

22nd January 2019

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

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Dear Sir

2019 Pre Budget Submission regarding funding of the Export Market Development Grant program

The EMDG program is a longstanding federal government program that incentivises and supports Australian businesses to expand through export growth. The incentive is that aspiring exporters will receive a partial rebate on certain eligible international marketing costs. EMDG is administered by Austrade and comes under the Trade, Tourism and Investment Portfolio.

The current funding level for the program is \$137.9M but this is not enough to provide the 50% rebate intended by the program. We are requesting that the level of funding be raised to \$175M immediately and consideration be given to future increases as demand dictates.

Export Solutions Pty Ltd is a private company with a sole focus of assisting exporters. We have substantial experience with the EMDG program through:

- International Trade Fairs – we help secure prime space, coordinate and manage building of the stands and the supply of equipment required at these events. We deal only with international trade shows primarily throughout Asia and the Middle East. Business sectors include food, wine, mining, oil and gas, broadcasting, ICT, telecoms, etc. In the past 5 years alone, we have worked on over 90 trade shows with more than 1,850 Australian exhibitors.
- Advice and preparation of EMDG applications. We are a national firm employing 12 staff and have worked with exporters for 25 years.

I have not outlined details of the program itself in this submission but have enclosed as Annexure A, Austrade's two page summary "Export Market Development Grants at a Glance" for review if required.

Our submission follows and we welcome the opportunity to meet or discuss by phone.

Yours sincerely



Philip Litton
Director
Export Solutions Pty Ltd

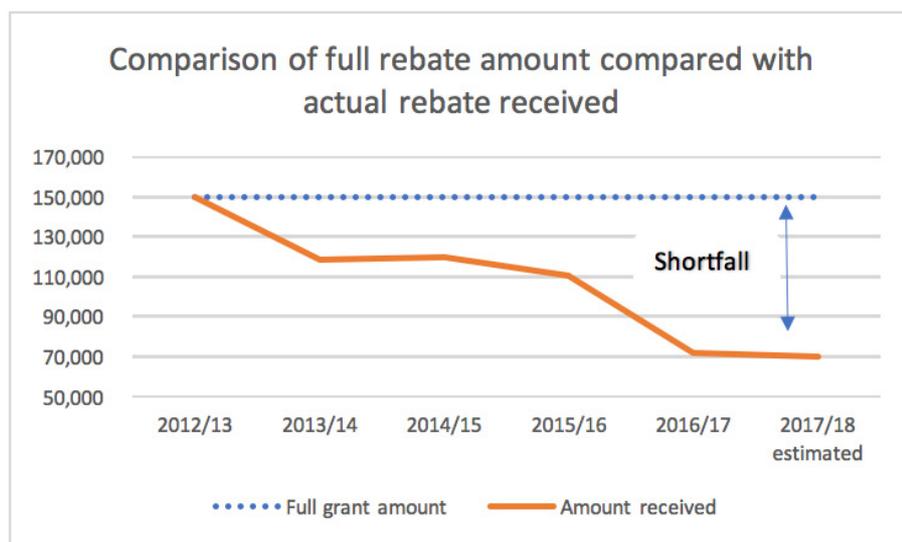
2019 PRE BUDGET SUBMISSION REGARDING FUNDING OF THE EXPORT MARKET DEVELOPMENT GRANT PROGRAM

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The Export Market Development Grant scheme [“EMDG”] provides meaningful and practical support to SME’s to encourage them to take the considerable leap from domestic focussed to an exporter.

The current funding level for the program is \$137.9M but this is not enough to provide the 50% rebate intended by the program. We are requesting that the level of funding be raised to \$175M immediately with further increases in the future should demand increase.

The chart below shows how exporters’ grants are being reduced due to the shortfall in funding.



EMDG warrants additional funding as:

- it is an effective, proven and robust program; and
- it dovetails perfectly with recent government initiatives including Australia’s Nation Brand, the new Economic and Commercial Diplomacy Agenda, and Free Trade Agreements.

