AUSTRALIAN INDUSTRY GROUP

REVIEW OF EXPORT MARKET DEVELOPMENT GRANTS SCHEME 2004-05

SUBMISSION BY THE AUSTRALIAN INDUSTRY GROUP

NOVEMBER 2004

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SUMMARY AND RECOMMENDATIONS

Exports are a critical component of the Australian economy. In addition to aiding the task of economic development through growth and paying for imports, exporting assists Australian companies to increase their competitiveness and helps them to access global innovation and technology. However less than one in twenty Australian businesses are exporters, a lower figure than in comparable industrialised economies. Substantially increasing the number of exporters is a fundamental goal for Australian industry.

The Export Market Development Grants Scheme ("the Scheme") has been a critical element in boosting Australia's export performance. The Australian Industry Group (Ai Group) strongly supports the continuation of the Scheme, a substantial increase and greater certainty for its budget, and a broadening of its eligibility criteria.

Without such revision, the Scheme is at risk of becoming increasingly peripheral to the vital task of securing and building upon Australia's export successes in an increasingly competitive global market.

Ai Group makes the following specific recommendations:

Recommendation 1: Continuation of the Scheme, with another review to be conducted in 2010.

Recommendation 2: Raise the funding limit for the Scheme to $300 million, in addition to providing for an annual CPI adjustment to preserve the real value of the funding.

Recommendation 3: Increase the turnover ceiling on eligible companies to $50 million.

Recommendation 4: Raise the maximum grant payable to $200,000. Consider raising it to $300,000.

Recommendation 5: Extend the funding eligibility period under the Scheme to eight years.

Recommendation 6: Amend the Scheme so that companies are eligible for re-entry to the Scheme when attempting to enter new markets, or existing markets with new products.

Recommendation 7: Amend the Scheme so that companies can commence a new claim process when there has been substantial change in ownership or policy, and three years have elapsed since the first one or two claims.

Recommendation 8: Reduce the level of spending that is required before being eligible to claim for a grant from $15,000 to $10,000 over the first three years.

Recommendation 9: Repeal Section 55 of the Export Market Development Grants Act 1997 to make eligible claims relating to the marketing of intellectual property in cases where an overseas subsidiary of an Australian company has intellectual property rights assigned to it.

Recommendation 10: Extend eligibility to cover the costs of international registration of patents and trademarks.

Recommendation 11: Create a new category of eligible expenditure of export skills professional development and training for staff.

Recommendation 12: Increase the market visit allowance to $300 per day.

Recommendation 13: Reduce the delay between grant application and full reimbursement for eligible expenditure to 90 days.

Recommendation 14: Examine the potential utility of the Scheme to maximise the growth in exports possible from the recent and proposed bilateral trade agreements.

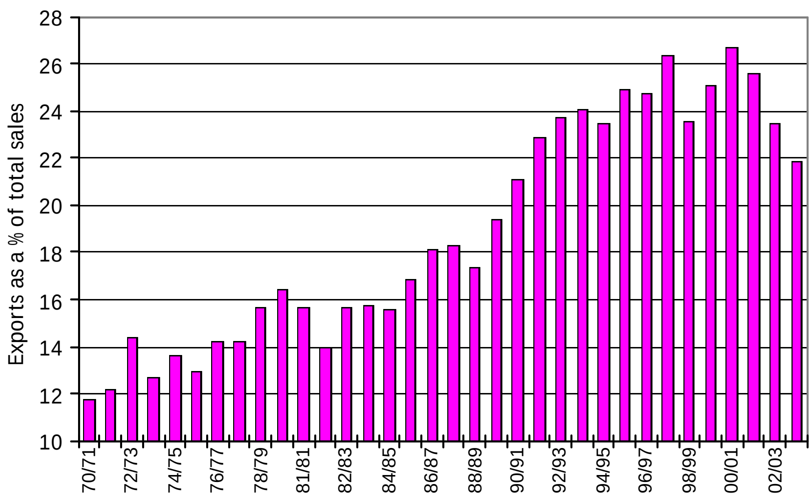
THE AUSTRALIAN INDUSTRY GROUP

The Australian Industry Group (Ai Group) is Australia's leading industry organisation, representing 10,000 member companies in manufacturing, construction, automotive, telecommunications, IT, transport, labour hire and other industries. Manufacturing is the largest sector in the Australian economy, contributing $78 billion to GDP and earning $62 billion in exports each year and employing 1.1 million Australians. Ai Group's membership is representative of an expanding range of sectors in Australian industry. Ai Group has been representing Australian industry for more than 130 years.

