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9th March 2015

Mr. Dan Barton
Manager, EMDG Review Secretariat
Ph.: 02 6201 7439
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Via Email.

Dear Mr. Barton

Export Market Development Grants (EMDG) – 2015 Review Submission

Background to Mitchell and Co

I am writing on behalf of my client base of exporters who access the EMDG scheme. I am an exporter in my own right as well.

Mitchell and Co is specialised export based accounting and consulting firm. I am its sole owner.

We help exporters by giving "fee for service" advice to intended and actual exporters that wish to access the EMDG program.

We have close to 1,000 clients on our database at this time, which is a mixture of who we have assisted in the past, present and those we intend to help in the future.

My submission can be summarised as follows:-

Terms of Reference No 1 – Scheme effectiveness given the current structure

EMDG is a very effective program but need some changes to be better drive export entry, export sales performance and international competitiveness for SMEs going forward for new products as well as new overseas markets.

Australia's export culture should be based on innovation as it core driver – EMDG need to do this better

Terms of Reference 2 – Scheme extension

The scheme should be extended for a further 5 years.

Changes to the effectiveness of the scheme will increase its overall performance.

No changes are required to funding the scheme's administration costs.

Additional commentary follows:-

Terms of Reference No 1 – Scheme Effectiveness given the current structure

EMDG is a well-established program that has been in place since 1974.

The current EMDG structure has been in place for many years with changes overtime both in terms of scheme direction (eligibility rules) and funding levels depending upon the wishes of government and past reviews of the program.

The current funding level of EMDG is $137.5M.

The key drivers of the scheme at this time being:-

1. Clients spend money first on overseas promotion and seek reimbursement.

2. There are 3 types of clients:
    a. Normal Clients – limited to 8 grants.
    b. Approved Joint Ventures – limited to 5 grants per approval period.
    c. Approved Industry Bodies – unlimited.

3. Clients are paid at the rate of 50% in the dollar above $5,000.

4. The minimum grant is $5,000 – the maximum is $150,000.

5. Expenditure is by designated category paid in a grant year and must be :

    a. For an approved purpose – marketing.
    b. Not reimbursed by someone else.
    c. Not Country specific.
    d. Not product specific.
    e. Not sales related.
    f. Paid in year – not accrual based.

6. Normal and Joint venture based applications are subject to an accompanying export performance test that applies unless a client chooses an option based on audited past and forecasted financial statements. The export performance test is based on:

    a. No test applies for the first 2 grants.
    b. A sliding scale applies from year 3.
    c. The performance test results in a ***"grant to export sales ratio of 1 to 20***" by year 8.

7. A client's full grant entitlement is not known until an assessment is undertaken by Austrade, which can take a short or long time depending upon the approach taken by Austrade and its staff.

8. The scheme has been a capped scheme since 1996/1997. In some years this causes a lower than expected payment to certain exporters. This uncertainty impacts on clients behaviour to spend less if they do not think their EMDG payment will be paid in full.

9. The EMDG payment is treated as taxable income which reduces the overall cost to government.

Issues in relation to the current structure arising from discussions and feed back from my clients follow:-

1. EMDG has been an effective incentive to many exporters in the past. A review of past Australian Export Award Winners would show most (in the order of 90-95%) have been or are still in the EMDG program. It does help create successful exporters.

2. EMDG as per past studies have shown an average ***"grant to export sales of 1 to 12.5"***

3. The challenge does exist for the EMDG program to improve its effectiveness is going forward.

4. My clients' main concerns or areas for improvement are listed below, some are expenditure category based others are overall eligibility and purpose based; I also provide expanded commentary for each point raised.

    - EMDG does not support innovation as well as it should.
    - EMDG does not treat all industries the same.
    - EMDG is not product specific.
    - EMDG does not assist overseas brand building.
    - EMDG funding needs to match scheme demand.
    - EMDG is in inequitable in how grant funds are rationed between exporters.

EMDG does not support innovation as well as it should.

A grant paid to a client some 20-30 years ago is treated as a grant payable today.

Exporting does not stand still with overseas markets completely changed since the 2008 Global Financial Crisis as an example.

Clients wishing to innovate and develop new products and markets are prevented from EMDG support by the provisions of Section 94.

This section is the 2nd highest ranking adjustment reason to deny a grant or expenditure to a client. It also the highest ranking reason clients proceed to the AAT administrative Appeals Tribunal a huge cost both to Austrade and those clients concerns. This is a situation that needs to be fixed.

Solution: Section 94 needs to be written to allow greater flexibility in administration by Austrade. In addition all grants payable prior to 2005 should be wiped (as happened in 1985) to enable past exporters with a greater chance of success to innovate and promote new products and services relevant to today's export markets.

