

8 May 2009

## Customs, Trade & Transport Ealert

# Launch of the EFIC Global Readiness Index underlines need for Trade Finance

On 20 April 2009, the Australian Government's Export Finance and Insurance Corporation ("EFIC") (see [www.efic.gov.au/](http://www.efic.gov.au/)) released its second Global Readiness Index Report ("Index") (see [www.efic.gov.au/gri/report](http://www.efic.gov.au/gri/report)).

The Index was released at a function convened by EFIC in Melbourne with a keynote speech by the Australian Trade Minister, a presentation on behalf of EFIC summarising the results of the Index and a panel question and answer session involving the Trade Minister and representatives of EFIC, the AIEA and the AiG.

The release of the Index was timely given the extensive evidence that trade finance has become increasingly hard to secure. In their recent communiqués, both the G20 and the WCO noted the reduction in availability of trade finance and part of the measures adopted by the G20 included the provision of trade finance to the value of \$US 250 Billion by G20 countries over 2 years. At the release of the Index, the Australian Trade Minister also referred to the G20 measures as a much needed resource for those involved in trade.

EFIC provides a suite of financial services and products to exporters at all levels, from SME's through to larger companies, Banks and other financial institutions. These products are separate to the EMDG scheme administered by Austrade which is more of a reimbursement for certain permitted expenditure on export activities subject to certain strict criteria. There has been a significant level of concern that the EMDG scheme is underfunded and unduly restrictive as well as having comprehensive compliance obligations. Many of the questions during the panel discussion were aimed at seeking reassurance that additional EMDG funding would be made available. The Trade Minister declined to provide that assurance and maintained that the current difficulties with the EMDG scheme were the responsibility of the former Howard Government.

The Index was the result of extensive investigations and enquiries of 726 companies involved in export at all levels of trade. Accordingly, EFIC expressed some confidence that the Index provides an accurate representation of the state of readiness of Australian exporters.

Some of the findings of the Index can be summarised as follows:

- Companies still seemed optimistic about overseas prospects.
- 84% of companies with offshore operations are planning to expand them, 52% in the next year.
- Of respondents without offshore operations, 44% are planning to expand offshore, 32% in the next 2 years.
- The 4 top destinations for offshore expansion by Australian companies are currently North America, SE Asia, Europe and China. Investment in South Asia is expected to show the greatest increase from 15% to 20% thanks to the perception of increased opportunities in India (this is the focus of the Austrade Utsav program).
- Most companies heading overseas are seeking to increase revenue rather than saving costs or seeking economies of scale.
- Access to finance is a key barrier. Those stating access to finance as a barrier increased from 29% in the last Index to 58% in this Index. 34% nominated it as the most significant barrier they faced.
- SME's face especially high finance barriers.
- Finding external funds for offshore expansion has become even harder with most using retained earnings to fund expansion.
- The commitment to globalization remains strong but is being tested!

EFIC concludes by stating that the Index results "**challenge financial institutions and government to find innovative solutions to ensure that "bankable" exports and offshore investments receive the financial backing they deserve**".

The impression (and it is only that) was that the Trade Minister favoured the expansion of EFIC's suite of products to include such additional financial solutions. The release of the Federal Government's Budget on 12 May 2009 may well unveil such new products – which would be quite a result in the light of the public comments by the Federal Government that the Budget will be exceedingly tight with little additional funding for projects other than those already announced.

It is important that all should be aware of the results of the Index and that clients will be needing to be advised on what finance is available for exports – both now and in the future.

For further information, please contact Andrew Hudson.