AUSTRALIA'S RECENT MANUFACTURING EXPORT PERFORMANCE

Australian manufacturing exports grew strongly over the 1990s, doubling from around $30 billion (in industry of origin terms) in 1989/90 to $60 billion by mid-2000. The increased importance of exports to manufacturing is reflected in the strong rise in export propensity (export sales as a proportion of total sales) over the decade, from 14 percent to over 22 percent. The growth in Australian exports through this period was in no small part supported by increases in manufacturing exports. Indeed, the growth in exports of manufactures has been a key characteristic of the increasing diversification of Australia's export base, as illustrated in the almost fivefold growth in motor vehicle exports through the 1990s.

Australian manufactures exports as a percentage of total sales

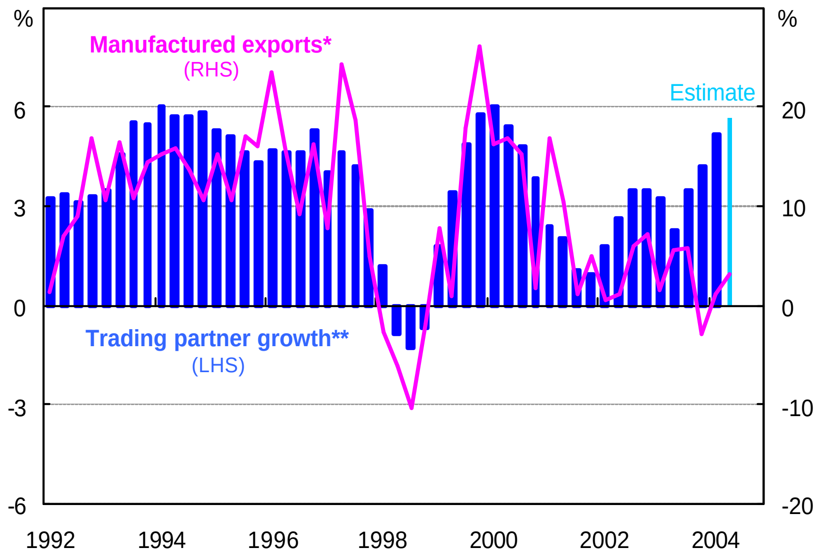


However, Australian exporters of manufactured goods have recently faced unprecedented challenges that have contributed to a near $8 billion decline in the value of annual manufactured exports in the two years to June 2004, with exports falling from around $70 billion to $62 billion. This decline has largely been the result of the rapid increase in the value of the Australian Dollar (particularly over 2003 and into early 2004) making our exports less competitive on world markets, the ongoing drought and the increased global presence of low labour-cost countries - such as China - reducing the share of Australian manufactures in world markets. Recent work undertaken by Ai Group indicates Chinese manufacturing alone cut Australian manufactured exports by around $190 million in 2003. Reflecting these pressures, the strong link between trading partner growth and Australian manufactured export volumes has been lost over the past two years.

The need for structural change in the areas of skills, micro-economic reform and workplace relations have been recognised, with major efforts being made by both industry and government. However the persistent slump in manufacturing export growth highlights the pressing need to ensure that, at least in our direct export market development support program, the Scheme is effective in assisting Australian exporters to identify, establish and develop markets in the dynamic global economic environment. While this submission will focus on proposed revisions to the Scheme to achieve this end, Ai Group is currently also developing a comprehensive approach to improving exporting skills, which will form part of a broader business development strategy for Australian industry's global engagement.

Manufactured Exports & Trading Partner Growth

Year-ended percentage change



*Excludes frigates; **Weighted by shares in manufactured exports

Sources: ABS; CEIC; Thompson Financial; estimate from Consensus Economics

IMPORTANCE OF THE EMDG SCHEME FOR AUSTRALIAN EXPORTS

International trade is fundamental to the on-going growth of the Australian economy, and all levels of Government have a critical role to play in fostering the environment for the continued operation of an internationally-competitive and viable Australian manufacturing export sector.

