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Senator The Hon. Zed Seselja  
Assistant Minister for Treasury and Finance  
The Treasury  
Langton Crescent  
PARKES ACT 2600

Dear Senator Seselja

**2019 Pre Budget Submission - Export Market Development Grants programme.**

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

The submission is in relation to the funding of the Export Market Development Grants (EMDG) program administered under the provisions of the Export Market Development Grants Act 1997 (as amended)

**Background**

The focus of the programme is stated in clause 3 of the Act;-

*“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.”*

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 40 years.

Its effectiveness and efficiency 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 it.

The scheme administrator is the Australian Trade and Investment Commission (Austrade), a division of Department of Foreign Affairs and Trade (DFAT)

An extract from the Austrade 2018 budget (as part of the DFAT portfolio) is attached. <sup>i1</sup>

It records the funding of the program in the forward estimates at \$137.9M for years 2018/2019 to 2021/2022. The funding at \$137.9M has been at this level for the last 5 years, with no increase to take account for increased demand for the scheme or inflation over that time.

The grant payment is taxable income for the exporter.

The program has had capped funding since 1996/1997. Attached<sup>2</sup> is a table of the history of the program since that date.

For the last 4 years the demand for the programme has exceeded the supply of money as per budget appropriations.

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<sup>1</sup> 2018 Budget Forward Estimates to 2021-22 Austrade/DFAT EMDG Program 1.2 Programmes to promote Australia’s exports

<sup>2</sup> EMDG Scorecard Since Introduction of Budget cap in 1996/1997

Grant payments over \$40,000 are rationed over the available funds. For 2016/2017 the m applicable payment rate was only 29.24 %, the lowest on record.

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

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.

### **Additional Funding is required**

The program needs to have additional funding to bring it into balance to ensure all grant entitlements are paid in full.

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<sup>3</sup>
- 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%

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

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

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

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

### **Additional Funding Amount (Estimated)**

To fund the program at a level to meet its current demand and allow investment attraction as an eligible activity would be in the order of \$50M per year

### **Funding Sources for the requested increase**

Exporters who have not been paid their full entitlement if the scheme was uncapped have already contributed some \$100M of savings to help balance the budget in recent years as shown in attachment 2

The additional funding can come from a number of sources, two are listed below, I am sure there would be others as well:-

- **Cut duplication of funding for export development by other government department agencies.**

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>

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<sup>3</sup> 2014/2015 Review of the Program Certainty and Confidence – report of Michael Lee

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>

The grant funding is already covered by the EMDG program.

- **General revenue increases**

Arising from the increased economic activity and employment that the program creates, apart from the taxable nature of the grant payments themselves.

An extra \$50M of grant payments has a net cost after tax to government of \$35.5M

The economic activity of the \$50M at multiple of 7 times (conservative - based on past reviews into the program) created an extra \$350M of sales. This produces jobs and economic activity.

It produces taxable income of that sum and hence potential increased tax receipts of  $\$350M \times 29\% = \$101.5M$ , just less than three times the net cost to government after tax as above.

I wish you well in your budget deliberations and a successful outcome for exporters.

Yours sincerely

**Stuart Mitchell**  
Mitchell and Co

# Attachment 1

Austrade Budget Statement

**Table 2.1.2: Program components of Outcome 1**

**Program 1.2: Programmes to promote Australia's exports and other international economic interests**

	2017-18 Estimated actual \$'000	2018-19 Budget \$'000	2019-20 Forward estimate \$'000	2020-21 Forward estimate \$'000	2021-22 Forward estimate \$'000
<b>1.2.1 - Component 1: Export Market Development Grants scheme</b>					
Annual administered expenses:					
Ordinary annual services (Appropriation Bill No. 1)	137,900	137,900	137,900	137,900	137,900
<b>Total component 1 expenses</b>	<b>137,900</b>	<b>137,900</b>	<b>137,900</b>	<b>137,900</b>	<b>137,900</b>
<b>1.2.2 - Component 2: Free Trade Agreement Promotion</b>					
Annual administered expenses:					
Ordinary annual services (Appropriation Bill No. 1)	-	750	750	-	-
<b>Total component 2 expenses</b>	<b>-</b>	<b>750</b>	<b>750</b>	<b>-</b>	<b>-</b>
<b>1.2.3 - Component 3: Developing Northern Australia - positioning the north as a leader in tropical health</b>					
Annual administered expenses:					
Ordinary annual services (Appropriation Bill No. 1)	1,684	2,221	-	-	-
<b>Total component 3 expenses</b>	<b>1,684</b>	<b>2,221</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total program expenses</b>	<b>139,584</b>	<b>140,871</b>	<b>138,650</b>	<b>137,900</b>	<b>137,900</b>

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

Attachment 2

MINISTER	GRANT APPLICATIONS	GRANT RECEIPIENTS	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
Fisher	3,251		1996/97	150	200,000	50,000	100.00%	200,000	20,000	2,500	15,000	8	\$50M	No No
Fisher	3,261		1997/98	150	200,000	60,000	98.94%	198,519						
Fisher	3,200		1998/99	150	200,000	60,000	100.00%	200,000						
Vaile	3,215		1999/20	150	200,000	60,000	100.00%	200,000						
Vaile	3,391		2000/01	150	200,000	60,000	75.62%	165,875						
Vaile	4,164		2001/02	150.4	200,000	60,000	32.84%	105,979		5,000				
Vaile	4,022		2002/03	150.4	200,000	50,000	74.52%	161,786						
Vaile	3,588		2003/04	150.4	150,000	50,000	100.00%	150,000				7	\$30M	
Vaile	3,765	3,499	2004/05	150.4	150,000	70,000	100.00%	150,000						
Vaile	3,813	3,548	2005/06	150.4	150,000	70,000	100.00%	150,000						
Truss	4,247	3,933	2006/07	150.4	150,000	70,000	24.42%	89,533						
Crean	4,472	4,105	2007/08	150.4 + 50*	150,000	40,000	100.00%*	150,000						
Crean	5,149	4,675	2008/09	200.4	200,000	50,000	73.94%	160,907			10,000	8	\$50M	
Crean	4,585	4,306	2009/10	150.4	200,000	27,500	56.70%	125,311						
Crean/Smith	3,277	2,993	2010/11	150.4	150,000	50,000	100.00%	150,000				7		
Emmerson	3,045	2,757	2011/12	125.4	150,000	60,000	100.00%	150,000						
Emmerson/M	2,715	2,445	2012/13	137.9	150,000	60,000	100.00%	150,000						
Robb	3,195	3,137	2013/14	137.9	150,000	60,000	65.28%	118,755	15,000		5,000	8		
Robb	3,321	3,059	2014/15	137.9	150,000	40,000	72.66%	119,926			5,000			
Ciobo	3,539	3,166	2015/16	137.9	150,000	40,000	64.50%	110,955			5,000			
Ciobo	3,771	3,706	2016/17	137.9	150,000	40,000	29.24%	72,159			5,000			
Ciobo			2017/18	137.9	150,000	40,000								
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*