



THE HON ANDREW ROBB AO MP

MINISTER FOR TRADE AND INVESTMENT

13 NOV 2014

Mr Andrew Mohl
Chairperson
Export Finance and Insurance Corporation
Level 10, Export House
22 Pitt Street
SYDNEY NSW 2000

Dear Mr Mohl *Andrew*

I am writing to outline the Australian Government's statement of expectations for the Export Finance and Insurance Corporation (EFIC). This statement outlines the Australian Government's key priorities and objectives for EFIC consistent with section 34 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and replaces the statement of expectations sent to you on 19 July 2011.

Mandate and scope of operations

The Government considers that EFIC plays an important role in facilitating exports. As outlined in the *Export Finance and Insurance Corporation Act 1991* (the EFIC Act), EFIC will continue to:

- . facilitate and encourage Australian export trade by providing insurance and financial services and products to persons involved directly or indirectly in such trade;
- . encourage banks and other financial institutions carrying on business in Australia to finance, or assist in financing, export contracts or eligible export transactions;
- . administer payments and related matters under export contracts in respect to overseas aid projects for which money was made available by the Commonwealth; and
- . provide information and advice about finance and insurance arrangements to support Australian export trade.

However, EFIC must not provide financial services or products on its Commercial Account (CA) unless EFIC is satisfied that private sector providers are unable or unwilling to support financially viable business activities. EFIC should ensure its activities fill the 'market gap' where private sector finance is not forthcoming. I expect EFIC to monitor the capacity of the commercial markets and to take this into account

when determining the scope of its activities.

The Government has decided to get the best out of EFIC by having it focus on support for small and medium-sized enterprises (SMEs) seeking to expand their opportunities in overseas markets. I welcome EFIC's recent improvements to make it easier for SMEs to access its services and I expect EFIC to continue to improve and simplify its services to ensure SMEs have every opportunity to access markets and expand their businesses overseas.

While prioritising EFIC support on SMEs facing challenges accessing finance, the Government recognises that large projects or firms can help SMEs access markets through supply-chain participation. To achieve a balance in the level of support for large transactions, I am introducing some stipulations around the support EFIC can provide to large projects or firms.

EFIC shall cease to support onshore resource projects (and related infrastructure) given that the private finance sector is active in this part of the market. EFIC may, however, continue to provide support to SME suppliers of domestic resource projects (and related infrastructure) where the SME good or service is integral to the performance of a resource-export project (and related infrastructure).

EFIC may continue to provide support for large overseas resource projects, but only where the EFIC Board is satisfied that EFIC is not crowding out the private sector, the transaction does not come at the expense of SME transactions, and the project has significant Australian content including through SME supply chain participation.

Where EFIC approves transactions involving SME suppliers to domestic resource projects (and related infrastructure) or large overseas resource projects, I expect EFIC to provide the Department of Foreign Affairs and Trade with an assessment of the transactions' compliance with the relevant criteria above and to report this publicly (subject to any confidentiality considerations).

EFIC is to maintain its demonstration role to private finance providers. In most circumstances, after one or two transactions with the same company, EFIC will have demonstrated to the private sector that commercial returns are possible. I therefore expect EFIC to limit the number of CA facilities provided to the same company to three facilities within a three year period. Further facilities with the same firm must be approved by the EFIC Board on the basis that the transaction is to an emerging market or where the Board assesses that the transaction will not crowd out the private sector.

The costs and time associated with seeking finance can be a burden on exporters, particularly SMEs. The Government intends to amend the EFIC Act and enhance EFIC's demonstration role by allowing EFIC to provide loans in a broader range of circumstances. This enhanced range of products and services that EFIC can provide will be available following receipt of royal assent of the EFIC (Direct Lending and Other Measures) Bill 2014 (the 'Bill').

Pricing arrangements

I expect EFIC's CA operations to be conducted on a commercial basis. As such, the pricing of EFIC's products and services should not undercut the private sector where private sector support is present, nor undercut pricing for comparable risks when private sector support is absent. This enhancement of EFIC's demonstration role is central to EFIC meeting its policy objective of helping commercially viable exporters overcome financial barriers while also encouraging private sector participation.

To help ensure this the Government has decided that competitive neutrality policies should be applied to EFIC's operations. In line with this, the Government is currently seeking amendments to the EFIC Act that will require EFIC to pay a tax equivalent charge and provide for the option of the imposition a debt neutrality fee. Subject to the current expectation of the Bill receiving royal assent, competitive neutrality charges will commence in the financial year 2015/16.

