



Pattens Group

**If there's a Government grant
for you We'll find it !!!**

15 October 2020

Committee Secretary
Senate Standing Committees on Rural and Regional Affairs and Transport
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Parliament House
Canberra ACT 2600

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Dear Sir

The recommended reforms to the EMDG Act currently before parliament are designed to provide exporters with less red tape and provide more funding certainty. I totally agree that those objectives should be paramount in the current COVID-19 pandemic world and the government should be applauded.

Unfortunately the recommendations to the EMDG will require exporters, their advisers and Austrade to understand the operation of a new inferior program, thereby increasing red tape and funding uncertainty. In so doing it will create the exact scenario that the Government wants to eliminate.

Maximum EMDG funding will be reduced from the current \$1.2m to \$770,000. How does a reduction of \$430,000 in EMDG provide an improved level of assistance to exporters? This represents an annual average reduction of \$53,750 over the 8 grant years. If the trade-off is either funding uncertainty of \$1.2m or certainty of \$770,000 exporters would prefer the uncertainty of the greater support

The existing scheme has a long history of success providing significant benefit to exporters. It only needs minor changes to be as effective as it was originally.

As the Group Financial Controller of Cochlear Limited from 1985 to 1990 we were able to access the EMDG program. At that time the company was not the Australian success it currently is, but a struggling start-up with cash-flow issues. The EMDG program provided Cochlear with invaluable financial support to expand the product exposure to the international market.

I would lodge Cochlear's EMDG claims early each year (in one year prior to the 30 June) and the claim would be assessed and paid in full in either July or August. Cochlear then had the funding to plan, conduct and pay for export marketing activities for the following year. The scheme was fully funded and not capped as it is currently.

The proposed tiering system would have crippled Cochlear who claimed the maximum grant of \$200,000 by the second claim. This compares to the maximum grant of \$40,000 proposed by the reforms, reduced from \$150,000.

Cochlear only exists today because of government grants that included the EMDG. The company started with a Public Interest Grant, claimed EMDG, Computer Bounty and R&D Incentives. Without that invaluable financial government support Cochlear would not exist today.

What impact would the absence of Cochlear have on the Australian economy?

Cochlear's current financial position:

- Annual sales \$1.4 billion
- Exports represent over 90% or \$1.3 billion
- Exporting to over 30 countries
- Employees exceed 4000
- R&D Spend \$180 million
- Taxes on wages approx. \$60 million
- Company tax paid of \$44 million (2019 \$89 million)

The benefits to the government from just exports and taxes paid by Cochlear have far exceeded the grants provided to them in their early years. By reducing the grant payable to exporters the government runs the risk of impeding similar, potentially success businesses.

The EMDG program requires very little change to improve its effectiveness.

1. **Retain the existing program** with its extensive history and market understanding. Over its 34 years of operation the program has been fine-tuned and is understood by all parties, providing confidence in the program.
2. **Remove the program capping** introduced in 1996/97 providing confidence that an eligible maximum claim will be paid in full immediately after assessment removing the financial uncertainty and delays in payment. Businesses that need financial support to export will lodge claims early. Businesses can then plan their export marketing with confidence knowing their claim will be paid in full, promptly.
3. **Restore the maximum grant back to the equivalent value of what it was originally.** The effect of inflation has eroded the benefit of the EMDG. The maximum grant payable of \$200,000 in 1986, when the EMDG started, is equivalent in purchasing power to about **\$474,300** in 2020.
<https://www.in2013dollars.com/us/inflation/1986?amount=200000#:~:text=In%20the%20words%2C%20%24200%2C000%20in,1986%20inflation%20rate%20was%201.86%2>

The maximum grant is currently only \$150,000, a difference of \$324,300. Or alternatively a maximum grant of \$200,000 is equivalent to \$82,680 in 2020. However, the maximum grant is only \$150,000 which is equivalent to only **\$62,000** today. This directly impacts the program's effectiveness

4. **Make the EMDG program self-assessment similar to the R&D Tax Incentive.** It costs \$7.5 million annually to administer the \$137m EMDG program compared to \$28 million to administer the \$3 billion R&D Tax Incentive program. The extent of the administration activity on such a small program is not justified. This is the primary reason for the red tape - due to the microscopic claims investigation.

I have experienced audits of over 3 days for a \$30,000 EMDG claim while and R&D Tax Incentive claim of \$300,000 was paid without contact from either Ausindustry or the ATO. Please explain?

Exporters desperately need financial support to position Australia to take a significant global position in the COVID and Post COVID world. They need financial certainty and time to focus on securing a dominant export market position. They do not need to spend days and weeks justifying relatively small EMDG claim.

Yours Sincerely

Bruce Patten
Managing Director