Exportise (Melbourne) Pty Ltd is a specialist consulting firm assisting exporters to receive the Export Market Development Grant (EMDG). We have been assisting exporters since 1984 and have worked with thousands of exporters across all areas: goods, services, tourism, intellectual property and know-how.

We work closely with exporters and have a good understanding of what drives exporters to undertake overseas marketing activities. It is our belief that the proposed changes to the Export Market Development Grant legislation will have a negative impact on exporters' overseas marketing efforts and as a result will cause a decrease in exports, employment and the resulting benefits to the Australian economy.

In particular we would like to draw the committee's attention the following points:

- The introduction of multi-year entitlements is not suitable for all businesses. The proposed legislation assumes that all businesses follow the same export "journey", which is being prescribed as a three-tier process. The legislation will introduce three stages at which an exporter can access the EMDG: new to export, emerging/expanding and new markets. But exporter behaviour doesn't necessarily follow that rigid model.

  Many businesses won't meet the criteria for "new to export" as some businesses are born ready to export and won't be new, thus excluding them from claiming under the first tier. This applies to industries such as software, IP/know-how and film production.

  Some businesses have products which are only applicable to a particular market(s), or they may develop a new product. On reaching the "new markets" tier, many businesses will become ineligible for EMDG support even though they are still expending considerable energy and costs in trying to build their existing markets — they won't qualify under the "new market" tier. This is particularly relevant to industries such as tourism and education.

  The introduction of a three-tiered system will mean many businesses that are currently eligible under the current legislation will no longer be eligible or will have their entitlements significantly reduced.

- The proposed legislation will require exporters to prepare upfront marketing plans so that they can enter into a funding agreement with Austrade. These agreements need to budget for 2-3 years in advance.

  Exporters need to be nimble to meet the opportunities that arise. By having the exporter sign an upfront funding agreement, the legislation is only allowing the exporter to claim for marketing costs under the scope of the agreement. In effect, this means that the real marketing costs of the business may not be covered. A perfect example of this is COVID-19. If the current legislation had been in place, exporters would have made overseas marketing plans which revolved around travel, tradeshows etc which obviously can't happen. Exporters have switched strategies, opting for online marketing activities and engaging on-the-ground support in overseas countries. These activities wouldn't have been covered by the original funding agreement and therefore they wouldn't receive a grant on these costs.

Under each of the three tiers the exporter must provide Austrade with a marketing plan in order to enter into a funding agreement. This is imposing a much higher level of compliance than they currently face. If one of the objectives of the proposed legislation is to simplify and streamline the process for exporters, this will achieve the opposite outcome.

- The level of certainty within the EMDG will be decreased as exporters are locked into upfront agreements. Exporters' overseas marketing activity will reduce as they won't know whether costs outside of the agreement will be covered. The level of certainty that the new legislation is tyring to attain will, by its design, produce a high level of uncertainty as exporters cut back on overseas spend knowing they won't receive funding for activities outside of the agreement, or will need to apply for a variation to the agreement — again resulting in added time spent by the exporter, and with no certainty of approval.

- The proposed rules require upfront approval but do not offer upfront payments. Exporters must still pay their costs before they get a grant, diluting any benefit achieved by upfront approval.

- The proposed multi-year entitlement structure sets new maximum grant levels for the different tiers. This will result in exporters in tiers 1 and 2 receiving less than they are entitled to under the current rules, a clear disincentive to undertake export marketing spend. Currently an exporter can receive a maximum grant of up to $150,000 per grant application. Under the new rules in tier 1 an exporter can only receive up to $80,000 over two applications and in tier 2 up to $240,000 over three years. This is a substantial decrease in potential funding to exporters whose business requires early upfront investment in overseas marketing rather than in the later years.

  This is another aspect in which the three-tier model adopted under the proposed legislation doesn't fit all businesses.

- The current EMDG legislation sets out who is eligible and what can be claimed. Therefore, exporters can with a high degree of certainty confirm that they are eligible and the marketing costs that can be claimed. The proposed legislation will only contain EMDG core principals — the details as to who can claim and what can be claimed will be managed through administrative guidelines. This will therefore take away the objectivity which is a strength of the current legislation. Under the proposed legislation the administrative guidelines will operate at the discretion of Austrade, which will decide whether to approve an exporter's funding agreement, what costs will be approved and for how much. Subjectivity leads to uncertainty.

- The proposed legislation is removing the export performance test. The export performance test ensured that exporters only received an export grant if their export sales were at a certain level. This ensured that grants were only paid to exporters who had generated export sales in years 3-8 (in the first two years there was no requirement to have export sales, consistent with the proposed new legislation). No export sales = no grant.

> The proposed legislation will now approve grants for those businesses who have already exported their products. Funding agreements will be approved on the basis of historical sales. Therefore, a funding agreement can be approved for three years, expenses paid and therefore grants paid, even if no export sales are generated as a result.
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> The current legislation ensures that taxpayers' funds are only being paid to exporters that are generating results. Under the proposed legislation, there may be circumstances where sizeable grants are paid to exporters who don't generate any export sales.
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> The Bill mentions that the Australian government isn't in the business of picking winners. But it will be at the discretion of Austrade as to who is approved for funding agreements and for how much they will be supported. With a capped funding model, Austrade will have to pick the best candidates they see for support. In effect, Austrade will be picking winners.

We would further note that the review process consulted with very few EMDG recipients. Only 98 of the 158 online submission received during the review process were from EMDG recipients (less than 2.5% of EMDG recipients based on the number received for the 2018-19 grant year). The outcome of the report which the Government has relied on can't be taken as an accurate reflection of exporters' views — the sample size was simply too small.

Moreover, the findings of the review were fully accepted by the Government without the export community having a chance to read the review and provide feedback.

To address the above issues we suggest that before the legislation is passed, the Government releases to the export community the administrative guidelines referred to in the Bill, which will explain in detail who can claim, what will be claimed, what is required in a marketing plan etc. Once exporters have had a chance to review the guidelines that the Government then undertake a detailed consultation with the export community to determine whether the proposed legislation will meet its stated objectives.