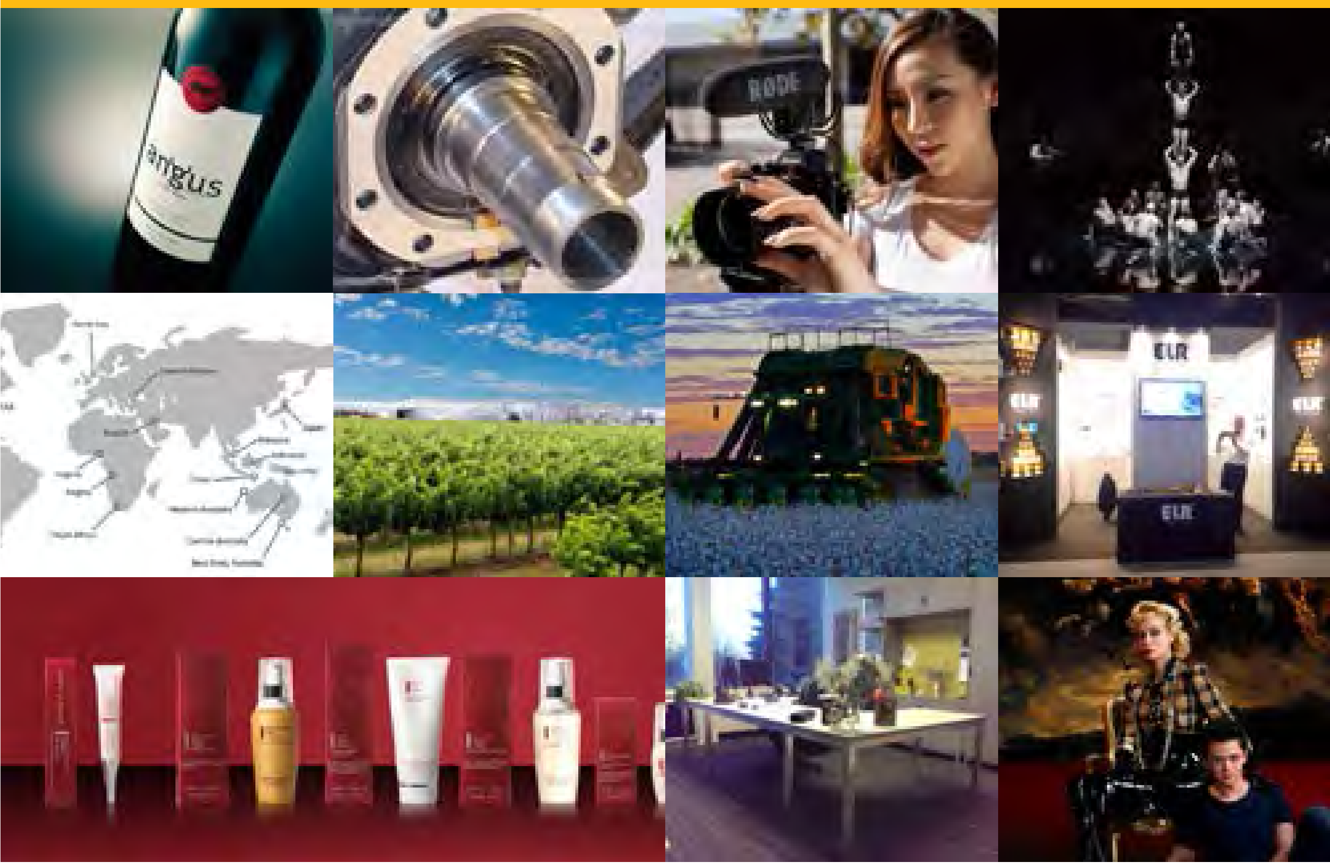
Certainty and Confidence

EXPORTS AND JOBS FOR A CHANGING GLOBAL ECONOMY



Review of the Export Market Development Grants scheme

30 June 2015

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30 June 2015

The Hon Andrew Robb AO MP
Minister for Trade and Investment
Parliament House
CANBERRA ACT 2600

Dear Minister

Thank you for the opportunity to review the Australian Government's Export Market Development Grants (EMDG) scheme.

This report addresses the terms of reference you set for the review, and in doing so, synthesises information from a range of sources. My conclusions and recommendations were informed by the whole of the review process.

Throughout my review, I have been impressed by the degree of support for the EMDG scheme, the openness of company officials and Austrade staff, and the degree to which the scheme underpins the promotion of Australian innovations on world markets.

I have seen firsthand the benefits that this modest government support provides to Australian companies at critical early stages in their export journeys. During my earlier career, I held positions at Cenovis and Zip Industries, both of which were supported by the Australian Government through the EMDG scheme. It was through finding new export markets for our Australian products and expertise, while continuing to build domestic demand for innovative products, that Zip Industries was able to grow its manufacturing operations in Bankstown to its current wide-ranging global presence. This and other similar exporting stories should be replicated throughout our economy.

I found that this 40-year-old scheme remains highly relevant and continues to bring benefits to Australia by encouraging the creation, development and expansion of overseas markets for Australian goods and services. It was particularly encouraging to note that more than half of the 74 finalists in the 2014 Australian Export Awards were beneficiaries of the scheme.

The support that the grants offer to small and medium-sized businesses is more than monetary. It instils certainty and confidence in firms who know that their export aspirations are backed by the Australian Government. Of course, the EMDG scheme's financial assistance is the key element of the programme, and in many cases the grants are reinvested to support new market development activities.

The certainty built into the EMDG scheme gives exporters confidence as they approach new markets. Australia is poised for a new wave of export growth as the age of resource-led investment matures and we look to new markets for our innovative products and expertise. The free trade agreements that are already in place or under negotiation in the Asia–Pacific region and elsewhere, the improved export conditions helped by the recent devaluation of the Australian dollar, and the recent Budget's boosts to small business allow firms to contemplate new or additional exports.

My recommended changes to the scheme will add certainty and confidence to long-term planning for exporting businesses, governments and Austrade. I am recommending few significant changes to the scheme, with the exception of a proposal that offers additional targeted support for high-growth exporters.

I would like to convey my appreciation for the efforts that many people made to inform the review. In addition to providing written submissions, many company officers met with me personally. In undertaking this review, and preparing the case studies in this report, I visited the premises of many innovative exporting companies—for example, Altios Australia, Sasy n Savy and the Aberdeen Wine Company—and have personally spoken to key staff at businesses and industry associations, including RØDE Microphones, Beyond the Break, ELR Australia, Enviro Framing Systems, Advanced Braking Technology, Mini Studios and the Australian Cotton Shippers Association.

People in key industry associations provided industry-wide insights and addressed the imperative that we continue to build an export culture in Australia, noting the value of the scheme in encouraging that to happen. State and territory officers informed me of their business support programmes that complement the EMDG scheme, while Austrade and other Commonwealth agencies provided insights and data to inform the review.

Austrade also provided the resources for this review. In presenting this report, I would like to thank Philip Hagan, of Hagan & Associates, for providing the links between the survey, the econometric study and the scheme; and the EMDG (and other Austrade) staff throughout Australia for their cooperation and assistance, and their openness to providing me with information over the course of the review.

I also thank Dan Barton and Michael Gardiner, my secretariat team, for their tireless efforts in helping me draw together the data and information, their insights into government programmes, and their organisational abilities.

I commend this report to you and look forward to the government's response.

Yours sincerely

Michael Lee

EXECUTIVE SUMMARY

The EMDG scheme continues to be effective in meeting its goals of bringing benefits to Australia by encouraging the creation, development and expansion of overseas markets for Australian goods, services, intellectual property and know-how. There is, however, considerable scope to lift Australia's export performance—only around 45,000 of Australia's 2 million trading firms are engaged in exporting.

The scheme has been reviewed many times since it commenced in 1974. Reviews have consistently found the scheme to be successful, recommending minor amendments to reflect changing economic circumstances and budget decisions of the time. Successive governments have confirmed an ongoing policy of this kind of support for Australian exporters.

The overall trend since the global financial crisis of 2008 has been a reduction in the number of grant applicants and recipients. However, business use of the scheme increased in 2014–15 as the number of grant applicants increased.

In 2013, the then Opposition committed itself to progressively restore funding to the scheme and, once in government, allocated an additional $12.5 million per year for four years (from 2013–14 to 2016–17), raising the annual appropriation for the scheme from $125.4 million to $137.9 million. Forward estimates for 2017–18 and 2018–19 maintain annual funding for the scheme at $137.9 million.

The findings from a KPMG economic impact study—commissioned for this review—support the conclusion that the EMDG scheme is effective in conferring a net benefit on the Australian economy and community.

KPMG's modelling suggests that the scheme increases community welfare by $58 million (in 2013–14 prices) due to the scheme's inducement effect in terms of increased exports. The welfare gain rises to $193 million when survey-based positive spillovers to other (non-EMDG) firms are taken into account, and to $644 million when survey-based productivity effects are also taken into account.[1]

The KPMG analysis points to increased economic activity across the economy and enhanced community welfare attributable to the scheme. In turn, increased economic activity has led to increased tax receipts that almost offset the budgetary cost of the scheme once spillover and productivity effects are taken into account. As a result, benefits are expected to exceed the costs of the scheme, with benefit–cost ratios comparing more than favourably with other government programmes.

KPMG found that each EMDG dollar generates an economic benefit of $7.03 when industry spillovers and productivity gains are taken into account.

The scheme effectively redistributes productive resources from Australian taxpayers (including firms) to new and emerging exporters. To the extent that this transfer of resources results in an increase in community welfare than would otherwise be the case, the scheme can be judged to be efficient.

A copy of the KPMG report is at Appendix D.

This Review concludes that the effectiveness of the EMDG scheme in instilling export confidence in small and medium-sized businesses has been hampered by the reduction in real value of

1 KPMG (2015), *Economic impact of the Export Market Development Grants (EMDG) scheme*, p. 5 (at Appendix D).

budgeted funding since 2009, when the scheme stood at $200 million; and that this reduction should be redressed now that Australian exporters are increasingly seeking to enter new markets, while boosting their presence in established ones.

The Reviewer's preference is for the EMDG scheme to reach 4,000 companies and for funding to be progressively increased to $175 million over the next three years.

Such an increase in applicants and funding was supported by key stakeholders.

The main reason for this view is that the Review anticipates an increase in the number of small and medium-sized enterprises applying for the scheme in the future, for these reasons:

- the Australian and global economic recovery following the 2008 global financial crisis
- the continuing fall in value of the Australian dollar, particularly against the US dollar, and the associated increasing cost of overseas marketing operations
- Australia's recently signed free trade agreements—and those under negotiation
- the continuing rise of a middle class in Asia, which will create opportunities for Australian exporters
- the government's budget initiatives supporting small businesses, which an increase in EMDG funding would complement
- evidence gathered during the review, including significant stakeholder support for the scheme and for additional funding to at least partially meet the increasing demand for export initiatives.

The Review found that not increasing the EMDG budget will create more uncertainty for business and also mean a lower second-tranche payment, given the expected increase in applicants. The current average grant payment of $45,000 would then likely decrease, which could then make grants ineffective. Such an outcome would undermine this successful 40-year-old scheme.

The Review notes that:

- Austrade received a total of 3,195 claims in 2014–15, an increase of 18 per cent over the previous grant year

Key recommendations

- That the EMDG scheme be continued, and continue to be administered by Austrade.
- That the 'sunset' provisions in the *Export Market Development Grants Act 1997* be removed.
- That the budget allocation (in anticipating a 5 per cent annual increase in the number of grant recipients) be progressively increased by $12.4 million per year over the next three years (2016–17 to 2018–19) to $175 million.
- That promotion of the scheme focus on lifting the number of applicants to the 10-year average of close to 4,000 per year in the near term, and on further growing the number of new exporting firms participating in the scheme over the medium term.
- That Austrade assess the long-term value of the EMDG scheme in promoting viable exporters beyond the eligibility period for grants, and report its annual findings to the Minister and industry.

- the unadjusted value of these claims was $165.2 million, an increase of 22 per cent
- Austrade has announced a second-tranche payment in 2014–15 of 65.3 cents in the dollar
- the Minister for Trade and Investment has set an initial payment ceiling amount at $40,000 for the 2014–15 grant year, which will be paid in 2015–16
- as a result of claims assessments, the value of grants paid is normally reduced by between $18 million and $45 million from the initial grant claimed values. The average total reduction in grant values paid per year resulting from claim assessment has been $31 million over the past five years.

Recommendations

Effectiveness of the EMDG scheme

1. That the EMDG scheme be better integrated into Austrade's planning, and better promoted through Australian and international networks, industry groups, banks, accountancy firms and business advisers assisting firms as they contemplate new export opportunities.

2. That Austrade's EMDG division provide regular updates on the scheme and its achievements—for example, via webinars—to overseas posts, particularly in the emerging markets of Asia, and industry advisers in sectors where Australia's exporters can be expected to focus attention.

3. Within six months of the tabling of this report, that Austrade advise the Minister for Trade and Investment on the outcome of its investigation of the Review's proposal for a new stream for high-growth firms seeking to quickly develop new sustainable export markets.

4. That Austrade encourage grant recipients to consider the strategic importance of each of their eight grant opportunities in order to gain maximum impact from their marketing activities.

Building a better scheme

5. That the EMDG scheme be continued, and continue to be administered by Austrade.

- 5.1 That the 'sunset' provisions in the *Export Market Development Grants Act 1997* be removed.

6. That the budget allocation (in anticipating a 5 per cent annual increase in the number of grant recipients) be progressively increased by $12.4 million per year over the next three years (2016–17 to 2018–19) to $175 million.

- 6.1 That the government augment Austrade's budget with a new amount equivalent to the 5 per cent of the EMDG administered funds, thus freeing up the entirety of the EMDG funding, currently $137.9 million, for export promotion grants.
- 6.2 That separate provision, in addition to the EMDG administration budget and grant amounts, be made for replacement of, or upgrades to, Austrade's IT system.

7. That the EMDG scheme be reviewed every five years, following similar processes as previous independent reviews—in particular, updating the econometric studies of the scheme's impact on the economy—to determine the ongoing effectiveness and efficiency of the scheme, including its administration.

- 7.1 That the EMDG Act be amended to include a requirement for independent external reviews of the effectiveness and efficiency of the scheme.

- 7.2 That these independent reviews be presented to the responsible Minister and tabled in the parliament within 15 sitting days of being received by the Minister; and that the government's response be tabled within three months of the report being tabled.
- 7.3 That, within four years, the future appropriations for the EMDG scheme be reviewed and updated in line with demand.
- 7.4 That Austrade expand its client surveys or add new questions to grant applications to provide data for reporting annually to the Minister and industry on the scheme's operation, effectiveness and efficiency.
- 7.5 That Austrade assess the long-term value of the EMDG scheme in promoting viable exporters beyond the eligibility period for grants, and report its annual findings to the Minister and industry.
- 7.6 That Austrade continue to monitor the quality of claims lodged by grant recipients and advise the Minister of any significant new information and benefits of the scheme that would warrant the introduction of new incentives, and/or penalty provisions, for applicants.
  - 7.6.1 That Austrade include in eligibility criteria the costs of attending training and information sessions on market development opportunities in relation to free trade agreements.
  - 7.6.2 That Austrade continue to update other eligibility criteria to reflect businesses' experience in overseas markets—for example, the number of days that are eligible for overseas promotional travel (currently 21); the daily expense rate (currently $300); cross-cultural and other training; design and artwork for export labelling; and attendance at domestic trade fairs and other Australia-based promotional activities.

8. That promotion of the scheme focus on lifting the number of applicants to the 10-year average of close to 4,000 per year in the near term, and on further growing the number of new exporting firms participating in the scheme over the medium term.

- 8.1 That Austrade, with business, create a mentoring group or forum of current and retired senior business managers/leaders or similar, to assist and advise new and aspiring exporters.
- 8.2 That Austrade's EMDG guidelines and other information be amended to separate references to trade or intended trade with New Zealand from references to Iran and North Korea.

9. That the Trade and Investment Ministers Meeting develop a map or framework of Commonwealth, state and territory export promotion support within 12 months, and that Ministers consider the range and scale of available programmes with a view to sharing information on best practices and on the most effective state and territory programmes.

Client and stakeholder engagement

10. That the key EMDG stakeholders—applicants, export consultants and Austrade—continue to work, together with industry groups, to improve the scheme's administrative arrangements, with the aim of creating more certainty for applicants and reducing the tensions created by the differing priorities of the key stakeholders.

1. BACKGROUND TO THE EMDG SCHEME

The Export Market Development Grants (EMDG) scheme, which commenced in 1974, replaced export promotion programmes in place throughout the 1960s.

The goals of the scheme are set out in the *Export Market Development Grants Act 1997* (the EMDG Act). Section 3 of the Act states:

> this Act is to bring benefits to Australia by encouraging the creation, development and expansion of foreign markets for Australian goods, services, intellectual property and know-how. It does so by providing for an assistance scheme under which small and medium Australian exporters committed to and capable of seeking out and developing export business are repaid part of their expenses incurred in promoting those products.

The EMDG scheme is a key Australian Government financial assistance programme for small to medium-sized businesses that want to begin exporting or grow their existing exports. It encourages businesses to increase international marketing and promotional expenditure to achieve more sustainable international sales. The EMDG scheme also provides businesses with an opportunity to enter and embed themselves in global value chains, which have become the normal mode of conducting business for exporting firms and those seeking to export.

The EMDG scheme:

- encourages small and medium-sized Australian businesses to develop export markets
- subject to available funds, reimburses up to 50 per cent of eligible export promotion expenses above $5,000, provided that the total expenses are at least $15,000, up to a maximum grant amount of $150,000
- provides up to eight grants, not necessarily consecutive, to each eligible applicant.[2]

The range of eligible expenses is broadly defined and in some cases—such as costs of marketing consultants and overseas visits—subject to a cap on the total reimbursement.

The design of the EMDG scheme recognises that developing export markets takes time and may not meet with immediate success. Applicants can combine expenses for the first two years into a single claim; however, from the third grant onwards, applicants must satisfy the requirements of an export performance test. Under this test, the grant amount is the lesser of 50 per cent of eligible expenditure or an amount subject to a sliding scale of export earnings: 40 per cent in the third year, and reducing to 5 per cent in the seventh and eighth years (Table 1).

Table 1: Export performance test—scale for calculating grant entitlements in third and subsequent years

Grant year	Percentage of export earnings
3	40
4	20
5	10
6	7.5
7 and 8	5

Source: Austrade, 'Assessment and payment amounts', available at www.austrade.gov.au/Export/Export-Grants/Assessment-and-payment-amounts.

2 See www.austrade.gov.au/Export/Export-Grants/What-is-EMDG/Export-Market-Development-Grants-EMDG.

EMDG recipients include some of Australia's best known exporters. The vast majority of recipients report that the scheme has been invaluable in helping them access new markets, and develop stronger international business and cultural understanding. The success of the scheme is evidenced by the longer term exporting outcomes of some of its earlier recipients, such as the Yellowtail brand of wines (Case study 1).

Photo: Casella Family Wines

Case study 1: Casella Family Brands

When founders Filippo and Maria Casella immigrated to Australia in 1957, they started with a dream to build a winery where their family could work and prosper together. They never could have anticipated that from such humble beginnings, Casella Family Brands would become the success it is today.

Generations of the Casella family have been involved with the business since its inception in 1969, which is now famous for its signature wine range, Yellowtail.

The company's hugely successful Yellowtail brand propelled Casella Family Brands—located in the Riverina region of New South Wales—to the forefront of the export arena in mid-2001.

Managing Director John Casella said, 'It was around that time that our export push was underpinned by three successive export market development grants, from 1999 to 2001, amounting to over $418,000. In those years, annual export earnings grew from $2.1 million to $10.5 million to $13.3 million. While Casella Family Brands eventually outgrew the need for EMDG financial support, we haven't forgotten the valuable export impetus we received in those early years.'

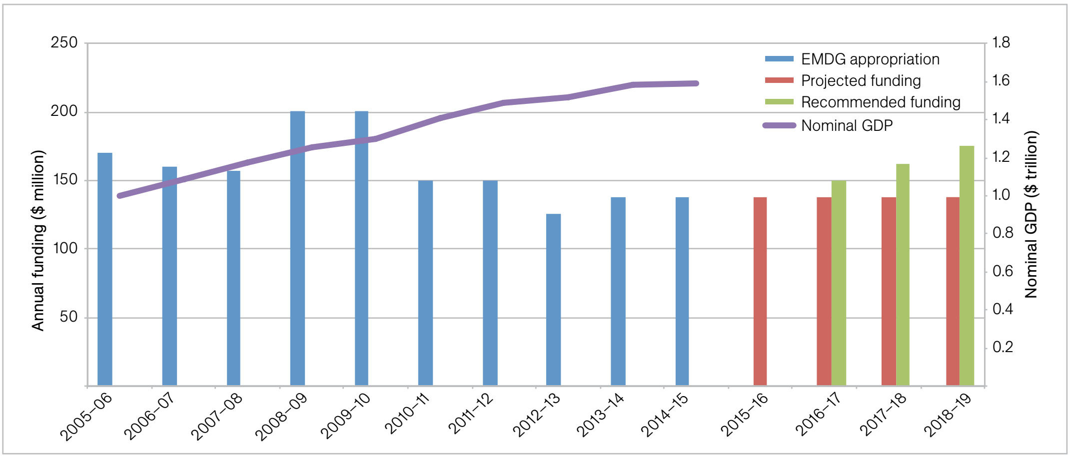
Casella Family Brands has since achieved remarkable further success in the export market, and is a key player in the United States, Canada, Europe and Asia. The company has consistent success at wine shows and has won numerous international wine awards.

1

1.1 Current and projected profile of the EMDG scheme

The budget for the scheme for 2014–15 is $137.9 million, which includes a 5 per cent administrative provision for Austrade. Historically, the funds available to the scheme have changed from year to year (Figure 1).

Figure 1: Funding of the EMDG scheme, actual, projected and recommended, 2005–06 to 2018–19, in relation to GDP



Note: As GDP figures are not yet final for 2014–15, the figure for that year was estimated by extrapolating from the GDP data for the year to March (sourced from Australian Bureau of Statistics).
Sources: Austrade data; and the Australian Bureau of Statistics, Table 1, 'Key National Accounts Aggregates', www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5206.0Mar%202015?OpenDocument. Projections are from Foreign Affairs and Trade 2015–16 portfolio budget statements, p. 97, available at http://dfat.gov.au/about-us/corporate/portfolio-budget-statements/Documents/2015-16-foreign-affairs-and-trade-pbs.pdf.

The Mortimer Report in 2008 stated that there is a 'need to preserve the real value of the funding allocated to the scheme … [T]he EMDG scheme has steadily eroded in real (inflation-adjusted) terms over time.'[3]

The value of the scheme in 2014–15, at $137.9 million, is around $40 million less in real terms than 10 years ago.[4]

Figure 1 illustrates the steady erosion of the value of the scheme in relation to the size of the economy.

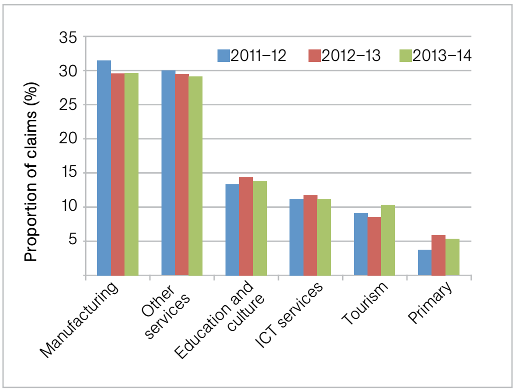
In 2014–15, 73 per cent of applicants were small businesses with a turnover of less than $5 million, and 41 per cent have a turnover of less than $1 million.

The EMDG scheme is largely subscribed to by services firms (which, in Figure 2, comprises the sum of education and culture, ICT services, tourism, and other services), reflecting the broader structural changes within the Australian economy.

3 David Mortimer (2008), *Winning in world markets—meeting the competitive challenge of the new global economy: Review of the Export Market Development Grants scheme*, 1 September, p. 30, available at http://dfat.gov.au/about-us/publications/Documents/mortimer_report2.pdf.

4 Based on Reserve Bank of Australia inflation calculator, available at www.rba.gov.au/calculator/annualDecimal.html.

Figure 2: Proportion of EMDG claims by industry group, 2011–12 to 2013–14



ICT = information and communications technology

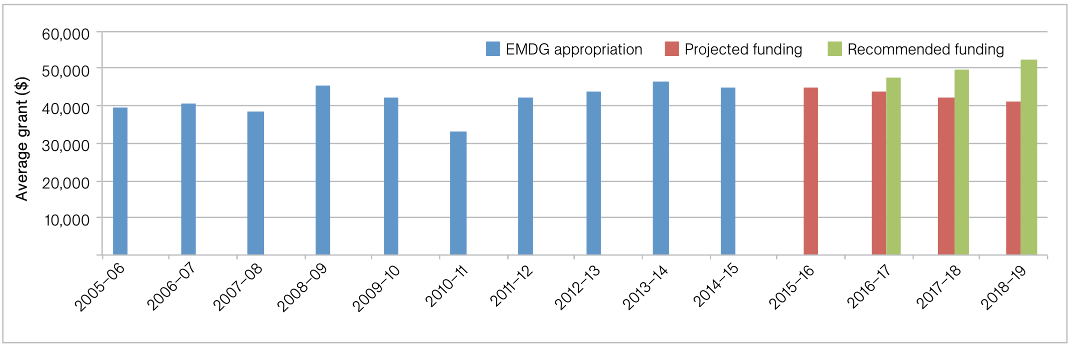
Under the scheme design, applicants who qualify for grants in excess of a designated maximum first payment receive a second-tranche payment at the end of the financial year. Payments are made in two parts to ensure the EMDG appropriation is not exceeded and funding is distributed equitably. Payments up to an initial ceiling amount (determined by the Minister) are made upon assessment, and entitlements above the ceiling amount are paid at the end of the financial year on a pro-rata basis—according to remaining funds.

In both 2013–14 and 2014-15, grants up to the value of $60,000 were paid as soon as possible after approval of the application. The Review was advised that for 2014–15, the average grant paid is likely to be similar to 2013–14 and as the number of applicants has increased, around a quarter of applicants are likely to receive a lower grant return on their eligible marketing expenditure than anticipated.[5]

Figure 3 shows the average value of grants over a 14-year period, including projected and future values based on the ongoing funding recommended by the Review. The chart shows a steady reduction in the value of future grants to firms under the current scheme, and the effect of a modest recommended increase to the budget.

5 For further information on grant distribution, see Austrade's annual reports, available at www.austrade.gov.au/About-Austrade/Corporate-Information/AnnualReport.

Figure 3: Average grant value, actual, projected and recommended, 2005–06 to 2018–19



Source: Austrade data. Projections from Foreign Affairs and Trade 2015–16 portfolio budget statements, p. 97, available at http://dfat.gov.au/about-us/corporate/portfolio-budget-statements/Documents/2015-16-foreign-affairs-and-trade-pbs.pdf.

EMDG applications can be lodged by export grant consultants on behalf of firms.[6] The consultants' share of EMDG claims has increased considerably over the past two years, from 58 per cent in 2011–12 to 69 per cent in 2013–14. Austrade introduced online applications in 2009 for export consultants and in 2013 for individual applicants.

1.2 Australia's changing export environment

This review has considered the changes to Australia's export environment since the Mortimer Review, drawing on the analysis of Austrade's chief economist,[7] and the findings of two comparative studies commissioned for this review—a survey of EMDG recipients and non-EMDG firms (Appendix C), and an economic impact study (Appendix D).

Examples of the changes that have taken place in the overall Australian economy since 2008 include the value of the Australian dollar and the price of iron ore. When the Mortimer Review was delivered to the then Trade Minister on 2 September 2008, the Australian dollar was worth about US$0.85 and the price of iron ore was around US$61 per metric ton.[8]

The value of the Australian dollar, of course, affects Australia's exporting activity and is a strong determinant of how successful our economy is.

The iron ore price is a key determinant of Australia's export success. Fluctuations in its price make headlines and have an effect on not only the resource industries, but also 'trickle down' to the SME sector of the economy.

At the time of writing this report, the Australian dollar was trading at closer to US$0.78; however, it had reached a high of US$1.11 in June 2011 (see also Figure 4 on page 24).

6 Information on export grant consultants is available at www.austrade.gov.au/Export/Export-Grants/Consultants.

7 Mark Thirlwell (2015), 'Australia's evolving export story: How Australia's export profile and export environment have changed since the Mortimer Review', Trade and Investment Note, available at Appendix B of this report.

8 The exchange rate is sourced from the Reserve Bank of Australia. The iron ore price is for Chinese imports of iron ore fines, 62 per cent Fe, spot (cost and freight, Tianjin port) as reported by the International Monetary Fund.

The period of appreciation in exchange rates favoured Australian firms' promotional expenses overseas rather than their actual export products.

With the depreciating Australian dollar, Australian products and exports should again be more competitive, which would encourage those seeking new or expanded export opportunities to do so.

There has also been a radical shift in global monetary conditions since the Mortimer Review. Prior to the global financial crisis starting in 2008, the concept of a central bank driving its main policy rate down to zero was treated as something unique to the peculiar economic and demographic circumstances of Japan. But in the aftermath of the crisis, a willingness to experiment with historically unprecedented policy settings has spread to include nearly all of the world's major central banks, including the Bank of England, the European Central Bank and the Federal Reserve. The ultimate consequences of this monetary experimentation are still in the process of unfolding.

More generally, the period since the 2008 review has seen a range of important developments with respect to Australia's export environment and export profile:

- There have been major shifts in the international economic environment, including, but not limited to, the global financial crisis and its aftermath.
- There have been substantial adjustments in critical variables, including the price of key export commodities, the terms of trade, and nominal and real exchange rates.
- These changes have contributed to significant shifts in both the direction and composition of Australia's exports.

2. WHY SUPPORT EXPORTERS?

2

In considering the place of the EMDG scheme and the role of governments in promoting an export culture in Australian businesses, the Review examined the fundamental question of why export support is needed. Specific rationales for governments indirectly supporting exporting, include addressing information and knowledge/experience deficiencies, as well as facilitating positive 'spillovers' to and from firms attributable to experience at exporting. These were discussed at length in the 2008 review of the scheme undertaken by Lateral Economics.[9]

The EMDG scheme is specifically designed to help new and emerging exporters overcome information and knowledge/experience deficiencies.

Surveys of EMDG recipient and non-recipient firms (see Appendix C) attempted to quantify the extent of spillover (and productivity) effects attributable to the scheme. These surveys were then taken into account in assessing the economy-wide effects of the scheme (see Appendix D).

Very few submissions and persons spoken to addressed the underlying reasons for government supporting export market development. While it became clear through face-to-face discussions during the course of the review that the development of new exporting opportunities is important to individual firms, and that the expansion of export opportunities has broad national benefits, most discussions focused on *how* the EMDG scheme operates rather than *why* it should. Nevertheless, there is considerable and longstanding support for the view that exports provide major economic and social benefits to Australia (see the list of relevant publications at Appendix G).

2.1 The rise of the global middle class

For some time, commentators have considered the growth of an emerging global middle class and the impact that it will have on consumption. The size of the global middle class is estimated to increase from 1.8 billion in 2009 to 3.2 billion by 2020, and to reach 4.9 billion by 2030. The bulk of this growth will be in Asia which, by 2030, will represent 66 per cent of the global middle class population and account for 59 per cent of middle class consumption.[10]

The developing world's emerging middle class is therefore a critical economic and social factor in future trade planning, because of its potential as an engine of growth, particularly in the largest developing countries such as China and India, but also in many African and Latin American countries.

ANZ Bank's chief economist for South Asia, ASEAN and the Pacific recently noted that Southeast Asia will eventually be as important to Australia and New Zealand as China is today. The ASEAN bloc has enormous potential, as both a manufacturing hub and a source of consumption for the world. The bank commented that:

> A wave of consumption looks set to break across the region, especially in the frontier economies. There will be three key drivers of the ASEAN consuming class.

9 Lateral Economics (2008), *Review of the Export Market Development Grants scheme 2008*, a report by Lateral Economics for the Review of Export Policies and Programs.

10 Mario Pezzini (2012), 'An emerging middle class', OECD Observer, available at www.oecdobserver.org/news/fullstory.php/aid/3681/An_emerging_middle_class.html.

Demographics: ASEAN's demographic profile will underpin the rise of this large middle income cohort. Indonesia and Vietnam in particular are endowed with young populations that will become more productive as education levels and skills transfers increase.

Urbanisation: Urbanisation is also a powerful factor in middle class formation. Governments are able to more efficiently provide public goods such as education and social services to urbanised populations compared to rural populations and urban populations have better access to job opportunities.

Education: For Asia, the move to middle income status has been achieved by the creation of high volume, low value-added manufacturing workforces. To move into the high income space, these workforces will need to be re-skilled. Skills and technology transfer aligned with foreign direct investment is already enabling this.[11]

ANZ Bank has also projected that trade within ASEAN will exceed US$1 trillion in value by 2025. Opportunities exist for Australian exporters to not only meet the demand for world-class goods, but to participate in providing the infrastructure and services to support this growing population.[12]

2.2 The role of free trade agreements

In a recent article for *My Business* magazine, the Australian Chamber of Commerce and Industry noted that Australia exports $331 billion worth of goods and services around the world.[13] The three largest markets are China, Japan and South Korea. Bilateral free trade agreements have commenced with Japan (in January 2015) and South Korea (in December 2014), while Australia and China signed a free trade agreement on 17 June 2015.[14]

On 13 May 2015, the Treasurer, the Hon Joe Hockey MP, was quoted in the *Australian Financial Review* as saying:

> [C]onsider this, if we could lift our service exports like higher education, tourism, healthcare and financial services to just half the level of our commodity exports, it would add $50 billion to our economy each and every year. That's why, in order to open that door, we are investing $6 billion in new trade agreements with China, Korea and Japan.[15]

Assisting EMDG recipients to obtain information and to act on opportunities being developed under existing and proposed fee trade agreements is considered in Section 3 and Section 4.3 respectively.

11 Glenn Maguire (2015), 'Australia's next horizon', ANZ BlueNotes series, 24 April, available at https://bluenotes.anz.com/posts/2015/04/australias-next-horizon/.

12 Andrew Géczy (2015), 'A word from our CEO—ASEAN: The next horizon', ANZ Research In-Depth series, available at www.indepth.anz.com/index.html.

13 Imogen Reid (2015), 'Exporting for beginners: Why exporting in 2015 makes good business sense', in *My Business*, February.

14 See Department of Foreign Affairs and Trade (2015), 'Free trade agreements', available at http://dfat.gov.au/trade/agreements/Pages/trade-agreements.aspx.

15 Jacob Greber (2015), 'Federal budget 2015: Asian trade deals to cost $6b in lost revenue', *Australian Financial Review*, updated 12 May, available at www.afr.com/news/policy/budget/federal-budget-2015-asian-trade-deals-to-cost-6b-in-lost-revenue-20150512-1mufz6.

Photo: RØDE Microphones

Case study 2: RØDE Microphones

RØDE Microphones is an Australian-owned and operated audio company. It began in 1967 as Freedman Electronics when Henry and Astrid Freedman opened a shop after migrating to Australia from Sweden. The Sydney-based company has three manufacturing plants with a total footprint of over 9,000 square metres. The state-of-the-art headquarters have over $30 million in precision machinery and a support staff of more than 150.

As well as its main hub in Sydney, RØDE has marketing and sales offices in Los Angeles, New York, Hong Kong and Shenzhen.

With the technological advancement and relative low cost of equipment for the home recording enthusiast hitting new heights in the 1990s, the stage was set for the entry of a comparatively low-cost, high-quality microphone. Having sourced a microphone from China and tested the market in Australia, Henry's son, Peter Freedman, created the infrastructure to design, build and manufacture microphones in Australia.

RØDE Microphones has always had technology and precision manufacturing as its core value. In the 2000s, the company invested heavily in the latest machinery and technology to produce world-class microphones across all categories at accessible prices.

From its humble beginning in the 1990s, RØDE Microphones has gone from strength to strength on the global stage, with substantial export promotion support to the then Freedman Electronics through eight export market development grants from 1996 to 2003 amounting to over $830,000. RØDE today has become the go-to microphone for a variety of industries globally.

CEO Peter Freedman was effusive in his acknowledgement of the role that the EMDG scheme has played in his company's global success. He noted, 'Without the support of the EMDG scheme, it would have been almost impossible for RØDE Microphones to become what it is today, creating a future manufacturing sector for Australia.'

Over the years, RØDE has been recognised as an industry leader in design and business, having received numerous Red Dot awards, Australian International Design awards and the Australian Manufacturing Exporter of the Year award for 2013.

Trans-Pacific Partnership

The Review monitored progress with the Trans-Pacific Partnership (TPP) Agreement negotiations while conducting its EMDG investigations and information gathering, noting that five of the 12 countries in TPP negotiations are among Australia's top 10 trading partners in 2013–14: the United States (no. 2), Japan (no. 3), Singapore (no. 4), Malaysia (no. 7) and New Zealand (no. 10).

The Review noted that the Hon Andrew Robb AO MP, Minister for Trade and Investment, described the TPP as bringing 'transformational promise' with more seamless trade and investment across 12 countries, which accounted for almost 40 per cent of global GDP.[16]

2.3 The benefits of exporting

In its 2015–16 budget papers, the government detailed the economic strength of Asia and outlined that:

> [t]he … ever-growing integration of the global economy present[s] exciting opportunities for Australian businesses. These future growth opportunities are boosted by the recent historic Free Trade Agreements with Japan, Korea and China, all creating new markets for Australian businesses.
>
> The Government knows that now is the right time for business and Government to invest in Australia's future. Australians have to be positioned to take advantage of these opportunities.
>
> We know from the Intergenerational Report that future growth in living standards must be driven by higher levels of Australian productivity.
>
> …
>
> The Government's Jobs and Small Business package will create the right conditions for Australian small businesses to thrive and grow. It will help employers create new jobs and assist Australia's unemployed to access these jobs.[17]

The EMDG scheme is one measure that helps small and medium-sized businesses become profitable, sustainable and competitive through exports.

The Review has heard from many Australian companies that are offering, or intending to offer, innovative products and services to global markets, such as RØDE Microphones (see Case study 2). The Review supports recent measures to reduce red tape, promote start-ups and energise entrepreneurship.

In 2000, a discussion paper by Austrade and the Centre for Applied Economic Research discussed the national benefits conferred by exports. This paper explained why exports are important to the Australian economy as well as within communities:

> Australia needs exports for both macroeconomic and microeconomic reasons. We need exports to help our economy grow and to provide employment for Australians. We need to export to ensure that we engage with the world and are able to show that we can compete in the global market place. We need to be an exporting nation that takes what the world has to offer in terms of knowledge and technology. By

16 Andrew Robb, Minister for Trade and Investment (2015), 'Robb strongly rejects TPP scaremongering', media release, 3 March, available at http://trademinister.gov.au/releases/Pages/2015/ar_mr_150303.aspx.

