

# Efic changes

***Proposed changes to Australia’s export credit agency, Efic, pose serious financial, environmental and diplomatic risks. They should not be rushed through and must be subject to close scrutiny.***

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## Summary

The Federal Government has tabled a bill that would transform Australia’s Export Finance and Insurance Corporation (Efic), into an overseas development bank.

Efic does not have a development background; this expertise is located elsewhere in the government. Despite this, Efic will be tasked with independently funding infrastructure overseas, with explicit goals including influencing Australia’s foreign relations and benefiting Australian businesses.

The bill requires Efic to maximise ‘Australian benefits’, including any “benefit that flows (whether directly or indirectly)... to a person carrying on business or other activities in Australia”<sup>1</sup> and “stronger relationships with our regional partners, especially in the Pacific”.<sup>2</sup> These decisions will be made independent of government.

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<sup>1</sup> *Export Finance and Insurance Corporation Amendment (Support for Infrastructure Financing) Bill 2019*, First reading [https://parlinfo.aph.gov.au/parlInfo/download/legislation/bills/r6263\\_first-reps/toc\\_pdf/19003b01.pdf;fileType=application%2Fpdf](https://parlinfo.aph.gov.au/parlInfo/download/legislation/bills/r6263_first-reps/toc_pdf/19003b01.pdf;fileType=application%2Fpdf)

<sup>2</sup> Birmingham (2019) *Explanatory Memorandum, Export Finance And Insurance Corporation Amendment(Support For infrastructure Financing) Bill 2019* [https://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r6263\\_ems\\_57f609b5-1d40-45d0-a6aa-16a353f2afde/upload\\_pdf/698266.pdf;fileType=application%2Fpdf](https://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r6263_ems_57f609b5-1d40-45d0-a6aa-16a353f2afde/upload_pdf/698266.pdf;fileType=application%2Fpdf), page 2

There is no requirement to consider benefits to Australia more broadly, much less benefits to the host country. The bill will create incentives to fund projects that are not necessarily best for the host country.

The Government has made it explicit that Efic could fund projects to promote Australian fossil fuel exports:

In the energy sector, Efic's new power would enable it to finance the construction of LNG receivable terminals, leading to increased energy exports or engineering services.<sup>3</sup>

While the minister's quote refers only to gas, this could equally apply to coal infrastructure. Efic has a long history of funding fossil fuels, and has claimed that Australia's commitments under the Paris Agreement do not apply to its activities. New FOI documents show numerous coal companies have asked Efic for funding. With these changes, Efic could have taxpayers fund new coal power stations, then fund coal mines to fuel them.

Efic has a poor track record on large overseas infrastructure. The largest fossil fuel project it has funded has sparked civil conflict bordering on civil war.

These changes pose serious financial, environmental and diplomatic risks, which must face close scrutiny.

## The policy and bill

An Australian overseas development bank could be in the national interest only if it is set up properly. Getting it wrong could create significant problems, both for countries in our region and for Australia.

When announced in November 2018, the proposal remained vague and received little attention. Government and media focused more on separate proposal for a \$2 billion Australian Infrastructure Financing Facility for the Pacific.<sup>4</sup> On this Facility, there are still no details including where the \$500 million in grant funding will come from, but it is likely to come from the existing aid budget. With the changes afoot, there is even a possibility that Efic might administer this money.

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<sup>3</sup> Coulter (2019) *Hansard 13 February, House of Representatives*

<https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22chamber%2Fhansard%2Ff45cf053-d00c-473b-88ab-ac7ccd4b00ec%2F0073%22>

<sup>4</sup> PMC (2018) *Address: Australian and Pacific, a New Chapter* <https://www.pm.gov.au/media/address-australia-and-pacific-new-chapter>

Now that the changes to Efic are publicly tabled, we see there is much to be concerned about. Without any consultation or white paper process, as might be expected for such a major proposal, instead we have radical changes in a new bill that:

- allows Efic to lend to overseas infrastructure on the poorly defined basis of generating an “Australian benefit”, which could include “a benefit that flows (whether directly or indirectly) from overseas to: Australia; or (b) a person carrying on business or other activities in Australia.”
- allows Efic to lend in order to foster “stronger relationships with our regional partners”, as put in the explanatory memorandum, a non-economic criterion that is completely unlike anything Efic currently does;
- allows and makes likely that Efic would fund fossil fuel projects, contrary to the intent of the Paris agreement, which Efic currently says does not apply to it;
- increases Efic’s callable capital six-fold, signalling a major increase in possible lending scale and risk;
- allows Efic to guarantee co-lenders to projects to which it has also lent itself.

