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Export Market Development Grants Amendment
Bill 2001

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I N F O R M A T I O N A N D R E S E A R C H S E R V I C E S

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No. 145 2000–01

Export Market Development Grants Amendment Bill 2001

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Law and Bills Digest and Economics, Commerce and Industrial
Relations Groups

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Export Market Development Grants Amendment Bill 2001

Date Introduced: 24 May 2001

House: House of Representatives

Portfolio: Foreign Affairs and Trade

Commencement: The amendments relating to the continuation of the EMDG Scheme commence on Royal Assent. The other amendments outlined in this Digest commence, or will be taken to have commenced, on 1 July 2001.

Purpose

The Bill extends the life of the current Export Market Development Grants Scheme (EMDG Scheme) for five years until the end of the 2005–2006 financial year. The Bill also affects aspects of the administration of the scheme, which are intended to improve access to the scheme by smaller Australian businesses.

Background

The EMDG Scheme has provided support to Australian exporters since 1974. It has been reviewed and modified on a number of occasions — the last review was undertaken in 2000 at the request of the Minister for Trade.

The 2000 Review was conducted by the Austrade Board with the assistance of a Steering Committee comprising representatives of industry and other government agencies. The results of the review were published in June 2000 and included a review of the EMDG Scheme by Price Waterhouse Coopers and an econometric analysis of the effectiveness of the scheme by Professor Ronald Bewley of the University of New South Wales.¹

The current EMDG Scheme provides direct financial assistance in the form of taxable grants to small and medium businesses (SMEs) to assist their export promotion activities. This is paid as a 50 per cent subsidy for marketing and promotion expenditures. Eligible SMEs may receive eight grants of up to \$200 000 in total.

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The budgetary cost of the EMDG Scheme is fixed at \$150 million per year, as are administration costs which are fixed at a maximum of five per cent of budget funding (\$7.5 million). Around \$143 million is therefore available to new and existing exporters each year. Since the grants are taxable, currently up to 36 per cent of grants could return to consolidated revenue in the form of company tax. In 1998–99, there were over 3000 recipients of EMDG Scheme grants, with the average grant being around \$45 000. The GST does not apply to grants under the scheme.

Basis of policy commitment

Since the scheme's inception, there have been significant changes to the structure of the Australian economy and a reorientation of Australia's trade towards North East Asia. With each review of the scheme, the focus of the scheme has been modified to that of assisting SMEs and improving the effectiveness of the scheme as an artificial trade stimulant. The scheme, which is part of the spectrum of government involvement in trade promotion efforts, seeks to develop and foster 'an export culture'.

Overview of EMDG Scheme

Who is eligible?

Grants are available to Australian-based businesses (individuals, partnerships, companies, associations, co-operatives, statutory corporations or trusts) which are developing export markets for Australian goods, services, intellectual property rights and know-how.² More specifically, eligible goods and services, intellectual property and know-how include:

- goods made in Australia that have at least 50 per cent Australian content
- goods made outside Australia of which at least 75 per cent of their components have 50 per cent or more Australian content
- services delivered outside Australia
- services delivered within Australia to non-residents and inbound tourism services
- trademarks owned, assigned or first used in Australia, and
- know-how resulting from substantial research or work performed in Australia.

For a business to be eligible for a grant it must

- be spending at least \$20 000 a year on eligible export promotion (for the first year, a business may combine two year's expenses to meet the threshold)
- have annual export earnings of less than \$25 million
- have a total income of less than \$50 million

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- have received less than 8 grants, and
- not be under insolvency administration.

What expenditure can be claimed?

There are six categories of eligible expenses under the scheme:

- overseas representation (the cost of maintaining ongoing and long-term representation)
- market visits (\$200 per day allowance for accommodation, entertainment, etc.; travel costs)
- communications
- the provision of free samples
- trade fair literature and advertising, and
- short-term marketing consultants.

Expenses that cannot be claimed include those that:

- relate to trade with New Zealand
- are of a capital nature
- are commissions, discounts and sales related expenses
- are subject to reimbursement by a third party, and
- are fraudulent or related to an illegal activity.

