

30 March 2012



Export Credit Arrangements  
Productivity Commission  
Locked Bag 2 Collins Street East  
Melbourne Victoria 8003

Dear Sirs

**Re: Productivity Commission Inquiry into Australia's Export Credit Arrangements  
and the Role of EFIC**

We belatedly write to provide our views on the Commission's February 2012 Draft Report on Australia's Export Credit Arrangements and the Role of EFIC.

The Australian Manufacturing Workers' Union (AMWU) represents over 100,000 people working in the many sectors of manufacturing across this nation. Many of the firms they work in are reliant on or are seeking to develop their export business, taking quality Australian manufactured goods to the world. Many more are seeking to access the multi-billion dollars of project work in the pipeline for major resource sector projects.

They are doing so against a very difficult set of circumstances including the high Australian dollar fuelled by the resources boom, global supply chains extracting the cost savings of mass production by cheap and exploited labour, trade barriers and other inequities in the global environment.

Yet they are continuing to innovate, to seek to position themselves to take advantage of the Asian century, to find access to niche markets and global supply chains and to employ nearly one million Australians. In order to do so they need access to critical finance and insurance necessary to fund development, pre-qualification, bids, manufacturing and supply.

Given the current set of circumstances faced by manufacturers, the importance of Export Credit Agencies (ECAs) in assisting with access to this critical finance and insurance cannot be overstated. The evidence presented by manufacturers, both large and small, to the Commission's Inquiry overwhelmingly supports the need to maintain and indeed expand the mandate of Australia's Export Finance and Insurance Corporation (EFIC).

No more so is the importance of an ECA such as EFIC apparent than in assisting Australian firms to participate in the work stemming from the mining boom, thus ensuring that a broader base of Australia's economy benefits from the boom.

Access to finance for Australian firms, especially small to medium enterprises (SMEs), to participate in the billions of dollars of work in the pipeline in the booming resources sector is essential. In the resource sector, the ability and success of an SME in accessing finance (e.g. capital, equity, insurance and risk-sharing) and implementing a sustainable business model is intrinsically linked to their success in competitively bidding for contracts and winning work with major contractors.<sup>1</sup>

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<sup>1</sup> Resources Sector Supplier Advisory Forum Meeting Working Papers, DIISRTE, March 2012.  
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Consultation undertaken by the Buy Australian at Home and Abroad section of the Manufacturing Division of the Department of Industry, Innovation, Science, Research and Tertiary Education (DIISRTE) with SMEs, natural resource owners, engineering, procurement, construction and management firms, industry associations and unions identified a trend of SMEs having difficulty accessing finance.<sup>2</sup>

While the Resource Sector Supplier Advisory Forum has recommended that further work be done to gather quantitative data and research to support this anecdotal information, it appears counter intuitive that the Productivity Commission in its Draft Paper has found "no convincing evidence to indicate there are failures in financial markets that impede access to debt and equity finance for large firms or for domestic resource projects."<sup>3</sup>

The AMWU strongly rejects the recommendations contained in the Productivity Commission's Draft Paper wherever they suggest a withdrawal from the marketplace or seek to place further constraints to EFIC's mandate. In particular, we believe it would be an entirely retrograde step for Australian manufacturers and suppliers for the Commission to continue to pursue draft recommendation 10.1 which states:

*"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."*<sup>4</sup>

EFIC itself argues for a broader mandate to assist Australian companies successfully win resource project work. EFIC states that the financing it can provide to onshore resource project suppliers is limited by its mandate in that it cannot enter into loans for the export of non-capital goods including for example commodities and domestic infrastructure projects that support the export of commodities. It can, however, provide a guarantee to a financial institution thereby assisting participation in financing of such projects from the private finance sector.

However, the Commission rejects this in the second part of Draft Recommendation 10.1:

*"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."*

The Draft Recommendation if pursued and adopted would see the complete withdrawal of EFIC from providing critical financial assistance to Australian firms seeking access to supply onshore resource projects. The effect would be to further limit Australian firms' capacity to successfully bid and win tenders and therefore participate in the work emanating from the resources boom.

## **In summary**

The AMWU recommends that a broader policy and economic perspective be adopted by the Productivity Commission and the Government in reviewing the role played by EFIC currently and into the future.

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<sup>2</sup> Ibid

<sup>3</sup> Productivity Commission Draft Paper, *Australia's Export Credit Arrangements*, February 2012, pg. 199

<sup>4</sup> Ibid. pg. 203

In the context of the current difficulties confronting Australia's manufacturing industry in getting access to markets, being competitive and winning work, forcing the withdrawal or further constraining the provision of finance through EFIC will only exacerbate those difficulties putting further pressure on Australian manufacturing's viability and eroding the employment, skill creation and capacity the sector provides.

The recommendations of the Productivity Commission's Draft Paper of February 2012 that seek to restrict EFIC's capacity to provide finance and insurance to the manufacturing export sector, including to those manufacturers seeking to supply onshore resource projects, should be rejected.

Yours sincerely,

PAUL BASTIAN/  
ACTING NATIONAL SECRETARY

cc.      *The Hon. Greg Combet, AM MP, Minister for Industry and Innovation*  
            *The Hon. Martin Ferguson, AM MP, Minister for Resources and Energy*