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ECAI - Pre budget submission 2019

It is with both concern and disappointment that our organisation is again making representations in this 2019 Pre Budget submission on the very same single issue that has been raised for the past 5 years in relation to the EMDG program.

Our organisation represents specialist consulting practitioners that prepare and process the majority of annual lodgements to Austrade under the Export Market Development Grants (EMDG) program. As such, we express the following contribution on behalf of some 70% of EMDG applicants Australia wide. The impact EMDG funding has on applicants is a circumstance that our members discuss at a personal level with clients on a daily basis. It is very frustrating that the current custodians of this program fail to understand the very core of this initiative and that allocating insufficient funding diminishes the very outcome this program seeks to achieve.

The EMDG scheme is an investment in the prosperity of Australian exporters, not merely another expenditure line item in the budget of the Department of Foreign Affairs and Trade. The KPMG study of EMDG reported economic spillovers of some 6-7 times the EMDG budget. The budgetary process also ignores the taxable status of EMDG, effectively decreasing the net monetary effect of the government's EMDG appropriation commitment as the EMDG rebate is reportable income for tax purposes.

Australia is a country built on and reliant on exporters to maintain the high standards of living we enjoy, therefore, it is fundamentally essential for the Federal government to support exporters by providing financial incentives via EMDG.

Executive Summary

Addressing the imminent EMDG funding crisis

We have illustrated the magnitude of EMDG underfunding issue in the attached table. It is at crisis point. The table shows (in the green shaded section) that the (projected) grant applications for 2017/18 to be processed and paid in 2018/19 will increase to over 4,000 lodgements and the value of claims (after allowing the standard adjustment rate) will be about \$200Million – that means the budget allocation in May 2018 will be some **\$67Million short** of the assessed value of claims.

Providing a higher degree of certainty of financial support for exporting SMEs

Mr Bill Ferris Chair of Innovation and Science Australia recently recommended a significant increase in the funding commitment of the EMDG scheme, highlighting that the program compliments the commercialisation aspirations of those innovative companies that benefit from the R&D Tax Incentive.

Funding of the EMDG scheme must be increased by at least \$50 million per year over forward estimates and possibly more.

Background

As a program that has operated continuously since 1974, it has assisted over some 100,000 SME enterprises to springboard the progress of their overseas marketing endeavours and many of these businesses are today our biggest names in their industry sectors - Cochlear, Resmed, Nanosonics, Blackmores, Atlassian, FastCat Shipping, Austal Ships, Orbital Engine Company.

All of these businesses (and many more like them) had modest beginnings and started their export endeavours as small EMDG applicants. For each of these enterprises, export has been the real contributor to their success.

Successive reviews of the EMDG program since its inception have on every occasion confirmed it is *the most successful economic stimulus initiative ever introduced into the Federal parliament.*

Why is EMDG successful ?

Because it is performance based, all applications are subject to audit and above all, the original architects of this program and legislators understood that offering a financial incentive as the means to coerce the strategic thinking of small business was the best way to encourage business into exploring global markets. That philosophy works.

History proves it works and that proof is validated in findings of all independent reviews conducted on the EMDG scheme .

The Export Performance criteria (which is the Government's safety value for its budget allocation) dictates in the legislation that for every \$1 of grant paid, over the 8 years of access to the EMDG program, applicants are required to generate \$8.85 in export income – bearing in mind that every \$1 of revenue has a Labour factor. If they don't meet this test, they don't get paid.

The actual export income derived by EMDG applicants per \$1 of EMDG paid is over \$40.

That is some 5 times the legislated minimum. The raw figures from Austrade show that the grants paid to 3,706 applicants in the 2017/18 year involved the payment of \$131,000,005 in EMDG rebates and those applicants generated \$4.1Billion in export income. (see our table attached)

The export performance test in the EMDG legislation depicts the expectations of Treasury/Finance which shows the minimum over the past 7 years at some \$700Million.

This comparison clearly demonstrates that EMDG applicants perform well above their weight in generating \$4Billion in export income each year when the mark set by the Government is less than \$1Billion.

As we have stated previously, every \$1 of income has a Labour factor so in generating export revenues at least 4 times higher than expectation, the contribution to economic spill over and new employment from EMDG recipient exporters is glaringly obvious.

ECAI has made representations to incumbent Trade Ministers and Opposition spokespersons for the last 5 years to highlight that by not fully funding the demand for EMDG claims is doing the country a significant economic disservice.

