

# Prime numbers

## 41 years of EMDG

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BY **DAVE SAMMUT**

**N**ow embarking on its 41st year, the Australian Government's Export Market Development Grant (EMDG) is very much a program in its prime. It is arguably the country's most successful long-term targeted economic stimulus initiative.

It's July, and lodgement season has opened once again for exporters to submit claims for entitlements under the EMDG program. For every dollar spent on eligible export marketing activities, these companies will be

claiming a cash rebate of almost 50%, up to a maximum of \$150 000 of cash in hand per claim.

One of the keynote characteristics of the EMDG is that, unlike most other grants and funding, it is a legislated entitlement program. Businesses that have expended funds according to the eligibility criteria are *entitled* to claim the associated benefits. The money is non-discretionary, and non-competitive.

I have seen the critical difference that this program has made for many



## The Export Market Development Grant is helping take Australian innovation to the world.

property protection and trademarks, marketing travel, trade shows and promotional events, free giveaways and samples, advertising (both print and digital) and even some costs for bringing overseas buyers to Australia for approved export purposes.

One of the factors behind the success and longevity of the program is that it is thoroughly audited, and so successful claims are very much based on clear and pertinent evidence: documents and receipts that demonstrate both the expense transactions and the purpose and/or proportionality of those expenses.

The EMDG is performance based. A company's entitlements are linked to the actual export revenues it generates, but in the 'fair go' Australian spirit the Government gives the companies two years to put 'runs on the board' before this applies.

And it is this balance between performance, auditing rigour and fair usage that has made the program a success over the last four decades.

Until recently, the legislation underpinning the EMDG had a five-year 'sunset clause', meaning that the program had to be independently reviewed and reintroduced to parliament every five years or so.

The most recent review was conducted in 2015 by Michael Lee (former director of Zip Industries). In his report to the Minister for Trade and Investment, Lee stated: 'I have seen firsthand the benefits that this modest government support provides to Australian companies at critical early stages in their export journeys ... 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

new exporters, yet I am always surprised by how many people have yet to hear about it. The EMDG is targeted at businesses that are seeking to grow their export revenues for the international sale/licensing of their products, service and/or intellectual property.

The activities eligible for cash rebate are broad, and include most of the key items that would be on the checklist of any potential exporter: overseas representatives, export consultants, international intellectual

### '50% cash back' – how it works

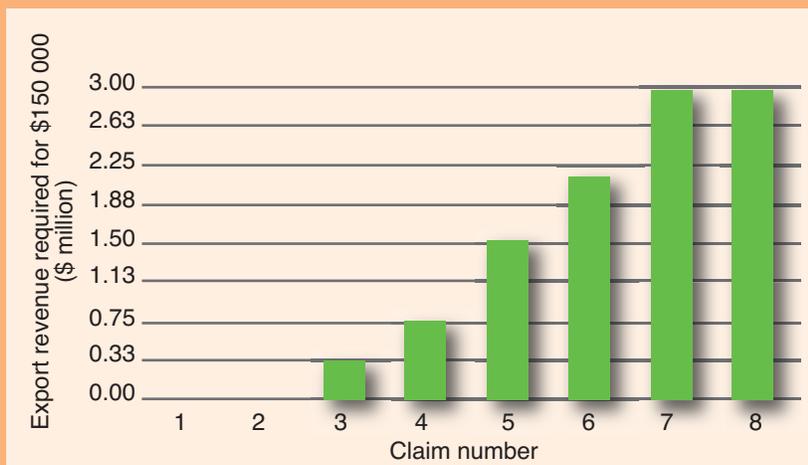
Effective from 1 July 2016, the EMDG program has eight categories of eligible expenditure to help determine the cash rebate payable to an applicant (a company, partnership, sole trader or trust). Austrade has specific schedules and varying rules for claimable expenditures for each of the eight categories:

- Overseas representatives/offices on a 12+ month contract, up to \$200 000
- Marketing consultants, either based in Australia or overseas, up to \$50 000
- Travel for export marketing purposes (international and domestic, up to 21 days per trip, including flights plus daily allowance of \$350)
- Free samples and giveaways, up to \$15 000
- Trade fairs and promotional events, such as conferences, trade fairs, forums and private exhibitions, uncapped
- Advertising and literature, including brochures, videos, websites, advertising, uncapped
- Overseas buyer expenses for export promotion, up to \$7500 per buyer per visit, and up to \$45 000
- Intellectual property protection, including international patents and trademarks, up to \$50 000

The total expenditure from these schedules is added together. \$5000 is deducted, and the balance is multiplied by 50% to give the maximum entitlement, up to \$150 000 (i.e. \$305 000 of expenditure). This is then compared against the performance target (see box 'The performance text – a fair go') for the given claim year to determine that actual grant.

