

15 March 2018

Senator the Hon. Mathias Cormann
Minister for Finance
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PERTH WA 6838

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By email: financeminister@finance.gov.au

Dear Minister

EMDG – the federal scheme supporting SME's grow Australian exports

We seek your support to redress the underfunding of the Export Market Development Grant Scheme to ensure it continues to be effective in instilling export confidence in small and medium sized businesses.

I noted that your address to the Business Council of Australia included recognition that successful and profitable businesses create more jobs, at higher wages, with more job security and career prospects.

Your support for businesses to “*seize and to successfully exploit business opportunities*” resonates strongly with me, as someone who has been in business and working with SME's for over 40 years.

Export opportunities are key to growth for many SME's – and EMDG is a valuable practical support as they seek to take advantage of opportunities, including through FTA's.

EMDG requires SME's to have the courage and conviction to invest their own money to seek an export market for their products or services. The rebate becomes available some time later, and anecdotal evidence shows that it tends to be reinvested in more market development.

The scheme is robust and heavily audited. Reviews have found the scheme to be successful, and it has had the support of successive governments over the past 40 years.

With the focus on jobs and growth, and your government's progress with Free Trade Agreements, it is more timely than ever to ensure that EMDG is fully funded. It provides meaningful and practical support to SME's as they take advantage of the opportunities opened up by the FTA's.

The government commissioned review of the EMDG scheme, carried out by Mr Michael Lee, contained a key recommendation that funding be progressively increased by \$12.4 million per year over the 3 years 16/17 to 18/19 – increasing the pool of funds from \$137.9m to \$175m.

Mr Lee concluded 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*”.

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).

His Review concluded 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....”*

Mr Lee forecast increased demand and this has proved to be very accurate, with applicant numbers trending upward from 3,195 in 14/15 to 3,537 in 16/17, and estimated higher in 17/18 towards the 4,000 mark which Mr Lee anticipated by 18/19.

This increase is good news for Australia – companies seeking and succeeding in export is shown to grow businesses (the exporter and its suppliers and service providers); increase employment; increase Australia’s standing on the world stage; and earn foreign currency benefiting Australia’s trade.

However, the underfunding is a major problem.

For each of the past 3 years many exporters have not received their full entitlement. On our analysis this current year will be worse.

Exporters need confidence and certainty – they invested their own funds (up to 2 years ago) with a reasonable expectation of receiving a rebate of up to 50% of the eligible costs. This year they may receive only about 30%.

The government has not yet implemented the recommendation in Mr Lee’s report to increase funding, which leaves the scheme funding at \$137.9m. This is lower than some 20 years ago - in 1997 it was \$150m. In real terms (taking inflation into account) the current level of funding is even lower – if the 1997 funding was indexed the equivalent value today would be about \$251 million. So to seek \$175m is not an increase in real dollar terms.

There is wide support for EMDG throughout the business community, industry bodies and trade agencies. The vast majority of literature over the grant’s history state it has a positive effect on both export and the wider community.

As part of the 2015 Review, KPMG were also asked to analyse the economic benefit of the scheme, reporting that each dollar of an EMDG scheme grant generated an economic benefit of \$7.03 when industry spillovers and productivity gains were taken into account.

It also receives positive mention in reports, including the recent “Australia 2030 - Prosperity through Innovation”, by Innovation and Science Australia. Recommendation 7 included a call for increasing funding for EMDG.

SUMMARY

We urge the government to;

- 1. Add \$25 million to the funding pool now so that exporters will receive all (or nearly all) the grant monies that have been approved in the current year. This will bring the funding pool to the level Mr Lee recommended for this current year.**
- 2. Increase the funding pool to \$175 million for next year, in line with Mr Lee’s recommendations.**
- 3. Consider adopting other recommendations made by Mr Lee including augmenting Austrade’s budget.**

I am based in Perth and would be pleased to meet if you wish to discuss.

Contact details and a brief profile of our team can be found on our website at <http://www.exportsolutions.com.au/our-team/> , and for ease are also listed below.

Below this email I have also copied in the recommendations of the review by Mr Lee, and provided a link to his full report.

Yours faithfully



PHILIP LITTON
DIRECTOR

Export Solutions is a private company, having its genesis some 37 years ago, and under the same management for near 20 years.

Our sole focus is assisting exporters, through;

-) International trade fairs – we secure space at major international trade fairs, particularly in Asia and the Middle East, build stands, and are on site supporting exporters – we are hands on, and have been for over 15 years. In the past 4 years alone we have worked on (and at) 74 overseas trade fairs with more than 1,495 Australian companies exhibiting.*
-) Accessing the EMDG funding – our team members are located around Australia, assisting applicants across all industries and services, in the cities and regions.*

Through our work with exporters at trade fairs we see the need, and hear first-hand, how much exporters value the support of the EMDG scheme.

