

INDUSTRY COMMISSION

STATE, TERRITORY  
AND LOCAL  
GOVERNMENT  
ASSISTANCE TO  
INDUSTRY

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Productivity Commission  
PO Box 80  
BELCONNEN ACT 2616

Phone: (06) 240 3200

Fax: (06) 240 3311

### ***Forming the Productivity Commission***

*The Commonwealth Government, as part of its broader microeconomic reform agenda, is merging the Bureau of Industry Economics, the Economic Planning Advisory Commission and the Industry Commission to form the Productivity Commission. The three agencies are now co-located in the Treasurer's portfolio and amalgamation has begun on an administrative basis.*

*While appropriate arrangements are being finalised, the work program of each of the agencies will continue. The relevant legislation will be introduced soon. This report has been produced by the Industry Commission.*

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## ABBREVIATIONS

ABS	Australian Bureau of Statistics
ACCI	Australian Chamber of Commerce and Industry
ACM	Australian Chamber of Manufactures
ACT	Australian Capital Territory
AGP	Agreement on Government Procurement (WTO)
BCC	Brisbane City Council
CER	Closer Economic Relations (Australia-New Zealand)
CGC	Commonwealth Grants Commission
COAG	Council of Australian Governments
DAME	Department of Agriculture, Minerals and Energy (Victoria)
DARTI	Department of Asian Relations, Trade and Industry (Northern Territory)
DAST	Department of Arts, Sport and Tourism (Victoria)
DAWA	Department for the Arts, Western Australia
DBE	Department of Business and Employment (Victoria)
DBIRD	Department of Business, Industry and Regional Development (Queensland)
DEA	Department of Education and the Arts (Tasmania)
DHRD	Department of Housing and Regional Development
DCTWA	Department of Commerce and Trade, Western Australia
DIST	Department of Industry, Science and Tourism
DPIF	Department of Primary Industry and Fisheries
DRDWA	Department of Resource Development, Western Australia
DTSR	Department of Tourism, Sport and Recreation, Tasmania
EC	European Commission
EDA	Economic Development Authority (South Australia)

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EDO	Economic Development Officer
EU	European Union
GATT	General Agreement on Tariffs and Trade
GBE	Government Business Enterprise
GPA	Government Procurement Agreement
HFE	Horizontal fiscal equity
MFP	Multi-function polis
MMEC	Melbourne Major Events Company
NCC	National Competition Council
NSW	New South Wales
NT	Northern Territory
OECD	Organisation for Economic Cooperation and Development
PTE	Public Trading Enterprise
QCCI	Queensland Chamber of Commerce and Industry
R&D	research and development
RDB	Regional Development Board
RDO	Regional Development Organisation
SA	South Australia
TDR	Tasmanian Development and Resources
TDA	Tasmanian Development Authority
US	United States of America
VFI	Vertical fiscal imbalance
VROCs	Voluntary regional organisation of councils
WA	Western Australia
WACCI	Western Australian Chamber of Commerce and Industry
WAMA	Western Australian Municipal Association
WATC	Western Australian Tourist Commission
WTO	World Trade Organisation

## TERMS OF REFERENCE

I, GEORGE GEAR, Assistant Treasurer, under Part 2 of the *Industry Commission Act 1989*, hereby:

1. refer assistance to Australian industry from State, Territory and Local Governments and their instrumentalities to the Industry Commission for inquiry and the provision of an information report within twelve months of the date of receipt of this reference;
2. specify that this inquiry is intended to elicit information about the extent of such government assistance and its effects on economic and regional development;
3. without limiting the scope of the inquiry, specify that the Commission's report have regard to:
  - (a) measures where the primary purpose is to assist or attract industry and overseas investment, including tax concessions, land acquisition and general trade and investment promotion;
  - (b) the extent of Commonwealth assistance to industry and its relationship to State, Territory and Local Government assistance to industry;
  - (c) the impact of State, Territory and Local Government competition for industry, including its impact on Government finances, on mobile investment and the efficient allocation of resources across the economy; and
  - (d) an assessment of the net benefits derived by each State and Territory from such assistance, including identifying the key determinants of where they have been successful and detailing the methodology for assessing net benefit;
4. specify that the Commission avoid duplication of any recent substantive studies undertaken elsewhere; and
5. specify that the Commission have regard to the established economic, social and environmental objectives of governments.

GEORGE GEAR

31 October 1995

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## KEY FINDINGS

The following are the key findings from the Commission's inquiry into State, Territory and local government assistance to industry.

- State, Territory and local governments have an important role in developing a positive environment for the establishment and development of wealth-generating industries. However, this role is being undermined by their provision of significant assistance to industry.
- In 1994–95, State and Territory governments' industry assistance involved:
  - an estimated budgetary cost of \$2500 million (or \$137 per head); and
  - \$3200 million (\$176 per head) in payroll taxes forgone, predominantly to smaller businesses.

Local governments provided assistance of around \$220 million (\$12 per head).

By comparison, the Commonwealth provided an estimated \$9900 million (\$547 per head) of assistance in 1994–95, mainly in the form of border and domestic market protection measures.

- Most State budgetary assistance is selective and discretionary. As discretion and selectivity increase, so does secrecy. Secrecy creates a potential conflict of interest for publicly accountable officials.
- States engage in competitive bidding for major investments and events because they perceive a gain for their State in terms of employment and income — perceptions often supported by misuse of evaluation techniques.
- Gains from providing selective assistance at the State level are largely an illusion. Only in a very few cases, with particular characteristics, is there likely to be a net gain for the State.
- Most selective assistance has little or no positive effect on the welfare of Australians. Rivalry between jurisdictions for development and jobs at best shuffles jobs between regions and at worst reduces overall activity.
- States find it difficult to abstain from offering assistance because of the perceived economic and political cost of losing out to other States.
- There is a strong case for States to consider an agreement to cease or limit selective assistance to industry. At the very least, the provision of such assistance should be more transparent and more accountable.

- The Commission sees the options for action by the States as involving a progression in the discipline applied — and in the benefits that could be achieved. Firstly, the States could agree to increase the transparency and accountability of their provision of assistance to industry. Secondly, the States could agree to limit firm and project-specific assistance to industry. Thirdly, the States could agree to limit the provision of assistance to industry to a few well defined activities and situations.
- The States themselves could enforce any such agreement with only minimum involvement by the Commonwealth.
- There is a legitimate role for the Commonwealth in encouraging the States to limit their selective industry assistance.
- The inefficiencies and other problems identified by this inquiry with provision of selective assistance to industry by State and local governments will continue unless action is taken by the States.

## OVERVIEW

*States and local governments have an important role in development of wealth-generating industries.*

*Much of the considerable selective assistance provided has little or no positive effect on the economic welfare of Australians as a whole.*

*State governments spend about \$2.5 billion on general and selective industry assistance. In addition about \$3.2 billion is provided in payroll tax exemptions.*

State and Territory (hereafter called State) and local governments have an important role in Australia in ensuring a positive environment for the establishment and development of wealth-generating industries.

However, much of the considerable selective assistance provided to industry by State and local governments has little or no positive effect on the economic welfare of Australians as a whole. Most selective assistance is part of harmful State and local government rivalry for economic development and jobs, which at best shuffles jobs between regions and at worst reduces overall activity. Some of the most wasteful elements of this rivalry could be avoided or reduced by an agreement among the States to make the provision of assistance more transparent and to limit its extent.

State governments outlaid an estimated \$2.5 billion (or \$137 per head) on general and selective assistance to industry in 1994–95 (see Table). In addition, an estimated \$3.2 billion (\$176 per head) was provided in payroll tax exemptions, predominantly for smaller businesses. Local governments spent an additional \$220 million (\$12 per head). These amounts of assistance can be compared with the estimated \$9.9 billion (\$547 per head) provided to industry by the Commonwealth in 1994–95.

In terms of budgetary outlays, New South Wales, Victoria and Western Australia provide levels of assistance similar to the national average of \$137 per head. South Australia (\$180), Tasmania (\$228) and the Northern Territory (\$360) provide significantly more. The Australian Capital Territory (\$27) and Queensland (\$105) provide significantly less. In 1

terms of payroll tax exemptions, the Australian Capital Territory, Northern Territory and Western Australia forgo significantly more revenue than the national average and Queensland significantly less.

<b>Commonwealth, State, Territory and local government assistance to industry</b>				
<i>Jurisdiction</i>	<i>Assistance by budgetary outlays etc</i>		<i>Payroll tax exemptions</i>	
	<i>\$m</i>	<i>\$/head</i>	<i>\$m</i>	<i>\$/head</i>
New South Wales	807.4	131	1 140	185
Victoria	637.5	141	739	163
Queensland	348.5	105	452	136
Western Australia	259.9	149	390	223
South Australia	265.4	180	274	186
Tasmania	107.7	228	89	188
Australian Capital Territory	8.2	27	78	256
Northern Territory	64.0	360	42	236
<b>Total States<sup>a</sup></b>	<b>2 498.7</b>	<b>137</b>	<b>3 203</b>	<b>176</b>
<b>Local govt. (1996 survey)</b>	<b>220</b>	<b>12</b>	<b>na</b>	<b>na</b>
<b>Commonwealth (1994–95)</b>	<b>9 935</b>	<b>547</b>	<b>na</b>	<b>na</b>

a Data on assistance outlays are for 1994–95 and on payroll tax exemptions are for 1993–94.  
na Not applicable.  
*Source:* Commission estimates.

*These estimates are approximate indicators.*

*'Industry' is defined broadly.*

The State and local government industry assistance estimates should be viewed as approximate indicators of the orders of magnitude involved because of deficiencies in data sources.

For the purposes of this inquiry 'industry' has been interpreted broadly. It includes traditional goods-producing industries in agriculture, manufacturing and mining as well as service industries such as retailing, banking, construction, tourism and the arts. Public administration, such as courts and police, defence and community services such as education, health and welfare have been excluded.

*The hallmark of  
'assistance' is selectivity.*

For the purposes of this inquiry 'assistance' is government action which discriminates between activities, firms or industries. The use of the term 'assistance' does not prejudge its merit. Not all forms of assistance have been measured. In particular, data on revenue forgone at the State and local government level are generally unavailable as is the extent of any assistance from the underpricing of government-owned natural resources and infrastructure.

*Payroll tax exemptions  
mostly discriminate by  
business size.*

Payroll tax exemptions have been reported separately as most of these do not discriminate by activity, firm or industry. But included in the estimates are the selective exemptions provided to some medium and large businesses as well as the general exemptions which favour small businesses.

State and local government assistance is provided predominantly by budget outlays and revenues forgone. Commonwealth assistance is provided mainly (two-thirds) by way of import tariffs and other forms of market protection.

*The quality of data is  
poor: public scrutiny is  
seriously constrained.*

The quality of the State and local government data on industry assistance is such that public scrutiny is seriously constrained. Considerable differences in reporting practices exist between jurisdictions and between agencies within jurisdictions. For example, when reporting on project-specific assistance, the Northern Territory's Department of Asian Relations, Trade and Industry provides details of the recipients, the nature of assistance each received and any contingent liabilities incurred. In contrast, Queensland and South Australia report such assistance in a single line in the accounts of the relevant industry departments. A similar range of reporting practices exists at the local government and Commonwealth levels.

*As discretion and selectivity increase, so does secrecy.*

The Commission observes that as discretion and selectivity in industry assistance increase, so does secrecy. This applies not only to the negotiation process, but also to outcomes. Secrecy creates a potential conflict of interest for public officials who are publicly accountable for their actions. It also creates a climate conducive to suspicions of corruption. The Commission found a confusion within States regarding the need to maintain confidentiality during the negotiation process and the practice of keeping confidential the nature and value of assistance provided.

*A key issue is the role of State and local government industry assistance in economic development.*

A key issue for the inquiry is the role which assistance to industry from State and local governments plays in their economic development.

Bidding wars between States for firms and events seem to have become increasingly prominent. Governments are concerned about the cost, both direct and in opportunities forgone, to their communities of providing such assistance. But they are also concerned about missing out on development if they are not involved.

*Business is concerned that assistance to one firm is at the expense of others.*

Business organisations are concerned that assistance to one firm is at the expense of increased business taxes on others. They expressed concern about the large number of industry assistance schemes, duplication, high cost of delivery and a general lack of involvement on the part of industry.

*Competition between States can be beneficial.*

Competition between States is an essential feature of a federation. In general, such competition is seen as a beneficial discipline on State (and local government) behaviour. It provides incentives to develop the mix of public infrastructure, social services, regulations and government services which taxpayers and ratepayers demand. It penalises jurisdictions which provide insufficient or inappropriate public infrastructure and services, and impose unnecessary taxes and charges

*But competitive use of selective industry assistance is costly and may be against the spirit of the Constitution.*

However, competitive use of selective industry assistance — particularly firm and project-specific assistance — has been seriously questioned during this inquiry by many participants. It seems to add little, if anything, to aggregate investment and employment, involves a costly transfer of funds from taxpayers and ratepayers to selected businesses and can result in a misallocation of resources which is harmful to economic growth. Arguably, the provision of such assistance is not in the spirit of the free trade and commerce provision of Section 92 of the Constitution.

*Correction of most market failures is best undertaken by Commonwealth Government.*

Not all assistance results in a misallocation of resources. Where it clearly targets market failures such as a less than efficient level of activity in research and development, and where such assistance is delivered efficiently and effectively, it can enhance economic development. This form of assistance typically affects all States. This suggests that such assistance should be provided at the national level.

*Selective assistance can be at the expense of getting the fundamentals right.*

State assistance to industry typically is more firm and project-specific than Commonwealth assistance. Selectivity often is used by States in an attempt to target the ‘marginal’ project in order to increase the effectiveness of the assistance provided. However, attempts to buy development with selective assistance can be at the expense of getting the fundamental business climate right, and the provision of other community services.

*Selective assistance has very high administrative costs.*

Selective assistance has very high delivery costs, both to governments and the recipient firms. For example, delivery costs of State assistance averaged 28 per cent of the assistance provided and ranged up to over 80 per cent for some programs.

*Governments provide assistance for various reasons.*

The reasons why State and local governments are involved in the selective use of assistance are varied but include:

- the need to be seen to be doing something about problems such as unemployment;
- a misunderstanding of the benefits, as a result of flawed use of evaluation techniques which overstate benefits; and
- a fear that the State/council will lose if it does not participate while others do.

*State gains from assistance are small, risks are high.*

The general conclusions which may be drawn from the literature and participants' comments on the use of industry assistance as part of jurisdictional rivalry are:

- there can be small gains in terms of State output and jobs, but only in the unlikely event that assistance can be provided in isolation;
- gains are more likely if the resources employed have no alternative use;
- there is little net effect on unemployment;
- the risks to governments are high;
- the effects on jurisdictions as a group are negative; and
- where successful, most of the benefits accrue to owners of immobile factors of production (eg land).

Quantitative modelling by the Commission supports the following general conclusions.

When one State provides assistance in isolation:

- there are clear short-term benefits *only* if the cost of financing the assistance can be ignored or avoided;
- the long-term benefits are dubious and any gains are likely to be small; and

- costs are imposed on other States and on the economy as a whole.

When all States provide assistance:

- there are likely to be net losses all round.

While formal evaluations are often undertaken before assistance to a project or event is initiated, few are undertaken afterwards.

*Project evaluation is often deficient.*

A review of the main tools used to evaluate individual projects or events revealed major deficiencies. In particular, multiplier analysis is frequently misused to overstate benefits, and identification of benefits and costs is deficient when more than one tier of government is involved in financing the project. The institutional arrangements often incorporate ‘moral hazard’, whereby the agency with the interest in the project proceeding undertakes or commissions the analysis.

*Selectivity is not driven by vertical fiscal imbalance.*

The New South Wales Government submitted that the narrowness of the States’ own tax bases and the dependence on transfers from the Commonwealth mean the States must be selective in the assistance they provide. The Commission considers that, while the tax base is narrow, selectivity is not driven by ‘vertical fiscal imbalance’. The States have significant taxing powers, provide substantial exemptions and have discretion in their expenditures.

*Effect of horizontal fiscal equity is less clear.*

A similar argument has been raised about ‘horizontal fiscal equity’. This issue is less clear cut, as States receiving significant equalisation grants typically provide higher levels of per capita budgetary outlays on industry assistance.

*Concern over States’ industry assistance is not confined to Australia.*

Concern over States’ industry assistance policies, particularly the provision of selective assistance packages in competition with other States, is not confined to Australia. It is also a concern in the

United States, where its effects have been studied extensively and are generally assessed to be unfavourable.

*An internal trade agreement in Canada.*

In Canada, an internal trade agreement between the Government of Canada and the Provinces and Territories came into force in 1995. Articles cover investment and a Code of Conduct on incentives aimed at preventing them being used to encourage firms to relocate within Canada. The agreement provides for regular monitoring of incentive packages by an independent agency and the publication of this information. It includes dispute resolution and enforcement mechanisms modelled on the GATT trade dispute mechanisms.

*The European Union treaty.*

The European Union attempts to place clear limits on the provision of assistance by member countries. The Treaty of Rome (article 92) explicitly limits 'State aids' to industry which would impede the development of the common market. Government subsidies and aid to industry are specifically targeted as being generally incompatible with free trade between member states and the establishment of non-distortionary (efficient) competition within a European common market.

*The ability of Australian local governments to assist is governed by State legislation.*

In Australia, the ability of local governments to provide assistance is governed by State legislation. Recent changes to local government Acts and a trend towards increasing size in local government areas through amalgamations have tended to increase the discretion and opportunities for them to become involved in economic development activities.

*Transparency and evaluation can be improved.*

In terms of administrative procedures, governments have a range of measures which each can adopt to improve their own operations, and insist on when financing activities by other agencies. These are:

- adopting 'best practice' transparency and public accountability procedures;

- monitoring; and
- improving evaluation.

*Substantial reform requires collective action.*

Most governments recognise the costs of jurisdictional rivalry when it involves selective assistance to firms. But they find it difficult to withdraw from what they see as a *prisoners' dilemma* because of the perceived costs of withdrawal, both economic and political. There is also recognition that any substantial reform will require concerted collective action by all States.

Opinions vary as to what realistically could be achieved. However, with sufficient commitment, reform could be achieved by improvements to administrative procedures, and by an agreement among State governments to disclose, monitor and limit provision of industry assistance.

*States could recommit to the Government Procurement Agreement.*

Independent of any such agreement and as part of efforts to limit selective and harmful rivalry, the States could recommit to the Government Procurement Agreement, which is being reviewed at present.

*Australia has international obligations.*

In forming an agreement on industry assistance, the parties would need to be mindful of Australia's obligations regarding the provision of assistance contained in international agreements. Explicit export subsidies are prohibited under the World Trade Organization and any firm or industry-specific State assistance could lead to countervailing duties or other action against exports. Some existing State assistance may be open to challenge under the World Trade Organization agreement.

*Should Australia sign WTO Procurement Agreement?*

In addition, Australia is currently considering signing the World Trade Organization's revised Agreement on Government Procurement. While this may extend the overseas markets available to

Australian produced goods and services, the major benefits would derive from adopting the efficiency and transparency disciplines placed on Australia to reform its procurement policies at the Commonwealth, State and possibly local levels.

*Options for action involve a progression of discipline and benefits.*

The Commission sees the options for an agreement for action by the States as involving a progression in the discipline applied — ranging from being limited to transparency and accountability to covering all State assistance to industry. A more comprehensive agreement to limit assistance would require Commonwealth participation and a significant change of policy by some States. An effective agreement could be formed among several States (especially the major States), but would function best if all States and Territories were party to it. In the Commission's judgement, the benefits of an agreement in terms of more efficient use of resources would exceed the costs of its negotiation and implementation.

*Agreed transparency and monitoring.*

The options for an agreement among the States may be divided into three categories. A first could be an agreement aimed at increasing the transparency and accountability of State assistance to industries and firms within their jurisdiction, with there being no explicit limitation of the types of assistance provided. A variant of this option would be to retain the right to provide assistance to projects, firms and industries, but to provide it only in agreed transparent forms, such as explicit investment subsidies and/or payroll tax rebates for a specified and limited period.

The long-term integrity of an agreement could be strengthened if it included provision for independent monitoring and reporting of compliance.

*Agreed limits on some assistance.*

A second option could involve a States' agreement to limit the most selective and harmful forms of industry assistance — firm or project-specific assistance. It could include exemptions for certain clearly specified circumstances such as assistance for natural disasters, depressed regions, areas of accepted significant externalities such as research and development, and provision for 'special events' such as Olympic games. A more ambitious variant of this option could be to limit industry-specific as well as firm-specific assistance.

*Comprehensive agreement to limit the provision of assistance, similar to the Treaty of Rome.*

A third option could involve a States' agreement to limit all State government assistance to industry. Exemptions could be provided to a few well defined activities and situations. This agreement could be similar to the provisions of the Treaty of Rome.

State governments should ensure that their local governments comply with the contents of any States' agreement.

*Competition on the basis of fundamentals should not be constrained.*

Any agreement among the States should not limit competition on the basis of fundamentals such as broad-based taxing and spending regimes.

*There is a role for COAG.*

A forum for negotiating an agreement would be the Council of Australian Governments (COAG). COAG was developed by the Commonwealth, State and Territory governments to increase cooperation on reform of the national economy.

The negotiation of an agreement through COAG is not without precedent. The national competition agreements were developed through it. The Competition Principles Agreement embodies an important principle relevant to this inquiry — 'competitive neutrality' adopted in relation to competition between public and private business enterprises. This principle could be developed further and extended to competition financed by government subsidies and production supports.

*Independent monitoring is required for cooperative agreement.*

The Commission considers that the long-term credibility of any agreement would require independent monitoring of adherence to its provisions. Participants have suggested that the National Competition Council or the Productivity Commission could play such a role. An additional consideration is whether there could, or should, be a formal mechanism to enforce compliance. In Europe, monitoring is undertaken by the European Commission and compliance achieved primarily by bringing cases before the European Court, with individual jurisdictions enforcing the Court's judgements.

*A cooperative agreement could go beyond monitoring and be enforced by the States themselves.*

The effectiveness of a cooperative agreement would depend on the degree of commitment to it by the States themselves. As a means of reinforcing that commitment, the States could consider notification, conciliation, arbitration and enforcement mechanisms, including sanctions for any breaches of the agreed provisions. For example, the States could agree to pay fines or compensation to other States when provision of assistance was found to be in breach of the agreement. Also they could agree to exclude any business in receipt of 'prohibited' assistance from tendering for government business for a limited period or until repayment of the State assistance.

*The Commonwealth could be actively involved.*

The Commonwealth would have an important interest in any agreement. First, because of its concern with the whole economy, it would need to ensure that any agreement is consistent with promoting efficiency and accords with Australia's international obligations. Second, it would need to ensure that its own agencies comply. Third, it could act as an honest broker and could be involved in the provision of an agency for independent monitoring, reconciliation and enforcement. This would suggest that the Commonwealth should facilitate discussion of the matter through COAG.

Finally, the inefficiencies and other problems identified by this inquiry with the provision of selective assistance industry by State and local governments will continue unless action is taken by the States. The significant benefits available and the past experience with cooperative State arrangements, indicate that action should be undertaken in the interests of Australia as a whole.

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# 1. THE NATURE AND EXTENT OF ASSISTANCE TO INDUSTRY

## 1.1 Introduction

This inquiry examines the provision of assistance to industry by State, Territory and local governments and their instrumentalities in Australia. The inquiry was proposed originally by a State government and subsequently endorsed by most State and Territory governments. The terms of reference (reproduced in full at the beginning of this publication) ask the Commission to provide an information report covering, among other things:

- the nature and extent of State, Territory and local government assistance to industry;
- its effects on economic development;
- its effects on mobile investment and the efficient allocation of resources across the economy;
- the net benefits derived by State and Territory governments from the assistance they provide; and
- the extent of Commonwealth assistance and its relationship to State, Territory and local government assistance.

As this is an information report, the Commission has not presented a set of recommendations to government. The Commission's findings covering the information collected, and related policy issues, are summarised on page xxiii.

A background to this inquiry is provided in the next section of this chapter (Section 1.2). This is followed by a discussion of what constitutes industry assistance and the basis for its measurement (Section 1.3). In the fourth section, (Section 1.4) summaries are presented of the amount of assistance given by the Commonwealth, States and Territories,<sup>1</sup> and local governments and the basis on which these estimates were made. The final section of this chapter (Section 1.5) outlines the nature of interstate economic rivalry.

Chapter 2 discusses the policy issues involved in the provision of industry assistance. Chapter 3 looks at options for improving performance.

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<sup>1</sup> Hereafter, 'States and Territories' collectively will be referred to as 'States', unless a distinction is required for clarity.

## 1.2 Background

Over the last decade or so, economic policy in Australia has been aimed at encouraging increased efficiency in the use of Australia's resources by extending competition in the market place. This has involved:

- opening the Australian economy to international competition through significant reductions in assistance to domestic industry;
- increasing the productivity of government-owned economic infrastructure;
- less regulation of economic activity; and
- a microeconomic reform program aimed at increasing flexibility, reducing costs and improving the quality of government provided services.

As Commonwealth assistance to industry has declined, assistance provided by States and local governments has increased in significance. In addition, as Commonwealth and State governments have sought to increase the benefits from their reform efforts, they have undertaken joint Commonwealth-State initiatives. Newly established joint mechanisms under the Council of Australian Governments (COAG) arrangements and the recent agreement on competition policy are a recognition of the growing importance of 'cooperative federalism' and an example of what can be achieved.

Promotion of economic development is a major objective of all governments in Australia and all three tiers of government are significant players. States, Territories and local governments have fundamentally important roles to play in facilitating economic development. The contemporary debate in Australia, as in other federations around the world, is about the extent to which sub-national governments should move beyond the establishment of a sound economic policy and regulatory framework, and the efficient provision of essential social and physical infrastructure (the fundamentals of good government). In particular, the debate is about the appropriateness of a more active role for sub-national jurisdictions in promoting the development of industry by the provision of various forms of industry and firm-specific assistance. The debate also encompasses the extent to which this latter role is, or should be, undertaken in 'competition' with other jurisdictions within Australia (and, indeed, with other countries).

Interstate rivalry or 'bidding wars' for investment projects or major events is an area of increasing concern in Australia. There is concern, even amongst States and local government authorities, that financial transfers from taxpayers to selected individual firms or organisations are neither efficient nor effective. In addition, it is argued that the use of tax revenues for industry assistance significantly reduces the ability of States to provide welfare services and public

services such as education and health. Assistance packages provided by State governments to individual firms or organisations are often subject to competing offers from other States, with large firms actively soliciting assistance and encouraging competition between jurisdictions for the location of major new investments.

Many see competition among States and local governments in the provision of ‘good government’ as desirable, establishing an environment where jurisdictions have an incentive to provide good services to their citizens, an attractive climate for investment for all firms in all industries, as well as imposing a constraint on abuses of power by governments. The term ‘competitive federalism’ has been coined to describe such competition in federal systems such as Australia.

However, even advocates of competitive federalism (who argue for greater autonomy for sub-national jurisdictions and active competition between them) express considerable reservations about certain forms of competition. They are concerned particularly about selective, firm or project-specific assistance of the type offered in recent high-profile bidding wars between the States.

### **1.3 Definition and measurement of industry assistance**

For this inquiry, the term ‘industry’ is interpreted broadly and includes any economic activity of organisations or individuals. Industry includes ‘traditional’ goods industries such as agriculture, manufacturing and mining, as well as others such as retailing, banking, construction, tourism and the arts. Non-profit activities, such as charities and welfare services are excluded.

The *Industry Commission Act 1989*, under which the Commission operates, states that:

“assistance” includes any act that, directly or indirectly, assists a person to carry on a business or activity or confers a pecuniary benefit on, or results in a pecuniary benefit accruing to, a person in respect of carrying on a business or activity.

This definition is clearly very broad. For example, it could be seen as implying that the general business of government — providing a legal framework, a court system, police, defence, the purchase of stationery, and even welfare — indirectly assists a person or organisation to carry on a business or activity. In practice, the general business of government, while crucial to business and economic development, is not commonly regarded as assistance to industry. Accordingly, such activities of government are not included in the definition of industry assistance used by the Commission for the purpose of this inquiry.

Defining assistance is not simple, nor is it easy to determine general rules which differentiate between beneficial and harmful forms of assistance for each level of government. However, for the purpose of this inquiry, the distinguishing characteristic of assistance to industry by State, Territory and local governments is its discriminatory nature. A key 'rule of thumb' used by the Commission in this inquiry for identifying an action of government as assistance is whether it benefits, in economic terms, one business or group of businesses or some activities of business or groups of businesses in comparison with others. By providing assistance to some economic activities in preference to others, government action alters the incentives to participate in particular activities and can lead to a shift in the distribution of resources between activities.

The comparison between the activity being assisted and other economic activities can be either narrow or broad. It can be narrow to the extent that one firm in an industry could receive assistance while another firm does not. It can be very broad such as when a whole sector (eg manufacturing) receives assistance while another (eg agriculture) does not.

Economic analysis generally leads to the conclusion that the overall impact of the shift in resources as a result of selective industry or firm assistance will be to reduce the real income of the community as a whole. As well as representing a transfer from either taxpayers or consumers to business, there is likely to be a net loss in the efficiency of resource use as a result of this transfer. Some groups certainly will gain, but the gains may be overshadowed by the costs borne by others.

The essential question when considering State, Territory and local government assistance is whether, in practice, it will improve on the workings of the market and generate a gain to the economy as a whole. In some circumstances, where markets fail to allocate available resources to their most productive use, government intervention to raise the return to specific activities can be of sufficient benefit (to both the assisted party and the community as a whole) to more than offset the costs involved. For example, weather forecasts provide benefits throughout the whole community and may assist certain industries such as agriculture and fishing more than others. Because of the difficulty of charging for some of this service, particularly excluding those who would not pay, the service would be inadequately financed and underprovided in the absence of government funding. The appropriate level of funding is, however, difficult to determine, and is a separate issue not addressed by this inquiry.

Selective assistance by the several levels of government can take many forms including:

- protecting domestic production against imports;

- promoting export production relative to production for domestic sale;
- providing assistance based on certain industry characteristics — for example, the exemption from payroll tax of businesses under a certain size;
- encouraging the development of a specific industry — for example, the exemption of certain mining activities from paying a mineral royalty;
- location — for example, regional assistance, or more narrowly, rental concessions for locating in certain government-created ‘technology parks’;
- being based on the characteristics of certain activities — for example, research and development (R&D); and
- promoting individual firm or ‘one-off’ projects — for example, the provision of assistance for special events or major investment projects.

Furthermore, the measures which can be used to assist groups or activities are as broad as the definition of assistance itself. Some of the more common examples include:

- trade barriers;
  - not just tariffs and quantitative import restrictions, but also quarantine, anti-dumping procedures, discriminatory sales taxes, local content schemes, ‘excessive’ or discriminatory standards and design rules, onerous import procedures, etc;
- subsidies and bounties;
- government purchasing preferences (Commonwealth, State and local);
- revenues forgone (for example, payroll tax exemptions);
- legislation or regulation restricting competition;
  - restrictions on entry to industries through licensing (eg limits to the number of taxi plates), limits on access to education for certain professions, differential restrictions on trading hours, approvals for or legislation establishing monopolies, (eg some agricultural marketing) etc;
- services, provided free or at less than full cost, with private characteristics; and
- underpricing of access to government-owned assets (for example, land, timber, water or minerals).<sup>2</sup>

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<sup>2</sup> The Australian Conservation Foundation (Trans, p. 43) referred to estimates of the extent of subsidies to the use of natural resources by the Commonwealth Department of Environment, Sport and Territories (1996). The Department estimated the subsidy to be

While general principles provide a useful guide to forming a definition of assistance to industry, it is more difficult to translate them into quantitative measures of the level of assistance. In part, this reflects the fact that governments can use policy instruments (such as expenditure programs) to serve more than one purpose. It is not uncommon for programs of assistance to industry to include a welfare component as well as an additional component of industry assistance. Furthermore, there are significant deficiencies in the data available on government assistance to industry, especially as regards tax concessions. The Commission's quantitative estimates of industry assistance set out below need to be interpreted with these qualifications in mind.

As indicated above, the discrimination between activities and groups of activities provides the key to measuring assistance to industry for the purpose of this inquiry. This is because what would occur in the absence of government assistance or intervention usually forms the base against which assistance is measured. Such measurement, of itself, does not prejudge the merit of a particular intervention or provision of assistance. To make such judgements usually requires more detailed information than is readily available about the operation of the relevant markets. Thus for this inquiry, no detailed categorisation has been made of the assistance measured on the basis of its merit, other than in the broadest terms — see, for example, Appendix 7 — or for particular types of assistance identified in the terms of reference — measures where the primary purpose is to assist or attract industry and investment to a particular jurisdiction.

For the purposes of this inquiry, the Commission has not attempted to measure all possible forms of assistance provided to industry. The unavailability of suitable data precludes such an exercise. However, it has drawn on the Commission's ongoing assistance measurement systems and the information that is available from State budget papers and departmental and agency annual reports to provide an indication of the level of assistance provided, and of differences among the States. This is discussed in more detail in the following sections on the levels of assistance provided by each tier of government in Australia.

An outline of Australia's federal system and the revenue sources of each tier of government is given in Box 1.1.

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\$5.7 billion in 1993–94. The most significant components of this were subsidies to water usage (\$3.2 billion) and to road transport (\$1.2 billion). These estimates include subsidies to all users, only part of which relates to industry.

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**Box 1.1: Australia's federal system**

The Australian federation is made up of three tiers of government:

- the Commonwealth Government with powers designated in the Australian Constitution;
- six State governments with residual powers and two Territory governments with 'State-type' powers granted to them by the Commonwealth; and
- some 700 local authorities with powers and responsibilities delegated to them by their respective State governments. The Australian Capital Territory is the only State or Territory without the 'local authority' level of government.

The Commonwealth raises around 72 per cent of all government revenue but accounts for around 54 per cent of all government own purpose outlays. The Commonwealth Government's dominant fiscal position is the result of the States' ceding their income taxing powers to the Commonwealth in 1942. State and Territory governments are dependent on Commonwealth grants for over 45 per cent of their revenues. Local governments are more reliant on own-source revenue.

## 1.4 Government assistance to industry

This section provides an overview of the extent of assistance provided to the main industry sectors by the three tiers of government. More detailed information is included in the appendices to this report.

The Commonwealth provides the largest amount of assistance to industry, estimated to be about \$9.9 billion in 1994–95. State budgetary assistance provided is estimated to be \$2.1 billion, with an additional \$3.2 billion provided through payroll tax exemptions, principally, but not exclusively, by determining a threshold level for small business. Local government assistance provided to industry is small, estimated to be \$145 million (see Table 1.1).

Commonwealth assistance is directed predominantly towards the manufacturing sector, which receives approximately 80 per cent of assistance; agriculture receives just over 13 per cent. In contrast, 37 per cent of State and Territory government assistance is provided to the manufacturing sector, while agriculture receives nearly 32 per cent. The services sector receives 5 per cent of Commonwealth assistance, but around 27 per cent of State and Territory government assistance. The mining sector receives only 1 per cent of Commonwealth and 4 per cent of State and Territory government assistance.

**Table 1.1: Commonwealth, State and local government assistance to industry (\$ million)**

	<i>Agriculture</i>	<i>Mining</i>	<i>Manufacturing</i>	<i>Services</i>	<i>Total</i>
Commonwealth (1994–95)	1 260	116	7 956	536	9 868
State budget (1994–95)	678 <sup>a</sup>	87	784	578	2 127
Local (1996 survey)	na	na	na	na	145
State payroll tax (1993–94) <sup>b</sup>	117	76	563	2 447	3 203

na Not available.

a State budgetary assistance to agriculture data includes directly attributable overheads.

b Revenue forgone through payroll tax thresholds and exemptions. These estimates are based on exemptions from maximum rates.

Source: Industry Commission estimates.

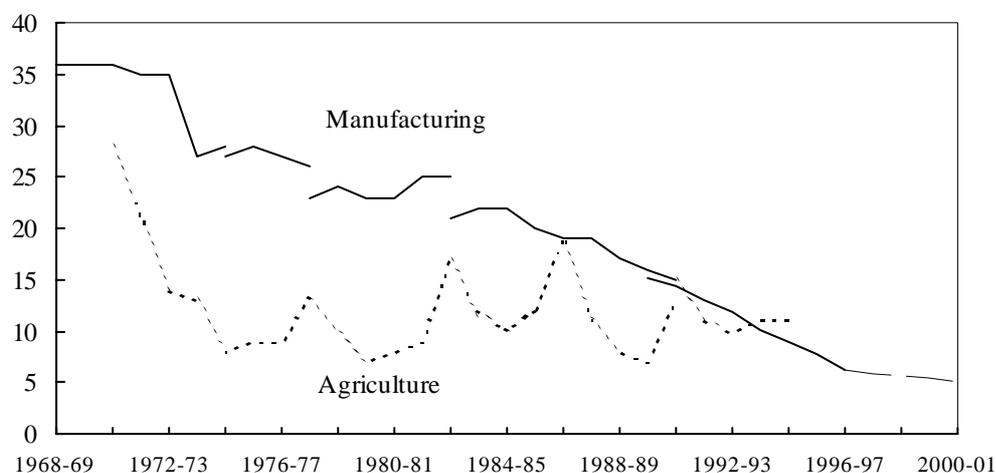
### 1.4.1 Commonwealth assistance

In estimating Commonwealth assistance to industry, the Commission has included information gathered as part of its continuing role of monitoring and reporting on Commonwealth Government assistance to industry. This is reported regularly in the Commission's Annual Report. The major forms of assistance provided by the Commonwealth and included in these measures are:

- protection against competition from imports, measured as the subsidy equivalent of the border protection provided;
- the subsidy equivalent of assistance provided as part of agricultural marketing arrangements; and
- the dollar amount of budgetary assistance, both direct payments and estimates of tax revenue forgone.

The principal form of assistance to local industry is the common external tariff and other border trade barriers administered by the Commonwealth Government. In addition, government-supported agricultural marketing monopolies operate as an important vehicle for assisting Australian agriculture. Both of these forms of assistance have been declining over recent decades, with systematic reductions in tariff rates and some deregulation of agricultural marketing (see Figure 1.1).

**Figure 1.1: Average effective rates of assistance for agriculture<sup>a</sup> and manufacturing, 1968–69 to 2000–01 (per cent)**



a Estimates of assistance for the agricultural sector are not available before 1970–71 or after 1994–95.  
 Source: IC (1996a).

The Commission has estimated that the total value of Commonwealth assistance to industry in 1994–95 was just under \$9.9 billion. This is made up of nearly \$8 billion of assistance to manufacturing (principally border protection and some budgetary outlays), just under \$1.3 billion for agriculture (primarily agricultural marketing arrangements and budgetary outlays), \$116 million for mining and \$536 million for the services sector.

Despite significant declines in tariffs in Australia, border protection remains the most significant form of Commonwealth assistance, particularly for the manufacturing sector. However, Commonwealth budgetary assistance is also significant (see Table 1.2). This assistance, which includes estimates of tax revenue forgone, represents slightly more than one-quarter of Commonwealth assistance provided.

**Table 1.2: Commonwealth budgetary assistance to industry 1994–95 (\$ million)**

	<i>Agriculture</i>	<i>Mining</i>	<i>Manufacturing</i>	<i>Services</i>	<i>Total</i>
Commonwealth (1994–95)	815	116	1 924	536	3 391

Source: Industry Commission estimates.

Commonwealth industry assistance policies are typically industry or sector-wide rather than firm-specific. In general, they have not been directed overtly at influencing the location decisions of firms within Australia or providing industry assistance to any particular State at the expense of others. Nonetheless, the distribution of industries between the States has meant that Commonwealth industry assistance policies have affected State economies to different degrees (see Table 1.3 and Appendix 5). While this effect has been declining over the last 10 years, South Australia (SA) and Victoria are still the principal locations of manufacturing industries receiving significant Commonwealth assistance — textile, clothing and footwear, and motor vehicle production. Victoria and Tasmania continue to have the highest proportions of the more highly assisted agricultural activities in their economies (notably dairying).

**Table 1.3: Effective rates of assistance to agriculture and manufacturing by State, selected years (per cent)**

<i>State</i>	<i>Agriculture</i>		<i>Manufacturing</i>	
	<i>1983–84</i>	<i>1994–95</i>	<i>1982–83</i>	<i>1996–97</i>
New South Wales	12	11	22	5
Victoria	18	14	30	8
Queensland	12	11	19	4
South Australia	11	9	26	9
Western Australia	9	8	18	2
Tasmania	17	14	18	4
Northern Territory	na	3	na	1
Australian Capital Territory	na	6	na	na
<b>Australia</b>	<b>13</b>	<b>11</b>	<b>24</b>	<b>6</b>

na Not available.

Source: EPAC (1986) and Industry Commission estimates.

A number of Commonwealth programs do involve firm or project-specific arrangements with businesses. These typically relate to areas of government procurement — both civil and military — but they also involve schemes such as that for the pharmaceutical industry. The Commonwealth also has become involved, in cooperation with the States, in attracting regional headquarters to locate in Australia (see Box 1.2).

### Box 1.2: The Investment Promotion and Facilitation Program

The Investment Promotion and Facilitation Program (IPFP) was set up in 1987 with a budget of \$2 million per year and program expenditure has been expanded considerably in recent years. It involves a network of investment commissioners in what are regarded as 'key overseas financial centres' to supplement the existing trade commissioner network. Their tasks were initially to publicise and promote investment in Australia.

In July 1990 a Pre-Feasibility Consultancy Study Fund was added to the program to subsidise consultancy study proposals advanced by States, which in 1993 became the Feasibility Consultancy Study Fund. In February 1992, under the *One Nation* statement, a major project facilitation function was added to the IPFP. Previously, major project facilitation operated separately in the Department of Prime Minister and Cabinet. The facilitation offered covers the establishment of both foreign and domestically financed major projects in Australia.

In May 1994, under the *Working Nation* statement, the scope of subsidised consultancy studies from the Feasibility Consultancy Study Fund was extended to cover regional headquarters proposals.

The objectives of the IPFP are to:

- improve perceptions of Australia as an investment destination;
- facilitate links between investors and opportunities;
- foster a cooperative approach to investment promotion between the Commonwealth and the States;
- encourage and facilitate major companies to set up regional headquarters in Australia; and
- encourage investment in Australia by guiding firms through the government approval process.

In 1994–95, \$9.3 million was spent on the IPFP. Despite its size, the IPFP is small relative to the \$36 million of Commonwealth revenue alone forgone under the sales tax provision of the *Regional Headquarters program* in 1994–95.

Source: BIE (1996)

#### 1.4.2 State governments

Most States have policies for particular industry sectors which are administered by separate departments. Under these industry policies, State governments provide many long-standing assistance programs (with a strong weighting towards agriculture and small business). Typically, these programs have reasonably well articulated objectives, guidelines and eligibility criteria. Details of such programs in each State are given in Appendix 1, while programs assisting agriculture are detailed in Appendix 2. The net budgetary outlay (expenditure less fees and user charges) of those programs for which the Commission could obtain data is given in Table 1.4 below.

**Table 1.4: Budgetary outlays and payroll tax revenue forgone on industry assistance by State and Territory<sup>a</sup>**  
(\$ million)

	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>ACT</i>	<i>NT</i>	<i>Total</i>
<b>Budgetary outlays (1994-95)</b>									
Agriculture	273.7	93.0	112.5	96.4	52.5	27.6	0.1	22.6	681.9
Mining	17.1	15.5	24.9	21.4	7.6	6.1	..	4.8	97.4
Manufacturing	263.2	359.8	108.7	64.8	112.1	39.1	0.8	16.6	965.1
Services	253.4	169.2	102.5	77.4	93.2	34.9	7.3	19.9	757.8
<b>Total</b>	<b>807.4</b>	<b>637.5</b>	<b>348.5</b>	<b>259.9</b>	<b>265.4</b>	<b>107.7</b>	<b>8.2</b>	<b>64.0</b>	<b>2 498.7</b>
Per capita (\$) <sup>b</sup>	131	141	105	149	180	228	27	360	137
<b>Revenue forgone (1993-94)</b>									
Payroll tax <sup>c</sup>	<b>1 140</b>	<b>739</b>	<b>452</b>	<b>390</b>	<b>274</b>	<b>89</b>	<b>78</b>	<b>42</b>	<b>3203</b>
Per capita (\$) <sup>b</sup>	185	163	136	223	186	188	256	236	176

a For further details see Tables A7.1 and A7.7. See Appendix 7 for details of methodology.

b Population as at December 1995, ABS (PC Ausstats).

c Revenue forgone through payroll tax thresholds and exemptions.

d Totals may not add due to rounding.

Source: Industry Commission estimates based on budget papers and annual reports.

The Commission estimated that just over \$2.1 billion of assistance was provided to industry by the States via budgetary outlays in 1994–95. An additional \$370 million<sup>3</sup> was incurred by State governments in administering this assistance. Thus, the total budgetary cost of providing State assistance to industry was estimated to be around \$2.5 billion, equivalent to \$137 per capita for Australia as a whole. The amount spent ranged from \$8.2 million in the Australian Capital Territory (ACT) to \$807.4 million in New South Wales (NSW). On a per capita basis, spending by the States varied between \$105 (Queensland) and \$228 (Tasmania), with the Territories being significant outliers at \$360 per capita in the Northern Territory (NT) and \$27 per capita in the ACT. These figures should be viewed as a rough approximation. For example, some forms of assistance not covered by the estimates (such as subsidised land) are used to differing extents by different States and are very difficult to value.

<sup>3</sup> This figure does not include directly attributable overheads associated with the provision of assistance to agriculture.

In compiling information on budgetary outlays (see Appendix 1), the Commission has:

- excluded expenditure on health, education, welfare and governance;
- excluded expenditure related to the policy areas of government departments;
- included both the assistance provided and, where identifiable, the administrative costs of providing such assistance;
- excluded infrastructure expenditure except where clearly related to a particular project;
- excluded expenditure related to the administration and management of State-owned resources such as minerals and forests (for example, resource assessment including expenditure on mapping and exploration). The benefits from this activity could be expected to be incorporated in State royalty receipts;
- included expenditure on information gathering and the management of fisheries. As the benefits of this activity accrue to the participants in the industry, the taxpayer funding of it is considered assistance to the industry;
- included expenditure on occupational health and safety, and environmental regulation of industry on the basis that this represents a cost to society resulting from the operation of that industry and such costs should be reflected in the cost and pricing structure of the industry. Taxpayer funding of this cost is thus treated as assistance;
- excluded expenditure on recreational, amateur and community sport, but included expenditure on professional sport;
- excluded expenditure related to contracting out on the basis that contracting out, of itself, does not represent assistance but is rather a 'business' decision of government. Only where contracting out contains conditions relating to local sourcing or other 'economic development' goals would an element of assistance be attributed to such arrangements; and
- included expenditure on museums, art galleries, film production and other arts on the basis that this funding benefits both the tourism industry and those in the business of producing art works, but excluded expenditures on libraries, zoos and botanic gardens.

More detailed information was obtained in relation to agriculture from concurrent work updating earlier estimates of State assistance for agriculture. This involved requests to State governments for detailed information on

budgetary assistance provided to the agricultural industries in each State. The results are presented separately in Appendix 2.

The Commission has attempted to maintain a consistent treatment in the estimation of assistance between States. However, variations in the way States report expenditures mean that some differences are inevitable.

The Commission had great difficulty gathering information on the extent of State and local government revenues forgone, particularly exemptions and/or rebates relating to individual companies or projects. These estimates are not published by any State government nor, to the Commission's knowledge, are they published by any local government authorities. In fact, it seems that State governments do not know the extent of tax exemptions provided to industry.

An estimate of the revenue forgone through payroll tax exemptions has been made by the Commission. The most significant component of this is the payroll tax threshold. Some competition between States is clear from the range of thresholds — varying from \$456 000 in South Australia to \$750 000 in Queensland. While most States provide the threshold for firms of all sizes, Queensland, Western Australia (WA) and the NT do not provide the threshold exemption for large firms. To estimate the extent of revenue forgone, the Commission compared actual payroll tax collections with the tax that could have been collected had all firms paid the top statutory rate on their total payroll. The Commission has excluded public services (public administration and defence) and community services (health, education and welfare). If all other employees were covered by payroll tax, the States would have collected an additional \$3.2 billion in revenue in 1993–94. The payroll tax revenue forgone by each State, calculated on this basis, is presented in Table 1.4 (further details are provided in Appendix 7 – Table A7.7). The Commission readily acknowledges that for very small firms, the administrative costs would probably outweigh the efficiency gains of a non-discriminatory approach to payroll tax collection. However, the current thresholds seem to be well above the level where collection costs would outweigh such gains. It is also acknowledged that were the revenue to be collected from all firms, governments would be able to significantly reduce the top rate of tax.

Some caution should be exercised in interpreting different levels of payroll tax revenues forgone across the States. For example, high per capita levels of payroll tax exemptions in the NT reflect the composition of industry in that Territory (the relative lack of large firms or businesses) rather than generous concessions or a high threshold level —the NT threshold is one of the lowest. In the ACT, the high level of per capita exemptions is a reflection of both the

composition of industry (the predominance of small firms) and a threshold level which is the second highest.

### **1.4.3 Local governments**

Almost all local governments provide assistance to firms in the form of information, advice, and help with the regulations they administer (see Appendix 3). Other involvement is influenced by the size of the authority — local government areas range from fewer than 2000 people to almost 1 million (Brisbane) — and the nature of local government legislation in each State. At the same time, there appears to be a wide variation in the attitude of councils to the appropriateness of other involvement in industry assistance. Despite this, there seems to be a trend towards greater involvement in industry development by local government.

Increasingly, councils are employing specialist ‘economic development officers’ or their equivalent, to provide facilitation services to business. While this is done often on an individual council’s initiative, the employment of development officers in cooperation with adjacent councils or other regional groups is becoming more frequent. In part, this is to share the costs — which can be significant for smaller councils — but it also reflects a recognition that neighbouring councils can be stronger as a group, with a greater chance of offering better services and attracting investment.

Other assistance provided by local governments is varied, but typically relates to the functions of local government in the provision of infrastructure, zoning or concessional access to council land. Rate holidays or rebates are sometimes used to provide assistance (subject to the varied constraints of Local Government Acts among the States), but direct grants are rare. Local councils may assist business also through the establishment of industrial parks and business incubators.

To some extent the involvement of local governments in assisting major investments on their own initiative is limited by the tendencies of State governments to ‘take over’ the process when large projects are being considered. For example, in NSW, responsibility for any project valued at over \$20 million is transferred automatically to the State Government, while the SA Government is planning legislation which will give it responsibility for any project considered “vital to State development”. At the same time, State governments usually will involve local governments in any assistance arrangements they negotiate with business.

It is very difficult to determine an aggregate measure of local government assistance to industry. In many cases, this is because the definition of what constitutes assistance becomes more blurred as the activities become closer to the areas of normal government service provision, such as infrastructure provision and advice on planning procedures.

In estimating the level of local government assistance, the Commission used information gathered in its survey of local government (see Appendix 3). As part of this survey, the Commission asked the following question:

What is your estimate of the total cost of the financial assistance (direct or revenue forgone) provided to all businesses as a percentage of your annual total revenue?

The average of the levels reported by respondents to the survey was used to estimate the total value of assistance provided by local governments in Australia.

In general, this indicated that the cost to local government of assistance to industry represented 2 to 3 per cent of local government budgets — estimated to be \$220 million in 1994–95. When account is taken of the approximate cost of delivery, the Commission estimated that the assistance received by industry from local government was \$145 million. The survey indicated that half of this assistance was the cost of staff and other administrative expenses involved in the provision of facilitation services to business.

### *Regional groupings*

There are three types of regional groupings operating in Australia. Various State governments fund regional groups which aim to promote the social and economic development of the broad regions they cover. Increasingly, groups of local councils are forming voluntary regional organisations of councils (VROCs) to pursue issues of mutual interest, including regional economic development. In addition, the Commonwealth Government until recently has provided funding for the establishment and operation of regional development organisations (RDOs) (see Appendix 3).

## **1.5 Interstate economic rivalry**

Recent press reports give the impression of an escalating ‘conflict’ between the States in regard to economic development. In some respects this impression is an accurate one, at least as far as the overt bidding for major individual projects, events and firms is concerned. However, competition between the States has

occurred for a considerable period of time and has been conducted in a variety of ways.

One example was the use of State purchasing preferences, under which States effectively required those companies supplying them with goods of significant value to undertake production in the State. This resulted in the fragmentation of some industries, notably heavy engineering, with a facility in each of the major States to ensure access to State transport and construction contracts. In 1986, all States agreed to cease applying such purchasing preferences in recognition of the high cost of the inefficient industry structure created by the previous policy.

Some States have been more active than others in attracting business investment. South Australia, in particular, has a long history of attracting industrial activity into the State. The substantial courting of industry in the Playford era has passed into Australian political folklore.<sup>4</sup> Indeed, there is continuing debate over the extent to which the State's current structural problems are a legacy of that time. For example, Professor Kasper argues "that 'interventionism' is one of the causes of the [present] structural weakness of the South Australian economy" (*Business Review Weekly*, 29 January 1996, p. 28).

At times, certain activities have been favoured above others for economic development. A notable example was the competition in the early 1980s between States for large projects, such as the aluminium smelters now located at Portland and Bell Bay. More recently, information technology has been in favour. Since 1989, as a result of a series of State economic crises (notably in Victoria, WA and SA), some governments have been attempting to rein in excessive and poorly supervised spending on industry assistance.

Increasingly, State governments are looking beyond traditional resource processing and manufacturing activities, to include service industries such as banking, entertainment (including gambling), and special events (eg World Expo 88, the Formula One and Motor Cycle Grand Prix and the Olympic Games) in their assistance programs.

An indicative list of projects to which the States have provided significant assistance over the last five years is given in Box 1.3.

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<sup>4</sup> Sir Thomas Playford was Premier of South Australia for over 26 years, from 1938 to 1965, during which time he "worked to attract interstate and foreign capital to South Australia, sometimes at the expense of other states and without concern as to whether it was economically efficient for Australia as a whole" (Head 1986, p. 184). It was during this time that the Holden and Chrysler (now Mitsubishi) factories were established in Adelaide.

**Box 1.3: Recent examples of major events and firms attracting specific assistance from Australian State governments**

**1991** — The Motor Cycle Grand Prix was run for the first time at Eastern Creek, NSW. The event previously had been run (in 1989 and 1990) at Victoria's Phillip Island. The NSW Government constructed a raceway at Eastern Creek for the event. In 1995, Victoria re-acquired the right to stage the event from 1997, returning it to Phillip Island.

**1993** — Victoria won the right to stage the Australian Formula One Grand Prix (from 1996 onward). The event was held previously in Adelaide, SA. The Victorian Government funding is estimated at \$45 million in capital works on Albert Park and \$45 million in costs to stage the event (less an estimated return of \$20 million from ticket sales, and \$10 million in sponsorship), and a further \$10 million spent by Melbourne Parks and Waterways on the Park (*Sunday Age*, 17 March 1996). The Victorian Government estimated the 'gross economic benefit' to the State of the inaugural Grand Prix in 1996 at \$95.6 million (Kennett 1996).

**1994** — The SA Government attracted Motorola Software Centre Australia to Technology Park. The \$6.8 million Centre opened in May 1995. The SA Government stated that it would 'employ up to 400 highly skilled research and development engineers' and 'contribute more than \$60 million directly and indirectly' to GSP (Brown 1995a). The incentive package offered by the SA Government is estimated to be worth more than \$13 million — mainly revenue forgone, in the form of factory leasing and payroll tax, and training (*Business Review Weekly*, 13 June 1994).

**1995** — The SA Government signed an agreement under which it contracted its data processing activities on a whole-of-government basis to computer software firm EDS. The company agreed to establish its Asia Pacific Resource Centre in Adelaide, along with other management and development centres. The SA Government claimed that this would create 'at least 900 jobs in South Australia in addition to those transferring from Government' (Brown 1995b).

**1995** — Fox Studios agreed to locate film studios in Sydney, NSW. The NSW Government offered Fox the Sydney Showgrounds, relocating the Royal Agricultural Society (RAS) to a site in Homebush. The cost of incentives is estimated at \$39 million for the State Government (including \$7 million in tax concessions) and \$32 million for the Commonwealth Government (including \$25 million to transfer the RAS to Homebush) (*Sydney Morning Herald*, 18 November 1995).

**1995** — The NSW Government granted a waterfront lease without tender to pay-TV producer, Foxtel. The government stated that 'at least 100 jobs will flow from Foxtel's decision' and said 'Foxtel has made a wise choice in opting for Sydney despite being aggressively courted by several other states' (Carr 1995a).

... continued

**Box 1.3: Recent examples of major events and firms attracting specific assistance from Australian State governments (cont'd)**

**1995** — Westpac announced its decision to establish its National Loans Centre in Adelaide, SA, rather than in Campbelltown, NSW. Planned employment for the Centre is 900 by the end of 1996 (Brown 1995b). The SA Government is reported to have provided between \$16 million (*Business Review Weekly*, 29 Feb 1996) and \$30 million in assistance (*The Australian*, 19 June, 1995) in tax concessions and incentives.

**1995** — American Express chose Sydney as the site for its Asia-Pacific regional operations centre. American Express stated that it was attracted by Sydney's ethnic mix. However, "The Government strengthened Sydney's competitive position with a moderate package of incentives that relied largely on payroll tax rebates" (Carr 1995b). Several other States were also bidding for the facility.

**1996** — NSW State and local governments offered \$3 million (\$1.5 million from the State government and the same amount from the Newcastle and Port Stephens councils) to upgrade Newcastle Airport in order to attract a \$1 billion project to assemble and maintain jet fighter aircraft for the Royal Australian Air Force. The project is estimated to generate 220 jobs (Egan 1996). This package was offered in competition with Victorian sites.

Most States now have a specific organisation (such as Queensland Events Corporation) with defined budgets to undertake the promotion of the State as a location for major sporting or cultural events (see Box 1.4). As a general rule, these bodies operate under State tourism portfolios. While there is some cooperation between States in general tourism strategies, event promotion organisations generally operate in rivalry with one another.

**Box 1.4: State government promotion of special events**

**NSW** — Tourism NSW (the State government department responsible for tourism) incorporates the special events agency, *Special Events NSW*. The agency aims to increase visits to the State by attracting and supporting the development of international and national events.

**Victoria** — The *Melbourne Major Events Company* is a limited liability company funded by the Victorian Government. It was established in 1991 to 'assist the State in identifying and attracting major sporting and cultural events, exhibitions, displays or any other major events which have the capacity to benefit the State' (Victorian Auditor General 1995, p. 135).

**Queensland** — The *Queensland Events Corporation (QEC)* is a statutory authority of the Queensland Government. The *QEC* develops and supports sporting and cultural events which it assesses as likely to generate an economic benefit to Queensland, and raise Queensland's profile both within Australia and overseas.

... continued

**Box 1.4: State government promotion of special events (contd)**

**WA** — *Eventscorp* is an arm of the Western Australian Tourism Commission, supported under the Commission's *Promoting Special Events* program. *Eventscorp* is involved in many types of 'event tourism' promotion, as well as providing support to organisations bidding for special events.

**SA** — The South Australian Tourism Commission provides assistance directly to special events. The Adelaide Convention and Tourism Authority also promotes convention tourism in Adelaide.

**Tasmania** — The Department of Tourism, Sport and Recreation supports special events through its *Major Events* program. The program provides a liaison between event organisers, tourism bodies, local government and community groups, as well as providing advice and information to event organisers.

**ACT** — Assistance to sporting and cultural events is undertaken by the Canberra Tourism Commission.

**NT** — The Department of Sport and Recreation promotes and provides money to special events which are considered to contribute to the economic and social development of the Territory.

For industry attraction, the situation is more fluid. The exact type of investment sought depends partly on the State, but invariably it involves direct investment rather than portfolio investment. Generally, States have identified particular industries or sectors in which they perceive they have, or would like to have, a comparative or competitive advantage, and undertake specific programs to target these sectors. However, while some States have strict and well articulated criteria, others are far more ad hoc in their approach. Some sectors (such as information technology and tourism) appear to have been targeted by almost all States.

State governments typically indicate that their manufacturing industry programs are aimed at capital that is mobile to the extent that the owners are looking to build a new production facility or headquarters, but will be relatively immobile once the location has been chosen and the investment made. This reflects the States' wariness of highly mobile investments which have been known to move readily between jurisdictions, 'harvesting' the sometimes extremely generous set-up assistance provided.

Mining often is seen as a target for revenue-raising rather than as a recipient of assistance, due to the immobile nature of the resources. However, some States do provide assistance to mining industries. Examples include royalty exemptions — eg for gold in WA and opals in SA — and the provision of infrastructure and elements of specific Agreement Acts for some projects.

Investment attraction packages associated with particular projects or events are typically limited to the project and details are rarely disclosed to the public. In

many cases the need to protect commercially sensitive information is given as the reason why details are unavailable.

While the specific incentives provided depend on the State and the project it is wishing to attract, they generally include one or more of:

- facilitation (eg fast-tracking of approvals processes);
- grants;
- concessional or convertible loans;
- provision of free or subsidised land or infrastructure;
- tax rebates or concessions;
- subsidisation of research, promotion or staff training;
- assistance with relocation costs;
- reduced costs of utility services;
- adjustment of existing regulation; and
- the provision of special legislation.

The value of packages offered by the State can be large in terms of the amount provided to an individual project. For example, the Victorian Government spent around \$45 million to stage the inaugural Melbourne Grand Prix, while the assistance provided by the Queensland Government to the Korea Zinc smelter is equivalent to \$2.5 million a year over the 30 year life of the project (Queensland Government 1996).

While the assistance may be large in terms of the particular project, it may not be large in terms of the overall State budget. However, the secrecy surrounding the conditions of many packages makes this hard to verify. Nevertheless, there is potential for a high cost to be incurred. For example, the cost to Victoria of the assistance provided to locate the smelter at Portland until 2014 is estimated to have a net present value of around \$1.8 billion, with an upper bound of \$2.4 billion (Victorian Commission of Audit 1993).

Many local governments also are involved in direct bidding for smaller investment projects and events. From discussions with local government representatives it appears that, when bidding occurs between local government areas or regions, it is generally between areas with similar features, rather than between rural areas and the major metropolitan centres. It seems that firms short-list the areas where they would be willing to locate on the basis of key fundamentals, and then ‘play off’ these regions in order to obtain the best deal — they ‘fertilise’ as well as ‘harvest’ the subsidies.

While use of project-specific assistance is widespread, States occasionally compete using broader measures. For example, in 1976, death duties were abolished in Queensland and, because other States did not respond immediately, the result was a migration of retirees to the State. This shift precipitated the eventual Australia-wide abolition of this form of tax.

Similarly, in May 1995, the Queensland Government halved stamp duty on share transactions. Victoria and NSW quickly followed suit, in order to protect the level of activity in their States and to avoid a potential erosion of their tax bases. The Victorian Government estimated that this action will cost it over \$79 million per annum (Victorian Government 1995a). The WA Government also halved its stamp duty, which “is estimated to cost around \$15 million in 1995–96 and future years” (Court 1995, p. 8). The WA Government’s 1995–96 *Budget* stated that:

This measure was taken to protect the State’s stock-broking industry and revenue base following Queensland’s move to halve its stamp duty rate, which was quickly followed by the other States. (Court 1995, p. 8)

The following Chapter discusses policy issues raised by the most significant of these developments in government assistance to industry.



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## 2 POLICY ISSUES

### 2.1 Introduction

Public debate over the appropriateness of government assistance to industry in Australia has focused typically on Commonwealth policies and on competition in the international trading environment. The general conclusion of that debate is that, with the important exceptions of providing general ‘good government’ and the correction of significant ‘market failures’, assistance to industry is not an effective means of promoting Australia’s economic development, or of improving the standard of living of Australians as a whole. This view is reflected internationally in the reductions in assistance to industry being pursued unilaterally, and in both regional and multilateral frameworks, by both developed and developing nations.

As indicated in Chapter 1, significant assistance to industry is provided in Australia by State and Territory governments, and, to a much lesser degree, by local governments. While Commonwealth assistance is still much greater than that provided by the States, it has been declining over the last two decades and is expected to continue to do so.

The appropriateness of industry assistance policies of State governments also requires consideration. However, here the debate has two additional dimensions. The first is the appropriate role of sub-national jurisdictions in industry policy decisions, particularly when their decisions can affect other jurisdictions within Australia. The second, and related dimension, is the use of industry assistance in interjurisdictional rivalry — as part of competition among the States and local governments for economic development.

The use of industry assistance for ‘competitive’ development policies has been an important issue for other groupings of States around the world. The Treaty of Rome underpinning the European Union (EU) has important clauses seeking to restrict ‘state aids’ to industry by its members — albeit with varying degrees of success. The Canadian Provincial governments recently signed an internal trade agreement which includes provisions covering investment incentives and a prohibition on assistance aimed at moving industry across Provincial boundaries. Within the United States, there has been much debate over the role and effectiveness of the provision of ‘competitive’ assistance to industry by State governments as an economic development strategy, and occasional, but short-lived, ‘agreements’ to limit such rivalry.

An important objective underlying such agreements is the desire to improve the efficiency of resource use within the group of nations or States as a whole, by creating a common internal market, free from internal trade barriers or artificial inducements (both direct and indirect). In such a market, firms can exploit the inherent advantages of different locations and compete on the basis of their inherent characteristics and relative efficiency. Governments at all levels have an important role in developing the inherent advantages of different locations. However, industry assistance by member states, particularly firm-specific assistance, tends to be seen (with some important exceptions) as fundamentally incompatible with the objective of developing a common internal market which encourages efficiency in the use of resources and is fair to all participants within the market.

The reasons why jurisdictions provide assistance are varied, but two distinct categories can be identified. The first category is concerned with the correction of the adverse effects resulting from the failure of 'private' markets to function efficiently. The second category is the more general one of promoting economic development.

There is little dispute about the appropriate role for government in attempting to overcome the adverse effects of market failures. Here debate is about the scope of such government action, given the ability, in practice, of governments to identify significant failures and intervene in a cost-effective manner.

Promoting economic development is a legitimate desire of governments. It is seen as a means of improving employment opportunities for their citizens, reducing unemployment, and increasing living standards. The relatively high levels of unemployment in Australia since the mid-1970s, particularly in some regional areas, have seen increasing pressure on State and local governments to become involved in attempting to alleviate unemployment in their jurisdictions.

There is also little dispute about the appropriateness of this underlying objective. The main issue is about the most appropriate means of pursuing this objective — particularly the role that assistance to industry in its various forms should play. There is also little dispute that there are gains to be obtained by individual States or Territories from increased investment. Again the question is the extent to which governments can 'profitably' court such investment. Should they do so? If so, what is the most appropriate means, particularly within a federal system where specific assistance is often provided by one State or local government seeking to attract investment at the expense of other States or local governments within Australia?

This chapter looks at:

- the role of industry assistance in economic development;
- the reasons why selective assistance to industry is provided;
- real world problems, costs and consequences, of pursuing a policy of providing selective assistance;
- the impact of state assistance, drawing on experience in the US, and on analysis of the effects within Australia, both for the States and the country as a whole;
- the question of the appropriate role of State governments in industry development policies within a federal framework;
- the relevance of ‘competitive neutrality’ within a federal system, particularly within the context of an objective of developing a single internal market within Australia;
- the impact of Commonwealth-State fiscal relationships; and
- local governments and regional development organisations.

## **2.2 Appropriate economic development policy**

There is universal agreement that governments have a vital role to play in setting the scene for economic development. However, there is debate about the extent to which industry assistance, particularly firm or project-specific assistance should be used. In setting the scene for economic development, Kasper (1996) argues that governments have a significant role in providing:

- efficient user-friendly infrastructure such as education, roads, ports and waste management and operating these in an efficient low-cost way (directly or by private supply);
- simple, stable and transparent institutional rules which facilitate interactions and lower the transaction costs of doing business, by establishing user-friendly laws and regulations, and enforcing them convincingly and consistently; and
- macroeconomic stability, particularly a non-inflationary economic climate.

Considerable government expenditure is provided to develop and operate these activities. However, considerable expenditure is devoted also to assisting industry directly.

A number of participants in this inquiry argued that industry assistance is not an appropriate tool for State economic development policy. They argued that

addressing the fundamentals of good government is more effective in promoting economic development, and represents a more equitable policy on the part of government (see Box 2.1).

**Box 2.1: Comment on the role of government by the WA Chamber of Commerce and Industry**

In its submission to the WA Public Accounts and Expenditure Review Committee in 1995, the WA Chamber of Commerce and Industry said:

It is far more important for government to get its overall economic policy management and fiscal strategies right.

The best assistance which the government can give to industry is to create a favourable climate for all business activity by:

- ensuring that fiscal management is responsible and minimises the burden of taxation – bearing in mind that the great majority of the state’s tax revenues are collected from businesses;
- ensuring that its business enterprises are competitive and efficient and that their pricing structures are fair, so that direct unavoidable business input costs such as power and transport are minimised;
- providing the simplest and fairest tax regime possible, so that some industries are not penalised at the expense of others, and small businesses are not over-burdened by compliance requirements and cost;
- minimising unnecessary and over-complex regulations which can impede competition and business growth;
- providing an appropriate, predictable and stable legislative environment which ensures that business can act confidently in the expectation that shifts in the political climate and government policy will not undermine their investment plans and profitability.

If the government were to pay greater attention to these issues, then questions of subsidies and other assistance to business would be largely irrelevant.

*Source:* WACCI (1995 p. 1).

In addition, the Tasmanian Chamber of Commerce and Industry (Sub. 46) said:

By and large competition between the States for business investment improves economic efficiency in Australia. Whether it be energy prices or tax structures, industry regulation or the cost of workers compensation, ‘competitive federalism’ ensures that Governments are under constant pressure to provide quality goods and services at the lowest possible costs.

There is, however, a sharp distinction between the beneficial competition over the general business climate and competition that discriminates in favour of a particular industry or business. When Governments compete over financial and other incentives to attract business (particularly tax holidays) then the competition becomes destructive and inefficient. (p. 3)

Even the provision of a sound general business climate, and other core government activities, will involve extensive interaction between government and business. A valuable role for government is in the facilitation of the services of government — that is, the provision of information, one-stop shops, and other means of providing the necessary information for business on the operations of government. This can occur at all levels of government and, particularly in a federal system such as Australia, could include cooperative arrangements between governments and between different levels of government. It might be noted, however, that simple and non-selective systems will require less facilitation.

Some argue that governments can successfully provide both a sound and attractive general business environment, and well-targeted selective assistance to particular firms or projects. The SA Government (Sub. 75) said:

Despite the substantial progress made in improving South Australia's business climate, the South Australian Government remains firmly committed to the use of selective assistance as a means of enhancing the growth and development of the State's key industries. (p. 3)

This view is not shared by other commentators, who see the provision of selective assistance as fundamentally incompatible with a policy of 'getting the fundamentals right'. This view was put by Kasper (1996):

When pursuing their legitimate interest in developing economic activity and jobs, State and local governments have a choice between

- (i) making attempts to attract new businesses with up-front subsidies and similar measures for specific businesses, and
- (ii) concentrating on reducing the general costs and productivity impediments for the benefit of all comers, along the lines of universal, functional supply-side policy.

This is a genuine choice because a concentration on specific measures and 'subsidy bidding' inevitably detracts attention and scarce political and administrative resources from improving the general business climate. The availability of government assistance also diverts business efforts from competing in markets (or 'performance competition') into competing for political favours ( or 'rent-seeking'). (p. 13)

When the provision of selective assistance is small, its effects, while perhaps important for an individual firm, will also be small for the community as a whole, whether those effects are positive or negative. However, if selective assistance is significant, it threatens to change the fundamental relationship between government and business — away from one of 'competitive neutrality' in the treatment of firms, to one of discrimination.

## 2.3 Why selective assistance is provided

The basic motivation for industry assistance is to promote growth and employment. Several reasons were put forward for the continuation of active State government involvement in selective, particularly project-specific assistance to industry.

The New South Wales Government (Sub. 56) cited the following factors as influencing the involvement of government. These are:

- increased globalisation of the economy, which has increased the mobility or ‘footlooseness’ of investment;
- a response to market failure which relies heavily on the promise of positive externalities arising from investment projects; and
- the ‘prisoners’ dilemma’ which arises when other governments are providing unknown levels of assistance.

Other reasons include:

- the belief that large, high-profile projects can act as a ‘beacon’ or ‘lighthouse’ advertising and demonstrating the benefits of the State;
- the expectation that there are ‘external’ gains from agglomeration — that a critical mass is necessary before significant development becomes self-sustaining, and that governments can ‘create’ this critical mass;
- intangible benefits largely in the form of improved State ‘morale’, particularly relating to the staging of major events;
- the belief that investment generates significant externalities via multipliers within the local economy; and
- budgetary pressures on States which lead governments to use selective assistance as a means of containing the cost of economic development policies.

### *Market failure, externalities and multipliers*

In addition to the more general objective of promoting economic development, a reason commonly advanced for the provision of industry assistance is that markets are imperfect and that the consequent market failures need to be corrected by government. One particular form of market failure is the existence of external effects, both positive and negative (externalities or spillover effects). The failure of private individuals or organisations to take into account these external effects means that their decisions do not fully reflect the true cost (or benefit) to society of the action contemplated.

Before discussing externalities and multipliers, it is important to distinguish between an ‘externality’ and the simple effect that a business decision may have on other enterprises. For example, the decision to set up a business may increase competition for other firms, and may even result in some firms closing down. This is not an externality in a policy relevant sense. In this situation, the price mechanism has signalled relative efficiencies and competitiveness, with the community gaining through more competitive production. Similarly, the setting up of a new business may increase demand and sales by suppliers. As this is reflected in prices, resulting in resources shifting naturally between activities, it does not represent a market failure or relevant externality. In the case of an externality, such as pollution, there is no ‘natural’ market, or price, mechanism which incorporates or signals all of the effects of pollution on others in the community.

### *Market failures and externalities*

As outlined in Chapter 1, markets will not always function perfectly, or adjust immediately to changes in the economic environment. There will be occasions where their ‘failure’ is sufficient to warrant government intervention. Classic examples are, public goods (such as defence), or where the market fails to signal sufficiently the benefits (R&D), or costs (pollution), and where information problems and transaction costs are particularly high (standards for weights and measures etc). There are occasions, however, where even some of these difficult challenges can be overcome by legislation which specifies property rights clearly rather than by direct assistance.

The cases of externalities leading to a prima facie case for government intervention are well known in the economic literature. However, the argument is sometimes made that the benefits of markets as viewed by economists rely on the existence of ‘perfect’ markets. Some commentators argue that the real world is far from this ideal, leading to the suggestion that continuous and extensive government intervention (including assistance) is warranted.

While markets rarely if ever operate ‘perfectly’, they usually generate information which signals opportunities to market participants. If government action is to be appropriate, the market failures or imperfections need to be identified clearly, and the government action introduced in a cost-effective and well targeted manner. The Commission found little evidence during this inquiry that this identification and measurement by State and local governments actually occurs. When it does, the measurements are often flawed. In reality, governments often lack the information and expertise necessary to identify and then correct market failure in a manner which ensures that the positive effects outweigh the negative, including the costs of financing the intervention. As a

result, there is a substantial risk that the cost of government failure will outweigh the cost of market failure.

One of the difficulties is that money is fungible. That is, within a firm, money can be moved readily from one use to another. Thus, while assistance could be provided by way of training workers, or even funding R&D (activities which of themselves could be seen as correcting for a failure in a market), the assistance may simply substitute for company funds which would have been spent on that activity — meaning that, in effect, the assistance is little more than a simple grant of cash. This illustrates that if assistance is provided, considerable care is needed to ensure that it is well targeted and clearly linked to the particular area of market failure identified.

Certain types of government assistance are often considered to be particularly worthwhile. Export assistance, market development, assistance with R&D or training are deemed to be more ‘positive’ forms of assistance because they are seen as improving industry competitiveness. Traditional forms of assistance provided by trade barriers or other means of guaranteeing market share are seen as being ‘negative’ and therefore less desirable because they reduce competitive pressure on an industry and allow inefficiencies to develop and remain. As the costs of assistance, particularly the traditional forms of trade barrier protection, became more widely understood in Australia, they were reduced by policy changes over the 1980s and 1990s. The focus of those who consider that government should provide assistance to industry has shifted to the provision of so-called ‘positive’ forms of assistance of the type outlined above. A similar evolution of attitudes to assistance and the tools used has occurred in the United States.

Nevertheless, such ‘positive’ measures of assistance should be subject to the same scrutiny, whereby benefits should exceed costs, which resulted in removal of many of the ‘negative’ measures. The existence of benefits is only part of such an evaluation.

### *Multipliers*

In many cases, externalities (or spillovers) are confused with economic multipliers generated by an activity — particularly when the regional impact of a project is being considered. However, multiplier effects are not an externality. Multipliers are summary measures of economic linkages. For example, it is often stated that an investment project, as well as employing a certain number of people itself, will generate additional employment in other industries. A typical statement is that “one job in X will ‘generate’ Y additional jobs elsewhere in the economy”. Similarly, it is claimed that a project will generate economic

investment elsewhere in the economy, additional to the investment associated with the project itself — so the project will result in a large addition to State economic activity.

Governments often use evaluation techniques based on multiplier analysis when considering the impact of major projects on their jurisdictions, with the results used to identify ‘additional’ gains to the economy and to justify government assistance. Typical output multipliers quoted are in the range 1.1 to 2.5, implying that one dollar of investment will generate an increase of between 1.1 and 2.5 dollars in Gross State Product. Some studies use significantly higher multipliers.

Multipliers, as simply measures of linkages, can measure a net gain to the economy only to the extent that their demand on resources for associated activities can be met from resources which otherwise would not be used. They do not consider possible alternative uses of such resources. If an expansion of one industry can occur only by bidding resources away from another industry, then there is no net multiplier effect. Indeed, the initial expenditure itself will increase activity only if it involves a more efficient use of resources. In particular, the alternative uses of government funds used to assist the investment are usually ignored. These funds may have greater value (or even higher multipliers) used in other ways or if left in the hands of taxpayers.

The ‘magic of multipliers’ in providing leverage from an initial investment usually turns out to be a myth when account is taken of alternative uses of the resources allocated to the investment. As Outlook Management (Sub. 67) commented:

It is appropriate to debunk the use of the multiplier to measure externalities. Multiplier gains depend on the availability of free resources: externalities do not. And the use of multiplier analysis has devalued the practice of cost-benefit analysis in Australia. (p. 3)

Nevertheless, for a particular jurisdiction, multipliers can measure a net gain to the extent that the resources attracted come from outside the jurisdiction, and at no cost to the jurisdiction. However, there will be losses to the jurisdiction from which the resources are attracted to offset the gains for the jurisdiction to which they move.

Whether these are gains to the nation depends on whether those resources moved as a result of ‘artificial’ inducements or as the result of changes in the competitive environment. The movement of resources between jurisdictions is not in itself necessarily a loss for Australia. As Outlook Management (Sub. 67) commented:

The shuffling of jobs between regions which arises from structural change and relative changes in productivity of regions results in an increase in output and the release of resources for other activities. (p. 2)

However, the question is whether there are gains to the nation as a whole when the movement of jobs is the result of specific inducements provided by government.

### *Agglomeration*

The tendency for firms in the same and closely related industries to locate within close proximity of each other is a commonly observed phenomenon. Explanations for this geographic concentration are couched typically in terms of either endowment driven localisation or what have been termed 'agglomerative externalities'.

Under the first of these explanations, industries are said to concentrate in regions which possess favourable factor endowments in the form of natural resources, labour and infrastructure. Sawmills concentrating in a region with abundant forest resources provide just one example. An alternative explanation suggests that firms cluster in specific locations to take advantage of technological spillovers, an increased supply of specialised labour as well as more sophisticated and lower cost intermediate inputs. As Head et al (1995) put it:

The vague and general concept of technological spillovers is probably the most frequently invoked source of agglomeration effects. Useful technical information seems to flow between entrepreneurs, designers and engineers in a variety of industries. A large part of the spillovers between foreign-owned firms may include the flow of experience-based knowledge on how to operate efficiently in a given state. Physical proximity may enhance knowledge flows by making casual communication less costly. (p. 226)

The SA Government (Sub. 75) said:

investment attraction can bring with it less tangible but significant benefits such as the introduction of new skills, new technologies, new management practices, and connections into other countries or into multinational enterprises. (p. 4)

With regard to labour supply, it is argued that the greater the number of firms in the same location, the lower is the likelihood of a lengthy period of unemployment. Skill levels are therefore more likely to be maintained and this benefits both workers and those firms which employ them. In terms of intermediate inputs, the clustering of both users and suppliers of these inputs is said to lead to lower transport costs and large enough levels of demand to encourage the production of highly specialised components.

Empirical evidence on the significance and magnitude of agglomeration effects is scant. Again, Head et al (1995) comment that:

There have been few empirical studies of agglomeration effects. Henderson (1986) examines data for the United States and Brazil and finds strong evidence that industry localisation raises factor productivity. Glaeser et al (1992) do not find a positive relationship between industry concentration and city employment growth. Instead they attribute city growth to industry diversity and competition. They posit that the lack of dynamic agglomeration effects may arise because their sample consists of mature industries. (p. 224)

In their own empirical work the authors examine the location decisions of a large number of Japanese manufacturing plants built in the United States. They found agglomeration economies to be important in location decisions and that:

... government inducements can have a lasting influence on the geographical pattern of manufacturing. (p. 223)

The effects of agglomeration are seen as an externality in that the grouping of related businesses can reduce the costs to each other through such things as reduced transport costs, reduced reaction times, and more general gains from easier working relationships, and intangibles such as the cross-fertilisation of ideas. There is a market failure (or externality) to the extent that early firms may not take into account the future gains to themselves and other firms which will benefit from the clustering that may occur in the future. As a consequence, there will be underinvestment until such time as a critical mass is reached for the development to attract investment in its own right.

The concept of agglomeration or clustering is sometimes used to call for the provision of assistance to industry, particularly the targeting of selected 'seed' firms. Outlook Management (Sub. 67) said:

The process [of agglomeration] can be accelerated by the introduction of specific businesses or projects, selected to be complementary to an existing economic structure and to provide connection to a powerful global market driver. (p. 3)

and:

When regions compete for investment they trade the present value of their expected agglomeration gains back to the firms they are seeking to attract. The result of competition between regions can therefore be an improvement in the efficiency of resource allocation, and an increase in national output and productivity. (p. 5)

The gains from agglomeration are real for the firms involved, and to some extent they may represent an 'externality' not fully accounted for in the decision making of some of the first firms involved. At the same time, there are also gains for the particular location in which the investment occurs. Examples such as silicone valley in California, groupings of motor vehicle manufacturers and

component suppliers, and other clusters of related industries demonstrate the effect. The key question for government policy, however, is the extent to which these clusters can, or should, be created by governments.

The reasons why some clusters are successful and others are not, and the reasons for their initial location in a particular area, are little understood. Thus it is difficult for governments to be able to make sound judgements as to the appropriate amount of assistance that should be provided, or to know if any success was the result of their efforts or would have occurred naturally. Outlook Management's comment that jurisdictions will "trade the present value of their expected agglomeration gains back to the firms they are seeking to attract" implies a level of capacity for analysis and precision that is very demanding and rarely exists. In this inquiry, the Commission was not made aware of any attempts to identify or measure the extent of external agglomeration gains, or the 'optimal' level of assistance that this would generate or how to identify the key ingredients. The existence of underutilised technology parks established by government, both State and local in the past, and by universities, indicates the risks inherent in government intervention.

Outlook Management (Sub. 67) also commented on the "introduction of specific businesses or projects, selected to be complementary to an existing economic structure" (p.3). This strategy is not uncommon, with governments assisting firms on the expectation that their characteristics will complement existing industry, or provide greater gains to the region. In practice, however, it would appear to be very difficult to successfully implement such a strategy. The information requirements for identifying and selecting firms which complement an existing industry structure would seem to be immense. At the same time, the judgements required about the future direction of economic growth or technical change in order to be able to choose individual firms involve considerable risks for governments. The succession of 'sunrise' industries which have been identified and pursued throughout Australia's history — for example, motor vehicles, chemicals, robots, micro chips, computers, and now information technology — would indicate the difficulties for government of judging which particular industries will drive future economic growth.

In the Australian context, the question must also be asked whether one State or locality can create a cluster without simply cannibalising existing or potential clusters in other States or localities. If this happened, the net result could be the development of an industry in a fundamentally less efficient location, to the cost of Australia as a whole.

Often, the private market can accommodate the external gains from location. Firms are aware of the gains of locating near major buyers or suppliers. To the

extent that there is a gain, competition will mean that the ‘core’ firm which may have made the initial investment will also receive some benefit from lower prices and better delivery. Private industrial estates also have been developed, often on the basis of cheap rent arrangements for early, or particularly large, firms to establish. The developer captures at least some of the gain from clustering from later entrants seeking the benefits of location. Of course, many of these estates have been unsuccessful, just as government-funded estates have been.

### *Demonstration or ‘lighthouse’ effect*

The ‘lighthouse’ effect essentially involves attracting a specific, usually high-profile, firm into a jurisdiction to ‘advertise’, or demonstrate, the ‘true’ attractiveness of the State. The South Australian Government (Sub. 75) commented:

... research shows that investors have imperfect knowledge and do not often consider the smaller States and Territories in their investment decision making. Incentives act as an important market signal to correct lack of knowledge about the competitive advantages in smaller States, which may actually offer the best commercial location.  
(p. 4)

Similarly, the Department of Commerce and Trade in Western Australia (DCTWA) suggested that some projects can help to correct for misinformation or lack of information in the market place on the true benefits of a particular location.

In the United States, Alabama provided substantial assistance to Mercedes-Benz (reported to be US\$ 253 million, see Table 2.1) to set up a vehicle plant in Alabama and act as a ‘lighthouse’ to attract other investment to the State, and help to overcome the negative image the State had as rural and ‘backward’. Similarly, the French firm Coflexip (see Box 2.2) was seen as providing a ‘lighthouse’ effect for Western Australia. The South Australian Government (Sub. 75) highlighted the location of the submarine defence contract as a ‘lighthouse’ for the State, saying:

... the, so called “lighthouse effect” is also an important reason for engaging in selective attraction for firms. The attraction of the Australian Submarine Corporation to Osborne in South Australia provided a major boost to the local defence industry and influenced the decision of several other defence related firms to locate in South Australia. It ensured that Adelaide was recognised as a key location for defence-related industry.  
(p. 4)

By providing assistance to develop a ‘lighthouse’ firm or industry, the State seeks to signal that investment in that State can be successful. Other investment is expected to follow. The success of such a strategy depends on attracting

further investment without assistance. However, once governments become involved in providing selective assistance there seems to be no apparent policy of ceasing such a policy even after a series of 'lighthouses' has been assisted often over many decades. Moreover, there may be more efficient means of dealing with perceived information problems, and 'lighthouse' assistance may be less effective in fostering investment than more general measures to create an efficient business environment.

**Box 2.2: Coflexip investment incentive package**

In 1994–95, the Western Australian Department of Commerce and Trade offered an \$8.5 million incentive package to French undersea flexible pipe manufacturer Coflexip to establish a \$55 million manufacturing facility in WA (offering 200 jobs).

DCTWA's decision to target Coflexip was made: 'not just for the sake of Coflexip's numbers of employees and investment they would provide but really to provide a beacon ... to the industry that Western Australia was a location that was reasonable to think about' (DCTWA, Trans, p. 31). Since establishing in WA, Coflexip has joined with the Department in promotional seminars in Norway and Scotland, which DCTWA claims have 'improved our credibility 1000 per cent' (Trans, p. 34). The Department also states that, since Coflexip located in WA, a number of companies, including Western Geophysical, have relocated from Singapore. This is in addition to the relocation of Stena Offshore from Kuala Lumpur after it merged with Coflexip. (DCTWA made an additional convertible loan of \$500 000 to Coflexip Stena Offshore for its relocation.)

The incentive package provided to Coflexip included the construction of a 400 tonne crane on the Fremantle wharf (a facility that already existed in Singapore), some strengthening of the wharf wall (for which funding went directly to the Fremantle Port Authority) and a long-term rent-free period on its wharf site. All of these incentives are included in the \$8.5 million figure provided by DCTWA.

*Source:* DCTWA (Trans, pp. 31-5).

### *Regional development*

Regional development, particularly the development of depressed regions plays an important role in the economic development policies of government. In the EU, where the Treaty of Rome specifically seeks to limit industry assistance by member states, assistance to depressed regions is one of the exceptions to that policy.

In its submission to the inquiry, Outlook Management (Sub. 67) argued that:

In addition one might add the view that each regional community achieves a direct welfare gain when they secure an activity which provides employment and options for their children. There are non-market values here which would be taken into account in a sound economic evaluation of the practice. It would also recognise that large urban

communities are less willing to offer incentives than smaller, possibly more vulnerable, communities. (p. 2)

Similarly, the SA Government (Sub. 75) commented:

In high unemployment regions, job insecurity will be higher than in low unemployment regions. It is entirely plausible that electors in a high unemployment region would attach greater weight to additional employment opportunity than electors in a low unemployment region, who might attach greater weight to expenditures on social services. Levels of industry attraction activity are a policy issue for State Governments in response to the needs of their electorates. (p. 9)

In general, the decline of some regions and the expansion of others reflect changes in the relative productivity of regions. In the longer term, such changes bring an improvement in the use of the community's scarce resources. However, these changes rarely occur without disruption and cost. In the short term, there may be unemployed resources facing high costs of relocation. In this situation, some of the activity generated by new investments will not represent a cost to other activities. In addition, there may be institutional constraints which mean that regions with significant unemployment find it difficult to signal directly their willingness to accept part of the decline in their competitiveness through a decline in incomes.

People living in some regions may willingly 'tax themselves' to retain activities which they think are necessary to sustain the region or its character. They may also do this in preference to moving elsewhere. The fact that such an action may reduce the measured income of those in the region does not detract from their right through the democratic process to give expression to such preferences. Those people who do not wish to incur the added costs can choose to move elsewhere. An important issue to facilitate such choices is transparency of costs and benefits. Transparency is important so that people in these communities have sufficient information to make choices based around their particular circumstances. Inefficiencies may arise, however, when a region is not 'taxing itself', but is able to get others to 'foot the bill' for their own lifestyle choices (see Section 2.6).

### *Intangibles*

The continuation of competitive bidding also reflects the expectation of a number of intangible factors — both for the region and for the governments involved. For instance, many State governments believe there is a 'psychic income' or a 'feel good' effect flowing to their populations from holding a major event such as a Grand Prix, or an Olympic or Commonwealth Games. There is also a political incentive for governments to engage in bidding. Any success provides an opportunity for governments or politicians to build political

support through the ‘photo opportunity’ or ‘brass plate’ effect generated by their association with a specific event or firm.

Surveys confirm that the citizens of a State are often in favour of their government bidding for a specific firm or event (particularly when it is successful) as it leads to the citizens themselves feeling that they live in a successful State capable of attracting major events and firms. In these cases, the costs to the citizens can seem small, and the gains considerable. In this situation, public information on the full costs and benefits of government intervention is essential to enable citizens to make such an informed judgement. The Commission observed that rarely is sufficient information provided publicly for such a judgement to be formed.

Furthermore, the provision of assistance is said to signal that the government is sympathetic to business and industry and will be generally supportive of business activity in the jurisdiction. In a number of visits to participants in this inquiry, this ‘signalling’ role was seen by government officials to be an important function of government ‘involvement’ or ‘endorsement’ of the project, even when the level of assistance provided was modest.

### *Perceived prisoners’ dilemma*

One of the reasons put forward for the continuation of competitive bidding, in a situation where the players understand the costs involved, is that the States are caught in a ‘prisoners’ dilemma’. Despite the costs for all involved, it is difficult for an individual State to withdraw from the bidding process because of the potential losses which it would incur if other States continued to bid. A description of the ‘classical’ prisoners’ dilemma is outlined below (see Box 2.3).

The expectation is that States individually are acting rationally to engage in competitive assistance provision but that collectively they would be better off by not doing so. The presumption is that economic well-being in the community will be improved by an agreement to cease State assistance to industry. While there are important exceptions, the rivalry between the States often is seen as efficiency-reducing beggar-thy-neighbour activity.

#### **Box 2.3: Prisoners’ dilemma**

Rational choice theory describes a dilemma facing two prisoners.

Two people are caught for a crime which they committed together. The Police have enough evidence to convict both for a minor infringement, but need a confession if they are to convict the criminals of a more serious offence. They interrogate the suspects separately. If only one prisoner

confesses to the crime and promises to assist the prosecution of the other, then that player can 'negotiate' a lesser sentence and serve less time than if neither confesses. If both confess, then each serves more time than if neither had confessed, but less time than if the other had confessed and they had not.

Therefore each prisoner's optimal strategy is to confess, no matter what the other chooses to do. Hence, both confess and serve some time for the more serious offence — even though both would be better off if neither had confessed.

The dilemma arises from the incentive structure of the game. Even if the prisoners make a pact not to confess, each has the incentive to break that pact when interrogated (in the hope of receiving a lesser sentence). Therefore, the pact will not hold unless there is some external enforcement mechanism (which in this case could be a credible threat of serious injury being inflicted on the prisoner if the pact is broken).

As the New South Wales Government (Sub. 56) said:

There are clear parallels with the situation [prisoners' dilemma] in which NSW finds itself when attracting investment. (p. 13)

In simple terms, the States overall would be better off if they agreed not to compete, but each is able to gain by breaking the agreement if the others continue to abide by it. If all States compete, all lose by paying out assistance and, by cancelling out each other, fail to influence location decisions.

The Commission's quantitative work conducted for this inquiry casts doubt on the actual existence of a prisoners' dilemma with regard to 'bidding wars' (see Appendix 7).

Whether or not there is a real and significant economic gain available from providing assistance in competition with others, the States may face a dilemma in political terms. The perceptions of gains and losses can be as strong as the reality. If the States perceive that there are gains from unilateral assistance, a key component of a prisoners' dilemma, it could be because they take a short-term view of the implications. More realistically, however, it may reflect the fact that new investments are highly visible and can be 'claimed' by governments, while the offsetting costs are spread more widely and are much less prominent.

### *Competing against overseas locations*

The SA Government (Sub. 75) commented:

The IC generally overlooks the strong international competition that exists for investment.

Therefore, any unilateral action by Australia, possibly through an agreement among all jurisdictions, would not be effective as all States and Territories (but particularly the smaller ones) would be net losers, with companies choosing to locate offshore (p. 5).

Competing against other countries to attract investment is an important reason put forward by States for programs of selective incentives for investment projects. This issue has become more prominent as Australia has sought to open up the economy to competition and integrate it better into the international economy (especially in the Asian region) by, among other things, becoming a base for regional headquarters of multinational companies. The Commonwealth has also become actively involved in this through the Regional Headquarters Program and the Investment Promotion and Facilitation Program.

The extent to which incentive packages, particularly selective packages, have any real impact on the level of investment in Australia is contentious. Investment, including foreign investment, is determined largely by the general rate of return on investment in Australia, which is determined predominantly by general economic factors. The incentive packages offered by the Commonwealth and State governments are unlikely to alter this rate of return significantly, particularly given the selective nature of that assistance, and the uncertainty surrounding the type or level of any incentive that may finally be negotiated. While, in principle, incentives could change the rate of return for some firms for which the decision to invest in Australia was marginal, it is not clear that a net increase in investment can be achieved in practice. A number of questions need to be asked.

First, would the project have located in Australia anyway? It will always be difficult for governments to determine whether the project was marginal, and the firms have little incentive to reveal the true situation to government. An indication of the problem was provided by AMEX which commented (Sub 77, p.4) that "... the selection of Australia for its regional operations centre was only the first step in the overall re-location process." The impression is that, for a number of firms, the decision is made to invest in Australia, and then the process of seeking the best deal from individual States is begun. In the bargaining process, firms may well suggest that an alternative location overseas is being considered seriously, but it is usually very difficult to assess the real likelihood of this.

Second, to what extent does the favoured investment simply displace other investment — investment which may have gone ahead without the need to use taxpayer funds? There is no easy way of identifying such displacement. But that such displacement occurs flows from the observation that incentives appear to have a limited effect on the aggregate level of investment. Surveys of firms' location decisions, such as the Industry Commission (1996b) and the Bureau of Industry Economics (BIE) (1995a), in Australia and other countries have

typically found that government incentives are a minor factor in influencing decisions to locate or invest.

Third, even if the incentive was sufficient to change the location decision of firms, it would be very difficult to ensure that the government does not pay more than that required to effect the change. Governments are unlikely to have the information to ensure excess payment is not made.

The existence of these problems does not mean that governments cannot facilitate investment in their jurisdiction. Most investments require considerable interaction with governments and their agencies before they can be completed successfully. Action to facilitate this process is an appropriate area for government involvement.

## **2.4 Real world problems in providing selective assistance**

In certain circumstances an individual jurisdiction may be able to gain from influencing the location decisions of firms. However, a good many 'real world' problems are associated with meeting the relevant conditions and realising any net gains in practice.

### *Retaliation by other States*

While there may be gains for a State or region from encouraging an investment to locate within their jurisdiction rather than in another, a State is rarely in the position of being able to act on its own. Significant success by any individual State invariably precipitates copying or retaliation by others. If all States engage in such inter-state rivalry, there is a real chance that their actions will largely cancel each other out, with little effect on the location of investment in the longer term, but with increased costs to the States' taxpayers.

States nonetheless will have the occasional 'win' which can be attributed to the attraction package that is offered, and the occasional 'loss' which will be blamed on the assistance package of the rival winning State. The assistance packages may appear to be important in the investment decisions, but it is not clear that the mix of wins and losses with the assistance packages in place would be significantly different from the mix that would have occurred if none of the States had provided assistance for new investments.

It is easy to overstate the effect of assistance packages as State governments promote and publicise the 'wins' they achieve — attributing the location decision of the project to their own actions in attracting it — without addressing the question of how many of the new investments may have located in that State

in the absence of any incentive offers. Similarly, firms and event providers have little incentive to discourage the notion of the efficacy of the assistance provided. Nor are governments likely to acknowledge, or know, the other firms which may leave the State because of competition from a firm attracted into the State and which is able to compete with the help of government assistance.

### *Information difficulties*

The successful development and implementation of selective assistance policies requires a high degree of detailed knowledge on the part of policy-makers. This includes information on the company, its market environment, its relationship to the rest of the State economy, and any possible alternative use of its funds — to list only some of the relevant factors. This information is rarely available, even to the company directly concerned — and the company almost certainly has devoted a considerably greater amount of resources to investigating the viability of the project than governments would be willing or able to match.

Government decision-makers are likely to be largely dependent on the firms seeking assistance for such information as is available. Because they are significantly removed from the market, and lack the incentives to develop the necessary detailed knowledge, decision-makers are usually in the position of testing the claimant firm's application and supporting material with little, if any, independent information.

This problem is exacerbated when a number of jurisdictions compete for a project. In this situation, the firm is the only player to know the relative cost of establishing in each location. It is also the only player with accurate information on the packages offered by each government.

These issues would not present a problem for governments if firms had an incentive to share their knowledge. In general, however, firms have no incentive to provide complete information to governments, either during the bidding process or after the assistance package has been received.

Hence, the government which 'wins' the project is unlikely ever to know if the assistance package was significant in influencing the firm's location decision. Even if it was important, the government will not know if it has paid more than was needed to obtain the investment.

The NSW Government (Sub. 56) recognised this, saying:

A complication is that the exact amount of competing bids and the true decision mind-set of the intending investor are seldom known. Accordingly, one of the risks is that to win the bid more assistance than is necessary may be offered. (p. 4)

Government decision-makers also require information about any possible alternative use of State funds, if they are to make well-informed decisions about whether to allocate funds to the assistance of specific projects. In order to relate the benefits from allocating funds to these programs to the benefits that would arise from spending on alternative government programs, decision-makers require information about the spillover effects arising from each of the possible projects the funds could support. Spillover effects are usually very difficult to identify, let alone to measure.

The problems presented by Governments becoming directly involved with business to promote economic development are demonstrated by the experience of the Victorian Economic Development Corporation (VEDC) (see Box 2.4).

#### **Box 2.4: The VEDC experience**

The Victorian Economic Development Corporation (VEDC) was established by the Victorian Economic Development Act 1981. Under the Act, the role of the VEDC was to facilitate and encourage the development of Victorian industry.

The principal financial activities of the VEDC were to act as a development financier to 'preferred' high technology and export-oriented industries and country manufacturing industries, and to facilitate overseas investment in Victorian industry and exports of Victorian products.

Subsequently, the VEDC was restructured on 1 July 1984 to 'become the principal agency for the provision of loan and equity funds to targeted firms to stimulate economic activity'. (Victorian Government, 1987, p. 73) It sought to achieve this by:

... providing development funds as a lender of first resort at commercial, yet attractive interest rates ... and maintaining a flexible attitude towards repayment to provide enterprises with a maximum opportunity to achieve long term viability. (Victorian Government, 1987, p. 73)

The Government's (1984) intention was that the VEDC:

... increase its presence in the capital market and, at the same time, operate on commercial lines whilst taking more risk than would be acceptable to conventional financial institutions. (p. 68)

By June 1988, the Victorian Auditor-General (1989) reported that the VEDC had suffered a dramatic downturn and incurred a loss of \$105 million. In December 1988, the then Treasurer appointed a chartered accounting firm to undertake an independent investigation of matters relating to the VEDC.

... continued

#### **Box 2.4: The VEDC experience (contd)**

The main findings of this investigation (1989) were:

- The VEDC board did not have a policy regarding prudential limits and exposures. It would have been appropriate to set such standards so as to ensure the spreading of risk and the maintenance of the asset base.
- The board did not have a documented strategy and failed to give due consideration to the economic climate prevailing at the time, particularly from the viewpoint that, during a period of ample credit, a development organisation such as the VEDC should constrain its lending rather than expand it rapidly.

- Until October 1988 the VEDC did not have a manual on policy and procedures in relation to its lending and investment practices. Such a manual is fundamental to the operations of any financial organisation to maintain order during the course of ordinary business but also to provide a reference for use in difficult circumstances.
- The department responsible for the oversight of the VEDC's operations (the Department of Industry Technology and Resources) did not give sufficient attention to a number of important areas, namely:
  - reassessment procedures became less rigorous and there was a tendency to throw good money after bad;
  - the VEDC practice of appointing a nominee director to the board of some of its major borrowers was counter productive because conflicts of interest arose through the inability and /or unwillingness of some of the individuals concerned to report appropriately to the VEDC;
  - VEDC management did not ensure that there was proper segregation of duties and rotation of files and responsibilities. Management consciously allowed responsibility for lending, monitoring and collection to be vested in the same lending officer in relation to each client.
- Many of the equity positions taken by the VEDC were in response to the fact that the client could not afford to pay the interest associated with the loans. In 1986 the VEDC Board imposed a limit of 3 per cent on equity investments as a proportion of the total equity and loan portfolio. By June 1988 this proportion had increased to 13.3 per cent despite no resolution being made by the board to raise the equity limit from the previously established level.

In November 1988, the Treasurer directed that the Rural Finance Corporation of Victoria acquire certain assets and liabilities of the VEDC. In December 1993 the Rural Finance (VEDC Abolition) Act was passed and the VEDC was abolished.

By June 1995, of the \$115 million doubtful loans transferred to the Corporation, \$111 million had been written-off.

*Sources:* Victorian Government (1984), Victorian Government (1987), Victorian Auditor-General (1989), Victorian Government (1989).

### *Risk aversion*

There is considerable literature to indicate that governments and government officials are significantly risk-averse in their decision-making in relation to business — receiving limited benefits from getting the decision ‘right’, while facing the risk of political damage if shown to have ‘picked a loser’ and ‘wasted’ taxpayers’ money. The tendency in this situation is to target activity which had a strong likelihood of occurring anyway — if for no other reason than to be sure of being able to point to a string of ‘successes’. This means that there is a tendency for the assistance to be provided where it is not really necessary to bring the investment into being. For example, the Commission’s survey of business (see Appendix 8) reports that in two-thirds of the cases of firms receiving assistance, the assistance was not influential in their location decision, and in a further 18 per cent it had only some influence.

### *Pressure for short-run political successes*

Politicians are often praised for ‘creating jobs’ or ‘boosting tourism’ through the attraction of major projects or special events. Similarly, they are frequently blamed for not stopping plant closures and the resultant job losses. Hence, industry-specific policies can be influenced by short-run crisis management, which may be at the expense of long-term economic and commercial objectives.

In times of high unemployment or in the face of the apparent successes by rival States, governments are under considerable pressure to be seen to be acting, even if that action has minimal real effect. Australia’s federal system, which contains a significant element of inter-state rivalry, together with the wide range of State powers under the constitution, could fuel a wasteful assistance ‘arms-race’ between the States. In this situation, it can be difficult to keep the national interest in mind when decisions are being made. Despite this background, mechanisms do exist for cooperation between the States, and recent agreements have been entered into for the benefit of the nation as a whole. This aspect of Australia’s federalism is discussed in Chapter 3.

### *Pressure to maintain or increase assistance*

A related problem flowing from the political pressures on governments is the temptation to increase, or provide additional, State assistance to maintain a loss-making investment, in order to avoid the appearance of failure, particularly if the project has been the recipient of (often highly publicised) government assistance. Governments may become hostage to the success of the firm or industry, making it difficult to withdraw assistance, even if initially provided as a short-term measure.

### *Lack of information and accountability*

One factor contributing to the tendency to favour specific ‘developments’ is that the beneficiaries of government incentive schemes tend to be concentrated, and are thus better organised to put their case for assistance to be provided. Those who pay for the assistance be they private taxpayers or individual firms, however, are often dispersed, each facing a small individual cost that may be unknown and unidentified. Hence, resistance to transfers to organised groups can be slight and difficult to marshal, even when the total losses greatly exceed the gains to the beneficiaries. Further, those who suffer from reduced assistance are usually readily identifiable. Those who benefit may not be. (A comparison may be made with the demolition of a house to straighten a dangerous bend in a road. The resident who is forced to move is easily identified, while the greater number of people whose lives are saved are anonymous and unidentifiable.)

