The Senate

# Foreign Affairs, Defence and Trade Legislation Committee

## Provisions of the Export Market Development Grants Amendment Bill 2003

June 2003

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# Senate Foreign Affairs, Defence and Trade Legislation Committee

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# Senate Foreign Affairs, Defence and Trade Legislation Committee

# Report to the Senate

## Introduction

1.1 On 17 June 2003, the Senate referred to the Committee for examination and report by 24 June 2003, the *Export Market Development Grants Amendment* Bill 2003.

1.2 The Committee held one public hearing on Thursday 19 June and received evidence from representatives and officials of:

- Australian Trade Commission (Austrade)
- Export Consultants Association
- Australian Tourism Export Council
- Australian Chamber of Commerce and Industry.

## Background

1.3 The Export Market Development Grants scheme is a financial assistance program for exporters. It is designed to encourage small and medium businesses to develop export markets, by reimbursing them for a proportion of their expenditure on promotional activities.

1.4 The Bill alters the criteria for assessing the eligibility of small and medium businesses for grants under the scheme. In particular, the Bill:

a) reduces the income ceiling for applicants from $50 to $30 million;

b) removes the $25 million export earnings ceiling;

c) reduces the $200,000 maximum grant to $150,000;

d) reduces the maximum number of grants generally payable to applicants from eight to seven; and

e) removes the Act's new markets provision.

1.5 The purpose of the Bill is to allow the overall cost of the scheme to remain capped at $150 million, while directing the eligibility criteria more strictly towards small business.

## Main issues

1.6 The Government claims that by targetting the scheme more effectively at small business, the Bill supports the government's goal of doubling the number of exporters by 2006.

1.7 The EMDG Scheme has been valued by exporters, and a formal evaluation study of the scheme in 2000 confirmed its efficacy.

> The results of that survey … came out with an overall result of $12 in export earnings for every $1 paid in grants. That was at a time when the scheme's impact on export revenue was being discussed. In fact, the object of the act, as agreed by the parliament, is not explicitly about export impact. It is about assisting firms to enter into and create and develop an expansion of foreign markets and to do that by entering into export promotion.[1]

1.8 In his second reading speech the Minister for Trade provided the following statistics concerning the scheme:

a) In 2002 around 3,100 small and medium exporters received grants

b) These businesses generated approximately $5 billion in revenue and employed over 60,000 Australians

c) Support was spread across a broad range of industries, with 21% of grant recipients located in rural and regional Australia

d) Over 4,000 applications were received for the 2001–02 grant year—an increase of 23%. Over 1,500 businesses were first time applicants.

1.9 Although the Scheme was not fully expended in 1999–2000 and 2000–2001, in the financial year 2001–2002 there were insufficient funds in the program to allow for full reimbursement of businesses entitled to grants.

1.10 While an effect of the Bill may be to reduce the number of eligible applicants, the Australian Chamber of Commerce and Industry has said that without an increase in overall funding there will still be a shortfall in the payout rate for the remaining eligible grant holders.

1.11 Critics claim that as the value of the scheme declines in real terms and the number of applicants increases, there are insufficient funds to reimburse eligible businesses for the cost of their export promotion activities.

1.12 The *Australian Financial Review* provided a report on the EMDG scheme on 24 April 2003. The report noted that the EMDG payments are paid under a split–payment system. The first–round amount has a ceiling of $60 000 as an initial up–front payment to an exporter. The second instalment is paid at the end of the financial year. The amount of the second payment will depend on the amount of funds

1 *Committee Hansard,* p. 3 (Ward, Austrade)

remaining in the EMDG budget after all first payment instalments are made, less Austrade's administration expenses (estimated at 5% or about $8 million).[2]

1.13 The Committee received some comment about the levels of the so–called 'second tranche' payments. Austrade confirmed the situation as follows:

> Can I just add one thing that I think may assist Senator Ridgeway. In many of his questions he has referred to what we call the second tranche payout factor, and he has talked about the minister indicating that it be less than 50c. At Senate estimates some weeks ago, we indicated in answer to a question that it would be between 30c and 40c. We are at the point of having the final figures audited. At this time we believe that the payout factor will be between 32c and 33c in the dollar. But that is the second tranche payment over and above the first $60,000.[3]

1.14 The *Australian Financial Review* report noted that the more successful applicants there are for the scheme, the less they will receive because the overall cap means that the grants in individual total amounts will decrease.[4]

1.15 A media report also indicated that a rationing of grants will be 'disastrous for an IT industry already fighting for diminishing government funding' and that the industry would lobby against the proposed changes in this Bill.[5] The government's reported response was that it wanted to target funds better towards new, smaller exporters to assist them to enter export markets.[6]

1.16 The Australian Chamber of Commerce and Industry, ACCI, has highlighted as problematic the lack of any indexation for price inflation in the Scheme, arguing that this has, since 1996–97, reduced the real value of the Scheme on an annual basis by one sixth.[7]

1.17 Critics also claimed that the effect of this policy decision was to undermine the effectiveness of Australian exporters. It constituted, they said, a 'false economy' since the broader economic returns of successful export businesses far exceeded any perceived public financial "savings" arising out of the Bill.

