

18 November 2011



Attn: Carole Gardner,

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Thank you for the opportunity to comment on the Productivity Commission's Inquiry into Australia's Export Credit Arrangements. The Construction, Forestry, Mining and Energy Union of Australia, (CFMEU) consists of three Divisions namely the Mining and Energy Division, Forestry and Furnishing Products Division and the Construction and General Division. We are the major union in these industries.

These comments are limited to the issues paper and the terms of reference broadly and relate predominately to the first two points in the Productivity Commission's terms of reference, namely, the task for the Commission to:

1. Review the rationale for, and extent of, government involvement in the provision of insurance, reinsurance and other financial services and products which support Australian export trade.
2. Review the presence or otherwise of market gaps for EFIC's products and services, and whether or not these constitute market failures, taking into account developments in the private sector's willingness and capacity to provide the insurance, reinsurance and financial services required by Australian exporters

The CFMEU wishes to highlight to the Productivity Commission the Federal Government's commissioned Pulp and Paper Industry Strategy Group's *final report* which refers to the current limitations of the Australian Export Finance and Insurance Corporation (EFIC):

*'In its evaluation of options and opportunities to build the Australian pulp and paper industry, the Strategy Group has recognised that securing finance at the levels required can be very challenging without adequate government support...*

*EFIC operates along the lines of similar institutions in other countries, but with one major difference. In countries such as Austria and Finland, the EFIC equivalent is mandated and supported to provide underwriting and finance guarantees at the level required to make significant pulp and paper industry investments. That is not the case with EFIC, which also operates under some other constraints...*

*The Strategy Group recommends that EFIC's mandate to provide investment and finance facilitation give greater weighting to major industrial investment proposals that are ethical, environmentally sustainable, add value to Australia's resources and provide income and employment in Australia.'*

Clearly from the above, the *extent* of financial services and products which support Australian export trade could be broadened. Although not identifying a market gap or market failure in products and services which EFIC is currently operating, the above example identifies that market failure is prevalent in an area where EFIC is not currently, but could be operating. This could occur if it was mandated to operate more flexibly and less conservatively in terms of the types of instruments it was able to use to facilitate and support export. This could also conceivably result in greater dividends from the services provided in the longer term.

The pulp and paper industry, it would appear, would be just one example of where industry and the national interest could benefit from a change in approach along these lines.

Therefore, the CFMEU suggests that the flexibility of instruments and investments that might be made by EFIC is reviewed and amended in order for it to be able to respond to identified market gaps and market failures to support export more generally.

There appears to be scope that EFIC could fund new businesses with one type of support (taking equity for instance and selling it down over time) and more established businesses with another (traditional methods of export facilitation provided by EFIC) This of course, would need to be done within the constraints of proper project assessments, mutual obligation and whilst meeting Australia's international obligations.

#### **General comments:**

With the manufacturing industry being under unprecedented pressure from the high Australian dollar and other factors, the rationale for Government involvement in providing these financial services to manufacturers is greater now than perhaps ever before. It is noted from the *discussion paper* that the manufacturing industry is the current largest user of EFIC's services outside of Government and public sector entities and in contrast less labour intensive mining exporters (dominated by a small amount of large firms) utilize just 1% of EFIC's services (goods and services export) in comparison to having 48% of the export market of goods.

The risk of reducing the economic diversity of Australia's export base in addition to the potential inflationary effect on the Australian dollar (affecting the manufacturing export and domestic market) through export contribution being further dominated by low labour intensive, high value products needs to be taken into account when analysing the rationale for the EFIC's current activities to the National Interest and also consideration of increasing the extent of EFIC's remit along the lines discussed above.

Please do not hesitate to contact the Union to discuss the content of this submission in more detail.

Sincerely,

National Secretary  
CFMEU