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LAWYERS

25th May 2018

Senior Legal Counsel
Warren Cross L.L.B.

Mr Andrew Dawson
Inquiry Secretary
Joint Standing Committee on Foreign Affairs, Defence and Trade

Dear Sir

In 2014 the Coalition recognised the Export Grant Scheme (the Scheme) as "the most successful small business program of the last 20 years". "Small and medium businesses are the engine room of the private sector", the Trade Minister said. "The greatest source of innovation in our community". The Export Grant Scheme's success he said came from "certainty for small business as they consider their future export marketing plans".

Due to lack of funding, that certainty of rebate is no longer present. The proven effectiveness of the Scheme is under dire threat. In my experience, access to finance is the greatest impediment to SME's capitalizing on free trade agreements. In the past, a fully funded Export Grant Scheme has successfully filled this gap.

My submission is that the Export Market Development Grant Scheme must have an annual budget increase of $35 million to restore certainty of rebate. It is certainty of rebate which has been the cornerstone of the Scheme's success in developing global niche players across a wide diversity of industries. Atlassian credits export grant support, as vital to its early international success. Notably they applied at a time when the level of rebate was known, prior to export promotion funds being committed.

Austrade estimates a 50% shortfall in the second Export Grant tranche rebate in 2018 (up from 34% in 2017). SME's do not know the level of export promotion rebate they will receive going forward. This is undermining the stated objective of the Scheme, which is to increase the level of export promotion. The shortfall is directly attributable to changes made to the Scheme in 2014 by the Coalition, changes which were not adequately funded.

The Singapore Government spends 6 times more per capita on SME export support, than the Australian Government. Its direct export grants are more than double those of Australia. It recognises SME internationalisation is the key to lifting national productivity. As a high cost country in a low cost region, it realises it must move higher up the value added tree to maintain its standard of living. Ironically in my submission to the Export Grant review in 2015, I cited the same statement by Malcolm Turnbull when he was Minister for Communications.

In its 2015 review of the Export Grant Scheme, KPMG found the Scheme returned 7 dollars to the taxpayer for every dollar spent. 6 of these came from productivity gains. KPMG noted these productivity gains were 3 times higher than those resulting from R & D tax concessions. The R&D Tax Offset current annual cost is $3 billion. Less than 4% of that amount is spent on SME Internationalisation programs. For the Coalition to starve its most effective small business scheme of funds, one that pays for itself and delivers a net return to taxpayers, makes no economic sense.

Our competitors understand SME export is the life blood of their economies and provide significant support, either through tax breaks, direct support or a combination of both. Research by the Australian Chief Economist published earlier this year found exporters employ 24% more people, have 40% greater value add, are 13% more productive and pay 11.5% higher salaries than non-exporters. The Federal Government in decreasing SME export support by 50% since 1996, is swimming against the international tide.

International and domestic research also confirm SME internationalisation as a key catalyst to wage growth. Harvard's Michael Porter observes higher productivity in "trade exposed" SME's. A 2015 Report commissioned by Goldman Sachs found internationally active SME's in the UK were 3 times more likely

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to introduce new products or services than domestic focused companies. It found strong evidence that SME internationalisation lifted productivity. The OECD has made similar findings.

An important element was missing in the Innovation Statement of August 2016; export strategy. It is heartening to read on December 8 2017 that the Innovation and Science Australia's 2030 Strategy concludes that an increase in access to export programs aimed at high growth SMEs is needed. Chair Bill Ferris said "Exports are a strong proxy for innovative and competitive activities".

In a globally connected world, no technology company lives on an island. It is either globally competitive or it is fodder for the likes of Google and Amazon. The reality is that technology is a key element to productivity in all industries. Seek's Andrew Bassat warned earlier this year that "Australians are much more vulnerable to disruption than anyone realises". He is deeply concerned that Australian businesses are moving far too slowly to prepare for a disrupted future.

This vital point must be carefully considered. Australia SMEs in the technology space who fail to internationalise, will put at risk their domestic markets and their very existence. In the Harvard Business Review in 2014, leading international strategist Michael E. Porter in conjunction with James Heppelman noted;

"Twice before over the past 50 years information technology radically reshaped competition and strategy. We now stand at the brink of the third transformation... Now in the third wave, IT is becoming an integral part of the product itself. Navigating the world of smart connected products requires companies to understand those rules better than ever".

Peter Theil says start small, find a niche, then scale up. The many Australian SMEs who have become global niche players bears evidence to what is possible. In a globally connected world, internationalisation is the catalyst for SME productivity growth. This in turn will create higher paid, higher value employment. The Singapore Government's SME internationalisation strategy has proven this to be the case. The case for returning certainty of rebate to Austrade's highly successful SME export programs is compelling.

I urge the Committee to recognise action is urgently needed in this important policy area.

Yours faithfully

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Warren Cross [redacted]
Managing Partner