Econometric analysis of the effectiveness of the EMDG Scheme

The Austrade Board as part of the 2000 Review commissioned an econometric analysis of the EMDG Scheme. The aim of the analysis was to trace the impact of a dollar of EMDG Scheme funding on the sequence of responses: eligible export promotion expenditure, exports and tax resulting from any additional exports that may arise. The research examined the five years of data used in the 1994 Review of the EMDG Scheme and an additional six years of data for the 2000 review.³

Export promotion expenditure

By comparing the results obtained from the 1994 Review with more recent data, the study found that the EMDG Scheme stimulated additional export promotion expenditure. According to the results of the analysis, an EMDG Scheme recipient business spent 70 per

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cent more than it otherwise would have done. This multiplier was consistent with that found for year one businesses in the 1994 Review, but in that review the multiplier was found to increase with experience in exporting. The method of calculating the amount of the grant implies that a business that would have spent \$50 000 without a grant would spend \$85 000, resulting in a grant of \$35 000. As the study explained:

...firms with assessed expenditure of \$85 000 are spending the full amount of the grant in excess of what otherwise would have been spent.

In order to estimate the average impact of the multiplier, the 3,100 observations for 1997/98, the last year for which assessed grants are available and excluding the one firm that received more than the maximum \$200 000 grant, were analysed. In that year the average expenditure was \$113 730 and the average grant was \$46 602. Using a multiplier of 0.7, it was found that, on average, firms spent \$227 more than the grant because of the EMDG Scheme. The average grant multiplier, that is the additional expenditure as a ratio to the grant is therefore, 1.005.⁴

Additional exports

The 1994 Review had established that the exports (or returns) from eligible expenditure on export promotion increase with experience but this ratio tends to plateau as the export experience is fully embodied into a firm's export culture.⁵

The study estimated that in 1997/98, \$133.7 million provided in grants resulted in \$135 million in additional export promotion. The additional export promotion expenditure in turn produced total incremental exports of \$1.69 billion. In its report to the Minister for Trade, the Austrade Board noted:

...the Bewley analysis suggests that this is more than \$12 in additional exports for every \$1 grant provided by government. The evidence from the survey suggests that increased exporting activity is contributing to the adoption of best practice activities and that EMDG recipients are generally more export and best practice focussed than non-EMDG recipients.

It also suggests that EMDG is effectively meeting the financial needs of business. Particularly in the early years, it is evident that business relies heavily on EMDG to fund export promotion activity together with retained earnings.⁶

Tax impact of additional exports

The additional tax revenue flowing from the additional profitability of exporting was calculated to be \$29 million.

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Main Provisions

SCHEDULE 1 — Amendment of the *Export Market Development Grants Act 1997*

Continuation of the EMDG Scheme

The effect of **items 1 and 2 of Schedule 1** of the Bill is to:

- require that a review of the EMDG Scheme commence not later than 1 January 2005, and
- require Austrade to complete the review and provide a written report to the Minister not later than 30 June 2005.

The effect of **item 3 of Schedule 1** of the Bill is to extend the life of the EMDG Scheme to 30 June 2006.

Minimum expenses and minimum grants

The *Export Market Development Grants Act 1997* requires that an applicant for a grant must spend at least \$20 000 on eligible expenses during a grant year. **Item 4 of Schedule 1** of the Bill reduces the minimum level of eligible promotional expenses required to \$15 000.

Items 5 & 6 of Schedule 1 of the Bill provide for the continuation of the current minimum grant of \$2 500 for all applicants, except for those whose grants are reduced by the export performance test.

Overseas representatives and consultants

The *Export Market Development Grants Act 1997* has six eligible claimable expense categories, namely:

- maintaining an overseas representative on a long term basis in a foreign country to the extent to which the representative is maintained for an approved promotional purpose
- any visit (marketing visit) made by the applicant or its agent to any place in or outside Australia to the extent to which the visit is made for an approved promotional purpose
- any communication by the applicant or its agent with a potential buyer or a distributor, representative or consultant to the extent to which the communication is made for an approved promotional purpose
- the provision, primarily for an approved promotional purpose, of free samples to a person that is not a resident of Australia, as follows:

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- (a) provision outside Australia of samples relating to any eligible product of the applicant, and
- (b) provision in Australia of samples relating to eligible tourism services supplied by the applicant.
- participation by the applicant or its agent in a trade fair, or the provision by the applicant or its agent of promotional literature or other advertising material, to the extent to which this is done for an approved promotional purpose, and
- engaging as a consultant on a short term basis (either in or outside Australia) a person that, in Austrade's opinion, is not closely related to the applicant, to the extent to which the person undertakes market research, or marketing activities, related to an approved promotional purpose.⁷

Item 9 of Schedule 1 of the Bill amends the existing table of eligible expense categories set out in section 33 of the *Export Market Development Grants Act 1997*. The definition of short-term consultants is broadened to include all consultant costs of an export promotional nature. The short-term consultant and overseas representation activities are combined and capped at \$250 000.