Some history of EMDG Scheme funding

Before the impact of the GFC, the budget for EMDG was \$200Million. Under prudent budgetary management, the budget for EMDG was later scaled back to as low as \$125Million by the Labor Government as demand and applicants for EMDG fell away. This was not only because of the falling demand for goods and services in overseas markets, but an A\$ trading around parity to the US\$ priced Australian exporters out of global markets. Although the EMDG budget was drastically cut, it was back then enough to fully pay all applicants. However, the world economy has since rebounded and the opportunity for Australian SME exporters has returned. But the EMDG budget hasn't.

The GFC subsided and the Coalition did take the first of what was intended as a progression of steps to restore the EMDG budget. The Coalition in 2014 committed an additional \$50Million allocation to EMDG though spread over 4 years – but with the undertaking to further increase that funding. The extract from Hansard 6 March 2014 Page 1884 by the Trade Minister Andrew Robb on this policy statement reads :

*“The changes proposed in this Bill, the Export Market Development Grants Amendment Bill 2014, deliver on the coalition’s pre-election commitment to progressively restore funding to export market development grants **‘starting’** with and initial \$50 million Boost.”*

(highlight and underlining added)

Despite the substantial improvement in the Australian economy progressively since that time, the Coalition has chosen to not honour its undertaking to restore funding to the EMDG budget despite also a comprehensive review of the EMDG program by Michael Lee (see report attached) which urged the Government to take immediate action to restore EMDG funding.

Responses to pleas by various industry bodies and by applicants to various Trade Ministers over the past 4 years to address the underfunding problem with the EMDG program has been met with a bland statement this is purely a Treasury / Finance issue as the siloed funding allocation to various portfolios cannot be increased.

The fact is, the Rudd Government allocated \$200Million to EMDG back in 2007 (10 years ago) recognising the value EMDG contributes to the economy. The present Government boasts how much the Australian economy has since rebounded and is in good shape which is totally incongruous to the notion expressed by Ministers that the economic climate is not strong enough to be allocating more funding to something like the EMDG program.

Business which deals with continuous pressures of cashflow management fully understands tight budgeting. However, in the business world, cutting off funding to elements of a business that generates revenues above budget is not something people in commercial enterprise can readily understand. Nevertheless, the Government has chosen a deliberate policy to underfund the EMDG program having been informed for many years that in doing so is creating an economic disservice.

If the Government miscalculated and underfunded a program for one or maybe two years in succession, that may be tolerated in most circumstances. But ignoring and paying lip-service after now 5 successive years of the same problem and attempting to placate EMDG applicants on budgetary restraint just does not wash any longer. The attitude of the current Government does not sit comfortably with the SME business community.

Feedback from applicants has not be complimentary of this approach by Government and comments like " the Government is disingenuous in offering an incentive and deliberately underfunding " is quite common. Other feedback from some exporters indicate they have lost trust in the Government and they believe the Government sees EMDG as merely corporate welfare with no real regard to what exporters are trying to build in growing markets overseas. It is also disappointing that some businesses have and others are looking at relocating operations to countries with more conducive tax and export support initiatives.

Most EMDG applicants are steered by very proud Australian business entrepreneurs and whether exporting or not, success is always the product of dedication and total commitment. EMDG recipients are proven performers and it is confounding why Government at all levels cannot see that funding EMDG applicants is a significant economic stimulus for growth.

ECAI would urge advisors to the Government on budget policy that continuing to pay such disregard to the underfunding issue on the EMDG program is a significant economic disservice and needs to be addressed urgently. To continue to disregard Australian small to medium enterprises engaged in international trade by not providing adequate financial incentives and support presents increased risks to the success of those businesses in what is currently a very uncertain global economic environment.

In the ideal world, not only is there a need to ramp up funding for the emerging May 2019 budget for future claims, there is an immediate call for at least \$50Million to top up the May 2018 budget to meet the EMDG demand for 2017/18 grant applicants.

Our organisation is comprised of some members with over 30 years of specialist knowledge of the EMDG program and are fully aware of the underfunding pressure on applicants from in person dealings with their clients on the challenge of funding marketing activities.

Accordingly, the Directors of ECAI offer those reviewing this submission any further input that may be useful for your deliberations.

Rod Campbell

Chairman – ECAI