There is a strong similarity here to the earlier debate about the effects of reductions in tariffs on imports. It is now widely accepted that the broad beneficial effects of such reductions outweigh their more obvious and narrowly-felt costs.

The generally poor level of information available or provided to the public contributes to the problem. The general population are often not aware of the additional or unnecessary costs associated with the 'successes' which their politicians are delivering. These include the opportunity costs of such assistance. If explained, they would provide the community with a basis for better evaluation of selective assistance.

The problem of information and accountability is part of a wider problem of how the electorate ensures that politicians and bureaucrats act in the voters' interests. While competition between firms for investment funds can limit this problem in the commercial world, regulations governing disclosure of information are important in enabling the owners of firms to make judgements on the decisions of managers. If such information is not available to voters, governments can hide or disguise the cost of the assistance they provide and formulate policy with short-term goals in mind. If this continues for any significant period, the long-run outcome is likely to be budget losses, slower economic growth and forgone employment. This is not to suggest that this information will necessarily result in voters rejecting industry assistance as an economic development policy. Indeed, if there is wide community support that governments, both State and local, should be active in encouraging economic development then this support will be further enhanced by reliable information. An informed choice is preferable to an uninformed one.

### *Selectivity and secrecy have risks for government and business*

Concern about the 'appropriateness' of the assistance provided is greater as the degree of ad hoc decision making and selectivity on the part of governments increases. Typically, the degree of discretion in decision making, and secrecy in both process and outcomes, increase as the assistance becomes more selective. This type of industry development policy also presents the greatest risks to the integrity of government, and to public confidence in the institutions of government.

Given the problems with political incentives and accountability, the process of selective assistance has the potential to undermine public faith in the integrity of the political system. The secrecy which often surrounds the details of selective assistance packages leads inevitably to the suspicion that some sort of backroom 'deal' has been done. The suspicion that such deals occur is likely to arise

whether justified or not. Nonetheless, the damage is done by the impression of a problem as much as by any reality.

At the same time, being the recipient of selective and usually secret assistance from the government can involve some political and public relations costs for firms in terms of suspicion of 'deals' or 'kick-backs' or, at the very least, that they have distorted or withheld information required by government to make efficient and sound decisions.

### *Encouraging rent-seeking behaviour*

When governments introduce policies providing assistance to industry, especially case-by-case firm-specific assistance, business efforts can be diverted from competing in markets to competing for political and financial favours (commonly called rent seeking). Where gains can be made by influencing the decisions of governments, real resources (and, in the extreme situation, corruption) will be employed in attempts to capture these rents. The resources taken up in these activities include the time spent by firms and lobby groups to convince the government to favour their company or industry sector.

The processing of applications for assistance and the information search required in order to reach decisions on assistance provided also consume the time and resources of State authorities. For example, the operating costs of assistance schemes on average amount to 28 per cent of the funds being administered, although for particular programs the figure can be as high as 84 per cent (see Appendix 7).

The firms which are most successful in rent seeking are not necessarily the most successful when it comes to competing in the business environment. Indeed, firms may rationally engage in rent seeking as an equally profitable alternative to competing in the market place. Hence, assistance policies may attract firms which play the special assistance game rather than the business game.

One example of resources being devoted to the 'harvesting' of government funds is some of the activities of site selection specialists in the United States. In addition to evaluating the fundamental site characteristics, site selection specialists also specialise in gathering information and getting the best 'deal' from a State or local government for a firm wishing to establish in a new location. They will offer to take over the negotiating role for the firm and enter into the bidding process on the firm's behalf. This phenomenon has appeared in Australia, with private firms offering to provide information on the range of incentives and assistance being offered by the various State and local governments.

The DCTWA commented on this problem, in relation to a bidding war in which it had been involved recently. In this case, the Department indicated that the company (which the Department believes was not genuinely interested in locating in WA) actively sought a bid from the WA Government which the Department argues was solely in order to put additional pressure on the States in which the company was genuinely interested. DCTWA said that:

[WA] had decided not to put in any submission whatsoever and ... [American Express] actually wrote ... to our Premier ... [stating that] they were vitally interested in all States making a submission. So with that encouragement we actually did make a submission ... [but] when we actually made our presentation to the company in Sydney, from the first minute we were quite aware that the company had no real intention of looking outside the Eastern seaboard ... (Trans, pp. 29-30)

American Express (Sub. 78) commented that the selection of Australia for its regional operations centre was only the first step in the overall relocation process. It decided that the state bidding process needed to be kept at arms length from the company and commissioned the Asia Business Group of KPMG to undertake all communications with the State governments. It said:

At the further suggestion of Austrade invitations were extended to WA and SA to submit an RFP [request for proposal], not to encourage a 'bidding war' as suggested by some media reports, but to ensure equity of opportunity across mainland States. While it was felt within American Express that these States would not meet the criteria the company was encouraged by Austrade to invite them into the process. (p. 5)

### *Selective assistance tends to favour large firms*

Delivering assistance on a case-by-case basis is expensive. Thus, when selective assistance, particularly firm-specific assistance, is being provided governments have a preference for dealing with large and well organised firms. Dealing with these types of businesses undoubtedly has the potential to realise a greater effect for the same amount of government effort. In addition, the publicity generated by the establishment or extension of a well known large firm far exceeds that associated with the attraction of many smaller companies.

A similar situation faces individual firms. The potential benefit must be weighed against cost; for small firms, this may not be worth the bother. Large firms, by comparison, often have the capacity to employ specialist 'government relations officers'. At the same time, the amount of assistance that a large firm can capture can make this expense worthwhile. Thus, large firms have a decided advantage over their smaller competitors in their ability to attract selective government assistance.

### *The cost of assistance to existing firms*

Assistance to one firm to encourage a new investment is often at the expense of the region's existing businesses. Existing firms can suffer directly and/or indirectly. Local competitors can suffer through the preferment for the new firm. The fact that the new firm has been subsidised through, for example, the provision of grants, specific infrastructure, reduced set-up costs or tax rebates, may provide it with a competitive advantage over existing businesses. The publicity likely to accompany the establishment of the new firm may also offer it a competitive edge when it comes to attracting customers and employees.

Other businesses can be penalised indirectly through the higher taxes that they must pay to fund the selective assistance programs. The Western Australian Chamber of Commerce and Industry (WACCI) (Sub. 55) said:

... subsidies and assistance divert resources into subsidised businesses, and usually divert resources away from businesses or activities which are taxed in order to pay for the subsidy. (p. 5)

Similarly, the Tasmanian Chamber of Commerce and Industry (Sub. 46) said:

A taxation holiday for the favoured enterprise or industry by definition means that the balance of industry is paying more taxation than it should. This leads to justified resentment from those businesses not receiving the favoured treatment. Put another way, if there is a capacity to reduce taxation, then the relief should be spread across the business community generally. (p. 3)

### *Multiplicity of schemes*

The provision of assistance by a variety of jurisdictions, together with desires to target the assistance provided, leads to a variety of schemes being established. This results in problems of duplication, overlap, and high administration costs for both government and industry. A number of participants in this inquiry commented on the multiplicity of assistance schemes, often quite small, offered by Australian governments. For example, the Queensland Chamber of Commerce and Industry (QCCI) (Sub. 37) said:

QCCI considers that there is a plethora of programs that are cash transfer based. The emphasis on these programs introduces a large administrative cost sometimes greater than the funds administered, increased red tape, a skewing of benefits to a minority and little net gain to the economy in the long run. (pp. 6-7)

It also said:

At the delivery end the large number of assistance programs currently in force adds an amount of confusion to what always is a difficult area for business to comprehend. (p. 1)

In relation to one particular sector, food processing, Professor Schroder (Sub. 14) said:

The Commonwealth and State governments all seem to find food manufacturing as an attractive target and there is a plethora of assistance measures for this industry. One of the results is that managers have trouble keeping up with what is going on. In our survey, the average awareness of Federal and State assistance programs was 68 per cent; 65 per cent for small (less than 100 employees) companies (Appendix Table 1). The average for “aware, but did not use” was 51 per cent, supporting the view expressed by many managers in face-to-face interviews that application and reporting costs exceeded the potential benefits. (p. 8)

The BIE (1996) in its evaluation of the Multi Function Polis (MFP) commented:

Spiller Gibbins Swan’s [Spiller Gibbins Swan Pty Ltd] list includes no less than 83 relevant Commonwealth programs — many of them small and specialised — across 20 separate agencies. From these lists they identify 127 possible linkages between elements of the MFP and specific Commonwealth programs. While a proportion of these were no doubt forlorn hopes, the overall numbers are staggering. (p. xv)

As noted above, a consequence of the large number of programs is high administrative costs and a poor understanding of costs and benefits. The Australian Chamber of Commerce and Industry (ACCI) (Sub. 52) said:

Some ACCI member organisations have suggested that too much of the funds allocated by the Commonwealth to states is frittered away in establishment of state bureaucracies rather than actually getting to the enterprises for whom it is intended. (p. 11)

Similarly, the Australian Chamber of Manufactures (ACM) (Sub. 21) said:

The range of government involvement and intervention in industry is so diverse and complex, that it would be extremely difficult to tally the costs and benefits of such activity. (p. 5)

### *Diverting resources from other government policies and programs*

Concentration on specific industry assistance measures and bidding for investment diverts bureaucratic attention and scarce State government resources away from the government’s other responsibilities. This may result in the government spending less on the provision of public infrastructure and services, such as roads, education and health. Alternatively, if the government determined that the level of provision of public infrastructure and services was correct, the revenue used to provide the incentive package may otherwise have funded a cut in State taxes.

### *Attracting ‘footloose’ firms*

‘Footloose’ firms are those firms or divisions of firms which have very little to hold them to a particular location. They often have little need to locate close to

users. Hence, their location is determined primarily on the basis of running costs, such as wages, taxes and charges and land rents. Technological change, especially advances in communications services, is increasing the number of industries and firms with 'footloose' characteristics. This applies to significant elements of the now large services sector.

The assistance provided through incentive packages is typically start-up assistance. The provision of infrastructure, grants, concessional loans and tax rebates over a fixed period all come into this category. If the location of a 'footloose' firm has been determined by the provision of such assistance, the likelihood is that, once the assistance package has expired, the firm will start seeking additional assistance from the government or consider relocating to 'greener pastures'.

Because of this problem with 'footloose' firms, most States aim to attract firms which are looking to establish in a new location but which, once established, will have some incentive to stay in the location for a significant period. This is one reason why governments try to target firms which will be required to invest their own funds in establishing in the State, such as by building new facilities. However, even with this type of investment, there is a danger that the firm will put pressure on the government for further assistance or threaten to relocate when the time comes to update its plant.

Some participants commented on past experiences with attracting mobile capital that did not have significant relocation costs (such as labour-intensive production with very few specialised physical capital requirements). For example, Glenorchy City Council stated that when it provided rates incentives:

... what we did tend to find in some of the major expansions were that the industries that were coming by very nature could just as easily go again. So once the incentives ran out, so did the industry not far behind it.

... Whether they located in Queensland or Tasmania, New South Wales, didn't really matter. It was the level of assistance that the State Government firstly could provide and then obviously it flowed from there. (Trans, p. 291)

### *Selective assistance as a signal of fundamental weakness in the economy*

A danger for a State which aggressively pursues an industry assistance strategy is that this strategy may be seen as a signal that there are some fundamental flaws in the economy of the State which have necessitated the assistance. Indeed, depressed regions seem to be willing to provide a greater level of assistance. Excessive reliance on assistance packages may signal to firms that the State has problems, rather than signalling that it is a good place in which to invest.

The problem has been identified also in US studies. For example, Jordan, Sassone and Walking (1986) commented:

First, even when a state or locality succeeds in effectively changing a fundamental factor like the cost of land, that state or locality may be at such a severe disadvantage in other respects that the change may not have much impact. Second, firms are likely to view severe factor price distortions with apprehension. What is offered today may be withdrawn tomorrow; or if something is given away today, something else may be taxed doubly tomorrow. (p. 137)

## **2.5 Assessment of the impact of State assistance**

Concern about the effects of State industry assistance, and particularly the provision of selective assistance packages, is not confined to Australia. The matter has been studied extensively overseas, principally in the United States. While there are differences in jurisdictional roles and responsibilities, the United States is a federal system broadly similar to Australia, and the process of interjurisdictional competition is well developed — as is the literature on the subject.

The European Union (EU), as a more recent grouping of States, may be less afflicted by competition based on selective industry assistance. In drawing up

the Treaty of Rome, government subsidies and aids to industry were targeted specifically (Article 92) as being incompatible with free trade between member States and the development of non-distortionary competition within a European common market.

Kenyon and Kincaid (1991) in their book on competition between States and local government summarised the views of the authors included in their publication, and the elements of the debate in the United States (see Box 2.5). They concluded that special tax incentives and subsidies had harmful effects, while common-good policies such as innovation and infrastructure were likely to be beneficial.

**Box 2.5: Quotes on the role of State and local government industry incentives from Kenyon and Kincaid (1991)**

Policymakers and analysts have long had strong concerns about state and local competition for economic development. A wide range of economic development incentives is currently offered -so many that a recent 50 state survey of financial incentives totalled almost 800 pages (National Association of State Development Agencies 1991). Nevertheless, many questions are raised about their effectiveness. From the nation's standpoint, the key question is whether such incentives merely shift the location of business activity within the United States, constituting a zero-sum game. (p. 3)

There are also questions about whether these incentives are cost effective for the offering governments. For example, a recent study of financial incentives used by state and local government to attract new automobile plants concluded that the "incentive cost per job created" for certain plants was extremely high – in some cases exceeding \$100,000 (Fiordalisi 1989). Suggestions for curtailing such wasteful competition run the gamut from outright prohibition to proposals for changing the "rules of the game," such as requiring officials to publish cost estimates of economic development incentives. ( p. 3)

Is interjurisdictional competition a beneficial regulator of state and local government behaviour, or does it induce government to adopt "beggar-thy-neighbour" strategies? By and large, this volume's authors suggest that interjurisdictional competition can serve as a regulator of state and local fiscal behaviour ... Whether such competition has predominantly benign effects is less clear (p. 26)

The traditional critique held that interjurisdictional competition leads to inadequate state and local spending, reduced reliance on ability-to-pay taxes, lowered reliance on taxes borne by businesses, and wasted resources, as efforts to attract industry from other jurisdictions result in a zero-sum game. ( p. 27)

... continued

**Box 2.5: Quotes on the role of State and local government industry incentives from Kenyon and Kincaid (1991)  
(contd)**

The authors in this volume suggest that interjurisdictional competition can have either beneficial or harmful effects, depending on the circumstances surrounding such competition. Interjurisdictional competition will not always lead to inadequate state and local spending, and may even encourage

higher spending. Furthermore, competition may improve public-service efficiency and, thereby, government responsiveness to citizen preferences. (p. 27)

The volume's authors do partially reaffirm the traditional conclusion that interjurisdictional competition will reduce state and local reliance on ability-to-pay taxes. However, their assessment of this result varies, depending largely on their view of the federal role in redistributing income. To the extent that they view redistribution as a federal responsibility, the authors are not critical of this result. (p. 27)

Finally, the volume reaffirms the traditionally negative view of state and local uses of special tax incentives and subsidies to recruit businesses from other jurisdictions: however, common-good policies – such as innovation and infrastructure investment – motivated by competitive pressures are likely to have generally beneficial effects. (p. 27)

In Australia, the BIE (1994) considered that governments should adopt a market enhancement role to attract industry rather than an entrepreneurial role. By getting the basics right, governments can provide the environment where the costs of establishing and operating a business are reduced and the ability of businesses to compete on their merits is enhanced. This is a less risky method of attracting industry to a region than offering firm-specific incentives. The BIE (1994) view was that the costs of incentives offered by governments to attract firms are, in many cases, not matched by the benefits accruing to the jurisdiction.

From a national perspective, the BIE (1994) considered that the provision of assistance to attract overseas firms provides a benefit to foreign shareholders through a transfer of resources, which in many cases is not matched by the benefits to Australia or the State from attracting a specific firm. Where a State or regional government seeks to match the attractiveness of a better endowed State or region through assistance, the decision is not only expensive, but is often excessive in relation to the likely benefit. By competing in bidding wars with other governments to attract firms, the size of the bid required to win the firm may dissipate any likely benefits to the State or region from the firm operating within their jurisdiction.

### **2.5.1 Does assistance improve economic performance?**

Many of the US studies have looked at competition among States which use general taxes and service provision to attract or retain citizens and/or business. In part, this reflects the much broader range of State tax measures in the United States than in Australia. For example, the US States have access to income taxes and broad-based consumption taxes. At the same time, US States and

particularly local governments have greater social welfare responsibilities than is the case in Australia.

The question of whether State assistance significantly influences the location of economic development, and thereby provides an economic benefit to the State, is debated widely in the US literature. After reviewing a wide range of US studies, Rasmussen and Ledebur (1986) concluded:

Analysis of state and local economic development efforts has generally concluded that these programs subsidise jobs that would have, in any event, located in the jurisdiction. There is a recognition that current efforts occasionally alter the location decision of an enterprise among adjacent jurisdictions but no evidence that they have any net impact on employment. In short, many are of questionable utility to the state and from the national perspective are probably of minimal use. ... Survey and analytical research suggests that the myriad of tax exemptions and tax credits included in development programs have little impact on the location decisions of firms. Thus it can be argued that most of the expenditures for "economic development" are virtually worthless as instruments of net job creation and economic stimulation of the national economy. (p. 152)

Anderson and Wassmer (1995) are more sanguine about the effectiveness of incentives.

Initially, the conventional wisdom of economists was that local incentives were incapable of altering firm location decisions and amounted to community give-aways. ... Economists have since softened their stance on local development incentives. More recent studies have shown that in a given region, for certain types of cities, local fiscal incentives can exert beneficial additive effects. Bartik (1991) and Wassmer (1994) offer evidence on these effects. However, if communities offer economic inducement to business just because other municipalities are offering corresponding incentives, the influence of inducements is lessened. Communities may then feel compelled to offer a new round of greater inducements. (pp. 739-40)

Wassmer and Fischer (1992), from their review of the literature, concluded that tax differences between States or regions exert very small effects on business location decisions, but that tax effects within metropolitan areas can be substantial. They also highlight studies which indicate that the provision of business services is as important as, if not more important than, tax rates. They noted the potential interaction between taxes and service competition:

Whether cuts in taxes stimulate growth depends, therefore, on the reasons for lower taxes. If tax cuts are financed by less spending on business-related services or on resident-related services important to business, then new investment is unlikely to be stimulated and may even be discouraged. Direct research on this issue has been rather sparse. However, there are some important studies that show that increases in state and local taxes and corresponding increases in services except welfare spending tend to increase state income or economic activity. (p. 4)

On whether State incentives had any effects on resource allocation and efficiency, Netzer (1991) concluded:

Economic development incentives are, for the most part, neither very good nor very bad from the standpoint of efficient resource allocation in the economy. With all the imperfections, the offering of incentives does not represent a fall from grace, but neither does competition in this form operate in ways that truly parallel the efficiency-creating operations of private competitive markets. Given the low cost-effectiveness of most instruments, there is little national impact, only a waste of local resources in most instances. (pp. 239-40)

The general conclusion among these researchers in the United States seems to be that there can be gains to individual States from pursuing an active economic development policy, but that the gains are small and are quickly eroded by competition between States, the risks for governments are large and the effects for the States as a group are negative. The US literature is reviewed in more detail in Appendix 6.

The US States not only compete for business using general taxes and service provision, they also engage in bidding wars for individual projects. The size of assistance provided to attract individual projects in the US can be large, particularly by Australian standards (see Table 2.1).

There is some indication that firms 'short-list' the regions in which they would be willing to settle before approaching jurisdictions for assistance packages. Some businesses will then approach other regions in which they are not willing to settle in order to obtain a higher bid with which to 'up the ante' in negotiations with the preferred sites. However, the impression is that the majority of bidding wars occur between regions which have an initial genuine opportunity to attract the firm without necessarily providing an assistance package.

If this 'short-listing' situation is common, it has some important implications for the bidding process. It implies that individual jurisdictions can influence the location decision at the margin, but that the investment was probably going to occur anyway, and locate within the broader group of jurisdictions. This means that, as a group, they have wasted their money and, if they all play the game, over the longer term they are probably cancelling each other out.

**Table 2.1: Selected big project State incentive packages (US)**

<i>Employer (Offering State)</i>	<i>Gross offer</i>	<i>Direct jobs<sup>a</sup></i>	<i>Cost per job created</i>
	<i>US\$ million</i>	<i>No.</i>	<i>US\$</i>
BMW (SC)	135	1 900	71 000
Diamond Star (IL)	210	2 500	84 000
Dofasco Steel (KY)	140	400	350 000
Mercedes (AL)	253	1 500	169 000
Sears (IL)	240	5 500	43 600
United Airlines (IN)	300	6 000	50 000
Disney (VA)	163	2 700	60 400

a Full-time equivalents.

SC South Carolina. IL Illinois. KY Kentucky. AL Alabama. IN Indiana. VA Virginia.

Source: Toft (1996a).

Another implication of short-listing of sites is that there may be little efficiency loss resulting from changing the location decision of the firm. That is, to the extent that the firm has already identified similar sites, any cost involved in going to one of the slightly less preferred of the short-listed sites is small. Highly inefficient business locations would be rare, with the real loss being simply the transfer of public funds to the few firms that are able to play the game, and the opportunities the community forgoes as a result.

Nevertheless, in each individual case, the assistance may be important in influencing the firm's location choice. However, if a large number of bidding wars are conducted over time, the 'wins' and 'losses' would tend to cancel out with little overall impact on the location of investment. If one government consistently undertakes more aggressive bidding than the others, there is scope for it to influence project locations over the longer term. However, for this to be the case, the investment in that location must generate a greater surplus than in other locations to enable a greater bid, or else the State is bidding more than the projects are ultimately worth to the region.

It should be noted that, even if the assistance is not significant in the firm's location choice, mobile investors will take a subsidy if it is available and will rarely inform the government that this did not influence the firm's investment decision. Once bidding becomes widespread and accepted, there is likely to be

pressure on firms to gain an assistance package even if it is not necessary to the investment decision.

### **2.5.2 The effect of State assistance on other States and the federation**

Much of the analysis of State industry assistance in both the United States and Australia has focused on whether or not a State ‘wins’ by attracting industry. The impacts on the national economy and on the other State economies when a specific firm or industry establishes in or relocates to a particular State have been largely ignored.

In Australia, as part of an evaluation to assist the South Australian Government assess various proposals by multinational corporations to establish export oriented activities in that State, Dixon and Peter (1995) examined a number of regional and Australia-wide impacts of such a project, using a computable general equilibrium (CGE) model with a separately specified South Australian economy.

They found that the effects on the Australian economy of a \$100 million increase in the demand for South Australian exports of either manufactured goods or professional services were negligible, with little or no effect on Australia-wide output and employment. However, those additional exports increased South Australia’s gross State product and employment and adversely affected the other States to a small extent.

Commenting on these results, King (1995) said:

... the increase in South Australian export demand leads to a lot of rearranging of deck chairs, at the end of the process the good-ship Australia continues unperturbed by the change. (p. 2)

The Commission has sought to enhance its understanding of the likely payoffs from State assistance to industry through the use of a regionally (State and Territory) specified CGE model of the Australian economy. It used the model to explore the likely effects of selective government assistance to industries or projects not only on the industry or project being assisted but on other industries, the State in general, other States in Australia, and on the Australian economy as a whole. The modelling is reported in detail in Appendix 7.

Much of the debate in both Australia and the United States on State assistance to industry, particularly rivalry in the form of bidding wars, has been expressed in terms of a ‘prisoners’ dilemma’ (see Box 2.3). The expectation is that States individually are acting rationally to engage in competitive assistance provision but that collectively they would be better off by not doing so.

The analysis presented in Appendix 7 does not find strong evidence of a 'prisoners' dilemma', at least in the longer term. Once the efficiency costs of funding State assistance, including its overhead component, are taken into account, it is not clear that States can win by unilaterally assisting industry. In part, this is because the taxes available to States fall on business and labour — the mobile factors the State is seeking to attract. While the analysis included the beneficial effects of some forms of assistance — those targeted at market failure — the overall effect was not beneficial to the State.

The modelling suggests that the beggar-thy-neighbour element to interstate competition provides an incentive to overbid for special events to attract them from overseas. When resources are mobile, they will tend to be attracted to the winning State from other States. Losers are doubly penalised — they lose the gains available to the nation as a whole, and they lose additional resources to the winning State. From a national perspective, however, only the first loss is relevant.

### **2.5.3 Who wins and who loses from State assistance and what influence could this have on selective assistance?**

The question of who benefits from assistance and who pays can be as important to the decision to provide assistance as the question of whether there is a net gain to society. This is because policy makers are often subject to a wide range of political pressures and incentives.

Carnahan (1995) referred to three recent case studies which indicated that landowners were unambiguous gainers from economic development. In the first study, industrial rents inside a specific enterprise zone in England rose enough to capture 60 per cent of the financial incentives offered to firms locating in the zone. In the second study, Gardner et al. (1987) estimated that the decision by Chrysler/Mitsubishi to locate its plant in Bloomington, Illinois was associated with a 10 to 15 per cent increase in housing prices in the area. In the third study, Bartik (1991, p.119) estimated that the location of the Saturn plant in Maury County led to a \$200 million to \$400 million increase in the land value in the county, equivalent to a 20 to 40 per cent increase.

Carnahan (1995) also commented that:

The local companies that are awarded the contracts to undertake these projects will be gainers if the state is successful in attracting the new industry. (p. 6)

Bartik (1994) argues:

Because the benefits of extra growth are lower for already booming areas, one could argue that high growth areas will not aggressively pursue growth. But political and

economic elites may have strong private reasons for preferring pro-growth policies. Greater job growth will increase land prices and the prices charged by firms serving local markets. Local banks, newspapers, and real estate developers will benefit from growth and have political clout. (p. 851)

McEntee (1996) identified some possible losers from development policies, including ‘good’ government, other State programs, individual taxpayers and other businesses. McEntee (1996) commented:

“Good” government loses: public subsidy of business is one reason taxpayers may feel they don’t get much for the taxes they pay. In addition, tax breaks for business create an environment where businesses can trade campaign contributions for tax breaks. The climate of influence peddling, corruption, bribery and blackmail fostered by such a relationship does not foster a healthy political environment. (p. 41)

The political problems and temptations associated with the growth of assistance mechanisms are not new. Netzer (1991) referred to the use of public funds for development in the United States from the ‘earliest days’.

Public funds were used to build transportation and other infrastructure that opened land to private development, ... No one called this “economic development”; instead, people spoke of opening up the country and accommodating the purportedly inevitable growth of the population in particular places. Then as today, the effect (and the very lightly disguised objective) was often to increase the value of privately owned land that came to be in the path of development. Largely because of the wanton thievery typically associated with this type of subsidisation, mid- and late-19th century state constitutions generally contained prohibitions on grants or loans of public funds to private parties. ... Moreover, those constitutions often had sweeping requirements for uniformity in taxation, ... precluding formal and overt tax preferences. (p. 222-3)

## **2.6 Industry policy: a State or Commonwealth responsibility?**

The conflicts between the States, and to some extent between the Commonwealth and the States, over assistance provided to industry at the State level, raise the question of the appropriate tier of government to be responsible for industry policy. The concept of subsidiarity has been used, in the EU in particular, to provide some guidance as to the appropriate tier of government which should be responsible for any particular function.

The principle of subsidiarity, as developed within the EU, is that the power to implement policy should reside with the lowest tier of government where practically possible (Kasper 1995, CEPR 1993). However, the question is one of assessing what ‘practically possible’ could mean.

Under a ‘functional’ approach to subsidiarity, the answer is dependent on the absence or presence of cross-border spillover effects created by the tier of government when carrying out a certain function. For example, Sinn (1994)

identified a number of government functions carried out by the member countries which generated cross-border spillover effects within the EU. He saw a role for the European Commission in providing public goods such as defence as the benefits of defence activities are not confined to national boundaries. He and the CEPR (1993) argue that the European Commission has a similar role in environmental matters relating to transfrontier pollution. The benefits from an individual member country providing environmental protection are likely to accrue also to the other member countries.

This functionalist view of subsidiarity recognises that where a function of government carried out by a member country does not generate cross-border spillover effects, that function should reside with the member State.

While there are differences between the systems of government in the EU and the Australian Commonwealth, both were formed on the premise of removing barriers between States to create a single market and promote non-distortionary competition within the group. However, whereas the EU established a framework to monitor and control assistance provided by member countries to achieve a single market, the question of State government assistance (other than border protection) was not addressed systematically when the Australian Commonwealth was established.

This concept of subsidiarity can be applied to industry assistance. Where the provision of industry assistance by one level of government creates negative or positive cross-border spillover effects in other jurisdictions at the same level of government, the provision of any industry assistance should reside with a higher tier of government to internalise any spillover effects within common boundaries. Alternatively, where the provision of industry assistance by a specific jurisdiction creates spillover effects which are internalised within that jurisdiction, the provision of industry assistance should reside with that tier of government. While there is debate about the extent of cross-border effects, it is clear from the extent and persistence of interstate rivalry in Australia and in the United States that these effects do exist, or are believed to exist. In particular, cross-border effects are often a direct consequence of assistance to a specific industry or project.

To the extent that there are cross-border effects, something that is rarely disputed, the subsidiarity principle would indicate that economic development, and industry policy in particular, is more appropriately the province of the Commonwealth rather than State governments. Such a conclusion does not detract from the importance of an active role for the States and local governments in providing a competitive general business climate.

## 2.7 Competitive neutrality

Underlying much of the criticism of firm and project-specific assistance is a concern that individual firms or investors are being advantaged at the expense of other firms or investors. This ‘advantaging’ may be by way of direct competition in markets supplied by other firms, or indirectly via such things as access to capital markets. Higher taxation that other firms must pay to fund the assistance was also of concern.

The Tasmanian Chamber of Commerce and Industry (Sub. 46) said:

A taxation holiday for the favoured enterprise or industry by definition means that the balance of industry is paying more taxation than it should be. This leads to justified resentment from those businesses not receiving the favoured treatment. (p. 3)

Similarly the WACCI (Sub. 55) said:

Supporting industries and businesses which are otherwise not commercially viable represents a transfer of resources from efficient industries and businesses to inefficient ones. It is also a direct inhibitor to fair competition — the purpose of picking losers is to enable a business or industry to survive which would otherwise be uncompetitive. (p. 10)

In the survey of business undertaken by the Commission in this inquiry, while the majority of respondents were in favour of government assistance, a majority were opposed to firm-specific assistance (see Appendix 8).

In essence, the participants are referring to the concept of ‘competitive’ neutrality. That is, businesses should be able to compete in a neutral environment, one where individual firms are not specifically favoured or penalised by government action, whether by assistance, taxation or regulation.

The impact is not restricted, however, to firms or investments. Advantages and disadvantages conferred by governments on firms are also advantages or disadvantages to suppliers, customers and employees.

The concept of competitive neutrality was an important element of the recent agreement among the States through COAG on national competition reform. While that part of the agreement was directed at ensuring competitive neutrality between public and private sector businesses, the principle has wider relevance.

As the NSW Government (Sub. 56) said in its submission to this inquiry:

The Competition Principles Agreement of the National Competition Policy includes five principles of reform. None of these cover the impact of State bidding. The aim of the “competitive neutrality policy” in this Agreement is limited to the elimination of investment distortions arising out of public ownership of trading enterprises. However, the theory behind the idea of competitive neutrality is clearly relevant.

State industry assistance should not breach competitive neutrality for the following reasons. Firstly, on equity grounds, the taxpayer's money should not be used to advantage one enterprise over another. Secondly, on efficiency grounds, assistance which breaches competitive neutrality is likely to direct production from existing producers in that industry and the net gain in output and employment may be small or zero. (p. 10)

While debate over competitive neutrality has focussed on neutrality between government business enterprises and private firms within a State, from the point of view of Australia as a whole, competitive neutrality between firms in different States is equally important. If all firms were treated equally, this would not preclude States from competing on the basis of broad characteristics, including general tax rates differing from those in other States, so long as the different tax rates were not available on a selective basis — that is, available only to particular firms or industries and not others.

## **2.8 Commonwealth-State fiscal relationships: their effect on industry assistance**

The Australian federal system is characterised by major differences between the revenues raised and expenditure commitments of each level of government (vertical fiscal imbalance) and by the transfer of funds to enable States to provide an 'average' level of services (horizontal fiscal equity).

### *Vertical fiscal imbalance*

The Commonwealth collects about 75 per cent of tax revenue raised by all governments, but accounts for only half of all direct government expenditure (IC 1994). State and Territory governments collect about 20 per cent of total tax revenues, but are responsible for about 45 per cent of total government expenditures. As a result, the States and Territories rely on Commonwealth Government transfer payments for a substantial proportion of their total revenue. For example, in 1995–96 Commonwealth grants accounted for about 41 per cent of Victorian Government revenue and 75 per cent of NT Government revenue (see Table A14.1).

This difference between own source revenues and expenditures and the subsequent transfers from the Commonwealth is termed vertical fiscal imbalance (VFI).

The NSW Government (Sub. 56) considers that because the State and Territory governments lack control over a significant part of their revenue, they have been forced to compete in an inefficient way through selective assistance to industry

rather than by competing on the fundamentals of 'good government'. It stated that:

The VFI problem means that States have little flexibility in their tax regimes. This limits their ability to compete on the fundamentals and tends to promote selective assistance as an alternative form of competition. (p. 11)

Two issues are relevant to the question of whether VFI is a significant factor in relation to State and Territory governments' economic development policy. The first is whether there are sufficient revenues remaining under the control of the States to allow them to differentiate their taxing positions effectively, with transfers from the Commonwealth being treated as a 'given' or fixed source of funds. The second is whether the residual instruments available to the States are efficient mechanisms for competition.

In relation to the first issue, transfers from the Commonwealth average less than 50 per cent of the States and Territories' total revenue and around 75 per cent for the most dependent jurisdiction. This leaves a very large share of revenue under the States' direct control and 'available' for competition at the margin. Consequently, it is not clear that having a large source of funds derived from transfers from the Commonwealth Government is of itself a significant constraint on the scope for fundamental competition between the States. Transfers from the Commonwealth Government would be relevant if the Commonwealth responded to efficiencies generated by an individual State in pursuing the fundamentals of 'good government' by reducing its transfers. There is no sign that this is the case. The share of Commonwealth transfers to an individual State is assessed by the Commonwealth Grants Commission (CGC) on the basis of assessed ability to raise tax rather than tax actually raised.

Second, the States do have instruments which enable them to compete on the fundamentals of 'good government' using both narrowly and broad-based taxes. Taxes under the direct control of the States and Territories are, in most cases, narrowly based. However, payroll tax is a significant broad-based tax which is under their control and thus could be used to compete on a broad-tax basis should States wish to do so. In fact, States are tending to move in the opposite direction, by progressively raising payroll tax exemption thresholds.

The problem presented by VFI can be seen as essentially one of politics rather than economics. Indeed, State and Territory governments are often accused of using the situation to attribute shortfalls in service provision to the lack of adequate funding from the Commonwealth. As Walsh (1993) said:

Over most of the post-war period the States' behaviour with respect to their fiscal and financial powers has been purely expedient. They consistently had shown themselves willing to acquiesce on continued Commonwealth dominance and 'ownership' of

revenue collection, in exchange for the political advantages of not having to take responsibility for raising a greater share of the revenues they spend. (p. 50)

When the States were provided the opportunity to regain access to personal income tax in 1978, every State at that time rejected the offer. Commonwealth legislation was introduced enabling the States to impose a surcharge on the personal income tax liabilities of their residents, but all the States rejected the opportunity and the legislation was repealed in 1989. This situation is likely to continue. As a former Queensland Premier, Joh Bjelke-Petersen, is reported to have said, “the only good tax is a Commonwealth tax” (Walsh 1993, p. 50).

### *Horizontal fiscal equity*

An important element of the Australian federal system is the principle of horizontal fiscal equity (HFE). Under this principle, the Commonwealth provides each State and Territory with the financial capacity to provide the ‘average’ level of State-type services, assuming that the State does so at an ‘average’ level of operational efficiency and makes an ‘average’ effort to raise revenue from its own sources.

This results in significant differences between the States in the level of funding (on a per capita basis) which they receive from the Commonwealth (see Table 2.2).

The CGC is the agency responsible for determining the level of Commonwealth grants provided to the States and Territories. To calculate the level of financial assistance each jurisdiction should receive, the CGC undertakes an assessment of a State’s expenditure and revenue and of any disabilities that a State may face. The CGC (1995) describes a disability as:

... an influence beyond a government’s control that requires it to spend more (or less) per head of population than other governments to achieve the same objective, or reduces (or increases) its relative capacity to raise revenue from the same effort. (p. 8)

As a result of the CGC applying a formula to standardise expenditure and revenue capacities to provide HFE, most States — particularly smaller jurisdictions such as the NT, Tasmania and SA — receive larger amounts of Commonwealth funds on a per capita basis than the larger States.

Table 2.2: Horizontal fiscal equity, 1994–95

	<i>Actual financial assistance received</i>	<i>Assistance based on share of total population</i>	<i>Difference between actual assistance received and assistance based on share of population</i>	<i>Per capita actual financial assistance received</i>
	<i>\$ million</i>	<i>\$ million</i>	<i>\$ million</i>	<i>\$</i>
New South Wales	5 275	6 030	-755	864
Victoria	3 721	4 429	-708	827
Queensland	3 344	3 308	36	1 045
South Australia	1 776	1 458	318	1 184
Western Australia	1 841	1 707	134	1 083
Tasmania	710	462	248	1 501
Northern Territory	851	160	691	4 893
ACT	268	231	37	882
<b>Total</b>	<b>17 789</b>			

Source: Commonwealth Grants Commission (1995)

In its submission to this inquiry, the NSW Government (Sub. 56) said:

As a large and more economically powerful State, funds are redistributed from NSW to the smaller States. In relation to interstate competition, some jurisdictions which have historically been recipients of HFE transfers are in a position to offer incentives to private business which they may not otherwise have been able to do in the absence of HFE. In this respect, the current HFE process remains an obstruction to the design of efficient State tax regimes. It is also an impediment to State governments competing for mobile investment on the basis of economic fundamentals. (p. 8)

The principle of HFE does provide the smaller States with proportionately more revenue than if Commonwealth grants had been based on population. For example, based on the difference between funding provided under the CGC formula and funding provided on a strictly per capita basis, the NT received an additional \$691 million and SA an additional \$318 million in 1994–95.

However, the availability of additional funds as a result of HFE does not mean that the recipient of that funding necessarily has an incentive to fund assistance for firms. To the extent that the additional funding reflects real disabilities, the incentive is more likely to be to provide the expected level of services to its citizens.

Implicit in the NSW Government comment is criticism of the practice of ‘compensating’ for ‘natural’ disadvantages. To the extent that some States face such disadvantages, HFE operates to offset them. In the absence of HFE, States

which benefit from it would have to choose between higher taxation and/or a lower level of services in order to maintain a given fiscal balance.

Because of the averaging process involved in the calculation of equalisation grants, a State which provides more than the average level of assistance to industry — all other things being equal — would not be ‘compensated’ for that higher budgetary cost (or revenue shortfall). The SA government (Sub. 78) said that:

... spending on industry assistance is more likely to reflect particular State needs for active policies to attract industry than levels of HFE receipts. HFE receipts equalise fiscal capacity, they do not place some States in a position of relative advantage. (p. 8)

The grant is intended to capture only the State’s ‘natural’ disabilities. The HFE process is, of course, less than precise. It is possible that disabilities are not measured with complete accuracy. Beyond that, it can be observed that the three States which receive the most significant transfers under HFE also tend to be those which provide the higher levels of assistance to industry on a per capita basis.

## **2.9 Local governments and regional organisations**

Local governments provide assistance to industry both individually and through a range of regional organisations. As outlined in Appendix 3, assistance provided by individual local governments ranges from the efficient provision of services associated with the traditional three ‘Rs’ of local government — rates, roads and rubbish — to information and facilitation services associated with licences, approvals, etc , to selective firm-specific subsidies and concessions. Collective assistance ranges from contributions to organisations such as regional tourism bodies to provision through formal and informal involvement in regional organisations.

Local governments are involved in three main types of regional groupings. The first type is in established networks of State-sponsored regional development boards or commissions that exist in all States except Tasmania, the NT and the ACT. While they differ in organisational and funding arrangements among the States, the boards/commissions aim to promote social and economic development of the regions they cover. Typically they are composed of representatives from local councils, the community and State government. Their industry programs focus on removal of impediments to business and the provision of information.

The second type of regional grouping comprises voluntary regional organisations of councils formed by the coming together of councils in the

pursuit of common social and economic development initiatives where local governments consider that synergies are available from regional cooperation. Their sizes, structures and degree of formality vary. They range from the sharing of an economic development officer to the establishment of a formal development board. Most have activities related to economic development of their regions and their programs are usually clearly targeted.

The third type of regional grouping is an Australia-wide network of Commonwealth-initiated Regional Development Organisations (RDOs), which is discussed below.

As indicated by the survey results reported in the Attachment to Appendix 3, most local governments are involved in the provision of facilitation and information services to businesses. Most of the assistance they provide to industry relates to this function. However, many local governments also have programs providing firm-specific assistance, such as land at concessional prices and rates relief.

The arguments about local government involvement in the selective provision of assistance to firms and industry in pursuit of economic development are similar to those discussed above for States. Whereas the discretionary taxes used to fund such activities at the State level are often seen as having their initial incidence on taxes on other businesses, at the local government level they are seen as having their initial incidence on the rates of other land holders.

The Wyndham City Council stated that:

... it is our firm belief that if you get this [good government] right in Local Government you are furthest along the track to assisting industry than providing anything else. That is what they are after. If that's all you provided, they would be most satisfied, in our experience. (Trans, p. 168)

Nevertheless, the Council said that when approached by businesses for assistance, rate holidays are "the most requested type of assistance" (Trans, p. 172).

Many local governments commented that what businesses really want from them is to be made to feel welcome. For example, the MFP Local Government Focus Group stated that:

... business doesn't see rates and taxes being a key driver in their dealings with council ... They'd far sooner be felt to be welcome to the region and that's manifest in the planning and building application process. (Trans, p. 6)

The formation of the Commonwealth-initiated RDOs and local government involvement in them drew considerable comment during the conduct of this inquiry. The RDOs were formed under the Commonwealth's Regional

Development Program. Considerable criticism was levelled at this Program, mostly focussed on its structure and implementation. However, a number of participants, including those which criticised it, also said that the problems identified with RDOs should not detract from the real gains which are available from regional cooperation between local governments.

The Commonwealth launched the Regional Development Program in 1994. The Government (Keating 1994, pp. 17-21) in its White Paper on Employment and Growth, *Working Nation*, proposed an expanded role for the Commonwealth in regional development and set aside \$50 million for specific programs in 1994–95. In this respect the White Paper responded to aspects of the reports of the (Kelty) *Taskforce on Regional Development* (1993), McKinsey (1994a) on *Determinants of Business Investment in Regional Areas* and the Commission (IC 1993a) on *Impediments to Regional Industry Adjustment*. The Taskforce had recommended new institutional arrangements to promote regional development, including the formation of Regional Economic Development Organisations to be established by the Commonwealth in consultation with the States. It saw such organisations being formed by combining representatives of community interest groups, businesses and governments. A substantial role was envisaged for them in government programs as well as in promoting regional development.

When launched, the Regional Development Program involved a Commonwealth commitment of \$150 million over four years (DHRD 1994). The funding was intended to facilitate the creation of regional leadership structures, such as chief executive officer positions and the formation and support of RDO boards. Funding was also allocated to develop regional strategies and projects, including ‘hard’ and ‘soft’ infrastructure projects, and to provide training to regional managements.

Elements of the program included:

- regions covering a number of local councils, both urban and rural, of a size (typically 400 000 people) to be able to attract development;
- where appropriate, the encouragement of cooperation across State borders;
- the inclusion of a range of ‘stakeholders’ in addition to local governments;
- the use of RDOs to encourage the growth of productive ‘networks’ between people and organisations in the region; and
- the use of RDOs to bring together funding for projects in the region — in effect using RDO funds to ‘lever’ funding from other sources.

During the inquiry, the Commission found considerable uncertainty and scepticism in local government about the intended role of RDOs and about the

reasons for their establishment. Indeed, there was a view that they were vehicles either for the Commonwealth to bypass, or marginalise, State governments, or vehicles to abolish local governments.

Some local councils were also concerned about representation on RDOs, particularly the large number (up to 19 on a RDO) of appointed representatives of 'stakeholders', as well as the apparent lack of consultation involved in their establishment. Associated with the concept of appointed 'stakeholders' was concern about accountability of the individuals appointed. Were they accountable to the Minister who appointed them or to the people they 'represent'? How were they to be held accountable? Similarly, the accountability of an RDO as an entity was unclear.

Despite such reservations, local councils felt that they had to be involved in the RDO system or face the risk of exclusion from government funding. While the RDO budget itself was quite small for Australia as a whole, some local councils had the impression that the RDO could become the 'gatekeeper' for access to a wider range of Commonwealth government projects and funding.

At the same time, there was scepticism in some quarters about the ability of RDOs to achieve anything substantial. Some participants saw considerable time and resources being spent on meetings, travelling, studies and consultancies, with little to show in terms of measurable benefits to business in the region.

Despite having a stated objective of being a 'grass roots' project, the clear impression received by some participants was that the regions and regional groupings were being imposed from Canberra, often against resistance from local councils which had different views about the areas in which they have a common interest. These comments highlight the problem of trying to establish regional groupings where many of the centres in a region see their neighbours as rivals for economic development rather than as potential partners. The Western Australian comments presented in Box 2.6 are typical of many.

### **Box 2.6: WA's Regional Development Organisations**

Many WA local government participants see RDOs as simply 'getting people together' with no structured objective and little authority or accountability. Their stated aims are very similar to those of the other State groupings that are already in place.

In this regard, the DCTWA stated that:

[The Commonwealth]... could not accept that we had an administration in place ... to us it seemed to be a politically driven agenda for credit, some sort of political credit that they couldn't achieve through a State administered system. But we couldn't really find any economic advantage or participation improvement as a result of the scheme... (Trans, p. 56)

Industry representatives have not been enthusiastic about being involved with RDOs. For instance, *South West Group (SWG)* indicated that it has:

... great difficulty in attracting industry participation in these RDOs, and you'll find that all across Western Australia. Why would somebody in industry want to sit on a committee that spends its time talking about the constitution of the organisation? (Trans, p. 85)

Some participants claimed that the RDO structure appears to encourage 'buck passing', as responsibilities have not been clearly defined.

The Commonwealth Government's intent was for a bottoms-up approach to RDO specification and development. While regional boundaries for RDOs are generally based on population size, in WA the Commonwealth agreed to use amalgamated RDC regions as the basis for RDO provinces. However, it then split Perth into north and south for the purpose of RDO formation, which according to SWG is an inappropriate division:

The Regional Development Program's rhetoric is that it's all bottom up and you decide your own boundaries ... That didn't happen here ... I think someone just looked at a map and saw the Swan River and said ..."that's a good idea, we'll just divide it north and south," which makes absolutely no sense for us.

Our relationships ... are oriented in four planning corridors, south-west, south-east, east and north, and they orient towards the CBD ... I suspect if you wanted to establish an RDO to cover Perth, then it would have made better sense to have had one. We have one airport. We have one port ... (Trans, p. 83)

McKinsey (1996) reported that to May 1996, 44 RDOs had been established and \$22.9 million allocated to regional projects and infrastructure. An additional \$16.3 million was allocated in June 1996. It also documented many weaknesses of the established RDOs similar to those raised by participants in this inquiry. However, in addition, it reported on the achievements of some regions and suggested ways in which self-reliant regional leadership could be developed.

On 17 July 1996, the Commonwealth Government announced the abolition of the Regional Development Program and the Regional Development Division of the Department of Transport and Regional Development. An undertaking was given to honour established funding commitments. In a Ministerial Statement on 20 August 1996, the Minister for Transport and Regional Development (Sharp 1996) foreshadowed the establishment of a Ministerial Working Group on Regional Affairs "... to ensure that the needs and performance of regional areas are understood" (p. 12).

In addition to the activity directly associated with their establishment, the introduction of RDOs involved considerable negotiation and reorganisation of pre-existing regional structures. As indicated by Northwood (1995), the nature of this varied by State and depended on the regional structures that were already in place. With the withdrawal of the Commonwealth incentives which directly aided the formation of RDOs and sustained their initial operation, their

continued operation will depend on State and local government support. The extent to which this is forthcoming will depend in large part on their ability to identify and realise regional benefits not otherwise available from such governments and judgements of their performance relative to other regional structures.

At a meeting with representatives of RDOs in September 1996, delegates reacted strongly to the suggestion that without direct financial support from the Commonwealth Government, over time most RDOs would cease to function in their existing form. It was indicated that some 40 RDOs saw themselves as having a continuing role in one form or another. (For details of RDO views on the Commission's Draft Report see Submissions 79 to 85 inclusive.)

As indicated above, many of the voluntary groupings of councils existed prior to the Regional Development Program. Some were modified and formed the basis of the RDOs and were able to utilise the Commonwealth Regional Development Program funds. Many of the other regional groupings continued their operations, albeit in recognition of there being 'another player on the block'.

Notwithstanding the criticisms above, some RDOs have been established successfully, especially where a pre-existing regional organisation could be readily adapted to the RDO format (for example, in the Illawarra region of New South Wales). These are likely to continue without direct Commonwealth funding.

At the hearings on the Draft Report, while there was some support for the criticism in the Draft Report of the Commonwealth's previous Regional Development Program, there was concern that the positive features of regional cooperation and interjurisdictional involvement in regional development received insufficient attention. The features mentioned by participants include:

- regions can learn from one another;
- regions know best what is best for the region as a whole;
- regional economic development can be stimulated and facilitated;
- regional initiative and leadership make a difference; and
- governments have a legitimate role in ameliorating the pace and scale of regional adjustment.

The Commission does not consider that the withdrawal of Commonwealth funding under the Regional Development Program will necessarily undermine beneficial regional cooperation. Indeed, it may precipitate a refocussing of regional initiatives on more cost-effective strategies which are focussed on the direct requirements of local areas.



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## 3 OPTIONS FOR IMPROVING PERFORMANCE

### 3.1 Introduction

Fragmentation of the Australian domestic market as a result of State government industry development policies has the potential to impose significant costs on the Australian community by reducing scale and other economies within Australia. The importance of this problem has been well recognised by past Australian governments. This is reflected in actions such as the agreement to remove State-based purchasing preferences, and actions to harmonise a range of standards and regulations administered by the States. State industry policies present both an opportunity and a risk to the objective of strengthening the common internal market within Australia.

Where policies, including competition among the States, focus on improving ‘good government’ — the efficient provision of government services, and action to improve the operation of markets — this can enhance the efficiency of industry. However, where such policies involve more selective forms of industry assistance, particularly assistance to State-based industries, or to particular firms, there is the potential for significant costs for the country as a whole.

This Chapter considers options for improving policy decisions on industry assistance by State, Territory and local governments in Australia. It begins by looking at options to strengthen transparency and accountability in the decision-making process of government (Section 3.2). It then examines a number of agreements both within Australia and overseas, where States or nations have attempted to address the issue of inter-jurisdictional rivalry in economic development policies (Section 3.3). Section 3.4 looks at some international agreements that could influence the provision of assistance to industry by the States within Australia. Section 3.5 considers options for an agreement between the States to strengthen the common internal market within Australia, with particular emphasis on removing or reducing unnecessary barriers to trade and investment created by State-based industry assistance policies. This begins by looking at the scope to limit the more selective (firm or project-specific) forms of assistance. The Chapter then looks at the option of a wider agreement on State industry assistance generally. Section 3.6 considers the scope for Commonwealth action.

## **3.2 Improving transparency and accountability**

### **3.2.1 Introduction**

In attempting to document and understand the extent and nature of State and local government assistance to industry, the Industry Commission found that there is considerable variability in the reporting of assistance provided to industry by State governments. There is also a general lack of transparency and accountability (though this varies significantly between the States) in the provision of industry assistance, particularly selective firm or project-specific assistance. In most cases, annual reports of government agencies do not provide sufficient information to enable documentation of the nature and extent of the assistance provided. The information is often aggregated by program or scheme, even when the assistance is provided on a quite selective basis to individual firms.

While aggregate reporting may be appropriate for generally available and widely used schemes of assistance with clearly defined and publicly available selection criteria, it is inadequate for reporting on more selective assistance. The need for information on the use of public funds to assist individual firms or projects is essential because of the advantage which such assistance can provide to some firms over others. Firms are entitled to know the extent to which taxpayers' funds are being provided to assist a competitor, as are taxpayers.

The Commission found that where assistance has been provided to a specific firm or project from a number of different government departments in various forms (eg grants, tax exemptions or land) the different reporting procedures between the departments ensure that it is difficult, if not impossible in many cases, to ascertain the total amount of assistance provided.

The extent of reporting varies significantly between the States and within States by agency. For example, the Northern Territory Department of Asian Relations, Trade and Industry (DARTI) provides a good model of transparency. DARTI's Annual Report lists the name of each firm or business receiving assistance, the amount of assistance received, what the assistance was provided for and the type of assistance provided (eg grant, subsidy or loan). Other States provide much less information, and in some cases the degree of detail provided is declining. For example, up to 1993–94, the then Victorian Department of Business and Development published the names of the firms receiving assistance. This information was not provided in the 1994–95 Annual Report of the Department. Similarly, the 1996–97 Victorian Budget Papers contain

significantly less detail, greater aggregation of data and fewer line items of expenditure than in the previous year.

Even within States the quality of reporting varies widely. For example, while other agencies and departments in Victoria provide varying degrees of detailed information, only Film Victoria provides details of all recipients of assistance and the amount of assistance received by each.

Information is particularly difficult to find when assistance is provided in the form of revenue forgone. Tax exemptions, rate holidays and the provision of land, buildings or services at below market value are used widely by State and local governments to assist industry. While some States, such as NSW, provide total figures on revenue forgone via rebates provided by the Department of State Development to all firms in NSW, the rebate for individual firms or projects is not publicly available.

In other instances, the lack of reporting is selective. While the ACT Government provide publicly-available information on the amounts allocated to individual firms under its Industry Assistance Package/Business Incentive Scheme, the assistance given to AOFR Ltd, reported to be the largest single package of assistance provided to a firm by the ACT Government, was not made public. Similarly, publicising assistance to events may be selective (see Box 3.1).

The Commission is not alone in identifying problems with the reporting of assistance to businesses. The Australian Chamber of Manufactures (ACM) (Sub. 21) said:

Scope exists for the annual reports of relevant government departments to provide more systematic detail on levels of competitive bidding and funding. ACM recommends such a move. (p. 8)

The importance for good government in reporting firm or project-specific assistance has been stressed by others involved in the evaluation of industry assistance. For example, the Victorian Auditor-General (1995) said:

Given the importance of adequately informing the Parliament and the community of the manner in which the [Industry, Regional and Trade Support] Program has been managed, future Annual Reports should disclose actual performance against all performance targets set for the reporting period. Audit also considers that the [Business and Development] Department's accountability to the Parliament and the community would be strengthened by annual reporting of the amount and type of financial assistance provided to each company assisted under the Program. (p. 64)

**Box 3.1: Reporting the funding to the Indy Grand Prix**

The Queensland Government has provided substantial funding to the Gold Coast Indy Grand Prix since the inaugural event in 1991. However, certain funding details are displayed more prominently than others. In 1993 the Queensland Government provided a grant of \$10.5 million, \$9.16 million in 1994 and \$8.7 million in 1995 to assist in the running of the Indy Grand Prix. The Queensland Tourist and Travel Corporation in its 1994 Annual Report under the heading, "Successful Indy Injects \$23 million" stated that while the Government in 1993 had provided \$10.5 million, the event had injected \$23 million into the Queensland economy.

The Queensland Government funds the Indy Grand Prix through the Queensland Government-owned Gold Coast Events Company which has a 50 per cent interest in the Gold Coast Motor Events Company, the company that stages the Indy Grand Prix. The Gold Coast Events Company received a \$56 million loan from the Queensland Treasury which was forgiven in full as at 1 July 1993 with no interest having been paid. The information concerning this substantial amount of government funding, in the form of a loan that became a grant, was not provided in conjunction with the estimated economic benefit to the State, but in a note to the financial statements of the 1994–95 Annual Report of government-owned companies within the portfolio of the Minister for Tourism, Sport and Racing.

*Source:* Department of Tourism, Sport and Racing (1995), Queensland Tourist and Travel Corporation (1994).

**3.2.2 Commercial-in-confidence**

A contentious issue when it comes to reporting firm or project-specific assistance is that of commercially sensitive information. State and local governments have routinely justified their reluctance to disclose details of assistance on the basis that it was necessary to maintain the commercial confidentiality of the firm receiving the assistance.

Arguments over disclosure of the use of public funds and the involvement of government with private firms have been long-standing in Australia, and a wide divergence of views on the need for confidentiality exists. While business legitimately seeks to keep certain information confidential for commercial reasons, the impression gained from a review of much of the debate is that commercial-in-confidence is used by government far more widely than is necessary, and more widely than industry appears to consider warranted.

The NSW Auditor-General's (1993) report on the M2 Motorway noted the comment by Mr Perry, President of the Australian Council for Infrastructure Development.

The private sector by and large took the view that disclosure had to occur and in fact in some ways was of benefit. "If there was nothing to hide, then why hide it?" (p. 4)

The NSW Auditor-General (1995) referred to comments by the Public Accounts Committee of the NSW Parliament (Report No. 73 into *Infrastructure Management in NSW*, July 1993) as saying:

... at present they [public sector agencies] appear to be mounting exaggerated efforts to protect information which the private sector turns out to be quite happy to release. (p. 5)

The Auditor-General (1995) also said:

Parliament was still not provided with access to documents which had been fully summarised in a public prospectus. And many of these documents were, on registering the prospectus or subsequently, public documents. (p. 5)

A similar situation exists, to a greater or lesser degree, in other States (see Box 3.2).

**Box 3.2: The Victorian Auditor-General’s comments on commercial-in-confidence**

In his report (1989) on financial assistance to industry, the Auditor-General made the following comments on the issue of commercial confidentiality versus the public interest where the government made loans to private enterprise to foster economic growth.

It has been suggested to me that it is an accepted business norm to protect the commercial confidentiality of information which flows between a government agency and a private company. It was stressed that to do otherwise would compromise the commercial viability of such companies by exposing them to unfair competitive pressures in the marketplace.

The dilemma that I have been facing is to balance the notion of commercial confidentiality with the concept, well established under the Westminster style of government, that accountability to the Parliament and the taxpayers over the use and application of public moneys is paramount.

Should information relating to a substantial loan to a private company be treated any differently to information on the funding of a community program? There are 2 factors in common:

- both methods of funding come from the same source, that is the public purse, to which all taxpayers contribute; and
- both recipients have similar broad objectives of producing an outcome that will ultimately benefit the community as a whole

It follows, therefore, that there is one common link — the public interest — and this should not be overridden by considerations which focus on narrow and subjective aspects of self-interest by individual corporate entities. (p. 14)

Similarly in 1991 the Auditor General said:

It is my view that the issue of commercial confidentiality and sensitivity should not override the fundamental obligation of government to be fully accountable at all times for all financial arrangements involving public moneys. (p. 40)

*Source:* Victorian Auditor-General (1989, 1991).

In this inquiry, the ACM (Sub. 21) said:

While “commercial in confidence” rules can prevent governments from revealing the full details of specific agreements, some public accountability and transparency of arrangements is considered necessary for good government practice. (p. 8)

The South Australian Government said that systems exist in that State which ensure that transparency and accountability of government policies are maintained. This involves scrutiny by the Auditor-General and a number of parliamentary review mechanisms (see Box 3.3).

### **Box 3.3: South Australian Government comment on transparency and accountability**

In its submission commenting on the draft report, the SA Government (Sub. 75) said:

The IC’s Draft Report suggests that the South Australian Government’s industry assistance programs lack transparency and accountability, particularly in the reporting of incentives offered to firms locating in the State.

The South Australian Government does not report details of project-specific assistance to individual firms in order to avoid:

- jeopardising the commercial initiatives the assistance is designed to facilitate (this is in line with standard commercial practice); and
- encouraging firms to lobby for an equivalent or greater level of assistance than that received by other firms.

However the South Australian Government makes every effort to ensure that the operations and financial management of its agencies are as transparent as necessary.

Information on the financial activities of South Australian agencies is reported in the Program Performance Budget (PPB) papers, the report of the Auditor General, and through Hansard (Estimates Committee Hearings ).

Further, it is Government policy for all industry assistance packages over the value of \$200 000 to be examined by a cross-party Parliamentary Committee. (p. 8)

The following are understood by the Commission to be the key elements of the Industries Development Committee (IDC) procedures.

- Hearings are held ‘in-camera’ with the government parties being heard first, and separate from, the relevant firm/project/event owners who follow. No information is made publicly available as a result of these hearings.
- The IDC does not have any specific rules for assessment, but does possess the powers of a Royal Commission. There are no set (or publicly available) criteria for the assessment of proposals referred to the IDC. However, the Commission understands that, among other things, the process involves weighing up benefits and costs to the State — that is, an assessment is made of the likely ‘strategic’ and ‘economic’ returns to SA from the investment.

... continued

**Box 3.3: South Australian Government comment on transparency and accountability (contd.)**

- Given the confidential ‘in-camera’ nature of the process, the financial and performance information provided by both parties is understood to be extensive — all members of the Committee are bound by the decision of the majority and by sanctions attached to the Industry Development Act (1941) for breaches of commercial/cabinet-in-confidence material.
- The IDC makes confidential recommendations direct to the Minister for subsequent review by Cabinet, which has the power to either ‘accept, reject or modify’ the Committee’s recommendations. The recommendations are not made public.

While the scrutiny by a bipartisan Parliamentary Committee acts to ensure the integrity of the system, it does not provide for public accountability and transparency of the use of public funds.

These procedures, which are similar to those in existence in other States, do not, however, involve any significant public scrutiny, particularly of the detail of the disbursement of funds. The South Australian parliamentary scrutiny arrangements are conducted in-camera and the results are not public. The SA Auditor-General’s reports tend to focus on whether correct procedures are followed, and while the Auditor-General may have access to detailed information to allow such an assessment, the information is not made public.

The Commission found that the type of information that is withheld in one State on the basis that it is commercial-in-confidence is often freely disclosed in similar situations in other States. The difference in levels of disclosure seems to be related more to the political decisions of the governments in the various jurisdictions than to any coherent or universally applicable principle relating to commercial confidentiality.

The Commission understands that another mechanism appears to be used to limit public access to information on decisions to provide assistance to firms or projects. This is the process of classifying documents as having Cabinet status. This use of parliamentary privilege not only limits access under freedom of information legislation, but also impedes access by Auditors-General.

At the same time, attempts to maintain secrecy are rarely fully successful. The Northern Territory Government (Sub. 30) said that:

In a competitive environment, where government assistance to firms and industries does affect the balance in the market place, it is almost inevitable that the fact of assistance having been provided and, very often, the nature of the assistance, becomes public knowledge relatively quickly. (p. 15)

In a similar vein, the Commission was told in discussions with participants that most large projects had been reviewed by so many lawyers, consultants, banks

and government agencies that the details were usually known in the business community and unknown only to the general public which funds such assistance.

Another argument used to justify a high level of secrecy in relation to firm or project-specific assistance arrangements relates directly to the bidding war process. In the game of negotiating with business, it is argued that a State is reluctant to 'show its hand' by discussing the level of assistance that it has been prepared to pay in the recent past.

To the extent that State governments are engaged in a series of stand-alone zero sum negotiations, there is some merit in this argument. However, rather than being a justification for continued secrecy, this represents another cost to society arising from bidding wars using firm or project-specific assistance. To the extent that bidding wars and selective assistance require governments to be more secretive than they otherwise would need to be, another cost of bidding wars and the associated assistance is the undermining of good government. Government officials, both politicians and bureaucrats, are put in the difficult position of juggling the demands for secrecy, and their responsibility to be accountable to the public.

Where government processes are conducted in secret, there will always be a danger of fostering the perception that 'deals are being done', whether or not this is the case in reality. To remove these perceptions and enable a government to be held accountable (an essential feature of good government in a democratic society), it is desirable to carry out the processes of government in an open and transparent manner. In addition, the opportunity for external review of the procedures and evaluations undertaken is an important element in ensuring that high quality evaluation is undertaken.

The need to protect information for commercial-in-confidence reasons is, in the Commission's view, overstated. The confidentiality of the negotiation process should not be confused with the confidentiality of the negotiated outcome. It is reasonable, and indeed may be necessary, to maintain confidentiality in tendering or negotiation with government. However, once concluded, there seems to be no sound reason why the results should not be made publicly available. It can be argued that the need for disclosure is greatest where firm or project-specific assistance is provided because of the inherently discriminatory treatment of firms that is involved when providing that type of assistance. Yet it is in this area that the use of commercial-in-confidence to conceal information is greatest.

If firms or individuals are prepared to accept public funds, one of the conditions should be a willingness to have the details of any assistance received being

made public. All firms could be made aware prior to seeking assistance from government that the type and amount of any assistance provided will be on the public record. If the occasional project does not go ahead as a result of this, it is not clear that any significant loss to the community would result, while good government and the appearance of good government would be significantly improved.

A number of actions can be taken to improve transparency and accountability in the provision of industry assistance by State and local governments. These involve improving reporting procedures, improving the monitoring of programs and improving project evaluation.

### **3.2.3 Improving reporting procedures**

The range of assistance provided to industry by State governments, and the mechanisms for delivery vary considerably. Assistance ranges from that available to broad groups of firms or an industry generally (often provided by long-standing programs) to ad hoc project-specific arrangements. At other times, providing assistance to industry may not be the primary or even an important element of a particular government program.

Information on the operation of long-standing assistance programs is usually available through reports of Auditors-General. These reports demonstrate that there is still considerable scope for improvements in the quality of management and reporting of long-standing programs, with a general rule being that there should be maximum transparency in all public-private sector dealings, including the provision of assistance packages.

#### *Reporting of assistance programs*

Reporting of all assistance programs, whether firm or project-specific, or more widely available, should include the following information:

- the objectives of the assistance program;
- the criteria and approval procedures used to assess assistance provided;
- a demonstration that the expected benefits exceed the expected costs of the assistance. Ideally, this would be a demonstration that the assistance effectively and efficiently targets a market failure (positive externality). This would involve presenting the methodology used and results of the evaluation used to demonstrate costs and benefits;
- the results of regular monitoring of progress and performance against previously established performance targets;

- the cost of facilitation, information or other services provided by government; and
- annual estimates of the totality of assistance provided, including such things as an estimate of the cost of revenues forgone, an estimate of the value of other forms of assistance provided (eg loan guarantees), and an estimate of the overhead costs of providing/administering the assistance program.

This information should be based on standardised accounting and reporting procedures across all States and local governments.

### *Firm or project-specific assistance*

The Commission considers that, as a matter of principle for good government, where assistance is provided to individual firms or projects, disclosure should include (in addition to the items listed above) the full value of the assistance made available to each firm or project. The additional information to be reported should include:

- duration of assistance;
- estimates of the value of any concessions or exemptions (eg tax, land, or government charges);
- details of legislation or regulatory changes and rezonings; and
- any guarantees of future government contracts.

### *Revenues forgone*

Revenues forgone present a particular problem in the reporting of assistance. Where general exemptions are provided, such as the threshold exemption in relation to payroll tax which favours small business, the cost of such exemptions should be estimated and made public by State revenue or taxing authorities. Where more selective or targeted assistance is provided by way of forgone revenues, an option would be to provide such assistance in the form of rebates rather than exemptions. This is a procedure used in NSW. As stated by the NSW Government (Sub. 56):

... the project pays payroll tax to the office of State Revenue and is then reimbursed by State and Regional Development New South Wales (SRD) from an annual Budget allocation for this purpose called the Industries Assistance Fund. (p. 6)

The advantage of this system (particularly if it included the publication of the details of rebates to specific firms or projects) is that the level of revenue forgone is readily identifiable and thus its extent is not easily 'overlooked' as can occur when unquantified and unpublicised exemptions are granted. It may

also simplify the collection of revenue by avoiding conflicting objectives within the tax system.

### **3.2.4 Improving monitoring of programs**

State governments have procedures for monitoring the performance of their industry assistance programs. Typically this ex-post evaluation involves two processes:

- individual program monitoring by the administering department; and
- independent verification of the integrity of its operations by the Auditor-General.

For local government, monitoring is provided typically by State local government departments.

However, the performance of many programs appears to be poorly evaluated. The Commission found very little evidence of systematic ex-post evaluation of assistance programs by the States, including selective assistance programs.

For example, the Victorian Auditor-General's Office (1995) in its report on government assistance programs said:

The Department [of Business and Employment] does not separately record salaries and related costs connected with the provision of facilitation services. As a consequence, it is not in a position to determine the cost-effectiveness of all facilitation services provided under the [Industry, Regional and Trade Support] Program from both an aggregate view point and in terms of the various types of services. In other words, it has not been able to undertake periodic monitoring of the level of costs incurred in the provision of particular types of services or to ascertain whether costs have been warranted, or even excessive, relative to the resultant benefits or whether sufficient resources have been directed to those services offering the greatest benefit to industry. (p. 52)

Similarly,

The Department did not establish similar targets for the Program's remaining categories of benefits, namely, export growth, import substitution and increased employment. [The measured benefit was 'additional investment'.] The Department advised audit that such targets were not set because of the difficulty it had experienced in the development of qualitative indicators which could attribute a direct link between a particular form of assistance and the achievement of the Program's broad objectives. (p. 45)

While the comments reported above relate to Victoria, the problem is by no means limited to that State.

Auditors-General have an important role to play in improving and maintaining the quality of the reports of the State government departments and instrumentalities involved in providing industry assistance. For example, the Victorian Auditor-General has explicit powers to examine documents of public and private sector organisations in receipt of funding from any source within government, which therefore includes companies in receipt of industry assistance (see Box 3.4). As an independent agency, the Auditor-General in each State and Territory should be free to report details on all selective assistance provided (including the revenue forgone) in total and to each individual recipient. It is essential that information is included in an appropriate and consistent format in each department and agency's annual report.

#### **Box 3.4: Victorian Auditor-General**

Section 20 of the *Victorian Audit Act 1994* empowers the Auditor-General to examine documents of private and public sector organisations in receipt of funding from any source within the Victorian Government for the purpose of evaluating the performance of government programs. Application of this section of the Act enabled audit to visit companies or individuals in receipt of government assistance and examine documentation to verify:

- the receipt of assistance;
- the purpose of assistance;
- the application of assistance; and
- the fulfilment of purpose of assistance.

*Source:* Victorian Government (1994).

The significance of the application of Section 20 of the *Victorian Audit Act 1994* is that it enables an independent body such as the Office of the Auditor-General not only to attest to the receipt of financial assistance by a private sector organisation, but also to add value to the process of accountability by the formation of an opinion on the consistency between the application of, and the purpose for which, the assistance was provided.

### **3.2.5 Improving project evaluation**

In contrast to the more widely available assistance programs, where clear and open administration procedures can be instituted, assistance to individual firms or projects requires the tailoring of an assistance package and separate evaluation of each case, whether small or large, each time that a proposal for assistance is made. Selective assistance requires decision-makers in

government to be well informed about the impact of the project and of the costs of assistance. The electorate also needs to be well informed to be able to evaluate whether governments are making sound decisions in the community's best interests.

The Commission considers that all assistance programs should have:

- objectives clearly stated and publicly available, with these objectives specified in a manner that is open, as far as possible, to quantification and verification;
- publicly available eligibility criteria, involving minimal discretion and maximum quantifiable criteria;
- transparent and open approval procedures;
- monitoring arrangements for the program as a whole or, if selective assistance is provided, of the assisting agency and the assistance recipient;
- quantitative performance measures which establish broad targets and qualitative performance measures that clearly relate to the objectives of the assistance program as a means of providing an overall indication of effectiveness;
- reporting requirements (outlined in more detail in Section 3.2.3); and
- a regular program evaluation process, preferably linked to 'sunset' provisions for the program as a whole (that is, the program is not extended unless a positive evaluation results).

### *Improving evaluation techniques*

The range of tools used to evaluate projects prior to providing assistance (ex-ante) includes both in-house procedures and the employment of external consultants. Most major projects are subject to some form of formal study, particularly if the likely cost of assistance is high.

To study the methodology used by State governments to assess the net benefits of assistance to industry and to attract investment, the Commission engaged Applied Economic Solutions (AES) to prepare a paper on the main tools used to evaluate the impact of individual projects or events. This study identified a range of problems associated with their use (see Appendix 9) and made a number of recommendations aimed at improving the quality of project evaluation (see Boxes 3.5 to 3.7).

**Box 3.5: Applied Economic Solutions' key recommendations on evaluation methods**

Applied Economic Solutions recommended:

- net discounted benefits should be used as the criterion to evaluate projects;
- costs and benefits should be converted into real monetary values;
- price deflators derived from the national accounts be used in preference to the CPI;
- all costs and benefits should be converted to net present values; and
- risk analysis should be undertaken, particularly for demand-sensitive projects.

Project and agency-specific risk-adjusted discount rates based on the opportunity cost of capital should be adopted. It is expected that for projects with an average degree of risk, the discount rate should be set at about 8.5 per cent real.

*Source:* Applied Economic Solutions (1996).

### **Box 3.6: Proposals where multiple tiers of government are involved**

At the national level the decision to proceed with a project should be influenced by whether the national net social benefit, calculated from the total assistance from all tiers of government required to fund the project included as a cost is positive.

At the regional level, the assistance provided by any level of regional government should not exceed the net regional social benefits, plus the net social benefits which are confined to higher tiers, plus the total assistance required from all tiers of government, less the total value of assistance provided by higher tiers of government.

Ideally in a benefit-cost calculation, the costs and benefits accruing to each jurisdiction, from the region of concern to the implementing agency up to the national level, should be calculated.

It is necessary to estimate and include the following variables:

- the benefits and costs which accrue to Australian regions excluding the region where the event is taking place;
- the benefits and costs which accrue exclusively to the region;
- the benefits which accrue both to the nation as a whole and to the region;
- the costs to the nation;
- State finance provided for the event; and
- costs which are incurred by both jurisdictions.

*Source:* Applied Economic Solutions (1996).

The following key conclusions were drawn and recommendations made by AES in its study:

- the examination of some formal studies indicates that there are many benefit-cost assessments which do not conform to established guidelines. Well established guidelines exist and should be used;

- analysis should take into account different levels of government, and recognise that some benefits to a region are simply transfers from other regions, not net benefits to the economy as a whole; and
- incorrect use has been made of multipliers. They are applicable only in limited cases when the availability of idle resources can be demonstrated.

AES made some specific recommendations relating to the evaluation of projects where more than one tier of government is involved.

### **Box 3.7 Use of multipliers**

In relation to the use of multipliers in evaluating projects, Applied Economic Solutions quoted Department of Finance Guidelines. The guidelines state:

Inclusion of multiplier effects from income and spending generated by a project is only justified when (a) the affected resources would otherwise have been unemployed and (b) the activities displaced by the project would not also have made use of the idle resources. Careful empirical justification is necessary in using multipliers.

When justified, the appropriate multiplier to use is the income multiplier from an 'open model' of the appropriate input-output table as this most accurately indicates value added accruing to previously idle resources.

*Source:* Applied Economic Solutions (1996).

Typically, problems in ex-ante evaluation techniques result in a general bias towards a 'positive' outcome to the question of net benefits generated and thus on whether assistance should be provided to the proposed scheme. This results from the use of positive multipliers generated by the project, while the negative multipliers associated by displaced activity or the opportunity cost of the funds involved are generally ignored. (A discussion of the difference between multipliers and externalities is presented in Chapter 2, Section 2.3).

The Commission considers that all assistance programs should have an evaluation undertaken prior to their introduction, with the evaluation (methodology and results) made public, and with all evaluations based on best-practice evaluation tools.

### *Improving evaluation processes*

Part of the problem in ensuring high quality project evaluation lies in the procedures involved and in the incentives facing those commissioning or undertaking the studies under existing procedures. For example, AES (1996) found that:

Most regional benefit cost studies are undertaken by, or on behalf of, the proposed implementing agency. If they are a public agency, the agency has an interest in the project proceeding since implementing projects is usually the primary reason for the institution's existence. In these circumstances benefit cost studies can become simply an exercise in pseudo ex post justification. It is not surprising therefore that for regional projects, benefits of projects tend to be overstated. The moral hazard incorporated in these institutional arrangements should not be underestimated as many of the problems associated with the use of the benefit cost framework for decision making arise because of this institutional weakness. (Paragraph 1.14)

To minimise this conflict of interest it would be preferable that the evaluation of projects, and of the need for or desirability of government assistance, be undertaken or commissioned by a different area of the State government than those charged with promoting industry development or events. Central agencies such as finance or treasury departments in each State would appear to be better placed to make (or commission) such evaluations which take a 'whole-of-government' approach, and consider the alternative uses of public funds.

Options for local government are more difficult to identify. Few would be of a size large enough to have 'independent' internal review agencies. In this situation, State governments have a role in requiring disclosure and accountability from their local government authorities and, if necessary undertaking systematic reviews of local government procedures.

The problem of the incentives involved with project evaluation reflect a more general problem of the objectives and incentives facing 'industry' departments in government. Important government departments have been built up around the 'oversighting' of industry in the State, and the provision of industry assistance. They naturally have an interest in the continuation of such assistance programs, and provide a powerful and organised platform to argue the 'need' for continued government involvement in industry development and the provision of assistance.

The influence of practitioners in the formation of development policies has been recognised in the US literature. Isserman (1994) noted the growing role of specialists and practitioners:

Current state policy and practice result not from the efforts of economics and regional science communities, but from those of a growing group of economic development professionals, most of whom are consultants or employees of state and multistate organisations. (p. 50)

Similarly, Netzer (1991) commented:

Local economic development officials have every reason to exaggerate the effectiveness of their wares, so as to assure the continuance of the program and their continuance in office. (p. 231)

One way of attempting to reduce the inherent conflict within industry or State development departments is to specify broader objectives for such organisations (see Box 3.8).

**Box 3.8: Goals and objectives of State government industry development**

The goals and objectives of State government industry policy need to focus on developing a competitive business climate in which efficient firms and industries can succeed. To develop this climate, government needs to ensure that policy is essentially neutral between firms and industries to ensure that opportunities are available to all comers and that no firm or industry is provided with an advantage not available to others. By developing a competitive business climate all business and industry is assisted. In its provision of services, local government should pursue the same objectives. To develop this climate the States need to focus on the following functions.

**Reform of legislation and regulation which impedes competition**

State governments should build on the agreement to review regulation reached as part of the national competition policy reforms to ensure that legislation and regulation promotes rather than impedes competition. The effective functioning of business regulation review bodies is important to achieving this objective.

**Assisting firms to negotiate the business approval process**

State governments have a role in providing information to firms to negotiate approval processes.

**Coordination of competition policy to ensure robust competition**

A major role for the State governments is to implement effective competition policy to ensure that the business climate is competitively neutral or that no firm or industry receives an advantage not available to others.

**Provision of information to potential investors**

State governments have a role in providing information to potential investors regarding the capability of their jurisdiction.

**Facilitation of the efficient delivery of Commonwealth-funded programs**

There is a role for State governments to deliver Commonwealth-funded programs such as AusIndustry, where required.

**3.2.6 Unilateral action by the States to improve transparency and accountability**

In looking at the issue of transparency and accountability in the provision of industry assistance, the Commission found that:

- the reporting of the extent of industry assistance, particularly selective assistance, by State governments (with notable exceptions in WA and NT)

was poor, and in some cases (notably Victoria) the amount of information publicly available appears to be declining;

- commercial-in-confidence is often misunderstood and misused to avoid the normal transparency and public accountability that should accompany the use of public funds to assist industry. A need for confidentiality in the negotiation process does not imply a need for confidentiality of the outcome. While business must have confidence that commercial information they provide will be treated in the strictest confidence, they may reasonably expect that any government assistance they receive will be made public;
- where firm or project-specific assistance is provided, the need for disclosure and public scrutiny is all the greater because of the inherently discriminatory treatment of other competing firms that results from this type of assistance;
- improved reporting procedures are essential, and need to be clearly specified and introduced across all areas of government (see Section 3.2.3);
- systematic quantification and reporting by State revenue or taxing offices of revenues forgone should be introduced;
- regular and independent verification and monitoring of industry assistance needs to be strengthened;
- evaluation techniques, particularly those used for major projects and events are significantly flawed — notably through the misuse of multiplier analysis. (Suggestions to improve these techniques are outlined in Section 3.2.5); and
- inherent conflicts of interest exist where evaluations are undertaken, or commissioned, by departments involved in promoting development or administering assistance. Arms-length evaluation by agencies with a whole-of-government view would be an improvement.

The Commission sees a need for improving the transparency of, and accountability for, industry assistance along the lines suggested in the earlier sections. This is action that could be undertaken independently by each of the State governments. The need for improved reporting procedures is not limited to State governments. Both Commonwealth and local government assistance to industry should be similarly subject to the discipline of full disclosure of assistance provided.

The responsibility for ensuring that local governments adhere to desirable evaluation procedures and reporting requirements rests with the State

governments. State governments should ensure that local government authorities under their control implement the necessary reporting procedures. Such procedures can be and have been implemented through changes to Local Government Acts in each State.

The unilateral introduction by a single State or Territory of significantly increased disclosure of the use of public funds for industry assistance may be difficult politically, particularly in a climate of inter-state rivalry where such action could be seen as a form of 'unilateral disarmament'. It may be easier for some States to implement improved transparency and accountability procedures as part of a formal agreement between the States and Territories.

The options for formal agreements between the States are discussed in the following sections. These options include an agreement to improve transparency and accountability, an agreement to limit some of the more costly (firm or project-selective) forms of industry assistance, and an option for a more comprehensive agreement on State assistance to industry. The next section (Section 3.3) looks at the relationship between the States in Australia and at recent agreements containing principles which are relevant to the question of State assistance to industry. Approaches taken in a number of other countries are then discussed. Section 3.4 investigates some international agreements and their relationship to State assistance to industry. Section 3.5 considers a range of options for an agreement on State assistance to industry in Australia, while Section 3.6 addresses the role of the Commonwealth.

### **3.3 Existing agreements between States**

Because Australia is a federation, agreements between the States are an inherent feature of the economic policy environment. The Australian constitution specifies the underlying relationship between the States and the Commonwealth, and a number of more recent agreements on industry policy issues have developed these relationships.

#### **3.3.1 Australian federation**

When formed, most federations have included an objective of promoting trade within the federation, particularly free trade among members, and aimed for equal treatment of people or firms within the federation, irrespective of location. Both the Australian and the US Constitutions contain clauses aimed at promoting free trade. However, the application of such clauses has been the subject of controversy and legal argument almost from the moment of their

formation as States have wavered between the objective of the Constitution and the natural tendency of sub-national jurisdictions to favour activity located within their areas.

Under the Australian Constitution, Section 92 guarantees the 'absolute' freedom of interstate trade and commerce and prohibits the States from applying any protectionist or discriminatory measures (see Box 3.9). While this has limited overt trade barriers between the States, it has not been successful in limiting other forms of State assistance to local activity in preference to out-of-State firms. For example, State purchasing preferences were, until recent agreements, a long-standing method of assisting State-domiciled industry.

### **Box 3.9: Section 92 of the Australian Constitution**

Section 92 of the Constitution states:

On the imposition of uniform duties of customs, trade, commerce and intercourse between the States, whether by means of internal carriage or ocean navigation, shall be absolutely free.

According to Saunders (1996), the High Court's interpretation of absolute freedom of trade in Section 92 is to preclude discrimination against interstate trade of a protectionist kind and ensure that interstate trade is subject only to 'reasonable' State regulation. For example, Victorian legislation which imposed a higher deposit requirement on non-refillable bottles used by a South Australian brewer was invalidated by the High Court. In contrast, Tasmanian legislation which prohibited the possession of undersized crayfish was validated by the High Court, even in respect to crayfish legally caught in South Australia, but held in Tasmania. The High Court according to Saunders (1996) has,

... expressly recognised the need for Section 92 to leave room for a State to take appropriate steps to protect the State community or enhance its welfare, within the agreed framework of national economic union. (p. 51)

*Source:* Saunders (1996).

The formation of the Australian Commonwealth was, in part, a response to colonial tariffs which had hindered trade between the colonies at that time. As a result, according to Saunders (1996), the Constitution focused on eliminating most of the 'unproductive competition', generally in the form of tariff barriers, which existed prior to the formation of the Commonwealth.

Government involvement in the economy has evolved considerably since federation. Intervention in economic decision-making is much more varied and widespread, covering many actions not envisaged by the authors of the Constitution. As colonial governments were not involved in bidding wars to attract industry, the Constitution did not address this element of anti-competitive activity.

The provision of industry assistance by State governments, while not specifically mentioned in the Constitution, is not in the ‘spirit’ of the free trade provisions of the Constitution. It provides those assisted with an advantage over their interstate competitors when they sell interstate or compete locally against interstate goods.

More recently, the concept of competitive neutrality has encapsulated a wider view of ‘free trade’ and this concept has been accepted in the recent competition agreements through the Council of Australian Governments (COAG) (see Section 3.3.2). COAG itself is a recent institution in recognition that reforms still need to be undertaken and that, under Australia’s constitutional framework, this can be done best in a cooperative manner involving the States, Territories and the Commonwealth.

### **3.3.2 Recent agreements between the States within Australia**

There are precedents for the establishment of cooperative agreements between the States, Territories and the Commonwealth which go beyond the formal historical relationship enshrined in the Constitution. Two agreements reached in the recent past embody principles and objectives similar to those which could be included in any agreement on State government assistance to industry. These agreements relate to government procurement and competition policy.

#### *Government procurement agreement*

An agreement was reached in 1986 (the National Preference Agreement) to end the costly procedure of State-specific purchasing preferences. This agreement was replaced in October 1991 by the Government Procurement Agreement (GPA 1991) which includes the Commonwealth, all States and Territories in Australia and New Zealand (see Box 3.10). An important reason for this agreement was the impact that the insistence on State-based sourcing of government purchases, particularly for items such as railway rolling stock, was having on the Australian heavy engineering industry. As outlined in a number of reports looking into the efficiency of that industry, State purchasing preferences contributed to the fragmentation of production facilities in each of the larger States in Australia resulting in plants being unable to reap scale economies.

#### **Box 3.10: Government Procurement Agreement 1991**

The Government Procurement Agreement (GPA) has its origins in the National Preference Agreement (NPA) of 1986 signed by Ministers responsible for industry. The intent was to

eliminate the adverse effects on industry development of the various preference margins States applied against out-of-State suppliers. New Zealand joined the NPA in June 1989.

The NPA was revised in 1991, becoming the GPA and incorporating changes arising from agreement between the parties on government procurement policies and practices.

The GPA 1991 can be seen as having a number of achievements:

- it has promoted a single government market place for Australian and New Zealand suppliers; and
- it has established a basis for dialogue between jurisdictions where problems are discussed and common approaches adopted.

The preamble to the GPA (1991) says:

... the Parties recognise the benefits to Australian and New Zealand industry and to government purchasing bodies of treating Australia and New Zealand as a single market for government procurement. (p. 1)

It goes on to state that the parties shall:

provide to services, products and suppliers of the other Parties equal opportunity and treatment no less favourable than that accorded to their own domestic products and suppliers. (p.1)

The principle of a single Australian market, free from artificial barriers between the States is an important one. It is implicit in the Constitution, and is applicable to a much wider range of industry development issues than government purchasing.

A review of the GPA 1991 is currently being undertaken as part of the terms of the agreement. The Commission considers that the Governments of Australia and New Zealand should recommit to this agreement — in particular, maintaining its primary focus on treating Australia and New Zealand as a single market and maintaining ‘value for money’ as the primary determinant in procurement.

### *1995 Competition policy agreement*

The most recent formal agreement between the States and the Commonwealth relates to national competition policy. This involved the signing of three agreements in April 1995 (see Box 3.11).

### Box 3.11: Council of Australian Governments (COAG) agreement on competition policy reforms

At its April 1995 meeting, COAG agreed to a national competition policy reform package and signed three inter-governmental agreements to implement the reforms.

The *Conduct Code Agreement* sets out the basis for extending the competitive conduct rules of the Trade Practices Act to the unincorporated sector and to State government business activities.

The *Competition Principles Agreement* establishes agreed principles on the structural reform of public monopolies, competitive neutrality between public and private sector businesses, prices oversight of government businesses with significant monopoly power, a regime to provide access to the services of essential infrastructure facilities and a program of review of legislation restricting competition. Reviews of regulation restricting competition are to clarify the objectives of such legislation, identify the nature of the restriction on competition, analyse the likely effects of the restriction on competition and on the economy generally, assess and balance the costs and benefits of the restriction, and consider alternative means of achieving the objective of the regulation.

The *Agreement to Implement the National Competition Policy and Related Reforms* provides that the Commonwealth will maintain a real per capita guarantee of financial assistance grants to the States and local government on a rolling three-year basis and will provide further financial assistance to the States in the form of competition payments. Both elements are conditional on the States meeting agreed reform objectives as assessed by the National Competition Council (NCC).

#### **The National Competition Council**

The role of the NCC involves reviewing areas covered by inter-governmental agreements on economic reform, including anti-competitive regulation and the structural reform of government monopolies. The NCC will advise the relevant State, Territory or Commonwealth Ministers on the application of third party access to essential facilities and price surveillance arrangements.

The NCC will assess whether State and Territory access and prices oversight arrangements are effective against criteria outlined in the Competition Principles Agreement. As well, the NCC will assess the progress of States and Territories in implementing the national competition policy reforms required for the States and Territories to receive the special competition payments from the Commonwealth.

The work program of the NCC is determined by agreement between the Commonwealth, State and Territory governments. Any government may refer specific industries and issues to the NCC as part of its work program.

Appointments to the NCC are made by the Commonwealth after consultation with the States and Territories. The NCC has five part-time councillors appointed for periods of up to five years and a full-time secretariat.

*Source:* IC (1995).

These competition policy agreements embody the important principle of competitive neutrality. While the principle contained in the competition agreement refers specifically to public enterprises competing with private firms, and the need for such competition to be on a neutral basis (with the public enterprises being neither advantaged or disadvantaged by virtue of their public ownership, or by any associated rules, regulations or assistance), the principle is

relevant to the current debate over the appropriateness of State industry assistance and the impact of bidding wars.

The Commission considers that the concept of competitive neutrality embodied in the National Competition Agreements has wider applicability and could form an integral element of any agreement between the States and Territories to promote non-distortionary competition in their industry assistance policies. Also, the objectives of governments when seeking the national competitive framework — developing an open, integrated domestic market for goods and services by removing unnecessary barriers to trade and competition — could be an objective of any agreement on State and local government assistance to industry.

### **3.3.3 State subsidies in the United States**

As outlined in Chapter 2 and in Appendix 6, there is considerable debate in the United States about the role and effectiveness of State-based industry development policies, particularly inter-state bidding wars for major investments. Attempts have been made to come to agreement between groups of States in the United States to limit such inter-state rivalry with very limited success. One such agreement between State Governors is reproduced in Appendix 10. This agreement said:

States will always be in competition with one another for business investments. However, this competition should not be characterised by how much direct assistance a state can provide to individual companies. It should focus on how each state attempts to provide a business climate in which existing businesses can operate profitably and expand and new businesses can be established and survive. The competition should be judged on factors such as improvements in education, transportation, and telecommunications; stable fiscal conditions; tax policies; business regulation; and the provision of quality public services. (US National Governor's Association 1994, p. 7)

While having clear and worthwhile objectives, the agreement was, however, purely voluntary, with no permanent institution associated with its operation, no monitoring arrangements and no enforcement mechanism.

Calls have been made for the US Federal Government to step in to limit the extent of bidding wars. For example, Dabson et al. (1996) said:

Far-sighted leadership should look for ways to slow the “arms race” by calling for federal legislation to restrict these bidding wars as well ... (p. 49)

Bartik (1996) identified a Federal role to:

Penalise through withholding federal grants, discretionary financial assistance given to particular branch plants, but not to similar businesses. (p. 46)

Burstein and Rolnick (1994) went further and called for the Federal government to prohibit State and local government subsidies to industry:

... we argue that it is now time for Congress to exercise its Commerce Clause power to end another economic war among the states. It is a war in which states are actively competing with one another for businesses by offering subsidies and preferential taxes. (pp. 1-2)

The power of US Congress under the Commerce Clause, according to Burstein and Rolnick (1994), is potentially so sweeping that to enact legislation to prohibit the States from using subsidies and preferential taxes to compete with one another, it need only make a finding, formal or informal, that such subsidies and taxes substantially affect inter-state commerce. In their view, the US Supreme Court would defer to such a Congressional finding if there was any rational basis for the finding.

### **3.3.4 Canadian Internal Trade Agreement**

In July 1994, the Canadian Government and the governments of the Canadian Provinces and Territories signed an agreement on internal trade to reduce barriers to trade, investment and mobility within Canada. The agreement came into force on 1 July 1995. More detailed information on the Agreement is presented in Appendix 12.

Chapter 1 of the Agreement states the objective as follows:

It is the objective of the Parties to reduce and eliminate, to the extent possible, barriers to the free movement of persons, goods, services and investments within Canada and to establish an open, efficient and stable domestic market. All Parties recognize and agree that enhancing trade and mobility within Canada would contribute to the attainment of this goal. (Canada 1994, p. 2)

The Agreement further says that the Parties shall be guided, among other things, by the following principles:

- (a) Parties will not establish new barriers to internal trade and will facilitate the cross-boundary movement of persons, goods, services and investments within Canada;
- (b) Parties will treat persons, goods, services and investments equally irrespective of where they originate in Canada. (p.2)

The agreement is based on a number of general rules specifying underlying principles (see Box 3.12).

### Box 3.12: The Canadian Internal Trade Agreement: General rules

- *Reciprocal non-discrimination.* Reciprocal non-discrimination requires governments to establish equivalent treatment for all Canadian persons, goods and services.
- *Right of entry and exit.* The right of entry and exit prohibits governments from implementing measures which prevent or restrict the movement of goods, services, labour or investment across Provincial or Territorial boundaries.
- *No obstacles.* The no obstacles to trade rule requires governments to ensure that their policies and practices do not create obstacles to trade.
- *Legitimate objectives.* In pursuing certain non-trade objectives it may be necessary for governments to deviate from the three preceding rules where it is intended to achieve a specified objective including consumer and environmental protection, public health and safety. In these cases, measures used must be no more restrictive of trade than necessary to meet that legitimate objective and must not create a disguised trade barrier.
- *Reconciliation.* Reconciliation provides the basis for eliminating trade barriers resulting from differences in standards and regulation between jurisdictions.
- *Transparency.* Transparency is required to ensure that information relating to trade matters is fully accessible to individuals, firms and other governments to expose potentially unacceptable policies and practices.

Regional economic development is exempt, subject to the following conditions:

- the exemption cannot be used in bidding for government contracts and environmental protection;
- where the exemption is used, its impact on trade must be kept to a minimum; and
- all regional development programs must be subject to public scrutiny and evaluation.

*Source:* Canada (1994).

Chapter 6 of the Agreement contains articles relating to the treatment of investment, and an Annex to the chapter outlines a Code of Conduct on incentives. In essence, certain incentives are prohibited (those that would encourage a firm to relocate) and, in relation to other incentives, the Provinces are to take into account the economic interests of the other Provinces (see Box 3.13).

### Box 3.13: Canadian Internal Trade Agreement: agreement on incentives

*Extracts from Annex 608.3: Code of Conduct on Incentives*

*Prohibited incentives*

4. No Party shall provide an incentive that is, in law or in fact, contingent on, and would directly result in, an enterprise located in the territory of any other Party relocating an existing operation to its territory.

5. An incentive shall not be considered to be inconsistent with paragraph 4 where a Party can demonstrate that the incentive was provided to offset the possibility for relocation of the existing operation outside Canada and the relocation was imminent, well known and under active consideration.

6. No Party shall provide an incentive the primary purpose of which is to enable the recipient enterprise to undercut competitors of another Party in obtaining a specific contract in the territory of a Party.

7. For greater certainty, paragraph 4 shall not be construed to prevent a Party from carrying out general investment promotion activities such as market information and intelligence. (pp. 87-8)

*Avoidance of certain incentives*

8. The Parties affirm that economic development within their territories may include the provision of incentives. The Parties acknowledge that certain incentives may harm the economic interests of other Parties. The Parties shall take into account the economic interests of other Parties in developing and applying their incentive measures, and shall endeavour to refrain from providing an incentive that:

- (a) sustains, for an extended period of time, an economically non-viable operation whose production adversely affects the competitive position of a facility located in the territory of another Party;
- (b) increases capacity in sectors where the increase is not warranted by market conditions; or
- (c) is excessive, either in absolute terms or relative to the total value of the specific project for which the incentive is provided, taking into account such factors as the economic viability of the project and the magnitude of the economic disadvantage that the incentive is designed to overcome. (p. 88)

*Source:* Canada (1994).

*Monitoring of investment incentives and enforcement arrangements*

The Agreement contains provisions covering the regular monitoring of incentive packages by an independent agency and the publication of this information. Disputes resolution involves a consultation mechanism between Provincial governments and, for prohibited incentives, the provision for review by an independent panel with the power to make findings and recommendations to resolve the dispute. Should the ‘offending’ Province fail to act on these recommendations, the injured Province is able to suspend benefits of equivalent effect against the government found in breach of the Agreement. These retaliatory actions can remain in place until the recommendations of the panel have been implemented.

### *Some comments on the Canadian agreement*

The chapter on investment is just one element of a much wider agreement. The scope as it relates to industry assistance is quite modest, and leaves considerable scope for the Provinces to continue to provide assistance to local business.

Canadian authors Trebilcock and Behboodi (1995) expressed some scepticism about the ability of Provincial and Territory governments to cease their involvement in bidding wars:

This is the paradigmatic case of provinces engaging in subsidy wars to attract, for example, a new automobile plant. While in theory there may be merit to attempting to formulate some credible “hands-tying” rule to resolve prisoners’-dilemma-type problems in this context, we are sceptical that this will be easy to achieve. The range of scenarios seems likely to be too varied to be easily captured in a manageable set of rules. (p. 55)

There also has been some criticism of the procedures under which the agreement is to be implemented. For example, the technical work of removing barriers to internal trade is to be carried out by committees of Ministers or bureaucrats who are often in charge of administering the very barriers which the Agreement seeks to remove. As Schwanen (1995) said:

The limitations of this approach were apparent in the negotiations on the agreement itself, at the start of which ministers responsible for internal trade made substantial progress in devising clear general rules and principles, only to see them emasculated at the sectoral negotiating tables where, one suspects, those who had a strong interest in maintaining barriers to trade were directly or indirectly well represented. (p. 12)

A further criticism was made concerning the reliance on an international trade agreement model, allowing the Provincial and Territory governments to trade off concessions and act as sovereign nations in an agreement aimed at furthering economic integration within a federation.

Howse (1995) said:

Canada is a single country, united under a constitution. ... It is somewhat ironic that the disputes settlement provisions of the agreement seem to be modelled on features of international trade treaties that reflect the traditional anarchic character of interstate relations — above all, the reluctance of sovereign states to submit unambiguously to a common legal authority. (p. 193)

In summary, despite the soundness of the objectives sought by the Canadian agreement, there is considerable scepticism among observers in Canada that much will be achieved in the area of industry incentives because of the limited scope of what has been attempted and the mechanisms chosen to pursue these objectives.

### **3.3.5 The European Union's prohibition on 'state aid' to industry**

The agreements forming the European Union (EU) are much more recent than the Australian Constitution. The European common market was created by removing all internal trade barriers between the member countries and creating a single market behind a common external tariff barrier. However, in contrast to the Australian Commonwealth, the European nations recognised that, in addition to the elimination of internal tariff barriers, other factors were likely to inhibit trade and competition between the member states. In drawing up the Treaty of Rome (the Treaty), government subsidies and aids to industry were targeted as being incompatible with free trade between the member countries and inconsistent with the establishment of a system of non-distortionary competition within a European common market.

Under Article 92 of the Treaty, any assistance which distorts, or threatens to distort, competition and trade among the member countries is prohibited. The European Commission (EC) (1995b) defines assistance as any measure which provides a firm with an advantage it would not have received in the normal course of its business, granted to certain firms or for the production of certain goods.

There are, however, two categories of exemption. Assistance which is completely exempted from the prohibition includes assistance of a social nature provided to individuals, assistance provided to what was formerly East Germany and assistance provided for natural disaster relief. In addition, in certain circumstances the EC may consider assistance granted by member States to be compatible with the common market, such as where assistance is provided to areas suffering from abnormally low living standards. Further details on exemptions on assistance in the EU are provided in Appendix 11.

The European approach has been to attempt to prohibit all industry assistance provided by the member countries and then use the EC to approve any assistance prior to the member country implementing the assistance measures. This approach facilitates the monitoring by the EC of the assistance provided by member countries to attempt to ensure that any assistance provided is compatible with the common market or with the social goals of the EU.

Where the EC finds that assistance provided by a member country is incompatible with the Treaty, the EC has the power to issue a Decision requiring the member country to amend or abolish the assistance being provided and recover any assistance provided to the recipient (see Box 3.14). In cases where the member country does not comply, the EC can take action against the member country through the European Court of Justice.

**Box 3.14: Assistance refunded: regional assistance in Sicily**

In 1993 the EC examined a number of regional assistance measures worth ECU 139 million (\$218 million) provided by the regional authorities in Sicily to firms in the chemical, cement and engineering sectors operating in Sicily. The Commission concluded that the assistance provided was illegal under the Treaty as the assistance had been provided without the prior notification or approval of the Commission. Also, the Commission decided that the assistance provided would not be of economic benefit to the region as the companies receiving the assistance had not been economically viable for a number of years before the assistance was provided and the assistance provided was not linked to a restructuring plan to restore their viability. As a result, the Commission requested that the Italian Government recover the assistance already provided.

*Source:* EC (1995a)

While the objectives included in the Treaty are appropriate, implementation, including monitoring and enforcement, can sometimes be seen as falling well short of the original ideal. The Tasmanian Department of Premier and Cabinet (Sub. 63) commented:

The submission [of the NSW Government] notes the problems with the European Union Treaty, with many countries offering extremely large financial incentive packages (significantly more than offered in Australia) in an attempt to attract business. These are justified on the basis that the level of assistance is not sufficient to actually distort competition or even threaten to distort competition. The costs of monitoring and policing any such arrangement might also far outweigh the gains. (p. 3).

The fact that ‘loopholes’ can be, and often are, abused by governments does not mean that the objective is flawed, or that the Treaty has not achieved its desired objective on many occasions.

### **3.3.6 NSW proposal for an agreement on industry assistance**

The NSW Government proposed an agreement among the States aimed at banning selective and discriminatory subsidies. While a number of States presented useful submissions to this inquiry, only NSW took the opportunity to propose the option of an agreement among the States to limit bidding wars.

The NSW Government (Sub. 56) said:

Ideally all States should stop providing selective and discriminatory assistance to industry. One way of ending, or at least reducing, State and Territory government bidding would be for the governments to agree to end certain practices. This would involve what Professor Wolfgang Kasper has called a “treaty of subsidy disarmament”. This would involve a ban on selective and discriminatory subsidy policies and would identify unacceptable government practices. Some measures would be easier than

others to implement. The State and Territory governments should agree to the following measures:

- transparency in providing assistance measures – so that each government knows what the others are offering;
- pooling information about potential projects;
- not providing discretionary support to overcome fundamental cost disadvantages;
- not providing offers of assistance to projects that are certain to locate somewhere in Australia anyway; and
- not providing assistance to lure existing investment or expansion of an existing entity in Australia from one State to another. (pp. 15-16)

The NSW objective of ending selective and discriminatory assistance to industry would be an essential ingredient of any agreement between the States in Australia. Mechanisms to achieve such an objective are discussed more fully in Section 3.5.

The NSW submission referred to a ‘treaty of subsidy disarmament’ put forward by Professor Wolfgang Kasper. In a series of papers on competitive federalism published in 1995 and 1996, Kasper proposed an interstate agreement banning selective assistance for business (see Box 3.15).

**Box 3.15: Professor Wolfgang Kasper’s proposal**

An inter-State agreement banning industry or firm-specific subsidies should turn the principle of non-discrimination amongst existing and new industrial settlers into a universal, constitutional rule. The best deal given to any producer by a State must be available to all producers.

Breaches of the non-discrimination rule should be monitored and sanctioned by an inter-governmental agreement. In the Australian federal system, it would make sense to include the Commonwealth Government in such an inter-State agreement to ban selective State subsidies and assistance, and to entrust a Federal agency with the power to monitor breaches.

The most appropriate organisations in Australia to take on the monitoring role are the National Competition Council or the Industry Commission.

... continued

**Box 3.15: Professor Wolfgang Kasper’s proposal (contd)**

Any non-discrimination agreement would require some form of enforcement, which could be undertaken by governments, on the basis of formal findings, possibly through COAG. The instruments of enforcement could be direct financial penalties or arrangements, similar to those in the EU, to have the State or Territory recover the assistance that breached the agreement.

*Source:* Kasper (1995, 1996).

The principle of non-discrimination on economic grounds, either between firms or between industries is very similar to the principle of competitive neutrality

contained in the competition agreements (see Section 3.3.2), and such principles could usefully be included in an agreement between the States in Australia.

### **3.3.7 Government views on an agreement to limit selective assistance**

A number of State and Territory governments, as well as the New Zealand Government, commented on aspects of an agreement between the States on industry assistance.

The New Zealand Government (Sub 76) said:

... New Zealand sees merit in the Commission's proposal that the States and Territories should discuss an agreement which ... would:

- aim to limit beggar-thy-neighbour industry assistance;
- enhance competition, particularly competitive neutrality within Australia; and
- strengthen the single market in Australia (and New Zealand).

We see an agreement to limit industry assistance as being best able to strengthen the single market both within Australia and in the trans-Tasman free trade area if it were explicitly to include the CER dimension ... Such an agreement could be based on the IC's proposal for a comprehensive agreement between States to limit the provision of assistance to industry to a few well defined situations, but with the added participation of the Commonwealth and New Zealand. (p. 2)

In addition to NSW, Tasmania supported an agreement outlining rules for competition between the States for economic development (see Box 3.16).