## Risks from the bill

**Efic would not be required to fund projects that benefit Australia broadly, or even the host country, but simply when they provide a benefit to an Australian business.** There is no pretence of supporting market efficiency. There is no requirement for a serious national interest test. There is no pretence it will truly assist host countries.

**Efic would create a clear incentive for Australian companies to push projects that benefit them rather than benefiting Australia or the host country.** Australian companies with better political and business connections in host countries are no doubt likely to be more successful. This undermines rather than strengthens institutions in host countries.<sup>5</sup>

**Efic has little experience in development financing, which is a specialised field managed in other parts of the government.** It is unclear why this expertise did not become the basis for this initiative. Efic also has no mandate to address the barriers to private financing in other countries, such as infrastructure policy. This exacerbates many other risks.

**Efic financing could lead developing countries into debt traps.** This is a persistent risk in all development financing and is exacerbated by Efic’s lack of experience or mandate

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<sup>5</sup> These comments drawing on Howes (2019) *Efic Reform: A Bad Idea* <http://www.devpolicy.org/efic-reform-a-bad-idea-20190213/>

to focus on development, capacity building or institutions. While there has been significant criticism of China in relation to their recent overseas financing, it is unclear why the changes to Efic would avoid those same criticisms. The same criticism was launched at the Australian Infrastructure Financing Facility by the former Minister for the Pacific.<sup>6</sup>

**Efic will be making decisions about foreign affairs independently of DFAT and cabinet.** Any overseas funding has the potential to be politically fraught in countries where it lends, with diplomatic consequences. While Efic might consult with the Minister or DFAT, and Efic can also be subject to Ministerial directions, Efic's legislation *requires* independence to the extent it *prohibits* Ministerial direction about decisions on specific projects. But according to the explanatory memorandum, the bill "enables" Efic to lend to foster "stronger relationships with our regional partners". It is unclear how Efic will decide which regional partners, which countries and which interests within them, with which it will foster stronger relationships.

**Efic has a poor track record of funding major projects overseas.** A clear example is the PNG LNG project, which has resulted in ongoing civil conflict in the region, which some have warned could flare into a civil war.<sup>7</sup>

**Efic is likely to put Australian taxpayer money into fossil fuel projects, undermining the Paris Agreement.** The Minister explicitly promoted this possibility when tabling the bill:

In the energy sector, Efic's new power would enable it to finance the construction of LNG receivable terminals, leading to increased energy exports or engineering services.<sup>8</sup>

Efic could even fund coal power plants. Indeed, it could fund coal power plants overseas and then fund new mines to fuel them. The only restriction is on funding the dirtiest coal plants, under an OECD agreement, which is banned in some cases but would still be possible for many countries in our region.<sup>9</sup>

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<sup>6</sup> Murphy (2018) *Concetta Fierravanti-wells Questions Morrisons' Approach in Pacific*  
<https://www.theguardian.com/australia-news/2018/nov/17/concetta-fierravanti-wells-questions-morrisons-approach-in-pacific>

<sup>7</sup> AAP (2018) *PNG gas project may spark 'new civil war'* <https://www.sbs.com.au/news/png-gas-project-may-spark-new-civil-war>

<sup>8</sup> Coulter (2019) *Hansard 13 February, House of Representatives*  
<https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22chamber%2Fhansard%2Ff45cf053-d00c-473b-88ab-ac7ccd4b00ec%2F0073%22>

<sup>9</sup> OECD (2019) *January 2019 Arrangement on Officially Supported Export Credits [TAD/PG(2019)1]*  
[www.oecd.org/officialdocuments/displaydocument/?doclanguage=en&cote=tad/pg\(2019\)1](http://www.oecd.org/officialdocuments/displaydocument/?doclanguage=en&cote=tad/pg(2019)1) page 120

A fossil fuel and mining focus would be in line with Efic's history, which has been marred by controversy about its involvement in this sector. (This is outlined in more detail below).

