

Chapter 1

Introduction

Background

1.1 On 17 August 2006, the Senate referred the Export Finance and Insurance Corporation Amendment Bill 2006 to the committee for examination and report by 9 September 2006.

1.2 The Export Finance and Insurance Corporation (EFIC) is Australia's export credit agency and has carried out its role with various statutory frameworks since 1957. It was established in its current form on 1 November 1991 under the *Export Finance and Insurance Corporation Act 1991* (the Act) as a statutory corporation wholly-owned by the Commonwealth of Australia. It forms part of the Foreign Affairs portfolio.¹

1.3 The act charges EFIC with undertaking the following four key functions:

- to facilitate and encourage Australian export trade by providing insurance and financial services and products to persons involved directly or indirectly in export trade;
- to encourage banks and other financial institutions in Australia to finance or assist in financing exports;
- to manage the Australian Government's aid supported mixed credit program (a facility which has now been discontinued, although loans are still outstanding under it); and
- to provide information and advice regarding insurance and financial arrangements to support Australian exports.²

1.4 EFIC provides specialised financial services in support of Australian exports which include:

- medium to long-term finance facilities (generally for more than two years) to the buyers of Australian exports, or to their financiers, to assist with the purchase of exports. The exports financed this way are usually capital goods and services. The finance is normally provided as a loan, or as a guarantee to a bank lend to an overseas buyer; and
- insurance and guarantee facilities including Performance and other type of bonds; medium to long-term PRI in respect of overseas investments, debt, commodity hedging and plant and equipment operating overseas; export working capital guarantees; and other medium-term insurances

1 Export Finance and Insurance Corporation Annual Report 2004–2005, p. 13.

2 Export Finance and Insurance Corporation Annual Report 2004–2005, p. 13.

such as export credit insurance for payment terms of more than two years.

1.5 EFIC operates on a commercial basis charging its clients fees and premiums and earns interest on its loans and on the investment of its capital, reserves and working capital. EFIC's aim is to make a profit after covering operating costs, interest expenses and any claims or losses incurred in the business. This profit is used partly to pay a dividend to the Commonwealth and partly to build up EFIC's reserves to enable it to run on a sound financial footing.³

Purpose of the bill

1.6 The Bill proposes to re-structure the Board of EFIC. It will amend the Export Finance and Insurance Corporation Act 1991 (the Act) to provide for:

- the removal of the Chief Executive Officer of the Australian Trade Commission from the EFIC board;
- the reduction in the number of other members (not including the Chairperson, the Deputy Chairperson, the Managing Director and the government member) from not fewer than four nor more than six to not fewer than two nor more than five;
- after consulting with the Minister, the EFIC Board, not the Minister as currently required, to have the power to appoint the Managing Director and Deputy Managing Director; and
- appointments to the EFIC Board (other than in respect of the Government Member) to be limited to three years and the introduction of a limit of two terms (or three terms for EFIC Board members who serve as Chairperson).⁴

Submissions

1.7 The committee wrote to the Minister for Foreign Affairs, the Minister for Trade, the Export Finance and Insurance Corporation, and Austrade, informing them of the inquiry and inviting a submission. The committee also advertised the inquiry on its website and in *The Australian* on 30 August 2006. It received a joint submission from EFIC and the Department of Foreign Affairs and Trade.

1.8 The committee was critical of the poor standard of the Explanatory Memorandum (see chapter 3). The joint submission, however, made up for this deficiency. It provided the level of detail necessary to allow the committee to give informed consideration to the legislation and is at the appendix. Because of the lack of any substantial criticism of the proposed legislation and the comprehensive

3 Export Finance and Insurance Corporation Annual Report 2004–2005, p. 13.

4 Export Finance and Insurance Corporation Amendment Bill 2006, explanatory memorandum, p. 2.

submission from EFIC and the Department, the committee decided not to hold a public hearing.

Acknowledgments

1.9 The committee acknowledges the assistance of the Minister for Foreign Affairs, the Minister for Trade and their departments and EFIC in providing the committee with a submission within a short time frame. This cooperation allowed the committee adequate time to consider the legislation and draft its report for tabling. The committee thanks those who assisted the inquiry.

