



mitchell & co
CHARTERED ACCOUNTANTS

EMDG Stock take – the changes that kick in from July 1, 2021

*“It will have blood, they say: blood will have blood.” “Double, double, toil and trouble; Fire burn, and cauldron **bubble.**” - 1606 William Shakespeare – The Tragedy of Macbeth.*

What’s that got to do with Export Grants (EMDG) you ask? well it’s about prewarning of things that are coming to pass, maybe troubled times ahead. Not *“lead on Macduff”* (yes, a misquote known to scholars of the Bard out there) – but *“read on exporter”*.

We have now had time to digest the EMDG review report as well the new legislation tabled in Federal Parliament yesterday - the Export Market Development Grants Legislation Amendment Bill 2020.

In short, I commend Minister Birmingham for “not doing nothing” and trying his best to produce a simplified EMDG going forward.

Funding for 2019 applications in full and changes to the 2020 cycle, already show a commitment to helping exporters as best he can.

Sometimes however, making things simple can be very complex and what works in theory does not come off in practice and more often than not there are unintended consequences that happen as things develop and policy is implemented.

In addition, we now have Minister Birmingham moving on it seems to be our new Finance Minister as reported in today’s press, not sure who the new Trade Minister will be. He or she could have a completely different slant on things.

Some of the planned certainty for exporters accessing the EMDG program in the future is simply not there.

The EMDG Review Report - Commentary

See our initial newsflash last month.

I am not a big fan of the report.

It did say EMDG was effective and an efficient means to help exporters. I sort of knew that anyway – been in the game for over 25 years, so I have some street cred here.

I am still trying to get my head around the overall focus and conclusions of the report. I sort of get some points and then I do not.

I am unsure of a lot of the modelling behind the report, the accuracy of the exporter survey and what seems to be extraction of value judgments of what exporters think is from limited sources and experiences.

I have no faith in the use of 2018 Bizland project as mentioned in the report – it was conducted before the review was announced, it is heavily relied upon, almost pre-determining the outcome of the review in my mind. Likewise, the “*ethnographic*” interviews undertaken in 2018, prior to the review as well.

The report looks at exporters very much in traditional fashion, product exporters, not service based ones, one taking a gradual/stepped approach to exporting, with lots of up-front planning required. Born Global exporters, taking all markets from day one, do not rate much of a mention or any real focus.

It's based on 2018/2019 data and experiences well before COVID-19 of course. I take real exception to pages 11 and 12 of the report, when looking at EMDG and Austrade services use in the period 2012 to 2017, again well before the review commencement date.

It records:

- For those receiving EMDG support an annual increase of \$716,000 on average over the period of the study.
- For those receiving EMDG support and tailored Austrade services the increase is \$2.2 million.

Bulldust is a word that comes to mind amongst many others.

EMDG sales figure are strictly determined, based on cash and subject to audit. Austrade's reports of client export success are not. The comparison is simply not valid.

Nevertheless, the report has been published, "done and dusted" and as reported previously accepted in full by Government.

The report has 10 recommendations, most just confirm success of the scheme and the past, a focus on "*exporter education*" and the need for "*export readiness*".

Export education is already covered by Austrade's own role and other agencies, so to focus on this in the EMDG program is a double up with no real benefit.

Do not get me started on what "export readiness" means and how you can define it in a legislative sense. Was part of EMDG before, in the late 1990's, got the "T-shirt" – did not work back then and hence was dropped pretty quickly. It's how one assesses "export readiness" that is the problem, not how an exporter makes things happen to get that exclusive first export sale.

In financial terms, the main impact to exporters will be:

- This is about the scheme going forward from July 1, 2021. This year up to June 30th, 2021 is under the old rules.
- Your grant history from the old EMDG will carry forward to the new EMDG 2.0 (affectionately known).
- If you are an exporter with a turnover of \$20M – you will now be excluded.
- If eligible, you will only be able to claim 3 times under the scheme not 8 as before.

- The numbers of years covered by the scheme for all markets has been reduced from 8 to 5.
- There are caps placed on your grant entitlement depending upon your age in the scheme:
- Tier 1 - Years 1 & 2 - \$40,000 per year.
- Tier 2 - Years 3 to 5 - \$80,000 per year.
- Tier 3 - Years 6 to 8 - \$150,000 per year BUT only for new markets.
- At present it is \$150,000 for all years, subject to full funding of course.
- You will only be able to claim for a Tier three application for “New” markets only.
- No firm export sales performance test for Tiers 2 and 3 – a value judgement approach based on export plans and forecasts one imagines.
- **Pre-Approval** not -post grant year reimbursement. This is the major pivot of the scheme as it now stands.