EMDG IS PROVEN, ROBUST AND FISCALLY RESPONSIBLE

EMDG is a broad and inclusive grant program available to most sectors including manufacturing, services, inbound tourism and education.

Minister Birmingham said “we know that Australian businesses that export, hire more staff, pay higher wages and have higher productivity than non-exporting firms”. [Media release 30 Nov 2018]

The program has been subject to numerous reviews since its implementation and all have found the program to be effective in achieving its goals. Reviews of the scheme have consistently reported good returns for taxpayers dollars spent, and benefits in growth of employment, receipt of foreign currency, and enhancing Australia’s international reputation.

The most recent independent review was commissioned by the government in 2015 and undertaken by Mr Michael Lee. I believe it is relevant to include a number of his key findings from this review.

1. He stated that “the EMDG scheme continues to be effective in meeting its goals of bringing benefits to Australia by encouraging the creation, development and expansion of overseas markets for Australian goods, services, intellectual property and know how”.
2. He also saw “considerable scope to lift Australia’s export performance”, and a preference for an increase in applicant numbers (as Australian companies increasingly sought to enter new markets).

3. That “the effectiveness of the EMDG scheme in instilling confidence in small and medium- sized business has been hampered by the reduction in real value of budgeted funding since 2009, when the scheme stood at \$200 million; and that this reduction should be addressed now...”
4. Mr Lee forecast increased demand for EMDG funding. His predictions have proved to be very accurate with numbers trending upward each year from 3,195 at the time of the report to approximately 4,000 in 2018/19. One of his key recommendations was “... That the budget allocation (in anticipating a 5 per cent annual increase in the number of grant recipients) be progressively increased by \$12.4 million per year over the next three years (2016–17 to 2018–19) to \$175 million.”

The report contained detailed information, including expert reports. Consulting firm KPMG was asked to analyse the net economic benefit of the EMDG scheme. That report found that each dollar of an EMDG scheme grant generated an economic benefit of \$7.03 when industry spill-overs and productivity gains were taken into account.

In the course of running our business at Export Solutions we see evidence that the EMDG scheme is effective in a number of key areas including:

1. Increasing numbers of new exporters

We see a constant flow of businesses new to export seeking to attend trade fairs to:

- a. evaluate whether their products will be suitable for the market and price competitive
- b. Seek a distributor or direct sales

Many of these businesses comment that the potential for funding through EMDG has been a consideration in their decision to test export markets.

2. Sustainability and generation of additional exports

Looking back over the editions of various trade fairs we see repeat bookings, which is indicative of sustainability.

We also see exhibitors seeking to attend trade fairs in other countries as they experience success in one market and seek to repeat that in other countries. It follows that they are likely to be generating additional exports. EMDG is regularly mentioned as being a significant part of their funding for these events.

3. Developing an export culture

This is evident at the larger trade fairs where we have shared stands with involvement from State government agencies or industry bodies. Smaller companies, many with outstanding innovative products, invest in presenting them to a world audience. The enthusiasm is there, as is the reality, with so many of them commenting that they must export to grow – as the Australian population is not a large enough market.

EMDG is often mentioned as important to their ability to follow up on these events with repeat visits and in market support.

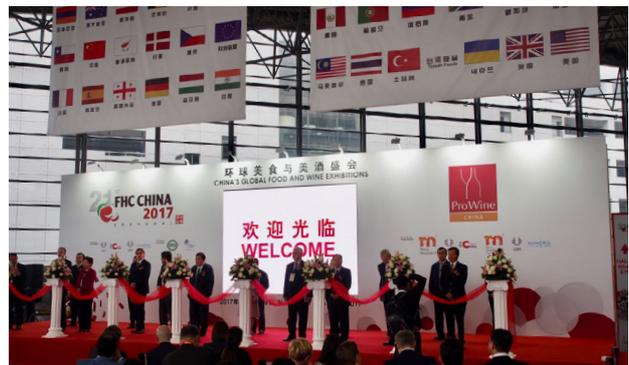
More evidence of the effectiveness of EMDG can be demonstrated through the export award programs. For example:

- in the 2018 National Export Awards 7 of the 13 winners were past or current recipients of EMDG funding.
- of 112 categories at State level, 70 of the winners are or have been EMDG recipients.

