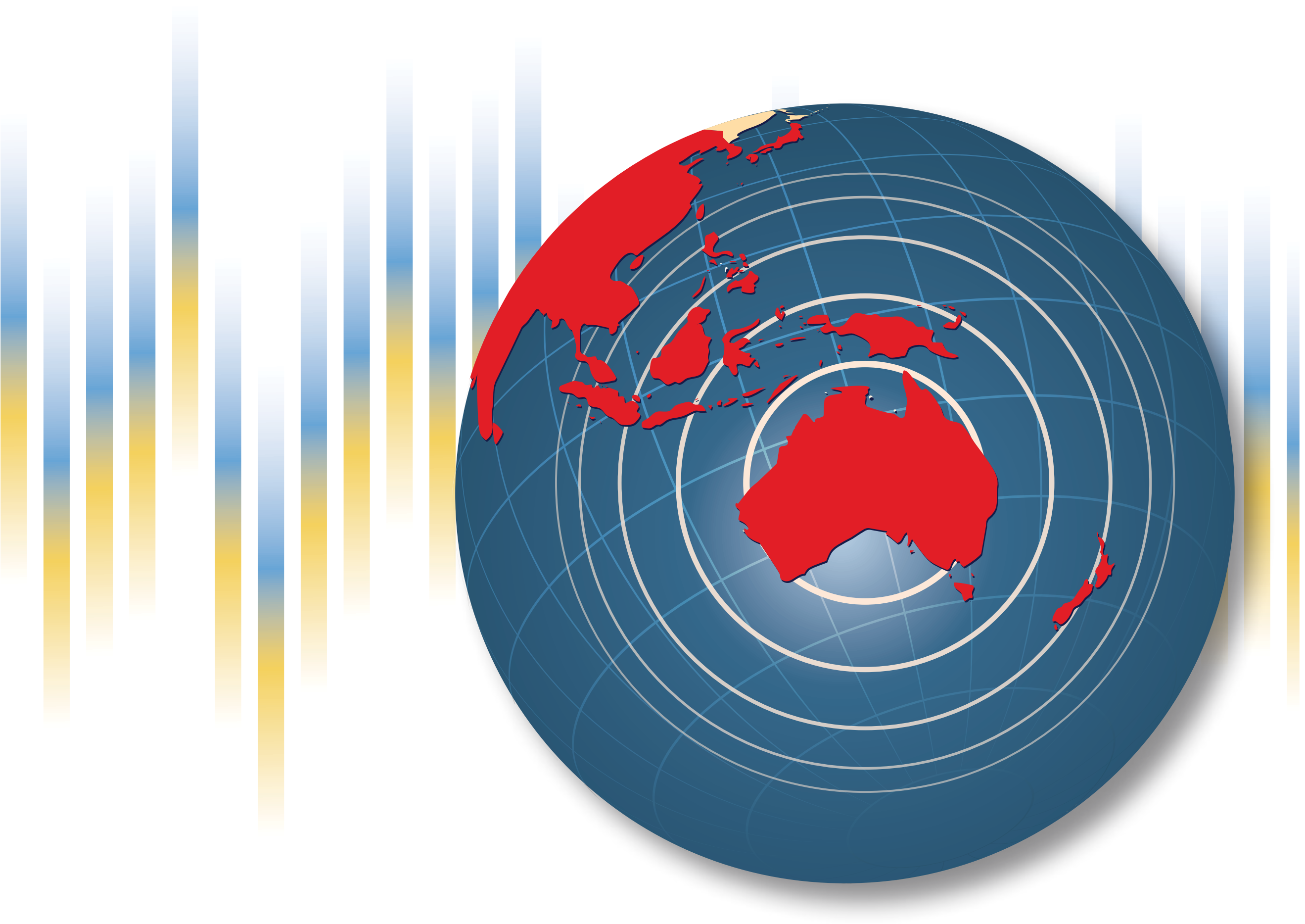
# Winning in World Markets

Meeting the competitive challenge of the new global economy

Review of the Export Market Development Grants scheme



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Review of the Export Market
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1 September 2008

The Hon Simon Crean MP
Minister for Trade
Parliament House
CANBERRA ACT 2600

Dear Minister

I am pleased to refer to you the report of the Review of the Export Market Development Grants scheme, undertaken in accordance with section 106A of the *Export Market Development Grants Act 1997*.

The review of the scheme was undertaken in the context of the broader Review of Export Policies and Programs. In preparing this report, the Review gathered information and considered the views of a wide range of interested parties through written submissions from state and territory governments; small, medium and large businesses; industry bodies; federal government departments; universities; trade unions; and individuals. The Review team also conducted consultations in state and territory capitals. The results of independent research, including an extensive survey of grant recipients and Austrade's experience in administering the scheme, were also taken into account.

I would like to express my appreciation to everyone who participated in and contributed to the Review, in particular the hard-working and tireless Secretariat and officers from Austrade as well as many businesses that took the time to provide us with insights based on their hard-won experience in export markets.

I commend this report to you and look forward to the Government's response.

Yours sincerely

David Mortimer AO

# Contents


Executive summary 1

1 Structure of the Review 5

1.1 Legislation 5
1.2 Review participants 5
1.3 Terms of reference 5
1.4 Timing of the Review 6
1.5 Review research 6

2 Rationale for the EMDG scheme 9

2.1 Addressing information deficiencies 9
2.2 Addressing knowledge and experience deficiencies 10
2.3 Spillovers from exporting 10
2.4 Evidence of positive spillover benefits 10

3 Effectiveness of the EMDG scheme 13

3.1 Evidence from public submissions 13
3.2 Survey evidence 14
3.3 Historical survey evidence 14
3.4 Evidence of satisfaction with the scheme 15
3.5 EMDG recipients exhibit higher export growth rates 15

4 Efficiency of the EMDG scheme 17

4.1 Trade effects 17
4.2 Industry effects 17
4.3 Long-term national macroeconomic effects 19

5 Financial support in other countries 22

6 Review of scheme provisions 29

6.1 Funding 29
6.2 Number of grants 31
6.3 Eligible expenditure threshold 31
6.4 Reimbursement rate 32
6.5 Eligible businesses 33
6.6 Eligible products and services 33
6.7 Eligible export promotion expenses 34
6.8 Administration costs for EMDG 34
6.9 Accountability 35
6.10 Additions and alternatives to EMDG 35

Appendix A EMDG reviews and research 37

Appendix B Major EMDG changes since 1974 39

# Executive summary

The Export Market Development Grants (EMDG) scheme is the Australian Government's principal financial assistance program for aspiring and developing exporters. Administered by Austrade, the EMDG scheme aims to encourage businesses to promote their products and services overseas and to become established exporters whose exporting persists as a sustained activity after assistance under the scheme ceases.

The scheme targets small and medium-sized enterprises across all sectors of the Australian economy. From grant year 2008–09 it provides taxable grants of up to $200 000 each per year over a period of up to eight years to more than 4000 eligible businesses per annum. In 2007–08, 80 per cent of recipients were small businesses with turnover of less than $5 million. Grants partially reimburse money spent (up to 50 per cent above a $10 000 threshold) during a financial year on specific export promotion activities to any overseas market except New Zealand. In 2007–08 the scheme had a budget of $156.9 million.

The Review drew on analysis conducted by Lateral Economics to assess the effectiveness and efficiency of the scheme. This report sets out the key findings of that work; more detailed analysis is available in the report by Lateral Economics.

The key observations and conclusions of the Review are:

- The Export Market Development Grants scheme has been helpful in introducing smaller Australian businesses and new exporters to the global market and can be considered both effective and efficient in supporting the development of Australia's exports. The scheme should be continued.
- Indicators of the scheme's effectiveness include:
  - Export marketing expenditure is higher for EMDG recipients than for comparable firms not in receipt of such grants.
  - The incidence of firms developing into new exporters is higher for EMDG recipients than for comparable non-recipient firms.
  - The incidence of firms going on to become regular exporters is higher for EMDG recipients than for comparable non-recipient firms.
  - Growth in exports achieved by current and former EMDG recipients exceeds corresponding growth achieved by non-recipient firms.
  - Modelling indicates that each dollar of EMDG generates some $13.50 to $27 of exports.
  - Evidence suggests that the scheme addresses information and knowledge/experience deficiencies.
  - There is strong stakeholder support for the continuation of the scheme.
- In terms of efficiency, economy-wide modelling results suggest that the scheme has a small positive net benefit. These effects increase when account is taken of the positive spillover effects to the wider economy associated with the scheme. It was also the case that several significant impacts of the scheme could not be modelled. Nevertheless, the estimated economy-wide effects of the scheme compare favourably with other government programs and benchmarks.
- However, we consider that a priority is to give applicants certainty about the level of funding they will receive. The current funding arrangements for the EMDG scheme and the significant uncertainty about the actual grant to be

paid substantially negate the objective of encouraging exporters to commit their own additional resources to export promotion. A well-designed program should not create uncertainty about the level of benefit.

  - Capped at approximately $150 million per year, the EMDG scheme has steadily eroded in real (inflation-adjusted) terms over time. Over the 10-year period to 2006–07 the real value of the appropriation fell by around one-fifth (22 per cent). Similarly, over the nine-year period to 2005–06 the average grant under the scheme fell by nearly one-third (32 per cent).
  - This effect is compounded by increasing demand, with the value of grants claimed increasing by 26.9 per cent in the 2007–08 financial year. Currently only grant payments up to the value of $40 000 are guaranteed, with the balance between $40 000 and $150 000 dependent on available funding.
  - Maintaining a capped scheme at current levels ($150 million) or even at the level allocated in 2009–10 ($200 million) will require a significantly reduced alternative scheme or acceptance of the decreasing value of grants over time.
- While continuing to support a capped scheme, the Review identified two options:
  - Allocate significant additional funding to meet current and future estimates of demand.
  - Set ongoing expenditure at or near the 2009–10 budgeted level ($200 million) through significant changes to the scheme provisions (such as reducing the number of grants from eight to five and increasing the minimum threshold to $30 000 or reducing the reimbursement rate).
- Of these options we prefer the latter. The Review is cognisant that the Government has recently lowered the eligible expenditure threshold from $15 000 to $10 000 and increased the number of grants from seven to eight. However, the Review considers it imperative that the issue of funding uncertainty be resolved as it unnecessarily diminishes the value and public repute of the scheme.
- The Review also notes the immediate pressure on the scheme in 2008–09, with funding set at $150 million, despite projections that claims will exceed 2007–08 levels, and recommends that this be addressed.
- We also consider that the capped scheme should be indexed annually to preserve the real value of the funding. This would also go some way to dealing with difficulties in relation to the scheme's cost of administration highlighted in this report.
- Despite the frequency of reviews of the scheme (this is the 14th review in 34 years) and progressive finetuning over time, the basics of the scheme have remained unchanged. Future extension of the program must balance the importance of certainty for applicants with the need for accountability.
- The Review examined options for improving the scheme. Given that the immediate priority is to resolve the funding uncertainty, these options have not been developed fully; however, we found potential areas of improvement, including:
  - inclusion of the costs of outward investment activities as eligible expenses
  - removal of eligibility for approved trading houses
  - broadening of eligible approved body provisions to enable the inclusion of sporting and cultural organisations involved in developing exports and international investment opportunities through international business networking promotions.