17 Australian Government (2015), *Budget 2015: Growing jobs and small business*, p. 1, available at www.budget.gov.au/2015-16/content/glossy/sml_bus/download/Growing_Jobs_and_Small_Business.pdf.

exporting we tend to be more innovative and dynamic and more understanding of Australia's place in the world.

…

[E]xports bring benefit to Australia in a number of ways. For instance, … exporters make good employers by outperforming non-exporters in terms of wages, occupational health and safety, and employment conditions.[18]

The paper also states:

If Australian firms are exporting they are more likely to be exposed to international trends in technology, product design, consumer behaviour and so on. As exporters benefit from 'learning by doing' their knowledge and access to technology will potentially 'spillover' to the rest of the economy. This will lift the competitive performance of all firms and improve the efficiency of the Australian micro economy.

…

There are also non-economic reasons why exports are good for Australia. Exports create closer links between Australia and the rest of the world. They help create personal as well as business relationships between Australians and people overseas. By doing so, they can assist to positively develop Australia's international relations. Similarly they create opportunities for Australians to work and live overseas and learn about other cultures. This broadens Australia's skill base, educational experience and cultural diversity.[19]

In 2005, Austrade submitted the view to the then EMDG review that exporting brings macroeconomic, microeconomic, social and geopolitical benefits to Australia:

[Exporting] generates revenue to pay for imports and underpins the economy's microeconomic foundations. As well, exporting contributes positively to an overall internationalisation process.

In an era of globalisation with falling trade barriers, intensified international competition and rapid technological advances, Australia needs to have an even stronger and more vibrant export sector.[20]

The view that exports underpin much of Australia's prosperity is one also shared by industry. In its submission to the review, the Australian Industry Group indicated its support for the EMDG scheme in the context of slowing areas of the economy, and the central challenge of transitioning from a focus on resources to a broader range of sectoral inputs:

Government programs like the Export Market Development Grant[s] scheme have a vital role to play in encouraging small and medium-sized businesses to export new products and services and to develop new markets. Helping these businesses overcome the barriers to export market development

18 Tim Harcourt (2000), *Why Australia needs exports: The economic case for exporting*, discussion paper by Austrade and the Centre for Applied Economic Research, University of New South Wales, Sydney, p. 17, available at www.aph.gov.au/Parliamentary_Business/Senate_Estimates/fadtctte/estimates/bud0708/dfat/index?print=1.

19 Ibid., p. 3.

20 Tim Harcourt (2005), 'The benefits of exporting and of government assistance to exporters', in Austrade, *Review of the Export Market Development Grants scheme*, June, Appendix J, p. 132.

> is an effective and targeted way to build new sources of competitive strength for Australia.[21]

Similarly, the Export Council of Australia, in its submission to the review, linked the strengths of the EMDG scheme with the broader economic framework:

> There is a strong rationale and support for the EMDG scheme, which helps explain its existence—largely in the same form—for over 40 years despite significant changes to the political and economic landscape over that period. The EMDG scheme helps businesses, especially SMEs, overcome market failures associated with expansion into international markets. Asymmetric information, including knowledge about market opportunities and production, distribution and marketing methods, can be enough to deter businesses from seeking to engage in international trade. Given the benefits—both to the business directly and the community more broadly—that can accrue as a result of businesses exporting, such as knowledge transfers and spill-over effects, governments around the world are inclined to step in and provide assistance to those undertaking export.
>
> The ECA … believes that maintaining the EMDG scheme is critical, especially given the increasingly competitive global environment and the need for Australia to foster broad-based economic growth.

A report by McKinsey Australia entitled *Compete to Prosper: Improving Australia's Global Competitiveness*, published in July 2014, highlights the importance of trade to unlocking Australia's growth potential. The report makes a compelling case for an increased focus on growing Australia's exports, highlighting that:

- The Australian economy remains less traded and more domestically focused than many of its peers; Australia is the 12th largest economy in the world but the 21st largest trader.
- Increasing trade in goods and services will be key to unlocking economic growth.
- Research shows that firms with international exposure have more than double the rate of productivity growth.
- Increased trade creates wealth by allocating work to its most productive use and creates jobs in sectors where Australian businesses are most productive.
- Businesses that are productive and innovative, and make the most of global markets and global supply chains, will prosper.[22]

The McKinsey report in 2014 noted the economic challenges facing Australia:

> As the rapid economic growth fuelled by high commodity prices and capital investment in resources projects abates, many Australians are asking where the next wave of growth will come from. The rapid growth of emerging markets, particularly in Asia, means there are enormous opportunities for Australia to grow through trade. Increased trade, which allows countries and firms to play to their strengths, creates wealth. If Australia continues to open its economy and plays to its comparative advantages in natural resource endowments and a highly skilled workforce, Australian businesses can access new markets

21 Australian Industry Group (2015), submission to the 2015 Review of the Export Market Development Grants scheme, February, p. 4, available at www.austrade.gov.au/export/export-grants/review/submissions.

22 Export Council of Australia (2015), submission to the 2015 Review of the Export Market Development Grants scheme, 10 March, p. 5, available at www.austrade.gov.au/export/export-grants/review/submissions.

> and create new, more productive jobs. Australia can continue to raise income and employment levels, which raises living standards and promotes social inclusion.[23]

The Australian Chamber of Commerce and Industry also noted that:

> while exporting is good for Australia's balance of payments, it can also be very good for the business bottom line. Exporting is a proven way to increase sales and access new markets. It is a lever that SME business owners can pull to gain greater market share and extend the shelf life of products and services.[24]

The Murray inquiry into Australia's financial system[25] made recommendations in relation to small and medium-sized enterprises (SMEs) to reduce structural impediments to SMEs' access to finance.[26] Impediments identified include information imbalances between lenders and borrowers, and barriers to market-based funding.

Other recommendations from the inquiry, such as comprehensive credit reporting, crowdfunding, greater access to data and innovations in data use, and better targeted tax settings for start-ups and innovative firms, were designed to help reduce costs for SMEs and support innovation.

Many new Australian firms, such as Beyond the Break, are focusing on export opportunities for innovative services to boost their bottom line (see Case study 3).

23 McKinsey Australia (2014), *Compete to prosper: Improving Australia's global competitiveness*, July, p. iv, available at www.mckinsey.com/global_locations/pacific/australia/en/latest_thinking/compete_to_prosper.

24 Imogen Reid (2015), 'Exporting for beginners: Why exporting in 2015 makes good business sense', in *My Business*, February, p. 15.

25 David Murray et al. (2014), *Financial System Inquiry: Final report*, available at http://fsi.gov.au/publications/final-report/.

26 Ibid., Appendix 3.

Image: Beyond the Break

Case study 3: Beyond the Break

Beyond the Break is committed to sustainably safe workplaces. In doing so, it delivers initiatives worldwide that support safe and sustained high performance in offshore drilling. Beyond the Break has gained a global reputation as a leader in its field for its innovation, commitment and people.

From its head office in Sydney, Beyond the Break works with drill teams globally, particularly during start-up operations when crews are new to a rig. Its initiatives are proven and recognised pathways to achieving high performance in the critical stages of new drilling campaigns.

Beyond the Break's range of services includes safety leadership training, oil rig coaching, operational performance audits providing 'snapshots' of current practice through observation over a short- to mid-term period, rig video induction, leadership and team development, and media services.

Beyond the Break's export success over the past two years has been quite remarkable. With EMDG support in 2013 and 2014 of over $100,000, its export earnings have grown from $0.44 million in 2009 to $2.9 million in 2013–14.

Simon Phin, Beyond the Break's chairman and chief executive, commented, 'EMDG financial support has been wonderful for our business. It has allowed us to pursue opportunities outside of Australia that demand we are in front of the client no matter where they are globally. The reality is we are a long, long way from decision makers and if we are not there, face to face, we're not in the market—we are not in a position to win.

'The EMDG scheme has allowed us to invest in travel and ensure we can be sitting face to face at meetings we need to attend. Over the last few years, we've done the miles that have allowed us to enjoy the makings of a great global reputation. We are proud to be an Australian-owned, operated and based company and remain grateful to the Australian Government and Austrade for backing us when and where we need it.'

2.4 Conclusions

The Review concluded:

- There is considerable scope to lift Australia's export performance. Only around 45,000 of Australia's 2 million trading firms are exporting.
- The EMDG scheme is one of many contributors to building an export culture.
- The sectors recently noted by the Treasurer—education, tourism, healthcare, aged care and professional services, as well as Australia's high-quality agribusinesses, in both meat and crops—are well positioned geographically to meet the demands of the growing middle classes in Asian markets.
- However, the growth that is potentially available to Australian companies is not assured. International markets, whether they are new or established, require regular servicing and attention. The opportunity to access up to eight grants, not necessarily consecutively, supports ongoing market development. The EMDG scheme, together with state and territory complementary export programmes, has a central role in assisting businesses to promote Australian products and expertise to the world.

3. EFFECTIVENESS OF THE EMDG SCHEME

3

Under the terms of reference (at Appendix A1), the Review was charged with examining three key indicators to determine how effectively the EMDG scheme is:

- increasing the number of businesses that develop into new exporters
- increasing the number of businesses that achieve sustainability in export markets, and generate additional exports
- further developing an export culture in Australia.

Information on the conduct of the review is at Appendix A2, while a list of previous reviews is at Appendix A3. The review team conducted public meetings in all states and territories in March and April 2015 and received almost 200 submissions (listed at Appendix A4).

The EMDG scheme supports firms' promotional activities once they are export ready, and acts in concert with other Commonwealth, state and territory programmes. It also complements the opportunities promoted by industry associations. The assistance available to exporters ranges from the cash reimbursement of the EMDG scheme and similar schemes in other jurisdictions, to trade assistance and promotional opportunities.

Photo: ELR Australia

Case study 4: ELR Australia

ELR Australia, or Equivalent LED Replacements, produces premium LED products for commercial, retail and residential applications. LED technology has flooded the market in recent years, but ELR claims its products stand out from the rest, surpassing the competition when it comes to quality, efficiency, brightness, colour and lifespan. ELR's design team are focused on energy efficiency, easy installation and safety, creating LED technologies that are light-years ahead.

Many LED manufacturers struggle to deliver matching performance and the colour quality of existing traditional light sources. However, ELR has developed LED modules with innovative and patented technologies, ensuring seamless transition to energy-efficient alternatives.

ELR's export promotion strategy has been to target markets most likely to seek out high-quality premium LED products, such as the United Kingdom, the United States, Germany, Italy, Norway and Hong Kong, but also to tap into emerging markets in a range of other countries around the globe. This extensive push qualified ELR for a substantial export market development grant in 2014–15, with the first tranche of $60,000 already paid, enabling ELR to continue pursuing its objective to become a global supplier of premium LED products.

Wade Fromberg, the owner of ELR, commented, 'From our significant efforts over the last couple of years in promoting our products abroad, we have been exposed to many large opportunities and projects that Australia just does not see. The clients we have on board representing our products within their region are excited by our unique design approach and our Australian way of business, which is very much seen as a positive. The opportunities are endless, especially in the smaller European countries that were not on our radar before this journey, as we are experiencing and expecting growth from these emerging markets.'

Wade was quite forthcoming about the importance of the EMDG scheme to ELR's future success. He advised the Review, 'The EMDG scheme offers our young company a great opportunity to penetrate into overseas regions and exhibit in the larger trade fairs to attract new clients that would otherwise be hard to build a relationship with. We have learned that many face-to-face meetings and product demonstrations are the best way to represent our product and company. Every country's lighting market is different, so learning and tailoring products to the proposed country is important.'

3.1 Increasing the number of businesses that develop into new exporters

Business use of the EMDG scheme is increasing—the number of grant applicants is showing the first signs of recovery since the global financial crisis. The overall trend since 2009 has been a reduction in the number of firms applying for grants and being approved; however, the upsurge in applications in 2014–15 is evidence that the effects of the global financial crisis (which began just before the 2008 Mortimer Review) are now being mitigated by factors noted in Section 1—such as central banks' policy changes, the price of key export commodities, changes in the terms of trade, and export-friendly movements in the nominal and real exchange rates.

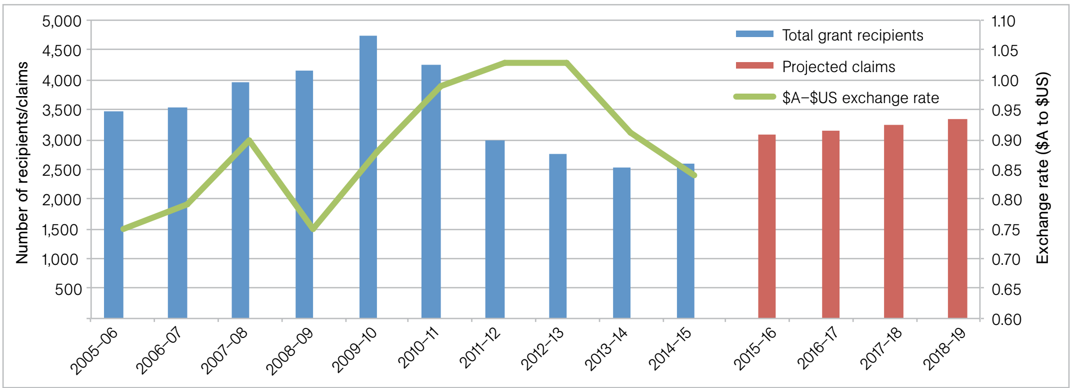
In particular, the fall in the Australian dollar and government policies aimed at boosting small business, the largest recipient group in the EMDG scheme, have been key influencers. Changes to the scheme's rules in 2014 also allowed greater access to grants.

The Review noted that the number of EMDG recipients has decreased from a high of 4,737 (from 5,149 applications) in 2009–10 to 2,523 in 2013–14 (from 2,715 applications) (see Figure 4).[27] While the number of recipients for 2014–15 has not been finalised, the number of applicants for EMDG support increased to 3,195 in 2014–15.

The number of EMDG recipients is currently projected to increase steadily over the next four years, reaching over 3,500 in 2018–19, on Austrade's current projections.

27 Typically, around 200 applicants per year are found not to meet grant eligibility criteria.

Figure 4: Number of grant recipients, actual and projected, 2005–06 to 2018–19, in relation to $A–$US exchange rate



Note: The figure for 2014–15 is an estimate based on the number of grant applicants. The data used to calculate the $A–$US exchange rate was averaged over the year.
Sources: Austrade data. Projections from Foreign Affairs and Trade 2015–16 portfolio budget statements, p. 97, available at http://dfat.gov.au/about-us/corporate/portfolio-budget-statements/Documents/2015-16-foreign-affairs-and-trade-pbs.pdf. Exchange rates taken from www.oanda.com/currency/historical-rates/.

3.1.1 Surveys of EMDG recipient and non-recipient firms

A survey of EMDG recipients for the 2012–13 grant year was conducted for the 2015 Review, modelled on previous surveys run in 2004 and 2008 so that comparisons could be made over time[28] (Appendix C). Unlike the 2004 survey, the 2008 and 2015 surveys included a control group of firms not in receipt of export market development grants to allow for cross-sectional comparisons to be made.

Salient points to emerge from the comparative survey results include the following:

- There is strong survey evidence that EMDG firms are more experienced exporters than non-EMDG firms, suggesting that the financial incentives inherent in the EMDG scheme have a measurable impact on export success.
- Before the onset of the global financial crisis, export intensities[29] of EMDG firms were increasing over time. After the crisis, the trend has also been upwards, but from a much lower base.
- EMDG firms seem to be able to extract higher margins for their exports than is the case with non-EMDG firms.
- Any extra resources devoted to the scheme are more likely to boost export promotion efforts among smaller firms.
- The top three export promotion activities are: undertaking marketing visits, engaging overseas representation, and attending trade fairs and similar events.
- The grants appear to be supporting more export promotion activities over time.

28 Hagan & Associates (2015), *Surveys of scheme grant and non-grant recipients*, p. 1, an analysis of the market research report *2015 independent review of the EMDG scheme: Surveys of current EMDG grant and non-grant recipient firms,* prepared for this review by TNS Australia.

29 'Export intensity' is calculated by dividing firms' average exports (by dollar value) by average turnover. See TNS, *2015 independent review of the EMDG scheme: Surveys of current EMDG grant and non-grant recipient firms*, p. 23.

- There is evidence of EMDG firms' ability to boost exports, and their exporting record is superior to that of non-EMDG firms.
- EMDG firms predict increased exports as a response to any increased levels of reimbursement under the scheme.
- EMDG firms report a close connection between export promotion efforts and subsequent increases in exports and collaboration with overseas firms—both important objectives of the scheme.
- EMDG firms identified a close association between the grants and the efficiency of firm operation, reflected in substantial gains in output per worker.
- EMDG firms are adept at leveraging their export experience to gain significant competitive advantage over domestically oriented rivals.
- EMDG firms are more likely to learn from other exporters than non-EMDG firms.
- Positive spillovers to other firms associated with the scheme (i.e. other firms learning from EMDG firms) appear to have increased since the 2008 survey.

3.1.2 KPMG economic impact study

A KPMG economic impact study—commissioned for this review—found that the EMDG scheme effectively redistributes productive resources from Australian taxpayers (including firms) to new and emerging exporters. To the extent that this transfer of resources results in a net increase in community welfare, KPMG judged the scheme to be efficient.[30]

30 KPMG (2015), *Economic impact of the Export Market Development Grants (EMDG) scheme*. The report is at Appendix D.

In its analysis, KPMG used its computable general equilibrium of the Australian economy to estimate the impact of three scenarios:

- the EMDG scheme itself
- the EMDG scheme plus survey-based[31] estimates of scheme-related positive spillovers[32] to other Australian firms that benefit from the export promotion and exporting experience of EMDG firms
- the EMDG scheme plus spillovers plus survey-based estimates of scheme-related productivity benefits captured by EMDG firms as a result of their exporting experience.

KPMG found:

- under all three scenarios, benefits to the economy exceed costs (with benefit–cost ratios ranging from 1.55 to 7.03)
- the welfare of Australians (as measured by their consumption spending on goods and services)[33] is improved by up to $644 million (in constant 2013–14 prices)
- importantly, these benefits are not expected to be at the expense of taxpayers. The net cost to the government budget after taking all feedback effects into account (including extra taxes generated by the scheme) reduces the estimated net budgetary cost of the scheme from a gross cost of $107 million down to $13 million under the EMDG plus spillovers plus productivity scenario (Figure 5).[34]

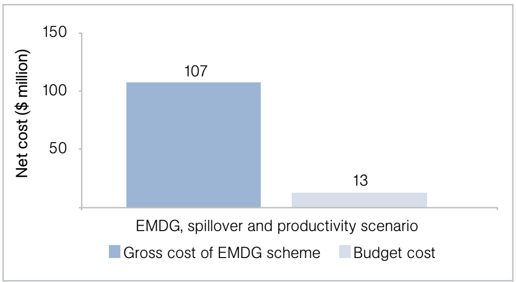
31 See Hagan & Associates (2015), *Surveys of scheme grant and non-grant recipients* (Appendix E).

32 The Australian wine industry is a commonly quoted example of the spillover effect, whereby the sustained efforts of a few pioneers in penetrating overseas markets make it easier for other firms to secure sales—with less effort, and therefore cost, than that borne by initial entrants.

33 This measure of living standards is adopted by KPMG (and regarded by many economists) as a better measure of the welfare implications of the EMDG scheme than the estimated effect on gross domestic product.

34 The impacts on the government budget are discussed on page 19 of the KPMG report.

Figure 5: Net cost of the EMDG scheme to taxpayers, 2013–14 prices



Source: KPMG (2015), *Economic impact of the Export Market Development Grants (EMDG) scheme.*

KPMG found that each EMDG dollar generates an economic benefit of $7.03 when industry spillovers and productivity gains are taken into account.

The scheme compares favourably in cost–benefit terms with other government programmes, as Table 2 illustrates.

Table 2: Benefit–cost ratios for EMDG scenarios and comparison with other government programmes

Scenario/programme	Benefit–cost ratios
EMDG scheme	1.55
EMDG scheme + spillovers	2.80
EMDG scheme + spillovers + productivity improvements	7.03
Cooperative Research Centres Programme	3.10
Equipment Energy Efficiency Programme	3.00
E-government programmes	0.61–0.92
R&D Tax Incentive*	0.70–1.98

* See www.ato.gov.au/Business/Research-and-development-tax-concession/.

Source: KPMG (2015), *Economic impact of the Export Market Development Grants (EMDG) scheme.*

However, despite the reduction in the number of recipients and the continuing fallout from the global financial crisis, the EMDG scheme continues to provide economic benefits, but not to the same extent as in 2008, when the previous review of the EMDG scheme took place.

In the 2008 Mortimer Review, export multipliers were calculated for EMDG recipient firms based on a survey of grant recipients and their expectations about what would happen if the scheme were more generous and boosted their export promotion activities. Expected export multipliers were calculated for each additional EMDG dollar, with the figures of $13.50 to $27.00 representing a likely range. In 2015, the corresponding survey-based figures ranged from $3.00 to $11.00.

3.1.3 Microeconomic analysis of the scheme's impact

In addition to the macroeconomic (or economy-wide) analysis of the economic impact of the scheme undertaken by KPMG, the Review commissioned a microeconomic (or firm-level) analysis of the scheme by Hagan & Associates (at Appendix E).

Hagan & Associates developed a simulation model of a typical EMDG recipient firm with a turnover of some $5 million, employing 20 people and exporting around a quarter of its products (by value).[35]

The model considered how such an enterprise could be expected to react to changing economic circumstances (including changes that might be made to the scheme). External 'shocks' simulated include a devaluation of the

35 Based on Austrade data of EMDG recipient firms for the 2012–13 grant year (whose grants were finalised in the 2013–14 financial year).

Australian dollar; increased firm productivity attributable to experience gained in selling on world markets (which then flow through to benefit domestic production); systematic variations to the specifics of the EMDG scheme; and the potential spillover benefits from other firms when grant recipients are able to take advantage of the pioneering efforts of others in exporting Australian goods and services.

The analysis found that:

- fluctuations in the value of the Australian dollar in terms of its purchasing power over foreign currencies—while impacting on the value of EMDG reimbursement claims—may not necessarily lead to changes in the volume of exports (although devaluations/revaluations could easily lead to firms becoming more successful exporters or ceasing to export altogether)
- EMDG-attributable experience in exporting can potentially lead to significant productivity gains on the part of grant recipient fir ms, making them more profitable and resilient over time
- varying the specifics of the EMDG scheme to make it more generous (see Recommendation 3) has the potential to significantly spur the volume (and value) of exports—particularly if that generosity is closely linked to continued export success
- EMDG scheme–related spillovers to and from exporters can have powerfully positive effects on Australia's exporting performance, including flowing on to significantly increase the efficiency of firm operation.

3.1.4 Review findings

The Review noted that Australian economic conditions and the global economy provide positive indications that the EMDG scheme may be on track to return to the 10-year average of close to 4,000 applicants. The outcomes from the survey and the economic impact studies commissioned for this review also support the conclusion that the EMDG scheme assists in increasing the number of businesses that develop into new exporters.

This anticipated increase in demand for the scheme may have an adverse financial impact on participating businesses if the scheme continues in its current form without any additional increase to the annual budget of $137.9 million—including potentially reduced grant payments and extended payment timeframes. Additionally, the government and Austrade will need to consider the potential impact on the good reputation enjoyed by the scheme, and on grant management outcomes and timeframes, if the scheme is not properly funded for future demand.

Photo: Circa Contemporary Circus

Case study 5: Circa Contemporary Circus

Since 2004, Circa Contemporary Circus has been at the frontier of new circus, creating powerful works of circus art that challenge, thrill and delight. Featuring an ensemble of multiskilled circus artists under the direction of Yaron Lifschitz, Circa's award-winning works have been seen in 32 countries across six continents.

At the centre of Circa is the art—shows that push the boundary of the circus art form, blur the lines between movement, dance, theatre and circus, and yet are a unique, singular 'Circa' experience. Circa also runs a training centre with a workshop programme in its dedicated circus studio in Brisbane and with partners throughout Queensland and beyond.

Circa also manages 'arTour', supporting other artists to tour and assisting Queensland presenters to programme performance work for their local audiences.

In 2015, Circa has made five new creations, toured to 16 countries (five of them for the first time), and performed to over 130,000 audience members. Circa also provided 11,000 workshop places, toured Australia for six months, and garnered glowing reviews.

Circa's international promotion of its overseas performances has been substantially underpinned by financial assistance from the EMDG scheme. Since 2010, Circa has received five grants amounting to over $400,000, and is now generating export earnings of over $2 million per year.

Circa's general manager, Charlie Cush, commented that 'the export market development grant has been a very welcome injection of support in promoting our work internationally. The EMDG scheme supports Circa to engage overseas representatives, develop some promotional materials and support Circa staff in promoting our work overseas—which has directly led to breaking into new markets and further expansion in existing markets.'

The Review considers that increasing the total monetary value of the EMDG scheme, to a point where exporters' reasonable expectations can be met, is central to the scheme continuing to encourage new export activity. While the Review does not recommend removing the fixed budget for the scheme, it is reasonable that the scheme's funding should respond to increasing demand that is in itself driven by the existence and success of the scheme.

In addition, Austrade can do more to ensure that the scheme is capable of meeting exporters' expectations. It can do this by advising the Minister for Trade and Investment on the anticipated demand for the scheme, in time for the advice to be considered in annual budget-setting activities.

Annual consideration of forthcoming demand will enhance industry knowledge of the scheme, minimise the uncertainty of reimbursement inherent in the current fixed budget, and promote the integrity of the scheme's administration.

Market development is not necessarily a linear process—or the same for all firms. The Review heard from many company representatives who were unaware that grants do not necessarily have to be taken consecutively—that is, they are not required to apply for eight consecutive years only.

Grant recipients can, and should, consider the strategic importance of each of their eight grant opportunities in order to gain maximum impact from their marketing activities. Some companies are doing just that. Austrade and export consultants should work in partnership to ensure that applicants are aware of the flexibility in this provision.

Photo: Sasy n Savy

Case study 6: Sasy n Savy

Sasy n Savy is an Australian-owned company that uses unique Australian-grown plants, herbs and flower extracts. The Sydney-based company has created and scientifically tested safe, effective and gentle products that care for both skin and the environment.

All Sasy n Savy's ingredients are 100 per cent derived from natural Australian sources that are high in vitamins, antioxidants and nutrients, and are considered to be conducive to healthy skin-cell growth—there are no harmful chemicals, colours, preservatives or synthetic ingredients in its products, which are formulated without animal testing or animal ingredients.

For example, Sasy n Savy's native Australian natural skin care and wellbeing range is based around four key ingredients: Kakadu plum, bearberry leaf, wild rosella flower, and Australian essential oils that are claimed to have a range of therapeutic benefits.

Over the past decade, Sasy n Savy has won, or featured highly in, many business, export, beauty product and manufacturing awards.

From 2005, Sasy n Savy began a more serious strategy to enter global markets, particularly in selected Asian countries, the United States, the United Kingdom and Europe. From 2006 to 2012, the company received seven consecutive export market development grants. This financial injection into Sasy n Savy's export promotion activities has seen its exports grow progressively year by year, despite the difficult global environment. They now expect the lower Australian dollar to have a further positive impact on their level of penetration into the markets where they have established a foothold, and also into new markets.

Sasy n Savy's managing director, Samea Maakrun, commented, 'I knew that my timeframe for R&D and then launching the product would need to be well executed, and so embarked on a very intensive R&D programme, developing initially only one range. I worked very closely with internal and external parties to formulate this range. As you can imagine, it required thousands of dollars to be spent on R&D before it was market ready.

'I must also preface that it was my intention from the start that my products be developed for the export market, and to date I still do not sell actively locally. I cannot stress how important the Export Market Development Grants scheme has been for the development and growth of my business. However, as was evident at the ECAI [Export Consultants Association Inc.] conference, it is not the perfect programme, but at least there is one.'

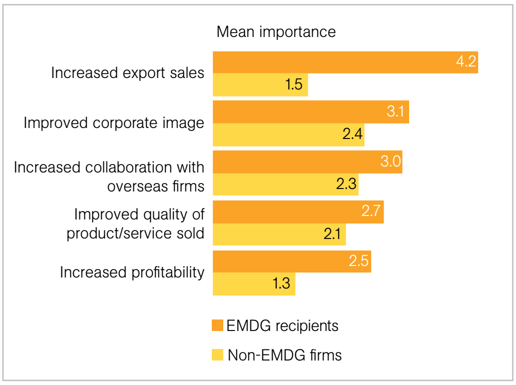
3.2 Increasing the number of businesses that achieve sustainability in export markets

The number of exporters in Australia has stayed stable over the period since the previous review in 2008, at some 45,000.[36]

The EMDG scheme operates in tandem with other Australian Government business support platforms, in particular, Austrade's TradeStart initiative and the Export Finance and Insurance Corporation (see Section 3.4).[37]

The Review considered the level of influence the EMDG scheme might have on fostering exports and its effect on improving export performance. The results from the survey commissioned by the Review showed positive impacts when comparing EMDG recipients and the control group sample of non-EMDG firms. EMDG recipients were significantly more likely to have realised selected benefits associated with export promotion and to consider that these outcomes had been important to the business. The largest variance in benefits between EMDG recipients and the control group sample appeared to be in relation to export sales achieved as a result of promotion (Figure 6).

Figure 6: Selected benefits associated with export promotion—EMDG recipients and non-EMDG firms



Source: TNS (2015), *Surveys of current EMDG grant and non-grant recipient firms,* p. 46, available at www.austrade.gov.au/Export/Export-Grants/review.

It is expected that these increased export sales will assist firms to build sustainable offshore markets.

However, the importance of other programmes such as the R&D Tax Incentive in getting Australia's domestic businesses to the point of being export ready cannot be understated.

States and territories' export promotion programmes tend to complement the EMDG scheme. Government support is provided, for example, in the Northern Territory and the ACT to companies that do not meet EMDG entry thresholds, or for companies' participation in trade delegations (Appendix F summarises these state and territory programmes.)

While recognising that the EMDG scheme does not operate alone, the Review received strong anecdotal evidence of the singular positive impact of the scheme as a stable platform over 40 years of operation.

36 Mark Thirlwell (2015), 'Australia's evolving export story: How Australia's export profile and export environment have changed since the Mortimer Review', Trade and Investment Note, March, p. 16 (at Appendix B of this report).

37 See www.austrade.gov.au/Assistance.

3.3 Further developing an export culture in Australia

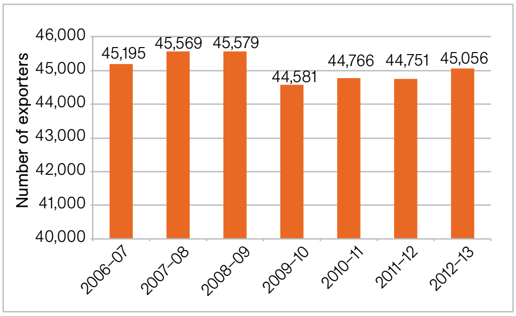
Australian industries face the inherent constraints of operating in a relatively small domestic market. Furthermore, the Australian economy has changed structurally—from one which included a considerable domestic manufacturing sector, where the majority of our exports by value were made up of bulk mining and agricultural commodities, to an economy based largely on services, where the mining sector has moved from a construction to a production phase. While the manufacturing sector has continued to decline, agricultural and mineral exports have remained important. There has, however been some resurgence in niche—and, importantly, high value-added—manufacturing.

Australia, notable in particular among developed economies, fared better than others during the 2008 financial crisis. Following the crisis and the 2008 Mortimer Review, the internet has become all the more pervasive as a marketing tool and an indispensable platform for global marketing chains. Regional and bilateral trade agreements are presenting new opportunities to resourceful businesses.

The number of exporting firms is slowly recovering from the impact of the global financial crisis. However, the number of exporters is still a small percentage of the number of businesses overall. According to the Australian Bureau of Statistics, there were 2,100,162 actively trading businesses in Australia in 2014.[38] Only around 45,000 firms were exporting in 2012–13 (Figure 7).

38 Australian Bureau of Statistics (2015), *Counts of Australian businesses, including entries and exits, June 2010 to June 2014*, cat. no. 8165.0, available at www.abs.gov.au/ausstats/abs@.nsf/mf/8165.0.

Figure 7: Number of exporters of goods and services, 2006–07 to 2012–13



Source: Australian Bureau of Statistics (2014), *Characteristics of Australian exporters, 2012–13*, Table 1, 'Goods and Services Exporters, by Value Range of Exports', available at www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5368.0.55.0062012-13?OpenDocument.

The Review received considerable anecdotal information on the realities of the Australian economy in the 21st century—successful exporting, as well as having the right product in terms of quality, production and delivery capacity, relies on successful promotion of a firm's products and having developed the right relationship with the overseas market.

Austrade has an international network of advisers who assist Australian firms overseas. There is an opportunity for businesses to make better use of this resource; however, the Review was informed by some exporters that Austrade's overseas network is not as knowledgeable of the scheme as it should be.

Austrade attributes this perception on the part of some exporters to the fact that its overseas posts are not expected to be expert in all of Austrade's programmes, and EMDG subject matter experts are all based in Australia.

The government could be more supportive of business opportunities for high-growth firms that, through global marketing, offer services and products to a broad spectrum of international markets. The internet marketing of intellectual property or specialised services, for example, may not be suited to the current funding model of eight annual capped payments. The Review encourages potential applicants to discuss their export planning and their business model with Austrade.

Austrade should consult with industry on improving the effectiveness and flexibility of the scheme in encouraging high-growth firms. It may be, for example, that eight grants of $150,000 are less effective than a smaller number of larger payments.

The Review considers that a new grant stream providing annual reimbursements of up to $240,000 for five years would further encourage high-growth firms to expand Australian operations into global markets. A fixed decision to enter into a high-growth grant scheme would be made by the company with its first or second applications.

The Review also considered other amendments to the scheme to support firms with lower marketing expenditure, such as allowing applicants to combine eligible expenses across two years in the same way that year-one and year-two expenditure is currently treated.

The Review also refers smaller firms that do not meet the criteria for the EMDG scheme to the support available through states and territories' export assistance programmes.

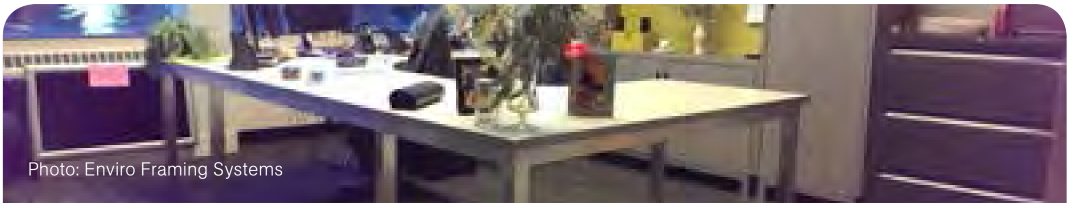


Photo: Enviro Framing Systems

Case study 7: Enviro Framing Systems

Enviro Framing Systems is an Australian furniture manufacturing company based in Seventeen Mile Rocks, Queensland. The company offers a unique, patented product and manufacturing process that brings together fine metal craftsmanship, modern technology and environmental responsibility. Constructed from strong yet light-weight structural aluminium extrusion, the products created using this system have attractive clean lines that enhance the look of offices, schools, cafes and homes.

The advantages in manufacturing with Enviro Framing Systems include a unique patented connection system in which no welding or powder coating is required; a quick turnaround in manufacturing; and frames that are made from structural aluminium extrusion—ensuring high-quality strength and durability—and are 60 per cent lighter than mild steel. Enviro Framing Systems' flexible manufacturing process enables a wide variety of products to be produced locally using local labour and raw materials, giving clients complete control over their supply chain.

Over the four years since Enviro Framing Systems started receiving EMDG support amounting to over $160,000, its export sales have progressively grown, with exports now exceeding $300,000 annually.

General manager Peter Gabauer said, 'We are in a global market and pursuing export markets is critical for a company like ours. Australia has a strong history of innovation and our company follows in that tradition. Starting with the seed of an idea to commercialisation, firstly in Australia and New Zealand and then in the United Kingdom, Dubai and the USA. Now the lion's share of our revenue is from the USA and the UK.

'Building relationships and trust has been a critical element for us in establishing these business relationships, which we believe will continue to prosper. Without the support of the EMDG scheme, we may not have been able to sustain the ongoing investment required to keep travelling to these markets. Looking back, I realise how incredibly challenging it was trying to sell our licensed manufacturing process during the global financial crisis. Investment for so many companies had simply stalled. In this climate, it became necessary to keep visiting and making new connections. There is no real substitute for being on the ground in an overseas market and being able to see and develop the opportunities firsthand.

'It gives me some pleasure to look back now and see that a great Australian patented invention, Enviro Framing Systems, has replaced most of the metal fabrication processes with one of our clients who manufactures furniture for quick-service restaurants. I can walk into a McDonald's in Michigan or California and see that our framing system has been used for the furniture. Our frames are being used for tables and benches in schools across the UK and currently prototype frames are being developed by one of our US licensees for technical workstations for Google. Yes—that technology was invented here in Brisbane!'

Photos/image: Advanced Braking Systems

Case study 8: Advanced Braking Technology

Advanced Braking Technology (ABT) manufactures and distributes its award-winning patented Sealed Integrated Braking System (SIBS) worldwide. From its head office in Perth, ABT is continuing to develop its SIBS brakes for sectors that have a strong requirement for safety and environmental responsibility.

Over the last five years, ABT has risen to become the pre-eminent supplier of fail-safe brakes for commercial vehicles used in the Australian mining sector. ABT's SIBS brakes are well known for their unparalleled safety, improved productivity, zero emissions and toughness in the world's harshest conditions.

As their reputation has grown, demand for SIBS brakes has expanded internationally and ABT now has a significant portion of its sales coming from North America and South Africa. As mining continues to thrive, there is further scope for ABT to expand its presence in these regions, as well as in South America and Europe.

While development has always been carried out in Australia, ABT's manufacturing plant was previously located in Thailand. Closure of the Thailand operation was completed in November 2014 and manufacturing and assembly commenced in Australia from December 2014.

ABT is currently in the process of expanding its light-vehicle products to gain greater penetration into global markets. Eleven international distribution partners are now established in Canada, Germany, the Netherlands, Poland, South Africa, Zimbabwe, Indonesia and New Zealand.

ABT's international marketing has been substantially underpinned by EMDG support. Since 2008, ABT has received six export market development grants amounting to over $400,000. In recent years, ABT's annual export earnings have totalled between $1 million and $1.5 million. As ABT extends its penetration into the global supply chains for both light and heavy vehicle production, it projects significant further growth in export sales.

