

CEO

Committee Secretary
Joint Standing Committee on Foreign Affairs, Defence and Trade
PO Box 6021, Parliament House
Canberra ACT 2600
jscfadt@aph.gov.au

Dear Committee Secretary

Submission to inquiry into access to free trade agreements by small and medium sized enterprises

Thank you for the opportunity to provide input to the Joint Standing Committee on Foreign Affairs, Defence and Trade (JSCFADT) inquiry into the access to free trade agreements by small and medium sized enterprises (SMEs).

Innovation and Science Australia (ISA) was established by the Australian Government as an independent statutory board with responsibility for providing strategic whole-of-government advice on all science, research and innovation matters. As part of its mandate, ISA was tasked to develop a strategic plan for the Australian innovation, science and research system to 2030 for consideration by Government. The ISA *Australia 2030: prosperity through innovation* (2030 Strategic Plan) was publicly released on 30 January 2018.¹ The 2030 Strategic Plan emphasises the importance of exporting to innovation in the national economy, noting the strong links between export activity and innovation at the firm level.

Governments can strengthen export activity by entering into new trade agreements and better capitalising on existing ones. ISA welcomes the Australian Government's continuing efforts to grow and strengthen its FTAs, including recently negotiated agreements with China, Japan and South Korea, along with continuing engagement with India and the efforts underway to establish new agreements with the European Union and the United Kingdom.

ISA also welcomes this inquiry's efforts to identify how governments can facilitate access for SMEs to the benefits of existing and newly created FTAs. To this end, we

¹ Innovation and Science Australia (2018) *Australia 2030: prosperity through innovation*, www.industry.gov.au/isa

would highlight that ISA's research for the 2030 Strategic Plan identified the important role played in our innovation system by the Export Market Development Grants (EMDG) scheme. The scheme provides financial assistance for SMEs to increase international marketing and promotion expenditure to achieve more sustainable international sales and encourage businesses to enter and embed themselves in global value chains.

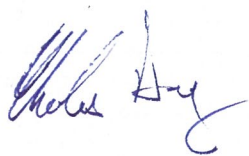
EMDG recipients include many of Australia's best known exporters and the vast majority of funding recipients report the scheme is invaluable in helping them to access new markets and develop better international business and cultural understanding. Our analysis of a sample of EMDG recipients found that 45 percent of the firms increased their employee numbers by at least 73 percent – equivalent to a threshold of 20 percent growth compounded over three years. Furthermore, 52 percent of the analysed firms increased their turnover in excess of the same threshold. High growth rates such as these are a sign of a healthy innovation system, and ISA therefore believes further policy support is appropriate.

In light of this, Recommendation 7 of our 2030 Strategic Plan calls for the Australian Government to significantly increase funding support to export focussed SMEs through the EMDG scheme to further drive the success of Australian SMEs in export markets. It also proposes that a methodology be established to better target this funding support towards high-growth businesses.

The Australian Government is currently considering ISA's 2030 Strategic Plan and we understand its response to our recommendations will be announced in the coming months. We believe that the importance of the EMDG scheme is such that it should also be a consideration in your findings in the present inquiry.

I would be pleased to further discuss ISA's proposal to increase EMDG for SME exporters and ISA's 2030 Strategic Plan more broadly with members of the Committee. The ISA Board secretariat, the Office of Innovation and Science Australia, can be contacted on (02) 6213 7400 or at secretariat@isa.gov.au if members would like to arrange a meeting.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Charles Day', with a stylized flourish at the end.

Dr Charles Day
Chief Executive Officer

20 April 2018