- The current EMDG scheme seeks to address the differing needs of a wide range of exporters through a single program. More tailored programs may better address identified points of market failure and exporter needs; this approach is favoured by many of Australia's major trade competitors.
- The Review was presented with a number of options for additional taxpayer-funded programs to support exports and direct outward investment. These options are considered in the main report of the Review of Export Policies and Programs. While these options have not been costed or developed fully, the Government may wish to consider these as alternatives to increasing investment in existing programs.

## RECOMMENDATIONS

Recommendations of the Review relating to the Export Market Development Grants scheme included in the *Review of Export Policies and Programs* are:

- Continue the Export Market Development Grant scheme as a capped program, with either the cap adjusted to match demand against current eligibility criteria or eligibility adjusted to meet the current cap. The capped funding scheme should be indexed annually to preserve the real value of the funding.
- Tighten the scheme provisions by reducing the number of grants from eight to five and increasing the minimum threshold to $30 000.
- Implement changes to provisions of the EMDG scheme and eligibility criteria to the extent possible to reflect the contemporary needs of Australian businesses growing internationally.
- Review the effectiveness of the EMDG scheme at regular intervals (but not more frequently than every five years).


## Lightning Protection International Pty Ltd

Lightning Protection International (LPI), located in Tasmania, is a fully owned Australian manufacturer and supplier of direct strike lightning, surge and transient equipment. The company also provides grounding solutions to a wide range of industries.

LPI services many customers around the world in a variety of industry sectors, including telecommunications and broadcasting, high-rise buildings and hotels, sporting centres, mining, aviation and defence.

The company's experience covers projects in some of the most lightning-prone areas of the globe. Earnings from export sales now represent around 80 per cent of total turnover. Some of the major markets for the company include India, Indonesia, Hong Kong and Vietnam.

LPI has received five EMDG grants. Wayne Temple, its General Manager, comments: 'The cost of air travel, accommodation, the provision of promotional material and other marketing activities is an expensive undertaking for a start-up company. The grant has helped us appoint a permanent representative in Thailand, which links us closer to our main markets. There is no doubt that without access to the financial benefits afforded to exporters by the EMDG scheme the ambition of LPI to establish a strong distribution network, which has been the key to market success to date, would have been difficult to achieve. With the assistance of the EMDG scheme LPI has exceeded its number of target markets. We now regularly export to 41 countries.'

# 1 Structure of the Review

### 1.1 LEGISLATION

After the 2005 EMDG scheme review, the Government extended the scheme for five years to 30 June 2011.

Section 106A of the *Export Market Development Grants Act 1997* (EMDG Act) requires that:

1) Not later than 1 January 2010, the Minister must cause a person or body (other than the person or body that administers the export market development grants scheme) to conduct a review of the scheme for the purpose of making recommendations about the continuation of the scheme.
2) In conducting the review, submissions from the public must be called for and public hearings may be conducted.
3) The review must be completed, and a written report provided to the Minister, by a date determined by the Minister that is not later than 30 June 2010.
4) The Minister must cause a copy of the report to be laid before each House of the Parliament within 15 sitting days after receiving it.

When announcing the Review of Export Policies and Programs on 21 February 2008, the Minister for Trade, the Hon Simon Crean MP, signalled his intention to bring forward the review of the EMDG scheme:

> I have today announced a comprehensive review of Australia's export policies and programs. Under legislation, the Government is required to initiate a review of the Export Market Development Grants (EMDG) scheme by 2010. Given the integral role of EMDG in the current mix of export policies and programs the EMDG review will be brought forward and undertaken as part of this review. The review will consult widely with stakeholders and will be calling for public submissions. The review will be completed by 31 August 2008.

### 1.2 REVIEW PARTICIPANTS

A panel comprising Mr David Mortimer AO and Dr John Edwards was appointed to conduct the Review of Export Policies and Programs, including the review of the EMDG scheme. Mr Mortimer and Dr Edwards were supported by a secretariat. Information about the Review and the secretariat is set out in Appendix B to the *Review of Export Policies and Programs.*

### 1.3 TERMS OF REFERENCE

The terms of reference for the Review of Export Policies and Programs state in pertinent part:

> 9. The review will include specific recommendations about the continuation of the Export Market Development Grants scheme (EMDG) pursuant to section 106A of the EMDG Act 1997.

The full text of the terms of reference is at Appendix A to the *Review of Export Policies and Programs*.

The Minister for Trade, the Hon Simon Crean MP, also indicated in correspondence with the Chairman of the Review of Export Policies and Programs that:

> [The] effectiveness of the EMDG scheme should be examined and a report provided which addresses, but is not limited to the following:
>
> 1) Whether the EMDG scheme, as currently structured, is effective in:
>    - increasing the number of businesses that develop into new exporters
>    - increasing the number of businesses that achieve sustainability in exporter markets and generate additional exports

- further developing an export culture in Australia

Taking into account:

- The scheme's provisions including the eligibility of:
  - individuals, businesses and organisations
  - products and services that applicants may seek to export
  - the export promotion expenses that applicants may incur
  - other scheme parameters
- The need for simplicity in scheme rules accountability and consistency with overall government policy

2) Having regard to these issues whether the EMDG scheme should be extended and if so:
   - the period for extension
   - options for improved performance of the scheme.

Inclusion of the review of EMDG as part of the wider Review of Export Policies and Programs is important to facilitate a complete assessment of the effectiveness of the program in addressing the needs of business. This assessment should consider both improvements to the EMDG scheme and the potential effectiveness and efficiency of alternatives to the EMDG scheme to ensure that the net benefits for Australia are maximised.

## 1.4 TIMING OF THE REVIEW

The Review was carried out during 2008, which marked a period both of transition and of significantly increased demand for grants under the EMDG scheme.

In 2007–08, the first applications to be affected by legislative changes made to the scheme in 2006 were received and assessed. These changes resulted in a significant increase in demand for grants during 2007–08: the number of applications received increased by 11.4 per cent and the value of those applications increased by 26.9 per cent. Second tranche payments applying to 2006–07 grant year applications were paid at 24.4 cents in the dollar. This is significantly lower than any previous year of the scheme's operation.

A second round of legislative changes was passed in June 2008 while this Review was taking place. The changes aim to revitalise the EMDG scheme and deliver on the Government's pre-election commitments relating to the scheme.

The scheme rules as described in this report are those that were in place prior to the legislative changes made in 2008. However, in making recommendations regarding the future of the EMDG scheme, the Review took into account the 2008 legislative changes that first take effect for export promotion expenditure incurred from 1 July 2008 and applications lodged from 1 July 2009.

## 1.5 REVIEW RESEARCH

As part of the Review, the following consultations and research were undertaken.

### *Econometric analysis*

Lateral Economics was engaged by the Review to carry out research into the EMDG scheme's efficiency and effectiveness. Lateral Economics also used the expertise of Econtech to undertake modelling of the economy-wide effects of the scheme. Full details of this analysis are set out in the *Review of the Export Market Development Grants Scheme 2008: A report by Lateral Economics* is available from www.austrade.gov.au.

### *Stakeholder consultations*

The Review engaged in an extensive program of stakeholder consultations involving representatives from small, medium and large businesses, industry bodies, state and territory governments, non-government organisations and relevant federal government departments. Details of stakeholder consultations are set out in Appendix D to the *Review of Export Policies and Programs.*

### *Public submissions*

Written submissions were sought from interested parties and members of the public. In total, the Review received over 160 public submissions from a wide range of exporters, industry associations and government bodies. Of these, some 60 per cent addressed issues relating to the EMDG scheme. A list of submissions is set out in Appendix C to the *Review of Export Policies and Programs.*

In addition, the Review was advised of issues relating to the EMDG scheme raised in 243 items of correspondence to the Minister for Trade during the course of the Review.

### *Surveys and other data*

Wallis Consulting was engaged to conduct surveys of current and past recipients of EMDG, drawing on the database maintained by Austrade. They also conducted a parallel survey of non-grant-recipients (as a control group) drawn from Dun and Bradstreet.

Other data sources used by the Review included:

- client feedback obtained from Austrade's annual client satisfaction survey and client feedback forms
- data and analysis gathered from previous EMDG reviews
- statistics on the characteristics of Australian exporters (and other information) compiled by the Australian Bureau of Statistics
- literature review of export promotional activities of firms and their effects.

### *Research on schemes available in other countries*

Research was undertaken on Australia's main export competitors to identify the financial support available to their exporters. The countries and economies assessed were Canada, China, France, Germany, Hong Kong, India, Indonesia, Ireland, the Republic of Korea, Japan, Malaysia, New Zealand, Saudi Arabia, Singapore, Taiwan, Thailand, United Arab Emirates, the United Kingdom and the United States.

## Liquid Animation

Located in the trendy Fortitude Valley area of Brisbane is Liquid Animation, one of Australia's leading animation and visual effects production studios.

Liquid Animation has an international reputation in the provision of commercial animation services. The company provides concept, design and production services for film and television, advertising agencies, the games industry, mobile manufacturers and the internet.

A sister company, Liquid Interactive, is a full-service agency offering strategic, digital production and creative services. Providing advertising, marketing and e-learning solutions to a range of clients, the agency's portfolio boasts work featuring many leading national and international brands.

Liquid Animation has grown to become an integrated animation, visual effects and post-production facility that now works for advertising agencies worldwide, particularly in Asia. Key export markets include China, Japan, Singapore and the United States. Overseas clients now include blue-chip companies such as Walt Disney in Japan.

Liquid Animation has received three EMDG grants, which have assisted the company in meeting the costs of trade shows, promotional material, advertising, overseas representatives, samples and the hiring of consultants. Export earnings have more than doubled since the company's first year of participation in the scheme.

Geoff Viner, of Liquid Animation, says: 'With the nature of our work the Australian market is just not large enough to provide consistency of work and a growth path. We understood early that we needed to tap overseas markets. Overseas marketing is a key to our success and having the financial support of the EMDG as well as in-country assistance has certainly provided momentum for Liquid Animation.'

# 2 Rationale for the EMDG scheme[1]

The purpose of the EMDG scheme is set out in the EMDG Act:

> This Act provides for the grant of financial assistance by the CEO of Austrade to small and medium Australian enterprises to provide incentives for them to develop export markets. The underlying principle is that incentives are only provided to export businesses that can return significant net benefit to Australia because:
>
> - they are Australian businesses;
> - hey are seeking to export products that are substantially Australian; and
> - they are being encouraged to undertake additional promotional activities.

The EMDG scheme aims to spur grant recipients' export promotional efforts, leading to increased exports of Australian-produced goods and services such that exporting becomes a regular part of their business. The scheme does this by helping address information and knowledge and experience deficiencies often faced by firms new to exporting, in particular small and medium-sized enterprises. In doing so, the scheme also seeks to encourage positive spillovers into the wider Australian economy from the knowledge and experience gained by new exporters, thereby encouraging and reinforcing an export culture among Australian firms.

## 2.1 ADDRESSING INFORMATION DEFICIENCIES

Preconditions for markets to operate effectively and efficiently include universal access to relevant information about market opportunities, along with knowledge of production, distribution and marketing methods appropriate to both the economy in which firms operate and the markets in which they sell their products. When such conditions are not met, markets fail in various ways, with the implied invitation for governments to intervene to address the problems.