In commenting on the significance to ABT of EMDG funding, managing director Graeme Sumner said, 'The EMDG scheme has been of enormous assistance in getting our export business up and running and has encouraged us to invest in developing new markets.'

3.4 The role of the Export Finance and Insurance Corporation

In its submission to the Review, the Export Finance and Insurance Corporation (EFIC), as the Australian Government's export credit agency, sets out that it '[s]upports the growth of viable Australian businesses in their international operations by providing tailored financial solutions—seeking to fill the "gaps" in the provision of financial support for exports and overseas investment'.

The Review noted also the complementary nature of the EMDG scheme and EFIC financing. Both schemes assist exporters, but at different stages of the 'export journey'. EFIC provides finance to Australian exporters after they have won an export contract or secured an opportunity.

Recent amendments to the EFIC Act[39] have removed the legislative restriction on direct lending in relation to the export of non-capital goods, which allows EFIC to lend directly for the export of all goods and to provide greater support for small and medium-sized Australian exporters.[40]

39 *Export Finance and Insurance Corporation Act 1991.*

40 See *Export Finance and Insurance Corporation Amendment (Direct Lending and Other Measures) Act 2015*, available at https://www.comlaw.gov.au/Details/C2015A00018.

3.5 Conclusions

The Review found as follows:

- The overall trend since 2009 has been a reduction in the number of firms applying, and being approved, for assistance under the EMDG scheme. However, business use of the scheme increased in 2014–15, with the number of grant applicants showing signs of recovery.
- The upsurge in applications in 2014–15 is evidence that the effects of the global financial crisis, which lasted for several years, are now being mitigated by other factors noted in Section 1. These include the fall in the Australian dollar and government policies aimed at boosting small business, the largest group accessing the EMDG scheme, and changes to the scheme in 2014.
- Current Australian economic conditions and the global economy provide positive indications that the EMDG scheme may be on track to return to the 10-year average of close to 4,000 applicants.
- The outcomes from the survey and the economic impact studies commissioned for this review also support the conclusion that the EMDG scheme assists in increasing the number of businesses that develop into new exporters.
- This anticipated increase in demand for the scheme may impact on participating businesses if the scheme continues in its current form with the same annual budget—through potentially reduced grant payments and extended payment timeframes. The government and Austrade will need to consider the potential impact on the reputation enjoyed by the scheme, and on

grant management outcomes and timeframes, if the scheme is not properly funded for future demand.

- The Review considers that increasing the total monetary value of the scheme, to a point where exporters' reasonable expectations can be met, is central to the scheme continuing to encourage new export activity. While the Review does not recommend removing the fixed budget for the scheme, it is reasonable that the scheme should respond to increasing demand that is in itself partially driven by the existence and success of the scheme.
- The Review considered representations for other amendments to the scheme to support firms with lower marketing expenditure, such as allowing applicants to combine eligible expenses across two years in the same way that first- and second-year expenditure is currently treated, and concluded that these proposals are worthy of further consideration by Austrade.
- The Review notes that there is scope to further develop an Australian export culture—more Australian businesses of the type supported by the EMDG scheme need to look to exporting.
- Developing and continuing to foster an export culture in Australian business is vital to Australia's future prosperity, security and standards of living.
- The Review noted the role of the Export Finance and Insurance Corporation (EFIC) in providing finance to exporting SMEs, and its complementary relationship with the EMDG scheme.
- As the EMDG scheme is the single largest Austrade programme in terms of funding, it is not unreasonable for an exporter to expect to receive more detailed information on the scheme when seeking advice at overseas posts.
- Austrade should regularly consult with industry on enhancing the effectiveness of the EMDG scheme in encouraging SMEs to develop new export markets.
- A new and separate funding stream within the EMDG scheme would assist high-growth firms to develop new markets.

Recommendations

1. That the EMDG scheme be better integrated into Austrade's planning, and better promoted through Australian and international networks, industry groups, banks, accountancy firms and business advisers assisting firms as they contemplate new export opportunities.

2. That Austrade's EMDG division provide regular updates on the scheme and its achievements—for example, via webinars—to overseas posts, particularly in the emerging markets of Asia, and industry advisers in sectors where Australia's exporters can be expected to focus attention.

3. Within six months of the tabling of this report, that Austrade advise the Minister for Trade and Investment on the outcome of its investigation of the Review's proposal for a new stream for high-growth firms seeking to quickly develop new sustainable export markets.

4. That Austrade encourage grant recipients to consider the strategic importance of each of their eight grant opportunities in order to gain maximum impact from their marketing activities.

4. BUILDING A BETTER SCHEME

4

The world economy has changed significantly since the previous review in 2008. The large increase in the use of the internet, in particular, with the immediacy of communications it provides, has meant that traditional definitions of products, marketing and sales may no longer be readily applied to modern commerce.

Commerce is now largely borderless and the EMDG scheme's marketing eligibility criteria have their origins in historical documentation and accountability requirements dating back to the beginnings of the scheme. These were developed largely as a consequence of marketing experiences in 'traditional' western markets and based on cultural experiences in particular jurisdictions with similar legal and commercial environments.

The internet has opened significant new markets and opportunities to present Australian goods and services to the world.

Firms such as the Aberdeen Wine Company are now more agile and offering tailored goods and services to overseas markets (see Case study 9).

Photo: Aberdeen Wine Company

Case study 9: Aberdeen Wine Company

For winemaker Hamish MacGowan, Angus the Bull was a simple idea that just wouldn't go away. When it reached the point where it occupied all his waking moments, he finally decided enough was enough and in 2003 he established the Aberdeen Wine Company to turn this unique concept into a reality.

With all his energy focused entirely on creating a new brand, Hamish explained his vision as follows: 'The philosophy behind Angus the Bull is to create a unique and innovative wine that provides the ideal accompaniment to prime beef. Each year, the most promising parcels are hand selected from premium cabernet sauvignon grapes sourced from outstanding sites across Central Victoria and blended to create the signature Angus the Bull style.'

Confident that he had achieved the required wine style and developed an astute marketing strategy backed up with some smart packaging, Hamish launched his debut 2002 vintage of Angus the Bull and hasn't looked back since.

Hamish noted that '[w]ith the support of seven export market development grants from 2005 to 2011, amounting to around $270,000, Aberdeen Wine Company has been able to establish some 13 distributors around the world, and is now in the enviable position of being the number-one best-selling Australian cabernet sauvignon in its price segment in the Canadian market. We sell over $1.2 million worth of Angus the Bull around the globe each year.

'The world now enjoys this wonderful wine, thanks in part to EMDG support in promoting it across the globe.'

4.1 Scheme eligibility and other parameters

The Review received numerous submissions proposing changes to eligibility requirements for the scheme. In the main, these changes are aimed at relaxing the strictness of particular criteria, broadening their coverage, or increasing the dollar limits on particular components of marketing.

Matters that were raised in submissions or consultations during the review included:

- broadening representation costs to include commissions paid to overseas agents or representatives
- broadening the distinction between 'marketing' and 'sales'
- extending the number of days (currently 21) that are eligible for claiming for overseas promotional trips
- amending the daily expense rate (currently $300)
- including as eligible expenses:
  - cross-cultural and other training—for example, attending information sessions on free trade agreements
  - design and artwork for export labelling
  - domestic trade fairs and promotional activities
  - export consultants' grant application preparation fees.

Mentoring and advice from current and retired senior business managers/leaders, particularly in relation to free trade agreements, was also seen as an avenue by which experienced exporters could assist new and aspiring exporters.

The Review saw merit in several of the above proposals and has recommended accordingly under Recommendations 7.6.1 and 7.6.2.

The Review also notes that some of these suggestions do not fit within the intentions of the scheme.

4.2 Simplicity in scheme rules

Section 94 of the EMDG Act[41] deals with changes in ownership of businesses and how this affects eligibility for grants (see Appendix H). The Review received a large number of representations asking that the requirements of this section of the Act be made less stringent, or indeed, that the section be abolished.

The Export Consultants' Association, for example, considers that the current wording and eligibility requirements under section 94 do not reflect the spirit or the original object of the Act:

> [A] key difference from the original 1974 principle is the removal of the word 'may' in the determination process—as to whether the history of a past applicant should be superimposed on to that of a new applicant …
>
> [T]he current text of S.94 seeks to give Austrade direction to apply S.94 where there is the slightest hint of a common thread—whether an applicant today has or has not benefited from a grant paid to some other party in the past is given no consideration at all—yet this is the very principle on which this provision was introduced in the first place …

41 A copy of the EMDG Act is available at www.comlaw.gov.au/Details/C2014C00164.

> [I]f S.94 is to be reviewed, the [government] needs to give a policy setting direction—that is do they want to see discretion and good reasoning being applied [in determining] that some advantage has been gained before applying this impost, or is the attitude one of taking a hard line and any common business DNA is sufficient reason for the impost to apply.[42]

Austrade, however, informed the Review that section 94 has necessarily evolved over many years of experience with the operation of the scheme, and that the reasons that the section is drafted as it is arise from the increased risks that have been identified concerning the interrelated nature of modern companies' structures and products' similarities.

The Review considers that section 94 as it currently stands fits with the original intent and spirit of the Act—giving small to medium-sized firms assistance early in their exporting phase.

The discussion around section 94 also includes entities that have exhausted their EMDG entitlements and are subsequently seeking to be allowed back into the scheme after a period of time—say, 10 or 15 years after the company last received an export market development grant.

42 Excerpts from an email from the Export Consultants Association to the Review Secretariat, 22 April 2015.

4.3 New markets

Also included in the discussion around section 94 of the Act is the question of extending the eligibility of the scheme to encompass new markets—that is, should 'the clock restart' for EMDG recipients who wish to enter new markets, and/or should it restart for former EMDG recipients, ruled ineligible under section 94, who wish to enter new markets? The Review also notes that the EMDG scheme previously had a 'new markets' component.[43]

Since the previous review, as noted above, the Australian and global economies have undergone significant structural change. In addition, following the World Trade Organization's inconclusive Doha round of trade negotiations, countries began to pursue bilateral free trade agreements (FTAs). Since 2009, Australia has entered into nine FTAs, and has recently signed an FTA with China, while another nine are still under negotiation.[44]

Submissions and other representations received by the Review have proposed the extension of the EMDG scheme in two ways:

- that EMDG recipient firms be allowed to access further grants as funding for entering new markets—in particular, markets in the countries with which Australia has concluded FTAs

43 Until 2004, firms that had received the then maximum eight grants could apply for further grants under the 'new markets' provision. The provision was removed as part of a package of changes to better target the EMDG scheme towards smaller firms and less experienced exporters.

44 See Department of Foreign Affairs and Trade, 'Free trade agreements, available at http://dfat.gov.au/trade/agreements/Pages/trade-agreements.aspx.

- that section 94 requirements be relaxed for former EMDG recipient firms entering new markets—and, in particular, markets in the countries with which Australia has signed FTAs.

The Review saw some merit in targeting the EMDG scheme towards countries where an FTA with Australia, or where FTA negotiations are underway, particularly as so much effort goes into negotiating FTAs. Taxpayers (which include Australian exporting firms) have an understandable wish to maximise the benefits from FTAs.

However, with reference to section 94, the Review does not accept that the section's requirements should be relaxed for former EMDG recipients entering new markets, including the countries with which Australia has signed FTAs.

Additionally, section 94 issues have been tested through the Administrative Appeals Tribunal (AAT). The Review has not considered individual cases or complaints to the AAT. However, Austrade should promulgate information on the outcomes of all of the AAT's EMDG cases on its website to improve overall communication within the key stakeholder groups.

4.4 Internet marketing

The Review believes that the complexities of modern company structures, aided by the IT revolution and the connectivity of the internet, make it difficult for Austrade to (within its risk framework) be confident that it can effectively differentiate the various layers of structures of Australian and overseas firms.

Applying this uncertainty to internet marketing means that Austrade, as the scheme regulator, needs to be adequately resourced to interpret this new paradigm, including the blurring of 'sales' and 'marketing' that the internet engenders.

Photo: Mini Studios

Case study 10: Mini Studios

Mini Studios is a production and development company based in Melbourne that actively seeks out scripts and concepts, and works closely with writers and creators to develop innovative, compelling and commercially successful content across all platforms and distribution channels.

Combining the strengths of Steve Kearney's extensive career in television and film, both in Australia and overseas, and the local production and post-production knowledge of Leanne Tonkes, Mini Studios is passionate about telling great stories, nurturing promising writers and directors, and embracing the challenge of financing and production.

Mini Studios also works with local and international co-producers, executive producers and financiers who share their passion to bring their projects to the screen. The rare combination of creative talent, business acumen, and production and post-production experience and skills makes Mini Studios a strong and attractive home for Australian stories and talent.

Since 2004, the team has developed a number of feature, television and cross-platform projects. Mini Studios developed the award winning animated series *Rob the Robot* with Canadian animation house Amberwood Animation. Twenty-six half-hour episodes were commissioned by Canada's TVOntario and the series has earned two Gemini nominations in Canada. The show has also been picked up in Norway, Korea, France, Sweden, the Middle East, Latin America, and locally on ABC TV.

Mini Studios produced a major feature film in 2013 entitled *My Mistress*, starring Harrison Gilbertson, Emmanuelle Béart and Rachael Blake, and promoted the film worldwide in 2013–14 with the support of an export market development grant from Austrade. The film has now been sold in the United States, the United Kingdom, Russia, Japan, Hong Kong, Korea and Germany.

In speaking to the EMDG review team, Ms Tonkes commented, 'It is crucial for this scheme to continue for a small business such as mine. As the producer of *My Mistress*, I have recently become a new exporter of Australian content to the international marketplace.

'With a highly competitive international content marketplace, the EMDG scheme enables Australian content producers to aggressively seek out export opportunities in key international markets. Last year's grant return has already enabled me to attend more markets this year and will significantly aid long-term business growth and sustainability for my company, while also providing me with a broader understanding of the content being produced elsewhere around the world.

'As a small but growing business, this scheme provides crucial support to my own limited resources and exposes me to more opportunities to market my content. With Australia's relatively small population, this kind of incentive is imperative to growing a successful film production business.'

4.5 Compliance costs and efficiency

The Review has considered the cost of compliance with the EMDG scheme for applicants, their agents, and Austrade. The costs of using the scheme, as with all Commonwealth programmes, are subject to the government's requirement to reduce red tape. Information sharing is one area that can reduce the requirement for information from applicants, and should be encouraged to enhance export promotion. The secrecy provisions of the *Australian Trade Commission Act 1985* may need to be reviewed to enable this to occur.

Austrade's administrative arrangements are subject to pressures from the EMDG scheme's fixed budget. Funding for the administration of the scheme is limited by the EMDG Act to 5 per cent of the total scheme budget. In 2014–15, the EMDG administrative budget was around $6.8 million. Austrade advised that this figure is 59 per cent lower in real value than 1997, when the 5 per cent allocation was instituted.

Most agencies have their costs for administration of programme budgets provided outside programme funding, and linked to efficiency dividends that apply to agency expenditure. Previous reviews have recommended a change to the basis of calculating the amount available to Austrade for administering the EMDG scheme. The Mortimer Review in 2008 found 'the capped funding scheme should be indexed annually to preserve the real value of the funding'.[45]

Austrade provides measurable value to the assessment process. Every EMDG claim undergoes some level of assessment. As a result of these assessments, the overall value of grants paid is normally reduced by between $18 million and $45 million from the initial overall values of grants claimed. The average total reduction in overall grant values paid per year resulting from claim assessments has been $31 million over the past five years.[46]

Assessing, rather than simply processing, claims assists applicants to better understand the eligibility requirements and ensures, as far as practicable, that available funds go to eligible applicants for eligible activities. Austrade advised that its commitment to ensuring the accuracy of claims has been a key factor in the continuity of the scheme over 40 years.

An effective reduction in the value of the administration budget (through inflation) means that Austrade is allocating fewer resources to claim checking, increasing the government's exposure to over-claiming. The consequent payout of claims that are not adjusted downwards because of insufficient assessment resources reduces the funds available for legitimate claims.

Austrade informed the Review that economies of scale apply to a larger pool of funds and its administration; however, the government may wish to increase the administration funding above 5 per cent to allow for some flexibility, and then make provision for regular changes to account for inflation. Alternatively, the government could change the mechanism for how administration funds are allocated.

Funds for the administration of the EMDG scheme are currently provided as administered funds in the EMDG appropriation. Austrade has advised that longstanding legal advice confirms changes to the EMDG Act would be required to 'untie' administration costs from the EMDG administered funds.

45 David Mortimer (2008), *Winning in world markets—meeting the competitive challenge of the new global economy: Review of the Export Market Development Grants scheme*, 1 September, p. 3.

46 Austrade advice to the Review.

Since 2008, the total appropriation for the scheme has fluctuated from a high of $200 million to a low of $125 million. This 37.5 per cent variation leads to reactionary changes in the administration of the scheme to accommodate the resultant fluctuation in the administration budget. Fixed costs of staffing and property have meant that Austrade has not had the flexibility to be able to respond to such large variations in administration budgets at such short notice.

The government should augment Austrade's budget with a new amount equivalent to the 5 per cent of administered funds, thus freeing up the entirety of the EMDG funding for export promotion grants.

Moving the administration amount to become a departmental line item would provide Austrade with more certainty and flexibility in terms of staffing functions, and, combined with the Quality Incentive Programme (discussed in Section 4.9) and its expected improvement in claims accuracy, should allow for efficiencies to be achieved.

This moving of the administration amount will also obviate the need for last-minute changes to the EMDG Act to accommodate overspends caused by budget reductions.

The 5 per cent allocated under a new departmental line item preserves the intent in the 5 per cent legislation to maintain the maximum amount of funds available to exporters, and brings the scheme into line with the bulk of, if not all, administrative arrangements for Australian Government programmes.

Moving these new resources into Austrade should also assist in increasing the visibility of the EMDG scheme within Austrade.

4.6 Accrual or cash accounting

Some consultants and applicants have raised concerns with Austrade's cash-based approach to the EMDG scheme.

Austrade advised the Review that, in adopting a cash-based accounting system, it considered:

- the profile of EMDG claimants—around half have a turnover of less than $2 million (which is the Australian Taxation Office's threshold for registering for GST on an accrual basis), and around 75 per cent have a turnover of less than $5 million
- the intent of the scheme—the EMDG scheme is a reimbursement scheme, and the use of cash-based accounting provides Austrade with a high level of assurance that the applicant has actually paid for the item
- the need to have a consistent method of accounting for all claimants—cash-based accounting is a simpler option for small businesses.

The Review concurs that, while accrual accounting may provide a more accurate picture of an organisation's financial situation at a point in time, it is a relatively complex method and, in turn, is more expensive to implement and manage. Cash-based accounting is a simpler alternative, and is adopted by many small businesses.

Austrade advised that the imposition of accrual accounting would likely result in more red tape for small companies and may prove to be a disincentive to apply for future grants.

4.7 EMDG IT system

There is currently no provision within the EMDG budget for capital costs—which, for the scheme, means the information technology (IT) system underpinning it. Accurate and timely administration of the scheme requires maintenance and ongoing improvements to the EMDG IT platform. Consideration needs to be given to specifically providing for EMDG capital costs in the EMDG budget (rather than requiring these funds to be found in the broader Austrade budget, as is currently the case).

Austrade has advised that the IT system that the EMDG scheme is operating on is more than 15 years old. The most recent cost estimate to replace the system was $8.8 million, which is more than half of Austrade's capital appropriation. Hence, this proposal was not approved.

While Austrade's management of EMDG claims has been found by a recent Australian National Audit Office report to be 'appropriate',[47] further improvement of risk management and client service through IT system development is inhibited by the high cost of the proposed replacement system, and is a significant future risk that needs to be addressed.

The IT system appears to be falling behind modern standards and client expectations. For example, the ability to track online transactions is a common and desired feature of modern electronic communications. The current system generally provides one-way information only. A future IT system should provide for applicants, and export consultants, to be able to (a) track their applications and (b) provide applicants with updates on the progress of their claim within the processing queue.

The capital costs of the EMDG IT system should be separately budgeted for—in addition to the EMDG administration budget.

4.8 Simplicity and accountability

As the EMDG scheme distributes public money to private businesses, Austrade must correctly manage those funds. The Review noted that Austrade has accepted the findings and recommendations of the Australian National Audit Office (ANAO) review of the administration of the EMDG scheme. In its December 2014 report, the ANAO advised that:

> Overall, the mechanisms employed by Austrade to provide EMDG information and guidance to applicants and consultants are appropriate, including through the entity's website, information sessions, meetings with the export industry, brochures and the EMDG update e-newsletters. The processing and assessment of applications is underpinned by generally sound program management arrangements, with recently revised key performance indicators providing better insights into overall scheme performance. The distribution of EMDG payments and the controls supporting the payment process are also sound.[48]

The Review accepts that Austrade is effectively balancing the competing needs of financial certainty and responsiveness to businesses, confidence in decision-making by grant assessors, and the prudent distribution of public money on behalf of the Commonwealth.

47 Australian National Audit Office (2014), *Administration of the Export Market Development Grants scheme*, ANAO report no. 15 2014–15, performance audit, December, p. 73, available at http://anao.gov.au/~/media/Files/Audit%20Reports/2014%202015/Report%2015/AuditReport_2014-2015_15.pdf.

48 Ibid., Australian National Audit Office (2014), p. 15.

However, the administration of the scheme is not static and due recognition should be given to emerging issues and the possibilities offered by modern IT systems and administrative practices in grants management—such as in the processing of grant payments and managing the integrity of applications.

The Review received several unsolicited compliments on the updated EMDG guidelines for 2014–15. However, while the Review is pleased that the content has been well received by applicants and export consultants, the location of this and other key information could more intuitive. For example, the EMDG guidelines are available on the Austrade website under the general heading of 'Publications'.

Austrade should work with applicants, export consultants and others to determine the most useful type of information to place on the website, and the best locations for that information.

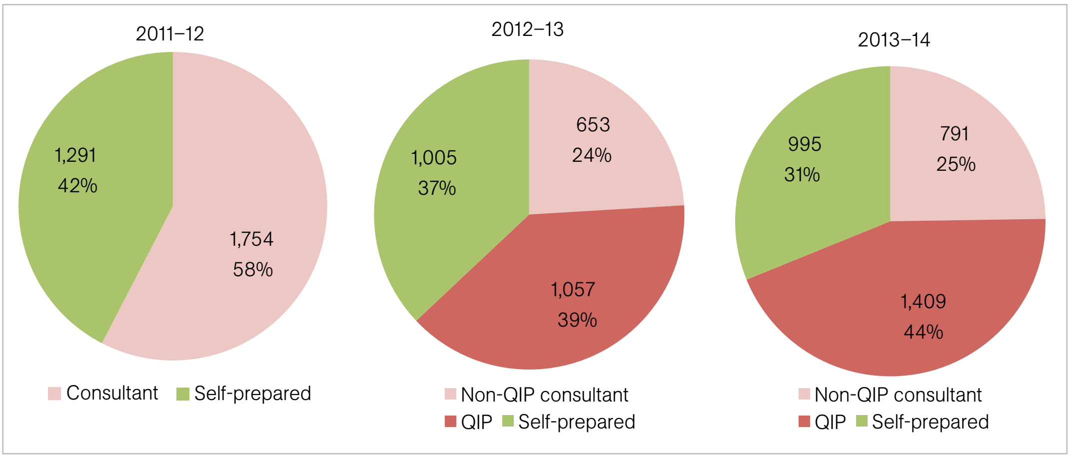
The Review notes Austrade's efforts to simplify EMDG applications, and the assessment and processing of claims, and acknowledges the risks inherent in these processes. The Review held a number of discussions on whether penalties, in addition to those already available, might have a beneficial impact on the accuracy of claims.

Rather than introducing new administrative penalties at this stage, the Review suggests that Austrade continue to work with applicants and export consultants, as applicants' agents, to improve the quality of applications. Austrade will also, as a matter of course, need to monitor the quality of claims lodged and advise the Minister of any significant new information warranting penalties and the benefits that might accrue if introduced.

4.9 Export consultants and the Quality Incentive Programme

Export consultants' share of EMDG claim lodgements have increased considerably, from 58 per cent in the 2011–12 grant year to 69 per cent in the 2013–14 grant year (Figure 8).

Figure 8: Export consultants' share of EMDG claim lodgements, 2011–12 to 2013–14 grant years



QIP = Quality Incentive Programme
Note: The Quality Incentive Programme began in the 2012–13 grant year.

In 2012, Austrade introduced a framework for a voluntary system aimed at improving the quality of applications prepared by EMDG consultants.[49] EMDG consultants choosing to participate in the Quality Incentive Programme (QIP) must meet the criteria specified in the 2012 Extended Lodgement and Consultant Quality Incentive Determination.[50]

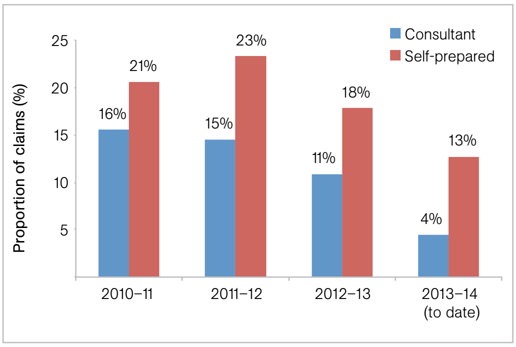
Consultants registered under the QIP are granted an additional three months for lodging grant applications, as well as a listing of their commercial services on the Austrade website. QIP consultants must meet minimum performance requirements and be deemed fit and proper by the Chief Executive Officer of Austrade.

The Review supports Austrade's ongoing efforts to improve outcomes for applicants and the Commonwealth. However, the Review regularly heard of tensions created by the differing roles and priorities of the key stakeholders—the applicants, the export consultants and Austrade. The Review notes that the overall adjustment rate for claims is improving over time. In particular, the last full year of data shows that claims lodged by QIP consultants required fewer adjustments than in 2012–13 (Figure 9).

49 See Austrade, 'EMDG consultants', available at www.austrade.gov.au/Export/Export-Grants/Consultants.

50 The *Export Market Development Grants (Extended Lodgement and Consultant Quality Incentive) Determination 2012* is available at www.comlaw.gov.au/Details/F2013L00258.

Figure 9: Proportion of EMDG claims requiring adjustment, 2010–11 to 2013–14 grant years



Note: Almost all grants are paid the year after applicants' export expenditure has been incurred. The term 'grant year' refers to the year in which the expenditure is incurred.

Formalising consultant accreditation is a measure that the government can use to more efficiently and effectively manage risk. Providing minimum standards of qualification and/or experience will also benefit applicants to the scheme, as consultants will have a greater level of knowledge.

Given the benefits of a lower adjustment rate for claims prepared by QIP consultants, the Review considered representations that the government provide claimants with an incentive to use a consultant, by allowing accredited consultant fees to be reimbursed.

Achieving a lower adjustment rate could, in turn, facilitate a reduction in Austrade's claim assessing resources; provide for a less intrusive process for exporters; and allow faster claim payments and better client service. Austrade could then focus more effort on marketing the scheme, explaining the scheme's eligibility conditions and responding to client enquiries.

The Review understands that the Export Consultants Association, which represents a number of EMDG consultants, is broadly supportive of accreditation. However, the Review notes that the implementation of accreditation will need to be carefully managed in a consultative environment involving all key stakeholders.

4.10 New Zealand

An element of the scheme that causes confusion relates to the ineligibility of marketing expenses for exporting to New Zealand. While treated separately in the EMDG Act, Austrade's promotional material often groups New Zealand with North Korea and Iran.

Marketing expenses in these countries are ineligible for different reasons, and reference to New Zealand and the Australia – New Zealand Closer Economic Relations Trade Agreement should be made differently to references to North Korea and Iran.

4.11 Consistency with government policy

The Review was informed that the scheme has become more complex over time—such that, for example, small businesses may feel unable to lodge applications themselves—and that this complexity has added to the time required for Austrade to assess applications.

Austrade's administration of the EMDG scheme is consistent with the government's Industry Innovation and Competiveness Agenda:

> Specialised government agencies such as the Government's new Single Business Service and Austrade provide reliable information about markets, technology and business models to suit small and medium enterprises, accelerating growth and job creation.[51]

The Review notes that Austrade needs to balance a number of competing requirements:

- applicants' desire for simpler access to the scheme
- the government's requirement for 'red tape' reduction
- the financial and reputational risks to the Commonwealth, and other applicants, of claims not being properly justified and assessed.

There is always, however, a need to continue monitoring changes to any programme's accessibility and processes, as well as the outcomes of progressive changes. Any change can add a degree of uncertainty for businesses as they plan and undertake market development activities, sometimes in the year before applying for an export market development grant.

The EMDG scheme is one of several Commonwealth, state and territory export promotion programmes. The Review found that there was a wide range of knowledge of the availability, scope and eligibility for export support programmes across the participants in the public forums.

It was also clear that the level of government assistance varies between jurisdictions. While the website business.gov.au is an excellent source of information, it would be useful for trade and investment ministers to have available to them a comprehensive framework or 'map' setting out the full range of export assistance schemes. This would enable them to consider the effectiveness of export promotion programmes and the potential for the Commonwealth, states and territories to learn from each other and to adopt a 'Team Australia' approach—consistent with current Australian Government policy.

51 Australian Government (2014), *Industry Innovation and Competitiveness Agenda: An action plan for a stronger Australia*, pp. 68–69, available at www.dpmc.gov.au/sites/default/files/publications/industry_innovation_competitiveness_agenda.pdf.

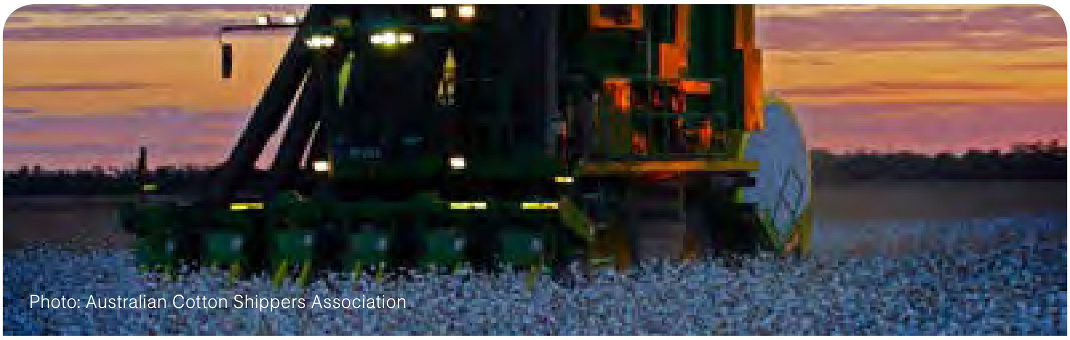


Photo: Australian Cotton Shippers Association

Case study 11: Australian Cotton Shippers Association

Australia, as an export-focused producer of cotton, competes against 75 other cotton-producing nations for its share of the global cotton trade. The 2012 and 2013 seasons generated in excess of $2.5 billion in export revenue, with total international trade in cotton estimated at some $12 billion.

While competition in the cotton trade from other countries is fierce, significant competition also arises from trade in synthetic fibres. As there is no substantial local textile industry in Australia, 99.9 per cent of Australian cotton is exported. In 2014, 56 per cent of Australian cotton was exported to China, the world's largest consumer of cotton, followed by Vietnam, Indonesia, Thailand and South Korea.

Although Australia has an enviable reputation as a reliable supplier of high-quality cotton, production and quality vary from year to year, bringing its own challenges in finding markets for that cotton. In this context, the Australian Cotton Shippers Association (ACSA) operates to:

- promote and enhance the export of Australian raw cotton
- preserve the sanctity of contracts and the integrity of the Australian cotton-trading industry
- facilitate compliance with contractual obligations and adherence to arbitration awards
- promote the interests of association members and the industry generally in Australia's overseas markets
- promote corporate responsibility, best management practice and prosperity within the industry and the communities in which producers operate
- communicate the fibre requirements of spinner customers to Australian growers and plant breeders.

The Australian cotton industry is reliant on export markets, and the support provided by Austrade through the EMDG scheme allows the ACSA to underpin export endeavours by promoting the credentials of Australian cotton.

Arthur Spellson, ACSA's chairman, said, 'In the past five years, with the support of EMDG funding that provided the opportunity to hold seminars for existing and potential buyers of Australian cotton in established and emerging markets, we believe that an average of $150 million per year has been added to the Australian crop value because of these marketing efforts. This value-add is realised through an increased premium for Australian cotton, which goes right back to the farmer.'

4.12 Conclusions

The Review found as follows:

- The EMDG scheme remains highly relevant and continues to bring benefits to Australia by encouraging the creation, development and expansion of overseas markets for Australian goods and services.
- The certainty built into the EMDG scheme gives exporters confidence as they approach new markets; however, as with any longstanding programme, the scheme can be updated.
- The EMDG administration budget should move to Austrade, provided that the resources for the actual grants are not compromised. Moving financial resources into Austrade should also assist in increasing the visibility of the EMDG scheme within Austrade.
- Moving the administration amount to become a departmental line item would provide Austrade with more certainty and flexibility in terms of staffing functions, and, combined with the Quality Incentive Programme and its expected improvement in claims accuracy, should allow for efficiencies to be achieved.
- Additionally, the IT system underpinning the scheme has been in place for many years and provision for capital costs for its replacement or upgrade should be made in the Austrade budget.
- The Review accepts that Austrade is effectively balancing the competing needs of financial certainty and responsiveness to businesses, confidence in decision-making by grant assessors, and the prudent distribution of public money on behalf of the Commonwealth.
- The Review supports the continued reimbursement of exporting firms' eligible expenditure on a cash rather than accrual basis.
- Section 94 is consistent with the original intent and spirit of the EMDG Act.
- Key information, such as the EMDG guidelines, could be better placed on the Austrade website. Austrade should work with clients, including export consultants, to determine the best locations for web-based information.

The Review supports Austrade's ongoing efforts to improve outcomes for applicants and the Australian Government. However, the Review regularly heard of disconnects between Austrade and the export consultants, with neither being fully aware of the benefits of increased cooperation.

Austrade provides public information on grant recipients on its website and in its annual report. Present information on the website includes the name of the grant recipient and the amount of the grant. While complying with requirements of transparency in the allocation of government funds, this information, if presented in a user-friendly, intuitive way, could also be used to improve connections between exporters and those considering expanding their Australian operations to enter global markets.

Austrade recognises that there is a gap in its communications with applicants when applications are lodged. Receipt is acknowledged and then, in some cases, applicants receive no contact from Austrade for extended periods. Austrade advised the Review that it is considering how it can provide better advice to applicants. Its assessment processes have been modified over the last few years and it is moving from processing claims in the order of receipt to a more risk-based approach. Austrade expects response times to improve as a result.

Austrade should provide information on grant recipients in a form that will enable firms to better connect with others in their field or region.

Austrade has developed an online location-based longitudinal EMDG information platform that provides graphic and tabular representations of EMDG recipient data. This information is currently provided in the Austrade annual report, is continuously updated and is a valuable research tool for applicants, consultants and Austrade itself.

There is a need to continue monitoring changes to any programme's accessibility and processes, as well as the outcomes of progressive changes.

That said, the scheme has been reviewed many times since its inception in 1974, with few differences between the major findings on each of the economic and other business benefits that the EMDG scheme provides.

Information sharing is one area that can reduce the requirement for information from applicants, and should be encouraged to enhance export promotion. The secrecy provisions of the *Australian Trade Commission Act 1985* may need to be reviewed to enable this to occur.

The Review considered allowing accredited consultant fees to be reimbursed under the scheme. However, the Review concluded, on balance, that as the take-up of consultant services is proceeding at a satisfactory pace, these fees need not be added to the list of EMDG eligible expenses.

This review presents an opportunity for the government to lift business certainty and confidence by increasing the EMDG budget over the next four years—and beyond.

Recommendations

5. That the EMDG scheme be continued, and continue to be administered by Austrade.

- 5.1 That the 'sunset' provisions in the *Export Market Development Grants Act 1997* be removed.

6. That the budget allocation (in anticipating a 5 per cent annual increase in the number of grant recipients) be progressively increased by $12.4 million per year over the next three years (2016–17 to 2018–19) to $175 million.

- 6.1 That the government augment Austrade's budget with a new amount equivalent to the 5 per cent of the EMDG administered funds, thus freeing up the entirety of the EMDG funding, currently $137.9 million, for export promotion grants.
- 6.2 That separate provision, in addition to the EMDG administration budget and grant amounts, be made for replacement of, or upgrades to, Austrade's IT system.

7. That the EMDG scheme be reviewed every five years, following similar processes as previous independent reviews—in particular, updating the econometric studies of the scheme's impact on the economy—to determine the ongoing effectiveness and efficiency of the scheme, including its administration.

- 7.1 That the EMDG Act be amended to include a requirement for independent external reviews of the effectiveness and efficiency of the scheme.

- 7.2 That these independent reviews be presented to the responsible Minister and tabled in the parliament within 15 sitting days of being received by the Minister; and that the government's response be tabled within three months of the report being tabled.
- 7.3 That, within four years, the future appropriations for the EMDG scheme be reviewed and updated in line with demand.
- 7.4 That Austrade expand its client surveys or add new questions to grant applications to provide data for reporting annually to the Minister and industry on the scheme's operation, effectiveness and efficiency.
- 7.5 That Austrade assess the long-term value of the EMDG scheme in promoting viable exporters beyond the eligibility period for grants, and report its annual findings to the Minister and industry.
- 7.6 That Austrade continue to monitor the quality of claims lodged by grant recipients and advise the Minister of any significant new information and benefits of the scheme that would warrant the introduction of new incentives, and/or penalty provisions, for applicants.
  - 7.6.1 That Austrade include in eligibility criteria the costs of attending training and information sessions on market development opportunities in relation to free trade agreements.
  - 7.6.2 That Austrade continue to update other eligibility criteria to reflect businesses' experience in overseas markets—for example, the number of days that are eligible for overseas promotional travel (currently 21); the daily expense rate (currently $300); cross-cultural and other training; design and artwork for export labelling; and attendance at domestic trade fairs and other Australia-based promotional activities.

8. That promotion of the scheme focus on lifting the number of applicants to the 10-year average of close to 4,000 per year in the near term, and on further growing the number of new exporting firms participating in the scheme over the medium term.

- 8.1 That Austrade, with business, create a mentoring group or forum of current and retired senior business managers/leaders or similar, to assist and advise new and aspiring exporters.
- 8.2 That Austrade's EMDG guidelines and other information be amended to separate references to trade or intended trade with New Zealand from references to Iran and North Korea.

9. That the Trade and Investment Ministers Meeting develop a map or framework of Commonwealth, state and territory export promotion support within 12 months, and that Ministers consider the range and scale of available programmes with a view to sharing information on best practices and on the most effective state and territory programmes.

