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Export Market Development Grants Amendment
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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. 149 2001–02

Export Market Development Grants Amendment Bill 2002

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Economics, Commerce & Industrial Relations and the Law and Bills Digest Groups
29 May 2002

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Export Market Development Grants Amendment Bill 2002

Date Introduced: 15 May 2002

House: House of Representatives

Portfolio: Trade

Commencement: Royal Assent

Purpose

To amend the *Export Market Development Grants Act 1997* in order to increase the minimum grant from \$2 500 to \$5 000.

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. As a result of the 2000 Review the EMDG Scheme was extended by five years, with a further review to be completed by 30 June 2005.¹

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 PriceWaterhouseCoopers and an econometric analysis of the effectiveness of the scheme by Professor Ronald Bewley of the University of New South Wales.²

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.

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

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each year. Since the grants are taxable, currently up to 30 per cent of grants could return to consolidated revenue in the form of company tax. In 2000/01, there were approximately 3000 recipients of EMDG Scheme grants, with the average grant being around \$46 000.³

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 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.⁴ 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 in-bound 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 \$15 000 a year on eligible export promotion (for the first year, a business may combine two years' expenses to meet the threshold)
- have annual export earnings of less than \$25 million
- have a total income of less than \$50 million
- have received fewer than 8 grants, and
- not be under insolvency administration.

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What expenditure can be claimed?

There are five categories of eligible expenses under the scheme:

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

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.⁵

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 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.⁶

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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.⁷

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.⁸

Tax impact of additional exports

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

Productivity Commission's Research on the Use and Impact of the EMDG Scheme

In November 2001 the Productivity Commission published a staff research paper which examined the use and impact of government business programs, including the EMDG Scheme.⁹ It concluded that:

- only 16 per cent of firms used export market development grants. Most firms (84 per cent of targeted companies) did not use the Scheme¹⁰ and
- Austrade had overestimated the amount of return in export earnings attributed to each \$1 of EMDG grant. The Productivity Commission paper acknowledged that the grant program helped exporters but said that its benefits had been exaggerated by Austrade. Instead of the more than \$12 in additional exports for every \$1 grant provided by the government, the Productivity Commission suggested that the benefit was worth only \$6 for every \$1 spent.¹¹ And even that figure could be overstated because some companies might have spent their own money on marketing and promotion if EMDG support had not been available.¹²

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Main Provisions

Section 63 of the *Export Market Development Grants Act 1997* is the general rule for working out an applicant's provisional grant amount. Subsection 63(2A) was inserted by the *Export Market Development Grants Amendment Act 2001* and states that:

(2A) If, after applying subsection (1) and subsection (2) (where applicable), an applicant's provisional grant amount for a grant year is less than \$2,500, the applicant's *provisional grant amount* for the grant year is \$2,500.

This measure was intended to ensure that all claimants not affected by the exporter performance test are provided with a worthwhile amount of grant.

Item 1 of Schedule 1 provides that the minimum grant of \$2 500 be increased to \$5 000. This fulfils an election promise made by the Coalition in October 2001.¹³ The increased minimum grant will apply from the grant year that commenced on 1 July 2001 (**Item 2**).

The Explanatory Memorandum states that the increase in the minimum grant will cost \$0.4 million in each of the financial years 2002/03 up to and including 2005/06.¹⁴ The 2002/03 Budget provides additional funding to Austrade to cover the increase for the 2002/03 financial year.¹⁵

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.¹⁶ 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.¹⁷

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 Austrade's estimated size of the export multiplier of 12.0, and prefers the Productivity Commission's figure of 6.0, the linkage appears not open to question.

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Endnotes

- 1 These changes were made by the *Export Market Development Grants Amendment Act 2001*.
- 2 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>.
- 3 Hon Larry Anthony, 'Second Reading Speech', *Export Market Development Grants Amendment Bill 2002*, House of Representatives, *Debates*, 15 May 2002, p. 2111.
- 4 Eligibility rules are provided for under the *Export Market Development Grants Act 1997*.
- 5 See: *Review of the Export Market Development Grants Scheme*, Australian Trade Commission, 30 June 2000, pp. 220–242.
- 6 *ibid.*, p. 238.
- 7 *ibid.*, p. 220.
- 8 *ibid.*, p. 15.
- 9 Revesz, John, and Ralph Lattimore, *Statistical Analysis of the Use and Impact of Government Business Programs*, Productivity Commission Staff Research Paper, Canberra, November 2001.
- 10 *ibid.*, p. ix.
- 11 *ibid.*, p. x.
- 12 The differences between the two reports have been debated in the press. See for example, 'Austrade cash fails to deliver', by Sid Marris, *Australian*, 20 November 2001; 'Assistance not always helpful' [Editorial], *Financial Review*, 27 November 2001; 'Austrade's multiplication game', by Peter Urban, *Financial Review*, 28 November 2001; 'Getting the Austrade equation right', by Ron Bewley, *Financial Review*, 29 November 2001; 'Austrade proud of its achievements for the nation', by Charles Jamieson, *Financial Review*, 30 November 2001.
- 13 *Australians Exporting to the World* [Coalition Election Policy], 23 October 2001, p. 3.
- 14 *Explanatory Memorandum*, *Export Market Development Grants Amendment Bill 2002*, p. 1.
- 15 Agency Budget Statements 2002-2003 – Australian Trade Commission, p. 92. At: www.dfat.gov.au/dept/budget/2002_2003_pbs/2002-2003_DFAT_PBS_PartC_Austrade.pdf
- 16 The rules governing the kinds of export promotion subsidisation countries engage in are broadly agreed upon under the GATT.
- 17 *Review of the Export Market Development Grants Scheme*, Australian Trade Commission, 30 June 2000, p. 32.

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