A lack of (or inadequate or imperfect) information about the benefits of exporting to a particular market (or exporting generally) can be a sufficient deterrent to discourage such activity entirely. This is because, for individual firms, the cost of acquiring accurate, relevant information can seem daunting when the benefits are unknown or uncertain. Just searching for suitable export markets and researching the possibilities can be expensive. To an extent, of course, the extra informational and transactional expenses associated with exporting are an intrinsic cost of engaging in such activity. However, those new to potential export possibilities, and small and medium-sized enterprises in particular, can be quite ineffective at controlling such costs because they do not even know how or where to start, let alone what sort of information they need to acquire.

The EMDG scheme and initiatives such as TradeStart have an educational element to them that seeks to address information deficiencies, particularly on the part of small and medium-sized enterprises. Indeed, the EMDG scheme specifically targets information deficiencies—for example, how to go about exporting, including the opportunity for businesses to gather basic information about foreign markets, cultural norms, how business is done, and how to effectively interact with local authorities—to reduce the perceived high risk associated with foreign sales. Claims under the scheme demonstrate that marketing visits and the cost of overseas representation dominate firms' export-promotion budgets.

Such outlays represent an investment in remedying information deficiencies at the individual business level. In competitive international markets the provision of information at the general market or industry level is inadequate to compete against

1 *For a fuller discussion and additional evidence, see* Review of the Export Marketing Development Grants Scheme 2008: A report by Lateral Economics*, available at www.austrade.gov.au.*

businesses with information at the product and buyer level. Much of this information needs to be gathered firsthand through experience in the market.

## 2.2 ADDRESSING KNOWLEDGE AND EXPERIENCE DEFICIENCIES

Knowledge transfers to others are particularly likely to occur from firms that are pioneering new export markets or developing niches in existing markets.

Exploitation of knowledge about how to successfully export will inevitably be embodied in new products or incorporated in new production processes, just like the fruits of research and development. Such commercialisation tends to reveal at least some aspects of the new knowledge to others. The very act of using the knowledge that successful exporting creates tends to lead to such knowledge passing to rivals. In this way, others can readily copy or otherwise imitate the products or processes of successful exporters at a fraction of the cost borne by pioneers.

The knowledge and experience gained from exporting can build better businesses by stimulating the development of organisational capabilities and management systems that lift productive performance beyond industry peers. This results in the trade-exposed sectors of the economy becoming increasingly competitive and in the process providing more challenging, more interesting and more highly paid jobs. Superior performance is then likely to lead to higher export intensity as exporters increasingly learn by doing. Such learning then tends to be transmitted to others, in the process contributing to the development of an export culture.

The EMDG scheme seeks to encourage Australian firms to open new overseas markets to Australian-produced goods and services by backing new and emerging exporters, as well as encouraging others to follow. In so doing, the scheme specifically sets out to address the knowledge and experience deficiencies of aspiring exporters.

## 2.3 SPILLOVERS FROM EXPORTING

Spillovers (which can be both positive and negative) occur when an economic activity cannot appropriate all of the benefits attributable to it, or avoids some of the costs its activities generate—so that they spill over to affect other economic activities.

Certain activities—such as research and development and participation in international trade—have been repeatedly demonstrated to generate widespread benefits that greatly exceed those captured by individual businesses.

In the context of export promotion, for example, the benefits of one firm's pioneering work to secure foreign sales may not accrue exclusively to it (such as in the form of increased revenues) because later entrants may be able to 'free ride' on its marketing efforts. Thus, the initial entrant, whose efforts prised open the market, will not benefit from the lower costs enjoyed by followers. In some cases, the early entrants may have built a reputation for Australian-produced goods or services on which later entrants can capitalise. The Australian wine industry is often cited as an example of this phenomenon.

Once developed, these learning and experience effects persist well beyond the period of support provided by the EMDG scheme. This enhanced rate of learning and more intensive export marketing can have a positive effect on business growth rates, which can lead to significant long-term benefits.

## 2.4 EVIDENCE OF POSITIVE SPILLOVER BENEFITS

Evidence from the 2008 and 2005 surveys of EMDG firms confirms the existence of positive spillover benefits from the scheme—to other recipients of EMDG, to non-EMDG recipients and to competitors of EMDG firms.

The 2008 survey of EMDG recipients conducted for the purposes of this Review calculated the proportion of EMDG firms indicating that they have learned from other exporters. The proportion was highest among businesses with between $5 million and

$15 million in annual turnover (59 per cent), with the all-firm response at 50 per cent. These benefits represent spillovers to EMDG firms, although other non-EMDG recipient firms also have access to these benefits.

The survey also calculated the proportion of EMDG firms indicating that their exporting experiences have helped their competitors. The proportion was highest among the largest businesses (those with more than $15 million in annual turnover) at 44 per cent and lowest among businesses with between $5 million and $15 million in annual turnover (31 per cent). The all-firm response indicated that almost one-third of EMDG firms helped their competitors by virtue of their export experience. However, these direct observations are likely to underestimate the actual benefits, since respondent companies are unlikely to be able to observe all competitors and non-competitors will also be able to benefit from the experiences of EMDG firms.

The research presented in this report highlights that spillover benefits for small to medium-sized exporters and potential exporters can be widespread and commercially significant.


## CareFlight (Queensland) Limited

CareFlight is a not-for-profit organisation that began as a regional helicopter rescue service, based on the Gold Coast, in 1981. In the early years, the service consisted of a single helicopter and volunteer crews on weekends in beach and surf patrols, as well as search and rescue teams.

CareFlight now holds one of the largest public health contracts in the southern hemisphere, supplying doctors on behalf of Queensland Health to other air medical retrieval services throughout Queensland. After achieving success in the domestic market, the company has in recent years looked to promote its expertise and services further afield. CareFlight services, such as air crew and helicopter pilot training and the establishment of Air Medical and Rescue Service units, have been promoted throughout Europe and the Middle East.

'The EMDG grant was used to aid CareFlight executives promote our product directly to potential customers during a visit to the United Arab Emirates late last year', says Paul Regli, General Manager, CareFlight Safety Services. 'Such financial support is greatly appreciated and has certainly paid off, with CareFlight Safety Services securing several UAE training contracts since the visit.'

# 3 Effectiveness of the EMDG scheme[1]

## 3.1 EVIDENCE FROM PUBLIC SUBMISSIONS

Consistent with the experience of previous reviews, public submissions overwhelmingly viewed the EMDG scheme as effective in encouraging firms both to commence exporting and to continue doing so on a regular or sustained basis. While it is not surprising that businesses receiving assistance would be in favour of that assistance, businesses that are at or near the end of their period of eligibility might be expected to be candid in their appraisals. They were also strongly supportive. Ninety-five per cent of the submissions that commented on the EMDG scheme supported its continuation in either its current or an amended form.

Following are some typical comments on the scheme.

> These grants have been a major reason for the development of the science industry into export markets. In fact many companies have commented that without these grants they would not have been able to finance their marketing efforts to ensure the success they now enjoy. Also their growth in overseas markets would have been very much slower as the EMDG assisted their marketing efforts and allowed them to gain market penetration in a much shorter timeframe.
>
> —Science Industry Australia submission to the Review

> The AHEA considers the continuance of the EMDG scheme as critically important for horticultural exporters to maintain their existing markets, re-establish lost markets and develop new markets, as market circumstances change. EMDG support makes a vital contribution to the intangible costs associated with developing markets and supporting export strategies, often allowing exporters to stay in business and to maintain employment for horticultural specialists, especially during the current difficult horticultural export environment.
>
> —Australian Horticultural Exporters Association submission to the Review

> The EMDG was one of the key reasons why Cumulus was so confident in taking to the world of export. We grew from having no exports at all, to our exports being the major revenue stream of the business. The current structure is perfect for us. We are motivated by marketing cost recovery. In terms of export culture, the company has had a 'metamorphosis'. We make wine for the world. The domestic market just happens to be one of our markets.
>
> —Cumulus Wines submission to the Review

As part of its submission to the Review, the Australian Institute of Export conducted an independent survey of its database of 6000 businesses (May 2008). Responses to the question: 'When you first started out in export was the EMDG scheme a significant help, a moderate help or no help at all?' were overwhelmingly positive, with 64 per cent describing it as a significant help, 21 per cent a moderate help and only 15 per cent no help at all.

1 *For a fuller discussion and additional evidence, see* Review of the Export Marketing Development Grants Scheme 2008: A report by Lateral Economics*, available at www.austrade.gov.au.*

## 3.2 SURVEY EVIDENCE

### *Nexus between grants, export promotion and subsequent exports*

The 2008 survey of EMDG recipients conducted for the purpose of this Review asked firms whether the scheme had allowed them to undertake export promotion that they would not have been able to afford otherwise. Almost half (47 per cent) of respondents answered yes. Asked whether grants allowed them to 'increase the level of export promotion', 89 per cent answered yes. Asked whether grants 'allowed you to do different kinds of export promotion that you would not have been able to do', 66 per cent answered yes.

EMDG recipients also estimated that they had increased annual exports, on average, by some 135 per cent between 2005–06 and 2006–07. Small firms registered the highest annual increases (163 per cent); the largest firms increased exports by a more modest 43.8 per cent. The export performance of exporters not receiving the grant in the 'control group' survey provides another basis for comparison. For this group of some 200 businesses, exports recorded almost no growth between 2005–06 and 2006–07 (when the sample was weighted to reflect the profile of EMDG recipients), although export growth among the smallest businesses (those with less than $1 million in annual turnover) was an estimated 16 per cent.

Based on this survey evidence, the eventual impact of one dollar of EMDG grant may be between $13.50 and $27 of additional exports.

### *Payments uncertainty*

When asked whether 'uncertainty in the amount you might get affected the amount you spend on export promotion', 44 per cent answered in the affirmative. A similar result was indicated in a separate, independent survey conducted by the Australian Industry Group of its membership as part of its submission to the Review in April 2008.

When asked what impact uncertainty in the level of reimbursement under the EMDG scheme had on spending on eligible export promotion activities, 49 per cent indicated that it would have an impact.

## 3.3 HISTORICAL SURVEY EVIDENCE

The 2005 survey of EMDG recipients conducted by the Centre for International Economics similarly found that the scheme:

- **induced export promotion:** for each dollar of EMDG funding received, firms were likely to spend a dollar or more on additional export promotion
- **boosted exports:** if all firms were constrained by lack of finance, the boost in exports per dollar grant could be between $20 and as high as $220 on average over the future life of EMDG scheme–supported companies
- **helped small to medium-sized enterprises export on a regular (sustained) basis:** the scheme attracted firms that, on average, do not have long-term export experience, and the longer these firms are in the scheme the more they become financially self-sufficient and able to self-fund export promotion from retained earnings
- **had a positive impact on export culture:** the scheme was likely to provide some boost to the development of an export culture in the surveyed firms: 70 per cent of respondents said that exporting not only had helped make them become more efficient but had given them a four-year competitive edge over their domestically oriented competitors. This is also an indication of the size of the potential spillover benefits available.

## 3.4 EVIDENCE OF SATISFACTION WITH THE SCHEME

Austrade commissions an annual client satisfaction survey of EMDG scheme applicants (both successful and unsuccessful) using an external market research company. Questions cover various topics, including the scheme's impact on export marketing expenditure and its success in encouraging exports.