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2 Robin Robertson, 'Support Scheme is too successful for its own good', *Australian Financial Review,* 24 April 2003.

3 *Committee Hansard,* p. 11 (Lyons, Austrade)

4 Robin Robertson, 'Support Scheme is too successful for its own good', *Australian Financial Review,* 24 April 2003.

5 Selina Mitchell, 'Industry says grant rations will endanger exports', *The Australian,* 22 April 2003.

6 Mark Davis, 'Funding cap proves turn–off for firms', *Australian Financial Review,* 23 April 2003

7 *ACCI Review, No. 99,* May 2003

1.18 One witness spoke of how exporters could be discouraged by the provision in the Bill reducing the income ceiling for applicants from $50 million to $30 million:

> It is difficult to identify exact companies, but it may be a number of exporters who would perhaps be setting up a new business. For example, they may have considerable domestic sales—perhaps, say, over $30 million but not over $50 million—and are proposing to enter the export market, because they have been successful domestically. That is one area. Others could be those who have relatively small sales and have been able to look at new markets overseas. They will not have that support any longer and they would be disinclined to continue their export activities.[8]

1.19 Tourism operators seemed particularly concerned by the timing of the Bill. In their view it compounded the difficulties confronting the tourism in the present international climate:

> We are quite anxious as an industry about what is being proposed for a number of reasons—a critical one is timing. It is a very insensitive period of time for the tourism industry to be even looking at having some of the support mechanisms removed. My starting comment would be that this has been a very successful scheme and the government is to be congratulated on it. It is concerning that, because it has been so successful, it could be actually wound down in some way, shape or form.
>
> Over and above that, the tourism industry of course is a growth industry—it has $17 billion worth of income. It is now facing its third year of negative growth on the back on September 11 and all the other considerations, including SARS…
>
> The key concern we have is that we are now on the precipice of trying to launch a significant recovery program for this industry that really is to be marketing led…
>
> [E]ven though we do have government support and we are appreciative of that, …there is going to be a big call on the industry to invest significantly in offshore marketing to try and grow our market share over the next 12 months, assuming that other difficult things do not take place, and let us hope that is the case. From that point of view, to ensure the confidence of investment in international marketing, a 100 per cent return on the subsidy provided by the EMDG is really incredibly critical at this time.[9]

1.20 Officials from Austrade pointed out to the Committee that if the Bill is passed by the parliament, the changes will take effect from 1 July 2003. The officials also emphasized the government's purpose in presenting the Bill, and noted that particular attention had been paid to the question of the impact of the Bill on the tourism industry.

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8 *Committee Hansard,* p. 6 (Cronin, Export Consultants Association)

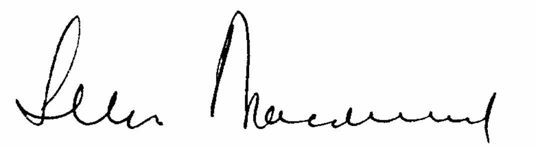
9 *Committee Hansard,* p. 9 (Shelley, Australian Tourism Export Council)

1.21 In terms of businesses' expenditure, as this is a reimbursement scheme, it will not actually have an impact in terms of payments until 1 July 2004—in other words, the 2004–05 financial year… In terms of the eligibility criteria and who it might exclude, in general terms it will exclude larger firms because of bringing down the turnover ceiling from $50 million to $30 million. It will also exclude more experienced exporters in the sense that, by bringing down the maximum number of grants from eight to seven and by removing the additional provision for entering new markets, it will exclude some firms which have already had substantial exposure to and benefit from the scheme. That is what the government has expressed as its purpose—to target the scheme more towards small and emerging exporters, those who, in the government's view, are most in need of government assistance from this program. In terms of the industry exposure, the criteria affect all industries, so there is not a focus on any particular industry. The criteria apply across the board.

