



EXPORT MARKET DEVELOPMENT GRANTS SCHEME

The Federal Government's decision to run-down the Export Market Development Grants Scheme will only serve to undermine the effectiveness of Australian exporters, especially smaller exporters, in vital overseas markets. At very least, the Scheme should be fully indexed for inflation, while sizeable increases in funding will be necessary if the Federal Government is sincere about its commitment to 'doubling the number of exporters by 2006'.

The Export Market Development Grants Scheme (EMDGS) is an integral part of the export promotion strategy of many Australian exporters, especially smaller to medium sized exporters.

For many exporters, the Scheme plays a significant role in the decision of whether or not to export, which markets to tackle, and their export orientation (what proportion of production to export).

At the same time, EMDGS support accounts for more than one-third of the export income from smaller to medium sized firms participating in the program, and absent such support many such firms would reduce their export efforts.

Unfortunately, the EMDGS has been allowed to run-down quite markedly since 1996/97, when a funding cap was imposed on the Scheme.

The real value of the program has fallen by around 16 per cent over the past six years, and is likely to fall by some 27 per cent by 2005/06 unless it is indexed for inflation (not allowing for any new program funding).

Many smaller exporters are losing confidence in the Scheme, in particular its capacity to sustain traditional reimbursement levels.

Last financial year (2001/02) many smaller exporters received only 75 per cent of their grant entitlement, and there is a general sense amongst the exporting community this situation will deteriorate in the current and coming financial years.

Senior Federal Government officials have conceded the payout rate for 2002/03 could be as low as 50 per cent, further undermining the confidence of smaller exporters who have developed and implemented export plans based on traditional reimbursement arrangements.

The EMDGS Program

The objective of the EMDGS program is set down in the Export Market Development Grants Act 1997: to bring benefits to Australia by encouraging the creation, development and expansion of foreign markets for Australian goods, services, intellectual property and know-how.

This objective is to be achieved by: assisting with the development of an export culture; creating new exporters; assisting with the diversification of exporters into new markets; assisting with the generation of additional exports and jobs within Australia; and, creating greater innovation within Australian business.

More specifically, EMDGS is intended to encourage small and medium Australian businesses to develop overseas markets through the 50% reimbursement of expenditure incurred on export promotional activities.

The Scheme is open to Australian companies which meet an overseas promotional expenditure threshold of \$A15,000 over a 2 year period and have a turnover of less than \$A50 Million and/or less than \$A25 Million in export earnings.

In the 2000/01 financial year, \$A135 Million in grants were distributed to 2,900 exporters. The businesses that received grants during this same period generated \$A4.4 Billion in exports.

In 1997, the Government capped EMDG funding at \$A150 Million a year until 2005/06. Until last year, there had been sufficient funds to meet all applications in full.

However, in the latest round of payments, there were insufficient funds to pay the total amount of claims, and 900 Australian businesses had their grants reduced and will receive approximately 75% of their entitlement.

This shortfall is of great concern to commerce and industry, and ordinary businesses that look to the Scheme to contribute to their export performance.

The package of changes to the Scheme announced recently by the Federal Government will go only a small way to redressing the underlying funding problems, and nowhere near sufficient to meet even the existing financial shortfall.