EXPORT SOLUTIONS TEAM CONTACTS

NSW / ACT	<i>Gemma Hansen</i>	<i>0414 616 696</i>
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Link to website contacts: <http://www.exportsolutions.com.au/contact-us/>

Following are the two pages of RECOMMENDATIONS from the 2015 review of EMDG BY Mr Michael Lee.

His full report can be found at <http://www.exportsolutions.com.au/2015-emdg-review/>

- › the unadjusted value of these claims was \$165.2 million, an increase of 22 per cent
- › Austrade has announced a second-tranche payment in 2014–15 of 65.3 cents in the dollar
- › the Minister for Trade and Investment has set an initial payment ceiling amount at \$40,000 for the 2014–15 grant year, which will be paid in 2015–16
- › as a result of claims assessments, the value of grants paid is normally reduced by between \$18 million and \$45 million from the initial grant claimed values. The average total reduction in grant values paid per year resulting from claim assessment has been \$31 million over the past five years.

Recommendations

Effectiveness of the EMDG scheme

1. That the EMDG scheme be better integrated into Austrade's planning, and better promoted through Australian and international networks, industry groups, banks, accountancy firms and business advisers assisting firms as they contemplate new export opportunities.
2. That Austrade's EMDG division provide regular updates on the scheme and its achievements—for example, via webinars—to overseas posts, particularly in the emerging markets of Asia, and industry advisers in sectors where Australia's exporters can be expected to focus attention.
3. Within six months of the tabling of this report, that Austrade advise the Minister for Trade and Investment on the outcome of its investigation of the Review's proposal for a new stream for high-growth firms seeking to quickly develop new sustainable export markets.

4. That Austrade encourage grant recipients to consider the strategic importance of each of their eight grant opportunities in order to gain maximum impact from their marketing activities.

Building a better scheme

5. That the EMDG scheme be continued, and continue to be administered by Austrade.
 - › 5.1 That the 'sunset' provisions in the *Export Market Development Grants Act 1997* be removed.
6. 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.
 - › 6.1 That the government augment Austrade's budget with a new amount equivalent to the 5 per cent of the EMDG administered funds, thus freeing up the entirety of the EMDG funding, currently \$137.9 million, for export promotion grants.
 - › 6.2 That separate provision, in addition to the EMDG administration budget and grant amounts, be made for replacement of, or upgrades to, Austrade's IT system.
7. That the EMDG scheme be reviewed every five years, following similar processes as previous independent reviews—in particular, updating the econometric studies of the scheme's impact on the economy—to determine the ongoing effectiveness and efficiency of the scheme, including its administration.
 - › 7.1 That the EMDG Act be amended to include a requirement for independent external reviews of the effectiveness and efficiency of the scheme.

- 7.2 That these independent reviews be presented to the responsible Minister and tabled in the parliament within 15 sitting days of being received by the Minister; and that the government's response be tabled within three months of the report being tabled.
- 7.3 That, within four years, the future appropriations for the EMDG scheme be reviewed and updated in line with demand.
- 7.4 That Austrade expand its client surveys or add new questions to grant applications to provide data for reporting annually to the Minister and industry on the scheme's operation, effectiveness and efficiency.
- 7.5 That Austrade assess the long-term value of the EMDG scheme in promoting viable exporters beyond the eligibility period for grants, and report its annual findings to the Minister and industry.
- 7.6 That Austrade continue to monitor the quality of claims lodged by grant recipients and advise the Minister of any significant new information and benefits of the scheme that would warrant the introduction of new incentives, and/or penalty provisions, for applicants.

7.6.1 That Austrade include in eligibility criteria the costs of attending training and information sessions on market development opportunities in relation to free trade agreements.

7.6.2 That Austrade continue to update other eligibility criteria to reflect businesses' experience in overseas markets—for example, the number of days that are eligible for overseas promotional travel (currently 21); the daily expense rate (currently \$300); cross-cultural and other training; design and artwork for export

labelling; and attendance at domestic trade fairs and other Australia-based promotional activities.

8. That promotion of the scheme focus on lifting the number of applicants to the 10-year average of close to 4,000 per year in the near term, and on further growing the number of new exporting firms participating in the scheme over the medium term.

- 8.1 That Austrade, with business, create a mentoring group or forum of current and retired senior business managers/leaders or similar, to assist and advise new and aspiring exporters.

- 8.2 That Austrade's EMDG guidelines and other information be amended to separate references to trade or intended trade with New Zealand from references to Iran and North Korea.

9. That the Trade and Investment Ministers Meeting develop a map or framework of Commonwealth, state and territory export promotion support within 12 months, and that Ministers consider the range and scale of available programmes with a view to sharing information on best practices and on the most effective state and territory programmes.

Client and stakeholder engagement

10. That the key EMDG stakeholders—applicants, export consultants and Austrade—continue to work, together with industry groups, to improve the scheme's administrative arrangements, with the aim of creating more certainty for applicants and reducing the tensions created by the differing priorities of the key stakeholders.