amendment

1.3 The first amendment seeks, in the words contained in the explanatory memorandum, 'to allow Efic to offer its specialist financial capabilities in the operation and administration of Commonwealth financing programs, where there is no connection to exports. Following Efic's provision of services to the Northern Australian Infrastructure Facility (the NAIF), Commonwealth Departments have expressed interest in leveraging Efic's expertise'.¹

1.4 On the face of it this seems sensible until the points raised by Jubilee Research and The Australia Institute in their submissions are considered, particularly those in relation to dilution of focus.

1.5 Efic's annual report states that 'Efic's primary purpose is to facilitate and encourage Australian export trade on a commercial basis. We provide financial support to Australian-based companies that are exporting, integral to a global supply chain or seeking to grow internationally'.² The report also points out that the organisation comprises about 100 people.

1.6 Any diversion of resource and function in such a small and focused organisation could only reasonably be expected to distract and prevent the organisation in respect of encouraging export trade.

1 Explanatory Memorandum, *Export Finance and Insurance Corporation Amendment (Support for Commonwealth Entities) Bill 2016*, p. 2.

2 Export Finance and Insurance Corporation, *Annual Report 2015–16*, p. 8.

Recommendation 1

1.8 In the context of Australia's balance of trade deficit, Efic should and needs to remain tightly focussed on facilitating export trade, and the first amendment should be opposed.

Second Amendment

1.9 Under the current legislation, for a company to receive financial support from Efic it needs to demonstrate that there is some element (labour, goods and materials) of Australian content. The level of Australian content in an export contract is an important factor in determining the amount of financial that Efic provides – in essence, the higher the level of Australian content, the more financial support Efic can provide.

1.10 The proposed changes to the legislation seek to remove the local content requirements that invoke Efic's support and replace it with the need only for 'benefit' flowing back to Australia to be present.

1.11 This creates a situation where Efic funding could be used to offshore a new manufacturing capability – at the cost of Australian jobs.

1.12 Indeed this bill could facilitate the absurd scenario that money could be loaned to an organisation to set up a manufacturing facility overseas that produces a product that in turn is exported back into Australia to compete against products produced locally by Australian workers.

1.13 Australia's manufacturing sector has been in broad decline since 2008, with real output have contracted every quarter since September 2011. Over 200 000 manufacturing jobs have disappeared since 2008, and the rate of job loss is accelerating: employment in manufacturing fell six per cent in 2015 alone.

1.14 This is an unacceptable situation. As is known from the experience with the mining boom, Australia must have a diverse and robust economy. Manufacturing cannot be ignored; it is the engine room of innovation and export. Manufactured goods account for over two-thirds of world merchandise trade. A country that cannot successfully export manufactures will be shut out of most trade.

1.15 Whilst other countries are developing and implementing manufacturing growth policies, successive Australian Governments has been asleep at the 'mining truck' wheel. This bill is worse than that – it is akin to waking the driver up and specifically directing him to steer the truck off a cliff.

1.16 Some of the submitters made the point that the loosening of the Efic reins may assist companies set up marketing and promotion facilities offshore. Whilst these sorts of initiatives must be encouraged and supported by Government, there are other programs better suited to marketing; programs such as the Export Marketing Development Grant (EMDG) scheme. To pull the Efic lever to facilitate promotion is to pull the wrong lever.

1.17 The Parliament must reject this bill – it is not in the national interest to have the Australian Government facilitate loans that set up manufacturing plants and the like on foreign soil.

Recommendation 2

1.18 Removing the local content requirements attached to Efic support is not in the national interest and the second amendment should be opposed.

Senator Nick Xenophon