The Funding Problem

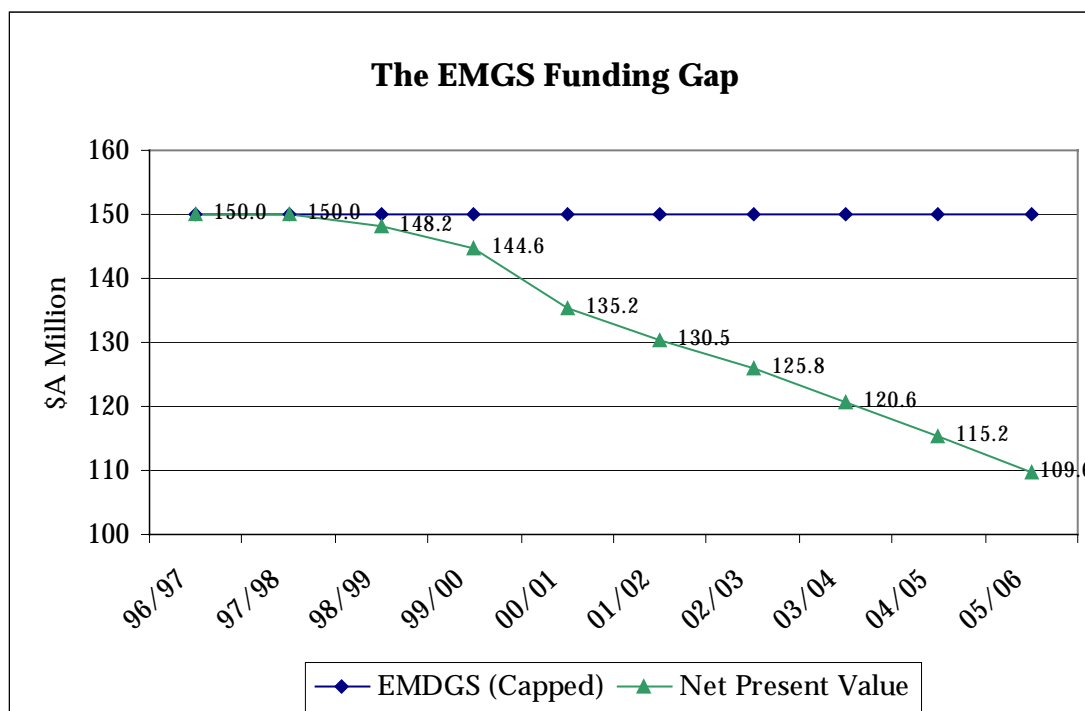
The Chamber is greatly concerned at the likely run-down in the EMDGS Program as a result of capped funding since 1996/97.

While recognising the need for fiscal discipline within public financial management, the Chamber notes the substantial economic multipliers and benefits arising from expanded export outcomes per se and resulting from a well-resourced EMDGS Program.

To our mind, the run-down in the program experienced since 1996/97, and expected to continue to 2005/06, is a ‘false economy’, where the broader economic returns far and away exceed any perceived public financial ‘savings’.

The financial run-down in the EMDGS program is clear in Chart 1, which shows the impact of the funding cap (implemented by the lack of any indexation for price inflation) and the absence of any policy-based funding rises since 1996/97, and expected to continue until 2005/06.

