



Export Council of Australia

Submission to the Senate Foreign Affairs, Defence and Trade Legislative Committee Inquiry into the *Export Finance and Insurance Corporation Amendment (Support for Commonwealth Entities)* Bill 2016

The ECA welcomes the opportunity to provide a submission to the Senate Foreign Affairs, Defence and Trade Legislation Committee for the Inquiry into Export Finance and Insurance Corporation Amendment Bill 2016. The ECA is the peak industry body for Australia's exporters and importers, particularly SMEs. With a membership base of around 1,000 and a reach of over 15,000, the ECA represents companies of all sizes and across a wide range of industries.

Summary

The Export Council of Australia (ECA) strongly supports amending the Efic Act to allow Efic to lend to Australian businesses engaged in export trade. This amendment is not about supporting businesses to manufacture offshore. It is about allowing Efic to lend to a far wider range of Australian businesses, including those with (or looking to establish) international sales and service offices, and those selling directly to consumers. Foreign sales and service offices are becoming essential for SMEs involved in services, high-end manufacturing and/or technology. Selling directly to foreign consumers is also becoming increasingly important for Australia. Small businesses in particular need to scale-up to directly access overseas consumers via e-commerce, or benefit from the increase in tourism resulting from the growth of the Asian middle class. Broadening its ability to lend will allow Efic's product offering to be more in line with the needs of Australian exporters, and will support Australian jobs.

The ECA seeks to ensure that Efic's capacity to support Australian export trade will not be adversely affected by making available Efic's specialist financial capabilities to Commonwealth entities where there is no connection to exports. Efic has specialist capabilities that can benefit Commonwealth entities, and the ECA recognises the importance of avoiding duplication across government.

But Efic is a small, self-funded organisation. The risk is that if it supports Commonwealth entities, Efic will have to commit significant time and resources to activities outside its core mandate: facilitating and encouraging Australian export trade. The ECA considers that measures should be put in place to ensure that Efic can only provide support to Commonwealth entities if a) there is no impact on its capacity to support Australian export trade and b) all of Efic's associated costs will be fully recovered from these entities.

Recommendations

The ECA recommends the Senate Standing Committee on Foreign Affairs, Defence and Trade:

1. support amending the Efic Act to allow Efic to lend in support of Australian export trade
2. recommend the government put in place measures to ensure that Efic can only provide support to Commonwealth entities if a) there will be no impact on its capacity to support Australian export trade and b) all of Efic's associated costs will be fully recovered from these entities.



Lending to support Australian export trade

Enabling Efic to lend to support Australian export transactions has been highly valuable for many SMEs. It has significantly reduced the complexity, time and cost for these SMEs to access finance. It has allowed Efic to introduce an innovative new online application system. But Efic is currently limited to lending to businesses that have specific export models and sell to other businesses. This amendment will enable Efic to lend to support many of the sectors that will support Australia's future prosperity, including those involved in services, high-end manufacturing and technology, as well as those involved in directly selling to Asia's emerging middle class.

For many sectors (particularly services, high-end manufacturing and technology) it is essential for exporters to be able to engage directly with their customers, and understand and respond to their needs. Setting up an office overseas—to effectively market and customise products, and provide after-sales services—can be an essential step in the export journey. In some markets, businesses operating in certain service and technology sectors may be required by regulation to set up an on -the- ground presence.

The 2016 Australia's International Business Survey (AIBS 2016, which the ECA commissioned with the support of Efic and Austrade) found that indirect export channels were important for 55 per cent of service exporters and 40% of goods exportersⁱ. These 'indirect export' channels—overseas sales branches, subsidiaries or joint ventures—fit within the definition of 'export trade' but not 'export transaction'.

Setting up overseas is particularly important in the ICT, and the professional, scientific and technical services sectors. AIBS2016 found that one quarter and one fifth of exporters in these sectors (respectively) used overseas sales branches, subsidiaries or joint ventures as their main sales channelsⁱⁱ.

With the rise in the Asian middle class, Australian businesses can directly reach a very large and growing market of new consumers. This could be by selling to the growing numbers of tourists as they visit Australia, or selling directly to consumers via e-commerce. This growing market is opening up major commercial opportunities, particularly for small businesses. But small businesses often need to invest to take advantage of these opportunities; and because they are selling to consumers, not entering into business-to-business contracts, Efic cannot lend to them. And it is these businesses that find it most difficult to deal with the financial and administrative burden of entering a tripartite loan between themselves, Efic and their bank.

The ECA stresses this amendment is not about allowing Efic to support businesses looking to offshore manufacturing. The reality of modern manufacturing is that often even small manufacturers already operate global production networks. There are very few (if any) sophisticated products that can be manufactured wholly in Australia (or any country for that matter). As the Advanced Manufacturing Growth Centre [submission](#) notes, manufacturing is the lowest value stage of the value chain. The earlier (research and design) and later (sales and servicing) stages are higher value. Highest of all is ownership and management.

