

NSW Government Submission



Inquiry into the prudential regulation of investment in
Australia's export industries – April 2021

NSW Government Submission to the Inquiry into the prudential regulation of investment in Australia's export industries

The NSW Government welcomes the opportunity to submit to the Joint Standing Committee on Trade and Investment Growth on the domestic and foreign investment opportunities and the challenges for Australia's export industries and their associated businesses, arising from changes in prudential standards and practices across banking, insurance and superannuation institutions.

International trade is a key pillar of NSW economic growth and prosperity with exports representing 15 per cent of the NSW gross state product. In 2019-20 NSW exports were valued at \$95.2 billion, made up of \$55.6 billion in goods and \$39.6 billion in services exports. NSW contributes 43% of Australian services exports and 13% of goods exports respectively. Coal has been NSW's largest value export in recent years, closely followed by international education. Agricultural exports are third largest with a combined value of \$6.1 billion in 2019-20. Fourth and fifth are other business services and international tourism, which have been approximately half the value of the two leading exports.

The NSW Government is committed to supporting NSW business to thrive in the international landscape through providing advice and assistance to NSW businesses of all sizes to establish or expand their export capabilities. It also works to enhance trade and export performance by building export capability, driving sustained export growth and by attracting international investors into priority sectors, especially given the importance of key export industries to regional and rural economies. The NSW Government is also investing in supply chain infrastructure to improve the State's export competitiveness.

Boosting exporter potential

Supporting exporters is essential to the recovery and growth of the economy, with trade and investment directly supporting 1 in 5 jobs. The NSW Government is committed to building an export culture in NSW and supporting NSW exporters to build robust, sustainable and resilient businesses.

The NSW Government supports exporters through programs that provide capital and other resources to facilitate international outcomes, such as:

- a network of [Export Advisers](#) who are located across NSW connected into a global network of NSW trade and investment specialists beyond our borders
- a \$10 million [Export Assistance Grant](#) program providing reimbursement of up to \$10,000 in export expenses for NSW exporters
- 14 unique export capability building programs delivering boot-camp style training for businesses wanting to gear up to 'go global', supporting exports to new markets such as:
 - An India program for food and beverage companies
 - A Singapore program for medical technology businesses
 - A program to promote NSW's latest emerging technologies such as AI into the US.
- export capability workshops, (151 were delivered to over 5,000 participants in the last year).

NSW Government has also funded 13 incubators through the Boosting Business Innovation Program to support start-ups to commercialise and export. NSW's Regional Job Creation Fund and Jobs Plus Fund are currently open to support export and other industries recover from COVID-19 impacts.

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Exporter access to export finance

Accessing finance is a key challenge for Australian exporters. A recent Parliamentary Inquiry report into supporting Australia's export and investment opportunities found that one of the key barriers to trade for business, particularly small and medium sized businesses, is inadequate access to trade finance for international opportunities.¹

While Australia has a mature capital market and sophisticated export credit insurance capabilities, exporters report that they face considerable pressures in relation to securing trade finance. These pressures have been further exacerbated by the global economic disruption caused by the COVID-19 pandemic.

[Australia's International Business Survey of 2019](#) found when assessing the success rate of respondents in accessing additional finance for their international activities in the past three years, that only 25 per cent of respondents reported being successful in securing additional finance.² While a proportion of the respondents that did not secure additional finance did not seek finance over this timeframe, many respondents were unsuccessful in seeking finance due to inadequate cash flow, inadequate security or due to costly or burdensome finance processes.

NSW businesses, particularly small to medium enterprises, have reported increased difficulties in accessing finance during the COVID-19 pandemic as commercial trade finance and credit insurance providers are reducing their risk tolerance levels and requiring considerably more documentation and security from exporters seeking finance.

The tightened lending conditions and reduced access for exporters to reliable, adequate, and cost-effective sources of trade finance runs the risk of inhibiting the productivity and export capabilities of NSW business. This puts at risk economic growth and jobs and reduces the potential for trade to act as a vector of COVID-19 economic recovery.

This highlights the importance of the role of Export Finance Australia as Australia's export credit agency. The NSW Government supports the valuable work that Export Finance Australia undertakes in offering export finance to businesses that are unable to secure finance from the private market. In response to the COVID-19 pandemic and its impacts on export finance, consideration should be given to what more can be done to further assist businesses to obtain finance to export.