CHART 1

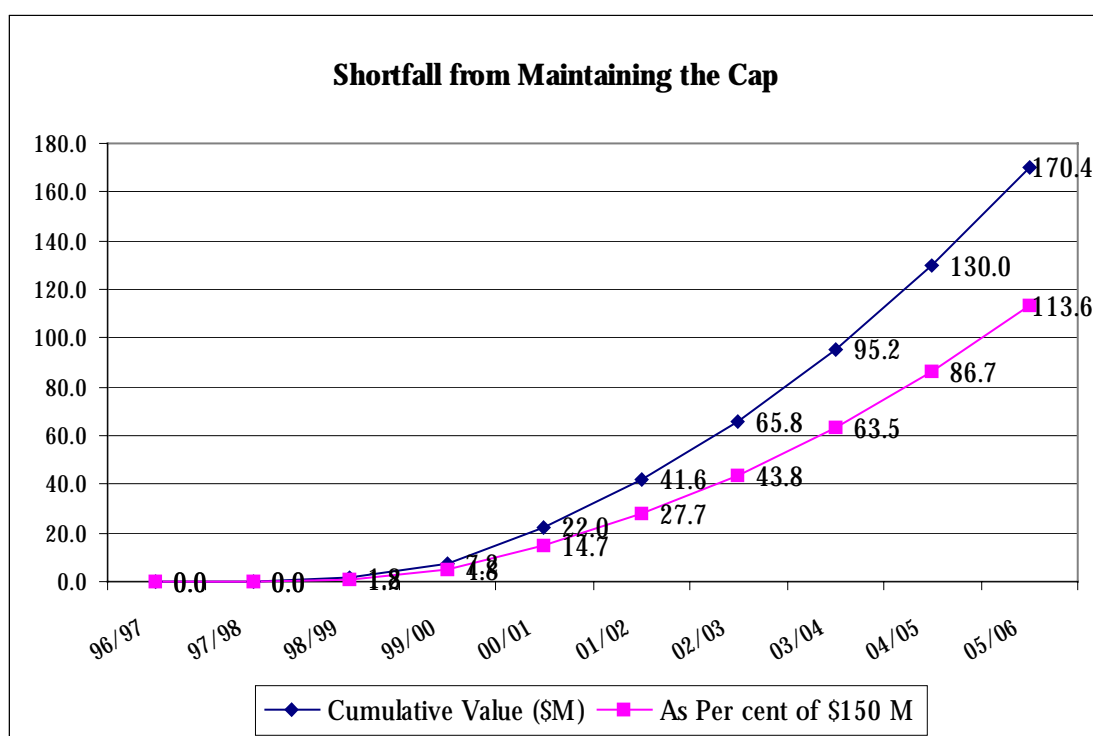


Using official inflation figures (consumer price index measure) for the period to date, and an assumed 3 per cent figure out to 2005/06, indicates the net present value of the EMDGS Program in 2002/03 will be \$A126 million in 1996/97 dollar terms (a loss of real value of around \$A24 million, or just over 16 per cent), a figure which will move to just under \$A110 million in 2005/06 (the end of the current program period; a fall of more than \$A40 million, or 27 per cent).

Looked at another way, the absence of indexation-for-inflation since 1996/97 has already reduced the real value of the EMDGS Program on an annual basis by one-sixth, a figure that will increase to around one-quarter by the end of the current Program period (2005/06).

However, these are only single year figures. A more appropriate focus would be on the cumulative run-down in the funding for the EMDGS Program. That is, adding-up each successive years’ shortfalls, an exercise which produces an even more demoralising picture for those committed to exporting, as can be seen in Chart 2.

CHART 2



The Chamber estimates the cumulative shortfall caused by the failure to index-for-inflation the EMDGS Program to total just under \$A 66 million in the current financial year (2002/03), which is equivalent to just under 44 per cent of the nominal value of the Program for that financial-year.

These figures are likely to rise substantially in the final two years of the current EMDGS Program (that is, 2004/05, and 2005/06), when the cumulative shortfall will jump to \$A 130 million and \$A 170 million, respectively.

Looked at another way, by 2005/06, more than a full year's Program funding will have been lost due to the injurious effect of the cumulative run-down in funding resulting from the failure to index-for-inflation the EMDG Scheme.

The run-down in funding for the EMDGS program is particularly ironic given the emphasis given to SME exporters in Austrade's 'Knowing and Growing the Exporter Community' strategy paper.

In essence, 'Knowing and Growing' (as it has become known) predicts most of the growth in exporting will come from smaller firms involved in services exports, for example those engaged in bio-technology, information and communications technology, and financial services.

Service exporters, by the very nature of the intangibility of their products, often experience more demands in the marketing of their products and may have to enter a market by establishing a representative office or traveling extensively in their effort to develop those market(s). Therefore, claims from this group are likely to be larger, thus exacerbating the funding short-fall.

This, combined with more exporters claiming as Austrade seeks to double the number, means even more demands upon less well-resourced EMDGS.

An allied problem is the delay in second round tranche payments, which compounds the uncertainty from the financial run-down in the Scheme.

The Chamber hears a strong message of concern from its rank-and-file exporting membership regarding the considerable delay in both advising of the second round payment tranche (for payments above \$60,000) and in making the actual payment of the second round.

The practical implications of these delays are clear: they make it difficult for companies to budget and manage cash flows, and to plan ahead for follow-up export promotion activities. Exporters also need to fund the outstanding rebate for six months longer than may be necessary.