5. CLIENT AND STAKEHOLDER ENGAGEMENT

Client and stakeholder engagement is a factor in the effective administration of the EMDG scheme to achieve the scheme's objectives. The major stakeholders for the scheme are the individual applicants, peak industry organisations, the Export Consultants Association Inc. (ECAI), individual consultants and Austrade.

The Review found that there is engagement between the key stakeholders to varying degrees.

Every organisation has a culture that develops under the influence of a range of factors, including:

- the people who make up the organisation—the main influencers
- broad (national and international) environments within which the organisation sits
- the organisation's strategic goals
- the functions performed by the organisation in the pursuit of those goals
- how the organisation is structured to achieve its goals (e.g. hierarchical, flat)
- the non-human resources the organisation is able to command
- the competitors and threats the organisation encounters in delivering its outcomes
- how efficiently and effectively the organisation delivers these outcomes.

There are also cultural differences within any organisation.

5.1 Cultural positioning of the EMDG scheme

The EMDG scheme is a division-level programme within Austrade and comprises a significant proportion of Austrade's budget.[52] However, it is perceived by some as 'off to the side' and not central to Austrade's core business.

This perception has been reinforced in recent years with governments' emphases on promoting foreign direct investment,[53] which may have occurred at the expense of some trade promotion activities, while perhaps being offset by additional free trade agreements and their positive implications for exports.

5.2 The cultural effects of the scheme's structure

The EMDG scheme has always operated as a reimbursement scheme—similar to a reimbursement of eligible company expenses under taxation.

As the EMDG scheme is structured as a reimbursement scheme, grant assessors are considering companies' export market activities retrospectively. This retrospectivity engenders a natural concern that EMDG applications—otherwise described as 'claims'—may not be approved by Austrade. As applicants have already spent their own funds, the pressure of the situation on the claimant is evident.

52 See Austrade (2014), *Annual report 2013–14*, pp. 85–96, available at www.austrade.gov.au/About-Austrade/Corporate-Information/AnnualReport.

53 See, for example, Edmund Tang (2015), 'Inward FDI performance: How Australia compares', 7 May, available at www.austrade.gov.au/about-austrade/economics-at-austrade/inward-fdi-performance-how-australia-compares.

From Austrade's perspective, the demonstrable history of over-claiming by applicants means they have a concern that claims may include expenses that are ineligible—this is particularly apparent among first-year claimants, and for those claimants and consultants with a past record of over-claiming.

First-year claimants who do not engage a consultant may not fully understand the scheme's rules and the interpretation that may be applied by grant assessors. As the capped resources for administration have lost value over time, Austrade's capacity to focus on issues outside core claim assessment—such as additional coaching for first-year applicants and self-prepared applicants, and new communication methods—has diminished.

The Review observed, through consideration of both complaints and compliments, that there is a tension between Austrade and applicants (including consultants) in maximising the benefits from the scheme. The tension mostly surfaces at the point where there is disagreement between parties as to the eligibility of an expenditure item.

It is clear to the Review that this tension can at times have an impact on the perception of the scheme by stakeholders, and 'the creation, development and expansion of foreign markets'.[54] The Review encourages all parties to recognise the roles of applicants, consultants and Austrade and to cooperate in making the scheme more effective.

Consideration of the number of complaints (Austrade advised the Review that there have been fewer than 50 over the past four years) against the number of applications receiving support over the same period (up to 12,000) indicates that the level of complaints is low.

Austrade further advised that compliments outnumber complaints by a considerable margin. The level of appeals for internal review is around 3 per cent annually, and there were fewer than 10 subsequent appeals to the Administrative Appeals Tribunal.

Consultants, applicants and Austrade should see themselves as the key stakeholders and equal partners in the objectives of fostering Australia's export culture and entering and expanding export markets.

As noted in Section 4.9, Austrade has established a Quality Incentive Programme (QIP) for grant consultants. Austrade reports that this initiative has improved claim quality and is creating a shift in the cultural approach of all stakeholders.

The review is aware that the Export Consultants Association has been working with Austrade with a view to building on the QIP and using the existing legislated accreditation provisions in the EMDG Act for grant consultants.

Austrade envisages that, in future, QIP consultant applications will be more reliable than claims lodged by non-QIP consultants, leading to better-quality claims, more realistic expectations and faster reimbursement to claimants. For non-participants in the QIP ('self-prepared' applicants and non-QIP consultants), the incentives and disincentives for over-claiming are less clear and, therefore, self-prepared applications are likely to continue receiving a higher degree of scrutiny.

The Review found these developments encouraging and believes that, with further cooperation between all stakeholders, they will go some way toward alleviating the natural tension described above and improving scheme outcomes.

54 Section 3 of the EMDG Act.

5.3 The practical effects of the scheme's structure

EMDG guidelines encourage applicants to claim as much as possible under each of the eligible criteria.[55] Austrade's view is that maximising supporting documentation assists applicants to maximise their reimbursement under a particular criterion—and that, as grant assessors cease assessing when the applicant's claim reaches the maximum under each criterion, this activity does not involve additional processing time.

On the other hand, if applicants provide more information than is necessary to reach their maximum dollar eligibility under a particular criterion, there appears to be an inclination to consider the applicant as over-claiming—resulting in an 'audit' approach to assessment of searching for over-claiming.

If the EMDG eligibility criteria are sufficiently clear, then applicants (or consultants acting as an applicant's agent) need only put forward justifications to the dollar limit of a particular criterion.

A proactive grant assessor who partially disallows a claim could then—on an exception basis—contact the applicant or agent and request additional proof-of-eligibility information (e.g. another eligible receipt) to cover the dollar gap. The Review observed that this does happen in some instances but is not consistently applied.

55 The EMDG guidelines are available at www.austrade.gov.au/Export/Export-Grants/export-grants-publications.

5.4 Terminology leading to confusion

EMDG staff assessing claims for reimbursement routinely describe themselves interchangeably as either 'assessors' or 'auditors'—sometimes depending on the particular process of assessment, and other times not.

Generally accepted practice is that the term 'audit' implies a check or an assessment carried out by an independent third party, to provide comfort over information provided to a principal by an agent. In Austrade, a grant auditor is not independent of the principal (i.e. Austrade), and is employed or engaged by the principal, not the agent (i.e. the applicant/claimant or consultant).

While EMDG grant 'auditors' are not required to adhere to audit standards, they do adopt an audit-based methodology. The Review found, however, that the current assessment processes do not meet all of the requirements that are expected of an audit methodology. Currently, the EMDG audit process focuses on testing the eligibility of claims and on testing the audit assertions of occurrence, cut-off and classification; and omits the audit assertions of completeness and accuracy.

The interchangeable use of particular terms, such as 'grant auditor' and 'grant assessor', creates confusion when used outside of the immediate EMDG work environment. The Review found that neither applicant firms nor export consultants are sure whether they are being 'audited' or 'assessed' when contacted by a grant assessor.

It would appear that the use of the term 'audit' by Austrade EMDG staff is meant to connote a more serious examination of a claim than the use of the term 'assess' or 'assessment'.

It is not clear to the Review how this approach encourages 'the creation, development and expansion of foreign markets'.[56]

Related to the audit and assessment issue is the interchangeable use of the terms 'slippage' and 'adjustment' by both EMDG staff and export consultants to denote the same outcome—the dollar amount of change, usually a reduction, following an assessment of the amount claimed by an applicant. However, the term 'slippage' tends to be favoured by the export consultants and 'adjustment' by Austrade EMDG staff.

5.5 Conclusions

The Review has concluded that there is a need for the EMDG stakeholders to continue to work together to improve the scheme's administrative arrangements, with the aim of creating more certainty for applicants and reducing the tension created by the different roles of parties.

Austrade, industry peak bodies, export consultants and scheme applicants should see themselves as partners in the objectives of fostering Australia's export culture.

Claims assessment should simply be described for what it is—an assessment of the material put forward by applicants and export consultants directed towards the payment of eligible reimbursements. It is not an audit process, and should not be described as such.

Austrade should update EMDG documentation, job titles and business cards—which, in part, describe assessment functions as audit functions—to more accurately reflect the assessment-related tasks being performed.

Recommendation

10. That the key EMDG stakeholders—applicants, export consultants and Austrade—continue to work, together with industry groups, to improve the scheme's administrative arrangements, with the aim of creating more certainty for applicants and reducing the tensions created by the differing priorities of the key stakeholders.

56 Section 3 of the EMDG Act.

APPENDIX A

A

Appendix A1
Terms of reference
2015 Review of the Export Market Development Grants scheme

The Review of the Export Market Development Grants (EMDG) scheme must satisfy the requirements of section 106A of the *Export Market Development Grants Act 1997* ('the EMDG Act').

In conducting the review, the effectiveness of the EMDG scheme should be examined and a report provided to the Minister for Trade and Investment which addresses, but is not limited to, the following:

1) Whether the EMDG scheme, as currently structured, is effective in:

- increasing the number of businesses that develop into new exporters
- increasing the number of businesses that achieve sustainability in exporter markets and generate additional exports
- further developing an export culture in Australia

Taking into account:

- The scheme's provisions including the eligibility of:
  - individuals, businesses and organisations
  - products and services that applicants may seek to export
  - the export promotion expenses that applicants may incur and the adequacy of coverage of export promotional costs
  - other scheme parameters
- The need for:
  - simplicity in scheme rules
  - limitations on compliance costs for applicants and administrative efficiency
  - scheme accountability, and the proper management of public money, and
  - consistency with overall government policy

2) Having regard to these issues whether the EMDG scheme should be extended and if so:

- the period of extension
- options for improved performance of the scheme
- options for funding scheme administration costs.

Appendix A2
Conduct of the review

- The scope of the review was set by the Reviewer, using as a basis the terms of reference approved by the Minister for Trade and Investment and the legislative requirement for the review (Attachment A at right).
- Public submissions were called for and closed by the extended date of 10 March 2015.
- The views of industry, exporters and those seeking to get into export markets, and other interested entities and individuals, were sought and taken into account, through considering the outcomes from a series of public and other meetings held around Australia and via submissions received.
- Submissions are publicly available on the review website: www.austrade.gov.au/Export/Export-Grants/review.
- Existing Austrade and Australian Bureau of Statistics research information, including, in particular, Austrade's annual client satisfaction survey and client feedback data, previous EMDG reviews and other relevant publications, were taken into consideration in drafting the review report.
- Two research studies, which built on similar studies carried out in 2008 and 2009, were commissioned to inform the review—including an econometric study and a survey of the impact of the scheme on exporters and the Australian economy.
- Michael Lee as the Reviewer provided his report and recommendations to the Minister for Trade and Investment and fulfilled the legislative requirement of doing so by 30 June 2015.

Attachment A
Legislative requirement for the review

The *Export Market Development Grants Act 1997* requires, at section 106A, that:

(1) Not later than 1 January 2015, the Minister must cause a person or body (other than the person or body that administers the export market development grants scheme) to conduct a review of the scheme for the purpose of making recommendations about the continuation of the scheme.

(2) In conducting the review, submissions from the public must be called for and public hearings may be conducted.

(3) The review must be completed, and a written report provided to the Minister, by a date determined by the Minister that is not later than 30 June 2015.

(4) The Minister must cause a copy of the report to be laid before each House of the Parliament within 15 sitting days after receiving it.

Appendix A3
Previous reviews of the EMDG scheme

Year	EMDG scheme review[1]
1977	Industries Assistance Commission – *Export incentives* report
1982	Industries Assistance Commission – *Export incentives* report
1984	Department of Trade – *Evaluation of EMDG scheme*
1985	*Report of the National Marketing Strategy Panel* (the Ferris Report)
1988	Bureau of Industry Economics – *Review of the EMDG Scheme*
1989	Committee for Review of Export Market Development Assistance (the Hughes Report)
1994	*Helping to meet the export challenge* (Austrade review with analysis by PricewaterhouseCoopers and Professor Ron Bewley) Australian National Audit Office efficiency audit *Review of Commonwealth enterprise improvement programs* (I.G. Burgess)
1996	Australian National Audit Office (follow-up) performance audit
1997	*Going for growth* review of business programmes for investment, innovation and export (David Mortimer)
2000	*Review of the EMDG scheme* (with analysis by Professor Ron Bewley)
2005	*Review of the EMDG scheme* (with analysis by Centre of International Economics)
2008	*Review of Export Policies and Programs* (David Mortimer AO) *Review of the Export Market Development Grants Scheme 2008* – A report by Lateral Economics for the Review of Export Policies and Programs
2009	*2009 Update of Review of the Export Market Development Grants Scheme 2008* – A supplementary report by Lateral Economics *Economic Impacts of the Austrade Export Market Development Grant* – A Report by KPMG Econtech
2014	Australian National Audit Office *Administration of the Export Market Development Grants Scheme*
2015	*Review of the Export Market Development Grants (EMDG) scheme* (Michael Lee)

1 This is a list of external independent public reviews. Austrade has also from time to time commissioned internal reviews of aspects of the scheme by external consultants, which are reported on in Austrade's annual report.

Appendix A4

Submissions and meetings

Includes public meetings held and firms attending; and meetings held with Australian, state and territory government entities, industry bodies and individual exporters

Submissions received

Sub. no.	Name of organisation/individual
136	Aberdeen Wine Company
133	Activ International Pty Ltd
52	Affinity Bio
98	AgBiTech Pty Ltd
76	AGRIFresh Pty Ltd
181	Ai Group
87	Airbag Productions
54	Akaal Pharma Pty Ltd
23	Altis Consulting
103	American Republic Wheels
115	Anumi Skincare
151	ANZ Banking Group
58	Aoraki Holdings t/a United Fertilisers
158	Association of Australian Convention Bureaux (AACB)
171	Ausfilm
164	Australian Brahman Breeders' Association Ltd (ABBA)
165	Australian Biotechnology Organisation (AusBiotech)
180	Australian Chamber of Commerce & Industry (ACCI)
190	Australian Dental Industry Association (ADIA)
49	Australian Export & Industrialisation Advisory Corporation Pty Ltd (AEIAC)
119	Australian International Marine Export Group & Superyacht Australia
70	Australian Performance Vehicles Pty Ltd
109	Australian Professional Skills Institute Pty Ltd (APSI)
179	Australian Tourism Export Council (ATEC)
3	Australian Wine Exporters
21	Aust-Ram Productions Pty Ltd
184	Bacchus Associates Pty Ltd
44	Back to Back Theatre
139	Barossa Grape & Wine Association (BGWA)
74	Bellroy
112	Bepoz Global Pty Ltd
1	Beth Bluett de Baudistel
28	Bird's Robe Records + The Bird's Robe Collective
20	Bluewater Pictures Pty Ltd
101	Bow Wow Meow Pty Ltd
39	Braydun Hill Wines
10	Broadhurst, Nick
116	Bubbaroo Baby Wear
29	Bubblegoose Productions
145	Business Management (International) Pty Ltd (BMI)
77	Camilla & Marc Operations Pty Ltd
159	Cherub Baby

73	Cherub Rubs Pty Ltd
114	Cloudburst Wines Pty Ltd
147	Corporate Grant Consulting
167	Cross & Co Lawyers
128	CSA Global Resource Industry Consultants
274	Currawong Engineering Pty Ltd
106	David Bentley Yacht Design
95	DMA Clinical Pilates Education
138	Duo Art Productions
69	E5workflow Pty Ltd
36	EDAQ Pty Ltd
68	Engineering Institute of Technology Pty Ltd
30	Envisage Software Solutions
111	Ernst & Young
107	Evado Clinical Software
60	Ewenique Merino Products Pty Ltd
154	Excel4apps
185	Exel Composites
174	Export Consultants Association Inc. (ECAI)
135	Export Council of Australia
163	Export Finance & Insurance Corporation (EFIC)
141	Export Finance Assistance Consultancy Services (EFACS)
132	Export Solutions Pty Ltd
161	Exportise (NSW) Pty Ltd
5	Fans Creative Management
32	FG Film Productions (Australia) Pty Ltd
143	Firelight Productions
182	Fisheries Research and Development Corporation
177	Food South Australia Inc
93	Fowles Wine
38	Garmond Pty Ltd
25	Gecko Films & Film Art Media
41	Goalpost Pictures Australia
96	Good Dog Enterprises
170	GRC Solutions
162	Great Southern Touring Route Inc (GSTR)
24	H20 Entertainment Pty Ltd
19	H2COCO Pty Ltd
129	Harvest the Net
83	Hedone Productions
13	Helifilms
193	Hentley Farm
31	Hibiscus Films Pty Ltd
63	Homebush Export Meat Co. Pty Ltd
88	HommeMystere
152	Iglu Student Accommodation
45	Illumination Physics Pty Ltd
62	Independent Metallurgical Operations Pty Ltd
37	Infrarisk
27	International Hair Cosmetics Group
85	Interpath
157	IP-Echelon
78	iStart Online Pty Ltd
191	Janaton Pty Ltd
43	Jason Dask
51	Keston Technologies Pty Ltd
113	Kinyun Australia Pty Ltd
123	Land & Water Management
79	Leffler Simes Architects
99	Lemontree Dairy Pty Ltd
67	Lethbridge Gallery
153	Life Sciences Queensland Ltd (LSQ)
131	List Premiere Education Pty Ltd
34	Lockyer Valley Regional Council

2	Mathspace Pty Ltd
57	Meat Tender
149	Medical Information Technology Australia Pty Ltd (Meditech)
142	Melodrama Pictures
16	Mememe Productions
46	Metal Science Technologies
50	Micador Group
189	MiniJumbuck, Australian Wool Products Pty Ltd
7	Ministry of Sound Australia
150	Mitchell & Co
120	MizCo Pty Ltd
72	Molly Dooker Wines
144	Moneypenny Business & Taxation Services Pty Ltd
48	Moonfish Productions Aboriginal Corporation and East Journey Aboriginal Corporation
186	MSQUARED
183	Murray Books
146	Mushroom Group of Companies
26	Najo Pty Ltd
17	Nanocarbon Pty Ltd
92	NBI
187	Newton Marsh
160	North Star Logistics & Consulting
137	Northern Territory Government, Office of Asian Engagement, Trade and Investment
40	N'vision Creative Concepts
169	Omnia Specialities (Australia) Pty Ltd
124	Opmantek Ltd
75	Ore Research and Exploration Pty Ltd
110	Paspa Pharmaceuticals Pty Ltd
134	Parker & Mr French
176	Port Arthur Historic Site Management Authority (PAHSMA)
6	Prodigy Movies Pty Ltd
126	Proven Products Pty Ltd (Ikon)
82	Recruitment Systems
18	Regal Records
86	Reid Fruits
108	Restaurant & Catering Australia
66	Richards Apex AustralAsia
59	Risis the Black Orchid t/a Inca Zone and Tea Tree Australia
102	Riversdale Fine Wines
175	Rod Campbell & Associates
166	Ronai & Associates
172	Room 8
65	Rosebank Engineering Australia
148	Ryan Aerospace
188	Sasy n Savy Pty Ltd
156	Screen Producers Australia (SPA)
4	SeaLink Travel Group
90	SEAPA
53	Searoad Ferries
104	Sementis Limited
125	Sense & Centsability
91	ShotTrack
12	SLR Productions Pty Ltd
56	SmartFutures Group Pty Ltd t/a the William Light Institute
61	Spectrum Message Services Pty Ltd
8	Stewart & Wall Entertainment Pty Ltd
155	Sunset Power Pty Ltd
173	TAFE Directors Australia (TDA)
81	Tasmania Distillery
94	Tellurian Wines

100	The Berkeley River Lodge
89	The Décor Corporation Pty Ltd
168	Thoroughbred Breeders' Australia
14	Toddler Kindy Gymbaroo
122	Trade & Investment Queensland
35	Tree (Australia)
42	Turkey Flat Vineyards
127	Turnbull, Mark
130	Twelve Foot Ninja Pty Ltd
118	Two Bulls Holdings Pty Ltd
117	UNO Technology Pty Ltd
64	VEBIZ
140	Vertigo Productions
22	Walls and Bridges
33	Warp Films Australia
15	Whitehead, Axle
84	Whittingtons
80	Wild Candy Pty Ltd
178	Wild Strawberries Pty Ltd
47	Wildheart Films
97	William Angliss Institute
121	Winemakers' Federation of Australia
9	Winterman & Goldstein Music Management
105	WTFN Entertainment Pty Ltd
55	Xelon Entertainment Pty Ltd
71	Xtraction Solutions Pty Ltd
11	YKY Management

Public meetings

1. Canberra, 23 March 2015, Austrade offices, 24 National Circuit, Forrest
2. Sydney, 25 March 2015, Australian Institute of International Affairs (AIIA) offices, 124 Kent Street, Sydney
3. Sydney, 26 March 2015, AIIA offices, 124 Kent Street, Sydney
4. Adelaide, 27 March 2015, Austrade offices, 131–139 Grenfell Street, Adelaide
5. Perth, 30 March 2015, AusIndustry offices, 44 St Georges Terrace, Perth
6. Darwin, 8 April 2015, Northern Australian Development Office, 76 The Esplanade, Darwin
7. Brisbane, 9 April 2015, Austrade offices, 307 Queen Street, Brisbane
8. Melbourne, 13 April 2015, Austrade offices, 60 Collins Street, Melbourne
9. Melbourne, 14 April 2015, Austrade offices, 60 Collins Street, Melbourne
10. Hobart, 15 April 2015, Austrade offices, 22 Elizabeth Street, Hobart

Firms/businesses/organisations that attended the public meetings[2]

Access Grants Consulting
Advanced Braking Pty Ltd
affinity BIO
AIMEX
Aktiv Indirect Tax Pty Ltd
Angove Family Winemakers
Asia Pacific Aircraft Storage Pty Ltd
AUSA Hoops
Association of Australian Convention Bureaux
Australian Dispute Resolution Centre
Australian Industry Group
Australian Tourism Export Council (ATEC)
Australian Wine Exporters Pty Ltd
Avant Group Pty Ltd
BDO (QLD) Pty Ltd
Bemalan Pty Ltd
Bien Rustia
Biosensis Pty Ltd
Bundaberg Fruit and Vegetable Growers (BFVG) Cooperative Ltd
Carbon Market Advisory
cc2GO Technology Research
Central Coast Tourism
Circa
CRC Care
Crowe Howarth
Crown Institute of Business and Technology
Design and Industry
D'Lite Food Europe Pty Ltd
Duo Art Production
Eggler Enterprises Pty Ltd
ELR Technologies
EMDG Consulting
Enviro Framing Systems
EPM.tv
Essence-Organic Pty Ltd
Exportise (Melbourne) Pty Ltd
Export Finance Assistance Consultancy Services
Export Solutions Pty Ltd
e5 Workflow
Fair Go Game Pty Ltd
Food South Australia Inc
Futurewood Pty Ltd
fxphd
Gibsland Wines
Glenrange Global Pty Ltd
Helifilms Australia Pty Ltd
Homebush Meat Export Company Pty Ltd
Independent Metallurgical Services Pty Ltd
Infoods Pty Ltd
Janaton Pty Ltd
Macsta Music Management
Mark Turnbull Export Grant Consultant
Mitchell and Co Chartered Accountants
Mizco Pty Ltd
M Squared & Associates Pty Ltd
Negociants International
Rod Campbell and Associates
National Employment Services Association
New Challenge International Consultancy Pty Ltd
Newton Marsh Pty Ltd
North Star Logistics and Consulting
Oleapak Pty Ltd
Ozcrown Consulting
Pacific East International Pty Ltd
Promark Pty Ltd
QRC Solutions
Queensland Education Leadership Institute
Red Arrow Global Solutions Pty Ltd
Risis Black Orchid and Inca Zone
RJ Mineral Cosmetics
Ronai and Associates

2 Due to the nature of the public meetings, it was not always possible for the secretariat to record the names of all attendees. Should your firm's name not appear on this list, please accept our apologies.

RxWorks Pty Ltd
Scott Technology Australia Pty Ltd
Sense and Centsability
Slumbertrek
Softensify Pty Ltd
Sounds Australia
Steele Environment Solutions
Strang Systems Pty Ltd
TAFE Directors Australia
Taoc Pty Ltd
The Financial Services Academy
Three Kangaroos Pty Ltd
Transaction Management Group (TMG)
Treadstone
Unique Project Solutions
Vebiz
Way Funky Pty Ltd
WISPER Forestry Services Pty Ltd
Worldpoly Pty Ltd

Australian Government

- AusIndustry – Western Australia
- Austrade
- The Productivity Commission
- The Treasury

State and territory governments

- New South Wales Government – Department of Trade and Investment
- Victorian Government – Department of Economic Development, Jobs, Transport and Resources; and Department of State Development, Business and Innovation
- Queensland Government – Trade and Investment Queensland
- South Australian Government – Department of State Development
- Western Australian Government – Department of State Development
- Tasmanian Government – Office of the Minister for State Growth, Energy, Environment, Parks and Heritage; and the Department of State Growth
- Northern Territory Government – Department of Business
- Australian Capital Territory Government – Chief Minister, Treasury and Economic Development Directorate; and Invest Canberra

TradeStart advisers, including Queensland, the Northern Territory and South Australia.

Industry organisations/bodies

- Australian Business Consulting and Solutions
- Australian Business Council
- Australian Chamber of Commerce and Industry, Canberra; and state chambers
- Council of Small Business of Australia
- Export Council of Australia
- Northern Territory – Chamber of Commerce/ TradeStart

Other meetings

The review team also:

- met with **Austrade staff** in Canberra, Sydney, Adelaide, Brisbane, Melbourne, Darwin, Perth and Hobart
- attended the **Export Consultants Association Inc. (ECAI) Annual Conference** in Sydney, from 16–17 March 2015
- attended the **Export Council of Australia's industry roundtable** at Crowe Horwath offices, Sydney, on 26 March 2015.

During the course of the review, Michael Lee:

- met with the **Hon Andrew Robb AO MP, Minister for Trade and Investment,** on 23 March 2015
- met with the **Hon Bruce Billson MP, Minister for Small Business**, on 6 May 2015
- met with the Chief of Staff and the Senior Adviser to the **Hon Andrew Robb AO MP, Minister for Trade and Investment**, on 12 May 2015
- visited the premises of:
  - Altios Australia
  - Sasy n Savy Pty Ltd
  - Aberdeen Wine Company
- met individually with representatives of several Australian exporting firms and other interested stakeholders following the public meetings.

APPENDIX B

B

Austrade Trade and Investment Note

Australia's evolving export story: How Australia's export profile and export environment have changed since the Mortimer Review

Key points

- Since the completion of the *Mortimer Review of Export Policies and Programs (2008)*, Australia has seen some significant changes in both its export profile and the overall environment within which our exporters operate.
- The post-*Review* international economic environment has been shaped by the global financial crisis and its aftermath, including sluggish growth in international trade and a general decline in the pace of trade liberalisation.
- China's economic ascent has continued, and China's role in the world economy is now appreciably larger than it was at the time of the *Review*. At the same time, however, economic and trade growth have both slowed and the Chinese economic model is in a phase of transition.
- The 'commodity supercycle' has turned and Australia has moved from the high resource prices and terms of trade that were the backdrop to the *Review* to a period of falling prices and declining terms of trade.
- The real exchange rate, which had appreciated significantly until early 2013 and served as a significant headwind to non-resource exporters, has now started to depreciate, restoring some of Australia's relative international competitiveness.
- The combined impact of the economic rise of China and the commodity boom has reshaped both the direction and composition of Australian exports. China has become a significantly more important export market, and resources now account for a much greater share of exports, than was the case at the time of the *Review*.
- Australia's exports have become more concentrated (in terms of both markets and products) as a consequence.
- The total number of Australian exporters is little changed from the time of the *Review*, although the share of Australian businesses selling goods or services overseas has fallen from a little over nine per cent to a bit less than eight per cent. At the same time, the share of total exports accounted for by Australia's largest exporters has also increased.
- The stock of outward and especially inward foreign direct investment has increased since the *Review*, with the commodity boom bringing about a sharp increase in investment into Australia's resources sector.

Mark Thirlwell
Chief Economist

Where to find the data:

This note draws on data from a range of sources including but not limited to: the IMF's October 2014 World Economic Outlook database; the RBA web site; DFAT's Composition of Trade Australia 2007; DFAT's Monthly trade updates; ABS publication 5368.0.55.006 - Characteristics of Australian Exporters, 2012-13; and ABS 8167.0 - Selected Characteristics of Australian Business, 2012-13.

Publication date: In general, this note compares 2007 data with 2014 data where available. Where data for these calendar years is not available, financial year data has sometimes been used.

Further information: Other sources are cited in the footnotes.

Analysis

Australia's export profile and export environment have both changed

This note looks at some of the ways in which Australia's export profile and overall export environment have altered since the time of the *Mortimer Review*.[1]

As one example of the kind of changes that have taken place over the intervening years, consider just two key variables: the value of the Australian dollar and the price of iron ore. When the *Review* was delivered to the then Trade Minister on 2 September 2008, the Australian dollar was worth about US$0.85 and the price of iron ore was around US$61 per metric ton.[2] At the time of writing, the dollar was trading at closer to US$0.79 and the iron ore had slumped to around US$55 per ton. In the years in between, however, the dollar had shot up to reach a high of US$1.11 in July 2011 and the price of iron ore had peaked at more than US$179 per ton in April 2011.

A second example would be the radical shift in global monetary conditions that has taken place in the global economy since the *Review*. Prior to the global financial crisis (GFC), the concept of a central bank driving its main policy rate down to zero was treated as something unique to the peculiar economic and demographic circumstances of Japan. But in the GFC's aftermath, a willingness to experiment with historically unprecedented policy settings has spread to include nearly all of the world's major central banks, including the Bank of England, the European Central Bank and the Federal Reserve. The ultimate consequences of this monetary experimentation are still in the process of unfolding.

More generally, the period since the *Review* has seen a range of important developments with respect to Australia's export environment and export profile:

- There have been major shifts in the international economic environment including, but not limited to, the global financial crisis and its aftermath;

1 The *Review* was published in September 2008, but most of the relevant data cited in the analysis were for 2007, with the exception of some higher frequency financial data, such as the exchange rate, which related to 2008.

2 The daily dollar exchange rate is sourced from the RBA. The iron ore price is for September 2008 and is for China import iron ore Fines 62% FE spot (CFR Tianjin port) as reported by the IMF.

- There have been substantial adjustments in critical variables including the price of key export commodities, the terms of trade, the nominal exchange rate and the real exchange rate; and
- These changes have contributed to significant shifts in both the direction and composition of Australia's exports.

The global trading environment has become tougher

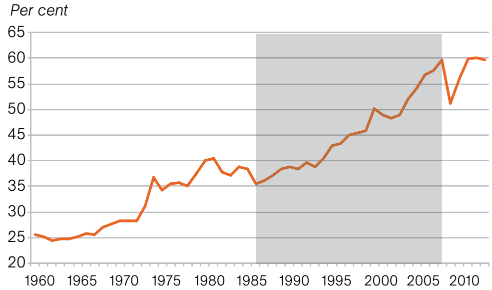
One important theme highlighted by the *Mortimer Review* was the way in which a widespread reduction in global trade barriers had helped stimulate a period of rapid growth in world trade: the *Review* emphasised that world trade had grown almost twice as fast as world GDP in the period since 1990, and that, as a result, there had been a sustained rise in the ratio of world trade to world GDP.

The period after the publication of the *Review* has turned out to be much tougher for exporters in terms of the global trade environment, however. Of course, a significant part of this can be attributed to the impact of the GFC and the subdued global growth picture that has followed. After growing at an annual average rate of more than seven per cent over 2000-2007, global trade volumes were hit hard by the crisis, with growth first slowing to just three per cent in 2008 and then trade volumes plummeting by more than ten per cent in 2009. At the peak of the crisis, the annualised drop in world imports was 30 per cent between the final quarter of 2008 and the first quarter of 2009.

Although 2010 did bring a clear recovery in trade flows, growth in world trade volumes since then has been subdued and has remained well below the pre-crisis average, with volumes rising by an average of just three per cent over 2012-2014.

The trade–GDP relationship has changed

Ratio of world trade in goods and services to world GDP, 1960-2013

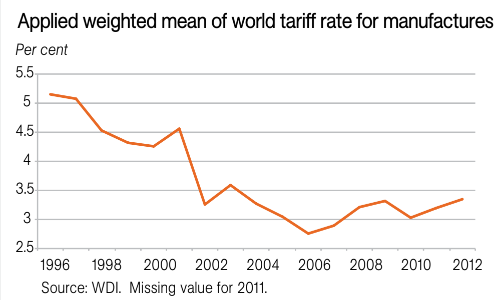


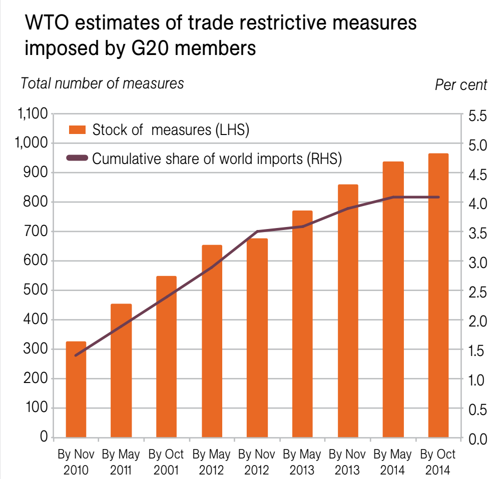
Source: World Bank World Development Indicators

While some of this weakness in global trade is a product of the current weakness in global growth, many analysts have argued that it also reflects a structural shift in international trade. In particular, they suggest that some of the big gains resulting from international trade liberalisation and the expansion of global value chains (GVCs) have now played out, and as a result, the sensitivity of growth in trade to growth in world GDP has declined. While it's hard to be precise in separating the cyclical and structural drivers of the current trade slowdown, it's certainly the case that the relationship between trade and GDP growth seems to have altered in the period since the *Review*. As a result, the ratio of trade to GDP no longer demonstrates the upward trend that was emphasised in that report.

Another possible explanation for the subdued state of world trade is that the pace of international trade liberalisation has slowed, with some economies resorting to protectionist measures in the years following the GFC. True, there has been no widespread retreat into protectionism of the kind feared during the crisis. And the share of trade affected by reported new protectionist measures is still relatively low. But the overall environment has arguably become rather less friendly to trade liberalisation than it was in the period leading up to the *Review*.[3]

Has global trade liberalisation stalled?





Source: WTO reports on trade measures, various issues.

China's rise has continued

Another key theme of the *Review* was the way in which the economic rise of Asia in general and of China in particular, was reshaping Australia's international economic opportunities.

On most measures, China's ascent has continued at a rate that has been at least in line with the *Review's* expectations, and which may even have exceeded them in some respects. Thus, back in 2007, China's GDP was worth about US$3.5 trillion, which was then equivalent to about six per cent of world GDP at market exchange rates. At purchasing power parity (PPP) exchange rates, China's share of global output was even larger, at about 11 per cent.[4] By 2014, the IMF estimates that China's economy had grown to be worth more than US$10 trillion, or more than 13 per cent of world output at market exchange rates. On a PPP basis, China's share had risen to more than 16 per cent of world GDP, which according to the IMF made China the world's largest economy by the end of last year.

China's share of international trade has also continued to expand over the years since the *Review*. In 2007, China was already the world's second largest goods exporter, with merchandise exports worth US$1.2 trillion accounting for almost nine per cent of world exports. By 2013, China had moved into the number one spot and the value of Chinese merchandise exports had climbed to US$2.2 trillion or almost 12 per cent of the world total. In terms of exports of commercial services, over the same period China's ranking had jumped from seventh to fifth place.[5]

3 Although signs that all was not well with the global trade policy environment were already apparent. For example, the Doha Round was clearly in difficulty by the time of the *Review*, with the 2003 collapse of talks in Cancun then followed by more deadlocks and breakdowns, including yet another collapse in negotiations in Geneva in mid-2008.

4 Data are from October 2014 World Economic Outlook database. Note that this database uses new estimates of PPP exchange rates based on the 2011 ICP survey results which would differ from the PPP-based estimates available in 2008.

5 Data from WTO International Trade Statistics, 2008 and 2014 editions.

China rises: Share of world economy

China's share of the global total (per cent)	2007	2013
World GDP (US$ basis)	6.2	12.7
World GDP (PPP basis)	11.3	15.8
World merchandise trade (US$ basis)	7.7	11.0
World trade in commercial services (US$ basis)	3.8	5.9
World inward FDI flows (US$ basis)	4.2	8.5
World outward FDI flows (US$ basis)	1.2	7.2

China's financial footprint has also expanded significantly over this period. For example, the *Review* cites an estimate of the stock of Chinese foreign exchange reserves as of August 2007 at US$1.4 trillion. By the end of 2014, China's reserves had ballooned to a reported US$3.8 trillion. Again, in 2007, China's outward foreign direct investment (FDI) flows were worth just US$26.5 billion, or about one per cent of global FDI outflows. By 2013, their value had risen to US$101 billion or about seven per cent of global outflows, which was enough to make China the third largest source of outward FDI that year.[6] And the international role of the RMB, while still quite limited given the continued presence of restrictions on China's capital account, has nevertheless increased markedly compared to the situation in 2008. At the time of the *Review*, the use of RMB in trade settlement was marginal for example, but according to SWIFT statistics, as of November last year it had overtaken the Canadian and Australian dollar to become the world's fifth most popular payment currency, only just behind the Japanese Yen.[7] The role of the RMB as an invoicing currency for international trade has also increased significantly: at the time of the *Review*, virtually none of China's trade was invoiced in RMB, but by 2014, about 25 per cent of Chinese trade was invoiced in RMB.[8] Finally, RMB turnover in global foreign exchange markets has increased significantly. According to the BIS Triennial Foreign Exchange Turnover Survey, the RMB was only the twentieth most traded currency in the world in 2007, accounting for less than one per cent of daily foreign exchange market turnover. It had moved up to ninth place and a 2.2 per cent share by 2013.[9]

But China's growth model has changed

While there's no doubt that China's absolute importance in the global economy has increased significantly since the *Review*, the nature and the pace of Chinese growth has also changed, with a marked slowdown in headline growth rates and a rebalancing in the drivers of economic growth. These developments reflect the emergence of a new Chinese growth model based around a reduced reliance on investment and exports and a greater reliance on consumption-led growth.

6 From UNCTAD World Investment Report 2014.

7 *RMB breaks into the top five as a world payments currency.* SWIFT.com. 28 January 2015. China's share was a little over two per cent. More than 70 per cent of payments are still denominated in the US dollar or the Euro.

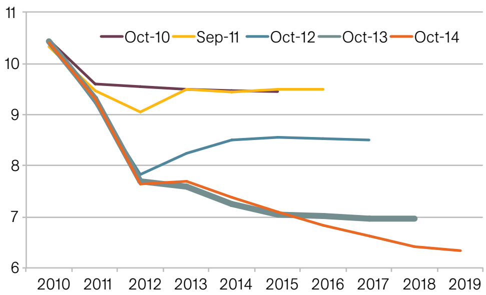
8 *Taking stock of the global role of the Renminbi.* Benoit Coeure. 17 November 2014. The share of Australian trade invoiced in RMB has remained low, however, at less than one per cent of total trade with China.