Other States agreed that bidding wars have little value, but were sceptical about the likelihood of such an agreement being reached. For example, the ACT Government (Sub. 61) said:

The ACT Government agrees with NSW that this type of bidding has no real value to the overall Australian economy and disadvantages smaller States and Territories which are unable or unwilling to get involved in such 'bidding wars'. (p. 2)

#### **Box 3.16: Tasmanian Government's comments on competition between States**

The Tasmanian Government (Sub. 87) made the following comments on aspects of desirable competition and the elements of an agreement between the States on industry assistance.

The Tasmanian Government believes that vigorous competition between all regions of Australia for economic development is essential for the optimal development of the Australian economy. However, it is critical that such competition be fair and based on economic fundamentals. (p. 1)

Tasmania believes that the rules of fair competition for business investment between the States and Territories need to be clearly articulated and their implementation monitored. (p. 1)

The essential elements of an appropriate set of competition rules between States and Territories would appear to include:

- Competition based on comparative advantage as reflected in fair market determined costs;
- A high degree of transparency in according targeted industry assistance, consistent with maintaining reasonable commercial confidences;
- Rigorous economic and social justification for providing assistance; and
- Scope for mutually beneficial co-operative economic development arrangements between jurisdictions based to reflect long term comparative economic advantages, that is, rationally based economic development collusion. (pp. 1-2)

However, the Tasmanian Government also observed that:

It is expected that the recommended agreements will be difficult to sell to the States. Furthermore, even if in principle agreement can be reached between the States, the nature of industry assistance arrangements will make any agreement difficult to monitor and evaluate. (p. 2)

However, the ACT Government also said:

NSW has proposed establishing an intergovernmental agreement to reduce the extent of uneconomic competition. However, NSW also acknowledges that such an agreement is unlikely to be developed particularly as the incentives for governments to commit to such an agreement do not currently exist. The ACT Government accepts the latter position. As a practical level it will be difficult to achieve a meaningful agreement. The ACT Government considers there are some major issues to overcome and probably the most any government could expect in the short term is increased cooperation between jurisdictions. (p. 2)

The NT Government (Sub. 78) concluded:

While some jurisdictions may favour a formal agreement, the NT considers that there is real doubt that any agreement entered into by the States/Territories for the purpose of limiting or banning assistance to industry would be cost effective. Complex definitional and boundary issues would be an ongoing source of debate and disagreement. There could be no guarantee that all jurisdictions were fully complying with the terms of the agreement.

In addition, the costs of monitoring and enforcing such an agreement are likely to be higher than anticipated, not only for the central agency that was given the task of overseeing the arrangements, but also for participating States and Territories. (p. 10)

The Department of Commerce and Trade in Western Australia (Sub. 62) commented:

As a general comment, ... it would not be in the best interests of the various jurisdictions to come to an agreement as comprehensive as that envisaged in the NSW submission. This would particularly be true if it appeared to be limiting a State's ability to pursue an economic development strategy in the best interests of its citizens. However, there are areas of principle in which an agreement or 'understanding' between the States could advance the situation considerably from that prevailing at present. (p. 1)

While the States generally saw merit in attempting to limit bidding wars, most considered that State assistance to attract economic activity should continue.

The Western Australian Treasury (Sub. 60) said:

The creation of a favourable investment environment through economic fundamentals is more efficient and more equitable than providing financial assistance to specific projects.

Notwithstanding the above, there are instances where a State may wish to intervene in the market to:

- correct a market failure; or
- provide a financial incentive to a particular project in an attempt to have the project locate in the State, perhaps because the project is seen as instrumental to the State's economic development or because the net benefits to the State are significant. (p. 1)

Both the SA and the NT Governments agreed that competition on the basis of economic fundamentals is important, but that there continued to be a need to provide selective business assistance. The NT government (Sub. 78) said:

The NT's general position regarding assistance to industry is that some forms of assistance, specifically, those associated with "bidding wars" and "subsidy harvesting" are clearly wasteful, and accordingly the NT would support reasonable proposals to identify and curtail such practices. However, the Territory Government considers that other forms of assistance requested or offered on a bona fide basis to attract specific firms to the Territory or to assist in the establishment of specific projects are justified, as they help to offset the significant cost disabilities associated with the establishment of new businesses in the NT and thereby promote regional development. (p. 8)

The Tasmanian Government (Sub. 87) commented:

It is the view of the Government that discretionary, targeted industry assistance is a legitimate tool in the process of fostering strategic business growth especially where there is evidence of market failure. (p. 3)

and outlined a number of reasons for continued government intervention. These were:

- regions of high underutilisation of resources, particularly labour, can provide higher marginal increments to national and State products as well as social outcomes; and
- promoting industry research, encouraging best practice, facilitating skills acquisition and, marketing the State's investment prospectivity. (p. 1)

There was also concern by SA and NT that an end to selective assistance would benefit NSW and Victoria. The SA Government (Sub. 75) said:

If incentives were abandoned by the States, it is the South Australian Government's belief that this would reinforce the economic dominance of NSW and Victoria, leaving smaller States with weaker and less diversified economies. (p. 6)

By comparison, the Tasmanian Government (Sub. 87) commented:

Restrictions on straight 'competitive bidding' would have clear benefits to Tasmania. Limited financial resources preclude Tasmania from becoming involved in competitive bidding situations, therefore restrictions on the other States from 'buying' projects would help place Tasmania on a more competitive footing. (p. 2)

### **3.4 International agreements and their relationship to State assistance**

In the international community, trading agreements seek to limit assistance to industry, particularly if it has an impact on international trade. At the same time, the conditions contained in the international trade agreements to which Australia is, or may become, a signatory can have a direct bearing on the legitimacy of assistance provided to industry by State governments (see Appendix 12).

#### **3.4.1 World Trade Organization subsidies agreement**

In some cases, assistance by States and local governments may be of a type against which Australia's trading partners could take action. The most important type is an explicit export subsidy, which is prohibited under the World Trade Organization (WTO) Agreement. Any firm or industry-specific State (or local government) assistance the receipt of which is conditional on export performance could lead to countervailing duties on the exports of assisted firms, or other action directed against Australian exports. Sub-national industry assistance policies have been the occasion of dispute. The United States has taken action against Provincial subsidies on timber exports from Canada, and Canadian Provincial subsidies featured in the recent investigation on pigment imports into Australia (see Box 3.17).

#### **Box 3.17: Example of sub-national assistance in trade disputes**

##### **US Canadian dispute over lumber exports**

As explained by Kalt (1996):

In both the United States and Canada, the public sector owns vast forest resources that are provided to private sector loggers at fees known as "stumpage". As noted, certain U.S. milling interests have long complained that they pay market value for stumpage under auction procedures used in U.S. public sector

sales while Canadian formula-based stumpage is below market. Moreover, allege the U.S. interests, provincial and federal restraints on log exports restrict the ability of foreign buyers to purchase logs in Canada for export and cause the prices paid for Canadian logs by Canadian sawmillers to be lower than they otherwise would be. Both alleged below-market stumpage and depression of log prices below free trade levels are asserted to constitute countervailable subsidies to Canadian lumber producers. (p. 269)

This dispute resulted in three episodes of action initiated against Canadian lumber exports to the United States.

The first episode in 1982–83 resulted in the US Department of Commerce (DOC) finding that the subsidies were not ‘specific’ under the terms of the General Agreement on Tariffs and Trade (GATT), and no action resulted. Specificity requires that a subsidy be provided to a specific enterprise or industry, or group of enterprises or industries, in order for such a subsidy to be countervailable.

The second episode was in 1986, when the DOC found that the stumpage subsidy was specific and distortive, and a countervailing duty (CVD) of 14.5 per cent as imposed. This duty was preempted by a memorandum of understanding between the United States and Canada which resulted in Canada levying a 15 per cent fee on softwood lumber exports to the United States.

The third episode resulted from the removal of the export fee in 1991. The International Trade Administration (ITA) of the DOC levied a CVD of 6.52 per cent. Following this decision, the dispute went before a binational panel (established as part of the new free trade agreement between Canada and the United States) for review. In 1993, this panel rejected the ITA’s determination.

#### **Australian Canadian dispute over pigmeat exports**

In 1990, quarantine restrictions on the import of frozen pigmeat from Canada into Australia were lifted. In 1992, the Australian Customs Service (ACS) investigated claims that Canadian pork was being dumped and subsidised on to the Australian market. The ACS identified subsidies with a maximum value of 11.4 cents per kg (estimated to be 6.6 per cent of the average export price), 5.7 cents of which were provincial subsidies. The ACS concluded that most of this was not passed on to pigmeat prices to Australia, and the claim for countervailing duties was rejected. The ACS decision was upheld in a review by the Anti-Dumping Authority, and an Industry Commission report in 1995 concluded that Canadian provincial assistance is unlikely to have a significant effect on export prices and thus on the Australian market. (IC 1995d)

State governments, however, continue to provide assistance which is linked, either directly or indirectly, to export performance. For example, the Premier of SA (Brown 1996) recently announced that the payroll tax rebates on export production of manufactured goods and services out of South Australia would double to 20 per cent. Such assistance may be open to challenge under the WTO agreement and, if it were to become the focus of attention from Australia’s trading partners, could result in action being taken against exports from other States as well as exports from the subsidising State. At the same time, State assistance in the form of export subsidies is almost certainly quite marginal to Australia’s export performance.

### 3.4.2 WTO Government Procurement Agreement

The WTO's revised Agreement on Government Procurement (AGP) which took effect on 1 January 1996, could also have implications for the provision of assistance by State and local governments. The broad objective of the AGP is to restrict government purchasing arrangements being used to discriminate between domestic and foreign suppliers. Unlike most other WTO agreements (for example, GATT 1994), the AGP remains, however, a plurilateral agreement whereby its provisions strictly apply to only those WTO member countries which are signatories to it. Members are, of course, free to extend the provisions to non-signatories. With the notable exception of the United States, most countries do. Of the one hundred and twenty four current WTO member nations, only twenty four have signed the AGP.<sup>1</sup>

Above stipulated threshold values which vary depending on the level of government, the nature of the procurement and of the purchasing entity, the agreement covers purchasing contracts for all goods (unless excluded) and specified services and construction (see Box 3.18).

The reciprocal nature of the AGP violates the fundamental most favoured nation (MFN) principle of the WTO where all members grant each other treatment as favourable as that granted to any other country. In addition, the opportunity to exclude certain sectors or negotiate derogations at the central and sub-central government levels can and does significantly dilute the agreement's coverage and its potential for providing an effective discipline on Australia in reforming its procurement practices at both the Commonwealth and state levels. Despite the apparent benefits of the AGP, it is probably fair to say that it has achieved little thus far in opening the procurement markets of signatories (Hoekman, 1996). The extent to which membership by Australia would improve market opportunities in government procurement overseas remains somewhat unclear.

#### Box 3.18: Key elements of the WTO Government Procurement Agreement

The WTO's revised Agreement on Government Procurement (AGP) took effect on 1 January 1996, and replaces a procurement code which first became effective in 1981. The AGP covers only those government entities which are specified in the schedules to the agreement and distinguishes between central government, sub-central government (states and local authorities) and other entities (such as government trading enterprises). Each country nominates entities to be covered.

<sup>1</sup> These countries are the fifteen member nations of the EU, Aruba, Canada, Israel, Japan, Korea, Norway, Singapore, Switzerland and the United States. While the EU constitutes a single entity in the WTO, individual EU members are signatories to the AGP.

Goods and services are treated differently in the sense that the agreement applies to all goods unless excluded but only to those services which are specifically included in the schedules of the agreement

Minimum thresholds apply, to reduce the administrative burden associated with smaller procurement items and are approximately the following:

- central government (goods and services, excluding construction) \$A260 000;
- sub-central government (goods and services, excluding construction) \$A400 000;
- other government entities (goods and services, excluding construction) \$A800 000;
- construction, \$A10 million.

In support of the objective of treating foreign suppliers and domestic suppliers equally, the AGP deals in some detail with various issues relating to purchasing practice. These include :

- tendering procedures;
- use of specifications;
- conditions on the qualification of suppliers eligible to bid;
- publication of invitations to tender;
- time limits for tendering and delivery;
- tender documentation; and
- procedures for submission, receipt and opening of tenders and awarding of contracts.

Offset arrangements are specifically prohibited, with the WTO Agreement (1994) saying:

Entities shall not, in the qualification and selection of suppliers, products or services, or in the evaluation of tenders and award of contracts, impose, seek or consider offsets (p. 33).

Each signatory is required to provide a challenge mechanism and unlike other WTO agreements private firms (along with governments) are given the right to take action in national courts against a scheduled government entity.

Australia did not sign the earlier Code and has not acceded to the new Agreement. Australia's accession is currently under review. If Australia decided to sign, the Commonwealth Government would nominate those entities at the federal, State or local government level, to be covered by the Agreement. These nominations would then be negotiated between AGP signatories on a bilateral reciprocal basis.

As described in a joint discussion paper by the Departments of Foreign Affairs and Trade and Administrative Services:

... the revision of the Code has greatly increased its coverage in value and in the range of purchasing entities and variety of purchases covered. It is against this background that the current review of the trade and economic implications of the Agreement on Government Procurement is being conducted ... (DFAT 1995, p. vi).

The most significant benefits to Australia of signing the agreement would appear to be based not on the issue of access to other countries' procurement markets, but the efficiency and transparency disciplines which would be placed

on Australian governments to reform their own procurement procedures. This could apply not only at the Commonwealth level but importantly, in the context of this inquiry, on the State and possibly local governments.

However, the effectiveness of the AGP in this context would depend ultimately on the basis upon which Australia acceded to the agreement. Generally speaking, the more derogations and exceptions provided for in the agreement by Australia, the less effective the AGP is likely to be in providing a discipline on Australian procurement policies.

### **3.4.3 Closer Economic Relations**

The Australia New Zealand Closer Economic Relations (CER) Trade Agreement came into force on 1 January 1983, replacing the New Zealand Australia Free Trade Agreement. Under the Agreement, bilateral trade in all products originating in the two countries is free of tariffs, quantitative restrictions, anti-dumping measures and safeguard measures (except in certain cases, such as those of overriding national interest) (GATT 1994, p. 30). A 'negative list' approach was adopted whereby all goods (and, since 1989, services) were subject to free trade unless they were mentioned specifically in an annex to the agreement. All export subsidies and export incentives on goods traded between the countries were to be eliminated under the Agreement. More information on the CER Trade Agreement is included in Appendix 12.

The 1988 CER review resulted in the Agreed Minute on Industry Assistance which committed Australia and New Zealand to avoid industry assistance for most industries which directly affected trans-Tasman trade. The Minute included a commitment by both countries to seek to take account of the views of the other government before finalising any decision to adopt industry-specific measures that could adversely affect trans-Tasman trade.

In the 1990 review of the CER, both governments agreed not to pay production bounties or like measures on goods which are exported to the other country. In addition, it was agreed that from 1 January 1989, each government would endeavour to avoid the adoption of industry-specific measures which have adverse effects on competition between industries in the Free Trade Area. Some exemptions were provided for, such as measures to support research and development, extension services, and export promotion measures other than those specifically designated for elimination (DFAT 1991, p. 17).

The New Zealand Government (Sub. 76) commented:

As an agreement between the Governments of New Zealand and the Commonwealth, the Agreed Minute on Industry Assistance does not directly involve the

States/Territories. It is a deficiency from New Zealand's point of view, as State and Territory Government assistance to industry, as well as that provided by the Commonwealth, can distort trans-Tasman competition. (p. 1)

To the extent that CER and the Minute on Industry Assistance do not adequately include State assistance, there is scope for strengthening the CER agreement by specifically including the States. This could be pursued independently, or if New Zealand were to be a party to the proposed Australian agreements on industry assistance, it could be included in those agreements.

### **3.5 Options for an Agreement on industry assistance in Australia**

#### **3.5.1 Introduction**

Much of the industry assistance provided at the State and local government level, particularly the competitive bidding for individual projects or events resembles the domestic equivalent of the 'beggar-thy-neighbour' industry protection and assistance policies which plagued the international trading community earlier this century. As noted above, internationally, this led to agreements embodied in the GATT to limit such destructive policies. A similar recognition of the gains from developing larger markets by reducing barriers between countries has led to regional trading groups such as the EU, North American Free Trade Agreement, CER and Asia Pacific Economic Cooperation forum. As noted above, within countries, action is also being taken to reduce inter-state rivalry and strengthen internal markets.

State governments are aware of the costs that can be involved in bidding for industry. For example, the NSW Government (Sub. 56) said:

The benefits of providing selective assistance to industry are seen as the potential gains in employment and investment. Competition for such investment in some jurisdictions involves a substantial financial outlay as well as other non-financial assistance, and can result in a situation where the cost of attracting a business may well outweigh the eventual benefits it might generate. The worst cases will be contrary to the national interest and mean that the benefits flow to foreign shareholders. (p. 1)

Also, the ACT Government (Sub 58) said:

This type of bidding has no real value to the overall Australian economy and disadvantages smaller States and Territories which are unable or unwilling to get involved in such bidding wars. The [ACT] Government supports active and open competition among States/Territories, but not the offering of packages designed to result in overall negative economic and employment impacts on the Australian economy. (p. 9)

Even though some of the States themselves recognise the costs involved, it is difficult for an individual State to withdraw from the 'game' because of the potential or perceived losses involved. The States are caught in a perceived prisoners' dilemma (see Section 2.3) in which no State believes that it can afford to cease bidding for fear of losing out, or being seen to lose out, to the other States. In much the same situation, the international trade negotiations and multilateral agreements were a recognition that unilateral action, no matter how desirable in principle and useful in practice, would be difficult to introduce or maintain. The international trade agreements embody much the same principles — seeking to reduce discrimination in favour of 'local' businesses, as would be embodied in any internal agreement in Australia.

In the face of these pressures on governments, reform may be easier if it involves concerted, collective action by all governments in Australia, and greater public awareness and discussion of the issues and alternatives. Collective action could aim at containing costly bidding wars among the States and local governments and focussing competition on the fundamentals of good government.

There is clearly a range of issues that could be addressed in developing an agreement among the States on industry assistance. Any agreement could range from a quite limited one, such as that in Canada, targeting only the most explicit attempts to move activity across State borders, to a more comprehensive agreement, such as that underlying the EU, which seeks to limit all forms of State assistance for industry.

In the next section three broad options for an agreement are discussed. The first is an agreement aimed at increasing the transparency and accountability of State government assistance to industry, but with the States remaining free to provide assistance to industries or firms within their jurisdiction. The second option is for an agreement to limit the more costly forms of selective State industry assistance — firm or project-specific assistance — which would, in the process, restrain overt bidding wars for particular investments. The third option is for a more comprehensive agreement seeking to limit all State assistance to industry. In discussing these options, the Commission is not attempting to set out a detailed 'blueprint'. The intention is rather to outline the essential elements of these options which would need to be considered and debated.

### **3.5.2 Transparency**

The importance of transparency was emphasised by the Tasmanian Department of Premier and Cabinet (Sub. 63) which said:

The submission [of the NSW Government] highlights that a major problem with the current process of “bidding wars” is that they are frequently negotiated in secret and investors are able to play off one government against another to try to increase the level of assistance. Although it is noted that a transparent process for providing assistance would not eliminate the incentive to bid, it would force the true costs of subsidy arrangements to be revealed. Such an approach is consistent with National Competition Policy principles. It is considered that a transparent process would provide more incentive for Governments to offer assistance only where the proposal is economically viable and in the community interest. (p. 3)

As discussed in Chapter 2 and earlier in this Chapter, making information generally available on the use of public funds is essential to good government and to informed decision-making of both governments and the electorate. There is considerable scope for improvements in the reporting standards of governments and of the evaluation procedures relating to industry assistance. While it would be desirable for States to improve the level of transparency of their industry assistance policies individually, this may be accomplished more easily through an agreement between the States where a common standard is adopted, and the States are collectively responsible for ensuring compliance.

In an agreement on transparency, States could agree to introduce systematic standards for the reporting, evaluation and monitoring of their assistance programs as outlined in Section 3.2.

Any agreement to improve transparency would be greatly strengthened if it included the provision of independent monitoring of compliance with the objective of improving reporting and evaluation procedures. Monitoring could involve a body at arm’s-length from individual governments, with that body being responsible for reporting annually, and publicly, on the extent of compliance by State governments with the standards set out in the agreement. Options for monitoring of any agreement among the States are discussed in more detail in Section 3.5.6.

An option which would significantly strengthen the transparency of industry assistance programs would be an agreement that all industry assistance be provided in forms which are inherently transparent.

The option of formalising ‘transparency’ as a mechanism to ‘regulate’ State assistance to industry was raised by Canadian authors Trebilcock and Behboodi (1995) in commenting on regional assistance under the Canadian Internal Trade Agreement (see Section 3.2.3). They said:

If there were a blanket exemption for the most straightforward forms of direct government subsidies, the whole subsidy issue generally — and the issue of regional development specifically — would be channelled into highly transparent, largely on-budget expenditures. The combination of an environment of severe fiscal constraint

and the enhanced transparency entailed in on-budget expenditures is likely in itself to ensure adequate discipline of this form of potential economic distortion through appropriate democratic channels.

This is to say, we would restrict the type of instrument that can be used for regional development purposes, but we would not regulate the purposes. (p. 57)

The essence of this option is an agreement to restrict assistance to inherently transparent forms — one where all industry assistance is to be provided by direct budgetary payments — with other ‘indirect’ forms of assistance (such as land at concessional prices, guarantees etc) being prohibited.

Limiting assistance to direct budgetary payments is clearly the most restrictive way in which such an option could be specified. Other forms of assistance could be considered so long as the extent of assistance was clear. For example, if revenues forgone are used, they could be limited to the provision of rebates such as occurs in NSW in relation to payroll tax.

A mechanism for handling complaints could be considered for situations where a State or a firm suspected that it was being disadvantaged by indirect assistance provided by another State in breach of the agreement. Such a mechanism, however, would put greater responsibilities on any monitoring organisation. This is discussed further in Section 3.5.6.

### **3.5.3 An agreement on industry assistance**

The Commission considers that an agreement among the States and Territories of Australia to limit more directly the extent of State assistance to industry should be discussed. The agreement would:

- aim to limit beggar-thy-neighbour industry assistance;
- enhance competition in Australia by maintaining competitive neutrality in the treatment of firms and industry; and
- strengthen the single market in Australia.

An agreement would function best if all States and Territories were parties to it. However, if support was not unanimous, an agreement among several States (especially the major States) could still be effective. An agreement would have the potential to improve Australia’s efficiency and productivity significantly.

Because of the difficulties that will inevitably arise in any joint action between the States, the Commonwealth could play an important and positive role in facilitating discussion and agreement. There is an important and appropriate role for the Commonwealth not only as the broker in any agreement, but also as the independent umpire which can adjudicate on the rules agreed to by the

States in any agreement. States would have the responsibility of ensuring that local governments adhere to any agreement reached.

Discussion of an agreement between the States of Australia would need to address a number of issues:

- the scope of the agreement — that is, circumstances under which State assistance to industry would be allowed or disallowed;
- mechanisms for ensuring compliance, including the availability of information on the actions of the States and mechanisms for dispute resolution;
- the potential benefits of the agreement relative to the costs of its operation; and
- the role, if any, of the Commonwealth, including any role in monitoring and enforcement of the agreement.

The potential scope of any agreement between the States on the question of State assistance to industry is clearly quite extensive. Agreement could range from quite modest objectives to something considerably more ambitious. The Commission has looked at essentially two broad options:

- limiting the more selective firm and project-specific assistance provided by State governments; and
- a more comprehensive agreement to limit most forms of State assistance to industry.

#### **3.5.4 An agreement to limit selective assistance**

During the course of this inquiry a number of participants called for an end to bidding wars among the States and, associated with this, an end to the provision of selective, particularly firm-specific, assistance to industry.

The NSW Government (Sub. 56) said:

... the New South Wales Government considers it imperative that the State and Territory governments move to end the practice of bidding wars. One method of achieving this end is for governments to agree to phase out selective and discriminatory subsidy policies. (p. 2)

The principles articulated in the NSW proposal in relation to the appropriate means by which States should ‘compete’ among each other, and the objective of a ban on selective and discriminatory subsidy policies are endorsed by the Commission. The NSW Government, however, considered that an agreement as comprehensive as would be indicated by the principles it enunciated would be “unlikely to occur, at least in the short to medium term” (Sub. 56, p. 16). As a

consequence, the agreement proposed by the NSW Government (see Section 3.3.6) focused on measures which it considered would be more likely to be agreed upon and would be more likely to be achieved.

NSW proposes a prohibition on “offers of assistance to projects that are certain to locate somewhere in Australia anyway”. The Canadian Internal Trade Agreement (Canada 1994) prohibits “incentive that is, in law or in fact, contingent on, and would directly result in, an enterprise located in the territory of any other Party relocating an existing operation to its territory” (p. 87). Both focus on prohibiting a very narrow range of industry assistance, essentially assistance that involves overt bidding wars for the location of particular investments or projects that already exist in another Province/State or would have located in the country anyway.

Bidding wars, however, are just the tip of the iceberg. Selective State industry assistance policies, whether they are targeted overtly at attracting investment from another State or not, are inherently a form of rivalry between the States. By favouring industries and firms located within the State, such assistance conflicts with the principle of competitive neutrality and with the objective of establishing a single Australian market where firms can locate where their efficiency is maximised to the benefit of Australia as a whole.

#### *Limiting discrimination between firms*

The Commission considers that an agreement focussing simply on assistance aimed at shifting the location of business within Australia would be of limited effectiveness. In seeking to limit the costly elements of inter-state rivalry, the Commonwealth and the States should seek to negotiate an agreement with a wider objective — the prohibition of all forms of firm or project-specific assistance — and which would, in the process, limit overt bidding wars but would not be restricted to this.

In assessing these options, the following broad areas are considered:

- broad principles;
- key criterion on assistance;
- exemptions;
- definitional problems; and
- monitoring and disputes resolution.

#### *Broad principles*

Broad principles or objectives are an important element of any agreement, both to set a framework for the negotiation process and to provide some guidance on

the interpretation of any agreement that results. The Canadian Agreement on Internal Trade provides a useful set of general rules to which the remainder of the agreement relates (see Box 3.13). In Australia, the principle of competitive neutrality contained in the recent agreements on competition policy could be extended to economic development policies in general and industry assistance in particular (see Section 3.3.2). A set of general rules similar to that in the Canadian agreement would be a useful starting point for any agreement in Australia.

*Key criterion for assistance*

For a limited agreement, one key criterion for identifying assistance which would be prohibited under the agreement could be whether that assistance discriminates between firms or projects within an industry. That is, it could be agreed that any assistance provided to any firm or project within an industry should be available equally to all firms or projects within that industry in a State.

The criterion could be specified on the basis of prohibiting any assistance which discriminates between firms or projects within an industry, or it could be specified on the basis of allowing assistance which is made available on a non-discriminatory basis to all firms or projects within an industry. The precise wording would be subject to negotiation and should reflect study into the 'workability' of the criterion used.

States would then be able to provide assistance to an industry within their jurisdiction, but not to discriminate between individual firms or projects within the industry. Such an agreement would not prevent the States from competing on the basis of broad characteristics such as a lower payroll tax rate.

While selective assistance referred to in this chapter typically has been State assistance, the Commonwealth Government is also involved in providing some firm and project-specific assistance packages. Any agreement among the States to limit the provision of selective assistance could include the Commonwealth, as well as a commitment from the States to include their local governments' activities in the agreement.

### *Exemptions*

Governments have a range of responsibilities and social objectives which may conflict with the broad objectives of an agreement on industry assistance. These objectives need to be recognised and, if possible, clearly spelled out. For example, otherwise prohibited assistance could be exempted in the following circumstances:

- assistance for natural disaster relief;
- adjustment assistance for depressed regions;
- adjustment assistance under certain other conditions; and
- assistance to address areas of accepted significant externalities, eg R&D.

In allowing exceptions, however, States should agree that, where an exception is used, its impact on trade and investment between the States, and on competitive neutrality between firms, be kept to a minimum and that such assistance programs be subject to public scrutiny and evaluation.

‘Events’ could provide another exception to non-discrimination, in that any government involvement is inherently project-specific. If such involvement were to continue, it might be useful to limit ‘event’ assistance in a more general way. An option is for State events corporations (or equivalent organisations) to be provided with a fixed budget for event promotion, thereby requiring the corporations to evaluate the relative merits of different events seeking assistance. The levels of funding could be subject to negotiation and agreement between the States.

The Commission considers that, if assistance is to continue to be provided to ‘events’, it should only be on the basis of full disclosure of the form and level of assistance provided. A condition of receipt of any taxpayer support should be knowledge that the nature and extent of assistance provided will be disclosed to the public.

Certain major one-off events such as the Commonwealth or Olympic Games, where government involvement and funding can be considerable at both a State and Commonwealth level, would, by their very nature, fall outside such an agreement on more regular event funding and could be the subject of case-by-case discussions between governments in order to avoid ‘over-bidding’ from the point of view of Australia as a whole. An example of this is the agreement between the States that Melbourne would be the Australian candidate for the 2006 Commonwealth Games.

Where assistance can continue to be provided, either because it is not firm or project-specific, or is exempted under the agreement, it would be useful if the

suggestions for increased transparency were to be applied to the provision of such assistance.

### *Definitional problems*

Any agreement would face initial problems in defining key terms, such as assistance, industry, the nature of any exemptions etc, and any resulting definitions would reflect the negotiation process.

In an agreement to limit selective assistance, the key criterion would be the discriminatory nature of assistance, rather than the particular form of assistance. This approach is suggested because of the difficulties associated with attempting to draw up a list of prohibited forms of assistance. The task of comprehensively identifying certain forms of assistance for 'prohibition' would be quite difficult, both in terms of getting the list right and in terms of reaching an agreement on the contents of such a list. The process of coming to an agreed list could provide significant scope for negotiated trade-offs for exemptions or exceptions which may be favoured by individual States or Territories.

The problem of identifying all possible forms of assistance or firm preferment which governments could use was highlighted in a comment by the New Zealand Government. It said:

We also, however, see the GPA and a new agreement on industry assistance as complementary and mutually reinforcing, especially if the latter explicitly included *purchasing-leveraged industry development* as a form of assistance to be limited. (Sub. 76, p. 3) [emphasis added]

The ingenuity which can be, and has been, displayed in developing different ways of providing assistance to particular firms or projects makes it difficult to believe that an attempt to provide a definitive list would be successful.

### *Dispute resolution*

It would be unrealistic to expect any agreement to come up with an unambiguous definition, particularly one based on a broad criterion of prohibiting discriminatory assistance within an industry. Disputes over interpretation of the agreement, or over the abuse of exemptions, mean that a disputes resolution procedure would be an important element of any agreement.

Mechanisms for monitoring and enforcement of an agreement are discussed in Section 3.5.6, but the essential elements that would need to be resolved are:

- institutional arrangements — a permanent monitoring and disputes resolution body;
- disputes resolution procedures — mediation and/or independent review;

- powers of enforcement and sanctions for breaches of the agreement; and
- who could initiate complaints — States only, or States and firms.

### *Limiting discrimination between industries*

The agreement outlined in this section has focused on restrictions on firm or project-specific assistance. States would continue to be able to provide assistance aimed more generally at industries, or to all business in the State. An option exists to extend the agreement to limit assistance which discriminates between industries within a State as well as limiting firm or project-specific assistance. Under this option, assistance provided to all business activity could still be provided, subject to conditions governing transparency of the assistance provided.

### **3.5.5 A more comprehensive agreement on State assistance for industry**

In many respects the situation facing the States within Australia is similar to that faced by countries operating in the international trading environment, by other federations such as the US and Canada, and similar to the problems faced by the countries of Europe in forming the EU. These nations have handled the problem of rivalry between governments in different ways and with varying degrees of success. In a number of situations, agreements have been reached to limit the protection of local industry against competitors from other countries, whether by way of direct trade barriers or subsidies or other assistance to locally based producers. The Australian Commonwealth at the time of its formation also addressed the problem of interstate protectionism, but much has changed since then as regards the means by which State governments promote their own economic development.

An agreement to prohibit State assistance to industry along the lines of that contained in the Treaty of Rome would represent the most comprehensive agreement on State assistance that could be considered. It would extend the competitive neutrality principle to cover all State government relations with industry, and would significantly strengthen the ‘free trade and commerce’ objectives contained in the Constitution.

This is not to suggest that State governments would not continue to have a legitimate and active role in the economic development of the State. Neither would it, nor should it, preclude competition among States to create attractive places in which to live, work and invest (see Box 3.19).

### **Box 3.19: New South Wales Government comments on acceptable competition**

The New South Wales Government (Sub. 56) considered that:

The NSW Government's preferred approach is for State and Territories to compete for mobile investment within Australia on business fundamentals. That is, in terms of cost and the market conditions generally available to prospective firms in the different jurisdictions.

NSW considers that the legitimate areas for competition between the States include:

- efficient and cost-reflectively priced utility and other infrastructure services;
- regulatory reforms — ie regulations which meet necessary health, safety, environmental and other regulatory objectives in a way that minimises compliance costs and market failure;
- infrastructure provision complementary to sources of regional advantage;
- competitive tax regimes with low compliance costs; and
- industrial relations. (p. 1)

The New South Wales Government also said:

State and Territory governments should of course be allowed to put in place policies designed to attract investment in a non-discriminatory and non-selective way.

This means that it is perfectly acceptable for a government to make changes that will benefit all businesses. For instance, it may decide to reduce the level of certain taxes or charges. It may put in place procedures that help business in general identify sites or gain necessary approvals. But the important thing is that all businesses, both new and existing, should be able to get the benefits of these policies without discrimination. (p. 14)

Importantly, any agreement must not be seen as a means to limit legitimate competition, by enforcing such things as uniformity in tax rates across States. Variations in tax rates between the States reflect the efficiency of different governments and the differing social preferences of their populations expressed through the democratic process. For example, in the area of payroll tax, under a more comprehensive agreement, a State would be able to impose a rate of tax different from that levied by other States, but would not be able to levy different rates on different firms or industries or because of particular characteristics, such as size (other than when necessitated by the cost of collection).

As discussed in relation to the proposed agreement to limit the more selective assistance provided by State governments, some exemptions would almost certainly apply, covering such things as natural disasters. However, under the more comprehensive agreement proposed, industry assistance aimed at correcting for market failure, including externalities generated by certain types of economic activity, would be the responsibility of the Commonwealth rather than the States. The intent here is that the Commonwealth, as suggested by the

principle of subsidiarity, is better placed to make decisions which fully account for the inevitable cross-border effects of industry assistance decisions.

To this end, the SA Government (Sub. 75) said:

If the States and Territories were to agree to cease provision of incentives for investment attraction, the Federal scheme for investment attraction, the Investment Promotion and Facilitation Program (IPFP) would need to be considerably upgraded to compete internationally. (p. 5)

Without debating the merits of the IPFP scheme, under a more comprehensive agreement, the role of providing information about Australia and of promoting Australia as a place to invest would be an appropriate responsibility of the Commonwealth. Once 'attracted' to Australia, the decision on where to locate within the country would be made on the basis of economic fundamentals and without any incentives provided by State governments. There would be scope for the States to provide similar information and promotion of their own jurisdictions, but not to provide financial or similar incentives.

The Commission considers that the Commonwealth and the States should embrace an objective of formulating a binding agreement to eliminate State assistance to industry, similar to the recent agreement to implement competition policy across Australia. Such an agreement would be analogous, in many respects, to an internal Australian version of the GATT. The objective of such an agreement would be to strengthen the internal Australian market by extending the principle of competitive neutrality in dealings with industry and business to cover all aspects of State development programs. As with the option discussed earlier covering an agreement to limit firm or project-specific selective assistance, any agreement to limit State assistance to industry would need to specify exceptions, and include monitoring and enforcement procedures.

As discussed above, there is a good case for an agreement among the States and Territories on limiting costly interstate rivalry in the provision of industry assistance. Notwithstanding reservations raised by some States about the practicality of an agreement on assistance to industry, it is the Commission's view that each of the options discussed in this chapter would produce benefits in terms of the more efficient use of resources which would exceed the costs of negotiation and implementation of an agreement. For example, the quantitative modelling done by the Commission indicates that when all States engage in the provision of selective assistance to industry the efficiency loss to the nation is of over \$300 million per annum (see Appendix 7). Avoidance of even a small part of this loss would exceed the probable costs of developing and implementing an agreement.

### **3.5.6 Institutional arrangements for any agreement**

Any potential agreement between the States and Territories would involve a consideration of how the agreement would be formulated, institutions to monitor the agreement, and the appropriateness of mechanisms for enforcement.

#### *Formulation of an agreement*

COAG would appear to be an appropriate body to begin the process of formulating an agreement among the States. COAG is now a key inter-governmental institution in Australia, developed by the Commonwealth, State and Territory governments to increase cooperation among governments on reform of the national economy and ongoing structural reform. COAG comprises the Prime Minister, Premiers and Chief Ministers and the President of the Australian Local Government Association. Any agreement between the States and Territories relating to industry assistance would fall most appropriately to COAG to develop. Previous inter-governmental agreements, such as the agreement on national competition policy, have been developed through the COAG process.

It may be useful for the development of any agreement on industry assistance to include New Zealand, given the strengthening relationship under CER, and the fact that New Zealand has become a party to other 'internal' Australian agreements, particularly the 1991 Procurement Agreement.

#### *Monitoring and enforcement*

Central to the success of any agreement would be a commitment from the parties to comply. In practice, such a commitment is likely to be more important to success than any formal monitoring or sanctions. Nonetheless, the Commission considers that the long-term credibility of any agreement would be strengthened noticeably by the independent monitoring of compliance. Similarly, any agreement would be strengthened if part of the commitment of the parties was a willingness to agree to, and accept, the imposition of some forms of sanction for breaches of the terms of the agreement.

#### *Monitoring*

The NSW Government (Sub. 56) suggested, as part of an agreement between the States, that:

... each State submit to the Industry Commission a list of the types of assistance provided annually, which would be published by the Industry Commission. This list would specify, among other things, the parties to whom the assistance was given. This

would bring into the public arena any debate on the grounds for assistance and would ultimately increase the accountability of each state for the assistance it provides. (p. 12)

Certain States are opposed to Commonwealth involvement in State government industry assistance. The NT Government (Sub. 30) said:

... any monitoring role performed by the Commonwealth would not add greatly to existing knowledge. Indeed, some would see it as the forerunner of an attempt to control assistance provided by states and territories and this would be rejected. (p. 15)

There are other agencies, such as the National Competition Council (NCC), which also could compile and make public the assistance and/or monitor and enforce any inter-governmental agreement. At present, the NCC has an independent role in monitoring the national competition policy agreements and a similar arrangement or extension of the NCC's charter could be used to monitor any agreement between the States in relation to industry assistance.

There are essentially three roles that a monitoring agency could perform in monitoring any agreement between the States: a reporting role; a complaints handling role; and an investigative role.

#### *Reporting role*

A reporting role would involve the State governments providing information annually to the monitoring agency on their assistance to industry. The agency would compile a public report based on the information provided by the States and Territories and would provide a commentary on the extent to which the assistance complied, or did not comply, with the terms of the agreement. This information would serve three useful purposes. First, it would provide the necessary information for the States and Territories to use in the regular COAG meetings to discuss progress, and the continuing compliance with the agreement. Second, if necessary, it would provide an 'embarrassment factor' as a form of sanction on jurisdictions in breach of the agreement. Third, regular annual reporting and publication would strengthen the chance of the agreement lasting into the future.

To remove the risk of an individual State not fully disclosing assistance measures, it would be useful to have independent verification of the information provided to the agency.

State Auditors-General could be part of any agreement to ensure that the information provided by their jurisdiction comprehensively covered the assistance provided by the State, and was representative of the operation of that assistance — for example, that it was not, in practice, firm-specific. Also, to ensure uniformity in the verification role, the agreement between the States

could set out a requirement that the Auditors-General meet regularly to coordinate their approach to verifying the assistance.

The advantage of the reporting ‘model’ is that it is a relatively low-cost mechanism to oversee any agreement and promotes transparency and accountability — two of the fundamental building blocks of good government. The disadvantage of this model is that the sanctions attached, in the form of ‘embarrassment’, may not be severe enough to significantly alter the behaviour of some States.

In the case of the limitation of selective assistance outlined earlier in Section 3.2.3, the reporting role would focus on verifying that the assistance provided complied with the non-discrimination principle which would be included in such an agreement.

In relation to the wider agreement covering all State assistance to industry discussed in Section 3.2.4, the reporting role would focus on identifying whether the assistance complied with the guidelines on approved assistance.

#### *Complaints handling role*

A complaints handling role for the monitoring agency would rely on States monitoring the other States’ assistance provision. Under this scenario, a State would lodge a complaint against another State (or States) which it believed was providing assistance in breach of the agreement. The agency would then follow up the complaints to determine whether the particular jurisdiction had provided assistance in breach of the agreement, and publish the result of its findings.

The ability to bring a complaint before the agency need not be confined to States, but could be extended to include individual firms and other parties affected by a government decision on assistance. There is a strong commercial incentive for an individual firm or firms to complain about the assistance a competitor is receiving.

The advantage of the complaints handling role is that it provides an incentive for State governments and firms, in effect, to self-monitor the provision of assistance and hence a less resource-intensive investigative role for the agency. However, the disadvantages are that the agency could be overloaded with vexatious allegations from complainants or, at the other extreme, States could collude and agree to turn a ‘blind eye’ to each others’ assistance provided in breach of the agreement.

*Investigative role*

As an investigative role, the monitoring agency would follow up assistance provision which it suspected of being in breach of the agreement and would provide a more detailed report on its investigations than would be included in the general reporting function outlined above. However, for the agency to investigate more fully any assistance suspected of being in breach of an agreement, significant additional powers and resources would need to be provided. The disadvantage of this type of monitoring is that it is resource-intensive and, because of its possible 'clandestine' nature, may be viewed with hostility by the parties to any agreement.

The Commission considers that a permanent agency is necessary to take on any monitoring role in any agreement between the States on industry assistance. As noted above, two existing agencies have been suggested in this inquiry. Modification of their functions to play such a role would seem preferable to the establishment of a new agency.

*Enforcement*

Any agreement would be stronger if there were clear enforcement measures and sanctions. These would be more likely to be effective if they were negotiated and accepted by the parties to the agreement rather than imposed by an 'external' agency such as the Commonwealth Government. As the Tasmanian Government (Sub. 87) commented:

A Commonwealth imposed discipline is unlikely to gain the support it would need to be fully effective. This is a matter for States and Territories themselves to resolve. (p.1)

Clearly, with development and discussion between the parties, options for enforcement and sanctions could be varied. For example, the States could agree to be bound by a set of fines or financial penalties (to be paid to the other States) for breaches of the agreement. The States could also agree to allow the 'harmed' State(s) to penalise firms in receipt of prohibited assistance from the 'offending' State, by excluding them from tendering for government contracts for a certain length of time or until full repayment of the assistance occurred.

On the institutional side, information on suspected breaches of the agreement could be collected by the monitoring agency, with decisions on the imposition of sanctions being made by an inter-State committee or similar body set up by the parties to the agreement.

### **3.6 A role for the Commonwealth**

There are a number of reasons why the Commonwealth would have a strong interest in both the development and content of any agreement between the States on their assistance to Industry. These include:

- The Commonwealth has a responsibility to consider the well being of the Australian community as a whole. A Commonwealth role would be consistent with the principle of subsidiarity, in that State assistance policies have effects that go beyond their borders and influence the well-being of other Australians and Australia as a whole.
- Assistance by the States may contravene Australia's trading agreements. The Commonwealth has a responsibility to ensure that sub-national policies are compatible with the international agreements it has signed. This includes a commitment to enhancing CER — developing the common Australian/New Zealand market.
- The Commonwealth can act as an honest broker between the States, and provide a monitoring and disputes mechanism independent of the parties involved.
- The Commonwealth can act to protect the smaller States against 'predatory' activity by larger States.
- State assistance can be argued to be inconsistent with the spirit of the free trade and commerce elements of the Australian constitution.

With these interests in mind, the Commonwealth could place an agreement on State assistance on the COAG agenda for discussion by the governments of Australia.

#### *A more active role for the Commonwealth*

The States as parties to a cooperative agreement may find it difficult to agree to the imposition of sanctions for breaches of the agreement. In the event that agreement on sanctions could not be reached or if sanctions such as the 'embarrassment factor' resulting from the publication of breaches of the agreement were ineffective, the States could request that a more formal set of penalties be introduced. These penalties could be administered by the Commonwealth. Alternatively, the Commonwealth could decide to take the lead and impose the punitive sanctions unilaterally because of the national costs of the actions of a State.

A range of sanctions could be imposed to influence both the supply of and the demand for assistance. For example, to reduce demand the Commonwealth, under its corporations powers, could impose fines on firms in receipt of

assistance provided in breach of the agreement. Alternatively, firms in receipt of prohibited assistance could be excluded from tendering for Commonwealth Government contracts for a specified period.

The supplier of the assistance, the State government, could also be subject to sanctions. For example, where a State provided assistance in breach of the agreement, the Commonwealth Government could adjust the formula used to calculate the distribution of financial assistance grants paid to the States. This adjustment would reduce the share to that State by the amount of assistance provided in breach of the agreement. In effect, it would double the cost to the State of unapproved assistance.

### **3.7 Summary**

This chapter has looked at three broad areas where changes could be considered and introduced to reduce the adverse effects of inter-state rivalry in economic development in Australia. These are:

- action to improve the transparency and accountability of the industry assistance programs of State governments;
- an option of a formal agreement between the States to prohibit the provision of assistance which discriminates between firms within an industry in the State; and
- the option of a more comprehensive agreement covering all State assistance to industry.

The submissions provided by the State governments to this inquiry indicate the difficulties which would be faced in introducing such changes, particularly the development of a formal agreement between the States on industry assistance policy. However, this does not mean that agreement could not be reached or that an attempt should not be made to come to an agreement. Cooperation between the States and the Commonwealth has been increasing over the years. Institutions for discussion such as COAG have been developed and agreements have been reached on contentious issues, such as that covering government procurement and the more recent agreements on competition policy. These agreements embody the same principles as could underlie an agreement on industry assistance. The significant benefits that are available, and the past experience with cooperative State arrangements, indicate that action should be undertaken in the interests of Australia as a whole.

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# **APPENDIX 1: STATE GOVERNMENT ASSISTANCE TO INDUSTRY**

## **A1.1 Introduction**

This Appendix presents information on State and Territory government assistance to industry. A summary of the nature and extent of that assistance is presented in Section A1.2. Section A1.3 discusses the degree to which the States report the extent of their industry assistance, and its recipients. It also looks at the nature and extent of any evaluation undertaken. Attached to this Appendix are individual compendiums of the budgetary assistance to non-agricultural industry provided by each State and Territory (Attachments 1A to 1H). Information on how these compendiums were compiled is given in Section A1.4. Details of State agricultural assistance programs are given in Appendix 2.

As indicated in Chapter 1, industry has been viewed broadly, to include any economic activity conducted by individuals or organisations. It includes both traditional industries such as manufacturing, agriculture and mining, as well as services, including such things as arts and entertainment, and some aspects of sport which are becoming increasingly professional.

Assistance provided by government can be very broad but, in essence, the key 'rule of thumb' is whether an action of government benefits or harms, in economic terms, one business or group of businesses in comparison with others. The distinguishing characteristic is the discriminatory nature of the government action.

Assistance may be provided directly, through such things as grants, subsidies and tax and infrastructure concessions, or indirectly, through the provision of specific infrastructure or favourable legislation. Inevitably, the Commission encountered cases where the extent of assistance provided by government activity was unclear. For example, it is often difficult to determine the assistance element of even infrastructure constructed for a specific use when other users will also benefit from having access to it.

The Commission has excluded from consideration outlays and regulations directed at public administration such as courts and police, defence and community services such as education, health and welfare. In addition, the Commission has excluded the funding of zoos, botanical gardens and the like,

which may be regarded as social infrastructure and not a vehicle for providing assistance to any industry.

## **A1.2 Nature and extent of State government assistance to industry**

There are few constitutional restrictions on the ability of States to provide assistance to industry. The principal constraint is Section 92 of the Constitution which provides that ‘... trade, commerce, and intercourse among the States ... shall be absolutely free’. This limits the ability of States to assist State-based businesses by guaranteeing them favoured access to the local State market (except through government procurement). As a consequence, most industry assistance must be provided from the State budget, either in the form of direct payments or as revenues forgone. This requirement to fund assistance from the budget, together with the limited sources of discretionary revenue available, constrains the amount of industry assistance that States can provide.

Assistance to industry is provided in a number of ways in each State. Generally available assistance is provided principally as information and advice, research and development, marketing and promotion, and workshops and training programs. All States have programs to favour small business. Most also have programs that focus on assisting regional development. These often provide financial and non-financial assistance to communities to ‘revitalise’ towns, as well as offering particular assistance to businesses in regional areas.

The assistance provided under many State industry assistance programs is firm-specific and dependent on the business seeking assistance. These assistance packages are typically offered following case-by-case assessments. Generally, most packages consist of one or more of the following measures:

- grants or subsidies;
- concessional or convertible loans, or loan guarantees;
- provision of free or subsidised land or infrastructure;
- tax exemptions or concessions;
- subsidisation of research, promotion or staff training;
- reduced costs of utility services;
- facilitation of planning approvals, etc — ie, easing the path of the business through any government ‘red tape’;
- adjustment of existing regulation; and
- the provision of special legislation.

Some States provide assistance in the form of convertible loans and the like which require targets to be met before the company can receive the full benefit of the assistance package. For example, the Victorian Department of State Development<sup>1</sup> provides financial assistance in stages, requiring certain ‘milestones’ (such as agreed employment levels) to be achieved before progressive grant payments are delivered. The Department requires companies to provide some proof that they have achieved these ‘milestones’. Similarly, the WA Department of Commerce and Trade offers loans convertible to grants after a given period on the condition that the firm has met certain performance objectives.

The extent to which revenue forgone measures are used, such as tax exemptions and concessions and the provision of land at below market value, varies among the States. For example, Tasmania’s *Payroll Tax Act 1971* prevents the State’s Treasurer or the Commissioner of Payroll Tax from granting tax exemptions, concessions or rebates. In contrast, most other State governments provide payroll tax exemptions and concessions on a firm-by-firm basis as part of their industry attraction and incentives programs. The most significant exemption, which is provided by all States, is the payroll tax threshold for small businesses. Details of the Commission’s attempt to estimate the extent of assistance provided by this measure are given in Appendix 7.

On the basis of the information contained in the individual State compendiums (Attachments 1A to 1H), the Commission has estimated that nearly \$1.8 billion of budgetary assistance was provided to non-agricultural industry by the States in 1994–95 (see Table A1.1). Reflecting its size, NSW provided the largest total amount of budgetary assistance, at \$585 million. The total cost of budgetary assistance was smallest in the ACT, at \$8 million.

In per capita terms, State assistance to non-agricultural industry in 1994–95 averaged \$99 per person. There was considerable variation round this average from a low of \$26 per person in the ACT to a high of \$233 in the NT. For the mainland States, the range was from a low of \$73 per person in Queensland to a high of \$144 per person in South Australia.

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<sup>1</sup> Previously the Department of Business and Employment.

**Table A1.1: State government budgetary assistance<sup>a</sup> to industry (excluding agriculture), 1994–95**

<i>State/Territory</i>	<i>1994–95</i>	<i>Per capita<sup>b</sup></i>
	<i>\$ million</i>	<i>\$</i>
New South Wales	585.0	95
Victoria	477.7	106
Queensland	241.8	73
Western Australia	163.3	93
South Australia	212.7	144
Tasmania	68.3	144
Australian Capital Territory	8.0	26
Northern Territory	41.4	233
<b>Total State budgetary assistance</b>	<b>1 798.2</b>	<b>99</b>

a Total current and capital program expenses, including attributable overheads and, where appropriate and identifiable, after deducting user charges revenue and industry contributions.

b Population as at December 1995 (ABS 1995b).

Source: Commission estimates.

The information in Attachments 1A to 1H generally does not include measures of assistance provided through revenue forgone. This is mainly due to the lack of reporting on the cost of such measures. In addition, while broad program expenditure is generally available, there is often little public information regarding its composition. The data in Attachments 1A to 1H does, however, include directly attributable overheads as part of the cost of providing assistance, where these could be identified. And, where appropriate and identifiable, revenues from user charges and industry contributions have been deducted to give ‘net’ assistance.

Following release of the Commission’s Draft Report, both 1995–96 (revised) and 1996–97 (estimates) data became available for each State. A summary of that data is provided in Table A1.2 below. There have been many machinery of government changes in most States over this period. Consequently, it has not been possible to construct, in all instances (and in the time available), a time series of data for 1995–96 and 1996–97 consistent with that detailed and modelled for 1994–95. What it does show, however, is that, for modelling purposes, 1994–95 is a typical year in terms of both the quantum and dispersion of assistance to industry. Data for more recent years includes large increments in spending in NSW on infrastructure for the 2000 Olympic Games.

**Table A1.2: State government budgetary assistance<sup>a</sup> to industry (excluding agriculture), 1995–96 (revised) and 1996–97 (estimate)**

<i>State/Territory</i>	<i>1995–96</i>	<i>Per capita<sup>b</sup></i>	<i>1996–97</i>	<i>Per capita<sup>b</sup></i>
	<i>\$ million</i>	<i>\$</i>	<i>\$ million</i>	<i>\$</i>
New South Wales	534.6	87	858.7	140
Victoria	476.7	105	499.0	110
Queensland	288.4	87	309.2	93
Western Australia	207.5	119	242.7	139
South Australia	226.6	154	289.0	196
Tasmania	76.8	162	77.2	163
Australian Capital Territory	9.7	32	12.1	40
Northern Territory	41.9	235	44.1	248
<b>Total State budgetary assistance</b>	<b>1862.2</b>	<b>102</b>	<b>2332.0</b>	<b>128</b>

a Total current and capital program expenses, including attributable overheads and, where appropriate and identifiable, after deducting user charges revenue and industry contributions.

b Population as at December 1995 (ABS 1995b).

Source: Commission estimates.

### **A1.3 Disclosure and evaluation of industry assistance**

#### **Reporting of assistance provided**

The extent of reporting of assistance provided to industry, particularly firm-specific assistance, varies significantly among the States. Some States' main industry-assisting departments list, in their annual reports, all companies receiving significant assistance and the amount they receive (eg the Department of Commerce and Trade in WA and the Department of Asian Relations, Trade and Industry in the NT). For others, however, such information is not publicly provided (eg NSW's Department of State and Regional Development, and Victoria's Department of Business and Employment) and is often claimed to be unavailable due to 'commercial-in-confidence' provisions.

The variation between States in reporting the details of assistance provided is such that it is difficult to make any generalisation about which departments tend to be the most transparent. For example, in NSW, WA, SA, Tasmania and the ACT, the annual reports of the departments responsible for the arts contain comprehensive information about the grants and subsidies they provide. In other States, however, this is not the case. In addition, the reporting of industry

assistance varies between departments within States. The generally poor reporting of assistance provision has significantly hindered the task of compiling the information contained in Attachments 1A to 1H. It also means that estimates in this report are not fully comparable across States.

### **Evaluation of outcomes**

The extent and methods of program and project evaluation also vary widely, both between the States and across departments within States. As a general rule, little rigorous ex-ante evaluation is undertaken, and the project-specific assistance evaluation which is done generally relies heavily on the use of multipliers. The main industry-assisting departments typically undertake some ex-ante evaluation of major assistance proposals and projects.

In most States, large projects seeking assistance must meet specific eligibility criteria — usually relating to the nature of the activities they wish to undertake and their long term commercial viability. In addition, the decision on whether to provide assistance usually involves some estimation of expected net benefit to the State. For example, selective assistance packages for large projects in Queensland are assessed using the Queensland Treasury's Budget Impact Model. However, these evaluations rarely take into account the full costs of providing assistance — particularly the opportunity cost of using State funds. Evaluations prior to assistance offers being made are undertaken generally by the department providing the assistance.

Where evaluation of the outcomes of assistance (ex-post evaluation) is undertaken, a practice which is far from common, the methods used again vary among States and between departments within States. Many departments which provide significant assistance to industry undertake some evaluation of 'client satisfaction' (eg the WA Tourism Commission and Queensland's Department of Business, Industry and Regional Development). Some also assess the performance of assisted firms against pre-determined performance indicators (eg the ACT's Department of Business, the Arts, Sport and Tourism). The Commission understands that some States are attempting to develop more rigorous methods for evaluating the costs and benefits of major assistance proposals.

Program evaluations are undertaken sometimes by Auditors-General (eg SA). However, these do not extend to analysing individual project costs and benefits.

#### **A1.4 Detailed compilation of individual States' assistance**

Attachments 1A to 1H present detailed information on the nature and extent of the budgetary assistance provided to non-agricultural industry by each State. Each attachment covers the sources of State government revenue, the key legislation relating to the provision of industry assistance in the State, the general policy approach of the State government, and the general and specific assistance which it provides. In compiling these State compendiums, the Commission has included all programs and schemes which it has been able to identify, and which have a significant industry assistance component.

The information contained in Attachments 1A to 1H, in the main, is drawn from State government budget papers, the annual reports of State government departments and agencies, AusIndustry's BizLink information service, and any submissions received from State governments or their departments.

Many of the States recently have undertaken some institutional restructuring. The extent to which information is available under the new and old department structures varies. Hence, the information on State government assistance programs and schemes is provided generally on the basis of the departmental structures that prevailed during 1994–95. However, for NSW, WA and Tasmania most of the information is based on the department structures prevailing in 1995–96.

As mentioned above, the Commission has encountered significant difficulties in identifying even the direct financial assistance provided by State governments. In addition, comprehensive information on assistance provided through revenue forgone measures has not generally been available. As a result of these problems, and of the difficulty in apportioning part-program expenses, the Commission cautions that the data contained in Attachments 1A to 1H should be viewed as indicative rather than definitive in portraying the extent of State-provided industry assistance.

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## ATTACHMENT 1A: NEW SOUTH WALES

### A1A.1 Introduction

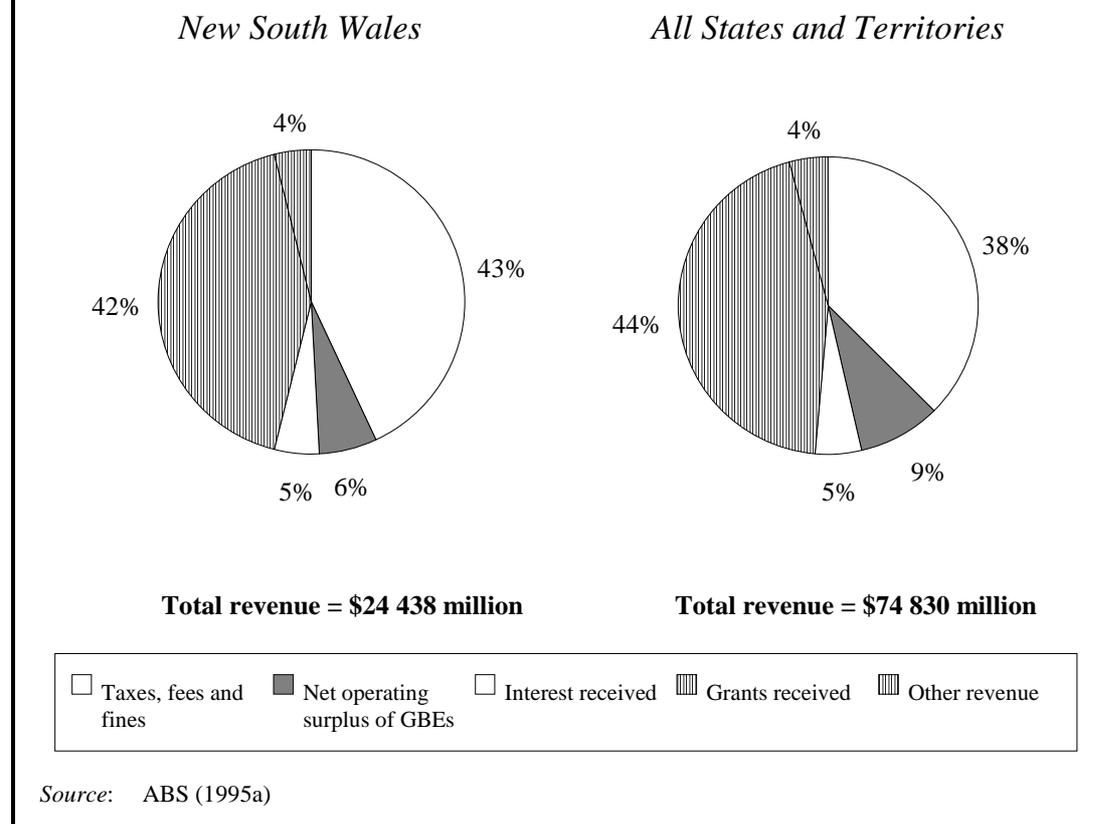
The information in this Attachment has been compiled mainly from:

- the NSW Government's submission to this inquiry;
- Annual Reports of assistance-giving government departments, agencies and statutory authorities;
- the NSW Government's 1995–96 and 1996–97 Budget Papers;
- the NSW Auditor-General's Report for the year ended 30 June 1995; and
- ABS data.

#### *Revenue sources*

In 1994–95, 42 per cent of the NSW Government's revenue (which totalled \$24.4 billion) comprised Commonwealth payments and 58 per cent was 'own source' revenue (Figure A1A.1). 'Taxes, fees and fines' accounted for slightly more than 43 per cent of total State revenue (or some 74 per cent of 'own-source' revenue) — payroll tax, franchise fees, stamp duties and vehicle registration being the most prominent. This was some five percentage points higher than the average for all States and Territories. Also, the NSW Government received a relatively small contribution to its revenue base from its government business enterprises — 6 per cent compared with an all States average of 9 per cent.

**Figure A1A.1: Composition of State Government revenue for New South Wales and all States and Territories, 1994–95**



## A1A.2 New South Wales Government assistance to industry

### Key legislation

The key legislation regulating the provision of State assistance to industry in NSW is the:

- *State Development and Country Industries Assistance Act 1966* — which is an Act to constitute a Development Corporation of NSW with powers to prepare and submit plans to promote (with the Minister's approval) regional development or assistance to industry, and to inquire and report on such matters. It also sets up a Country Industries Assistance Fund from

which various forms of financial assistance can be paid to attract, expand or retain business.

Other main relevant Acts include the:

- *Albury Wodonga Development Act 1974;*
- *Country Industries (Payroll Tax Rebates) Act 1977;*
- *Small Business Loans Guarantee Act 1977;*
- *Small Business Development Corporation Act 1984; and*
- *Science and Technology Council Act.*

### **General policy approach**

The NSW Government's general approach to industry investment attraction is largely to rely upon its natural competitive advantages and the pursuit of 'good government' initiatives as the basis for attracting industry. For instance, the NSW Treasurer, in his 1995–96 Budget Speech, said:

We'll only have jobs, we'll only have wealth, we'll only maintain and improve our standard of living if we're competitive. That's why we have to constrain the level of taxes and charges that impact upon our business costs. And that's why ... the Government ...[is]... embarking on major reforms across the NSW public sector — in ports, in rail, in energy, in water and in the budget sector.

Those reforms ... are driven by a common sense determination to win the investment, the business and the jobs that we need. (NSW Government 1995a, p. 21–22)

In its submission to this inquiry, the NSW Government (Sub. 56) nominated a number of legitimate areas for 'good government' competition between the States, including:

- efficient and cost-reflectively priced utility and other infrastructure services;
- regulatory reforms — ie regulations which meet necessary health, safety, environmental and other regulatory objectives in a way that minimises compliance costs and market failure;
- infrastructure provision complementary to sources of regional advantage;
- competitive tax regimes with low compliance costs;
- education and training; and
- industrial relations.

In terms of its overall competitive position, the Government (Sub. 56) indicated that it believed its advantages over other States included:

- the largest market in Australia;

- a transportation and telecommunications hub;
- the centre for the information technology industry in Australia;
- the major finance centre in Australia;
- lower distribution costs due to market size; and
- a highly skilled and multilingual population.

However, the NSW Government has shown that it is not averse to competing actively in other ways for investments and businesses that it believes are, among other things, strategically significant, well suited to the region's strengths and of net benefit to the State. In this regard, the State Government (Sub. 56) said:

In offering assistance, the intention is to provide the minimum assistance necessary to secure the project. This involves estimating the absolute advantage NSW may or may not have in relation to its competitors and then offering sufficient to just neutralise competing bids. (p. 7)

### **Extent and nature of assistance**

For 1994–95, the Commission estimated that the NSW Government spent about \$585 million on budgetary assistance to non-agricultural industry (Table A1A.1). More detailed information regarding this expenditure is contained in Tables A1A.5 and A1A.6.

The State Government provides many different types of assistance under a wide range of programs. In 1994–95, these programs were administered principally by the NSW Departments of State Development, and Business and Regional Development. These administrative units have since been amalgamated (in December 1995) to form the Department of State and Regional Development (DSRD).

The NSW Government indicated that it offers assistance mainly in the form of information to prospective investors, project facilitation and revenue forgone. The latter is provided principally through tax concessions (primarily performance-based payroll tax concessions) which are reimbursed directly by DSRD from the *Industry Assistance Fund* (see later for details). The actual content of its assistance packages tends to vary with the perceived strategic nature of the investment and particular requirements of the investor.

According to the State Government (Sub. 56), assistance often involves offsetting the initial cost impediments to locating a business in a commercially viable location. Telecommunication costs, skills training, stamp duties, development approval processes, transport/installation of equipment and, in some instances, costs of redundancy at an existing unproductive plant are

considerable cost impediments to what otherwise may represent a commercially attractive location.

**Table A1A.1: New South Wales Government budgetary outlays<sup>a</sup> on non-agricultural industry assistance, 1994–95 (\$000)**

<i>Agency</i>	<i>1994–95</i>
Department of Urban Affairs and Planning	170 409
Ministry for the Arts	98 365
Department of State and Regional Development	79 898
Olympic Coordination Authority	76 348
Tourism New South Wales	32 621
Fisheries New South Wales	26 930
Department of Land and Water Conservation	22 676
Department of Sport and Recreation	18 705
Office of Public Works and Services	15 760
Department of Gaming and Racing	15 332
Department of Mineral Resources	15 249
Department of Consumer Affairs	11 332
Department of Energy	1 329
<b>Total</b>	<b>584 954</b>

a Total current and capital program expenses, including attributable overheads and, where appropriate, after deducting user charges revenue and industry contributions.

Source: NSW Government (1995c, 1995d and correspondence).

Information on NSW Government budgetary assistance to non-agricultural industry in 1995–96 and 1996–97, based on departmental and program structures prevailing in 1996–97, is summarised in Table A1A.2 below. The significant increase in assistance in 1996–97 is due almost entirely to capital program allocations for the construction of Olympic infrastructure.

**Table A1A.2: New South Wales Government budgetary outlays<sup>a</sup> on non-agricultural industry assistance, 1995–96 (revised) and 1996–97 (estimate) (\$000)**

<i>Agency</i>	<i>1995–96</i>	<i>1996–97</i>
Ministry for the Arts	122 866	128 099
Olympic Coordination Authority	92 726	481 555
Department of Urban Affairs and Planning	82 301	15 575
Department of State and Regional Development	71 806	90 850
Tourism New South Wales	33 837	34 527
Department of Gaming and Racing	27 735	11 737
Fisheries New South Wales	25 475	25 713
Department of Land and Water Conservation	24 553	29 906
Department of Sport and Recreation	23 069	23 369
Department of Mineral Resources	18 091	15 774
Department of Energy	2 700	1 600
Department of Consumer Affairs	9 490	– <sup>b</sup>
<b>Total</b>	<b>534 649</b>	<b>858 705</b>

a Total current and capital program expenses, including attributable overheads and, where appropriate, after deducting user charges revenue and industry contributions.

b Revenue expected to exceed outlays.

Source: NSW Government (1996c and correspondence).

With regard to the State's provision of financial assistance, the NSW Government stressed that the main principles it follows are:

- in most cases, financial assistance is provided in the form of State revenue forgone, where the actual extent of assistance provided is effectively regulated by the firm's ability to proceed and then perform;
- all non-financial assistance options are explored before offering financial assistance (ie it is offered only as a last resort); and
- no financial assistance should be provided to overcome fundamental cost disadvantages.

The range of assistance measures offered by NSW is broadly as follows.

#### *Non-financial assistance*

The NSW Government provides, through DSRD, a considerable amount of information to the business community as a means of tackling informational asymmetries in the market place, including:

- the production of a *Business Climate Report*;

- the publication of a *NSW Competitiveness Report*;
- information brochures on specific industries; and
- information brochures on specific regions and locations.

‘Shopfronts’ for the above information include NSW Trade and Investment, Business Enterprise Centres, and regional offices of DSRD.

A further type of assistance provided by DSRD is project facilitation. This comprises assisting project proponents to obtain the necessary regulatory approvals to allow projects to get under way in the shortest possible time. The NSW Government indicated that this has the effect of reducing the front end cost of a project and accelerating the income stream for the proponent.

#### *Industry Assistance Fund (IAF)*

In its 1994–95 and 1995–96 Budgets, the NSW Government allocated \$19.9 million and \$14.9 million, respectively, for the IAF. Various forms of assistance are provided, typically as a series of payments or tax reimbursements to individual firms or projects, and are generally tied to specific performance criteria.

A typical assistance package provided by DSRD to a project proponent may include one or more of the following:

- payroll tax rebates;
- stamp duty rebates;
- workforce training;
- provision of infrastructure;
- project facilitation; and
- provision of information.

Performance criteria typically relate to various milestones in the implementation of a project/development — for instance, the commissioning or commencement of operations, and certain agreed levels of employment being reached.

#### *Asia Pacific Regional Headquarters tax concessions*

NSW has a program, delivered via a tax rebate scheme, to encourage ‘footloose’ Asia Pacific regional headquarters to locate in the State. The scheme covers Financial Institutions Duty, Debits Tax, loan security, conveyancing and lease duties. Rebates are available up to a maximum of \$300 000 over a period of up to five years for each regional headquarter. This assistance is usually in

addition to Commonwealth subsidies provided for the same purpose and relies on the Commonwealth classification of what is a regional headquarter.

### *Other revenue forgone measures*

In addition to the tax revenue forgone discussed above and paid via direct reimbursement to the firm under the IAF program, there are potentially a number of other non-tax revenue forgone measures that may be providing assistance to industry but for which no public information could be found. These include infrastructure concessions provided in respect of relocating/existing firms' usage of water, electricity, rail and road inputs to their business operations. For example, the State Rail Authority provides undisclosed rail freight subsidies to some parts of the NSW coal industry (and extracts economic rent from other parts) and, in a similar vein, the NSW Department of Transport subsidises the road freight industry via cost under-recovery on the use of roads by large, multi-axle heavy commercial vehicles.

### *Contents of assistance agreements*

Assistance agreements document the final negotiated forms and amount of assistance to be granted to a project proponent in relation to an investment in the State. They typically contain specifications of the eligibility criteria for assistance and particular obligations attached to that assistance.

### *State purchasing preferences*

The use of government procurement to promote local industry development is a long-standing policy of the NSW Government and is currently in line with the 1989 Commonwealth/State/Territory Governments' Procurement Agreement. The most significant element of the NSW Government's current policy is the application of a 20 per cent Australian and New Zealand preference margin applied as a notional surcharge on imported content. In addition to this preference margin, country manufacturers registered under the Country Industry Preference Scheme receive an additional 2.5 per cent to 5 per cent preference margin when there are no preferred tenders from other States or New Zealand.

The NSW Government indicated that its purchasing policy is currently under review.

### *Assistance for sub-State development*

Assistance for regions within NSW is separate from the State's more general industry assistance programs, both in terms of objectives and its delivery. The NSW Government suggested that there is a trend, which is associated with

increased globalisation, for competition to be increasingly between regions rather than between States or national economies.

In general, the regional assistance provided by the NSW Government tends to be region-neutral. However, sub-State regional assistance is targeted, with assistance being linked to outcomes.

The NSW Government believes that regional economies face particular challenges including:

- information gaps;
- perception of more limited access to capital, including venture capital;
- sensitivity to structural change; and
- lack of agglomeration economies.

DSRD offers a number of assistance schemes in regional areas which broadly encompass:

- project facilitation and information services, designed to secure new business investment for the State; and
- a network of 12 Regional Development Boards, which are intended to provide regional leadership and promote their respective regions as viable locations for industry and commerce. They are also said to be mechanisms by which the NSW Government can establish partnerships with the regions.

DSRD also administers a number of regional schemes which provide financial assistance, including:

- the *Regional Business Development Scheme*, which provides financial assistance to firms to overcome initial costs;
- the *Regional Business Infrastructure Program*, which helps to overcome cost impediments to enterprises considering establishment in regional locations. For example, contributions can be made toward the cost of local infrastructure such as sewerage, natural gas and road works, and the costs incurred to meet State or local environmental planning requirements;
- the *Resources for Regional Development Program*, which provides assistance to local agencies to build economic development skills capacity and develop local leadership; and
- the *Business Advice in Rural Areas (BARA) Program*, which aims to assist and support business people to retain and enhance the viability of businesses in country areas. It also provides for the employment of a

network of BARA facilitators to seek opportunities for business expansion.

In addition, DSRD administers the following community economic development programs which are intended to contribute to the overall attractiveness of a region to industry:

- the *Small Towns Program*, which assists (through facilitation, support and small grants) in the revitalisation of small towns and rural communities by assisting in their social and economic growth and renewal; and
- the *Main Street Program*, which assists (through facilitation, support services and coordinator funding) in the revitalisation of NSW towns via the establishment of strategic community partnerships to improve the physical, economic and social environment of the towns' commercial districts.

#### *Assistance for Small Business Development*

Program delivery is based on extending existing partnerships with the Commonwealth Government (AusIndustry) and community organisations (Business Enterprise Centres), and developing a longer-term client relationship with enterprises with growth potential and potential to improve the State's overseas trade balance.

#### **Recent selective assistance**

In recent years, with utilisation of one or more of the above forms of assistance, the NSW Government has attracted or retained the following companies and special events:

- American Express;
- AT&T;
- Australian Newsprint Mills;
- Australis Media;
- Bankers Trust;
- CAE Electronics;
- Cargill Australia;
- Cathay Pacific;
- Danpork;
- Estee Lauder;
- Foxtel;

- Institute for Magnetic Resonance Research;
- Konica;
- Minehunter Naval Vessels;
- Motorola;
- Optus Vision;
- State Street;
- Sun Masamune Sake;
- Sun Microsystems;
- Vodaphone; and
- Olympics 2000.

### **A1A.3 Institutional arrangements**

A brief review of the roles, responsibilities, objectives and activities etc of the main State institutions involved in providing assistance to industry in NSW, follows. It is based on the departmental program structure which prevailed in 1994–95.

#### **Department of State and Regional Development (DSRD)**

As noted earlier, DSRD is the main institutional provider of direct financial assistance to firms and other investors seeking to establish, relocate or expand their business or investment in NSW. The NSW Government indicated that DSRD's role was to work with businesses to save them time and money through activities in four key result areas:

- investment;
- internationalisation;
- enterprise improvement; and
- business climate.

The types of assistance and delivery mechanisms used by DSRD to attract or retain business investment in NSW were discussed briefly in the previous section, while detailed information of State assistance programs and schemes is given in Tables A1A.5 and A1A.6 (at the rear of this Attachment) — note that the intervening tables provide only information which is additional to that contained in Tables A1A.5 and A1A.6.

Total program expenditure in 1994–95 by DSRD was nearly \$80 million and this was expected to rise to about \$82 million in 1995–96. In these years, the Department operated the following two broad programs.

*Development of the NSW Economy Program*

The objective of this Program was to assist in the development of the NSW economy through:

- the facilitation of investment and export;
- industry development activities; and
- marketing NSW's industry capability.

In essence, this involved activities such as:

- the identification and capture of 'strategic' investment in NSW;
- the retention of 'footloose' NSW companies;
- assisting export activities;
- developing and implementing industry sector development plans; and
- marketing NSW as a comprehensive environment for business.

As shown in Table A1A.3, the main vehicle for dispensing assistance to industry under this program was the IAF (details discussed earlier). The program, which in total cost about \$36 million in 1994–95, also provided grants/subsidies to the Industrial Supplies Office and various Cooperative Research Centres, and offered tax concessions for the establishment of regional headquarters.

**Table A1A.3: Development of the NSW Economy Program; selected expenditure items, 1994–95 and 1995–96 (estimate) (\$000)**

<i>Expenditure item</i>	<i>1994–95</i>	<i>1995–96</i>
<b>Grants and subsidies</b>		
Industrial Supplies Office	750	811
Grants to organisations	8	–
Co-operative Research Centres	667	1000
Regional Headquarters tax concessions	–	2700
Building Better Cities - capital grants	8	–
<b>Other services</b>		
Marketing and promotion activities	266	250
Technology development activities	–	56
Science and Technology Council	157	30
Industry Assistance Fund	19 862	14 883
Strategic Economic Development Package	49	–

*Source:* NSW Government (1995c).

### *Business Services and Regional Development Program (BSRDP)*

The stated objective of the BSRDP was to assist NSW businesses to become globally competitive through:

- enterprise improvement;
- regulatory efficiency; and
- effective industry and regional programs.

This was attempted essentially via a range of activities, including:

- provision of strategic advice on small business, regional economic and business development issues;
- delivery of effective information and support services to new and existing business to enhance competitiveness;
- promotion of sustainable and balanced economic development in the State by facilitating the implementation of regional strategies;
- provision of project management and facilitation services to small, medium and regional enterprises to foster new investment and employment opportunities; and
- development and implementation of new and innovative policies and related programs for identified business client groups.

As shown in Table A1A.4, the main delivery mechanism under this program has been the National Industry Extension Service (NIES) scheme. This scheme was replaced at the end of June 1995 by the AusIndustry Scheme.

Expenditure on the BSRDP totalled about \$44 million in 1994–95.

**Table A1A.4: Business Services and Regional Development Program; selected expenditure items, 1994–95 and 1995–96 (estimate) (\$000)**

<i>Expenditure item</i>	<i>1994–95</i>	<i>1995–96</i>
<b>Grants and subsidies</b>		
Hunter Valley Research Foundation	89	150
Illawarra Region Information Service	101	150
Business enterprise centres	–	3 500
<b>Other services</b>		
Industry Development Boards and other committees	1 436	1 660
Decentralisation assistance	437	250
Small Business Loan Guarantees – liquidation of liabilities	–	500
NIES	7 143	6 200
AusIndustry	–	5 702
Business and industry development	2 995	3 432
Regional development assistance	9 204	9 090

*Source:* NSW Government (1995c).

### *DSRD's criteria for assistance and evaluation*

The NSW Government indicated that DSRD bases its assistance increasingly on strategic industry development and industry value chains. In deciding whether to assist a project, the Government said that DSRD has regard to the following factors:

- strategic importance of the projects to NSW;
- whether NSW has a sustainable comparative advantage;
- footlooseness of the project;
- competitive neutrality;
- number and type of jobs and investment created/retained;
- technology and skills transfer;
- export potential; and
- consistency with Commonwealth policy.

In regard to its evaluation of net benefit to the community of an investment proposal, the NSW Government provided the Commission with confidential information relating to DSRD's criteria and methodology for undertaking ex-ante project evaluation. The results of any such evaluations are not publicly available and, in addition, the Commission found little evidence of ex-post evaluation being done.

### **Department of Mineral Resources (DMR)**

The DMR is accountable for ensuring that the people of NSW benefit from the responsible assessment, development, management and utilisation of the State's mineral resources. It provides assistance to the exploration and mining industries through the provision and management of mine safety and environmental regulations.

Expenditure by the DMR on safety and environmental matters totalled about \$15.2 million in 1994–95.

### **Tourism New South Wales**

Tourism NSW is responsible for the strategic planning, marketing and promotion of tourism in the State. Its expenditure on these activities totalled \$32.6 million in 1994–95, providing industry and area-specific assistance to the State's tourism, entertainment and hospitality industries.

The Department's centrepiece is the *NSW Tourism Masterplan*, which is a blueprint for the State's tourism industry to the year 2010. Among its key strategies are to boost infrastructure in, and attract new investment to, regional areas.

The *Strategic Planning Program* (\$2.4 million in 1994–95) has the objective of improving the yield from tourism and the quality of its contribution to the future development of NSW.

The *Marketing Program* (\$36.8 million in 1994–95) encompasses the promotion of tourism in NSW generally, along with the encouragement of a wider distribution of tourism benefits throughout NSW by implementing the *Regional Tourism Strategy*. The latter involves, among other things, support for 16 new Regional Tourism Organisations. The major expenditure items under this program in 1994–95 were direct marketing ventures (\$19.8 million) and support for the Sydney Convention and Visitors Bureau (\$2.3 million).

Recipients of financial assistance are named in Tourism NSW's Annual Reports. The Department undertakes evaluations of all projects over \$100 000, or where they are considered to be of strategic importance to the State. In addition, it incorporates the State Government's tourism events agency, known as *Special Events NSW*. In 1994–95, the agency received \$189 000 funding from Tourism NSW to increase visits to the State by attracting and supporting the development of international and national events. During the year, it provided assistance to more than 20 event organisers and had direct involvement in bidding for four world championship sporting events.

### **Department of Gaming and Racing**

The objectives of the Development, Control and Regulation of the Racing Industry Program include supporting and enhancing the viability of racing organisations.

Payments are made from a Racecourse Development Fund to support and develop racecourse facilities throughout the State, including:

- assistance to allow horse or greyhound trainers to transfer training activities to premises at or in the vicinity of a track; and
- assisting permanent improvements to a training track and ancillary facilities. (NSW Government 1995b)

The capital grant for this purpose in 1994–95 totalled \$15.3 million.

### **Department of Sport and Recreation (DSR)**

Part of the DSR's stated objectives is to work towards success by NSW competitors in national and international sporting events in targeted sports.

The Department's net expenditure through its *Excellence in Sport* program totalled \$18.7 million in 1994–95. This included rights fees of \$3.6 million for the Australian Motorcycle Grand Prix.

### **Department of Land and Water Conservation (DLWC)**

State assistance to the forestry industry is provided as part of DLWC's responsibilities. Expenditure on the *Forestry Policy Program* totalled about \$22.7 million in 1994–95.

## **Department of Urban Affairs and Planning (DUAP)**

The DUAP was formed in April 1995 following the amalgamation of the previous Department of Planning, Office of Housing Policy, City West Corporation, Honeysuckle Development Corporation, Landcom and the Resource and Conservation Assessment Council. Its roles and responsibilities include the potential to provide assistance to industry via facilitation of the planning approvals process and through the acquisition, development and sale of industrial land.

In particular, under its *State and Regional Planning Program*, the Department administers the following two important approvals processes:

- *State Environmental Planning Policy (SEPP) No. 34 — Major Employment Generating Industrial Development*, which has as its objective the facilitation of employment growth through environmentally and economically sound development; and
- *State Environmental Planning Policy No. 38 — Olympic Games Projects*, which is intended to streamline the development consent process, ensure ecologically sustainable development of Olympic facilities and bring the SEPP into line with the Olympic Construction Authority legislation.

Under DUAP, the City West Development Corporation is responsible for the Ultimo-Pyrmont and Eveleigh Area strategies (total cost of \$277.8 million over 15 years through to 2010), including the development of a major new technology park at Eveleigh (estimated total cost of \$38.4 million). The developments include housing and general amenities as well as infrastructure. The Honeysuckle Development Corporation is responsible for the planning and redevelopment of the Honeysuckle waterfront site in central Newcastle (total cost of \$76 million over 10 years). The redevelopment focuses on strategic infrastructure initiatives such as roads, services, marine works and landscaped open space areas.

## **Ministry for the Arts**

The Ministry is the agency responsible for the oversight of the arts portfolio which includes the *Art Gallery*, *Australian Museum*, *Film and Television Office*, *Museum of Applied Arts and Sciences* and *the Sydney Opera House*. The Ministry also manages various properties, supports the State's cultural activities through the *Cultural Grants Program* and funds events such as the Sydney Festival and Heritage Week. Such State expenditure not only provides direct assistance to the NSW arts industry and cultural activities, but also indirect assistance, in some instances, to the NSW tourism industry.

The *Cultural Grants Program* aims to provide a base for the State's cultural activities, support a diversity of arts and cultural organisations, and ensure that these organisations remain financially viable. In 1994–95, grants made under this program totalled \$12 million.

Of particular interest are the activities of the *NSW Film and Television Office* (FTO). The FTO is allowed to invest public funds in certain productions which may otherwise be produced outside the State. Its expenditure totalled \$5.2 million in 1994–95.

The NSW Government, with assistance from the FTO, has entered into an agreement with Fox Film Australia to develop the Sydney Showground as an international film studio complex.

In 1994–95, net program expenditure by the Ministry for the Arts totalled about \$98.4 million, excluding monies that went to the State Library and Historic Houses Trust.

## **NSW Fisheries**

Under its *Fisheries Conservation and Management Program*, NSW Fisheries undertakes research, management and compliance programs in order to conserve the State's fisheries resources and their habitat, to promote sustainable harvests, to allocate the resource fairly between users, and to facilitate the further development of viable aquaculture industries. Net program expenditure by the agency in 1994–95 totalled some \$26.9 million.

## **Department of Agriculture**

The Department's expenditure on agriculture programs in 1994–95 totalled \$273.5 million — including the activities of the Rural Assistance Authority (\$74.9 million). Details of the nature and extent of State assistance to agriculture are given in Appendix 2.

### **A1A.4 Detailed information on NSW Government industry assistance programs and schemes**

Tables A1.5 and A1.6 below, summarise the assistance provided to industry (excluding agriculture) by the NSW Government. The information is not intended to be totally comprehensive. For instance, the full extent of revenue forgone assistance is difficult to determine given the paucity of publicly

available information regarding the composition of various agencies' program expenditures.

Table A1A.5: **New South Wales: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate)**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Department of Urban Affairs and Planning</b>				
<i>State and Regional Planning (part only)</i>	<i>Preparation and/or processing of environmental planning instruments and formulation of environmental planning policies. Research into environmental planning matters and dissemination of information. Conduct of Commissions of Inquiry.</i>			
— State Environmental Planning Policy No 34: Major Employment Generating Industrial Development	Facilitates employment growth through environmentally and economically sound development. Major industrial development of State environmental, social and economic significance.	Facilitation – fast tracking of development proposals.	NSR	NSR
— State Environmental Planning Policy No 38: Olympic Games Projects	Streamline the development consent process and bring the SEPP into line within the Olympic Construction Authority legislation.	Approvals facilitation.	NSR	NSR
<i>Landcom (part only)</i>				
— Commercial Division	Planning, developing and marketing strategic government, industrial and commercial sites	Infrastructure provision and industrial /commercial land development	NSR	NSR

**Table A1A.5: New South Wales: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate) — continued**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Department of Urban Affairs and Planning — continued</b>				
<i>City West Development Corporation — City West Program</i>	<i>Provide a range of essential infrastructure and manage the disposal of surplus government land for redevelopment.</i>	<i>Infrastructure and industrial land development</i>	125 265	127 710
<i>Honeysuckle Development Corporation — Honeysuckle Program</i>	<i>Capitalisation of Newcastle’s heritage and maritime assets through redevelopment and sale of surplus government land adjacent to the city’s CBD.</i>	<i>Infrastructure and industrial land development</i>	45 144	28 676
<b>Total all DUAP programs</b>			<b>170 409</b>	<b>156 386</b>
<b>Ministry for the Arts</b>				
<i>Policy Formulation and Review, Cultural Grants Program and Other Arts Assistance</i>	<i>Policy formulation, strategic review, industry and infrastructure support, management of grants and other support to non-profit arts organisations and awards and fellowships to individuals.</i>	<i>Grants, subsidies, infrastructure provision and strategic advice.</i>	48 976	49 599
<i>Art Gallery of NSW</i>	<i>Acquisition of art works for public exhibition, promotion of public appreciation of art through education programs and art competition awards. Administration of the Art Gallery of New South Wales.</i>	<i>Acquisition, conservation, research, information, promotion and administration.</i>	(2 875)	11 674

Table A1A.5: **New South Wales: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate)** — *continued*

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Ministry for the Arts</b> — <i>continued</i>				
<i>Australian Museum</i>	<i>Acquisition, preservation and research of collections. Provision of information to the public, industry and Government through exhibitions, education programs and research. Administration of the Australian Museum</i>	<i>Acquisition, conservation, research, information, promotion and administration.</i>	16 356	17 237
<i>Museum of Applied Arts and Science</i>	<i>Acquisition, conservation and research of artefacts and other materials relating to science, technology and the applied arts. Dissemination of information to the community, industry and government through exhibits, educational programs and special advice. Administration of the Powerhouse Museum, the Mint Museum and Sydney Observatory.</i>	<i>Acquisition, conservation, research, information, promotion and administration.</i>	32 032	34 868
<i>New South Wales Film and Television Office</i>	<i>Assistance to the NSW film and television industry to develop and market film and television projects. Processing of applications by film-makers for government assistance. Arranging for the production of films for government authorities.</i>	<i>Grants, subsidies and promotion.</i>	3 876	12 168
<b>Total all Arts programs</b>			<b>98 365</b>	<b>125 546</b>

Table A1A.5: **New South Wales: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate)** — *continued*

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Department of State and Regional Development</b>				
<i>Development of the New South Wales Economy</i>	<i>Identification and capture of strategic investment in NSW. Retention of 'footloose' NSW companies. Assistance in export activities. Working with industry sectors to derive and implement action plans for sector development. Marketing NSW as a competitive environment for business</i>	<i>Various, including: grants; subsidies; tax concessions; infrastructure provision; facilitation; and information.</i>	35 898	31 062
<i>Business Services and Regional Development</i>	<i>Provision of strategic advice on small business, regional economic and business development issues. Delivery of effective information and support services to new and existing business to enhance competitiveness. Promotion of sustainable and balanced economic development in the State by facilitating the implementation of regional strategies. Provision of project management and facilitation services to small, medium and regional enterprises to foster new investment and employment opportunities. Development and implementation of new and innovative policies and related programs for identified business client groups.</i>	<i>Various, including: grants; subsidies; tax rebates; information; advice; facilitation; and training.</i>	44 000	51 049
<b>Total all DSRD programs</b>			<b>79 898</b>	<b>82 111</b>

Table A1A.5: **New South Wales: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate)** — *continued*

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Olympic Coordination Authority</b>				
<i>Infrastructure Development of Homebush Bay and Related Sites</i>	<i>Planning, redevelopment and management of Homebush Bay and related areas (including the relocation of the Royal Agricultural Society), Australia Centre Business Park, Penrith Lakes Regatta Centre, Horsley Park Equestrian Centre and Holsworthy Shooting Centre.</i>	<i>Infrastructure provision</i>	56 861	58 603
<i>Delivery of Olympic and Paralympic Facilities and Venues</i>	<i>Preparatory works for the staged construction of sporting and recreation facilities and venues. The completion of construction of the sporting facilities will be undertaken in a manner to complement the continuation of the major urban renewal program at Homebush Bay, and programs at Penrith Lakes, Horsley Park and Holsworthy.</i>	<i>Grants for infrastructure provision.</i>	14 948	15 543
<i>Infrastructure Development of Homebush Bay and Related Sites</i>	<i>Planning, redevelopment and management of Homebush Bay and related areas (including the relocation of the Royal Agricultural Society), Australia Centre Business Park, Penrith Lakes Regatta Centre, Horsley Park Equestrian Centre and Holsworthy Shooting Centre.</i>	<i>Infrastructure provision</i>	56 861	58 603

Table A1A.5: **New South Wales: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate)** — *continued*

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Olympic Coordination Authority</b> — <i>continued</i>				
<i>Delivery of Olympic and Paralympic Facilities and Venues</i>	<i>Preparatory works for the staged construction of sporting and recreation facilities and venues. The completion of construction of the sporting facilities will be undertaken in a manner to complement the continuation of the major urban renewal program at Homebush Bay, and programs at Penrith Lakes, Horsley Park and Holsworthy.</i>	<i>Grants for infrastructure provision.</i>	14 989	15 543
<i>Coordination of Olympic and Paralympic Activities</i>	<i>Coordinating, monitoring and reporting on all works associated with the preparation for the hosting of the Olympic and Paralympic Games including the redevelopment of the Homebush Bay area. Maintenance of close liaison with the Sydney Organising Committee for the Olympic Games, the Sydney Paralympic Organising Committee and Government agencies. Administration of Commonwealth and State grants for Olympic and Paralympic projects.</i>	<i>Coordination and monitoring government involvement</i>	4 498	5 179
<b>Total all OCA programs</b>			<b>76 389</b>	<b>79 325</b>

Table A1A.5: **New South Wales: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate)** — *continued*

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Tourism New South Wales</b>				
<i>Strategic Planning</i>	<i>Generation of a broadly based tourism industry and government commitment to the strategies of the NSW Tourism Masterplan.</i>	<i>Information and advice</i>	2 419	2 097
<i>Marketing</i>	<i>Promotion of tourism in NSW through fostering development of a greater range of tourism products and marketing systems, such as cooperative advertising with industry partners, with the aim of attracting high yield markets. Expansion of the knowledge and distribution of the NSW product through wholesaling initiatives to increase sales. Encouragement of wider distribution of tourism benefits throughout NSW by implementing the Regional Tourism strategy.</i>	<i>Promotion</i>	30 202	27 657
<b>Total all Tourism programs</b>			<b>32 621</b>	<b>29 754</b>
<b>Fisheries New South Wales</b>				
<i>Fisheries Conservation and Management</i>	<i>Management, research and compliance programs to maximise sustainable harvest for recreational and commercial fishers, to restore and protect fish stocks and their habitat, and to facilitate the development of new aquaculture and fishing industries.</i>	<i>Research, facilitation and regulation</i>	26 930	27 548

Table A1A.5: **New South Wales: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate)** — *continued*

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Department of Land and Water Conservation</b>				
<i>Forestry Policy</i> <i>(see Table A1.4 for a more detailed breakdown of expenditure)</i>	<i>Development and maintenance of a strategic policy framework which facilitates the sustainable management of NSW forests. Administration of regulations. Oversight of the forestry industry structural reform agenda. Management of the purchase of forestry related community services.</i>	<i>Grants, facilitation and restructuring package</i>	22 676	24 616
<b>Department of Sport and Recreation (DSR)</b>				
<i>Excellence in Sport</i>	<i>Development and encouragement of talented and elite sports persons by supporting athletes, development of coaching skills and support to organisations involved in talent identification and development.</i>	<i>Grants, subsidies and training</i>	18 705	16 064
<b>Office of Public Works and Services</b>				
<i>Subsidy to the Darling Harbour Authority</i>	<i>Payments to the Darling Harbour Authority towards the development, operation and maintenance of convention, exhibition and recreational facilities.</i>	<i>Grants and subsidies</i>	15 760	13 905

Table A1A.5: **New South Wales: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate)** — *continued*

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Department of Gaming and Racing</b>				
<i>Development, Control and Regulation of the Racing Industry</i>	<i>Program includes provision of support to race clubs for capital improvements. Support is provide for galloping, trotting and greyhound race clubs.</i>	<i>Capital grants</i>	15 332	28 300
<b>Department of Mineral Resources</b>				
<i>Resource Management</i>	<i>Promotion of mine safety and effective environmental management by encouraging and monitoring actions that reduce the possibility of injuries and ill health arising from mining. Promotion of actions that improve environmental performance of mines.</i>	<i>OH &amp; S and environmental regulation</i>	15 249	16 731
<b>Department of Consumer Affairs</b>				
<i>Licensing/Registration</i>	<i>Maintenance of public registers and licensing systems to ensure mandatory standards of practice. Registration of business names, incorporation of associations and granting of business licences.</i>	<i>Licensing/registration and information</i>	8 028	6 447
<i>Cooperatives</i>	<i>Monitoring and provision of advice to cooperatives on compliance with legislative and other requirements. Maintenance of registry and information services. Oversight of the finances, management and performance of cooperative organisations.</i>	<i>Advice and information</i>	3 304	3 791
<b>Total all DCA programs</b>			<b>11 332</b>	<b>10 238</b>

Table A1A.5: **New South Wales: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate)** — *continued*

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Department of Energy</b>				
Energy Utilisation and Management — State Energy Research and Development Fund (SERDF)	Foster the development, demonstration and commercialisation of new energy technologies, manufacturing processes and related expertise and services likely to benefit NSW. Priority is given to projects that aim to: reduce energy costs through more efficient energy supply and end use; permit more cost effective use of local energy resources; enhance the security, reliability and safety of energy supply; promote employment growth, increased industry competitiveness, local manufacture and export; and reduce the environmental impacts of energy production, distribution and use.	Grants for R&D	1 329 <sup>b</sup>	2 400 <sup>b</sup>

NSR Not separately recorded.

a Total current and capital program expenses, including attributable overheads and, where appropriate, after deducting user charges revenue and industry contributions.

b Grants only (ie excludes overheads).

**Table A1A.6: New South Wales: State Government financial and non-financial industry assistance schemes, by department**

<i>Agency Assistance Scheme</i>	<i>Form of assistance</i>	<i>Description and eligibility</i>
<b>Department of State and Regional Development</b>		
<i>(Note: The following information for DSRD reflects the structure that existed in 1994–95 under the former Office of Economic Development.)</i>		
<b>Project Facilitation and Coordination — Major and Complex Projects</b>	<i>Mainly coordination and advice. Limited financial assistance may be given to ensure the cost competitiveness of the project, especially in the early years of development, and where significant benefits to the State may accrue.</i>	<i>Description:</i> Attract major and strategic investment projects to NSW, facilitate their approval and resolve impediments to them.  <i>Eligibility:</i> Projects that are: commercially viable; strategically significant to the economic development of NSW or the industry; genuinely footloose; and able to contribute significant benefits to NSW (eg, contribution to investment and job creation/retention).
<b>International Investment</b>	<i>Information, coordination and marriage broking</i>	<i>Description:</i> Attract overseas investment to NSW, identify overseas opportunities for NSW firms and promote Sydney as a HQ location, especially for Asia-Pacific.  <i>Eligibility:</i> Projects that are: commercially viable; strategically significant to the economic development of NSW or the industry; and able to contribute significant benefits to NSW (eg, contribution to investment and job creation/retention).
<b>Infrastructure Projects Facilitation</b>	<i>Information, coordination, advice and facilitation</i>	<i>Description:</i> Aims to enhance the level of private sector involvement in the provision of public infrastructure, and provide coordination, advice and assistance for strategically significant infrastructure projects.  <i>Eligibility:</i> Strategic projects
<b>Investment Project Services — Small and Medium Projects</b>	<i>Information and referral services, facilitation and advice.</i>	<i>Description:</i> Seeks to identify, capture and assist small to medium investment projects which are internationally competitive.  <i>Eligibility:</i> Size, need and regional impact.

Table A1A.6: **New South Wales: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance Scheme</i>	<i>Form of assistance</i>	<i>Description and eligibility</i>
<b><i>Department of State and Regional Development — continued</i></b>		
<b>Support for Information Technology and Telecommunications Industry (IT&amp;T)</b>	<i>Secretariat support for the Information Industries Advisory Council; negotiation, information, advice, assistance to exhibit overseas and marriage broking.</i>	<i>Description:</i> Strengthen the competitive position of IT&T companies in NSW by enhancing the interaction of local firms with other firms and with the market, and by catalysing the development of the necessary infrastructure to support the IT&T industries.  <i>Eligibility:</i> Any company or organisation in the sector
<b>Country Industries Preference Scheme</b>	<i>Depending on the location of the manufacturer, a 2.5% to 5% preference in tendering for NSW Government contracts may be offered. This would be in addition to any ANZ preference.</i>	<i>Description:</i> Aims to assist the viability of manufacturers located outside metropolitan NSW by means of a purchase preference scheme.  <i>Eligibility:</i> The preference is applied to factory costs only and , under the National Agreement on Preference, preferences are not applied against interstate tenders.
<b>Country Industries (Payroll Tax Rebates) Act</b>	<i>Payroll tax rebate of up to either 50% or 100%, depending on location and activity in the first year, then on a declining formula.</i>	<i>Description:</i> Uses payroll tax rebates to help offset operational costs of firms located in country areas.  <i>Eligibility:</i> Industries located in country areas and undertaking eligible activities can apply for registration under the scheme.

**Table A1A.6: New South Wales: State Government financial and non-financial industry assistance schemes, by department — continued**

<i>Agency Assistance Scheme</i>	<i>Form of assistance</i>	<i>Description and eligibility</i>
<b><i>Department of State and Regional Development — continued</i></b>		
<b>Regional Business Development Scheme</b>	<i>Assistance offered is flexible and can have the following subsidy elements: establishment grants; location feasibility analysis; business planning and technical consultancy subsidies; plant and equipment / key personnel removal costs; skills training and development; contribution towards infrastructure costs; offsetting local government charges; contributions to Payroll Tax, Land Tax and Stamp Duty obligations; contribution to regional opportunities investigation; assistance for significant incremental growth; and/or, expansion grants.</i>	<i>Description:</i> Aims to promote industrial and commercial development in country NSW by assisting firms to overcome the initial costs incurred in establishing or expanding in a regional location. The scheme is also available, on a case by case basis, to existing firms seeking to improve their competitiveness and long term viability, especially at a time of critical cash flow.  <i>Eligibility:</i> Sydney, interstate and overseas firms wishing to establish/expand their operations in country NSW which are involved in either manufacturing, processing, wholesale distribution activities or any activity of regional economic significance and are generally able to demonstrate their project's value-adding capacity.
<b>Business Expansion Program</b>	<i>Subsidy, on a dollar for dollar basis, for cost of engaging consultants: max. subsidy for existing businesses, \$5000; max. subsidy for start-up situations, \$3000. Limit of two consultancies for each business in any two year period.</i>	<i>Description:</i> Assists small business to improve their potential to be competitive and grow by subsidising the cost of independent expert consultants to study the activities of an individual business and advise management. Target clients are existing businesses wanting to expand or diversify, or which are experiencing management problems; and new enterprises and startup situations.  <i>Eligibility:</i> Small businesses where direct benefits to NSW can be demonstrated.

Table A1A.6: **New South Wales: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance Scheme</i>	<i>Form of assistance</i>	<i>Description and eligibility</i>
<b>Department of State and Regional Development</b> — <i>continued</i>		
<b>First Base</b>	<i>Information, education and advice.</i>	<u><i>Description:</i></u> Provides specialist assistance to people going into business through a self-help information resource centre.  <u><i>Eligibility:</i></u> Anyone going into owner-operated business.
<b>Management of Skills Training</b>	<i>Training workshops</i>	<u><i>Description:</i></u> Provides training programs on business management skills to intending and existing small business owners and managers.  <u><i>Eligibility:</i></u> Anyone interested in setting up, buying or currently in a small business.
<b>Partnerships With Associations</b>	<i>Training, information and consultancy to smaller industry associations.</i>	<u><i>Description:</i></u> Aims to improve awareness and takeup of Office of Small Business programs and improve the programs themselves.  <u><i>Eligibility:</i></u> NSW trade and industry associations that have a predominantly small business membership.
<b>Small Business Advisory Services</b>	<i>Information, counselling and advice.</i>	<u><i>Description:</i></u> Aims to improve the success of small businesses by improving management skills through counselling and advisory services. Small Business Advisors help existing and intending business owners to establish a business, develop a business plan and identify opportunities; provide information about marketing, financial management, franchising and applying for a loan.  <u><i>Eligibility:</i></u> Existing business owners or managers, or people with firm intentions to establish a business.
<b>Industry Assistance Fund</b>	<i>Various, including payroll tax rebates, workforce training, stamp duty rebates, infrastructure provision, project facilitation and information.</i>	<u><i>Description:</i></u> Assistance to footloose industry from overseas which is typically provided as a series of payments or reimbursements tied to specific performance criteria (eg. agreed levels of employment being reached).  <u><i>Eligibility:</i></u> see SRD's criteria for assistance in Section A1A.3.
<b>Asia Pacific Regional Headquarters tax concessions</b>	<i>Tax rebates on FID, BAD and loan security, conveyancing and lease duties up to a maximum of \$300 000 over a period of 5 years for each headquarters.</i>	<u><i>Description:</i></u> Encourage footloose regional headquarters to locate in NSW  <u><i>Eligibility:</i></u> Relies on the Commonwealth classification of what is a regional headquarters.