Efic's current exposure is at least half in mining and fossil fuels, including overseas. Unreleased FOI documents show numerous coal companies have tried to get funding from Efic and the government has changed the rules to allow this to happen. Moreover, Efic's official position (stated in the Senate) is that Paris Agreement does not apply to it as it is not a government. In this it is out of line with many similar organisations in OECD countries, which now reject some or all fossil fuel projects; the World Bank no longer funds coal, oil or gas projects except in rare circumstances.

Efic should be required to focus on clean energy and could help deliver solar, storage and smart grid technology, including those designed and made in Australia, to our region. Instead, the bill creates a huge risk that Efic would put Australian money into fossil fuel projects. The Government explicitly intends these changes to put taxpayer money into fossil fuel projects.

## Efic's history with fossil fuels

Efic has previously focused on financing large mining projects, in Australia and around the world. Half of its current exposures are to fossil fuels or mining. Many of these projects have generated serious problems.

The massive PNG LNG project, which Efic backed and which is still a quarter of its exposure, has generated serious civil conflict in the local region bordering on civil war.<sup>10</sup> Efic also backed the Wiggins Islands Coal Export Terminal, which has suffered ongoing financial distress.

In recent years the Labor and then Coalition governments have focused Efic on smaller exporters. A Productivity Commission review into Efic was scathing, especially around its role in big mining projects. Trade Minister Andrew Robb eventually wrote prevented Efic from funding mining projects in Australia.

However, previously unreleased FOI documents show that “Efic was approached to support several coal related projects” was unable to which it was unable to provide support due to the Ministerial Statement of Expectations.<sup>11</sup>

### Figure 1: Talking points on Efic, from DFAT to Minister for Trade

Efic is reporting an increasing number of resource projects facing difficulties obtaining private market finance

- for example, the NSW Government has written to me in support of the need for Efic funding for a resource project to export a range of new technology metals
- Efic was approached to support several coal related projects, but was unable to assist under the previous statement.

This led the Coalition to change the rules for Efic to allow it to fund big mining projects again. As the documents show, DFAT cited the requests from coal companies as part of the justification for this change.

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<sup>10</sup> Lyons (2018) 'Pushing for civil war': fears riots could turn into widespread conflict in PNG  
<https://www.theguardian.com/world/2018/jun/20/pushing-for-civil-war-fears-riots-could-turn-into-widespread-conflict-in-png>

<sup>11</sup> FOI documents requested by The Australia Institute

It was later revealed that Efic was in talks with Adani about its coal mine project and was to support a supplier to the project,<sup>12</sup> although this was subsequently dropped.<sup>13</sup>

Efic has also become the government's general purpose financing agency. Efic is the 'back end' of the Northern Australia Infrastructure Facility (NAIF), best known for a year of controversy over considering a \$1 billion subsidised loan to Adani.<sup>14</sup> It is also now managing the \$3.8bn Defence Export Facility, which supports arms sales out of Australia through loans made by direction from the Minister.<sup>15</sup>

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<sup>12</sup> Hasham (2018) *Federal government to lend money to Adani business associates* <https://www.smh.com.au/politics/federal/federal-government-to-lend-money-to-adani-business-associates-20180305-p4z2uy.html>

<sup>13</sup> Senate estimates evidence from Efic, 1 June 2018, <https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;db=COMMITTEES;id=committees%2Festimate%2F8927e018-ee43-4dcf-9085-93967d3b2baa%2F0005;query=id%3A%22committees%2Festimate%2F8927e018-ee43-4dcf-9085-93967d3b2baa%2F0000%22>

<sup>14</sup> Efic (2019) *Support Services* <https://www.efic.gov.au/our-organisation/our-organisation/support-services/>

<sup>15</sup> Efic (2019) *Defence Export Facility* <https://www.efic.gov.au/what-we-do/project-corporate-and-buyer-finance/defence-export-facility/>