



**SUBMISSION TO THE SENATE RURAL AND
REGIONAL AFFAIRS AND TRANSPORT
LEGISLATION COMMITTEE**

**Export Market Development Grants Legislation
Amendment Bill 2020**

The Export Council of Australia

About the Export Council of Australia

What is the ECA?

The ECA is a not-for-profit, member-driven organisation. Its purpose is to support Australian entrepreneurs and firms in undertaking international business.

What does the ECA do?

The ECA supports its members through various efforts, including:

1. Providing updated information – Members are alerted to news and reports, including on government policies and regulations, as well as market conditions.
2. On-going capacity building – Exporters benefit from tailored training to build on their knowledge and skills, as global rules and practices change, trade patterns shift, and technologies develop.
3. Advisory services – Exporters can get immediate insight on pressing challenges and questions, such as on licensing, clearances, access to finance and trade agreements.
4. Creating ecosystems – Facilitating crucial business relationships help exporters progress opportunities, including with sourcing materials and new ideas, getting things stored and delivered, and channelling financial transactions.
5. Advocating on behalf of members – Members' views and concerns are articulated to government partners. Effective and sustainable solutions are best reached through collaboration with governments and other stakeholders.

Who are ECA's members

The ECA's membership covers a wide range of industries and sectors. Its members are individuals, small, medium and large enterprises.

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Export Market Development Grants Legislation Amendment Bill 2020 Export Council of Australia Submission

Key points

- The views expressed in this submission are based on the Export Council of Australia's understanding of the impact of proposed EMDG changes on small and medium sized exporters.
- SME exporters are currently facing considerable challenges, including due to Covid-19 restrictions, here and in overseas markets. Support of SME exporters can help boost Australia's economic performance, and diversify Australia's trade profile.
- The EMDG change from reimbursement to a grants program will mean SME exporters can receive funds immediately and undertake activities with confidence.
- The design of the application process will ultimately determine how easy SME exporters are able to access EMDG funds. Future application forms must be clear and straightforward.
- Eligibility criteria, including definition of 'export ready' may have to be applied leniently, and coverage of accepted activities need to be broadened.
- The separate funding thresholds for new exporters and those growing their exports are appropriate for their size and activity needs.
- The ECA supports the proposed changes, as we expect the application process to be simpler, more SME exporters will be able to access the program, and get much needed funds sooner.

Introduction

This submission focusses on the potential impact of proposed changes to the Export Market Development Grants Scheme (EMDG) on Australian small and medium sized (SME) exporters. Australian SME exporters are a key part of Australia's success story as a trading nation. Their role will become far more important as the nation seeks to recover from a historic economic downturn, and as we seek to diversify and modernise what we produce as a nation. SME exporters can be a much greater source of income, livelihoods and jobs, but due to their size and resource constraints, they require an appropriate level of support.

The EMDG has provided invaluable support to SME exporters for more than four decades. The recent increases in level of funding is further welcomed. However, as the overall trading landscape changes, it is right to revisit its current format to ensure that it is fit for purpose, and functions efficiently and effectively.

In assessing the merits of the proposed overhaul of the EMDG, we considered whether the following principles will be met:

- more SME exporters will be able to benefit from it, including through increased scope of eligible activities;
- a greater proportion of claimed exporter expenditure or cost can be covered by the grant;
- the application will be simple and straightforward, minimising impractical performance requirements at the front-end; and
- the assessment and payment processes will be prompt, so applicants receive funds immediately.

Why support SME exporters?

A country's economic output is measured by the Gross Domestic Product (or GDP). GDP is comprised of government spending, business investment, consumer expenditure and net exports. So as the government seeks to get Australia out of its current deep economic slump, it must not only encourage business investment and consumer spending, it must also boost

exports. Exports make a significant contribution to the Australian economy, generally representing more than 20 per cent of Australia's GDP.¹ And 1 in 5 jobs is dependent on trade.²

In addition to pursuing economic growth, the Government must also look at ways to diversify Australia's trade profile, including for the purpose of managing risks. Encouraging SMEs to export will be an effective way to do this. SME exporters are more agile and prepared to explore alternative markets. They are less likely to be caught up in transactions based on fixed contracts.

However, Australian SME exporters have much room to improve, especially in terms of their contribution to total value exports. According to the Australian Bureau of Statistics, Australian SME exporters only represent 4% of total value of goods exports³ – well below that of many countries, such as Denmark where its small businesses contribute 22% of total value of goods exports⁴, and Canada's small businesses contributing 20.5%⁵.

Government initiatives are best directed at those who need it and where they will achieve the desired impact. There are more than 46,000 small and medium sized exporters (of goods) in Australia.⁶ That is not an insignificant number. A revamped EMDG that potentially reaches most of these businesses can make a meaningful difference to their survival during Covid-19, to their longer-term success thereafter, and to boosting performance of the Australian economy.