Table A1A.6: **New South Wales: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance Scheme</i>	<i>Form of assistance</i>	<i>Description and eligibility</i>
<b>Department of State and Regional Development</b> — <i>continued</i>		
<b>Business Climate Report</b>	<i>Information</i>	<p><i>Description:</i> Monthly report providing information on the Australian economy, the NSW economy, the cost competitiveness of the NSW economy, its industrial structure and capability, and details of taxation rates and industrial relations matters.</p> <p><i>Eligibility:</i> Current and prospective businesses and investors</p>
<b>NSW Competitiveness Report</b>	<i>Information</i>	<p><i>Description:</i> Publication used as an aid to marketing NSW as a business location; provides detailed cost comparisons between NSW and other Australian States and Asian countries.</p> <p><i>Eligibility:</i> Current and prospective businesses and investors</p>
<b>Other Information Services</b>	<i>Information</i>	<p><i>Description:</i> Reports on specific industries, regions and locations.</p> <p><i>Eligibility:</i> Current and prospective businesses and investors</p>
<b>NSW Trade and Investment</b>	<i>Information, advice and promotion</i>	<p><i>Description:</i> ‘Shopfront’ for information and other services.</p> <p><i>Eligibility:</i> Current and prospective businesses and investors</p>
<b>Resources for Regional Development Program</b>	<i>Subsidy to employ external personnel or contract consultants to address regional development priority issues.</i>	<p><i>Description:</i> Aims to develop best practice methods and techniques in the field of local economic development which are transferable to other locations in NSW, and to assist local development agencies in responding to local development needs.</p> <p><i>Eligibility:</i> Regional development agencies, both public and private.</p>
<b>Small Towns Program</b>	<i>Subsidies and grants.</i>	<p><i>Description:</i> Aims to promote the social and economic growth and renewal of small NSW towns by supporting the development of a community plan.</p> <p><i>Eligibility:</i> Non-metropolitan NSW communities with a population of 5000 or less. Applications are considered on a case by case basis in consultation with the relevant Regional Development Board.</p>
<b>Main Street Program</b>	<i>Subsidies and grants.</i>	<p><i>Description:</i> A community development program aimed at revitalising and promoting town centres</p> <p><i>Eligibility:</i> n.a.</p>

Table A1A.6: **New South Wales: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance Scheme</i>	<i>Form of assistance</i>	<i>Description and eligibility</i>
<b>Department of State and Regional Development</b> — <i>continued</i>		
<b>Business Advice in Rural Areas Program</b>	<i>First stop shop for business development including counselling, information and referral services</i>	<i>Description:</i> Aims to assist and support business people to retain and enhance the viability of businesses in country areas.  <i>Eligibility:</i> NSW communities with a rural base.
<b>Office of State Revenue</b>		
<b>Exemption from Debits Tax and Financial Institutions Duty (FID) for Offshore Banking Units (OBUs).</b>	<i>Tax concession — exemptions from FID and debits tax .</i>	<i>Description:</i> Complement to Federal tax concessions, but with a view to encouraging the OBU to carry on business in NSW.  <i>Eligibility:</i> OBUs and offshore banking activities.
<b>Stamp Duty Exemption for Corporate Reconstruct'ns</b>	<i>Tax concession — exemption from specified types of stamp duties</i>	<i>Description:</i> Allows corporate groups to restructure their assets to improve business efficiency by enabling them to transfer assets between members of the same group without attracting the liability of stamp duty, in some circumstances.  <i>Eligibility:</i> Applies, <i>inter alia</i> , to the transfer of NSW assets where a branch of an overseas company is reconstituted as a subsidiary. The Treasurer must be satisfied that a net benefit accrues to NSW and that the concession is necessary for the reconstruction to occur.
<b>Department of Training and Education Coordination</b>		
<b>Vocational Training Services Apprenticeship /Traineeship Program</b>	<i>Advice on training; payroll tax and workers' compensation concessions.</i>	<i>Description:</i> Broad objective is to ensure an adequate supply of skilled labour to meet the skill needs of industry and commerce  <i>Eligibility:</i> Employers interested in participating in the establishment of apprenticeships and traineeships

**Table A1A.6: New South Wales: State Government financial and non-financial industry assistance schemes, by department — continued**

<i>Agency Assistance Scheme</i>	<i>Form of assistance</i>	<i>Description and eligibility</i>
<b><i>Department of Training and Education Coordination — continued</i></b>		
<b>Group Training</b>	<i>Subsidy paid to Group Training Companies (GTCs) to offset their administrative costs.</i>	<p><b><i>Description:</i></b> Supports GTCs which provide structured training opportunities for apprentices and trainees, and enable smaller businesses which do not possess the capacity to train in their own right to share in training responsibilities under the control of a group scheme employer.</p> <p><b><i>Eligibility:</i></b> Companies that do not have the capacity to recruit and train in their own right</p>
<b><i>NSW Government Information Service</i></b>		
<b>NSW Government Information Service</b>	<i>Information</i>	<p><b><i>Description:</i></b> Activities include: a public information telephone service on State Government services and the distribution of State legislation and official government publications.</p> <p><b><i>Eligibility:</i></b> All industry sectors.</p>
<b><i>Tourism New South Wales</i></b>		
<b>Tourism Cooperative Marketing</b>	<i>Promotion</i>	<b><i>Description:</i></b> Undertake marketing and promotion activities in cooperation/joint venture with other tourism service providers
<b>Partnership Australia</b>	<i>Promotion</i>	<b><i>Description:</i></b> Pools ATC, tourism industry and Tourism NSW funds to promote NSW holidays internationally.
<b>Tourism Trade Missions and Trade Shows</b>	<i>Promotion</i>	<p><b><i>Description:</i></b> Organise and promote NSW tourism trade missions and trade shows in conjunction with industry partners.</p> <p><b><i>Eligibility:</i></b> NSW tourism organisations and operators.</p>
<b>Tourism Market Research Reports</b>	<i>Information</i>	<b><i>Description:</i></b> Market research reports on NSW tourism activity and holiday preferences.
<b>Tourism Information Services and Networks</b>	<i>Information</i>	<b><i>Description:</i></b> Including 'Meet and Greet' Service and tourism product database.

Table A1A.6: **New South Wales: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance Scheme</i>	<i>Form of assistance</i>	<i>Description and eligibility</i>
<b>Department of Urban Affairs and Planning</b>		
<b>State Environmental Planning Policy (No.34): Major Employment Generating Industrial Development</b>	<i>Facilitation — fast tracking of development proposals via the Minister, rather than local councils.</i>	<p><b>Description:</b> Promote the orderly and economic use and development of land for the economic welfare of the State, and to facilitate certain types of major employment-generating industrial development, and labour intensive rural industrial development, of State environmental, social and economic significance.</p> <p><b>Eligibility:</b> Eligible industries include paper and food production, timber, pulp and paper processing, printing industry, chemical processing, abattoirs, cattle feedlots, minerals and metals processing and mining. Developments must employ (after construction) at least 100 full time people (20 for intensive livestock), or have a capital investment value of \$20 million (excluding land).</p>
<b>State Environmental Planning Policy (No.38): Olympic Games Projects</b>	<i>Approvals facilitation</i>	<p><b>Description:</b> Streamline the development consent process and bring the SEPP into line with the Olympic Construction Authority legislation.</p> <p><b>Eligibility:</b> Olympic Games construction projects</p>
<b>Business Land Group</b>	<i>Infrastructure and industrial land provision</i>	<p><b>Description:</b> Plan, market and develop strategic industrial and commercial land sites.</p>
<b>Department of Energy</b>		
<b>State Energy Research and Development Fund</b>	<i>Research and development funding for a wide range of energy R&amp;D projects including: gas, electricity and coal industry technologies; renewable energy; and alternative transport fuels.</i>	<p><b>Description:</b> Fosters the development, demonstration and commercialisation of new energy technologies, manufacturing processes and related expertise and services that will benefit NSW. Emphasis and priority is given to projects which aim to, among other things, promote employment growth through increased industry competitiveness, and local manufacture and export.</p> <p><b>Eligibility:</b> Consistent with identified priorities, R&amp;D projects with a commitment from industry and collaborative projects are assessed competitively for cost effectiveness and potential benefits to the State (including environmental benefits), and ability to successfully undertake the project.</p>

Table A1A.6: **New South Wales: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance Scheme</i>	<i>Form of assistance</i>	<i>Description and eligibility</i>
<b>Business in the Community Limited</b>		
<b>Business Enterprise Centre Network</b>	<i>Advice and information</i>	<p><u>Description:</u> A network of 49 Centres throughout the State offering advice to business and providing information on Government services to industry.</p> <p><u>Eligibility:</u> All businesses.</p>
<b>Department of Fair Trading</b>		
<b>Business Licence Information Service (BLIS)</b>	<i>Information</i>	<p><u>Description:</u> Reduces the burden in obtaining information when starting or expanding a business in NSW or the ACT, through the provision of a one-stop information shop for business licences administered by the NSW, ACT and Commonwealth governments.</p> <p><u>Eligibility:</u> All businesses</p>
<b>Business Licence Administration Services (BLAS)</b>	<i>Information and facilitation</i>	<p><u>Description:</u> Assess, grant and maintain those business licences in the services sector which are administered by the NSWDFT</p> <p><u>Eligibility:</u> No specific criteria for dealing with BLAS.</p>
<b>Department of Consumer Affairs</b>		
<b>Cooperative Development Fund</b>	<i>Subsidies for engaging consultants.</i>	<p><u>Description:</u> Aims to assist with the development and growth of cooperatives in NSW by management improvement.</p> <p><u>Eligibility:</u> Existing cooperatives and new enterprises considering a cooperative structure.</p>

Table A1A.6: **New South Wales: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance Scheme</i>	<i>Form of assistance</i>	<i>Description and eligibility</i>
<b><i>Department of Public Works and Services</i></b>		
<b>NSW Government Preference Policy in Public Sector Purchasing</b>	<i>A 20% surcharge is applied to goods and related services from other countries. Any preference for NSW country producers under the Country Industries Preference Scheme would be in addition.</i>	<i>Description:</i> Supports Australian and New Zealand industry development in the contract of goods and related services for the NSW Public Sector Agencies.  <i>Eligibility:</i> The preference is invoked when at least one tenderer claims ANZ content.

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## **ATTACHMENT 1B: VICTORIA**

### **A1B.1 Introduction**

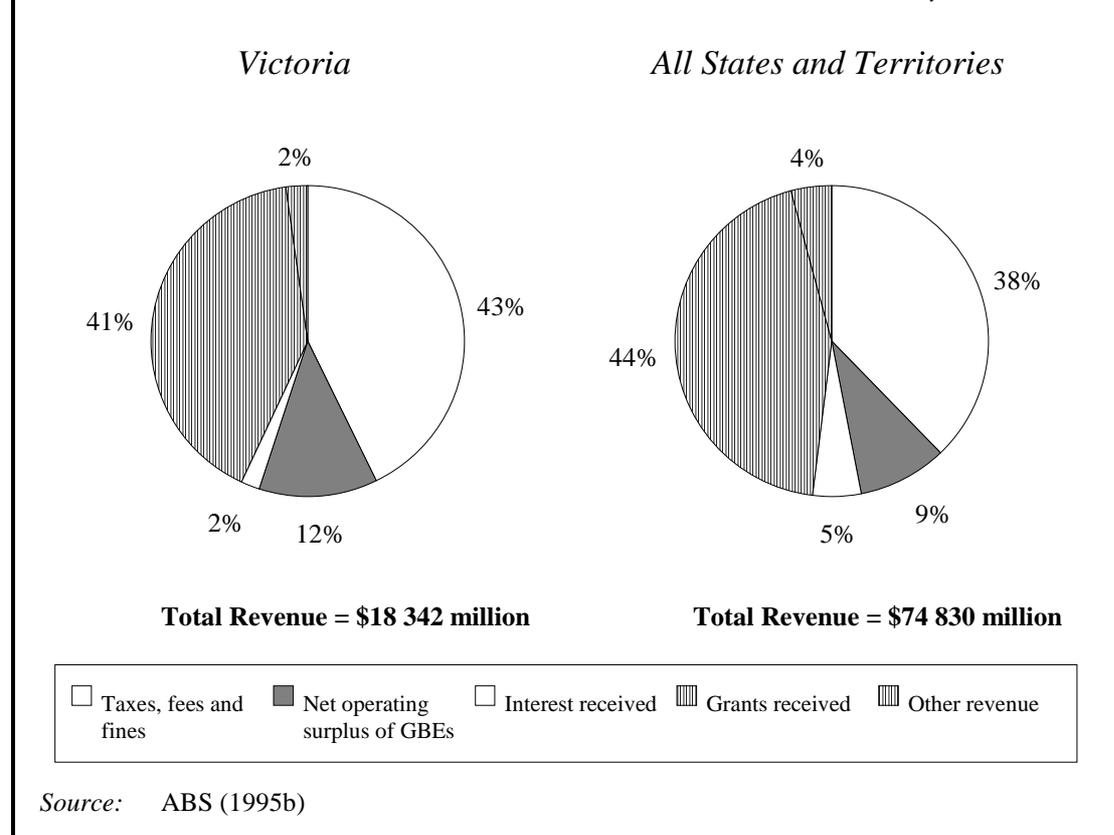
The information compiled in this appendix has been sourced from Victorian Government budget papers, various annual reports of Victorian Government departments and agencies, and ABS data. The presentation of assistance programs in this appendix is consistent with the departmental structure of the Victorian Government which prevailed in 1994–95.

#### **Revenue sources**

In 1994–95, total Victorian revenue amounted to slightly more than \$18.3 billion. Revenue from ‘own-sources’ accounted for about 59 per cent of total State revenue, while the balance of nearly 41 per cent came from the Commonwealth (see Figure A1B.1).

State ‘taxes, fees and fines’ accounted for 43 per cent of total revenue (or around 71 per cent of ‘own-source’ revenue). Also, the Victorian Government received a relatively large contribution to its revenue base from its government business enterprises — 12 per cent compared with an all States and Territories average of 9 per cent.

Figure A1B.1: **Composition of State Government revenue for Victoria and all States and Territories, 1994–95**



## A1B.2 Victorian Government assistance to industry

### Key legislation

Since the *Economic Development Act* was repealed in 1992, the provision of financial assistance to industry by the Department of Business and Employment (now the Department of State Development) has been at the discretion of the relevant Minister.

The Minister for the Arts may, through Section 10 of the *Ministry for the Arts Act 1972*, distribute moneys from the *Arts Fund* for any purpose which, in the Minister's opinion, may assist in achieving the objectives of the Act.

The *Community Support Fund*, established by Government under the *Gaming Machine Control Act 1991*, allows for a portion of government revenue from

gaming machines in hotels to be directed in the form of grants, at the discretion of the Minister for Gaming, to programs and projects that will benefit the community in general, or the arts, tourism, sport or recreational activities.

### **General policy approach**

In September 1993, the Government released its major policy document regarding industry development entitled *Doing Business in Victoria - Victorian Industry Statement* (Victorian Government 1993a). The policy statement outlines the Government's key aims of improving the business environment, reforming bureaucratic, regulatory and planning processes, facilitating investment and export performance, and assisting business to improve competitiveness and productivity and to focus on export opportunities.

In December 1993, the Government's regional development policy was issued. The policy, entitled *Investing in Country Victoria: A nine point plan for investment and employment growth in rural Victoria* (Victorian Government 1993b), sets out strategies to attract investment, build on regional strengths and promote regional locations.

### **Nature and extent of assistance**

The provision of assistance to industry by the Victorian Government is undertaken across a number of departments and agencies. The usual rationale for the provision of assistance has been to foster the development of particular industry sectors and to promote the overall economic performance of the State.

To stimulate economic growth, the State Government has provided a wide range of industry assistance programs which have comprised:

- direct financial assistance in the form of loans, grants and subsidies;
- the provision of infrastructure and land;
- facilitation services, such as advice, information, site selection and assistance in the attainment of regulatory approvals;
- industry-based research and development; and
- training and skills development programs.

Table A1B.1 shows that, for 1994–95, the Commission has estimated that the Victorian Government spent about \$496.1 million on budgetary assistance to non-agricultural industry. More detailed information regarding the composition of this expenditure is contained in Tables A1B.5 and A1B.6.

**Table A1B.1: Victorian Government budgetary outlays<sup>a</sup> on non-agricultural industry assistance, 1994–95 (\$000)**

<i>Agency</i>	<i>1994–95</i>
Department of Treasury and Finance	191 261
Department of Arts, Sport and Tourism	152 634
Department of Business and Employment	70 108
Department of Conservation and Natural Resources	34 289
Department of Planning and Development	17 369
Department of Agriculture, Energy and Minerals	15 236
Department of Justice	10 153
Department of Transport	5 000
<b>Total</b>	<b>496 050</b>

a Total current and capital program expenses, including attributable overheads and, where appropriate, after deducting user charges revenue and industry contributions.

Sources: Victorian Government (1995c, 1995d and various Departmental annual reports)

Following the 1996 Victorian State election, the Government underwent a major restructure of its administration which resulted in a number of former Government departments being subsumed within newly created departments. As a consequence of these changes, the departmental structure for the delivery of the Government's industry assistance programs altered. Table A1B.2 reflects this revised structure and gives the Commission's estimates of budgetary assistance provided by the Victorian Government to non-agricultural industry for 1995–96 for 1996–97.

**Table A1B.2: Victorian Government budgetary outlays<sup>a</sup> on non-agricultural industry assistance, 1995–96 (revised) and 1996–97 (estimate) (\$000)**

<i>Agency</i>	<i>1995–96</i>	<i>1996–97</i>
Department of State Development	183 555	171 715
Department of Treasury and Finance	161 063	164 000
Department of Premier and Cabinet	69 459	92 140
Department of Natural Resources and Environment	41 600	43 650
Department of Infrastructure	27 667	29 477
Department of Justice	9 010	11 000
<b>Total</b>	<b>492 354</b>	<b>511 982</b>

a Total current and capital program expenses, including attributable overheads and, where appropriate, after deducting user charges revenue and industry contributions.

Sources: Victorian Government (1996a, 1996b)

### **A1B.3 Major projects and recent special assistance**

#### **Major investment projects**

In its 1994–95 Annual Report, the Department of Business and Employment (DBE) announced a number of new investment projects being undertaken in Victoria which were attracted through the Department's *Investment Attraction Program*. All of these projects received assistance packages comprising financial assistance and the provision of facilitation services by the DBE. However, the Department's Annual Report did not provide details of the composition or cost of these specific assistance packages. The projects included:

- the establishment of a polyester fibre filament plant by Leading Synthetics Pty Ltd. This project represented an investment of \$90 million, which the Department expected to create 175 jobs and generate exports valued at \$46 million;
- expenditure of \$19 million by Air International Pty Ltd on advanced manufacturing and research facilities. This project was expected by the Department to generate export earnings of \$4.75 million and create 86 jobs;
- the establishment of an \$8 million plant by Shimadzu Oceania Pty Ltd to manufacture scientific and medical instruments, and parts, for export;
- the opening of a \$6 million factory by Japanese manufacturer Sakata Beika Pty Ltd, expected by the Department to create 30 jobs with the potential for import replacement; and
- a \$25 million investment by Ito-En Pty Ltd of Japan to establish chemical-free green tea plantations.

During 1994–95, the DBE reported significant activity to secure investments in the information technology and telecommunications sectors. Major projects attracted included:

- an investment of \$150 million by the Oracle Corporation for an Asia Pacific Centre in Melbourne to service 27 countries in the region. It was expected by the Department that this investment would create 310 highly

skilled multilingual positions along with exports and services worth \$80 million annually;

- the establishment of a national customer service centre in Melbourne by Foxtel, attracting \$50 million of investment, with expected potential employment of 1000 jobs;
- the establishment of an IBM regional centre in Ballarat, which was expected by the Department to create 160 jobs and generate exports of data processing services; and
- investments by Martin Dawes Telecommunications which were expected by the Department to create 600 jobs.

### **Special assistance**

Over recent years, a number of sporting events and infrastructure developments have received significant levels of assistance from the Victorian Government. The projects concerned have included restructuring the debt of the National Tennis Centre Trust and the redevelopment of the National Tennis Centre, the staging of the Australian Formula 1 Grand Prix, the development of the Crown Casino and the Melbourne City Link Project. The key aspects of these developments and the associated forms of assistance provided by the Government are discussed below. (This section has been compiled from a number of annual reports and analyses contained in various reports of the Victorian Auditor-General.)

### *National Tennis Centre Trust*

The Victorian Government and Tennis Australia agreed on a set of arrangements to ensure that the Australian Tennis Open Tournament would remain at the National Tennis Centre and to enhance the financial viability of the centre. The Government decided to provide the National Tennis Centre Trust with annual grants of up to \$12 million for a period of 12 years. The first payment was made in 1991–92. A total of \$29 million had been paid under this package to June 1994. In November 1993, the Victorian Treasurer approved a restructuring of the Trust's financial arrangements, which resulted in termination of the Trust's existing obligations to the Commonwealth Bank Of Australia of \$120.6 million.

The financing of this arrangement was as follows:

- contributions by the Trust of \$74.6 million, financed from a \$55 million government-guaranteed loan from the Treasury Corporation of Victoria and \$18 million from internal funds; and
- contributions of \$46 million from the Victorian Consolidated Fund, provided as an interest-free loan to the Trust.

In addition, in May 1994, a further sum of \$9.8 million was paid from the Consolidated Fund to the Commonwealth Bank on account of the Trust, for the early termination of its financing arrangement with the Bank. The total State Government contribution to the National Tennis Centre Trust as a result of the financing restructure was \$55.8 million.

In January 1994, the State Government announced a further redevelopment of the National Tennis Centre, at an estimated cost of \$16 million. This development involved the provision to the Trust, at no cost, of approximately half of an 8.5 hectare site which was until then utilised as rail yards. Prior to the commencement of the redevelopment, a workshop located on the rail yards was relocated. The estimated cost of the relocation, which is being met by the Government, was \$7 million.

### *Australian Formula 1 Grand Prix*

In 1993, through the Melbourne Major Events Company (MMEC), Victoria won the right to stage the Australian Formula 1 Grand Prix (Grand Prix) at Albert Park. As part of the staging of the Grand Prix, the Government committed funds to the general improvement of sporting facilities in the Albert Park area, which included:

- construction of the Grand Prix track and associated facilities, at an estimated cost of \$43 million; and

- construction of a new sports complex and swimming centre at Albert Park, at estimated costs of \$30 million and \$22 million, respectively.

These projects were funded from revenues received from the Casino and other gambling sources.

In April 1994, the MMEC established a wholly-owned subsidiary company, Melbourne Grand Prix Promotions Pty Ltd (MGPP), to be responsible for promotion of the Grand Prix in Melbourne. In June 1994, the Treasurer provided an indemnity to MGPP against any liability arising from, or in relation to, the carrying out of any activities associated with its objectives, as set out in the Memorandum of Association. In October 1994, the Australian Grand Prix Corporation was established under the *Australian Grand Prix Act 1994* to assume the rights, assets and liabilities of MGPP and the responsibility for staging the Grand Prix.

During 1994–95, total government expenditure provided to assist the staging of the Grand Prix was approximately \$21 million, with an estimated \$31.5 million provided in 1995–96.

### *Crown Casino*

In November 1993, the State Government granted a licence to Crown Limited to operate a casino in Melbourne. The licence fee offered and accepted was \$200 million with additional taxation of \$57.6 million payable over a three year period. The casino will eventually be located in a complex currently being constructed by Crown on public land in the Southbank precinct of Melbourne. The land has been leased from the Government for a 40 year period at a nominal annual rental of \$1. While awaiting the completion of its new casino complex, Crown has been operating a temporary casino, since June 1994, at Melbourne's World Trade Centre.

In July 1995, Crown sought approval, pursuant to the provisions of the *Casino Control Act 1991*, to increase the number of gaming tables and machines, and for amendments to tax arrangements in respect of commission-based players. The Victorian Casino and Gaming Authority (VCGA) engaged a consultant to review the impact of these measures on the profitability of the operator and to provide a recommendation regarding any change to the licence fee payable.

Following consideration of the Crown proposal and the consultant's report, the VCGA agreed to increase the number of gaming tables. The consultant recommended that the licence fee payment for the additional 150 gaming tables should range from \$51 million to \$69 million. The consultant recommended that the higher end of the licence fee range be taken, as these amounts were

based on more accurate estimates of the revenues and expenses likely to be generated from the additional gaming tables.

Under the *Casino Control Act* 1991, the Treasurer is responsible for the determination of the licence fee and taxation payments. Accordingly, the Treasurer sought advice of the Department of Treasury and Finance on the issue of variation to the licence fee. The Department estimated that the stream of projected earnings to the operator from the additional gaming tables was between \$194 million and \$259 million, after taking account of a rate of return to the owners, consistent with that generated by Crown under the original licence fee. The Department recommended to the Treasurer that the additional licence fee should be based on the lower end of the stream of projected earnings and ultimately arrived at a licence fee of \$85 million.

### *City Link project*

The Victorian Government, in October 1995, entered into a number of arrangements with a private consortium (Transurban) involving the financing, construction and operation of the Melbourne City Link project (City Link). The estimated total cost of the project is \$2 billion, which includes \$1.8 billion financed by the consortium and \$266 million of associated works financed by the State.

City Link will be constructed by the consortium on Crown land leased from the State as a public tollway for an estimated period of 34 years, with toll revenues applied towards the costs of construction, operation and maintenance, with a return on investment available for the investors in the project. At the end of the specified period, ownership of City Link will revert to the State at no cost, in a fully maintained condition.

While the consortium has assumed the risks associated with the financing of the project, the State has accepted certain obligations relating mainly to the maintenance of the current operating environment for the project. In addition to this, the State has undertaken to implement certain traffic measures to enable the most efficient use of the overall road network, with toll revenue estimates based on traffic flows after taking account of these measures. The Government may also implement future traffic enhancement measures which could assist Transurban by increasing the revenues of the project.

The key obligations of the State under the project include:

- provision of required land and associated planning scheme amendments;
- meeting any costs associated with the clean-up of contaminated land;

- funding certain works associated with the project at an estimated cost of \$159 million;
- implementation of agreed traffic management measures;
- the maintenance of City Link as a central part of Melbourne's transport network in the development of future transport policies;
- indemnification of Transurban against costs incurred from any damage to City Link caused by the State, its agencies or contractors;
- exemption from the payment of local government rates and, water and sewerage rates and charges (excluding usage) relating to project land; and
- assumption of Transurban debt obligations if it is fundamentally prevented from completing or operating the project as envisaged, due to a change in Commonwealth or State laws or policies.

In addition, the key risks assumed by the State include:

- provision of financial contributions to Transurban, under certain circumstances which fundamentally alter the operating environment for the project;
- assumption of project responsibility and the requirement to make early termination payments to Transurban, under certain circumstances substantially within the control of the State, which cause the project arrangements to be terminated, including new laws which prevent the project from completion or operation as envisaged, and the issue of an Environmental Impact Statement by the Commonwealth Government in relation to the project;
- assumption of the City Link or part thereof in a damaged condition, under certain catastrophic and uninsurable events; and
- delays in the collection of fees from Transurban if the project experiences financial difficulties.

Transurban is required to pay the State annual fees (known as concession fees), to compensate the State for (negotiated) financial assistance of around \$219 million provided to the project by way of land and certain associated works.

#### **A1B.4 Institutional arrangements**

The following sections provide a summary of the major features of the Victorian Government's industry assistance programs, specified by the relevant delivery agency. Where available, reference is made to the policy framework governing

the provision of assistance, program objectives, the nature of the assistance provided, eligibility criteria and program descriptions.

### **Department of Treasury and Finance**

The Department of Treasury and Finance portfolio includes a number of specific cases where the Government has entered into partnerships or financial arrangements with the private sector, or established public sector trading entities, which have resulted in an on-going cost to the budget in the provision of subsidies or operating payments. These cases include arrangements relating to the Flexible Tariff Management Unit Trust, the World Congress Centre and Energy Brix Australia Corporation.

#### *Flexible Tariff Management Unit Trust (FTMUT)*

The FTMUT establishes the electricity tariff for the Point Henry and Portland aluminium smelters. The tariff for the supply of electricity to the smelters fluctuates in line with world aluminium prices. Under agreements with the State Electricity Commission of Victoria (SECV), Alcoa and Portland Smelter Services, the FTMUT is required to make payments to the SECV when aluminium prices fall below a stipulated level. Conversely, when aluminium prices rise above the stipulated level, Alcoa and Portland Smelter Services make payments to the FTMUT. The net cost to the community of the agreements was \$147.2 million in 1994–95 and \$124.3 million in 1995–96.

The Victorian Government's Autumn Economic Statement of May 1995 (Victorian Government 1995b) described the flexible tariff arrangements as not having worked as intended and, at the time, as having resulted in an accumulated subsidy of \$1 billion.

In October 1996, the Government reported that the present value of the future subsidy payments likely to accrue to the State, based on current expectations of future aluminium prices and existing contractual arrangements that will continue to 2016, was \$1.3 billion (Victorian Government 1996b).

#### *World Congress Centre*

Under the funding arrangements established to finance the construction of the World Congress Centre, the Victorian Treasurer is, in essence, the guarantor of the project. The financial obligations of the State relating to the Government's sponsorship of the Centre for the period 1990 to 2002, include certain operating subsidies and a wide range of indemnities to the property trust and banks involved in the arrangement against any losses they may incur. In 1994–95, the

cost to the budget of these operating subsidies was \$26.6 million and totalled \$28.9 million in 1995–96.

During the construction phase of the Centre, \$149 million was raised to finance the project. Upon completion of the project in 1990, the construction debt was refinanced through a long-term equity financing arrangement whereby the five finance unit holders purchased units in a Special Purpose Private Unit Trust for a seven year investment period to February 1997. In essence, the debt of \$149 million was replaced by equity financing, whereby moneys obtained from the finance unit holders were used to repay the original debt incurred during the construction stage.

In October 1996, the Department of Treasury and Finance reported (Victorian Government 1996b) that under the current financing arrangements, the financing units in the Trust are to redeemed. If the redemption of the units is subject to capital gains tax, the amount to redeem the units will increase from \$149 million to up to \$176 million.

The Department has entered into negotiations with the Trustee to acquire the Centre. The amount potentially payable by the State would provide the Trustee with sufficient funds to give the unitholders their guaranteed return on investment and also result in the termination of the current financial arrangement and the removal of the State's exposure.

In May 1992, the Estimates Sub-Committee of the Economic and Budget Review Committee reported to the Victorian Parliament on issues related to the funding of the World Congress Centre. One of the major conclusions of the Estimates Sub-Committee was that, in the event that the Centre is not sold in 2002 or does not operate profitably, the estimated possible financing costs to the Victorian Government over the 12 year period 1990 to 2002 could range between \$379 million and \$435 million.

### *Energy Brix Australia Corporation*

As part of the restructure of the Victorian electricity industry, the Morwell Briquette and Power Complex was separated from the SECV and merged with the marketing function of the Coal Corporation of Victoria to form a new independent State business Corporation, Energy Brix Australia Corporation. The new Corporation is involved in briquette production, sales, research and development. To assist with the restructure of the Corporation, the Victorian Government has provided \$17.5 million to Energy Brix in 1994–95 and \$3.9 million in 1995–96.

## **Department of Business and Employment (DBE)**

The DBE was established in October 1992 and, until July 1996, acted as the State's lead agency in the delivery of the Government's industry development and employment policies and programs.<sup>1</sup> In 1994–95, the Department established Business Victoria which acted as the 'brand name' under which the Government's industry, investment and business programs were marketed and delivered by the Department. The DBE provided assistance to industry totalling \$70.1 million in 1994–95. The bulk of that assistance was offered through the Department's *Industry, Regional and Trade Support Program*.

### *Industry, Regional and Trade Support Program (IRTSP)*

The IRTSP aimed to encourage business investment and development through the provision of policy advice, financial assistance and facilitation services. Program objectives, as stated in the Department's 1994–95 Business Plan, were to:

- promote and facilitate improved Victorian industry and regional performance;
- improve the international competitiveness of Victorian enterprises and the Victorian business environment;
- enhance the export performance of key Victorian sectors and promote Victoria as an investment and business location; and
- provide advice on strategies and policies to improve Victoria's business environment.

### *Types of assistance*

The types of assistance offered through the IRTSP included:

- grants to offset payroll tax and land tax;
- the provision of infrastructure;
- the provision of facilitative services in the form of site selection and fast-tracking of regulatory approvals, information and advice; and
- assistance with training.

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<sup>1</sup> In July 1996, the activities of the Department of Business and Employment were subsumed within the newly formed Department of State Development. Under the new structure, the Department also has absorbed Tourism Victoria, Sport, Recreation and Racing, Film Victoria and the State Film Centre of Victoria from the former Department of Arts, Sport and Tourism, along with the Office of Communications and Multimedia and Food Victoria from the Department of Premier and Cabinet.

New investment proposals which qualified for assistance, usually received packages that were a combination of financial assistance and facilitative services.

According to Departmental guidelines, the level of assistance applied to any project was assessed having regard to the level of capital investment, the dollar value of additional exports or import replacement, and the number of incremental jobs expected to be created. The guidelines also stated that the maximum level of assistance established through the offset of payroll tax on incremental jobs and the offset of land tax would be applicable for the first five years of the proposed investment.

In 1994–95, the total level of assistance provided through the IRTSP was \$62.9 million. Assistance provided under this program is shown in Table A1B.3.

**Table A1B.3: Department of Business and Employment; Industry, Regional and Trade Support Program, 1994–95 and 1995–96 (estimate) (\$000)**

<i>Assistance</i>	<i>1994–95</i>	<i>1995–96</i>
Industry schemes of assistance and related expenditure	27 649	36 129
Running costs	28 485	33 415
Industry Research and Development Grants	5 500	4 500
La Trobe Regional Commission	1 254	–
<b>Total</b>	<b>62 888</b>	<b>74 044</b>

*Source:* Victorian Government (1995c).

While the 1995–96 Victorian Budget estimates (Victorian Government 1995c) and the Department's 1994–95 Annual Report (DBE 1995) disclosed total program expenditure for 1994–95, no detail was provided regarding its composition. Therefore, it has not been possible to determine the cost to State revenue in terms of payroll tax and land tax offsets in the provision of financial assistance. Further, neither the Budget Papers nor the Annual Report revealed the full cost of the provision of assistance to industry as no specific estimate was made for the costs associated with the provision of facilitation services.

#### *Eligibility criteria*

Under the IRTSP, assistance was aimed at attracting major investment projects which otherwise might not have occurred in Victoria. In general, investment

proposals were assessed for assistance purposes on a case-by-case basis and in accordance with the following eligibility criteria:

- the investment proposals must be significant and incremental to Victoria;
- investments should generally be in trade-exposed, key industry sectors;
- the projects should offer significant net economic benefits in terms of increased exports, import substitution and employment growth;
- applicants for assistance should be able to demonstrate a commitment to achieving world best practice;
- investors and projects must be assessed by the Department to be financially viable; and
- in all cases, the level of assistance was to have regard to Victoria's competitive position and to net economic and financial benefits to the State.

Proposed investments were required to be sourced from key industry sectors identified by the DBE as having significant growth potential. The Department had identified 16 such sectors, which included information technology, telecommunications, food processing, tourism and the automotive and engineering industries.

Departmental case officers were responsible for the evaluation of a company's capacity to deliver projected economic benefits, as disclosed in project proposals for which assistance was sought. In conjunction with this process, the Department undertook an analysis of the financial viability of applicant companies.

The DBE's major assistance schemes were delivered through its three main organisational units — namely, the Industry Development Division, the Office of Regional Development and the Office of Trade and Investment. These units effectively formed the sub-programs of the main IRTSP.

### *Industry Development Division*

The Industry Development Division had the role of developing existing Victorian industry and facilitating major investment projects. Major schemes offered included:

- *financial incentives packages* — grants were provided to attract new industry investment that otherwise might not be located in Victoria;

- *business assistance packages* — these packages were designed to assist businesses in key industry sectors with potential for rapid growth through export development;
- *industry studies* — funding was provided to facilitate studies aimed at improving the Victorian business environment and Victorian enterprises; and
- *events and exhibitions* — assistance was provided to encourage the staging of events and exhibitions as a means of promoting Victorian products and services.

### *Office of Regional Development*

The Office of Regional Development focused on the attraction of industry to regional areas and liaised with local government agencies on future business opportunities. Major schemes offered included:

- *investment attraction* — this package included the provision of financial assistance and facilitation services to assist regional centres in attracting new investment or expanding existing businesses;
- *regional infrastructure assessments* — funding was provided through this scheme for the undertaking of joint studies with local government to ascertain the infrastructure capabilities of regions to accommodate new investment;
- *regional infrastructure support* — assistance was provided for the development of infrastructure required to support potential investment, to establish regional development business centres and to offset the costs of promoting available infrastructure;
- *industry sector opportunity studies* — the purpose of these studies was to provide information on new investment opportunities which were in line with regional strengths;
- *business development* — assistance was provided to regional business and tourism projects to encourage operational improvement through strategic planning, management training, export development and the identification of business opportunities; and
- *regional development bodies* — funding was provided to subsidise the operation of regional economic development bodies and the costs associated with the employment of business development facilitators who provide advice to small business.

### *Office of Trade and Investment*

The Office of Trade and Investment had the tasks of promoting export growth by Victorian industry and the management of the Government's Asian, European and North American business offices. Major schemes of assistance included:

- *trade fairs and missions* — this form of assistance was designed to improve access by Victorian exporters to overseas markets;
- *export manager assistance* — funding was provided to subsidise the employment of export managers by firms with a commitment to export development;
- *feasibility studies (greenfield projects)* — financial assistance was provided to contribute to consultancy costs for studies on greenfield projects in key industry sectors; and
- *market entry assistance* — the Department provided information on international markets to facilitate the offshore sale of Victorian goods and services.

### *Other assistance schemes*

The DBE provided a range of other assistance schemes. The following is a summary of some of the more significant schemes of assistance provided through the Department.

#### *Enterprise Improvement*

This program delivered enterprise improvement services under the auspices of AusIndustry. These services included diagnostics, business planning, total quality management and detailed studies of key aspects of a firm's operations. The total cost of the provision of these programs in 1994–95 was \$6.4 million, of which \$4.9 million was sourced from the Commonwealth. The Department also proposed to fund the recruitment, training and placement of industry specialists in major industry associations to improve business access to the programs offered through the *National Industry Extension Service* network. The estimated State contribution to this initiative, planned to commence in 1995–96, was \$600 000.

#### *Industrial Supplies Office*

Departmental funding of the Industrial Supplies Office (ISO) was \$0.7 million in 1994–95, with a further \$0.7 million allocated for 1995–96. The ISO is a non-profit organisation funded by the State Government. Its objectives are to

increase import replacement with locally produced goods and services, and to facilitate export growth.

### *Government purchasing*

The Victorian Government Purchasing Board has the role of implementing the Government's purchasing reform program, with specific focus on strategic procurement and achievement of purchasing principles and better commercial practices. Wherever practicable, government departments source their requirements from Australian and/or New Zealand suppliers to maximise local content. The total value of purchases to June 1995 was \$377 million.

### *Small Business Victoria*

Small Business Victoria aimed to advance the viability, competitiveness, growth and performance of the small business sector, and to improve the small business environment. Assistance and services offered by Small Business Victoria, in the main, covered facilitation services, general advice and referrals.

## **Department of Arts, Sport and Tourism (DAST)**

Until July 1996, the DAST brought together the portfolios of arts, sport, recreation, racing, tourism and gaming.<sup>2</sup> The Department aimed to maximise the economic and community benefits of Victoria's cultural, sporting, recreational, entertainment and tourism resources, and associated industries.

A number of DAST's constituent bodies, such as Film Victoria and Tourism Victoria, were described as playing a significant role in the provision of assistance to develop and promote activity in the entertainment, sporting and tourism industries.

A wide range of assistance was provided through the Department and its constituent bodies, including direct grants, operating and capital works grants, subsidies, services, information and advice. In 1994-95, DAST provided assistance to industry totalling \$152.6 million.

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<sup>2</sup> In July 1996, the Department of Arts, Sport and Tourism was separated, with Arts Victoria and the Community Support Fund absorbed into the Department of Premier and Cabinet. Tourism Victoria, Sport, Recreation and Racing, Film Victoria and the State Film Centre of Victoria have been absorbed into the Department of State Development.

## *Arts Victoria*

### *Arts 21*

In November 1994, the Victorian Government announced the *Arts 21* initiative, which is its strategy for the arts industry. The initiative is described as providing a strategic planning framework for the arts portfolio and an industry development agenda for the Victorian arts and cultural sector. A number of the initiatives of the *Arts 21* strategy are implemented through the various organisational units of the Department. In December 1995, the Minister for the Arts announced a detailed program of development assistance totalling over \$13 million to more than 240 cultural organisations and facilities in either one-off project, annual or triennial grants. The names of the recipients and the amounts received are published.

### *Development of Arts Institutions and Resources (DAIR)*

The objectives of DAIR were to develop, maintain and exhibit the State's collections in the areas of natural history, science and technology, social history, and the visual and performing arts. Institutions which received financial assistance in 1994–95 under this program included the National Gallery of Victoria, the State Film Centre of Victoria, the Museum of Victoria, the Victorian Arts Centre, the Geelong Performing Arts Centre and Film Victoria. In 1994–95, funding provided under this program totalled \$54.1 million.

### *Development of Cultural Activities Program (DCAP)*

The DCAP supported the non-State government sector in the development and provision of cultural activities and facilities throughout Victoria. In 1994–95, this program, which also received funding from the *Community Support Fund*, was the vehicle by which Arts Victoria delivered funding support to the non-government sector. Assistance provided under this program is shown in Table A1B.4.

**Table A1B.4: Department of Arts, Sport and Tourism;  
Development of Cultural Activities Program,  
1994–95 and 1995–96 (estimate) (\$000)**

<i>Assistance</i>	<i>1994–95</i>	<i>1995–96</i>
Assistance to cultural activities	11 585	11 708
Regional art galleries, museums and performing arts centres	2 521	2 555
State Orchestra of Victoria	627	713
Regional and minor project grants	510	510
Premier's literary awards	100	100
<b>Total</b>	<b>15 343</b>	<b>15 586</b>

*Source:* Victorian Government (1995c).

### *Tourism Victoria*

Tourism Victoria was established under the *Tourism Victoria Act 1992*. It is the body through which the Government seeks to be an active participant in the tourism and travel industry sectors. Tourism Victoria's stated aim is to maximise employment and the long-term economic benefits of tourism to Victoria by developing and marketing Victoria as a competitive tourist destination.

Assistance provided through Tourism Victoria in 1994–95 totalled \$27.6 million. This assistance, in the main, was provided through a range of services to the industry which included:

- a national advertising campaign;
- a cooperative marketing program which supported 13 campaign committees to develop and implement programs to market every region of the State;
- the provision of free information and a range of publications to industry participants including developers, existing and potential operators and the public;
- intrastate, interstate and international information and retail outlets for intending travellers;
- the provision of advice and assistance on issues related to infrastructure development, and advice on investment opportunities;
- the opportunity for industry to participate in cooperative marketing programs; and

- a tourism advisory service to assist new and potential tourism operators and the organisation of bi-monthly workshops.

#### *Industry Development Division (IDD)*

Tourism Victoria's IDD assists industry with strategic planning, the organisation of major events, project development and training seminars. Funding is provided also to industry associations for the development of marketing strategies, industry development projects and the attraction of conventions, conferences and exhibitions to Melbourne.

#### *Major Events Unit (MEU)*

The MEU within Tourism Victoria identifies opportunities to secure new events and to develop existing and new events in the areas of sport, arts and culture. During 1994–95, about 40 events received funding from the MEU. A series of events-based marketing campaigns were also organised in an attempt to maximise economic and tourism spin-offs of the State's major events and festivals.

#### *Trade Subsidy Scheme (TSS)*

The TSS provides tourism operators with a 50 per cent subsidy on their trade show costs. Tourism Victoria also partly sponsors Victorian product representation at international trade shows.

#### *Infrastructure Development Division (IDD)*

Through its IDD, Tourism Victoria acts as a central contact point for existing and potential investors in the tourism industry. The Division assists the private sector with the development of business plans, facilitates investment and also distributes grants to industry.

#### *Film Victoria*

The objectives of Film Victoria are to foster new creative talent and to develop a local infrastructure that promotes the advancement of film and television production and the attraction of interstate and overseas projects to Victoria. In addition to the provision of financial and facilitative assistance to the industry, Film Victoria also invests directly in film and television production.

The major forms of assistance offered by Film Victoria include the provision of grants and loans, as well as information and advice to industry participants. In 1994–95, Film Victoria provided assistance which totalled \$5 million.

### *Creative Development Program (CDP)*

The CDP encompasses:

- the *Independent Film Makers Fund*, which provides financial assistance for film makers to enter the industry; and
- the *New Writers Program*, which provides assistance to script writers.

### *Project Division*

The Project Division concentrates on the development of future projects through the provision of financial assistance to local film and television producers in the form of 'limited resource advances', as well as providing funds for the development of scripts for feature films, television drama and documentary projects.

### *Committed Funding Facility*

Film Victoria also established the *Committed Funding Facility*, which is a financial facility designed to provide cash flow associated with pre-sales and distribution guarantees. The Facility's stated objectives are to provide financial support to the industry, underpin private sector participation, assist local producers in international joint venture financing and attract additional production to Victoria.

### *Melbourne Film Office (MFO)*

The MFO's objective is to attract film and television production and post-production work to Victoria. It also acts as the first contact point for interstate and international producers interested in filming in Victoria. The MFO also has an industry liaison role, hosting visits by overseas film and television producers, and providing advice to Victorian film makers on contract negotiations, production issues, exporting and access to marketing grants.

### *Community Support Fund*

The *Community Support Fund* was established in 1991 to allow for the direction of a portion of government revenue from gaming machines to programs and projects which will benefit the Victorian community, including projects in the promotion of the arts, sport and tourism. In 1994–95, a total of \$7 million was distributed by DAST from this Fund.

### *Office of Racing*

The role of the Office of Racing is to develop and coordinate policies to foster the growth and economic viability of the racing industry in Victoria. During 1994–95, assistance totalling \$19.9 million was distributed to the racing, harness racing and greyhound industries for racecourse and track development, and other works.

## **Department of Conservation and Natural Resources (DCNR)<sup>3</sup>**

### *Forests Service*

Under this program, the DCNR aimed to provide authoritative advice regarding public and private forestry and related forestry issues including fire management on public land. The Department also sought to manage forest production as a business and to ensure a sustainable supply of forest produce on a commercial basis. It also provided community services in the form of recreation, education and the conservation of forest assets. In 1994–95, assistance provided to the industry totalled \$28.3 million.

### *Fisheries, Flora and Fauna*

The objective of the fisheries component of this program is to conserve fisheries resources by the careful management of commercial fisheries, recreational fishing, aquaculture and the protection of aquatic habitats. In 1994–95, the level of assistance provided to the fisheries industry totalled \$5.8 million.

## **Department of Agriculture, Energy and Minerals (DAEM)<sup>4</sup>**

The DAEM provided assistance to the food processing, energy and mining industries. Assistance was delivered broadly at the industry level and was mainly in the form of the provision of training, survey data, regulatory and licensing information and the undertaking of research and development.

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<sup>3</sup> The Department of Conservation and Natural Resources now forms part of the Department of Natural Resources and the Environment, which includes the Forests Service and Fisheries, Flora and Fauna programs.

<sup>4</sup> The Department of Agriculture, Energy and Minerals was absorbed, in July 1996, by the newly formed Department of Natural Resources and the Environment. As part of the rearrangement, Energy Policy was transferred to the Department of Treasury and Finance.

### *The Agriculture and Food Initiative*

The *Agriculture and Food Initiative* is a \$22 million government program which is being implemented over a three year period. Its objective is to realise the potential of Victoria's food and agriculture industries to produce quality food and fibre which is competitive on world markets and, through partnerships with industry, to foster research and development.

### *Resources Development Program (RDP)*

Through the RDP the Department aimed to increase mining and exploration activity in Victoria. The program also provided services to the minerals and extractive industries and the petroleum industry, and through various inspectorate divisions was responsible for:

- improving the operational safety of exploration, mining and quarrying in Victoria, and providing a flexible and relevant regulatory environment;
- monitoring environmental and rehabilitation standards for mines and quarries and the provision of information to industry about acceptable standards of environmental practice; and
- an on-going program of engineering, safety and equipment inspections of oil and gas exploration and production facilities.

In 1994–95, the Department provided assistance totalling \$4.3 million.

### *Energy Policy*

The aim of this program was to provide low-cost energy to foster energy-intensive industry for Victoria and to ensure that an appropriate structure was in place to deliver safe, reliable and low cost gas and electricity. The program also contributed to the development of energy policy regarding greenhouse and other energy-related issues, including demand management and alternative energy sources. In 1994–95, assistance provided to industry under this program totalled \$3.6 million.

## **Department of Justice**

### *Fair Trading and Business Affairs*

Through the operations of the *Fair Trading and Business Affairs Program*, the Department attempts to encourage public, investor and creditor confidence in Victoria. Specifically, the Department seeks to meet the needs of the public for information in respect of businesses and persons. In 1994–95, assistance provided to industry totalled \$10.2 million.

## **Department of Premier and Cabinet<sup>5</sup>**

### *Office of Communications and Multimedia*

In its 1996 Autumn Economic Statement (Victorian Government 1996c), the Victorian Government announced a range of initiatives to develop, support and promote Victoria's multimedia industries. These initiatives will be delivered by a number of Departments, under the coordination of the Office of Communications and Multimedia. The aim of the initiatives is to facilitate new investment for Victoria in these industries. The *Victoria 21 Multimedia Development Fund*, which was established in 1995–96, will provide \$13 million in assistance to developers of multimedia products.

### *Food Victoria*

Food Victoria is the State Government's major initiative to promote growth, investment and employment in the food industry. Through the Australian Food Industry Research Centre, the Government aims to stimulate research, training and investment in food processing and the export of Victorian food products.

## **Department of Planning and Development<sup>6</sup>**

### *Office of Major Projects*

The Office of Major Projects provides funding to facilitate private sector redevelopment of various sites around Melbourne. These sites include the Bayside Development, Kensington Banks Redevelopment, the Jolimont Residential Precinct, the Jolimont Recreational Precinct and the Regent Theatre Redevelopment. In 1994–95 assistance provided to these industry projects totalled \$17.4 million.

## **Department of Transport<sup>7</sup>**

### *Freight Services*

Through the *Freight Services Program*, the Department sought to develop, market, operate and maintain integrated public freight transport services. This

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<sup>5</sup> In July 1996, the Office of Communications and Multimedia and Food Victoria were absorbed into the structure of the Department of State Development.

<sup>6</sup> The Department of Planning and Development now forms part of the Department of Infrastructure.

<sup>7</sup> The Department of Transport now forms part of the Department of Infrastructure.

program involved the payment of subsidies totalling \$5 million in 1994–95, to the Public Transport Corporation in lieu of increases in certain freight rates.

### **A1B.5 Detailed information on State Government industry assistance programs and schemes**

Tables A1B.5 and A1B.6 below, summarise the assistance provided to industry (excluding agriculture — see Appendix 2) by the Victorian Government. The information in these tables has been drawn from the Victorian Government's budget papers, departmental annual reports and various reports of the Victorian Auditor-General.

**Table A1B.5: Victoria: State Government financial assistance to industry programs, 1994–95 and 1995–96 (estimate)**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Department of Treasury and Finance (DT&amp;F)</b>				
<i>Flexible Tariff Management Unit Trust</i>	<i>The Flexible Tariff Management Unit Trust (FTMUT) establishes the electricity tariff for the Point Henry and Portland aluminium smelters which fluctuates in line with world aluminium prices. The FTMUT is required, under agreements with the SECV, Alcoa and Portland Smelter Services Pty. Ltd., to make payments to the SECV when aluminium prices fall below a stipulated level. When aluminium prices rise above the stipulated level Alcoa and Portland Smelter Services Pty. Ltd. make payments to the FTMUT.</i>	<i>Subsidy arrangement for the provision of electricity.</i>	147 192	159 900
<i>World Congress Centre</i>	<i>Under the funding arrangements established to finance the construction of the World Congress Centre the Victorian treasurer is, in essence, the guarantor of the project. The financial obligations of the State relating to the Government's sponsorship of the centre over the period 1990 to 2002 include certain operating subsidies and a wide range of indemnities to the property trust and banks involved in the arrangement against any losses they may incur.</i>	<i>The provision of operating subsidies and indemnities.</i>	26 569	29 746

Table A1B.5: **Victoria: State Government financial assistance to industry programs, 1994–95 and 1995–96 (estimate) — continued**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Department of Treasury and Finance (DT&amp;F) — continued</b>				
<i>Energy Brix Australia Corporation</i>	<i>As part of the restructure of the Victorian electricity industry, the Morwell Briquette and Power Complex was separated from the State Electricity Commission of Victoria and merged with the marketing function of the Coal Corporation of Victoria to form a new independent State business corporation, Energy Brix Australia Corporation. The new Corporation is involved in briquette production, sales, research and development. To assist with the restructure of the corporation, government has provided \$17.5 million to Energy Brix in 1994-95.</i>	<i>Operational subsidies</i>	<i>17 500</i>	<i>20 200</i>
<b>Total all DT&amp;F programs</b>			<b>191 261</b>	<b>209 846</b>
<b>Department of Arts, Sport and Tourism (DAST)</b>				
Arts 21 Program	The Arts 21 program provides a strategic planning framework for the arts portfolio and an industry development agenda for the arts and culture sector. Contained within Arts 21 are a number of specific schemes designed to stimulate the arts industry. Funding of \$13 million will be provided to 240 organisations in the form of one-off, annual and triennial grants.	Grants	4 500	4 500

Table A1B.5: **Victoria: State Government financial assistance to industry programs, 1994–95 and 1995–96 (estimate) — continued**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Department of Arts, Sport and Tourism (DAST) — continued</b>				
Development of Cultural Activities Program - Arts Projects	The department's Development of Cultural Activities Program- Arts Projects supports the non-state government sector in the development and provision of cultural activities and facilities throughout Victoria. This program. Also included in the program is funding for the Melbourne Symphony Orchestra and the Premier's literary awards.	Grants.	15 343	15 586
Development of Arts Institutions and Resources Program	The objectives of this program are to develop, maintain and exhibit the State collections in the areas of natural history, science and technology, social history, and visual and performing arts. Institutions receiving financial assistance under this program include the National Gallery of Victoria, the State Film Centre of Victoria, The Museum of Victoria, the Victorian Arts Centre, Film Victoria and the Geelong Performing Arts Centre.	Grants.	54 143	58 200
Sport and Recreation	This program includes funding which is provided to the Victorian Institute of Sport for the preparation of elite athletes in the areas of coaching, sports science, sports medicine and counselling. Also included is the provision of financial assistance to the State Swim Centre, the Olympic Park Committee of Management, Werribee Park, sports service organisations and the State Hockey Centre.	Financial assistance.	3 446	3 600

Table A1B.5: **Victoria: State Government financial assistance to industry programs, 1994–95 and 1995–96 (estimate) — continued**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Department of Arts, Sport and Tourism (DAST) — continued</b>				
Office of Racing	The role of the Office of Racing is to develop and coordinate policies to foster the growth and economic viability of the racing industry in Victoria.	Financial assistance and the provision of strategic and general advice.	19 889	3 450
Tourism Victoria	The role of Tourism Victoria is to act as a catalyst in stimulating the growth and the development of Victoria's tourism industry. It undertakes this role through involvement in marketing, product development, research and the provision of transport services in the tourism and travel industries.	Financial assistance and the provision of strategic and general advice.	27 551	27 519
Community Support Fund	The Community Support Fund (CSF) was established in 1991 to allow for the direction of a portion of government revenue from gaming machines to programs and projects which will benefit the Victorian community, including a portion of the monies collected in the CSF being directed at projects promoting the arts and tourism.	Grants.	6 962	15 072
<i>Australian Grand Prix Corporation</i>	<i>The Australian Grand Prix Corporation was established in October 1994 and is charged with the responsibility of staging the Formula One Grand Prix at Albert Park and facilitating extensive capital works in relation to the staging of the race.</i>	<i>Funding provided by government.</i>	20 800	31 462
<b>Total all DAST programs</b>			<b>152 634</b>	<b>159 389</b>

Table A1B.5: **Victoria: State Government financial assistance to industry programs, 1994–95 and 1995–96 (estimate) — continued**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Department of Business and Employment (DBE)</b>				
Industry, Regional and Trade Support Program	The Industry, Regional and Trade Support Program is Government's principal program for the generation of business investment and development. The program acts as a mechanism for facilitating investment and export performance, assisting business to improve competitiveness and productivity, attracting investment and developing regional Victoria. Assistance is aimed at attracting major investment that otherwise might not occur in Victoria. Projects identified for assistance must offer significant economic benefits to the state in terms of exports, import substitution and employment growth.	Grants, subsidies, information, infrastructure provision, training, and facilitation of regulatory approvals.	57 388	69 544
Industry Development Program	<i>The focus of the Industry Development Program is to foster the development of industry sectors with significant growth potential. Managers, case officers and other staff in this area are responsible for identifying opportunities for development in individual industry sectors, government supply and major project facilitation.</i>	<i>Grants, subsidies, information, infrastructure provision, training, and facilitation of regulatory approvals.</i>	na	na

Table A1B.5: **Victoria: State Government financial assistance to industry programs, 1994–95 and 1995–96 (estimate) — continued**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Department of Business and Employment (DBE) — continued</b>				
<i>Office of Regional Development</i>	<i>The Office of Regional Development is charged with the responsibility of delivering government's regional development objectives of attracting investment to country Victoria, supporting regional development organisations, the attraction of overseas investment and generally building on regional strengths and promoting regional locations. The achievement of these objectives is expected through the delivery of financial assistance and facilitative services to regional Victoria.</i>	<i>Grants, subsidies, information, infrastructure provision, training, and facilitation of regulatory approvals.</i>	na	na
<i>Office of Trade and Investment</i>	<i>The Office of Trade and Investment is responsible for the promotion of export growth by Victorian industry by providing financial and facilitative assistance to major projects with export potential. The Office also facilitates access to overseas markets through trade fairs and missions, subsidises the engagement of export managers by Victorian companies and manages the government's six overseas business offices.</i>	<i>Financial assistance, subsidies and facilitation services.</i>	na	na
National Industry Extension Service/ AusIndustry Program	The department works closely with the Commonwealth Government in delivering NIES enterprise improvement programs and services to Victorian businesses. The NIES program acts as a catalyst for key business and economic outcomes in terms of employment, export growth and increases in net investment. NIES programs generally aim to improve business management and competitiveness.	Training programs and the provision of subsidies for the engagement of consultants .	6 400	na

Table A1B.5: **Victoria: State Government financial assistance to industry programs, 1994–95 and 1995–96 (estimate) — continued**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Department of Business and Employment (DBE) — continued</b>				
Small Business Victoria (SBV)	The facilitation services offered through SBV assist existing and prospective business operators to address key issues in their industry sectors and to develop and implement appropriate strategies and systems for their businesses. Areas of facilitation include export assistance, marketing advice and information regarding State and Commonwealth regulatory requirements. Specific training is also provided in the areas of tourism, technology and food processing.	Provision of facilitation services, training and financial assistance.	120	na
Industrial Supplies Office	The Industrial Supplies Office (ISO) is funded by the Victorian government. The objective of the ISO is to replace imports in the private sector with domestic goods and services and to facilitate growth in exports.	Purchasing preferences.	700	700
Strategic Industry Research Foundation	The Strategic Industry Research Foundation receives funding from government which in part funds its operations and collaboration with industry, while the balance is passed on to related research institutes for the undertaking of industry research projects.	Provision of financial assistance for industry based research and development.	5 500	4 500
<b>Total all DBE programs</b>			<b>70 108</b>	<b>74 744</b>

Table A1B.5: **Victoria: State Government financial assistance to industry programs, 1994–95 and 1995–96 (estimate) — continued**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Department of Conservation and Natural Resources (DCNR)</b>				
Cleaner Production Grants	The Environment Protection Authority and Business Victoria have established a program to promote the environmental and economic benefits resulting from cleaner production demonstration projects. In 1995 three companies were awarded cleaner production grants totalling \$190,000.	Grants	190	200
Forests Service	Under this program the Department aims to provide authoritative advice regarding public and private forestry and related forestry issues including fire management on public land. The Department also seeks to manage forest production as a business and to ensure a sustainable supply of forest produce on a commercial basis. The Department also provides community services in the form of recreation, education and the conservation of forest assets.	Government Funding	28 342	30 000
Fisheries, Flora and Fauna	The objective of the Fisheries Program is to conserve fisheries resources by the careful management of commercial fisheries, recreational fishing, aquaculture and the protection of aquatic habitats.	Government Funding	5 757	6 000
<b>Total all DCNR programs</b>			<b>34 289</b>	<b>36 200</b>

Table A1B.5: **Victoria: State Government financial assistance to industry programs, 1994–95 and 1995–96 (estimate) — continued**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Department of Planning and Development (DPD)</b>				
Major Projects	The Office of Major Projects provides funding to facilitate the private sector redevelopment of various sites around Melbourne. Included in these sites is the Lynch's Bridge Redevelopment, the Jolimont Residential Precinct where government has allocated \$4 million for rail relocation, the Jolimont Recreational Precinct with \$7.2 million provided for the demolition of old rail works, the Bayside Project and \$12.5 million for the refurbishment of the Regent Theatre.	The provision of Government funding to assist the private sector in the undertaking of major capital works.	17 369	9 220
<b>Total all DPD programs</b>			<b>17 369</b>	<b>9 220</b>
<b>Department of Agriculture, Energy and Minerals (DAEM)</b>				
Agriculture and Food Initiative	The Agriculture and Food Initiative is a \$22 million program over 3 years which aims to realise the potential of Victoria's food and agriculture industries, and to produce quality food and fibre which is competitive on world markets. Together with industry the government is providing financial assistance and program support to priority sectors within the agricultural sector.	Financial assistance and information and advice.	7 350	7 350

Table A1B.5: **Victoria: State Government financial assistance to industry programs, 1994–95 and 1995–96 (estimate) — continued**

Agency Program	Funding <sup>a</sup>
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STATE, TERRITORY AND LOCAL GOVERNMENT ASSISTANCE TO INDUSTRY

<i>Sub-Program</i>	<i>Description/objectives</i>	<i>Form of assistance</i>	<i>1994–95</i>	<i>1995–96</i>
			\$000	\$000
<b>Department of Agriculture, Energy and Minerals (DAEM) — continued</b>				
Resources Development Program	Through the Resources Development Program the Department aims to increase mining and exploration activity in Victoria. Through its various inspectorate divisions, the Department is responsible for: <ul style="list-style-type: none"> <li>improving the operational safety of exploration, mining and quarrying in Victoria, and providing a flexible and relevant regulatory environment;</li> <li>monitoring environmental and rehabilitation standards for mines and quarries and the provision of information to industry about acceptable standards of environmental practice; and</li> <li>an on-going program of engineering, safety and equipment inspections of oil and gas exploration and production facilities.</li> </ul>	Inspection services and advice.	4 300	5 000
<i>Energy Policy</i>	<i>This program aims to provide low cost energy to foster energy intensive industry for Victoria and to ensure that an appropriate structure is in place to deliver safe, reliable and low cost gas and electricity. The program also contributes to the development of energy policy regarding greenhouse and other energy related issues, including demand management and alternative energy sources</i>	<i>Advice and policy information.</i>	3 586	4 000
<b>Total all DAEM programs</b>			<b>15 236</b>	<b>16 350</b>

Table A1B.5: **Victoria: State Government financial assistance to industry programs, 1994–95 and 1995–96 (estimate) — continued**

<i>Agency Program</i>	<i>Description/objectives</i>	<i>Form of assistance</i>	<i>Funding<sup>a</sup></i>	
			<i>1994–95</i>	<i>1995–96</i>
<i>Sub-Program</i>			\$000	\$000

<b>Department of Justice (DOJ)</b>				
Fair Trading and Business Affairs	Through the operations of the Fair Trading and Business Affairs program the Department attempts to encourage public, investor and creditor confidence in Victoria. Specifically the Department seeks to meet the needs of the public for information in respect of businesses and persons.	Provision of Government Funding.	10 153	10 000
<b>Total all DOJ programs</b>			<b>10 153</b>	<b>10 000</b>
<b>Department of Transport (DOT)</b>				
Freight Services	Subsidy payment in lieu of increases in certain freight rates is made to the Public Transport Corporation.	Subsidy payment.	5 000	5 000
<b>Total all DOT programs</b>			<b>5 000</b>	<b>5 000</b>
<b>Department of Premier and Cabinet (DPC)</b>				
<i>Office of Communications and Multimedia</i>	<i>Government has announced a range of initiatives to develop, support and promote Victoria's multimedia industries. These initiatives will be conducted by a number of departments and co-ordinated by the Office of Communications and Multimedia. The aim of the initiatives is to facilitate new investment for Victoria. The Victoria 21 Multimedia Development Fund which was established in 1995-96 will provide \$13 million in assistance to developers of multimedia products.</i>	<i>Education programs, joint ventures and establishment of an appropriate regulatory environment.</i>	<i>na</i>	<i>13 000</i>

Table A1B.5: **Victoria: State Government financial assistance to industry programs, 1994–95 and 1995–96 (estimate) — continued**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96
			\$000	\$000

STATE, TERRITORY AND LOCAL GOVERNMENT ASSISTANCE TO INDUSTRY

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**Department of Premier and Cabinet (DPC) – continued**

<i>Food Victoria</i>	<i>Facilitate growth, investment, and employment in the food sector through micro-economic reform, advocacy of food industry issues, investment recruitment, regional development and education programs.</i>	<i>Financial assistance and the provision of information and advice.</i>	<i>na</i>	<i>na</i>
<b>Total all DPC programs</b>			<b>..</b>	<b>13 000</b>

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a Where information is available, the data represent total current and capital expenditure, including overheads, but after deducting user charges revenue and industry contributions unless otherwise specified.

**Table A1B.6: Victoria: State Government financial and non-financial industry assistance schemes, by department**

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Business and Employment</b>		
<b>Ministerial Industry Council</b>	<i>Financial assistance.</i>	<p><i>Description:</i> The Ministerial Industry Council, a sub-committee of cabinet, which is headed by the Premier and includes other senior government Ministers act to stimulate investment in Victoria by initiating fast-tracking policies for major investment proposals.</p> <p><i>Eligibility:</i> Major investment projects from trade exposed key industry sectors, major footloose investments that offer significant economic benefits to Victoria in the form of capital investment, export growth and employment growth.</p>
<b>Investment Recruitment</b>	<i>Grants, subsidies, information, infrastructure provision, training, and facilitation of regulatory approvals.</i>	<p><i>Description:</i> The Victorian Government provides packages of facilitative and financial assistance to attract new investments to Victoria. The overriding objective in providing financial assistance is to attract investment in trade exposed sectors which would otherwise be lost to the state.</p> <p><i>Eligibility:</i> Projects assisted need to be from key trade exposed key industry sectors, and offer significant economic benefits to the State in terms of exports, import substitution and employment growth.</p>
<b>Business Assistance</b>	<i>Grants, subsidies, information, infrastructure provision, training, and assistance in the attainment of regulatory approvals.</i>	<p><i>Description:</i> This program was established to enable government to target key industry sectors that have potential for rapid growth through export development.</p> <p><i>Eligibility:</i> Priority is accorded to exporting and import competing companies with assistance determined on a case-by-case basis having regard to the level of investment involved, employment growth, export growth, import substitution and technology derivatives.</p>
<b>Industry Studies</b>	<i>Financial grants.</i>	<p><i>Description:</i> Government assistance to the undertaking of industry studies is designed to improve the understanding of Victoria's business environment and Victorian enterprises. Studies will provide information on transport freight and packaging issues from an industry perspective, and will include the monitoring of government strategies to improve the business environment and enterprise performance.</p> <p><i>Eligibility:</i> Studies must be consistent with Victoria's industry strategy and any organisation being assisted must demonstrate a capacity to deliver or manage the proposed study.</p>

**Table A1B.6: Victoria: State Government financial and non-financial industry assistance schemes, by department**

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Business and Employment — continued</b>		
<b>Events and Exhibitions</b>	<i>Financial assistance.</i>	<p><b>Description:</b> Under its Agenda 21 Program the government has identified that the staging of industry events and exhibitions adds to the growth of the Victorian economy.</p> <p><b>Eligibility:</b> Assistance is provided in the form of grants to projects that are consistent with the government's industry strategy and clearly produce economic benefits for the state.</p>
<b>Regional Infrastructure Assessment</b>	<i>Financial assistance.</i>	<p><b>Description:</b> This program provides funding for studies that aim to identify infrastructure requirements in country Victoria necessary to attract future private sector industry development. These studies are funded in conjunction with local government and local government authorities.</p> <p><b>Eligibility:</b> Preference is given to infrastructure, technical and industrial estate feasibility studies that examine broader regional needs in the context of economic growth and investment attraction activities.</p>
<b>Regional Infrastructure Support</b>	<i>Provision of grants.</i>	<p><b>Description:</b> The major aim of this program is to ensure that infrastructure necessary for successful investment attraction to country Victoria is known and is in place in advance of demand or in response to specific investment opportunities.</p> <p><b>Eligibility:</b> Eligible projects will be identified through regional studies or through firm specific proposals. The extent of assistance will have regard to the assessed merits of the project, regional need, statewide priority and funding availability.</p>
<b>Industry Sector Opportunity Studies</b>	<i>Financial assistance.</i>	<p><b>Description:</b> The purpose of these studies is to provide detailed information (financial, technical and marketing) on identified new investment opportunities which have a strong focus on key industry sectors and exploit regional competitive strengths.</p> <p><b>Eligibility:</b> Preference will be given to studies that focus on industry sectors that are identified as regional competitive strengths.</p>
<b>Regional Profiles and Prospects</b>	<i>Financial assistance.</i>	<p><b>Description:</b> This initiative enables regional centres to maintain documents on regional profiles and prospects which provide potential investors with up to date regional information.</p> <p><b>Eligibility:</b> Assistance provided to department funded regional economic development bodies.</p>

**Table A1B.6: Victoria: State Government financial and non-financial industry assistance schemes, by department**

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Business and Employment — continued</b>		
<b>Business Development</b>	<i>Provision of grants and facilitation services.</i>	<p><i>Description:</i> The objective of this program is to provide country firms with assistance for the development of strategic plans, management training, export development and the identification of new business opportunities.</p> <p><i>Eligibility:</i> Country based firms that may not be eligible for NIES/AusIndustry assistance.</p>
<b>Regional Development Bodies</b>	<i>Financial assistance.</i>	<p><i>Description:</i> The funding of regional economic development bodies provides for local knowledge and experience in attracting investment to country Victoria and realising opportunities for regional economic development. Funding is provided for the employment of an economic development officer and related administrative expenditure.</p> <p><i>Eligibility:</i> Victorian regional economic development bodies that have developed the appropriate twelve month economic development work plan.</p>
<b>Business Advice in Rural Areas</b>	<i>Financial assistance.</i>	<p><i>Description:</i> Funding is provided for the employment of business development facilitators to provide business advice to existing and emerging small rural firms.</p> <p><i>Eligibility:</i> Priority to smaller country centres that are not otherwise directly assisted through Commonwealth and State programs.</p>
<b>Trade Fairs and Missions</b>	<p><i>Financial and facilitative assistance.</i></p> <p>During 1993–94 to 1994–95, 17 trade fairs and missions were organised at a cost of \$0.8 million and involved over 200 Victorian firms.</p>	<p><i>Description:</i> This program assists small to medium sized Victorian businesses, from key industry sectors, to enhance their export potential through participation in targeted trade fairs and missions which aim to improve their access to overseas markets. The department provides financial, organisational and promotional support to participating companies.</p> <p><i>Eligibility:</i> Small to medium-sized Victorian businesses from key industry sectors with export potential.</p>

**Table A1B.6: Victoria: State Government financial and non-financial industry assistance schemes, by department**

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Business and Employment — continued</b>		
<b>Export Manager Assistance</b>	<i>Employment subsidy.</i> During 1993–94 to 1994–95, 59 firms received assistance totalling \$1.7 million.	<i>Description:</i> As a means of improving the export performance of Victorian firms the department provides financial assistance to subsidise the employment of export managers.  <i>Eligibility:</i> Firms receiving assistance should be Victorian based, from key industry sectors and proposed exports should be predominantly of Australian origin.
<b>Market Entry Assistance</b>	<i>Financial assistance for the undertaking of specialist reports and provision of facilitation services.</i>	<i>Description:</i> To enhance the export opportunities of Victorian firms the department administers the Export Research Assistance Scheme. This scheme is designed to facilitate the introduction and/or expansion of the offshore sale of goods and services produced by Victorian industry by providing specific market intelligence. The department achieves this end through its own internal sources of intelligence or through the commissioning of specific reports.  <i>Eligibility:</i> Individual firms or consortia should be Victorian based, generally operating in key industry sectors and proposed exports should be predominantly of Australian origin and the product or service should have achieved some measure of commercial success in an existing market.
<b>Victorian Government Business Offices</b>	<i>Provision of facilitation services and advice regarding overseas markets.</i>  The cost of the operation of the Government's business offices in 1994–95 was \$4.1 million.	<i>Description:</i> The Department is responsible for the management of the Government's six overseas business offices located in London, Tokyo, Frankfurt, Hong Kong, Seoul and Jakarta. These offices provide a source of knowledge of various markets enabling them to facilitate export growth and fostering investment in Victorian enterprises.  <i>Eligibility:</i> Victorian firms from key industry sectors with potential for export growth.

**Table A1B.6: Victoria: State Government financial and non-financial industry assistance schemes, by department**

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<i>Department of Business and Employment — continued</i>		
<b>Feasibility Studies for Greenfield Projects</b>	<i>Provision of financial assistance.</i>	<p><b>Description:</b> The department provides assistance on a dollar-for-dollar basis for the engagement of consultants to undertake feasibility studies into greenfields projects in key industry sectors.</p> <p><b>Eligibility:</b> Eligible projects must be from the department's priority industry sectors, have the potential to increase exports or replace imports, and have identified at least one prospective investor from overseas and one from Australia.</p>
<b>AusIndustry/ National Industry Extension Service (NIES)</b>	<p><i>Subsidies and information.</i></p> <p>During 1994–95 a total of 889 firms received enterprise improvement services.</p>	<p><b>Description:</b> Jointly funded by the Commonwealth Government. Provides subsidy of up to half the costs of consultancy services, workshops and other services, in order to assist small to medium sized businesses to improve their international competitiveness. State funding in 1994–95 was \$5.4 million.</p> <p><b>Eligibility:</b> Small to medium sized enterprises involved in exporting directly or being a supplier, or having potential to export and/or replace imports; financially sound and able to demonstrate a commitment and capacity to implement change and have potential for growth; and involved in either manufacturing or traded services sectors.</p>
— <i>Business Planning</i>	<i>Subsidies</i>	<p><b>Description:</b> Assistance is provided to enhance business planning processes.</p> <p><b>Eligibility:</b> As above.</p>
— <i>Design</i>	<i>Subsidies</i>	<p><b>Description:</b> Assistance to integrate the design of products and services with corporate goals.</p> <p><b>Eligibility:</b> As above.</p>
— <i>Diagnostics</i>	<i>Subsidies</i>	<p><b>Description:</b> The analysis of business which identifies priority areas which require attention and change.</p> <p><b>Eligibility:</b> As above.</p>
— <i>Export Market Planning</i>	<i>Subsidies</i>	<p><b>Description:</b> Assists in developing a practical export market plan which integrates export activity into the firm's business plan.</p> <p><b>Eligibility:</b> As above.</p>

**Table A1B.6: Victoria: State Government financial and non-financial industry assistance schemes, by department**

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Business and Employment — continued</b>		
— Finance	<i>Subsidies</i>	<i>Description:</i> Assistance with the attainment of sources of finance. <i>Eligibility:</i> As above.
— Manufact'g	<i>Subsidies</i>	<i>Description:</i> Manufacturing industry studies. <i>Eligibility:</i> As above.
— Marketing	<i>Subsidies</i>	<i>Description:</i> Assistance for the development of strategic marketing plans. <i>Eligibility:</i> As above.
— Networking	<i>Subsidies</i>	<i>Description:</i> Funding is provided to assist in the development of strategic business networks. <i>Eligibility:</i> As above.
— Quality	<i>Subsidies</i>	<i>Description:</i> Assistance to improve firm's competitive position through implementing quality management and continuous improvement techniques. <i>Eligibility:</i> As above.
— World Competitive Marketing	<i>Subsidies</i>	<i>Description:</i> Studies to identify access routes to overseas markets. <i>Eligibility:</i> As above.
— World Competitive Service	<i>Subsidies</i>	<i>Description:</i> Identification of world services requirements. <i>Eligibility:</i> As above.
<b>Automotive Program</b>	<i>Facilitation services, training and financial assistance.</i>	<i>Description:</i> The department's automotive program aims to promote growth in the State's automotive industries by fostering the development of business strategies, export market planning, technology transfer and skills enhancement. <i>Eligibility:</i> Assistance is available through the AusIndustry Enterprise Improvement Programs in export planning and networking. Assistance is directed at firms the have export/import replacement potential and potential to supply competitively to the domestic and international markets.

**Table A1B.6: Victoria: State Government financial and non-financial industry assistance schemes, by department**

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Business and Employment — continued</b>		
<b>Chemical, Plastics and Rubber Program</b>	<i>Facilitation and financial assistance.</i>	<p><b>Description:</b> Through this program the department aims to provide a framework for the chemical, plastics and rubber industries to grow by increased international competitiveness. Assistance is provided in a range of areas including project facilitation, advocacy on government policy issues, employment, marketing, import replace and export markets.</p> <p><b>Eligibility:</b> In general assistance is available to companies that have been operating for at least two years, however information and referral services are available to any company.</p>
<b>Engineering, AMT and Technical Audit Programs</b>	<i>Facilitation services and financial assistance provided for the engagement of consultants.</i>	<p><b>Description:</b> This program is directed at providing assistance to Victorian engineering firms to improve their competitive position, export potential and ability to replace imports. General enterprise improvement programs offer strategic planning and management and business skills development while specific technology programs aim at the identification, evaluation and adoption of appropriate technology to improve capability, performance and best practice in the use of technology. Funding is provided for the engagement of specialist consultants to carry out technical audits, evaluation of appropriate technologies and assistance in the implementation and/or demonstration of the technology.</p> <p><b>Eligibility:</b> Victorian engineering firms.</p>
<b>Forest Products Sector Program</b>	<i>Facilitation services and financial assistance provided for the engagement of consultants.</i>	<p><b>Description:</b> Assistance is provided to stimulate investment and employment in the forests products sector. Assistance will concentrate on issues related to liaison with, and advocacy on behalf of the industry, investment facilitation, market development and performance enhancement of individual firms. Funding is available through the AusIndustry Enterprise Improvement Programs for the engagement of specialist consultants.</p> <p><b>Eligibility:</b> Eligible participants in the Victorian forestry industry.</p>

**Table A1B.6: Victoria: State Government financial and non-financial industry assistance schemes, by department**

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Business and Employment — continued</b>		
<b>Traded Services Sector Program</b>	<i>Facilitation services and financial assistance provided for the engagement of consultants.</i>	<p><b>Description:</b> The aims of this program are to enhance the international competitiveness of, and improve the quality of export market planning by firms in the services sector which already export directly or provide services to other exporters. Victorian firms are provided with access to AusIndustry Enterprise Improvement Programs and are subsidised for the engagement of specialist consultants.</p> <p><b>Eligibility:</b> Existing exporters of traded services and providers of services to existing exporters.</p>
<b>Information Technology and Telecommunications</b>	<i>Facilitation services and financial assistance.</i>	<p><b>Description:</b> The department attempts to find partners and develop strategic partnerships, both local and multi-national for firms, and assist Victorian companies in becoming more competitive and gaining access to State and Commonwealth assistance. AusIndustry Enterprise Improvement Programs are available to Victorian companies while eligibility for direct assistance programs depend on the nature of the proposed project and the extent of economic benefits expected to accrue to the State.</p> <p><b>Eligibility:</b> Victorian companies in the information technology and telecommunications sectors.</p>
<b>Textiles, Clothing and Footwear (TCF)</b>	<i>Facilitation and financial assistance.</i>	<p><b>Description:</b> Assistance is provided to Victorian TCF firms with potential for export growth and import replacement to improve their business efficiency by providing advice through AusIndustry Enterprise Improvement Programs which aim to establish long-term partnerships between TCF manufacturers and major retailers.</p> <p><b>Eligibility:</b> Victorian TCF firms with potential to for export growth and import replacement.</p>
<b>Change Management and Strategic Planning Program</b>	<i>Facilitation services and financial assistance.</i>	<p><b>Description:</b> This program promotes assistance to enable firms to manage on-going cultural and organisational change to achieve enterprise improvement and the identification of training needs to enable companies to develop a training plan for integration into its enterprise improvement process.</p> <p><b>Eligibility:</b> Assistance is provided to companies operating in Victoria that are financially sound, show management strength and are committed to export growth and/or import replacement.</p>

**Table A1B.6: Victoria: State Government financial and non-financial industry assistance schemes, by department**

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<i>Department of Business and Employment — continued</i>		
<b>Labour Market Advisory Service</b>	<i>Advice and information service.</i>	<p><i>Description:</i> This service provides advice to all existing Victorian employers and those planning new enterprises with information and advice on employment and industry trends, regional and occupational patterns and employment and training subsidies.</p> <p><i>Eligibility:</i> All existing Victorian employers and those planning new enterprises.</p>
<b>Business Networking Program</b>	<i>Information, advice and subsidy assistance.</i>	<p><i>Description:</i> This program encourages small to medium-sized Victorian companies to co-operate with similar sized companies in strategic areas of business. Support is available to establish networks and subsidies are available for network feasibility studies.</p> <p><i>Eligibility:</i> All Victorian companies.</p>
<b>Information Services for the Food Sector</b>	<i>Information, education and training programs.</i>	<p><i>Description:</i> The provision of information to companies in the food sector is seen as a means of enhancing their competitiveness by increasing awareness of relevant research and development providers, and education and training programs.</p> <p><i>Eligibility:</i> All Victorian companies in the food sector.</p>
<b>Industrial Supplies Office</b>	<i>Purchasing preferences.</i>  ISO facilitated \$40 million in import replacement.	<p><i>Description:</i> Departmental funding of the Industrial Supplies Office (ISO) was \$0.7 million in 1994–95, with a further \$0.7 million allocated for 1995–96. The ISO is a non-profit organisation funded by the State Government with the objective of increasing import replacement through locally produced output, in addition to the facilitation of export growth.</p> <p><i>Eligibility:</i> Victorian companies.</p>

**Table A1B.6: Victoria: State Government financial and non-financial industry assistance schemes, by department**

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Business and Employment — continued</b>		
<b>Innovation Victoria - Promotion and Technology Awareness Program</b>	<i>Marketing and information services.</i>  During 1994–95, \$435 000 was allocated to the promotional campaign and technology awareness initiatives.	<i>Description:</i> The objectives of this program are to promote Victoria overseas and within Australia, as an attractive location for firms wishing to boost their competitiveness through research and development and other forms of innovation. The program also aims to raise awareness of technology and Victoria's research and innovation facilities. The Department seeks to establish Victoria as an innovation hub by marketing its research and development strengths, and through the program attract investment and promote innovation to firms.  <i>Eligibility:</i> The program is targeted at small to medium sized enterprises, potential investors and the scientific, research and development community servicing the business sector.
<b>Technology Diffusion</b>	<i>Research study.</i>  Funding of \$350 000 was committed in 1994–95.	<i>Description:</i> Initial funding of \$350 000 was committed to the undertaking of a technology diffusion study to survey a representative sample of small to medium sized enterprises from selected industry sectors to determine how they satisfy their technology needs and to identify where there are deficiencies in accessing technology requirements. Assistance is directed at small to medium enterprises who are seeking to transfer and assimilate technology into their operations.  <i>Eligibility:</i> Small to medium sized companies from selected industry sectors.
<b>Rapid Prototyping Facility and Tooling Industry Seminars</b>	<i>Education and training.</i>  Budget of \$1 million for 1994–95.	<i>Description:</i> Funding to be provided from the combined State/Commonwealth advanced manufacturing technology program.  <i>Eligibility:</i> Manufacturing industry sector.

**Table A1B.6: Victoria: State Government financial and non-financial industry assistance schemes, by department**

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<i>Department of Business and Employment — continued</i>		
<b>Cooperative Research Centres</b>	<i>Research and development.</i>  The program is planned for commencement in 1995–96 and has a budget allocation of \$200 000.	<i>Description:</i> Main funding from the Commonwealth Government. Conduct research programs for various industries. The purpose of this initiative is to assist Victorian based cooperative research centres to commercialise and export their research and development. Commercialisation of research and development is a key objective of the government's innovation policy.  <i>Eligibility:</i> Assistance is available to cooperative research centres headquartered in Victoria or Victorian organisations that are core participants in cooperative research centres that are headquartered outside Victoria. Up to \$25 000 per project will be made available with preference given to projects which involve small to medium sized enterprises.
<b>Marketing Victorian Technologies</b>	<i>Facilitation and financial assistance.</i>  The program will provide up to \$15 000 per project and has a total estimated cost of \$100 000.	<i>Description:</i> A pilot program is to be instigated in 1995–96 to assist in the marketing of Victorian technologies overseas. Assistance is to be provided to small to medium-sized Victorian firms and to research and development organisations, to enable them to package technology projects for joint marketing.  <i>Eligibility:</i> Small to medium-sized Victorian firms and to research and development organisations.
<b>Best Practice 2000</b>	<i>Research study.</i>  The study is estimated to cost \$150 000.	<i>Description:</i> This study proposed for 1995–96 aims to develop a model of best practice based on the characteristics of best performing companies, which will be applied to enhance the international competitiveness of the manufacturing and service industries.  <i>Eligibility:</i> Victorian companies.
<b>Cultural Industries Service</b>	<i>Grants, subsidies and information.</i>	<i>Description:</i> Promotion of cultural industries which include music, film, television, radio, literature, museum services, theatre, dance, visual arts and craft. Associated and ancillary services are also included.  <i>Eligibility:</i> Victorian companies.

**Table A1B.6: Victoria: State Government financial and non-financial industry assistance schemes, by department**

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Business and Employment — continued</b>		
<b>Cooperative Textile, Clothing and Footwear Export Marketing Program</b>	<i>Export marketing subsidies.</i> Program allocation of \$350 000 for 1994–95.	<i>Description:</i> The pilot program to be undertaken in 1994–95 will be conducted with 10 TCF firms who are able to supply a complete “collection” in a selected market niche. the objective of the program is to demonstrate that collaboration by a network of companies in the areas of design, production, costing and marketing can overcome the high costs and risks faced by an individual firm when looking towards export markets as a means of future growth.  <i>Eligibility:</i> Victorian TCF firms.
<b>Industry and Business Events Strategy</b>	<i>Grants.</i> Funding program during 1994–95 was \$450 000.	<i>Description:</i> The purpose of this program is to attract quality, high profile industry and business events to Melbourne and other parts of Victoria. Assistance is provided to eligible events bodies on a case-by-case basis.  <i>Eligibility:</i> Eligible major events bodies.
<b>Export of Health and Education Services</b>	<i>Financial assistance.</i> Total funding allocated to this initiative for 1994–95 was \$320 000.	<i>Description:</i> Projects eligible for assistance under this program will be funded up to \$40 000, based on the planned achievement of export revenue of at least \$1 million. The program aims to promote specific export contracts by Victoria’s private and public-sector health industry into Asian markets, and the export of innovative business education that emphasises the development of common business skills with Victoria’s trading partners.  <i>Eligibility:</i> Victoria’s private and public-sector health industry.
<b>Business Licence Centre</b>	<i>Advice and information, free service.</i>	<i>Description:</i> The Business Licence Centre provides information on Victorian and Commonwealth licences and regulations required for the establishment and operation of business in Victoria for intending and existing operators. The centre provides information and licence application forms for all Victorian and Commonwealth government licences, permits, approvals and registrations.  <i>Eligibility:</i> All Victorian companies.

**Table A1B.6: Victoria: State Government financial and non-financial industry assistance schemes, by department**

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Business and Employment — continued</b>		
<b>Executive Counselling Service</b>	<i>Advice and information, free service.</i>	<p><i>Description:</i> Small Business Victoria funds the operation of the executive counselling service which consists of a team of retired and semi-retired business executives who provide advice on a broad range of industry and commercial affecting small to medium-sized Victorian firms.</p> <p><i>Eligibility:</i> Small to medium-sized Victorian firms.</p>
<b>Small Business Awards</b>	<i>Awards.</i>	<p><i>Description:</i> Small Business Victoria, the Victorian Government and Telstra make awards which recognise Victorian small businesses that demonstrate success through improved business performance, the pursuit of excellence, innovation and effort.</p> <p><i>Eligibility:</i> Small to medium-sized Victorian firms.</p>
<b>Major Investment Projects Facilitation</b>	<i>Facilitation services.</i>	<p><i>Description:</i> Specialised unit established within the department that undertakes the fast-tracking of major investment projects. The unit provides assistance to companies with governmental regulatory requirements and may also undertake an advocacy role on behalf of major investors.</p> <p><i>Eligibility:</i> Major investment projects being undertaken in Victoria.</p>
<b>Benchmarking Study</b>	<i>Facilitation service and information.</i>	<p><i>Description:</i> A major study has been undertaken by the department which assess the relative advantages of investing and doing business in Melbourne with a number of other locations in Australia and overseas. The study is used to assist to enable potential investors to better the competitive advantages of investing in Melbourne.</p> <p><i>Eligibility:</i> The study is available to all potential investors.</p>
<b>Regional Headquarters Program</b>	<i>Financial and facilitation assistance.</i>	<p><i>Description:</i> Joint program which involves the Commonwealth and Telstra with the aim of attracting subsidiaries of Asian multi-national companies to establish regional headquarters or support functions in Victoria.</p> <p><i>Eligibility:</i> Subsidiaries of Asian multi-national companies.</p>

**Table A1B.6: Victoria: State Government financial and non-financial industry assistance schemes, by department**

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Business and Employment — continued</b>		
<b>Investment Centre Victoria</b>	<i>Advice, information and facilitation services.</i>	<p><b>Description:</b> The Investment Centre Victoria is a joint government-private enterprise facility that focuses on the attraction of investment and the generation of exports. The centre provides a location for local businesses to bring potential investors/buyers for meetings and negotiations.</p> <p><b>Eligibility:</b> Victorian companies and potential investors.</p>
<b>Business Skills Migration</b>	<i>Facilitation assistance.</i>	<p><b>Description:</b> This scheme is designed to attract skilled business migrants. Assistance can be provided to resident or potential business migrants.</p> <p><b>Eligibility:</b> Overseas business persons with the appropriate business skills and capital base.</p>
<b>First Place Program</b>	<i>Facilitation services, information and advice.</i>  Assisted 20 000 clients.	<p><b>Description:</b> Established through Small Business Victoria and provides a one-stop-shop facility for existing or potential small business.</p> <p><b>Eligibility:</b> All Victorian companies.</p>
<b>Strategic Partnering Service</b>	<i>Facilitation assistance.</i>	<p><b>Description:</b> Service offered by the department locally or through its overseas offices which matches Victorian firms seeking investors, access to overseas markets and technology with potential overseas partners.</p> <p><b>Eligibility:</b> All Victorian companies.</p>
<b>Office of Regulation Review</b>	<i>Reform of regulatory environment.</i>	<p><b>Description:</b> The Office of Regulation Reform has the role of implementing the government's policy of reducing the burden of regulation on business and improving the quality and efficiency of regulation. This represents a key plank of the government's initiative to improve the Victorian business environment and reduce costs to business.</p>
<b>Cleaner Production and Waste Minimisation</b>	<i>Provision of subsidies.</i>	<p><b>Description:</b> This program aims to assist Victorian industry to improve its environmental performance, by providing subsidies for the engagement of environmental consultants to identify opportunities for waste minimisation and the development of waste/environmental management plans. Subsidies are provided in conjunction with the AusIndustry enterprise improvement scheme to approved Victorian manufacturing firms.</p> <p><b>Eligibility:</b> Approved Victorian manufacturing firms.</p>

**Table A1B.6: Victoria: State Government financial and non-financial industry assistance schemes, by department**

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Arts, Sport and Tourism</b>		
<b>Tourism Victoria</b>		
<b>Industry Development</b>	<i>Marketing, promotion and grant funding.</i>	<p><i>Description:</i> The Industry Development Division assists industry with strategic planning, major event and project development and provides training seminars. Funding is provided to tourism industry associations for the development of marketing strategies, industry development projects and the attraction of conventions, conferences and exhibitions to Melbourne.</p> <p><i>Eligibility:</i> Victorian tourism industry participants.</p>
<b>Major Events Unit</b>	<p><i>Promotion and financial assistance.</i></p> <p>During 1994–95 about 40 events received assistance.</p>	<p><i>Description:</i> The Major Events Unit identifies opportunities to secure new events and develops existing and new events in the areas of sport, art and culture. About 40 events received funding during 1994–95, with an estimated economic impact for the state of around \$50 million.</p> <p><i>Eligibility:</i> Major sporting and cultural events.</p>
<b>Victorian Regional Tourism Survey</b>	<i>Information</i>	<p><i>Description:</i> The Victorian regional survey was implemented to fill the gap in availability of reliable tourism statistics for Victorian regions. Detailed reports are made available to industry. The survey provides assistance to tourism developers and the investment community who require regional data to make informed decisions for planning and investment.</p> <p><i>Eligibility:</i> Victorian tourism industry participants.</p>
<b>Research Unit</b>	<p><i>Advice and information.</i></p> <p>Research publications distributed to more than 4500 industry members.</p>	<p><i>Description:</i> Over the course of 1994–95 Tourism Victoria's Research Unit produced nine research publications which were distributed to more than 4500 industry members free of charge. The publications provide the industry with a summary of the latest trends as well as data on domestic and international markets and Victoria's target market segments.</p> <p><i>Eligibility:</i> Victorian tourism industry participants.</p>

**Table A1B.6: Victoria: State Government financial and non-financial industry assistance schemes, by department**

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Arts, Sport and Tourism — continued</b>		
<b>Advertising</b>	<p><i>Marketing and promotional expenditure.</i></p> <p>Advertising and promotional budget for 1994–95 was \$14.7 million.</p>	<p><i>Description:</i> Tourism Victoria undertakes extensive advertising in the form of television advertisements and selected press, magazine, outdoor and cinema advertising.</p>
<b>Telemarketing</b>	<p><i>Marketing and information.</i></p>	<p><i>Description:</i> During 1994–95 Tourism Victoria appointed a telemarketing firm to maximise the impact of national magazine advertising. Name collected on the database will be categorised which will allow Tourism Victoria to conduct direct marketing initiatives around major events and facilitate improved targeting of advertising and direct marketing.</p> <p><i>Eligibility:</i> Conduct direct marketing initiatives around major events to facilitate improved targeting of advertising and direct marketing.</p>
<b>Regional Cooperative Marketing</b>	<p><i>Marketing and promotional expenditure.</i></p> <p>Tourism Victoria invested \$1.75 million, on a dollar-for-dollar basis, in cooperative marketing in 13 product areas.</p>	<p><i>Description:</i> Combined funds were used cooperative marketing in each region to participate in the production of brochures, major holiday and travel shows, television programming and media promotion. The cooperative marketing program also included contributions from the industry to support a centralised distribution system for disseminating Victorian information throughout the country.</p> <p><i>Eligibility:</i> Promotion of Victorian tourism destinations.</p>

**Table A1B.6: Victoria: State Government financial and non-financial industry assistance schemes, by department**

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Arts, Sport and Tourism — continued</b>		
<b>International Marketing</b>	<i>International marketing expenditure.</i>  The budget allocation for international marketing in 1994–95 was \$6.7 million.	<i>Description:</i> During 1994–95 Tourism Victoria completed the establishment of its international office network, opening offices in Auckland, Hong Kong, Taipei, Osaka, Seoul and London in addition to those in Los Angeles, Singapore, Tokyo and Frankfurt.  Victoria also contributed to the Australian Tourist Commission’s Partnership Australia agreement around \$10.65 million in marketing programs featuring Victoria across all international markets.  Tourism Victoria also provided a trade subsidy scheme providing operators with up to a 50 per cent subsidy on trade show costs.  During 1994–95 Victoria’s first consumer advertising on offshore television was undertaken, marketing material for overseas markets was produced and Tourism Victoria partly sponsored Victorian product representation at international trade shows.  <i>Eligibility:</i> Victorian tourism industry.
<b>Product Development</b>	<i>Marketing strategies.</i>  Tourism Victoria also hosted more than 1860 trade and media representatives.	<i>Description:</i> A range of cooperative marketing strategies have been implemented by Tourism Victoria with industry partners to harness the economic benefits and spin-offs of the state’s major events and festivals. These included retail package deals comprising flights, accommodation, meals and entry to these events.  Tourism Victoria also assumed responsibility for the development of the state’s national ski campaign and the development of marketing strategies for theatre and cultural tourism products.  Tourism Victoria also hosted more than 1860 trade and media representatives on familiarisation tours of Victorian destinations, attractions and lifestyle experiences. Major trade and media familiarisations were also conducted in conjunction with the state’s major events to encourage the travel industry to sell Victoria and to achieve domestic and international media exposure for Victoria.  <i>Eligibility:</i> Victorian tourism industry.

**Table A1B.6: Victoria: State Government financial and non-financial industry assistance schemes, by department**

<b>Agency Assistance scheme</b>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
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**Department of Arts, Sport and Tourism — continued**

<b>Information and Product Distribution</b>	<i>Information and advice.</i>	<p><i>Description:</i> Tourism Victoria has implemented a range of programs designed to provide travel agents with the information and training required to confidently promote Victoria to their clients.</p> <p><i>Eligibility:</i> Victorian travel agents.</p>
<b>Getting Started in Tourism</b>	<i>Training and advice.</i>	<p><i>Description:</i> This is a collaborative project initiated with Small Business Victoria to provide advice to people interested in establishing tourism businesses. Advice is provided on strategic industry training and education issues, business planning and co-operative marketing programs.</p> <p><i>Eligibility:</i> Potential tourism operators.</p>
<b>Industry Associations</b>	<i>Financial assistance.</i>	<p><i>Description:</i> Tourism Victoria provides funding support to peak industry associations who undertake specific promotional activities including, the attraction of conferences, conventions and exhibitions, the promotion of tourism to regional Victoria, industry accreditation and training and industry specific promotion such as the wine industry.</p> <p><i>Eligibility:</i> Peak industry organisations.</p>
<b>Advice to Local Government</b>	<i>Advice</i>	<p><i>Description:</i> With the restructure of local government in Victoria, Tourism Victoria undertook the provision of advice to Commissioners and CEOs on the development of tourism.</p> <p><i>Eligibility:</i> Victorian Local Government organisations.</p>
<b>Public Affairs</b>	<i>Information</i>	<p><i>Description:</i> Tourism Victoria's media and public relations units increased their promotion of the strategies and initiatives of the organisation to the travel and tourism industry through bi-monthly newsletters, interstate media and local segments and the presentation of the Victorian tourism Awards.</p> <p><i>Eligibility:</i> Victorian tourism participants.</p>

**Table A1B.6: Victoria: State Government financial and non-financial industry assistance schemes, by department**

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Arts, Sport and Tourism — continued</b>		
<b>Infrastructure Development</b>	<i>Information advice and research.</i>	<p><u>Description:</u> The infrastructure division of Tourism Victoria is a central contact point for existing and potential investors in tourism, as well as a centre for aviation and cruise ship activities. Business plans have also been developed for existing and new projects which in some cases served to secure commercial funding.</p> <p>A substantive tourism infrastructure audit was conducted for the Great Ocean Road to identify infrastructure gaps and opportunities. The report has been used by private and public sector groups to assess possible development opportunities.</p> <p><u>Eligibility:</u> Existing and potential investors in tourism.</p>
<b>Film Victoria</b>		
<b>Committed Funding Facility</b>	<i>Financial assistance.</i>	<p><u>Description:</u> Film Victoria has established a committed funding facility which is designed to cashflow distribution guarantees and pre-sales to assist local producers and attract interstate and overseas projects to Victoria.</p> <p><u>Eligibility:</u> Victorian film producers.</p>
<b>Melbourne Film Office</b>	<i>Facilitation and financial assistance.</i>	<p><u>Description:</u> The Melbourne Film Office was established with a \$500 000 grant from the Community Support Fund with the purpose of attracting increased film and television production and post-production work to Victoria.</p> <p><u>Eligibility:</u> Film and television industry production and post-production companies.</p>
<b>Independent Film-makers Fund</b>	<i>Financial assistance.</i> Almost \$365 000 was provided under this program in 1994–95.	<p><u>Description:</u> The Independent Film Makers Fund provides an opportunity for emerging Victorian film makers to develop and demonstrate their skills in the production of short drama and documentary films.</p> <p><u>Eligibility:</u> Emerging Victorian film makers.</p>
<b>Script Development</b>	<i>Financial assistance.</i> Grants of \$364 000 were provided in 1994–95.	<p><u>Description:</u> This program provides financial assistance to new writers to develop scripts.</p> <p><u>Eligibility:</u> Script writers.</p>

**Table A1B.6: Victoria: State Government financial and non-financial industry assistance schemes, by department**

<b>Agency Assistance scheme</b>	<b>Form of assistance</b> [1994–95: total assistance; firms/projects assisted]	<b>Description and eligibility</b>
<b>Department of Arts, Sport and Tourism — continued</b>		
<b>Documentaries</b>	<i>Financial assistance.</i> Total assistance provided was \$625 000.	<i>Description:</i> In 1994–95 film Victoria provided financial assistance with the production of 14 documentary projects.  <i>Eligibility:</i> Documentary producers.
<b>Feature Films</b>	<i>Financial assistance.</i> Total assistance provided was \$800 000.	<i>Description:</i> Over the course of 1994–95 a total of \$800 000 in assistance was provided for the production of six feature films.  <i>Eligibility:</i> Producers of feature films.
<b>Television Drama</b>	<i>Financial assistance.</i> Assistance of \$1.1 million to the production of six major television drama series.	<i>Description:</i> Film Victoria provided assistance of \$1.1 million to the production of six major television drama series over 1994–95. These projects represented about \$50 million of private, federal broadcaster money being spent on independent drama production in Victoria.  <i>Eligibility:</i> Producers of television drama series.
<b>Project Development</b>	<i>Financial assistance.</i> In 1994–95 around \$622 000 was provided through this program.	<i>Description:</i> Film Victoria plays a role in the development of future projects by providing financial assistance for local producers in the form of limited resource advances as well as providing funds for the development of scripts for feature film, television drama and documentary projects.  <i>Eligibility:</i> Local producers of new film, television and documentary product.
<b>Cultural Activities</b>	<i>Financial assistance.</i> Organisations and cultural events sponsored during 1994–95 received over \$726 000.	<i>Description:</i> One of Film Victoria's major objectives is to foster film culture organisations and events which display a high level of access and participation by the local community.  <i>Eligibility:</i> Film culture organisations and events.

**Table A1B.6: Victoria: State Government financial and non-financial industry assistance schemes, by department**

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Arts, Sport and Tourism — continued</b>		
<b>Producer Support</b>	<i>Financial assistance.</i> Support packages totalling almost \$360 000 were provided.	<u><i>Description:</i></u> Producer support packages totalling almost \$360 000 were provided in 1994–95. <u><i>Eligibility:</i></u> Local producers of new film, television and documentary product.
<b>Sport and Recreation</b>		
<b>Industry Development Group</b>	<i>Financial and facilitation assistance.</i>	<u><i>Description:</i></u> This group aims to foster a sport and recreation industry with greater economic impact and to identify opportunities for adding value to the industry, conduct feasibility studies and stimulate research. Funding is also provided to peak industry organisations. <u><i>Eligibility:</i></u> Sports industry studies and funding of peak industry organisations.
<b>Client Development Group</b>	<i>Financial and facilitation assistance.</i>	<u><i>Description:</i></u> This group provides financial support and planning services to sporting organisations, community organisations and local government authorities to assist the development of sport and recreation infrastructure, programs and services. Information, education and training strategies are also developed. <u><i>Eligibility:</i></u> Sporting organisations, community organisations and local government authorities.
<b>Program Development Unit</b>	<i>Financial and facilitation assistance.</i>	<u><i>Description:</i></u> The functions of this unit are to provide financial support and planning services to local government authorities to improve sport and recreation infrastructure, programs and services with attention to women, older people from non-English speaking backgrounds and people with disabilities. <u><i>Eligibility:</i></u> Local government authorities.
<b>Office of Racing</b>		
<b>Racecourse Development Funds</b>	<i>Financial assistance.</i> Distribution of around \$20 million.	<u><i>Description:</i></u> Distribution of totalisator betting revenue and stamp duties on bookmakers turnover to the racing, harness racing and greyhound industries for course development and other works. <u><i>Eligibility:</i></u> Racing, harness racing and greyhound industries.

**Table A1B.6: Victoria: State Government financial and non-financial industry assistance schemes, by department**

<b>Agency Assistance scheme</b>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
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**Department of Arts, Sport and Tourism — continued****Arts Victoria**

<b>Programs and Events Unit</b>	<i>Grants</i>	<p><i>Description:</i> The role of the unit is to coordinate the festivals strategy for Victoria, conduct feasibility evaluations and manage arts and cultural development grants programs, including the provision of information on available programs.</p> <p><i>Eligibility:</i> Arts industry participants.</p>
<b>Commissions Victoria</b>	<p><i>Grants.</i></p> <p>A total of \$2.2 million has been committed to this initiative.</p>	<p><i>Description:</i> This initiative under the Arts 21 Strategy funded through an allocation of \$2.2 million from the Community Support Fund and is designed to encourage new works by Victorian artists.</p> <p><i>Eligibility:</i> Victorian artists.</p>
<b>Leadership Fund</b>	<p><i>Grants.</i></p> <p>A total of \$1 million has been committed to this initiative.</p>	<p><i>Description:</i> Financial support for the training of managers in the arts and cultural industry. Funding for this initiative is established through the Community Support Program.</p> <p><i>Eligibility:</i> Managers in the arts and cultural industry.</p>
<b>Industry Development, Research and Information Unit</b>	<i>Strategic development and marketing.</i>	<p><i>Description:</i> The Industry Development, Research and Information Unit manages programs that seek to promote best practice marketing within the arts and cultural industry to improve local and tourist attendances. The unit also manages programs designed to expand the sectors responsiveness to international markets and opportunities through the Cultural Exchange and Export Touring Programs and the Victorian Cultural Industry Scheme.</p> <p><i>Eligibility:</i> Arts and cultural industries.</p>
<b>Melbourne Symphony Orchestra</b>	<p><i>Grants.</i></p> <p>Funding of \$627 000 was provided in 1994–95.</p>	<p><i>Description:</i> Financial support for the operation of the Melbourne Symphony Orchestra.</p>

**Table A1B.6: Victoria: State Government financial and non-financial industry assistance schemes, by department**

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Agriculture, Energy and Minerals</b>		
<b>Food Industry Services</b>	<i>Liaison and research.</i>	<i>Description:</i> Food industry services include the provision of laboratory facilities and quality assurance and project management on a consultancy basis with industry.  <i>Eligibility:</i> Food industry
<b>New and Emerging Industries</b>	<i>Facilitation and service provision in the areas of marketing, product development and production techniques.</i>	<i>Description:</i> The objectives of this program are to enhance the economic growth, sustainability and international competitiveness of new and emerging industries in Victoria. The Department will work with industry to assist in the development of emerging industries with potential for long-term sustainability.  <i>Eligibility:</i> New and emerging industries in processed foods.
<b>Australian Food Industry Science Centre</b>	<i>Research and development.</i>	<i>Description:</i> The Australian Food Industry Science Centre (AFISC) undertakes food processing research and development. The AFISC aims to support the growth of Australian exports of processed and value added foods and was a major contributor to the departments food processing program.  <i>Eligibility:</i> Food processing industry.
<b>Energy Victoria</b>	<i>Information, advice and financial assistance.</i>  \$2 million was provided for the promotion of energy efficiency by government and energy utilities.	<i>Description:</i> The energy information centre provide information to public inquiries and the financial assistance is provided through the renewable energy assistance program for the installation of power stations in remote areas.  <i>Eligibility:</i> Victorian industry and public.
<b>Oil and Gas Industry Program</b>	<i>Scientific services, technical information and research.</i>	<i>Description:</i> The objectives of the program are to increase exploration for, and production of, oil and gas by increasing the number of companies participating in the industry through effective marketing and timely acreage release. The department also provides geological and technical information for industry and also encourages a collaborative focus in research activity.  <i>Eligibility:</i> Oil and gas industries.