It is my expectation that the National Interest Account (NIA) should also normally be conducted on a commercial basis. Any risk on the CA is not to be transferred to the Commonwealth without specific authorisation from me, as Trade and Investment Minister.

Governance and reporting

As a corporate Commonwealth entity, as defined in the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), EFIC is subject to the accountability, management, performance and reporting requirements specified in that Act. I expect EFIC's Board and Senior Management to manage EFIC's financial matters with care and diligence in accordance with the applicable obligations of the PGPA Act and the EFIC Act. Together you should strive to maintain a culture of professionalism and continuous improvement throughout the organisation.

EFIC should continue to maintain systems to manage its risks. While EFIC is not an Authorised Deposit-taking Institution (ADI), it should continue to be guided by the Australian Prudential Regulation Authority (APRA) in managing financial risk. EFIC will also provide regular reporting to DFAT, the Treasury and the Department of Finance on its cumulative exposures per industry and per country.

EFIC should continue to provide regular reports on the risk the Commonwealth is bearing directly through the NIA. Commonwealth exposures will continue to be reported through the statement of risks in the Budget papers.

I expect EFIC to publish through its on-line register information on all transactions within eight weeks of signature, including the name of the client, the sector, the goods/services involved, the country, the type of facility and the value of the facility. In addition to the enhanced pricing disclosure arrangements and within appropriate confidentiality and legal parameters, I expect EFIC to share the pricing and terms of its transactions with relevant financiers operating in the domestic market. This will help demonstrate that commercial returns are possible and encourage private sector financiers to take on EFIC clients.

For repeat transactions (companies with more than three transactions with EFIC in a three year period) EFIC will report to DFAT the basis for the support, in line with my expectations above.

EFIC should continue to publish its *Policy and Procedures for environmental and social review* and regularly review the policy to ensure it is consistent with best-practice environmental and social standards, including the IFC Performance Standards, the OECD Guidelines for Multinational Enterprises, the Equator Principles and the OECD Common Approaches. EFIC should continue to publicly disclose its prospective involvement in transactions associated with projects that have potentially significant adverse environmental or social impacts (Category A projects).

Other matters

In addition to the requirements above, and your responsibilities under the EFIC Act and the PGPA Act to provide me and the Minister for Finance with a range of information and services, EFIC is also to:

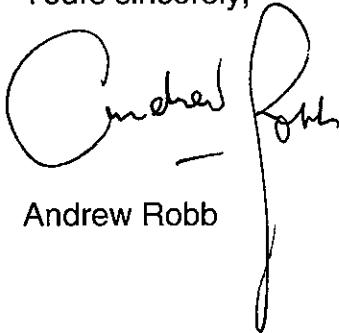
- . provide products and services having regard to the Australian Government's World Trade Organization (WTO) and other international commitments, including the United Nations Convention against Corruption;
- . comply with the OECD Arrangement for Officially Supported Export Credits;
- . where appropriate, attend international forums such as the Paris Club, the OECD, the International Working Group on Export Credits, and the WTO;
- . provide DFAT and any other relevant agencies with any non-legally privileged information they request to support them in preparing advice on policy related aspects of export credits and EFIC's operations;
- . comply with Government and Parliamentary requirements in relation to the provision of information, noting exceptions available under the *Freedom of Information Act 1982* and the possible availability of public interest immunity;
- . inform me and DFAT of any approaches, whether bilaterally or multilaterally, to restructure or relieve outstanding Development Import Finance Facility loans;
- . comply with Ministerial Directions, including those relating to the Democratic People's Republic of Korea, Iran, Zimbabwe and the exploitation of uranium as well as with Australian laws implementing United Nations Security Council and Australian autonomous sanctions.

I expect EFIC and DFAT to have a Service Level Agreement in place in relation to the management and administration of the NIA.

I expect EFIC to work closely together with Austrade, Tourism Australia, the Department of Industry and DFAT in delivering their services to Australian businesses. This will involve a coordinated approach at all levels between the organisations.

I look forward to receiving a response from you on EFIC's plans to meet these expectations. I anticipate that EFIC will make these intentions and expectations publicly available.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Andrew Robb'. The signature is stylized, with a large initial 'A' and a long, vertical flourish extending downwards from the end of the name.

Andrew Robb