The EMDG program has been running for 43 years. It does not need any expensive overhaul or revamp – it just needs to be fully funded.



Australian pavilion at FHC China trade fair



FHC China welcome event



Celebrations at at Mining Indonesia

DOVETAILS WITH OTHER GOVERNMENT INITIATIVES

The government has been active in a number of areas relating to export in recent years.

These include:

- a. negotiating Free Trade Agreements,
- b. instigating a Nation Brand initiative, and
- c. introducing a new Economic and Commercial Diplomacy Agenda

These are welcome programs that make the shift to “becoming an exporter” more attractive but do not address the fundamental issue of funding which is one of major hurdles facing Australian businesses looking to shift their focus to overseas markets.

Fully funding the EMDG program will give exporters the stimulus to take advantage of these programs by providing some financial confidence. Fully funding EMDG will therefore make these closely related initiatives more effective.

Australia’s Nation Brand:

Australia’s new Nation Brand initiative has an aim to help drive Australia’s competitive edge in international markets. The Trade Minister’s office says that “the unified brand will bring together Australia’s export strengths”..... “under one Australian banner”.

EMDG is the practical funding for individual Australian businesses to take the Nation Brand to international markets, using it as the government intended – to help them sell their products and services to the world; delivering the very real benefits back to the Australian economy and building Australia’s reputation.

In doing so, Australian businesses will help activate the brand worldwide, including at international exhibitions.

Economic and Commercial Diplomacy Agenda;

Launched in late 2018 the governments new Economic and Commercial Diplomacy Agenda prioritises “ongoing effective engagement with business” [Minister M Payne].

Minister Birmingham said the agenda “focuses on how government, through our various agencies and networks of overseas posts can better support businesses find new global opportunities and establish themselves overseas”.

EMDG provides those businesses with some support to do this – including engaging the services of Austrade.

DFAT explain that through working with Austrade they will strengthen support for Australia’s commercial interests, with the new agenda encouraging closer connections between government and business and engagement in a more systematic way.

EMDG is a pathway connecting businesses with Austrade and other government services. Last year more than 1,000 businesses made their first application for EMDG enabling a much stronger connection for government with the export community and small business. This creates a relationship with government that can be maintained throughout the course of the EMDG program and beyond.

Free Trade Agreements

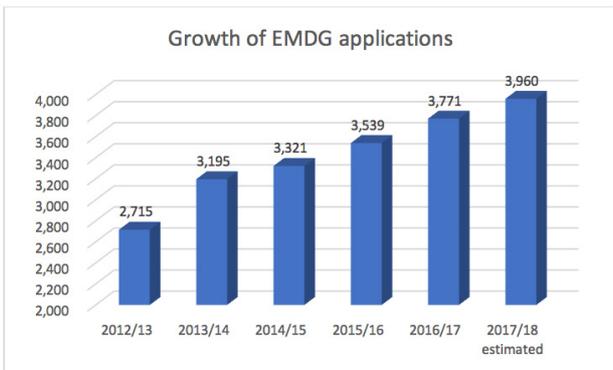
The market access and related opportunities through FTA’s and the new TPP will benefit Australian business seeking to export.

EMDG provides welcome and needed support to activate their marketing, including through visiting markets to meet distributors and buyers; exhibit at trade fairs; and establish marketing bases in country.

THE FUNDING ISSUE

The current funding level of \$137.9 million is insufficient to pay the cash rebates to all exporters who have applied, been audited and approved.