9 *Triennial Central Bank Survey of foreign exchange and derivatives market activity in 2013.* Bank for International Settlements (BIS). December 2013.

China slows: growth and trade

China: IMF forecasts of real GDP growth

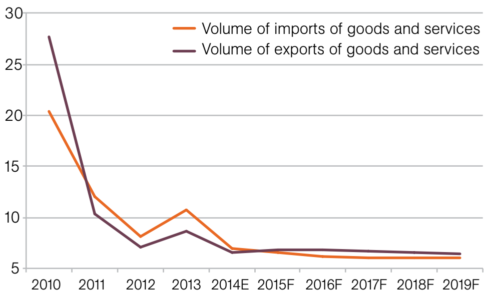
Per cent change over previous year



Source: IMF World Economic Outlook database, selected years

China: Growth in international trade

Per cent change over previous year



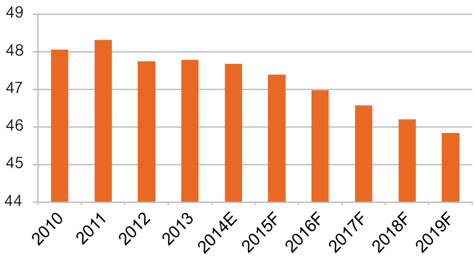
Source: IMF World Economic Outlook database, October 2014

This shift is likely to have important consequences for Australia, as suggested by recent work by the RBA.[10] The investment- and export-led phase of Chinese growth was particularly resource-intensive. Consumption-led growth is likely to be less so.

China: A new growth model?

China: Investment as a share of GDP

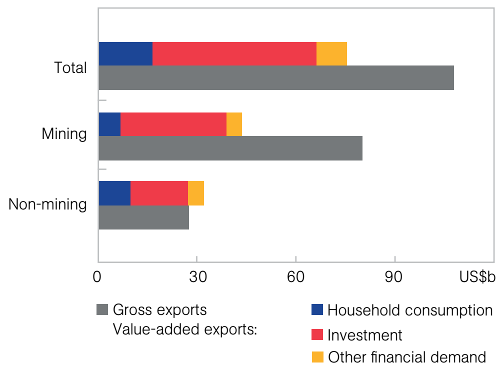
Per cent



Source: IMF World Economic Outlook database, October 2014

Australia – Exports to China

Gross exports vs value-added exports, 2011



Source: Gerard Kelly, *Chinese rebalancing and Australian exports,* RBA Bulletin December Quarter 2014

For example, according to the RBA's Gerard Kelly, as of 2011 Chinese investment accounted for the largest share of Australian exports measured in value-added terms, both because it was the largest share of Chinese final demand and because it was weighted towards industries like construction which tended to be heavy users of Australian resources. Kelly calculates that each dollar of Chinese investment involves more than double the demand for overall Australian value-added output that is generated by a dollar of Chinese household consumption, and almost four times the demand for the Australian mining

10 See Gerard Kelly, *Chinese rebalancing and Australian exports*. RBA Bulletin. December Quarter 2014. Pp. 23-29.

sector's value-added output than is generated by consumption. At the same time, however, it seems likely that an increase in the consumption share in Chinese GDP would increase demand for a range of other Australian exports including food, beverages education and tourism.

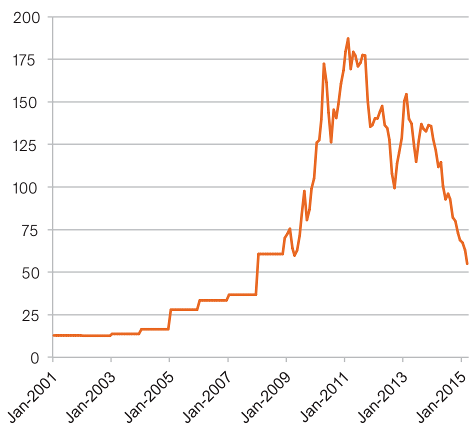
And the commodity cycle has turned

A third key theme influencing the international economic environment for Australian exporters has been developments in the global commodity cycle. At the time of the *Review*, the world economy was still in the upswing phase of what had come to be known as a commodity supercycle. The combination of strong emerging market (mainly Chinese) demand for the resources needed to fuel rapid urbanisation and industrialisation and a sluggish supply response that reflected a sustained period of low investment in the resource sector in the decades before the boom together triggered a multi-year surge in commodity prices.

Commodity prices after the 'Supercycle'

The rise and fall of the Iron Age?

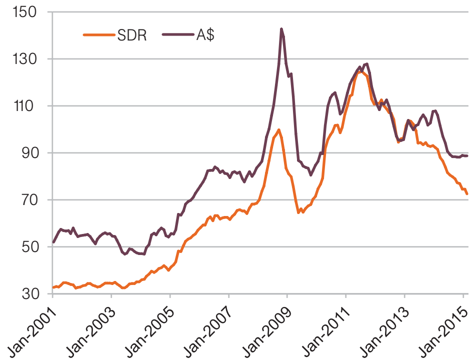
Iron ore price, US$ / t



Source: IMF monthly data, except for latest estimate from news reports

RBA's commodity price index

Index 2012/13 = 100



Source: RBA

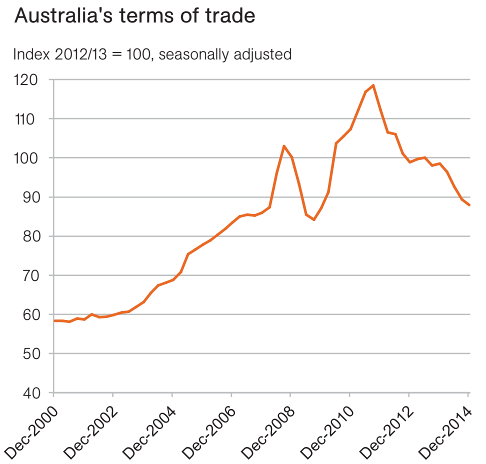
In the case of iron ore, for example, the price per metric ton had risen from less than US$14 at the start of 2003 to around US$61 by the time the *Review* had been completed. But that was far from the end of the story. While the onset of the GFC did prompt a sharp downward adjustment in prices, Beijing's decision to support Chinese growth through a stimulus package targeted heavily at the traditional, resource-intensive drivers of the economy, quickly provided additional support. As a result, the price of iron ore continued to rise, peaking at a heady US$179.26 per ton in April 2011. Likewise, the RBA's commodity price index only reached its peak in SDR terms in July 2011, having more than tripled since the start of the century.[11]

More recently, however, the combined impact of slower global growth in general, softer Chinese demand in particular and (especially) an increase in the supply of resources due to

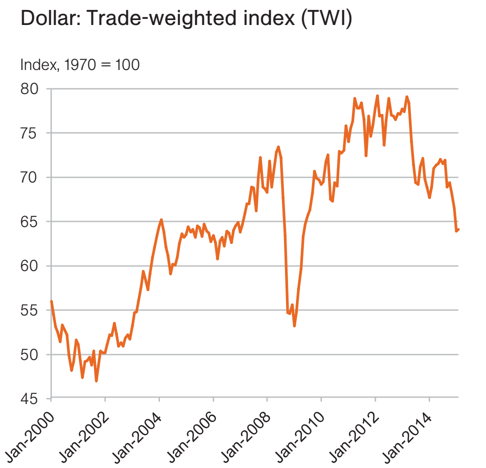
11 The latest version of the RBA's index captures 21 major commodities exported by Australia which together accounted for more than 90 per cent of Australian commodity exports as of 2011–12. The idea of using an SDR index is to capture the impact of changes in demand and supply in global markets by reducing the influence of changes in a particular exchange rate (such as that of the US dollar).

a surge in investment spurred by the previous price spike has triggered a sharp downward adjustment in prices. At the time of writing, the price of iron ore had dropped to just US$55 per ton, while the RBA's commodity price index had slumped by more than 40 per cent from its July 2011 peak.[12]

Australia after the 'Supercycle'



Source: ABS



Source: RBA

The impact of these shifts in the commodity cycle has been reflected in large movements in Australia's terms of trade.[13] Between the December quarter of 2002 and the September quarter of 2008 which saw the completion of the *Review*, the terms of trade had increased by about 60 per cent and by their peak in the September quarter of 2011 they had roughly doubled relative to their level at the start of the century. Since then, however, the current drop in commodity prices has seen the terms of trade decline by almost 26 per cent.

These sizeable shifts in the terms of trade have contributed to large swings in the value of the Australian dollar. On a trade-weighted basis, as captured by the RBA's TWI, the currency underwent a cumulative appreciation of almost 49 per cent between January 2003 and early 2012.[14] But while much of this appreciation was driven by the commodity cycle, that wasn't the complete story, since although the terms of trade peaked in September 2011, the exchange rate remained strong for some time afterward the peak was past. This divergence between the value of the dollar and commodity prices was partly a product of the extreme monetary policy settings then prevailing in much of the rest of the developed world, which helped make Australian dollar assets look an attractive buy to foreign investors. It also served to complicate Australia's own economic adjustment to the post-supercycle world.

12 Based on the February 2015 reading.

13 The terms of trade is the ratio of the price of exports to the price of imports.

14 The TWI is a weighted average of a basket of currencies that reflects the importance of Australia's exports and imports of goods by country. This makes it a much broader measure of Australia's international competitiveness than the simple bilateral rate against the US dollar, although it's the latter that tends to be the more familiar benchmark and which is cited in popular discussions.

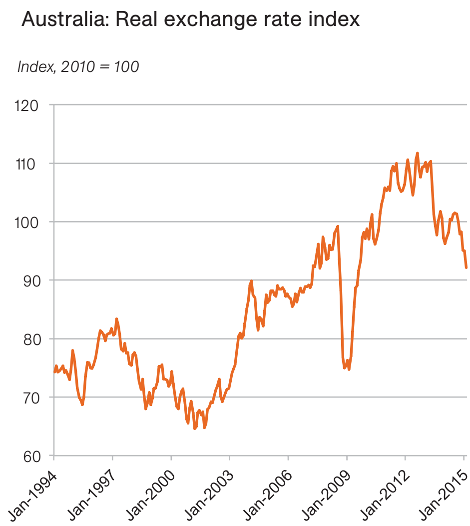
On a bilateral basis against the US dollar, the Australian dollar had been trading at around US$0.50 in mid-2001. The terms of trade boom saw it climb to be worth around US$0.85 when the *Review* was delivered in September 2008, and from there it continued to strengthen to reach a peak of around US$1.11 in late July 2011 (although once again the GFC did involve a short, sharp depreciation that interrupted this broader trend.

By the time of writing, the Australian dollar had fallen back to trade at closer to US$0.79.

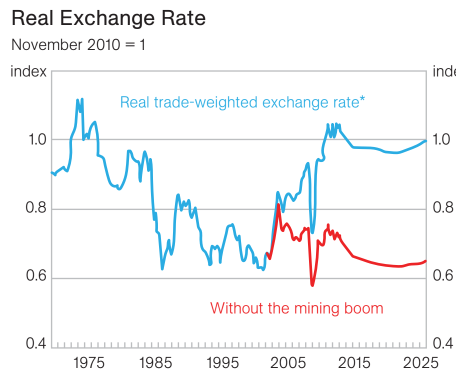
Australia's international competitiveness is adjusting

These large swings in the terms of trade and in the value of the Australian dollar have had significant consequences for Australia's relative international competitiveness. For example, a survey by Citi and East & Partners published in October 2014 asked 887 Australian 'trading businesses' to nominate their ideal rate for the currency against the US dollar. That survey found that those respondents involved in both exporting and importing felt confident about the prospects for their businesses at the US$0.88 level, while those involved only in exporting nominated a rate of US$0.85. Another survey, this time by the Commonwealth Bank and published in September 2014, reported the views of around 200 small and medium-sized Australian businesses. For this group, the average 'point of pain' (that is, the level of the exchange rate above which they would become uncompetitive) for the exporters in the sample was US$0.93. Based on this survey evidence, the recent falls in the dollar should be providing a significant boost to (non-resource) exporters after a prolonged period during which their international competitiveness was squeezed.

Competitiveness is adjusting



Source: BIS (Broad Index).



* Trade-weighted exchange rate adjusted for movements in relative consumer prices
Source: Downes, Hanslow and Tulip (2014)

Although it is a popular metric, the cross-rate of the Australian dollar against the US dollar is actually quite limited as a measure of international competitiveness. A much better summary statistic is the real exchange rate, which effectively takes the TWI and adjusts it for changes in relative costs.[15]

15 An increase in the real exchange rate index implies a fall in relative competitiveness.

According to some recent work by the RBA, one big consequence of the commodity boom was that Australia's real exchange rate in 2013 was about 44 per cent higher than it would have been if no such boom had taken place.[16] This real appreciation was an important part of the way in which the economy adjusted to the shifts required by the surge in commodity prices and the associated boom in the mining sector. But it also had important consequences for exporters outside the resource sector, where the steady appreciation resulted in substantial pressures on their relative competitiveness for much of the period since the *Review*. It was only after the March quarter of 2013 that the real exchange rate started to depreciate, and even then, the pace of depreciation has been relatively modest when set against the sharp falls in commodity prices noted above. Still, by the time of writing, the export sector had benefitted from a real exchange rate depreciation of more than 16 per cent since April 2013.[17]

Australia's export profile has changed . . .

Back in 2007 at the time of the *Review*, Australia exported a total of almost A$218 billion of goods and services.[18] By 2014, the value of Australia's total exports of goods and services had risen by more than A$100 billion, to stand at A$326.7 billion.[19] Over the intervening period, the rise of China, the global commodity cycle, and the shifts in Australia's relative international competitiveness have all been reflected in significant shifts in both the structure and destination of Australia's exports.

16 See Peter Tulip, *The Effect of the Mining Boom on the Australian Economy*. RBA Bulletin. December quarter, 2014.

17 Based on the monthly BIS broad real exchange rate series, with the latest available reading for February 2015.

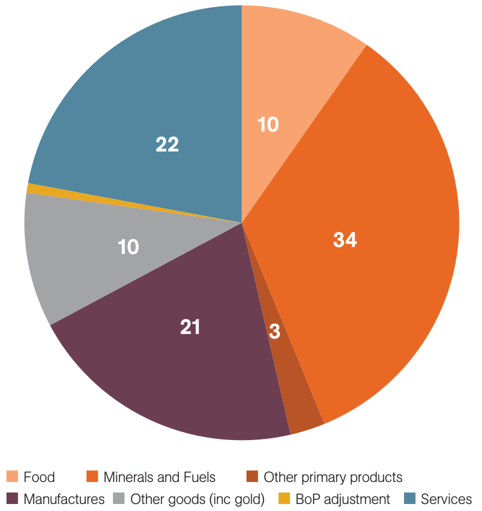
18 On a balance of payments basis. Data are from DFAT's *Composition of Australia Trade 2007*.

19 Source is DFAT monthly publication on Australia's trade, January 2015.

Composition of exports: The shift to resources

Composition of Australian exports, 2007

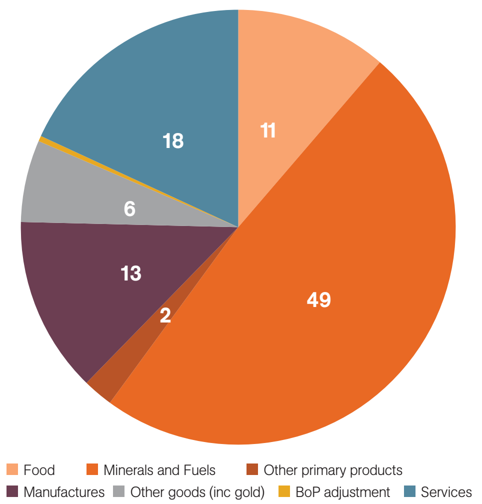
Per cent of total



Source: DFAT Composition of Trade Australia 2007

Composition of Australian exports, 2014

Per cent of total



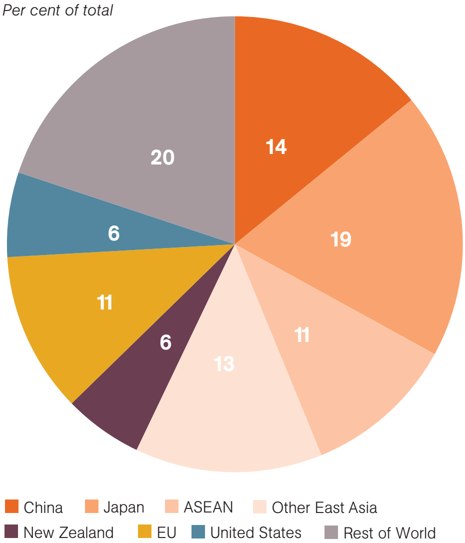
Source: DFAT Summary of Australia's Trade, March 2015

In terms of the *composition* of Australian exports, for example, by 2007 the *Review* was already pointing to an export mix where sales of minerals and fuels accounted for just over one-third of the value of total exports of goods and services. But by 2014, the share of that category had increased even further, rising to almost half of total exports. At the same time, the *direction* of Australia's exports has similarly been reshaped by the twin forces of the rise of China and the commodity boom. In 2007, exports to China 'only' accounted for 14 per cent of total merchandise (goods) exports, and China was still behind Japan in the export rankings. But by 2014, China's share of goods exports had risen to 34 per cent.[20]

Direction of goods exports: The shift to China

Direction of Australian goods exports, 2007

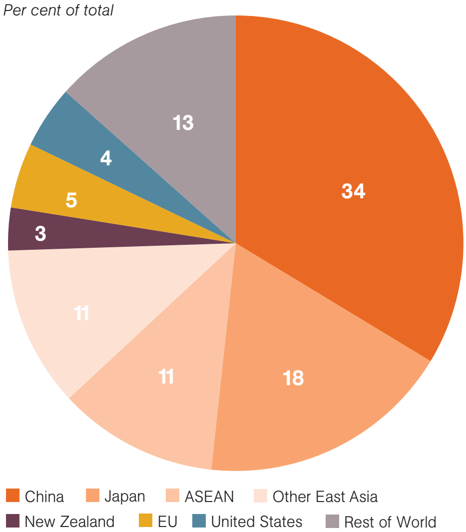
Per cent of total



Source: DFAT Composition of Trade Australia 2007. EU-27 in 2007.

Direction of Australian goods exports, 2014

Per cent of total



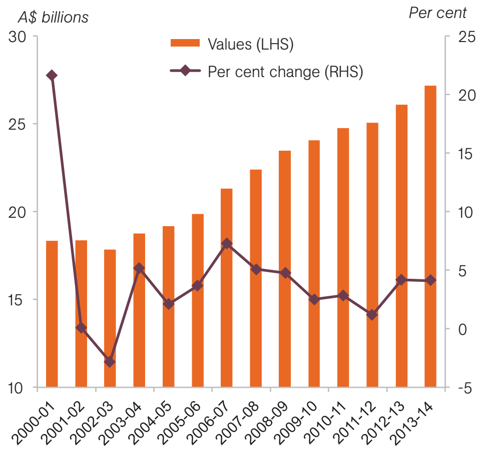
Source: DFAT Summary of Australia's Trade, March 2015. EU-28 in 2014.

Although the consequences of the commodity supercycle have tended to dominate Australia's export profile in recent years, that's not to say there have been no important developments in other sectors. In terms of Australia's exports of services, for example, the closely-connected sectors of tourism and education have maintained their status as leading contributors to Australia's export mix, despite the challenges posed by the strong exchange rate and (in the case of tourism in particular) subdued growth in key overseas markets. In both cases, exports to emerging Asia in general and to China in particular have played a critical role.

20 Note that while the analysis of the composition of exports here refers to goods and services, the direction of exports refers to goods exports only, as at the time of writing data on total exports by market was not available.

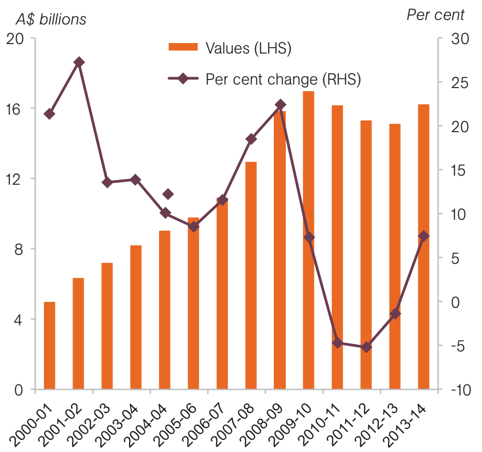
Tourism and Education

International tourism consumption



Source: ABS Tourism Satellite Account

Exports of education-related services



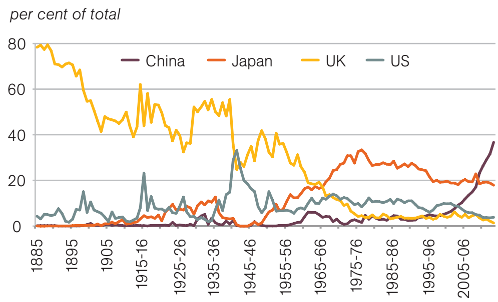
Source: ABS 5302

. . . and become more concentrated

As a result of these developments, another important change to Australia's export profile since the time of the *Review* is that exports have become significantly more concentrated. This is particularly visible in terms of Australia's growing dependence on China, which by FY2013-14 was the highest level of dependence on a single market since Australia's dependence on the UK back in the early 1950s.[21]

Exports to China in historical perspective

Australia: Key merchandise export partners 1885 to 2013-14



Source: DFAT

Moreover, since Australia's exports to China have been dominated by exports of resources in general, and exports of iron ore in particular, Australia's export concentration has also been increasing in terms of the composition, as well as the direction, of exports. One indicator that combines data on both the direction and composition of trade is UNCTAD's concentration index. The UNCTAD index is normalized to be between 0 and 1: in the case of exports, an index value of one reflects the extreme case of a country exporting just one product to one market, or 'complete concentration risk', while at the other end of the scale, values closer to 0 reflect a more equal distribution of market shares among export markets and products. In Australia's case, the combined resource-China boom has resulted in a period of increased concentration in Australia's export profile: from a value close to 0.1 in 2000, the index had increased to a value of 0.28 by 2013.

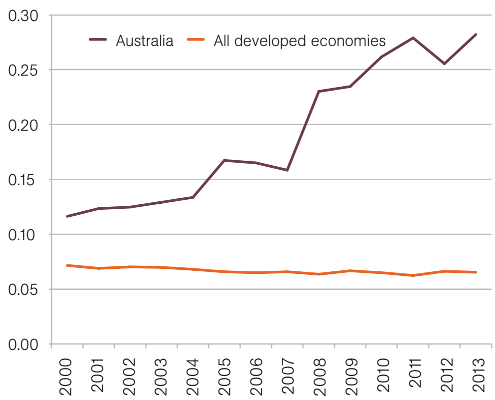
21 For more on Australia's export dependence on China, see Mark Thirlwell, *How dependent is Australia on exports to China?* Austrade Economics Trade and Investment Note. February 2015.

That's a trend which also stands in marked contrast to the collective experience of other developed economies, where the level of export concentration has been largely unchanged over the same period.

Exports: Becoming more concentrated

Export concentration index 2000-2013

Index ranges from 0 to 1, with 1 being most concentrated



Source: UNCTAD

How 'high' is an index value of 0.28? By the standards of other developed and high income emerging economies, it's pretty high: for developed economies as a group, the ratio was less than 0.07 in 2013, for example. On the other hand, it is still well-below the kind of concentration ratios that apply to major oil exporters.

But our export profile could be changing again

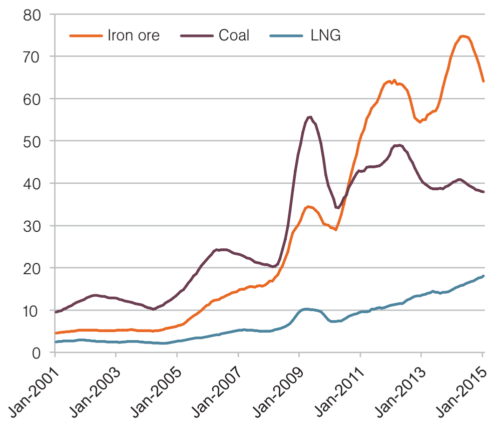
While the main changes in Australia's export profile since the time of the *Review* reflect the growing importance of China as an export destination and the importance of mineral resources (especially iron ore) as export products, recent trends suggest that Australia's export profile may be in the process of changing again:

- One important source of this shift is the rise of LNG exports, as some of the major investments in LNG plants that took place in recent years have now started to come on stream. While the fall in global energy prices means that projections for the value of this new export stream have been scaled back, volume growth is still expected to be very strong over the next few years.
- Another consequence of the fall in global commodity prices is that, even though the *volume* of exports of mineral resources has increased substantially in recent years, the *value* of those same exports declined over the course of 2014.
- At the same time, there are also signs that Australian exports are responding to the demand associated with the growing affluence of emerging Asia's middle class. The value of food and beverage exports has picked up in recent years, for example. And Australian exports of services related to tourism and education have also been strong performers. The ongoing adjustment in the real exchange rate, if sustained, should help support these export prospects.

Recent developments by product

Selected resource exports

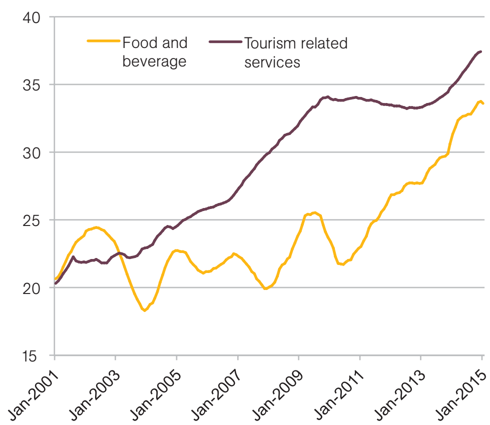
Rolling annual total, A$ billions



Source: ABS.

Selected non-resource exports

Rolling annual total, A$ billions



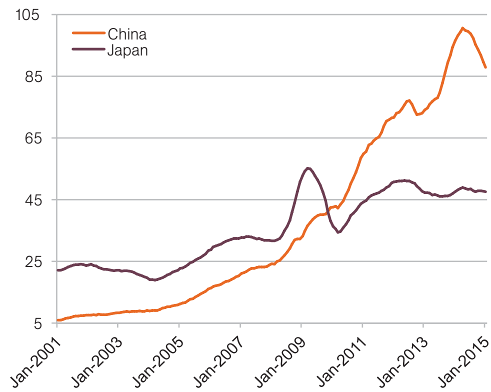
Source: ABS.

There have also been some recent shifts in the direction of (goods) exports.[22] In particular, the falling value of minerals exports noted above meant that the value of total goods exports to China actually *fell* in 2014. That's a marked contrast to the experience as recently as financial year 2013-14, when growth in exports to China accounted for almost 80 per cent of the total increase in the value of Australia's goods and services exports, and an even greater share of goods exports.

Recent developments by market

Merchandise exports to North Asia

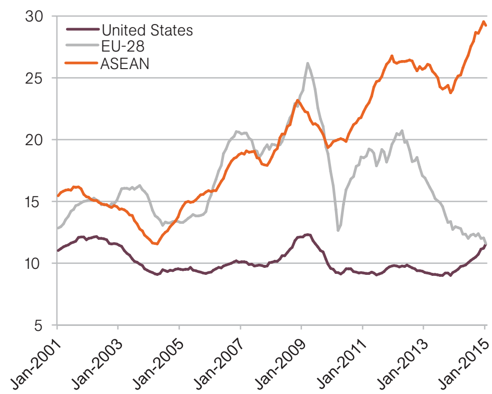
Rolling annual total, A$ billions



Source: ABS. Note excludes confidential items

Merchandise exports to selected markets

Rolling annual total, A$ billions



Source: ABS. Note excludes confidential items

22 At the time of writing, services exports by market were not available for 2014.

Other recent developments in terms of export market trends include a marked increase in exports to ASEAN over the past year. Exports to the United States have also started to pick up as that economy recovers from the post-GFC slump and as Australia's competitiveness improves, although continued weakness across many of the economies of the Europe means that exports to the EU have been in decline.

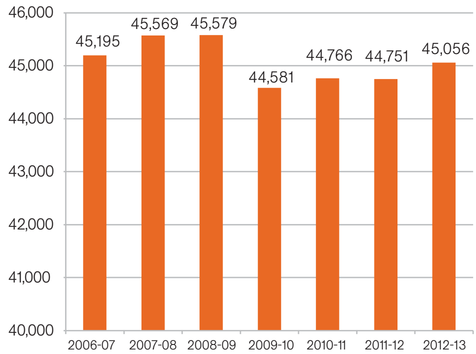
The total number of Australian exporters is little changed

Another important feature of Australia's export profile relates to the number and characteristics of Australian exporters. According to the ABS, there were 45,195 exporters in Australia in 2006-07, of which 42,654 were exporters of goods and 3,562 were exporters of services.[23] By 2012-13, the total was little changed, having fallen by 139 to stand at 45,056. An increase in the number of goods exporters by 391 (or about one per cent) had been offset by a fall of 239 (almost seven per cent) in the number of exporters of services.

23 Source is ABS 5368.0.55.006 *Characteristics of Australian Exporters, 2012-13*. Note that some firms will export both goods and services. Note also that the count for exporters of services will be a significant underestimate. In particular, the count does not provide any estimate for the number of exporters involved in travel, insurance, financial or government services, classed as 'other services' in *Characteristics of Exporters*. In 2012-13, total Australian services exports were worth about A$52.8 billion. Of that total, A$33.4 billion comprised exports from these 'other services', or about 63 per cent of the total by value. So the count of exporters of services applied to just A$19.4 billion of exports, or about 37 per cent of the value of total exports of services.

The number of exporters has been fairly stable

Number of exporters of goods and services, from 2006-07 to 2012-13



Source: 5368.0.55.006 Characteristics of Australian Exporters, 2012-13

The general *propensity* to export has declined modestly in the years following the *Review* and remains relatively low overall. In 2006-07, just over nine per cent of Australian businesses exported goods or services. By 2012-13, that share had slipped to be a little less than eight per cent.[24]

At the same time, the *concentration* of exports by number of exporters has increased slightly since the time of the *Review*. For example, in 2006-07, there were just 231 Australian goods exporters each generating exports of A$100 million or more. This group, which accounted for about half of one per cent of the total number of exporters in that year, was together responsible for almost 79 per cent of all Australian exports by value. By 2012-13, there were 276 goods exporters with exports worth A$100 million or more, which again was about half of one per

24 Source is ABS 8167.0 *Selected Characteristics of Australian Business, 2012-13*.

cent of the total number of exporters. But this group now accounted for roughly 85 per cent of goods exports by value.[25]

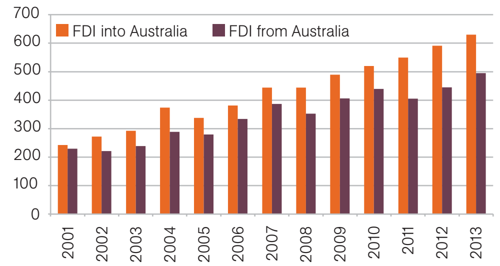
Foreign direct investment

Finally, while most of this paper has concentrated on exports and the export environment, the *Mortimer Review* also looked at Australia's performance in terms of foreign direct investment (FDI).[26] In a world of global value chains there is a particularly close connection between trade and FDI flows, so this paper concludes with a quick overview of how Australia's inward and outward FDI has evolved since the *Review*.

FDI into and by Australia

Stock of FDI , 2001-13

Billions of dollars, current prices



Source: ABS 5352.0

At the end of 2007, the total stock of FDI in Australia was A$444.4 billion. By the end of 2013, it had increased significantly to stand at A$629.9 billion.[27] Over the same period, the stock of Australian FDI abroad had increased from about A$387 billion to A$494.8 billion.

The *Review* noted that Australia's *outward* FDI was concentrated on the United States in particular, followed by New Zealand and the United Kingdom. That broadly remained the case as of 2013, with the United States alone accounting for 47 per cent of the total stock of Australian FDI abroad. The UK (almost 20 per cent) and New Zealand (18 per cent) had swapped places, but still completed the same top three overseas destinations. By sector, outward FDI in 2013 was concentrated in mining (about 29 per cent of the total stock of FDI), finance and insurance (28 per cent) and manufacturing (13 per cent)

Much of the increase in *inward* FDI over the period since the *Review* reflects the impact of the resource boom, with the share of the mining sector in the total stock of inward FDI increasing

25 The general pattern of a small number of exporters accounting for a large share of total exports by value is one that seems to be common across most economies.

26 FDI is a subset of total foreign investment, which also includes portfolio investment, financial derivatives and other investment flows. Formally, FDI involves the establishment of a lasting interest by a resident enterprise in one economy (the direct investor) in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor. 'Lasting interest' in this context is taken to imply both the existence of a long-term relationship and a significant degree of influence on management. It is these features - a sustained relationship and a significant degree of control – which distinguish FDI from other forms of foreign investment. The empirical benchmark for assessing whether an investment delivers significant control is the direct or indirect ownership of 10 per cent or more of voting power in the direct investment enterprise, such as ownership of 10 per cent or more of ordinary shares or voting stock.

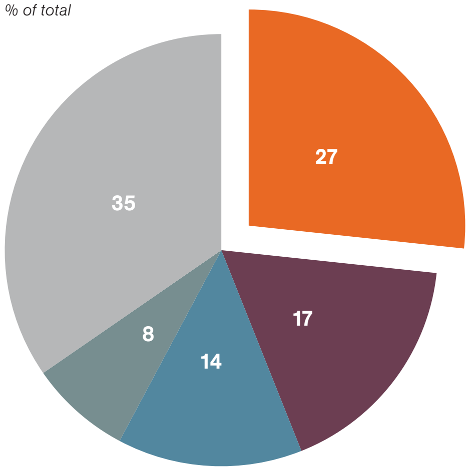
27 Data on FDI for 2014 by market and sector will be available later this year.

from about A$106 billion (around 27 per cent of the total) in 2007 to A$230.3 billion (almost 37 per cent) by 2013.

The resource sector has dominated inflows

Stock of FDI in Australia by sector, 2007

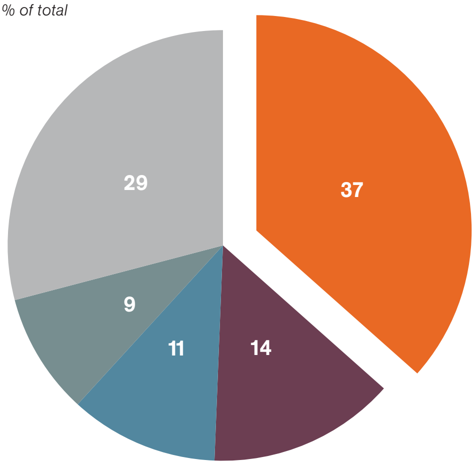
% of total



Source: ABS 5352.0

Stock of FDI in Australia by sector, 2013

% of total



With the commodity cycle having turned, investment in the resource sector is now in decline, and is expected to fall again over the coming year. Since FDI inflows in recent years have been dominated by mining investment, the mix of inward FDI is now likely to undergo some significant changes.

US and UK still key sources of FDI stock

Stock of FDI in Australia by source economy, 2007 and 2013

Per cent of total

Source: ABS 5352.0. Note. No China data published for 2007, so for China earlier data are for 2008.

By country, the largest sources of FDI in 2013 were the same as those at the time of the *Review*, with the United States accounting for roughly 24 per cent of the total stock and the EU about 25 per cent (with the UK alone accounting for almost 14 per cent). That said, the mix of FDI into Australia *has* changed since the *Review*. Relative to 2007, there have been significant increases in the share of several Asian economies including Japan, China and Singapore. In case of China, for example, the stock of inward Chinese FDI had increased from less than A$1b in 2006 to almost A$21b by 2013, and China's share of the total had risen from less than one per cent to more than three per cent. Over the same period, Japan's share increased from around seven to ten per cent of the total.[28]

28 Source is DFAT data based on ABS 5352.0.

APPENDIX C

C

Survey of EMDG recipient firms and non-EMDG firms

EMDG survey

TNS[1] was commissioned by Austrade, on behalf of the independent EMDG Review, to undertake research surveys to capture data from EMDG recipients (for the 2012–13 grant year) along with non-EMDG recipients (firms not previously in receipt of export market development grants).

Method and sample

The two surveys adopted an online approach. The questionnaire from previous years (2008) was adopted in order to retain key measures requiring ongoing reporting. The EMDG recipient sample was provided by Austrade and the non-EMDG sample was purchased from a private list broker. A total of 618 EMDG recipient surveys were completed and a total 156 non-EMDG surveys were completed.

Fieldwork was undertaken during April and May 2015, and completed on 10 May 2015.

Outcomes

Feedback from the surveys indicated, among other things, that the EMDG scheme has a clear impact on increasing the ability of businesses to engage in exporting and export development, in both the short and long term.

The survey report is available online at www.austrade.gov.au/Export/Export-Grants/review.

Additional analysis

The Review commissioned further analysis of the TNS survey results by Hagan & Associates of Canberra. In its analysis, Hagan & Associates found that 'there is strong survey evidence that EMDG firms are more experienced exporters than non-EMDG firms, suggesting that the financial incentives inherent in the EMDG scheme have a measurable impact on export success'.

The additional analysis is available online at www.austrade.gov.au/Export/Export-Grants/review.

1 Taylor Nelson Sofres Australia Pty Ltd, North Sydney

APPENDIX D

KPMG economic impact study


KPMG
cutting through complexity

Economic Impact of the
Export Market
Development Grants
Scheme

Prepared for
Michael Lee, Reviewer,
2015 Review of the Export Markets
Development Grants (EMDG) Scheme

Final Report:
29 May 2015

Disclaimers and limitations

Inherent limitations

This report has been prepared as outlined in the Scope Section. The services provided in connection with this engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by the Australian Auditing and Assurance Standards Board and, consequently no opinions or conclusions intended to convey assurance have been expressed.

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, the Austrade 2015 EMDG Review personnel and subcontractors consulted as part of the process.

KPMG have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report.

KPMG is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form.

The findings in this report have been formed on the above basis.