Austrade Perspective

Many of the concerns of the exporting community on the funding of the Scheme have been recognised by the Austrade Board in their “Review of the Export Market Development Grants Scheme” (‘the Austrade Review’), published in June 2000.

For example, on the impact of reduced funding on export performance, the Review stated: “...the lower level of funding that accompanied the 1996 changes means that there has been a reduction in expenditure on export promotion by grant recipients and in additional exports generated compared to what would have occurred without the changes.”

The Chamber would observe, given the claimed ‘12 times’ return of the EMDGS program such cost-cutting was not only contrary to the objective of the Act but ultimately comes at a net cost to the Australian exporting community and indeed economy at large.

Two of the main costs associated with such ‘false frugality’ include lesser realisation of commercial best practice, and lesser export engagement, concerns recognised by the Austrade Review: “EMDGS recipients are generally more export and best practice focused than non-EMDG recipients. Particularly in the early years, it is evident that business relies heavily on EMDG to fund export promotion activity”

The Austrade Review went on to observe maintaining the funding cap at a nominal \$A 150 Million out to 2005/06 (that is, neither indexing the amount for price inflation, or expanded policy-based funding) could:

“result in the diminution of the value of grants for more than 1,000 grant recipients each year over the period 2005/06. The Board considers that the returns from the Scheme are such that the best outcome would be for all grantees to receive the full value of their entitlements.”

Regrettably, the Federal Government took, and has maintained, the decision to allow the Scheme to be run down, both in terms of funding and the implicit message which this has sent to exporters, both new and aspiring.

If the ‘doubling the number of exporters by 2006’ objective is met in full, or even in large part (say, a 70 per cent increase in numbers) then there is likely to be substantial additional (and unmet) demand by these new exporters for funding under the EMDGS program.

As the Austrade Board quite correctly observed, uncertainties over funding, and in the Chamber’s view particularly failure to meet reasonable expectations of full-funding under the Scheme, is clearly counter to its objectives, and likely to result in discouraged new exporters and loss of potential economic value for the Australian economy, and employment, investment and innovation opportunities.

The loss of economic potential resulting from the run-down in funding of the EMDGS program is evident to all those engaged in international trade, and particularly in exporting

The Austrade Review went on to highlight the importance of the EMDGS Program in Australia’s national export effort:

“The EMDG Scheme is economically efficient as it assists genuine export activity which otherwise would not have occurred. It is trade expanding.”

It also expands the export performance at the firm-level. “The grants do not displace or subsidise expenditure that would have otherwise occurred. Rather, the grants add to the overall spending by recipients on export promotion.”

While it would be inappropriate to attribute all of Australia’s export success to the EMDGS program, the Austrade Review recognised its importance for aspiring, new and smaller exporters for whom it is a significant part of their ‘export decision’ – whether to export, where to export, how to export, what volumes to export, and to remain in exporting.

The Chamber movement firmly believes a diminished EMDGS Program has resulted in less-than-otherwise (that is, relative to a better resourced Program) outcomes in exporting, innovation, employment and investment, an assessment borne out by implication in the analysis by PriceWaterhouseCoopers (PWC) of exporting and non-exporting firms.

The Austrade Review Report records for the 1998/99 financial/grant year: EMDGS recipients generated \$A4.7 billion in exports; some \$A1.7 billion of those exports would not have occurred without EMDGS support; or just over one-third (36 per cent) of exports by EMDGS recipients were attributable to the Program.

The Austrade Review conceded a run down in the EMDGS Program had a (potentially accelerating) cascading impact on the export behaviour and planning of exporters:



“It is the Board’s assessment that once exporters begin to expect to not receive the full value of the grant payment they will make adjustments to their export promotion expenditure. This is likely to reduce the amount of additional exports generated compared to what would have occurred if the grant was paid in full.”

The implications of these ‘diminished expectations’ are two fold: they have a multiplier effect through future export performance by impacted firms (which Austrade estimates to be around 1000 annually); and, turning around these diminished expectations is likely to take a number of years, meaning a period of catch-up before additional monies will deliver previous standards of outcomes.

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