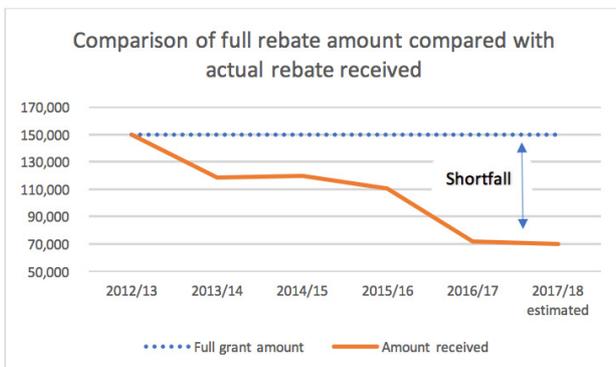
Since 2013 the funding has remained at this level despite the growing number of EMDG applicants.



Source: Austrade Annual Report 2017/18

For the last 4 years the funding pool has been insufficient to pay approved grants in full and in each of these years the % of eligible expenses returned to the exporter has dropped.

In dollar terms an exporter having spent in excess of \$305,000 of their own funds on international marketing could have expected a rebate of \$150,000. The graph below shows the actual return to the exporter.



Assuming the trend continues of more Australian companies seeking export markets, then inevitably that percentage will drop further. Austrade have indicated that this year the lodgement numbers show a 5% growth, with total grant value up by the same percentage.

In your media release dated 19/12/18 requesting pre-budget submissions the government has stated that "...as a result of the Liberal National Government's strong economic record and disciplined budget management, the budget is expected to return to surplus in 2019-20."

The government should be commended for this achievement and we would now like to remind the government of its frequently stated position regarding EMDG.

"...the government is committed to progressively restoring funding for the EMDG scheme and will look to further increases as the budget improves..." [Letter from the Assistant to the Prime Minister to Export Solutions dated 28/06/18]; and

"...the government is dedicated to the ongoing success of the scheme and will look to further funding increases as the budget improves..." [Letter from the Minister for Trade to Export Solutions dated 21/06/18]

Fully funding EMDG is a modest cost for the benefits it delivers to so many SME's across many industry and service sectors.

On behalf of exporters and intending exporters, we recommend that the scheme continue, and that funding be increased to match the growth in applicant numbers. Our estimate is that the funding of \$175 million per annum would provide the confidence and certainty of payment of the entitlements to rebate for all applicants.

RECOMMENDATIONS

- 1. Provide \$37 million this June 2019**
to fund payment of this years approved and audited grants in full.
- 2. Continue the EMDG program,**
increasing funding to at least \$175 million per annum.
- 3. Put a mechanism in place to review funding each year** to match funding with scheme demand.
- 4. Consider expanding EMDG –**
using this reliable, robust, proven and cost effective program, with reach across most industries and sectors, to accelerate Australian businesses engaging with the world, and in so doing create more jobs and strengthen Australia's economy.
- 5. Consider funding the promotion of EMDG –** there is little promotion of the scheme currently and we believe more businesses could be encouraged to seek export markets.

ANNEXURE: Austrade Export Market Development Grants at a glance

EXPORT MARKET DEVELOPMENT GRANTS

AT A GLANCE

The Export Market Development Grants (EMDG) scheme is a key Australian Government financial assistance programme for small to medium aspiring and growing export-ready businesses.

It encourages businesses to increase international marketing and promotion expenditure to achieve more sustainable international sales.

It also provides businesses with an opportunity to enter and embed themselves in global value chains – something that encompasses 80 per cent of global trade.

EMDG recipients include many of Australia's best known exporters. The vast majority of recipients report that the scheme is invaluable in helping them access new markets, and develop better international business and cultural understanding.



WHO CAN APPLY?

An Australian individual, partnership, company, association, cooperative or statutory corporation that has:

- › carried on business in Australia
- › promoted the export of goods
- › promoted the delivery of services outside Australia
- › promoted certain services in Australia to non-residents
- › promoted inbound tourism
- › promoted the export of intellectual property and know-how outside Australia
- › an income of less than \$50 million for the year
- › spent at least \$15,000 on eligible export promotional activities.

A trustee may also apply on behalf of a trust.

WHAT CAN BE CLAIMED?

