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10th November 2019

Ms Anna Fisher
Co- Owner Zonte's Footstep
2019 EMDG Review Chair
C/- Australian Trade and Investment Commission (Austrade)
Levels 1 & 2 Nishi Building
2 Phillip Law St
CANBERR ACT 2601

Via email/EMDG 2109 Portal - 2019Review@austrade.gov.au

Dear Anna

2019 Review Export Market Development Grants (EMDG)

We are an Australian based consulting business that helps Australian exporters.

The submission is in relation to your review of the EMDG program as part of the consultation process outlined on Austrade's website and as announced by Senator the Hon Simon Birmingham, Minister for Trade, Tourism and Investment in recent weeks.

It is also a requirement of Section 106 of the Export Market Development Grants 1997 (As amended).

The terms of reference for your review are broader than a review of the EMDG program in isolation.

Namely: -

1. How assistance to Australia SME's can be delivered in the most effective way to encourage more businesses to begin exporting, to develop new markets or to expand existing export markets.
2. How to design and administer any assistance in the most efficient way.

Unless where indicated our comments will in the main have regard to both the effectiveness and efficiency of the EMDG program only.

Effectiveness we take to mean how well the wishes of government are implemented and efficiency the time/cost to make them happen.

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Background

The focus of the EMDG program is stated in clause 3 of its legislation: -

"The object of this Act is to bring benefits to Australia by encouraging the creation, development and expansion of foreign markets for Australian goods, services, intellectual property and know how."

The scheme has other parameters that directs the payments to small to medium enterprises and to ensure that payments are only made to *"export businesses that can return significant net benefit to Australia".*

The EMDG program has been in existence for over 45 years.

It is the only government assistance program with the above objective and hence can be said to be only one that is aligned with the terms of reference for your review.

Austrade's website reporting:

> *"EMDG is highly popular. In 2018–19, more than 3,900 small and medium-sized enterprises (SMEs) applied successfully for reimbursement of promotional expenses under the scheme. These SMEs generated A$4 billion in exports.*[1]

The EMDG program given the period that it has been in existence, is the only program that provides a data set that can be looked to measure its contribution to the Australia economy over such an extended period, no other financial assistance scheme can do this.

Other government assistance schemes (both state and federal) are industry specific, with short term features or centering in the first instance around complementary export focused research and development strategies (R&D tax incentive), investment attraction, human resource or plant and equipment modernization.

Government initiatives to increase access to overseas markets by way of Free Trade Agreements are to the commended, however their role only acts to increases market access, not to automatically cause additional export sales to happen.

Exporters have to take up the challenge to promote and sell to those markets on a normal risk return basis. EMDG acts as an incentive to do so. Senator Birmingham stating:[2] -

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[1] Austrade website 10/11/2019.

[2] Austrade Website 10/11/2019

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> "*That recent trade deals have improved access to 1.8 billion new customers – and that the EMDG scheme helps SMEs reach them".*

The effectiveness and efficiency of the EMDG program has been reviewed on many occasions.

All reviews have found that the program is money well spent by government in relation to the multiplier effect of grants payments to export sales and hence employment that would not otherwise have happened but for EMDG.

An extract from the Austrade 2019/2020 budget (as part of the DFAT portfolio) is attached. [i3]

It records the funding in the forward estimates for EMDG at $157.9M for years 2019/2020 to 2021/2022. This is an increase of $20M for three years arising from pre-2018 Federal election commitments. In 2022/2023 the forward estimate reduces back down to $137.9M.

The grant payment is taxable income for the exporter and hence produces a current or future taxable income with an actual/future return to government of 29% in the dollar not only on the grant itself but additional profitability from the sales generated by it.

The program has had capped funding since 1996/1997. Attached [4] is a table of the history of the program since that date.

For the last 5 years the demand for the program has exceeded the supply of money per budget appropriations. This is expected to continue in future years, not withstanding the additional $20M increase.

Grant payments over $40,000 are rationed over available funds. For the 2017/2018 grant year the payment for grant entitlements above this sum rate was 24.59 %, the lowest on record.

Government describes this position as "over subscription", exporters describe it as "as a short payment".

