Introduction

Australia has had an Export Credit Agency (ECA) since the establishment of EFIC's predecessor, the Export Payments Insurance Corporation (EPIC) in 1956. EPIC operated as an insurer of last resort for exporters, but this role was significantly expanded with the establishment of EFIC in 1974. EFIC obtained additional powers to insure financiers of exporters, insure overseas investments, guarantee tenders and performance, and lend to purchasers of Australian capital goods.

In 1985 EFIC's powers were transferred to the Australian Trade Commission, but it was re-established as a statutory corporation under the *Export Finance and Insurance Corporation Act 1991* (Cwlth) (EFIC Act). As a statutory corporation EFIC is also subject to requirements under the *Commonwealth Authorities and Companies Act 1997* (Cwlth) (CAC Act).

Importance of EFIC's role

The Australian Export Finance Insurance Corporation (EFIC) plays an important, but difficult role, in that it is meant to not compete with the private sector and, therefore, be an insurance provider of last resort to Australian businesses or at least fill the gap in the market that private financiers and insurers do not wish to occupy.

Even though the agriculture sector does not feature on the chart provided by EFIC in terms of the industries and sectors that EFIC provides most support to, it is important that it is available to Australian businesses in the agriculture and food sectors.

In recent times the value of having such an ECA for Australian exporters has increased because even though the original Global Financial Crisis has past, the world remains in a period of significant global economic uncertainty and instability with major issues facing several European countries flowing through to the Eurozone as a whole. The United States economy also remains relatively stagnant and with persistently high numbers of unemployed.

Future outlook

The outlook in these two major economic zones remains highly uncertain and the issues confronting governments in these regions, if not handled properly and in a timely manner, have the ability to have a serious flow on effect into the Asia Pacific region.

This will especially be the case if China's exports are then hit by a decline in demand as global consumers and businesses reduce their consumption and investment and the world is threatened with going into a second recessionary period.

In view of all these issues, and the continuing lack of consensus or determination to confront the problems besetting Europe in particular, it is hard to evaluate where the international financial markets will be in 12-18 months and how they will react to the ongoing uncertainty. The likely outcome though is for the private sector to become more risk averse.

It is also hard to judge what this will mean for international credit markets, the availability of credit to businesses and also trading conditions for businesses both here in Australia, and around the world. This was emphasised by the recent decision by the Reserve Bank of Australia to cut interest rates in Australia with part of the Boards minutes stating

It was likely that economic conditions in Europe would weaken further over the period ahead, given the effects of the recent turmoil on confidence, likely tightness of credit supply and the need for further fiscal consolidation. As a result, the risks to the global economy still seemed to lie predominantly on the downside, notwithstanding the positive initial reception of the recent announcements.

http://www.rba.gov.au/monetary-policy/rba-board-minutes/2011/01112011.html

In such periods of uncertainty, it is increasingly necessary for Australian businesses to have access to insurance because of the potential for domestic private credit and insurance providers to increase the cost and/or tighten or reduce the availability of credit or insurance to Australian businesses.

The Australian economy could also remain relatively strong during such a global downturn while the export customers of Australian businesses around the world may become more exposed to downturns in international or local economies and thereby not be able to fulfil their contractual requirements.

As such, while a review of EFIC is timely, and a useful tool to review if Australian businesses and the Australian public are getting the most value for money from its operations, it would appear to not be the right time to reduce the capability of EFIC to support local exporters.