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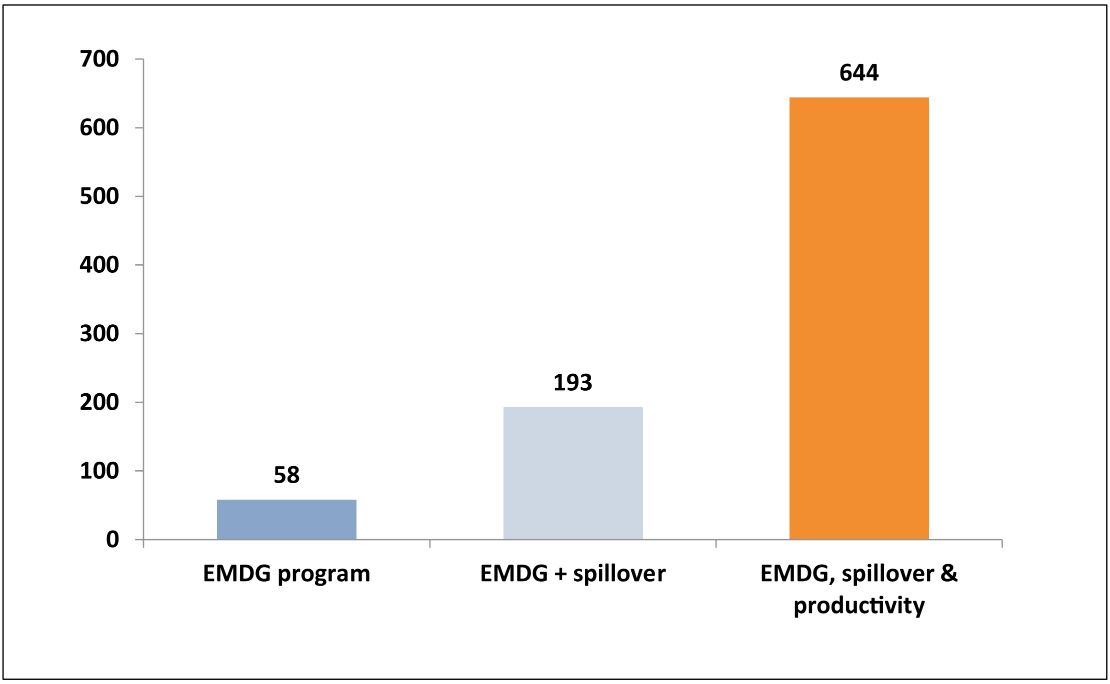
Executive Summary

Key findings

The Export Market Development Grants (EMDG) program effectively redistributes productive resources from Australian taxpayers (including firms) to new and emerging exporters. To the extent that this transfer of resources results in an increase in community welfare than would otherwise be the case, the program can be judged to be efficient.

Impact of the EMDG program on annual consumer welfare ($ million, 2013/14 prices, deviations from the baseline)



Source: KPMG-CGE simulations

Modelling results reported here suggest that this is the case as the program increases community welfare by $58 million (in 2013/14 prices) due to the program's inducement effect in terms of increased exports. The welfare gain rises to $193 million when (survey-based) positive spillovers to other (non-EMDG) firms are taken into account, and to $644 million when (survey-based) productivity effects are also taken into account.

Modelling the impacts of the EMDG program

CGE modelling was used to estimate the impact of the EMDG program on the Australian economy. This analysis captures:

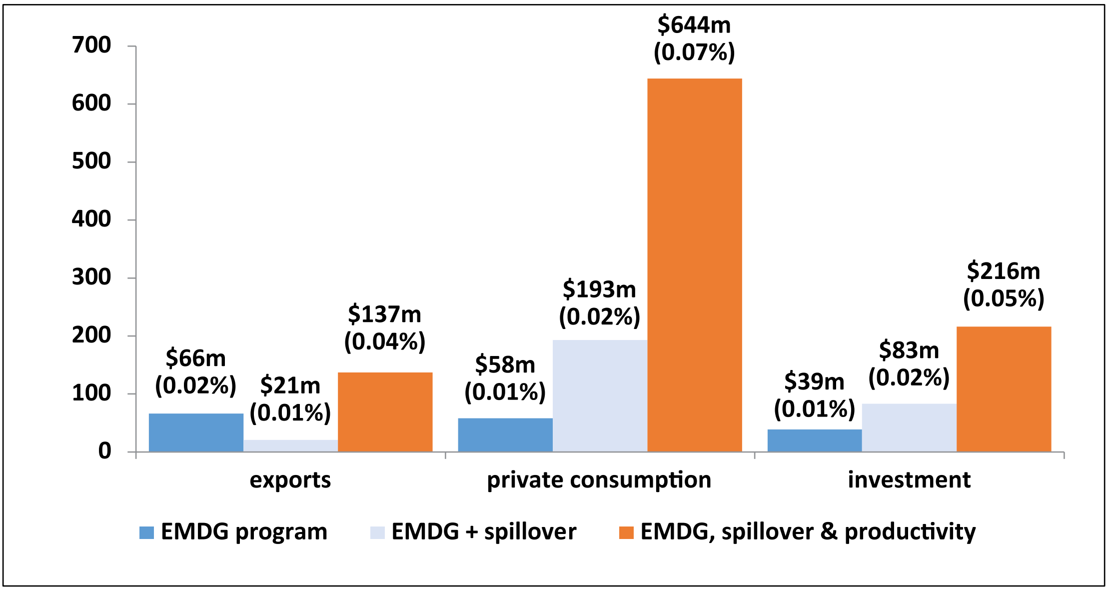
- the direct impact of the EMDG program;
- the impact from other firms outside of the EMDG program learning from EMDG recipients' experience (based on survey data); and
- the impact from improved productivity – through competing in world markets, firms often find ways to become more competitive/productive (survey data).

The EMDG program is designed to stimulate trade activities. This is through providing firms with a partial reimbursement of their export marketing costs. Specifically, the 2013/14 EMDG program provided grants equivalent to 0.04% of total Australian exports.

The impacts of the EMDG program

It is estimated that the 2013/14 EMDG program alone stimulated around $66 million (or 0.02 per cent) in additional exports in the Australian economy (in 2013/14 terms). When spillover and productivity impacts are also taken into account, this increases to around $137 million (or 0.04 per cent) higher exports compared to if the program had not been in place.

Impact of the EMDG program on the economy
(deviations from the baseline, $ million in 2013/14 prices and % change)



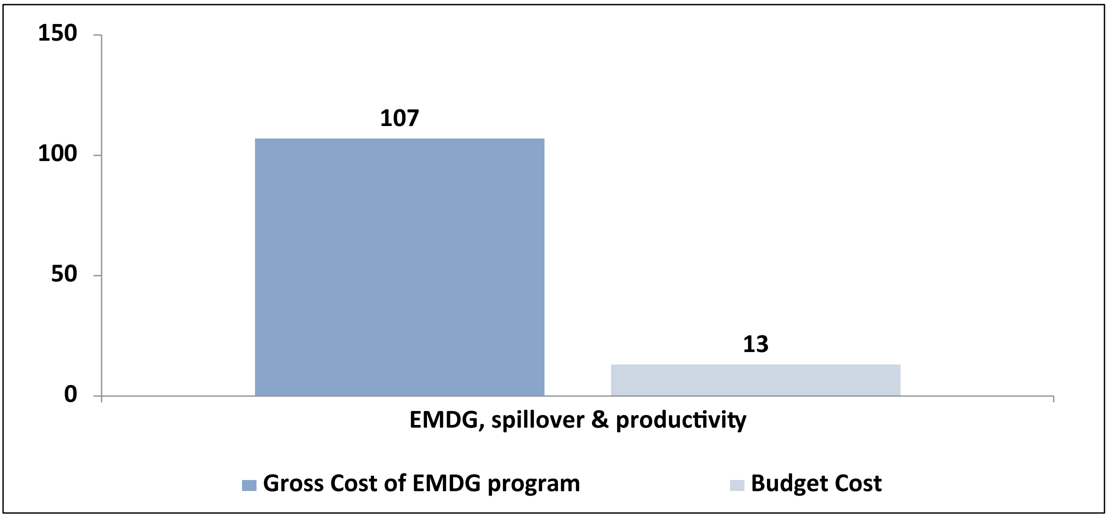
Note: the percentages show the change compared to the measure in question. That is, the change in exports is calculated on the 2013/14 export base, the change in private consumption is on the 2013/14 household consumption base and the change in investment is on the 2013/14 fixed capital formation base.
Source: KPMG-CGE simulations

The modelling shows that these additional trade activities flow through to boost economic activity within Australia, leading to higher industry activity (including investment), incomes and consumption.

When spillover and productivity impacts are taken into account (in 2013/14 terms), the program is projected to stimulate an additional $644 million (or 0.04 per cent) in consumption and an additional $216 million (or 0.04 per cent) in investment compared to if the program had not been in place.

The EMDG program also stimulates activity and welfare across the economy. Importantly, these benefits are not expected to be at the expense of taxpayers. Taking into account the spillover and productivity impacts, the additional economic activity stimulated by the program is projected to lead to additional taxation collections, with this additional revenue expected to virtually offset the direct cost of the program.

Net cost of the EMDG program on taxpayers
($ million, 2013/14 prices, deviations from the baseline)



Source: KPMG-CGE simulations

The EMDG program provides benefits to the economy through opening up access to export markets and helping boost productivity in trade-exposed companies. To put these impacts into context, a comparison was made with the economic costs and benefits of other research and development related programs. This analysis found that the economic outcomes of the EMDG program compare favourably with these other programs.

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Background

The Export Market Development Grants program effectively redistributes productive resources from Australian taxpayers (including firms) to new and emerging exporters. To the extent that this transfer of resources results in an increase in community welfare than would otherwise be the case, the program can be judged to be efficient.

The Export Market Development Grants (EMDG) program is an Australian Government program aiming to boost Australian exports of goods and services. This program provides financial assistance to help exporters to access foreign markets.

In 2008, KPMG modelled the economy-wide impacts of export marketing grants and any additional "flow-on" impacts on export activity for inclusion in a report to Austrade by Lateral Economics. Austrade used the results of this analysis to inform the 2008 Mortimer Review of Export Policies and Programs.

In 2009, Austrade commissioned KPMG to update and refine the 2008 modelling. This update incorporated data from the Austrade survey of EMDG recipients in 2009. As an extension to the earlier study, in 2009 KPMG also used new information from the survey data to estimate some of the additional economic impacts of the EMDG program (which were discussed, but not quantified in the 2008 report).

The KPMG modelling identified the direct impact of the EMDG payments on exports, the flow-on impacts to industries that supply the exporters and on the economy in general, and also the estimated potential spill-over benefits. Spill-over benefits occur when non-EMDG recipients are able to access a more open export market. As these other companies gain access to export markets, this may encourage further export activity or higher export prices.

The 2015 Review of the Export Market Development Grants Scheme ("the Review") is now in progress and will be carried out from January to June 2015.

As input into this process, the Review has commissioned KPMG to update our economic modelling of the impacts of the EMDG program. This update incorporates data from a survey commissioned by the Review and conducted by TNS Consultants (hereinafter referred to as 'the survey')[1]. The results will be used to inform the final Review report on the EMDG program.

Scope

Similar to the 2008 and 2009 studies, this update captures:

- the direct impact of the program on EMDG exports (EMDG program data);
- the impact from other firms outside of the EMDG program learning from EMDG recipients' experience (survey data); and
- the impact from improved productivity - as export firms (such as EMDG firms) compete on the world market, they often find ways to become more competitive/productive (survey data).

1 *2015 Independent Rreview of the Export Market Development Grants (EMDG) scheme* – A market research report prepared for the 2015 review of the Export Market Development Grants (EMDG) scheme by TNS Consultnats. TNS reference: 263103215. Final Report 26 May 2015.

The report also compares the impacts of the EMDG program with other government programs and benchmarks.

Report structure

This report is structured as follows.

- Section 2 outlines the modelling approach used in this analysis.
- Section 3 presents the results of the modelling in terms of both the national impacts and the industry effects of the EMDG program.
- Section 4 summarises the net benefits of the EMDG program and compares the results with other government programs.

Modelling Approach

CGE modelling was used to estimate the impact of the EMDG program on the Australian economy

The analysis captures the direct impact of the EMDG program; the impact from other firms outside of the EMDG program learning from EMDG recipients' experience (survey data); and the impact from improved productivity - when competing on the world market, firms often find ways to become more competitive/productive (survey data).

This section provides details of the modelling approach used to estimate some of the economic impacts of the EMDG program on the national economy of Australia. This section starts by outlining the features of the model used for this analysis. This is followed by a description of the scenarios that were modelled.

KPMG-CGE: KPMG's Computable General Equilibrium model

The economic modelling of the impact of the EMDG program was conducted using KPMG-CGE – KPMG's computable general equilibrium (CGE) model. KPMG-CGE is a development of the world-leading ORANI and MONASH model lineage created at the Centre of Policy Studies. The model brings the best of this world-renowned modelling tradition together with several new theoretical advancements to create a cutting-edge CGE framework.

Key assumptions

The scenarios modelled here are based on a long-run closure of the KPMG-CGE model that has been chosen to match the economic environment applied in assessing the 2009 EMDG program. This allows results between the current report and the 2009 report to be easily compared. The closure applied here shows the long-term effects of industry changes after the economy has fully responded. This is fitting because industry changes should be judged against their lasting effects on the economy, not just their effects in the first one or two years. Some of the assumptions underlying the long-term closure of KPMG-CGE as applied here are listed below.

Labour market equilibrium: local employment is fixed, which means that in the long run the labour market is assumed to attain equilibrium, so that an economic shock has no lasting effect on total employment. This assumption is implemented by fixing the level of total employment.

External balance: the current account is at a sustainable level. Specifically, a trade surplus is run equal to the amount required to service foreign-owned capital. The real exchange rate adjusts so as to achieve the required trade surplus. Thus shocks to international trade affect the real exchange rate, not the trade surplus.

Budget balance: the government budget is also assumed to be at a sustainable level. Specifically, the government budget balance is held fixed. A lump sum tax/transfer is used as the fiscal policy instrument to balance out the effects on the government budget of changes in taxation revenue and government outlays.

Private saving: the household saving rate is held fixed as a proportion of household disposable income. This means that domestic and foreign assets accumulate at the same rate.

Model scenarios

To examine the economic impacts of the EMDG program, four scenarios were modelled in MM600+, as follows.

- Baseline Scenario: No EMDG program.
- **Scenario 1:** EMDG program – EMDG program modelled as export incentives varying by product.
- **Scenario 2:** EMDG program plus spillovers – EMDG program as export incentives and 63 per cent spillover effects of the private rate of return (modelled as higher export demand).
- **Scenario 3:** EMDG program, spillovers plus increased productivity – EMDG program as export incentives, 63 per cent spillovers of the private rate of return and an increase in labour efficiency.

The differences in economic outcomes between Scenarios 1 to 3 and the Baseline Scenario are calculated to estimate the likely economic benefits of the EMDG program. The main inputs for the scenarios are discussed below.

Scenario inputs

The Review provided KPMG with data on the grants provided under the EMDG program by 4-digit ANZSIC code. These grants were allocated by Austrade across ANZSIC codes according to the industry that received the grant. KPMG used these grants to estimate an equivalent export incentive (discussed further in Scenario 1 below).

The Review also provided KPMG with data on the impact of the EMDG program on EMDG recipient's productivity, the number of competitors benefiting from the EMDG recipients activity and the associated increase in competitors exports.

This grant and survey data is shown in the table below.

Table 1: EMDG Survey and Grants Data

Average Industry Grant (as a share of total exports)	0.04%
Competitor firms benefiting from each EMDG recipient firm's exporting experience	2.2
The extent of such benefits in the competitor firm's export	9%
Size of labour productivity improvements across EMDG recipients	16.1%

Source: Austrade EMDG survey and KPMG estimates

Based on the survey results provided by Austrade, the table above shows the estimated productivity and spillover benefits attributed to the EMDG program.

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- When asked if competitor firms learnt or benefited from their activities, the middle response[2] (or the median) indicated that around 4 other firms benefited from each EMDG firm who believed they had been an influence. This equates to, on average, 2.2 other firms benefiting per EMDG surveyed firm.
- When asked to what extent these competitor firms benefited from these spillovers, the middle (the median) response was 27 per cent, while the most frequent response (the mode) was 9 per cent. The average response indicated a very high 40 per cent, indicating that there were likely a few high outliers in the data. Thus, the analysis used the most frequent response of 9 per cent.
- The survey productivity response is also shown in Table 2.1, where the most frequent response by those who indicated that they had achieved improved labour productivity, was to estimate an improvement of 19 per cent. Discounting this estimate so that it applies to all EMDG recipients surveyed gives an average labour productivity improvement across all EMDG recipients of approximately 16.1 per cent.

This data was then used to design a number of different modelling scenarios. These scenarios are used to estimate the impact of the EMDG program on the Australian economy.

Scenario 1: EMDG program

> The 2013/14 EMDG program provided export industry assistance equivalent to 0.04% of total Australian exports.

As discussed above, the amount of grants distributed in 2013/14 was used as an input into the modelling, to estimate the direct impact on exports and the broader economy of the EMDG program.

To model these impacts, the grants first needed to be reallocated, as necessary, to the industry responsible for the related exports. For example, if the grant was provided to a milk wholesaler, the initial 4-digit classification would have allocated this grant to the wholesale trade industry. For modelling purposes such a grant was redirected to the milk manufacturing industry. Thus, as a first step in the analysis, KPMG reallocated export grants, where necessary, across 4-digit ANZSIC industries.

The grants were then used to estimate a rate of export incentive by KPMG-CGE product. These rates were then fed into the KPMG-CGE model (Scenario 1).

This base case scenario assumes perfect information and perfect capital markets. However, it is important to note that this is unlikely to be the case. In particular, the survey results indicate that there are additional benefits to both participants and competitors from the program. This indicates that, without the program, recipients and their competitors do not have access to full information to assist them in accessing export markets. Further, recipients also do not have access to perfect information to allow them to be as productive as they could be – this information is likely to be more accessible as recipients compete on the world market.

The EMDG program benefits the Australian economy by breaking down some of the barriers

2 As the structure of the survey responses precluded discounting outliers, the median was used as the most appropriate response to account for spillover effects.

to information - opening up the export market and increasing the productivity of recipients. This is discussed further in Scenario's 2 and 3.

Scenario 2: EMDG program and spillover impacts

It is estimated that for every $1 benefit to EMDG recipients there is an additional $0.63 benefit to the rest of the economy.

The next step was to estimate the impacts of the EMDG program on firms outside of the EMDG recipients' group. For this, competitor data was used by KPMG to estimate the spillover effects across competitor firms in the economy. Spillovers include the benefits attributable to non-EMDG recipients also accessing what has effectively become a more open export market as a result of the program. That is, as other companies gain access to export markets, this flows through to further export activity - induced in the modelling via higher export prices.

Applying a similar methodology as the 2009 analysis, this update uses new survey data to estimate of the likely spillover impacts of the EMDG program.

Table 2 shows how this data was used to estimate a 63 per cent spillover impact associated with the EMDG program.

Table 2: EMDG Spillover Impact

Average industry grant (A)	0.04%
EMDG share of exports (B)	1.0%
Potential impact on EMDG participants prices (C = A/B)	3.8%
Export demand elasticity (D)	8.3
Potential gain in export volumes attributable to EMDG (E = C x D)	31%
Productivity gain to competitors (F)	20%
Spillover effect (G = F / E)	**63%**

Source: Austrade EMDG survey and KPMG estimates

The first step was to estimate the potential increase in EMDG recipients' exports due to the EMDG program. This was done by estimating the potential price impact on EMDG recipients by scaling the overall industry impact by the EMDG share of exports (0.04%/3.8%) and applying a factor representative of the likely export demand response (average export demand elasticity of 8.3). This gave a potential increase in EMDG recipients' exports of 31 per cent attributed to the EMDG program.

The second step compares the estimated benefits across other firms (from table 1, 2.2 firms benefiting x 9% increase in exports = 20%) with the estimated impact on EMDG recipients exports (31%). This gives a 1:0.63 relationship. That is, for every $1 benefit to EMDG recipients there is an additional $0.63 benefit to the rest of the economy. Thus, to capture the spillover impacts of EMDG programs, KPMG has modelled EMDG spillovers of 63 per cent of the private rate of return (Scenario 2). Through the spillover effects, Scenario 2 captures the imperfect information for competitors in the export market.

While the table above shows the impact across all industries, for the modelling exercise, a separate calculation was done for each industry. This meant that a different spillover effects were applied to each industry based on the level of EMDG firms operating in that industry and the export parameters in that industry.

Scenario 3: EMDG program, spillover impacts and productivity improvements

The 2013/14 EMDG program is estimated to have led to a 16.1 per cent improvement in labour productivity, on average, across participating firms.

This equates to a saving of around $330 million (in 2013/14) in labour costs across the Australian economy.

The final impact modelled in this 2015 update is the potential efficiency benefits of moving resources from non-traded sectors to traded sectors. This benefit is again based on information from the survey identifying labour productivity improvements experienced by EMDG recipients.

The table below shows how this data was used to estimate a 0.04 per cent average increase in industry labour productivity associated with the EMDG program.

Table 3: EMDG Productivity Impact

EMDG production ($ million)	11,624
Labour cost saving	16.1%
EMDG share of economy-wide labour costs	0.3%
Labour productivity saving	**0.04%**

Source: Austrade EMDG survey and KPMG estimates

EMDG production data from Austrade was used to estimate that the EMDG firms contribute to approximately 0.3 per cent of economy-wide labour costs. This estimate was combined with the survey result of a 16.1 per cent EMDG productivity saving. This gave an estimated 0.04 per cent improvement in labour productivity across the whole economy, equating to a labour cost savings of around $330 million (in 2013/14 dollars).

While the table above shows the impact across all industries, for the modelling exercise, a separate calculation was done for each industry. This meant that a different labour productivity improvement was applied to each industry based on the level of EMDG firms operating in that industry. Through the increased labour efficiency, Scenario 3 captures the imperfect information for recipients relating to potential production efficiencies.

Modelling considerations

Important considerations for analysing the likely effects of the EMDG program are summarised in the tables below. The first table shows the considerations that are captured in the modelling. The second table shows the considerations that are not captured in the modelling.

Table 4: EMDG Considerations – Captured in the modelling

Allocative Efficiency	Allocative efficiency losses arise when assistance is provided to some industries – meaning that resources are artificially reallocated from other industries towards the assisted industries.
The Base Case	Scenario 1 - the base case scenario, assumes perfect information and perfect capital markets. However this is not likely to be the case (see page 8).
Spillover Effects - competitors	The survey results indicate that competitors do not have access to full information to assist them in accessing export markets – and this is captured in Scenario 2. The additional export activity of EMDG recipients (as a result of the EMDG program) open up more export opportunities to companies who are not part of the program.
Efficiency of traded vs. not traded industries	The survey also indicates that recipients achieve productivity improvements with greater access to information from world markets – and this is captured in Scenario 3.

Table 5: EMDG Considerations – Not captured in the modelling

Spillover Effects - recipients	Just as competitors do not have access to full information to assist them in accessing export markets, neither do recipients. The learning achieved through access to more export markets is likely to translate into further benefits to the recipient and the economy as a whole. However, it is difficult to distinguish the additional activity due to additional learning by EMDG recipients from the additional activity due to the incentive and increased productivity. Thus, the results in this report are likely to be somewhat understated.
Deadweight Loss	This is the deadweight loss from extra taxation to fund the EMDG program.
Capital Constraints	Capital constraints facing SMEs (emphasised by the Centre for International Economics (CIE) in its 2005 study of the program).

The remaining sections of this report present and discuss the modelling results.

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Results

This section reports the results of modelling the main long-term economic impacts of the EMDG program. Importantly, when analysing the impacts of a policy, the most appropriate impacts to consider are the long-term effects of the policy, after the economy has fully adjusted. This is fitting because policies should be judged against their lasting effects on the economy, not just their projected effects in the first one or two years.

This section is structured as follows.

- The first part describes the estimated long-term effects of the program on the level of imports and exports (compared to what they would have been without the program).
- The second part sets out the estimated long-term economy-wide effects of the program (compared to economy-wide activity without the program).
- The third part presents the long-term impacts on industries within the economy attributable to the program (compared to the industry activity without the program).
- The fourth part reports the estimated long-term impacts of the program on consumer welfare (compared to the industry activity without the program).
- Finally, the fifth part compares the estimated long-term benefits of the program with the costs.

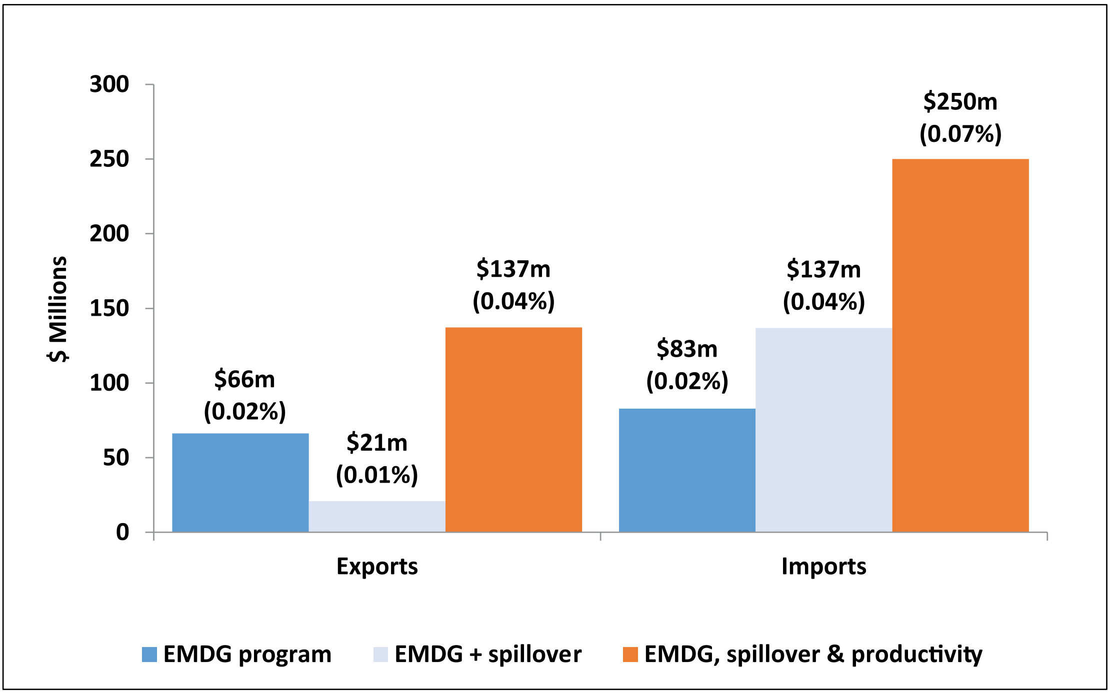
Trade effects

The EMDG program is designed to stimulate trade activities.

It is estimated that the 2013/14 EMDG program alone stimulated around $66 million in additional exports in the Australian economy. When spillover and productivity impacts are also taken into account, this increases to around $137 million higher exports (in 2013/14 terms) compared to if the program had not been in place.

Chart 1 shows the estimated trade effects of the EMDG program. In particular, this chart shows the projected annual contribution of the program to aggregate exports and imports.

Chart 1 Trade effects
(deviations from the baseline, $ million in 2013/14 prices and % change)



Source: KPMG-CGE simulations

The EMDG program provides support to recipients to assist in the development of export markets. This assistance takes the form of partial reimbursement of export marketing activities, which lowers the cost of these activities and, in turn, leads to higher exporting activity by EMDG recipients than would have occurred without the program. Higher demand for Australian exports will lead to an improvement in Australia's terms-of-trade which leads to a higher exchange rate. This effect on the exchange rate will have two key impacts.

- First, the resulting appreciation of Australian dollar means that prices of imported goods and services would be lower than would otherwise be the case. Lower prices lead to an increase in the demand for imports, making consumers better off.

- Second, the change in the real value of the Australian dollar means that prices of exported goods and services would be higher than would otherwise be the case. Higher prices lead to a fall in the demand for Australian exports.

This will mean that the initial rise in exports will be partly offset by lower exports in other areas of the economy. The higher export activity by EMDG recipients will lead to some reallocation of resources away from other production and export activity. This will further offset the initial rise in exports.

The EMDG program alone is expected to have led to around $66 million (in 2013/14 terms) more exports in the Australian economy than would have occurred without the program.

Spillover effects include the flow-on benefits of a more open export market. These effects arise as the additional export activity of EMDG recipients opens up more export opportunities to companies who are not receiving any grants (Scenario 2). This has the effect of further increasing the first round boost to exports. These effects lead to a further improvement in Australia’s terms-of-trade – driving up the exchange rate further. This, in turn, further stimulates imports, while again dampening exports in other areas of the economy.

With a more efficient economy (arising from labour efficiency benefits of moving resources from non-traded sectors to traded sectors in Scenario 3), Australian products are more competitive and can be offered at a lower price. This leads to increased production and exports, again further improving Australia’s terms-of-trade – driving the exchange rate up even further and stimulating imports.

When spillover and productivity effects are also taken into account, the EMDG program is expected to have provided a $137 million boost to overall exports in the Australian economy (in 2013/14 terms).

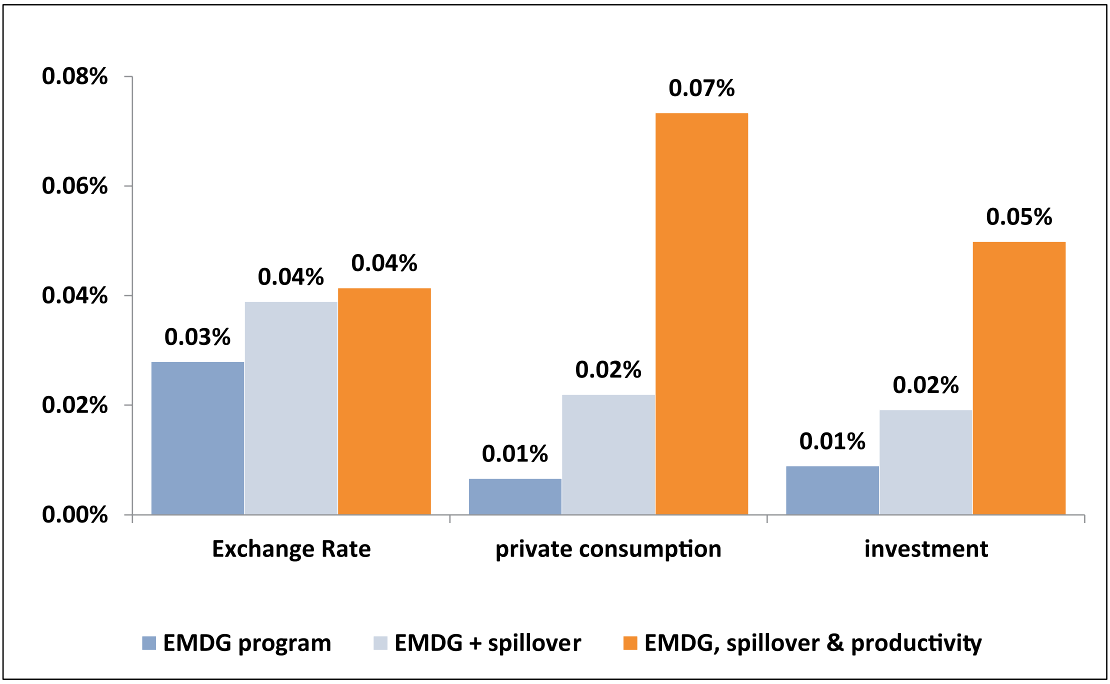
Economy-wide effects

Additional trade activities are expected to stimulate additional economic activity within Australia, boosting industry activity (including investment), incomes and consumption.

The key economy-wide contributions of the EMDG program are now considered. As previously discussed, these modelling results refer to outcomes over the long run (5 to 10 years).

Chart 2 below shows the average annual contribution of the EMDG scenarios to key economic aggregates in the Australian economy. Specifically, the chart shows the average annual contribution of the EMDG program to private consumption and investment, and the effect on the exchange rate when compared to the Baseline Scenario.

Chart 2 Economy-wide effects (% change, deviations from baseline)



Source: KPMG-CGE simulations

As discussed in the trade effects section, the first round effect of the program is to stimulate exports when compared to the Baseline Scenario. The higher level of exports improves Australia's terms-of-trade leading to a higher expected exchange rate (compared to the Baseline Scenario. The stronger Australian dollar will make imports cheaper. Access to cheaper imports will lead to higher consumption levels.

However, there is also a direct cost involved in providing the EMDG grants, which is ultimately borne by taxpayers.[3] As such, the cost of the program is projected to almost completely offset the direct benefits to consumers of the EMDG program alone (Scenario 1).

Additional to these direct effects, there are also expected to be flow-on benefits or spillover effects to the economy as a whole. For example, other companies that are not EMDG recipients are also expected to benefit from greater access to export markets. Further, by becoming more trade-exposed, EMDG firms are expected to show signs of increased productivity as they improve production processes to remain competitive and also through learning from their overseas competitors. In the Austrade survey, EMDG recipients reported increased productivity due to participation in the program.

These additional benefits mean that there will be higher economic activity under the grants + spillover and productivity scenarios (Scenarios 2 and 3) compared to the Baseline Scenario. This increase in economic activity will flow through to further support higher private consumption, meaning that the EMDG program + spillovers provide a net benefit to the economy.

3 Incidence across taxpayers is unknown

It is estimated that the EMDG program, including spillover and productivity effects, contributed to 0.07 per cent higher consumption (equivalent to around $644 million in 2013/14) and 0.05 per cent higher investment (equivalent to around $216 million in 2013/14) in the Australian economy compared to a baseline without the program.

Industry effects

The EMDG program is expected to have led to production gains in the consumer-oriented industries and the industries upstream/ downstream to the EMDG export industries.

The impact of the EMDG program will vary across industries in Australia. Chart 3 illustrates the projected variation in the industrial structure of the Australian economy.

Chart 3 (on the following page) shows that the program will assist with sales and productivity in the industries responsible for exporting related goods and services. For example, the Manufacturing industry receives a significant proportion of the grants under the EMDG program. Thus, this sector expands relative to others sectors such as Mining.

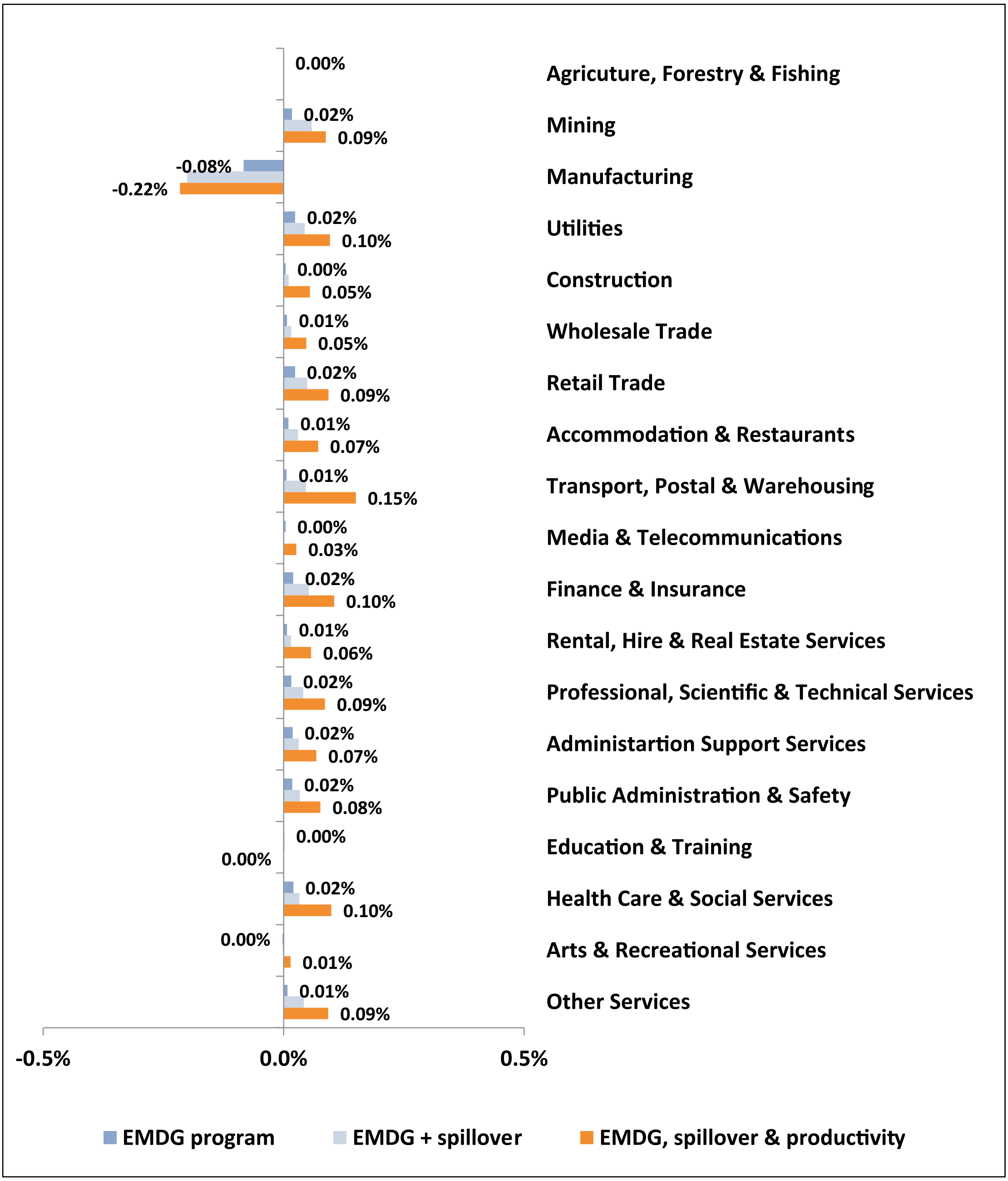
The additional activity in the EMDG export industries will also stimulate extra activities in industries that supply services to the export industries. As can be seen in Chart 3, sectors supplying services to the export industries (including the telecommunications, real estate services and professional services sectors) all benefit due to increased economic activity under the EMDG scenarios.

As a result of increased export activity by EMDG firms, additional industry activity generates more revenue to the community when compared to the Baseline Scenario. This boosts demand for consumption goods and services, including those provided by the health industry and the arts and recreational services industry. As such these sectors also benefit from increased economic activity under the EMDG Scenarios.

The exchange rate plays a critical role in determining growth in trade-exposed industries. As previously mentioned, the increased export activity leads to a higher value of the Australian dollar which lowers demand for other Australian exports.

Therefore, the production gains in the consumer-oriented industries and the industries upstream/downstream to the EMDG export industries would be somewhat offset by losses in production in other trade-exposed industries.

