



The Hon Dan Tehan MP
Minister for Trade, Tourism and Investment

Parliament House
CANBERRA ACT 2600

Telephone: 02 6277 7420

Mr James M Millar AM
Chairperson
Export Finance Australia
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22 Pitt Street
SYDNEY NSW 2000

11 NOV 2021

Dear Mr Millar

James,

This letter sets out the Australian Government's revised statement of expectations for Export Finance Australia. This statement outlines the Australian Government's key priorities and objectives for Export Finance Australia, consistent with section 34 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). It replaces the statement of expectations sent to you on 24 November 2020.

Mandate and scope of operations

The Government considers Export Finance Australia to play an important role in facilitating exports, including by supporting overseas infrastructure development. As outlined in the *Export Finance and Insurance Corporation Act 1991* (the 'EFIC Act'), Export Finance Australia 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;
- provide finance for overseas infrastructure development;
- encourage banks and other financial institutions carrying on business in Australia to finance, or assist in financing, export contracts or eligible export transactions or overseas infrastructure development;
- administer payments and related matters under export contracts in respect to overseas aid projects for which money was made available by the Commonwealth;
- assist Commonwealth entities and companies by providing services in relation to financial arrangements and agreements; and

- provide information and advice about finance and insurance arrangements to support Australian export trade.

Export Finance Australia must not provide financial services or products on its Commercial Account unless Export Finance Australia is satisfied that private sector providers ordinarily carrying on business in Australia are unable or unwilling to support financially viable business activities. Export Finance Australia should ensure its activities fill the 'market gap' where private sector finance is not forthcoming. I expect Export Finance Australia to monitor the capacity of commercial markets and to take this into account when determining the scope of its activities.

The Government decided in 2014 to place greater emphasis on supporting small and medium-sized enterprises (SMEs) seeking to expand their opportunities in overseas markets. I have determined that a 'market gap' for finance exists for SMEs. I therefore welcome Export Finance Australia's focus on continuous improvement to make it easier for SMEs to access its services, and I expect Export Finance Australia to simplify its services and processes to ensure SMEs can access finance expeditiously to develop new markets and expand their businesses overseas. As part of its monitoring of commercial markets, I expect Export Finance Australia to consider whether a 'market gap' continues to exist for SME finance and, should this change, to advise me accordingly.

I expect Export Finance Australia to support a wide range of SMEs, including tourism operators, online businesses, exporters of intellectual property and other related rights, and businesses engaged in overseas direct investment.

While prioritising Export Finance Australia's support for 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, the following stipulations around the support Export Finance Australia can provide to large projects or firms will continue to apply. Export Finance Australia shall only provide support for domestic or overseas resource projects (and related infrastructure) on its Commercial Account, where the Export Finance Australia Board is satisfied, after careful review:

- there is a demonstrated market gap in the availability of finance;
- the transaction does not come at the expense of SME transactions;
- the project has significant Australian content including through SME supply chain participation, and/or benefit; and
- the project is financially viable.

I expect Export Finance Australia to focus on critical minerals projects and related infrastructure to diversify critical mineral supply chains and move further up the value chain. Export Finance Australia should work alongside other Commonwealth financing bodies and the Critical Minerals Facilitation Office.

Export Finance Australia may 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).

I expect Export Finance Australia to provide finance for overseas infrastructure projects that it reasonably expects to result in positive outcomes for Australia or Australians. Export Finance Australia should only provide overseas infrastructure financing where Export Finance Australia can demonstrate that it is likely to result in an Australian benefit. Benefits to Australia include, but are not limited to, greater Australian (including SME) participation in supply chains, access to new markets for Australian businesses, more Australian jobs, payments or dividends or other financial proceeds from overseas to Australia.

In respect of financing of overseas infrastructure projects, I expect Export Finance Australia to reasonably satisfy itself through due diligence, consistent with its existing processes, and expert advice as needed, including from the Department of Foreign Affairs and Trade (DFAT), the infrastructure project is appropriate for the relevant nation and the governance surrounding project procurement is sound. In doing so, Export Finance Australia should also ensure there is appropriate compliance, as applicable, with:

- the OECD Recommendation on Sustainable Lending Practices and Officially Supported Export Credits and its own additional debt sustainability due diligence procedures;
- the OECD Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence;
- the OECD Recommendation of the Council on Bribery and Officially Supported Export Credits;
- the Prague Proposals; and
- the Equator Principles.

Export Finance Australia is to encourage Australian participation in any overseas infrastructure projects that it finances. It should support Australian businesses and encourage stronger commercial links between Australia and our region. In carrying out its new function, it should help Australian companies, especially SMEs, expand into overseas markets.

I expect Export Finance Australia to focus particularly on the infrastructure needs of Pacific island countries (including Timor-Leste). Export Finance Australia may also consider infrastructure projects more broadly in the Indo-Pacific region. For infrastructure projects elsewhere, Export Finance Australia may not rely on its powers under section 18A or 23A of the EFIC Act alone in support of overseas infrastructure development.