**Table A1B.6: Victoria: State Government financial and non-financial industry assistance schemes, by department**

<b>Agency Assistance scheme</b>	<b>Form of assistance</b> [1994–95: total assistance; firms/projects assisted]	<b>Description and eligibility</b>
<b>Department of Agriculture, Energy and Minerals — continued</b>		
<b>Exploration and Mining</b>	<i>Grants</i>	<i>Description:</i> This program includes the review of mining legislation and regulations and the on-going compilation of data through the Victorian Initiative for Minerals and Petroleum. The program also aims to deliver facilitation services to the industry particularly through the appointment of regional managers who will undertake an industry facilitation role. The establishment of the Minerals Business Centre provides an enquiry service, information kits, technical reports and assistance with mining applications.  <i>Eligibility:</i> Exploration and mining industry.
<b>Extractive Industries</b>	<i>Legislative and regulatory reform.</i>	<i>Description:</i> This program aims to foster industry through the reform to planning processes, legislation and regulations.  <i>Eligibility:</i> Exploration and mining industry.
<b>Minerals and Petroleum Group</b>	<i>Facilitation and technical services.</i>	<i>Description:</i> The Minerals and Petroleum Group is the major service delivery provider for the Department's programs for the minerals and petroleum industries. The objective of the Group is to facilitate growth of the Victorian minerals and petroleum sector.  <i>Eligibility:</i> Minerals and petroleum industries.

**Department of Conservation and Natural Resources**

<b>Centre for Forest Tree Technology</b>	<i>Government funding.</i>	<i>Description:</i> The Centre for Forest Tree Technology (CFTT) acts as a registered research agency and conducts external research and consulting work. The CFTT also aims to underpin private sector investment in plantations in Victoria by facilitating meetings with potential investors in eucalypt and softwood plantations.
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**Department of Premier and Cabinet**

<b>Melbourne Major Events Company Limited</b>	<i>Grant</i>	<i>Description:</i> The Melbourne Major Events Company was established by the Victorian Government in 1991 as a company limited by guarantee, to assist the State in identifying and attracting major sporting and cultural events, exhibitions, displays and other major events that have the capacity to benefit the State.
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*Sources:* DAME (1995), DAST (1995), DBE (1995), Department of Planning and Development (1995), Department of Premier and Cabinet (1995), Film Victoria (1995), Victorian Auditor-General (1995, various years), Victorian Government (1995a, 1995b, 1995c), DIST (1995).

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## **ATTACHMENT 1C: QUEENSLAND**

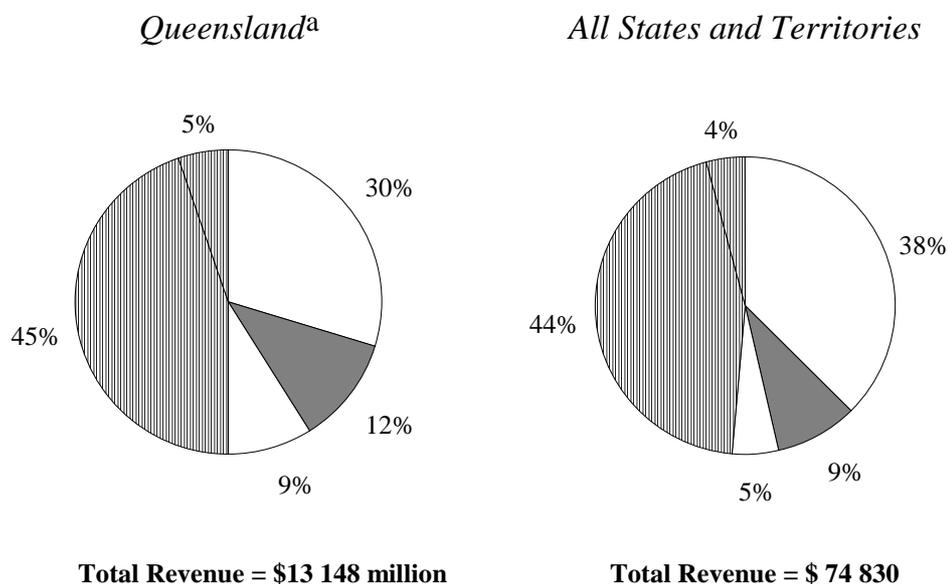
### **A1C.1 Introduction**

The information in this appendix has been compiled mainly from the detailed information provided by the Queensland Government to this inquiry, Annual Reports of assistance-giving government departments, agencies and statutory authorities, the Queensland Government's Budget Papers, ABS data, and certain other relevant reference material.

#### **Revenue sources**

The Queensland Government received \$5.9 billion in Commonwealth grants in 1994–95, accounting for 45 per cent of total State revenue, with own-source revenue accounting for \$7.3 billion or 55 per cent. Taxes, fees and fines were the most important own source revenue, accounting for 30 per cent of total State revenue a smaller share of total revenue than that for all States. The net operating surplus of government business enterprises and interest received were relatively more important sources of revenue for the Queensland Government than for all States and Territories (see Figure A1C.1).

**Figure A1C.1: Composition of Government revenue for Queensland and all States and Territories, 1994–95**



Taxes, fees and fines
  Net operating surplus of GBEs
  Interest received
  Grants received
  Other revenue

a Queensland percentages do not add to 100 due to rounding.

Source: ABS (1995a).

## A1C.2 Queensland Government assistance

### Key legislation

Key legislation regulating the provision of State assistance to industry in Queensland includes the:

- *Industrial Development Act 1963* — An Act used to determine guidelines for assistance, including the provision of industrial land, for the development of manufacturing in Queensland;
- *Enterprise Zones Act 1988* — An Act to encourage the development of manufacturing through the establishment of enterprise zones; and
- *Queensland Small Business Corporation Act 1980*.

## General policy approach

According to the Queensland Government's economic development statements (1992, 1995a), industry policy in Queensland is based on market enhancement rather than on direct government intervention. However, the Government (1995a) is prepared to assist specific projects and sectors where it believes there are clear net economic benefits to Queensland. For example, to attract business to the Brisbane stock exchange, the Queensland Government halved the stamp duty rate on share transactions from 0.6 per cent to 0.3 per cent in 1995.

## Nature and extent of assistance

To promote Queensland's economic development, industry assistance is focussed on promoting overseas trade and investment, providing assistance to specific projects and sectors, R&D support, major project facilitation and regional development. Assistance to firms and industry in Queensland at the State level is provided through departmental programs and the operations of statutory corporations, such as the Queensland Events Corporation, the Queensland Small Business Corporation and the Queensland Travel and Tourist Corporation.

Assistance provided includes the provision of land to industry, direct financial assistance in the form of subsidies and grants, R&D grants, payroll tax and stamp duty concessions, marketing assistance, the provision of equity and loan finance, and concessions on mineral royalties as well as freight and utility charges.

In 1994–95, the Queensland Government provided approximately \$241 million in budgetary assistance to business and industry (see Table A1C.1). In addition, the Queensland Government also provided substantial assistance through revenue forgone measures. In 1994–95, \$23 million in stamp duty concessions was provided for company restructuring or amalgamation and \$1.7 million in tax concessions was provided under the *Major Projects Incentive Scheme* consisting of \$1.5 million in payroll tax concessions and \$270 000 in stamp duty concessions. The payroll tax rebate for apprentices and trainees attracted 430 applicants in 1994–95 with nearly \$4.5 million of payroll tax rebated. The tax concessions available for offshore banking units and regional headquarters attracted one applicant in 1994–95 with \$66 500 provided in concessions.

**Table A1C.1: Queensland Government budgetary outlays on non-agricultural industry assistance, 1994–95 (\$000)**

<i>Agency</i>	<i>1994–95</i>
Department of Justice and Attorney-General	77 936
Department of Business, Industry and Regional Development	58 473
Department of Tourism, Sport and Racing	50 727
Department of Premier, Economic and Trade Development	35 426
Department of Transport	11 000
Department of Minerals and Energy	6 994
Department of Primary Industry (Forest Production)	1 231
<b>Total</b>	<b>241 787</b>

*Source:* Queensland Government (1995b, 1996a).

A number of machinery of government changes were undertaken in early 1996, such as changes in departmental structures and in the administration of programs. On the basis of these arrangements, the budgetary outlays on industry assistance in 1995–96 (\$288 million) and the estimates for 1996–97 (\$309 million) are provided in the following table (Table A1C.2).

**Table A1C.2: Queensland Government budgetary outlays on non-agricultural industry assistance, 1995–96 (revised) and 1996–97 (estimate) (\$000)**

<i>Agency</i>	<i>1995–96<sup>a</sup></i>	<i>1996–97</i>
Treasury Department (Arts)	100 072	123 687
Department of Tourism, Small Business and Industry	103 127	90 238
Department Economic Development and Trade	30 707	38 762
Department of Police (Racing)	32 238	28 776
Department of Transport	14 700	19 800
Department of Mines and Energy	6 225	6 160
Department of Primary Industry, Forestry and Fisheries	1 400	1 800
<b>Total</b>	<b>288 469</b>	<b>309 223</b>

a Actual expenditure under the current departmental structure.

*Source:* Queensland Government (1996b).

## **Major projects and recent special assistance**

In relation to developing and attracting major projects in Queensland, a 'whole-of-government' approach is taken in the provision of assistance. The Department of Premier, Economic and Trade Development coordinates the overall response by influencing the supply of key resource inputs, infrastructure and the setting of market operations through the relevant government departments and local government authorities. The Queensland Treasury also plays a role in the development and attraction of major projects through the provision of venture and development capital and the evaluation and analysis of specific projects.

An example of the development of a major project is the establishment of the Korea Zinc Smelter at Townsville. This involved the Office of the Coordinator-General in conjunction with the Queensland Treasury putting together a range of State Government assistance measures. The assistance provided by the Queensland Government is equivalent to \$2.5 million a year over the 30 year life of the project (Queensland Government 1996a). As a major project, it involves a range of assistance, such as freight subsidies, tax concessions, electricity tariff concessions and infrastructure, provided through schemes administered by a number of Queensland Government Departments.

### **A1C.3 Institutional arrangements**

As mentioned previously, with the change of Government in Queensland at the beginning of 1996, a number of departmental changes occurred including the names of certain departments. However, in this Appendix and in Tables A1C.3 and A1C.4 the department existing during 1994–95 is referred to as the information collected relates to programs operating under that departmental structure. The major name change in relation to this Appendix and Tables A1C.3 and A1C.4 is the Department of Tourism, Small Business and Industry, which has taken over the role of the Department of Business, Industry and Regional Development.

Also, with the change of Government, the new Queensland Treasurer has stated that Queensland intends to take a more active role than the previous Government in pursuing investment.

## **Department of Business, Industry and Regional Development (DBIRD)**

In 1994–95, DBIRD was the central agency providing assistance to business and industry in Queensland. It operated the following three major programs:

- *The Business Development Program (BDP)* provided business-related information such as business licensing requirements and assistance measures available to all business and industry. Also, the program provides quality assurance training for firms supplying government. Total expenditure of the BDP in 1994–95 was \$14.29 million.
- *The Industry and Technology Program (ITP)* provided assistance to firms and industry to promote and develop the information and technology sector of the Queensland economy. This program provided assistance through R&D grants (\$4.52 million in 1994–95), the provision of infrastructure (eg the development of technology parks and cooperative research centres) and the provision of information and advice. In 1994–95, the program's total expenditure was \$21.88 million.
- *The Regional and Project Development Program (RPDP)* provided assistance to business and industry to promote regional economic development in Queensland and to attract industry to establish or relocate to Queensland. The main delivery mechanism to attract industry to Queensland, was the *Major Project Incentives Scheme (MPIS)* which offered a range of financial assistance such as establishment grants, refunds of state taxes and charges, and a facilitation service to encourage commercial projects to be undertaken in Queensland and major firms to relocate to Queensland (DBIRD 1995). In 1994–95 the program's total expenditure was \$22.3 million.

Regional development is assisted through financial grants provided to regional development organisations and to firms and industry in regional areas. A major assistance measure provided through the *Regional and Project Development Program* was the provision of fully serviced industrial land to industry under the *Industry Location Scheme (ILS)*. The ILS provided industrial land exempt from land tax and stamp duty while the land was leased, and provided financial assistance for the purchase of the land.

## **Queensland Treasury**

The assistance provided by the Queensland Treasury is mainly financial and is provided through the Office of State Revenue, where the Budget Division

undertakes the administration of tax concessions, exemptions and rebates to industry, payment of grants and subsidies under the Rural Adjustment Scheme, the facilitation of venture and development capital, and the provision of specific financial assistance to a number of enterprises.

### **Department of the Premier, Economic and Trade Development**

The Department of the Premier, Economic and Trade Development provides export development and promotion assistance to Queensland industry. Assistance to exporters is provided by export development grants, trade promotion, market research information and advice. The Department also supports overseas trade offices to promote Queensland goods and services and to attract foreign investment into the State. In 1994–95, expenditure on the Trade and Investment Development Program was \$35.42 million.

### **Department of Minerals and Energy**

The Department of Minerals and Energy provides assistance to industry through the provision of information and advice, services for explosives handling and the provision of tariff concessions on electricity to industry on a discretionary basis. The Department's role in attracting industry to Queensland is to provide advice and to fast-track electricity supply.

### **Statutory corporations**

The Queensland Government has set up a number of government-owned companies to provide assistance to industry and for the development and promotion of specific events. These companies are funded by annual government grants. The *Queensland Small Business Corporation* (QSBC) provides, among other things, advice, training and financial assistance to the small business sector, while the *Queensland Tourist and Travel Corporation* (QTTC) provides assistance to the tourist industry through promotion and marketing. The QSBC's operating expenses for the 1994–95 financial year were \$5.92 million, of which \$5.67 million was a grant from the Queensland Government (QSBC 1995).

The *Queensland Events Corporation* (QEC) develops and supports sporting and cultural events which the QEC assesses as likely to generate an economic benefit to Queensland and raise Queensland's profile both within Australia and overseas. The QEC has invested in events such as the World Gymnastic Championships, the Queensland Winter Racing Carnival and the Centenary of

Waltzing Matilda. In 1994–95, the Queensland Government’s grant to the QEC was \$2.15 million (Department of Tourism, Sport and Racing 1995).

The *Gold Coast Events Company* was established to manage and promote the Indy Grand Prix. In 1994–95 the company received a grant of \$8.7 million to cover the losses incurred in staging the Grand Prix (Department of Tourism, Sport and Racing 1995). In addition to the annual grants provided by the Queensland Government, the *Gold Coast Events Company* received a \$56.27 million interest-free loan from the Queensland Treasury which was forgiven in full as at 1 July 1993 (Department of Tourism, Sport and Racing 1995).

#### **A1C.4 Queensland Government Purchasing Policy**

The Queensland Government’s purchasing policy is based on a number of stated principles such as value for money, open and effective competition, environmental protection and enhancing the capabilities of local business and industry (Queensland Government 1995c). While generally promoting efficiency and welfare, there is scope for the Government, through its purchasing policy, to provide revenue assistance to local firms and industries.

To enhance the capabilities of local business and industry, the Queensland Government’s purchasing policy sets out a range of initiatives at the planning stage, such as actively seeking out local suppliers and ensuring that specifications for goods and services are not structured so as to exclude local suppliers.

At the evaluation stage of procurement the policy guidelines state that when considering tenders, preference should be given to locally sourced goods and services where they are comparable on price, performance and quality with non-local goods and services (Queensland Government 1995c). Locally sourced goods and services are given additional weighting in the tender evaluation procedure due to the perceived benefits accruing to Queensland and Australia from the transactions and employment created locally and the perceived general benefit from on-going Government support for local industry.

The Industry Search and Opportunities Office, funded by DBIRD, provides an advisory service for Government agencies to encourage the use of locally produced goods and services.

### **A1C.5 Detailed information on State Government industry assistance programs and schemes**

Tables A1C.3 and A1C.4 below summarise the assistance provided to industry (excluding agriculture — see Appendix 2) by the Queensland Government. The information in Table A1C.3 has been drawn from the information supplied to the inquiry by the Queensland Government, the Queensland Government's 1995–96 Budget Papers and departmental annual reports. The information in Table A1C.4 is sourced principally from the annual reports of Queensland Government agencies and AusIndustry's BizLink information service.

Table A1C.3: **Queensland: State Government financial assistance to industry programs; nature and extent 1994–95 and 1995–96 (estimate)**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95 \$000	1995–96 <sup>b</sup> \$000
<b>Department of Justice and Attorney-General (DJAG)</b>				
<i>Arts and Cultural Development Program</i>	<i>Assistance to the arts and film industry.</i>	<i>Grants and subsidies</i>		
Grants to statutory authorities		Grants	57 032 <sup>c</sup>	na
Film and TV Incentive Programs	Assistance to develop Queensland produced film and TV.	Grants, wage subsidies, low interest loans, free information and advice and payroll tax concessions	6 260	na
Grants to cultural bodies			6 429 <sup>c</sup>	na
Capital grants			2 719 <sup>c</sup>	na
Other current arts grants			5 496 <sup>c</sup>	na
<b>Total all DJAG programs</b>			<b>77 936</b>	

**Table A1C.3: Queensland: State Government financial assistance to industry programs; nature and extent 1994–95 and 1995–96 (estimate) — continued**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95 \$000	1995–96 <sup>b</sup> \$000
<b>Department of Business Industry and Regional Development (DBIRD)</b>				
<i>Business Development Program</i>			14 295 <sup>d</sup>	14 561 <sup>d</sup>
The Queensland Business Licence Information Centre QBLIC	Provides information on Queensland and Commonwealth Government business licences.	Information	325	253
Government Business Information Service (GOBIS)	Provides information on assistance and support measures provided by government to business.	Information	na	na
Queensland Industry Information Service (QINDIS)	Provides a listing of Queensland manufacturers and tradeable service providers.	Information	506	412
Peak Bodies Liaison	Funding of Research Officers salaries for peak business associations.	Grant	na	na
<i>Industry and Technology Program</i>			21 876 <sup>d</sup>	24 578 <sup>d</sup>
Queensland Grant for Industrial Research and Development (QGRAD)	R&D grants. Projects must be intended for export or import replacement, have significant private sector involvement and be unable to proceed without state funding.	Financial assistance	4 520 <sup>c</sup>	2 801 <sup>c</sup>

**Table A1C.3: Queensland: State Government financial assistance to industry programs; nature and extent 1994–95 and 1995–96 (estimate) — continued**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96 <sup>b</sup>
			\$000	\$000
<b>Department of Business Industry and Regional Development (DBIRD) — continued</b>				
Research and Technology Parks	Provision of appropriately zoned land for firms to carry out research and development and manufacturing. Eligibility depends on the viability of the operation, financial capacity of the operators, economic benefits to the state and compatibility with other activities in the locality.	Provision of land and/or lease of land.	na	na
Queensland Manufacturing Institute	Provides technical and educational training for Queensland manufacturing. Firm must be a manufacturer.	Training	754	798
Cooperative Research Centre (CRC) Establishment Grants	While the CRCs are selected and funded by the Commonwealth the Queensland Government also provides grants.	Grants	480 <sup>c</sup>	na
Partnership for Development (IT)	Introduction for local computer firms to be introduced to transnational IT firms with a view to developing new products.	Information and access	na	na
Information Technology Language Skills Export	Subsidies to IT&T firms to employ a graduate student with necessary language and technical skills to enable the firm to export.	Subsidy	10 <sup>c</sup>	45 <sup>c</sup>
Export Advice and Information for IT&T firms	Information on export opportunities.	Information	na	na

**Table A1C.3: Queensland: State Government financial assistance to industry programs; nature and extent 1994–95 and 1995–96 (estimate) — continued**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95 \$000	1995–96 <sup>b</sup> \$000
<b>Department of Business Industry and Regional Development (DBIRD) — continued</b>				
Tele-communication and Interactive Media Advice	Information and advice for IT&T firms in relation to business programs, funding programs and selling to government.	Information	na	na
<i>Regional and Project Development</i>			22 302 <sup>d</sup>	13 791 <sup>d</sup>
The Industry Location Scheme (ILS)	Provides fully serviced industrial land appropriately zoned which is exempt from land tax while the land is leased, free of stamp duty payable on leases and financial assistance can be provided for the purchase of the land.	Land	7 429 <sup>e</sup>	4 727 <sup>e</sup>
Major Projects Incentive Scheme (MPIS)	Provides capital grants to help offset establishment or relocation costs, payroll and land tax concessions and assistance for employee recruitment and training for firms to establish or relocate in Queensland.	Grants, provision of land, tax concessions, feasibility studies and assistance with recruitment and training of employees.	4 700 <sup>d</sup>	6 300 <sup>d</sup>
Regional Economic Information	Information on regional economy.	Information	na	na
Business Advice for Rural Areas (BARA)	Information and advice.	Information	na	na
The Regional Economic Development (RED)	Provides grants to promote regional economic development.	Grants	800 <sup>c</sup>	–

**Table A1C.3: Queensland: State Government financial assistance to industry programs; nature and extent 1994–95 and 1995–96 (estimate) — continued**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96 <sup>b</sup>
			\$000	\$000
<b>Department of Business Industry and Regional Development (DBIRD) — continued</b>				
National Industry Extension Service (NIES)	Joint Commonwealth and State Government program that provides subsidies, grants and training to assist small and medium size business to improve their international competitiveness. Open to manufacturing and tradeable services firms involved in exporting activities and/or import competing activities.	Grants, subsidies and training.	3 700	na
Queensland Small Business Corporation (QSBC)	Statutory corporation which provides assistance to small business activity in Queensland.	Advice, training, information and financial assistance.	5 673 <sup>f, g</sup>	na
<b>Total all DBIRD programs</b>			<b>58 473</b>	<b>52 930</b>
<b>Department of Tourism, Sport and Racing (DTSR)</b>				
Racing program	Assistance to racing clubs and organisations.	Grants and subsidies	15 277 <sup>c</sup>	na
Queensland Tourist and Travel Corporation	Marketing and developing tourism.	Grant and financial assistance for marketing and promotion	24 600 <sup>c</sup>	na
Queensland Events Corporation	Assistance to Queensland Events Corporation to support and develop events capable of generating substantial economic activity.	Grant	2 150 <sup>c</sup>	na
Gold Coast Motor Events Company	Management and marketing of the Gold Coast Indy Grand Prix.	Grant	8 700 <sup>c</sup>	na
<b>Total all DTSR programs</b>			<b>50 727</b>	<b>na</b>

Table A1C.3: **Queensland: State Government financial assistance to industry programs; nature and extent 1994–95 and 1995–96 (estimate)** — *continued*

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95 \$000	1995–96 <sup>b</sup> \$000
<b>Department of the Premier, Economic and Trade Development (DPET)</b>				
<i>Trade and Investment Development Program</i>				
Major Projects Facilitation	Co-ordinates and facilitates all government assistance for major projects. Project costs must be at least \$200 million and contribute to the economic development of the state and be of strategic importance to the Queensland economy.	Discretionary, depending on the actual project.	27 095 <sup>d</sup>	21 165 <sup>d</sup>
Queensland Government Overseas Offices	Provides export marketing and promotion assistance for Queensland goods and services and information to assist in attracting foreign investment to Queensland. The offices are in Japan, Taiwan, Hong Kong and the UK.	Information, promotion and marketing advice.	5 169 <sup>d</sup>	4 605 <sup>d</sup>
Queensland Export Development Scheme (QEDS)	Demonstrated business record, business strategy or plan and be prepared to match any grant provided.	Grants	1 329 <sup>c</sup>	1 000
Major Projects Feasibility Consultancy Fund	Discretionary assistance to jointly fund feasibility funds for potential projects. Minimum project investment of \$15 million between overseas and Australian investors involved in value added manufacturing.	Subsidy	–	
Indonesia Trade Advisory Services	Information on trade opportunities in Indonesia.	Information	281 <sup>d</sup>	304 <sup>d</sup>

**Table A1C.3: Queensland: State Government financial assistance to industry programs; nature and extent 1994–95 and 1995–96 (estimate) — continued**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96 <sup>b</sup>
			\$000	\$000
<b>Department of the Premier, Economic and Trade Development (DPET) — continued</b>				
Export Counselling and Advisory Service to Export Ready Companies	Information and advice on export opportunities.	Information	589	656
South East Asia Trade Advisory Service	Information on trade opportunities in South East Asia.	Information	230 <sup>d</sup>	230 <sup>d</sup>
PNG–Oceania Trade Advisory Service	Information on trade opportunities in the PNG–Oceania region.	Information	132 <sup>d</sup>	228 <sup>d</sup>
Japan Trade Advisory Service	Information on trade opportunities in Japan.	Information	330 <sup>d</sup>	355 <sup>d</sup>
China Trade Advisory Services	Information on trade opportunities in China.	Information	271 <sup>d</sup>	328 <sup>d</sup>
<b>Total all DPET programs</b>			<b>35 426</b>	<b>27 871</b>
<b>Queensland Treasury</b>				
Apprenticeship/traineeship payroll tax rebate scheme	Proportional rebate of payroll tax for employers employing Queensland apprentices or trainees.	Tax rebate	4 489	

Table A1C.3: **Queensland: State Government financial assistance to industry programs; nature and extent 1994–95 and 1995–96 (estimate)** — *continued*

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95 \$000	1995–96 <sup>b</sup> \$000
<b>Queensland Treasury</b> — <i>continued</i>				
Payroll Tax Exemption Threshold	Payroll tax exemptions and concessions to employers. Full exemption where total annual wages bill is less than \$725 000 and concessional rates apply up to a total annual wages bill of \$2.9 million.	Tax concession and exemptions		
Stamp Duty Concession for Company Reconstruction or Amalgamation	Stamp duty concessions are provided on the transfers of property between related companies or companies under the control of the same shareholder.	Tax exemption	23 493	–
Offshore Banking Units (OBU) and Regional Headquarters (RHQ) Incentive	Tax concessions are granted to companies which establish a regional headquarters or offshore banking unit in Queensland. Specific criteria apply.	Payroll tax, land tax, stamp duty and debits tax concessions	66	–
Queensland Infrastructure Financing Fund	Provision of investment funds for major infrastructure projects. Provided on a project by project needs basis.	Provision of capital	–	–
Infrastructure Development Tax Concessions	Tax concessions for private sector involvement in infrastructure development. Provided on a project by project needs basis.	Tax concessions	–	–

Table A1C.3: **Queensland: State Government financial assistance to industry programs; nature and extent 1994–95 and 1995–96 (estimate)** — *continued*

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95 \$000	1995–96 <sup>b</sup> \$000
<b>Department of Transport</b>				
Export Coal Credit Scheme	Provides rail freight credits for export coal mines.		11 000 <sup>h</sup>	14 700
Port Corporation of Queensland Client Advice	Provides information and advice to port users on the available port facilities.	Information and advice.	na	na
<b>Department of Minerals and Energy</b>				
South East Queensland Electricity Board, Manufacturers Electricity Assistance	Major manufacturers considering relocation within the Board's electricity supply area receive fast tracking of their electricity supply, technical information and advice and tariff concessions maybe considered on a case-by-case-basis.	Information and discretionary tariff concessions	na	na
Minerals program <sup>i</sup>	Guidelines and assistance in the evaluation of environmental impacts arising from mining proposals. The provision of safety and research services and explosives handling for the mining industry.	Information, advice, research and the provision of facilities and services.	6 225	na
Electrical Advice and Information supplied by Regional Electricity Boards	Information and advice on energy use.	Information	na	na

**Table A1C.3: Queensland: State Government financial assistance to industry programs; nature and extent 1994–95 and 1995–96 (estimate) — continued**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96 <sup>b</sup>
			\$000	\$000
<b>Department of Primary Industries</b>				
Forest Production	Assistance to Timber Research and Development Advisory Council.	Grant	1 231	

a Where information is available, the data represent total current and capital expenditure, including overheads, but after deducting user charges revenue and industry contributions unless otherwise specified.

b Estimates based on the 1994–95 departmental structure.

c Amount paid as grants.

d Gross expenditure.

e Estates Maintenance Fund.

f Grant provided to the QSBC by DBIRD.

g \$1 051 000 paid in subsidies by QSBC.

h Approximate value of rebates.

i The export rail freight credits for export coal mines scheme, while provided by the Department of Transport, constitutes assistance to the mining sector.

Sources: Department of the Premier, Economic and Trade Development (1995), Queensland Government (1995b, 1996), DBIRD (1995), Queensland Treasury (1995), Department of Tourism, Sport and Racing (1995), BizLink (1995), Department of Justice and Attorney-General (1995).

**Table A1C.4: Queensland: State Government financial and non-financial industry assistance schemes, by department, 1994–95**

<i>Agency Assistance scheme</i>	<i>Form of assistance</i>	<i>Description and eligibility</i>
<b><i>Dept of Justice, Attorney General &amp; The Arts</i></b>		
<b>Documentary Fund</b>	<i>Grants and subsidies</i>	<p><b><i>Description:</i></b> Provides development and/or marketing funds to producers to assist in gaining commercial pre-sale or other production finance.</p> <p><b><i>Eligibility:</i></b> Priority given to resident Queenslanders. Applications from interstate will only be considered where filming will be predominantly in Queensland using local crews and services. The applicant must be the originator of the script, the copyright holder or have an option to the rights in any and all works on which the project is based.</p>
<b>Festivals and Awards</b>	<i>Grants</i>	<p><b><i>Description:</i></b> Provides funding towards the costs of film festivals and film awards.</p> <p><b><i>Eligibility:</i></b> All applications for financial assistance are subject to peer assessment.</p>
<b>From Idea to Screenplay</b>	<i>Grants and training</i>	<p><b><i>Description:</i></b> Provides \$3000 financial assistance and a comprehensive writing program for new writers.</p> <p><b><i>Eligibility:</i></b> Queensland residents without screen credits.</p>
<b>Organisations — Operational</b>	<i>Grants</i>	<p><b><i>Description:</i></b> Provides grants of not less than \$5000 (no upper limit exists) for operational support for the annual programs of established arts and cultural organisations.</p> <p><b><i>Eligibility:</i></b> Arts and cultural organisations must be legally incorporated and have established annual programs of arts and cultural development. Organisations must be able to clearly demonstrate viable financial and organisational management.</p>
<b>Organisations — Projects</b>	<i>Grants</i>	<p><b><i>Description:</i></b> Provides financial assistance in the form of grants for specific projects. The level of grant varies according to the type of activity to be funded.</p> <p><b><i>Eligibility:</i></b> Arts and Cultural organisations, government departments, institutions, local councils and other appropriate community groups and organisations which can demonstrate a commitment to arts and cultural development in Queensland.</p>

Table A1C.4: **Queensland: State Government financial and non-financial industry assistance schemes, by department, 1994–95** — *continued*

<i>Agency Assistance scheme</i>	<i>Form of assistance</i>	<i>Description and eligibility</i>
<i>Dept of Justice, Attorney General &amp; The Arts — continued</i>		
<b>Payroll Tax Incentive</b>	<i>Payroll tax rebates</i>	<p><i>Description:</i> Full rebates of Queensland payroll tax are available to major film and television series producers to encourage productions to be located in Queensland.</p> <p><i>Eligibility:</i> The film or television project must expend 50% of its 'below the line' budget in Queensland. The production office (including financial controller) must be located in Queensland. Priority will always be given to companies with an ongoing commitment to producing in Queensland. The feature film or television project must be produced predominantly in Queensland. A minimum expenditure in Queensland may be required to qualify for the payroll tax rebate.</p>
<b>Primary Projects Scheme</b>	<i>Grants and subsidies</i>	<p><i>Description:</i> Provides funding to a maximum level of \$10 000 to writers or producers without screen credits to develop film or television drama projects.</p> <p><i>Eligibility:</i> Applicants must be Queensland residents. Industry professionals from both Queensland and interstate are used to assess all applications and make recommendations to the Project Committee for a final decision.</p>
<b>Producer Mentor Scheme</b>	<i>Grants</i>	<p><i>Description:</i> Provides financial assistance by way of a grant to film makers who have a demonstrated commitment to becoming producers. Applicants must have secured a written agreement from an established and reputable producer (not necessarily resident in Queensland) to employ them for a minimum period of one year and be willing to act as their mentor in all aspects of producing.</p> <p><i>Eligibility:</i> Applicants must be Queensland residents, have some experience in the film and television industry and have at least one drama project they wish to develop.</p>

**Table A1C.4: Queensland: State Government financial and non-financial industry assistance schemes, by department, 1994–95 — continued**

<i>Agency Assistance scheme</i>	<i>Form of assistance</i>	<i>Description and eligibility</i>
<i>Dept of Justice, Attorney General &amp; The Arts — continued</i>		
<b>Production Investment Fund</b>	<i>Subsidies</i>	<p><i>Description:</i> Provides production funding for cinema and television drama projects suitable for production in Queensland. The maximum funding available per project is \$350 000 or 20% of the budget of the project, whichever is the lesser.</p> <p><i>Eligibility:</i> Projects where the producer, director or writer are residents in Queensland.</p>
<b>Revolving Film Finance Fund</b>	<i>Concessional loans</i>	<p><i>Description:</i> Provides low interest loans to production companies, broadcasters or distributors of films to cash flow a production. Loans can be no greater than 20% of the total production budget and to a maximum of \$1 million for any one production.</p> <p><i>Eligibility:</i> Priority will always be given to companies with an ongoing commitment to producing in Queensland.</p>
<b>Service Organisations Support</b>	<i>Grants</i>	<p><i>Description:</i> Provides grants to support the general running costs of projects of benefit to the film community. Funding will be provided on the basis of 50% on signing of the contractual agreement with the balance to be paid on the conclusion of the activity, or in the form of progress payments at set intervals, to be determined by Film Queensland in consultation with the successful applicant.</p> <p><i>Eligibility:</i> Professional or developing film organisations or groups who have demonstrated their benefit to the film community.</p>
<b>Short Film Fund</b>	<i>Equity Investment</i>	<p><i>Description:</i> Provides production funding for short drama projects suitable for promotion on the Australian and International film festival circuit. The levels of support range from \$5000 - \$50 000. Funding to successful applicants is in the form of equity investment by Film Queensland.</p> <p><i>Eligibility:</i> The project must be filmed in Queensland and applicants must be Queensland residents.</p>

Table A1C.4: **Queensland: State Government financial and non-financial industry assistance schemes, by department, 1994–95** — *continued*

<i>Agency Assistance scheme</i>	<i>Form of assistance</i>	<i>Description and eligibility</i>
<b><i>Dept of Justice, Attorney General &amp; The Arts — continued</i></b>		
<b>Wages subsidy for Queensland Crews</b>	<i>Wage rebates</i>	<i>Description:</i> Provides cash rebates to productions, calculated with reference to salaries paid to Queensland based cast and crews. The rebates are 10% of the basic salary/wages costs (other than rebatable payroll tax) of eligible crew employed on a production. The rebate is subject to a remuneration package ceiling of \$1800 per week per employee. Rebates are available to a maximum of \$300 000 per production.
<b><i>Department of Business Industry &amp; Regional Development</i></b>		
<b>Defence Business Opportunities</b>	<i>Information and advice</i>	<i>Description:</i> Information and advice is provided to Queensland firms on the market opportunities and joint venture schemes that are available in supplying to the Australian Defence Forces and export opportunities. Also, general advice is provided to Queensland firms on the correct procedures involved when submitting tenders for defence contracts.  <i>Eligibility:</i> Queensland firms.
<b>Financial assistance to projects which identify and evaluate investment opportunities</b>	<i>Subsidies</i>	<i>Description:</i> Financial assistance is provided on a dollar-for-dollar basis for proposals which identify or promote new regional investment or enhance existing development.  <i>Eligibility:</i> Proposals should be value adding to existing manufacturing or internationally traded services or promote new opportunities in these sectors. This scheme is aimed at companies (feasibility studies and targeted marketing only), regional development organisations (RDOs), regional tourism organisations, tertiary education institutions and local authorities and existing business groups and special interest groups which have a special interest in promoting industry or business opportunities in the region.

Table A1C.4: **Queensland: State Government financial and non-financial industry assistance schemes, by department, 1994–95** — *continued*

<i>Agency Assistance scheme</i>	<i>Form of assistance</i>	<i>Description and eligibility</i>
<b>Department of Business Industry &amp; Regional Development</b> — <i>continued</i>		
<b>Industry Consulting</b>	<i>Consultancy services</i>	<p><b>Description:</b> A wide range of consultancy services are offered through the Queensland Manufacturing Institute to assist and support firms in developing innovative and competitive application of new and existing technologies. Services offered could include: Technology investment evaluation, Technology transfer and implementation and Technology appraisal and applications development.</p> <p><b>Eligibility:</b> Firms must be in the manufacturing industry.</p>
<b>Investment Opportunities</b>	<i>Identification of market opportunities and matching investors with opportunities</i>	<p><b>Description:</b> Identifies areas of market opportunity for Queensland businesses and/or industries. Generally, assistance is provided in order to match business investors with opportunities. Interested investors are referred to the appropriate organisation for further action.</p> <p><b>Eligibility:</b> Queensland businesses.</p>
<b>Information Technology and Telecommunications (IT&amp;T) Resources Centre</b>	<i>Technical and marketing advice</i>	<p><b>Description:</b> Provides technical and marketing advice for IT&amp;T firms.</p> <p><b>Eligibility:</b> Applicants must be IT&amp;T firms.</p>
<b>Major Development Projects and Proposals Publication</b>	<i>Information</i>	<p><b>Description:</b> Provides information to business on major projects in Queensland.</p> <p><b>Eligibility:</b> NA.</p>
<b>Queensland Small Business Corporation</b>		
<b>Business Development</b>	<i>Information and advice</i>	<p><b>Description:</b> Involved in coordinating and running a number of different seminar and workshop activities targeted at small businesses.</p> <p><b>Eligibility:</b> Small businesses.</p>

Table A1C.4: **Queensland: State Government financial and non-financial industry assistance schemes, by department, 1994–95** — *continued*

<i>Agency Assistance scheme</i>	<i>Form of assistance</i>	<i>Description and eligibility</i>
<b>Queensland Small Business Corporation</b> — <i>continued</i>		
<b>Business Plus Incentive Scheme</b>	<i>Subsidising the cost of consultancy services</i>	<p><b>Description:</b> Provides financial assistance to small businesses for professional guidance and support in creating a Business Plan. Subsidises 50% of the cost of the business planning consultancy, up to a maximum of \$2500.</p> <p><b>Eligibility:</b> Small businesses.</p>
<b>Dept. of Tourism, Sport &amp; Racing</b>		
<b>Feasibility study assistance/service on recreation development proposals</b>	<i>Feasibility studies and advice</i>	<p><b>Description:</b> Carries out feasibility studies on proposed recreation facilities directly for developers or assist with specified aspects of a feasibility study as requested. It provides advice and supporting data on how to plan and where to locate recreational facilities to ensure the best possible community benefit and use.</p> <p><b>Eligibility:</b> No specific eligibility criteria apply. However, priority is given to addressing specific regional and community recreation needs.</p>
<b>Overseas Trade Shows</b>	<i>Marketing assistance</i>	<p><b>Description:</b> The Queensland Tourist and Travel Corporation (QTTC) arranges for tourism operators and wholesalers to attend international trade shows. In some circumstances, the cost of attending trade shows is arranged on a cost share basis with the QTTC.</p> <p><b>Eligibility:</b> Participants must have a quality tourist product and provide quality brochures ensuring that tourism rates quoted remain fixed for at least 12 months.</p>
<b>Queensland Tourist and Travel Corporation Overseas Offices</b>	<i>Promotion</i>	<p><b>Description:</b> Provides overseas offices to promote Queensland as a tourism destination.</p> <p><b>Eligibility:</b> NA.</p>

Table A1C.4: **Queensland: State Government financial and non-financial industry assistance schemes, by department, 1994–95** — *continued*

<i>Agency Assistance scheme</i>	<i>Form of assistance</i>	<i>Description and eligibility</i>
<b>Dept. of Tourism, Sport &amp; Racing</b> — <i>continued</i>		
<b>Domestic Tourism Advertising Services</b>	<i>Marketing and promotion</i>	<p><b>Description:</b> Through its travel centre network the QTTC provides advertising opportunities at discounted rates or on a joint funding basis and arranges promotions for tourist operators to target specific markets or promote special offers or events.</p> <p><b>Eligibility:</b> Tourist operators must be a member of a Regional Tourist Authority</p>
<b>Sunlover Holidays Participation</b>	<i>Marketing and promotion</i>	<p><b>Description:</b> Offers substantial discounts to tourism operators through joint-marketing and promotions activities under the Sunlover Holiday banner.</p> <p><b>Eligibility:</b> Tourist operators must be a member of a Regional Tourist Authority.</p>
<b>Sunlover Holidays Mailing Lists</b>	<i>Provision of mailing lists</i>	<p><b>Description:</b> Provides tourist operators with mailing lists drawn from the Sunlover Holiday database to assist with marketing.</p> <p><b>Eligibility:</b> Tourist operators must be members of the Sunlover Holiday Program.</p>
<b>International 'How To Do' Business seminars</b>	<i>Information and advice</i>	<p><b>Description:</b> Conducts special seminars for tourism operators and wholesalers on the complexities of doing business in the Asian markets.</p> <p><b>Eligibility:</b> Queensland tourism operators.</p>
<b>International Cooperative Advertising</b>	<i>Marketing</i>	<p><b>Description:</b> Provides tourism wholesalers and operators advertising at reduced rates under the QTTC banner in publications that are distributed internationally.</p> <p><b>Eligibility:</b> Tourism wholesalers and operators.</p>
<b>International Market Introductions</b>	<i>Marketing, promotion and information</i>	<p><b>Description:</b> Arranges introductions to international wholesalers and travel agents for domestic tourism operators and provides market information and public relations assistance.</p> <p><b>Eligibility:</b> Queensland tourism operators.</p>
<b>International Direct Mailing</b>	<i>Provision of mailing lists</i>	<p><b>Description:</b> Provides mailing lists for direct marketing campaigns.</p> <p><b>Eligibility:</b> Queensland tourism operators.</p>

Table A1C.4: **Queensland: State Government financial and non-financial industry assistance schemes, by department, 1994–95** — *continued*

<i>Agency Assistance scheme</i>	<i>Form of assistance</i>	<i>Description and eligibility</i>
<i>Dept. of Tourism, Sport &amp; Racing — continued</i>		
<b>Queensland Domestic Co-operative Advertising and Marketing Guide</b>	<i>Marketing and advice</i>	<i>Description:</i> Produces the 'Co-operative Advertising and Marketing Guide'. The Guide provides comprehensive marketing assistance to all parties involved in the Queensland Tourism Industry.  <i>Eligibility:</i> NA.
<b>Self Help Tourism Education Program</b>	<i>Education and training</i>	<i>Description:</i> Assists small businesses operating within the Queensland tourism industry through training of owners and managers.  <i>Eligibility:</i> There is no specific eligibility criteria, however, the program is targeted towards small business owners/managers in the tourism industry.

NA Not applicable.

Sources: DIST (1995), Queensland Government (1996).

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## **ATTACHMENT 1D: WESTERN AUSTRALIA**

### **A1D.1 Introduction**

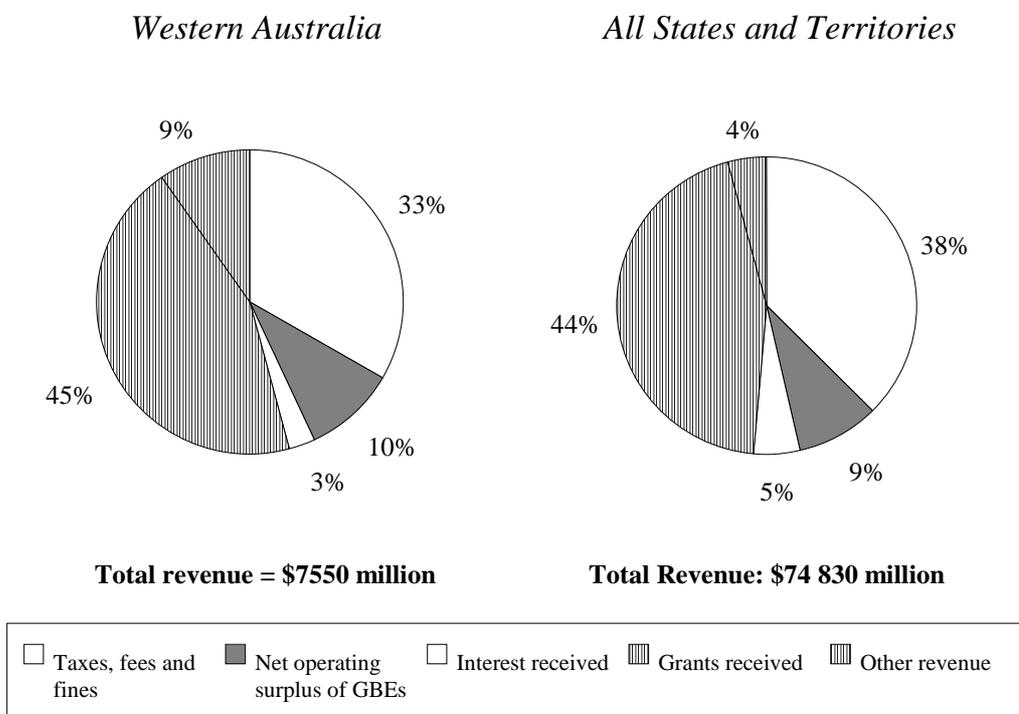
This Attachment provides information on the industry assistance provided by the State Government in Western Australia (WA). Most of the information has been obtained from the State Government's Budget Papers and the annual reports of relevant Government departments, agencies and statutory authorities. It also draws on the submissions provided by a number of WA State Government departments, especially that of the Department of Commerce and Trade.

#### **Revenue sources**

Commonwealth grants contributed around \$3.4 billion — or almost 45 per cent — of the Western Australian Government's revenue in 1994–95. Most of the remainder was raised through taxes, fees and fines (\$2.5 billion), net operating surpluses of government business enterprises (\$735 million) and interest received (\$204 million).

Of all the Australian States, WA has the third lowest proportion of revenue sourced from the Commonwealth Government, with only NSW and Victoria less reliant on Commonwealth grants. Figure A1D.1 shows the composition of WA revenue in comparison with that for all Australian States.

**Figure A1D.1: Composition of State Government revenue for Western Australia and all States and Territories, 1994–95**



Source: ABS (1995a)

## A1D.2 Western Australian Government assistance to industry

### Key legislation

The Department of Commerce and Trade (DCTWA) is responsible for most of the industry assistance provided in WA. The Department was established in February 1993. It operates within and administers the following legislation:

- *Technology and Industry Development Act 1983;*
- *Industries (Advances) Act 1947;*
- *Albany Woollen Mills Agreement Act;*
- *Morley Shopping Centres Redevelopment Act;*

- *Regional Development Commissions Act*;
- *Western Australian Products Symbol Act*; and
- *Inventions Act 1975*.

During 1994, the Minister for Commerce and Trade commissioned an independent review of the *Technology and Industry Development Act 1983*. A draft bill incorporating the recommended changes to the Act was introduced in 1995–96.

The Western Australian Tourism Commission was established in 1984 under the *Western Australian Tourism Commission Act 1983*. Following a review of the Act, the *Western Australian Tourism Commission Amendment Act* was proclaimed, and came into effect, in December 1994.

### **General policy approach**

The WA Government is currently developing an industry policy document, which will provide a formal basis for future Government involvement in promoting industrial and economic development. In general, the WA Government currently focuses on two main areas to encourage industrial development — improving the overall business climate for firms within the State, and providing investment incentives for strategic development. As well as these ‘high profile’ programs, the WA Government also provides a myriad of support measures for small, medium and large firms which aim to overcome perceived market failures and are similar to the assistance measures provided by other State governments.

In the 1995–96 Budget Speech, the Premier (and Treasurer) of WA stated that:

... it is by opening the public sector to private sector participation and by making the public sector more efficient and less burdensome that we create the economic circumstances in which the private sector can create real jobs. (Court 1995, p. 2)

The most significant microeconomic reform in WA in recent years has been the deregulation of the energy industry. On 1 January 1995, the State Energy Commission of Western Australia was split into separate electricity and gas authorities. The phasing in of access to the Dampier to Bunbury gas pipeline for large gas producers and consumers from 1 January 1995 has resulted already in substantially reduced energy prices to some areas. Private sector access to the State’s high voltage electricity transmission and distribution systems is also planned.

Other recent reforms include the full deregulation of freight transport from 1 July 1995 and the commercialisation of Westrail and the Fremantle Port Authority from 1 July 1996.

In its 1995–96 budget, the WA Government also announced changes to its payroll tax provisions. These changes are expected to have a cost to Government revenue of between \$12.5 million and \$17.5 million. In addition, the decision was taken in 1995 to halve stamp duty in the State, from 0.6 per cent to 0.3 per cent, at an estimated cost of \$15 million a year. (Court 1995)

### Extent and nature of assistance

In 1994–95, the WA Government provided approximately \$163 million in budgetary assistance to business and industry (see Table A1D.1). The Commission understands that little or no assistance is provided by the WA Government through revenue forgone measures, such as exemptions or concessions on payroll tax, land tax or stamp duty.

**Table A1D.1: Western Australian Government budgetary outlays<sup>a</sup> on non-agricultural industry assistance, 1994–95 (\$000)**

<i>Agency</i>	1994–95
Department of Commerce and Trade	46 480
Western Australian Tourism Commission	25 873
Department of Conservation and Land Management	17 200
Department for the Arts	13 208
Department of Minerals and Energy	11 847
Regional Development Commissions	11 656
Department of Resources Development	10 775
Western Australian Museum	9 402
Fisheries Department	4 145
Art Gallery of Western Australia	3 458
Small Business Development Corporation	3 094
Perth Theatre Trust	1 962
Office of Energy	1 335
Western Australian Film Council (Screen West Inc.)	1 148
Minerals and Energy Research Institute of WA	893
Perth International Centre for Application of Solar Energy	853
<b>Total</b>	<b>163 329</b>

a Where information is available, the data represent total current and capital expenditure, including overheads, but after deducting user charges revenue and industry contributions.

Source: WA Government (1995).

Information on WA Government budgetary assistance to non-agricultural industry in 1995–96 and 1996–97, based on departmental and program structures prevailing in 1996–97, is summarised in Table A1D.2 below. Major contributors to the increase in assistance in both years were the Department of Commerce and Trade and the Department of Fisheries.

**Table A1D.2: Western Australian Government budgetary outlays<sup>a</sup> on non-agricultural industry assistance, 1995–96 (revised)<sup>b</sup> and 1996–97 (estimate) (\$000)**

<i>Agency</i>	1995–96	1996–97
Department of Commerce and Trade	56 848	64 637
Western Australian Tourism Commission	24 976	26 158
Fisheries Department	19 765	26 896
Department of Conservation and Land Management	15 946	17 561
Regional Development Commissions	14 622	16 819
Department for the Arts	14 023	17 405
Department of Minerals and Energy	13 870	13 460
Department of Resources Development	12 063	19 419
Western Australian Museum	10 548	14 582
Art Gallery of Western Australia	7 206	6 658
Small Business Development Corporation	7 093	6 872
Western Australian Film Council (Screen West Inc.)	3 454	2 946
Perth Theatre Trust	2 595	2 605
Office of Energy	2 116	3 552
Perth International Centre for Application of Solar Energy	1 678	2 420
Minerals and Energy Research Institute of WA	740	753
<b>Total</b>	<b>207 543</b>	<b>242 743</b>

a Where information is available, the data represents total current and capital expenditure, including overheads, but after deducting user charges revenue and industry contributions.

b 1995–96 'revised' data is provided on the basis of the 1996–97 departmental and program structure.

Source: WA Government (1996).

Most of the direct industry assistance provided by the WA Government is in the form of information provision and marketing assistance. However, substantial grants and subsidies are offered to some businesses or industries in order to attract investment to the State or overcome a perceived market failure in the provision of funds.

The majority of investment attraction is undertaken by the DCTWA. However, the Department of Resources Development (DRDWA) also devotes significant

resources to fostering development projects, by providing advice and support to companies undertaking significant investment in the State.

Other agencies providing assistance include the departments of Agriculture, Arts and Fisheries, the Western Australian Tourism Commission, the Small Business Development Corporation and Screen West (formerly the Western Australian Film Council). There are also nine Regional Development Commissions which aim to assist the regions to increase opportunities for economic and social development.

### *Mineral royalties*

The *Western Australian Mining Act 1978* currently contains royalty provisions such that metals attract an ad valorem royalty of 2.5 per cent. However, gold mining is exempt from these royalties. This exemption is estimated to have cost over \$80 million in 1994 (assuming the actual 1994 value of production would have been achieved with the royalty) (DRDWA 1995b).

### **Major projects and recent special assistance**

The WA Government has provided a small number of significant incentive packages to companies over recent years. These have been administered by DCTWA. In its submissions to this inquiry, DCTWA stated that the following four companies had at least \$1 million of assistance agreed to in calendar years 1993 to 1995.

- *Coflexip* — Development of a \$55 million flexible undersea pipe manufacturing facility, employing 200 people. Coflexip was planning to locate its manufacturing facility in Singapore. It received an \$8.5 million package in 1994–95, which included significant infrastructure provision (see Box 2.2 in Chapter 2 for DCTWA's (Sub. 23) stated reasons for offering this package). This project also received facilitation services under the Commonwealth Government's *Investment Promotion and Facilitation Program*.
- *WA New Materials Centre* — Received a grant of \$2.5 million to develop a new materials centre at Technology Park.
- *Food Centre of WA Inc* — Establishment of a centre to promote food processing. It received a \$1 million loan, all or part of which is convertible to a grant at DCTWA's discretion.
- *China South Airlines–WA Flying School*. — Received a \$1 million loan for flying college pilot training.

Details of the financial incentive packages finalised by DCTWA in 1994–95 are given in Table A1D.5.

### **A1D.3 Institutional arrangements**

#### **Department of Commerce and Trade**

The structure of the DCTWA was changed in 1995–96, such that the three programs and 11 sub-programs in place in 1994–95 were replaced with two programs and four sub-programs.

The total expenditure of the Department was almost \$53 million in 1994–95, of which over \$31 million went to the *Industry Development Program*. In 1995–96, the separate *Industry Development* and *Trade Development* programs were incorporated into a combined *Investment and Trade Development Program*, while the *Regional Development Program* remained largely unchanged except for the names of its sub-programs. The objective of the *Investment and Trade Development Program* is:

... to promote, foster and facilitate investment and trade growth and the development of WA industry by providing information, assistance and support to individual enterprises and business organisations. (WA Government 1995, p. 103)

Total expenditure for DCTWA in 1995–96 is estimated to increase to around \$61 million, with the budget for the *Investment and Trade Development Program* just over \$35 million. The latter represents a decrease in nominal terms, as well as a decrease in the proportion of the budget devoted to this program. In contrast, the budget for the *Regional Development Program* has almost doubled between 1994–95 and 1995–96, from just over \$6 million to almost \$12 million. Table A1D.3 shows the total expenditure of the Department by program for 1994–95 and 1995–96, using the 1995–96 program structure.

**Table A1D.3: Department of Commerce and Trade (WA); total expenditure by program, 1994–95 and 1995–96 (estimate) (\$000)**

<i>Programs etc</i>	<i>1994–95</i>	<i>1995–96</i>
<b>Investment and Trade Development program</b>	<b>39 843</b>	<b>35 180</b>
Investment Growth	25 015	17 287
Trade Enhancement	14 828	17 893
<b>Regional Development program</b>	<b>6 175</b>	<b>11 658</b>
Regional Economic Growth	5 839	11 226
Regional Services Enhancement	336	432
<b>Corporate services</b>	<b>5 411</b>	<b>5 739</b>
<b>Minister's office</b>	<b>376</b>	<b>423</b>
<b>Capital works</b>	<b>462</b>	<b>7 888</b>
<b>Total expenditure</b>	<b>52 267</b>	<b>60 888</b>

*Source:* WA Government (1995).

Details of the grants, subsidies and transfer payments made by the DCTWA in 1994–95 are contained in Table A1D.4.

**Table A1D.4: Department of Commerce and Trade (WA); grants, subsidies and transfer payments, 1994–95 (\$000)**

<i>Programs</i>	<i>1994–95</i>
<b>Industry Development program</b>	<b>23 996</b>
National Industry Extension Service	2 759
Research and Development	303
Automotive Industry Grants and Subsidies	3 174
Paper Recycling Industry	1 190
Scitech Discovery Centre	1 663
Loan Servicing and Transfer Payments	3 143
Advanced Materials Centre	500
Renewable Energy Industry	448
Oil and Gas Industry	7 278
Cooperative Research Centres	1 238
Advanced Materials Industry	1 000
Pharmaceutical Industry	—
Other	1 301
<b>Trade Development program</b>	<b>1 337</b>
Export Marketing Support	783
International Education Marketing Group	151
Other	403
<b>Regional Development program</b>	<b>6 138</b>
Exmouth Development Fund	2 104
Business Enterprise Centres	1 320
Regional Enterprise Development and Incentives	967
Aboriginal Economic Development	943
Regional Initiatives Fund	413
Other	391
<b>Corporate services</b>	<b>2</b>
<b>Total expenditure</b>	<b>31 473</b>

*Source:* DCTWA (1995).

### *Investment attraction*

As part of its program to increase business investment in WA, the DCTWA provides a number of financial assistance packages to specific firms. The assistance provided may include:

- concessional or interest-free loans;
- provision of public infrastructure necessary for the project;
- provision of land or buildings by way of a grant or on a concessional basis;

- State tax rebates;
- feasibility study grants; and
- other grants. (DCTWA 1995 and Sub. 23)

Details of the financial assistance packages that were finalised in 1994–95 are provided in Table A1D.5. The most notable of these packages are the grants to Coflexip and Orbital Engine Corporation, of \$8.5 million and \$4.6 million, respectively, and the guarantees to Amcor (\$4.8 million, discharged) and Bunbury Foods (\$4.4 million, written off).

The incentive package provided to Coflexip was offered under the *Industry Incentives Program*. It included the construction of a 400 tonne crane on the Fremantle wharf, some strengthening of the wharf wall (for which funding went directly to the Fremantle Port Authority) and a long-term rent-free period on Coflexip's wharf site. The \$8.5 million figure provided by DCTWA covers the cost of all of these incentives, including the entire cost of constructing the crane, which is now part of the infrastructure available to all other users of the port (although Coflexip operates and has priority use of the facility).

The *Industry Incentives Program* covers a range of programs providing direct financial assistance to industry. There are nine criteria that need to be met before a firm can receive assistance under the program, including a requirement to establish that the project would not occur in the State unless incentives are provided (see Table A1D.7).

The *Locate to Western Australia* program targets overseas companies wishing to establish regional headquarters and manufacturing facilities in WA. Assistance is provided in the form of information and advice, representation with other government agencies and financial incentives (which are provided on a case-by-case basis and must meet certain criteria).

In addition to these assistance measures, some small pre-feasibility grants are awarded to companies wishing to assess the commercial viability and investment potential of projects. Three such grants were approved in 1994–95, involving a total of \$67 000 in State Government funding and \$29 000 in Commonwealth funding.

**Table A1D.5: Department of Commerce and Trade (WA); financial assistance packages finalised in 1994–95 (\$000)**

<i>Project</i>	<i>Form of assistance</i>	<i>Amount</i>	<i>Finalised</i>
Amcor	Loan	206	Loan repaid
	Guarantee	4 800	Guarantee discharged
Anderguage	Locate West RHQ Grant	12	Final grant payment made
Austissue	Capital Establishment Grant	200	Final conversion completed
Bunbury Foods	Guarantee	4 400	Debts written off
Cameronics	Guarantee	750	Debts written off
Canning Vale Weaving Mills	Guarantee	750	Guarantee discharged
Coflexip	Industry Incentive Grant	8 500	Final grant payment made
Computer Power Group	Feasibility Study Grant	50	Final grant payment made
Drillex	Locate West RHQ Grant	23	Final grant payment made
ESD Simulators	Locate West RHQ Grant	10	Final grant payment made
Formulab	Equity	375	Final repayment received
Geological Modelling Systems	Equity	150	Equity written off
Intouch Computing	Loan	100	Debt written off
Manjimup Vegetable Co	Feasibility Study Grant	13	Final grant payment made
One Australia America's Cup Team	Grant	430	Offer withdrawn
Orbital Engine Corporation	Rental Grant	4 625	Final grant payment made
Simcoa Operations	Feasibility Study Grant	17	Final grant payment made
Sumich Group	Feasibility Study Grant	20	Final grant payment made
Timcast Pty Ltd	Loan	65	Loan repaid
WS Atkins	Locate West Grant	25	Final grant payment made
Wyndham Crocodile Farm	Grant	65	Final grant payment made

*Source:* DCTWA (1995).

DCTWA also supports some R&D through supplementary funding of the *Cooperative Research Centres* in WA (part of a Commonwealth program), the *Western Australian Innovation Support Scheme*, and support for technology parks and precincts. In 1994–95 the *Cooperative Research Centres* in WA received over \$1.2 million in State Government funding through the Department. The DCTWA also provides funding to the *Scitech* science learning centre — promoting science and technology to young people — and the *Advanced Manufacturing Technologies Centre* — providing “teaching facilities

using sophisticated equipment that will increase the State's attractiveness for investment in high technology manufacturing" (DCTWA, Sub. 23, p. 17).

As part of the Department's strategy to develop enterprise competitiveness and capability throughout the State, it administers the *AusIndustry* — previously *National Industry Extension Service* (NIES) — programs, which are funded jointly by the State and Commonwealth Governments. According to DCTWA, in 1994–95 “436 services were delivered to 379 companies through the *NIES*; and a total of 181 services to 165 companies under the *Small Business Improvement Program*” (Sub. 23, p. 24).

### *Trade enhancement*

DCTWA aims to enhance overseas trade by WA — in particular to increase WA's exports to Asia. It has a number of programs designed to assist WA firms to develop export markets and become more proficient exporters. For example, the Department provides subsidies for potential exporters to attend trade fairs or conduct trading missions, provides market intelligence to WA firms and offers assistance in employing graduates with international marketing qualifications. In addition, the Department has country specialist desks providing market and business information to firms, conducts research into economic, social and cultural issues in Asia and the Indian Ocean region, encourages the development of networks and partnerships, and works to minimise impediments to trade.

It is difficult to assess how much each of these programs, or sets of programs, costs the DCTWA. However, assistance in 1994–95 included:

- assistance for more than 260 WA companies to attend 26 sector-specific international trade exhibitions;
- *NIES* programs helping 18 companies to assess their readiness to export and 25 companies to improve their business strategies;
- thirteen placements under the *Export Marketing Graduate Scheme*;
- distribution of 1500 copies of each of three calendars of exhibitions and trade missions;
- provision of more than \$70 000 to the Chamber of Commerce and Industry of WA for completion of its *Trade Match* database, which registered around 46 000 companies;
- the offices in Hong Kong, Kuala Lumpur and Surabaya assisting almost 600 WA organisations and responding to 450 enquiries from local firms;
- coordination of a *Western Australia Week* promotion in Malaysia involving 60 companies;

- recruitment of 489 students to enrol at WA educational institutions from Singapore, Kuala Lumpur and Hong Kong;
- support for 475 overseas visits by 374 WA companies;
- around 180 presentations to journalists, business delegations and political delegations; and
- support for 35 inward and ministerial outward missions to and from target markets.

### *Regional development*

Most of the regional development assistance provided by the DCTWA is aimed at promoting economic growth in regional WA. However, economic development is promoted primarily in an attempt to ensure that communities in regional areas are not disadvantaged relative to those in major population centres.

The Department employs a number of strategies for promoting growth in rural areas. These include:

- publicising regional WA as a good place to live and work;
- town centre upgrade projects for large country towns;
- support for the arts and craft industry;
- funding for the development of economic plans for smaller towns;
- funding for not-for-profit groups to seek advice on legal issues, market research, business plans and feasibility studies;
- workshops to increase communities' understanding of the economic, social and environmental issues they face;
- provision of regional economic profiles;
- grants to support economic development and job creation in rural areas;
- support for five major projects in the Exmouth region;
- sponsorship and support for 26 local shop-front centres (*Business Enterprise Centres*);
- loan guarantees for small start-up businesses and expansion loans to country businesses which have difficulty in raising loans; and
- identification and promotion of infrastructure needs.

From a total budget of around \$6.1 million for regional development, the *Exmouth Development Trust Fund* accounted for more than \$2.1 million (provided to the Exmouth Community to support the five major projects in the

region) while the *Business Enterprise Centres* received funding of about \$1.3 million.

### **Department of Resources Development**

The DRDWA has two programs aimed at assisting resources development in WA.

The *Fostering Resources Development* program aims to “encourage a climate conducive to ongoing resource development” (WA Government 1995, p. 200). The total budget for this program was almost \$3 million in 1994–95, rising to around \$3.3 million in 1995–96.

Under the *Fostering Resources Development* program’s *Planning for Resources Development* sub-program in 1994–95:

- \$250 000 was spent on engineering and environmental studies for the proposed Maitland Heavy Industry Estate near Karratha;
- \$100 000 was spent similarly on the proposed Boodarie Heavy Industry Estate near Port Hedland;
- the Draft Land Use and Management Plan for the Burrup Peninsula was finalised;
- a number of infrastructure proposals for the Goldfields region were coordinated; and
- a number of studies were undertaken into improving and expanding the heavy industry estates of the South West.

The Department also funded several resource processing pre-feasibility studies in 1994–95. Details of these studies are in Table A1D.6.

**Table A1D.6: Department of Resources Development (WA); pre-feasibility studies, 1994–95**

	<i>Cost</i>	<i>Level of interest</i> <sup>a</sup>	<i>Estimated capital value</i>
	\$	number	\$ million
Titanium metal	700	35	200
Specialty ferrous products	18 000 <sup>b</sup>	1	40
Activated carbon	8 700	36	5
Titanium dioxide	12 800	28	195
Industrial minerals	47 500	92	na
Opportunity register <sup>c</sup>	5 360	260	na
Pulp mill	100 000 <sup>b</sup>	1	400
Chlor Alkali and EDC/VCM plant in Pilbara	50 000	10	1 000
Direct Reduced Iron	15 000 <sup>d</sup>	20	3 000

na not available

a Copies of report requested by investors, banks, producing companies, etc.

b External consultancy jointly funded by the company.

c Identifies 32 opportunities for development in South WA. Projects range in value from \$5 million to over \$1 billion.

d Most of this expenditure was for travel and publication costs associated with the promotion of the results of a study carried out prior to 1994–95.

Source: DRDWA (1995a).

The objective of the *Securing Resource Development Projects* program is, as the name suggests, “to secure resource development projects of major significance for the State” (WA Government 1995, p. 203). The program’s budget in 1994–95 was around \$7.8 million, with \$212 000 provided in grants, subsidies and transfer payments for promoting resources development. Its cost is estimated to fall to just over \$7 million in 1995–96, with grants, subsidies and transfers for resources development around \$170 000.

The two sub-programs of the *Securing Resource Development Projects* program (*Promoting Development Opportunities* and *Coordinating Resource Development Projects*):

- conduct research and reviews to highlight development opportunities;
- undertake analysis of these opportunities;
- target project developers to continue investigation and research;
- provide assistance and support to major projects; and
- ensure access to necessary resources and infrastructure.

One aspect of managing the establishment of major projects is the creation of State Agreement Acts where existing State statutes are unable “to accommodate the development needs of complex, long term and remote projects” (DRDWA, Sub. 51, p. 4). If this is the case, the project developers can negotiate an Agreement which will set aside some of the restrictions that would otherwise be placed on them by existing legislation (eg extending the length of guaranteed infrastructure zoning of an area from 10 years to 50 years).

Agreements also can include provision for assistance measures, such as stamp duty exemptions or confining rating valuations to unimproved values. According to DRDWA, “all alumina and most iron ore Agreements have concessional mining lease rentals” (Sub. 51, p. 5). In addition, Agreements may embody some commitment on the part of the developer to undertake further processing of the commodities extracted. All Agreements must be ratified by the State Parliament.

### **Western Australian Tourism Commission**

The Western Australian Tourism Commission aims to “accelerate the sustainable growth of the Western Australian tourism industry for the longer term economic and social benefit of the State” (WA Government 1995, p. 89). The Commission administers two programs with a total of six sub-programs, all of which provide some assistance to the tourism industry.

The *Promotion of Western Australia as a Tourism Destination* program has four sub-programs: *Leisure Tourism*; *Retail Information and Booking Services*; *Event Tourism*; and *Convention and Incentive Travel*. Of these, *Leisure Tourism* is by far the largest, accounting for over \$16.1 million of the program’s \$24.7 million budget in 1994–95 and around \$14.1 million of its \$23 million 1995–96 budget.

The *Leisure Tourism* sub-program undertakes national and international marketing of WA as a leisure tourism destination. In 1994–95 the Commission undertook its first overseas television campaign. This \$400 000 campaign in Singapore was followed by an \$80 000 promotion of Perth’s shopping opportunities. Other marketing strategies include:

- hosting of visits by interstate media representatives and travel agents and international media and trade representatives;
- Commission support for international missions by WA tourism representatives;
- the operation of the Commission’s regional offices in Asia and Europe;

- publication and distribution of a number of promotional brochures; and
- conducting national media campaigns.

The *Event Tourism* sub-program is undertaken by *Eventscorp*, an organisation set up specifically to attract major events to the State. Its cost in 1994–95 was around \$4.9 million, budgeted to increase to \$5.4 million in 1995–96.

*Eventscorp* promotes WA as a desirable destination for special events in a number of ways, including:

- undertaking feasibility studies to identify suitable events;
- developing networks in the special event industry;
- encouraging local affiliates of international organisations to bid for international events;
- supporting and managing events;
- working to maximise media exposure of WA through events;
- working with tour wholesalers to develop travel packages; and
- encouraging events in times of surplus capacity in the tourism industry.

During 1994–95, *Eventscorp* had involvement in 11 international events hosted by WA and supported 21 regional events. It was also involved in ‘securing’ eight events to be hosted over the next two years, including the FINA World Swimming Championships in 1998, the UCI World Track Cycling Championships, the IYRU World Boardsailing Championship, and the Heineken Classic golf event for the next three years. Annual events such as the Hopman Cup and Telstra Rally Australia are also supported (WATC 1995).

The second of the Commission’s programs, the *Tourism Development* program, had a cost of almost \$1.2 million in 1994–95, budgeted to increase to \$1.4 million in 1995–96. Its two sub-programs (*Planning and Consultancy* and *Development Projects*) aim to facilitate the development of new tourism infrastructure through assistance to the private sector to increase the number and quality of tourist facilities, working with other public sector authorities to ensure infrastructure and facilities are developed, coordination of release of Crown land for tourism, and provision of advice to the Government, public sector agencies and private sector organisations.

### **Small Business Development Corporation**

The Small Business Development Corporation (SBDCWA) is a statutory authority within WA and administers the *Small Business Development* program. This program aims to encourage the development of small and medium-sized

businesses in WA through the provision of information, advice and training. The program also represents the interests of small business in attempting to minimise the impediments they face. The majority of its clients are from the retail and services sectors (SBDCWA, Sub. 29, p. 8). In 1994–95 the program cost the State Government almost \$2.9 million and the cost is estimated to remain about the same in 1995–96. SBDCWA took over the management of the State's 36 *Business Enterprise Centres* from DCTWA from 1 July 1995.

The SBDCWA also administers the *Small Business Guarantees Act 1984*, under which the Minister for Commerce and Trade, Regional Development and Small Business can provide guarantees for the repayment of the whole or part of a loan to the owner of a small business. The provision of the guarantee is subject to the conditions that:

- the loan proposal was rejected solely because the lender was unable to provide sufficient security; and
- the loan moneys be for capital expenditure, start-up working capital or for the expansion or diversification of an existing business.

The costs of administering this Act in 1994–95 were \$120 000 and are estimated to be \$250 000 in 1995–96.

### **Department for the Arts**

The Department for the Arts administers the *Cultural Development* program, consisting of the *Arts Portfolio Integration*, *Cultural Industry Development* and *Arts Investment* sub-programs. The Department was restructured during 1994–95 and previously had two programs, *Cultural Portfolio Coordination* and *Arts Assistance*. Following the restructure, the activities of the Arts Assistance program were taken over by the *Arts Investment* sub-program. The sub-programs of the *Cultural Portfolio Coordination* program were amalgamated and renamed to form the *Cultural Industry Development* and *Arts Portfolio Integration* sub-programs.

Both the *Cultural Industry Development* sub-program and the *Arts Investment* sub-program provide direct assistance to industry. The former involves the Department in the management and marketing of the arts and cultural resources and the promotion of new commercial opportunities in the sector. The latter provides recurrent funding to major Arts Agencies and project funding to specific events.

In 1994–95, the Department “carried out major market research” as part of the *Cultural Industry Development* sub-program (DAWA 1995). Activities

included conducting a survey of patrons across the performing arts, hosting seminars and the conclusion of a three year timeline study of public attitudes to the arts.

The *Arts Investment* sub-program in 1994–95 made grants of about \$10.9 million in 1994–95, from a total budget for the sub-program of around \$12.3 million. These grants ranged in size from \$125 to \$1.3 million (to the Western Australian Symphony Orchestra) and included:

- increasing the general purpose funds for the Western Australian Opera Company to \$900 000 a year;
- the provision of \$30 000 to Urban Art projects under the State Government’s graffiti strategy; and
- the allocation of four \$30 000 *Creative Development Fellowships* to individual artists.

The expected budget for the sub-program in 1995–96 is just over \$12.2 million.

### **Screen West (Inc.) (Western Australian Film Council)**

The Western Australian Film Council changed its name to Screen West (Inc.) from 1 July 1995. Screen West operates the *Film Industry Development* program, which is made up of three sub-programs — *Investment in Production*, *Industry and Practitioner Development* and *Market and Industry Expansion*. Its planned expenditure for 1995–96 is almost \$1.3 million, an increase from just over \$1.1 million in 1994–95.

Screen West assists the film, television and multimedia industries through:

- the provision of loans and investment to support the development, marketing and production of feature film, television and multimedia products;
- the provision of finance and advice to individuals and organisations for the improvement and promotion of skills, knowledge and facilities — including sponsoring individuals’ attendance at seminars, conferences or film festivals or sponsoring organisations to conduct these events;
- marketing of WA as a location for the production of film, television and multimedia products; and
- offers of incentives to attract investment from overseas, particularly from South East Asia. (Screen West 1995)

## **Fisheries Department**

Under the *Fisheries Resource Management* program, the Fisheries Department formulates and implements fisheries management policy, investigates fish stocks and other environmental phenomena and encourages the development of the aquaculture industry.

Research and monitoring activities are the main forms of assistance provided to the fishing industry, through the *Research* sub-program. However, grants totalling \$24 000 were made to the aquaculture industry under the *Aquaculture Development* sub-program in 1994–95, with this amount estimated to increase to \$350 000 in 1995–96 (WA Government 1995). The State Government has allocated a total of \$4.5 million over a three year period to expand and develop Western Australian aquaculture.

## **Department of Agriculture**

The Department of Agriculture provides assistance both independently and in conjunction with the Commonwealth Department of Primary Industries and Energy. The extent of this assistance is detailed in Appendix 2.

### **A1D.4 Detailed information on State Government industry assistance programs and schemes**

Tables A1D.7 and A1D.8 below, summarise the assistance provided to non-agricultural industry by the Western Australian Government. The information in Table A1D.7 has been drawn from the WA Government's 1995 Budget Papers. The information in Table A1D.8 is sourced principally from the annual reports of Western Australian Government agencies and AusIndustry's BizLink information service. The DCTWA's submission also provided some relevant information.

Table A1D.7: **Western Australia: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate)**

Agency Program <sup>a</sup> Sub-Program	Description/objectives	Form of assistance	Funding <sup>b</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Department of Commerce and Trade</b>				
<i>Investment and Trade Development</i>	<i>Promotion of investment and trade growth through: encouraging development of existing firms and attracting value-adding investment; assisting clients to export; and encouraging science and technology activities in WA and their application to business improvement.</i>	<i>Marketing, grants, subsidies, advice, information, and R&amp;D.</i>	40 305	35 180
Investment Growth	Promotion of capital investment in value added activities State-wide through: policy and investment assistance packages; infrastructure development; removal of impediments; provision of schemes and services to increase investment in R&D; and developing networks.	Grants, subsidies, infrastructure, R&D, removal of impediments and developing networks.	25 477	17 287
Trade Enhancement	Promotion of more and diversified exports through: trade and competitiveness assistance packages; market development; information; R&D; and developing networks.	Grants, subsidies, information, market development, R&D and developing networks.	14 828	17 893
<i>Regional Development</i>	<i>Promotion of regional economic development through provision of information, representation and assistance to communities, organisations and businesses in regional WA.</i>	<i>Information, representation and grants/subsidies.</i>	6 175	11 658
Regional Economic Growth	Promotion of regional WA locally, nationally and internationally as a good place to live and work. Assistance to regions to adjust to structural change and minimisation of impediments to regional economic development.	Marketing, grants/subsidies, and minimising impediments.	5 839	11 226

Table A1D.7: **Western Australia: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate) — continued**

Agency Program <sup>a</sup> Sub-Program	Description/Objectives	Form of assistance	Funding <sup>b</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Department of Commerce and Trade — continued</b>				
Regional Services Enhancement	Promoting access to government services and assistance to regional areas. Promoting development of appropriate infrastructure and services.	Access to government services and infrastructure.	336	432
<b>Sub-total of programs</b>			<b>46 480</b>	<b>46 838</b>
<b>Western Australian Tourism Commission</b>				
<i>Promotion of WA as a Tourist Destination</i>	<i>Generation of greater tourism activity through: promotion of WA tourist facilities and services; development of new tourist facilities; increasing the utilisation of WA tourist facilities; servicing the information and booking needs of travellers to and within WA; provision of assistance to other tourism organisations within WA; development of new tourist markets for WA; and promotion of WA as a desirable location for holding conventions and special events.</i>	<i>Promotion, development of facilities, information and grants.</i>	24 684	23 076
Leisure Tourism	Marketing activities both nationally and internationally.	Market development.	16 148	14 146
Retail Information and Booking Services	Operation of a tourist centre in Perth to provide tourist information and services. Other information dissemination.	Information and service provision.	2 518	2 415
Event Tourism (Eventscorp)	Feasibility studies to identify suitable events; bidding for events; promotion of WA as location for events; and coordination of travel packages with tour wholesalers.	Grants, feasibility studies and marketing.	4 937	5 400

Table A1D.7: **Western Australia: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate) — continued**

Agency Program <sup>a</sup> Sub-Program	Description/Objectives	Form of assistance	Funding <sup>b</sup>	
			1994–95 \$000	1995–96 \$000
<b>Western Australian Tourism Commission — continued</b>				
Convention and Incentive Travel	Identifies opportunities for potential new national and international meetings and incentive business travel; bidding for new business; and coordination of marketing with tourist industry.	Market development and grants/subsidies.	1 081	1 115
<i>Tourism Development</i>	<i>Development of new tourist infrastructure and improvement of existing facilities through: assistance to private sector to increase number and quality of tourist facilities; investment encouragement; ensuring that public infrastructure and facilities are developed; coordination of release of crown land for tourism purposes; and provision of advice to private and public sector organisations.</i>	<i>Grants/subsidies, infrastructure development, coordination and advice.</i>	<i>1 189</i>	<i>1 424</i>
Planning and Consultancy	Dissemination of information regarding development opportunities to investors.	Information.	746	776
Development Projects	Support for local government authorities and non-profit organisations for projects meeting the Commission's criteria.	Grants, subsidies, information	443	648
<b>Sub-total of programs</b>			<b>25 873</b>	<b>24 500</b>

Table A1D.7: **Western Australia: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate)** — *continued*

Agency Program <sup>a</sup> Sub-Program	Description/Objectives	Form of assistance	Funding <sup>b</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Department of Conservation and Land Management</b>				
<i>Management for Tourism and Recreation</i>	<i>Identifies, provides and maintains opportunities and services to the community in respect of the enjoyment of wildlife, lands, waters and resources entrusted to the Department.</i>	<i>Information, education, planning.</i>	17 200	15 522
<b>Department for the Arts</b>				
Arts Investment	Invests funds with arts organisations, individual artists and community groups. Recurrent and special event funding.	Grants/subsidies.	12 334	12 236
Cultural Industry Development	Develops partnerships with private and public sectors, develops strategies for more effective management and marketing of arts and cultural resources and promotes new commercial opportunities. Also concerned with capital works planning and management strategies.	Developing partnerships, management, marketing, promotion and capital works funding.	874	861
<b>Sub-total of sub-programs</b>			<b>13 208</b>	<b>13 097</b>
<b>Department of Minerals and Energy</b>				
Mineral Industry Safety and Environmental Management	Aims to improve safety, occupational health and environmental management in line with community standards.	Safety auditing, guideline preparation, education, training and research.	8 898	10 558

Table A1D.7: **Western Australia: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate) — continued**

Agency Program <sup>a</sup> Sub-Program	Description/Objectives	Form of assistance	Funding <sup>b</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Department of Minerals and Energy — continued</b>				
Petroleum Resources and Tenure	Evaluation and advertising of exploration acreage, evaluation of industry performance, liaison with industry and government agencies, the provision of timely approvals for petroleum exploration and development proposals, and the promotion of exploration opportunities in WA. Aiming to facilitate the exploration for, and the efficient production of, the petroleum resources of WA.	Facilitation.	1 731	1 867
Petroleum Industry Safety and Environmental Management	Aims to improve safety and environmental management of facilities and operations in the petroleum exploration and production industry.	Safety auditing, guideline preparation, education and training.	1 218	1 230
<b>Sub-total of sub-programs</b>			<b>11 847</b>	<b>13 655</b>
<b>Gascoyne Development Commission</b>				
Economic and Social Development of the Gascoyne Region	Assistance to the region to maximise opportunities for balanced economic and social development through: advice on review and development of policies; pro-active assistance; and monitoring.	Grants, information and advice.	1 517	2 909
Economic and Enterprise Development	Development of strategies to facilitate investment and individual enterprise projects in the region through development of strategies and direct assistance.	Grants, information and advice.	1 332	2 734

Table A1D.7: **Western Australia: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate)** — *continued*

Agency Program <sup>a</sup> Sub-Program	Description/Objectives	Form of assistance	Funding <sup>b</sup>	
			1994–95 \$000	1995–96 \$000
<b>Goldfields–Esperance Development Commission</b>				
Local Development	Provision of advice to individual developers and to the business community as to the viability of proposals and assistance where appropriate. Also involved with social development.	Advice and grants.	506	604
<b>Great Southern Development Commission</b>				
Economic and Community Development	Provision of advice to individual developers and to the business community as to the viability of proposals and assistance where appropriate. Also involved with social development.	Advice and grants.	448	589
<b>Kimberley Development Commission</b>				
<i>Economic and Social Development of the Kimberley Region</i>	<i>Assistance to the region to maximise opportunities for balanced economic and social development through: advice on review and development of policies; pro-active assistance; and monitoring.</i>	<i>Grants, information and advice.</i>	872	1 061
Economic and Enterprise Development	Develops strategies to facilitate investment and individual enterprise projects in the region. Provides direct assistance.	Grants, information and advice.	469	623

Table A1D.7: **Western Australia: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate)** — *continued*

Agency Program <sup>a</sup> Sub-Program	Description/Objectives	Form of assistance	Funding <sup>b</sup>	
			1994–95 \$000	1995–96 \$000
<b>Mid West Development Commission</b>				
<i>Economic Development in the Mid West</i>	<i>Planning, coordination and promotion of development opportunities in the region, focussing on industry sectors that have sustainable competitive advantage.</i>	<i>Grants, information, advice, planning and coordination.</i>	839	985
Business Environment Development	Implementation of strategies to remove and reduce the impact of major artificial impediments such as unnecessary approval processes, regulations and infrastructural deficiencies.	Advice.	286	323
Business and Enterprise Development	Targets individual projects which are identified for development potential and facilitates appropriate development outcomes.	Grants/subsidies, information and advice.	366	403
Business Information and Advice	Provision of information and assistance with: networking; access to industry assistance programs; and identification of business and investment opportunities. Provision of policy advice to government. Focus is to create single point of contact.	Information and advice.	187	259
<b>Sub-total of sub-programs</b>			<b>839</b>	<b>985</b>

Table A1D.7: **Western Australia: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate)** — *continued*

STATE, TERRITORY AND LOCAL GOVERNMENT ASSISTANCE TO INDUSTRY

Agency Program <sup>a</sup> Sub-Program	Description/Objectives	Form of assistance	Funding <sup>b</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Peel Development Commission</b>				
<i>Economic and Social Development of the Peel Region</i>	<i>Assistance to the region to maximise opportunities for balanced economic and social development through: advice on review and development of policies; pro-active assistance; and monitoring.</i>	<i>Grants, information and advice.</i>	644	788
Economic and Social Development	Provision of direct assistance for implementation of individual investment and enterprise development initiatives. Also community lifestyle projects.	Grants, information and advice.	447	591
<b>Pilbara Development Commission</b>				
Development Promotion	Promotion on competitive advantages of the region and strategies to remove or reduce the impact of major impediments.	Promotion and removal of impediments.	338	420
Development Support	Support for individual projects identified as: providing local employment; contributing to diversification of the regional economy; and have development potential. Implements strategies aimed at facilitating appropriate development outcomes.	Support for individual development projects	735	775
<b>Sub-total of sub-programs</b>			<b>1 073</b>	<b>1 195</b>

Table A1D.7: **Western Australia: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate) — continued**

Agency Program <sup>a</sup> Sub-Program	Description/Objectives	Form of assistance	Funding <sup>b</sup>	
			1994–95	1995–96
			\$000	\$000
<b>South West Development Commission</b>				
<i>Economic Development and Promotion</i>	<i>Promotion and facilitation of the economic development of the region, including broadening the economic base and ensuring the availability of infrastructure for industry and community growth.</i>		6 190	7 203
Industry and Resource Development	Assistance to individual projects and promotion of strategic investment through cooperation with industry and commerce.		4 083	5 499
Local Economic Development	Assist the expansion of community enterprise and infrastructure in the region through identifying needs, monitoring services and cooperating with government agencies and communities.		1 048	806
Economic Infrastructure and Planning	Planning of strategies for future infrastructure and working with industry and government to implement needed infrastructure.	Infrastructure planning and provision.	745	631
Promotion and Information	Promotion of region's investment opportunities. Provision of information and advice to promote business development.	Promotion, information and advice.	314	267
<b>Sub-total of sub-programs</b>			<b>6 190</b>	<b>7 203</b>

Table A1D.7: **Western Australia: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate)** — *continued*

Agency Program <sup>a</sup> Sub-Program	Description/Objectives	Form of assistance	Funding <sup>b</sup>	
			1994–95	1995–96

STATE, TERRITORY AND LOCAL GOVERNMENT ASSISTANCE TO INDUSTRY

			\$000	\$000
<b>Wheatbelt Development Commission</b>				
<i>Economic and Social Development of the Wheatbelt</i>	<i>Assistance to the region to maximise opportunities for balanced economic and social development through: advice on review and development of policies; pro-active assistance; and monitoring.</i>	<i>Grants, information and advice.</i>	777	924
Economic and Enterprise Development	Assistance and advice for development projects with particular emphasis on investment attraction, trade, export, downstream processing, tourism and employment opportunities.	Advice and financial assistance	352	457
<b>Department of Resources Development</b>				
<i>Fostering Resources Development</i>	<i>Prepares and promotes policies that will stimulate WA resource development and attract significant projects. Removes and reduces impediments confronting project development. Liaises with relevant organisations and the community to portray resources development in a positive light.</i>	<i>Removal of impediments and promotion.</i>	2 972	3 294
Policy for Resources Development	Provides policy advice aimed at removing impediments to resource development.	Removal of impediments.	1 039	1 403

Table A1D.7: **Western Australia: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate)** — *continued*

Agency Program <sup>a</sup>	Sub-Program	Description/Objectives	Form of assistance	Funding <sup>b</sup>	
				1994–95	1995–96
				\$000	\$000

<b>Department of Resources Development — continued</b>				
Planning for Resources Development	Liaises with major developers, government agencies and communities to ensure that future resource development needs are identified. Undertakes strategic research.	Liaison and research.	1 933	1 891
<i>Securing Resource Development Projects</i>	<i>Ensures that decision making process for major projects is coordinated and functions well. Provides project security and certainty through mechanisms such as Agreement Acts.</i>	<i>Agreement Acts, coordination.</i>	7 803	7 019
Promoting Development Opportunities	Conducts research and reviews to highlight resource development opportunities. Undertakes analysis of these opportunities and targets project developers to further investigation and research. Provides ongoing assistance and support.	Research, analysis and 'assistance and support'.	3 881	2 447
Coordinating Resource Development Projects	Provides advice and support to significant resource development projects and coordinates interactions between developers, the government and the community. Ensures projects' access to necessary resources and infrastructure.	Advice, coordination, facilitation and provision of resources and infrastructure.	3 922	4 572
<b>Sub-total of programs</b>			<b>10 775</b>	<b>10 313</b>
<b>Western Australian Museum</b>				
<i>Museums</i>	<i>To inform and advance knowledge of natural and cultural heritage.</i>	<i>Education, collections and research.</i>	9 402	10 321

**Table A1D.7: Western Australia: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate) — continued**

Agency Program <sup>a</sup>	Sub-Program	Description/Objectives	Form of assistance	Funding <sup>b</sup>	
				1994–95	1995–96
				\$000	\$000

<b>Fisheries Department</b>				
<i>Fisheries Resource Management</i>	<i>Formulation and implementation of fisheries management policy and investigation of fish stocks and other environmental phenomena.</i>	<i>Managing resource use, research, infrastructure, R&amp;D, grants/subsidies and policy development.</i>	14 709	12 586
Research	Biological and environmental research. Assessment and monitoring of impact of commercial and recreational fishing on exploited stocks. Provision of information.	Research, monitoring and information.	2 777	1 736
Aquaculture Development	Provision of infrastructure and government services covering R&D, fish health, industry assistance programs, extension and policy development.	Infrastructure, R&D, information, extension services and policy development.	1 368	2 880
<b>Sub-total of sub-programs</b>			<b>4 145</b>	<b>4 616</b>
<b>Art Gallery of Western Australia</b>				
<i>State Gallery Art Collection and Public Access</i>	<i>Collect, preserve, research and display visual arts heritage for the people of Western Australia, to stimulate local visual arts practice, to increase public interest in the arts, and to build for future generations.</i>	<i>Collection, preservation, research and displays.</i>	3 458	3 407

Table A1D.7: **Western Australia: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate) — continued**

Agency Program <sup>a</sup>	Description/Objectives	Form of assistance	Funding <sup>b</sup>	
			1994–95	1995–96
Sub-Program			\$000	\$000
<b>Small Business Development Corporation</b>				

<i>Small Business Guarantees Act 1984</i>	<i>Provision of WA Government guarantees for eligible small businesses to cover the shortfall in their security for bank finance. To be eligible companies must have had their loan rejected solely on basis of insufficient security. Must be seeking funds for working capital or capital expenditure. Proposal should generate an increase in employment opportunities. Most sectors of economy covered.</i>	<i>Loan guarantee.</i>	120	250
<i>Small Business Development</i>	<i>Provision of advisory, information and educational services. Provision of representation for the small business sector to minimise impediments.</i>	<i>Information, advice, training and liaison.</i>	2 974	2 888
<b>Sub-total of programs</b>			<b>3 094</b>	<b>3 138</b>

**Perth Theatre Trust**

<i>Venue Management and Programming</i>	<i>Maximise the cultural and public use of the venues operated by the Perth Theatre Trust, and effectively manage other properties controlled by the Trust</i>	<i>Promotion.</i>	5 286	6 337
Performing Arts Venues	Develops, maintains and manages the Trust's performing arts venues.	Management and development.	4 337	5 414
Programming and Promotions	Maximise cultural use of Trust's performing arts venues and encourage better understanding of the Trusts role.	Coordination.	949	923

**Table A1D.7: Western Australia: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate) — continued**

Agency Program <sup>a</sup> Sub-Program	Description/Objectives	Form of assistance	Funding <sup>b</sup>	
			1994–95	1995–96
			\$000	\$000

**Perth Theatre Trust — continued**

STATE, TERRITORY AND LOCAL GOVERNMENT ASSISTANCE TO INDUSTRY

<i>BOCS Ticketing and Information Service</i>	<i>Provide an efficient ticketing service to facilitate access to the Perth Theatre Trust's performing arts venues and targeted information to performing arts companies.</i>	<i>Information and venue management.</i>	1 687	1 598
<b>Sub-total of programs</b>			<b>1 962<sup>c</sup></b>	<b>2 593<sup>c</sup></b>
<b>Office of Energy</b>				
<i>Energy Coordination</i>	<i>Encourages competition in the WA energy market. Promotes innovation in renewable energy and efficient energy use. Specifies technical standards and safety requirements and audits compliance.</i>		3 511	8 468
<i>Energy Innovation and Efficiency</i>	<i>Promotes demonstration, educational and other projects to help renewable energy compete in the market. Facilitates interaction between developers and government. Supports the Alternative Energy Development Board (AEDB).</i>	<i>Demonstration, education, facilitation and support for AEDB.</i>	787	1 946

Table A1D.7: **Western Australia: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate) — continued**

Agency Program <sup>a</sup> Sub-Program	Description/Objectives	Form of assistance	Funding <sup>b</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Office of Energy — continued</b>				

Energy Industry Development	Identifies and promotes opportunities for enhanced competition. Provides forecasts and planning information to businesses. Facilitates and prepares authorisations.	Forecasting information and authorisations.	548	1 166
<b>Sub-total of sub-programs</b>			<b>1 335</b>	<b>3 112</b>
<b>Screen West (Inc.) (Western Australian Film Council)</b>				
Investment in Production	Provision of loans and investment to feature film, television and multimedia products.	Grants/subsidies and loans.	574	641
Industry and Practitioner Development	Provision of financial and advisory support to individuals and organisations for the improvement and promotion of skills, industry knowledge and facilities.	Grants/subsidies and advice.	344	428
Market and Industry Expansion	Markets WA as a location and base for film, television and multimedia production. Offers incentives to attract investment from overseas, particularly South East Asia.	Grants/subsidies and marketing.	230	198
<b>Sub-total of sub-programs</b>			<b>1 148</b>	<b>1 267</b>

Table A1D.7: **Western Australia: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate)** — *continued*

Agency Program <sup>a</sup> Sub-Program	Description/Objectives	Form of assistance	Funding <sup>b</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Minerals and Energy Research Institute of WA</b>				

STATE, TERRITORY AND LOCAL GOVERNMENT ASSISTANCE TO INDUSTRY

Minerals and Energy	Identifying and coordinating the financing of minerals and	Grants.	582 <sup>d</sup>	1 484 <sup>d,f</sup>
Research Coordination and Financing	energy research projects. Encouraging the active participation of industry through joint sponsorship. Supervising and coordinating the administration of projects. Applications are assessed by a Research Advisory Committee. Grants only to incorporated organisations or research establishments.		311 <sup>e</sup>	298 <sup>e,f</sup>
<b>Sub-total of sub-programs</b>			<b>893</b>	<b>1 782</b>
<b>Perth International Centre for Application of Solar Energy</b>				
Application of Solar Energy	Promotion of the application of solar energy technology in developing countries and development of solar energy industry within WA and elsewhere in Australia through managing and participating in projects involving renewable energy technology.	R&D and promotion.	853	1 573

a Programs are listed only if grants, subsidies and transfers are provided, or if there are no sub-programs under the program. Otherwise only relevant sub-programs are listed.

b Total current and capital program expenses, including attributable overheads and, where appropriate, after deducting user charges revenue and industry contributions.

c Totals have been adjusted to take account of revenue collections.

d Minerals research coordination and financing.

e Energy research coordination and financing.

f Includes (expected) industry sponsorship.

Source: WA Government (1995).

**Table A1D.8: Western Australia: State Government financial and non-financial industry assistance schemes, by department**

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Commerce and Trade</b>		
<b>Accelerated Company Expansion Service</b>	<i>Grants</i>  Total assistance – \$619 750  Firms assisted – 13	<i>Description:</i> Helps firms with a specific export oriented project to lift their international competitiveness.  <i>Eligibility:</i> Firms with a specific export project.
<b>AusIndustry/ National Industry Extension Service (NIES)</b>	<i>Subsidies and information</i>  Total assistance – \$3.95 million, \$2.15 million State funding	<i>Description:</i> Jointly funded by the Commonwealth Government. Provides subsidy of up to half the costs of consultancy services, workshops and other services, in order to assist small to medium sized businesses to improve their international competitiveness.  <i>Eligibility:</i> Small to medium sized enterprises involved in exporting directly or being a supplier, or having potential to export and/or replace imports; financially sound and able to demonstrate a commitment and capacity to implement change and have potential for growth; and involved in either manufacturing or traded services sectors.
<b>— Business Planning</b>	<i>Subsidies</i>  Total assistance – \$734 351  Firms assisted – 68	<i>Description:</i> Assistance with business planning.  <i>Eligibility:</i> As above.
<b>— Design</b>	<i>Subsidies</i>  Total assistance – \$390 096  Firms assisted – 62	<i>Description:</i> Assistance to integrate the design of products and services with corporate goals.  <i>Eligibility:</i> As above.
<b>— Diagnostics</b>	<i>Subsidies</i>  Total assistance – \$57 774  Firms assisted – 11	<i>Description:</i>  <i>Eligibility:</i> As above.
<b>— Export Market Planning</b>	<i>Subsidies</i>  Total assistance – \$258 875  Firms assisted – 18	<i>Description:</i> Assists in developing a practical export market plan which integrates export activity into the firm's business plan.  <i>Eligibility:</i> As above.

Table A1D.8: **Western Australia: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Commerce and Trade</b> — <i>continued</i>		
<b>— Finance</b>	<i>Subsidies</i>	<i>Description:</i>
	Total assistance – \$25 084	<i>Eligibility:</i> As above.
	Firms assisted – 2	
<b>— Manuf'ing</b>	<i>Subsidies</i>	<i>Description:</i>
	Total assistance – \$113 513	<i>Eligibility:</i> As above.
	Firms assisted – 9	
<b>— Marketing</b>	<i>Subsidies</i>	<i>Description:</i>
	Total assistance – \$700	<i>Eligibility:</i> As above.
	Firms assisted – 1	
<b>— Networking</b>	<i>Subsidies</i>	<i>Description:</i>
	Total assistance – \$22 650	<i>Eligibility:</i> As above.
	Firms assisted – 4	
<b>— Quality</b>	<i>Subsidies</i>	<i>Description:</i> Assistance to improve firm's competitive position through implementing quality management and continuous improvement techniques.
	Total assistance – \$411 848	<i>Eligibility:</i> As above.
	Firms assisted – 227	
<b>— World Competitive Marketing</b>	<i>Subsidies</i>	<i>Description:</i>
	Total assistance – \$40 575	<i>Eligibility:</i> As above.
	Firms assisted – 9	
<b>— World Competitive Service</b>	<i>Subsidies</i>	<i>Description:</i>
	Total assistance – \$266 565	<i>Eligibility:</i> As above.
	Firms assisted – 16	

Table A1D.8: **Western Australia: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Commerce and Trade</b> — <i>continued</i>		
<b>Birthmark Campaign</b>	<i>Information and subsidisation of logos</i>	<p><i>Description:</i> Provision of logo bromides for WA made and WA owned symbols and advice about use of symbols and where stickers, stamps, etc, may be purchased.</p> <p><i>Eligibility:</i> Firms who are 50% or more WA owned, or whose products are 50% or more created or manufactured in WA.</p>
<b>Business Enterprise Centres</b>	<i>Information and advice</i>  Total assistance – \$1.9 million	<p><i>Description:</i> Local shopfront centres providing information and advice about a broad range of Commonwealth, State and local government support for small business. In 1994–95, 36 Centres cost a total of \$1.9 million, rising to \$2 million in 1995–96. Responsibility transferred to the Small Business Development Corporation on 1 July 1995.</p> <p><i>Eligibility:</i> All WA small businesses.</p>
<b>Buyer Visitor Program</b>	<i>Marketing subsidies</i>	<p><i>Description:</i> Provides partial compensation for the cost to industry groups of bringing potential buyers to Australia.</p> <p><i>Eligibility:</i> Industry groups.</p>
<b>China Export Market Scheme</b>	<i>Marketing subsidies</i>	<p><i>Description:</i> Provides partial recoups of up to 30% of the costs of economy airfares and eligible exhibition outlays, plus some accommodation expenses, for companies undertaking marketing activities in China.</p> <p><i>Eligibility:</i> WA companies in manufacturing, processing or export oriented service industries which have a written business plan and have identified market opportunities for their existing goods and services in China.</p>

Table A1D.8: **Western Australia: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Commerce and Trade</b> — <i>continued</i>		
<b>Community Enterprise Program</b>	<i>Grants, information, advice and training</i>  Firms assisted – 7 grants provided	<i>Description:</i> Assistance to business enterprises, cooperatives, local government organisations and community groups to create local enterprises which generate profits intended for community use. Assistance includes: small grants of up to \$6000; advice; information; training; planning support; funding for legal costs, feasibility studies, public consultation or presentation.  <i>Eligibility:</i> Groups seeking to establish a community enterprise.
<b>Competitive Tendering and Contracting (CTC)</b>	<i>Information and advice</i>	<i>Description:</i> Assists companies in: identifying the officer responsible for CTC policy implementation in each government department, identifying additional agencies and services worth investigating and providing assistance when submissions or tenders are not responded to appropriately.  <i>Eligibility:</i> All industry sectors.
<b>Cooperative Research Centres</b>	<i>Research and development</i>  Total assistance – \$1.3 million in State funding	<i>Description:</i> Main funding from the Commonwealth Government. Nine centres located in WA. Another four approved in 1994–95. Conduct research programs for various industries. Commonwealth funding of \$60 million expected to go to WA CRCs over the program's seven year funding life. State funding in 1994–95 was almost \$1.3 million, rising to \$2.4 million in 1995–96.  <i>Eligibility:</i> NA.
<b>Cottage Industries Program</b>	<i>Training and information</i>	<i>Description:</i> Assistance to artists and crafts people involved in local cottage industries to enhance the viability of their activities through business training courses, a manual and database. Also sponsors annual Artcraft expo.  <i>Eligibility:</i> Manual at cost of \$12. Training for artists and crafts people.

Table A1D.8: **Western Australia: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Commerce and Trade</b> — <i>continued</i>		
<b>Countertrade</b>	<i>Investment attraction, market access and technology transfer</i>	<p><b>Description:</b> Utilises the State Government’s purchasing power to: gain access to global and internal markets of Countertrade obligated firms, their suppliers and customers; attract investment in the State’s productive capacity; and acquire new technology. Through this program DCTWA estimated the value of export contracts won by WA firms at \$12.1 million in 1994–95, while there was an estimated \$10 million investment in the State’s productive capacity.</p> <p><b>Eligibility:</b> WA manufacturers or service providers, with product or service at marketable stage. Investment must enhance existing productive capacity or involve the introduction of new productive capacity.</p>
<b>Cultural Industries Service</b>	<p><i>Grants, subsidies and information</i></p> <p>Total assistance – \$182 000</p> <p>Firms assisted – 45 subsidies and grants provided</p>	<p><b>Description:</b> Provides funds for business planning, marketing strategies, export development and industry alliances and networks. Provides a greater level of access to Commonwealth funded industry programs.</p> <p><b>Eligibility:</b> Cultural industries include music, film, television, radio, literature, museum services, theatre, dance, visual arts and craft. Associated and ancillary services are also included.</p>
<b>Design Marketing Support Scheme</b>	<i>Marketing subsidies</i>	<p><b>Description:</b> Assistance to companies to adopt design excellence by partial recoup of economy airfare costs to visit approved conferences and exhibitions.</p> <p><b>Eligibility:</b> WA firms.</p>
<b>Exmouth Development Trust Fund</b>	<p><i>Grants</i></p> <p>Total assistance – \$2.1 million</p> <p>Projects assisted – 5</p>	<p><b>Description:</b> Funding support for major projects. Around \$2.1 million provided for five projects in 1994–95, with about \$5.8 million budgeted for 1995–96.</p> <p><b>Eligibility:</b> Unknown, but specific major projects.</p>

Table A1D.8: **Western Australia: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Commerce and Trade</b> — <i>continued</i>		
<b>Export Graduate Scheme</b>	<i>Subsidisation of labour inputs</i>  Total assistance – max. of \$156 000  Firms assisted – 13 graduates placed	<i>Description:</i> Helps place selected graduates with eligible companies where their skills in international marketing can be applied. Meets up to half the first year salary costs to a maximum of \$12 000.  <i>Eligibility:</i> Applicant graduates must have completed a bachelor degree marketing course and should intend pursuing a career in international marketing.  Companies must be able to demonstrate that the position is ongoing and that the graduate will work in the export field.
<b>Export Market Support Scheme</b>	<i>Marketing subsidies</i>  Firms assisted – 374	<i>Description:</i> Assistance primarily to industry groups wishing to participate in selected overseas and interstate trade exhibitions and missions. Partial recoups to a maximum of 30% of costs of an economy airfare and eligible exhibition outlays. In 1994–95, 374 firms were assisted with 475 visits to 40 countries and states.  <i>Eligibility:</i> WA companies involved in manufacturing, processing or export-oriented service industries with written business plan and implementing a strategy where exports are identified as an important element.
<b>Feasibility Study Consultancy Fund</b>	<i>Subsidies</i>	<i>Description:</i> Funding support for feasibility consultancy studies which aim to encourage value adding investment in Australian industry.  <i>Eligibility:</i> Projects which involve value adding.
<b>Food Centre of Western Australia</b>	<i>Information, advice and training</i>	<i>Description:</i> One-stop facility for services to the food industry.  <i>Eligibility:</i> All participants in the food industry.
<b>Industry Export Consultant Scheme</b>	<i>Subsidies</i>	<i>Description:</i> Provision of funds to enable industry groups to offset the costs of employing a consultant to develop and/or implement an export marketing strategy.  <i>Eligibility:</i> Industry groups.