The last survey was conducted during July 2007. A sample of 507 EMDG scheme applicants for the 2005–06 grant year were interviewed by telephone. Seventy-eight per cent of respondents said the scheme had had an impact on their level of export marketing expenditure, with 43 per cent indicating it had a major or critical impact; and 81 per cent of respondents considered the scheme important in encouraging them to start thinking about, entering into or staying in exporting.

## 3.5 EMDG RECIPIENTS EXHIBIT HIGHER EXPORT GROWTH RATES

All EMDG recipient businesses in their seventh grant year were identified in Austrade's EMDG database and their *individual* export sales growth over the last five years[2] calculated. The average of these growth rates was 220 per cent (representing an average growth rate of 33.7 per cent per annum). Again, this represents strong export growth by EMDG recipients.

By contrast, aggregate Australian exports (as measured by the Australian Bureau of Statistics as goods and services credits in the balance of payments) grew by around 8.5 per cent per annum over the seven-year period to 2005–06.

*2 EMDG recipients are not required to report export sales in the first two grant years.*


## Gippsland Aeronautics

Gippsland Aeronautics has a long-established reputation in the aeronautical industry. The company began operations at the Latrobe Regional Airport in Morwell in the 1970s as an aircraft maintenance and modification business. The modification of agricultural aircraft to improve capability and safety marked the beginnings of Gippsland Aeronautics' entry into aircraft design and manufacturing. The company's first design, the GA200, achieved certification by the Australian Civil Aviation Safety Authority in 1991, followed by US certification in 1997.

To date, 45 GA200 aircraft have been manufactured in the Latrobe Valley, 28 of which have been exported throughout the world—including to Brazil, Canada, China, New Zealand, South Africa and the United States. Success domestically and overseas with the GA200 enabled resources to be directed toward developing a new utility aircraft, called the GA8 Airvan. The first Airvan was exported in November 2001. Today, the GA8 Airvan has been sold and is operating in 28 countries worldwide, predominately in tourist operations but also in humanitarian and homeland security roles. The company has secured a three-year supply contract with the US Air Force Auxiliary, which operates a fleet of 16 Airvans.

Gippsland Aeronautics recently qualified for its fourth export grant under the EMDG scheme. Marguerite Morgan, Global Sales Manager, says: 'Without the EMDG scheme, Gippsland Aeronautics would not have been able to penetrate worldwide markets to the extent it has in this time frame. The costs associated with opening and servicing overseas markets are compounded because we have aircraft certification expenses, so any additional assistance to our resources in promoting a unique Australian product that results in aircraft sales and will secure jobs back home, is a win–win situation.'

# 4 Efficiency of the EMDG Scheme[1]

Econtech's MM600+ model of the Australian economy[2] was used to estimate some of the net economic impacts of the EMDG scheme. The focus of the modelling was on the likely effects of scheme grants on the industrial composition of the Australian economy and on the economy as a whole. Positive spillovers to other economic activities attributable to the scheme were also taken into account.

## 4.1 TRADE EFFECTS

Estimated aggregate trade impacts of the EMDG scheme are considered first. These modelling results refer to outcomes achieved after the economy has fully adjusted to the changes attributable to the scheme. Figure 1 shows the estimated eventual trade effects of the EMDG scheme under three scenarios: EMDG grants without spillovers (first scenario); grants with spillovers at 50 per cent of estimated directly attributable increased exports (second scenario); and grants with spillovers at 100 per cent (third scenario). The third scenario is considered to be the most realistic estimate of the scheme's effects. Specifically, the graph shows the estimated annual contribution of the scheme to aggregate exports and imports.

The principal factors at work in the model to produce these trade effects are:

- By lowering the cost to firms of developing export markets, grants stimulate exports on the part of recipient firms.
- Increased exports improve Australia's terms of trade, leading to a higher exchange rate.
- The change in the real value of the Australian dollar means that prices of imported goods and services are lower than would otherwise be the case, leading to an increase in imports.
- The flow-on effects of a more open export market (under the second and third scenarios above) attributable to spillovers lead to a further improvement in Australia's terms of trade, which further stimulates imports, while dampening exports somewhat.

## 4.2 INDUSTRY EFFECTS

The modelling also predicts that EMDG will have varying impacts on the level of activity in various Australian industries. Figure 2 illustrates these estimated industry impacts at a broad sectoral level.

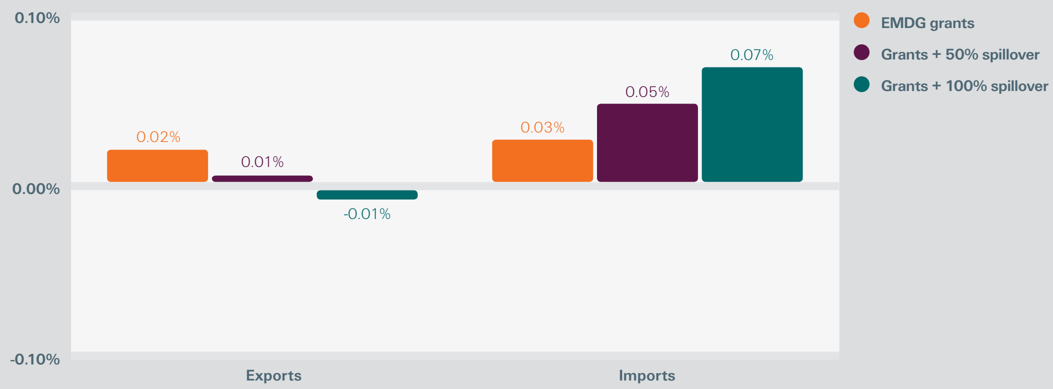
The principal factors at work in the model to produce these estimated industry effects are:

- Grants boost the output of industries in which grant recipients are concentrated, at the expense of sectors containing relatively few grant recipients.
  For example, the manufacturing sector of the economy contains industries with high concentrations of EMDG recipient firms, which means that this sector expands relative to others, such as the transport and mining sectors.
- Elevated activity in areas of the Australian economy where grant recipients are concentrated also stimulates additional activity in upstream industries (such as wholesale trade and business services), as well as downstream industries supplying inputs to expanding industries.
- Additional industry activity stemming from EMDG-induced export activity generates additional revenue to the community.
  In turn, increased income boosts demand for goods and services, such as cultural and recreational services.

1 *For a fuller discussion and additional evidence, see* Review of the Export Market Development Grants Scheme 2008: A report by Lateral Economics, *available at www.austrade.gov.au.*

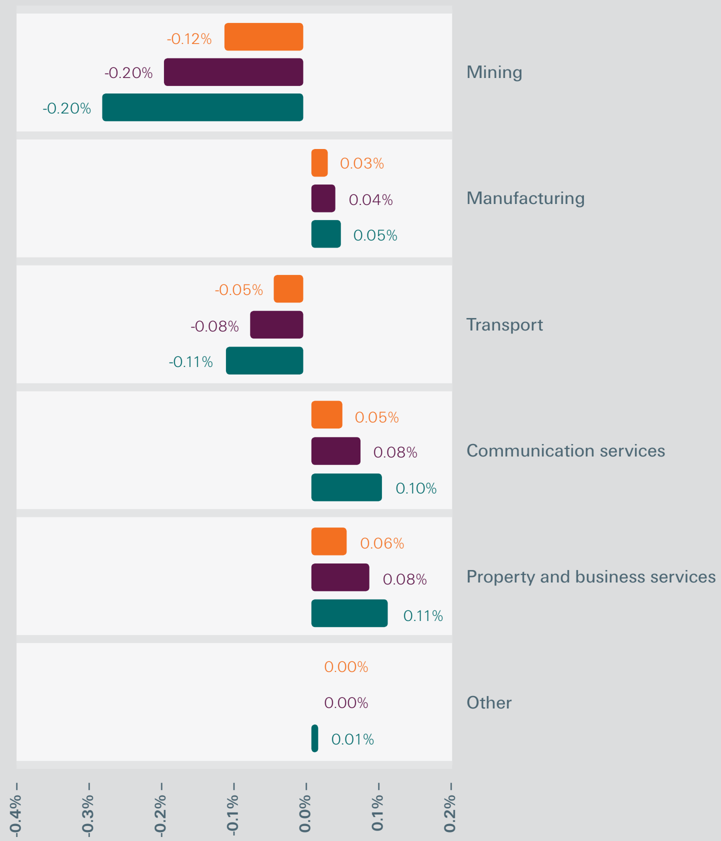
2 *MM600+ is a long-term computable general equilibrium model of the Australian economy that models a long-run equilibrium (approximately five to 10 years). It distinguishes 108 industries that produce 672 products, making it six times more detailed than any comparable model.*

Figure 1 **Estimated trade effects of the EMDG scheme (per cent deviation from baseline)**




*Source: Econtech MM600+ simulations.*

Figure 2 **Estimated average annual industry-production effects of the EMDG scheme (per cent deviation from baseline)**




*Source: Econtech MM600+ simulations.*

- For industries that are trade-exposed, prices are determined on world markets and the exchange rate plays a pivotal role in determining growth in such industries. As mentioned, the increased export activity would lead to a higher value for the Australian dollar. A higher Australian dollar, in turn, lowers demand for other Australian exports. In this way production gains in consumer-oriented industries, EMDG-assisted industries and related upstream and downstream industries are adversely affected by slightly reduced production in other trade-exposed industries.

The net estimated result of these various effects is the pattern of sectoral losses and gains depicted in Figure 2 under the three scenarios.

## 4.3 LONG-TERM NATIONAL MACROECONOMIC EFFECTS

Figure 3 and Table 1 summarise the estimated indicative impacts on consumer welfare. (The living standards measure adopted here is considered by Econtech to be a better measure of the welfare implications of the EMDG scheme than the estimated effect on GDP.)

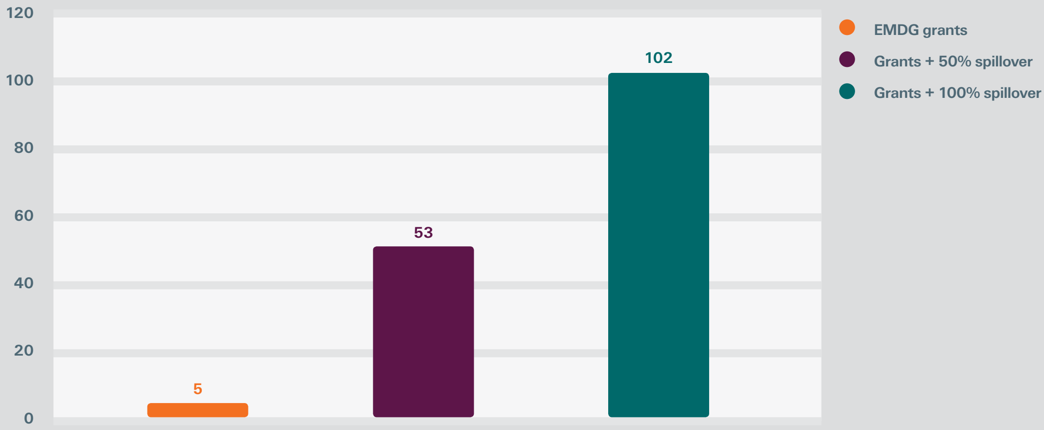
As can be seen in Figure 3 and Table 1, the direct benefits of the EMDG scheme, if taken alone, are almost completely offset by the cost of the grants (first scenario). This is to be expected, since such a modest program in relation to the overall Australian economy cannot be expected to lead to large macroeconomic effects.