Since Australia has a relatively small domestic market, SMEs looking to expand and grow have few options but to seek customers overseas. In addition to increasing sales, exporting allows

¹ <https://tradingeconomics.com/australia/exports-of-goods-and-services-percent-of-gdp-wb-data.html>

² <https://www.dfat.gov.au/news/media/Pages/report-finds-trade-supports-one-in-five-jobs>

³ <https://www.abs.gov.au/statistics/economy/international-trade/characteristics-australian-exporters/latest-release>

⁴ [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Shares_by_size_class_for_exporting_\(goods\)_enterprises,_2017.png](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Shares_by_size_class_for_exporting_(goods)_enterprises,_2017.png)

⁵ <https://www.international.gc.ca/trade-commerce/sme-pme/sme-roles-pme.aspx?lang=eng>

⁶ <https://www.abs.gov.au/statistics/economy/international-trade/characteristics-australian-exporters/latest-release>

firms to achieve economies of scale, and to better manage risks. Moreover, due to the tough environment they are operating in, firms that export tend to be more competitive, innovative and resilient. There is also evidence to suggest that exporters tend to perform better and be more resilient than their average domestic counterparts.⁷

Streamlining administrative processes

The proposed changes to the EMDG is timely. As with other parts of the Australian economy, Australian exports have been impacted by Covid-19. Australian exports by value (of both goods and services) fell by 4 per cent in the month of August.⁸ That figure however does not fully express the difficult struggle many SME exporters are currently facing.

The key change of moving from a reimbursement scheme to an eligibility-based grants program would mean that exporters can access their EMDG funds more immediately. This will be particularly helpful under current global trading conditions. SME exporters will not have to wait for as long as two years under present arrangements, especially for activities that go for multiple years. This will provide some element of certainty in SME exporters' planning in the future.

The effectiveness and efficiency of a grants approach, however, will depend on the application process. Application forms must be easy to complete, and must have clear descriptions of the information and supporting documentation required of the exporter. It must also be clear about what milestones or results exporters should be reporting on.

With few staff and resources, a simplified application process will encourage SME exporters to apply for EMDG assistance. However, the Government must still make an effort to increase awareness of EMDG, including holding information sessions on how to apply under the new arrangements.

⁷ <https://www.edc.ca/en/blog/why-exporters-are-more-successful.html>

⁸ <https://www.abs.gov.au/statistics/economy/international-trade/international-trade-goods-and-services-australia/latest-release>

The proposed change in which the legislation provides a framework and set the principles, while administrative guidelines contain the detailed rules, is consistent with other similar programs and best practice arrangements. This will allow time for appropriate level of input when developing eligibility rules and other requirements, and will provide better flexibility and fine-tuning later down the track, if necessary.

Expanding eligibility criteria

The Export Council of Australia believes that any SME looking to start exporting or grow their exports should be able to access the EMDG. We acknowledge, however, the need for robust criteria in order to establish legitimacy of applications, so that funds are used to good effect, and risks of dishonesty are minimised.

For new exporters, a clear definition of 'export ready' will be necessary, which might include having a basic export plan, evidence of prior investments and/or operations, R&D outcomes, active websites and social media presence. Some distinction may have to be made between the criteria applying to exporters of goods and services, as the latter may not have perceptible operations or investments prior to exporting.

The proposed size of eligible SMEs with an annual turnover of less than \$20 million – a reduction from the current \$50 million threshold – is appropriate. The majority of SME exporters will fall within this bracket.

New exporters able to access grants of up to \$80,000 over two years, and existing exporters expanding their markets able to access grants of up to \$240,000 over three years, are prudent funding thresholds. On top of exporters' own investments, these level of grant contributions should make a meaningful difference. Furthermore, we concur that those exporters doing well should be able to access additional grants of up to \$450,000 over three years.

The EMDG must not only cater for goods exporters, but also services exporters. According to the Australian Bureau of Statistics, in August 2020, exports of services contributed 16% of

total exports (of both goods and services).⁹ However, the Department of Foreign Affairs and Trade suggests services exports represented as much as 20% of total goods and services exports for the period 2018-19.¹⁰ Whichever figure one refers to, services exports are important, and appropriate attention must be placed on applications from this sector.

On eligible activities, it is crucial that there is some widening of the scope of 'marketing and promotion'. Marketing visits, participation in trade exhibitions and product promotions, such as distribution of product samples, are clearly part of the standard definition. However, we believe other activities must also be included, such as intellectual property registration in foreign markets (such as copyright), research on market segmentation, active targeted business matching, services relating to search engine optimisation and social media influencing, product packaging design, and meeting labelling requirements.

Resource constraints, including lack of internal skills, make international trade demanding for SMEs. Their success, longer-term viability and expansion will depend on their ability to navigate complex processes and connect with the right partners. The ECA therefore welcomes the prospect of industry bodies being able to apply separately for EMDG funding to train new exporters, and to facilitate connections in overseas markets.

Conclusion

At this particularly challenging time in global trade, the ECA is not looking for a simple fix to the EMDG. Australian SME exporters are doing it tough, and will continue to face daunting challenges in the near term. For that reason, the changes to the EMDG must be designed for the occasion and equate to a whole new initiative.

The ECA believes the new EMDG offers that. We understand it can deliver a simpler application process, with more SME exporters able to access the program, and more funds to go into their hands, sooner. The ECA believes these will benefit SME exporters and therefore supports the proposed changes.

⁹ <https://www.abs.gov.au/statistics/economy/international-trade/international-trade-goods-and-services-australia/latest-release>

¹⁰ <https://www.dfat.gov.au/sites/default/files/trade-in-services-australia-2018-19.pdf>

Moving forward, it is crucial that the Government and relevant stakeholders work together to ensure the new administrative processes do indeed work for SME exporters, and that SME exporters are aware and take advantage of the new arrangements.