Chart 3 Average Annual Industry Production Effects (% change, deviations from baseline)



Source: KPMG-CGE simulations

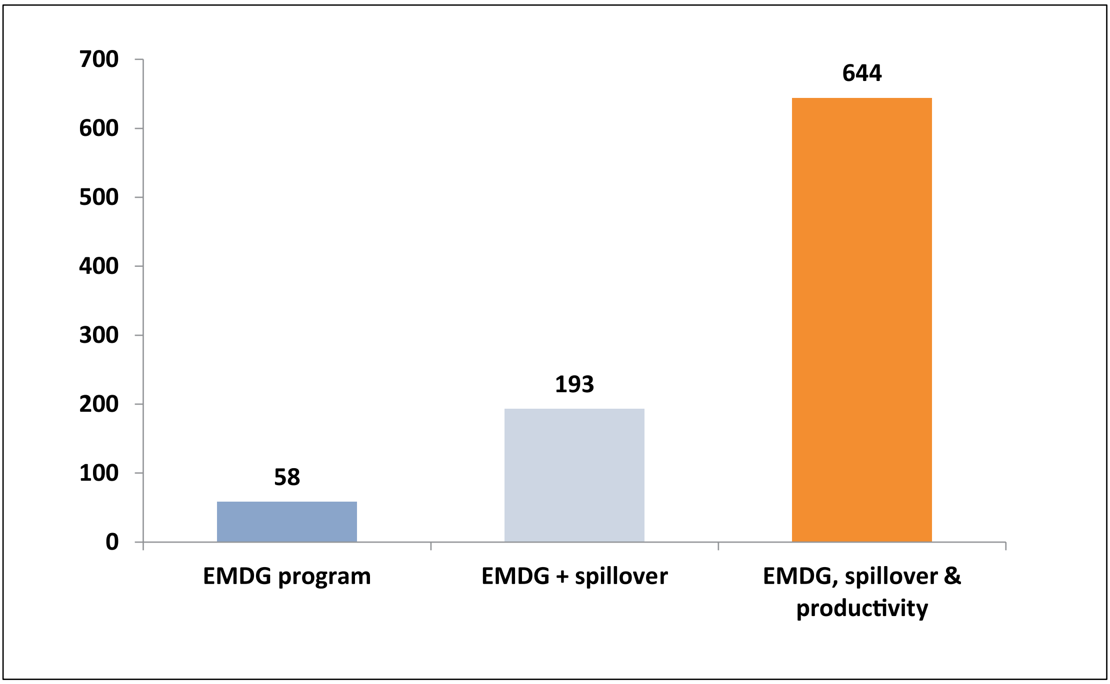
Consumer welfare effects

Higher production in the economy will boost incomes. This, combined with cheaper imports, flows through to higher levels of consumption.

Rather than changes in production, the overall benefit of the implementation of the EMDG program on Australian living standards is most appropriately captured using consumption measures. This is because living standards derive from consumption. Therefore, this report includes a measure of the changes in annual consumer welfare resulting from the EMDG program. In this analysis, annual consumer welfare is determined by the average annual real consumption per head of the population.

Chart 4 presents the expected change in consumer welfare resulting from the EMDG program.

Chart 4 Annual Consumer Living Standard Effects
($ million, 2013/14 prices, deviations from the baseline)



Source: KPMG-CGE simulations

Chart 4 shows that the increase in consumption that is due to EMDG alone (as modelled in Scenario 1) is somewhat offset by the cost of the program.

Further, the chart shows that including the flow-on impacts from increased access to export markets and increased productivity in the economy, more than offsets the cost of the program. That is, it leads to an overall increase in consumer living standards. This increase in living standards is the result of a number of factors.

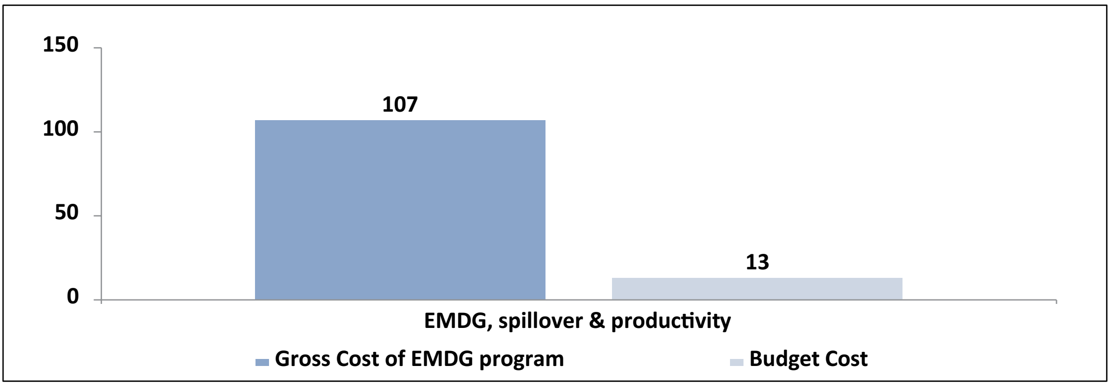
- Firstly, the EMDG program stimulates exports, driving higher levels of production in the economy. This will push higher annual national income. This, in turn, leads to a higher level of private consumption when compared to the Baseline Scenario.
- Secondly, additional demand for Australian exports leads to an initial improvement in Australia's terms of trade. This will mean that the exchange rate will adjust (ensuring the long-run condition of sustainable trade balance). A higher Australian dollar will make imports cheaper, further benefiting consumers.
- Thirdly, the enhanced labour efficiency of Scenario 3 takes account of the $330 million labour cost savings expected from the EMDG program. This enhances the overall welfare in the Australian economy by $451 million[4]. This occurs as the labour cost saving in industries receiving EMDG benefits frees up some labour resources, allowing them to move into other sectors and contribute to production there.

Impacts on the Government budget

The EMDG program provides benefits to the economy through opening up access to export markets and helping boost productivity in trade-exposed companies.

The chart below estimates the impact of the program on the government budget. In particular, it estimates the tax adjustments that are required to fund the program. As can be seen, after taking into account the increase in other tax collected from additional economic activity stemming from the grants, more open export markets and increased productivity – additional funding will not need to cover the full cost of the grants, as the additional activity and income across the economy leads to increased tax collections, which will offset some of the cost of the program.

Chart 5 Estimated Budget Cost to Taxpayers ($ million, 2013/14 prices)



Source: KPMG-CGE simulations

Chart 5 only takes into account the government budget side of the program. Table 6 summarises the estimated overall benefits of the EMDG program to the whole Australian economy.

4 This is the difference between the annual consCRC programmeumer living standards of Scenario 3 and Scenario 2 ($644 million – $193 million)

Table 6: Estimated net benefit of EMDG program ($ million, 2013/14 prices)

	EMDG program	EMDG + spillover	EMDG, spillover & productivity
Gross benefit	165	300	751
Gross cost	107	107	107
Net Benefit	58	193	644
Benefit : Cost	1.55:1	2.80:1	7.03:1

Source: KPMG-CGE simulations

As can be seen in the table above, the direct benefits of the EMDG program are offset by the cost of the grants. However, as the program also opens up export markets to other domestic producers and leads to increased productivity in trade-exposed companies, there is a clear net benefit to the economy and the Australian community (Scenarios 2 and 3).

Comparison with other government programs and benchmarks

The economic outcomes of the EMDG program compare favourably with other research and development related programs.

When assessing programs it is important to assess them on a comparable basis. The most appropriate basis is in terms of the benefits compared to the cost associated with each program.

The table below uses this basis to compare the impacts of the EMDG program with other government programs and benchmarks. It is important to note that this is not an exhaustive list of government programs and benchmarks. These programs have been compared on the basis of their relevance to the EMDG program and the availability of comparative information. The benefit to cost ratio shows the amount of benefits per $1 spent on each program. For example, the table below shows that for every $1 cost to the taxpayer, they receive around $7.03 in benefits (when the program's impacts on productivity and other exporters are taken into account).

As can be seen from the table below, the impacts of the EMDG scenarios compare favourably with estimated benefits of other government programs. That is, the benefits of the EMDG program are in line with, or higher than the programs identified in the table below. Further, the EMDG program (once spillovers and productivity impacts are taken into account) has a benefit cost ratio of greater than 1:1, indicating that the benefits of this program outweigh the cost of the program.

Table 7: Comparison with other government programs and benchmarks

Programs	benefit : cost
EMDG program	1.55 : 1
EMDG plus spillovers	2.80 : 1
EMDG plus spillovers and productivity	7.03 : 1
Cooperative Research Centres	3.10 : 1
Equipment Energy Efficiency	3.00 : 1
E-Government Programs	0.61-0.92 : 1
R&D Tax Concession	0.70-1.98 : 1

The following provides a brief description of some comparable programs and the benefits they provide.

KPMG
cutting through complexity

Cooperative Research Centres Programme

The Cooperative Research Centres (CRC) Programme is a programme that supports industry-led collaborations between researchers, industry and the community. The programme seeks to support research and development investment. Between its commencement in 1991 and 2012, the Australian Government committed $3.4 billion to the CRC programme[5]. The programme's objective is to deliver economic, environmental and social benefits to the community through collaboration between public researchers and the private sector.

CRCs can be incorporated or unincorporated organisations formed through collaborative partnerships between publicly funded researchers and end users. In 2014-15 there are 35 active CRCs in areas that include hearing, healthcare, pest management, bushfire and natural hazards management, financial markets security and the auto and aerospace industries.

The CRC programme is recognised as beneficial to the Australian economy, with a benefit to cost ratio greater than 3:1. That is, the CRC programme is expected to provide $3.10 in direct and indirect benefits for each $1 spent on the program. The EMDG program (when productivity and spillover impacts are recognised) compares favourably to this program, with almost twice the benefits expected for each $1 spent on the grants ($7.03 benefit : $1 cost).

Equipment Energy Efficiency Programme

The Equipment Energy Efficiency (E3) Programme seeks to manage the labelling of appliances and equipment to achieve benefits associated with reducing the use of energy in Australia. A number of studies have viewed the costs and benefits of this programme, including benefits to Government and to consumers. These costs are generally associated with capital costs, with a small amount attributable to government testing and administration. The benefits are generally results from decreased use of energy.

The E3 Programme[6] is estimated to provide $3.00 in benefits to all parties for every $1 spent on the program. Thus the benefits of the EMDG program compare favourably to the E3 Programme.

E-Government

The Commonwealth's E-Government strategies include the Government Online Strategy and Better Services, Better Government. E-government is the transformation of public sector internal and external relationships through Internet enabled operations and information and communication technologies. A report on the benefits of E-Governments considered the economic, financial and social benefit/cost ratio for 38 e-government programs[7].

Of the 38 programs surveyed, 24 programs expected a financial benefit. Across the agencies expecting a financial benefit the aggregate benefit/cost ratio was 92.5 per cent from an investment of $108 million (or a 0.925:1 benefit to cost ratio). The report also found that the aggregate benefit/cost ratio across all 38 programs was 61% (or a 0.61:1 benefit to cost ratio). The EMDG program compares favourably to the E-government programs.

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5 Allen Consulting Group 2012, *The economic, social and environmental impacts of the Cooperative Research Centres Program,* report to the Department of Industry, Innovation, Science, Research and Tertiary Education, Canberra, September.

6 Commonwealth of Australia, Department of Industry (2014) *Impacts of the E3 program: Projected energy, cost and emissions savings.*

7 Information on the E-Government programs is sourced primarily from NOIE-DMR Consulting report, *The E-Government Benefits Study.*

R&D Tax Concession

The R&D Tax Concession is a Commonwealth Government initiative to increase the level of research and development (R&D) in Australia. The aim of the concession is to encourage innovative, competitive and export-oriented Australian industries. This is achieved by allowing companies to deduct up to 125 per cent of R&D expenses that qualify for the tax concession when lodging their corporate tax return.

The Government has recently announced intentions to implement extensive changes to the R&D Tax program from July 2010. These changes include: changing from a tax deduction to a tax credit system; increasing the level of benefits, narrowing the scope of expenditures that can be claimed; and definitions of eligible R&D activities.

A 2003 report[8] that reviewed the 125% R&D Tax Concession program by the Centre for International Economics (2003) found that the benefits generated by the 125% Concession are between $0.70 and $1.98 for each dollar of tax revenue forgone. This does not include the spillover benefits that arise from the research and skills flowing to other firms, nor the behavioural gains by the firms. In 2007, an evaluation of the two new elements of the program[9] the R&D Tax Offset and the 175% Premium R&D Tax Concession; found that the R&D expenditure by firms registering for the Concession grew by $1.226 billion (to $6.936 billion) in 2003–04 from 2001–02 when the changes were introduced.

When compared to the 125% R&D Tax Concession, the benefit cost ratio of the EMDG program alone (Scenario 1) is within the direct benefit cost ratio band of the tax concession.

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8 Centre for International Economics (2003) *Review of the R&D Tax Concession Program.*
9 The Australian Government (2007) *New Elements of the R&D Tax Concession Evaluation Report.*

APPENDIX E

Hagan & Associates microeconomic analysis of the EMDG scheme

This appendix develops a simulation model of a typical EMDG recipient firm with the aim of exploring how such an enterprise could be expected to react to changing economic circumstances (including changes that might be made to the scheme).

Based on Austrade data, the average EMDG firm has a turnover of some $5 million, employs 20 people and exports around a quarter of its products (by value).

External 'shocks' simulated include a devaluation of the Australian dollar, increased firm productivity attributable to experience gained in selling on world markets (which then flow through to benefit domestic production), systematic variations to the specifics of the EMDG scheme, and the potential 'spillover' benefits to EMDG firms when they are able to take advantage of the pioneering efforts of other firms in exporting Australian goods and services.

Simulations focusing on such a 'representative' EMDG firm reported in this appendix suggest:

(a) that fluctuations in the value of the Australian dollar in terms of its purchasing power over foreign currencies, while impacting on the value of EMDG reimbursement claims, may not necessarily lead to concomitant changes in the volume of exports (although devaluations/revaluations could easily lead to firms becoming more successful exporters or ceasing to export altogether)

(b) that EMDG-attributable experience in exporting can potentially lead to significant productivity gains on the part of grant-recipient firms, making them more profitable and resilient over time

(c) that varying the specifics of the EMDG scheme to make it more generous has the potential to significantly spur the volume (and value) of exports—particularly if that generosity is closely linked to continued export success. This attests to the export-inducement effects of the scheme

(d) that EMDG scheme-related (positive) 'spillovers' to and from exporters can have powerfully positive effects on Australia's exporting performance, including flowing on to significantly increase the efficiency of firm operation.

Economic effects of the EMDG scheme

The export marketing literature[1] suggests that a simple characterisation of the stages through which new and emerging exporters typically progress is as follows:

1. *No exporting activity*: (i.e. the firm sells locally to satisfy domestic demand and management is not interested in exporting).
2. *Partial interest in exporting*: (e.g. the firm is alert to exporting as a possibility, is willing to fill unsolicited orders, seeks out information on possible target markets, and may consider the feasibility of exporting on a systematic rather than just an opportunistic basis).
3. *The exploring firm*: (e.g. there may be some limited exporting to 'psychologically close' countries—such as New Zealand in

1 See, for example, Section 3.1 of Review of the Export Market Development Grants Scheme by Lateral Economics (henceforth LE 2008).

Australia's case—management may actively explore export possibilities, and there may be some export experience to draw on, but the activity remains a minor one for the firm).

4. *The experimental exporter*: (e.g. limited exporting to selected countries, consideration given to the development of an export strategy, some carefully planned export ventures).
5. *The experienced exporter*: (e.g. regular exporting to a variety of markets including more 'psychologically distant' ones, a well-developed export strategy, exports consistently account for a significant proportion of production).

As also pointed out in the literature on this subject, this (linear) 'stages' view of transition to exporter status has been challenged as lacking explanatory power and testability, as over-simplistic given possible backward as well as forward progression and—in view of the relatively new phenomenon of the 'born global' firm (conventionally understood as businesses which export in their first year of operations)—as out-of-date and inaccurate. To an extent, these objections can be overcome by abandoning the linearity assumption (thereby admitting that some firms may regress, as well as progress between stages), and allowing skipping of stages (so that 'born globals' progress from the first to the final stage within one year).

Notwithstanding its possible lack of explanatory power, this is a convenient framework to discuss the economic effects of the Export Market Development Grants (EMDG) scheme, with its emphasis on encouraging new exporters on the one hand, and sustainable exporting on the other.

New exporters can be categorised as firms that progress from stage 1 to any of stages 2 to 4, while sustainable exporters are those that progress to stage 5. As mentioned, the special case of 'born globals' are those firms that progress from stage 1 to stage 5 in their first year of operation. Non-sustainable exporters would include firms regressing from stages 2 to 4 back to stage 1.

The EMDG scheme can, then, be seen as a mechanism to facilitate positive transitions between stages of exporting by providing economic incentives in the form of *ex-post* partial reimbursement of firms' eligible export marketing outlays—with the ultimate aim of encouraging EMDG firms to become established, continuing exporters.

Specifically, EMD grants lower the cost of firms' export promotion activities, (hopefully) inducing more of this activity to be undertaken than would otherwise be the case—with the ultimate aim of spurring more exports. This intended effect of the scheme (increased exports) can be thought of (and has been described in previous reviews) as the 'induced' export effect.

Other hoped-for effects of the scheme are increased firm efficiency/productivity (flowing from their export experiences) and positive 'spillovers'—as the benefits of higher-than-otherwise export activity on the part of EMDG firms flow though to advantage other economic activities (e.g. in the form of productivity-enhancing impacts access to new 'know-how' gained from exporting has on the Australia economy generally, and other would-be exporters in particular).

Increased exports ('inducement' effects)

The inducement effect of the EMDG scheme is perhaps best illustrated by articulating a simple model of the firm new to exporting (i.e. in stages 2, 3 or 4 above), and which has some excess capacity that it could use to satisfy additional demand by foreigners (in the form of exports).

For such a firm total revenues comprise domestic and foreign components, while on the cost side total costs are simply disaggregated into production and associated domestic-oriented costs and a foreign component comprising the cost of export promotion activities (assumed for simplicity to be incurred in foreign currency):

Revenues = Domestic + Foreign … (1)

Costs = Production + Domestic and Foreign Export Promotion Expenses … (2)

Articulating the Revenue side of (1) into its various components:

R = DR + FR(dc) … (3)

(where DR stands for Domestic (sales) Revenues and FR stands for Foreign (sales) revenues—converted to domestic currency i.e. into Australian dollars)

= p(d) x q(d) + ER x p(f) x q(f) … (4)

(where p stands for price, q for quantity, d for domestic and f for foreign and ER for the relevant Exchange Rate—expressed as Australian dollars per unit of foreign currency—while x indicates multiplication).

Next there is a need to specify a behavioural relationship between q(f)—the volume of exports and FMC(fc)—Foreign Marketing Costs (expressed in foreign currency terms). The simplest such relationship is that q(f) is simply a multiple of FMC(fc)—that is that the volume of exports into a foreign market is proportional to the resources devoted to marketing in the target market. Thus,

q(f) = constant x FMC(fc) … (5)

(where the value of the constant—or 'Nexus' between foreign export-promotion efforts and the resulting volume of exports—can be inferred from firms' expenditures in targeting sales in foreign markets).[2]

Equation (4) can now be re-expressed as:

R = p(d) x q(d) + ER x p(f) x Nexus x FMC(fc) … (6)

Turning to the Cost side of the model, articulating (2) into its various components:

C = PC + DMC + FMC(dc) … (7)

(where PC stands for Production Costs, DMC for Domestic Marketing Costs and FMC(dc) for Foreign Marketing Costs (expressed in domestic currency))

And since, by definition:

FMC(dc) = ER x FMC(fc) … (8)

(where FMC(fc) stands for Foreign Marketing Costs (expressed in foreign currency)).

C = PC + DMC + ER x FMC(fc) … (9)

= F + VC x [q(d) + q(f)] +DMC + ER x FMC(fc) … (10)

(where F stands for the fixed (capital) costs of producing the firm's output—irrespective of the volume of production—and VC for the variable cost per unit of production, noting that this

2 Implicit in this specification is the assumption that the firm is a 'price-taker ' in foreign markets (which is arguably reasonable on grounds that Australian goods and services would typically only account for a small proportion of a the targeted foreign market, so that Australian exports are typically unable to influence prices in foreign markets — let alone set them).

specification of the production function implies that the firm has the capacity to expand output at a constant marginal cost).

As an aside at this stage of the analysis (and as was done in the 2008 Report by Lateral Economics),[3] it is possible to derive a general 'profitability test' of the circumstances under which it is worthwhile for the firm to produce for foreign markets (see Box E1).

However it is perhaps more instructive to produce more concrete results on the microeconomics of the firm by articulating (8) further in order to bring in firm productivity and the role played by the EMDG scheme explicitly. To do this, a couple of definitions are in order, since the focus of this analysis is on the role export-driven productivity gains can permeate domestic as well as foreign production, and how this links into EMDG grants.

Box E1: The 'profitability test' for EMDG-induced increases is the volume of exports

Differentiating (4) and (10) — assuming that the only variables of interest are q(f), the volume of exports, and FMC(fc), Foreign Marketing Costs (expressed in units of foreign currency) — yields:

$$\Delta R = ER \times p(fd) \times \Delta q(f) \quad \ldots \text{(I)}$$

$$\Delta C = VC \times \Delta q(f) + ER \times \Delta FMC \quad \ldots \text{(II)}$$

Thus the boost to profitability attributable to exporting (equal to ΔR minus ΔC) is:

$$\Delta R - \Delta C = [ER \times p(fc) - VC] \times \Delta q(f) - ER \times \Delta FMC \quad \ldots \text{(III)}$$

So that the condition that ΔR - ΔC is positive (i.e. exporting is worthwhile since it boosts profitability) relies on the following:

$$ER \times p(fc) - ER \times \Delta FMC/\Delta q(f) > VC \quad \ldots \text{(IV)}$$

What equation (11) is saying is that exporting will add to the bottom line (i.e. will be worthwhile pursuing) if the price obtainable for exports (converted to Australian dollars) less the cost of additional foreign marketing costs (similarly converted to Australian dollars) divided by the induced increase in export volumes must at least cover the marginal cost of production.

Equation (IV) shows how the EMDG scheme works to produce the 'inducement' effect on exports [Δq(f)], in the case of firms with spare capacity. From the point of view of the firm, partially reimbursing export promotion reduces the component of the term ΔFMC that the firm has to finance, thereby making satisfying the hurdle represented by (4) easier to satisfy. And to the extent that the induced effect on exports is substantial [Δq(f)], satisfying (IV) becomes even easier. Thus the EMDG scheme has the effect of lowering the magnitude of the term ΔFMC divided by Δq(f) in equation (IV) — making exporting that much more attractive for a profit-maximising firm with at least some excess capacity that it could use to satisfy foreign (rather than domestic) demand.

Source: LE 2008.

3 See footnote 1.

LPTY = TP/q(l) so that TP = LPTY x q(l) … (11)

(where LPTY stands for Labour Productivity—defined as Total Production divided by the quantity of labour employed, q(l))

EMDG = Grant Percentage x [ER x FMC(fc) - Hurdle] … (12)

(where EMDG stands for the EMD grant paid to eligible firms, calculated as a specified percentage of Foreign Marketing Costs (foreign currency), FMC(fc), converted to Australian dollars) less a 'Hurdle' amount.[4]

ULC = ALC x q(l)/TP so that TP = ALC x q(l)/ULC and ALC = LPTY x ULC … (13)

(where UCL stands for Unit Labour Costs, ALC for (average) Annual Labour Costs—as the assumption underlying the model is that the analysis period is one year) and

VC = UL … (14)

(so that what equation (12) is saying is that the variable cost per unit of production equals unit labour costs—i.e. that, apart from capital, labour is the only other cost of production, and, by extension, employment can be varied depending on the volume of production).

Armed with these definitions and further (behavioural) assumptions, the articulation of costs can now be re-expressed as:

C = F + ULC x LPTY x q(l) + DMC + ER x FMC(fc)

- Grant Percentage x [ERxFMC(fc) - Hurdle] … (15)

4 This amount represents a set amount beyond which the EMDG Grant Percentage is applied in reimbursement calculations on the part of the administering authority (in this case Austrade). It is currently set at A$5,000 but it — like the Grant Percentage — represents a parameter of the scheme (and so is potentially subject to variation if and when the specifics of the scheme are changed).

In order to explore the implications of the above formulation of the economics of EMDG recipient firms, a case study of of a representative EMDG firm is reported below. This case study focuses on what happens to firm profitability when key variables such as the Exchange Rate, productivity (output per unit of labour input) and specifics of the EMDG scheme vary.

The idea is to shed light on how grants might spur foreign marketing efforts (and hence exports), how grants could lead to positive 'spillover' effects that increase firm productivity as it learns how to produce its outputs more efficiently as a result of its exporting experience (and possibly learning from others' experiences in foreign markets).

To do this in a concrete way involves assigning specific values to variables in the above formulation of the economics of the firm which are not the primary focus of this analysis, namely: p(d), q(d), p(f), constant, F and DMC, along with initial values for ER, ULC, q(l), FMC(fc) and the EMDG-related Grant Percentage and Hurdle—with the values ER, q(l) and the Grant Percentage subsequently systematically varied to illustrate the resulting consequences for the variables of primary interest).

Values assigned to the various components of firm revenue (R), namely p(d), q(d), ER, p(f), the Nexus between foreign export-promotion efforts and the resulting volume of exports and FMC(fc) together determine the size of the (case study) firm—in turnover terms.

The implications for profitability (revenues minus costs) of a representative EMDG firm of systematically varying variables of particular interest are explored below. In doing so, not only are EMDG-related export 'inducement' effects identified but so too are productivity and (positive) 'spillover' effects attributable to the scheme. All of these comprise the potential economic effects of the EMDG scheme.

Case study: A $5 million turnover firm with exports accounting for some 24% of the total value of production

The case study was based on the 'average' grant-recipient (EMDG) firm which, based on EMDG data for the 2012-13 grant year (whose grants were finalised in the 2013-14 financial year), had a turnover of $5 million, employed 20 people, exported 24 per cent of its turnover and qualified for an EMD grant of $45,000.

Variables whose values do not vary during the various EMDG-related simulations in the case of the above representative firm were set as follows:

The domestic price p(d) = A$6, production to satisfy domestic demand q(d) = 633,333 units, the foreign price p(f) = US$4—taking the USA as the foreign market of interest in these series of simulations,[5] fixed costs/overheads F = A$1.5 million, domestic marketing costs DMC = A$150,000 and the Hurdle = A$5,000.

Initial values of variables of interest are set as follows (for the Base Case simulation): the exchange rate ER = 1.25 (equivalent to one Australian dollar being able to purchase 80 US cents), annual labour costs per employee ALC = A$150,000, the number of employees q(l) = 20, foreign marketing costs FMC(fc) = US$76,000, Grant Percentage = 50, Nexus = 3.16 (roughly based on the survey of grant-recipient firms whose results are discussed in the online analysis of the survey at www.austrade.gov.au/Export/Export-Grants/review.

Of the latter variables, ER, LPTY (physical labour productivity), the EMDG-related Grant Percentage and the Nexus between FMC(fc) and q(f) are subsequently systematically varied in order to illustrate the effects on firm profitability—and other variables of interest (including the volume of exports, q(f), or export-inducement effect)—when these key variables change.

Base Case simulation

Table E1 sets out the 'Base Case' results of assigning the above variables to their permanent (or initial) values. It simulates the representative EMDG firm in receipt of an EMD grant based on remunerating 50 per cent of (adjusted) foreign marketing costs—of some US$76,000, converted to Australian dollars at the given exchange rate (in this case it is 1.25), less the hurdle sum of $5,000—equals A$45,000.

The table reports both revenue and cost components in terms of values (e.g. domestic sales, fixed costs), prices (e.g. the price realised for domestic sales, unit labour costs) and quantities/volumes (e.g. domestic production, the quantity of labour)—along with key aggregates (e.g. total sales, total costs and profit).

Also included in the table are the values of other key variables (the return on capital, the relevant exchange rate, (physical) labour productivity and the EMD grant percentage (plus the 'effective grant' percentage from the perspective of the EMD grant-recipient firm).

5 The parameters of the model can be easily changed to simulate the situation with another of Australia's trading partners.

Table E1: Case of a representative EMDG firm (with a turnover of $5 million initially exporting 24% of its total value of production)—Base Case simulation (A$s and quantities)

	Revenue item			Cost item	
Values	Domestic sales	$3,800,000	*Values*	Variable costs of production	$3,000,000
	Foreign sales (a)	$1,200,000		Domestic marketing costs	$150,000
	Total sales	$5,000,000		Foreign marketing costs (a)	$95,000
	PROFIT(b)	$300,000		Fixed costs	$1,500,000
				Variable costs	$3.44
				EMD grant	$45,000
				Annual labour costs	$150,000
				Total costs	$4,700,000
Prices	Domestic price (c)	$6.00	*Prices*	Unit labour costs	$3.44
	Foreign price (a)	$5.00			
Quantities/ volumes	Domestic production	633,333	*Quantities/ volumes*	Labour	20
	Exports	240,000			
	Total production	873,333			
Other key variables	Return on capital (d)	20.00%	*Other key variables*	Labour productivity (f)	43,667
	Exchange rate (e)	1.25		EMD grant percentage (g)	50.00%
				EMD grant effective percentage (h)	47.37%

Notes: (a) Converted to Australian dollars. (b) Equals Total sales minus Total costs. (c) In Australian dollars. (d) Equals Profit divided by Fixed costs (expressed as a percentage). (e) Expressed as Australian dollars per unit of foreign currency - in this case US dollars. (f) Equals Total production divided by the quantity of Labour. (g) Percentage of Foreign Marketing costs (expressed in local currency terms) rebated beyond the Hurdle (currently A$5000). (h) EMD grant divided by Foreign Marketing costs (expressed in local currency terms) expressed as a percentage.

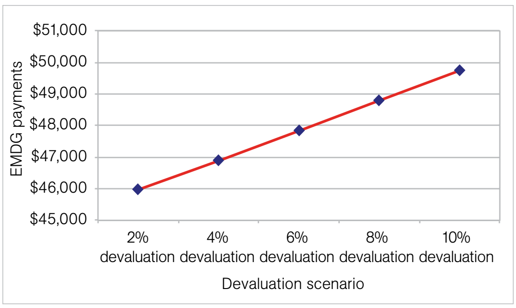
Source: Model simulations

In the case of the representative EMD grant-recipient firm depicted in Table E1, total revenue (turnover) is $5 million—comprising domestic sales of $3.8 million and foreign sales (converted to Australian dollars) of $1.2 million. On the other side of the income and outlays statement, total costs are $4.7 million (comprising fixed production costs of $1.5 million, variable costs of production of $3 million, domestic marketing costs of $150,000, foreign marketing costs (converted to Australian dollars) of $95,000, *less* the EMD grant/reimbursement of $45,000—so that net foreign marketing costs are reduced to $50,000 when account is taken of the *ex-post* reimbursement of eligible foreign marketing costs payable under the EMDG scheme. Thus, profits are some $300,000 (representing a return on capital of 20%) at the prevailing exchange rate. The values of other key variables in this Base Case simulation are that labour productivity is some 43,667 units of output per person employed and the 'effective' reimbursement percentage attributable to the scheme—calculated by dividing the EMD grant by foreign marketing costs (converted to Australian dollars) and expressed as a percentage is 47.37%.

Base Case variant—progressive devaluation of the Australian dollar

But what would happen if the Australian dollar were to further devalue against its US counterpart—as has been the case recently (whereby 0.92 Australian dollars could buy US$1 in April/May 2011, compared to around 1.25 currently)? Chart E1 shows the effects on EMDG payments of up to a 10 per cent devaluation of the Australian dollar (from A$1.25 to A$1.38 being needed to purchase one US dollar).

Chart E1: Effects of progressive devaluations of the $A on EMDG payments



Source: Model simulation.

In the case of a devaluation the only things that change from the Base Case simulation (Table E1) are that all the exchange-rate-sensitive values go up in proportion to the change in the exchange rate. Thus in the case of a 10 per cent devaluation, the value of foreign sales rise by 10 per cent (from $1.2 million in the base case to $1.32)—with knock-on effects in terms of total sales (up from $5 million to $5.12 million)—foreign marketing costs (converted to Australian dollars) also rise by 10 per cent (from $95,000 in the base case to $104,500), with the EMD grant also rising (from $45,000 to $49,750), while total costs increase to $4,704,750 (up from $4.7 million in the Base Case simulation).

In consequence, profit increases to $415,250 (up from $300,000 in the Base Case), while the return on capital increases by some 38.4 per cent (from 20% in the base case to 27.68%).

But other variables retain their original (Base Case) values, including domestic sales, the domestic price, domestic production, (the volume of) exports, total production, (variable) production costs, domestic marketing costs, fixed costs, variable costs, (annual) labour costs, unit labour costs and (the quantity of) labour.

Selected results of the model simulation in the case of a 10 per cent devaluation are presented in Table E2 (where changed values compared with the Base Case simulation are highlighted). And although the value of foreign sales (converted to Australian dollars increases by 10 per cent (from $1.2 million to $1.32 million), the volume of exports does not (remaining at 240,000 units—the same quantity as in the Base Case simulation).

In the case of this representative EMDG firm subject to a 10 per cent devaluation compared with the Base Case simulation, total revenue (turnover) is $5.12 million ($5 million in the Base Case)—with the entire $120,000 difference attributable to foreign sales (which increase by 10% because of the devaluation).

On the other side of the income and outlays statement, total costs increase by $4,750 (to $4,704,750 compared with $4.7 million in the Base Case)—with foreign marketing costs increasing by 10 per cent ($9,500) due to the devaluation but this is half offset (by $4,750) because the consequential increase in the EMD grant (at 50% of the $9,500 increased promotional expenditure increase). Other cost items remain unchanged.

Table E2: Case of a representative EMDG firm (with a turnover of $5 million initially exporting 24% of its total value of production)—10% devaluation (A$s and quantities)

	Revenue item			**Cost item**	
Values	Domestic sales	$3,800,000	*Values*	Variable costs of production	$3,000,000
	Foreign sales (a)	$1,320,000		Domestic marketing costs	$150,000
	Total sales	$5,120,000		Foreign marketing costs (a)	$104,500
	PROFIT(b)	$415,250		Fixed costs	$1,500,000
				Variable costs	$3.44
				EMD grant	$49,750
				Annual labour costs	$150,000
				Total costs	$4,704,750
Prices	Domestic price (c)	$6.00	*Prices*	Unit labour costs	$3.44
	Foreign price (a)	$5.50			
Quantities/ volumes	Domestic production	633,333	*Quantities/ volumes*	Labour	20
	Exports	240,000			
	Total production	873,333			
Other key variables	Return on capital (d)	27.68%	*Other key variables*	Labour productivity (f)	43,667
	Exchange rate (e)	1.38		EMD grant percentage (g)	50.00%
				EMD grant effective percentage (h)	47.61%

Notes: (a) Converted to Australian dollars. (b) Equals Total sales minus Total costs. (c) In Australian dollars. (d) Equals Profit divided by Fixed costs (expressed as a percentage). (e) Expressed as Australian dollars per unit of foreign currency - in this case US dollars. (f) Equals Total production divided by the quantity of Labour. (g) Percentage of Foreign Marketing costs (expressed in local currency terms) rebated beyond the Hurdle (currently A$5000). (h) EMD grant divided by Foreign Marketing costs (expressed in local currency terms) expressed as a percentage.

Source: Model simulations

The values of other key variables in this case of a 10 per cent devaluation are that:

- the return on capital (calculated as profit divided by fixed costs—expressed as a percentage) increases by 38.4 per cent to 27.68 per cent (compared with 20 per cent the Base Case); while
- the effective EMD grant percentage increases slightly—from 47.37 per cent in the Base Case to 47.61 per cent.

The main message to come out of Chart E1 and Table E2 is that the principal effect of progressive devaluation of the Australian dollar (particularly against the US dollar—but also against the currencies of other trading partners) is that EMDG scheme claims for reimbursement for foreign marketing efforts could be expected to increase (perhaps significantly given the approximately 40% devaluation that has occurred since the peak in 2011)—without there necessarily being much of a response in terms of EMDG-induced increases in the volume of exports (the inducement effect).

Thus while there is no necessary export-inducement effect when a devaluation occurs—whereas EMD grants will inevitable increase—the EMD grant-recipient firm may be tempted to plough some of the extra profit into foreign marketing efforts in order to chase what are now more profitable (overseas) sales.

But the obverse will also be true. In the case of a sustained appreciation of the currency (us happened in the lead up to its peak against the US dollar in 2011), exporting will represent an increasing challenge as foreign revenues convert into fewer and fewer Australian dollars notwithstanding that the export promotional dollar will go further. The result is likely to be regression in terms of the staged portrayal of exporting summarised at the beginning of this appendix (e.g. seemingly established exporters may revert to opportunistic ones, or even give up exporting altogether). And EMD grants will seemingly go further, both because of 'drop-outs' and because it would cost less to support a given level of export-promotion activity on the part of EMDG firms.

Base Case variant—the key role of induced productivity gains

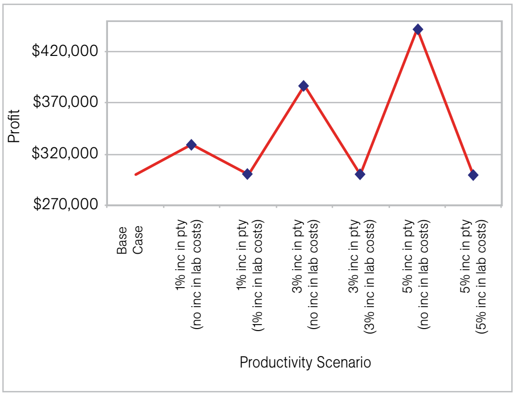
A crucial effect of the EMDG scheme is the potential nexus between EMD grants and increased productivity of firms attributable to the experience such firms gain as a result of their engaging in exporting. Indeed, EMD grant-recipient firms were surveyed for this 2015 Review (and in 2009) in an attempt to quantify the productivity-enhancing effects attributable to the scheme.

Table E3 reports values of key variables from a variant simulation of the Base Case in which EMDG-induced productivity gains of a modest 1 per cent are imposed—which are not offset by wage increases (which would have the effect of keeping labour costs unchanged). As with the previous table, changed values compared with the Base Case simulation are highlighted.

The effects are potentially significant, because the now more productive workforce produces more efficiently for the domestic market—as well as for export.

In contrast to Table E3 (which reports results for an EMDG-attributable productivity gain of 1 per cent which is not offset by commensurate labour cost increases), Chart E2 graphs the profitability response of the EMDG firm to increased labour productivity (without and with offsetting wage increases) for productivity gains of 0 (the Base Case simulation), 1, 3 and 5 per cent.

Chart E2: Profitability responses to increased labour productivity (with and without offsetting wage increases)



Source: Model simulation.

