

Chapter 2

Background to the EMDG scheme

Export Market Development Grants

2.1 The *Export Market Development Grants Act 1997* provides for the Australian Trade Commission (Austrade) to grant financial assistance to small and medium Australian enterprises as an incentive for them to develop export markets.¹ The legislation is meant to 'bring benefits to Australia by encouraging the creation, development and expansion of foreign markets for Australian goods, services, intellectual property and know-how'.² It does so through an assistance scheme for 'aspiring and current exporters'—the Export Market Development Grants (EMDG) scheme.

2.2 This scheme is a major Australian Government financial assistance program under which small and medium Australian exporters 'committed to and capable of seeking out and developing export business are repaid part of their expenses incurred in promoting those products'.³ The scheme supports 'a wide range of industry sectors and products, including inbound tourism and the export of intellectual property and know-how outside Australia'.⁴ Administered by Austrade, the scheme:

- encourages small and medium sized Australian businesses to develop export markets;
- assists small and medium-sized Australian businesses to address the challenges associated with undertaking promotion in export markets and achieve international business growth by reimbursing up to 50 per cent of expenses incurred on eligible export promotion over \$20,000;⁵ and
- provides up to seven grants to each eligible applicant.⁶

2.3 One submitter described the scheme as a 'true incentive' for Australian businesses to take on the export challenge.⁷ The scheme's underpinning principle is that incentives are provided only to export businesses that can return significant benefit to Australia because they are:

1 Reader's guide, *Export Market Development Grants Act 1997*, p. 3.

2 Section 3, *Export Market Development Grants Act 1997*.

3 Section 3, *Export Market Development Grants Act 1997*.

4 Austrade website, <http://www.austrade.gov.au/Export/Export-Grants/What-is-EMDG> (accessed 17 June 2013)

5 Portfolio Budget Statements 2013-2014, Australian Trade Commission (Austrade), Agency Resources and Planned Performance, p. 66.

6 Austrade website, <http://www.austrade.gov.au/Export/Export-Grants/What-is-EMDG> (accessed 17 June 2013)

7 *Submission 15*, p. 1.

- Australian businesses;
- seeking to export products that are substantially Australian; and
- being encouraged to undertake additional promotional activities.⁸

2.4 EMDG grants are not discretionary—there is legislated eligibility.⁹ To be eligible, companies must have an annual turnover of not more than \$50 million and spend a certain amount of promotional expenditure (\$20,000) before they can apply for a grant.¹⁰

2.5 The legislation sets out the eligibility criteria against which companies apply. If companies meet those criteria, then they can apply for a rebate against their export promotional expenditure—their marketing, an overseas agent, attendance at an exhibition or a trade fair. Austrade has an EMDG audit team to assess applications.¹¹ The EMDG is unique. According to one export consulting company, Sandilands Export, the EMDG:

- is a partial reimbursement on selected marketing expenses (not a grant in the true sense of the word);
- is assessable income in the year of receipt, providing some drawback to the Government;
- fosters an environment to encourage small to medium sized Australian businesses to look beyond our shores for trade;
- produces an identifiable return on investment for the Australian economy through the receipt of foreign revenue; and
- generates jobs in Australia.¹²

Scheme's performance

2.6 Mr Michael Vickers, Austrade, argued that the effectiveness of the grant program is the extent to which exporters go on to become sustainable self-supporting exporters in the long-term. He explained:

The goal of the scheme is to take exporters who are starting out in exporting and support their marketing efforts so they become established in a market. They graduate from the scheme. They no longer receive grants and they go on to become successful exporters earning income and creating employment for Australians.¹³

8 Reader's guide, *Export Market Development Grants Act 1997*, p. 3.

9 *Committee Hansard*, Estimates, 14 February 2013, p. 109.

10 Austrade website, <http://www.austrade.gov.au/Export/Export-Grants/What-is-EMDG/Who-can-apply> (accessed 17 June 2013).

11 Mr Peter Yuile, *Committee Hansard*, Estimates, 14 February 2013, p. 109.

12 *Submission 1*, p. 2.

13 *Committee Hansard*, Estimates, 14 February 2013, p. 108.

2.7 Austrade's 2011–12 Annual report showed that 3,277 grant applications were received in 2011–12 which represented a 28.5 per cent decrease on the 4,585 applications received in 2010–11. Of this number 2,993 grants were received representing a 30.5 per cent decrease on the 4,306 grant recipients in 2010–11. The cost of grants paid was \$125.6 million.¹⁴ The following table shows the trend in EMDG payments since 2007.

Table 2.1 Payments to EMDG recipients¹⁵

	2007–2008	2008–2009	2009–2010	2010–2011	2011–2012	Variance 2010–11 to 2011–12(%)
Total grant recipients	3,933	4,105	4,675	4,306	2,933*	-30.5
Value of grants (\$million)	150.3	185.9	198.1	143.1	125.6**	-12.2

* Includes 2,874 recipients for the 2010–11 grant year and 119 recipients over from previous grant years.