Table A1D.8: **Western Australia: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b><i>Department of Commerce and Trade — continued</i></b>		
<b>Industry Incentives Program</b>	<i>Grants, concessional or interest free loans, provision of public infrastructure, provision of land or state tax rebates</i>	<p><b><i>Description:</i></b> Financial incentives are used to attract industry where: this is of strategic importance to the State economy; the investment would not otherwise be made by the private sector; the net economic benefits are clear and considerable; and other means of attracting the investment would be ineffective.</p> <p><b><i>Eligibility:</i></b> Minimum capital establishment cost of \$2.5 million (or \$1 million in regional areas) including an appropriate level of equity funding; must relate to the establishment of a new industry or major expansion of existing operation; needs to be established that the project will not occur in the State unless incentives are provided; needs to demonstrate significant net economic benefits to the State and a positive public rate of return which will invariably be higher than the internal rate of return; must relate to the establishment or development of an industry that has not benefitted significantly from State financial assistance; the provision of incentives must not result in an unfair competitive advantage over existing WA companies; the project's feasibility plan must indicate long term commercial viability; must be in the manufacturing or services sector; and needs to be substantially export oriented or import replacing or involve the processing of and value adding to the State's natural resources.</p>
<b>Industry Knowledge Base (IKB)</b>	<i>Information</i>	<p><b><i>Description:</i></b> A computer based register of WA manufacturers, primary producers and commercial service providers. Information accessed for a fee.</p> <p><b><i>Eligibility:</i></b> To list on the IKB: WA companies currently in operation.</p> <p>To access information: no requirements, but discount where can be shown to be of benefit to listed companies.</p>

Table A1D.8: **Western Australia: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Commerce and Trade</b> — <i>continued</i>		
<b>International Marketing Support Scheme (Trade Through Aid)</b>	<i>Marketing subsidies</i>	<p><b>Description:</b> Provides partial reimbursement of airfares to help organisations promote their capabilities overseas, develop relationships and pursue market opportunities with key development assistance agencies. Also helps identify opportunities for executing aid funded projects.</p> <p><b>Eligibility:</b> WA firms; internationally competitive products and services; products/services suitable for development assistance; viable visit program; identification of specific project opportunities.</p>
<b>International Project Missions (Trade Through Aid)</b>	<i>Marketing assistance</i>	<p><b>Description:</b> Coordination of annual program of missions to AusAID, the Asian Development Bank, the World Bank and the UN agencies.</p> <p><b>Eligibility:</b> WA firms; internationally competitive products and services; products/services suitable for development assistance; priority to health, education and training, environmental management infrastructure development and public sector management; and able to demonstrate that participation will be of significant benefit to operations.</p>
<b>International Projects Visitor Program (Trade Through Aid)</b>	<i>Marketing subsidies</i>	<p><b>Description:</b> Bringing agencies which are executing aid funded projects to Australia to meet representatives of local organisations capable of supplying goods and services.</p> <p><b>Eligibility:</b> As above.</p>
<b>Interstate or Overseas Promotion Assistance for Regional Business</b>	<i>Marketing subsidies and promotion</i>	<p><b>Description:</b> Overseas hotel and supermarket promotions and frequent visits to targeted countries by Commerce and Trade personnel. Financial assistance to WA exporters to attend approved trade displays or embark on overseas trade missions (up to 30% economy airfare and 50% freight costs).</p> <p><b>Eligibility:</b> Departmental promotion available to all WA producers/ manufacturers free of charge.</p> <p>Assistance limited to a maximum of two people per mission from any one company each year.</p>

Table A1D.8: **Western Australia: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<b>Agency Assistance scheme</b>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Commerce and Trade</b> — <i>continued</i>		
<b>Investment Promotion Program</b>	<i>Information</i>	<p><i>Description:</i> Department has a liaison role for the Australian Trade Commission, servicing overseas investment enquiries and identifying opportunities for international investors through the worldwide network of Austrade investment commissioners. The State provides contact support and location data for these enquiries.</p> <p><i>Eligibility:</i> State forwards investment briefs to appropriate local companies and organisations.</p>
<b>Japan Export Market Support Scheme</b>	<i>Marketing subsidies</i>	<p><i>Description:</i> Assistance to companies to develop markets in Japan. Partial recoups to a maximum of 30% of economy airfare and eligible exhibition outlays. Additional accommodation contribution available.</p> <p><i>Eligibility:</i> WA companies in manufacturing, processing or export oriented service industries which have a written business plan and have identified market opportunities for existing goods and services.</p>
<b>Locate West Grants</b>	<i>Grants</i>	<p><i>Description:</i> Relatively small grants associated with a major international promotion of WA as a good investment location, specifically for Asian headquarters of international firms.</p> <p><i>Eligibility:</i> International firms, specifically those looking to locate Asian regional headquarters.</p>
<b>Locate West Promotion</b>	<i>Marketing</i>	<p><i>Description:</i> Includes awareness raising campaigns at international forums and targeted marketing to specific sectors, such as oil and gas.</p> <p><i>Eligibility:</i> NA.</p>
<b>Pre-feasibility Funding</b>	<p><i>Grants</i></p> <p>Total assistance – \$67 000 in State funds, plus \$29 000 in Commonwealth funds</p> <p>Firms assisted – 3</p>	<p><i>Description:</i> Grants of up to \$50 000 to contract the services of accredited independent consultants to undertake a pre-feasibility study.</p> <p><i>Eligibility:</i> Businesses are required to at least match the amount of government funding provided.</p>

Table A1D.8: **Western Australia: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Commerce and Trade</b> — <i>continued</i>		
<b>Regional Enterprise Development Initiative Scheme (REDIS)</b>	<i>Grants</i>	<p><i>Description:</i> Grants of up to 15% of total funds required for developing or expanding a small to medium sized business in regional WA. Principally for capital acquisitions, with some provision for working capital. Grants ranged from \$3000 to \$45 000 in 1994–95.</p> <p><i>Eligibility:</i> Small to medium sized businesses wishing to expand in regional WA.</p>
<b>Regional Enterprise Funding Scheme (REFS)</b>	<i>Loan guarantees</i>	<p><i>Description:</i> Succeeded REDIS in 1994–95. Provides loan guarantees to small start-up and expanding country businesses. Guarantees for loans of \$2000 to \$5000 are decided locally. Businesses are first helped to prepare a business plan. Administered by BECs.</p> <p><i>Eligibility:</i> Country businesses with difficulty raising loans.</p>
<b>Regional Freight Assistance Program</b>	<i>Advice and marketing subsidies</i>	<p><i>Description:</i> Direct assistance and advice to exporters and potential exporters in all country regions of WA. Information on government rules and regulations, overseas market potential and assistance in all stages of the development and promotion of products to export markets. Special freight subsidy of up to \$2000 may also be available.</p> <p><i>Eligibility:</i> Direct assistance and advice available to all WA companies at no cost.</p> <p>Freight subsidy: only for products donated as samples for overseas markets; reimbursement limited to max. 50% of net cost of freight expenditure; and exporter restricted to 2 shipments per country in any one year, to an amount not exceeding \$2000.</p>
<b>Regional Initiatives Fund</b>	<i>Grants</i>  Total assistance – \$413 396	<p><i>Description:</i> Provision of grants to support economic development and job creation in rural areas.</p> <p><i>Eligibility:</i> Projects involving economic development and job creation in rural areas.</p>

Table A1D.8: **Western Australia: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Commerce and Trade</b> — <i>continued</i>		
<b>Regional Inward Buyer/Investor Program</b>	<i>Marketing and marketing subsidies</i>	<p><b>Description:</b> Division invites and hosts visits to WA by selected buyers/investors in WA. Assistance also available to regional industry groups within WA hosting similar visits (reimbursement of lesser of direct economy airfare or accommodation for maximum four people per mission, two from each bona fide business).</p> <p><b>Eligibility:</b> Assistance available at divisional discretion according to export potential and benefit to WA. Program can only be accessed once in any calendar year.</p>
<b>Rural Shows</b>	<p><i>Grants</i></p> <p>Total assistance – \$75 000</p>	<p><b>Description:</b> Provision of grants to rural shows to improve their facilities.</p> <p><b>Eligibility:</b> Rural shows.</p>
<b>Scitech Discovery Centre</b>	<p><i>Funding of educational centre for science and technology</i></p> <p>Total assistance – \$2 million</p>	<p><b>Description:</b> Science and technology exhibition. Scitech had annual funding of almost \$1.4 million in 1994–95, with additional funding of \$650 000 to develop a travelling exhibition.</p> <p><b>Eligibility:</b> NA.</p>
<b>Small Business Improvement Program</b>	<p><i>Grants and subsidies</i></p> <p>Firms assisted – over 200</p>	<p><b>Description:</b> Jointly funded by Commonwealth Government. Assistance to eligible companies seeking quality certification.</p> <p><b>Eligibility:</b> All companies with less than 100 employees and which have been in business for at least 12 months.</p>
<b>Small Town Economic Renewal Program</b>	<p><i>Grants, subsidies and provision of qualified staff</i></p> <p>Projects assisted – 9 approved, 7 funded</p>	<p><b>Description:</b> Assistance to small rural communities to create a community profile; hold community futures workshops; develop practical and achievable strategies; and monitor and evaluate to ensure the process is working. Provision of facilitator to work intensively with the community for three to six months. Also small grants to trial initiatives or undertake feasibility studies.</p> <p><b>Eligibility:</b> Communities with a shire population of less than 3000 or a townsite population of less than 2000.</p>

Table A1D.8: **Western Australia: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Commerce and Trade</b> — <i>continued</i>		
<b>Specific Country Assistance</b>	<i>Advice</i>	<i>Description:</i> Provision of advice to companies on how to do business in a range of priority countries.  <i>Eligibility:</i> All WA based companies.
<b>Strategic Mentor Service</b>	<i>Information and advice</i>  Total assistance – \$45 750  Firms assisted – 4	<i>Description:</i> Provision of assistance in dealing with regulatory and other impediments to business development/relocation.  <i>Eligibility:</i> WA businesses.
<b>Trade in Professional Services</b>	<i>Market development</i>	<i>Description:</i> Assistance to organisations involved in internationally traded services to develop and implement marketing strategies for expansion of the export of professional services.  <i>Eligibility:</i> WA based, internationally competitive, professional services.
<b>Trade Match</b>	<i>Marketing support</i>  Total assistance – over \$70 000 provided by DCTWA	<i>Description:</i> A Chamber of Commerce project. A CD-ROM database detailing the products and skills of companies with a view to matching trading and investment opportunities between companies and other countries. At June 1995, 15 countries in Asia-Pacific involved and 46 000 firms listed.  <i>Eligibility:</i> WA companies.
<b>Trade Through Aid</b>	<i>Grants, subsidies, information, marketing and promotion</i>	<i>Description:</i> Assistance to private sector international project management organisations to set up offices in WA; seminars and workshops on how to access projects through aid agencies; and provision of Canberra representative to identify suitable project opportunities and promote capabilities of WA industry.  <i>Eligibility:</i> WA based; internationally competitive products and services; and products/services suitable for development assistance programs.

Table A1D.8: **Western Australia: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Commerce and Trade</b> — <i>continued</i>		
<b>Vietnam Export Market Scheme</b>	<i>Marketing subsidies</i>	<i>Description:</i> Assistance to companies to develop markets in Vietnam. Partial recoups of maximum 30% of economy airfare and exhibition outlays. Also possible contribution to accommodation costs (\$50 per day, max. 10 days).  <i>Eligibility:</i> WA companies in the manufacturing, processing and exportable services sectors; business plan; and identified market opportunities for existing goods and services in Vietnam or China.
<b>Western Australian Innovation Support Scheme</b>	<i>Grants</i>  Total assistance – \$457 395  Firms assisted – 10	<i>Description:</i> Provision of grants on a matching funds basis to support the development of innovative products in WA. Up to \$50 000.  <i>Eligibility:</i> Projects must demonstrate: economic benefits to WA; a real need for assistance; pervasiveness of technology; capability of firm to conduct R&D; capability to capture commercial benefits; timeliness; and compatibility with other Government goals and policies.
<b>Western Australian Tourism Commission</b>		
<b>Convention Assistance Package</b>	<i>Grants</i>  Total assistance – \$50 000  Firms assisted – 44	<i>Description:</i> Under the Convention and Incentive Travel sub-program. Provision of cash and in-kind support to local host associations.  <i>Eligibility:</i> Associations hosting conventions.
<b>Incentive Travel</b>	<i>Promotion</i>	<i>Description:</i> Promotion of WA as a destination for incentive travel (a productivity reward in many companies, particularly in SE Asia).  <i>Eligibility:</i> NA.
<b>International Conventions</b>	<i>Preparation and marketing of bids</i>  Bids assisted – 34	<i>Description:</i> Under the Convention and Incentive Travel sub-program. Involves developing and presenting bids on behalf of local host committees. Includes bidding against other Australian cities. In 1994–95, 21 bids were won from 34 submitted.  <i>Eligibility:</i> Associations wanting to host conventions.

Table A1D.8: **Western Australia: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Western Australian Tourism Commission</b> — <i>continued</i>		
<b>International Sales and Marketing</b>	<i>Promotion and marketing</i>	<i>Description:</i> Under the Leisure Tourism sub-program. Aims to increase the international awareness of the State as a tourism destination and to increase the State's market share of international visitors to Australia. The Commission has offices in Singapore, Frankfurt and London. Participates in joint promotional television campaigns (Singapore campaign costing \$480 000 in total) and other promotions, including a direct mail campaign to one million Diners Club members in 1994–95 and various missions. Operates part of the program on a cooperative basis with the Australian Tourist Commission's Visiting Journalists Program.  <i>Eligibility:</i> NA.
— <b>Media Awareness Program</b>	<i>Promotion</i> 170 visitors in 1994–95.	<i>Description:</i> Hosting of international media representatives on familiarisation visits to WA.  <i>Eligibility:</i> NA.
— <b>Trade Awareness Program</b>	<i>Promotion</i> 209 visitors in 1994–95.	<i>Description:</i> Hosting of international travel agents and tour wholesalers on familiarisation visits to WA.  <i>Eligibility:</i> NA.
<b>National Sales and Marketing</b>	<i>Marketing and promotion</i>	<i>Description:</i> Under the Leisure Tourism sub-program. Works cooperatively with the industry to increase sales of WA holidays by undertaking marketing programs. In 1994–95, included such campaigns as 'Australia's Best Kept Holiday Secrets', 'Discover Your Perfect Winter Break' and a Perth Shopping campaign. Also involved in producing regional information brochures, running workshops, ensuring a WA presence at travel shows and increasing awareness in the media and travel industry nationwide. Involves various promotions of WA as a tourist destination in the media, including presenting segments on WA radio and writing newspaper columns.  <i>Eligibility:</i> NA.

Table A1D.8: **Western Australia: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Western Australian Tourism Commission</b> — <i>continued</i>		
<b>— Media and Trade Awareness Program</b>	<i>Promotion</i> Hosted visits by 313 Australian travel agents in 1994–95. Generated coverage worth \$5.4 million.	<i>Description:</i> In 1994–95, brought 107 domestic media representatives to WA. Supported holiday shows on all commercial television channels in covering WA stories and secured visits by travel writers from capital city newspapers and national magazines. <i>Eligibility:</i> NA.
<b>Sales Missions and Convention Workshops</b>	<i>Promotion</i>	<i>Description:</i> Under the Convention and Incentive Travel sub-program. International missions conducted by the Commission. Two missions conducted in 1994–95. <i>Eligibility:</i> NA.
<b>Tourism Business Development Advice</b>	<i>Advice</i>	<i>Description:</i> Provision of advice to tourism operators on the viability/feasibility of their proposals. Various publications also available. <i>Eligibility:</i> All tourism providers.
<b>Tourism Product</b>	<i>Grants, marketing and promotion</i> \$965 000 allocated to nine regional tourism bodies and 67 tourist centres. \$100 000 grant to Country Tourism Association.	<i>Description:</i> Under the Leisure Tourism sub-program, implemented a Regional Tourism Policy through the allocation of monies to regional tourism bodies, tourist centres and to the Country Tourism Association. Produced brochures and identified niche product markets to target. Was merged with the National and International Sales and Marketing Divisions on 1 July 1995. <i>Eligibility:</i> NA.
<b>Small Business Development Corporation</b>		
<b>Business Enterprise Centres</b>	<i>Information and advice</i>	<i>Description:</i> The Small Business Development Corporation took over the running of the Business Enterprise Centre network from 1 July 1995. See Department of Commerce and Trade for further details.

Table A1D.8: **Western Australia: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b><i>Small Business Development Corporation</i></b> — <i>continued</i>		
<b>Business Health Assessment Program</b>	<i>Information and advice</i>	<i>Description:</i> Appraisal of key financial accounts; ‘Goalfix’ software to look at future for company; and provision of information and advice.  <i>Eligibility:</i> All WA small business operators at fee set by participating accountants.
<b>Business Information and Licence Centre</b>	<i>Information</i>	<i>Description:</i> Provision of licence and general information, taxation information and licensing packages.  <i>Eligibility:</i> Persons in all industry sectors starting or developing a small business.
<b>Business Opportunities Expo</b>	<i>Information and advice</i>	<i>Description:</i> The third Business Opportunities Expo was held in June 1995. Aimed to encourage and support Western Australians in buying or starting their own business, or running an existing small or medium sized business.  <i>Eligibility:</i> All Western Australians.
<b>Government Liaison Service</b>	<i>Advice and liaison</i>	<i>Description:</i> Assistance with arranging meetings with government officers. Advice on government purchasing procedures.  <i>Eligibility:</i> All small business operators, groups or associations.
<b>Institute for Small Business Research</b>	<i>Information and research and development</i>	<i>Description:</i> Access to low cost market research and business planning. Broad issue research. Survey of small business opinion in WA. Awards for tertiary students undertaking related research.  <i>Eligibility:</i> All industries within small business sector.

Table A1D.8: **Western Australia: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance scheme</i>	<i>Form of assistance [1994–95: total assistance; firms/projects assisted]</i>	<i>Description and eligibility</i>
<b><i>Small Business Development Corporation</i></b> — <i>continued</i>		
<b>Preparation for Export</b>	<i>Information, advice and training</i>	<p><b>Description:</b> Provision of a support counsellor with specialist expertise in exporting was appointed by the Corporation in 1994–95. This was part of a pilot program for first time exporters. Clients improved their potential success by focusing on the key issues facing their businesses and enhancing their management skills. Many were put in touch with other export support agencies also.</p> <p><b>Eligibility:</b> First time exporters.</p>
<b>Regulation Review Panel</b>	<i>Removal of impediments</i>	<p><b>Description:</b> Assistance to small business to remove impediments caused by unnecessary, onerous or complex regulations or regulatory procedures.</p> <p><b>Eligibility:</b> All small businesses.</p>
<b>Retail Tenancy Advisory Service</b>	<i>Information and advice</i>	<p><b>Description:</b> Advisory service to assist tenants and landlords with the leasing of retail premises.</p> <p><b>Eligibility:</b> Any member of the public.</p>
<b>Small Business Advisory Service</b>	<i>Advice</i>	<p><b>Description:</b> Provision of advice on managing a business.</p> <p><b>Eligibility:</b> Any person who is starting or developing a small business in WA.</p>
<b>Small Business Awareness</b>	<i>Information</i>	<p><b>Description:</b> Staff participate in speaking engagements and special events to increase awareness of support services available to small and medium sized businesses.</p> <p><b>Eligibility:</b> NA.</p>
<b>Small Business Investigations and Reports</b>	<i>Information</i>	<p><b>Description:</b> Monitors and reviews changes to legislation. Report analyses information and research relevant to small business sector.</p> <p><b>Eligibility:</b> All industry sectors.</p>
<b>Small Business Training, Information and Advisory Service</b>	<i>Information</i>	<p><b>Description:</b> Assistance with selection of trainers and courses for small business training. Information workshops and specialist seminars.</p> <p><b>Eligibility:</b> Anyone involved in small business.</p>

Table A1D.8: **Western Australia: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department for the Arts</b>		
<b>Arts Marketing</b>	<i>Marketing and market research</i>	<i>Description:</i> Under the Cultural Industry Development sub-program. Carries out market research on behalf of the industry, including a ‘generic patrons survey’. Also conducts seminars in arts marketing and monitors public attitudes to the arts in WA.  <i>Eligibility:</i> NA.
<b>Australian Capital Equity Arts Marketing</b>	<i>Marketing and marketing assistance</i>	<i>Description:</i> Under the Cultural Industry Development sub-program. Provides marketing assistance to a range of arts and cultural activities. This includes: regular broadcasting of television arts news program ‘Folio’; provision of funds for promotional videos; and provision of television advertising opportunities for arts organisations and individuals.  <i>Eligibility:</i> Arts organisations and individuals.
<b>Creative Development Fellowships</b>	<i>Fellowships</i>  Individuals assisted – 4	<i>Description:</i> Under the Arts Investment Program. Fellowships are offered to individual artists to improve their skills.  <i>Eligibility:</i> Individual artists.
<b>International Cultural Development</b>	<i>Marketing</i>	<i>Description:</i> Under the Cultural Industry Development sub-program. Includes a wide range of activities, including (in 1994–95): coordination of WA arts marketing; participation in the WA Tertiary Education consortium trade mission to Taiwan; a major display of arts products in Indonesia; and ‘Into Asia’ seminars to encourage organisations to explore Asian export opportunities.  <i>Eligibility:</i> NA.
<b>Per Cent for Art Scheme</b>	<i>Government purchasing</i>	<i>Description:</i> Under the Cultural Industry Development sub-program. About one per cent of the capital cost of construction and refurbishment of all State Government buildings is applied to original artwork for the building.  <i>Eligibility:</i> Visual Artists.

Table A1D.8: **Western Australia: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department for the Arts</b> — <i>continued</i>		
<b>State Arts Sponsorship Scheme</b>	<i>Encouragement of private sector sponsorship</i>	<p><b>Description:</b> Under the Cultural Industry Development sub-program. Provides State endorsement of companies as State Arts Sponsors, Patrons or Major Patrons. Also responsible for the State Arts Sponsorship Awards, recognising contributions by corporate and individual sponsors.</p> <p><b>Eligibility:</b> NA.</p>
<b>Urban Art Projects</b>	<i>Funds for training</i> Total assistance – \$30 000	<p><b>Description:</b> Under the Arts Investment sub-program. As part of the State Government’s graffiti strategy, funds are provided to encourage graffiti artists to develop their skills through the legal practice of their art form.</p> <p><b>Eligibility:</b> Graffiti artists.</p>
<b>West Australian Opera Company</b>	<i>Grant</i>	<p><b>Description:</b> The WA Opera Company is funded under the Arts Investment sub-program. In 1994–95, its general purpose funds increased to \$900 000.</p> <p><b>Eligibility:</b> WA Opera Company.</p>
<b>Screen West (the Western Australian Film Council)</b>		
<b>Documentary Research Packages</b>	<i>Grants</i> Total assistance – \$10 175 Projects assisted – 3	<p><b>Description:</b> Provides funding for writer–producer teams to undertake further research and development of promising documentary ideas. In 1994–95, three teams received funding of between \$3000 and \$4000 each.</p> <p><b>Eligibility:</b> Documentary production teams.</p>
<b>Film Extension Fund (Filmex)</b>	<i>Grants</i> Total assistance – \$167 000 Projects assisted – 5	<p><b>Description:</b> Film makers apply for funding assistance for the production of short films. In 1994–95, there were 70 applications, of which five received funding, totalling \$167 000 (max. for single project was \$46 000).</p> <p><b>Eligibility:</b> Makers of short films.</p>

Table A1D.8: **Western Australia: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<i>Screen West (the Western Australian Film Council) — continued</i>		
<b>New Screenwriters Scheme</b>	<i>Grants</i> Total assistance – \$16 000 Firms assisted – 4	<i>Description:</i> Aimed at developing the skills of young screenwriters. Short listed applicants are invited to attend a screen writing craft seminar and some are selected for assistance on the basis of revised scripts. In 1994–95, four writers each received a grant of \$4000.  <i>Eligibility:</i> New screenwriters.

NA Not applicable.

*Sources:* DCTWA (1995), WATC (1995), SBDC (1995), DAWA (1995), Screen West (1995), DIST (1995).

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## **ATTACHMENT 1E: SOUTH AUSTRALIA**

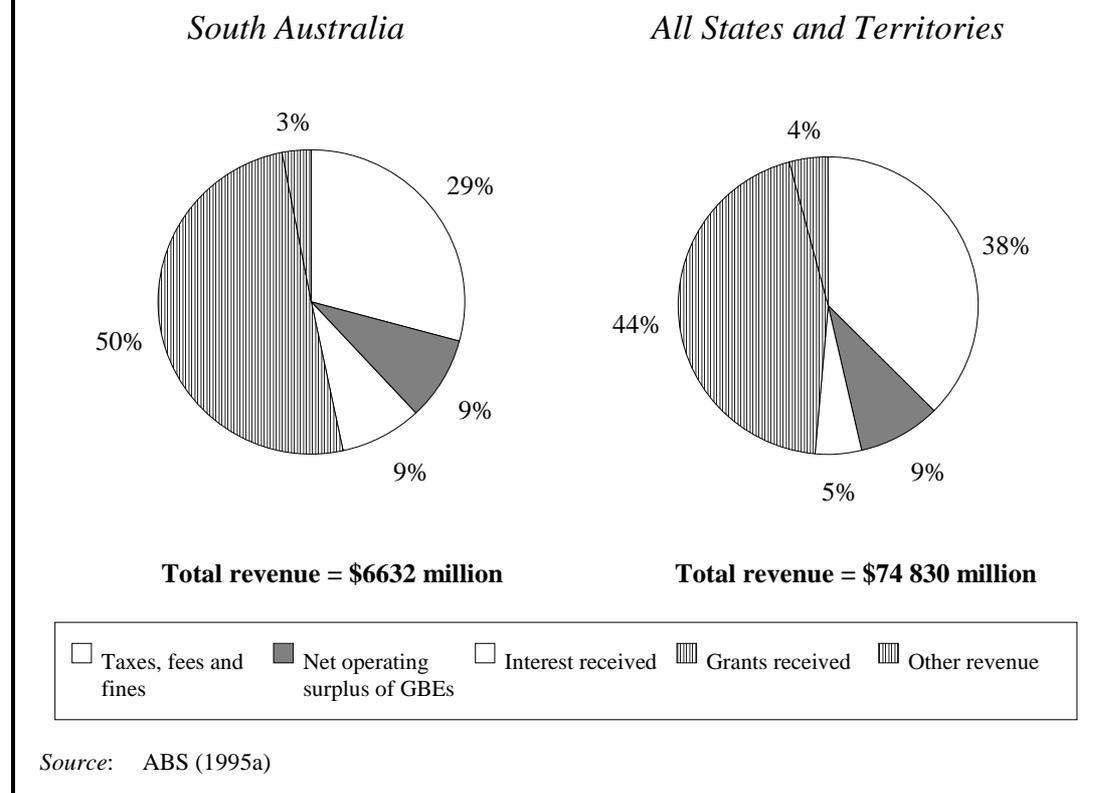
### **A1E.1 Introduction**

This Attachment relies heavily on information contained in the State's 1995–96 and 1996–97 Budget Papers, relevant 1994–95 departmental and agency annual reports — and on the Commission's interpretation of that information — and on submissions received from the SA Government (following release of the Draft Report), Mines and Energy SA and the Multi Function Polis (MFP) Local Government Focus Group.

### **Revenue sources**

As shown in Figure A1E.1, the South Australian Government's revenue base was, in 1994–95, almost equally sourced from State 'own source' revenue and Commonwealth grants. SA's revenue base is more dependent on grants than those of the other States and Territories. Of its own source revenue, 'taxes, fees and fines' was the most significant component representing some 29 per cent of total revenue — payroll tax, franchise fees, vehicle registration and stamp duty being the main contributors (ie mainly taxes on business activity). This was significantly less than the average for all States and Territories.

**Figure A1E.1: Composition of State Government revenue for South Australia and all States and Territories, 1994–95**



## A1E.2 South Australian Government assistance to industry

### Key legislation

Key legislation regulating the provision of State Government assistance to industry in SA includes:

- the *Industries Development Act 1941*, which established the Industries Development Committee to investigate and report on matters relating to industry support (when it exceeds \$200 000) prior to any approval being given; and
- the *Development Act 1993*, which established the Development Policy Advisory Committee and the Development Assessment Commission to review, assess and approve (or reject) development proposals for SA.

### **General policy approach**

The SA Government takes the view that good government is necessary but not sufficient to promote economic development in SA.

Providing assistance to attract and retain business and investment in SA forms an integral part of the State Government's strategy. Economic development is the State's highest policy priority and, accordingly, it has established the following economic development targets:

- real growth in export earnings of 15 per cent per annum;
- growth in employment of 2.8 per cent per annum; and
- GSP growth of 4 per cent per annum.

To assist in achieving these recovery targets, the Government has adopted an economic development strategy comprising the following five key elements:

- enhancing and developing competitive SA enterprises which are responsive to changing international demands;
- building an attractive investment environment;
- encouraging new investment;
- improving productivity and encouraging innovation; and
- improving infrastructure. (EDA 1995)

### **Extent and nature of assistance**

For 1994–95, the Commission estimated that the SA Government spent about \$213 million on budgetary assistance to non-agriculture industry (Table A1E.1). More detailed information on this expenditure is contained in Tables A1E.3 and A1E.4.

**Table A1E.1: South Australian Government budgetary outlays<sup>a</sup> on non-agricultural industry assistance, 1994–95 (\$000)**

<i>Agency</i>	<i>1994–95</i>
Economic Development Authority	75 186
South Australian Tourist Commission	28 412
South Australian Housing Trust	25 950
Department of Transport	25 890
Department for the Arts and Cultural Development	22 992
Department of Primary Industries ( <i>Fisheries and Forestry</i> )	15 105
Office of Recreation, Sport and Racing	10 347
Mines and Energy South Australia	7 496
Department of Employment, Training and Further Education	1 300
<b>Total</b>	<b>212 678</b>

a Total current and capital program expenses, including attributable overheads and, where appropriate and identifiable, after deducting user charges revenue and industry contributions.

Source: Government of South Australia (1995a, 1995b).

Information on budgetary assistance to non-agricultural industry in SA in 1995–96 and 1996–97, based on the departmental and program structure prevailing in 1996–97, is given in Table A1E.2 below.

**Table A1E.2: South Australian Government budgetary outlays<sup>a</sup> on non-agricultural industry assistance, 1995–96 (revised) and 1996–97 (estimate) (\$000)**

<i>Agency</i>	<i>1995–96<sup>b</sup></i>	<i>1996–97</i>
Department of Manufacturing Industry, Small Business and Regional Development	72 675	81 749
Department for the Arts and Cultural Development	59 974	48 555
South Australian Tourist Commission	36 172	38 992
Department of Transport	22 630	58 269
Mines and Energy South Australia	9 859	12 126
Office of Recreation, Sport and Racing/SA Racing Industry Development Authority <sup>c</sup>	9 851	9 654
Department of Primary Industries ( <i>Fisheries</i> )	7 879	8 306
South Australian Research and Development Institute	2 591	6 130
Department of Environment and Natural Resources	2 555	2 017
South Australian Housing Trust/SA Urban Projects Authority <sup>d</sup>	1 239	19 750
Department of Employment, Training and Further Education	1 000	250
Department of Information Industries	150	3 178
<b>Total</b>	<b>226 575</b>	<b>288 976</b>

a Total current and capital program expenses, including attributable overheads and, where appropriate and identifiable, after deducting user charges revenue and industry contributions.

b The 1995–96 ‘revised’ data are based on the departmental structure prevailing in 1996–97.

c The racing function of the ORSR was transferred to the SAIRDA on 1 July 1996.

d The industrial and commercial premises function (Factory Construction Scheme) of the SA Housing Trust was transferred to the SA Urban Projects Authority (Industrial Premises Development Scheme) on 31 December 1995.

Source: Government of South Australia (1996a, 1996b).

Much of the direct financial assistance provided to industry in SA is selective, firm-specific expenditure. However, financial and non-financial assistance is delivered also via programs/schemes that are directed at either specific industries, activities, types of business, projects or events. The actual form in which assistance is delivered varies widely, but in the case of large projects, events and strategic firms, flexible assistance packages are generally negotiated which may include one or more of the following measures:

*Financial assistance measures*

- grants to offset relocation costs;
- subsidies for training, housing, marketing and/or promotion;
- subsidised land and/or buildings;

- infrastructure concessions for transport, fuel, water and/or power;
- concessional loans and/or loan guarantees;
- payroll tax rebates;
- stamp duty rebates;
- rates rebates;
- reduced royalty payments; and
- workers' compensation rebates.

*Non-financial assistance measures*

- provision of general and special infrastructure requirements;
- provision of information to reduce search costs etc;
- government purchasing contracts and/or preferences;
- facilitation of project/event/development etc approvals;
- protective legislation;
- land rezoning; and/or
- relaxed environmental compliance considerations.

**Recent selective assistance**

In contrast to WA and the NT, the Government of SA regards details of the assistance it provides to firms as 'commercial-in-confidence'. Under the State Government's legislation for establishing Royal Commissions, significant sanctions apply to any politician or official who publicly reveals 'commercial-in-confidence' information about packages provided to specific firms, projects or events in SA which have been reviewed by the Parliamentary Industries Development Committee. Consequently, much of the following information has been compiled from media reports on the selective assistance packages provided recently by the SA Government.

*Manufacturing and services sector*

In the manufacturing and services sectors, the following projects and firms reportedly have been in receipt of selective assistance to locate in SA over recent years.

- *Construction of Collins Class submarines (1993)* — Incentives totalling \$50 million in capital expenditure, revenue forgone and cash assistance were offered to win a contract to construct submarines at a new

manufacturing facility in SA, which will eventually employ up to 900 persons. (*Business Review Weekly*, 13 June 1994)

- *Motorola (1994)* — Motorola received an incentives package (including payroll tax concessions, factory leasing, and some training) worth more than \$13 million, or about \$32 500 per potential employee, to establish a software centre in SA employing up to 400 persons by the year 2000. (*Business Review Weekly*, 13 June 1994)
- *Electronic Data Services (EDS) (1994)* — The SA Government identified significant savings to be made through contracting-out most of its computing operations. The true extent of the savings available is unknown as the Government also sought specific economic development commitments (eg. regional headquarters, software etc centres) from EDS, the winning tenderer. As a result, EDS will make SA its Pacific region base in exchange for a contract to undertake the SA Government's computing work, which will involve around 1300 information technology jobs. (*Pacific Computer Weekly*, 14 October 1994, p. 20)
- *Australis Media (1994)* — Australis Media received an incentives package estimated by the Victorian Industry Minister, Phil Gude, to be worth about \$30 million (mainly revenue forgone), to set up a telemarketing centre employing potentially more than 1000 staff by 2000. (*Business Review Weekly*, 13 June 1994)
- *United Water (1995)* — The SA Government identified substantial savings to be made from out-sourcing its water operations. The true extent of those savings is unknown as the Government sought significant economic development commitments from the winning tenderer, United Water, in exchange for the water contract.
- *Westpac Loans Centre (1995)* — Westpac received tax breaks and other incentives reportedly totalling between \$16–30 million (depending on the media source), to locate its national loans centre in Adelaide. (*The Australian*, 5 January 1996, p. 3; *Business Review Weekly*, 29 February 1996, pp. 27–28);
- *Bankers Trust (1996)* — BT received a \$6 million assistance package to locate additional, mainly clerical, functions in Adelaide. (*Business Review Weekly*, 29 February 1996, pp. 27–28)
- *General Motors-Holden (GM-H) (1996)* — The SA Government has indicated that it would provide GM-H with generous export incentives and payroll tax concessions if it goes ahead with building a second car in SA. (*Sunday Mail*, 21 April 1996, pp. 1&4)

### *Special events*

The SA Government has also been active in attracting international sporting and other special events, such as the following recent examples:

- *Australian Formula One Grand Prix* — the SA Government successfully bid for the rights to stage this event, fully expecting it to provide a net benefit to the State over the term of the contract; and
- *1995 SA Golf Open* — the State Government provided an undisclosed grant to offset the cost of staging this event.

### **A1E.3 Institutional arrangements**

A brief review of the roles, responsibilities, objectives and activities etc of the main State institutions involved in providing assistance to industry, based on the departmental structure prevailing in 1994–95, follows.

#### **Economic Development Authority<sup>1</sup> (EDA)**

Until recently, the EDA was the agency responsible for:

- assisting SA businesses to achieve international competitiveness;
- lifting the level of business investment in SA;
- improving the business climate; and
- assisting the Government in the achievement of its economic objectives.

During 1994–95, the Authority also encompassed the activities of the SA Centre for Manufacturing and The Business Centre. In that year, EDA's program expenditure totalled \$75.2 million and this was expected to rise to about \$86.5 million in 1995–96.

Most of the program expenditure providing financial assistance to industry was undertaken in SA by the EDA. In 1994–95, the Authority was allocated some \$42.5 million out of a total of \$61.7 million allocated to the South Australian Economic Development Program (SAEDP). This program is the principal delivery mechanism for financial assistance to industry in SA. It is predominantly selective, firm-specific expenditure and is focused on investment attraction and retention.

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<sup>1</sup> In early 1996, the EDA became part of the new Department of Manufacturing Industry, Small Business and Regional Development. Until then, it was the Government's key economic development agency.

Under the SAEDP, assistance is targeted at medium to large established firms in the traded goods and services sector (excluding building and retailing) which are able to demonstrate that :

- the project will not occur in SA unless investment incentives are provided; and
- significant economic benefits will accrue to the SA community. (AusIndustry, BizLink)

The EDA indicated that assistance programs active in 1994–95 were designed to encourage the following:

- investment in the State which will lead to increased international competitiveness and the creation of long-term employment;
- manufacturing modernisation;
- structural adjustment in designated industries;
- regional industry development;
- the adoption of new technologies by SA industry which will enhance competitiveness;
- the development of new technology-related industries;
- participation by South Australian industry in international business; and
- strategic infrastructure development. (EDA 1995)

According to the EDA:

All proposals for funding under the various programs are subject to specific guidelines and to an assessment and approval process aimed at ensuring that decisions are consistent with program guidelines and with the priorities and objectives of the Government and the EDA. (EDA 1995, p. 40)

The specific guidelines used for determining eligibility and subsequently assessing the net benefit (or cost) of any selective assistance provided to capture that activity in SA are not publicly available. Also, it was not possible to determine the extent to which any ex-ante or ex-post evaluation is undertaken in SA.

### **Mines and Energy South Australia (MESA)**

MESA's role is to generate wealth and employment for South Australians by supporting the responsible development of South Australia's minerals, petroleum and groundwater, and by supporting the efficient use of energy.

Most of the Department's expenditure is concerned with good management of the community's resources. Assistance provided by MESA principally takes the

form of expenditure on regulatory activity, such as in the environmental and safety areas. In 1994–95, the Department provided assistance totalling about \$7.5 million.

Industry-specific assistance can also be provided, in the form of revenue forgone, via royalty concessions to industries in the mining sector. An example of this in SA is the concession afforded to the opals industry.

### **South Australian Tourism Commission (SATC)**

SATC's principal role is to increase the economic value of tourism for SA while ensuring that development and growth of the industry is consistent with the environmental objectives of the State and community aspirations.

The SATC's program expenditure totalled \$28.4 million in 1994–95 and is expected to rise to about \$29.5 million in 1995–96. This assistance, delivered via various schemes (see Table A1E.4), is provided mainly in the form of expenditure on marketing and promotion, infrastructure development and support for various tourism organisations, such as the Adelaide Convention and Tourism Authority.

During 1994–95, the SATC also provided assistance totalling \$530 000 to nine festivals and 18 special events which were judged to have a strong appeal in tourism growth areas.

### **South Australian Housing Trust**

The SA Housing Trust is a statutory authority within the SA Department of Housing and Urban Development. Its principal role is as the State's public housing authority. Until 31 December 1995, the Trust was also involved in the provision and development of industrial and commercial land and buildings.<sup>2</sup> Its role and powers are based on the *South Australian Housing Trust Act 1936* and the *Housing Improvement Act 1940*.

According to the SA Housing Trust, the Factory Construction/Relocation Scheme has proven to be one of the State Government's most influential and significant assistance incentives provided to industry. The Trust provided assistance to companies referred to it by the EDA. This took the form of providing land, project management of design and construction, finance and appropriate tenure arrangements. Funds for each project were arranged with the

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<sup>2</sup> The industrial and commercial premises construction function of the Housing Trust was transferred to the SA Urban Projects Authority on 31 December 1995.

SA Government Financing Authority and, according to the Trust, are repaid by the company usually over an 11 year period (SA Housing Trust 1995, p. 29).

During 1994–95, four companies were assisted, with the combined value of these projects being about \$26 million. The Trust disclosed, in its Annual Report, names of assistance recipients and the nature of that assistance. In 1994–95, the four companies referred by the EDA and in receipt of assistance were:

- *Australis Media Limited* — construction of a customer service centre and associated car parking;
- *Gerard Industries Pty Ltd* — purchase land and construct new factory complex adjacent to its existing plant;
- *Motorola Australia Pty Ltd* — construction of a software development centre; and
- *Sola International Holdings Limited* — purchase land and construct a new R&D facility adjacent to its existing plant.

### **Department of the Arts and Cultural Development (DACD)**

DACD's role is to encourage and support the development of the arts in SA and to coordinate the management of SA's collections of movable cultural heritage.

The main mechanism for the Department's delivery of assistance to the arts industry (with benefits often also accruing to the State's tourism industry) is the *Development of the Arts Program*. Its objective is to build and promote the arts industry for the social and economic benefit of South Australians. In 1994–95, some \$23 million was spent supporting eight statutory authorities and approximately 70 companies and programs across all areas of the arts (DACD 1995, p. 20). About \$26 million was allocated for expenditure under this program in 1995–96. In contrast especially to the EDA, there is full disclosure of all persons and organisations in receipt of financial assistance from DCAD in its Annual Report.

### **Department of Primary Industries (DPI)**

The DPI's stated main aim is to identify economic opportunities for primary industries and to assemble the knowledge, technology and resources needed to exploit those opportunities. The Department covers the areas of agriculture, fisheries and forestry, with the latter activity being run as a commercial government trading enterprise known as the South Australian Timber Corporation (SATCO).

In 1994–95, assistance to the SA fishing industry totalled about \$14.6 million. In addition, an employment subsidy of \$4.6 million was paid to Forwood Products P/L, a controlled entity of SATCO.

State assistance to agriculture is reviewed in Appendix 2.

### **Office for Recreation, Sport and Racing<sup>3</sup>**

The ORSR provided assistance to the elite-sportspersons and racing industries totalling \$10.3 million in 1994–95. Of this, nearly \$1 million was spent on industry development and the procurement of international sports events, \$3.4 million on assistance to elite sportspersons via the SA Institute of Sport, and \$6 million on racecourses development in the State.

### **A1E.4 Detailed information on State Government industry assistance programs and schemes**

Tables A1E.3 and A1E.4 below summarise the assistance provided to non-agriculture industry by the South Australian Government. The information has been drawn from a number of publicly available sources and is not intended to be totally comprehensive.

While total program expenditure is broadly disclosed, there often is little public detail provided regarding its composition. It also has not been possible to provide comprehensive information on the extent of assistance provided by way of revenue forgone measures. In this regard, the Auditor-General noted that, for the year ended 30 June 1995, the EDA had not recorded all financial information, such as payroll tax relief, applicable to its incentive assistance packages (SA Auditor-General 1995).

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<sup>3</sup> Racing is now administered and assisted by the SA Racing Industry Development Authority.

**Table A1E.3: South Australia: State government financial assistance to industry programs; nature and extent<sup>a</sup>, 1994–95 and 1995–96 (estimate)**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96 <sup>b</sup>
			\$000	\$000
<b>Economic Development Authority (EDA)</b>				
(now within the Department of Manufacturing Industry, Small Business and Regional Development)				
<i>Facilitate the creation of an internationally competitive business climate in South Australia</i>	<i>Focus on issues which are critical to business; play a lead role in influencing government agency decisions which have substantial impact on business climate; encourage a predictable and known government and regulatory environment; ensure that infrastructure is adequate to meet business needs (making SA's infrastructure a source of competitive advantage); ensure community support for business and economic development; communicate an image of SA's competitive advantage in terms of business climate; assist in the improvement of public sector efficiency and effectiveness.</i>	<i>Information, facilitation and strategic policy advice.</i>	1 189	1 336
<i>Foster the development of world competitive and export oriented businesses in SA</i>	<i>Provide and ensure effective delivery of assistance programs and services to targeted business; lift the skills, leadership and performance of business managers and advisors; communicate to business the need for adoption of world best practice; provide market intelligence and facilitate access to key overseas markets; improve SA businesses access to finance; form effective networks and clusters of businesses; facilitate access to advanced technology and innovation in targeted enterprises; design and deliver a comprehensive and integrated enterprise improvement process.</i>	<i>Flexible assistance packages.</i>	36 222	39 826

Table A1E.3: **South Australia: State government financial assistance to industry programs; nature and extent<sup>a</sup>, 1994–95 and 1995–96 (estimate) — continued**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96 <sup>b</sup>
			\$000	\$000
<b>Economic Development Authority (EDA) — continued</b>				
<i>Promote increased levels of net business investment and employment in SA</i>	<i>Assist in the improvement of return on investment; support investment and reinvestment by SA businesses; identify and target key complimentary investment; handle investors in a professional and timely manner; encourage the development of a skilled labour force; develop and promote a compelling case for investment in SA; attract regional headquarters to SA.</i>	<i>Flexible assistance packages.</i>	35 767	36 199
<i>Support the development of regional economies in SA</i>	<i>Establish effective relationships with Regional Development Boards (RDOs); ensure the effectiveness of RDOs; provide the lead role for influencing Commonwealth, State and Local Government agencies to improve regional economic development outcomes; build awareness of the specific requirements of regional economies; ensure adequate business assistance and resources are available to meet regional development policy implementation requirements; enhance the guidelines and processes for business assistance.</i>	<i>Grants, subsidies, information and advice.</i>	5 714	5 137
<b>Total all EDA programs</b>			<b>75 186</b>	<b>86 462</b>

Table A1E.3: **South Australia: State government financial assistance to industry programs; nature and extent<sup>a</sup>, 1994–95 and 1995–96 (estimate) — continued**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95 \$000	1995–96 <sup>b</sup> \$000
<b>South Australian Tourism Commission (SATC)</b>				
<i>State Marketing</i>	<i>Raise awareness of tourism product/experiences available in SA; stimulate demand for SA holiday, leisure, convention, meeting and special event business to regional SA; provide high quality information services to visitors through the SA Travel Centre; work with the Tourism Marketing Boards to achieve stronger, more independent and highly professional regional capabilities; work in partnership with industry associations and industry operators to enhance industry professionalism, standards and quality of the visitor experience; encourage a wider distribution of intrastate travel activity within regions.</i>	<i>Research, information and promotion.</i>	6 721	7 171
<i>National Marketing</i>	<i>Increase the number of interstate visitor nights spent in SA by 2%; achieve a clear, credible and appealing tourism position and brand identity; increase consumer awareness of SA and intention to visit; generate a higher level of bookings for SA product; increase travel to and within the regions of SA; strengthen relationships with the travel trade and domestic airline carriers; maximise marketing impact through industry operators and wholesalers; develop thematic product through industry operators and wholesalers; ensure that SA's interstate travel centres become more sales oriented.</i>	<i>Research, information and promotion.</i>	6 606	6 308

Table A1E.3: **South Australia: State government financial assistance to industry programs; nature and extent<sup>a</sup>, 1994–95 and 1995–96 (estimate) — continued**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96 <sup>b</sup>
			\$000	\$000
<b>South Australian Tourism Commission (SATC) — continued</b>				
<i>International Marketing</i>	<i>Increase the number of international visitor nights spent in SA by 10% pa; increase consumer awareness of SA as an alternative gateway; in partnership with the Adelaide Convention and Tourism Authority, increase special interest, convention, event and incentive visits to SA; develop clear, differentiated and appealing tourism position and brand identities in each market used by the SATC, cooperative industry partners and the Australian Tourist Commission (ATC) in their marketing programs; identify and target the most productive market segments in each priority market; develop SA's target markets overseas; target and develop the distribution system; strengthen relationships with the ATC; maximise marketing impact through cooperative programs with the ATC and the industry through Partnership Australia; expand and improve the performance of SATC's international representations in priority markets.</i>	<i>Research, information and promotion.</i>	7 593	7 435
<i>Tourism Industry Development</i>	<i>Add value to the tourism industry in SA through: collection, analysis, interpretation, presentation and dissemination of tourism research information to assist planning, development and marketing processes; integration of the state's economic and tourism planning strategies by providing frameworks to guide marketing and development activities; and encouraging and facilitating the development of appropriate quality tourism product and infrastructure to meet identifiable tourism market demands.</i>	<i>Research, information, facilitation and infrastructure provision.</i>	7 492	8 637
<b>Total all SATC programs</b>			<b>28 412</b>	<b>29 551</b>

Table A1E.3: **South Australia: State government financial assistance to industry programs; nature and extent<sup>a</sup>, 1994–95 and 1995–96 (estimate) — continued**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95 \$000	1995–96 <sup>b</sup> \$000
<b>South Australian Housing Trust</b>				
<i>Factory Construction Scheme</i>	<i>Develop and make available for sale industrial land, and the development of industrial buildings, to encourage growth and diversification of industry and also to encourage its establishment in proximity to housing estates</i>	<i>Subsidised industrial land acquisition and factory development.</i>	25 950	700
<b>Department of Transport (DoT)</b>				
<i>Fishing Industry Services</i>	<i>Establish and maintain a network of cost effective safe-havens, slipping, storage and unloading facilities throughout the state; and, facilitate financial self-sufficiency for the service to the industry.</i>	<i>Infrastructure and its maintenance.</i>	1 941	2 035
<i>Commercial Maritime Services</i>	<i>Ensure commercial vessels are provided with an optimal level of safety; and, conserve the natural environment of the state's waters.</i>		1 777	2 284
<i>Kangaroo Island Ferry Services</i>	<i>Ensure cost effective and commercially viable cargo and passenger ferry services are available between the mainland and Kangaroo Island.</i>		4 972	600
<i>Accessibility Enhancement</i>	<i>Provide economic and social benefits through: selective extensions to the existing road network to support economic and social development.</i>		17 200 <sup>c</sup>	19 600 <sup>c</sup>
<b>Total all DoT programs</b>			<b>25 890</b>	<b>24 519</b>

Table A1E.3: **South Australia: State government financial assistance to industry programs; nature and extent<sup>a</sup>, 1994–95 and 1995–96 (estimate) — continued**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95 \$000	1995–96 <sup>b</sup> \$000
<b>Department for the Arts and Cultural Development</b>				
<i>Development of the Arts</i>	<i>Build and promote the arts industry for the social and economic benefit of South Australians.</i>	<i>Grants, subsidies, research and information.</i>	22 992	26 005
<b>Mines and Energy South Australia (MESA)</b>				
<i>Energy</i>	<i>Enhance economic development, living standards, social justice and environmental protection by promoting: effective development of the State's conventional and alternative energy resources; and, efficient and responsible use of energy in all end use sectors in the State.</i>			
— Programs		R&D	1 212	1 335
— Regulation		Regulation	400	1 252
<i>Petroleum Promotion and Regulation</i>				
— Regulation	Ensure the petroleum exploration and development and petroleum pipelines are managed in the best interests of the community.	Regulation	751	813
<i>Minerals Promotion and Regulation</i>				
— Regulation	Ensure continuing access to land, security of tenure over mineral deposits, reviewing/updating mining legislation, protection of the environment and appropriate rehabilitation of mined land.	Regulation	2 508	2 629

Table A1E.3: **South Australia: State government financial assistance to industry programs; nature and extent<sup>a</sup>, 1994–95 and 1995–96 (estimate) — continued**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96 <sup>b</sup>
			\$000	\$000
<b>Mines and Energy South Australia (MESA)— continued</b>				
<i>Resources Development</i> — Resource Processing Investment Attraction	<i>Identify opportunities for the development of the resources sectors in SA and attract investment and commitment to minerals and petroleum exploration; inform the wider community of the economic importance and role of the minerals industry and develop and promote resource processing in SA through identification, facilitation and worldwide promotion of the State's resources.</i>	<i>Promotion, information and facilitation.</i>	2 625	632
<b>Total all MESA programs</b>			<b>7 496</b>	<b>6 661</b>
<b>Department of Primary Industries (DPI)</b>				
<i>Fisheries</i> — <i>Fisheries Policy</i> <i>Development</i> — <i>Protection of Aquatic</i> <i>Resources</i> — <i>Management of</i> <i>Aquaculture</i>		<i>Information, advice, R&amp;D, policy development, and protection and management of the resource.</i>	6 357	
<i>Forestry</i>		<i>Employment subsidy.</i>	4 608	
<b>Total DPI (F&amp;F) expenses</b>			<b>15 105</b>	

Table A1E.3: **South Australia: State government financial assistance to industry programs; nature and extent<sup>a</sup>, 1994–95 and 1995–96 (estimate) — continued**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96 <sup>b</sup>
			\$000	\$000
<b>Office of Recreation, Sport and Racing (ORSR)</b>				
<i>Development of Recreation and Sport</i> — <i>Industry Development</i>	<i>Including: increase the economic and social contribution of recreation and sport in SA; and, promote the State as a venue for major national and international sporting events.</i>	<i>Grants, subsidies, research, and promotions.</i>	619	432
— <i>Procurement of Sporting Events</i>			338	323
<i>SA Sports Institute</i> — <i>Coaching Services</i>	<i>Provide an infrastructure and resource that will enhance the performance of SA's elite athletes; increase the economic contribution of sport in SA; and, assist the growth of sport in SA.</i>	<i>Grants, subsidies, research, training and infrastructure development and operation.</i>	2 922	2 819
— <i>Scientific Services</i>			443	453
<i>Racing</i> — <i>Racecourses Development</i>	<i>Facilitate the rational development of racing activities in SA.</i>	<i>Grants for infrastructure development.</i>	6 025 <sup>b</sup>	5 462 <sup>b</sup>
<b>Total all ORSR programs</b>			<b>10 347</b>	<b>9 489</b>
<b>Department of Employment, Training and Further Education</b>				
<i>Partnerships with industry</i>	<i>(a) Industry Training Advisory Bodies</i>	<i>(a) Advice on training issues.</i>	NSR	
	<i>(b) Vehicle Industry Certificate</i>	<i>(b) Subsidised entry level training program.</i>	1 300	

Table A1E.3: **South Australia: State government financial assistance to industry programs; nature and extent<sup>a</sup>, 1994–95 and 1995–96 (estimate) — continued**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95 \$000	1995–96 <sup>b</sup> \$000
<b>State Taxation Office</b>				
<i>Long Term Unemployed Pay-roll Tax Rebate Scheme (ceased 30 September 1995)</i>	<i>Assists businesses who increase employment levels by employing persons who were continuously unemployed for a period of six months.</i>	<i>Tax rebate</i>	<i>na</i>	<i>na</i>
<i>Exporters Pay-roll Tax Rebate Scheme</i>	<i>10% pay-roll tax rebate on wages for employees currently employed on export activity.</i>	<i>Tax rebate</i>	<i>na</i>	<i>na</i>
<i>New Exporters Pay-roll Tax Rebate Scheme</i>	<i>50% pay-roll tax rebate on wages for new/additional employees working in export-orientated activity.</i>	<i>Tax rebate</i>	<i>na</i>	<i>na</i>
<i>Trainee Wages Pay-roll Tax Rebate Scheme</i>	<i>98% pay-roll tax rebate on the wages paid to trainees under approved Training Schemes.</i>	<i>Tax rebate</i>	<i>na</i>	<i>na</i>

NSR Not separately recorded.

na not available.

a Total current and capital program expenses, including attributable overheads.

b Grants only (ie excludes overheads).

c Industry development component assumed to be 25 per cent of total program expenditure.

Sources: Department for the Arts and Cultural Development (1995), Department of Housing and Urban Development (1995), Department for Industrial Affairs (1995), Department of Premier and Cabinet (1995), Department of Transport (1995), EDA (1995), Government of South Australia (1995a, 1995b), Mines and Energy South Australia (1995), Office of Information Technology (1995), Office of Recreation, Sport and Racing (1995), South Australian Auditor-General (1995), South Australian Housing Trust (1995), and South Australian Tourism Commission (1995).

Table A1E.4: **South Australia: State Government financial and non-financial industry assistance schemes, by department**

<i>Agency Assistance Scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms assisted]	<i>Description and eligibility</i>
<b><i>Economic Development Authority</i></b> (now within the Department of Manufacturing Industry, Small Business and Regional Development)		
<b>Economic Development Program</b>	<i>A wide range of flexible assistance options/packages are available which may include one or more of the following : grants; subsidies; tax concessions/rebates; infrastructure provision; training; relocation costs etc.</i>	<p><b><i>Description:</i></b> Centrally allocated fund (mainly dispensed by EDA — \$42.5m out of a total fund of \$61.7m in 1994–95) which provides financial assistance and investment incentives to encourage further value added activity or to encourage firms to relocate to SA.</p> <p><b><i>Eligibility:</i></b> Available to established firms seeking to establish in SA that have a reasonable prospect of long term viability and who are involved in the traded goods and services sector (excluding building and retailing). The firms eligible for assistance are usually medium to large and complement the Government's economic development agenda with the capacity to contribute significantly to critical support services. Support is carefully targeted and eligible firms are likely to be: (i) established firms with a proven profitable record; (ii) relocating to SA or undertaking a significant investment program to improve world competitiveness and/or increase productive capacity; (iii) export or import replacement oriented; (iv) able to demonstrate that the project will not occur in SA unless investment incentives are provided; (v) able to demonstrate financial viability of the project; (vi) able to demonstrate significant economic benefits to SA.</p>
<b>Export Employment Scheme</b>	<i>Grants — 25% of actual gross taxable wage over the first 12 months of full-time employment, to a maximum of \$10 000 per annum.</i>	<p><b><i>Description:</i></b> Assists businesses to employ one qualified and/or experienced engineering or marketing person to develop additional export market opportunities.</p> <p><b><i>Eligibility:</i></b> Businesses which employ less than 100 people and are involved in exporting goods and services produced primarily in SA, or certify that the employee is an integral part of an export expansion program.</p>
<b>Consultancy Grant Scheme</b>	<p><i>Subsidies for business consultancies</i></p> <p>Total assistance – \$110 000</p> <p>Firms assisted – 172</p>	<p><b><i>Description:</i></b> Provides assistance to businesses (in the non-traded goods and services sector) seeking consultancy assistance to resolve problems by introducing changes which will improve their efficiency, long term viability and improve the quality of management.</p> <p><b><i>Eligibility:</i></b> Businesses applying must demonstrate that: (i) they are established; (ii) they have a need; (iii) if funded, the project will benefit SA; and (iv) there is commitment to implement the recommended actions.</p>

Table A1E.4: **South Australia: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance Scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms assisted]	<i>Description and eligibility</i>
<b><i>Economic Development Authority — continued</i></b>		
<b>Business Plan Development Scheme</b>	<i>Subsidies — up to 50%, to a maximum of \$5000, of the cost of having an external private consultant write the plan</i>  Total assistance – \$400 000  Firms assisted – 90	<u><i>Description:</i></u> Provides assistance for business planning to support businesses breaking into export, value-adding to agriculture or import replacing.  <u><i>Eligibility:</i></u> Firms, in the traded goods and services sector, which employ under 25 employees and show potential and commitment to the expansion.
<b>New Exporters Challenge Scheme</b>	<i>Subsidies — 50% of the costs of market exploration, up to a maximum of \$12 500.</i>  Total assistance – \$580 000  Firms assisted – 95	<u><i>Description:</i></u> Reduces the risk of South Australian businesses developing overseas markets for South Australian goods and services.  <u><i>Eligibility:</i></u> Registered SA businesses or industry groups which are too small to access Austrade’s EMDG scheme. The total SA content must be at least 50% of the free-on-board value of the goods being exported.
<b>The Business Centre</b>	<i>Information, advice and consultancy assistance</i>	<u><i>Description:</i></u> Provides information, advice and consultancy assistance to both business owners and those intending to start business, covering all aspects of business management, licences, Commonwealth & State programs to assist business development, and a business reference library.  <u><i>Eligibility:</i></u> No restriction.
<b>Business Licence Information</b>	<i>Information and advice.</i>	<u><i>Description:</i></u> Provides information and advice on all South Australian and Commonwealth Government licences, registrations, permits and approval requirements.  <u><i>Eligibility:</i></u> No restriction.
<b>Industry Development Scheme</b>	<i>Loans and grants.</i>  Total assistance – \$8.61m	na
<b>International Business Initiatives Scheme</b>	<i>Grants</i>  Total assistance – \$110 000	na

Table A1E.4: **South Australia: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance Scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms assisted]	<i>Description and eligibility</i>
<b><i>Economic Development Authority</i></b> — <i>continued</i>		
<b>Technology and Innovation Scheme</b>	<i>Loans and grants</i> Total assistance – \$0.17m	na
<b>Regional Industry Development Scheme</b>	<i>Loans and grants</i> Total assistance – \$1.44m	na
<b>Regional Industry Scheme</b>	<i>Grants</i> Total assistance – \$2.75m	na
<b>Special Dev. Payments Scheme</b>	<i>Loans and grants</i> Total assistance – \$9.59m	na
<b>Export Development Scheme</b>	<i>Loans and grants</i> Total assistance – \$0.22m	na
<b>Payroll Tax Reimbursements Scheme</b>	<i>Tax concession</i> Total assistance – \$0.24m	na
<b>Manufacturing Modernisation Program</b>	<i>Technology transfer</i> Total assistance – \$4.6m	na
<b>Automotive Program</b>	<i>Technology transfer and training</i> Total assistance – \$3.07m	na
<b>Tooling Program</b>	<i>Technology transfer</i> Total assistance – \$0.39m	na
<b>Continuous Improvement Through Teams</b>	<i>Training subsidy</i>	<i>Description:</i> Demonstrate the close relationship between building effective teams and achieving improvement through all levels of the enterprise. <i>Eligibility:</i> No restriction.
<b>Enterprise Improvement Plan-A Self - Help Approach</b>	<i>Training subsidy</i>	<i>Description:</i> Focuses on planned, long term, sustainable processes for improvement and change. Is designed for organisations wanting a cost effective hands-on approach to creating their own Enterprise Improvement Plan (EIP). <i>Eligibility:</i> No restriction

Table A1E.4: **South Australia: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<b>Agency Assistance Scheme</b>	<i>Form of assistance</i> [1994–95: total assistance; firms assisted]	<i>Description and eligibility</i>
<b>Economic Development Authority</b> — <i>continued</i>		
<b>Business Growth Through Quality</b>	<i>Training subsidy</i>	<i>Description:</i> A Business Improvement program capable of providing an appropriate externally certified quality system endorsed by the Australian Quality Council  <i>Eligibility:</i> No restriction, but designed for small businesses employing less than 20 people.
<b>Developing a Q.M. System for AS/NZS ISO9000 Certification</b>	<i>Training subsidy</i>	<i>Description:</i> Focuses on self-implementation of the Quality Management System process — enables the company to develop and implement a QMS for certification to the AS/NZS ISO9000 series.  <i>Eligibility:</i> No restriction.
<b>Waste Elimination – Making It Happen</b>	<i>Training subsidy</i>	<i>Description:</i> Helps identify areas of waste in business and shows how to effectively eliminate it and to add value to products.  <i>Eligibility:</i> No restriction.
<b>Factory Planning – Approaches &amp; Tools</b>	<i>Training subsidy</i>	<i>Description:</i> Helps manufacturing enterprises wanting to develop their own factory plan.  <i>Eligibility:</i> No restriction.
<b>Export Forums – The World Series</b>	<i>Training subsidy</i>	<i>Description:</i> Gives small and medium sized businesses a unique briefing and overview of ten major export regions.  <i>Eligibility:</i> No restriction.
<b>Strategic Planning Process – A Self Guided Approach</b>	<i>Training subsidy</i>	<i>Description:</i> Specifically tailored for small and medium sized enterprises wanting to create an effective and affordable strategic plan.  <i>Eligibility:</i> No restriction.
<b>Minimising Change-Over Times</b>	<i>Training subsidy</i>	<i>Description:</i> Provides a series of hands-on sessions in which the enterprise will actually complete a Change-over Reduction Project which will develop a plan for reducing change-overs.  <i>Eligibility:</i> No restriction.
<b>SACFM College</b>	<i>Training subsidy — fees may be subsidised if companies are eligible for EIP.</i>	<i>Description:</i> Provides outcome oriented programs (eg. the above 9 programs) on a fee for service basis to consultants and company change agents.  <i>Eligibility:</i> No restriction.

Table A1E.4: **South Australia: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<b>Agency Assistance Scheme</b>	<i>Form of assistance</i> [1994–95: total assistance; firms assisted]	<i>Description and eligibility</i>
<b><i>Economic Development Authority — continued</i></b>		
<b>AusIndustry - Enterprise Improvement Program</b>	<i>Subsidies —to meet up to half the costs of consultancy services, workshops and other services.</i>	<i>Description:</i> Offers a range of services to assist small to medium sized enterprises to improve their international competitiveness — for example, it assists firms to: assess their current position and future needs; develop strategic, business and export market plans; and implement improvements in their business in areas such as quality, design, benchmarking, environment issues and advanced technology.  <i>Eligibility:</i> Enterprises must be in the manufacturing sector with a turnover of at least \$1 million or a minimum of 15 employees, or in the traded services sector with a turnover of at least \$500 000 or a minimum of 10 employees. In addition, the enterprise must be: financially viable and have the capacity to implement change; produce innovative products and services; involved in exporting, supplying exporters, or have the potential to export and/or replace imports.
<b>AusIndustry - Environmental Management</b>	<i>Subsidy —to meet up to half the costs of consultancy services, workshops and other services.</i>	<i>Description:</i> Helps firms to reduce costs through better resource management and cleaner production.  <i>Eligibility:</i> Overall the enterprise needs to: be financially sound, able to demonstrate a commitment and capacity to implement change, and have the potential for growth; be involved in either the manufacturing or traded services sectors; be a small to medium sized enterprise involved in exporting directly or as a supplier to an exporter, or have the potential to export and/or replace imports.
<b>AusIndustry - Export Market Planning</b>	<i>Subsidy — to meet up to half the costs of consultancy services, workshops and other services.</i>	<i>Description:</i> Helps firms to examine whether they are ready for export, or, if they are already exporting, to provide a review of their export activities.  <i>Eligibility:</i> As for ‘AusIndustry - Environmental Management’.
<b>AusIndustry - Enterprise Improvement Program - Design</b>	<i>Subsidy — to meet up to half the costs of consultancy services, workshops and other services.</i>	<i>Description:</i> Assistance to firms to integrate the design of products and services with corporate goals.  <i>Eligibility:</i> As for ‘AusIndustry - Environmental Management’

Table A1E.4: **South Australia: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<b>Agency Assistance Scheme</b>	<b>Form of assistance</b> [1994–95: total assistance; firms assisted]	<b>Description and eligibility</b>
<b>Economic Development Authority — continued</b>		
<b>AusIndustry - Enterprise Improvement Program - Quality</b>	<i>Subsidy — to meet up to half the costs of consultancy services, workshops and other services.</i>	<b>Description:</b> Assistance to firms to improve their competitive position through implementing quality management and continuous improvement techniques. <b>Eligibility:</b> As for ‘AusIndustry - Environmental Management’
<b>AusIndustry - Enterprise Improvement Program - Workplace Issues</b>	<i>Subsidy —to meet up to half the costs of consultancy services, workshops and other services.</i>	<b>Description:</b> Assistance to firms to improve their business through the development and involvement of people. <b>Eligibility:</b> As for ‘AusIndustry - Environmental Management’
<b>Environment Protection Agency</b>		
<b>Cleaner Industries Demonstration Scheme</b>	<i>Interest-free loans to assist with the installation of new equipment (up to a maximum of \$100 000) and the payment of Consultant’s fees .</i>	<b>Description:</b> Demonstrate through working examples how industry can improve production, minimise environmental impact and save money through cleaner production techniques. <b>Eligibility:</b> Open to all South Australian industry and applies to reduction of all types of industrial pollutants and waste. A genuine commitment to pollution prevention is required.
<b>Department of Employment, Training and Further Education</b>		
<b>Group Training Employers’ Rebate Scheme</b>	<i>Training subsidy of \$50 per week per trainee to host employers</i>	<b>Description:</b> Provides the opportunity to increase training via a subsidy for engaging disadvantaged trainees through Group Training Companies (GTC). <b>Eligibility:</b> Host employers contracting through GTCs for the employment of trainees from the following target groups: (i) people from rural/remote areas (place of residence at least 100km from work site) (ii) long-term unemployed youth; and (iii) Kickstart for Youth project participants.
<b>Kickstart Regional Employment &amp; Training Strategy</b>	<i>Training subsidy</i>	<b>Description:</b> Encourages retention of employees who may be at risk of retrenchment, training for businesses seeking to expand employment and strategies for overcoming local skills shortages. <b>Eligibility:</b> Public and private sector organisations.

Table A1E.4: **South Australia: State Government financial and non-financial industry assistance schemes, by department — continued**

<b>Agency Assistance Scheme</b>	<i>Form of assistance</i> [1994–95: total assistance; firms assisted]	<i>Description and eligibility</i>
<b>Department of Employment, Training and Further Education — continued</b>		
<b>Employment Broker Scheme</b>	<i>Subsidy, paid to broker, to reduce search costs for work placements</i>	<p><i>Description:</i> Provides training and work placements for school leavers and young unemployed in paid positions of not less than 20 hrs work per participant per week. Brokers must match host employers with eligible participants as well as produce a training plan for participants.</p> <p><i>Eligibility:</i> Employment brokers are selected by tender.</p>
<b>State Library of South Australia</b>		
<b>Bizline</b>	<i>Information provision</i>	<p><i>Description:</i> Services include research and development information, market research for products and services, environmental planning research, management and staff development information, company profiles, cost-effective patents searching.</p> <p><i>Eligibility:</i> No restriction</p>
<b>South Australian Tourism Commission</b>		
<b>Economic Development Program</b>	<i>Grants, subsidies and infrastructure provision</i>	<p><i>Description:</i> Events Bidding (\$712 000) Intermodal Adelaide (\$251 000) Export Market Development (\$827 000) Grand Prix Joint Marketing (\$250 000) Infrastructure (\$2.486m)</p> <p><i>Eligibility:</i> Case-by-case.</p>
(1993–94 data)	Total assistance – \$4.53m	
<b>Media and Trade Familiarisat'n Program</b>	<i>Promotions subsidy</i>	<p><i>Description:</i> Brings targeted media, travel trade and VIPs to Adelaide to expose them to some of the State's key tourism product</p> <p><i>Eligibility:</i> Targeted media, travel trade and VIPs</p>
(1993–94 data)	Total assistance – \$270 000	
<b>Tourism Development Fund</b>	<i>Grants</i>	<p><i>Description:</i> Provides financial assistance to local government and community bodies to develop attractions and facilities for tourists.</p> <p><i>Eligibility:</i> Local councils and eligible community bodies.</p>

**Table A1E.4: South Australia: State Government financial and non-financial industry assistance schemes, by department — continued**

<i>Agency Assistance Scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms assisted]	<i>Description and eligibility</i>
<b>South Australian Tourism Commission — continued</b>		
<b>Tourism Road Grant Program</b> (1993–94 data)	<i>Grants —\$ for \$ basis.</i>  Total assistance – \$540 000	<i>Description:</i> Provides assistance to local councils for tourism roads improvement (paid by the Dept of Road Transport after screening by SATC).  <i>Eligibility:</i> Local Councils with appropriate tourism attractions.
<b>Festivals Assistance Scheme</b>	<i>Grants</i>  Total assistance – \$40 000	<i>Description:</i> Provides funding to festivals and special events judged to have a strong appeal in tourism growth areas.  <i>Eligibility:</i> Case by case.
<b>Cooperative Marketing Opportunities</b>	<i>Advice on marketing and product development</i>	<i>Description:</i> Provides assistance for the marketing and distribution of tourism operators' products, including cooperative advertising in domestic and international trade, consumer promotions, involvement in intra and interstate campaigns, familiarisations, public relations activities, sales missions, direct mail and regional promotions.  <i>Eligibility:</i> For all operators having the necessary legal requirements to undertake their business.
<b>Tourism Infrastructure Program</b>	<i>Infrastructure provision.</i>	<i>Description:</i> Assists major strategic tourism developments by improving their financial viability through the reduction of establishment costs by providing infrastructure such as power, water, sewerage and roads.  <i>Eligibility:</i> Such projects must have the ability to attract high value visitation, strengthen SA's positioning and image, and have total development costs in excess of \$4 million.
<b>Pathfinder Scheme – Tourism</b>	<i>Funding available up to \$2000 on a one-for-one basis for undertaking a business plan or a feasibility study.</i>	<i>Description:</i> Provides advice to small tourist operators by engaging consultants experienced in all aspects of business management  <i>Eligibility:</i> For operators who are either about to commence or are developing new directions for their existing business.
<b>New Developer/Operator Advice</b>	<i>Information, advice and research.</i>	<i>Description:</i> Provides advice and research in regard to facilities and/or services, an overview of the market and future projections, all of which assists in the creation of a business plan and/or a feasibility study.  <i>Eligibility:</i> New or existing operators wanting to commence a new project or business venture

**Table A1E.4: South Australia: State Government financial and non-financial industry assistance schemes, by department — continued**

<i>Agency Assistance Scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms assisted]	<i>Description and eligibility</i>
<b>Adelaide Convention and Tourism Authority</b>		
<b>Convention Loan Scheme</b>	<i>Interest free loan — up to \$7000 will be advanced for a maximum of 2 years, with an establishment fee of 3.5% of the total loan and the full amount is payable 30 days prior to the convention</i>	<p><b>Description:</b> Assists non-profit associations to stage conventions and to boost attendance.</p> <p><b>Eligibility:</b> Available only to non-profit organisations bidding for new conventions or wishing to boost attendance at conventions already listed with the Authority</p>
<b>WorkCover Corporation</b>		
<b>Workcover Levy Subsidy Scheme</b>	<i>Employment subsidy</i>	<p><b>Description:</b> WorkCover will pay the levy for the first 12 months for each additional (not replacement) person employed within South Australia full time or part time.</p> <p><b>Eligibility:</b> Available to small and medium businesses with an annual payroll of no more than \$1 million. Applies to employees hired after 1 January 1994 who: (i) was a secondary school leaver; (ii) had just completed a pre-vocational TAFE course; and (iii) had been unemployed continuously for the previous 6 months or more.</p>
<b>Workcover Training and Consultancy Services</b>	<i>Training and advice</i>	<p><b>Description:</b> Introduces new employers to their roles and responsibilities under the Occupational Health Safety and Welfare Act and the Workers' Rehabilitation and Compensation Act.</p> <p><b>Eligibility:</b> No restriction</p>
<b>Department for the Arts and Cultural Development</b>		
<b>Demonstration Tapes For Contemporary Music</b>	<i>Subsidy — the maximum assistance is \$2000</i>	<p><b>Description:</b> Supports the professional development of music in South Australia — artists and bands can apply for assistance for the hire of studio time and technical assistance to produce cassette recordings of their own compositions for demonstration purposes.</p> <p><b>Eligibility:</b> Projects must stimulate interaction between performers and audience, and meet high artistic standards. The material recorded must be original.</p>

Table A1E.4: **South Australia: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<b>Agency Assistance Scheme</b>	<i>Form of assistance</i> [1994–95: total assistance; firms assisted]	<i>Description and eligibility</i>
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**Department for the Arts and Cultural Development — continued**

<b>Publishing Promotions Program</b>	<i>Grants — up to \$5000 per title for fiction, non-fiction, poetry and children’s literature.</i>	<p><b>Description:</b> Supports the promotion of work by writers residing permanently in South Australia through grants to publishers towards costs associated with the promotion of a title.</p> <p><b>Eligibility:</b> Preference is given to publishers with an effective national distribution network. Drama titles, educational publications, non-book material, anthologies and local or family histories are not eligible.</p>
<b>Cultural Export Program</b>	<i>Grants — to undertake market research or marketing initiatives based on a proposal which is financially sound, able to be implemented effectively and demonstrates clear potential for future development.</i>	<p><b>Description:</b> Assists in the identification and development of new markets for South Australian arts and cultural goods and services.</p> <p><b>Eligibility:</b> Organisations in the cultural industry who can supply high quality products and can demonstrate a knowledge of sound business practice and a commitment to exporting.</p>

**Office of Recreation, Sport & Racing**

<b>International Events Unit</b>	<i>Grants, subsidies, information, advice and facilitation</i>	<p><b>Description:</b> Attract international sporting events to South Australia.</p>
<b>Sports Export – Adelaide</b>	<i>Research, information and facilitation</i>	<p><b>Description:</b> ‘Think tank’ for identifying opportunities and then advancing particular sports-related projects.</p>
<b>2000 Olympics Training and Acclimatisat’n Program</b>	<i>Information and facilitation; interstate office</i>	<p><b>Description:</b> Provide South Australian sport, tourism, cultural and business sectors with information on the opportunities to do business associated with the Sydney Olympics and assist to win contracts with the NSW Government, SOCOG and other organisations working with them.</p>

**Table A1E.4: South Australia: State Government financial and non-financial industry assistance schemes, by department — continued**

<i>Agency Assistance Scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms assisted]	<i>Description and eligibility</i>
<b>Department of Primary Industries</b>		
<b>Fisheries R&amp;D Fund</b>	<i>Research and development</i>  Total assistance – \$4.05m	<i>Description:</i> Fund for the research and development of fisheries management etc issues.  <i>Eligibility:</i> All organisations proposing to undertake fisheries-related R&D
<b>Fisheries R&amp;D Corporation</b>	<i>R&amp;D policy development and allocation</i>	<i>Description:</i> Management of Fisheries R&D Fund.
<b>SA Fishing Industry Council</b>	<i>Policy development</i>	<i>Description:</i> Oversight of fishing industry activities and fisheries policy development.

na not available

*Sources:* Department for the Arts and Cultural Development (1995), Department of Housing and Urban Development (1995), Department for Industrial Affairs (1995), Department of Premier and Cabinet (1995), Department of Transport (1995), Economic Development Authority (1995), Government of South Australia (1995a, 1995b), Mines and Energy South Australia (1995), Office of Information Technology (1995), Office of Recreation, Sport and Racing (1995), South Australian Auditor-General (1995), South Australian Housing Trust (1995), and South Australian Tourism Commission (1995).

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## **ATTACHMENT 1F: TASMANIA**

### **A1F.1 Introduction**

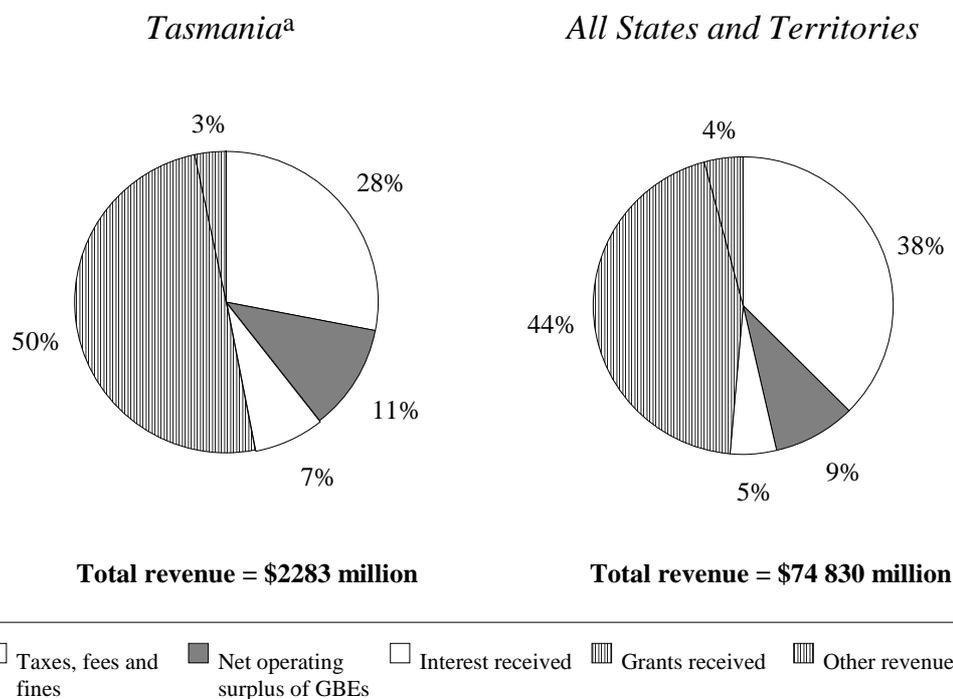
This Attachment presents information on the industry assistance provided by the State Government in Tasmania. Most of the information has been obtained from the State Government's Budget Papers and the annual reports of relevant Government departments, agencies and statutory authorities, as well as the Government's submission to the inquiry (Sub. 87).

#### **Revenue sources**

Commonwealth grants contributed over \$1.1 billion of the Tasmanian Government's revenue in 1994–95 — almost 50 per cent. Most of the remainder of the Government's revenue was raised through taxes, fees and fines (\$644 million), net operating surpluses of government business enterprises (\$261 million) and interest received (\$168 million).

In comparison with the other Australian States, Tasmania relies heavily on Commonwealth grants, with South Australia and the Northern Territory being the only States for which grants are a higher proportion of revenue. Figure A1F.1 shows the composition of Tasmanian revenue in comparison with that for all Australian States. Taxes, fees and fines constitute a relatively small part of total revenue in Tasmania.

**Figure A1F.1: Composition of State Government revenue for Tasmania and all States and Territories, 1994–95**



a Tasmanian percentages do not add to 100 due to rounding.

Source: ABS (1995a).

## A1F.2 Tasmanian Government assistance to industry

### Key Legislation

The Tasmanian Development Authority (TDA) was formed in 1984, under the *Tasmanian Development Act 1983*. During 1992–93 the TDA amalgamated with the former Department of Mines and the *Occupational Health and Safety Operations* program of the Department of Employment and Industrial Relations and Training. Together they formed the Department of State Development and Resources, known as Tasmania Development and Resources (TDR). Until July 1995 the TDA existed as a separate Authority, with funding from the State Government through TDR. In 1995–96 the *Tasmanian Development Act 1983* was replaced, and the TDA Board was renamed as the TDR Board.

### **General policy approach**

In July 1994, the Premier announced that the Tasmanian Government was committed to a 10-year development strategy, the 'Decade of Growth'. In terms of industry development, the strategy set out five key targets, to be realised by 2004 (Tasmanian Government 1995). The five targets are:

- to lift exports to \$3.5 billion per annum;
- to replace \$150 million in imports each year;
- to establish ten major new value-adding industries;
- to attract \$3 billion on additional investment; and
- to bring 650 000 tourists to Tasmania each year.

### **Extent and nature of assistance**

The first four targets of the Decade of Growth strategy fall under the area of responsibility of TDR (incorporating TDA), while tourism promotion and assistance are the province of the Department of Tourism, Sport and Recreation. These two departments provide the majority of non-agricultural industry assistance in Tasmania. Other agencies which offer industry assistance include the Departments of Primary Industry and Fisheries (DPIF) and Education and the Arts.

Most assistance to industry is in the form of information, advice, marketing and promotion (mainly generic promotion of Tasmania as a good place to live, holiday or do business).

**Table A1F.1: Tasmanian Government budgetary outlays<sup>a</sup> on non-agricultural industry assistance, 1994–95 (\$000)**

<i>Agency</i>	1994–95
Tasmania Development and Resources	30 737
Department of Tourism, Sport and Recreation	23 961
Department of Education and the Arts	7 844
Department of Primary Industry and Fisheries	4 022
Private Forests Tasmania	1 189
Tasmanian Racing Authority	500
<b>Total</b>	<b>68 253<sup>b</sup></b>

a Total current and capital program expenses, including attributable overheads and, where appropriate, after deducting user charges revenue and industry contributions.

b Information on revisions to the data presented in the draft report did not become available until after the modelling work reported in Appendix 7 was completed. As a result, the estimate for budgetary outlays on non-agricultural assistance used in the modelling exercise was \$12.114 million higher than that shown in this Table. As this difference represents less than 0.5 per cent of total State and Territory budgetary assistance to industry the impact on the modelling results is likely to be very minor.

*Source:* Tasmanian Government (1995).

In 1994–95, the Tasmanian Government provided approximately \$68 million in budgetary assistance to business and industry (see Table A1F.1). The Commission understands that little or no assistance is provided by the Tasmanian Government through revenue forgone measures, such as exemptions or concessions on payroll tax, land tax or stamp duty, or the provision of free or subsidised land. With regard to payroll tax, the *Payroll Tax Act 1971* provides no scope for either the Treasurer or the Commissioner of Payroll Tax to offer such exemptions or concessions.

Information on Tasmanian Government budgetary assistance to non-agricultural industry in 1995–96 and 1996–97, based on departmental and program structures prevailing in 1996–97, is summarised in Table A1F.2 below. The lower level of assistance in both years is mainly due to higher abalone fishing fees which reduce the net assistance provided through the DPIF.

**Table A1F.2: Tasmanian Government budgetary outlays<sup>a</sup> on non-agricultural industry assistance, 1995–96 (revised)<sup>b</sup> and 1996–97 (estimate) (\$000)**

<i>Agency</i>	<i>1995–96</i>	<i>1996–97</i>
Tasmania Development and Resources	29 379	29 747
Department of Tourism	24 594	24 541
Department of Education, Community and Cultural Development <sup>c</sup>	6 113	7 426
Private Forests Tasmania	1 698	1 330
Environment and Land Management <sup>d</sup>	574	685
Tasmanian Racing Authority	500	650
Department of Primary Industry and Fisheries	(337)	1 611
<b>Total</b>	<b>62 521</b>	<b>65 990</b>

a Total current and capital program expenses, including attributable overheads and, where appropriate, after deducting user charges revenue and industry contributions.

b Data for 1995–96 have been revised on the basis of the 1996–97 program structure.

c Includes grant to Tasmanian International Velodrome previously administered within Tourism, Sport and Recreation portfolio.

d Assistance provided under Antarctic Affairs and Celebrate! Tasmania sub-programs previously administered within Tourism, Sport and Recreation portfolio.

Source: Tasmanian Government (1996).

### Major projects and recent special assistance

The companies receiving loans from the Government, as well as grants and guarantees from the TDA are named in the Department's Annual Report. Those companies receiving other loans are not named individually, but the Annual Report does list the total value of loans made, by industry sector, and the number of firms receiving loans in each sector. Tables A1F.4 and A1F.5 provide details of the grants, loans and guarantees offered by TDA in 1993–94 and 1994–95. A small number of these had values over \$500 000, as listed below:

- *Temco* — received a grant of \$816 000 in 1993–94;
- *Textile Industries Australia* — received a grant of \$938 000 and a guarantee for \$510 000 in 1994–95;
- *Australian Maritime Engineering CRC* — received a grant of \$500 000 in 1994–95;
- *Apollo Nominees Pty Ltd* — received a guarantee for \$600 000 in 1994–95;

- *Bayles, MT and CB* — TDA was directed by the Government to provide a loan of \$1.8 million in 1994–95;
- *Textile manufacturing* — one company received a loan of \$1.95 million in 1993–94;
- *Light industrial/manufacturing* — in 1993–94, three loans were made, totalling almost \$2.13 million. In 1994–95, five loans were made, totalling \$2.7 million; and
- *Mining* — in 1994–95, one venture received a loan of \$500 000.

In addition, the DPIF constructed the \$2.1 million Tarooma Marine Research Laboratories in 1994–95, providing significant assistance to the aquaculture industry.

### **A1F.3 Institutional arrangements**

#### **Tasmania Development and Resources and Tasmanian Development Authority**

The aim of TDR is to provide the link between government and business to formulate, promote and deliver industry support services which assist the development of the State's industry.

TDR's budget for 1995–96 is almost \$42 million, increased from \$38.4 million in 1994–95. It operates under a single program for budgetary purposes, but incorporates seven output groups. The four output groups providing assistance to industry are: *Technopark*; the *Centre for Precision Technology*; *Business Services*; and *Industry Development*. Together, their funding for 1995–96 totalled almost \$28.6 million. The funds applied to each output group are shown in Table A1F.3.

**Table A1F.3: Total expenditure of Tasmania Development and Resources by output group, 1995–96 (estimate) (\$000)**

<i>Output group</i>	<i>1995–96</i>
Technopark	534
Centre for Precision Technology	1 242
Business Services	1 842
Industry Development	24 940
<i>Sub total</i>	28 558
Mineral Resources	5 248
Occupational Health and Safety	7 455
Business Regulation	657
<b>Total</b>	<b>41 918</b>

*Source:* Tasmanian Government (1995).

The *Industry Development* output group is by far the largest and provides most of the assistance to industry. The group focuses on five areas of assistance: *Project Services*; *Business Services*; *Business Environment Development*; *Marketing and Export*; and *Investment in Tasmania*. A wide range of assistance measures are undertaken in each of these areas, including:

- the provision of information and advice to existing and prospective businesses;
- facilitation of infrastructure provision;
- marketing and promotional support;
- consulting and counselling services; and
- financial support.

#### *Tasmanian Development Authority*

The TDA incorporates *Technopark* and the *Centre for Precision Technology*, as well as being responsible for many of the operations of the *Industry Development* output group. It has two divisions which provide industry assistance — *Marketing and Export Division* and *Development Division*. Its role is “to formulate, promote and deliver industry-support services which assist the process of economic development, leading ultimately to increased prosperity and improved quality of life for Tasmanians” (Tasmanian Government 1995, p. 371).

The majority of assistance provided by the TDA is to agriculture. The Authority is responsible for providing assistance under the Rural Adjustment Scheme (RAS).

With respect to other industry development, the targets of the 'Decade of Growth' strategy form the basis for the Authority's goal-setting. In order to achieve the goal of establishing ten major new developments by 2004, the TDA will target industries which, "in the main, [are] based on Tasmania's natural resources and the opportunities to turn them into high-value products" (TDR & TDA 1995, p. 8).

In regard to the attraction of external investment to Tasmania, TDA states that:

... our targets are sustainable operations with long-term growth potential, able to add more value to our resources and able and willing to meet the highest environmental standards. (TDR & TDA 1995, p. 10)

The TDA provides assistance in the form of loans, grants and guarantees, as well as operating the *National Industry Extension Service* (NIES) in Tasmania and providing information and advice to businesses and individuals. Loans approved by TDA in 1994–95 are shown in Table A1F.4, while Table A1F.5 shows grants and guarantees approved by the Minister and Treasurer and loans directed by the Government.

**Table A1F.4: Tasmanian Development Authority;  
loans approved, 1994–95**

	1994–95	
	<i>Loans</i>	<i>Amount</i>
	<i>number</i>	<i>\$000</i>
Textile manufacturing	1	250
Light industrial/manufacturing	5	2 700
High technology	2	300
Forest/forest products	–	–
Tourism	9	1 125
Food processing	–	–
Mining	1	500
Fisheries Finance Plan	1	62
Young Farmer Assistance Plan	23	2 080
Agricultural Development Plan	9	970
Farm Water Development Plan	53	2 772
Dairy Productivity Plan	14	1 074
Soil Management Plan	–	–
Structural Adjustment (RAS funded)	31	3 608
Other primary industry	–	–
General primary industry	3	305
Special Farm Purchase Plan	–	–
Home finance	–	–
<b>Total</b>	<b>153</b>	<b>15 896</b>

*Source:* TDR & TDA (1994, 1995).

Projects in which TDA was involved in 1994–95 included:

- the Mount Lyell revival — support for Gold Mines of Australia Ltd for a \$150 million investment program to reactivate the mine and increase production to twice the best annual output under the previous leasehold;
- support for Hokushin Co Ltd to carry out plans for a \$90 million medium density fibreboard plant at Bell Bay (projected to create 70 construction jobs and 125 permanent jobs). This project also received facilitation services under the Commonwealth Government's *Investment Promotion and Facilitation Program*;
- a pre-feasibility study into a proposal by Taiwan Pulp and Paper Corporation to establish a \$1 billion pulp and paper mill in Northern Tasmania;

- a second major Tasmanian trade mission to North Asia in March 1995 (reported to have generated immediate sales or orders valued at more than \$7.5 million); and
- assistance to Incat Australia Pty Ltd in the development of strategies for future growth (TDR & TDA 1995).

**Table A1F.5: Tasmanian Development Authority grants, loans and guarantees, 1994–95 (\$000)**

	1994–95
<i>Grants approved by the Minister on the recommendation of TDA</i>	
Temco	
Australian National Underwater Training Centre	
Launceston Synchrolift	
Tas Design Development Co Ltd	
Coats Paton Australia	100
Fishex Australia	20
Textile Industries Australia	938
Australian Maritime Engineering CRC	500
<i>Total</i>	<i>1 558</i>
<i>Guarantees approved by Treasurer</i>	
The Engineering Co Ltd	
Apollo Nominees Pty Ltd	600
Textile Industries Australia	510
<i>Total</i>	<i>1 110</i>
<i>Loans directed by the Government</i>	
Tasmanian Motor Racing Co	
Bayles, MT and CB	1 800
<i>Total</i>	<i>1 800</i>
<b>Total</b>	<b>4 468</b>

*Source:* TDR & TDA (1994, 1995).

## Department of Tourism, Sport and Recreation

The Department of Tourism, Sport and Recreation (DTSR) had a budget for 1995–96 of just under \$32.7 million, virtually unchanged from the 1994–95 figure of just over \$32.6 million. The Department operates five programs which provide assistance to the tourism industry: *Product Distribution and Sales*; *Industry Development*; *Marketing Strategy and Services*; *Major Events*; and *Tasmanian International Velodrome*.

The *Product Distribution and Sales* program assists industry through:

- the development, distribution and sale of packaged holidays ('Tasmania's Temptations');
- generic advertising of Tasmania as a place in which to take a holiday or do business;
- the operation of five *Tasmanian Travel Centres* in mainland Australia; and
- a telephone inquiry service for potential visitors and mainland travel agents.

The *Industry Development* program operates a range of schemes providing information, advice, training and financial assistance to businesses in the tourism industry. It has a strong connection with two of the Department's output groups — *Industry Development* and *Antarctica Affairs*. The program's schemes include:

- the *Industry Advisory Service*;
- a business plan preparation package, *Being a Successful Tourism Operator*;
- the *Tourism Development Scheme*, offering loans to tourism businesses;
- *AussieHost*, providing customer service workshops to tourism operators;
- various marketing workshops;
- the *Mainstreet Program*, offering communities guidance on how to present themselves more professionally;
- infrastructure development;
- assistance to nature-based, cultural and regional tourism; and
- promotion of Tasmania in the backpacker market.

In addition, Commonwealth grants are provided through the Department to particular development projects.

The *Office of Antarctica Affairs* has a budget for 1995–96 of about \$319 000. It undertakes promotion programs, aiming to:

... facilitate Tasmania's recognition as a place of international and national importance in matters concerned with the Southern Ocean and Antarctica, resulting in a viable resupply industry, the establishment of international commissions, an Antarctic Centre and an expanding cruise ship industry. (DTSR 1995, p. 34)

Under the *Marketing Strategy and Services* program the Department committed more than \$220 000 in 1994–95 to *Partnership Australia*, a cooperative marketing venture with all other Australian States and the Australian Tourist Commission. In addition, it spent \$790 000 on cooperative advertising in

conjunction with industry. It also undertook its own marketing and promotional activities. The program spent a total of around \$4.3 million on these schemes.

The *Major Events* program had funding of \$1.6 million in 1994–95, which fell to \$1.3 million in 1995–96. The program provides a liaison between event organisers, tourism bodies, local government and community groups, as well as providing advice and information to event organisers. Events in which the Department was involved in 1994–95 included the Tasmanian International Women’s Tennis Open, the 50th Anniversary Sydney to Hobart Yacht Race, the Tasmanian Run (ultra marathon), the Australian Wooden Boat Festival, and the Duathlon World Championships.

### **Department of Primary Industry and Fisheries**

DPIF’s budget was around \$46 million in 1994–95, decreasing to almost \$43 million in 1995–96. The vast majority of these funds are devoted to the agricultural industries. Details of State assistance to agriculture are provided in Appendix 2.

The Department is also responsible for providing assistance to the marine industries of wild fishing and aquaculture. Approximately \$6 million is allocated to the Department’s *Marine Resources* program. However, not all of these funds can be considered assistance to industry. The construction of a \$2.1 million aquaculture facility — the *Taroona Marine Research Laboratories* — was a major component of the assistance provided to the marine sector in 1994–95. The marine industries also benefit from export assistance, the provision of information and advice to businesses, and the creation of an industry development plan. The State contribution to the *Fishing Research and Development Corporation* is paid by DPIF and totalled \$285 000 in 1994–95.

Significantly, departmental fees recovered for abalone, other fishing licences and marine farms more than offset the budgetary assistance provided in 1995–96.

One of the goals of the DPIF is “to contribute to growth in employment through the economic development of Tasmania’s marine, water and rural resources in focused collaboration with private industry” (DPIF 1995, p. 2). It aims to achieve this by:

- identifying new development opportunities and preparing industry development plans;
- identifying and addressing Australian and international impediments to industry development;

- entering into partnership arrangements with private industry;
- providing advice and assistance to industry; and
- coordinating collaboration between industry and other government and non-government organisations.

### **Department of Education and the Arts**

The Department of Education and the Arts is structured into eight programs, of which only one provides assistance to industry — *Arts and Museum Services*.

The *Arts and Museum Services* program had a budget of \$7.8 million in 1994–95, which fell to \$6 million in 1995–96. The program “provides for arts policy and arts industry development, as well as financial and advisory support in relation to the contemporary arts and museums and art galleries” (Tasmanian Government 1995, p. 44).

*Arts Tasmania* comes under the *Arts and Museum Services* program and comprises three outputs: *Advice on Investment in the Arts Industry*; *Assistance for the Arts Industry*; and *Partnerships in Support of the Arts*. The latter two provide assistance to the arts industry in Tasmania — defined as theatre, literature, music, visual arts, crafts and design and community arts.

The *Assistance to the Arts Industry* output provides grants, loans and planning assistance to the industry and is responsible for the co-production of a 13 part half hour program on the arts in Tasmania, screened twice weekly on ABC TV in Tasmania and also shown in 16 South East Asian countries. It also administers the *Arts for Public Building Scheme*, under which 1 per cent of the capital cost of construction and refurbishment of State Government buildings is applied to original artwork for the building (up to \$20 000 per building). The cost of the output in 1994–95 was \$3.5 million (DEA 1995).

Under the *Partnerships in Support of the Arts* output, *Arts Tasmania* collaborated with the Commonwealth Department of Communication and the Arts and AusIndustry to fund jointly the *Cultural Industries Development* program. In addition, it provided a liaison between various committees with some arts industry focus. The output cost \$115 800 in 1994–95.

Overall, the *Arts and Museum Services* program provided 166 grants, 12 loans and one loan guarantee to projects other than museums and research publications. The grants ranged from \$300 (to assist an individual artist to attend a seminar in Adelaide) to \$210 000 (to the Tasdance annual program).

#### **A1F.4 Detailed information on State Government industry assistance programs and schemes**

Tables A1F.6 and A1F.7 below summarise the assistance provided to industry (excluding agriculture — see Appendix 2) by the Tasmanian Government. The information in Table A1F.6 has been drawn from the Tasmanian Government's 1995 Budget Papers. The information in Table A1F.7 is sourced principally from the annual reports of Tasmanian Government agencies and AusIndustry's BizLink information service.

**Table A1F.6: Tasmania: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate)<sup>a</sup>**

Agency Program Output Group <sup>b</sup>	Description/objectives	Form of assistance	Funding <sup>c</sup>	
			1994–95 \$000	1995–96 \$000
<b>Tasmania Development and Resources</b>				
Tasmania Development and Resources	<i>TDR's approach to industry development is determined by the 'Decade of Growth' strategy announced by the Premier in mid 1994. It aims to: lift exports to \$3.5 billion a year; replace \$150 million worth of imports; establish 10 major new value-adding industries; attract \$3 billion in additional investment; and bring 650 000 tourists to Tasmania.</i>	<i>Accommodation and financial support to industry, education and training, information and advice, subsidisation of consultants' fees, export and marketing assistance.</i>	30 737	35 201
Business Services	Through various schemes, provides businesses with: information about licensing and regulation requirements of all three tiers of government; counselling and advice on operating a small business; and access to the Commonwealth/ State funded AusIndustry services.	Provision of information, advice, counselling and referral services and subsidisation of consultants' fees.		1 842
Centre for Precision Technology	A training centre which develops skilled technologists in precision and production engineering and related management, and to contribute to the upgrade of industry infrastructure and performance. Primarily assisting the resource processing, manufacturing and food technology industries.	Provision of education and training.		1 242

Table A1F.6: **Tasmania: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate)<sup>a</sup>**

Agency Program Output Group <sup>b</sup>	Description/objectives	Form of assistance	Funding <sup>c</sup>	
			1994–95 \$000	1995–96 \$000
<b>Tasmania Development and Resources — continued</b>				
Industry Development	This is the major sub-program of the Department, and encompasses a number of schemes. Focuses on the areas of: Project Services; Business Services; Business Environment Development; Marketing and Export; and Investment in Tasmania. Projects assisted under Project Services are selected on the basis of their expected benefit to the State, particularly in terms of employment generation and investment.	Provision of: specialist advice and technical services; professional consulting and counselling services; infrastructure facilitation; financial assistance; advice, information and referrals; promotion of Tasmania; and coordination of marketing activities.		24 940
Technopark	Manages the operation of a technology park. Aims to develop, support and market a viable, sustainable and internationally competitive advanced technology sector in Tasmania.	Provision of accommodation and financial support.		534
<b>Department of Tourism, Sport and Recreation</b>				
Product Distribution and Sales	Involves the operation of the travel wholesaling operation, 'Tasmania's Temptations', and Tasmanian Travel Centres around Australia, which assist tourism operators in marketing around Australia. Also undertakes a number of schemes providing information, advice and training to tourism providers.	Promotion and marketing. Provision of information, advice and training.	10 815	10 815

Table A1F.6: **Tasmania: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate)<sup>a</sup>**

Agency Program Output Group <sup>b</sup>	Description/objectives	Form of assistance	Funding <sup>c</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Department of Tourism, Sport and Recreation — continued</b>				
Industry Development	<i>Aims to promote the sustainable development of new tourism infrastructure in Tasmania and to assist the tourism industry to: develop viable and marketable tourism products; and deliver high quality tourism products and services. Established the Tasmanian Visitor Information Network, which includes the privatised Tasmanian Travel Centres in Hobart, Launceston, Devonport and Burnie.</i>	<i>Provision of information, advice, promotion and marketing. Assistance to new projects, including financial assistance and promotion of sites on Crown land for tourism development.</i>	3 371	3 119
Antarctica Affairs	Promotes Tasmania as a place of international and national importance in matters concerned with Antarctica.	Promotion, marketing, management and provision of information.		319
Industry Development	Aims to improve the efficiency and competitive advantage of the tourism industry. Measures include: the provision of advice and training packages concerned with creating successful tourism operations; the development of regional and local tourism strategic plans; and a program of assistance to infrastructure provision. Local Government may be assisted to provide tourism infrastructure.	Provision of information, advice, training, strategic planning and grants for infrastructure development.		3 056
Marketing Strategy and Services	<i>Provides advice to tourism operators and has involvement in cooperative marketing activities aimed at assisting tourism operators and the tourism industry to promote Tasmania as a tourist destination in domestic and international markets.</i>	<i>Strategic research, advertising, public relations, promotion and marketing.</i>	7 948	9 397

Table A1F.6: **Tasmania: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate)<sup>a</sup>**

Agency Program Output Group <sup>b</sup>	Description/objectives	Form of assistance	Funding <sup>c</sup>	
			1994–95 \$000	1995–96 \$000
<b>Department of Tourism, Sport and Recreation — continued</b>				
<i>Major Events</i>	<i>Aims to achieve a balanced and cost effective scheduling of major events in Tasmania throughout the year with emphasis on their location and timing. Provides advice to event organisers regarding planning, budgeting and sponsorship negotiation, and to local governments, national associations and regional tourism organisations regarding planning and timing of special events.</i>	<i>Provision of: organisational and planning advice and consultancies; financial assistance; a central event database; event management workshops and forums; and promotion of Tasmania.</i>	1 642	1 252
<i>Tasmanian International Velodrome</i>	<i>Provides for part funding of the deficit of the Silverdome.</i>	<i>Provision of financial assistance.</i>	185	185
<b>Sub-total of programs</b>			<b>23 961</b>	<b>24 768</b>
<b>Department of Primary Industry and Fisheries</b>				
<i>Marine Resources</i>	<i>Responsible for maximising the economic development of Tasmania's fisheries resources, including the development of aquaculture and fisheries industry development strategies and plans.</i>	<i>Development of plans for all major commercial fisheries.</i>	7 967	6 142
<i>Fisheries Management Planning Regulation and Support Services</i>	<i>Develops and implements fisheries management policies and support services</i>	<i>Policy advice, education and consultation.</i>		3 234

**Table A1F.6: Tasmania: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate)<sup>a</sup>**

Agency Program Output Group <sup>b</sup>	Description/objectives	Form of assistance	Funding <sup>c</sup>	
			1994–95 \$000	1995–96 \$000
<b>Department of Primary Industry and Fisheries — continued</b>				
Marine Farm Management and Planning	Develops and manages marine farming including legislative amendments, progressing marine farm applications and developing aquaculture plans.	Monitoring, consultation and development support.		666
Marine Resource Stock Assessment and Marine Research	Includes research and development of new aquaculture species and examining developmental opportunities for aquaculture. Also conducts assessments of factors impacting on commercial fisheries.	Provision of R&D and developmental support.		3 659
<i>Export Market and Industry Development</i>	<i>Facilitates the economic development of the State's rural, marine and water resources, thereby contributing to the goal of growth in employment. Including: developing and commercialising new industry opportunities and regional development initiatives; and developing and implementing a market access development strategy for Tasmanian primary products.</i>	<i>Provision of export information and advice and assistance to new industry opportunities and regional development initiatives.</i>	489	474
Industry Development Plans	Focuses on the development and implementation of Industry Development plans for each primary sector with a view to overcoming barriers to growth and capitalising on opportunities.	Development of industry development plans.		1 422

Table A1F.6: **Tasmania: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate)<sup>a</sup>**

Agency Program Output Group <sup>b</sup>	Description/objectives	Form of assistance	Funding <sup>c</sup>	
			1994–95 \$000	1995–96 \$000
<b>Department of Primary Industry and Fisheries — continued</b>				
International Market Access and Development	Negotiates market access protocols in association with AQIS and selected overseas countries. Development of export market opportunities for Tasmania's rural, marine and related value added industries.	Provision of marketing assistance.		286
<b>Sub-total of programs</b>			<b>4 022<sup>d</sup></b>	<b>(51)<sup>d</sup></b>
<b>Department of Education and the Arts</b>				
<i>Arts and Museum Services</i>	<i>Provides for arts policy and arts industry development, as well as financial and advisory support in relation to the contemporary arts and museums and arts galleries.</i>	<i>Provision of grants, loans and advice. Participation in promotional projects.</i>	7 844	5 988
<b>Private Forests Tasmania</b>				
<i>Operating Expenses</i>	<i>Undertakes regeneration monitoring and monitoring of woodchip export licence compliance. Also has significant involvement in Comprehensive Regional Assessments and Regional Forest Agreements.</i>	<i>Provision of advice, information, monitoring, consultancy services, marketing and research support.</i>	1 189	1 441
Commercial Forestry Services	Promotes forestry as a desirable land use by ensuring private forest owners can make informed decisions on growing, harvesting and marketing commercial forest.	Provision of advice, information and consultancy services.		201

Table A1F.6: **Tasmania: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate)<sup>a</sup>**

Agency Program Output Group <sup>b</sup>	Description/objectives	Form of assistance	Funding <sup>c</sup>	
			1994–95 \$000	1995–96 \$000
<b>Private Forests Tasmania</b> — <i>continued</i>				
Marketing Initiatives, Research and Assistance	Aims to stimulate and establish markets for private forest products and achieve full utilisation of continuing yield and an acceptable process for allocation and pricing.	Provision of advice and marketing and research support.		166
<b>Tasmanian Racing Authority</b>				
Tasmanian Racing Authority	Responsibilities include the development of an efficient and viable racing and breeding industry, development and implementation of government policy on racing and the regulation of bookmakers and racing activities.	Provision of stakes and other subsidies and grants.	500	500

a Information on revisions to the data presented in the draft report did not become available until after the modelling work reported in Appendix 7 was completed. As a result, the estimate for budgetary outlays on non-agricultural assistance used in the modelling exercise was \$12.114 million higher than that shown in this Table. As this difference represents less than 0.5 per cent of total State and Territory budgetary assistance to industry the impact on the modelling results is likely to be very minor.

b The Tasmanian Government Budget Papers identify funding for both Programs and Output Groups. However, Output Groups are not directly related to Programs and often appear to overlap with more than one Program. Hence, funding for an Output Group may be greater than that for the Program under which it is listed.

c Total current and capital program expenses, including attributable overheads and, where appropriate, after deducting user charges revenue and industry contributions.

d Totals have been adjusted to take account of departmental fees and recoveries.

