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### **Australia's Export Credit Arrangements: Draft Report**

Dear Ms Gardner

The Australian Industry Group (Ai Group) welcomes the opportunity to provide comment on the Productivity Commission's Draft Report on Australia's Export Credit Arrangements.

Ai Group reiterates that EFIC provides an important and valuable suite of products and services that assist Australian businesses in their overseas activities. We support the continuation of EFIC's work and acknowledge the significant role Export Credit Agencies (ECAs) play in facilitating international trade and investment.

As stated in our earlier submission, EFIC needs to be flexible enough in the current global economic environment to provide enhanced support to Small and Medium-sized Enterprises (SMEs), as well as larger businesses, in both established and key emerging markets.

Ai Group makes the following comments in relation to the Commission's draft recommendations 10.1 and 10.2:

#### **DRAFT RECOMMENDATION 10.1**

***EFIC's support for onshore resource projects should cease, as there is no clear market failure affecting access to finance for these projects. A direction to this effect should be issued by the Minister for Trade as soon as possible.***

***The Australian Government should not broaden the eligibility criteria under Part 4 of the Export Finance and Insurance Corporation Act 1991 (EFIC Act). Specifically, the EFIC Act should not be amended to allow EFIC to enter into loans for the export of non-capital goods.***

We support the recommendation that EFIC should not continue to provide finance for domestic resource projects on the commercial account. Feedback from our membership indicates industries outside the mining sector, such as food processing, pharmaceuticals,

scientific equipment, transport equipment and cosmetics for example, that require substantial funds for capital investment to lift their ability to export, struggle to obtain funding.

DRAFT RECOMMENDATION 10.2

*There is some evidence that there may be market failures in relation to the provision of export finance products to newly exporting small and medium-sized enterprises (SMEs).*

*Until it is next reviewed, EFIC's role on the commercial account should be limited to demonstrating to the private sector that providing export finance to newly exporting SMEs can be commercially viable. EFIC must demonstrate that this can be done on the same basis as the private sector — with price covering the full economic cost of provision. This role should be reflected in the Export Finance and Insurance Corporation Act 1991 and in the Minister for Trade's Statement of Expectations.*

*EFIC's operations should be regularly reviewed, internally and independently, for consistency with this demonstration role.*

As an institution which needs to cover costs and not reward shareholders, EFIC should be demonstrating that risks can be taken in supporting new exporters, new emerging markets and emerging technologies. While a couple of the big four banks are internationalising, many are unable to make financial decisions across international borders. This puts SMEs at a distinct disadvantage as they often do not have the infrastructure to negotiate with off-shore financial institutions.

While Ai Group supports greater consideration of the provision of export finance products to newly exporting SMEs, we do not see value in limiting the provision of export finance to SMEs only.

Ai Group supports the work of EFIC and encourages the development of its products and services by its technical experts, in a flexible way, to ensure the needs of all of Australia's exporting business community, which do not currently receive other forms of credit support, are met. Any change to the current business model should allow for a transition period to ensure current clients are not disadvantaged.

We continue to believe that the key to EFIC's ongoing success is that it remains alert to supporting new opportunities being pursued by Australian businesses in a rapidly changing economic and trading landscape.

Thank you for considering our views.

Yours sincerely

**INNES WILLOX**

Director – International and Government Relations