Promotional events

Item 11 of Schedule 1 of the Bill expands the existing trade fair expenses category in section 33 of the *Export Market Development Grants Act 1997* to include seminar costs and in-store promotions.

Grants entry requirements and registration

Items 12-21 of Schedule 1 of the Bill simplify the rules for grants entry requirements. The major amendments:

- remove the requirement that EMDG applicants seeking to meet grants entry requirements be given 28 days in which to provide information requested by Austrade, and
- remove the requirement that first time EMDG applicants register their intention to lodge a claim for a particular grant year (currently, first time applicants are required to register their claim by June 30 of the particular grant year).

External services earnings for eligibility purposes

Item 22 of **Schedule 1** of the Bill clarifies the rule for calculating exports of external services for the purposes of the \$25 million export earnings maximum. Under the

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proposed amendment the test for measuring export earnings will be based on the consideration received during the year for the supply of services before deducting any payments outside Australia in relation to such services.

Publications, films and computer games classifications

Section 57 of the *Export Market Development Grants Act 1997* provides that expenses of an applicant are excluded expenses if they were incurred in respect of an eligible promotional activity carried out for an approved promotional purpose relating to a film that has an "X" classification. Additionally, section 57 provides that expenses of an applicant are excluded if:

- (a) they were incurred in respect of an eligible promotional activity carried out for an approved promotional purpose relating to a film
- (b) the film has not been given a classification, and
- (c) Austrade has reason to believe the film will be refused classification or given an "X" classification.

It can be seen from the above that the current list of excluded expenses does not prevent applicants claiming expenses relating to other forms of pornography export such as publications, computer games, material distributed via the internet and telephone sex services.

Items 37-46 of Schedule 1 of the Bill expand the current eligibility exclusion relating to X-rated films to include all existing mediums of exported pornographic material.

Requirement for ABN

A **new section 85A** is inserted in the *Export Market Development Grants Act 1997* by **item 47 of Schedule 1** of the Bill which introduces the Australian Business Number as an eligibility criteria for an EMDG grant, or an advance on account of a EMDG grant.

Marketing visits

Under section 34 of the *Export Market Development Grants Act 1997* the qualifying period for claims for marketing visit expenses in respect of the travel costs of relatives employed in the business is five years. **Item 64 of Schedule 1** of the Bill reduces the qualifying period to one year.

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Concluding Comments

The EMDG Scheme has become a generally accepted means of enhancing export performance and remains an important instrument in commercial and trade policy.⁸ The role of the EMDG Scheme has been to create an awareness of exporting as a growth and market expansion option for SMEs and to remove barriers to exporting. The reorientation of Australia's trade towards North East Asia that has occurred over the last twenty years reflects the focus of export promotion activities towards this region. In this sense, the scheme has a direct impact on Australia's export activity and performance and affects overall foreign economic policy. As the 2000 Review noted, the most popular export region for EMDG Scheme applicants is North East Asia.⁹

There is no doubt that the EMDG Scheme has proved an effective method of providing targeted assistance to SMEs, including those in the service sector. The econometric analysis by Professor Bewley established a clear linkage between the partial subsidy for export promotion expenditure, additional expenditure by SMEs and incremental export earnings, confirming the modelling results of the earlier 1994 Review. Even if one does not accept the estimated size of the export multiplier of 12.0 after factoring in a standard error rate of 5 to 10 per cent in the econometric modelling, the linkage, however large or small the export multiplier appears, is not open to question.

Endnotes

- 1 See *Review of the Export Market Development Grants Scheme*, Australian Trade Commission, 30 June 2000. The Review is available at <http://www.austrade.gov.au/ExportAssistance>.
- 2 Eligibility rules are provided for under the *Export Market Development Grants Act 1997*.
- 3 See *Review of the Export Market Development Grants Scheme*, Australian Trade Commission, 30 June 2000, pp. 220–242.
- 4 *ibid.*, p. 238.
- 5 *ibid.*, p. 220.
- 6 *ibid.*, p. 15.
- 7 *Export Market Development Grants Act 1997*, section 33.
- 8 The rules governing the kinds of export promotion subsidisation countries engage in are broadly agreed upon under the GATT.
- 9 *Review of the Export Market Development Grants Scheme*, Australian Trade Commission, 30 June 2000, p. 32.

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