Source: Tasmanian Government (1995).

Table A1F.7: **Tasmania: State Government financial and non-financial industry assistance schemes, by department**

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Tasmania Development and Resources</b>		
<b>AusIndustry Tasmania</b>	<i>Subsidies, information, referral and advice.</i>	<i>Description:</i> Jointly funded by the State and Commonwealth Governments and under the Business Services Output Group. Provides the network for businesses to get assistance from government. Subsidises the cost of consultancy services, workshops and other activities.  <i>Eligibility:</i> Any existing or prospective business.
— <b>Enterprise Improv'm't Program</b>	<i>Subsidies</i>	<i>Description:</i> Jointly funded by the State and Commonwealth Governments and under the Business Services Output Group. Offers services to improve international competitiveness through subsidising the cost of consultancy services, workshops and other.  <i>Eligibility:</i> Small and medium businesses which are financially sound; demonstrate commitment to change; have growth potential; are involved in manufacturing or traded services; and are exporting or have the potential to export.
— <b>Enterprise Improv'm't Program – Design</b>	<i>Subsidies</i>	<i>Description:</i> Jointly funded by the State and Commonwealth Governments and under the Business Services Output Group. Provides assistance to firms to integrate the design of products and services with corporate goals.  <i>Eligibility:</i> As above.
— <b>Enterprise Improv'm't Program – Quality</b>	<i>Subsidies</i>	<i>Description:</i> Jointly funded by the State and Commonwealth Governments and under the Business Services Output Group. Provides assistance to firms to improve their competitive position through implementing quality management and continuous improvement techniques.  <i>Eligibility:</i> As above.

Table A1F.7: **Tasmania: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<b>Agency Assistance scheme</b>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Tasmania Development and Resources</b> — <i>continued</i>		
— <b>Environ'm't Managem't</b>	<i>Subsidies</i>	<i>Description:</i> Jointly funded by the State and Commonwealth Governments and under the Business Services Output Group. Assists firms to reduce costs through better resource management and cleaner production. The program is offered as part of an enterprise improvement plan for the firm.  <i>Eligibility:</i> As above.
— <b>Export Market Planning</b>	<i>Subsidies</i>	<i>Description:</i> Jointly funded by the State and Commonwealth Governments and under the Business Services Output Group. Assists firms to examine whether they are ready for export or to undertake a review of export activities through an export plan.  <i>Eligibility:</i> As above.
<b>Business Licence Information Centre</b>	<i>Information</i>	<i>Description:</i> Under the Business Services Output Group. Facilitates business development by providing a one-stop shop for information on licenses, permits, regulations and approvals required for business in Tasmania. It aims to reduce the cost and time taken by businesses to obtain the licences they require.  <i>Eligibility:</i> Any existing or prospective business and the general public.
<b>Food and Agribusiness Development Services.</b>	<i>Advisory, financial and project support services.</i>	<i>Description:</i> Under the Industry Development Output Group. Provides business with advisory, financial and project support services for new project commitments.  <i>Eligibility:</i> Existing and prospective businesses in the food manufacturing, farming, wild fisheries and aquaculture sectors with: growth potential; management capability; strategic direction; and financial soundness.
<b>Forests and Forest Products Development Services</b>	<i>Business, financial, project and environment development services.</i>	<i>Description:</i> Under the Industry Development Output Group. Provides business, financial, project and environment development services towards new project commitment or further development.  <i>Eligibility:</i> Existing or prospective businesses in the forestry and forest products sector with: growth potential; management capability; strategic direction; and financial soundness.

Table A1F.7: **Tasmania: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance scheme</i>	<i>Form of assistance [1994–95: total assistance; firms/projects assisted]</i>	<i>Description and eligibility</i>
<b>Tasmania Development and Resources</b> — <i>continued</i>		
<b>Manufacturing and Service Industries Development Services</b>	<i>Business, financial, project and environment development services.</i>	<p><b>Description:</b> Under the Industry Development Output Group. Provides business, financial, project and environment development services towards new project commitment or further development.</p> <p><b>Eligibility:</b> Existing and prospective businesses in the management and service industries sectors with: growth potential; management capability; strategic direction; and financial soundness.</p>
<b>Marketing and Export Division</b>	<i>Export services, strategic marketing advice and counselling, project services and investment facilitation.</i>	<p><b>Description:</b> Under the Industry Development Output Group. Provides export services, strategic marketing advice and counselling, project services and investment facilitation.</p> <p><b>Eligibility:</b> Tasmanian individuals or firms, or enterprises located outside the State who are interested in developing business that will benefit Tasmania.</p>
<b>Mining and Mineral Processing Development Services</b>	<i>Business, financial, project and environment development services.</i>	<p><b>Description:</b> Under the Industry Development Output Group. Provides business, financial, project and environment development services towards new project commitment or further development.</p> <p><b>Eligibility:</b> Existing or prospective businesses in the mining and minerals processing sector with: growth potential; management capability; strategic direction; and financial soundness.</p>
<b>Precision Technology Program</b>	<i>Education and training.</i>	<p><b>Description:</b> Under the Centre for Precision Technology Output Group. Develops skilled technologists in precision and production engineering and related management, and contributes to upgrade of industry infrastructure and performance.</p> <p><b>Eligibility:</b> No specific eligibility requirements.</p>
<b>Small Business Service</b>	<i>Information, advice, contacts and referrals.</i>	<p><b>Description:</b> Under the Business Services Output Group. Aims to facilitate small business by providing business information, advice, contacts and referrals (includes Business Licence Information Centre).</p> <p><b>Eligibility:</b> Any existing or prospective business and the general public.</p>

Table A1F.7: **Tasmania: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Tasmania Development and Resources</b> — <i>continued</i>		
<b>Tasmanian Technopark</b>	<i>Accommodation and financial support.</i>	<i>Description:</i> Under the Technopark Output Group. Aims to develop, support and market a viable, sustainable and internationally competitive advanced technology centre in Tasmania.  <i>Eligibility:</i> Any technology-based company.
<b>Department of Tourism, Sport and Recreation</b>		
<b>Advice to Tourism Developers</b>	<i>Advice and guidance.</i>	<i>Description:</i> Under the Industry Development Output Group. Provides advice and guidance for developers seeking to establish new tourism projects or services to facilitate the sustainable development of projects.  <i>Eligibility:</i> All providers in the tourism industry and the general public.
<b>AussieHost Program</b>	<i>Training</i>	<i>Description:</i> Under the Industry Development Output Group. Operates through community-based Local Host Organisations who conduct one day customer service workshops.  <i>Eligibility:</i> All providers in the tourism and retail industries and the general public.
<b>Backpackers</b>	<i>Marketing</i>	<i>Description:</i> Under the Industry Development Output Group. Development of a Tasmanian Backpacker Strategy to market Tasmania to the Backpacker market, especially in Europe and North America.  <i>Eligibility:</i> Particularly nature-based and cultural tourism providers.
<b>Being a Successful Tourism Operator</b>	<i>Training and preparation of business plans.</i>	<i>Description:</i> Under the Industry Development Output Group. Takes the user through a logical process towards the preparation of a business plan for their development proposal or existing operation.  <i>Eligibility:</i> All providers in the tourism industry and the general public.

Table A1F.7: **Tasmania: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<b>Agency Assistance scheme</b>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Tourism, Sport and Recreation — continued</b>		
<b>Cooperative Marketing</b>	<i>Dollar-for-dollar advertising.</i>	<i>Description:</i> Under the Marketing Strategy and Services Output Group. Advertising in print and electronic media targeted at market segments appropriate to Tasmania. Undertaken jointly by the Department and private sector tourism operators.  <i>Eligibility:</i> Any tourism operator offering a priced product. A minimum dollar entry level applies.
<b>Cruise Ship Marketing</b>	<i>Market research and promotion.</i>	<i>Description:</i> Under the Office of Antarctic Affairs. Undertaken jointly by the State and local governments. Conducts market research and promotion.  <i>Eligibility:</i> NA.
<b>Cultural Tourism</b>	<i>Information, strategic development and marketing.</i>	<i>Description:</i> Under the Industry Development Output Group. Development of Tasmanian cultural tourism policy. Investigation of heritage trails and training for operators of cultural sites in customer service and business development.  <i>Eligibility:</i> Providers of cultural tourism.
<b>Infrastructure Development</b>	<i>Planning and policy advice.</i>	<i>Description:</i> Under the Industry Development Output Group. Identification of opportunities for development and implementation of strategic plans for tourism development.  <i>Eligibility:</i> Large scale tourism initiatives and developments.
<b>Mainstreet Program</b>	<i>Information and advice.</i>	<i>Description:</i> Under the Industry Development Output Group. Provides guidance to communities on how to present themselves and their businesses more professionally.  <i>Eligibility:</i> All tourism providers and the general public.
<b>Marketing Workshops</b>	<i>Training.</i> Participants – 117	<i>Description:</i> Under the Industry Development Output Group. Training workshops held in all areas of the State. Thirteen workshops held in 1994–95.  <i>Eligibility:</i> Small to medium sized tourism businesses.

**Table A1F.7: Tasmania: State Government financial and non-financial industry assistance schemes, by department — continued**

<i>Agency Assistance scheme</i>	<i>Form of assistance [1994–95: total assistance; firms/projects assisted]</i>	<i>Description and eligibility</i>
<b>Department of Tourism, Sport and Recreation — continued</b>		
<b>Nature-based Tourism</b>	<i>Information, strategic development and marketing.</i>	<p><i>Description:</i> Under the Industry Development Output Group. Hosting of seminars, development of strategies and marketing initiatives to foster the development of nature-based tourism.</p> <p><i>Eligibility:</i> Providers of adventure travel and ecotourism.</p>
<b>Partnership Australia</b>	<p><i>Marketing.</i></p> <p>Total assistance – over \$220 000</p>	<p><i>Description:</i> Under the Marketing Strategy and Services program. A national cooperative marketing venture with all other Australian States and Territories and the Australian Tourist Commission. Provides a centralised information service, and tactical marketing.</p> <p><i>Eligibility:</i> NA.</p>
<b>Promotion of Tasmania for Antarctic Resupply and a Gateway to Antarctica</b>	<i>Promotion</i>	<p><i>Description:</i> Under the Office of Antarctic Affairs. Tasmania was represented at the Standing Committee on Antarctic Logistics and Operations conference in Rome, with a promotion stand featuring the capacity of Tasmania as a point of Antarctic resupply and the expertise of Tasmanian business. Other promotion also undertaken.</p> <p><i>Eligibility:</i> NA.</p>
<b>Regional Tourism</b>	<i>Planning advice.</i>	<p><i>Description:</i> Under the Industry Development Output Group. The Department's Industry Development Consultants provide substantial input into regional tourism industry strategy plans and advise on their implementation.</p> <p><i>Eligibility:</i> Regional tourism associations.</p>
<b>Tasmanian Government Travel Information Service</b>	<i>Marketing and promotion.</i>	<p><i>Description:</i> Under the Product Distribution and Sales Output Group. Provides a telephone information service for potential visitors and distributes literature in response to consumer enquiries, providing marketing assistance to local tourism providers.</p> <p><i>Eligibility:</i> Service available to anyone. Assists local tourism operators.</p>

Table A1F.7: **Tasmania: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<b>Agency Assistance scheme</b>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Tourism, Sport and Recreation</b> — <i>continued</i>		
<b>Tasmanian Travel Centres</b>	<i>Marketing and promotion.</i>	<p><i>Description:</i> Under the Product Distribution and Sales Output Group. Travel Centres in Adelaide, Brisbane, Canberra, Melbourne and Sydney, providing information and advice to prospective visitors to Tasmania.</p> <p><i>Eligibility:</i> Promotes tourism in Tasmania. Users are general public in mainland Australia.</p>
<b>Tasmanian Travelways</b>	<i>Marketing</i>	<p><i>Description:</i> Under the Industry Development Output Group. Tasmanian Travelways is a bi-monthly publication which contains information on all tourism products and activities.</p> <p><i>Eligibility:</i> Inclusion available to all Tasmanian tourism providers who hold the statutory licence, registration or permit required for their business.</p>
<b>Tasmanian Visitor Information Network</b>	<i>Marketing</i>	<p><i>Description:</i> Under the Industry Development Output Group. A network of staffed Tasmanian Travel and Information Centres which offer opportunities to tourism providers to get their products and activities before potential consumers.</p> <p><i>Eligibility:</i> All providers in the tourism industry.</p>
<b>Tourism Development Grants</b>	<i>Grants</i>	<p><i>Description:</i> Under the Industry Development Output Group. Additional support for development in the regions. These come under different headings depending on type of tourism assisted.</p> <p><i>Eligibility:</i> Tourism development in the regions.</p>
<b>Tourism Development Scheme</b>	<i>Loans</i>	<p><i>Description:</i> Under the Industry Development Output Group. Offers loans to support the development of the tourism industry. Jointly administered by TDR and the Department. Nine tourism businesses have received loans since inception, to total value of over \$1.1 million.</p> <p><i>Eligibility:</i> Projects relating to existing infrastructure and refurbishment, unique Tasmanian asset development and natural environment experiences.</p>

Table A1F.7: **Tasmania: State Government financial and non-financial industry assistance schemes, by department** — *continued*

<i>Agency Assistance scheme</i>	<i>Form of assistance</i> [1994–95: total assistance; firms/projects assisted]	<i>Description and eligibility</i>
<b>Department of Education and the Arts</b>		
<b>Annual Arts Grants and Loans Program</b>	<i>Grants and loans.</i>	<i>Description:</i> Under the Assistance for the Arts Industry Output. Provision of grants and loans to a variety of arts professionals, businesses and community organisations.  <i>Eligibility:</i> Arts industry.
<b>Arts for Public Buildings Scheme</b>	<i>Government purchasing.</i>	<i>Description:</i> Under the Assistance for the Arts Industry Output. One per cent (up to a maximum of \$20 000) of the capital cost of construction and refurbishment of all State Government buildings is applied to original artwork for the building.  <i>Eligibility:</i> Visual Artists.
<b>Fridge Door</b>	<i>Marketing</i>	<i>Description:</i> Under the Assistance for the Arts Industry Output. Co-production of a 13 part half hour program on the arts in Tasmania, which screened twice weekly on ABC TV in Tasmania and in prime time in 16 countries in SE Asia.  <i>Eligibility:</i> Arts industry.
<b>Department of Primary Industry and Fisheries</b>		
<b>Fishing Research and Development Corporation</b>		
<b>Taroona Marine Research Laboratories</b>	<i>Research and Development funding.</i>	<i>Description:</i> State Government contribution to the Fishing Research and Development Corporation.  <i>Eligibility:</i> Assists the aquaculture and wild fishing industries.
	<i>Research.</i>  Total assistance – \$2.1 million	<i>Description:</i> Construction of a \$2.1 million aquaculture facility to conduct research including the development of new species.  <i>Eligibility:</i> Assists the aquaculture industry.

NA Not applicable.

Sources: TDR & TDA (1995), DTSR (1995), DPIF (1995), DEA (1995), DIST (1995).

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# **ATTACHMENT 1G: AUSTRALIAN CAPITAL TERRITORY**

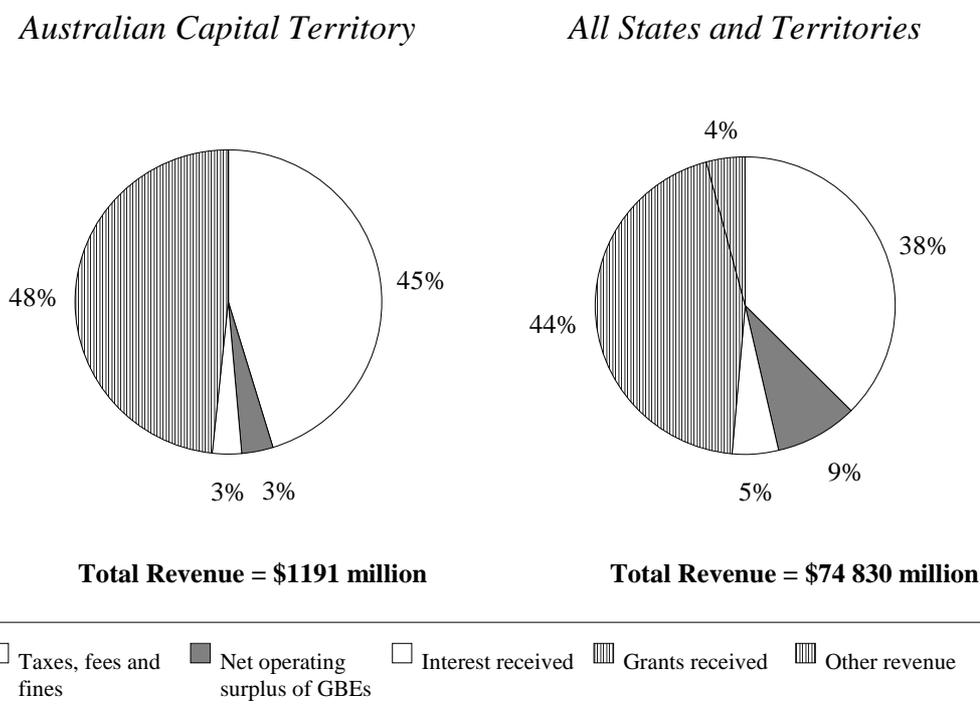
## **A1G.1 Introduction**

The information in this Appendix has been compiled mainly from the Australian Capital Territory (ACT) Government's submissions (Subs. 58 and 86) to this inquiry, Annual Reports of assistance-giving government departments, agencies and statutory authorities, ABS data and other relevant reference material.

### **Revenue sources**

Commonwealth grants accounted for 48 per cent of the ACT Government's revenue in 1994–95. The ACT Government's own source revenue is heavily dependent on taxes, fees and fines which, in 1994–95, accounted for 45.4 per cent of total revenue (see Figure A1G.1).

**Figure A1G.1: Composition of Territory Government revenue for the Australian Capital Territory, and all States and Territories, 1994–95<sup>a</sup>**



<sup>a</sup> ACT percentages do not add to 100 due to rounding.

Source: ABS (1995a)

## A1G.2 ACT Government Assistance

### Key legislation

A key piece of legislation relating to the provision of industry assistance in the ACT is the *ACT Land (Planning and Environment Act) 1991* which enables the ACT Government to assist industry through the provision of land.

### General policy approach

The ACT Government, unlike the States and the Northern Territory, is responsible for both municipal-type functions and State government functions

such as education, health and housing. Also, in contrast to the other States jurisdictions, the core industry in the ACT is the public sector.

The number of people employed in the public sector has declined in recent years and this trend is expected to continue. According to the Economic Priorities Advisory Committee of the ACT (EPACT) (1994), this raises the issue of whether the ACT will be able to generate sufficient employment opportunities to meet the employment needs of the population.

In an attempt to increase private sector activity in the ACT, the ACT Government has focussed on expanding existing industry and attracting new industry through the *Business Incentive Scheme*. This scheme is administered by the Department of Business, the Arts, Sport and Tourism, and provides discretionary assistance to firms.

To promote and support the tourism industry in the ACT, the ACT Government, through Canberra Tourism, provides assistance for the marketing and promotion of tourism and the staging of special events, such as Floriade.

### **Nature and extent of assistance**

In 1994–95, the ACT Government provided approximately \$8 million in budgetary assistance to business and industry (see Table A1G.1). Assistance provided as revenue forgone (eg exemptions and concessions on payroll tax and buildings or land provided at below market value) is generally provided on a discretionary basis and is not included as there are no publicly available data on the amount of assistance provided or the number of recipients of such assistance.

A departmental restructuring was undertaken in 1995 resulting in changes in functions and programs between departments. On the basis of these arrangements, the ACT Government in 1995–96 provided approximately \$9 million in budgetary assistance to business and industry with an estimated \$12 million to be provided in 1996–97 (see Table A1G.2). The 1996–97 estimated outlays include the *Business Development Fund* (\$2 million) set up to provide increased incentives for business development, including equity financing and joint venture arrangements (ACT Government 1996a).

**Table A1G.1: Australian Capital Territory Government budgetary outlays on non-agricultural industry assistance, 1994–95**

<i>Agency</i>	<i>\$000</i>
Department of Business, the Arts, Sport and Tourism	5 215
Department of the Environment, Land and Planning	2 800
<b>Total</b>	<b>8 015</b>

*Source:* Chief Minister's Department (1995), Department of Urban Services (1995), Department of the Environment, Land and Planning (1995).

**Table A1G.2: Australian Capital Territory Government budgetary outlays on non-agricultural industry assistance, 1995–96 (revised) and 1996–97 (estimated) (\$000s)**

<i>Agency</i>	<i>1995–96</i>	<i>1996–97</i>
Department of Business, the Arts, Sport and Tourism	4 790	6 756
Canberra Tourism	4 900	5 400
<b>Total</b>	<b>9 690</b>	<b>12 156</b>

*Source:* ACT Government (1996a and 1996b).

## Institutional arrangements

### *Department of Business, the Arts, Sport and Tourism (DBAST)*

#### *Business Incentive Scheme (BIS)*

The Business and Regional Development Bureau (BRDB) operating under DBAST is the central agency involved in providing assistance to industry in the ACT. The BIS, formerly the Industry Assistance Package, is an all-in-one program developed by the ACT Government to assist in attracting business to the ACT and the development of existing industry within the ACT.

The scheme provides incentives for relocation, expansion or new business activity on a case-by-case basis. As the scheme is aimed at developing significant new business investment, firms applying for assistance worth less than \$20 000 are unlikely to be considered eligible. In 1995–96, the ACT

Government (Sub. 58, p. 4) provided \$710 000 for industry assistance grants under the Business Incentive Scheme with no monetary values tied to other forms of assistance provided through the scheme. A total of \$1.6 million in benefits was provided to business and industry under the scheme in 1995–96 (ACT Government 1996b).

The assistance offered to firms depends on the potential benefits to the ACT economy, but assistance or incentives are provided as: concessions on payroll tax, land tax, stamp duty and rates; and financial grants to assist in meeting establishment and relocation costs, the purchase and leasing of buildings and for staff training. Land grants or the provision of land at below market value are also available to selected firms. In addition, the Government, in its guidelines for the BIS, is able to provide other forms of assistance on a case-by-case basis (Department of Business, the Arts, Sport and Tourism 1996).

Applications for assistance under the BIS are assessed against the following criteria:

- the suitability of the industry to the ACT;
- the technical and financial viability of the firm or project and the contribution to the ACT economy, including the level and type of employment generated; and
- the skills and technology to be introduced and the effects on existing firms within the ACT.

Applications for assistance are assessed initially by the BRDB and then by a panel made up of government and private sector representatives. Where the level of assistance being provided is less than \$100 000, Ministerial approval is required. For assistance over \$100 000, or where a direct land grant is involved, approval by the Cabinet is required.

The ACT Government, under the previous Industry Assistance Scheme, provided a communications firm, AOFR Pty Ltd, with an assistance package consisting of payroll tax concessions, a land grant and a financial grant to remain in the ACT. As the ACT Government (Sub. 58) said:

Without assistance this firm, which is expanding rapidly, would have moved interstate as a result of the incentives available. The Government considered that not only would this have meant a loss of 500 jobs, but would have sent a negative signal about the ACT as a location. (p. 8)

However, the actual value of assistance, including the value of concessions provided to individual firms, is generally not available in public documents, such as departmental annual reports or financial statements, as such information is in many cases considered to be confidential. The ACT Government

(Sub. 58, Attachment E) did provide the Commission with information on the value of grants paid to individual firms, but this information did not include the value of tax concessions or land provided (see Table A1G.3).

**Table A1G.3: ACT Industry Assistance Package 1994–95 and 1995–96**

<i>Name of applicant</i>	<i>Purpose</i>	<i>Amount allocated</i>
		\$
Earthcare Industries Pty Ltd	Production of high grade mulch from garden waste.	22 000
Cambia	Develops methodologies and tools based on molecular biology.	100 000
Willing & Partners Pty Ltd and HYDSYS Pty Ltd	Develop and market leading edge water engineering and environment software.	21 750
Nipha Technology Pty Ltd	Sole licensee in Australia for plastic coating process to refurbish office equipment such as photocopiers.	50 000
Universal Testing Systems Pty Ltd	Company formed to develop and sell multi-purpose materials testing machines, particularly the microprocessor technology which is already exported.	37 000
TimberCrib Retaining Walls	TimberCrib is a form of retaining wall construction, made of white Cyprus pine. The TimberCrib system can be used in applications ranging from major commercial constructions to home and garden uses.	45 000

*Source:* ACT Government (Sub. 58, Attachment E)

### *Land Development*

The ACT Government is developing an advanced manufacturing estate at Symonston, the AMTECH Estate, to attract advanced manufacturing technology industry to the ACT. Construction began in the 1995–96 financial year, with the first blocks made available to industry in late 1995. The 1994–95 Capital Works Budget allocated \$3 million to develop the first stage of the Estate, with expenditure of \$365 000 incurred as at the end of the 1994–95 financial year

(Chief Ministers Department 1994). Construction of infrastructure for the first stage was completed in May 1996. The ACT Government does not expect to receive any revenue from the Estate until the 1996–97 financial year.

#### *Business Information and Referral Unit*

The Business Information and Referral Unit provides information and advice to new and established business within the ACT. The unit provides business advice, business licence information, seminars and referrals to professional advice.

#### *Canberra Tourism (CT)*

Canberra Tourism (previously the Canberra Tourist Commission) is involved in marketing and promoting tourism in the ACT and providing assistance to special events. In relation to marketing, Canberra Tourism offers cooperative marketing arrangements with the local tourism industry to attract visitors to the ACT. According to Canberra Tourism, the cooperative funding of promotional activities between Canberra Tourism and the private sector has enabled more significant and frequent promotional campaigns (Chief Minister's Department 1995).

Assistance is provided for a number of special events held in Canberra which are intended to attract a significant number of visitors, contribute to the local economy and generate exposure for Canberra in the media. Some of the events which received assistance in the 1994–95 financial year included the Commonwealth Bank Cycle Classic, the Australian Futsal Championships and Autumnfest '95.

#### *Department of Urban Services*

The ACT's land leasehold system enables the ACT government to grant leases of land for specific purposes and to set certain conditions on a lessee's use of the land. The ACT Government uses such lease conditions as an incentive to attract business and industry to the ACT.

Under the ACT *Land Act 1991*, the ACT Government is able to provide "direct grants of land at or below market value" provided the project meets the specific requirements of the ACT *Land (Planning and Environment) Act 1991* (Sub. 58, p. 4). The land is provided for:

... commercial, industrial or tourism purposes. The proposed lease must involve a manufacturing activity, a high technology industry, a tourist development, a unique or innovative activity, building or development requirements of a specific or distinctive nature or recycling activities. (Sub. 58, p. 4)

The *National Association Policy* provides special leasing arrangements on land in designated precincts in Canberra to attract national associations to the ACT by providing a commercial advantage to the national association. Under this policy, where a national association develops a building in the designated precinct it is required to occupy at least 10 per cent of the gross floor area of the building for a minimum period of five years. The association then receives a concession on its lease in proportion to the area of the building occupied, while the balance of the building's floor area can be leased from the association at commercial rates or sold. Ownership of the leases can be held through unit trusts consisting of national associations and other parties such as a developer or a financier.

### **ACT Government purchasing policy**

The ACT Government's purchasing policy is based on a number of stated principles such as value for money, open and effective competition and opportunities for Canberra Region suppliers. To further the opportunities for local suppliers, ACT Government agencies are required to identify local sources of supply, purchase local goods and services where they meet the necessary standards of quality and availability, and ensure that purchasing procedures do not discriminate against local suppliers (ACT Department of Urban Services 1994).

The ACT Government's tendering and quotation procedures involve actively seeking out local suppliers. For example, for the purchase of goods and services under \$2000, at least one local quotation is required. In the case of large purchases (non-construction goods and services over \$1 million and construction goods and services over \$5 million), government agencies are required to seek a Canberra Region Industry Plan (CRIP) from tenderers. A CRIP involves the tenderer identifying the potential benefits to local industry capabilities and the long-term benefit to the Canberra region. Any potential benefits identified in the plan are taken into account as part of the overall evaluation of best value for money.

### **A1G.3 Detailed information on State Government industry assistance programs and schemes**

Table A1G.4 below, summarises the assistance provided to industry (excluding agriculture — see Appendix 2) by the ACT Government. The information in Table A1G.4 has been drawn from the ACT Government's Budget Papers, submission to the inquiry and departmental annual reports.



Table A1G.4: **Australian Capital Territory: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate)**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Department of Business, the Arts, Sport and Tourism (DBAST)</b>				
Business Incentive Scheme	Assistance for the development and relocation of significant new business to the ACT on a case by case basis.  Assistance applications for less than \$20 000 in assistance are unlikely to be considered. Suitability of industry to the ACT, contribution to the ACT economy and the strength of the business plan of the enterprise.	Concessions on payroll tax, land tax, stamp duty and rates, financial grants to assist in the costs of establishment and workforce training.	200 <sup>b</sup>	850
Technology Business Unit	Increase employment and growth in the advanced technology sector.	Assistance in the establishment of an advanced manufacturing technology site.	365 <sup>c</sup>	na
Business Information and Referral Unit	Information and advice for existing and new businesses.	Information and advice.	–	–
Tourist Commission	Promotion and marketing of tourism and assistance to tourism events.	Promotion and marketing.	4 650 <sup>d</sup>	4 900 <sup>d</sup>
<b>Total all DBAST programs</b>			<b>5 215</b>	<b>5 750</b>

Table A1G.4: **Australian Capital Territory: State Government financial assistance to industry programs; nature and extent, 1994–95 and 1995–96 (estimate)** — *continued*

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Department of the Environment, Land and Planning (DELP)</b>				
Cultural Development Grant Program <sup>e</sup>	Promotion of the arts and culture.	Financial assistance.	2 800 <sup>b</sup>	na
Direct Land Sales	Provision of land for commercial, industrial or tourism purposes. The applicant has to be involved in areas such as manufacturing, high technology, recycling, tourism or innovative activities.	Provision of land.	–	–
National Associations	Provision of leases on land at below market cost to national associations to encourage national associations to develop headquarters in the ACT. Where the association occupies at least 10 per cent of the gross floor area of the building developed, the balance of the building's floor area can be leased by the association at commercial rates. Ownership of the leases can be held through unit trusts consisting of national associations and developers.	Provision of land and special leasing arrangements.	–	–
<b>Total all DELP programs</b>			<b>2 800</b>	

na Not available.

a Where information is available, the data represent total current and capital expenditure, including overheads, but after deducting user charges revenue and industry contributions unless otherwise specified.

b Provided as grants.

c Total expenditure to 30 June 1995.

d Appropriation from ACT Government.

e This program became part of the Community Activity Program in 1995–96 administered by the Arts and Heritage Bureau of DBAST.

Source: ACT Government (1996b), Chief Minister's Department (1995), Department of Business, the Arts, Sport and Tourism (1995), Department of the Environment, Land and Planning (1995).

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## **ATTACHMENT 1H: NORTHERN TERRITORY**

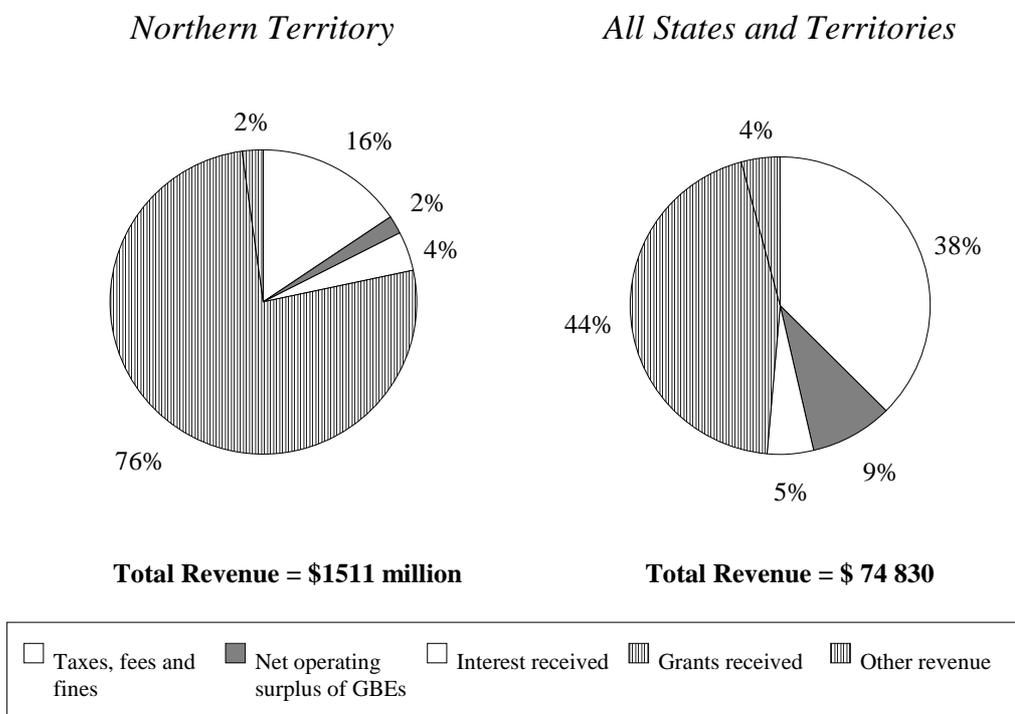
### **A1H.1 Introduction**

The information in this Appendix has been compiled mainly from the Northern Territory (NT) Government's submissions to this inquiry (Subs. 30 and 78), Annual Reports of assistance-giving government departments, agencies and statutory authorities, the NT Government's 1995–96 and 1996–97 Budget Papers, ABS data and certain other relevant reference material.

### **Revenue sources**

While all the States are reliant on the Commonwealth Government for financial assistance, the NT is much more so because of its small population and narrow economic base. In 1994–95, Commonwealth funding accounted for 76 per cent of NT's revenue (see Figure A1H.1).

**Figure A1H.1: Composition of Territory Government revenue for the Northern Territory and all States and Territories, 1994–95**



Source: ABS (1995a)

## A1H.2 Northern Territory Government Assistance

### General policy approach

Industry policy in the NT is directed towards developing existing industry sectors such as mining, the rural sector and tourism, and to developing links between the Territory and Asia. The stated focus of industry development is to make use of its comparative advantage. As the NT Government (Sub. 30) said:

In any competitive situation, those with smaller resources with which to compete are at a disadvantage, unless they are able to make use of any comparative advantages. In the Northern Territory's case, proximity to Asia and its tourism potential are two major comparative advantages. (p. 8)

## Nature and extent of assistance

The NT's proximity to Asia has been central to the Territory's industry development policy. Darwin has been promoted, through the *Trade Development Zone* (TDZ), as the gateway to Asian markets and a number of the Department of Asian Relations, Trade and Industry programs are used to promote trade and investment between the NT and Asia.

To develop the NT's tourism industry's potential, the *Northern Territory Tourism Commission* provides it with marketing and promotional assistance. In the development of the mining sector, the Department of Mines and Energy provides assistance to facilitate and develop further mining activity through the provision of infrastructure such as roads, water and power for major mining projects delivered through a number of NT Government departments and authorities.

In 1994–95, the Northern Territory Government provided approximately \$41 million in budgetary assistance to business and industry (see Table A1H.1). Assistance provided as revenue forgone (eg exemptions and concessions on land and payroll tax or land and buildings provided at below market value) is provided only to those firms operating in the TDZ.

**Table A1H.1: Northern Territory Government budgetary outlays on non-agricultural industry assistance, 1994–95**

<i>Agency</i>	<i>\$000</i>
Northern Territory Tourist Commission	16 713
Department of Asian Relations, Trade and Industry	12 722
Racing and Gaming Authority	3 664
Department of the Chief Minister	2 680
Trade Development Zone Authority	2 059
Department of Mines and Energy	1 819
Department of Sport and Recreation	1 546
Darwin Port Authority	206
<b>Total</b>	<b>41 409</b>

*Source:* Northern Territory Treasury (1995a), various departmental 1994–95 annual reports.

In the following year, 1995–96, the Northern Territory Government provided nearly \$42 million in budgetary assistance to business and industry with

approximately a further \$44 million to be provided in 1996–97 (see Table A1H.2).

**Table A1H.2: Northern Territory Government budgetary outlays on non-agricultural industry assistance, 1995–96 (revised) and 1996–97 (estimated) (\$000s)**

<i>Agency</i>	<i>1995–96</i>	<i>1996–97</i>
Northern Territory Tourist Commission	16 830	17 737
Department of Asian Relations, Trade and Industry	11 575	12 928
Racing and Gaming Authority	4 501	3 472
Department of Mines and Energy	3 119	3 212
Department of the Chief Minister	2 733	2 971
Department of Sport and Recreation	1 183	2 037
Trade Development Zone Authority	1 634	1 261
Darwin Port Authority	418	482
<b>Total</b>	<b>41 993</b>	<b>44 100</b>

*Source:* Northern Territory Treasury (1996).

## Institutional arrangements

### *Department of Asian Relations, Trade and Industry (DARTI)*

DARTI is the central agency providing assistance to business and industry in the NT and promoting trade and investment links with Asia. The Department's overall budgetary outlay for 1994–95 was \$18.54m. (Northern Territory Treasury 1995a)

The NT's smaller financial base, by comparison with the other States, has limited its ability to compete against them to attract industry. As the NT Government (Sub. 30) said:

The Northern Territory does not attempt to match the assistance that the larger states can provide and would usually avoid in engaging in head to head forms of competitive bidding. (p. 8)

However, a range of assistance, such as grants, subsidies, information and promotion, is provided to both potential and existing businesses and industries under industry development programs. The Department, through the *National Program and Public Relations and Marketing Program*, also provides

incentives for industries to relocate to the NT. A small amount of direct financial assistance also is provided to exporters. In 1994–95, \$62 842 was provided to 32 firms through the Export Marketing Assistance Scheme. Further information on grants, subsidies and loans provided by the department is contained in Table A1H.3.

	<i>\$000</i>	<i>No of recipients</i>
Grants	996	17
Subsidies	362	10
Loans (convertible to grants subject to performance criteria)	8	1
<b>Total</b>	<b>1 366</b>	<b>28</b>

*Source:* DARTI (1995)

The NT Government is attempting to develop a defence and space industry within the Territory to coincide with the growing presence of the Australian Defence Force in the Territory. The *Defence and Space Industries Program* was established to provide assistance to develop defence-related and space industries within the Territory. For example, in 1993–94, \$1.5 million was allocated, but not spent, to assist British Aerospace to establish a facility in the Territory (DARTI 1994).

To promote the NT's geographical proximity to Asia, the Department operates the *South East Asia and North East Asia Programs*. These programs provide promotional activities and networking with key government and business organisations within the region to encourage trade and investment between the Territory and Asia.

#### *Trade Development Zone Authority (TDZA)*

The TDZA is a statutory authority which operates a 200 hectare industrial estate in Darwin. The zone was established in 1985 to assist either export or import replacement manufacturing industries. Under the *Trade Development Zone Act*

firms operating on the estate are exempt from NT Government charges (including stamp duty and payroll tax).

To attract industry to the NT, the TDZA sells land and building packages in the TDZ. These land and building packages are discounted below the cost of development. Firms investing in the TDZ are able to purchase land and buildings from the TDZA through discounted vendor finance with interest-free finance available to certain firms. The amount of discount offered on the finance is dependent on a judgement by the NT Government of the value of the firm to the TDZA and the NT as a whole.

The performance of firms operating in the TDZ is monitored by the TDZA through a performance contract negotiated between the TDZA and the firm. In cases where a firm fails to meet its obligations under the contract, the TDZ can renegotiate the contract of sale, withdraw from the contract or withdraw the firm's licence to operate in the TDZ.

In addition, the TDZA provides assistance with marketing, translations and referrals for all tenants.

At the end of the 1994–95 financial year, 18 firms were operating in the Zone (TDZA 1995).

#### *Northern Territory Tourist Commission (NTTC)*

The NTTC provides assistance to the NT tourism industry through promotion and marketing both domestically and overseas and by identifying and encouraging further tourist development. The Commission's total operating revenue for 1994–95 was \$22.4 million of which \$16.7 million (74.5 per cent) was provided by the Northern Territory Government (Northern Territory Tourist Commission 1995).

#### *Department of Mines and Energy (DME)*

The DME provides assistance to the mining industry through the provision of mining safety and health services, information and the facilitation and investigation of investment opportunities in mining and energy projects. For example, during 1994–95 assistance was provided to two firms to investigate the feasibility of establishing oil refinery operations in the Territory.

#### *Department of Primary Industries and Fisheries*

The Department provides assistance to fisheries through resource management and protection programs, undertaking research and the provision of grants and subsidies. The majority of the assistance provided is through resource

management and protection programs, such as disease eradication, and through research undertaken directly by the Department. Agricultural assistance is referred to in Appendix 2.

#### *NT Government Procurement Policy*

One of the stated objectives of the Northern Territory Government's Procurement Policy and Strategy (1994) is to benefit local enterprise and increase local employment.

The policy sets out a number of advantages associated with buying locally, including the growth and development of local business and industry, and the use of long-term contracts to support and develop fledgling or new industry. Consequently, during the tendering process local suppliers are given an advantage in any points-weighted evaluations used by government departments or agencies.

### **A1H.3 Detailed information on State Government industry assistance programs and schemes**

Table A1H.4 below summarises the assistance provided to industry (excluding agriculture — see Appendix 2) by the NT Government. The information in Table A1H.4 has been drawn from the NT Government's submission to the inquiry, 1995–96 and 1996–97 Budget Papers and departmental annual reports.

Table A1H.4: **Northern Territory: State Government financial assistance to industry, programs; nature and extent, 1994–95 and 1995–96 (estimates)**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Northern Territory Tourist Commission (NTTC)</b>				
The NTTC	Marketing and developing tourism.	The NTTC receives an annual appropriation from the NT Government.	16 713 <sup>b</sup>	16 830 <sup>b</sup>
Cooperative Advertising Scheme	Assistance for tourism advertising.		na	na
Tourism Infrastructure Development Scheme	Development of tourism infrastructure for tourism projects that will contribute to the development of the Northern Territory.	Provides information, coordination and financial assistance.	na	na
<b>Total NTTC government appropriation</b>			<b>16 713</b>	<b>16 830</b>
<b>Department of Asian Relations, Trade and Industry (DARTI)</b>				
Financial Services Program	Provides financial analysis, advice and financial assistance to industry.	Grants and subsidies.	2 546 <sup>c</sup>	2 201 <sup>c</sup>
Business Services Program	Provides information, advisory services and administers Commonwealth Ausindustry scheme.	Information, advice, grants and subsidies.	3 259 <sup>c</sup>	3 453 <sup>c</sup>
Defence and Space Industries Program	Development of the Territory's defence industries.	Information advice and promotional activities.	371 <sup>c</sup>	380 <sup>c</sup>
Public Relations and Marketing Program	Attract potential and prospective Australian business to the Northern Territory.	Promotion and marketing.	3 023 <sup>c</sup>	3 394 <sup>c</sup>

Table A1H.4: **Northern Territory: State Government financial assistance to industry, programs; nature and extent, 1994–95 and 1995–96 (estimates)** — *continued*

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Department of Asian Relations, Trade and Industry (DARTI) — continued</b>				
Strategic Services Program	Provides industry and economic data and develops regional strategy.	Information and analysis.	764 <sup>c</sup>	780 <sup>c</sup>
South East Asia Program	Promotion of trade and investment with South East Asia.	Information, marketing and promotion.	918 <sup>c</sup>	939 <sup>c</sup>
North East Asia Program	Promotion of trade and investment with North East Asia.	Information, marketing and promotion.	720 <sup>c</sup>	737 <sup>c</sup>
National Program	Sourcing new investment and industries for the Northern Territory from within the rest of Australia.	Information, facilitation and financial assistance.	493 <sup>c</sup>	504 <sup>c</sup>
Export Marketing Assistance Scheme	Assistance to Northern Territory Exporters.	Financial assistance.	62	na
Procurement Policy	Management of procurement policy to ensure every opportunity is provided for local suppliers.	Procurement of locally supplied goods and services.	566 <sup>c</sup>	570 <sup>c</sup>
<b>Total all DARTI programs</b>			<b>12 722</b>	<b>12 976</b>
<b>Racing and Gaming Authority</b>				
Racing Management Program	Assistance to racing clubs and organisations.	Grants and subsidies.	3 664	3 922

Table A1H.4: **Northern Territory: State Government financial assistance to industry, programs; nature and extent, 1994–95 and 1995–96 (estimates)** — *continued*

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Department of the Chief Minister</b>				
Arts Program	Provides financial support to arts service and production organisations, venues, programs and special projects.	Financial assistance.	2 680 <sup>c</sup>	2 688 <sup>c</sup>
<b>Trade Development Zone Authority (TDZ)</b>				
Corporate Management	Administration and management of the Authority's industrial estate.	Provision of land and infrastructure within the zone.	1 185 <sup>c</sup>	1 054 <sup>c</sup>
Investor Assistance	Administration of the "Duty Draw Back Fund" and "By-Law for Export" schemes on behalf of investors.	Assistance to firms within the zone.	50 <sup>c</sup>	50
Zone Assets	Property management, capital works and maintenance of the Zone's assets.	Maintenance of infrastructure and buildings within the zone.	824 <sup>c</sup>	461 <sup>c</sup>
<b>Total TDZ expenditure</b>			<b>2 059</b>	<b>1 565</b>
<b>Department of Mines and Energy (DME)</b>				
Industrial Development Program	Facilitation and investigation of investment opportunities in minerals and energy projects.	Assistance for feasibility studies.	168 <sup>c</sup>	322 <sup>c</sup>

**Table A1H.4: Northern Territory: State Government financial assistance to industry, programs; nature and extent, 1994–95 and 1995–96 (estimates) — continued**

Agency Program Sub-Program	Description/objectives	Form of assistance	Funding <sup>a</sup>	
			1994–95	1995–96
			\$000	\$000
<b>Department of Mines and Energy (DME) — continued</b>				
Mining Resource Development Program (Environment and Regulation sub-program)	Monitoring and development of environmental plans and the regulation of safety in the mining industry.	Provision of environmental and safety services to the mining industry.	1 651 <sup>c</sup>	2 797 <sup>c</sup>
<b>Total all DME programs</b>			<b>1 819</b>	<b>3 119<sup>d</sup></b>
<b>Department of Sport and Recreation</b>				
Major Events Program	Promotion of events capable of contributing to the economic and social development of the Territory.	Promotion and financial assistance.	1 546 <sup>b</sup>	1 091 <sup>b</sup>
<b>Darwin Port Authority</b>				
Wharf Precinct Program	Development and operation of the tourism facility based on the Wharf Precinct.	Financial assistance.	206 <sup>b</sup>	276 <sup>b</sup>

na Not available

a Where information is available, the data represent total current and capital expenditure, including overheads, but after deducting user charges revenue and industry contributions unless otherwise specified.

b Annual appropriation from the NT Government.

c Gross expenditure.

d The program structure of the Department was changed in 1995–96. Includes the Safety and Environmental Management Program and the Economic Program.

Source: Northern Territory Treasury (1995a), Department of Asian Relations, Trade and Industry (1995), Northern Territory Tourist Commission (1995), Northern Territory Treasury (1996), Department of Mines and Energy (1995).

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## **APPENDIX 2: STATE AND TERRITORY BUDGETARY ASSISTANCE TO AGRICULTURE**

This appendix presents estimates of the budgetary assistance provided by State and Territory governments to agriculture over the period 1992–93 to 1994–95 and makes comparisons with earlier estimates for 1984–85 and 1989–90. The appendix draws on research the Commission is undertaking to update its estimates of assistance provided to agriculture by State and Territory governments as part of its ongoing assistance monitoring function. Results of that research will be published separately.

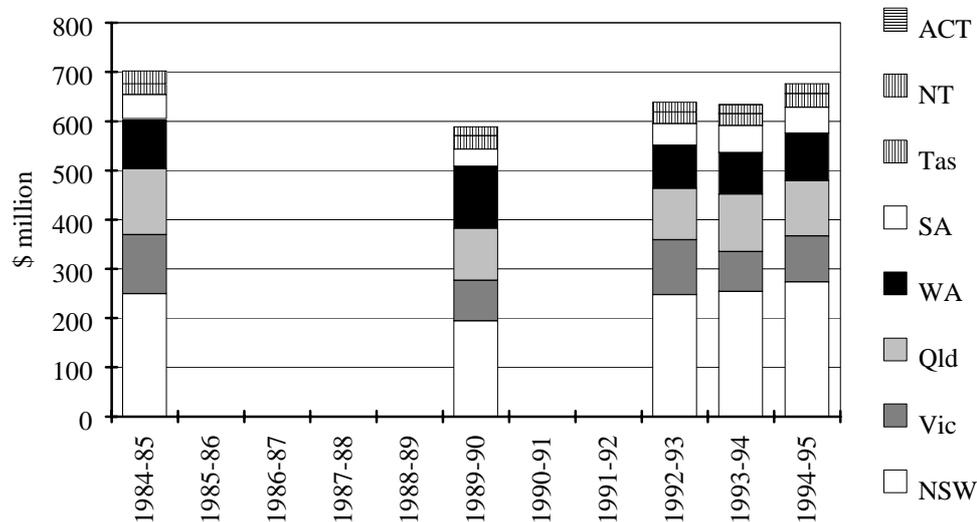
### **A2.1 Summary of results**

The budgetary assistance provided by State and Territory governments is taken as the sum of all their government agency outlays (gross outlays less recoveries via user charges, commodity levies, etc) provided to benefit agriculture. In 1994–95 these governments outlaid a total of \$676 million on assistance to agriculture (see Figure A2.1). This may be compared with Commonwealth corresponding outlays of \$656 million during the same year. Each of these outlays was equivalent to some 3 per cent of the farm-gate value of agricultural output.

In real (1994–95 prices) terms, State and Territory government outlays in 1994–95 had increased by 6 per cent from their 1992–93 and 1993–94 levels of around \$635 million. Compared with their 1989–90 level, real outlays had increased by 15 per cent, but they were 4 per cent below the 1984–85 level of \$702 million.

New South Wales spent the most on assisting agriculture. In 1994–95, it outlaid \$270 million or 40 per cent of the total for all States and Territories. In order of outlays, this was followed by Queensland (17 per cent of total outlays), Western Australia (14 per cent), Victoria (14 per cent), South Australia (8 per cent), Tasmania (4 per cent) and the Northern Territory (3 per cent). The importance of New South Wales has increased in recent years as its outlays have increased while those of other jurisdictions have remained the same or decreased in real terms.

Figure A2.1: **State government real outlays on agriculture, 1984–85, 1989–90 and 1992–93 to 1994–95 (1994–95 dollars)**



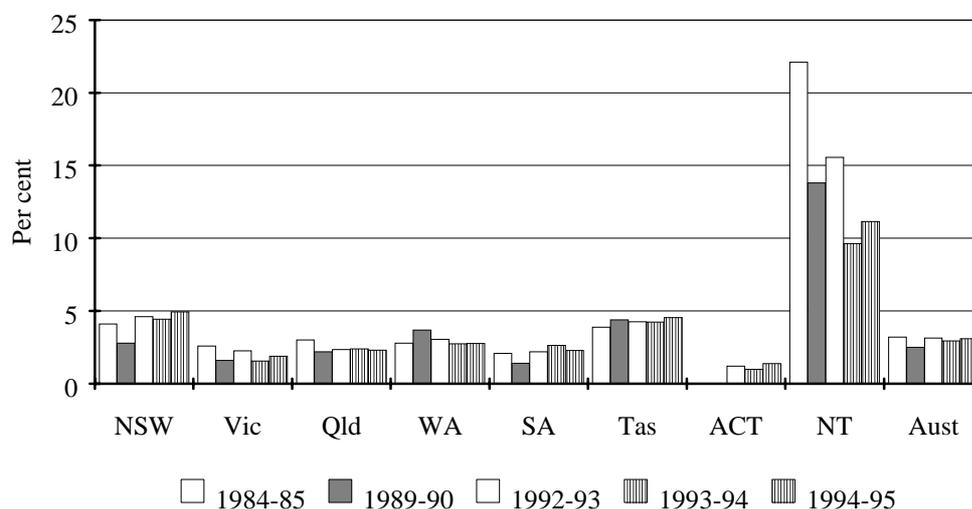
Sources: Commission estimates, IC (1993) and IAC (1988).

Relative to the farm-gate value of output, the Northern Territory, at 11 per cent in 1994–95, spent the most of any jurisdiction on agriculture (see Figure A2.2). In recent years, the next highest spenders on a proportion of output basis were New South Wales and Tasmania, at 4 per cent to 5 per cent. In contrast, Victoria, at 2 per cent, and the Australian Capital Territory, at 1 per cent, have spent consistently less than the national average of 3 per cent. Total State and Territory outlays have been a relatively stable proportion of output over the past decade, although there has been greater variation in individual jurisdictions.

The major commodities to benefit from State and Territory government outlays in 1994–95 were beef (\$134 million or 19.8 per cent of total outlays), wool (\$85 million or 12.6 per cent), dairying (\$71 million or 10.5 per cent), vegetables (\$67 million or 9.8 per cent) and wheat (\$51 million or 7.5 per cent). Between them, they accounted for \$408 million or 60 per cent of total outlays.

Relative to the farm-gate value of output, commodities on which the equivalent of 5 per cent or more was spent in 1994–95 included citrus, sheepmeat, oats, other crops and vegetables. Commodities on which less than 2 per cent was spent included hay, sugar cane, eggs, poultry and other fruits etc.

**Figure A2.2: State government outlays as a percentage of the farm-gate value of output by jurisdiction, 1984–85, 1989–90 and 1992–93 to 1994–95 (per cent)**

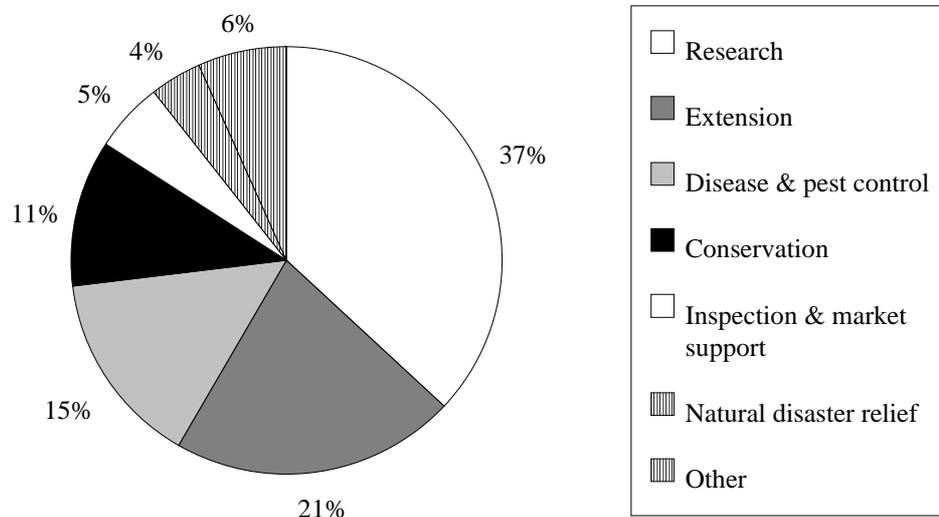


Sources: Commission estimates, IC (1993) and IAC (1988).

When classified by objective, research comprised 37 per cent of total State and Territory government outlays on agriculture in 1994–95 (see Figure A2.3). Other important objectives were extension (21 per cent of the total), disease and pest control (15 per cent) and conservation (11 per cent). There has been little change in those proportions over the last decade, except for conservation, which grew from less than 5 per cent of total outlays in 1984–85 to around the current level of 11 per cent by 1989–90.

State and Territory budgetary assistance to agriculture is directed primarily to lowering the costs of many inputs to agriculture. This is an important factor in increasing net assistance to value adding in agriculture and significantly increases its effective rate of assistance. Commonwealth assistance to agriculture in 1994–95 represented an effective rate of assistance of 11 per cent. State and Territory budgetary assistance resulted in a further 9 per cent, bringing the total effective rate of assistance in that year to 20 per cent. State and Territory government outlays provide little assistance which directly increases returns from farm outputs. Hence they have little influence on measured output assistance — ie the nominal rate of assistance to agriculture.

Figure A2.3: **State government outlays on agriculture by objective, 1994–95**



Source: Commission estimates.

## A2.2 Background

For many years the Commission has been monitoring the assistance provided to agricultural industries by the Commonwealth Government and by State-based industry marketing schemes that have Australian-wide effects. Those estimates are provided on a standard basis which allows comparisons between industries and over time. The estimates range back to the early 1970s (see IC 1995c) and the most recent are contained in the Commission's 1996 Annual Report (IC 1996a, Appendix F). Also, as part of its monitoring of Commonwealth budgetary assistance to industry, the Commission has been reporting on Commonwealth government outlays to agriculture — most recently in its 1996 Annual Report (IC 1996a, Appendix D).

The Commission last reported on State and Territory budgetary assistance in its 1992–93 Annual Report (IC 1993b). The analysis then indicated that State and Territory budgetary assistance constituted an important source of support for agriculture which exceeded the budgetary assistance provided by the Commonwealth.

This appendix provides an updated estimate of the extent of State and Territory budgetary assistance to agriculture. The outlays were classified in the following ways:

- by jurisdiction and relative to output by jurisdiction, to indicate the importance of assistance provided by each jurisdiction;
- by commodity, to indicate the absolute and relative amounts of assistance provided to each commodity;
- by objective, to indicate the relative importance jurisdictions placed on different objectives, such as research, extension, etc, and changes in their relative importance over time; and
- by the initial effect of assistance on output returns, input costs and returns to value adding factors, to enable State and Territory budgetary assistance to be incorporated into the Commission's standard industry assistance measurement framework and indicate its influence on the sector's nominal and effective rates of assistance. Explanations of those measures of assistance are given in Appendix 5, Box A5.1.

Information on data sources and difficulties encountered in adapting the data for this study are set out in the next section (Section A2.3). The methodology and problems of using budgetary outlays to measure assistance to agriculture are set out in Section A2.4. A detailed discussion of the estimates of State and Territory budgetary assistance to agriculture between 1992–93 and 1994–95, and comparisons with 1984–85 and 1989–90, are given in Section A2.5.

### **A2.3 Data sources**

Data were sourced primarily from State and Territory government agencies with responsibility for agriculture. The information was checked, and where necessary, supplemented with data from the relevant budget papers, annual reports and other publicly available sources. Where no authoritative data were available for a specific commodity or expenditure category — for example, if poultry and egg industry research outlays were combined — outlays were distributed on the basis of each commodity's share of output.

Relevant agencies in the eight jurisdictions were requested to supply information for the three years to 1994–95 for 26 commodities and to specify expenditure by 15 objectives for each commodity. The agencies were very cooperative and helpful in providing and interpreting their data and in classifying it to the correct expenditure objective and commodity.

The allocation of State and Territory government outlays to categories is to some extent arbitrary, since the classification of government expenditure varies between jurisdictions and some categories of expenditure provide more than one type of assistance. In addition, allocation of outlays by objective was made more difficult by differing accounting conventions whereby some States classify expenditure according to the 'line budgeting' and others by the 'program budgeting' convention.<sup>1</sup> Variations were encountered also in the classification of expenditure items between jurisdictions, making it difficult to ensure consistent treatment of items. For example, the distinction between research and extension is not always clear-cut.

Nonetheless, the Commission is confident that the results do not seriously misrepresent the true situation of budgetary assistance provided by State and Territory governments.

## **A2.4 Methodology**

Budgetary assistance has been measured as the sum of all outlays (gross less recoveries by user charges, commodity levies, etc) provided to benefit agriculture by State and Territory departments and authorities. For joint Commonwealth-State/Territory funded schemes, only the State or Territory contributions were included. Many of the outlays comprise wages and administrative costs of services provided to farmers at less than full cost.

The assistance impact on agriculture of government provision and pricing of infrastructure, such as water, or of government regulations controlling the conduct of business and the availability of resources (land, labour and capital) to agriculture, is not measured.

The emphasis in the methodology has been on deriving simple summary measures which can incorporate the diverse forms of budgetary assistance on a consistent basis to show the differing levels of assistance provided to different agricultural industries and activities by States and Territories over time. Caution should be exercised when interpreting those measures as no account has been taken of any economic justification for government funding of particular interventions, such as research, or of the capital nature of some budgetary outlays, such as certain expenditure on research and conservation.

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<sup>1</sup> Line budgeting refers to the grouping of expenditure by type (eg wages and salary, travel, etc.) whereas program budgeting refers to the grouping of expenditure by purpose (eg drought relief, research, etc.).

While only a few of the outlays directly influence output returns, many of the results have been reported as percentages of farm-gate values of output to allow comparisons between jurisdictions, commodities and over time. This inherently biases industry assistance comparisons when differences in cost structures are involved and emphasises that care should be taken when making such comparisons, especially when drawing inferences from differences that are small.

## A2.5 State and Territory budgetary assistance

### Outlays by jurisdiction

The outlays by State and Territory governments on agriculture are given in Table A2.1.

**Table A2.1: State government outlays on agriculture by jurisdiction, 1984–85, 1989–90 and 1992–93 to 1994–95**

<i>Jurisdiction</i>	<i>1984–85</i>		<i>1989–90</i>		<i>1992–93</i>		<i>1993–94</i>		<i>1994–95</i>	
	<i>\$m</i>	<i>%</i>								
NSW	161	36	177	33	240	39	249	40	274	40
Vic	77	17	75	14	108	17	80	13	93	14
Qld	87	19	97	18	102	16	115	18	113	17
WA	65	14	115	21	85	14	82	13	96	14
SA	32	7	32	6	43	7	54	9	53	8
Tas	14	3	25	5	22	4	24	4	28	4
ACT	ne	ne	ne	ne	..	..	..	..	..	..
NT	17	4	17	3	21	3	20	3	23	3
<b>All States</b>	<b>453</b>	<b>100</b>	<b>537</b>	<b>100</b>	<b>619</b>	<b>100</b>	<b>622</b>	<b>100</b>	<b>676</b>	<b>100</b>
real (inflation-adjusted)	702	104	589	87	638	95	634	94	676	100
<b>Commonwealth</b>	<b>ne</b>		<b>411</b>		<b>584</b>		<b>453</b>		<b>656</b>	
real (inflation-adjusted)	ne		450	69	602	92	462	70	656	100

ne Not estimated.

.. Less than 0.5.

Source: Commission estimates, IC (1993) and IAC (1988).

In 1994–95 government outlays by State and Territory governments totalled \$676 million. In real (inflation adjusted at 1994–95 dollar) terms, outlays in 1994–95 were 6 per cent higher than the 1992–93 and 1993–94 level of around \$635 million. Real outlays were 15 per cent above the 1989–90 level, but 4 per cent below the 1984–85 level of \$702 million.

At \$656 million in 1994–95, Commonwealth government outlays were similar in magnitude to State and Territory government outlays. Since 1989–90, Commonwealth government outlays have increased significantly in real terms and in relative importance as a source of budgetary assistance to agriculture.

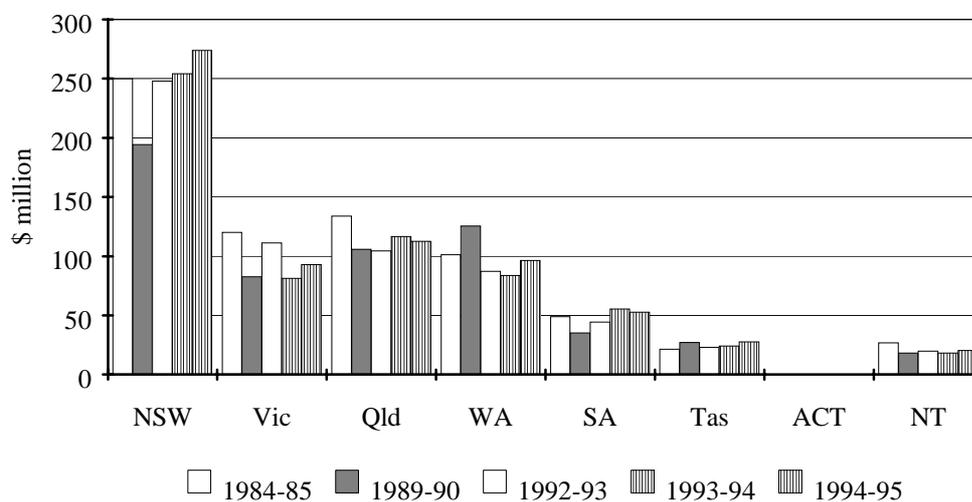
New South Wales, with 40 per cent of the total of State and Territory government outlays, spent the most in terms of budgetary assistance to agriculture. This dominance has grown in recent years as its expenditure has increased. The next most important States were Queensland (17 per cent of total outlays), Western Australia (14 per cent) and Victoria (14 per cent). The contribution of the other States — South Australia (8 per cent), Tasmania (4 per cent) and Northern Territory (3 per cent) — to the total is small.

When adjusted for inflation, it can be seen from Figure A2.4 that real government outlays to agriculture were higher in recent years than in the mid and late 1980s in New South Wales and lower in Western Australia. In all other jurisdictions, except South Australia, outlays in recent years were within the limits set by expenditure in the mid and late 1980s. In South Australia, outlays were higher than the mid-1980s in both 1993–94 and 1994–95.

State and Territory government outlays were equivalent to 3.1 per cent of the farm-gate value of output in 1994–95 (see Table A2.2). Commonwealth Government outlays were equivalent to 3 per cent. Both the State and Territory, and Commonwealth percentages were significantly higher than in 1989–90, reflecting higher budgetary outlays and a lower real value of output. The State and Territory average percentage in recent years is similar to that of the mid-1980s.

The Northern Territory, with a government outlay to farm-gate value of output of 11.1 per cent in 1994–95, provides significantly more budgetary assistance to its agriculture than any other State. However, its percentage has declined in recent years as the value of output had increased. At around 4 per cent to 5 per cent, New South Wales and Tasmania consistently have spent more than the national average of 3 per cent and Victoria, at around 2 per cent, and the Australian Capital Territory, at around 1 per cent, consistently less.

**Figure A2.4: State government real outlays on agriculture by jurisdiction, 1984–85, 1989–90 and 1992–93 to 1994–95 (1994–95 dollars)**



Source: Commission estimates.

**Table A2.2: State government outlays on agriculture as a proportion of the farm-gate value of output, 1984–85, 1989–90 and 1992–93 to 1994–95 (per cent)**

Jurisdiction	1984–85	1989–90	1992–93	1993–94	1994–95
NSW	4.1	2.8	4.6	4.5	5.0
Vic	2.6	1.6	2.3	1.6	1.9
Qld	3.0	2.2	2.4	2.4	2.3
WA	2.8	3.7	3.0	2.8	2.8
SA	2.1	1.4	2.2	2.8	2.3
Tas <sup>a</sup>	3.9	4.4	4.5	4.4	4.7
ACT	ne	ne	1.2	1.0	1.4
NT	22.1	13.8	15.6	9.6	11.1
<b>All States</b>	<b>3.2</b>	<b>2.5</b>	<b>3.2</b>	<b>2.9</b>	<b>3.1</b>
<b>Commonwealth</b>	<b>ne</b>	<b>1.9</b>	<b>3.0</b>	<b>2.1</b>	<b>3.0</b>

a Includes Tasmanian Rural Adjustment Scheme and other budgetary outlays to agriculture.

ne Not estimated.

Source: Commission estimates, IC (1993) and IAC (1988).

## Outlays by commodity

Total State and Territory government outlays by commodity are given in Table A2.3.

**Table A2.3: State government outlays on agriculture by commodity, 1984–85, 1990–91<sup>a</sup> and 1992–93 to 1994–95 (1994–95 dollars)**

Commodity	1984–85		1990–91 <sup>a</sup>		1992–93		1993–94		1994–95	
	\$m	%	\$m	%	\$m	%	\$m	%	\$m	%
<i>Horticulture</i>										
Apples & pears	6.6	1.5	9.4	1.6	10.0	1.6	10.2	1.6	9.9	1.5
Grapes	6.3	1.4	9.1	1.5	12.6	2.0	15.6	2.5	16.8	2.5
Citrus	3.6	0.8	4.7	0.8	12.1	2.0	14.9	2.4	9.9	1.5
Stone fruit	1.9	0.4	4.7	0.8	6.7	1.1	9.2	1.5	6.2	0.9
Other fruit etc	6.2	1.4	10.7	1.8	30.3	4.9	23.3	3.7	24.7	3.7
Vegetables	14.2	3.2	41.0	6.9	43.8	7.1	48.6	7.8	66.6	9.8
<i>Total horticulture</i>	<i>38.8</i>	<i>8.6</i>	<i>79.6</i>	<i>13.4</i>	<i>115.6</i>	<i>18.7</i>	<i>121.8</i>	<i>19.6</i>	<i>134.3</i>	<i>19.9</i>
<i>Crops</i>										
Wheat	89.0	19.8	50.5	8.5	54.6	8.8	50.1	8.0	51.0	7.5
Barley	12.7	2.8	16.7	2.8	20.8	3.4	20.4	3.3	20.5	3.0
Oats	3.1	0.7	6.8	1.1	8.2	1.3	7.3	1.2	8.5	1.2
Rice	5.3	1.2	nsi	nsi	7.7	1.2	8.0	1.3	8.0	1.2
Other crops	17.7	3.9	31.0	5.2	37.5	6.1	36.1	5.8	39.5	5.8
Hay	8.7	1.9	15.7	2.7	6.1	1.0	7.5	1.2	6.4	0.9
Sugar cane	14.5	3.2	19.5	3.3	15.5	2.5	19.5	3.1	15.7	2.3
Cotton	11.9	2.6	29.5	5.0	17.6	2.9	17.2	2.8	18.7	2.8
<i>Total crops</i>	<i>162.9</i>	<i>36.3</i>	<i>169.7</i>	<i>28.7</i>	<i>168.1</i>	<i>27.2</i>	<i>166.1</i>	<i>26.7</i>	<i>168.2</i>	<i>24.9</i>
<i>Extensive grazing</i>										
Beef	98.2	21.9	118.4	20.0	109.1	17.6	115.3	18.5	133.6	19.8
Wool	63.2	14.1	116.8	19.7	71.7	11.6	73.8	11.9	85.0	12.6
Sheep meat	18.1	4.0	12.5	2.1	41.2	6.7	37.4	6.0	41.1	6.1
<i>Total grazing</i>	<i>179.5</i>	<i>40.0</i>	<i>247.7</i>	<i>41.8</i>	<i>222.1</i>	<i>35.9</i>	<i>226.5</i>	<i>36.4</i>	<i>259.7</i>	<i>38.4</i>
<i>Intensive livestock</i>										
Pigs	12.6	2.8	18.3	3.1	22.7	3.7	22.7	3.7	24.5	3.6
Poultry	13.5	3.0	22.6	3.8	16.3	2.6	15.0	2.4	15.8	2.3
Eggs	5.2	1.2	6.5	1.1	3.4	0.6	3.1	0.5	2.6	0.4
Dairying	36.6	8.1	47.7	8.1	70.9	11.5	66.6	10.7	71.1	10.5
<i>Total intensive</i>	<i>67.9</i>	<i>15.1</i>	<i>95.1</i>	<i>16.1</i>	<i>113.4</i>	<i>18.3</i>	<i>107.4</i>	<i>17.3</i>	<i>114.0</i>	<i>16.9</i>
<b>Total agriculture</b>	<b>449.1</b>	<b>100</b>	<b>592.1</b>	<b>100</b>	<b>619.1</b>	<b>100</b>	<b>621.8</b>	<b>100</b>	<b>676.2</b>	<b>100</b>

a Commodity data for 1990–91 have been used instead of data for 1989–90 used elsewhere in the analysis because of limitations with the allocation of the assistance to commodities for that year in the Commission's 1993 study (IC 1993).

nsi Not separately identified, included with other crops.

Sources: Commission estimates, IC (1993) and IAC (1988).

In 1994–95, 38 per cent of State and Territory budgetary assistance to agriculture was provided for the extensive grazing industries. A further one-quarter was provided for crops, one-fifth for horticulture and the balance, one-sixth, for intensive livestock. The commodities which were the major recipients of the assistance were beef (19.8 per cent of the total), wool (12.6 per cent), dairying (10.5 per cent), vegetables (9.8 per cent) and wheat (7.5 per cent). Between them they accounted for 60 per cent of total outlays.

The major changes to shares of total outlays were the doubling of the 1984–85 share spent on horticulture and the decline, by one-quarter, in the share spent on crops. The increased budgetary assistance to horticulture reflects the growth in expenditure on both disease and pest control, and research on vegetables and to a lesser extent on other fruits, etc. The high budgetary assistance to crops in 1984–85 reflects the substantial drought-related assistance provided to wheat growers at that time. To a lesser extent, drought-related assistance to beef producers also increased the relative share of total outlays to extensive grazing at that time. The high share to wool in 1990–91 reflects special assistance provided to woolgrowers related to the wool market collapse.

The influence of special outlays by State and Territory governments to crop and livestock producers for alleviation of drought in 1984–85 and 1994–95, and the wool market collapse in 1990–91 are shown more clearly in Figure A2.5 by the high yearly peaks in those years in the real outlays on crops and extensive grazing. Also evident from that figure is the steady increase in real outlays on horticulture.

While the budgetary assistance provided by State and Territory governments to individual commodities in part reflects the importance of different commodities to the agricultural sector and the method of allocation, it also reflects different levels of expenditure on the commodities. The outlays as a percentage of the farm-gate value of output are given in Table A2.4.

Relative to the farm-gate value of output, commodities which received 5 per cent or more of assistance in 1994–95 were citrus, sheepmeat, oats, other crops and vegetables. Commodities which received less than 2 per cent were hay, sugar cane, eggs, poultry and other fruits etc. Similar patterns of outlays by commodity applied in 1992–93 and 1993–94. The outlays by commodity were more uniform in 1984–85 and 1990–91.

**Table A2.4: State government outlays as a proportion of farm-gate value of output by commodity, 1984–85, 1990–91<sup>a</sup> and 1992–93 to 1994–95 (per cent)**

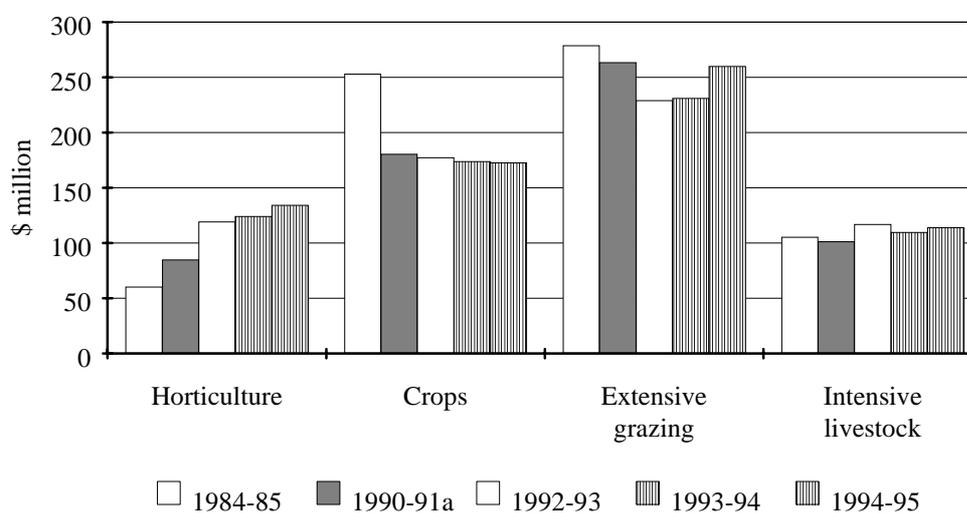
<i>Commodity</i>	<i>1984–85</i>	<i>1990–91<sup>a</sup></i>	<i>1992–93</i>	<i>1993–94</i>	<i>1994–95</i>
<i>Horticulture</i>					
Apples & pears	3.6	4.4	3.4	4.0	4.6
Grapes	2.7	2.8	3.5	3.7	2.8
Citrus	2.9	2.8	5.6	6.5	5.9
Stone fruit	2.7	4.0	4.6	6.1	4.1
Other, fruit etc	3.6	0.8	1.2	1.0	1.9
Vegetables	2.8	3.9	4.3	4.0	5.0
<i>Total horticulture</i>	<i>3.0</i>	<i>2.4</i>	<i>2.6</i>	<i>2.7</i>	<i>3.6</i>
<i>Crops</i>					
Wheat	3.2	3.4	2.5	2.2	2.7
Barley	2.2	3.8	3.3	2.8	3.7
Oats	2.7	5.5	4.8	5.8	5.6
Rice	4.5	nsi	5.6	3.4	4.1
Other crops	3.6	5.1	5.8	4.0	5.7
Hay	2.9	2.3	1.0	1.2	0.8
Sugar cane	2.8	2.6	1.9	2.0	1.3
Cotton	3.6	3.4	2.6	2.7	2.6
<i>Total crops</i>	<i>3.1</i>	<i>3.4</i>	<i>2.9</i>	<i>2.6</i>	<i>2.7</i>
<i>Extensive grazing</i>					
Beef	4.7	3.3	3.1	2.9	3.5
Wool	2.8	3.1	3.1	3.4	2.8
Sheep meat	3.6	4.4	7.2	5.5	5.7
<i>Total grazing</i>	<i>3.7</i>	<i>3.2</i>	<i>3.5</i>	<i>3.3</i>	<i>3.4</i>
<i>Intensive livestock</i>					
Pigs	3.1	2.9	3.8	3.7	4.3
Poultry	2.6	2.9	2.0	1.6	1.8
Eggs	2.2	2.5	1.5	1.7	1.5
Dairying	3.5	2.6	3.1	2.7	3.0
<i>Total intensive</i>	<i>3.1</i>	<i>2.7</i>	<i>2.9</i>	<i>2.6</i>	<i>2.8</i>
<b>Sector average</b>	<b>3.2</b>	<b>3.1</b>	<b>3.2</b>	<b>2.9</b>	<b>3.1</b>

a Commodity data for 1990–91 have been used instead of data for 1989–90 used elsewhere in the analysis because of limitations with the allocation of the assistance to commodities for that year in the Commission's 1993 study (IC 1993).

nsi Not separately identified, included with other crops.

Sources: Commission estimates, IC (1993) and IAC (1988).

Figure A2.5: **State government real outlays on agriculture by commodity group, 1984–85, 1990–91<sup>a</sup> and 1992–93 to 1994–95 (1994–95 dollars)**



<sup>a</sup> Commodity data for 1990–91 have been used instead of data for 1989–90 used elsewhere in the analysis because of limitations with the allocation of the assistance to commodities for that year in the Commission's 1993 study (IC 1993).

Source: Commission estimates.

### Outlay by objective

The State and Territory government outlays to agriculture by objective and the relative importance of different objectives are given in Table A2.5.

The major objectives of State and Territory government outlays in 1994–95 were research (37 per cent of the total), extension (21 per cent), disease and pest control (15 per cent) and conservation (11 per cent). Between them they accounted for 84 per cent of the total outlays in 1994–95. There was a similar general pattern of outlays by objective in 1992–93 and 1993–94, the exceptions being major increases in rural adjustment and natural disaster outlays and decreased outlays on concessional credit and water.

In 1989–90, larger proportions of outlays were spent on inspection and concessional credit and smaller proportions on research and extension. In 1984–85 larger proportions of outlays were spent on freight concessions, natural

disaster relief, extension and concessional credit, and smaller proportions on research, disease and pest control and, notably, conservation.

**Table A2.5: State government outlays on agriculture by objective, 1984–85, 1989–90 and 1992–93 to 1994–95**

<i>Objective</i>	<i>1984–85</i>		<i>1989–90</i>		<i>1992–93</i>		<i>1993–94</i>		<i>1994–95</i>	
	<i>\$m</i>	<i>%</i>								
Inspection	16	4	54	10	34	6	31	5	34	5
Market support <sup>a</sup>	nsi	nsi	nsi	nsi	4	1	5	1	3	1
Freight concessions	27	6	-	-	-	-	-	-	-	-
Disease and pest cntrl	55	12	64	12	91	15	96	15	99	15
Fuel subsidy	-	-	-	-	1	0	1	0	1	0
Water	8	2	nsi	nsi	4	1	1	0	0	0
Conservation	23	5	70	13	70	11	74	12	74	11
Concessional credit	27	6	22	4	3	1	3	0	1	0
Rural adjustment	nsi	nsi	nsi	nsi	10	2	27	4	24	4
Natural disaster	26	6	11	2	16	3	22	4	27	4
Support/relief	-	-	-	-	10	2	8	1	11	2
Research	149	33	177	33	229	37	228	37	251	37
Extension	111	25	86	16	145	23	122	20	144	21
Other	11	2	54	10	5	1	5	1	8	1
<b>Total</b>	<b>453</b>	<b>100</b>	<b>537</b>	<b>100</b>	<b>619</b>	<b>100</b>	<b>622</b>	<b>100</b>	<b>676</b>	<b>100</b>

a Combined with inspection for 1984–85 and 1989–90.

nsi Not separately identified.

Sources: Commission estimates, IC (1993) and IAC (1988).

Real outlays by objective are shown in Figure A2.6.

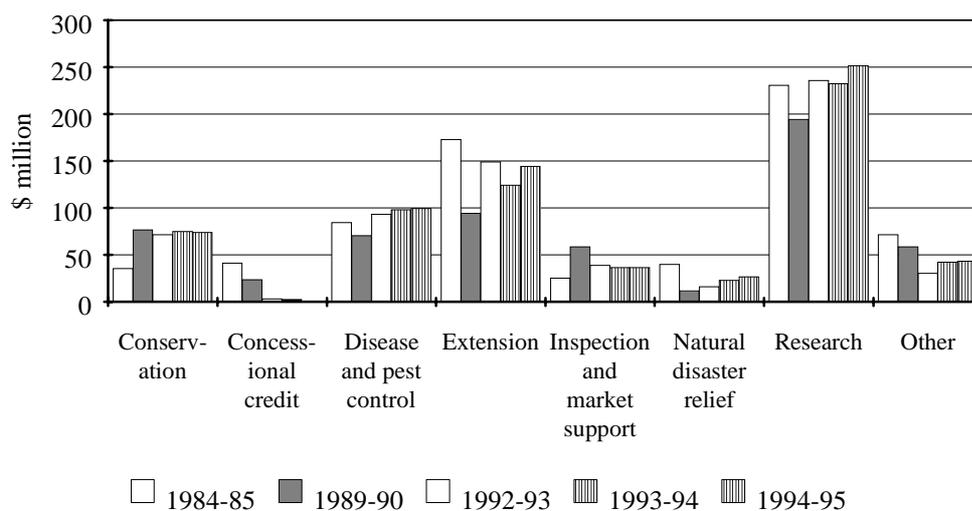
In the period from 1992–93 to 1994–95 there were increases in real outlays on research, disease and pest control, natural disaster relief and other. Decreases occurred in real outlays on extension, while there was little change in real outlays on conservation, and inspection and market support. In comparison with 1984–85, the most noticeable changes were the increase in real outlays on conservation and the decline in real outlays on concessional credit.

### Outlay by initial effect of assistance

To indicate the assistance effects of State and Territory government outlays, outlays by objective were grouped into three on the basis of their initial impact

on output returns, input costs and returns to value adding factors (ie land, labour and capital). The results are given in Table A2.6.

**Figure A2.6: State government real outlays to agriculture by objective, 1984–85, 1989–90 and 1992–93 to 1994–95 (\$ million 1994–95)**



Source: Commission estimates.

**Table A2.6: State government outlays by initial effect of assistance, 1984–85, 1989–90 and 1992–93 to 1994–95**

Initial effect on:	1984–85		1989–90		1992–93		1993–94		1994–95	
	\$m	%								
Output returns	44	10	64	12	39	6	36	6	39	6
Input costs	55	12	75	14	96	15	100	16	103	15
Returns to value adding	353	78	397	74	484	78	486	78	535	79
<b>Total</b>	<b>453</b>	<b>100</b>	<b>537</b>	<b>100</b>	<b>619</b>	<b>100</b>	<b>622</b>	<b>100</b>	<b>676</b>	<b>100</b>

Sources: Commission estimates, IC (1993) and IAC (1988).

The majority of outlays (79 per cent of the total) in 1994–95 have the initial effect of increasing returns to value adding factors, while a smaller proportion (15 per cent) directly lower input costs and relatively few (6 per cent) add directly to output returns. Similar proportions applied in the two previous years. Since 1984–85, the proportion of assistance to lower input costs has increased and to increase output returns has, after increasing in 1989–90, declined.

When combined with Commonwealth assistance in the Commission's standard assistance measurement framework, State and Territory government outlays add little to output returns — and hence the nominal rate of assistance to agriculture. However, they significantly increases net returns — and hence the effective rate of assistance.

As indicated in Table A2.7, State budgetary assistance increases the Commission's standard estimates of the effective rate of assistance to agriculture for 1994–95 from 11 per cent to 20 per cent. State budgetary assistance had similar significant effects on the measured effective rate of assistance in 1984–95 and 1989–90.

**Table A2.7: Effect of State government outlays on measured assistance to agriculture, 1984–85, 1989–90, 1993–94 and 1994–95 (per cent)**

<i>Measure</i>	<i>1984–85</i>	<i>1989–90</i>	<i>1992–93</i>	<i>1993–94</i>	<i>1994–95</i>
<i>Nominal rate of assistance</i>					
Commonwealth	5	4	4	4	4
Combined Commonwealth & State	5	4	4	4	4
<i>Effective rate of assistance</i>					
Commonwealth	10	7	10	12	11
Combined Commonwealth & State	19	13	20	19	20

*Sources:* Commission estimates, IC (1996), IC (1993), and IAC (1988).

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## **APPENDIX 3: LOCAL GOVERNMENT INVOLVEMENT IN ECONOMIC DEVELOPMENT**

### **A3.1 Introduction**

The ability of local governments to be involved in the provision of industry assistance is determined by the State government legislation which supports their existence and defines their powers and responsibilities.

Generally, the role of local government is to provide local infrastructure and services such as roads, garbage collection and libraries to local residents. However, other roles given to local government vary between the States and Territories. For example, local government in Queensland is involved in providing water and sewerage services, while in other States and Territories these roles are under the jurisdiction of the State or Territory government, usually carried out by separate statutory authorities.

Local government involvement in industry assistance varies greatly. It tends to be higher in jurisdictions with greater populations. Differences also arise from variations in the local government legislation between the States, which in some instances limit local government involvement in providing assistance.

The focus of local government involvement appears to be in the area of facilitation — that is, guiding firms through the various legislative requirements and in helping firms to access State and Commonwealth assistance. Financial assistance is provided more sparingly by local government.

This appendix provides information on the sources of local government revenue and the role taken by local governments in each State and Territory and regional groupings in providing assistance to industry. The results of the Commission's survey on local government involvement in industry assistance are reported in Attachment 3A.

### **A3.2 Sources of revenue**

Local governments own source revenue far outweighs grants received from Commonwealth and State governments. The major own source revenue of local government in all States and Territories is taxes (primarily rates), fees and fines. Taxes, fees and fines ranged from 49 per cent of revenue for local governments

on average in Queensland to nearly 69 per cent of revenue for local governments in Victoria (see Table A3.1).

The importance of Commonwealth/State grants to local government varies between jurisdictions. For example, grants account for only 18 per cent of local government revenue in Queensland, but for 39 per cent in the Northern Territory (see Table A3.1).

Each State government is required to allocate not less than 30 per cent of its Personal Income Tax Entitlement received from the Commonwealth Government in the form of grants to local government authorities within its jurisdiction. This allocation to local government is based on population, taking account of other factors as agreed upon by the Commonwealth and the State. Most State government grants to local government are specific purpose grants for road works.

### **A3.3    Reviews of local government involvement**

#### **New South Wales**

##### *Local government*

Local government in NSW must operate within the parameters set by the *Local Government Act 1993*, and subsequent amendments. There are 177 general purpose local government authorities in the State. The Commission received submissions from seven of these, as well as 5 submissions from NSW local government development organisations. 110 authorities responded to the Commission's survey.

While the new Act is more liberal than its predecessor in terms of what local governments can do, it does prohibit them from offering any money up front for projects. Also, *Section 356* of the Act requires local government authorities to provide full disclosure to their ratepayers of their intention to provide assistance to a particular company, project or event, 28 days before the resolution is put before a local government authority for ratification. In addition, major projects over \$20 million are to be handled by the State government.

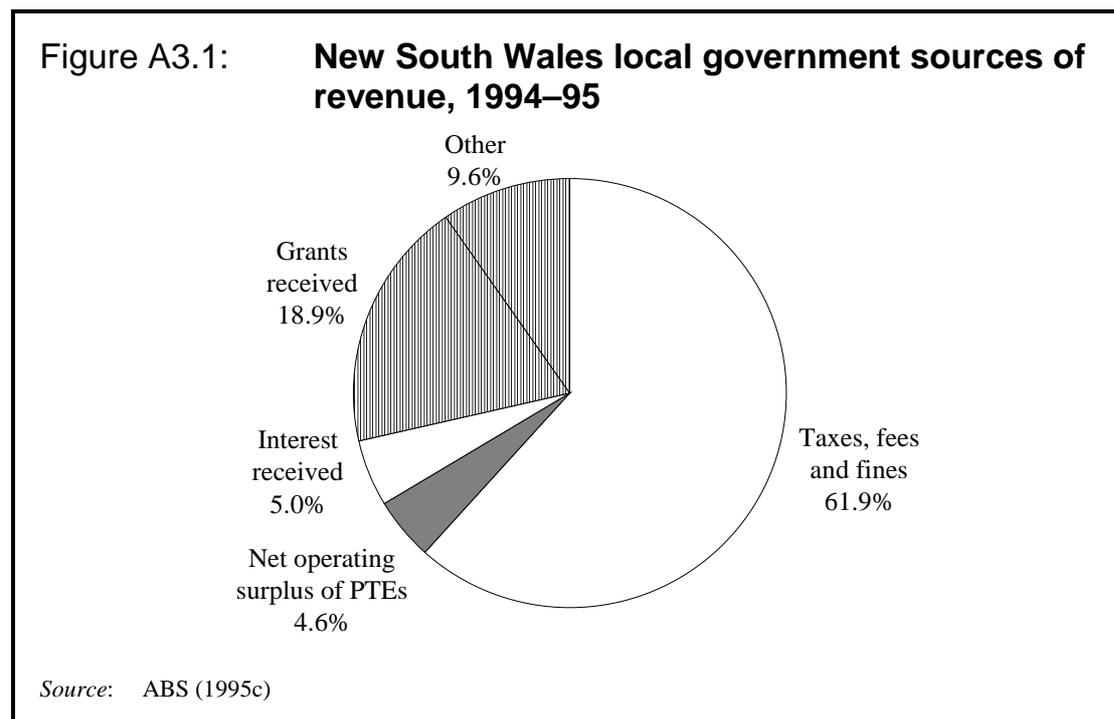
**Table A3.1: Local government revenue by State and Territory, 1994–95**

<i>Revenue source</i>	<i>New South Wales</i>		<i>Victoria</i>		<i>Queensland</i>		<i>Western Australia</i>		<i>South Australia</i>		<i>Tasmania</i>		<i>Northern Territory</i>	
	<i>\$m</i>	<i>%</i>	<i>\$m</i>	<i>%</i>	<i>\$m</i>	<i>%</i>	<i>\$m</i>	<i>%</i>	<i>\$m</i>	<i>%</i>	<i>\$m</i>	<i>%</i>	<i>\$m</i>	<i>%</i>
Taxes, Fees and Fines	1 739	61.9	1 420	67.2	1 018	49.6	475	62.5	439	67.4	130	56.0	30	54.5
Net operating surplus of PTEs	129	4.6	6	0.4	429	20.8	–	–	1	0.2	23	9.9	–	–
Interest received	141	5.0	95	4.6	58	2.8	30	3.9	49	7.5	10	4.3	2	3.6
Grants received	531	18.9	576	27.5	381	18.5	218	28.6	129	19.8	59	25.5	22	40.0
Other revenue	268	9.6	4	0.3	161	8.3	38	5.0	33	5.1	10	4.3	1	1.9
<b>Total Revenue</b>	<b>2 808</b>	<b>100</b>	<b>2 101</b>	<b>100</b>	<b>2 054</b>	<b>100</b>	<b>761</b>	<b>100</b>	<b>651</b>	<b>100</b>	<b>232</b>	<b>100</b>	<b>55</b>	<b>100</b>

*Source:* ABS (1995c)

### Sources of revenue

In 1994–95, the revenue available to local government in NSW from all sources totalled \$2.8 billion, with ‘taxes, fees and fines’ contributing around two thirds of this amount. Grants distributed by the NSW Local Government Grants Commission were the next highest revenue source, at nearly one quarter of the total (see Figure A3.1).



### Local government involvement in assistance to industry

Local governments and other sub-State economic development agencies have the ability to provide significant assistance by way of:

- loans;
- providing land or buildings at a ‘peppercorn’ rental or at cost;
- cash incentives;
- council rate reductions;
- the provision of infrastructure;
- purchasing preferences; and
- information/facilitation services.

Many local government authorities now also employ Industry Development Officers (full-time) to pursue industry attraction and expansion opportunities for their region. An indication of the types of activities undertaken by local governments in NSW is provided below.

#### *Albury-Wodonga*

The Albury-Wodonga Development Corporation (AWDC) was established in 1974, as part of the Growth Centres Program. Planning powers were transferred from Councils to the AWDC. The intention was for the AWDC to be phased out by the year 2000. In 1992 planning powers were transferred back to the Councils and the winding-up process commenced.

The limited involvement of the Albury City Council and the Rural City of Wodonga in development planning and strategies was seen by some as unsatisfactory and in mid-1994 Development Albury-Wodonga 2000 (DAW 2000) was incorporated, with funding by Albury City Council and the Rural City of Wodonga to be increased in annual increments. A detailed business plan for DAW 2000 is currently being prepared, the intention being that it should be a 'one stop shop' for 'any matters of fundamental economic importance to Albury-Wodonga' (Sub. 22, p. 22).

#### *Cabonne Council*

Cabonne Council has developed the 'Cabonne Country – Australia's Food Basket' campaign, the objective being the wider recognition of the potential of the area. Council staff are actively involved with a range of local and regional bodies to promote local development opportunities.

#### *Gosford City Council*

The Gosford City Council has in place an Industry Development Program, the objective being the development of industries which generate high levels of employment and the provision of a wider economic base for the City. A five-year action plan, setting out annual targets, has been developed to achieve these objectives. One of the action plans involves the establishment of an industrial park. The Council said the recently introduced *Threatened Species Act 1995* may threaten the success of this park, unless it undertakes, at its own cost, the assessment of flora and fauna in the park, as required by the Act (Sub. 54).

To help attract industry to the area, Council has established a 'one-stop-shop' facilitation process whereby one staff member is responsible for handling development and building applications and where 'fast-tracking' procedures are applied. This service is free of charge.

Gosford City Council also adopted a policy offering financial incentives to firms locating in the area. These incentives consisted of loans the size of which was related to the amount of employment generated. However, this policy was never implemented due to financial constraints.

Together with Wyong Shire Council, Gosford City Council has established the Central Coast Regional Development Corporation (CCRDC). It is funded out of a levy on all properties zoned for commercial or industrial purposes. Its primary function is the marketing of the region as an attractive area for industry to locate, but it also acts as lobbyist for both Councils with higher levels of government to obtain funds for infrastructure development. In addition, it acts as intermediary in assisting industry obtain funding from both State and Federal Government sources.

#### *Narrandera Shire Council*

Council is actively involved in economic development in the Shire. In the case of relocation by industry into the Shire, assistance is usually provided in conjunction with State government agencies. Council provides sites, infrastructure, rate holidays, concessions on the purchase of residential allotments for key personnel, plant at concessional rates and specialised studies.

In addition, Council provides information to industry about current State government assistance programs.

#### *Tweed Shire Council*

The failure of past attempts to facilitate economic growth led the Tweed Shire Council to engage consultants to formulate a strategy for economic development. The fundamental objective was, among other things, to increase employment and to diversify the economic base of the Shire.

In accordance with the recommendations of the consultants' report Council is now providing funding for the following bodies:

- Tweed Economic Review Board (TERB);
- Tweed and Coolangatta Tourism Incorporated (TACTIC); and
- Tweed Business Enterprise Centres.

The TERB comprises senior Council officers, community representatives and Councillors, possessing expertise in a wide range of industries. Its role is to identify priorities for infrastructure provision, identify land for development, establish a promotional strategy and establish protocols for approvals procedures. TACTIC's role is to manage activities for the development and promotion of tourism within the region.

*Wyong Shire Council*

Until the joint establishment with Gosford City Council of the CCRDC, Wyong Shire Council was actively involved in promoting the Shire by means of an industrial marketing program, and emphasising employment generating activities. The CCRDC now undertakes all such activity for the Council, with the Council concentrating instead on facilitating the relocation process for firms wishing to establish in the Shire.

The 'facilitation process' does not include direct financial assistance, but rather the provision of information about availability of suitable land and factories, an efficient and user friendly development and building application process, and the provision of information about child care, schools, sporting facilities, retail centres etc.

In addition, Wyong Shire Council has established a Developer Forum, consisting of Council staff, elected members, developers and consultants, which provides information on development policies and procedures and identifies areas of concern to both industry and Council. Council is itself developing a 60 hectare business park and is committed to upgrading the foreshore and main street areas of The Entrance to promote opportunities for major tourist facilities.

*Wagga Wagga City Council*

Wagga Wagga City Council has a policy of providing industrially zoned land at a discount. The discount provided is dependent on the amount of employment the firm will generate — the greater the number of people to be employed, the greater the discount (transcript, p. 305).

Other initiatives aimed at attracting industry have included the preparation of an Industrial Relocation Manual, completed in conjunction with the State Department of Planning, the State Department of Regional Development and the Regional Development Board, and an environmental study which will allow locating firms to achieve significant savings in the preparation of an Environmental Impact Study. A study is also being undertaken into the best way to promote the area to industry.

*Young, Harden and Boorowa Councils*

The Young Region Development Corporation (YRDC) was established in 1993, one of its principal functions being actively to encourage new industry and businesses to establish in the area. The Young, Harden and Boorowa Councils provide a large proportion of its funding, but it is also supported by private sector firms and State and Federal Government agencies. The YRDC's

activities range from providing direct financial assistance to the provision of marketing and business planning advice.

The YRDC proposes to establish a Regional Development Fund which hopes to provide loans to eligible firms in start up and development phases (Sub. 36, p. 9).

## **Victoria**

### *Local government*

The *Local Government Act 1989* (the *Act*) provides administrative and legislative powers for local government, outlines the broad purpose and functions of councils, provides for electoral processes, financial, accounting and rating arrangements, establishes the Local Government Board and provides for the restructuring of councils. The *Act* also incorporates recent amendments relating to competitive tendering, reforms to management through performance based contracts, rates and charges, audit arrangements and requirements for corporate plans and annual reports.

### *Restructure of local government*

Prior to 1992, the broad structure and operation of Victorian local government entities had remained essentially unchanged since the turn of the century. As part of the current State Government's reform program, local government was restructured during 1994–95 with existing council boundaries completely redrawn and the number of Victorian municipalities reduced from 210 in 1983 to 78 in 1995. The government expects that the restructure will produce savings of between \$360 and \$390 million by June 1998, which will allow for a permanent reduction in the cost of local government, with about \$300 million of these savings returned to ratepayers in the form of lower rates. The Commission received submissions from three Victorian local governments, four local development organisations, and 63 Victorian local governments responded to the Commission's survey.

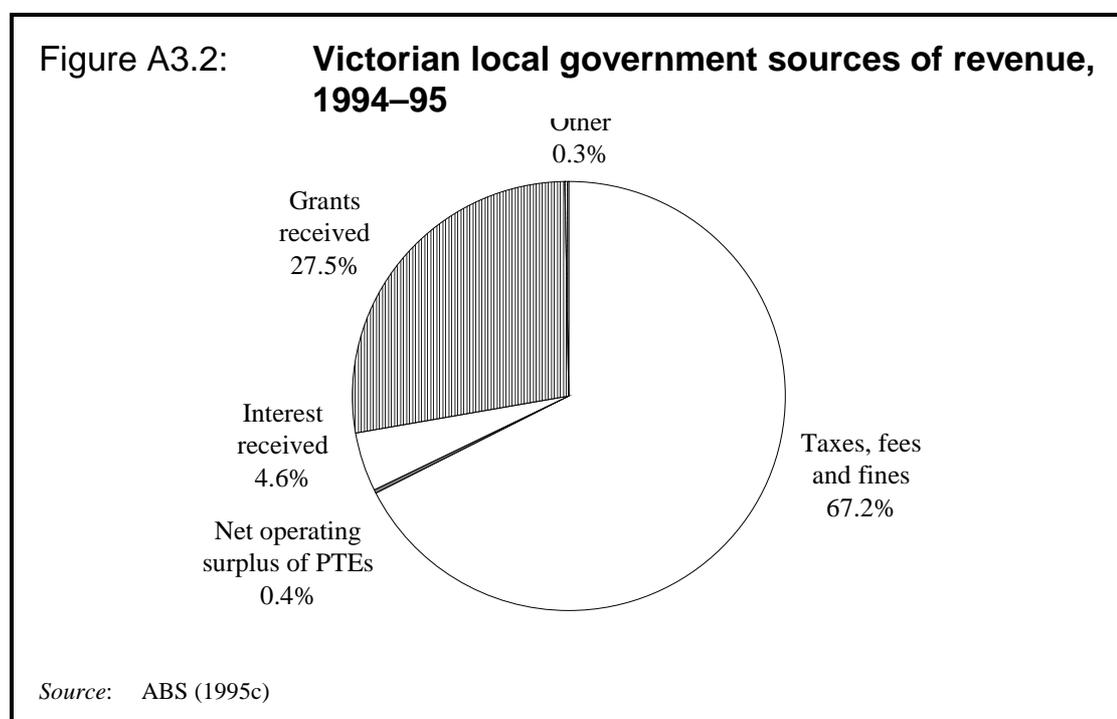
### *Central agency monitoring*

The Office of Local Government is the administrative unit which has policy responsibility for the operation of local government and assists councils in the carriage of their responsibilities under the *Act* and its associated regulations and in monitoring the implementation of local government reforms. The major monitoring activities of the Office include:

- ensuring that the rate reductions generated through council restructuring are returned to ratepayers;
- periodic review and analysis of councils' financial and budget positions;
- performance measurement of local government;
- reviews of council compliance with compulsory competitive tendering requirements and reporting procedures; and
- monitoring for compliance with requirements regarding corporate planning, budgeting, rating arrangements and annual reporting.