This environment requires three distinct features:

1. existence of appropriate domestic policy settings and programs to foster an internationally-competitive manufacturing sector;
2. improved market access conditions through both multilateral, regional and bilateral trade policy efforts; and
3. effective export promotion programs to ensure the development and growth of Australian exports.

The Scheme is the lynchpin of this third aspect, assisting almost 4,000 Australian companies to enter and develop export markets each year. Ai Group is a strong supporter of the Scheme, which provides many small and medium-sized enterprises (SMEs) with critical funding during the costly and complex initial phases of identifying and establishing export markets, and providing some base support until exports are consolidated.

The Scheme is mutually supportive of other government programs and policies. It plays a key role in supporting the Government's objective of doubling the number of exporters by 2006, which is being actively pursued by organisations such as Ai Group, working under partnership arrangements with Austrade. This objective is a commendable one, given the major disparity that exists between one-fifth of Australian jobs being generated by exports while fewer than one in twenty businesses are exporters.

As the centrepiece of the Federal Government's suite of export assistance programmes, the Scheme has become integrated with some State and Territory export promotion programs, which have been specifically designed or fine-tuned to complement the Scheme. The decline in real funding for the Scheme over the past few years has already caused substantial detriment to the ability of potential or existing Australian exporters to exploit new markets.

Consultations undertaken by Ai Group in the course of preparing this submission indicate that the Scheme continues to play an important role in supporting Australian companies' ability to identify and develop export opportunities, and thereby contributes substantially to the process of improving the international competitiveness of Australian industry.

The Scheme is well understood by its users, is not hard for new exporters to understand, the infrastructure to administer it is already in place and running effectively, and it is WTO-compliant. Users generally noted that the administration and transparency of the Scheme had significantly improved over the past ten years. There were no major difficulties encountered with the audit and internal review of decisions relating to the administration of the Scheme. It was noted by some companies that SMEs could be discouraged by the application documentation requirements. About two-thirds of applications were prepared for SMEs by consultants, involving additional expense.

Some companies located in regional areas reported that there was relatively poor access to ongoing support and follow up provided by Austrade for more-isolated users of the Scheme. As a result, otherwise avoidable errors and omissions took place in applying for grants, sometimes resulting in substantial shortfalls in the level of grants received. This is one example of the current impediments to business that exist in regional areas. Ai Group supports the Government's ongoing commitment to the Regional Partnerships initiative and its related industrial development policies and will be seeking to contribute to this important program.

The 2000 Austrade Review of the Scheme found that every dollar granted through the Scheme generated more than $12 in additional exports. For a relatively modest current annual investment of just over $150 million, the Scheme has achieved impressive results in supporting Australia's export performance. This justifies the improvement and maintenance of its long-term viability and effectiveness.

Recommendation 1: Continuation of the Scheme, with another review to be conducted in 2010.

It is clear that the Scheme has successfully achieved its objectives over several decades, and it has demonstrated its ability to adapt to a changing economic environment and continue serving Australian exporters in a way that represents an excellent investment of Government funds. Ai Group strongly recommends the continuation of the Scheme, with another review to be conducted in 2010.

Exporters and potential exporters need to be able to make decisions with the certain knowledge that the vital funding from this Scheme will continue. Given that the task of export market penetration takes several years, it is important for companies in their planning to be able to factor in the significant enhancement to their exporting efforts provided by this Scheme.

FUNDING FOR THE SCHEME

Recommendation 2: Raise the funding limit for the Scheme to $300 million, in addition to providing for an annual CPI adjustment to preserve the real value of the funding.

A fundamental issue that must be addressed by the review of the Scheme is the inexorable erosion of its effectiveness as a result of the imposition of the$150 million cap on total funding. This budget cap, which was established in 1996/97, is not indexed for CPI increases. As a consequence, the ensuing period has seen a reduction of around one-quarter in the real value of the budget allocation for the Scheme. This is a significant undermining of a program that has otherwise proven extremely effective in meeting its export promotion goals and has provided an excellent example of how effectively Government funds can be invested in boosting economic growth.

Due to the budgetary cap and CPI increases, the Scheme has failed to provide all applicants with approved eligible expenditures since 2000/01, and reimbursements to individual companies have varied significantly from year to year. In addition to the effective reduction in funding for the Scheme, exporters have also had to deal with a lack of predictability in the level of reimbursement provided by the Scheme, which has caused a substantial reduction in export market development promotion activity.