Some exporter's expectations are not met, in that their final grant payment is not known until some 12 months or longer after expenditure has been incurred. This impacts about 25-30% of all grant recipients.

Terms of Reference No 1 – Effectiveness

EMDG by it design accommodates both new and existing exporters. It does so, via direct financial assistance.

Exporters can access all the information they need via the web, various government agencies for example; in the wine sector, Wine Australia and for Tourism, the Australian Tourism Commission.

[3] https://dfat.gov.au/about-us/corporate/portfolio-budget-statements/Documents/2019-20-foreign-affairs-and-trade-pbs-austrade.pdf

[4] EMDG Scorecard Since Introduction of Budget cap in 1996/1997

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Austrade's non EMDG advice function and network, here and overseas is funded to the extent of some $400M per year.

To export is a business decision. It not actually undertaken as result of government urging or the advice of Austrade via its exporter education and facilitation arm (Free Trade Agreement advice etc.).

EMDG provides support to those starting out and those getting results. It provides a clear offset to the funds that need to be invested to make a successful exporter.

To export, like any other business activity/decision is an investment decision - what is the likely return for the risk, costs involved?

Money talks and hence provides the best incentive to export.

EMDG by nature provides funding to allay some of the financial risk, to "break-even" sooner than otherwise would be.

It allows 2 years of trying to make an export sale happen and then requires results for clients to remain in the scheme. Those results are additional export sales, hence employment and investment in Australia to help drive and sustain the incentive that EMDG does give to approach new markets.

Consider the following figures as attached [5]

- An Export Investment Decision/Funding requirement pre EMDG – Figure 1
- An Export Investment Decision/Funding requirement post EMDG – Figure 2

Given a choice, with a quicker return to break-even, the incentive via EMDG to export is clearly shown.

Hence our view that EMDG is the most effective policy mechanism to achieve the objectives of government to encourage new and sustainable exporters to make additional export sale revenue happen.

It also creates better focused and sustainable exporters.

To answer the specific question posed in the Terms of Reference – the different type of assistance for businesses along the export journey, EMDG provides the same sort of assistance to all.

In our further view, the basic parameters of the EMDG program should be unchanged, with the following suggested improvements: -

The program **needs to have additional funding** to bring it into balance to ensure all grant entitlements are paid in full. This is the simplest and most effective way to meet your terms of reference.

[5] Figures 1 and 2 – Export Investment Blackhole -pre and post EMDG

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The benefits of the additional funding are threefold: -

- Exporter's expectations will be met. This means they will seek out more customers and market to fulfill the maximum extent the object of the program. It will bring back certainty to the program as outlined a key focus of the latest review in 2015 [6]

- Additional export sales will be generated and hence employment generated in line with previous studies of the program. This will create taxable income that would not otherwise not occur but for the programme.

- The funding will continue to be taxable, reducing the net cost to government by 29%

We accept that Government does have limited resources. To not fully fund EMDG is a political decision, not one based on the overall effectiveness of the program.

Investment attraction should be made an eligible activity under the EMDG Act.

Austrade acts to help Australian exporters make sales overseas and for Australian businesses to attract overseas investment.

The EMDG program is limited to assisting exporters make sales only, not seek out inwards investment.

The EMDG program needs to be brought into "sync" with the aims and objective of Austrade as well as current business trends.

Duplication of funding for export development by other government departments/ agencies needs to be cut.

There are number of other government departments and agencies that have their own export programs which in essence are already covered by the EMDG program. Two examples are as follows:

https://www.business.gov.au/assistance/small-and-medium-enterprises-export-hubs

This funding model is already covered by the Approved Body class of applicant under the EMDG program.

http://www.defence.gov.au/Export/Strategy/NewExportSystem.asp.

This type of grant funding is already covered by the EMDG program.

[6] 2014/2015 Review of the Program Certainty and Confidence – report of Michael Lee

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EMDG does not support innovation as well as it should.

A grant paid to a client some 20-30 years ago is remembered under the provisions of the scheme. Notwithstanding ownership changes, new products, new services, new export business activity.

