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Dr K Dermody
Committee Secretary
Senate Foreign Affairs, Defense and Trade Legislation Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Dr Dermody

Inquiry into Export Market Development Grants Amendment Bill 2013

The Export Consultants Group represents export consultants and the interests of their exporter clients.

Exporters have been concerned that the funding for the Export Market Development Grants scheme (EMDG) has been cut by from $150m to $125m in the past 12 months and now the scheme's benefits will be further reduced if the Export Market Development Grants Amendment Bill 2013 is passed by the Senate.

The main concerns are that most exporters will have a reduced number of grants from 7 to 5 and that those exporters which are able to claim beyond 5 grants will face an unreasonably complex process to identify and claim eligible expenses.

Reduction in number of grants

Feedback from exporters indicates that EMDG recipients will be limited to a maximum of 5 grants. Currently these exporters are able to receive a maximum of 7 grants so the Bill will actually reduce the number of grants these exporters will receive.

Even those exporters who target markets other than the USA, Canada and the European Union member states will be a position to receive a maximum of 8 grants. However, this is only one more grant than they currently receive.

Many exporters numerous markets including the USA, Canada and the European Union member states as well as other countries. While some of these exporters may receive an additional grant, it is likely that their grant payments will be less if the Bill is passed. The reason for this is that the EMDG Act provides grants only in excess of the first $10,000 of eligible expense.

EXAMPLE 1:

Company X has the following expenditure by country:

USA	$20,000
Japan	$15,000
China	$ 5,000
Total	$40,000

The grant payable in years 1 – 5 would be $40,000 less $10,000 = $30,000 @ grant rate 50% = $15,000.

The grant payable in years 6 – 8 after USA expenditure is excluded would be $20,000 less $10,000 = $10,000 @ grant rate 50% = $5,000.

The total grants paid over years 6 – 8 would be $15,000, but if the Bill was not passed the total grants paid over years 6 & 7 would be $30,000.

It is further noted that, in the above example, if the exporter did not spend money on Japan there would be no grant payable in years 6 - 8. The reason for this is that there is a minimum threshold expenditure of $20,000 to receive a grant.

In summary:

- most exporters claiming EMDG will be limited to a maximum of 5 grants if the Bill is passed rather than the current maximum 7 grants
- of those exporters that may be able to claim one extra grant if the Bill is passed, many will receive less in total grants
- the smaller the business of the exporter, the greater the impact the proposed change will have on the business due to the $10,000 non-grantable deduction

Increase in complexity of claiming grants

It is not straightforward to identify expenses by individual market which will be required if exporters wish to claim in years 6 – 8. These expenses include travel to more than one country, participation in trade shows where buyers attend from all the world, website targeting all countries, production of brochures and advertising.

In years 6 – 8 exporters will be able to claim only in respect of countries other than the USA, Canada and the European Union member states. With expenses such as travel, trade shows, websites, brochures and advertising there will a requirement for exporters to apportion the expense between the excluded countries and the eligible countries. The complexity is shown in the following example.

EXAMPLE 2:

Company Y attends a trade fair in the USA that is the only trade fair for Company Y's products. The company has already secured distributors in their only export market the USA but is attending to meet potential distributors in South America. Austrade would naturally expect that this expense would not be eligible in years 6 -8 as it relates to the USA.

The company would be required to satisfy Austrade that the travel costs, trade show costs and any brochures were for the purpose of marketing to South America. The problem for the company is how to substantiate the purpose of attending the trade show when the USA is their main export market.

EXAMPLE 3:

Company Z attends 3 trade shows, one each in USA, Germany and Hong Kong. All costs associated with these trade shows would be eligible for years 1 -5, but in years 6 – 8 only the costs for Hong Kong would appear to be eligible. However, if the company was able to substantiate that buyers from different parts of the world attended these trade shows, they would be able to claim some portion of the trade shows in USA and UK. It is likely in this case that Austrade would require an apportionment for the Hong Kong trade show as buyers from USA, UK and the EU would be attending the trade show.

If the company was able to obtain details of buyers attending the trade shows from the organizers they would have the basis for apportioning the costs. It is highly likely that the apportionment for each trade show would be different so all costs including trade show participation costs; travel and marketing materials would need to be apportioned differently for each trade show. In lodging an EMDG application all expenses are itemized on separate schedules (up to 9 schedules) so that each trip would be listed and apportioned differently for each trade show, likewise each trade show expense and each marketing material expense.

Using the average grant paid to exporters in 2010/11of $41,800 (Austrade Annual Report 2012 page91, Table 5) and Company Z as a typical year 6 exporter it would have spent $93,600 on export marketing. Using the above information on trade shows and assuming that each trade show had the same costs:

1. USA	$31,200	25 %	$ 7,800
2. Germany	$31,200	35%	$10,920
3. Hong Kong	$31,200	65%	$20,280
Total			$39,000

In summary:

- exporters claiming grant 6 – 8 will be required to maintain records to substantiate apportion of most expenses
- subjective apportionments are more likely to used in claiming by exporters and will be difficult for Austrade to substantiate
- smaller businesses will be discouraged from applying years 6 – 8 as they will find the complexity too onerous for the likely amount of grant that could be received

Reduce the overall grants payable to exporters

The Bill will have the impact of decreasing the total amount payable to exporters each year as:

- Most exporters will have the number of they can receive reduced from 7 to 5
- A significant proportion of those exporters that can an extra one grant will receive less in years 6 and 7 than they would have received
- A number of small exporters will be discouraged from claiming due to the complexity of the changes.

The 2011 Joint Standing Committee's enquiry into the EMDG program recommended that, because of its benefits, "the EMDG should continue indefinitely and be fully funded to provide certainty for exporters seeking to widen their overseas market focus." This enquiry followed extensive consultation with industry ***at that time***.

The Export Consultants Group would like to thank the Committee for the opportunity to make a submission in this matter.

Stuart Mitchell

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