However, taking into account EMDG-related spillover effects leads to increased consumer living standards. This increase in living standards is the result of higher levels of production in the economy, which lead to higher annual national income, and hence to increased private consumption. To the extent that the scheme also opens up export markets to other domestic producers, there is a clear net benefit to the economy and the Australian community (second and third scenarios).

There are two important qualifications to these results, both suggesting that the figures reported in Table 1 are likely to underestimate the real effects. The first is that exporting businesses (which the scheme targets) tend to be more productive than domestically oriented ones—which is not reflected in the modelling. The second is that firms no longer in receipt of EMDG funding tend to continue as regular (sustainable) exporters, whereas the modelling assumes that the scheme's effects on exports are completely reversed once recipients cease to qualify for grants under the scheme.

Even without these qualifications, the scheme compares favourably with other benchmarks. As Table 2 shows, the impacts of the two 'EMDG + spillover' scenarios compare favourably with estimated benefits of other government initiatives.

Figure 3 **Estimated annual consumer living standard effects of the EMDG scheme ($ million, 2004–05 prices, deviations from baseline)**




*Source:* *Econtech MM600+ simulations.*

Table 1 **Estimated net benefits of the EMDG scheme ($ million)**

| | EMDG grants (scenario 1) | Grants + 50% spillover (scenario 2) | Grants + 100% spillover (scenario 3) |
|---|---|---|---|
| Gross benefit | 138 | 187 | 236 |
| Cost | 134 | 134 | 134 |
| Net consumer benefit | 5 | 53 | 102 |
| Ratio | 1.04:1 | 1.40:1 | 1.77:1 |

*Source:* *Econtech MM600+ simulations.*

Table 2 **Comparison with other government programs and benchmarks**

| | Benefit–cost ratio |
|---|---|
| EMDG | 1.04:1 |
| EMDG + 50% spillover | 1.40:1 |
| EMDG + 100% spillover | 1.77:1 |
| Public R&D programs | 1.30:1 |
| E-government | 0.54–1.28:1 |

*Source:* *Econtech MM600+ simulations.*

## Keith Seeds Pty Ltd

Since 1966, Keith Seeds Pty Ltd has been involved in breeding, processing, producing, packing and marketing seeds, grains and agricultural products. The company also has an extensive investment in processing and cleaning equipment for the handling of seeds and legumes.

Keith Seeds has made good inroads into overseas markets, with key export destinations including Argentina, China, Mexico, the Middle East and the United States.

Keith Seeds has invested significantly in developing export markets, with assistance from the EMDG scheme. The company has received eight grants under the scheme. Mr Tim Cadzow, Managing Director of Keith Seeds, says of the scheme: 'It is an outstanding concept to help developing exporters such as ourselves become established in various markets around the world. Without the scheme I believe our success would not have been as dynamic and we would have taken a lot longer to establish ourselves.'

# 5 Financial support in other countries

Australian businesses seeking to enter international markets are competing against businesses from other countries that are receiving different levels of government support, including in many cases financial support.

All OECD countries provide exporters with a specialised range of insurance, financial and guarantee facilities to encourage exports of goods and services. The Export Finance and Insurance Corporation provides these types of services to Australian exporters.

In addition, some countries provide other forms of financial assistance that may help their exporters, including tax breaks, grants, loans, and guarantees offered by various governments at both national and regional levels.

The Review examined the publicly available information on forms of assistance offered to exporters from Australia's major export competitors. The top 10 countries exporting into each of Australia's top 10 export markets were identified. New Zealand, India, Ireland and Hong Kong were also considered. A summary of the results is provided in Table 3.

The data do not necessarily capture all financial support available to exporters. Some financial support programs are administered by national trade promotion organisations, while others are administered by other federal and state government departments, regions, provinces and industry associations.

Table 3 **Financial support available in other countries and economies**

| | Tax break | Grants | Loans | Guarantees | Insurance |
|---|---|---|---|---|---|
| Canada | • | • | • | • | |
| China | • | • | | | |
| France | | • | | • | • |
| Germany | | • | | | |
| Hong Kong | | • | • | | |
| India | • | • | • | | |
| Indonesia | | • | | | |
| Ireland | | • | | | |
| Japan | | | • | | |
| Malaysia | • | • | | | |
| New Zealand | | • | | | |
| Republic of Korea | | | • | | |
| Saudi Arabia | | | | | |
| Singapore | • | • | • | | • |
| Taiwan | | | | | |
| Thailand | • | | • | | |
| United Arab Emirates | | • | | | |
| United Kingdom | | • | | | |
| United States | | • | • | | |

*Note:* *Excludes OECD financial products.*

*Source:* *Public information collected from relevant agencies in each of the surveyed countries.*

While not making any comment on the specific forms of support offered by other countries and economies, some observations that are relevant in the Australian context follow:

- All but two of the 19 economies examined appear to provide some type of financial support for their exporters. This support ranges in extent and coverage.
- Australia appears to be in the minority, with only a single financial assistance program to meet the needs of a broad range of exporters.
- Seventy-four per cent of countries have grant programs.
- Of these, approximately 90 per cent target small to medium-sized enterprises.
- Forty-two per cent of countries have loan programs.
- The availability of financial support programs appears to be increasing.

Table 4 provides additional information on grants programs. Table 5 provides information on loan and guarantee programs.

Table 4 **Grants**

| | Program name | Program features |
|---|---|---|
| Australia | Export Market Development Grants scheme | Target: SMEs<br>Focus: Export promotion<br>Coverage: 50% reimbursement of eligible expenses<br>Maximum grant: A$200 000 |
| Canada | Trade Routes Contributions Program | Target: Arts and cultural entrepreneurs<br>Focus: Export initiatives for sales and partnerships<br>Coverage: 75% of project costs<br>Maximum grant: C$100 000 |
| China | SME International Market Development Fund | Target: SMEs<br>Focus: Export market development<br>Maximum grant: RMB300 000 per project; RMB3 million for multiple participants |
| France | SIDEX | Target: SMEs<br>Focus: International development projects<br>Coverage: 50% of eligible expenses<br>Maximum grant: A$12 338 per business |
| Germany | Trade shows | Target: Companies less than 10 years old<br>Focus: Participation on national stands at trade shows<br>Coverage: Up to 80% of costs<br>Maximum grant: €500–7500 per show |
| | Various export assistance programs are available at state government level (for example, Berlin) | Target: Opening up new markets<br>Focus: Participation in trade shows, training<br>Coverage: 50% of costs<br>Maximum grant: €70 000 over three years |

Table 4 **Grants (continued)**

| | | |
|---|---|---|
| Hong Kong | SME Export Marketing Fund | Target: SMEs<br>Focus: Participation in trade fairs/exhibitions<br>Maximum grant: HK$100 000 |
| | SME Development Fund | Target: Non-profit organisations<br>Coverage: 90% of project costs<br>Maximum grant: HK$2 million |
| India | Export Marketing Fund | Target: manufacturing companies<br>Focus: Establishing overseas operations<br>Coverage: 50% of eligible expenses |
| | Scheme of Transfer and Trading in Technology | Target: Technology exports<br>Coverage: Training, technological profiles, publicity, export market promotion materials<br>Coverage: Up to 100% of eligible expenses |
| Indonesia | Trade displays | Limited amounts available for trade display floor space |
| Ireland | Funding to explore new opportunities | Target: SMEs<br>Focus: Market research, trade fair participation<br>Maximum grant: €65,000 |
| | Innovative HPSU | Target: High potential start-up SMEs less than 6 years old<br>Focus: Achievement of a business plan |
| | Growth Fund | Target: SMEs<br>Coverage: Up to 50% of expenses<br>Maximum grant: Varies depending on purpose, e.g. capital investment—€300 000 |
| Japan | Nil | |
| Malaysia | Services Export Fund | Target: Services businesses<br>Focus: Export promotion, tenders, feasilbilty studies<br>Coverage: 50% reimbursement of eligible expenses |
| | Market Development Grant | Target: SMEs<br>Focus: Participation in trade fairs, in-store promotions |
| | Brand Promotion Grant | Focus: Developing and promoting Malaysian brands in international markets<br>Coverage: 100% grant for SMEs, maximum RM1 million; 50% grant for non SMEs, maximum RM2 million |

Table 4 **Grants (continued)**

| | | |
|---|---|---|
| New Zealand | Enterprise Development Grant | Target: SMEs<br>Focus: Export promotion to enter new markets or undertake new activities<br>Coverage: 50% of eligible expenses<br>Maximum grant: NZ$100 000 per anuum; maximum NZ$500 000 |
| Singapore | Assistance for Tradeshow Participation | Target: Trade associations/chambers of commerce<br>Focus: Overseas trade missions or trade shows<br>Coverage: Reimbursement up to 70% of eligible expenses |
| South Korea | Nil | |
| Taiwan | Nil | |
| Thailand | Nil | |
| United Arab Emirates | Export Assistance Program | Target: SMEs<br>Coverage: Reimbursement of marketing expenses<br>Maximum grant: A$100 000 per applicant<br>Commences 3rd quarter 2008 |
| United Kingdom | Passport to Export program | Target: SMEs<br>Focus: Market visits, implementing export action plan<br>Coverage: 50% of eligible expenses<br>Maximum grant: GBP1500 |
| | Tradeshow Access program | Target: SMEs<br>Focus: Setting up trade fair stand<br>Coverage: Up to 45% of eligible expenses |
| United States | US Trade Development Agency Grants | Supports host countries and assists US businesses enter foreign markets and bid on infrastructure projects<br>Value of grant is project specific |
| | There are a number of programs available to US exporters at a state level. Examples include: | |
| | Virginia: Accessing International Markets Program | Target: Virginia-based businesses new to export<br>Focus: Turning export leads into sales<br>Maximum grant: US$100 000 |
| | New York: Global Export Market Service | Target: SMEs<br>Focus: Export marketing consultant services<br>Maximum grant: US$25 000 or US$50 000 for groups |

