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Export Market Development Grants Amendment Bill 2003

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I N F O R M A T I O N A N D R E S E A R C H S E R V I C E S

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No. 164 2002-03

Export Market Development Grants Amendment Bill 2003

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2 June 2003

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Export Market Development Grants Amendment Bill 2003

Date Introduced: 29 May 2003

House: Representatives

Portfolio: Trade

Commencement: On the day on which the Act receives the Royal Assent. The Amendments are scheduled to apply from 1 July 2003.

Purpose

The purpose of the Bill is to amend the *Export Market Development Grants Act 1997* to refocus the eligibility selection criteria and thus enable more small and medium businesses to qualify for export assistance.

Background

The Export Market Development Grants Scheme

The Export Market Development Grants scheme (EMDG) is a financial assistance program for exporters. It is designed to encourage small and medium businesses in Australia to seek and develop export markets. Qualifying exporters are reimbursed for a proportion of their expenditure on promotional activities.

To be eligible under the EMDG scheme, the Australian exporter must, at present, satisfy specified criteria, including:

- income of less than \$50 million in the grant year
- export earnings of less than \$25 million, and
- have incurred at least \$15 000 of eligible export expenses.

Once an exporter has received eight grants, any additional grants can only be claimed for expenses in new markets. An export product must be substantially of Australian origin to be eligible for an export grant. Services (including tourism, conferences and events)

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delivered to non-residents in Australia, as well as services delivered outside Australia may satisfy eligibility criteria under the EMDG scheme.¹

The Government's Policy Commitment

In the *Portfolio Budget Statements 2003-04*, the Australian Trade Commission (Austrade) states that Austrade is the lead agency in Australia's efforts to double the number of exporters by 2006.² In its *Portfolio Budget Statement 2003-04*, Austrade's performance information for Output 1.4 (administering the EMDG scheme), the following statistics are stated:

- total number of EMDG applicants (4580)
- total number of EMDG recipients (4120)
- number of new EMDG applicants (1840), and
- the number of new EMDG recipients (1480).³

The administered appropriation and administered expenses figure in Budget 2003-04 for the EMDG scheme is listed at \$150.4 million.⁴

One month before Budget 2003-04, on 16 April 2003, the Trade Minister, the Hon Mark Vaile MP, announced that proposed refinements to the EMDG scheme would enhance its efficiency by focussing on small business.⁵ The announcement foreshadowed the following changes to the scheme:

- a reduction of the annual turnover ceiling from \$50 million to \$30 million
- a reduction of the maximum number of grants from eight to seven
- removal of additional grants for entering new markets, and
- the reduction of the maximum grant amount from \$200 000 to \$150 000.

Australian Labor Party's Comments on the EMDG Scheme: Budget 2003-04

On 14 May 2003, Mr Craig Emerson MP, the Shadow Minister for Innovation, Industry and Trade stated in a media release:

The Budget...maintains the 1997 cap on the Export Market Development (EMDG), causing its real value to fall 11 per cent.⁶

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Australian Democrats Comments on the EMDG Scheme: Budget 2003-04

Senator Aden Ridgeway, the spokesperson for the Australian Democrats on Industry, Small Business and Tourism, issued a media release on 14 May 2003 which included the following statement:

By leaving the \$150 million cap on the Export Market Development Grants Scheme (EMDG), the [G]overnment is making it more difficult for small businesses that have begun exporting with the assistance of the EMDG to continue doing so.

Given the Government's stated target to double the number of exporters by 2006, they should be doing more to facilitate export activity.⁷

EMDG is a Split-Payment System: Likely Smaller Grants

The *Australian Financial Review* provided a report on the EMDG scheme on 24 April 2003. The report noted that the EMDG payments are paid under a split-payment system. The first-round amount has a ceiling of \$60 000 as an initial up-front payment to an exporter. The second instalment is paid at the end of the financial year. The amount of the second payment will depend on the amount of funds remaining in the EMDG budget after all first payment instalments are made, less Austrade's administration expenses (estimated at 5% or about \$8 million). The report noted that the more successful applicants there are for the scheme, the less they will receive because the overall cap means that the grants in individual total amounts will decrease.⁸ The reduction of the maximum grant amount from \$200 000 to \$150 000 will also see a further reduction for those applicants who can claim the maximum reimbursement of promotional expenses under the EMDG scheme.