The NSW Government is actively considering the role of 'sustainable finance' through a strategic approach to managing climate-related risk and opportunities, and recognises that some export opportunities may be challenged by imposition of carbon abatement trade barriers. Current NSW initiatives aligned to this sustainable finance approach include:

- [Net Zero Plan Stage 1: 2020-2030](#)³
- [Electricity Infrastructure Roadmap](#)⁴
- [NSW 2040 Economic Blueprint](#)⁵
- [NSW Chief Scientist and Engineer's Decarbonisation Innovation Study](#)⁶

¹ *Trade Transformation: Supporting Australia's export and investment opportunities*, Joint Standing Committee on Trade and Investment Growth, 2020, Canberra.

² *Australia's International Business Survey 2019*, Export Council of Australia.

³ *Net Zero Plan Stage 1: 2020–2030*, NSW Government, 2020.

⁴ *Electricity Infrastructure Roadmap: Building an Energy Superpower*, NSW Government, 2020

⁵ *NSW 2040 Economic Blueprint: Investing in the State's Future*, NSW Government, 2019

⁶ *Opportunities for prosperity in a decarbonised and resilient NSW: Decarbonisation Innovation Study*, NSW Government, 2020

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Investment and access to finance in the NSW mining sector

Over recent years, investment and the access to finance and financial services has become a particular issue of interest to the NSW mining industry.

As set out in the NSW Government's [20-Year Economic Vision for Regional NSW](#)⁷, mining is a critical engine industry for regional NSW. Mining's economic contribution is more important than ever for our regional communities as they recover from the significant impacts of drought, bushfires and the COVID-19 pandemic.

Mining operations in NSW have been able to continue throughout the three crises, ensuring job security for more than 30,000 people directly and 122,000 people indirectly. In 2019-20, the total value of NSW mining production was \$26.3 billion, \$20 billion of which was from coal. The export value of NSW's mineral and processed metal product in 2019-20, including aluminium, was \$23.9 billion. This is 47 per cent of the state's merchandise export revenue. Royalties from the mining industry contributed \$1.7 billion in 2019-20 to the NSW Government, \$1.5 billion of which from coal, which was used to pay for essential services and infrastructure.

The NSW Government supports responsible investment into industries which have the potential to drive productivity and provide more job opportunities in the State. This includes supporting a responsible, balanced approach to the effects of the global transition to a low-carbon future on the resources sector.

The NSW Government recognises the coal industry's significant contribution to the NSW economy and its important, ongoing role in providing investment and employment in regional communities. As set out in the [Strategic Statement on Coal Exploration and Mining in NSW \(NSW Future of Coal Statement\)](#)⁸ the NSW coal mining industry will be directly affected by the global transition to different forms of energy generation over coming decades. This transition will take some time to complete and the rate of this transition is uncertain. During this transition, thermal coal will remain a vital energy source for many countries. NSW will continue to supply coal to other countries during the global transition to a low carbon economy.

As well as supplying thermal coal, NSW coal mines also supply metallurgical coal (coking coal), which remains an essential ingredient in the manufacture of steel. The use of metallurgical coal will be sustained until the currently limited practical substitutes are more commercially available.

Access to finance and financial services is critical for the NSW coal industry, and the state's broader resources sector. It is important for raising capital for projects, underwriting financial assurance for rehabilitation, and access to insurance. The coal mining industry is likely to remain an important employer in certain regional communities in NSW for some decades. However, the NSW coal industry has reported it is already reporting difficulties accessing finance and financial services as investors make the independent and prudent assessments of risk to which they are entitled. Differing understandings and assessments of future demand for coal may be impacting on investment decisions. NSW suggests that the Inquiry examine tools that could be provided to investors to help them to make well-informed assessments of risk in export industries.

As noted in the [NSW Future of Coal Statement](#), reducing demand for thermal coal in line with the Paris Agreement by progressively replacing coal-fired electricity with cleaner energy sources will be more effective in reducing global emissions than reducing NSW coal supplies. NSW notes that the Paris Agreement aims to strengthen the global response to climate change including by

⁷ [20-Year Economic Vision for Regional NSW](#), NSW Government, 2021.

⁸ [Strategic Statement on Coal Exploration and Mining in NSW](#), NSW Government, 2020.

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“making finance flows consistent with a pathway towards low greenhouse gas emissions and climate resilient development” (Article 2).