- › overseas representation expenses
- › marketing consultant expenses
- › marketing visits expenses
- › free samples expenses
- › trade fairs, seminars, in-store promotions expenses
- › promotional literature and advertising expenses
- › overseas buyers expenses
- › registration and/or insurance of eligible intellectual property expenses.



Australian Government
Austrade



WHAT DO YOU GET?

- › up to 50 per cent reimbursement of eligible expenses, less the first \$5,000
- › each applicant may receive a grant of up to \$150,000 per application (subject to available funds), to a maximum of eight annual grants
- › grants are regarded as assessable for income tax purposes
- › the Australian Taxation Office has confirmed that GST will not apply to EMDG grants.

WHAT CANNOT BE CLAIMED?

Expenses that:

- › relate to trade with New Zealand and North Korea, and with Iran up to and including 17 January 2016
- › are of a capital nature
- › relate to sales or product development
- › are fraudulent, unsubstantiated or related to an illegal activity.

The GST component of incurred expenses cannot be claimed under EMDG.

SPECIAL APPROVAL APPLICANTS

Industry associations and joint ventures are able to seek 'special approval' status from Austrade to enable them to apply for a grant. Special approval status is effective for five years from the approval date. If you would like further information about how to apply for these special status categories please contact Austrade.

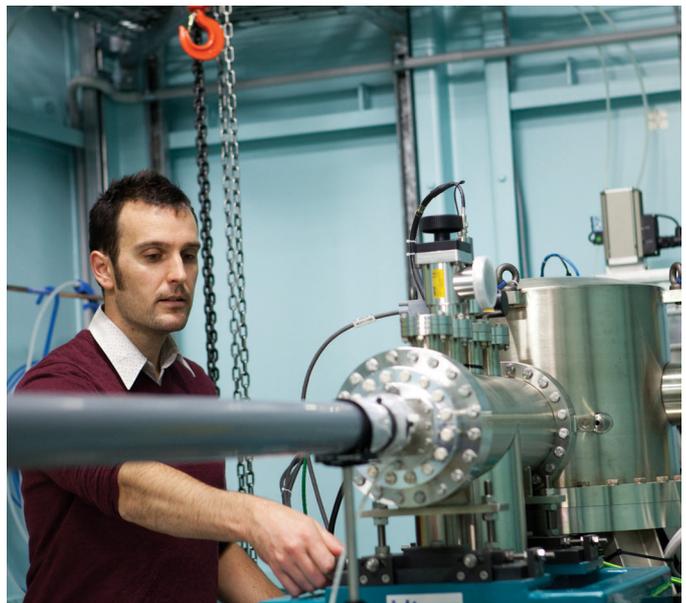
HOW TO APPLY

To find out more about the application process, go to austrade.gov.au/Export/Export-Grants and select 'Apply'. From this page you can also make sure your business is eligible to apply by reviewing the EMDG eligibility check list.

You can contact Austrade on 13 28 78 at any time to clarify your eligibility.



Image courtesy of Tourism Australia



KEY FACTS ABOUT EMDG

The annual EMDG budget is \$137.9 million. In the 2017-18 financial year grants worth \$131.6 million were paid to 3,706 businesses.

For the 2016-17 grant year:

- › The average grant was \$34,086
- › 1119 businesses entered the scheme for the first time
- › Businesses that received grants reported generating \$3.8 billion in exports.
- › 582 recipients were from rural and regional Australia
- › Three quarters of recipients were small businesses, reporting annual income of less than \$5 million.
- › By broad industry classification, 66 per cent of EMDG recipients were from the services industries, with a further 29 per cent in manufacturing and four per cent in the primary sector.
- › The principal market targeting by EMDG recipients is the United States, followed by the United Kingdom, mainland China, Singapore, Hong Kong and Germany.

WHEN TO APPLY

You must complete and submit your online application, including the required documents, between 1 July and close of business 30 November, or you can use an approved EMDG Consultant who can lodge a claim on your behalf until 28 February.

FIND OUT MORE

- › austrade.gov.au/export/export-grants
- › **Call Austrade on 13 28 78**