EMDG does not treat all industries the same.

Product based exporters are able to claim the costs under the category of ***"free samples",*** services exporter cannot not.

Service exporters and those driving new creative industry developments should be allowed to claim free samples under the program.

This is time spent by qualified staff within a company to prepare overseas bids for work.

R&D funding covers such internal costs, EMDG does not.

Solution: Time spent on "tenders and quotations" should be claimable under the program**.**

EMDG is not product specific.

A client inherits it a grant history based on a grant paid for expenditure in a year across all products which of course needs to change overtime to meet changing market demands.

Other government programs – namely AusIndustry's range of grants and R&D incentives are about developing new products. EMDG ignores this**.**

Solution: Again Section 94 to be rewritten to take into account what product has received funding in the past – that is "Business activity" described in the section needs to properly defined and make reference to the product which gained the past EMDG support being the major determinate for Section 94 to apply or not.

EMDG does not support overseas brand building.

Brand building is about promoting one's logo and supporting brand collateral information to support the position of an overseas customer choice to buy the product or service

The creation of a new logo/brand for a service based business is considered by Austrade to be packaging and labelling and hence not claimable under the program. It clearly not the case as there is ***no package*** for it to be placed upon!

Development of a new wine label for overseas is about "advertising on a bottle" it is more than health warnings and the like, it is done to help the customer to purchase the product i.e. know the story behind the wine and wine maker and entice the buyer to purchase.

Solution: Allow logo development and retail based packaging design (food and wine as examples) as an eligible EMDG marketing expense.

EMDG funding needs to match scheme demand.

If the scheme was uncapped this would not be a problem. Taxes are paid in full by exporters so should any grant payments.

When the scheme does not use all the funds on offer the surplus is sent back to government. When the scheme does not have enough money to pay all clients in full, that shortfall is funded by exporters.

For the 2014 grant year the demand for the scheme will exceed the supply of money to pay grants.

Those clients whose grant is in excess of $60,000, the second tranche will not be paid in full, this has happened 3-4 times before, since the capping of the scheme.

This causes some clients to lose faith in the scheme and the government's commitment to their export efforts.

Solution: The scheme needs to be reinstated to a funding program of at least $150M. If the funding is not used in a grant year, that surplus should be carried forward to those years when a shortfall is possible instead of being returned to government. This would even out the funding cycle of the scheme and overtime eliminate any risk of shortfall in grant payment to exporters.

EMDG is in inequitable in how grant funds are rationed between exporters.

Grants are rationed between clients in the scheme and to reflect the intention of the Government that the scheme is not continuous on the basis of the number of grants being limited to 8 grants.

A client could be paid 8 grants of the minimum of $5,000 per grant which comes to $40,000 in total payments.

Another client of the scheme could over 8 years be paid the maximum grant of $150,000 per year and hence be paid $1.2M well in excess of the first client

Both client irrespective of the difference in grants are treated the same with the same grant history in years.

This is not equitable.

Solution: The limit of a funding of a client under the scheme ***should not be based on years but total funds spent.*** That is a limit of money paid that can be taken over any number of years until the client funding cap is reached. In the alternative, clients should be allowed to ***"buy back"*** past grants, say up to three of small nature (paid back in the 1990s for example) to enable them to re access the scheme now for current and larger funding for current export markets.

Terms of Reference 2 – Scheme extension

All my clients past, present and those intending to claim in the future believe the scheme should continue as it has, it will make a difference to each client's export performance, growth performance and business strategy.

The consensus viewpoint point is the scheme should extend for a further 5 years.

Suggested improvements to scheme effectiveness per Term of Reference No 1 will lead to improved performance.

Scheme performance however needs to be improved in terms of the time taken to pay a grant.

In 2014 for the first time since 1994/1995 Austrade failed to meet its processing objective of 95% of grant application being paid before year end – despite a large capital investment program to move to a web based portal system for application lodgments.

Austrade needs to do things as efficiently and effectively as it can to pay grant applications as soon as possible – with a target of 75% to be paid with 1 month of file lodgment and 95% to be paid with 2 months.

Austrade's administration funding rate of 5% of the EMDG program funds is thought to reasonable and no client made the comment that it should be increased.

Conclusion

The EMDG scheme has been an integral support mechanism to the export industry and should continue.

It does make a real difference to Australia export success and employment. It does make us more internationally competitive.

EMDG can be driver to SME growth in the future as it has been in the past.

EMDG can help replace job losses in the automotive and mining sector that are occurring at the moment

EMDG is not a training program is a doing program and get real results for those that access it - export sales and hence jobs retention and growth that would not have not have happened but for the scheme being in existence.

Yours faithfully,

Stuart Mitchell

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