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31st May 2013

Committee Secretary

Standing Committee on Foreign Affairs, Defence and Trade

PO Box 6100

Parliament House

CANBERRA ACT 2600

BY EMAIL.

Dear Dr Dermody

Inquiry into Export Market Development Grants (EMDG) Amendment Bill 2013

I am writing on behalf of my client base of small to medium sized exporters who access the EMDG scheme. I am an exporter in my own right as well.

Mitchell and Co is a specialised export based accounting and consulting firm. We are part of the export community. I am acting Chairperson of the Export Consultants Association (ECG) and have already made a submission to your committee on behalf of our group. This letter is on my own account.

We are SA focussed of course given my location but do help exporters in all industries in all states.

The EMDG scheme acts as a true incentive for clients to take on the export challenge, not just to start but stay in it in the longer term. Exporters in 2013 face a "perfect storm" with the high AUD, uncompetitive trading terms and depressed market conditions.

The recent reduction on the funding from the scheme from $150M to $125M for whatever the reason given "budget alignment" or fiscal responsibility" is a political decision only.

The $25M cut in the scheme is it actually counterproductive to efforts to reduce the overall budget deficit.

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On a conservative multiple of 5 grants paid to sales generated (past EMDG reviews have stated 12-20 times) the grant reduction causes a reduction in possible export sales and hence taxable income of $125M.

The lost in taxable revenue is:-

On the grant itself	$25M @ 30 cents in the dollar tax = $7.5M
On lost sales	$125M @ 30 cents in the dollar tax = $37.5M
In total	"Lost" Taxable revenue of $45M which is $20M more than $25M cut.

The lost in employment from the lost sales of $125M is hard for to measure but I think it would be significant and a lot of it would be regional areas given the geographical spread of the clients in the scheme. Those employees pay tax on earnings, if no job, therefore no earnings and no tax payable as well.

The proposed changes in the Bill under review are follows

1. To reduce the number of grants for all exporters by 2 years from 7 to 5
2. To increase the number of grants for some exporters from 7 to 8
3. To fund an increase in the Austrade Administration budget for the scheme
4. To Remove Joint Ventures from the Scheme
5. To Remove Event Promoters from the scheme
6. To ensure Consultants like myself are "fit and proper" to do so
7. To enable a grant to be paid more quickly
8. To change the payment requirements for claimed expenses.

The numbering is mine and I will refer to it later in this submission.

Some of changes are or substance and some of an administration nature. Some of the changes I support some I do not.

I support items 5 and 7.

I support with some qualification items 6 and 8.

I do not support items 1, 2, 3 and 4.

Items 1 and 2 are the major changes however I will make some comments in relation to item 4 - Joint Ventures in more detail below as well.

Item 3 to increase the admin budget for the scheme is not warranted. Exporters are being asked to do more with less, so should Austrade. This increase will mean less money to exporters as more will be spend on administration.

For items 6 and 8 more details on how these changes will work at a practical level is required, none has really been given to date.

You have asked for feedback in relation to the changes on the following basis

- the consultation process with industry and other stakeholders;
- the possible impact on exporters, particularly small exporters; and
- the structure of the 'fit and proper person' test.

I respond to those headings as follow:-

Consultation

As far as I am aware the level of consultation has been limited and did not cover all of the proposed changes.

ECG which is itself a subset of the Export Council of Australia (ECA) is the peak industry group for applicants of the scheme who use our services to access the scheme.

Just over 50% of EMDG applicant use and EMDG agent. Therefore 50% do not.

I am aware of limited consultation by Austrade to our group but only items 1 and 2.

I am not aware our industry group having any consultation what so ever for items 3 to 8.

No existing Joint Ventures (item 4) were consulted at all. I have prepared such applications and act for a number of such groups and all were given no notice of this change.

I am not aware of any consultation direct to exporters that are over 50% of the EMDG client base for any of the proposed changes.

I am not aware that Austrade visited any places outside Canberra to hold seminars or workshops on what exporters wanted from the scheme going forward or to discuss the proposed changes.

The possible impact on Exporters – General.

The major change to exporters is the number of the markets that an exporter can focus on and be given an incentive to do so.

The impact will be reduced export sales, reduced taxable revenue and employment in Australia.

In the short term the reduction to $25M will have no impact as the number of EMDG applicants is declining and due to this an a number of other factors the $125M will not be spent.

