

12<sup>th</sup> March 2020.

Office of the Senator the Hon Simon Birmingham  
Minister for Trade, Tourism and Investment  
Suite MG 61  
Parliament House  
Canberra ACT 2600

Via email [minister.trade@dfat.gov.au](mailto:minister.trade@dfat.gov.au) [Jacqueline.Lange@dfat.gov.au](mailto:Jacqueline.Lange@dfat.gov.au)

Dear Minister

**EMDG based responses to recent natural disasters in Australia and the COVID-19 crisis.**

I have already been in touch with Ms. Jacqueline Lange of your office (representing ECAI – Export Consultants Association Inc) to thank you for support under your portfolio to regional tourism businesses who suffered business losses in relation to the recent bushfire crisis.

We suggested some short-term approaches to the processing of EMDG application for the current period, that is ending on March 2<sup>nd</sup>.

I now write on my own behalf.

I have been thinking how the EMDG program could help in the longer-term recovery efforts to take in to account for both the recent fire and floods (on the supply side – tourism infrastructure losses, crop, pasture and livestock losses as well) and the COVID-19 virus (on the demand side in both the tourism and education sectors).

The impact of the virus outbreak will be much, much worse to those involved in the export sector.

Our client base has already told us they are now travelling less and spending less on overseas promotion, export sales have been cancelled.

I am disappointed that the new measures announced by your Government today did not mention any specific financial assistance to help SME exporters. There is no point in buying new equipment when overseas demand for your products has collapsed.

Extra funding to ensure 2019 grant payments are paid in full would be a great start.

The EMDG scheme with some minor adjustments provides a robust means to keep exporters trading over time until world demand increases again. It will be some 12- 24 months of lean times before it does. Providing certainty on EMDG entitlements will encourage and support exporters in their efforts to manage these challenges.

Here are some suggestions for your consideration: -

### **Pay applicants in full for 2019 grant applications**

This would mean an additional \$20-\$30 million to be made available now to the added \$20M already committed.

This would mean an easy flow of money to all exporters, not just those impacted by the disasters and world events above, it would provide certainty for future cashflow from the 2019 grant year balance payments payable in June of this year.

No additional test of eligibility or entitlement would be required, the applications for overall eligibility have or already been assessed, it's a question of fixing the oversubscription /under funding. It would mean an immediate boost to over 1,000 exporters before year end.

### **Export Business Activity loss as result of Fire, Floods etc.**

Consider the example of the Southern Ocean Lodge totally destroyed by fire on Kangaroo Island. There is really nothing what so ever left. One would agree that the tourism operator who has to start again from scratch, or in the alternative simply sell up and for some else to take over the rebuild/start up challenge and investment.

### **EMDG Legislation at present**

If the existing operator starts again, their EMDG grant history remains unchanged. If they have had 8 grants, they cannot access the scheme again. This is Section 7(i) (c) of the Act.

If a new operator takes over the business, the provisions of Section 94 come into play with the

effect, the new operator will inherit the grant history of the previous owner of the business activity even all that is purchased is burnt earth, no other assets.

### **Suggested Changes**

1. Both Sections 7(i) (c) and 94 should have additional clauses added to them, to give Austrade , as the scheme administrator, the discretion to waive past grant history under both Sections as result of “natural disasters”.
2. A Ministerial Determination could be written to reflect the rules for what constitutes a natural disaster or any other matter to be taken into consideration by Austrade to waive the impact of these sections.

### **Collapse in Export Demand**

You would be aware that applicants in the scheme are able to be paid two grants without any export sales and then the export performance test kicks in for persons third and subsequent grant applications (Years 3-8) to ensure sales results are generated to reflect the overall intention of the scheme.

I am of the view that the “export performance test” embodied in the EMDG legislation is a good thing.

For the 2005/2006 Grant Year Minister Vaile took into account the drought in Regional NSW in the main & removed the requirement to have export sales for grant applications for years 3 and beyond.

Such an action produced an increase in numbers of applicants, but with no additional funding applicant’s grant entitlements above \$70,000 were paid at only 24.42 %.

I did not agree with that approach at the time and do not recommend such a blanket approach should be applied again.

The EMDG program already helps in part an exporter that is subject to inconsistent or non-existent export sales in a year that the expenditure has been spent and otherwise would be lost.

When submitting an application, under the provisions of Section 7(1)(i)(ii) an applicant can make a choice to choose two options to have the export performance test to apply or not.

**Option A** – that the export test applies for grant applications from years 3 to 8.

**Option B** – that it does not. Additional information is required to support the business case for these sorts of applications, including audited financial statements. They do happen, but really the information requirements and additional compliance costs are considered to be a major disincentive and a means to discourage such applications.

My recommendation for change here is twofold: -

1. **That the requirement for audited financial statements be removed for Option B submissions.** This will mean more applicants who are not audited (and most are not) could access this existing export performance relief section and not be restricted by limits on grant entitlement based on Option A.

A qualified accountant (CPA or CA), not an auditor's opinion will be required as a review of submitted sales forecasts to add to their credibility, in similar sense to an accountant preparing non-audited financial statements.

2. **That a new "Option C" choice be allowed** – as a measure to be invoked in cases of national or international disaster events, that affect the Australian economy and pose a significant risk to an export business or industry, like we have now i.e COVID – 19 a declared pandemic.

If such a designated event happens then an application can be submitted without any export earnings required and be paid. A Ministerial Determination would be required to list the natural disasters or world events. This would be enacted by June 30<sup>th</sup> of the applicable grant year.

## In summary

I welcome your consideration of the suggestions as outlined above.

I have cc'd Anna Fisher to possibly assist in final deliberations of her report into the EMDG review. The review report must take into account the changed market conditions that have overcome us all in recent weeks, otherwise it will simply be out of date before it's released.

I accept more work would need to be done and happy to help as part of this process.

Any legislative changes will of course have to be made prior to June 30<sup>th</sup>.

This is a big task for all, but the rewards to keep exporters trading is paramount to the state of our economic well-being. We must all do something.

Yours faithfully,

*Stuart Mitchell*

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Mitchell and Co Chartered Accountants - *CC Anna Fisher EMDG 2020 Review Chair*