



Australian Government


Austrade

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Review of the Export Market Development Grants scheme 2005

Summary

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SUMMARISING THIS REVIEW

The Export Market Development Grants (EMDG) scheme, which is administered by Austrade, is the Australian Government's principal financial assistance program for aspiring and current exporters.

The scheme encourages small and medium sized Australian businesses to promote their products overseas and to become sustainable exporters. It provides up to seven taxable grants of up to \$150 000 each per year for eligible small and medium enterprises. Grants partially reimburse money (up to 50 per cent above a \$15 000 threshold) spent during a financial year on specific export promotion activities to any overseas market, except New Zealand.

The scheme supports a wide range of industry sectors and products, including inbound tourism and the export of intellectual property and know-how. In 2004–05 the EMDG scheme assisted 3277 Australian businesses to enter into export and develop sustainable export markets. Seventy-seven per cent of these were small businesses with annual incomes of \$5 million or less.

Under section 106A of the *Export Market Development Grants Act 1997* (EMDG Act), Austrade is required to review the EMDG scheme and to make recommendations to the Minister for Trade on whether the scheme should be continued beyond the 2005–06 grant year.

On 23 June 2004 the Hon Mark Vaile MP, Minister for Trade, announced this review and provided Austrade with the terms of reference.

Austrade took a consultative approach during the review and sought input from EMDG scheme recipients and other exporters, the business sector, industry associations, the community, and other government departments and agencies.

Austrade advertised for public submissions; engaged a Review Facilitator to collect the views of exporters and other stakeholders; drew on a survey of recent EMDG recipients and analysis carried out by an independent research company; and took into account its own experience as the administrator of the scheme.

The views expressed in the public submissions were generally very positive about the scheme and strongly supported its continuation.

Mr Peter Jollie AM, the Review Facilitator, reported that throughout his consultations there was also very strong support for the EMDG scheme's continuation, with many participants attesting to its value in assisting individual firms to become new exporters and in expanding export markets.

“ The consistent message I received throughout the process was the importance of the EMDG rebate in funding export marketing. Time and again, I was looked squarely in the face by exporters and told how vital each grant had been to export success.

Based on his discussions and feedback from his meetings, Mr Jollie concluded that receiving grants does change exporters' market behaviour and that the scheme should continue.

The independent survey of recent EMDG scheme recipients and analysis of the results, carried out by the Centre for International Economics, indicated that the scheme induces export promotion, boosts exports, improves the sustainability of small and medium enterprises (SMEs), and has a positive impact on export culture. The impact of the scheme was shown to be greatest in the presence of finance constraints and smaller firm size.

Austrade's own experience as the administrator of the scheme suggests that the scheme is particularly important for firms that, faced with high risk and uncertainty and with little track record of export success, have difficulty in accessing finance. This experience also indicates that the basic model of the scheme works well, but that some scheme rules are complex to administer and some have not kept up with changing business practices.

Austrade concluded that the EMDG scheme remains an effective mechanism for encouraging SMEs into sustainable export and plays a key policy role in funding additional export promotion, particularly for the smaller sized firms and less experienced exporters that are the target group for the scheme.

Public submissions and participants in review facilitation meetings raised a wide range of issues concerning the scheme including certainty of scheme funding, the amount claimable as an overseas visit allowance, and scheme entry thresholds. There was also discussion about the changes made to the scheme in 2003, with many review participants expressing the view that these changes had limited the scheme's effectiveness.

Austrade analysed all proposals submitted during the review process in regard to the scheme's provisions concerning the eligibility of businesses, products and expenses, for calculating grant amounts, and for applying for and paying grants. This led to the conclusion that most current scheme parameters and rules remain appropriate, but a number of options for enhancing the scheme's performance could be considered. These options are discussed below.

Austrade also considered whether the current scheme meets the needs of outer metropolitan and regional SMEs and of emerging export sectors, including the intellectual property sector. While Austrade's analysis showed that these groups are well served by the current scheme, Austrade took their needs into account in developing options for improved performance.

Austrade reviewed the extent to which the current scheme is simple and accountable, and concluded that—while greater simplicity remains a desirable goal—the current balance between simplicity in scheme rules and accountability in the expenditure of public monies remains appropriate.

RECOMMENDATION

Austrade found in this review that the scheme is effective in increasing the number of SMEs that develop into new exporters, in increasing the number of SMEs that achieve sustainability in export markets, in generating additional exports, and in further developing an export culture in Australia.