Finance and financial services are important enablers of the broader mining industry and the prosperity it can bring. As highlighted in the [2019 NSW Minerals Strategy](#)⁹, NSW has the potential to become a major global supplier of responsibly mined critical minerals and metals for use in high technology applications that are essential to expanding industries such as information technology, renewable energy, batteries, aerospace and telecommunications. New exploration and investment in jurisdictions with leading practice environmental and safety standards and highly skilled workforces, such as NSW, can provide a stable supply of critical metals and support environmentally and socially responsible supply chains to produce the raw materials the modern world needs.

Development of export industries – Research & development commercialisation

The NSW Government has invested in research and development directly through its agencies, and with a focus on research infrastructure and translation via the Research Attraction & Acceleration Program. These investments have generated strong returns for NSW well above the public funding.

The [NSW Research and Development Action Plan](#) was released by the NSW Premier in January 2021 to turn ideas into jobs. The Plan capitalises upon the collaborative efforts of the private sector, academia and the NSW Government in response to COVID-19 to unlock crucial supplies and to solve difficult problems on behalf of the people of NSW. The NSW Government committed \$26 million from the NSW 2020-21 Budget to fund two of the priority actions in the Action Plan, including launching a Small Business Innovation Research Program and establishing an R&D matchmaking platform to connect research buyers and sellers.

R&D NSW was established by the NSW Government in March 2021 to lead the Action Plan to boost the future pipeline of ideas and to improve outcomes from the nearly half a billion dollars it spends each year on R&D. It is part of the newly created Investment NSW agency to ensure strategic coordination of investment attraction and job creation.

Development of export industries – Medical Devices Fund

The [NSW Medical Devices Fund](#) aims to provide support to individuals, companies, public and private hospitals, medical research institutes, universities and the medical devices industry, to take local innovation to market.

The Fund encourages investment in the development and commercialisation of medical devices in NSW. It also helps to accelerate the development of medical devices by removing barriers to commercialisation. The fund invests in the development and commercialisation of medical devices and related technologies in NSW, with some past recipients later gaining high-profile investors. Since the first round in 2013, recipients of the NSW Medical Devices Fund have been awarded more than \$60 million for 37 technologies.

Development of export industries – Manufacturing

Manufacturing is a capital-intensive sector and manufacturing businesses are predominately SMEs. Due to the size and structure of domestic industry, financial institutions can be reluctant to provide capital finance to smaller manufacturing businesses because of concentration risk. This creates a growth barrier for SMEs to becoming exporters in sectors such as ‘medtech’, defence, transport, food and beverages, and space.

⁹ *NSW Minerals Strategy*, NSW Government, 2019.

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Recommendation: APRA consultation on finance investment in Australia's export industries

Consideration should be given to APRA undertaking a more in-depth consultation on prudential regulation of finance investment in Australia's export industries.

Recommendation: Increasing Export Finance Australia's support for businesses

Consideration should be given to looking at ways in which Export Finance Australia can provide a much-needed counterbalance to the tightening trade finance and credit insurance market for exporters.

Recommendation: Reduction in red tape and barriers to export finance approval process

Application submission and processing, particularly for SME applications, could be simplified through the facilitation of online applications and the consideration of reducing application data requirements down to only must-have information - thus reducing compliance and business costs for small companies breaking into export markets. Feedback from NSW exporters is that the Export Finance Australia application and approval process can be cumbersome. Many NSW exporters consider the level of detail required and the lack of flexibility in application processes to be prohibitive.

Recommendation: Increasing awareness of export finance options

The NSW Government supports better coordination to leverage regional networks to promote Export Finance Australia's services to NSW SMEs, and recommends consideration of this as a way to increase the total number of exporters assisted by Export Finance Australia. A Parliamentary Inquiry report into supporting SMEs to grow their business into international markets found that Export Finance Australia could have greater impact if their services were better promoted to Australian SMEs, many of which do not know about Export Finance Australia's services.¹⁰

Conclusion

The NSW Government welcomes the opportunity to provide a submission to the Joint Standing Committee on Trade and Investment Growth. International trade is a key pillar of NSW economic growth and prosperity with exports representing 15 per cent of the NSW state economy. The NSW Government is committed to supporting NSW business through providing advice and assistance to establish or expand their export capabilities.

¹⁰ *From little things big things grow: Supporting Australian SMEs go global*, Joint Standing Committee on Foreign Affairs, Defence and Trade, February 2019, Canberra.