The ECA understands the desire to support manufacturing jobs. But making Efic loans conditional on final production being in Australia is based on an outdated view of manufacturing. The cost of this condition is the success of the exporter and the jobs the exporter creates: not only jobs in R&D, sales, marketing and management, but also jobs like office managers, accountants, IT and cleanersⁱⁱⁱ.

Allowing Efic to lend to support export trade will enable Efic's product offering to be more in line with the needs of Australian exporters, and will support Australian jobs. **The ECA strongly supports the amendment.**



Support for Commonwealth entities

The ECA supports the pursuit of efficient government and avoiding duplication across the bureaucracy. It recognises that within the Commonwealth, Efic has capabilities that are unique and valuable to other government entities. But first and foremost, Efic is Australia's export credit agency. It has a vital role to play in facilitating and encouraging Australian export trade.

Efic is a small organisation; with around 105 people^{iv}. It is not funded by government; it funds itself by charging fees and margins when facilitating exports. As a niche financier, it has a major challenge in making SMEs aware of it (Efic's corporate plan notes that unprompted awareness of Efic by SME exporters is 24%)^v. As a government entity, it already devotes significant time and resources to maintain effective relationships with Commonwealth and state agencies, as well as supporting government policies and priorities^{vi}.

The ECA seeks to ensure that Efic's capacity to support Australian export trade will not be adversely affected by allowing Efic to make available its specialist financial capabilities to Commonwealth entities. High profile loan facilities such as the Northern Australia Infrastructure Facility are likely to come with high resource burdens for Efic. These burdens not only include the cost of operating and administering the financing programs once implemented, but also the considerable time and resources prior to implementation in liaising and negotiating with government agencies and ministerial offices (requiring significant involvement from Efic's senior management).

Time spent supporting Commonwealth entities is time Efic cannot spend fulfilling its core mandate: facilitating and encouraging Australian export trade. Resources Efic commits to supporting Commonwealth entities, if not fully cost recovered, would effectively be subsidies from exporters to these entities.

The Explanatory Memorandum to the Bill (page 2) states that Efic *may* charge a fee for any assistance it provides. At a minimum, it should be mandatory for Commonwealth entities to cover all Efic's costs (including management time) in relation to proposed financing programs, whether they are implemented or not. (In the same way that businesses must pay an application fee to cover the costs to Efic in assessing applications for loans or guarantees.)

The ECA considers that measures should be put in place to ensure that Efic can only provide support to Commonwealth entities if a) there is no impact on its capacity to support Australian export trade and b) all of Efic's associated costs will be fully recovered from these entities.

The Export Council of Australia

The ECA is the peak industry body for Australia's exporters and importers, particularly SMEs. With a membership base of around 1,000 and a reach of over 15,000, the ECA represents companies of all sizes and across a wide range of industries.

The ECA's core activities include research, advocacy, skills development and events. The ECA collaborates with a number of government agencies, both Commonwealth and state, to advance the interests of its members and support SMEs. These agencies include the Department of Foreign Affairs and Trade, Austrade, Efic, the Department of Immigration and Border Protection, the Department of Industry, Innovation and Science, and the Department of Agriculture.



The ECA and Efic have worked closely for many years and have collaborated on a numerous events and projects. This includes Australia's International Business Survey (AIBS), an annual survey since 2013 of around 1000 internationally-active Australian businesses. Efic is also a gold sponsor of the New South Wales Export Awards, which the ECA runs.

The ECA previously made a submission to the committee on the Export Finance and Insurance Corporation Amendment (Direct Lending and Other Measures) Bill 2014 (see [here](#)). The ECA, under the name of the Australian Institute of Export (now a division of the ECA) also made a submission to the Productivity Commission Inquiry into Australia's Export Credit Arrangements (see [here](#)).

ⁱ See Export Council of Australia, University of Sydney 2016, *Australia's International Business Survey: 2016 Report*, viewed 18 January 2017,

<http://www.austrade.gov.au/ArticleDocuments/1358/AIBS-2016-full-report.pdf.aspx>, pp 18-19

ⁱⁱ *ibid*, p 206 and 214

ⁱⁱⁱ A 2015 European Commission study found that in 2009, SMEs which had invested overseas increased employment by 16% while SMEs that had not invested increased employment by 4%. See European Commission 2015, *Internationalisation of SMEs*, viewed 18 January 2017,

<http://ec.europa.eu/DocsRoom/documents/10008/attachments/1/translations/en/renditions/pdf>, p. 69

^{iv} See Efic 2016, *Efic 4-Year Corporate Plan: 2016-17 to 2019-20*, viewed 18 January 2017, https://www.efic.gov.au/media/3472/corporate-plan-2016-17-final_sept.pdf, p15

^v *ibid*, p 13

^{vi} *ibid*, p 7