** Includes the value of grants for the 2010–11 grant year of \$120.2 million plus the value of 119 grants from previous years and supplementary payments to grant recipients from previous years. A total of \$125.6 million was paid from the 2011–12 appropriation.

2.8 Mr Vickers informed the committee that for the 2010–2011 grants year, which is export expenditure undertaken by companies in the financial year 2010 to 2011, the 3,277 applicants reported export sales of \$3.2 billion and the employment of 103,557 Australians.¹⁶

Support for scheme

2.9 Overall, and for a long period time, Australian businesses have strongly supported the EMDG scheme. A 2008 review of the scheme conducted by Mr David Mortimer (the Mortimer review), found that the scheme had been helpful in introducing smaller Australian businesses and new exporters to the global market. It noted both the scheme's effectiveness and efficiency in supporting the development of Australia's exports and recommended that the scheme should continue.¹⁷

2.10 Indeed, Mr Vickers told the committee that Austrade had done econometric studies that looked at the effect of \$1 of grant money and the return to the national interest. That was done in the Mortimer review, and some work was done in 2009

14 Australian Trade Commission, *Annual Report 2011–2012*, p. 86.

15 Taken from Australian Trade Commission, *Annual Report 2011–2012*, p. 87.

16 *Committee Hansard*, Estimates, 14 February 2013, p. 108.

17 David Mortimer, *Winning in World Markets: Meeting the competitive challenge of the new global economy*, Review of the Export Market Development Grants scheme, 1 September 2008, p. 1.

following the Mortimer review. Mr Vickers recollected that, for every \$1 of grant that is paid, there is \$5.38 in benefits achieved by the national economy if the effect of tax and spill overs and productivity gains by the exporters are taken into account.¹⁸

2.11 Many witnesses supported the finding of the Joint Standing Committee on Foreign Affairs, Defence and Trade in 2011 that:

...in view of the benefits arising from the Export Market Development Grants Scheme, it should continue indefinitely and be fully funded to provide certainty for exporters seeking to widen their overseas market focus.¹⁹

2.12 One witness, Exportise (NSW) Pty Ltd, noted that all the reviews, research, economic studies and feedback support the finding that the scheme is effective and benefits the Australian economy.²⁰ Mr Ian Murray, Executive Director, Export Council of Australia, similarly noted the number of EMDG reviews with every one finding the scheme to be 'highly successful'. Based on the Council's research, Mr Murray informed the committee that 60 per cent of companies currently in export, particularly among the small to medium sized enterprise (SME) sector, have said that the EMDG scheme has been 'a very strong support for getting them into export'. Twenty-three per cent of people said that 'if it had not been for EMDG they would not have gone into export'. Mr Murray accepted that the 23 per cent may be a relatively small number, but noted that when taken from start of the scheme in the 1970s, the overall number of companies is significant.²¹ The Export Consultants Group stated that the EMDG scheme had 'made a real difference to Australia's performance in the past and at this time'.²²

Review of Austrade

2.13 During 2010–2011, Austrade undertook a comprehensive review of Austrade's 'strategy, operating model and structure'. It drew on the views of stakeholders from governments, industry, business and Austrade staff.²³ The CEO initiated the review in order to 'put Australia on a more contemporary, more sustainable footing'. The conclusions of the review were to 'fundamentally reshape Austrade's strategy, operating model and structure'. The core elements of the new operating model are:

A realigned international network—with a different focus in different markets reflecting the commercial potential as well as the nature and scale

18 *Committee Hansard*, Estimates, 14 February 2013, p. 106.

19 See Joint Standing Committee on Foreign Affairs, Defence and Trade, *Inquiry into Australia's Trade and Investment Relations with Asia, the Pacific and Latin America*, July 2011, Recommendation 8, p. 42 and *Submission 1*, p. 2.

20 *Submission 11*, p. 2.

21 *Committee Hansard*, 7 June 2013, p. 2.

22 *Supplementary Submission 7A*, p. 1.

23 Australian Trade Commission, *Annual Report 2010–2011*, p. i.

of impediments to business in those markets and the optimal role for Government.²⁴

2.14 According Austrade's review it made sense for:

...Austrade's efforts in the more established markets of North America and Europe to be focused predominantly on inward investment and education services, with greater reliance on partners, referrals and online information and services to support Australia's exporters in these markets.²⁵

2.15 It found that a smaller proportion of Australian firms were making use of Austrade export services in these markets when compared with major growth markets. The review then referred to the closure of several small posts in North America and Europe, the reduction of some staff primarily in North America and Europe as well as a rationalisation and redirection of effort in Australia. It suggested that such measures would:

...release resources to strengthen Austrade's trade and investment representation in growth and emerging markets with high commercial potential, where there is strong interest from Australian business and importantly, where the challenges faced by firms are greatest.²⁶

2.16 The review indicated that this reorientation was important as Austrade's limited resources were 'currently thinly spread or absent from a number of locations where it could clearly add value'. It concluded that these markets would have 'a strong focus on trade development, the marketing of international education and, increasingly, over time, on investment'.²⁷ Although the review stated that the EMDG scheme would continue unchanged, the realignment of Austrade's focus toward new and emerging markets have influenced the proposed changes to the EMDG scheme as contained in the bill. The MYEFO explained:

The Government will retarget the Export Market Development Grants program towards emerging and frontier markets, with a focus on Asian markets. This measure complements the recent review of Austrade, which recommended that Austrade's export promotion work be undertaken in the world's emerging and frontier markets, where the commercial opportunities are the greatest and where Australian businesses can benefit most from Government support.²⁸

2.17 Mr Bruce Gosper, CEO Austrade, also referred to the rebalancing of grants that would increase the number of grants to eight for applicants to emerging and growth markets and reduce to five the number of grants that might be given to

24 Austrade, *Reform of the Australian Trade Commission: Maximising our Value*, May 2011, p. 3.

25 Austrade, *Reform of the Australian Trade Commission: Maximising our Value*, May 2011, p. 4.

26 Austrade, *Reform of the Australian Trade Commission: Maximising our Value*, May 2011, p. 4.

27 Austrade, *Reform of the Australian Trade Commission: Maximising our Value*, May 2011, p. 4.

28 Mid-Year Economic and Fiscal Outlook 2012–2013, pp. 189 and 226, http://www.budget.gov.au/2012-13/content/myefo/download/2012-13_MYEFO.pdf (accessed 17 June 2013).

applicants for the so-called 'mature markets'—Europe, the United States. He argued that this particular measure was consistent with the recent review of Austrade and the desire to rebalance resources towards those growth and emerging markets, particularly in Asia.²⁹

Savings

2.18 The changes to the EMDG Act are also in the context of the Government's intention to achieve a budget reduction as 'a contribution to balancing the budget'.³⁰

2.19 The Explanatory Memorandum states that expenditure under the Act is set through annual appropriations acts. A capping mechanism ensures that expenditure under the scheme is limited to the amount appropriated.³¹ As noted in the previous chapter, the MYEFO for 2012–2013 recorded an anticipated savings of \$25 million from changes to the scheme.

2.20 The 2013–2014 Portfolio Budget Paper confirmed that the scheme would be realigned and that savings of \$25 million would be made:

The scheme has been realigned to reflect the Government's emphasis on East Asian and emerging and growth markets, while returning an on-going saving to the budget of \$25 million per annum. This closer alignment involves increasing the number of grants available in East Asian and emerging and growth markets to eight and reducing the number of grants available in certain developed markets to five.³²

2.21 The reduction of funding by \$25 million, will reduce the total amount available for grants under the EMDG scheme from some \$150 million to \$125 million.³³ Overall, this measure will save \$100 million over four years, which will be redirected to support other Government priorities.³⁴ Mr Gosper informed the committee that the \$25 million saving 'represents, amongst other things, a contribution to fiscal consolidation'.³⁵

Industry's response to the proposed changes to EMDG scheme

2.22 Some witnesses were concerned that the proposed amendments would 'further erode the benefits of the scheme particularly for SMEs'.³⁶ Exportise (NSW) argued

29 *Committee Hansard*, Estimates, 14 February 2013, p. 104.

30 Mr Michael Vickers, *Committee Hansard*, 7 June 2013, p. 12.

31 Explanatory Memorandum, Outline.

32 Portfolio Budget Statements 2013-2014, *Australian Trade Commission (Austrade), Agency Resources and Planned Performance*, p. 66.

33 Mr Bruce Gosper, *Committee Hansard*, Estimates, 14 February 2013, p. 104.

34 Mid-Year Economic and Fiscal Outlook, p. 226, http://www.budget.gov.au/2012-13/content/myefo/download/2012-13_MYEFO.pdf (accessed 17 June 2013).

35 *Committee Hansard*, Estimates, 14 February 2013, p. 104.

36 See for example, Sandilands Export, *Submission 1*, p. 2; Export Consultants Association, *Submission 7*, p. 1 and Export Council of Australia, *Submission 12*, p. 1.

that the changes would 'effectively reduce the benefits available for Australian exporters'.³⁷ It asked 'why limit a program that has had a positive net benefit for the Australian economy?'³⁸ Mr Stuart Mitchell, Mitchell and Co Chartered Accountants, argued that the reduction in funding for the scheme would be counterproductive especially in light of possible lost export sales resulting in lost government revenue and reduced employment in Australia.³⁹ The Australian Chamber of Commerce and Industry (ACCI) was of the view that the proposed legislation was 'unnecessary'.⁴⁰ The Export Consultants Group likewise, informed the committee that the changes were 'unnecessary'.⁴¹ Similarly, the Export Council of Australia would like to see the scheme 'untouched'.⁴²

2.23 In the following chapters, the committee considers in detail the particular concerns raised about the proposed changes to the EMDG Act contemplated in the bill.

37 *Submission 11*, p. 1.

38 *Submission 11*, p. 2.

39 *Submission 15*, p. 4.

40 *Committee Hansard*, 7 June 2013, p. 3.

41 *Committee Hansard*, 7 June 2013, p. 2.

42 *Committee Hansard*, 7 June 2013, p. 4.