## The performance test – a fair go

The maximum EMDG grant in a given year is based on the export revenue performance by the business. After giving an applicant two claim years to establish its exports, it then caps the entitlement at 40% of export revenue received for the third claim, and 'raises the bar' each claim thereafter: 20%, 10%, 7.5%, 5% and 5% for claims in years 4–8.



Export performance requirement for maximum EMDG claim.

For this reason, some applicants often elect to 'skip' a year or more in their claims, and only lodge EMDG claims when their export performance maximises the grant entitlements. As Rod Campbell (Chair of the Export Consultants Association Incorporated) says: 'You can only claim eight times over the life of the company. Make it eight *good* claims.'

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 under the scheme.'

KPMG modelling in the Lee review found that every EMDG dollar generates an economic benefit of \$7.03 when industry spillovers and productivity gains are taken into account. The industry's peak EMDG body, the Export Consultants Association Inc. (ECAI), pointed to even higher statistics for the success of the program. In the three years prior to the review, the first-time claimants under the scheme achieved \$13 of export revenue for every dollar spent. By claim 7, the export revenue was on average over \$54 per dollar of EMDG.

Put simply, there is no other grant program that achieves such strong leverage of national benefit versus

government expense for small business. And Lee clearly agreed, proposing that the government's funding of the program should be lifted to provide greater certainty of outcomes for Australian exporters.

Following the review, amended EMDG legislation was passed by parliament with bilateral support. As a landmark change, the legislation has been fixed in the pantheon of government support to industry, with the removal of the five-year sunset clause. The legislation also tweaked the entitlements slightly, removing a 3% automatic benefit for communications costs, introducing a \$15 000 limit on free sample expenditures, and increasing the daily allowance for food, accommodation and ground transport while travelling internationally to \$350.

However, despite an increase in funding from \$125 million to

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\$137.5 million for 2013/14 claims, the program is still chronically underfunded. In a recent briefing, Austrade (which administers the program) estimated that total claims would exceed \$170 million. As such, claimants will be paid a guaranteed up to \$40 000 immediately on approval of their export expenses claim by Austrade as a first instalment, then a percentage of any amount over \$40 000 based on the pool of available funds once all claims have been assessed. ECAI anticipates that the shortfall could leave maximum \$150 000 claimants 'short' by \$40 000–50 000 for 2014–15 financial year claims.

Compare this to the benefit of the R&D Tax Incentive (itself a critical support mechanism for businesses conducting R&D in Australia). A recent analysis submitted by the Centre for International Economics to the federal review of the R&D Tax Incentive, identified additional Australian R&D expenditure of between \$0.3 and \$1.0 per dollar of tax forgone for large firms, and between \$0.9 and \$1.5 per dollar of tax forgone for SMEs. That is a

## Getting the claim right

Austrade data shows that the use of EMDG consultants has grown strongly over recent years, to 71% of claims for the 2013–14 year. This would in part reflect the change in Austrade's approach to the EMDG program from that year, with the introduction of fairly punitive compliance provisions, and the removal of provisions to query 'grey area' items in claims. Austrade has acquired powers to act as judge, jury and executioner in assessing errors in EMDG claims, and the power to declare applicants as 'not fit and proper' persons for EMDG, with the effect of both striking out the whole claim under assessment and potentially preventing any company associated with the claimant signing authority from ever claiming again. So it is understandable that many applicants would turn to consultants to help ensure that the claims are correct.

The EMDG is very much an evidence-based program, but it is also complex, with a highly-nuanced set of rules, exceptions and exclusions. According to Austrade data, the total 'slippage' (the difference between the amount claimed and that approved after assessment) was 27% for self-claimants in the 2012–13 financial year. For the top quartile of professional EMDG consultants, the slippage was 4%. So there is also a strong economic incentive for companies to use the advice of expert consultants to plan the export strategy maximise entitlements.

A list of 'Quality Incentive' consultants (which have passed Austrade's most rigorous assessment with the highest success rates) is available on Austrade's website: [www.austrade.gov.au/Australian/Export/Export-Grants/Consultants](http://www.austrade.gov.au/Australian/Export/Export-Grants/Consultants).

substantially lesser benefit, yet the R&D program is virtually uncapped, at a cost of nearly \$3 billion per annum and based on self-assessment.

With the falling Australian dollar and a general improvement in international conditions following the GFC, Australian companies are again looking outwards for growth opportunities. For many of those companies, particularly the SMEs, the funding support available through the EMDG will be a critical factor in their investment decisions for the coming year.

EMDG registrations for 2015–16 opens on 1 July. Has your company considered accessing its entitlements?

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