Exporting does not stand still with overseas markets completely changing year in and year out, the current trade battle between the US and China and the Brexit deliberations are two current examples.

Clients wishing to innovate and develop new products and enter markets are prevented from EMDG support by the provisions of Section 94 of the EMDG legislation. This section is too restrictive in assessment and application, it needs to fund new exporter activity by existing exporters.

This section is one of the highest-ranking reasons to deny a grant to a client. It also the highest-ranking reason clients proceed to the Administrative Appeals Tribunal (AAT) a sizable cost both to Austrade and those applicants who choose to pursue this path of adjudication.

Section 94 needs to be written to allow greater flexibility in administration by Austrade.

In addition, all grants payable prior to 2010 should be wiped (as happened in 1985) to enable past exporters with a greater chance of success to innovate and promote new products and services relevant to today's export markets.

EMDG is in inequitable in how grant funds are rationed between exporters.

Grants are rationed between clients in the scheme and to reflect the intention of the Government that the scheme is not continuous on the basis of the number of grants being limited to 8 grants.

A client could be paid 8 grants of the minimum of $5,000 per grant which comes to $40,000 in total payments.

Another client of the scheme could over 8 years be paid the maximum grant of $150,000 per year and hence be paid $1.2M well in excess of the first client.

Both clients irrespective of the difference in grants are treated the same with the same grant history in years.

This is not equitable.

The limit of a funding of a client under the scheme ***should not be based on years but on total funds spent.*** That is a limit of money paid that can be taken over any number of years until the client funding cap is reached. In the alternative, clients should be allowed to ***"buy back"*** past grants, say up to three of small nature (paid back in the 1990's for example) to enable them to re access the scheme now for current and larger funding for current export markets.

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EMDG does not fund new product/service development.

A client inherits a grant history based on a grant paid for expenditure in a year across all products which of course needs to change overtime to meet changing market demands.

Other government programs – namely AusIndustry's range of grants and R&D incentives are about developing new products. EMDG ignores this.

Again Section 94 should be rewritten to take into account what product has received funding in the past – that is "Business activity" described in the section needs to properly defined and make reference to the product which gained the past EMDG support being the major determinate for Section 94 to apply or not.

EMDG does not support overseas brand building.

Brand building is about promoting one's logo and supporting brand collateral information to support the position of an overseas customer choice to buy the product or service

The creation of a new logo/brand for a service-based business is considered by Austrade to be packaging and labelling and hence not claimable under the program. It clearly not the case as there is ***no package*** for it to be placed upon!

Development of a new wine label for overseas is about "advertising on a bottle" it is more than health warnings and the like, it is done to help the customer to purchase the product i.e. know the story behind the wine and wine maker and entice the buyer to purchase.

Logo development and retail-based packaging design (food and wine as examples) should be allowable EMDG marketing expenses.

Terms of Reference No 2 – Efficiency

This term of reference deals with the how efficient the delivery of the EMDG program is.

The basic parameter of the scheme is that it is a rules bases scheme. If you follow and understand the rules you will be paid your grant entitlement, subject to full funding.

There are two basic drivers to the payment of one's grant entitlement.

- An applicant needs to spend money first and claim back its EMDG entitlement.
- An audit assessment in one form or another undertaken before payment.

Both of the above need to continue. Both are very efficient means of allocation funding to exporters.

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An applicant can prepare and lodge an application on July 1, one day after the end of the grant period and be paid its grant entitlement within weeks if not days. If you take longer to lodge your application, the payment of your grant will take longer. The incentive is there to lodge earlier.

If your grant is greater than $40,000 then you know on lodgment that you will be paid your second installment /tranche in June of the assessment year. I have not heard of a client compliant in this regard for many years. The uncertainty is and hence complaint is centred solely on the unknown percentage to be paid. It does restrict exporters promotional spending habits.

If the scheme is not to be fully funded, the scheme parameters need to be changed to make the scheme fit the funding. Such changes could be:

- To increase the minimum spend level to access the scheme - > $15,000.
- To increase the threshold before the grant reimbursement kicks in -> $5,000.
- To reduce the maximum grant payable - say to $100,000.
- To reduce the number of grant years – back down to 7 as it has been in the past.
- Or a combination of all.