$150 million a year is a very modest commitment to an export effort. The Scheme has proven effective in supporting the development of new export markets, but this effectiveness is being gradually undermined by CPI increases, the strengthening of the Australian dollar and strong growth in the number of exporters (many of which are eligible for reimbursement under the Scheme). Against such a context, the Government's policy goal of doubling the number of exporters from 25,000 in 2001 to 50,000 in 2006 will greatly benefit from ensuring that the Scheme is sufficiently funded.

Ai Group notes the Government's recent recognition of this issue and its commitment to increase funding by $30 million over three years. We understand that this funding boost was made in recognition of the increased export activity anticipated as a result of recently concluded and future bilateral trade agreements. However, we are concerned that this increase is significantly inadequate, given the potential for strong growth in the number of eligible applicants over the next few years.

Ai Group recommends that the funding limit be raised to $300 million to ensure full reimbursement to all eligible applicants, as well as providing for proposed extensions to the eligibility criteria. Given the Government's strong commitment to spending on innovation and its commercialisation, such increase in funding for the development of export markets would be appropriate. In addition an annual CPI adjustment to the Scheme's budget would preserve the real value of the funding in the future.

ELIGIBILITY CRITERIA

Recommendation 3: Increase the turnover ceiling on eligible companies to $50 million.

Participation in the Scheme is currently limited to companies with an annual turnover of less that $30 million. While the Scheme is intended to provide assistance to Small and Medium Enterprises (SMEs), the effect of the lower ceiling has meant that many medium-sized businesses, with a poor capacity to fund their own export development, are ineligible to participate in the Scheme. This lower limit restricts the ability of the Scheme to meet its objectives of promoting exports by SMEs.

The 2000 Austrade review of the Scheme noted that the previous $50 turnover million ceiling resulted in the majority of participants in the Scheme being companies that had less than 25 employees, and recommended that it be maintained. Notwithstanding this recommendation, the ceiling was subsequently lowered to the current level of $30 million. In 2002-03 almost two-thirds of companies receiving grants employed twenty or fewer employees.

While the definition of what constitutes 'small' and 'medium' companies is yet to be agreed, it is clear that the reduction of the turnover ceiling has made most - if not all - medium-sized enterprises, and some small companies, ineligible for participation in the Scheme. In order to ensure the Scheme meets its objectives of promoting export market development efforts by small to medium companies, the turnover ceiling of $50 million should be reinstated.

Recommendation 4: Raise the maximum grant payable to $200,000. Consider raising it to $300,000.

The current maximum annual grant payable under the Scheme is $150,000, which when viewed over the life of the Scheme in real terms is an historically low amount. When the Scheme was established in 1974 the maximum grant payable was $100,000, plus an additional $25,000 for promotion involving approved Government promotions. The level of the maximum grant was raised to $200,000 in 1982, and $250,000 in 1990. In 1996 the level was reduced to $200,000 (with a limit of $250,000 for related companies).

In recent years this amount has been further reduced to $150,000 which, when coupled with the decline in real value caused by CPI increases, represents a substantial reduction in the support provided to exporters under the Scheme. The lowering of the maximum grant payable was not related to any particular policy objective related to the Scheme, but rather to reduce pressure on the budget cap caused by an increasing number of eligible claimants. This has caused a reduction in the export market development spending of individual companies, with a resultant drop in exports.

In order to address this issue, Ai Group is of the view that the maximum grant payable be raised from $150,000 to at least the previous level of $200,000, with consideration given to raising it to $300,000. This measure would result in an increase in export promotion activities and consequently additional exports by eligible companies. Such a move would need to be considered in the context of an increase in the total budget of the Scheme, to avoid the current situation of grants falling short of the amount anticipated by claimants, particularly given the continued growth in the number of exporters.

Recommendation 5: Extend the funding eligibility period under the Scheme to eight years.

In order for SMEs to achieve sustainable export markets, the Scheme should be flexible enough to provide funding beyond the current seven-year grant limit. In most cases, a single export market penetration is not enough to ensure financial success of the export venture, not to mention the need to adapt quickly to changes in offshore market demand. Companies reported that there existed a "sense of abandonment" from the fourth year onwards, as the level of support decreased substantially, even in circumstances where companies were on the cusp of succeeding in establishing a new market.