I expect Export Finance Australia to work closely with DFAT to ensure the timely and effective implementation of the Australian Infrastructure Financing Facility for the Pacific (AIFFP). Export Finance Australia's financing for infrastructure in Pacific island countries should complement the AIFFP. When infrastructure projects have strong commercial prospects, they should be first considered by Export Finance Australia on its Commercial Account. Together, Export Finance Australia financing for infrastructure and the AIFFP will help address the infrastructure needs of Pacific island countries.

For equity investments, which are limited to the National Interest Account, I expect Export Finance Australia to only refer applications to me where it has determined other financing options (both public and private) are either not available or inadequate. This determination should be made in consultation with DFAT, the Department of Finance and other relevant agencies. Export Finance Australia should also ensure equity investments have appropriate exit arrangements and target, where possible, commercial rates of return for the Commonwealth that consider financial risks and advice DFAT may provide on national interest considerations. Over the medium to long term, the target rate of return for Export Finance Australia's equity portfolio shall be at least the long-term five-year Government bond rate plus three per cent, noting the return on individual investments at a given point in time can vary. Export Finance Australia should also encourage participation from acceptable and creditworthy private sector entities and likeminded Government bodies unless there is a compelling reason otherwise.

The Government expects Export Finance Australia, subject to my approval and legislative authority, will make available its specialist financial capabilities to Commonwealth entities and companies. If called on to provide such financial capabilities to Commonwealth entities and companies, Export Finance Australia must ensure that such activities do not occur at the expense of its primary purpose. Export Finance Australia will take steps to minimise the impact of work it performs for the Commonwealth on its capacity to assist exporters and overseas infrastructure projects, including by the charging of appropriate fees for such services.

Pricing arrangements

I expect Export Finance Australia's Commercial Account operations to be conducted on a commercial basis. As such, the pricing of Export Finance Australia'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 Export Finance Australia's demonstration role is central to Export Finance Australia meeting its policy objective of helping commercially viable exporters and overseas infrastructure projects overcome financial barriers while also encouraging private sector participation.

In addition to the enhanced pricing disclosure arrangements, and within appropriate confidentiality and legal parameters, I expect Export Finance Australia 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 Export Finance Australia clients.

Export Finance Australia is to maintain its demonstration role to private finance providers. I therefore expect Export Finance Australia to use its judgement to ensure that the provision of multiple facilities to the same firm over a period of time is not displacing a service that could be provided by the private finance sector.

Competitive neutrality charges should continue to apply to Export Finance Australia, except that the Debt Neutrality Charge does not apply to transactions on the National Interest Account.

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

Governance and reporting

As a corporate Commonwealth entity, as defined in the PGPA Act, Export Finance Australia is subject to the accountability, management, performance and reporting requirements specified in that Act. I expect Export Finance Australia's Board and senior management to manage Export Finance Australia'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.

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

Export Finance Australia should continue to provide reports to me semi-annually on the risk the Commonwealth is bearing directly through the National Interest Account. Commonwealth exposures will continue to be reported through the statement of risks in the Budget papers.

I expect Export Finance Australia to publish, through its on-line register, information on all transactions within eight weeks of signature. This will include, at a minimum, the name of the client, the sector, the goods/services or overseas infrastructure involved, the country, the type of facility and the value of the facility of the export or overseas infrastructure support. Export Finance Australia should also confirm, on its on-line register and in respect of each transaction, that the transaction is in compliance with the statement of expectations.

Export Finance Australia 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. Export Finance Australia 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, Export Finance Australia is also to:

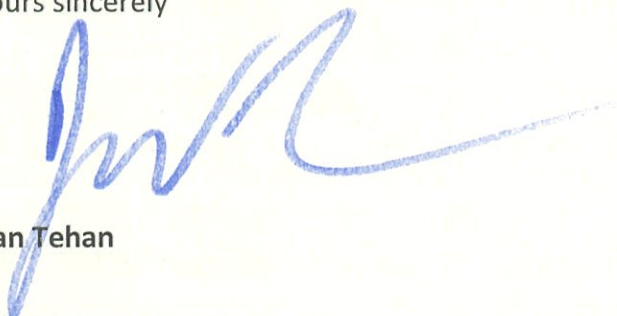
- provide products and services having regard to the Australian Government's World Trade Organization (WTO) and other international commitments, including the United Nations Convention against Corruption;
- comply with the OECD Arrangement for Officially Supported Export Credits;
- where Export Finance Australia considers it appropriate, attend international forums such as the Paris Club, the OECD, the International Working Group on Export Credits, and the WTO;
- advance infrastructure financing and investment cooperation in our region through support for regional cooperation initiatives to which Export Finance Australia is a party;
- 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 Export Finance Australia'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; and
- 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 Export Finance Australia and DFAT to have a Service Level Agreement in place in relation to the management and administration of the National Interest Account. Export Finance Australia should work closely with DFAT, Austrade and other government agencies 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 Export Finance Australia's plans to meet these expectations. Per usual practice, Export Finance Australia should make these intentions and expectations publicly available.

I have copied this letter to Senator the Hon Marise Payne, Minister for Foreign Affairs.

Yours sincerely



Dan Tehan