I am sure that modelling has already been or will be conducted on such strategies, each will have impact to varying degrees. The effectiveness of the program will be impacted, but it will "fix" the main concern with the scheme that been in place for the last 5 years.

Audit assessment before payment, creates certainty to the exporter, the grant is paid or it is not, it is paid in full or it is not. There is no post grant payment "claw back", thus avoiding the current issues surrounding the R&D programme at this time.

EMDG is a well written legislation and there is sufficient support available to an exporter via Austrade directly or via consulting firms similar to ourselves.

We have a success rate with our applications of approximately 98% as do many of our peers, so the ability to follow the EMDG rules and be paid a grant is clearly there.

It seems to be a thought that the role of a consultant being required by an exporter, means the program is complex. It is not.

There is cost to submit an application. This is borne by the applicant, either internally of externally via the appointment of a lodging agent consultant like ourselves.

There is a cost to audit an application. This an Austrade cost that is borne by the exporter by reduced funds being payable for actual grant payments. This is not a problem when the scheme is funding funded.

I cannot comment on the efficiency of Austrade audit processing other to say most applications are paid quickly and fair and professional manner. You do have occasional over-auditing and somewhat

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bureaucratic indifference but no more than to be expected in any government program. Overall, we believe Austrade does a very good job.

Austrade EMDG processing costs are 5% of the available funds, so with some 4,000 grant assessments to be made, the average cost per application is the order of $1,750.

We would guess this benchmarks very well any other assistance program. Quite often, the costs to administer a program is greater than the actual funds distributed.

Nevertheless, exporters should not have to pay the cost of the audit of their application by the relevant government agency. The Austrade EMDG budget needs to be "decoupled" from EMDG funding and be funded out of Austrade's own budget as happens for all its other activities.

The role of an EMDG consultant/agent is similar to that of a tax agent, acting to lodge a tax return. With a higher accuracy rate (in the order of 98%) this higher claim quality means a better return is prepared and hence creates easier processing and a quicker payment.

Our role is simply as an external service provider. We get paid a fee to provide a service, to prepare a client's grant application in the most efficient manner, in less time, with less risk of failure and at less cost (internal staff time in lost productive time and actual wage costs)

Clients are happy to pay for our service; the most common reasons are: -

- *"So, I can concentrate on running my business".*
- *"We out-source a lot of our business functions to reduce our fixed costs".*
- *"I use an accountant to do my tax return, so a grant agent is the way to go as well".*
- *"Your charges seem fair and reasonable to me".*

About 70% of applicants use a consultant, it's not about the program being complex, it's about the value adding to the application process. Ourselves, we are a full export advisory firm and provide assistance on export planning, export costing and pricing, transfer pricing and applicable overseas office set up costs and the like. We do believe therefore we add value to the EMDG application process.

Conclusion

EMDG is the most effective and efficient scheme to meet your review's Terms of References.

EMDG needs to improved not replaced.

It does make a real difference to Australian export success and employment. It does make us more internationally competitive.

EMDG can continue to be a driver to SME growth in the future as it has been in the past.

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EMDG is not a training program it's a "doing" program and achieves real results for those that access it - export sales and hence jobs retention and growth that would not have not have happened but for the program being in existence.

Uncertainty in the program, existing for the last 5 years needs to be and can be fixed.

Change the funding or change the scheme parameters to better meet the supplied funding.

Additional funding needs to be made for the 2022/2023, the reduction of the funding pool back to $137.9K per the current forward estimates would create a disaster for exporters wanting to access the scheme at that time. It is very much a ticking timebomb that needs to be diffused now.