The changes are really for no purpose they are in fact not needed to balance the budget and as stated above will actually make the position worse.

The impact of these changes (items 1 and 2) are counterproductive to our export efforts as follows;-

- Reduce the maximum number of grants for most exporters to 5
- Increase complexity of the application process
- Reduce the overall grant amount payable to exporters.
- It will favour some exporters over others
- It does not help established exporters to approach new markets
- It will cause a drop overall level of exports and employment levels

Reduce the number of grants to 5 for most exporters, not helping all exporters, exports to drop.

I can understand the argument that we need to engage more with Asia but this should be for all exporters per the recent Government White Paper and to an extent EMDG clients under this scheme are ready travelling to China more and more than that have done in the past. But I do not think Government should be forcing them to do so. Exporters who lost the right to claim under the scheme are funding those who can. This is unfair.

Reduction in number of grants

The Austrade 2012 Annual Report (Page 92, Figure 15) lists the top 6 countries targeted by EMDG recipients. While most recipients target more than 1 country the Annual Report indicates that 55% of all applicants target the USA and 54% target UK and Germany. This supports the observation by exporters that most EMDG recipients will be limited to a maximum of 5 grants. Currently these exporters are able to receive a maximum of 7 grants so the Bill will actually reduce the number of grants these exporters will receive.

It is acknowledged that exporters who target markets other than the USA, Canada and the European Union member states will be a position to receive a maximum of 8 grants; however, this is only one more grant than they currently receive.

Reduce the average grant payment

There will be many exporters who target numerous markets including the USA, Canada and the European Union member states and other countries. While some of these exporters may receive an additional grant, it is likely that their grant payments will be significantly less if the Bill is passed. The reason for this is that the EMDG Act provides grants only in excess of the first $10,000 of eligible expenditure.

Increase in complexity of claiming grants

Many expenses claimed by exporters cover various countries. This includes travel to more than one country, participation in trade shows where buyers attend from all over the world, website targeting all countries, production of brochures and advertising for many markets.

In grant years 6 – 8, exporters will be able to claim only in respect of countries other than the USA, Canada and the European Union member states. With expenses such as travel, trade shows, websites, brochures and advertising there will a requirement for exporters to apportion the expense between the excluded countries and the eligible countries. This is more complex than it appears as exporters would be required to maintain records or provide other evidence to justify any apportionment.

The possible impact on Exporters – Smaller Exporters

These exporters will be complete worse off. This is demonstrated by point 4 above. The facility within the scheme to help them has been taken away.

Smaller exporters who band together to share common overseas marketing costs under the EMDG Joint Venture provisions will simply be taken out of the export equation completely.

These clusters do work with the majority being in regional areas.

Some I know will have to stop exporting as the medium spend level of $20,000 will be too high, in past years it was only $10,000 so it 100% higher than it has been.

Joint Ventures do work. No consultation or external study was under taken for this very important area of the EMDG Act. None of my clients were contacted.

The Structure of the Non Fit Not a Fit and Proper Person (NFP Provisions)

I understand the need for such provisions and support them at this level.

The changes have no real impact on exporters directly. They affect us as grants agents only.

Prior to the Act being tabled that there was no real industry consultation with our group whatsoever.

Clients of the scheme must be fit and proper as is a requirement for many other government programs, company and movement officials and the like. So I have no problem here

I am very concerned how the NFP rules they will be applied in practice. I know a lot of my peers feel the same way. We feel we are really heading into uncharted waters here. We need a lot more discussion and consultant with Austrade to bed these proposed changes down and reduce the current level of angst in our community.

The actual Ministerial Determination criteria to be used by Austrade to administer the “fit and proper rules” are yet to be made public.

I do believe that the application of the "Fit and Proper" provisions should be undertaken by an independent body to Austrade. A wrong decision here, even if corrected would cause a consultants business to be destroyed.

There appears to be no appeal process for consultants.

Conclusion:

Overall the introduction of the 2013 EMDG Amendment Bill has not had the level of industry consultation that it requires.

It will not help exporters and in particular smaller ones.

Exports will suffer, economic growth with suffer both in the regions and the capital centres, but I think more in the smaller states with a greater reliance on the SME sector.

It will hinder the impact of the EMDG program to continue to make a real difference to Australia's export efforts outside mineral and large multi-national based efforts.

We can do things better.

Yours sincerely,

Stuart Mitchell

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