Table 5 **Loans and guarantees**

| | Program name | Program features |
|---|---|---|
| Australia | Nil | |
| Canada | ExportExpressCredit | Targets businesses with annual sales less than C$5 million<br>To promote company in a new foreign market<br>Unsecured loan<br>Term 2 years |
| | Export Guarantee Program | Supports export-related activities and foreign investment<br>Up to 100% coverage |
| China | Nil | |
| France | Nil | |
| Germany | Nil | |
| Hong Kong | SME Loan Guarantee Scheme | Not specifically export related but can be<br>Targets SMEs<br>To enhance productivity and competitiveness<br>Maximum HK$5 million for equipment<br>Maximum HK$1 million for working capital |
| India | Export Marketing Fund—loan for machinery and equipment | Targets manufacturing companies<br>For modernisation and capacity enhancement including tools, jigs, testing quality control equipment<br>Maximum amount US$1 000 000<br>Minimum company contribution 20% |
| Indonesia | Nil | |
| Ireland | Nil | |
| Japan | Japan Finance Corporation for Small and Medium Enterprises (JASME) | Targets SMEs<br>Long-term funds that private institutions have difficulty providing<br>Terms longer than 5 years<br>Fixed interest rates |
| Malaysia | Nil | |
| New Zealand | Nil | |
| Singapore | Internationalisation Finance Scheme | Finances acquisition of fixed assets for use overseas and funds the expenses of overseas projects and sales orders<br>Government co-shares default risk with a financial institution<br>Term 3 years |

| | | |
|---|---|---|
| South Korea | Exim Bank—no deposit loan | Targets SMEs<br>Up to US$1 million |
| | Small and Medium Enterprise Export Financing | Low-interest loans up to US$1 million for exporters who have difficulty in using trade finance<br>Interest rate 4.74% |
| Taiwan | Nil | |
| Thailand | Small Exporters Financing Facility | Targets SMEs<br>Short- to medium-term loans<br>For pre-shipment financing, packing credit plus, financing facility for re-export and trade fair financing<br>Maximum 0.5–1 million Baht per trade fair<br>Term 1–2 years term<br>Interest rate 1% |
| | Business Expansion | Targets export-oriented manufacturing business<br>For factory expansion, additional machinery<br>Term 2–5 years |
| | Thai Restaurants | Targets Thai investors intending to open a Thai restaurant in a foreign country<br>Term loan in Baht, US$, Euro or Yen |
| United Arab Emirates | Nil | |
| United Kingdom | Nil | |
| United States | Various loan programs are available. Loans are provided to businesses that are unable to get finance through the traditional banking system. Some examples are: | Small Business Administration provides a guarantee to a bank for 85% of requirements<br>Interest rates are not subsidised |
| | Small Business Administration—Export Express Program | Provides small businesses that have export potential but need funds to cover the initial costs of entering an export market with up to US$250 000 to buy or produce goods or services for export |
| | Small Business Administration—International Trade Loan Program | Provides US businesses engaged in international trade with up to US$2 million in financing to upgrade equipment and facilities |

## BridgeClimb

BridgeClimb gives people the once-in-a-lifetime experience of standing at the summit of one of the world's greatest icons, the Sydney Harbour Bridge.

Nine years after successfully organising a group climb as part of the Young Presidents Organisation World Congress, Paul Cave launched the first public bridge climb on 1 October 1998. More than two million domestic and international visitors have now climbed the Sydney Harbour Bridge. BridgeClimb has gone on to win numerous awards, including the 2007 Australian Tourism Award for 'Major Tourist Attractions' and an Australian Export Award in the same year.

Mr Todd Coates, BridgeClimb's Managing Director, says: 'Since opening in October 1998, our international markets have grown to represent more than 60 per cent of total climbers. This figure would not have been achievable in such a short period without the assistance of the EMDG scheme.'

# 6 Review of scheme provisions

On the basis of the detailed econometric analysis and the independent survey of recent EMDG scheme participants, the Review concluded that the scheme is efficient and effective. Our conclusion is consistent with the strong positive feedback received from business and industry both through written submissions and in consultations in relation to the scheme.

Accordingly, we support the continuation of the EMDG scheme largely in its current form. We also consider the effectiveness of the EMDG scheme should continue to be reviewed at regular intervals but, noting that the frequent changes to the scheme have contributed to the current issues of funding uncertainty, we do not consider this should occur any more frequently than every five years.

**Finding**

**The Export Market Development Grants scheme should be extended.**

**Reviews should continue to be conducted at regular intervals (but not more frequently than every five years).**

In written submissions to the Review and in public consultations, suggestions were made for changes to the scheme rules and requirements.

In considering options for improving the scheme the Review was mindful of the fact that significant changes have recently been made to the scheme and will apply to applications lodged from 1 July 2009 and export promotion expenditure incurred from 1 July 2008.

The Review also noted that a number of the suggestions raised were canvassed substantively in the 2005 review of the EMDG scheme. Where the Review concurred with the conclusions reached at that time, these suggestions have not been revisited.

The Review is primarily concerned that applicants have certainty about the level of funding they will receive. The current uncertainty, created by demand for funding under the scheme greatly exceeding the available funding levels, substantially negates the objective of encouraging exporters to commit additional resources to export promotion.

Given the immediate priority is to resolve the funding uncertainty, the other possible options identified below for improvement have not been developed fully. Priority has also been given to measures that will contribute to improving the overall impact and effectiveness of the scheme. Indicative costings and impacts are based on actual 2006–07 grant year claims paid in 2007–08.

## 6.1 FUNDING

While input to the Review indicates that the scheme is effective, the headline issue raised time and again in submissions and in the panel's consultations with stakeholders was the uncertainty of funding and the problems this causes for businesses.

The current EMDG rules provide for a cap on the total funding available. To make sure that every eligible applicant receives a grant—even when demand for grants exceeds the available budget—payments are made using a formula under a split payment system.

Under this system, an initial payment ceiling is set each year ($40 000 for the 2007–08 grant year). Austrade assesses applications progressively throughout each year and calculates each applicant's provisional grant entitlement. If this entitlement is equal to or less than the initial payment ceiling, the recipient gets their full entitlement in a single payment.

If the entitlement is more than the ceiling, the grant is paid in two instalments—an initial payment equal to the payment ceiling, and a second tranche payment at the end of the financial year. If the remaining funding at year's end is insufficient to pay all second tranche recipients in full, a proportional allocation is made.

For the 2006–07 grant year, paid in 2007–08, these recipients received 24.4 cents in the dollar on their second tranche entitlement. By way of example, a grant recipient who had spent more than the $315 000 on export promotion and had been assessed as being eligible for a maximum grant entitlement of $150 000 would receive a total grant of $89 520, with the second tranche reimbursement of only $19 520 instead of the $80 000 they were expecting.[1]

In 2007–08, 870 firms, or 22 per cent of recipients, were impacted in this way. Those who spend larger amounts on export promotion were particularly affected—that is, firms who have demonstrated a strong commitment to export and those most likely to ultimately succeed. When firms are not clear what level of reimbursement they will receive, many will cut back on their export promotion expenditure. This reduces the inducement effect of the scheme, which aims to encourage, firms to increase their own spending on promoting products or services internationally. The overall effectiveness of the scheme is reduced as a consequence.

The following comments by Chocolate Graphics International are representative:

> Can I emphasise that it is very important that the applicant knows how much they will receive back as the uncertainty as it appears will happen in 2008 is absolutely a disaster for our cash flow for a small company like CGI... We had planned to participate in export shows in conjunction with Austrade in Italy and China but considering we will not receive our entire claim plus the future is uncertain, we will have to cancel these planned export events.

A related issue raised by a number of stakeholders is the need to preserve the real value of the funding allocated to the scheme. Capped at approximately $150 million per year, the EMDG scheme has steadily eroded in real (inflation-adjusted) terms over time. Over the 10-year period to 2006–07, the real value of the appropriation fell by around one-fifth (22 per cent). Similarly, over the nine-year period to 2005–06 the average grant under the scheme fell by nearly one-third (32 per cent).

This effect is compounded by increasing demand, with the value of grants claimed increasing by 26.9 per cent in the 2007–08 financial year. Currently only grant payments up to the value of $40 000 are guaranteed, with the balance between $40 000 and $150 000 (the maximim grant in the 2008–09 financial year) dependent on available funding.

Maintaining a capped scheme at current levels ($150 million) or even at the level allocated in 2009–10 ($200 million) will require a significantly reduced alternative scheme or acceptance of the decreasing value of grants over time.

*1 Initial payment ceiling amount in the 2006–07 grant year was $70 000.*

**Finding**

**Either the funding cap for the scheme should be adjusted to allow assessed grants to be paid in full or a significantly reduced alternative scheme should be developed to fit within the current budget.**

**The capped funding scheme should be indexed annually to preserve the real value of the funding.**

## 6.2 NUMBER OF GRANTS

Given the funding challenges identified and the need to consider managing demand on the scheme, the Review considered the criteria for eligible businesses and concluded there may be a rationale for reducing the number of grants a business is eligible to receive from eight to five.

The Review considered that five years is a sufficient period to enable businesses to enter export markets; experience indicates that the majority of companies who will fail to establish in exporting will do so in the years up to year 3, while companies likely to be successful will start to realise significant returns from years 4 and 5. The impact of reducing the number of grants from eight to five is an estimated saving of $43 million affecting 700 grant recipients.

Some consideration was given to the benefits of including a 'new markets' provision to allow businesses to be eligible for expenses relating only to new markets beyond year 5. However, the Review considered that five years does provide some limited provision for companies expanding into new markets.

**Finding**

**Consider tightening the scheme provisions by reducing the number of grants from eight to five.**

## 6.3 ELIGIBLE EXPENDITURE THRESHOLD

Under the current scheme, firms must spend $10 000 on eligible promotion expenses to be eligible for a grant.

The minimum eligible expenditure threshold has been modified a number of times over the life of the scheme (see Table 6).

Mindful of the scheme's objectives of assisting small and medium-sized businesses to become sustainable exporters, the Review observed the dropout rate among first-time EMDG applicants and concluded that firms spending less than $30 000 on export promotion often lack

Table 6 **Expenditure thresholds**

| | |
|---|---|
| 1974 | None |
| 1978 | None apart from specific provisions for Tourism $5000 |
| 1985 | $5000 |
| 1988 | $10 000 |
| 1990 | $30 000 |
| 1997 | $20 000 |
| 2001 | $15 000 |
| 2008 | $10 000 |

*Source: Appendix B.*

the business planning experience and skills needed to be ready for export.

Consistent with this, the Review proposes raising the minimum eligible expenditure threshold to $30 000 and directing program funding to companies with a greater likelihood of success, thus increasing the overall effectiveness of the scheme. The impact of increasing the expenditure threshold from $10 000 to $30 000, in combination with reducing the number of grant years from eight to five, is an estimated additional saving of $10 million and may affect 530 grant recipients.

While acknowledging the impact of this suggestion on small companies in particular, the Review noted the range of general business development programs available to small and medium sized companies. The Review supports ongoing efforts to build management skills amongst small and medium sized exporting firms.

**Finding**

**Consider increasing the minimum eligible expenditure threshold from $10 000 to $30 000.**

## 6.4 REIMBURSEMENT RATE

The current scheme reimburses 50 per cent of expenditure above the expenditure threshold. Reimbursement rates, however, have varied over time (see Table 7).

The key consideration in determining the reimbursement rate is the impact that it has on the 'inducement effect'— that is, the effect it has on encouraging business to commit their own funds to export promotion in addition to the grant amount. The inducement effect is also significantly affected by the certainty of the amount of the reimbursement and the length of time between marketing expenditure and grant payment.

A reduction in the reimbursement rate from 50 per cent to 40 per cent may dampen the inducement effect; however, as this reduction would increase the availability of funds it will be offset by the increased certainty of full payment of the assessed grant. The impact of decreasing the reimbursement rate from 50 per cent to 40 per cent is an estimated saving of $34 million and may affect 4000 grant recipients.

