

## Export Market Development Grants Amendment Bill 1988

Date Introduced: 25 May 1988

House: House of Representatives

Presented by: Hon. Barry Jones, M.P., Minister for Science, Customs and  
Small Business

### Digest of Bill

#### Purpose

The major changes contained in the Bill will remove grants for trade with New Zealand, insert a definition of affiliated company that will be used in determining if the maximum export level has been reached and reduce the amount of grant payable in latter years.

#### Background

Export Market Development Grants (EMDG) were introduced in 1974 and succeeded the Export Market Development Allowance Scheme which operated from 1961 to 1974. In essence, the EMDG Scheme aims to encourage overseas market development by Australian exporters through the provision of cash grants to recompense eligible expenditures.

The rationale for EMDG subsidisation hinges on reducing the initial establishment costs of export industries and compensating for gain that may occur to other Australian industries as a result of the successful establishment of an export market. High initial export costs may arise through substantial search and information costs to prospective exporters. In addition, establishing overseas trading facilities, understanding local trading conditions, fulfilling local legal and commercial requirements may involve substantial 'up front' costs. The information and search costs may be sufficiently prohibitive to stifle export activity, especially among new exporters and small companies. Gains to other companies may arise to the extent that Australian penetration of overseas markets is self perpetuating through a general increase in Australian exporting knowledge and capabilities or a widening of foreign demand through increased awareness of Australian products.

The scheme last underwent significant change in 1985 consequent to a review by the National Marketing Strategy Panel (Ferris). Prior to this Bill being introduced, the EMDG scheme was reviewed by the Bureau of Industry Economics and

Austrade. The major recommendations of those reports are implemented by this Bill.

The reasons for the removal of expenditure on trade with New Zealand from the class of eligible expenditure for the scheme are, first, that the Australian and New Zealand markets are substantially the same in most aspects and incentive to export is not necessary and, secondly, that with the Closer Economic Relations agreement promoting free trade between the countries, the grants in respect of New Zealand were seen to be going against the CER proposals. Under the scheme, the grant ceases to be payable to a company that has exports of \$20 million in a year. The definition of affiliate company will be inserted to reduce the risks of companies being split so that each falls within this ceiling. The amount of grant available in the third and later years falls as a percentage of export earnings. For example, in the third year an exporter will be able to receive a grant of the lesser of \$200 000 and 50% of the export earnings in that year. The amendments in this Bill will tighten the export earnings test.

Money devoted to the EMDG in the past financial years:

<u>84 - 85</u>	<u>85 - 86</u>	<u>86 - 87</u>	<u>87 - 88</u>
\$179m	\$197m	\$ 92m	\$174m

Because money is allocated according to expected take - up of the scheme, unexpectedly high take up leads to a backlog in the payment of claims. Accordingly, supplementary appropriation of \$80m in 1985 - 86 and \$64m in 1987 - 88 were made to reduce unpaid claims on hand.

The Scheme is due to expire on 30 June 1990.

## Main Provisions

Clause 3 provides the definition of 'affiliated companies'. This will generally be a company that is a wholly owned subsidiary or that is a wholly owned subsidiary of a wholly owned subsidiary.

Clause 4 provides for certain language training costs to be included as eligible expenditure.

Clause 5 excludes from the scheme export promotion expenditure in, and export earnings from, New Zealand.

Paragraph 6(a) provides that a claimant may be requested to submit an export market plan with its claim.

Paragraphs 6(b) to (d) and clause 7 introduce an affiliated companies test for the purposes of the export ceilings on eligibility.

Clause 8 provides that:

- the minimum eligible expenditure that must be incurred before grant eligibility be raised from \$5000 to \$10 000;
- the percentage of export earnings which limits grants to third and subsequent year claimants be tightened; and
- the maximum grant payable as a ninth grant will be reduced from \$200 000 to \$150 000 and subsequent grants to \$100 000.

Clause 9 simplifies administration arrangements associated with the change in ownership of an applicant.

## References

National Export Marketing Strategy Panel (Ferris), *Lifting Australia's Performance as an Exporter of Manufacturers and Services*, AGPS, 1985, call no. 382.45 NAT.

Industries Assistance Commission, *Export Incentives*, AGPS, 1982, Report no. 300

John Burgess, 'The Export Market Development Grants Scheme: Necessary or Dispensable?', in *Economic Papers*, March 1985

For further information, if required, contact the Law and Government Group.

29 August 1988

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Legislative Research Service

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.

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