Yours sincerely

Stuart Mitchell

Stuart Mitchell
Mitchell and Co

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Reference 3 - Austrade Budget Statement Extract

Table 2.1.1: Budgeted expenses for Outcome 1 (continued)

	2018-19 Estimated actual $'000	2019-20 Budget $'000	2020-21 Forward estimate $'000	2021-22 Forward estimate $'000	2022-23 Forward estimate $'000
Outcome 1 Totals by appropriation type					
Administered expenses					
Ordinary annual services (Appropriation Bill No. 1)	140,871	168,650	177,900	177,900	137,900
Administered total	140,871	168,650	177,900	177,900	137,900
Departmental expenses					
Departmental appropriation	193,128	192,991	192,145	193,038	195,591
s74 External Revenue (a)	27,400	27,400	27,400	27,400	27,400
Special accounts	128	-	-	-	-
Expenses not requiring appropriation in the Budget year (b)	13,000	15,069	16,500	15,686	15,686
Departmental total	233,656	235,460	236,045	236,124	238,677
Total expenses for Outcome 1	**374,527**	**404,110**	**413,945**	**414,024**	**376,577**

	2018-19	2019-20
Average staffing level (number)	903	991

(a) Estimated expenses incurred in relation to receipts retained under section 74 of the *PGPA Act 2013*.

(b) Expenses not requiring appropriation in the Budget year are made up of depreciation expenses, amortisation expenses, make good expenses and audit fees.

Note: Departmental appropriation splits and totals are indicative estimates and may change in the course of the budget year as government priorities change.

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Reference 4 - EMDG Scorecard since introduction of Budget Cap in 1996-1997

EXPORT MARKET DEVELOPMENT GRANTS
SCORECARD SINCE INTRODUCTION OF BUDGET CAP IN 1996/1997

MINISTER	GRANT APPLICATIONS	GRANT RECIPIENTS	CLAIM YEAR	EMDG BUDGET $M	POTENTIAL MAXIMUM GRANT - $	INITIAL PAYMENT $	BALANCE GRANT PAYOUT	MAXIMUM GRANT PAID - $	MAIN EMDG RULES					
									MIN SPEND $	MIN GRANT $	REIMBURSE > ABOVE $	YEARS	TURNOVER $	EXPORT EARNINGS
Fischer	3,251		1996/97	150	200,000	50,000	100.00%	200,000	20,000	2,500	15,000	8	$50M	
Fischer	3,261		1997/98	150	200,000	60,000	98.94%	198,519	20,000	2,500	15,000	8	$50M	
Fischer	3,200		1998/99	150	200,000	60,000	100.00%	200,000	20,000	2,500	15,000	8	$50M	
Vaile	3,215		1999/20	150	200,000	60,000	100.00%	200,000	20,000	2,500	15,000	8	$50M	
Vaile	3,391		2000/01	150	200,000	60,000	75.62%	165,875	20,000	2,500	15,000	8	$50M	
Vaile	4,164		2001/02	150.4	200,000	60,000	32.84%	105,979	20,000	5,000	15,000	8	$50M	
Vaile	4,022		2002/03	150.4	200,000	50,000	74.52%	161,786	20,000	5,000	15,000	8	$50M	
Vaile	3,588		2003/04	150.4	150,000	50,000	100.00%	150,000	20,000	5,000	15,000	7	$30M	
Vaile	3,765	3,499	2004/05	150.4	150,000	70,000	100.00%	150,000	20,000	5,000	15,000	7	$30M	
Vaile	3,813	3,548	2005/06	150.4	150,000	70,000	100.00%	150,000	20,000	5,000	15,000	7	$30M	
Truss	4,247	3,933	2006/07	150.4	150,000	70,000	24.42%	89,533	20,000	5,000	15,000	7	$30M	No
Crean	4,472	4,105	2007/08	150.4 + 50*	150,000	40,000	100.00%*	150,000	20,000	5,000	15,000	7	$30M	No
Crean	5,149	4,675	2008/09	200.4	200,000	50,000	73.94%	160,907	20,000	5,000	10,000	8	$50M	
Crean	4,585	4,306	2009/10	150.4	200,000	27,500	56.70%	125,311	20,000	5,000	10,000	8	$50M	
Crean/Smith	3,277	2,993	2010/11	150.4	150,000	50,000	100.00%	150,000	20,000	5,000	10,000	7	$50M	
Emerson	3,045	2,757	2011/12	125.4	150,000	60,000	100.00%	150,000	20,000	5,000	10,000	7	$50M	
Emerson/Ma	2,715	2,445	2012/13	137.9	150,000	60,000	100.00%	150,000	20,000	5,000	10,000	7	$50M	
Robb	3,195	3,137	2013/14	137.9	150,000	60,000	65.28%	118,755	15,000	5,000	5,000	8	$50M	
Robb	3,321	3,059	2014/15	137.9	150,000	40,000	72.66%	119,926	15,000	5,000	5,000	8	$50M	
Ciobo	3,539	3,166	2015/16	137.9	150,000	40,000	64.50%	110,955	15,000	5,000	5,000	8	$50M	
Ciobo	3,771	3,706	2016/17	137.9	150,000	40,000	29.24%	72,159	15,000	5,000	5,000	8	$50M	
Ciobo/Birm	TBA	TBA	2017/18	137.9	150,000	40,000	24.59%	67,057	15,000	5,000	5,000	8	$50M	
Birmingham			2018/19											