**Finding**

**No change.**

Table 7 **Reimbursement rate**

| | |
|---|---|
| 1974 | 80% Government-sponsored expenses<br>60% Non-government expenses |
| 1978 | 70% |
| 1990 | 50% |
| 1995 | 50%<br>25% Single Tourism Service |
| 1997 | 50% |

*Source: Appendix B.*

## 6.5 ELIGIBLE BUSINESSES

Several suggestions for broadening the categories of businesses eligible to access EMDG were received by the Review, with most having been addressed in the 2008 legislative amendments. In particular, changes have recently been made to allow state, territory and regional economic development and industry bodies promoting Australia's exports, including tourism bodies, to access the scheme. Outside of these issues, feedback suggested that the rules defining eligible businesses are allowing most new and emerging exporters to qualify for grants under the scheme.

### *Approved bodies*

Significant changes to the approved body provisions in 2008, particularly in relation to tourism bodies, address the bulk of suggestions made to the Review in this regard.

However, the potential to include sporting and cultural organisations as approved bodies to support the export promotion and international business networking efforts of such bodies was identified during consultations. The success of business networking activities at high-profile international sporting events in recent years, such as Business Club Australia, has highlighted the trade opportunities that such events provide. A number of sporting and cultural institutions are undertaking a range of export promotional activities on behalf of their membership and approved body status would be commensurate with the recent broadening of the approved body provisions.

The impact of including sporting and cultural institutions as approved bodies has an estimated cost of $0.7 million.

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**Finding**

**Consider the inclusion of sporting and cultural organisations as approved bodies.**

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### *Approved trading houses*

This category was introduced in 1990–91 and only a handful of organisations have accessed the scheme under this provision since that time. There are currently no bodies claiming under this category and continuation of this category does not appear to be warranted.

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**Finding**

**Consider the removal of approved trading house provisions.**

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## 6.6 ELIGIBLE PRODUCTS AND SERVICES

The 2008 scheme amendments responded to calls from the services sector and made significant changes to the rules relating to eligibility of services provided in Australia by making all such services eligible, with the exception of those specified on a negative list.

The product eligibility rules are therefore comprehensive and allow almost all industry sectors to benefit from the scheme. However, eligibility is restricted to promotional activity to achieve export sales. It does not extend to activities aimed at other forms of internationalisation activity and, in particular, offshore investment.

Outward foreign direct investment from Australia is growing at a faster rate than exports. Although much of this increased outward investment is attributed to larger businesses in the financial services, insurance, resources and manufacturing sectors, increasingly, small and medium enterprise applicants, often those in innovative sectors, are undertaking some form of offshore investment.

This may involve setting up a manufacturing base either owned outright or via a joint venture, partnering or alliance relationship or, as in the case of many services industries, establishing some other form of physical in-market presence.

Allowing promotional expenses aimed at offshore investment has an estimated cost of $6 million and may affect approximately 400 grant recipients.

**Finding**

**Consider extending eligibility criteria to include other forms of internationalisation, including market development via outwards investment.**

## 6.7 ELIGIBLE EXPORT PROMOTION EXPENSES

Each grant amount is based on how much an applicant has spent on eligible expenses. Under the EMDG scheme, eligible expenses are those incurred for export promotion activities. Expenses for other business activities, such as developing and certifying products, are not eligible.

In order to focus the scheme's funding on those marketing expenses which most effectively support export development and reduce the risk of inappropriate claiming of expenditure, there are a wide number of provisions in the EMDG Act that set rules or limits for certain types of expenditure.

These rules and limits, while increasing the effectiveness of the program, also increase the complexity of the application process and its cost. In a number of cases further experience in administering a particular rule indicates that it requires clarification to simplify the application process.

**Finding**

**As part of any change to the EMDG scheme, consider simplifying and clarifying scheme provisions relating to eligible export promotional expenses.**

## 6.8 ADMINISTRATION COSTS

The administration budget for EMDG was initially set following an Australian National Audit Office efficiency audit in 1993–94 that criticised the then budget for not being linked to expected workload, risk or customer service.[2] In 1996–97 the administration of the scheme was capped by legislation at 5 per cent of the total appropriation. This cap has remained fixed, except for temporary budget supplementation, over the last three years.

The Review noted the administration costs for the scheme are pegged as a percentage of a fixed grant budget, which is declining in real terms in an environment where both grant application numbers and administration costs are increasing.

This inevitably raises questions about the adequacy of resources to responsibly manage the program risk. The Review has been advised of Austrade's productivity improvements in the administration of the scheme to absorb cost increases resulting from salary increases and operational expenditure rises due to inflation. With 82 per cent of the available budget spent on fixed costs of salaries and property and a marketing and communications budget of 1 per cent, this has left around 17 per cent to cover legal expenses, risk and fraud checks, travel, IT lease costs and other operating expenditures.

Should the EMDG budget remain at $150 million per annum, an alternative formula for administration costs or an alternative approach to administration funding may be required to better match administrative workload, risk and client service standards. Indexing the total grant budget, as proposed elsewhere, may go some way to addressing this challenge.

2 *ANAO Report No. 33 1993–94,* The Export Market Development Grants Scheme—its efficiency and effectiveness*, ANAO, Canberra.*

**Finding**

**Consider alternative options for funding the administration costs of the EMDG scheme, including indexation of the total grant budget.**

## 6.9 ACCOUNTABILITY

The EMDG scheme's rules and processes are designed to ensure that it is a highly accountable grants program. The very fact that it is a reimbursement program that requires applicants to show the documentary trail of their expenditure on export promotional activities provides some level of protection from fraud and overclaiming. Other accountability measures include:

- the scheme's rules, which, combined with strong internal controls, ensure that decisions to pay grants are based on objective criteria and legislation.
- a range of scheme rules that prevent payment in inappropriate circumstances—for example, applicants who are insolvent or whose directors have disqualifying convictions or who are associated with 'not fit and proper' persons cannot receive grants
- regular review by Austrade's internal audit program
- a specialist EMDG fraud investigation unit
- public access to details of all grants paid.

The scheme's risk management and accountability processes were upgraded substantially during the 1990s, in response to the Australian National Audit Office's report on the scheme's efficiency and effectiveness.

Some further tightening of the scheme rules was implemented after the 2005 review to render large cash payments ineligible and to strengthen Austrade's ability to disregard any unsubstantiated, unreasonable, uncommercial or non–bona fide expense claims.

While the scheme's significant risks must continue to be carefully monitored, the Review did not find any significant areas requiring attention.

**Finding**

**No change.**

## 6.10 ADDITIONS AND ALTERNATIVES TO EMDG

It is a challenge to design a single export assistance scheme to cover all firms from small start-up to developing exporter. In the course of the Review a number of exporter needs that are not addressed within the EMDG scheme were identified. Australia's major export competitors have adopted a wide range of options (see Chapter 5).

Suggestions for additional or alternative taxpayer-funded programs were also presented to the Review and considered. Some of these options are canvassed in the main report of the Review of Export Policies and Programs and the Government may wish to consider these as alternatives to increasing investment in existing programs.

APPENDIX

# A

# EMDG scheme reviews and research

# EMDG scheme reviews and research

## PAST REVIEWS

Since the EMDG scheme commenced in 1974 (34 years ago), it has been reviewed 14 times. In response to various review recommendations over the years, a range of changes have been made to it (see Appendix B).

Table A.1 **Past reviews of the EMDG scheme**

| Year | EMDG scheme review |
|---|---|
| 1977 | Industries Assistance Commission—*Export incentives* report |
| 1982 | Industries Assistance Commission—*Export incentives* report |
| 1984 | Department of Trade—*Evaluation of EMDG scheme* |
| 1985 | *Report of the National Export Marketing Strategy Panel* (the Ferris Report) |
| 1988 | Bureau of Industry Economics—*Review of the EMDG scheme* |
| 1989 | Committee for Review of Export Market Development Assistance (the Hughes Report) |
| 1994 | *Helping to meet the export challenge* (Austrade review with analysis by PricewaterhouseCoopers and Professor Ron Bewley)<br>Australian National Audit Office efficiency audit<br>*Review of Commonwealth enterprise improvement programs* (I.G. Burgess) |
| 1996 | Australian National Audit Office (follow-up) performance audit |
| 1997 | *Going for growth* review of business programs for investment, innovation and export (David Mortimer) |
| 2000 | *Review of the EMDG scheme* (Austrade review with analysis by Professor Ron Bewley) |
| 2005 | *Review of the EMDG scheme* (Austrade review with analysis by Centre of International Economics) |
| 2008 | Review of Export Policies and Programs (David Mortimer AO) |

APPENDIX

# B

# Major EMDG scheme changes since 1974

Table B.1 **Major EMDG scheme changes since 1974**

| Year | Grant rate | Minimum expenses | Maximum grant payable | Maximum number of grants | Eligible products | Eligible expenses | Export earnings limitations | Major changes |
|---|---|---|---|---|---|---|---|---|
| ***1974***<br>**EMDG Act 1974**<br>Commencing 1 July 1974<br>Replaced the Export Market Development Allowance and the Export Incentives Grant scheme | 85% of expenses related to government-sponsored promotions (government expenses)<br>85% of new markets and contributions to association expenses (non-government expenses)<br>60% of all other eligible expenses (non-government expenses) | None | $100 000 for non-government expenses<br>Additional $25 000 for government expenses | None | Goods<br>External services (not including know-how, but including other technical advice, training or assistance)<br>Intellectual property rights<br>Know-how | Market research<br>Advertising or other means to secure publicity for business<br>Literature<br>Trade fairs<br>Overseas representatives<br>Free samples or technical information outside Australia<br>Tenders and quotes<br>Visits to Australia by overseas buyers, and so on (for training or briefing)<br>Fares for travel outside Australia<br>Export labelling and packaging design and production<br>Intellectual property rights registration fees<br>Communications<br>Association contributions, levies and subscriptions<br>Demonstration equipment scrapped overseas<br>Agents' and consultants' fees for export promotion | Entitlement for non-government expenses ($100 000 component) limited to 10% of export earnings, except if first-time applicant (exempted for 3 years) or prescribed body | Other key features:<br>First-time applicant is applicant who did not incur eligible expenses in each of the first 5 or the 7 financial years immediately preceding a grant year<br>New market is market for which, for 3 financial years preceding the grant year, eligible expenses for the market are less than $5000 (new market status is for 3 years)<br>Prescribed body may include federal or state/territory statutory authority, or any cooperative, industry association that promotes exports<br>No prescribed application lodgment deadline (but promoted as 30 November) |

Table B.1 **Major EMDG scheme changes since 1974 (continued)**

| Year | Grant rate | Minimum expenses | Maximum grant payable | Maximum number of grants | Eligible products | Eligible expenses | Export earnings limitations | Major changes |
|---|---|---|---|---|---|---|---|---|
| ***1978***<br><br>**Amendment Act 1978** | 70% of expenses related to government-sponsored promotions (government expenses)<br>70% of expenses not related to government-sponsored promotions (non-government expenses) | No change, except for tourism services applicants, with grants for non-government sponsored promotions only made when the total expenses—less any amount for fares—are greater than $5000 | No change | No change | Goods<br>External services (prescribed)<br>Internal services (prescribed—industrial services added)<br>Tourism services (prescribed)<br>Intellectual property rights<br>Know-how | No change | Year 3+ applicants other than approved bodies (including tourism) ineligible if export earnings do not exceed $25 000 (or in case of export of intellectual property rights or know-how alone, if export earnings do not exceed $10 000) | Approved bodies, approved tourist bodies and eligible tourism services included<br>Export earnings limitation amended<br>New market and first-time applicant definitions removed<br>Industrial services included<br>Grant rates streamlined<br>Application lodgment time prescribed as 30 November (with discretion) |
| ***1982***<br><br>**Amendment Act 1982** | 70% of eligible expenses plus promotion visits allowance of $50 per day, to maximum of 10 days per visit | No change | $200 000 | No change | No change | No change | No change | Maximum grant amount increased<br>Overseas construction services included<br>Promotion visits allowance included |