Until recently the Scheme reimbursed claims from companies for eight years, a limit which was introduced in 1990, as it was concluded that grants provided after the eighth grant year did not increase export orientation and the ratio of exports to turnover typically declined after the eighth grant year. When this limit was reviewed in 1992/93 with a view to reducing the limit to six grants, an econometric analysis found that there was no evidence that export orientation decreased in the first eight years and the eight-year limit was retained.

The Scheme eligibility period should be extended to the previous limit of eight years. This extension to the eligibility period would also mean that smaller companies making errors in their grant applications in earlier years would not be disadvantaged as harshly with regard to the total level of reimbursement from the Scheme. Extending the number of grant years by one would not have major consequences for the costs of running the Scheme, as it was found in the 2000 review that only four percent of applicants claimed an eighth grant when it was available.

Recommendation 6: Amend the Scheme so that companies are eligible for re-entry to the Scheme when attempting to enter new markets, or existing markets with new products.

Ai Group recommends that companies be able to participate in the Scheme, notwithstanding having received the maximum number of available grants, when attempting to enter new markets, or markets with new products. The Scheme would be far more effective in achieving its objective of promoting Australian exports if it provided further encouragement to exporting companies to be more flexible and to develop multiple export markets, and to widen the range of product lines exported to a particular market.

Such a provision could be modelled on the previous 'new markets' provision of the Scheme, which provided that an exporter which had already received the maximum number of grants was able to access an additional three grants for each additional market. Under this provision a 'new market' was defined as a country where export earnings in the three years immediately preceding the application for a grant are less than $300,000. A similar test could apply to exports of different products to existing markets.

Recommendation 7: Amend the Scheme so that companies can commence a new claim process when there has been substantial change in ownership or policy, and three years have elapsed since the first one or two claims.

Further flexibility should be built into the Scheme so that companies can start a new claim process when there has been substantial change in ownership or policy, and a number of years have elapsed since the first one or two claims. A problem arises when a company has made one or more small claims in the past, subsequently establishes a sustainable export market and is then confronted with major restrictions on the reimbursement level, calculated on an inexorably decreasing percentage of export sales.

If there were a discretion built into the grants limitation, subject to clear guidelines, it would be possible to provide funding to firms at a crucial phase in the development of export markets. This would avoid the current situation where firms are effectively penalised for making small initial claims in the early years of their participation in the Scheme.

Recommendation 8: Reduce the level of spending that is required before being eligible to claim for a grant from $15,000 to $10,000 over the first three years.

The Scheme currently requires companies seeking reimbursement to have spent at least $15,000 on eligible export promotion activities, with first-time applicants being able to combine two years of expenditure to reach this threshold. This minimum expenditure limit is overly onerous for some of the small businesses seeking to establish export markets. About one-fifth of current grant recipients have an annual income of $500,000 or less, and many of these small exporters find it difficult to reach the minimum reimbursement level.

In order to sharpen the focus of the Scheme on SMEs the Scheme has, since 1990, seen a reduction in the threshold limit from $30,000 to the current level of $15,000. A study conducted at part of the 2000 review of the Scheme, when the limit was $20,000, found that 30 percent of applicants left the Scheme because they were spending less than this amount on export promotion.

Lowering this minimum limit to $10,000 and extending to three years the period over which expenditure counting towards this figure could be included would increase the number of smaller exporters accessing the Scheme and reduce the numbers leaving the Scheme in earlier years. This would have the effect of increasing the number of long-term exporters, one of the key objectives of the Scheme.

Recommendation 9: Repeal Section 55 of the Export Markets Development Grants Act 1997 to make eligible claims relating to the marketing of intellectual property in cases where an overseas subsidiary of an Australian company has intellectual property rights assigned to it.

Section 55 of the *Export Market Development Grants Act 1997* ('the Act') does not allow expenses to be claimed unde the Scheme if they were incurred in an eligible promotional activity aimed at increasing the applicant company's return on the disposal of eligible intellectual property rights to a related company.

This provision thereby prevents claiming expenditure by an overseas subsidiary company to market the intellectual property of an Australian parent in cases where the overseas company has the intellectual property rights assigned to it. In such a case the parent company has incurred promotion expenses that results in royalties or licence fees returning to Australia for the use of the intellectual property.