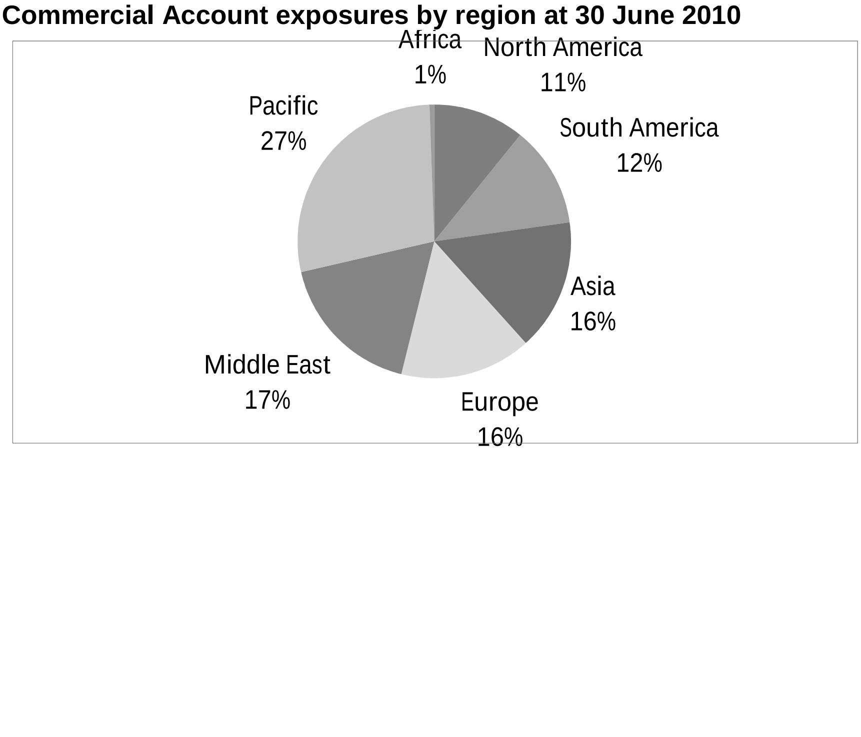
General discussion

The discussion paper provided by the Productivity Commission asks a range of pertinent questions about the rationale and operations of EFIC.

The fact that the value of Australian exports supported by EFIC has ranged between 0.3% and 2.3% over the last 5 years (and is usually 1% or under) would seem to indicate that the numbers are not large enough for EFIC to be causing any distortionary effect on consumption or production through disproportionately supporting certain industries.

It may be worth reviewing the markets that EFIC has the most exposure to to analyse if they align with any strategic or aid markets that the Australian Government may be targeting now or in the future, however, Government is usually not a good arbiter of where and how business should operate.

Commercial Account exposures by region at 30 June 2010



In terms of assessing competition with the private sector, and whether EFIC is crowding out private providers of credit or insurance, reviews such as this provide a useful opportunity to test such queries.

The *Commonwealth Authorities and Companies Act 1997* (Cwlth) requires EFIC to not compete directly with existing commercial sector providers as this is the basis of EFIC's current exemption from competitive neutrality legislation.

The Minister for Trade's Statement of Expectations for EFIC also requires that EFIC 'monitor the capacity of the commercial markets and to take this into account when determining the scope of its activities' and 'information which shows that EFIC is not competing directly with existing commercial sector providers must be included in any Board paper seeking approval for a transaction.'

This would appear to be a reasonable process for EFIC to review on a regular basis whether private sector capacity has grown, and therefore reduced, the need for EFIC to provide services in part or in whole.

There needs to also be a process whereby private sector businesses can object to what EFIC is doing, or ask for a review, and demonstrate how it is encroaching on the private sectors ability.

These combined processes would ensure a reasonable balance is achieved to ensure that EFIC would not encroach or compete with the private sector, while also guarding against it winding back its services without a reasonable expectation that the private sector would be capable and willing to step forward to support Australian exporters and not leave a market gap.

To answer some of the other questions posed in the paper it would be useful in determining the benefits of EFIC to develop some metrics, or key performance indicators, that could relate how much the Government is spending against how many jobs have been created or maintained, how many new markets have been opened with what future potential or other measures of economic benefit.

The main opportunity cost to Government would seem to be whether the annual operating expenses of EFIC could be more usefully allocated elsewhere in the budget. EFIC's operating expenses for the year ended June 30 2011 were $24.5 million. It would be useful to develop measures for how much each dollar of this (and any other costs of providing the service) is returning to the government to have a basis to compare it to other existing or planned government programs.

The rest of the operations of EFIC are meant to be run on a commercial basis with a return on average equity of between 6% and 12% over the last 5 years with most years being 9% or over and annual dividends being returned to the government. This also then provides a measure to compare against what is an accepted return on government funds that the inquiry can use to assess EFIC's financial performance.

Conclusion

As detailed in the EFIC Act, EFIC's primary function is to encourage and facilitate Australian export trade. In times of growing global financial uncertainty it would seem EFIC's role is most crucial to supporting local Australian industry, Australian exporters and maintaining local jobs.

It is, however, important to routinely review EFIC, and other government programs, to ensure they are delivering what the market is needing in the most effective and efficient manner and this Inquiry should hopefully provide such scrutiny.