Pre-Approval does not mean Pre-Payment

You will now apply in advance for EMDG support. You will have to submit evidence (undefined as at now) export plan and projections. We will help you do this of course.

You will gain “pre-approval” before you then spend **your** money. It does not mean that you are paid in advance. You will be given a budget to spend, you spend it, you claim it back as you go along, subject to Austrade audit considerations at that time.

It is not an upfront payment, just an approval. It will take processing time to be “approved”.

Under current EMDG it is just the one application for payment. Here there will be a two-stage process or even more, application for approval first, then application(s) for payment.

As I say, a simple idea (pre- approval) that is going to be a bit more complicated in practice.

EMDG Review - Take Away Points - cut to the chase

- Reduced applicants - \$20M turnover limit.
- Reduced opportunity to access the scheme – 3 applications not 8.
- Reduced number of years – from 8 to 5.
- Reduced markets – New markets only for 3 years.
- Reduced money – higher administration cost.

You will be able to claim under the current EMDG scheme for this year, that is from July 1, 2021.

You will be able to claim under the new scheme, from July 1, 2021 as well. If you are a winner or loser under the scheme, depends on four things:

1. Your current EMDG experience.
2. Your current turnover.
3. Your current and plan future EMDG spend.
4. Your export market focus – limited markets or many, old or new.

Call us now and we help you navigate things and get ready for the changes.

Please note the new EMDG rules are yet to be written at this stage. I will comment upon those in the following section on the legislation itself.

EMDG Legislation 2020

As mentioned above, the actual legislation to implement the EMDG review recommendations was tabled yesterday in the House of Representatives.

It has been written in the current trend for legislation as at this time.

A broad “head of powers” Act that has rules/regulations are used to implement the government’s intention of the legislation.

It is not a new Act. It is amendments to the old Act (the 1997 one, not the initial 1974 one). It’s called EMDG 2.0 – though correctly it is EMDG 3.0.

The old Act having 114 Sections and 98 pages.

The new Act now having less than 30 sections and comprising 20 pages. The sections are not renumbered, just the bulk of them removed in their entirety, like a jigsaw puzzle with most of the pieces removed.

The new Act will need to pass both houses (Rep's and Senate) and gain Royal Assent before June 30th, 2021.

Yes, the Act has been simplified as suggested by the review, and again well-done Minister Birmingham.

However, there is a catch.

The implementation, the fine print of the legislation, will now be dealt with by a new set of rules, Ministerial Determinations, and the like.

These "rules" are still being worked upon and are yet to be released. We hope and pray, the timetable is to release them sooner than later.

We cannot give clients the 100% certainty about things until the new rules are released.

We are making representations to the Ministers office now and will continue to do so – "Not show me the money", but "show me the rules".

Our best guess is that the rules will not be ready until the first quarter of 2021. Trust us, we are already onto changing our systems and approach for the new EMDG. We will be ready and able when the time comes.

EMDG and The Budget

Not much really. No increased funding.

Some more unintended consequences of the proposed EMDG changes, given the lack of increased funding are as follows: -

1. For the 2020/2021 financial year, the funding will have to deal with two sets of grant applications, those under the current scheme and those under the new scheme (EMDG 2.0) a double up with no additional funding. Exporters will be paid less.
2. Austrade get an increase of its administration budget from 5% to 7.5%, fair enough more work to be done, however exporters are paying for it. The admin fee is paid first from the EMDG budget, the remaining funds are used for the EMDG applications. Austrade is the winner here.

EMDG for 2020 - Ho Hum - business as usual

This is what we are working on now.

If you have not sent you gear into us, hurry up and do so.

If you have and we are in the query stage, hurry up and help us to help you, so we can lodge asap.

If you think we are dragging the chain, give us the hurry up.

EMDG The Last Word - well, for a while that is

Now back to Macbeth, started with a quote better finish with one.

*"If you can look into the seeds of time,
And say which grain will grow and which will not."*

I replace with;

*"If you can look into the seeds of time,
And say which EMDG approach will grow and which will not"*

Only time will tell.

All the best,

Stuart and the Mitco team.