In arriving at this conclusion, Austrade took into account:

- strong business and industry views, expressed in public submissions and through the review facilitation process
- the independent survey of recent EMDG scheme recipients and analysis of the results
- Austrade's own experience as the administrator of the scheme.

Extending the scheme indefinitely would offer greatest certainty to industry. However, a five-year extension, with a review before the end of that period, would ensure accountability and give business, industry, governments and the broader community an opportunity to again review the program's performance. A five-year extension would balance the need for certainty with the need for accountability and transparency.

RECOMMENDATION

Austrade recommends that the Export Market Development Grants scheme continue for a minimum of five years, until the end of 2010–11.

It is further recommended that there should be a legislative requirement to review the scheme, with a report provided to the Minister for Trade by 30 June 2010.

OPTIONS FOR IMPROVED PERFORMANCE

In response to this review's terms of reference, Austrade has identified a number of options for improving the EMDG scheme's performance. These options focus on increasing the impact of the scheme by:

1. increasing the incentive for SMEs to internationalise by visiting overseas markets
2. updating the scheme to better support new and emerging export sectors and practices
3. reducing risk and administration costs
4. improving the certainty of payment.

1. Increasing the incentive for SMEs to internationalise by visiting overseas markets

OVERSEAS VISIT ALLOWANCE

For EMDG scheme purposes, exporters travelling overseas to promote their products are limited to claiming their transport expenses plus a set amount—the overseas visit allowance—to cover general expenses. A strong message in review input was that the daily overseas visit allowance is too low and does not provide sufficient incentive and assistance for the important step of actually visiting overseas markets.

Finding

- At \$200 per day, the overseas visit allowance has not kept up with the costs of overseas visits. Increasing the allowance to \$300 per day would increase the incentive and assistance for visiting overseas markets.

2. Updating the scheme to better support new and emerging export sectors and practices

PRINCIPAL STATUS AND CLOSELY RELATED ENTITIES

The EMDG scheme has a ‘principal status’ requirement, which is designed to ensure that, as much as possible, EMDG scheme funding is used to encourage the producers of goods and services to take the risks of developing products for export and starting an export drive. However, intellectual property exporters that use business structures that involve one company owning the intellectual property and another promoting it are excluded from the scheme by the current requirements.

Finding

- Generally, the EMDG Act limits grant payments to the owner of the goods or services that are being exported—that is, to the principal rather than to agents or consultants. This principal status requirement is an important scheme element and should be retained. However, the scheme’s rules could be amended to provide some flexibility in handling emerging export sector applications, including those with high value-added intellectual property content. The amendment would allow Austrade to deem eligible certain applicants that do not technically meet the current principal status requirements. This would only be appropriate in strictly limited and defined situations—for example, when a company closely related to the applicant owns the product intended for export.

‘SUBSTANTIALLY OF AUSTRALIAN ORIGIN’ RULES

Under the current EMDG scheme, Austrade determines that an exporter’s goods are eligible under several different rules, including Australian origin rules. These rules require that all products be ‘substantially of Australian origin’. These rules have become difficult to apply in the context of emerging business practices such as offshore assembly.

Finding

- The EMDG scheme’s flexibility and transparency would be improved by modifying the current Australian origin rules to specify that to be eligible:
 - goods coming into their final form in Australia should be ‘made in Australia’
 - goods not coming into their final form in Australia, or products which otherwise do not qualify under the existing product eligibility categories, should meet requirements to be set out in a ministerial guideline.

EXPENSES INCURRED TO INCREASE THE RETURN ON DISPOSAL OF INTELLECTUAL PROPERTY OR KNOW-HOW TO A RELATED COMPANY

Under current rules, EMDG scheme applicants cannot receive a scheme grant if they dispose of intellectual property or know-how to a related company and then incur marketing expenses to promote a royalty or licence income stream from that intellectual property or know-how. While the intent of this rule is to prevent abuses, review input indicates that it hinders legitimate export practices.

Finding

- Some Australian exporters of intellectual property export through subsidiaries for legitimate business reasons. However, section 55 of the EMDG Act may exclude from the scheme an applicant's expenses incurred to increase the return on the disposal of intellectual property and know-how to a related company. Removing this section from the Act would make the scheme more accessible to these exporters.

OUTER METROPOLITAN, REGIONAL AND RURAL ACCESS TO EMDG SCHEME SERVICES

With about 25 per cent of grant recipients based in outer metropolitan and regional and rural locations outside capital cities, the EMDG scheme significantly assists exporters in these areas. However, some review input suggested that regional and rural access to EMDG scheme services could be improved.