> … Tourism is the one area that we did try to look at, at the direct request of the Department of Industry, Tourism and Resources. To do that, we have to use historic data, naturally. So we used information on applicants and recipients for the 2001–02 grant year—that is, the grant year that we have been processing in this current financial year. …Looking at modelling on that basis, tourism, on our figures, would be no more or less affected than any other industry.
>
> … The EMDG scheme is non–discretionary. It has a set of rules that apply across the board to all applicants and to all industries. So the decision for all industries and all applicants is based on turnover eligibility, which is currently $50 million; under these proposed changes it will come down to $30 million. It is not on applicants' reported income; it is on the turnover eligibility. So in that sense tourism is no different. The act applies the same definition to income as does the Income Tax Assessment Act. So it is a consistent application in that sense as well.[10]

## RECOMMENDATION

**1.22 The Committee recommends that the Bill be passed by the Senate in its current form.**



**Sandy Macdonald**
**Chair**

10 *Committee Hansard,* pp. 2–3 (Ward, Austrade)

# APPENDIX

SUBMISSION FROM THE

**AUSTRALIAN TOURISM EXPORT COUNCIL**

20th June, 2003

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**SUBMISSION TO THE SENATE LEGISLATION COMMITTEE**

**RE: EXPORT MARKET DEVELOPMENT GRANTS AMENDMENTS BILL 2003**

**BY THE AUSTRALIAN TOURISM EXPORT COUNCIL (ATEC)**

**20 JUNE, 2003**

The Australian Tourism Export Council applauds the Export Market Development Grants Scheme (EMDGS), a programme that is delivering much needed support for the Australian tourism export sector, and in turn providing a significant return to the Australian economy from the investment. Tourism exports are worth $17.1 billion a year to Australia.

It is critical that the success of the EMDGS, demonstrated by an increasing number of applicants and an increasing spend by exporters on marketing, is not seen as a reason to wind it back.

This EMDGS is working. It is providing a real incentive for exports and is delivering a significant and measurable benefit to the Australian economy. The success of the EMDGS has been amply highlighted in the June 2000 Austrade review, which found that for every $1 of grant paid, exports of $35 were generated by EMDG applicants—making a significant contribution to export earnings and delivering Australian jobs.

For these reasons the Australian Tourism Export Council (ATEC) does not support the proposed changes to the EMDGS. The proposed changes will impact negatively upon both the short–term recovery and longer–term growth of Australia's $17.1 billion dollar tourism export industry.


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The proposed changes effectively reduce the incentive to export for many businesses. This comes at a time when the industry is under severe pressure in the wake of 18 months of negative external impacts ranging from terrorist attacks through to SARS, and the distortions resulting from tourism exports being the only Australian export subjected to the application of the GST.

The primary focus of the tourism industry is to drive a recovery program that is well resourced in terms of marketing funds, to stimulate demand and regain market share as international travel confidence returns.

The Australian industry is contributing to this recovery by investing in cooperative marketing campaigns. It will be difficult for some businesses to sustain this investment, knowing that the EMDGS entitlements they have been relying upon will be reduced. Stability and certainty in the delivery of programmes such as EMDGS is critical to industry confidence.

For these reasons, ATEC requests that the Scheme be extended not reduced. There is strong justification for increasing the $150 million cap placed on the Scheme as well as removing the 5% cost for administration that absorbs some $8 million worth of the available funds.

The proposed reduction in the maximum turnover threshold to $30 million will also negatively impact on many medium sized tourism businesses, especially Inbound Tour Operators that have their revenue classified on the basis of gross turnover rather than earnings.

The proposal to eliminate support for successful exporters entering new markets is also difficult to comprehend, in that it is established tourism businesses, that have the greatest ability to successfully develop new markets, hence delivering additional export income and jobs for Australia.

The Australian Tourism Export Council calls upon the Senate reference committee to:

- Ensure that tourism exporters who have expended marketing funds in previous years in the expectation that they would receive full recompense are supported, as their financial planning has been based on receiving this level of assistance.

- Ensure that one hundred percent of future entitlements are honoured and that the budgeted value of the EMDGS is adjusted to specifically encourage tourism exporters to actively invest in international marketing in an attempt to drive a much needed industry recovery.
- Maintain the maximum turnover threshold at $50 million
- Ensure the continuation of the 8–year grant period, which provides certainty and support for tourism exporters to confidently allocate additional marketing funds to stimulate demand.
- Ensure that the Scheme continues to support marketing investment in the development of new markets.

It is critical that the EMDGS is maintained in its current format, a format that has served the Australian economy and the export industry well over time.

It is also important that the fragility of the tourism export industry at this point in time is recognised, and that this difficult export environment is not further adversely impacted by the proposed changes to the EMDGS legislation.

Yours sincerely,

Peter Shelley

Managing Director

CC:
The Hon. Mark Vaile, MP, Minister for Trade
The Hon. Joe Hockey, MP, Minister for Small Business and Tourism