

Senate Standing Committee on Foreign Affairs, Defence and Trade

Additional Estimates 24 February 2011

Question No. 23

Program: 1.1 – **Supplementary Answer (in red italics)**

Topic: EFIC

Question on Notice (Pages 93, 94, 95 & 96)

Senator Ludlam

- A. Does EFIC look for a particular return on the dollar invested annually? Is there a specific target return on investment that they are looking for?
- B. Has EFIC ever funded a major renewable energy project or renewable energy investment anywhere in the world?
- C. What has EFIC done to verify that the EFIC PNG LNG project is not creating violence?
- D. Can you table what Control Risks Asia Pacific's recommendations were together with advice as to whether these recommendations have been implemented to date?
- E. Do we carry any kind of long-term responsibility if we have enabled a project (PNG LNG) when things go seriously wrong as they have at this one?
- F. (i) Was the EFIC review which was completed in 2006 made public?
(ii) Who will conduct the review?
(iii) Will the review be made public?

Answer

- A. EFIC does not have a specific target return on capital. EFIC is, however, required to be a self sustaining organisation and the EFIC Board is responsible to the Minister for the prudent management of EFIC's capital. For every transaction that EFIC considers, it calculates the return on capital and seeks appropriate benchmarks to establish that the cost of the credit EFIC provides is current and consistent with private market participants or at a minimum, for officially supported credits, compliant with the minimum OECD premium benchmark rates.
- B. EFIC has received enquiries concerning support for major renewable projects. **All but three** were ultimately funded by the private sector with no need for EFIC involvement.

EFIC has supported a relatively small renewable energy project by providing finance to the Australian exporter BP Solar which has supplied solar-powered drip irrigation systems in Sri Lanka.

Previously in 1997, EFIC also supported BP Solar with loans worth US\$28 million and US\$30.6 million respectively for solar-powered socio-economic development projects in the Philippines and Indonesia.

It should be noted that under its mandate EFIC cannot bias its support towards or against any specific sectors.

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- C. Responsibility for the enforcement of laws arising from violence rests with relevant authorities in Papua New Guinea. Safety and security on site are the responsibility of the PNG LNG Project.

In project finance support (ie long term financing of large projects based on projected cash flows), as is the case for the PNG LNG project, it is customary for employment of an independent environmental and social consultant to monitor and report to the lenders on a borrower's compliance with relevant environment and social benchmarks as described in EFIC's policy on a regular basis up to loan maturity.

Consistent with this, EFIC and other lenders to the PNG LNG project required the borrower to engage an independent environmental and social consultant (IESC). While the IESC, D'Appolonia S.p.A (D'Appolonia) is paid by the borrower, it is solely responsible to the Lenders including EFIC. D'Appolonia reports to the Lenders up to four times a year during construction and thereafter annually for the life of the loan agreements. D'Appolonia's reports cover a range of issues, including community security. They are publicly available on the website of the borrower - (http://www.pnglng.com/quarterly_reports).

- D. The Project Operator, Esso Highlands Limited (a subsidiary of Exxon Mobil Corporation), engaged Control Risks Asia Pacific to assess and make recommendations on the security needs of the Project. EFIC does not have access to the recommendations.
- E. EFIC's monitoring of a project's compliance with environmental and social commitments is based on the financing agreements, so that once a facility has been repaid, the obligations of the borrower to EFIC cease.

The loans provided for the Porgera Goldmine facility were repaid in 1997.

- F. (i) No.

(ii) A recommendation of the 2006 review of EFIC was that the next review should be considered in around 4 years and it should be undertaken by an independent consultant. In line with that recommendation, consideration is being given to commencing an independent review this year. Details of such a review would be announced once arrangements are finalised. It is anticipated that the outcomes of such a review would be made public.