Finding

- The EMDG scheme provides significant support to businesses based in outer metropolitan, regional and rural areas. Austrade should continue to upgrade its EMDG scheme services to these businesses, including through its audit, client education and communications activities.

3. Reducing risk and administration costs

OVERSEAS REPRESENTATIVES AND MARKETING CONSULTANTS CATEGORIES

Applicants for EMDG scheme grants may claim expenses relating to overseas representatives and marketing consultants, up to a combined expenditure cap of \$250 000. Both categories are popular with SMEs entering into export, but in Austrade's experience they are higher risk in terms of the potential for over-claiming.

Finding

- The overseas representatives and marketing consultants expense categories are effective EMDG scheme components. However, risk management would be improved by:
 - separating the overseas representatives and marketing consultants expense categories
 - capping overseas representatives expenses at \$200 000 per annum
 - capping marketing consultants expenses at \$50 000 per annum.

LIMIT ON NUMBER OF GRANTS AND CHANGE OF BUSINESS OWNERSHIP

Currently, a business cannot receive more than seven EMDG scheme grants. The EMDG Act ensures that firms cannot circumvent this limit by simply re-badging the business and applying for more grants. Some review input argued for relaxation of these provisions. In Austrade's experience, these provisions work well in practice but could be more clearly structured.

Finding

- The rule covering changes in business ownership, as set out in section 94 of the EMDG Act, plays an important role in ensuring that the seven-grant limit applies to all businesses as intended, including when business ownership changes. However, there would be merit in revising the section to make it clearer for the applicant and easier to administer.

SPECIAL APPROVALS, INCLUDING APPROVED BODIES

Some categories of organisation—including industry associations, joint ventures and trading houses—must apply to Austrade for special approval before receiving EMDG scheme grants. Under the current EMDG Act, such approvals are granted for three years and are renewable. Some review input suggested that, once approved, the approval should continue indefinitely.

A definite period of approval allows Austrade to review the performance of applicant bodies upon application for renewal, to make sure that they have made effective use of grants paid to them. However, the approval period could be extended.

Finding

- Allowing Austrade to grant special approval status, including approved body status, for five years rather than three years, both for initial approvals and for approval renewals, would streamline administration of the special approvals provisions and increase industry certainty.

PAYMENTS, BUSINESS ARRANGEMENTS AND RISK

Some applicants claim payments made in cash for EMDG scheme purposes. Austrade's operational experience suggests that these cash payments may sometimes be connected with dubious grant claims and lack of clear details about an applicant's other business arrangements. Not accepting cash payments would have little impact on most applicants.

Finding

- Austrade's ability to protect the funds invested in the EMDG scheme would be improved by specifying that cash payments made by applicants do not attract scheme grants, and by ensuring that the scheme's rules clearly set out Austrade's power to disregard any unsubstantiated, unreasonable, uncommercial or non-bona fide expense claim.

4. Improving the certainty of payment

SCHEME FUNDING AND UNCERTAINTY OF GRANT AMOUNTS

The EMDG scheme budget is capped at a set annual amount. If demand for grants exceeds the scheme budget, grant payments to applicants eligible for a grant above a certain threshold are reduced. Review input suggested that this has led to uncertainty about scheme payout levels, and that this uncertainty has reduced the incentive that the scheme provides for firms to spend on export marketing.

Finding

- The government's 2005 announcement of an increase in the EMDG scheme's budget up to the end of 2006–07 will increase the scheme's capacity to accommodate demand growth in the immediate future. Consideration could be given to improving the scheme's ongoing effectiveness by:
 - indexing the scheme's budget to the consumer price index
 - allowing any program funds not spent in years of low-grant demand to be carried forward over the life of the program.

PROCESSES FOR MAKING CLAIMS AND PAYING GRANTS MORE QUICKLY

To apply for an EMDG scheme grant, an applicant completes and submits an application form with supporting material. Austrade then assesses the application using an appropriate assessment technique—desk audit, telephone audit, or site audit at the applicant's premises. Review input suggested that further streamlining of application, audit and payment processes should be considered. This would be desirable, but must be consistent with scheme accountability requirements.

Finding

- The EMDG scheme's current reimbursement-based and risk-managed, grant payment method ensures high accountability levels and should be retained. However, Austrade should step up its efforts to assist applicants to lodge timely and accurate applications which would lead to quicker and more certain grant payments.

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