A media report also indicates that a rationing of grants will be 'disastrous for an IT industry already fighting for diminishing government funding' and that the industry will lobby against the proposed changes in this Bill.⁹

The Government's reported response is that it wants to target funds better towards new, smaller exporters to assist them to enter export markets.¹⁰

Consequence of a failure to pass the Legislation

The amendments proposed by this Bill are a refinement of the existing EMDG scheme. Failure to pass the legislation would not prevent the continued operation of the EMDG scheme under the existing legislative criteria.

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Main Provisions

Schedule 1—Amendment of the *Export Market Development Grants Act 1997*

Part 1—Income for the grant year

Items 1–4 reduce the income ceiling for applicants during the grant year from \$50 million to \$30 million. This tighter income ceiling will apply to claims by applicants from the 2003–04 financial year onwards.

Part 2—Export earnings

Due to the fact that the income ceiling, above, has been significantly reduced and must now not exceed \$30 million in the grant years (financial year) 2003–04 onwards, the existing export earnings limit of \$25 million is essentially redundant. **Items 5–12** remove reference to the export earnings limit.

Part 3—Provisional grant amount

Item 13 is a key amendment. For other than an approved trading house¹¹ (which may claim \$500 000), the maximum provisional grant to an ordinary applicant is reduced from \$200 000 to \$150 000 for the grant years (financial year) 2003–04 and onwards.

Part 4—Number of grants payable

Under the existing rules, applicants are limited to a maximum of eight grants under the EMDG scheme (unless the applicant then enters a new market and is considered for additional grants). The number of multiple grants will be limited to seven by **Items 14–17**. Additional grants for new markets¹² will also be removed (see Part 5, below).

Part 5—New market

Additional grants above the maximum number of repeat grants available will no longer be available for entering new markets. **Items 18–22** remove this exception.

Part 6—Reader's guide diagram

Item 23 provides a summary diagram to assist applicants ascertain their likely eligibility for a grant.

Concluding Comments

Planning for overseas promotional activities is likely to involve lead-time. Existing exporters, currently in the promotional planning stage, may have benefited by a longer transitional approach in the refinements to the EMDG scheme to enable them to continue

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on the basis of the existing more generous grant provisions. The proposed refinements may target smaller businesses more effectively but some applicants already in the 'stream' may feel that they have seen a reduction of the grant amounts that they will be able to claim.

Endnotes

- 1 The criteria that apply under the EMDG scheme are found on the Australian Trade Commission web site (www.austrade.gov.au).
- 2 *Portfolio Budget Statements 2003-2004*, Australian Trade Commission, p. 91.
- 3 *ibid.*, p. 106.
- 4 *ibid.*, p. 99.
- 5 'Export Grant Scheme Provides Greater Focus on Small Business', *Media release*, No. A034/2003, the Hon Mark Vaile MP, Trade Minister, 16 April 2003.
- 6 'Budget fails to invest in Australia's future', *Media release*, Mr Craig Emerson MP, Shadow Minister for Innovation, Industry and Trade, 14 May 2003.
- 7 'Small Business in the Budget Shadow of Big Business', *Media release*, No. 03/330, Senator Aden Ridgeway, Australian Democrats Spokesperson for Industry, Small Business and Tourism, 14 May 2003.
- 8 Robin Robertson, 'Support scheme is too successful for its own good', *Australian Financial Review*, 24 April 2003.
- 9 Selina Mitchell, 'Industry says grant rations will endanger exports', *Australian*, 22 April 2003.
- 10 Mark Davis, 'Funding cap proves turn-off for firms', *Australian Financial Review*, 23 April 2003.
- 11 The Minister must determine guidelines for use by Austrade for the approval of a 'trading house'. These determinations are a disallowable instrument (see section 101 of the *Export Market Development Grants Act 1997*).
- 12 The meaning of a 'new market' is set out at section 113 of the *Export Market Development Grants Act 1997*. Section 113 will be repealed by this Bill.

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