Table B.1 **Major EMDG scheme changes since 1974 (continued)**

| Year | Grant rate | Minimum expenses | Maximum grant payable | Maximum number of grants | Eligible products | Eligible expenses | Export earnings limitations | Major changes |
|---|---|---|---|---|---|---|---|---|
| ***1985***<br><br>**Amendment Act 1985** | 70% in excess of $5000 | $5000 | $200 000 | No change | Goods<br>External services (prescribed)<br>Internal education services (prescribed)<br>Internal services (prescribed—education and health added)<br>Intellectual property rights<br>Know-how | No change, except travel limited to 65% of first-class airfares and expenses relating to South Africa excluded | Export earnings grant limitation for year 3+ applicants—except approved bodies—applicable rate from 50% to 75%<br>Ineligible if export earnings are greater than $20 million per annum | Scheme extended to 1990<br>Grant not payable if export earnings exceed $20 million (includes export earnings of affiliates)<br>Eligible internal educational and health services included<br>Companies with greater than 50% South African ownership excluded from 19 August 1985<br>Expenses or export earnings relating to South Africa excluded<br>Eligible tourism services excluded<br>Export earnings limitation introduced<br>Promotion visits allowance repealed |
| ***1988***<br><br>**Amendment Act 1988** | 70% | $10 000 | Years 1 to 8: $200 000<br>Year 9: $150 000<br>Year 10+: $100 000 | No change | No change | No change, except foreign language training expenses included and any expenses relating to trade with New Zealand excluded | Export earnings limitation grant rate of year 3+ applicants—except approved bodies—applicable rate 40% to 5% | Foreign language training expenses included<br>Expenses relating to trade with New Zealand excluded<br>Austrade able to request export market plan from applicant<br>Minimum expenses increased to $10 000<br>Maximum grant differentiation<br>Rules for affiliated companies included<br>Eligible external government education services included |

Table B.1 **Major EMDG scheme changes since 1974 (continued)**

| Year | Grant rate | Minimum expenses | Maximum grant payable | Maximum number of grants | Eligible products | Eligible expenses | Export earnings limitations | Major changes |
|---|---|---|---|---|---|---|---|---|
| ***1990***<br><br>**Amendment Act 1990**<br><br>**Effective 1990–91 grant year onwards** | 50% over $15 000<br><br>Overseas visit allowance of $200 per day, to maximum of 21 days | $30 000 | $250 000 (except approved trading houses) | 8 (except approved bodies and approved trading houses) | Goods<br><br>External services (prescribed)<br><br>Internal education services (prescribed)<br><br>External government education services<br><br>Tourism services (package of 3 or more prescribed tourist amenities)<br><br>Internal services (prescribed)<br><br>Intellectual property rights<br><br>Know-how | $200 per day overseas visit allowance added | No change, except ineligible if export earnings, including of applicant's affiliates, exceed $25 million (except approved trading houses) | Scheme extended to 1995<br><br>X-rated films excluded<br><br>Approved joint venture and trading house provisions added<br><br>Minimum expenses increased to $30 000 (with first-time applicants able to combine 2 years' expenses to reach $30 000)<br><br>Eligible tourism services added (package of 3 or more prescribed services)<br><br>Export earnings to not exceed $25 million (including affiliates)<br><br>Unmatched eligible expenditure adjustment included<br><br>Overseas visit allowance included<br><br>8-grant limit introduced |
| ***1992***<br><br>**Amendment Act 1992**<br><br>**Effective 1992–93 grant year onwards** | No change | No change | No change | 8 (except approved bodies and trading houses)<br><br>3 for new markets | No change | No change | No change | New markets introduced<br><br>6-monthly claims introduced |

Table B.1 **Major EMDG scheme changes since 1974 (continued)**

| Year | Grant rate | Minimum expenses | Maximum grant payable | Maximum number of grants | Eligible products | Eligible expenses | Export earnings limitations | Major changes |
|---|---|---|---|---|---|---|---|---|
| ***1993***<br>**Amendment Act 1993**<br>**Effective 1993–94 grant year onwards** | No change | No change | No change | No change | No change | No change | No change | Insolvency administration and certain convictions disqualifications introduced |
| ***1994***<br>**Amendment Act 1994**<br>**Effective 1994–95 grant year onwards** | No change | No change | No change | No change | No change | No change | No change | Joint venture and trading house approvals limited to 3 years<br>5-grant limit for joint ventures<br>Provisions included for accreditation of EMDG scheme consultants |
| ***1995***<br>**Amendment Act 1995**<br>**Effective 1994–95 grant year onwards** | 50% over $15 000<br>Overseas visit allowance of $200 per day, to maximum of 21 days<br>25% grant rate for single service tourism providers | No change | $250 000 (including related company groups) | No change | Single tourism providers eligible (prescribed) | No change | No change | All tourism services included, but differential grant rates—25% grant for single service providers<br>Related company group limited to $250 000 |

Table B.1 **Major EMDG scheme changes since 1974 (continued)**

| Year | Grant rate | Minimum expenses | Maximum grant payable | Maximum number of grants | Eligible products | Eligible expenses | Export earnings limitations | Major changes |
|---|---|---|---|---|---|---|---|---|
| ***1996***<br>**Amendment Act 1996**<br>**Effective 1995–96 grant year onwards** | No change | No change | $200 000<br>$250 000 for related companies | No change | No change | No change | No change | Maximum grant reduced<br>Limit on additional expenses acceptable after claim lodged<br>Disqualification if claim prepared by disqualified consultant<br>Requirement that first-time applicants must register<br>Grants entry test provisions introduced (for first-time applicants) |
| ***1997***<br>**EMDG Act 1997**<br>**Effective 1995–96 grant year onwards** | 50% over $15 000<br>Overseas visit allowance of $200 per day, to maximum of 21 days | $20 000 | No change | No change | All external services included (unless specifically excluded) | Overseas representatives<br>Marketing visits<br>Communications<br>Free samples<br>Trade fairs, literature and advertising<br>Short-term consultants | No change | New legislation—EMDG Act 1997 (EMDG Act 1974 repealed)<br>Scheme funding capped at $150 million per annum<br>$50 million turnover test and $25 million income test<br>Eligible expenses streamlined<br>Maximum expenses reimbursable for overseas representatives capped at $200 000<br>Full grant rate given to all eligible tourism services<br>Optional non-accountable 3% of grant for communications<br>Removal of 6-monthly claims<br>Approved status—3-year limit |

Table B.1 **Major EMDG scheme changes since 1974 (continued)**

| Year | Grant rate | Minimum expenses | Maximum grant payable | Maximum number of grants | Eligible products | Eligible expenses | Export earnings limitations | Major changes |
|---|---|---|---|---|---|---|---|---|
| ***1999***<br><br>**EMDG Amendment Act 1999** | No change | No change | No change | No change | No change | No change | No change | Scheme extended until 2000–01 grant year<br>Review of scheme by 30 June 2000 |
| ***2001***<br><br>**EMDG Amendment Act 2001**<br><br>**Effective 2001–02 grant year onwards** | No change | $15 000 | No change | No change | Events promotion services eligible<br>All forms of pornographic material and x-rated films, distributed by whatever means, ineligible | New overseas buyers expense category introduced<br>Requirement that marketing consultants expenses be for short-term assignments only removed<br>Consultants' expenses and overseas representatives' expenses combined as one expense category and capped at $250 000<br>Trade fairs expense category broadened to cover a range of promotion events | No change | Scheme extended until 2005–06 grant year with review of scheme by 30 June 2005<br>Expense categories broadened<br>Events promotion businesses eligible<br>Minimum grant $2500 for all successful applicants except those whose grant is limited by export performance test<br>Compulsory registration requirement for first-time applicants removed<br>All applicants required to have an ABN to be able to receive a grant |
| ***2002***<br><br>**EMDG Amendment Act 2002**<br><br>**Effective 2001–02 grant year onwards** | No change | No change | No change | No change | No change | No change | No change | Minimum grant $5000 for all successful applicants, except those whose grant is limited by export performance test<br>Yearly scheme funding increased to $150.4 million |

Table B.1 **Major EMDG scheme changes since 1974 (continued)**

| Year | Grant rate | Minimum expenses | Maximum grant payable | Maximum number of grants | Eligible products | Eligible expenses | Export earnings limitations | Major changes |
|---|---|---|---|---|---|---|---|---|
| ***2003***<br>**EMDG Amendment Act 2003**<br>**Effective 2003–04 grant year onwards** | No change | No change | $150 000 (except approved trading houses) | 7, except approved joint ventures (5), and approved trading houses and approved bodies (unlimited)<br>New markets provisions removed | No change | No change | No change | Income ceiling for applicants reduced to $30 million<br>Export earnings ceiling removed<br>Maximum grant reduced to $150 000 (except approved trading houses)<br>Number of grants payable to applicants reduced to 7 (except approved entities)<br>New markets provisions removed |
| ***2004***<br>**EMDG Amendment Act 2004**<br>**Effective 2003–04 grant year onwards** | No change | No change | No change | No change | No change | No change | No change | Grant not payable if, in accordance with ministerial guidelines, Austrade determines that applicant or an associate of applicant is 'not fit and proper' to receive a grant |
| ***2006***<br>**EMDG Amendment Act 2006**<br>**Effective 2006–07 grant year onwards** | No change | No change | No change | No change | No change | Increase overseas visit allowance<br>Allow promotional expenses relating to intellectual property following disposal to a related company<br>Cap overseas representatives at $200 000 and marketing consultants at $50 000<br>Limit cash expenses to $10 000 | Export earnings criteria removed from calculation of grant entitlements | Removal of export earnings criteria from calculation of grant entitlements |

Table B.1 **Major EMDG scheme changes since 1974 (continued)**

| Year | Grant rate | Minimum expenses | Maximum grant payable | Maximum number of grants | Eligible products | Eligible expenses | Export earnings limitations | Major changes |
|---|---|---|---|---|---|---|---|---|
| ***2008***<br>**EMDG Amendment Act 2008**<br><br>**Effective 2008–09 grant year onwards** | No change | Minimum expenditure threshold decreased to $10 000 | Maximum grant increased from $150 000 to $200 000 | 8, except approved joint ventures (5), and approved trading houses and approved bodies (unlimited) | All services supplied to foreign residents, whether delivered inside or outside of Australia, to be eligible unless specified in the EMDG Act Regulations. | Costs of patenting products overseas allowed | Net Benefit to Australia Test introduced | All state, territory and regional economic development and industry bodies promoting Australia's exports, including tourism bodies, able to access the scheme.<br>Maximum turnover limit lifted from $30 million to $50 million<br>Export performance test re-introduced<br>Minimum expenditure threshold lowered to $10 000<br>Maximum number of grants increased to 8 |

Review of the Export Market Development Grants scheme