Repealing this provision and enabling exporters to claim this expenditure would reflect the existing commercial reality and would encourage increased exports of Australian intellectual property.

Recommendation 10: Extend eligibility to cover the costs of international registration of patents and trademarks.

The importance of the intellectual property component of Australian exports is increasing as Australian companies become more innovative and internationally competitive. Presently the Scheme does not allow exporters to claim the costs of overseas registration of patents and trademarks.

Companies have noted that major overseas competitors, particularly in the United States, seek intellectual property protection for minor variations in technology, necessitating substantial legal expenditure by the Australian company in searching for registrations to ensure that a product released on major overseas markets is not going to be the subject of intellectual property litigation.

For SMEs, overseas intellectual property registration costs are substantial, and some of these companies are risking their asset base by not seeking registration of their intellectual property rights. It is recommended that the Scheme be amended to allow the reimbursement of costs relating to the international registration of patents and trademarks.

Recommendation 11: Create a new category of eligible expenditure of export skills professional development and training for staff.

Given that one of the key goals of the Scheme is to foster an export culture in Australian industry, there should be more emphasis on staff development and training in export skills. While the cost of engaging consultants has been an eligible expense under the Scheme for some time, the scope of this category was narrowed in 1996-97 to restrict it to the engagement of consultancy services for market research or marketing activities.

SMEs inexperienced in exporting greatly benefit from training of staff in export promotion and processes. However such expenditure is not eligible under the Scheme as it stands, with reimbursement only available for a restricted range of consultancy services and no eligibility for training activities. The Scheme should be amended to make eligible funding to provide for professional development and the provision of training for staff in export skills.

SCHEME RULES, ADMINISTRATION AND CONSISTENCY WITH GOVERNMENT POLICY

Recommendation 12: Increase the market visit allowance to $300 per day.

The Scheme currently provides reimbursement of $200 for each day spent overseas on eligible promotional activities, to contribute towards accommodation, entertainment and living expenses. This amount now falls substantially short of the costs of such travel in key export markets, particularly the European and North Asian markets. While it is recognised that the $200 amount is only intended to partially offset the costs of travelling, it is submitted that the increasingly large difference between this amount and the actual costs of travelling in some markets is an strong disincentive to undertake such visits. This allowance should be increased to $300 per day.

Recommendation 13: Reduce the delay between grant application and full reimbursement for eligible expenditure to 90 days.

One result of the current budget cap and the resulting complex and lengthy two-part reimbursement system is that eligible claimants have had to wait up to 12 months and sometimes longer after the end of the grant year to receive the second payment, which is often substantially lower than the eligible amount. Were the issue of the budget cap for the Scheme to be addressed, this two-payment system could be abolished.

Timely reimbursement of grants is essential to the cash flow considerations of most companies, and this delay in payments is completely unrealistic for an SME with relatively low cash flow. This lag between incurring the eligible expenditure and the (sometimes partial) reimbursement of the amount is a disincentive for smaller companies considering applying under the Scheme. The Scheme should be restructured to allow for a single reimbursement of eligible expenditure to companies within 90 days of the grant application.

Recommendation 14: Examine the potential utility of the Scheme to maximise the growth in exports possible from the recent and proposed bilateral trade agreements.

The Federal Government has in recent years placed strong emphasis on the negotiation and conclusion of liberalising bilateral agreements, most notably with the United States and Thailand. The implementation of these agreements and others in the future, will undoubtedly present major new opportunities for Australian exporters with access to the relevant markets, many of which were not previously viable prospects. A good example of this would be the newfound Australian access to the $200 billion US Government procurement market under the Australia-United-States Free Trade Agreement. Set against the context of current efforts to increase Australian exports, an examination should be made of the potential utility of the Scheme to optimise the potential growth in exports possible from existing and future bilateral trade agreements.