Reports on the EMDG program overtime

1997/1998 Mortimer - Going for Growth
1999/2000 Review - Bewley Analysis
2004/2005 Review - Centre of International Economics
2008/2009 Mortimer and Edwards -Winning in World Markets
2014/2015 Michael Lee - Certainty and Confidence and KPMG research

EMDG Legislation Changes

2002 Min Grant Increased from $2,500 to $5,001
2003 Max Grant $150K and years to 7 from 8
2006 Removal of Export Sales Performance Test
2008 Reinstatement of Export Sales Performance Test, Max Grant $200K, Reimbursement from $10,000
2010 Max Grant $150K and years to 8 to 7
2014 Reimbursement from $5,000

Prepared by Export Consultants Association Inc
18/10/2019

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Reference 5 - Figures 1 and 2 - Export Investment Blackhole -pre and post EMDG

Figure 1 - Exporting as Investment Decision of Unknowns
a "blackhole - cash is thrown into !

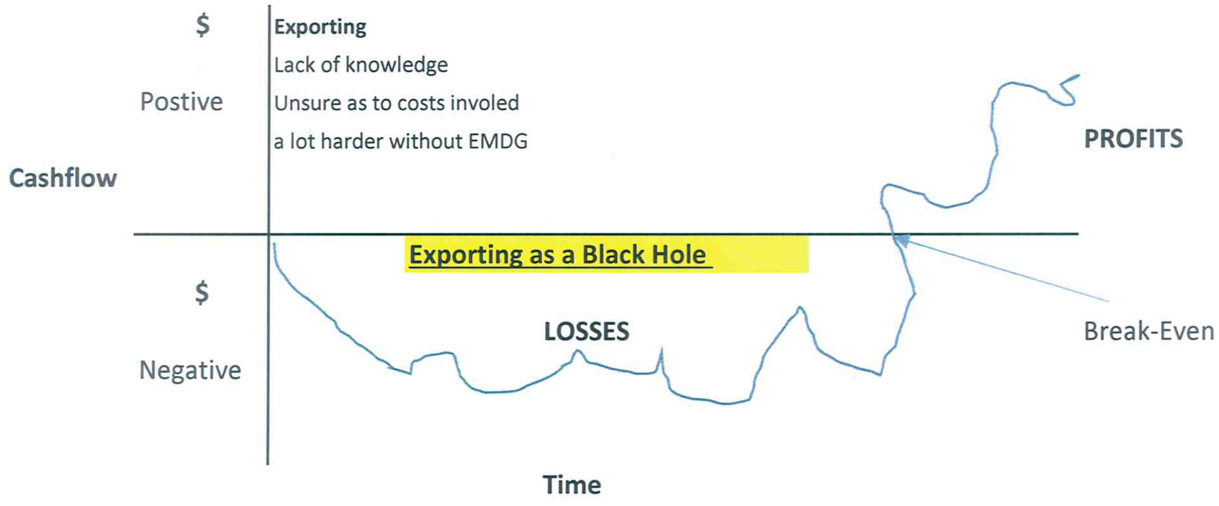

Figure 2 - Exporting Planning post EMDG
A more know future and less funding required
Greater chance to actually happen