Table E3: Case of a representative EMDG firm (with a turnover of $5 million initially exporting 24% of its total value of production)—1% increase in productivity (with no offsetting increase in labour costs) (A$s and quantities)

	Revenue item			Cost item	
Values	Domestic sales	$3,800,000	*Values*	Variable costs of production	$2,970,297
	Foreign sales (a)	$1,200,000		Domestic marketing costs	$150,000
	Total sales	$5,000,000		Foreign marketing costs (a)	$95,000
	PROFIT(b)	$329,703		Fixed costs	$1,500,000
				Variable costs	$3.40
				EMD grant	$45,000
				Annual labour costs	$150,000
				Total costs	$4,670,297
Prices	Domestic price (c)	$6.00	*Prices*	Unit labour costs	$3.40
	Foreign price (a)	$5.00			
Quantities/ volumes	Domestic production	633,333	*Quantities/ volumes*	Labour	19.8020
	Exports	240,000			
	Total production	873,333			
Other key variables	Return on capital (d)	21.98%	*Other key variables*	Labour productivity (f)	44,103
	Exchange rate (e)	1.25		EMD grant percentage (g)	50.00%
				EMD grant effective percentage (h)	47.37%

Notes: (a) Converted to Australian dollars. (b) Equals Total sales minus Total costs. (c) In Australian dollars. (d) Equals Profit divided by Fixed costs (expressed as a percentage). (e) Expressed as Australian dollars per unit of foreign currency - in this case US dollars. (f) Equals Total production divided by the quantity of Labour. (g) Percentage of Foreign Marketing costs (expressed in local currency terms) rebated beyond the Hurdle (currently A$5000). (h) EMD grant divided by Foreign Marketing costs (expressed in local currency terms) expressed as a percentage.

Source: Model simulations

In the case of the representative EMDG firm whose experience with exporting translates into increased productivity across the board (i.e. to compass production for the domestic market as well as for foreign ones) compared with the Base Case simulation, total revenue (turnover) remains unchanged but profit increases by 9.9 per cent (to $329,703 from $300,000 in the Base Case).

This increase in profit is all down to productivity-related savings on the other side of the income and outlays statement, where total costs are now $4,670,297 (down from $4.7 million in the Base Case), with the variable costs of production falling by $29,703.

The values of other key variables in this case of an uncompensated 1 per cent increase in productivity are that:

- the return on capital (calculated as profit divided by fixed costs—expressed as a percentage) increases by 9.9 per cent to 21.98 per cent (compared with 20 per cent in the Base Case);
- labour productivity (output per unit of labour) increases from 43,667 to 44,103 (i.e. representing the posited 1% increase); while
- other key variable either retain their Base Case setting (e.g. the exchange rate and the EMD grant percentage) or remain unaffected by the particular exogenous change introduced into the variant simulation compared with the Base Case (e.g. the effective EMD grant percentage—which remains at 47.37%).

The main message to come out of Chart E2 and Table E3 is that if an ability to succeed in export markets can be leveraged into productivity gains affecting all firm production of goods and/or services—as the literature and survey evidence suggests—then such firms will prosper (i.e. they will experience increased profitability). This is a potentially highly significant benefit indirectly attributable to the EMDG scheme.

A potentially much-improved bottom line could, however, be expected to be at least partly offset by labour demanding increased remuneration for the resulting productivity gains. This is just a normal part of doing business and the usual outcome is that productivity runs just ahead of increased labour costs (and this result underpins high and rising living standards over time). If labour productivity gains are fully offset by labour cost increases the result merely involves a shedding of labour (Table E4). Such an outcome is unlikely, however, when there is excess capacity, especially at the firm level (which is the situation being simulated here).

Table E4: Case of a representative EMDG firm (with a turnover of $5 million initially exporting 24% of its total value of production)—1% increase in productivity (offset by a 1% increase in labour costs) (A$s and quantities)

	Revenue item			Cost item	
Values	Domestic sales	$3,800,000	*Values*	Variable costs of production	$3,000,000
	Foreign sales (a)	$1,200,000		Domestic marketing costs	$150,000
	Total sales	$5,000,000		Foreign marketing costs (a)	$95,000
	PROFIT(b)	$300,000		Fixed costs	$1,500,000
				Variable costs	$3.44
				EMD grant	$45,000
				Annual labour costs	$151,500
				Total costs	$4,700,000
Prices	Domestic price (c)	$6.00	*Prices*	Unit labour costs	$3.40
	Foreign price (a)	$5.00			
Quantities/ volumes	Domestic production	633,333	*Quantities/ volumes*	Labour	19.8020
	Exports	240,000			
	Total production	873,333			
Other key variables	Return on capital (d)	20.00%	*Other key variables*	Labour productivity (f)	44,103
	Exchange rate (e)	1.25		EMD grant percentage (g)	50.00%
				EMD grant effective percentage (h)	47.37%

Notes: (a) Converted to Australian dollars. (b) Equals Total sales minus Total costs. (c) In Australian dollars. (d) Equals Profit divided by Fixed costs (expressed as a percentage). (e) Expressed as Australian dollars per unit of foreign currency - in this case US dollars. (f) Equals Total production divided by the quantity of Labour. (g) Percentage of Foreign Marketing costs (expressed in local currency terms) rebated beyond the Hurdle (currently A$5000). (h) EMD grant divided by Foreign Marketing costs (expressed in local currency terms) expressed as a percentage.

Source: Model simulations

In the case of this representative EMDG firm enjoying a 1 per cent productivity gain attributable to its 'learning by doing' on tough-to-crack export markets—but fully offset by a corresponding 1 per cent increase in labour costs—nothing much changes.

Indeed, the revenue side of the income and outlays statement remains completely unchanged compared with the Base Case simulation. Even on the cost side, aggregate costs remain unchanged. But what does change is employment falls modestly (to 19.8020 compared with the Base Case value of 20), to accommodate the specified increase in labour productivity (which rises 1% from 43,667 in the Base Case to 44,103). The only other entry to change is annual labour costs—which increase from $150,000 in the Base Case to $151,500). Thus, the only effect on the economics of the firm is slight labour shedding (e.g. accomplished for example by reducing some casual-employee hours).

To summarise, then, while there is no *necessary* export-inducement effect attributable to the EMDG scheme when experience satisfying overseas customers for a firm's offerings translates into increased productivity, the upshot is nevertheless *potentially* highly beneficial—both for the firm and the economy (unless induced productivity increases are *fully* offset by a corresponding increase in labour costs).

Base Case variant—changing the specifics of the scheme

This variant of the Base Case—unlike the other variants explored so far—does demonstrate how changing the specifics of the EMDG scheme can *directly* induce increased exports. The change canvassed is the possibility of raising the EMDG grant percentage from 50 (its current setting) to 75 per cent (made possible, for example, by government devoting more resources to the program).

Three possible responses on the part of the firm are then simulated:

- the firm simply maintains its foreign marketing efforts (at the spending level underlying the Base Case simulation);
- the firm increases its foreign marketing efforts so as to leave net foreign marketing efforts unchanged (at the equivalent of A$50,000)—after taking account of the increased EMD grant); and
- the firm increases its foreign marketing efforts commensurately (in this case by an extra US$18,000 i.e. from US$76,000 to US$94,000—equivalent to A$117,500).

Table E5: Case of a representative EMDG firm (with a turnover of $5 million initially exporting 24% of its total value of production)—EMD Grant Percentage increased from 50% to 75% and firm maintains its Foreign Marketing effort (A$s and quantities)

	Revenue item			Cost item	
Values	Domestic sales	$3,800,000	*Values*	Variable costs of production	$3,000,000
	Foreign sales (a)	$1,200,000		Domestic marketing costs	$150,000
	Total sales	$5,000,000		Foreign marketing costs (a)	$95,000
	PROFIT(b)	$322,500		Fixed costs	$1,500,000
				Variable costs	$3.44
				EMD grant	$67,500
				Annual labour costs	$150,000
				Total costs	$4,677,500
Prices	Domestic price (c)	$6.00	*Prices*	Unit labour costs	$3.44
	Foreign price (a)	$5.00			
Quantities/ volumes	Domestic production	633,333	*Quantities/ volumes*	Labour	20
	Exports	240,000			
	Total production	873,333			
Other key variables	Return on capital (d)	21.50%	*Other key variables*	Labour productivity (f)	43,667
	Exchange rate (e)	1.25		EMD grant percentage (g)	75.00%
				EMD grant effective percentage (h)	71.05%

Notes: (a) Converted to Australian dollars. (b) Equals Total sales minus Total costs. (c) In Australian dollars. (d) Equals Profit divided by Fixed costs (expressed as a percentage). (e) Expressed as Australian dollars per unit of foreign currency - in this case US dollars. (f) Equals Total production divided by the quantity of Labour. (g) Percentage of Foreign Marketing costs (expressed in local currency terms) rebated beyond the Hurdle (currently A$5000). (h) EMD grant divided by Foreign Marketing costs (expressed in local currency terms) expressed as a percentage.

Source: Model simulations

In this variant simulation the EMD grant percentage is increased from its current setting (of 50% reimbursement of eligible foreign marketing costs above a specified Hurdle—currently set at A$5,000) to 75 per cent. However, the firm is assumed not to react to this changed circumstance, merely maintaining its foreign marketing efforts at Base Case levels (and letting the increased EMD grant flow through to increase profits by the same amount).

There is no change from the Base Case simulation on the revenue side of the income and outlays statement for the EMDG firm—all the action on the outlays side:

- the EMD grant rises from $45,000 to $67,500; while
- total costs fall from $4.7 million to $4,667,500 (because in this simulation the firm maintains its foreign marketing effort—at US$76,000); so that
- profit increases from $300,000 to $322,500.

The values of other key variables in this variant simulation are that:

- the return on capital (calculated as profit divided by fixed costs—expressed as a percentage) increases by 7.5 per cent to 21.5 per cent (compared with the Base Case value of 20%); while
- the effective EMD grant percentage also increases—from 47.37 per cent in the Base Case to 71.05 per cent.

The main message to come out of Table E5 is that increasing the effective EMD grant percentage—in this case by increasing the EMD grant percentage from 50 to 75 per cent of eligible foreign marketing costs above a specified Hurdle (currently set at A$5,000)—increases firm profitability, without necessarily stimulating additional exports (in volume terms). Thus in this variant simulation there is no EMDG-related export-inducement effect, because the firm merely maintains its foreign marketing effort (instead of reacting to the more-generous reimbursement rules under the EMDG scheme by increasing its export-promotion efforts).

As in the preceding simulation, in this variant the EMD grant percentage is again increased from its current setting (of 50% reimbursement of eligible foreign marketing costs above a specified Hurdle—currently set at A$5,000) to 75 per cent. However, unlike the previous simulation the firm is assumed to react to this changed circumstance by maintaining its *net* foreign marketing effort (equal to its Base Case foreign marketing effort—converted to Australian dollars less the EMD grant). In the Base Case these two items were respectively $95,000 and $45,000, so that the firm's *net* foreign marketing effort was equivalent to A$50,000 (after allowing for the grant). To maintain this net effort in the above simulation the firm is assumed to increase its foreign marketing effort to, in this case, US$148,000 (equivalent to A$185,000)—so that taking into account a recalculated EMD grant of A$135,000 leaves the firm's foreign marketing effort at the equivalent of A$50,000.

Under this scenario, there are quite a few (substantial) changes on both the revenue and costs side of the income and outlays statement for the EMDG firm. On the revenue side:

- Foreign sales (converted to Australian dollars) rise to $2,336,842 (compared with $1.2 million in the Base Case simulation);
- Total sales/turnover increases to $6,136,842 (compared with $5 million in the Base Case);
- the Volume of exports increases to 467,368 (compared with 240,000 in the Base Case); while
- Total production rises to 1,100,702 units (up from 873,333 in the Base Case).

On the cost side:

- Foreign marketing costs increase to $185,000 (as explained above);
- the EMD grant rises from $45,000 in the Base Case to $135,000; while
- Unit labour costs fall significantly—from $3.44 to $2.73 (due to greatly increased production without any increased employment).[6]

6 Given that production has increased by 26 per cent under this scenario, it is unlikely that such an increase could be met without increasing employment on the one hand or running into production constraints on the other (or both). If employment and productive capacity had to be increased, the result would be to substantially alter the simulation results reported.

Table E6: Case of a representative EMDG firm (with a turnover of $5 million initially exporting 24% of its total value of production)—EMD Grant Percentage increased from 50% to 75% and firm increases its Foreign Marketing effort to leave Net Foreign Marketing Spending unchanged (A$s and quantities)

	Revenue item			Cost item	
Values	Domestic sales	$3,800,000	*Values*	Variable costs of production	$3,000,000
	Foreign sales (a)	$2,336,842		Domestic marketing costs	$150,000
	Total sales	$6,136,842		Foreign marketing costs (a)	$185,000
	PROFIT(b)	$1,436,842		Fixed costs	$1,500,000
				Variable costs	$2.73
				EMD grant	$135,000
				Annual labour costs	$150,000
				Total costs	$4,700,000
Prices	Domestic price (c)	$6.00	*Prices*	Unit labour costs	$2.73
	Foreign price (a)	$5.00			
Quantities/ volumes	Domestic production	633,333	*Quantities/ volumes*	Labour	20
	Exports	467,368			
	Total production	1,100,702			
Other key variables	Return on capital (d)	95.79%	*Other key variables*	Labour productivity (f)	55,035
	Exchange rate (e)	1.25		EMD grant percentage (g)	75.00%
				EMD grant effective percentage (h)	72.97%

Notes: (a) Converted to Australian dollars. (b) Equals Total sales minus Total costs. (c) In Australian dollars. (d) Equals Profit divided by Fixed costs (expressed as a percentage). (e) Expressed as Australian dollars per unit of foreign currency - in this case US dollars. (f) Equals Total production divided by the quantity of Labour. (g) Percentage of Foreign Marketing costs (expressed in local currency terms) rebated beyond the Hurdle (currently A$5000). (h) EMD grant divided by Foreign Marketing costs (expressed in local currency terms) expressed as a percentage.

Source: Model simulations

As a result of all these changes, Profit increases to $1,436,842 (up from $300,000 in the Base Case).

The values of other key variables in this variant simulation are that:

- the return on capital (calculated as profit divided by fixed costs—expressed as a percentage) increases by 379 per cent to 95.79 per cent (compared with the Base Case value of 20%); while
- the effective EMD grant percentage also increases—from 47.37 per cent in the Base Case to 72.97 per cent.

Indeed, there is an incentive for the firm to increase its foreign marketing effort by more than simply increasing such spending so as to maintain its value in net terms (i.e. after taking into account the prospective increase in the EMD grant the firm will be eligible for). This is because—even after boosting its own foreign marketing spending to US$148,000—the 'profitability test' set out in Box E1 is still comfortably met.

The main message to come out of Table E6 is that increasing the effective EMD grant percentage—in this case by increasing the EMD grant percentage from 50 to 75 per cent of eligible foreign marketing costs above a specified Hurdle (currently set at A$5,000)—has the *ability* to dramatically increase the volume of exports if the firm's reaction to the more-generous EMD reimbursement initiative is to maintain its *net* foreign marketing efforts.

Thus in this variant simulation there is a dramatic EMDG-related export-inducement effect, just because the firm decides to maintain its foreign marketing effort in net terms. The resulting considerable EMDG-related export-inducement effect is just the kind of response the Government would be looking for in deciding to be more generous under the scheme (and suggests that this could be a looked-for *quid pro quo* of treating firms more generously under the program).

To round out exploration of how firms might react to more generous EMD grants, as in the preceding two simulations, in this (third) variant the EMD grant percentage is again increased from its current setting (of 50% reimbursement of eligible foreign marketing costs above a specified Hurdle—currently set at A$5,000) to 75 per cent. In response, the firm is assumed to react to this changed circumstance by increasing its foreign marketing commensurately (in this case by an extra $22,500 to match the extra $22,500 in prospective EMD grants—equivalent to US$18,000).

As with the previous variant simulation, under this scenario there are quite a few changes on both the revenue and costs side of the income and outlays statement for the EMDG firm (Table E7). On the revenue side:

- Foreign Sales (converted to Australian dollars) rise to $1,484,211 (compared with $1.2 million in the Base Case simulation);
- Total Sales (turnover) increases to $5,284,210 (compared with $5 million in the Base Case);
- Exports (in volume terms) increases to 296,842 (compared with 240,000 in the Base Case); while
- Total Production rises to 930,175 units (up from 873,333 in the Base Case).

Table E7: Case of a representative EMDG firm (with a turnover of $5 million initially exporting 24% of its total value of production)—EMD Grant Percentage increased from 50% to 75% and firm increases its Foreign Marketing effort commensurately (A$s and quantities)

	Revenue item			Cost item	
Values	Domestic sales	$3,800,000	*Values*	Variable costs of production	$3,000,000
	Foreign sales (a)	$1,484,211		Domestic marketing costs	$150,000
	Total sales	$5,284,210		Foreign marketing costs (a)	$117,500
	PROFIT(b)	$601,085		Fixed costs	$1,500,000
				Variable costs	$3.23
				EMD grant	$84,375
				Annual labour costs	$150,000
				Total costs	$4,683,125
Prices	Domestic price (c)	$6.00	*Prices*	Unit labour costs	$3.23
	Foreign price (a)	$5.00			
Quantities/ volumes	Domestic production	633,333	*Quantities/ volumes*	Labour	20
	Exports	296,842			
	Total production	930,175			
Other key variables	Return on capital (d)	40.07%	*Other key variables*	Labour productivity (f)	46,509
	Exchange rate (e)	1.25		EMD grant percentage (g)	75.00%
				EMD grant effective percentage (h)	71.81%

Notes: (a) Converted to Australian dollars. (b) Equals Total sales minus Total costs. (c) In Australian dollars. (d) Equals Profit divided by Fixed costs (expressed as a percentage). (e) Expressed as Australian dollars per unit of foreign currency - in this case US dollars. (f) Equals Total production divided by the quantity of Labour. (g) Percentage of Foreign Marketing costs (expressed in local currency terms) rebated beyond the Hurdle (currently A$5000). (h) EMD grant divided by Foreign Marketing costs (expressed in local currency terms) expressed as a percentage.

Source: Model simulations

On the cost side:

- Foreign Marketing Costs increase to $117,500 (the Australian dollar equivalent of $76,000 plus $18,000);
- the EMD grant rises from $45,000 in the Base Case to $84,375;[7] while
- Variable Costs/Unit Labour Costs fall— from $3.44 to $3.23 (due to increased production).[8]

As a result of all these changes, profit increases to $601,085 (up from $300,000 in the Base Case).

The values of other key variables in this variant simulation are that:

- the return on capital (calculated as profit divided by fixed costs—expressed as a percentage) increases by 100 per cent to 40.07 per cent (compared with the Base Case value of 20%); while
- the Effective EMD grant percentage also increases—from 47.37 per cent in the Base Case to 71.81 per cent.

As was the case with the preceding variant simulation, there remains an incentive for the firm to increase its foreign marketing effort more that commensurately, since the 'profitability test' set out in Box E1 remains comfortably met even after the firm reacts to the increased EMDG incentive by increasing its foreign marketing efforts by a (projected) matching amount.

As before, the main message to come out of Table E7 is that increasing the effective EMD grant percentage—in this case by increasing the EMD grant percentage from 50 to 75 per cent of eligible foreign marketing costs above a specified Hurdle (currently set at A$5,000)—has the ability to significantly increase the volume of exports if the firm reacts to the more-generous EMDG reimbursement initiative by increasing its foreign marketing effort commensurately.

Thus, as in the previous variant simulation there is a significant EMDG-related export-inducement effect, just because the firm decides to increase its foreign marketing effort in line with the prospective EMD grant. Again, the resulting EMDG-related export-inducement effect is just the kind of response the government would be looking for in deciding to be more generous under the scheme (and again suggests that it could be looking for such a response as a *quid pro quo* of treating firms more generously under the program).

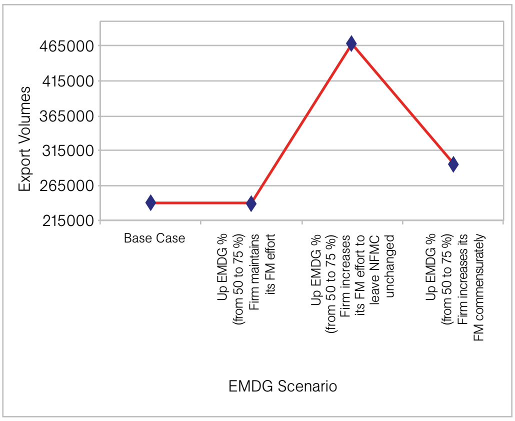
Chart E3 shows the EMDG-related export-inducement effects of the above three variant simulations involving more generous EMD grants. The change canvassed is the possibility of raising the EMDG grant percentage from 50 (its current setting) to 75 per cent (of eligible foreign marketing costs above a specified Hurdle—currently set at A$5,000). Included in the graphic are the Base Case simulation and the above three variants, whereby:

- the firm simply maintains its foreign marketing efforts (at the spending level underlying the Base Case simulation);
- the firm increases its foreign marketing efforts so as to leave net foreign marketing efforts unchanged (at the equivalent of A$50,000)—after taking account of the increased EMD grant); and
- the firm increases its foreign marketing efforts commensurately (in this case by matching the anticipated increase in the grant).

7 Representing a (recalculated) increase of $39,375 instead of a projected $22,500 before the firm's decision to match the latter increase.

8 This means that — as in the previous simulation — labour productivity has also increased, since employment is assumed to remain unchanged.

Chart E3: Export volume responses to increased EMDG rate (and firm's assumed reaction in terms of foreign marketing efforts)



Source: Model simulation.

Base Case variant—positive 'spillovers' associated with the scheme

The final EMDG firm variant simulation explores the potential influence of (positive) 'spillover' effects—in this case *to* the firm deriving from the export experience of others. The wine industry is an oft-quoted example of such positive influences at play, whereby the good work done by pioneers in foreign markets in having Australian product accepted in the marketplace means that followers do not have to work so hard on the marketing front to secure sales. The way this effect is achieved in the simulation whose results are reported in Table E8 is to increase the Nexus parameter linking foreign marketing efforts to foreign sales from 3.16 in the Base Case to 4 in this variant simulation.

Table E8: Case of a representative EMDG firm (with a turnover of $5 million initially exporting 24% of its total value of production)—Increased responsiveness of export volumes to Foreign Marketing effort (A$s and quantities)

	Revenue item			Cost item	
Values	Domestic sales	$3,800,000	*Values*	Variable costs of production	$3,000,000
	Foreign sales (a)	$1,520,000		Domestic marketing costs	$150,000
	Total sales	$5,320,000		Foreign marketing costs (a)	$95,000
	PROFIT(b)	$620,000		Fixed costs	$1,500,000
				Variable costs	$3.20
				EMD grant	$45,000
				Annual labour costs	$150,000
				Total costs	$4,700,000
Prices	Domestic price (c)	$6.00	*Prices*	Unit labour costs	$3.20
	Foreign price (a)	$5.00			
Quantities/ volumes	Domestic production	633,333	*Quantities/ volumes*	Labour	20
	Exports	304,000			
	Total production	937,333			
Other key variables	Return on capital (d)	41.33%	*Other key variables*	Labour productivity (f)	46,867
	Exchange rate (e)	1.25		EMD grant percentage (g)	50.00%
				EMD grant effective percentage (h)	47.37%

Notes: (a) Converted to Australian dollars. (b) Equals Total sales minus Total costs. (c) In Australian dollars. (d) Equals Profit divided by Fixed costs (expressed as a percentage). (e) Expressed as Australian dollars per unit of foreign currency - in this case US dollars. (f) Equals Total production divided by the quantity of Labour. (g) Percentage of Foreign Marketing costs (expressed in local currency terms) rebated beyond the Hurdle (currently A$5000). (h) EMD grant divided by Foreign Marketing costs (expressed in local currency terms) expressed as a percentage.

Source: Model simulations

In this variant simulation, there are changes on both the revenue and costs side of the income and outlays statement for the representative EMDG firm compared with the Base Case simulation. On the revenue side:

- Foreign sales (converted to Australian dollars) rise to $1.52 million (compared with $1.2 million in the Base Case simulation);
- Total sales/turnover increases to $5.32 million (compared with $5 million in the Base Case);

- Export volumes increase to 304,000 (compared with 240,000 in the Base Case); while
- Total production rises to 937,333 units (up from 873,333 in the Base Case).

On the cost side:

- Variable costs/Unit labour costs fall marginally—from $3.44 to $3.20 (due to increased production).[9]

As a result of all these changes, profit more than doubles to $620,000 (up from $300,000 in the Base Case).

The values of other key variables in this variant simulation are that:

- the return on capital (calculated as profit divided by fixed costs—expressed as a percentage) increases 107 per cent to 41.33 per cent (compared with the Base Case value of 20%); while
- Labour productivity also increases—from 43,667 in the Base Case to 47,867.

The main message to come out of Table E8 is that (positive) 'spillovers' attributable to the foreign marketing efforts of others have the potential to bear fruit in terms of the volume of exports achieved by firms than would otherwise be the case (if such firms had to rely solely on their own marketing efforts overseas). Of course, the same is true in terms of (positive) 'spillovers' from the simulated firm to other potential beneficiaries of the firm's overseas marketing efforts—an effect whose potential impacts are explored in the economy-wide modelling undertaken for this Review by KPMG (see Appendix D).

9 This means that — as in previous simulations — labour productivity has also increased, since employment is assumed to remain unchanged.

To summarise, the above series of simulations of the circumstances of a representative EMDG firm in receipt of a (or a series of) EMD grant(s)—as those circumstances may change over time—suggest that:

- Devaluations/revaluations of the Australian dollar can be expected to impact the value of EMD grants over time without necessarily leading to changes in the *volume* of exports (i.e. there may be *no* associated export-inducement effects). However, exporting will become increasingly tough as the Australian dollar appreciates against the currencies of foreign target markets (which may in turn persuade some firms to cease exporting, or to revert from sustained exporting to becoming an opportunistic one). Equally, in the case of a sustained devaluation of the Australian currency, exporters would be encouraged to devote more resources to their foreign marketing efforts—in which case the volume (as well as the value) of Australian exports should increase. In either case, the availability of EMD grants should slow reversion or encourage expansion.
- To the extent that experience in exporting spurs a firm's productivity (including producing for the domestic market) that is an unalloyed good—which may be ultimately traceable to the operation of the EMDG scheme. There is survey evidence of this desirable outcome being a fact—evidence that now extends over a considerable time period.
- Varying the specifics of the EMDG scheme to make it more generous has the potential to significantly spur the volume (and value) of exports—particularly if that generosity is closely linked to continued export success. This attests to the potential export-inducement effects of the scheme.

- EMDG scheme-related (positive) 'spillovers' to and from exporters can have powerfully positive effects on the performance of Australia's exporters, including (and possibly most particularly in respect of) small-to-medium sized firms (which the EMDG scheme targets). Again, there is survey evidence of the existence of such spillover effects to increase both firm exports and firm productivity.

Caveats to the analysis

For regular exporters (in stage 5), the above modelling of revenues and costs may not be an adequate approximation: in such cases firms do not necessarily have excess capacity to export on an experimental or opportunistic basis. Rather, exporting becomes an integral part of business planning and execution (with this part of the business having its own revenue and cost functions).[10] However, the way in which the EMDG scheme works in such case will be via similar mechanisms.

Volatile exchange rates present problems for aspiring (and even seasoned) Australian exporters. Sustainable exporting is more likely to emerge when the foreign markets targeted are unlikely to suddenly (or even periodically) present Australian exporters with unfavourable movements in exchange rates. Although clearly a 'given' from the point of view of the firm (and even the government), what is desirable here are trading partners in respect of whom bilateral exchange rates are more likely to be stable than not—so that export plans can be formulated with some confidence. But if exchange rates are likely to move (as they will over time), the trick would be to choose trading partners where firms' foreign-currency sales were more likely to translate into more Australian dollars over time than fewer.

To summarise, the export-inducement effect of the EMDG scheme relies on the incentives provided by scheme grants for new and emerging exporters to boost their export marketing efforts and so secure more export sales than would otherwise be the case. Such incentives will be best targeted at firms for which modest increases in export market development spending lead to a large inducement effect in terms of increased export sales, and these inducement effects are unlikely to be eroded by adverse movements in bilateral exchange rates.[11]

10 The literature on the 'stages' approach to exporting (see 'Economic effects of the EMDG scheme' above) sometimes includes a final 'beyond exporting' stage where firms establish overseas subsidiaries and possible overseas production. In this (most mature) phase, benefits accrue to Australia not via export earnings but rather in the form of repatriated profits. Since both forms of revenue streams are equally beneficial, this raises the issue of where continuing trends in business practice mean that the EMDG scheme ought, sometime, to lose the 'E' — transforming itself into a Market Development Scheme.

11 In practice, trading partners with which Australia experiences fairly stable bilateral exchange rates are likely to be ones also characterised by fairly modest export demand elasticities.

APPENDIX F

State and territory export support programmes

New South Wales – *Export Accelerator Program*

http://www.trade.nsw.gov.au/export-from-nsw/export-assistance/nsw-export-accelerator-program

- Pre-approval
- 12-month tailored programme
- Maximum of $10,000
- Must employ at least five people in NSW
- Metropolitan companies must have a minimum turnover of $1 million for the previous financial year
- Regional companies must have a minimum turnover of $500,000 for the previous financial year
- Be assessed as 'export ready'
- Funds not used are to be returned to government
- Financial analysis—return on investment of 40:1
- Substantial list of approved activities

Victoria – *Access Program*

http://www.business.vic.gov.au/support-for-your-business/grants-and-assistance

- Assistance for Victorian businesses planning to establish new export markets in key countries and regions.
- Companies need to have an export strategy before applying.
- Free overseas facilities and advice for the first two weeks and at a reduced rate thereafter of US$250 per month—for up to three months.
- Businesses wishing to use the programme must receive approval from the Department of State Development, Business and Innovation.
- Bookings should be made in advance.
- The programme is available on a 'first-come first-served' basis.
- Programme is available for businesses wishing to expand into the United States of America, Japan, South Korea, the Middle East, China, Hong Kong, India and Southeast Asia.

Applications can be made online or by contacting the Trade Manager responsible for the region or country the applicant is considering exporting to.

The site also offers:

An online export readiness check:

- http://www.business.vic.gov.au/export/get-ready-to-export/check-if-you-are-export-ready

Assistance with developing export opportunities:

- http://www.business.vic.gov.au/export/export-markets/identify-opportunities

Strategies for market entry:

- http://www.business.vic.gov.au/export/get-ready-to-export/choose-a-market-entry-strategy

Queensland – *Services provided by Trade and Investment Queensland*

http://www.tiq.qld.gov.au/export/

- Trade and Investment Queensland (TIQ) has one of Australia's largest international trade networks—eight regional and 14 international locations.

- Helps Queensland businesses to expand their products and/or services overseas.
- Through trade missions, industry partners, and its global network of industry experts, overseas Commissioners and Regional Advisers, TIQ helps to connect businesses with international markets and enable them to take advantage of demands in priority industries.

Three key activities:

A. Consultation and planning

  - *Tailored services*
  - *Export support for Queensland's regional businesses*

B. Trade missions

  - *Outbound trade missions*
  - *Inbound trade missions*
  - *Virtual trade missions*
  - *International trade exhibitions*

C. Networking and events

  - *Premier of Queensland's Export Awards*
  - *Trade and Investment week*

Northern Territory (NT) – *Department of Business*

http://www.dob.nt.gov.au/industry-development/attract/trade-support/Pages/default.aspx

Trade Support Scheme

- aims to build stronger trading partnerships and create new export opportunities. It provides Northern Territory–based organisations with financial help to offset the costs of international marketing activities.
- Applications are required to be lodged with the Department of Business at least 14 days prior to the intended activity.
- Financial assistance under the Trade Support Scheme is offered as a taxable cash reimbursement on approved marketing expenditure.
- All projects funded under the scheme are subject to public audit.
- The Department of Business reserves the right to advise the public of successful trade outcomes under the scheme.
- Some details of the assistance provided may be published in summary form to meet the requirements of mandatory government reporting.

The scheme can offset up to 50 per cent of the costs of activities such as:

- attendance at international expos and trade shows
- promotional products
- accommodation
- freight costs
- website development for international audiences.

Eligibility criteria

Any business, industry group or other organisation with a substantial presence in the Northern Territory can apply for assistance.

Eligible projects:

- existing and new international market development activities
- market investigations
- establishing in-country support
- inbound visits to the Northern Territory by approved overseas buyers or trade missions.

Businesses must:

- apply for the assistance before they incur any costs
- provide evidence of commercial viability in the lead-up to and during the project
- show that the project is likely to be successful
- show the trade and economic benefits that may flow through to the Northern Territory
- ensure that the project is in line with World Trade Organization obligations
- provide an export, marketing or business plan identifying how the project fits into the company's overall business strategy
- not have made eight successful applications for the Australian Government's Export Market Development Grants scheme.

The NT Government offers free advice and help developing business plans as well as more specific export marketing plans.

Industry groups or marketing organisations must identify:

- the involvement of individual NT companies and their commitment to the proposed project
- any other NT Government funding received in the past 18 months.

If an application is successful, the business will need to show that the marketing expenditure claimed has not been, and will not be, claimed under any other Australian Government, state or territory trade schemes.

Tasmania – *New Market Expansion Program*

http://www.stategrowth.tas.gov.au/home/about_us/divisions/industry_and_business_growth/exporters

- Assistance is available to eligible Tasmanian-based small and medium-sized enterprises with a sales turnover of between $300,000 and $15 million for approved marketing activities related to developing new national and international markets.
- The New Market Expansion Programme is designed to assist Tasmanian enterprises in planning and implementing their national and international marketing activities—it may provide assistance to:
    - commission market research and business matching services
    - undertake promotional activities including advertising
    - develop promotional materials
    - attend trade exhibitions and promotions
    - assist with inbound buyers' visits to Tasmania
    - travel to undertake marketing activities.

South Australia – *Export Partnership Program*

http://www.statedevelopment.sa.gov.au/investment/export-partnership-program

The Export Partnership Program provides funding assistance for small and medium-sized businesses to access new global markets through marketing and export development opportunities.

Eligible activities

The Export Partnership Program can help local businesses to:

- research feasible overseas markets
- develop marketing material for distribution overseas
- participate in international trade shows, trade missions and overseas business programmes

- adapt websites for specific international markets
- access cultural and export training, mentoring and coaching services
- support incoming buyers.

Funding

- Successful applicants may receive up to a maximum of $50,000 to assist with export activities. Companies can apply multiple times until they reach the full $50,000 allocation.
- Grants of up to $5,000 are also available to aspiring exporters for coaching and mentoring expenses.

Eligibility

- South Australian–owned and based businesses that have been operational for at least two years and have an annual turnover of more than $100,000.

A business must:

- be owned and based in South Australia
- be a registered business for tax purposes
- have a minimum annual turnover of $100,000
- have been operating for at least two years
- own the product or service being promoted
- have a current export plan
- have tradeable goods or services for the export market
- intend to trade products or services made or grown in South Australia, or be able to demonstrate their benefit to South Australia's economy
- not be applying for funding under another grant programme for financial assistance for the same project or activity.

Made in South Australia

- Eligible applicants must export goods or services that are grown or made in South Australia.

Applications must be submitted using the online application form.

Western Australia – *the Department of State Development provides references to Australian Government programmes, as well as to those of the WA Chamber of Commerce*

https://www.wa.gov.au/information-about/business/wa-trade-export

http://www.dsd.wa.gov.au/trade-with-wa/exporting-from-wa/just-starting-out

- Austrade's guide to exporting
- The TradeStart programme
- Department of Foreign Affairs and Trade's Trade and Investment site
- Export Council of Australia
- Australian Institute of Export
- Export Finance and Insurance Corporation

Australian Capital Territory – *Trade Connect Program*

http://www.business.act.gov.au/grants-and-assistance/grants/trade_connect

- The Trade Connect grant programme is an initiative of Global Connect to help Canberra–based businesses with a range of export market development activities.
- A competitive grant programme—applications are assessed first against the programme criteria and then against the merits of other applications.

Eligibility

Business must be prepared to enter into a formal agreement with the ACT Government and meet all of the following conditions:

- be a registered business for tax purposes
- have an office with supporting staff in the ACT
- have an annual turnover of less than $10 million
- have tradeable goods or services for the export market to be developed
- have a current Export Development Plan.

Eligible activities

- Assistance with reasonable costs directly associated with export market development activities. Examples include:
    - market visits
    - development of marketing material
    - promotion and advertising
    - trade show participation
    - incoming buyer visits
    - market research
    - mentoring

Applicants

- Make sure the business is eligible for Trade Connect.
- The activity/project must be directly associated with export market development activities.
- Applications must be submitted for assessment at least four weeks before the activity commences.
- Businesses must submit a Funded Activity Report following the completion of any activity funded through Trade Connect.

APPENDIX G

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APPENDIX H

Underlying principles of section 94 of the EMDG Act

As provided in section 93 (Object of Division) of the EMDG Act, the philosophy of section 94 is that grants attach to a particular business, regardless of any changes of ownership of the business. Section 94 makes businesses receiving grants subject to both the beneficial and the restrictive provisions of the Act.

Accordingly, when a change of ownership of a business occurs, section 94 enables Austrade to regard the new owner, for grant calculation purposes, as having carried on the relevant business at the earlier time.

See: http://www.austrade.gov.au/Export/Export-Grants/Publications/EMDG-Administrative-Guidelines (Part 8 Miscellaneous)

Section 94 of the *Export Market Development Grants Act 1997 states:*

94 Change in ownership of business etc.

(1) Subsection (2) applies if:

(a) at any time, a person (the ***previous owner***) carried on a particular business (the ***old business***) in Australia; and

(b) at a later time, another person (the ***new owner***) carries on:

(i) the business or a part of the business (the ***relevant part***); or

(ii) a business (the ***new business***) that, at that time, is similar to the old business, or a part of the old business (the ***relevant part***), carried on by the previous owner before that time, to such an extent that the CEO of Austrade is satisfied that the new business should be treated as a continuation of the old business; and

(c) the new owner applies for a grant in respect of a grant year.

Note: Decisions whether 2 businesses are similar are subject to guidelines determined by the Minister under section 101.

(2) For the purposes of this Act, the CEO of Austrade must treat particulars of the previous owner as being those of the applicant in the following ways:

(a) any eligible expenses incurred by the previous owner in the capacity of owner of the business (or of the relevant part) are to be treated as having been incurred by the new owner;

(b) if the CEO had decided that the previous owner met the grants entry requirements—the new owner is to be treated as if the CEO had decided that it had met the grants entry requirements;

(c) any grant, or advance on account of grant, paid or payable (whether under this Act or under the repealed Act) to the previous owner in the capacity of owner of the business (or of the relevant part) is to be treated as having been paid, or as being payable, to the new owner;

(d) any other aspect of the business (or of the relevant part) is to be treated as if it had been carried on by the new owner.

Note: For ***eligible expenses, repealed Act*** and ***grants entry requirements*** see section 107 of the Act.