Australian Industry Group
November 2004

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Ai Group Recommendation	Review Findings
1. Continuation of the Scheme, with another review to be conducted in 2010.	Agree.
2. Raise the funding limit for the Scheme to **$300 million**, in addition to providing for an annual CPI adjustment to preserve the real value of the funding.	Government’s increased funding to Scheme of $30 million over three years - **$170.4 million** in 2005-06 - will increase Scheme’s capacity to accommodate demand. Consideration could be given to indexing the Scheme’s budget to the CPI and allowing program funds not spent in years of low-grant demand to be carried forward over the life of the program.
3. Increase the turnover ceiling on eligible companies to $50 million.	No change.
4. Raise the maximum grant payable to $200,000. Consider raising it to $300,000.	No change.
5. Extend the funding eligibility period under the Scheme to eight years.	No change.
6. Amend the Scheme so that companies are eligible for re-entry to the Scheme when attempting to enter new markets, or existing markets with new products.	No change.
7. Amend the Scheme so that companies can commence a new claim process when there has been substantial change in ownership or policy, and three years have elapsed since the first one or two claims.	No change.
8. Reduce the level of spending that is required before being eligible to claim for a grant from $15,000 to $10,000 over the first three years.	No change.
9. Repeal Section 55 of the Export Market Development Grants Act 1997 to make eligible claims relating	Agree. Repealing this section would make the Scheme more accessible to related companies.

twhich o the marketing of intellectual property in cases where an overseas subsidiary of an Australian company has intellectual property rights assigned to it.	
10. Extend eligibility to cover the costs of international registration of patents and trademarks.	No change.
11. Create a new category of eligible expenditure of export skills professional development and training for staff.	No change.
12. Increase the market visit allowance to $300 per day.	Agree. Increasing the allowance to $300 per day would increase the incentive and assistance for visiting overseas markets
13. Reduce the delay between grant application and full reimbursement for eligible expenditure to 90 days.	No change. Austrade should step up its efforts to assist applicants to lodge timely and accurate applications, which would lead to quicker and more certain grant payments.
14. Examine the potential utility of the Scheme to maximise the growth in exports possible from the recent and proposed bilateral trade agreements.	No change.

The Australian Industry Group called on the Federal Government to act decisively to ensure that Australia's exporters and potential exporters were supported in their efforts to strengthen Australia's crucial export base.

The Australian Trade Commission, Austrade, recently completed a review of the Export Market Development Grants Scheme (EMDG), the centrepiece of the Federal Government's export assistance efforts. The Review recommends a few minor changes to its operation, while not addressing the key issues of providing adequate funding and ensuring that the Scheme is accessible to Australian exporters.

The Review, which is currently being considered by the Federal Government, recommends that the Scheme continue, with another review to be conducted in 2010. However, it endorsed the current level of funding for the Scheme, which in 2005-06 will be $170.4 million.

"The adoption of the Review's recommendations would do little to address the weak performance of Australian manufactured exports in recent years", said Heather Ridout, Chief Executive of the Australian Industry Group.

Mrs Ridout called on the Government to significantly increase the annual budget for the Scheme, saying that an annual budget of $300 million was more appropriate for what was the keystone of Australia's efforts to foster and develop a diverse and sustainable export sector, articulated in the Federal Government's stated goal of doubling the number of Australian exporters by 2006. She said such an increase should be accompanied by restoring the wider accessibility that had existed before eligibility conditions and grant levels were substantially pared back over the last decade.

Since 1996 there has been a continual erosion in the real value of the Scheme's budget, which in that year was capped at $150 million. This budgetary restriction was accompanied by a narrowing of Scheme's eligibility criteria over the last decade, with the result that the effectiveness of a Scheme that had successfully promoted exports for decades is now seriously impaired. "The announcement in 2004 of a $30 million increase in funding over three years will do little to address these fundamental problems" said Mrs Ridout.

The past five years has seen the stagnation of Australia's manufactures exports. Their annual growth in real terms has averaged only one percent in the five years to 2004, in contrast to growth of almost eight percent through the 1990s. In current price terms, the annual value of manufactured exports fell from around $70 billion to $62 billion between 2002 and 2004. Over the 1990s the value of these exports doubled from $30 to $60 billion.

The reasons for this slump include China's global export market penetration; the relative strength of Australia's domestic demand and accompanying local capacity constraints; and the appreciation of the Australian dollar over 2003 and 2004.

An analysis undertaken as part of the Review found that for companies constrained by a lack of finance, the boost to exports for each EMDG dollar could be as high as $220 over the future life of the business. The analysis found that even if all EMDG scheme participants had easy access to finance, the boost in exports for each dollar grant was between $7.50 and $28.

“This Scheme has proven effective and successful in building Australia’s export potential. It should be funded appropriately and its accessibility to exporters improved so that it can continue to perform this crucial role” Mrs Ridout said.