### *Sources of revenue*

Local government revenue in Victoria amounted to \$2 101 million in 1994–95, with taxes, fees and fines accounting for 67 per cent on average (see Figure A3.2). Grants from the Commonwealth and Victorian Governments accounted for 28 per cent of revenue.



### *Local government involvement in assistance to industry*

The following section provides a summary of the activities that local government in Victoria can engage in to promote economic activity within their jurisdiction. These include local government borrowing powers, arrangements regarding rates and charges, entrepreneurial powers and the transfer of land.

#### *Borrowing*

The *Act* specifies that a local government authority can borrow money to enable it to perform the functions and powers conferred to it. Responsibility for the allocation of borrowings to local government rests with the Municipal Association of Victoria.

#### *Rates and charges*

Local government authorities have the power to levy rates and charges on rateable land which include general rates, service rates, service charges, special rates and charges and municipal charges. General rates are usually struck in accordance with the capital-improved value of land. Local government authorities have the power to charge differential rates if they consider that doing so will contribute to the equitable and efficient execution of their functions. Where differential rates are struck local government authorities must ensure that they have available for inspection by residents of the district the objectives and criteria established for the setting of the differential rate and the revenue expected to be raised from it.

Section 169 of the *Act* relates to rate rebates and concessions. A local government authority may grant a rebate or concession in relation to any rate or charge to assist in the proper development of the municipal district. The *Act* also specifies provisions which enable a local government authority to waive the whole, or part, of any rate or charge or interest payable.

#### *Restrictions on the power to enter into contracts*

Local government authorities are restricted from entering into contracts that are greater in value than \$50 000, unless prior approval has been granted by the Minister. Where this approval has not been obtained, local government authorities are required to issue public notice of the purpose of the contract, or the project to which the contract relates, and invite tenders for the undertaking of the contract.

In the awarding of contracts, the Act states that local government authorities, whenever practicable, should give effective and substantial preference to the purchase of goods, machinery or material manufactured or produced in Australia or New Zealand.

#### *Municipal enterprise projects*

The Office of Local Government works with local government authorities in the formulation of economic development activities. Together with the Department of Treasury, the Office of Local Government evaluates applications for the approval of municipal enterprise projects under section 193 of the Act. This process arose in recognition of the increased participation of municipal councils in commercially-based developments with the private sector, and the associated risks to local communities of such participation. As a result, the *Local Government Act 1958* was amended, with the 1989 Act, to require local government authorities to obtain the approval of the Minister for Local Government and the Treasurer prior to proceeding with such projects.

#### *Sale and lease of land*

The Act empowers local government authorities to sell and lease land in their municipal district. Where land is to be sold, local government authorities are required to ensure that public notice of the intention to sell is given for at least four weeks prior to the sale. A local government authority's power to lease land is limited to leases for a term of 50 years or less. A local government authority's power to transfer, exchange or lease any land includes the power to do so without making any payment to the Crown, a Minister, any public body or any hospital within the meaning of the *Hospitals and Charities Act 1958*.

## **Queensland**

#### *Local government*

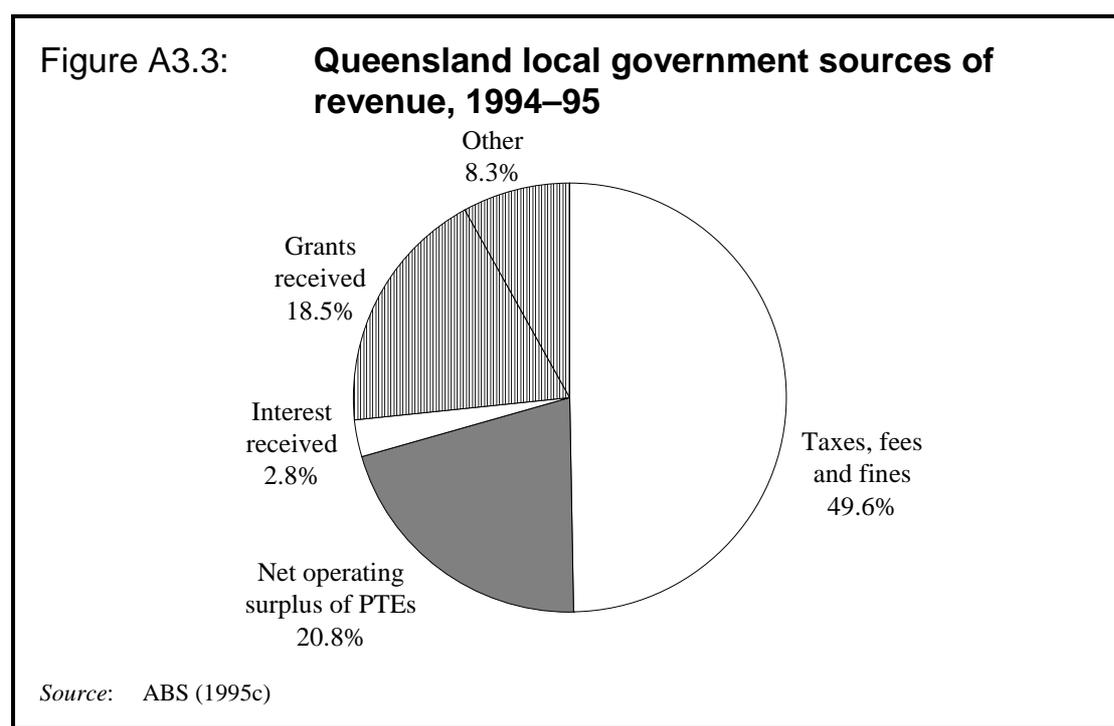
In Queensland, the *Local Government Act 1993* and a number of city-specific acts such as the *City of Brisbane Act 1924* define the role of local government. The *Local Government Act 1993* enables local government to differentiate rates to encourage economic development. There are 137 local governments in Queensland. The Commission received submissions from three of these, as well as one local development board. 42 local governments responded to the Commission's survey.

### Sources of revenue

As shown in Figure A3.3, the major source of funds for local government in Queensland are rates, fees and fines, which accounted for 49 per cent of local government revenue in 1994–95. The net operating surplus of public trading enterprises (PTEs) accounted for 21 per cent, while State and Commonwealth Government grants accounted for 19 per cent of total revenue (ABS 1995c).

### Local government involvement in assistance to industry

To facilitate and promote local economic development, a number of local government authorities in Queensland employ an Economic Development Officer (EDO). According to a Local Government Association of Queensland survey carried out in 1993, 15 per cent of Queensland local government authorities employ an EDO, with just over half of metropolitan councils doing so, while 95 per cent of local government authorities in Queensland made financial contributions to a local or regional organisation undertaking economic development activity (Sub. 50, p. 4).



The Economic Development Officer's role in industry assistance in most local government jurisdictions is limited, because of financial constraints, to

facilitation, promotion and the provision of information. The Caloundra City Council commented that:

... this council has only been able to provide limited assistance to industry by the provision of an Economic Development Officer. (Sub. 3, p. 4)

The largest local government authority in Queensland, the Brisbane City Council, provides significant funding for the Office of Economic Development for the City of Brisbane Ltd, an independent corporation, to promote economic development within the Brisbane region.

Queensland local government has a wider relative functional responsibility than local government elsewhere in Australia (Local Government Association of Queensland 1995). This allows local government in Queensland the opportunity to provide relatively greater levels of assistance than elsewhere in Australia. For example, local government in Queensland is responsible for the provision of water and sewerage services for local communities and through the provision of these services is able to offer discounts on water and sewerage headworks charges to firms and industry.

The assistance provided by Queensland local government is aimed primarily at attracting firms and industry to establish or relocate within their jurisdiction. Assistance is provided through rate exemptions, appropriately zoned land for industry, fast-tracking of planning applications, concessions on headworks infrastructure for water and sewerage services. The value of such assistance varies depending on the size of the firm or industry involved. However, as the Redland Community Economic Development Board and the Redland Shire Council said:

Such assistance (the waiving of rates and headworks charges and/or the waiving of development application and other such fees) could be of the order of \$200,000 for large commercial or industrial projects. (Sub. 13, p. 2)

With limited funds to provide direct financial assistance to industry, local government in Queensland has relied on the provision of appropriately zoned land to assist industry. The Brisbane City Council (Sub. 42), for example, has assisted a number of specific firms through the provision of appropriately zoned land and infrastructure.

Local government authorities in certain cases are now entering into joint ventures with firms. As the Brisbane City Council said:

... this council, would consider entering into forms of joint venture or public funding of infrastructure to assist in a major development if a comprehensive economic evaluation demonstrated that there were significant long term benefits available to the community. (Sub. 42, p. 5)

In relation to joint ventures, the Townsville City Council in 1991 conducted a feasibility study on the siting, design and construction of a major international standard entertainment, sporting and convention centre for Townsville. Unable to find private firms to undertake the project, the Townsville City Council then brokered the development of a \$21 million joint venture agreement between the Thuringa City Council and the Breakwater Island Trust Ltd (owners of the Breakwater Sheraton Hotel, Casino and Marina) to build, own and operate the Townsville Entertainment Centre. To achieve this, a structured financing agreement was arranged along with a debt equity swap between the public and private sector partners (Local Government Association of Queensland 1995).

Queensland local government authorities often work in conjunction with the State government to attract business to certain locations. According to the Redland Community Economic Development Board and the Redland Shire Council (Sub. 13), this cooperation involves the local government authority providing detailed information to the State government on the demographics, infrastructure and availability of labour within the local government authority area. This information is used by the State government to prepare a short list of appropriate sites for a firm or industry considering establishing or relocating in Queensland.

#### *Local government purchasing*

The majority of local government authorities in Queensland use purchasing schemes to assist local business and industry. For example, a Local Government Association of Queensland survey (Sub. 50) found that 69 per cent of local government authorities in Queensland operated a local purchasing preference scheme.

#### *Brisbane City Council's purchasing policy*

The Brisbane City Council purchasing policy contains a local preference scheme to promote economic development. In addition, the Brisbane City Council (Sub. 42) recently introduced a 'two envelope' tendering system for contracts over \$1 million. Under this system a weighting is allocated to those tenders which can demonstrate economic benefits to Brisbane City such as employment, training opportunities and value adding. The Brisbane City Council (Sub. 42, p. 7) recognises that this scheme 'may involve a cost premium to the council', but believes that cost will be small.

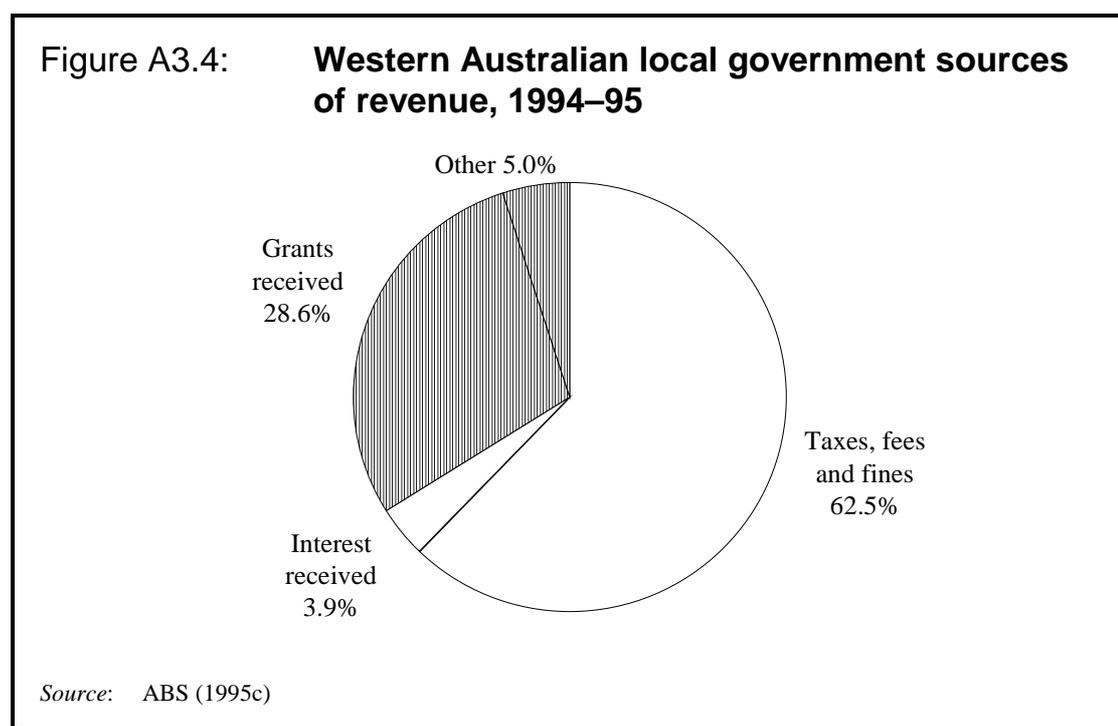
## Western Australia

### *Local government*

The functions of local government in Western Australia are performed by 146 Councils. In December 1994, 23 of these local government areas were defined as cities, 13 as towns and 110 as shires. The Commission received submissions from two WA local governments, and three from local development organisations. 62 local governments responded to the Commission's survey.

### *Sources of revenue*

In 1994–95, the latest year for which ABS data are available, local government revenue totalled \$760 million. The major sources of local government funds were rates, loans and State and Commonwealth Government grants (see Figure A3.4).



### *Local government involvement in assistance to industry*

Few of the individual local governments in Western Australia undertake industry development or incentive programs. One of the main reasons for this is lack of funds. Another is that many local governments see their main role as being a provider of services to the community. That is, they are still primarily

concerned with ‘the three Rs’ — rates, roads and rubbish. In informal discussions, the Commission was told that only about 6 of Western Australia’s 146 councils employ economic development officers.

Between 60 and 70 councils represent fewer than 2000 people each. In many of these areas, there are no State or Commonwealth representatives and the local governments are required to take over some of the functions that would normally be performed by a higher level of government. As additional funding for these activities is limited, the amount available for industry assistance is further reduced.

The *Local Government Act 1960* also placed some restrictions on the types of industry assistance which local governments could provide. Under the Act, local governments could not offer concessions without ministerial approval. In addition, local government could only provide grants to sports clubs and associations.

The new Act, *Local Government Act 1995*, came into effect on 1 July 1996. Under this Act, local government can provide direct grants, donations or rate concessions to any individual or firm. The only requirement placed on local government is the full disclosure of such assistance, including any monies provided, in annual reports or the like. This disclosure does not include the names of individuals or firms receiving assistance, although the classes of ratepayers offered concessions are to be listed if concessions are offered on that basis.

Where local governments are involved in assistance programs, this assistance is often provided as infrastructure, such as the establishment of industrial parks or business incubators. Other measures include rate concessions, promotion of the area as a location for business and tourism and revitalisation of the town centres.

Increasingly, groups of local councils are forming Voluntary Regional Organisations of Councils (VROCs) to pursue issues of mutual interest, including regional economic development. Much of the industry assistance provided at below State government level is undertaken by these groups.

While not a complete listing of the programs undertaken by local governments and VROCs, the following provides an indication of the types of assistance provided by local government in Western Australia.

#### *Town of Albany, Shire of Albany*

The two councils of the Town of Albany and the Shire of Albany undertake the *Albany Into Asia* program. The program is run by the Albany Economic

Development Unit, 'following the success of their Albany Advantage promotional campaign' (WAMA 1995, p. 32). It is essentially an investment attraction program, seeking physical transfers to the region or investment from overseas. This is achieved through the delivery of 'deals' with 'full feasibility study back-up, and bottom-line outcomes' (WAMA 1995, p. 33). According to WAMA (1995), *Albany Into Asia* has attracted six overseas owned establishments to the region and lead to one foreign investment in a local business. There have also been Memoranda of Understanding signed with China (early stage wool processing) and Iran (export abattoir) and expressions of interest in four other projects.

#### *Town of Bassendean*

The Bassendean Enterprise Centre is a business incubator — the third of its kind in Western Australia. The Centre provides month by month leasing arrangements and shared conference facilities and other resources, which reduces the overheads faced by new small businesses. WAMA (1995, p. 34) stated that the Centre 'is predicted to break even in its first six months of operation' and is expected to generate employment opportunities in the region.

#### *City of Bunbury*

A member of the South West (WA) Local Government Association (comprising 12 councils from the South West of WA), the City of Bunbury has been involved in providing some direct assistance to industry. The projects that the Council has been involved in include:

- Participation in trade promotion and displays, including the establishment of a Setagaya Sister City Relationship,...
- Direct funding of approximately \$220 000 to the Bunbury Tourist Bureau and Bunbury Promotions. ...
- ... planning, constructing and marketing residential land and industrial land for sale or leasing. ...
- Expenditure of approximately \$100 000 per annum for Townscape improvement projects particularly targeting the Central Business District. (Sub. 10, pp. 2-3)

The City of Bunbury (Sub. 10, p. 3) estimates the overall annual expenditure on economic development activities at around \$400 000 in direct cash contributions and around \$100 000 in indirect costs, such as labour and resources.

#### *City of Canning*

The City of Canning developed the Welshpool Business Enterprise Centre, a business incubator as a greenfield development. The initial site development

created 23 units, a mixture of factory and office units, with the second stage of the development increasing the number of units to 57. (The Welshpool Business Enterprise Centre Incorporated, Sub. 35)

### *Shire of Gnowangerup*

The major assistance provided to industry within the Shire of Gnowangerup is the development of industrial land. Concerned about the shortage of land available for industrial development in the Shire, the Council sought funding under the Strengthening Local Economic Capacity program (Commonwealth Department of Housing and Regional Development) in 1994 to produce two reports — the *Industrial Land Study* and *Planning for Industrial Development*. The former study helped to identify land suitable for industrial development in the Shire and enabled the Council to plan land zoning appropriate for future development. The *Planning for Industrial Development* publication is a more general users' guide to developing industrial land (WAMA 1995).

In their submission, the Shire of Gnowangerup (Sub. 7, p. 1) stated that the Council has been active in lobbying the State government 'to provide incentives for industry development in rural areas', claiming that:

Current high costs relative to the establishment of services such as water, power and roads is an impediment to industry development in rural towns. With low land values, there is a lack of security for new industries to establish themselves in country areas and this results in a lack of economic growth creating a shift of population to regional centres and the metropolitan area. (Sub. 7, p. 1)

### *Shire of Katanning*

The development of an industrial park in Katanning involved the Council employing a consultant to identify suitable land in the Shire and negotiating with the land owner to have the land rezoned and developed for industrial use to ensure a core area is made available at an agreed price per hectare. This would provide a large benefit to any company wishing to move to the area in terms of reducing the costs of locating and purchasing suitable land. The consultant was employed using funds from the Commonwealth Office of Labour Market Adjustment.

### *Town of Northam*

The revitalisation of the heart of Northam, as well as having community benefits, also benefited the tourism industry in the area. The project had two phases — a revitalisation of the south levee bank and the building of a Regional Visitor and Community Heritage Centre. The first was funded under the Commonwealth Government's Regional Environment Employment Program

and employed 16 long-term unemployed people to undertake the work of extensive revegetation and the construction of information shelters and the like. The second project assisted the tourism industry in providing a further attraction for the area, as well as meeting a recognised community need. Both projects involved 'partnership arrangements with a number of agencies' (WAMA 1995, p. 41).

The 1995 Northam Expo aimed to promote Northam, as a place to live, work and invest, in Perth and in the surrounding Wheatbelt areas. Funding came from the State Department of Commerce and Trade and the Town Council, as well as from local sponsorship, including from the Shire Council (WAMA 1995).

#### *City of Wanneroo*

The Regional Economic Development Group in the City, concerned with the rising population in the area and the lack of local job opportunities, set up the *Business Grow North* program to attempt to attract business to the region. The program involved video promotion and an accompanying brochure highlighting the advantages of the North West Metropolitan Region. As well as the City of Wanneroo, the project was supported by LandCorp, Curtin University, the Department of Conservation and Land Management, TAFE, Joondalup Resorts, the Wanneroo Chamber of Commerce and local business (WAMA 1995).

### **South Australia**

#### *Local government*

The functions of local government in South Australia are currently performed by 118 local councils. The Commission received no submissions from SA local governments and only one from a regional development board. 51 local governments responded to the Commission's survey. Legislation has been passed recently to promote, among other broad based reforms, a reduction in the number of councils to about half this number.

Since 1990 there have been ongoing negotiations between the State Government and local government on a range of functional, financial and legislative reforms.

In December 1994 the Ministerial Advisory Group (MAG) on Local Government Reform was established reflecting the Government's desire for a more substantial reform program. The report of the MAG, which was released in July 1995, included recommendations in relation to the structures, functions and operational and legislative framework of local government.

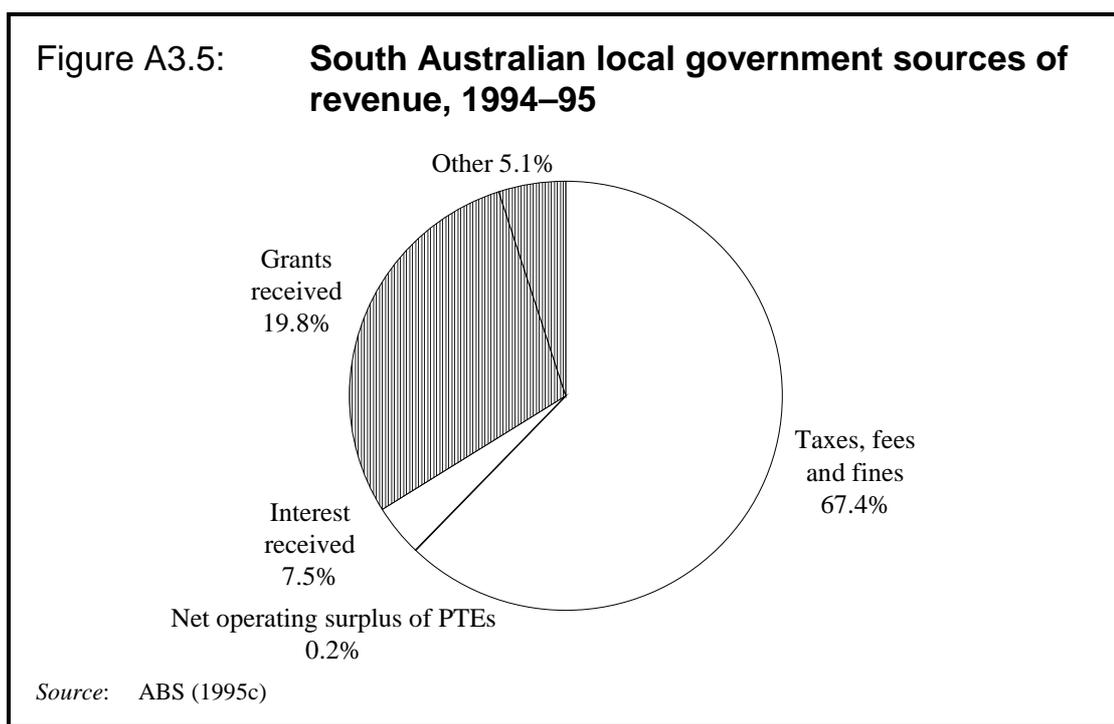
The SA Government subsequently put in place arrangements to bring about significant structural and legislative reform over an eighteen month to two year period. To facilitate major structural reform in local government, the *Local Government (Boundary Reform) Amendment Act* was passed by Parliament in December 1995. The emphasis is on voluntary amalgamations, although the Local Government Boundary Reform Board has the power to initiate amalgamations of Councils not participating in the process. The task of reviewing the *Local Government Act 1934* has been accelerated with a view to having a new legislative framework in place by 1997.

As a result of negotiations between State and local government on specific functions, there are now in place seven program agreements which involve local government assuming primary responsibility for a function, or an expanded role in cooperation with the State, government to provide more effective and cost efficient service delivery.

In 1995–96, the State-Local Government Reform Fund (established in 1994–95) was estimated to receive \$48 million raised by the petroleum levy. Expenditure on certain programs and functions of a local government nature, a number of which are the subject of joint State/local government agreements, is met from the Reform Fund.

### *Sources of revenue*

As with local government in other States, taxes, fees and fines are the major source of revenue for local government in South Australia, with grants from the State and Commonwealth Governments accounting for just under 20 per cent of revenue (see Figure A3.5).



### *Local government involvement in assistance to industry*

Local councils in South Australia are required to perform in accordance with the provisions of the *Local Government Act 1934*, as subsequently amended. The extent of any local government assistance initiatives is limited by constraints in the Act; in particular, Sections 196 to 200. Under S196, local government can participate in projects that:

- provide for the development of their area;
- provide facilities and services that benefit the area;
- provide infrastructure to industry; and
- attract commerce, industry and tourism.

The SA Government is planning to introduce new legislation which will hand responsibility for any project considered ‘vital to State development’ to the State government.

According to the MFP Focus Group, assistance is rarely provided via rate rebates, but more through facilitating approvals, minimising regulations, infrastructure provision, concessions etc.

The MFP Focus Group indicated that the Reform Fund is meant to, in principle, provide money to local councils to take over some functions from the State government in the areas of infrastructure, health, education and transport.

Some Commonwealth local/regional initiatives in South Australia where funding has been competed for by local government and associated organisations include:

- MFP Australia Program;
- Commonwealth Research Centres of Excellence Program;
- Strengthening Local Economic Capacity Program;
- Local Approvals Reform Program;
- Integrated Local Area Planning; and
- Public Library and Information Network.

## **Tasmania**

### *Local government*

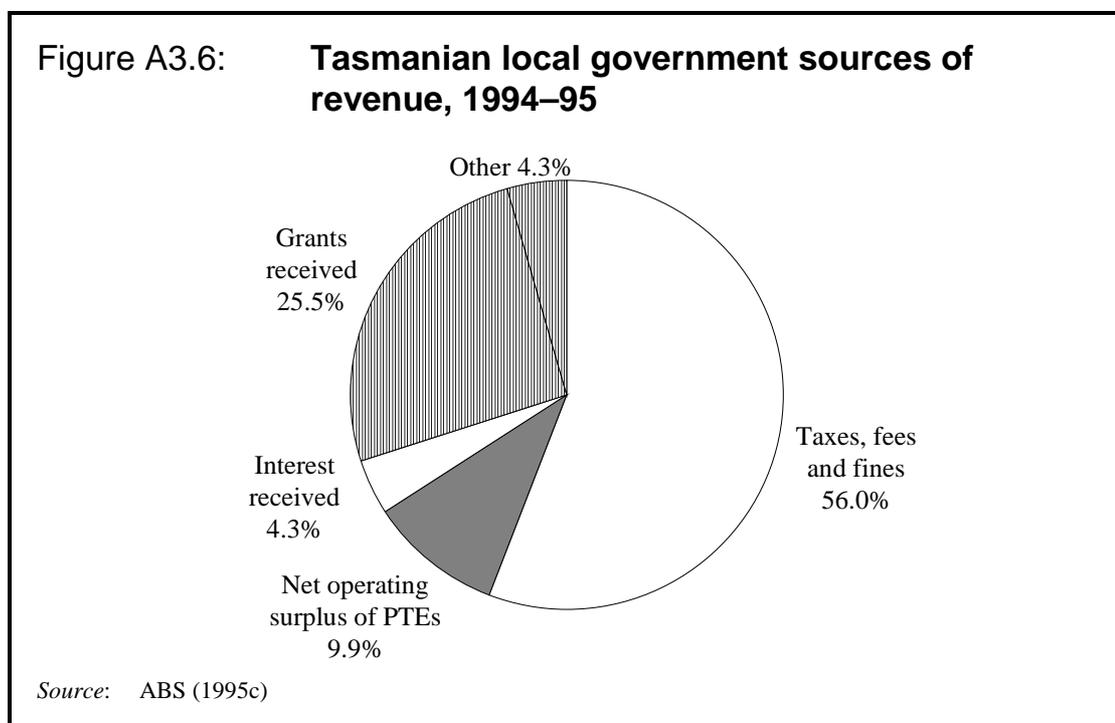
Following a 1990 inquiry into Local Government Modernisation in Tasmania, there has been a review of the Local Government Act. As a result, a modernisation program was undertaken that has reduced the number of local governments from 46 to 29 since April 1993. The development of a new Local Government Act changed the focus of local government accountability from the State to the communities they serve. The new Act allows local government a greater degree of freedom to set and achieve their objectives. There are 29 local governments in Tasmania. The Commission received a submission from one local government, and 18 responded to the Commission's survey.

### *Sources of revenue*

Almost 56 per cent of local government revenue in Tasmania comes from taxes (rates), fees and fines, while grants from higher levels of government account for over 27 per cent. Compared with the other States and Territories, local government in Tasmania is more heavily reliant on grants — only in Western Australian and Northern Territory do these grants represent a higher percentage of revenue.

Other sources of local government revenue include interest received and the net operating surplus of trading enterprises. Profits from trading enterprises represented nearly 10 per cent of revenue in 1994–95, a higher proportion than

in any other State or Territory except Queensland. Figure A3.6 shows the proportion of Tasmanian local government funding from each revenue source.



### *Local government involvement in assistance to industry*

There are 29 councils created by the *Local Government Act 1993* with the populations, in 1994, ranging from 912 to 65 000. Some of these councils have undertaken major initiatives in the area of industry development in particular, development of arts industries and the Incat manufacturing facility. Local governments also have been instrumental in developing industrial estates in their regions. A sample of the activities of local governments in Tasmania is presented below.

#### *Glenorchy City Council*

One council that has been particularly active is Glenorchy City Council. Glenorchy is a major industrial area and home to manufacturing companies such as EZ, Cadbury and Incat. Among other development initiatives, the council bought land and sold it to Tasmanian Development and Resources (TDR) for the development of Technopark and facilitated the technology training centre at Technopark. These activities were undertaken in response to the unemployment problems in the area.

In its submission, Glenorchy stated that ‘Council has a responsibility to the welfare of the community and is best able to identify opportunities and develop strategies at the local level’ (Sub. 45, p. 5). Hence, local councils should ‘actively pursue economic development on a broad front’ (Sub. 45, p. 5).

In line with these beliefs, Glenorchy City Council (Sub. 45) promotes industry development through:

- incentive schemes for industry relocation and expansion;
- assistance with land development;
- promotion of business enterprise workshops;
- establishment of, and support for, a business enterprise centre;
- sponsorship of community based schemes; and
- the activities of an Economic Development Manager.

#### *Clarence City Council*

The Clarence area is a ‘service-oriented industrial area’, and the Council is forming alliances with the private sector to encourage the development of sustainable industries. It has set up an incentive scheme for developers and offered rate rebates to firms, based on either the value of investment or the number of employees.

#### *Hobart City Council*

The Hobart City Council are interested in developing tertiary industries in Hobart, but has found this difficult as Hobart, in many cases, does not have the necessary infrastructure. For example, the City does not currently have optical fibre cable laid and industry development has been discouraged due to zoning problems.

As part of its development strategy, Hobart City Council has facilitated a cyberspace centre on one of its colleges and attempted to maintain an arts school ‘of world standard’. It is also working on strengthening Tasmania’s international focus, particularly in Scotland and China.

## **Northern Territory**

### *Local government*

Northern Territory local government is organised along the lines of municipal councils, community government councils, other local governing bodies and two special purpose towns to provide local government services to the mining

towns of Jabiru and Nhulunbuy. Local government in the Northern Territory, by comparison to the rest of Australia is relatively new. Local government began in the Territory in 1957 with the incorporation of the City of Darwin.

Due to the small population (180 000) across the Northern Territory, there are only six municipal councils centred on the major population centres (Local Government Association of the Northern Territory 1995).

### *Sources of revenue*

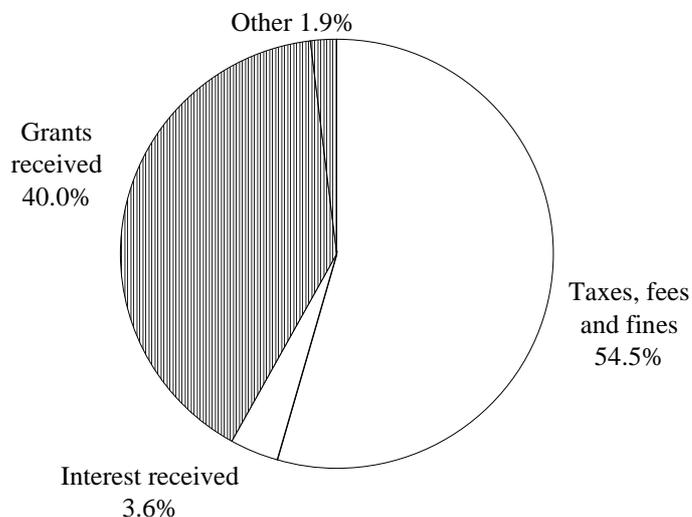
By comparison with local government in other jurisdictions, local government in the Northern Territory is the most reliant on grants. However, own source revenues still provide the major source of revenue. Sources of funding for local government in the Northern Territory are shown in Figure A3.7.

### *Local government involvement in assistance to industry*

Assistance provided to industry and business by Northern Territory local government is limited due to the small number of municipal councils and limited functions of local government in the Northern Territory. While municipal councils in the Territory are responsible for many of the conventional functions of local government, major functions such as town planning, the provision of water, electricity and sewerage are the responsibility of the Northern Territory Government. Consequently, Northern Territory local government is unable to provide these services at concessional rates or offer land rezoning to attract business and industry. However, rates concessions or exemptions can be provided by local government as a means of assistance.

Community government is based on small communities with each community government scheme formulated to suit the needs of the individuals within the community. This form of local government has been adopted by many remote communities with predominantly aboriginal populations.

Figure A3.7: **Northern Territory local government sources of revenue, 1994–95**



Source: ABS (1995c)

The other local governing bodies are aboriginal communities which are not incorporated as community governing bodies under the Act, but receive the full range of Commonwealth and Territory funding assistance for local government services (Local Government Association of the Northern Territory 1995).

### **Australian Capital Territory**

The Australian Capital Territory (ACT) does not have local government, with the Territory government performing all municipal functions. However, the ACT Government is a member of the south east Regional Development Council, a Commonwealth RDO, along with the NSW Government and the local government authorities within the south east of NSW. The ACT Government supplies three members to the Council.

### **A3.4 Regional groupings**

There are three types of regional groupings operating in Australia. Various State governments fund regional groups which aim to promote the social and economic development of the broad regions they cover. Increasingly, groups of local councils are forming voluntary regional organisations of councils (VROCs) to pursue issues of mutual interest, including regional economic

development. In addition, the Commonwealth Government has in recent years provided funding for the setting-up and operation of regional development organisations (RDOs).

### **State-funded regional groupings**

All State governments except Tasmania and the NT have established a network of regional development boards or commissions, with differing organisational and funding arrangements.

Western Australia has nine State-funded Regional Development Commissions (RDCs), which aim to promote the social and economic development of the regions they cover. Their Boards are comprised of representatives from local council, the community and the government. The RDC's programs are focussed on the removal of impediments to business and the provision of information. However, they also can provide some direct financial assistance to industry.

Similarly, there are 12 State-funded Regional Development Boards in NSW. The Boards facilitate local projects, coordinate proposals for infrastructure provision and generally promote the region. They also identify competitive advantages in their respective regions and draw up individual regional strategy documents.

In Queensland, there are 36 such organisations, some of which are combined with tourism boards. There is a similarly large network in Victoria, while the SA government, in cooperation with local government, has established 15 Regional Economic Development Boards (REDBs) across the State to promote regional industry and development projects, and to compete against each other for new business and investment. The activities of the REDBs are covered under S200 of the Act (SARDA, Sub. 57).

### **Voluntary regional organisations of councils**

Voluntary regional organisations of councils (VROCs) are formed by local councils coming together of their own accord. As a consequence, they tend to be energetic in the pursuit of their industry and social development goals. The formation of a VROC can help to focus attention on development issues, particularly where individual councils need to deal with the other business of local government. Most VROCs have been very active in the area of economic development initiatives, including the attraction and retention of targeted businesses and investment.

For example, there are currently eight VROCs in WA, along with a number of other groupings of councils, both formal and informal, which do not come under the banner of VROCs but often have similar objectives. South West Groups (SWG), which covers the south west of metropolitan Perth, is considered to be a particularly energetic VROC in WA. Formed in 1983, SWG was not focussed initially on economic development. However:

... in 1992, the Group commissioned an Economic Development Plan providing action plans for member councils and the regional group designed to improve the region's economic performance. The Group now plays a leading role in acting as an advocate and agent of change for the region. (Sub. 11, p. 3)

The fact that much of the region is devoted to heavy industry encouraged this move, as it was an area particularly hard hit by the recession in the early 1990s. For further details on SWG's development activities, see Box A3.1.

### Box A3.1: South West Groups (WA)

South West Groups, formed in 1983, is a VROC comprising the Cities of Melville, Fremantle, Cockburn and Rockingham and the Towns of Kwinana and East Fremantle. It was Western Australia's first VROC and is widely regarded as a leading regional organisation at both a State and national level.

The area covered by SWG is about 590 km<sup>2</sup> with an estimated population approaching 300 000. It contains a comprehensive range of land uses and development patterns, including the majority of industrially zoned land in Perth.

The Group is structured into four business units: Regional Secretariat; Economic Development Unit; Community Care Unit; and Project Unit. It currently operates three program areas: Regional Development; Environmental Management; and Local Government Co-ordination. The aim of the Regional Development program is to initiate, facilitate, promote and undertake strategies that enhance the region's economic and social well-being, within an environmentally sensitive context.

The Groups' Economic Development Plan is stated to be primarily about increasing the region's competitiveness and assembling and marketing the community's resources, in order to maintain and enhance the economic base. It includes six key strategies covering: enterprise development; peak industry attraction; urban growth development; tourism, recreation and leisure growth; regional image enhancement; and, skill development infrastructure.

The extent of SWG's involvement in economic development activity across its region is seen from a list of what it identified as 27 Economic Plan achievements over the first three years of its operation. According to the Group, these include:

- six councils adopting a common purchasing policy giving preference to local suppliers;
- extension of the Kwinana freeway;
- review of unused infrastructure (estimated value \$40 million);
- assistance to the State in lobbying for the RAN's \$1 billion Mine Hunter contract;
- facilitation of planning for a wool industry precinct (grant of \$33 500, with potential regional benefit of \$50 million);
- initiation of a scheme that can financially support selected businesses (potential regional benefit of \$1 million);
- supervision of the establishment of two business incubators (grant of \$400 000, with potential regional benefit of \$20 million);
- guiding the process aimed at encouraging the establishment of a new University in the Southern Sector (grant of \$44 000, with potential regional benefit of \$30 million); and
- preparation of a strategy to examine ways to increase the activity of Marine Research and Development at Henderson/Fremantle (grant of \$62 000, with potential regional benefit of \$90 million).

In total, nearly \$800 000 was attracted through the South West Metropolitan Regional Economic Development Plan, with an estimated potential regional benefit of \$215 million.

*Source:* (Sub. 11, pp. 3–4, 8–11)

## **Regional Development Organisations**

As a result of recommendations flowing from both the Kelty Taskforce (1993) and a consultancy report done by MCKinsey and Company (1994), the Commonwealth Government funded the establishment, administration and project costs of Regional Development Organisations (RDOs). RDOs are regional groupings covering a broader geographic area than typically covered by local governments. According to the then Commonwealth Department of Housing and Regional Development, the 'critical mass' size of a RDO is around 400 000 persons, so as to allow a region to compete with other regions internationally. McKinsey (1996) reported that to May 1996, 44 RDOs had been established and \$22.9 million allocated to regional projects and infrastructure. An additional \$16.3 million was allocated in June 1996.

On 17 July 1996, the Commonwealth Government announced the abolition of the Regional Development Program and the Regional Development Division of the Department of Transport and Regional Development. An undertaking was given to honour established funding commitments. For a discussion of the RDO scheme, see earlier Section 2.9.

### **A3.5 Summary of local government survey results**

To assist in understanding the nature and extent of local government involvement in economic development, the Commission undertook a survey of local government. A summary of the main results of the survey follows. Detailed survey results are provided in the following Attachment to this Appendix.

The major reasons given for local government provision of assistance to businesses were encouraging growth and the provision of employment.

Overall, two-thirds of local governments have facilities for providing assistance to business as part of their organisational structure. Twenty eight per cent share the provision of facilities with other local governments.

Facilitation (eg assistance to understand and negotiate approval procedures) and information services are provided by 89 per cent and 83 per cent of local governments, respectively. Two-thirds of them report that use is often made of these services.

The provision of financial assistance is less favoured by local governments than the provision of 'in kind' facilitation and information services. The most commonly available are cash grants (by 26 per cent of local governments) and

loans (by 23 per cent). Even where available, in the majority of cases financial assistance measures are rarely used.

When making available assistance through revenue forgone, the form most favoured by local governments is rate concessions and rebates (49 per cent of the cases), capital works at concessional cost (47 per cent) and land at concessional cost (46 per cent). However, actual use of such measures is rare.

Other types of assistance available are local purchasing preferences (one-third of the cases) and joint ventures (27 per cent). Whereas joint ventures are rarely entered into, local purchasing preferences are used by 63 per cent of the local governments which provide such assistance.

More than 90 per cent of respondents contribute to formal regional development organisations and other regional organisations, such as tourism bodies. The reasons most often cited for involvement in such bodies were to achieve economies of scale, to gain access to more information, for networking, for better coordination and less duplication, to increase marketing strength and lobbying strength.

While two-thirds have a part of their organisational structure devoted to assisting businesses, 43 per cent of local governments also have a specific policy of assisting business to remain, expand and locate in their jurisdiction. Such a policy is most prevalent in Victoria (62 per cent of replies) and least common in Tasmania (31 per cent of replies).

Approximately one-quarter of councils indicated that they do not distinguish between industries but consider each application for such assistance on its merits, regardless of the industry involved. Where indicated, the most favoured types of industry are light manufacturing and primary products processing. The least favoured are mining and finance.

The most significant form of assistance, in terms of cost to the local government, is 'in kind' facilitation in all States. Next in terms of cost are information services, land at concessional cost and concessional cost for capital works.

Just over half of the overall assistance provided by local governments is selective. Some is provided on a continuing basis.

Overall, 2.6 per cent of local government revenue is devoted to the provision of assistance to industry.

Information on the cost of assistance to individual businesses is available publicly in one-third of the cases where it has been provided. When the total

cost of assistance is publicly available the details of the cost are usually provided also.

Where formal ex ante evaluations are carried out, the majority of councils do not make them publicly available. A significant number (one in five) conduct evaluations after the event.

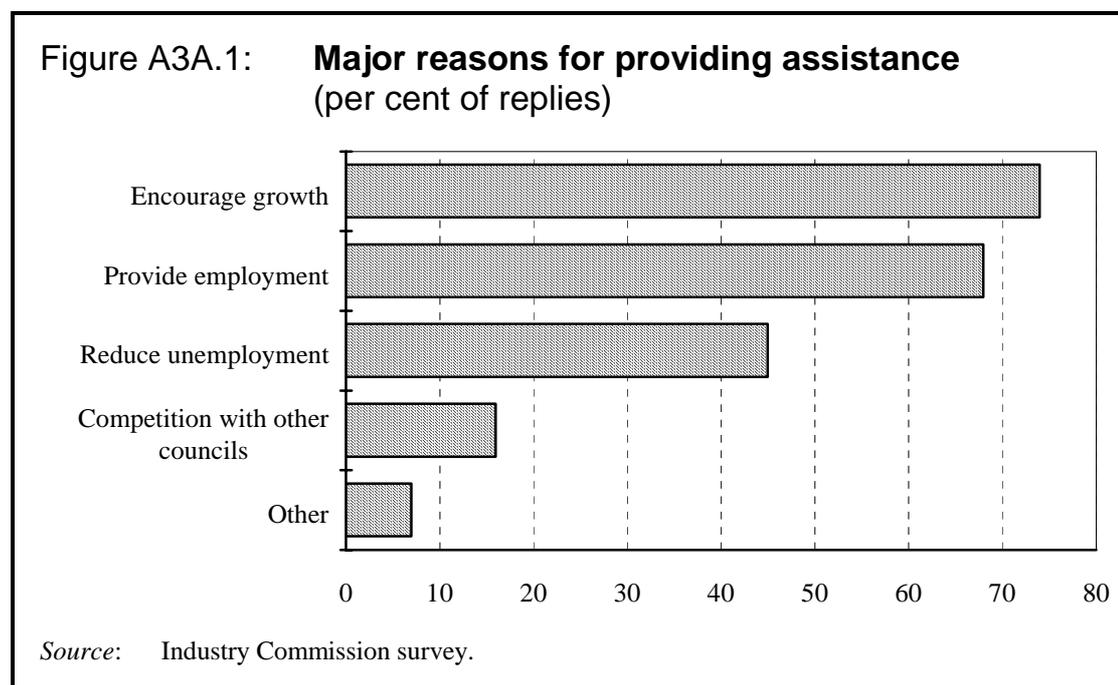
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## ATTACHMENT 3A: LOCAL GOVERNMENT SURVEY

As part of the inquiry, local governments were asked about their involvement in the provision of assistance to industry. The postal questionnaire was drawn up and sent to each local government with the assistance of the respective local government associations. The Northern Territory was not included in the survey and in the Australian Capital Territory there is no separate local government. A copy of the questionnaire is available on request from the Commission.

### A3A.1 Summary of results

As shown in Figure A3A.1, the major reasons given for local government provision of assistance to businesses were encouraging growth and the provision of employment.



Most local governments have involvement in and contribute to regional organisations (see Figure A3A.2). Also, more than half of local governments

have facilities for providing assistance to business as part of their organisational structure. A little less than one-quarter share the provision of facilities with other local governments.

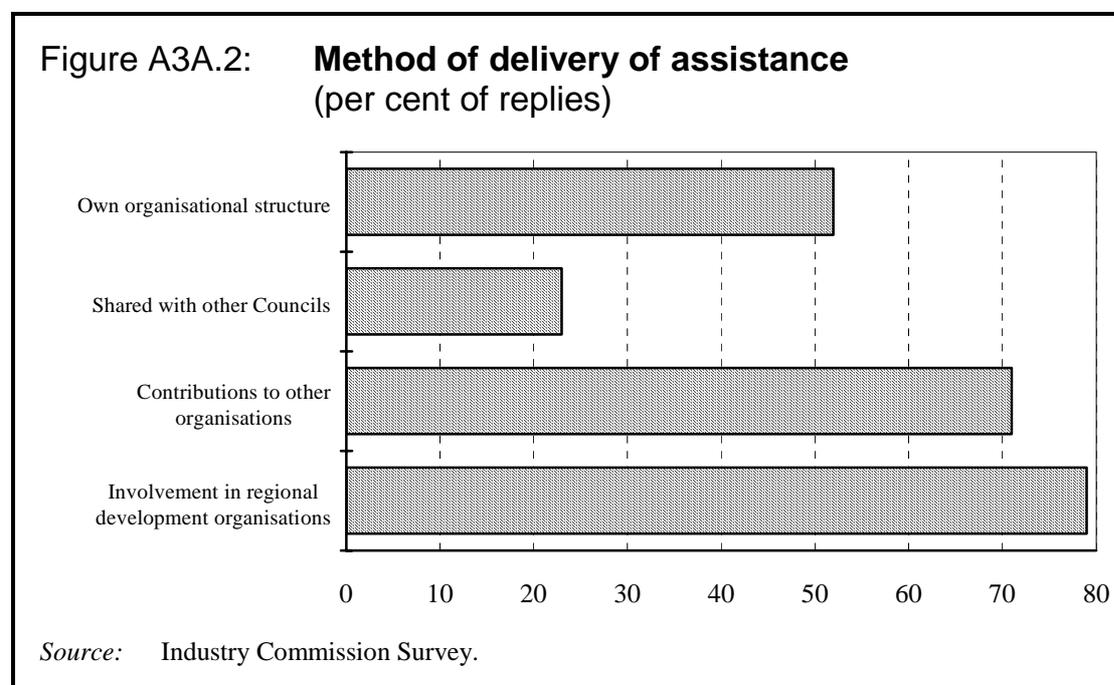


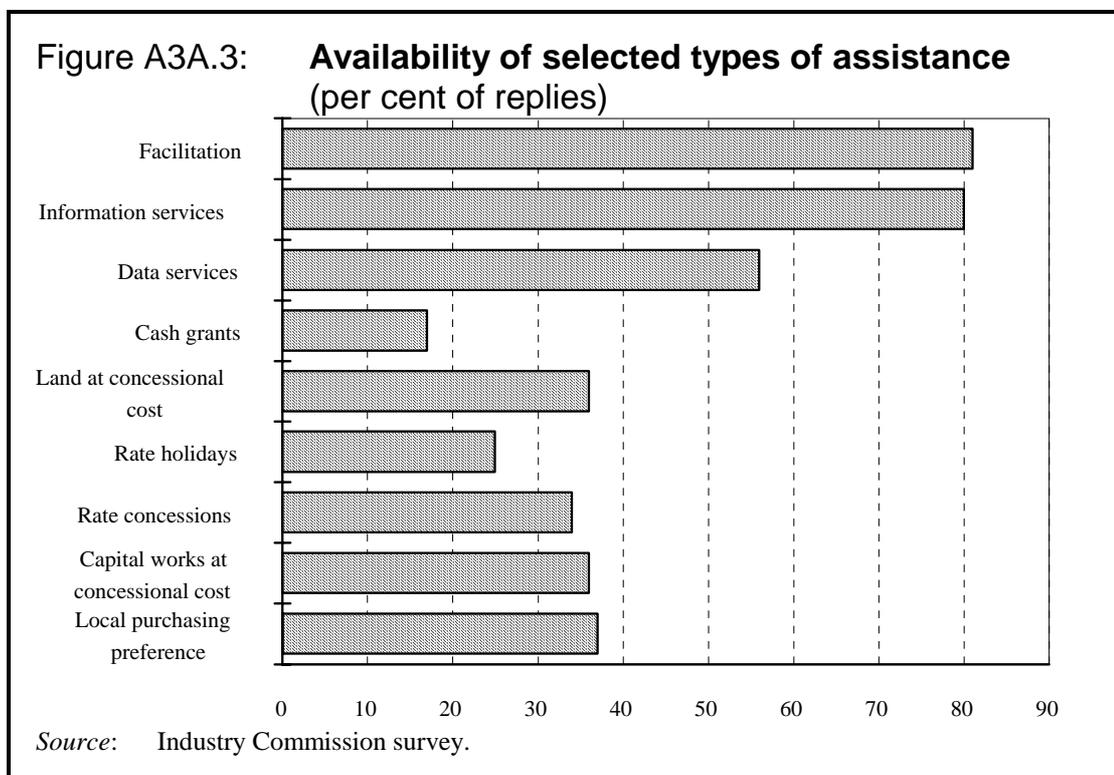
Figure A3A.3 shows the availability of selected types of assistance. Facilitation (eg assistance to understand and negotiate approval procedures) and information services are provided by 81 per cent and 80 per cent of local governments, respectively. Two-thirds of those report that use is often made of these services.

The provision of financial assistance is less favoured by local governments than the provision of 'in kind' facilitation and information services. The most commonly available are cash grants (by 17 per cent of local governments) and loans (by 15 per cent). Even where available, in the majority of cases financial assistance measures are rarely used.

When making available assistance through revenue forgone, the form most favoured by local governments is the provision of services such as headworks and access roads at concessional cost, and land at concessional cost (both by 36 per cent of local governments), closely followed by rate concessions and rebates (34 per cent of the cases). However, actual use of such measures is not common.

Other types of assistance available are local purchasing preferences (a little more than one-third of cases) and joint ventures (just under one-fifth of cases).

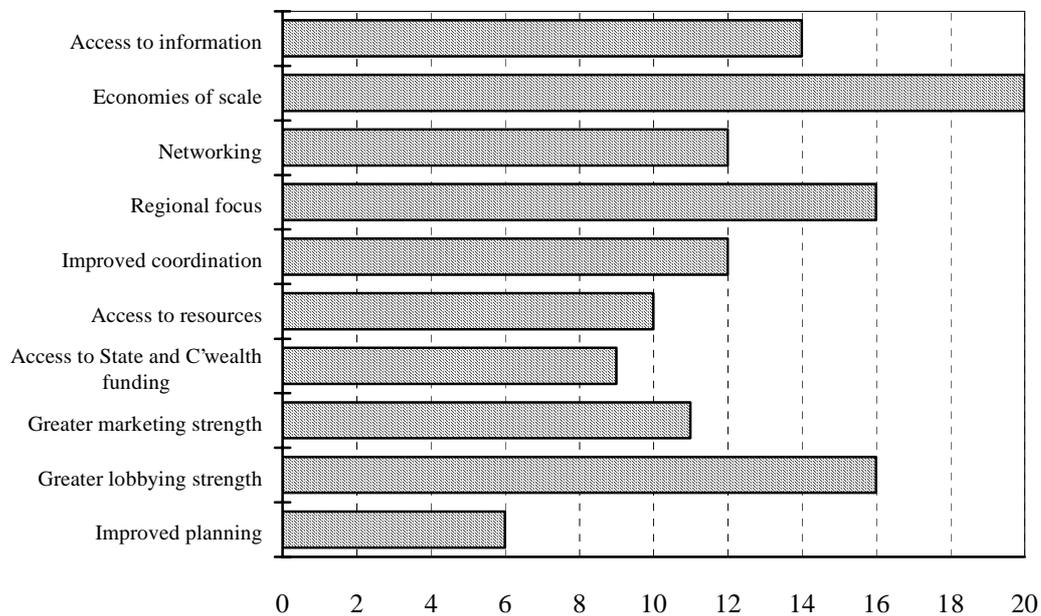
Whereas joint ventures are rarely entered into, local purchasing preferences are often used by nearly two-thirds of the local governments which provide such assistance.



More than 90 per cent of respondents contribute to formal regional development organisations and other regional organisations, such as tourism bodies. The reasons most often cited for involvement in such bodies were to achieve economies of scale, for networking, to gain access to more information, for better coordination and less duplication, and to increase lobbying and marketing strength (see Figure A3A.4).

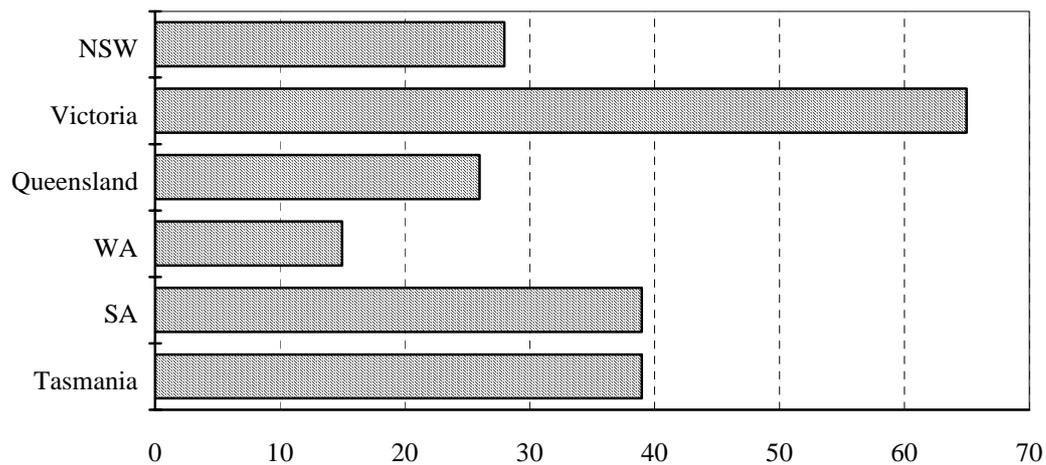
While around half of local governments have a part of their organisational structure devoted to assisting businesses, 34 per cent of local governments also have a specific policy of assisting business to remain, expand and locate in their jurisdiction. As shown in Figure A3A.5, such policies are most prevalent in Victoria (65 per cent of replies) and least common in Western Australia (15 per cent of replies).

**Figure A3A.4: Benefits from involvement in regional groupings (per cent of replies)**



Source: Industry Commission survey.

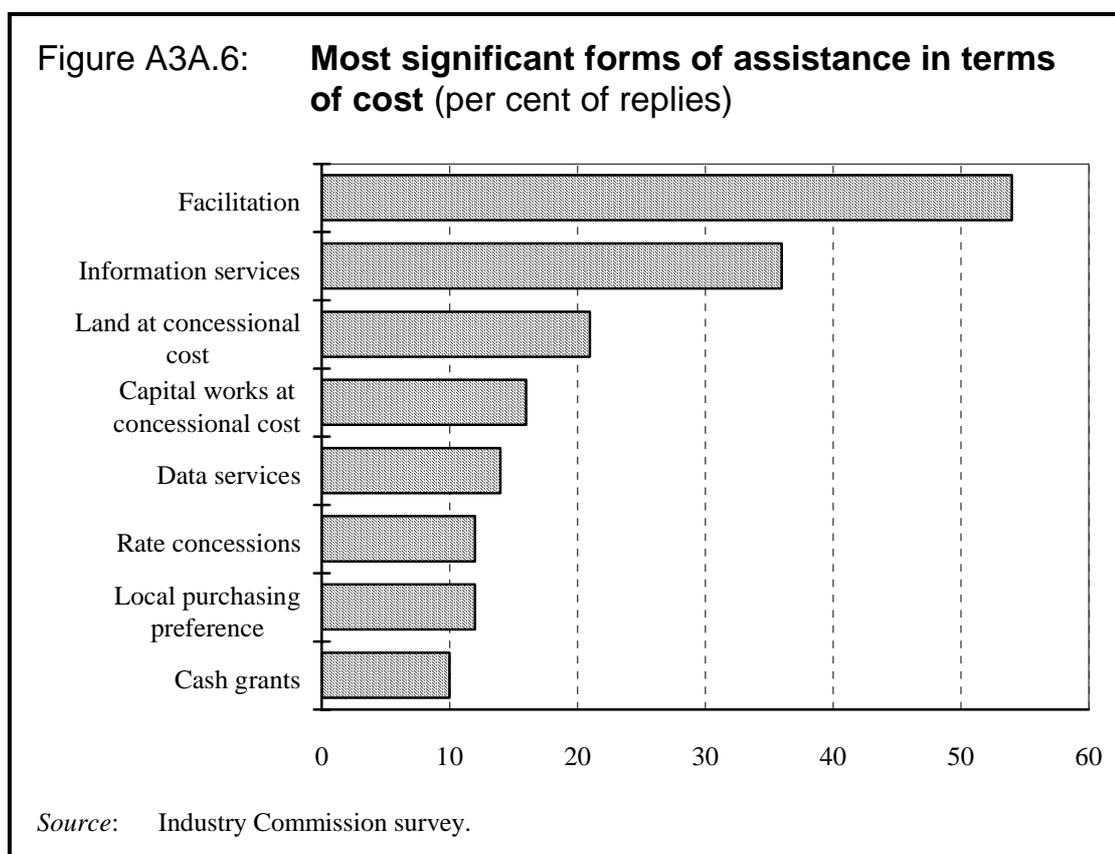
**Figure A3A.5: Specific policy for assistance (per cent of replies)**



Source: Industry Commission survey.

Approximately 15 per cent of councils indicated that they do not distinguish between industries but consider each application for such assistance on its merits, regardless of the industry involved. Where indicated, the most favoured types of industries are light manufacturing and primary products processing. The least favoured are mining and finance.

The most significant form of assistance, in terms of cost to the local government, is 'in kind' facilitation in all States (see Figure A3A.6). Next in terms of cost are information services, land at concessional cost and concessional cost for capital works.



Just over half of the overall assistance provided by local governments is selective. Some is provided on a continuing basis.

Overall, 2.54 per cent of local government revenue is devoted to the provision of assistance to industry.

Information on the cost of assistance to individual businesses is available publicly in one-third of the cases where it has been provided. When the total

cost of assistance is publicly available the details of the cost are usually provided also.

Where formal ex-ante evaluations are carried out, the majority of councils do not make them publicly available. One in five councils conduct evaluations after the event.

### **A3A.2 The survey**

Local governments were asked questions relating to the following:

- the organisational structure, in terms of personnel and budget, in place to provide assistance to businesses;
- whether the provision of facilities to provide such assistance was shared with other local governments;
- whether they contributed to other regional organisations, such as tourism organisations;
- whether they had involvement in any regional development organisations and the nature of the benefit they received;
- whether there was a specific policy of assisting businesses to remain, expand or locate in their jurisdiction and the types of businesses which would be eligible for such assistance;
- the types of assistance provided businesses and the relative importance in terms of cost to the local government;
- whether the financial assistance provided was generally available to a particular class of business or was available selectively to individual firms;
- whether any of the financial assistance was provided on a continuing basis;
- the cost of all assistance provided as a proportion of the total annual revenue and whether that proportion has increased over the last two years;
- whether the cost and the details of any financial assistance provided to individual businesses were publicly available;
- the nature of any procedures used to evaluate assistance proposals and whether or not the size of the proposal influences the procedures;
- whether the results of any evaluations undertaken were publicly available;
- similarly, whether any evaluations were undertaken after the project was implemented and whether or not the results were made available publicly; and

- the nature of any restrictions imposed by the State on their ability to provide assistance to industry.

### A3A.3 Response

The survey responses were analysed separately for each State and then amalgamated. The level of response varied, as indicated in Table A3A.1. A very high proportion of the local government authorities surveyed in Victoria participated. The relatively low response rate in Queensland may have been due to the fact that survey questionnaires were received by that State's local government authorities much later than by those in other States and the consequently much shorter period available for responding.

**Table A3A.1: Local Government survey response**

<i>State</i>	<i>Local Governments</i>	<i>Survey responses</i>	<i>Response rate</i>
	<i>No.</i>	<i>No.</i>	<i>%</i>
NSW	177	110	62
Victoria	78	63	81
Queensland	137	42	31
WA	145	62	48
SA	118	51	43
Tasmania	29	18	62
<b>Total</b>	<b>684</b>	<b>346</b>	<b>51</b>

*Source:* Industry Commission survey.

The Commission considers that the responses received provide a reasonably representative sample of all local governments. Nevertheless, proportionately more of the local governments actively involved in providing assistance to industry may have responded than those with no involvement. If this is the case, then extrapolations based on the responses will overestimate the involvement of local governments in providing assistance to industry. Conversely, taking only the aggregate of the survey responses will underestimate the level of assistance provided.

The survey was undertaken primarily to provide information on the range and types of assistance provided to industry by local governments; and on this it provides important information not available elsewhere.

## A3A.4 Results

### Method of providing assistance to business

Local governments provide assistance to businesses in a variety of ways, namely:

- providing assistance through own organisational structure;
- sharing provision of facilities with other local governments;
- contributing to other regional organisations, such as regional tourism bodies; and
- involvement in regional development organisations.

In addition, some local governments have a specific policy to assist businesses to remain, expand or locate in their jurisdiction.

Responses to survey questions on these topics follow.

#### *Own organisational structure for provision of assistance to business*

Table A3A.2 gives survey responses to the question about local governments' own organisational structure for the provision of assistance to businesses. Overall, more than half of local governments have facilities for providing assistance to business as part of their organisational structure. Victoria, with 94 per cent, stands out as having by far the highest proportion of local governments with their own organisational structure for providing assistance.

The staffing and budget allocations provided to assist businesses are given in Table A3A.3. On average, those with an organisational structure provide, per local government, 1.8 full-time equivalent staff and a budget of \$139 800. Again, Victoria stands out as providing the highest average number of staff per local government authority as well as the highest average budget allocation. If Victoria is excluded, average staff and budget allocations are 1.3 and \$82 700, respectively. While nearly half the councils in South Australia have their own organisational structure for the provision of assistance, they allocate the lowest average number of staff and budget.

**Table A3A.2: Own organisational structure for provision of assistance to business**

<i>State</i>	<i>Organisational structure</i>					
	<i>Yes</i>		<i>No</i>		<i>No reply</i>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
NSW	55	50	49	45	6	5
Victoria	59	94	4	6	0	0
Queensland	21	50	18	43	3	7
WA	13	21	45	73	4	6
SA	24	47	25	49	2	4
Tasmania	9	50	8	44	1	6
<b>Total</b>	<b>181</b>	<b>52</b>	<b>149</b>	<b>43</b>	<b>16</b>	<b>5</b>

*Source:* Industry Commission survey.

**Table A3A.3: Cost of own organisational structure for provision of assistance to business**

<i>State</i>	<i>Survey replies</i>	<i>Total</i>		<i>Av. per local govt.</i>	
		<i>Staff<sup>a</sup></i>	<i>Budget</i>	<i>Staff<sup>a</sup></i>	<i>Budget</i>
		<i>No.</i>	<i>\$000</i>	<i>No.</i>	<i>\$000</i>
NSW	46	60.6	4 036	1.3	87.7
Victoria	58	145.8	13 760	2.5	237.2
Queensland	16	32.3	1 889	2.0	118.1
WA	8	8.6	518	1.1	64.7
SA	20	14.5	979	0.7	49.0
Tasmania	9	13.0	765	1.4	85.0
<b>Total</b>	<b>157</b>	<b>274.8</b>	<b>21 947</b>	<b>1.8</b>	<b>139.8</b>

a Full-time equivalent staff.

*Source:* Industry Commission survey.

### *Sharing provision of assistance facilities with other local governments*

Table A3A.4 gives the survey responses to the question about sharing facilities with other local governments in the provision of assistance to business. Twenty three per cent of local governments share organisational structures with others.

This proportion varies considerably between States, with Queensland having the highest proportion (36 per cent) and New South Wales the lowest (15 per cent).

**Table A3A.4: Sharing provision of assistance with another local government**

<i>State</i>	<i>Sharing</i>					
	<i>Yes</i>		<i>No</i>		<i>No reply</i>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
NSW	16	15	80	73	14	13
Victoria	17	27	40	64	6	10
Queensland	15	36	23	55	4	10
WA	14	23	39	63	9	15
SA	13	26	35	69	3	6
Tasmania	3	17	12	67	3	17
<b>Total</b>	<b>78</b>	<b>23</b>	<b>229</b>	<b>66</b>	<b>39</b>	<b>11</b>

*Source:* Industry Commission survey.

**Table A3A.5: Cost of sharing provision of assistance with another local government**

<i>State</i>	<i>Direct financial cost</i>			<i>'In kind' contribution</i>		
	<i>Replies</i>	<i>Total</i>	<i>Av./LG</i>	<i>Replies</i>	<i>Total</i>	<i>Av./LG</i>
	<i>No.</i>	<i>\$000</i>	<i>\$000</i>	<i>No.</i>	<i>\$000</i>	<i>\$000</i>
NSW	12	364.0	30.3	12	125.0	10.4
Victoria	17	551.5	32.4	8	140.0	17.5
Queensland	15	943.0	62.9	8	41.5	5.2
WA	13	143.8	11.1	10	30.0	3.0
SA	11	190.5	17.3	9	72.5	8.1
Tasmania	3	24.5	8.2	3	14.5	4.8
<b>Total</b>	<b>71</b>	<b>2 217.3</b>	<b>31.2</b>	<b>50</b>	<b>423.5</b>	<b>8.5</b>

*Av./LG* Average per local government.

*Source:* Industry Commission survey.

Table A3A.5 gives the nature of the contribution in terms of direct and 'in kind' cost. Overall, the direct financial cost of sharing is \$31 200 and the average 'in

kind' cost \$8500. Queensland, with the highest proportion of councils sharing facilities, also incurs the highest average direct cost.

### *Contributions to other development organisations*

Table A3A.6 gives the survey responses to the question of local governments' contributions to other development organisations, often regional tourism organisations. In total, 71 per cent of local governments contribute to other development organisations.

**Table A3A.6: Contributing to other development organisations**

<i>State</i>	<i>Contributing</i>					
	<i>Yes</i>		<i>No</i>		<i>No reply</i>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
NSW	69	63	27	25	14	13
Victoria	50	79	10	16	3	5
Queensland	36	86	1	2	5	12
WA	42	68	15	24	5	8
SA	32	63	12	24	7	14
Tasmania	17	94	0	0	1	6
<b>Total</b>	<b>246</b>	<b>71</b>	<b>65</b>	<b>18</b>	<b>35</b>	<b>10</b>

*Source:* Industry Commission survey.

Table A3A.7 gives the cost of their contributions in terms of the value of direct and 'in kind' contributions. On average per local government, the cost of their direct financial contributions is \$30 500 and their 'in kind' contribution is \$14 400. The average cost varied considerably by State, with Victoria's direct contributions being by far the highest at \$79 800 per local government and South Australia's the lowest with \$4800. South Australia's councils also had the lowest 'in kind' contributions.

**Table A3A.7: Cost of contributions to other development organisations**

<i>State</i>	<i>Direct financial cost</i>			<i>'In kind' contribution</i>		
	<i>Replies</i>	<i>Total</i>	<i>Av./LG</i>	<i>Replies</i>	<i>Total</i>	<i>Av./LG</i>
	<i>No.</i>	<i>\$000</i>	<i>\$000</i>	<i>No.</i>	<i>\$000</i>	<i>\$000</i>
NSW	67	1 430.6	21.3	48	421.5	8.8
Victoria	44	3 511.0	79.8	33	639.5	19.4
Queensland	32	499.5	15.6	17	590.5	34.7
WA	41	991.5	24.2	25	201.2	8.0
SA	29	139.3	4.8	16	80.0	5.0
Tasmania	18	467.0	25.9	8	185.0	23.1
<b>Total</b>	<b>231</b>	<b>7 038.9</b>	<b>30.5</b>	<b>147</b>	<b>2 117.7</b>	<b>14.4</b>

*Av./LG* Average per local government.

*Source:* Industry Commission survey.

### *Involvement in regional development organisations*

Local government involvement in regional organisations, such as voluntary regional organisations of councils, State or Commonwealth-sponsored Regional Development Organisations is given in Table A3A.8. A high proportion of local governments are involved in regional development organisations, again often tourism-related.

**Table A3A.8: Involvement in regional development organisations**

<i>State</i>	<i>Involvement in regional development</i>					
	<i>Yes</i>		<i>No</i>		<i>No reply</i>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
NSW	97	88	6	5	7	6
Victoria	52	83	8	13	3	5
Queensland	34	81	5	12	3	7
WA	32	52	19	31	11	18
SA	44	86	3	6	4	8
Tasmania	16	89	0	0	2	11
<b>Total</b>	<b>275</b>	<b>79</b>	<b>41</b>	<b>12</b>	<b>30</b>	<b>9</b>

*Source:* Industry Commission survey.

The cost of direct and ‘in kind’ contributions made to regional development organisations is given in Table A3A.9. The average direct financial cost of their involvement is \$17 100, and the average ‘in kind’ contributions are \$9400. The average cost of this involvement, both direct and ‘in kind’, is the highest in Victoria.

**Table A3A.9: Cost of involvement in regional development organisations**

<i>State</i>	<i>Direct financial cost</i>			<i>‘In kind’ contribution</i>		
	<i>Replies</i>	<i>Total</i>	<i>Av./LG</i>	<i>Replies</i>	<i>Total</i>	<i>Av./LG</i>
	<i>No.</i>	<i>\$000</i>	<i>\$000</i>	<i>No.</i>	<i>\$000</i>	<i>\$000</i>
NSW	74	1 339.3	18.1	66	708.5	10.7
Victoria	43	952.5	22.2	35	453.5	13.0
Queensland	22	261.5	11.9	19	68.0	3.6
WA	21	280.7	13.4	16	98.5	6.1
SA	38	571.2	15.0	16	145.5	9.1
Tasmania	13	201.0	15.4	10	55.5	5.6
<b>Total</b>	<b>211</b>	<b>3 606.2</b>	<b>17.1</b>	<b>162</b>	<b>1 529.5</b>	<b>9.4</b>

*Av./LG* Average per local government.

*Source:* Industry Commission survey.

### *Reasons for involvement*

The survey also asked participants to describe the benefits they derived from being involved in wider regional groupings. Table A3A.10 shows a grouping of the responses by category.

The most often mentioned reasons for participation were:

- economies of scale (20 per cent of replies);
- a wider, regional focus (16 per cent of replies); and
- greater lobbying strength (16 per cent of replies).

There are considerable differences in emphasis among States. In New South Wales, greater lobbying strength is mentioned most often as a benefit (21 per cent of replies). In Victoria, it is access to more information, and networking (both 30 per cent of replies). Councils in South Australia value a regional focus equally highly with the increased access to State and Commonwealth funding

(22 per cent). Tasmanian councils, being relatively small, appreciate the economies of scale (39 per cent of replies) over all the other benefits.

**Table A3A.10: Benefits from involvement in wider regional groupings (per cent of replies)**

<i>Category</i>	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>All States</i>
	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>
Access to more information	16	30	7	3	6	11	<b>14</b>
Economies of scale	19	24	10	18	20	39	<b>20</b>
Networking	11	30	5	-	6	22	<b>12</b>
Regional focus	13	27	19	2	22	17	<b>16</b>
Better coordination, less duplication	18	17	10	3	4	11	<b>12</b>
Access to more resources	13	10	5	5	16	6	<b>10</b>
Access to State and C'wealth funding	7	11	7	2	22	6	<b>9</b>
Greater marketing strength	11	16	14	5	14	6	<b>11</b>
Greater lobbying strength	21	13	19	6	16	17	<b>16</b>
Improved planning ability	7	11	-	2	6	11	<b>6</b>

*Source:* Industry Commission survey.

Typical benefits noted were:

- a less parochial, wider focus;
- cost sharing — for instance, in employing staff with specialist expertise, or developing and maintaining infrastructure and services on a regional basis; and
- joint and coordinated approaches to government departments and agencies.

A small number of respondents (3 per cent) said the benefits from involvement in regional groupings had been negligible so far or had yet to materialise.

#### *Specific policy of assisting business to remain, expand or locate*

Responses to the question of whether the local government has a specific policy of assisting businesses to remain, expand or locate within their jurisdiction are given in Table A3A.11.

While a little more than half have a part of their organisational structure devoted to assisting businesses (see Table A3A.2), 34 per cent of local governments also have a specific policy of assisting business to remain, expand and locate in their

jurisdiction. Such policies are most prevalent in Victoria (65 per cent of replies) and least so in Western Australia (15 per cent of replies).

In addition, a number of councils indicated that they are in the process of developing such a policy.

**Table A3A.11: Specific policy to assist business to remain, expand or locate**

<i>State</i>	<i>Existence of policy</i>					
	<i>Yes</i>		<i>No</i>		<i>No reply</i>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
NSW	31	28	77	70	2	2
Victoria	41	65	21	33	1	2
Queensland	11	26	29	69	2	5
WA	9	15	51	82	2	3
SA	20	39	30	59	1	2
Tasmania	7	39	11	61	0	0
<b>Total</b>	<b>119</b>	<b>34</b>	<b>219</b>	<b>63</b>	<b>8</b>	<b>2</b>

*Source:* Industry Commission survey.

For local governments that have specific policies of directly assisting business to remain, expand or locate, the types of industries in which business would qualify for such assistance are summarised in Table A3A.12.

A number of councils (15 per cent) indicated that they do not distinguish between industries but consider each application for such assistance on its merits, regardless of the industry involved. When indicated, overall the most favoured types of industries are light manufacturing and tourism. The least favoured are mining and finance. Reflecting its importance to the Tasmanian economy, tourism is favoured by all Tasmania's local governments which responded.

**Table A3A.12: Specific policy to assist industry to remain, expand or locate, industry eligibility (per cent of replies)**

<i>Type of industry</i>	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>All States</i>
	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>
Light manufacturing	90	98	82	89	90	67	<b>90</b>
Heavy manufacturing	74	71	55	67	75	50	<b>69</b>
Agriculture (inc forestry and fishing)	58	68	46	78	70	83	<b>65</b>
Primary product processing	77	76	64	67	70	83	<b>73</b>
Mining	35	44	27	56	50	33	<b>41</b>
Tourism	68	88	73	89	85	100	<b>81</b>
Retailing	58	81	64	78	75	67	<b>71</b>
Finance	39	59	27	56	55	33	<b>48</b>
Other services	42	68	27	44	45	50	<b>50</b>

*Source:* Industry Commission survey.

## **Types of assistance provided by local governments, extent of use and cost**

### *'In kind' assistance*

The type of 'in kind' assistance provided and the extent of the use of that assistance are indicated in Table A3A.13.

Facilitation (eg assistance to understand and negotiate approval procedures) and information services are provided by 81 per cent and 80 per cent of local governments, respectively. Two-thirds of those providing those services report that they are used often. Some of the 'other' 'in kind' services provided include:

- lobbying of government departments;
- trade shows and seminars;
- market research;
- project development; and
- providing a venue for meetings.

Table A3A.13: Availability and use of 'in kind' assistance

Type	Available		No reply		Used rarely		Used often	
	No.	%	No.	%	No.	%	No.	%
<i>Facilitation</i>								
NSW	89	81	8	7	27	30	54	61
Victoria	62	98	4	6	9	15	49	79
Queensland	35	83	3	9	9	26	23	66
WA	38	61	0	0	18	47	20	53
SA	40	78	3	8	17	43	20	50
Tasmania	17	94	1	6	2	12	14	82
<b>Total</b>	<b>281</b>	<b>81</b>	<b>19</b>	<b>7</b>	<b>82</b>	<b>29</b>	<b>180</b>	<b>64</b>
<i>Information services</i>								
NSW	84	76	8	10	24	29	52	62
Victoria	62	98	7	11	5	8	50	81
Queensland	35	83	3	9	5	14	27	77
WA	43	69	1	2	18	42	24	56
SA	37	73	2	6	15	41	20	54
Tasmania	14	78	0	0	5	36	9	64
<b>Total</b>	<b>275</b>	<b>80</b>	<b>21</b>	<b>7</b>	<b>72</b>	<b>26</b>	<b>182</b>	<b>66</b>
<i>Data services</i>								
NSW	59	54	7	12	27	46	25	42
Victoria	55	87	3	5	18	33	34	62
Queensland	26	62	3	12	11	42	12	46
WA	24	39	0	0	12	50	12	50
SA	19	37	0	0	11	58	8	42
Tasmania	10	56	0	0	5	50	5	50
<b>Total</b>	<b>193</b>	<b>56</b>	<b>13</b>	<b>7</b>	<b>84</b>	<b>44</b>	<b>96</b>	<b>50</b>
<i>Other</i>								
NSW	6	5	0	0	0	0	6	100
Victoria	9	14	1	11	1	11	7	78
Queensland	6	14	0	0	1	17	5	83
WA	0	0	0	0	0	0	0	0
SA	2	4	0	0	1	50	1	50
Tasmania	1	6	0	0	1	100	0	0
<b>Total</b>	<b>24</b>	<b>7</b>	<b>1</b>	<b>4</b>	<b>4</b>	<b>17</b>	<b>19</b>	<b>79</b>

Source: Industry Commission survey.

### *Financial assistance*

The provision of financial assistance by local governments is given in Table A3A.14. Its provision is less favoured by local governments than is the provision of 'in kind' facilitation and information services. The forms of financial assistance most commonly provided are cash grants (by 17 per cent of local governments), and loans (by 15 per cent). Local governments in Victoria are more willing to offer cash grants than those in other States.

Even where available, financial assistance measures are rarely used in the majority of cases. While many local governments list employment as an important reason for assistance (see also Table A3A.28), employment subsidies and subsidies for education and training are available from only a small proportion of councils. One reason for this could be that such programs often are provided by higher levels of government. 'Other' direct forms of financial assistance include assistance with relocation expenses and office accommodation.

### *Revenue forgone assistance*

Local government availability of assistance through revenue forgone is given in Table A3A.15. The types most favoured are land at concessional cost (36 per cent) and capital works at concessional cost (also 36 per cent). Rate concessions follow closely with 34 per cent. Nevertheless, all are rarely used. Other forms not listed include concessions on development approval fees, rent reductions where the local government owns the property, and provision of free car parking.

### *Other assistance*

Other types of assistance provided by local governments are given in Table A3A.16. The one most commonly provided is local purchasing preferences (37 per cent). Nearly two-thirds of those providing it make use of it often. A small number of local governments said they would adopt a local purchasing preference policy but for the fact that this contravenes competition policy. Other assistance measures reported by councils include networking, fast tracking of permits, and promotion of local products at trade shows.

Table A3A.14: Availability and use of financial assistance

Type	Available		No reply		Used rarely		Used often	
	No.	%	No.	%	No.	%	No.	%
<i>Cash grants</i>								
NSW	13	12	0	0	10	77	3	23
Victoria	18	29	1	6	14	78	3	17
Queensland	8	19	0	0	3	38	5	63
WA	9	15	0	0	6	67	3	33
SA	8	16	0	0	8	100	0	0
Tasmania	3	17	1	33	1	33	1	33
<b>Total</b>	<b>59</b>	<b>17</b>	<b>2</b>	<b>3</b>	<b>42</b>	<b>71</b>	<b>15</b>	<b>25</b>
<i>Employment subsidies</i>								
NSW	4	4	1	25	2	50	1	25
Victoria	5	7	0	0	4	80	1	70
Queensland	2	5	0	0	1	50	1	50
WA	2	3	0	0	2	100	0	0
SA	4	8	0	0	4	100	0	0
Tasmania	2	11	0	0	1	50	1	50
<b>Total</b>	<b>19</b>	<b>6</b>	<b>1</b>	<b>5</b>	<b>14</b>	<b>74</b>	<b>4</b>	<b>21</b>
<i>Loans</i>								
NSW	19	17	0	0	14	74	5	26
Victoria	14	22	2	14	11	79	1	7
Queensland	3	7	0	0	3	100	0	0
WA	8	13	0	0	8	100	0	0
SA	5	10	0	0	4	80	1	20
Tasmania	4	22	0	0	3	75	1	25
<b>Total</b>	<b>53</b>	<b>15</b>	<b>2</b>	<b>4</b>	<b>43</b>	<b>81</b>	<b>8</b>	<b>15</b>
<i>Loan guarantees</i>								
NSW	8	7	0	0	7	88	1	13
Victoria	8	13	0	0	6	75	2	25
Queensland	3	7	0	0	3	100	0	0
WA	1	2	0	0	1	100	0	0
SA	2	4	0	0	1	50	1	50
Tasmania	1	6	0	0	1	100	0	0
<b>Total</b>	<b>23</b>	<b>7</b>	<b>0</b>	<b>0</b>	<b>19</b>	<b>83</b>	<b>4</b>	<b>17</b>
<i>Education/training subsidies</i>								
NSW	4	4	0	0	4	100	0	0
Victoria	10	16	0	0	5	50	5	50
Queensland	5	12	1	20	1	20	3	60
WA	1	2	0	0	1	100	0	0
SA	5	10	0	0	3	60	2	40
Tasmania	1	6	0	0	1	100	0	0
<b>Total</b>	<b>26</b>	<b>8</b>	<b>1</b>	<b>4</b>	<b>15</b>	<b>58</b>	<b>10</b>	<b>39</b>

Source: Industry Commission survey.

**Table A3A.15: Availability and use of assistance through revenue forgone**

<i>Type</i>	<i>Available</i>		<i>No reply</i>		<i>Used rarely</i>		<i>Used often</i>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
<i>Land at concessional cost</i>								
NSW	47	43	2	4	33	70	12	26
Victoria	29	46	3	10	22	76	4	14
Queensland	12	29	3	25	8	67	1	8
WA	15	24	0	0	13	87	2	13
SA	15	29	1	7	11	73	3	20
Tasmania	5	28	0	0	5	100	0	0
<b>Total</b>	<b>123</b>	<b>36</b>	<b>9</b>	<b>7</b>	<b>92</b>	<b>75</b>	<b>22</b>	<b>18</b>
<i>Rate concessions or rebates</i>								
NSW	27	25	4	15	18	67	5	19
Victoria	39	62	5	13	29	74	5	13
Queensland	11	26	0	0	6	55	5	46
WA	11	18	0	0	9	82	2	18
SA	18	36	3	17	11	61	4	22
Tasmania	11	61	0	0	8	73	3	27
<b>Total</b>	<b>117</b>	<b>34</b>	<b>12</b>	<b>10</b>	<b>81</b>	<b>70</b>	<b>24</b>	<b>21</b>
<i>Rate holidays</i>								
NSW	16	15	0	0	11	69	5	31
Victoria	31	49	1	3	24	77	6	19
Queensland	5	12	0	0	3	60	2	40
WA	7	11	0	0	6	86	1	14
SA	18	36	2	11	13	72	3	17
Tasmania	8	44	0	0	6	75	2	25
<b>Total</b>	<b>85</b>	<b>25</b>	<b>3</b>	<b>4</b>	<b>63</b>	<b>74</b>	<b>19</b>	<b>22</b>
<i>Capital works at concessional cost</i>								
NSW	32	29	0	0	22	69	10	31
Victoria	32	51	3	9	25	78	4	13
Queensland	18	43	2	11	13	72	3	17
WA	14	25	0	0	12	86	2	14
SA	20	39	5	25	11	55	4	20
Tasmania	9	50	0	0	5	56	4	44
<b>Total</b>	<b>125</b>	<b>36</b>	<b>10</b>	<b>8</b>	<b>88</b>	<b>70</b>	<b>27</b>	<b>22</b>
<i>Running costs at concessional cost</i>								
NSW	20	18	1	5	15	75	4	20
Victoria	6	10	1	17	4	67	1	17
Queensland	7	17	0	0	7	100	0	0
WA	4	6	0	0	4	100	0	0
SA	5	10	1	20	3	60	1	20
Tasmania	5	28	0	0	3	60	2	40
<b>Total</b>	<b>47</b>	<b>14</b>	<b>3</b>	<b>6</b>	<b>36</b>	<b>77</b>	<b>8</b>	<b>17</b>

*Source:* Industry Commission survey.

**Table A3A.16: Availability and use of other types of assistance**

<i>Type</i>	<i>Available</i>		<i>No reply</i>		<i>Used rarely</i>		<i>Used often</i>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
<i>Joint ventures</i>								
NSW	19	17	0	0	14	74	5	26
Victoria	14	22	2	14	12	86	0	0
Queensland	8	19	0	0	7	88	1	13
WA	8	13	0	0	7	88	1	13
SA	9	18	2	22	6	67	1	11
Tasmania	6	33	1	17	4	67	1	17
<b>Total</b>	<b>64</b>	<b>19</b>	<b>5</b>	<b>8</b>	<b>50</b>	<b>78</b>	<b>9</b>	<b>14</b>
<i>Local purchasing preferences</i>								
NSW	37	34	5	14	6	16	26	70
Victoria	15	24	3	20	5	33	7	47
Queensland	22	52	2	9	8	36	12	55
WA	34	55	0	0	8	24	26	77
SA	13	26	3	23	4	31	6	46
Tasmania	7	39	1	14	1	14	5	71
<b>Total</b>	<b>128</b>	<b>37</b>	<b>14</b>	<b>11</b>	<b>32</b>	<b>25</b>	<b>82</b>	<b>64</b>
<i>Other</i>								
NSW	2	2	0	0	1	50	1	50
Victoria	6	10	0	0	1	17	5	83
Queensland	1	1	0	0	1	100	0	0
WA	0	0	0	0	0	0	0	0
SA	0	0	0	0	0	0	0	0
Tasmania	1	6	0	0	0	0	1	100
<b>Total</b>	<b>10</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>30</b>	<b>7</b>	<b>70</b>

*Source:* Industry Commission survey.

### *Most significant in terms of cost*

The most significant forms of assistance in terms of cost to the local government, as ranked in the top three, are listed by State in Table A3A.17.

Clearly, ‘in kind’ facilitation is revealed as the most significant form of assistance in all States. Next in terms of cost are information services and land at concessional cost. It may be noted that land at concessional cost is rarely used (see Table A3A15) — implying that it is costly when provided.

**Table A3A.17: Most significant forms of assistance in terms of cost, as ranked in the top three (per cent of all replies)**

<i>Reason</i>	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>All States</i>
	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>
<i>'In kind' facilitation</i>							
ranked first	33	44	31	21	29	44	<b>33</b>
mentioned	54	75	52	39	45	67	<b>54</b>
<i>'In kind' information services</i>							
ranked first	9	13	7	15	6	0	<b>9</b>
mentioned	38	46	48	31	24	22	<b>36</b>
<i>'In kind' data services</i>							
mentioned	13	21	24	10	4	11	<b>14</b>
<i>'In kind' other</i>							
mentioned	1	3	7	0	0	0	<b>2</b>
<i>Cash grants</i>							
ranked first	4	3	5	8	4	6	<b>5</b>
mentioned	7	13	7	13	12	11	<b>10</b>
<i>Loans</i>							
ranked first	4	5	0	2	0	0	<b>2</b>
mentioned	5	11	0	3	2	0	<b>5</b>
<i>Loan guarantees</i>							
mentioned	2	2	0	0	0	0	<b>1</b>
<i>Other direct financial assistance</i>							
mentioned	0	2	0	2	2	0	<b>1</b>
<i>Land at concessional cost</i>							
ranked first	13	10	2	5	8	0	<b>8</b>
mentioned	29	24	14	15	18	11	<b>21</b>
<i>Rate concessions or rebates</i>							
ranked first	2	2	5	5	4	11	<b>3</b>
mentioned	11	13	17	5	16	28	<b>12</b>
<i>Rate holidays</i>							
mentioned	3	13	7	5	2	22	<b>6</b>
<i>Concessional cost for capital works</i>							
ranked first	5	5	7	0	8	17	<b>5</b>
mentioned	15	16	17	11	20	28	<b>16</b>
<i>Local purchasing preference</i>							
mentioned	9	0	19	29	12	6	<b>12</b>

Source: Industry Commission survey.

### *General or selective*

In the provision of assistance to businesses, local governments were asked to identify whether it was provided to all businesses of a particular industry or whether it was provided only to individual businesses on the basis of certain selection criteria. The results are summarised in Table A3A.18. About 40 per cent of the assistance provided by local governments overall is provided on a selective basis to businesses. However, there is considerable variation between the States, with Victoria providing almost two-thirds on a selective basis, and Western Australia around one-quarter.

**Table A3A.18: General or selective provision of assistance**

<i>State</i>	<i>Not applicable/ no reply</i>		<i>General</i>		<i>Selective</i>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
NSW	47	43	23	21	40	36
Victoria	14	22	9	14	40	64
Queensland	12	29	10	24	20	48
WA	32	52	14	23	16	26
SA	23	45	10	20	18	35
Tasmania	5	28	6	33	7	39
<b>Total</b>	<b>133</b>	<b>38</b>	<b>72</b>	<b>21</b>	<b>141</b>	<b>41</b>

*Source:* Industry Commission survey.

### *Ongoing*

Local governments were asked if they provided any assistance to businesses on an ongoing basis. As indicated by the responses in Table A3A.19, only 15 per cent do. Although local governments in Victoria provide the highest level of assistance to industry, relatively few provide it on an ongoing basis. Ongoing assistance is provided most frequently in Tasmania and Queensland.

**Table A3A.19: Provision of assistance on an ongoing basis**

<i>State</i>	<i>Not applicable/ no reply</i>		<i>Provided ongoing assistance</i>			
	<i>No.</i>	<i>%</i>	<i>Yes</i>		<i>No</i>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
NSW	19	17	14	13	77	70
Victoria	8	13	8	13	47	75
Queensland	5	12	10	24	27	64
WA	15	24	11	18	36	58
SA	11	22	5	10	34	69
Tasmania	3	17	5	28	10	56
<b>Total</b>	<b>61</b>	<b>18</b>	<b>53</b>	<b>15</b>	<b>232</b>	<b>67</b>

*Source:* Industry Commission survey.

### *Proportion of annual revenue devoted to business assistance*

Local governments were asked to estimate the proportion of their total annual revenue devoted to the provision of business assistance. The results are reported in Table A3A.20.

**Table A3A.20: Estimate of proportion of annual revenue**

<i>State</i>	<i>Providing estimate</i>		<i>&lt;2%</i>		<i>2% to 5%</i>		<i>&gt;5%</i>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
NSW	47	43	39	83	6	13	2	4
Victoria	33	52	19	58	10	30	4	12
Queensland	25	60	20	80	5	20	0	0
WA	26	42	19	73	7	27	0	0
SA	20	40	15	75	5	25	0	0
Tasmania	13	72	9	69	4	31	0	0
<b>Total</b>	<b>164</b>	<b>47</b>	<b>121</b>	<b>74</b>	<b>37</b>	<b>23</b>	<b>6</b>	<b>4</b>

*Source:* Industry Commission survey.

As indicated in the table, of the local governments which provided an estimate of the proportion of annual revenue devoted to business assistance, almost three-quarters provide less than 2 per cent, just under one-quarter provide

between 2 per cent and 5 per cent and a very few provide more than 5 per cent. Overall, those local governments providing estimates, on average, devote 2.54 per cent of their revenue to the provision of assistance to industry.

### *Increased in the last two years*

Local governments were asked to indicate if the proportion of annual revenue devoted to the provision of business assistance had increased over the last two years. As indicated in Table A3A.21 a significant proportion (15 per cent) indicated that it had.

**Table A3A.21: Increase in provision of assistance to business**

<i>State</i>	<i>Not applicable/ no reply</i>		<i>Increased provision</i>			
	<i>No.</i>	<i>%</i>	<i>Yes</i>		<i>No</i>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
NSW	37	34	14	13	59	54
Victoria	20	32	14	22	29	46
Queensland	10	24	3	7	29	69
WA	23	37	7	11	32	52
SA	18	35	7	14	26	51
Tasmania	5	28	5	28	8	44
<b>Total</b>	<b>113</b>	<b>33</b>	<b>50</b>	<b>15</b>	<b>183</b>	<b>53</b>

*Source:* Industry Commission survey.

## **Transparency**

### *Public availability of information on assistance given*

To assess the transparency of the provision of assistance to business, local governments were asked to indicate whether the *total* assistance provided to individual businesses was publicly available and whether *details* of assistance or incentive packages provided to individual businesses were publicly available. The responses to those questions are given in Tables A3A.22 and Table A3A.23. As indicated in Table A3A.22, information on the cost of assistance to individual businesses is available publicly in just over one-third of the cases where it has been provided. Notably, if the information is available publicly, then usually not only is the total cost provided, but also the details of that cost (Table A3A.23).

**Table A3A.22: Public availability of total value of assistance to individual business**

<i>State</i>	<i>Provided reply</i>		<i>Publicly available</i>			
	<i>No.</i>	<i>%</i>	<i>Yes</i>		<i>No</i>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
NSW	71	65	26	37	45	63
Victoria	50	79	8	16	42	84
Queensland	28	67	13	46	15	54
WA	41	66	20	49	21	51
SA	35	69	11	31	24	69
Tasmania	15	83	6	40	9	60
<b>Total</b>	<b>240</b>	<b>69</b>	<b>84</b>	<b>35</b>	<b>156</b>	<b>65</b>

*Source:* Industry Commission survey.

**Table A3A.23: Public availability of details of assistance provided to individual business**

<i>State</i>	<i>Provided reply</i>		<i>Publicly available</i>			
	<i>No.</i>	<i>%</i>	<i>Yes</i>		<i>No</i>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
NSW	68	62	28	41	40	59
Victoria	51	81	10	20	41	80
Queensland	27	64	11	41	16	59
WA	40	65	17	43	23	58
SA	34	67	13	38	21	62
Tasmania	15	83	6	40	9	60
<b>Total</b>	<b>235</b>	<b>68</b>	<b>85</b>	<b>36</b>	<b>150</b>	<b>64</b>

*Source:* Industry Commission survey.

### *Ex-ante evaluation procedures*

Local governments were asked to indicate the nature of the evaluation procedures they used when considering the provision of assistance to businesses

and the public availability of the results of any formal evaluations. The results are given in Tables A3A.24 and A3A.25.

Where evaluation procedures are reported to be carried out against guidelines or pre-existing criteria, this seems to be the case more often for small projects than for large ones. While this may seem irrational at first sight, it is less so when it is noted that large projects are more often evaluated by means of cost-benefit analysis conducted externally. Some councils reported that their evaluation procedures were in the process of being determined. The main 'other' type of evaluation procedure used was reported to be employment outcomes.

Table A3A.25 shows that where formal ex-ante evaluations are carried out, the majority of councils do not make them publicly available.

Table A3A.24: Ex-ante evaluation procedures of assistance provided to individual business

Type of evaluation procedure	Carry out ex-ante evaluation		Size of project			
	No.	%	Small		Large	
	No.	%	No.	%	No.	%
<i>Assessment against guidelines</i>						
NSW	20	18	19	95	14	70
Victoria	28	44	21	75	22	79
Queensland	6	14	6	100	3	50
WA	11	18	10	91	6	54
SA	10	20	10	100	6	60
Tasmania	3	17	3	100	3	100
<b>Total</b>	<b>78</b>	<b>23</b>	<b>69</b>	<b>88</b>	<b>54</b>	<b>69</b>
<i>Assessment against pre-existing criteria</i>						
NSW	9	8	8	89	5	56
Victoria	24	38	16	67	20	83
Queensland	6	14	6	100	2	33
WA	5	8	4	80	2	40
SA	10	20	10	100	8	80
Tasmania	3	17	3	100	2	67
<b>Total</b>	<b>57</b>	<b>16</b>	<b>47</b>	<b>82</b>	<b>39</b>	<b>68</b>
<i>Formal cost-benefit analysis conducted internally</i>						
NSW	16	15	14	88	9	56
Victoria	27	43	14	52	24	89
Queensland	3	7	2	67	1	33
WA	9	15	8	89	6	67
SA	8	16	5	63	8	100
Tasmania	1	6	1	100	0	0
<b>Total</b>	<b>64</b>	<b>18</b>	<b>44</b>	<b>69</b>	<b>48</b>	<b>75</b>
<i>Formal cost-benefit analysis conducted externally</i>						
NSW	6	5	1	17	5	83
Victoria	13	21	4	31	13	100
Queensland	3	7	1	33	3	100
WA	2	3	0	0	2	100
SA	2	4	0	0	2	100
Tasmania	1	6	0	0	1	100
<b>Total</b>	<b>27</b>	<b>8</b>	<b>6</b>	<b>22</b>	<b>26</b>	<b>96</b>
<i>Other</i>						
NSW	4	4	4	100	4	100
Victoria	4	6	3	75	4	100
Queensland	0	0	0	0	0	0
WA	1	2	1	100	1	100
SA	3	6	3	100	2	67
Tasmania	1	6	1	100	1	100
<b>Total</b>	<b>13</b>	<b>4</b>	<b>12</b>	<b>92</b>	<b>12</b>	<b>92</b>

Source: Industry Commission survey.

**Table A3A.25: Public availability of details of formal ex-ante evaluations**

<i>State</i>	<i>Providing reply</i>		<i>Publicly available</i>			
	<i>No.</i>	<i>%</i>	<i>Yes</i>		<i>No</i>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
NSW	62	56	19	31	43	69
Victoria	44	70	8	18	36	82
Queensland	18	43	3	17	15	83
WA	30	48	14	47	16	53
SA	26	51	10	39	16	62
Tasmania	12	67	2	17	10	83
<b>Total</b>	<b>192</b>	<b>56</b>	<b>56</b>	<b>29</b>	<b>136</b>	<b>71</b>

*Source:* Industry Commission survey.

### *Ex-post evaluation procedures*

Local governments were asked also to indicate whether they evaluated assisted projects to see if expectations were realised, and about the nature of the evaluation procedures used. The results are given in Tables A3A.26 and A3A.27. Fewer replied to these questions on ex-post evaluation than ex-ante evaluation. Of those replying, a significant number (half) conduct evaluations after the event, though with considerable variation from State to State.

**Table A3A.26: Incidence of ex-post evaluations**

<i>State</i>	<i>Providing reply</i>		<i>Evaluated ex-post</i>			
	<i>No.</i>	<i>%</i>	<i>Yes</i>		<i>No</i>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
NSW	53	48	22	42	31	59
Victoria	44	70	35	80	9	21
Queensland	16	38	6	38	10	63
WA	28	45	10	36	18	64
SA	24	50	12	50	12	50
Tasmania	11	61	3	27	8	73
<b>Total</b>	<b>176</b>	<b>51</b>	<b>88</b>	<b>50</b>	<b>88</b>	<b>50</b>

*Source:* Industry Commission survey.

**Table A3A.27: Ex-post evaluation procedures of assistance provided to individual business**

<i>Type of evaluation procedure</i>	<i>Not applicable/ no reply</i>		<i>Evaluated</i>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
<i>Assessment against guidelines</i>				
NSW	101	92	9	8
Victoria	41	65	22	35
Queensland	39	93	3	7
WA	56	90	6	10
SA	45	88	6	12
Tasmania	17	94	1	6
<b>Total</b>	<b>299</b>	<b>86</b>	<b>47</b>	<b>14</b>
<i>Assessment against pre-existing criteria</i>				
NSW	102	93	8	7
Victoria	44	70	19	30
Queensland	41	98	1	2
WA	58	94	4	6
SA	46	90	5	10
Tasmania	17	94	1	6
<b>Total</b>	<b>308</b>	<b>89</b>	<b>38</b>	<b>11</b>
<i>Formal cost-benefit analysis conducted internally</i>				
NSW	101	92	9	8
Victoria	50	79	13	21
Queensland	39	93	3	7
WA	58	94	4	6
SA	44	86	7	14
Tasmania	18	100	0	0
<b>Total</b>	<b>310</b>	<b>90</b>	<b>36</b>	<b>10</b>
<i>Formal cost-benefit analysis conducted externally</i>				
NSW	109	99	1	1
Victoria	56	89	7	11
Queensland	42	100	0	0
WA	61	98	1	2
SA	50	98	1	2
Tasmania	17	94	1	6
<b>Total</b>	<b>235</b>	<b>97</b>	<b>11</b>	<b>3</b>
<i>Other</i>				
NSW	105	95	5	5
Victoria	60	95	3	5
Queensland	41	98	1	2
WA	62	100	0	0
SA	51	100	0	0
Tasmania	17	94	1	6
<b>Total</b>	<b>336</b>	<b>97</b>	<b>10</b>	<b>3</b>

*Source:* Industry Commission survey.

A high percentage of councils did not reply to the question on ex-post evaluation procedures, or judged the question not applicable to them. Amongst those carrying out evaluations, guidelines, existing criteria and formal cost-benefit analysis conducted internally (in that order) are the procedures most often used. Formal, externally conducted cost-benefit analysis is used by only eleven councils, seven of which are in Victoria, and by none in Tasmania. Other procedures reported to be used were:

- employment outcomes;
- audit requirements and certification; and
- informal discussions.

### *Reasons for the provision of business assistance*

Local governments were asked to indicate the reason, or reasons, for their provision of assistance to businesses and, if possible, to rank those reasons. The reasons suggested and their ranking are given in Table A3A.28.

<i>Reason</i>	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>All States</i>
	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>
<i>Encourage growth</i>							
mentioned	63	87	74	84	61	94	<b>74</b>
ranked first or equal first	53	62	60	56	51	61	<b>56</b>
<i>Provide employment</i>							
mentioned	65	84	71	55	61	94	<b>68</b>
ranked first or equal first	35	54	38	33	47	50	<b>41</b>
<i>Reduce unemployment</i>							
mentioned	35	87	38	31	33	67	<b>45</b>
ranked first or equal first	22	25	24	16	22	50	<b>23</b>
<i>Competition with other councils/shires</i>							
mentioned	9	30	10	23	8	22	<b>16</b>
ranked first or equal first	5	3	2	8	2	6	<b>4</b>
<i>Other</i>							
mentioned	5	13	10	3	4	6	<b>7</b>
ranked first or equal first	5	11	2	2	2	6	<b>5</b>

*Source:* Industry Commission survey.

Encouraging growth and the provision of employment ranked highest overall, and particularly highly in Tasmania. Competition with other councils received substantial mention but was not ranked first or equal first by many councils. Some other reasons for providing assistance included:

- increasing the rate base;
- better utilisation of local resources;
- to diversify the local economy; and
- minimising the population drift.

### *Restrictions on provision of assistance to business*

Local governments were asked to indicate if there were restrictions imposed by State and Territory governments on their ability to provide assistance to businesses and the nature of these restrictions. The indicative list suggested and the responses to it are indicated in Table A3A.29.

**Table A3A.29: Restrictions on the provision of assistance to industry by State government**  
(per cent of all replies)

<i>Reason</i>	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>All States</i>
	%	%	%	%	%	%	%
Limitations on differential rate levels	28	22	5	16	14	17	<b>19</b>
Prohibition on grants	8	5	12	27	10	11	<b>12</b>
Public disclosure	17	11	2	19	4	17	<b>13</b>
Big projects to State government	28	6	14	11	20	11	<b>17</b>
Other	7	10	2	8	6	0	<b>7</b>

*Source:* Industry Commission survey.

Not surprisingly, as each State has its own legislation governing the activities of local government authorities, restrictions noted by councils within each State differed. For instance, in New South Wales the restrictions nominated most often were limitations on differential rate levels and projects over a certain size being dealt with by the State Government. In Victoria it was limitations on differential rates, and in Western Australia and Tasmania it was prohibitions on grants. A few councils noted restrictions in addition to those listed in the survey questionnaire:

- environmental regulation;
- restrictions on borrowing;
- rate reduction targets;
- land sale regulations; and
- cross-border anomalies.

Overall, however, most councils did not report being restricted by their State government in their provision of assistance to industry. One council said restrictions were irrelevant given the limited capacity of local government to provide assistance.

### *Other comments*

As the survey was conducted for this inquiry, councils were asked what the Commission should be aware of when reporting on assistance provided by State, Territory and local governments. This brought forward a variety of responses of which the following gives a flavour.

Councils are becoming more involved in the economic development within their jurisdictions and the wider region. Councils are closer to the people in their areas and are in a better position to determine what local and regional needs are. For the same reason, they can also be more flexible than higher levels of government in the services they provide. A number of councils said that most councils were too small to be able to provide financial assistance to industry. Some said amalgamation could be the solution. Others said that in spite of offering significant incentives they had not been successful in attracting industry to their area.

Some New South Wales councils said State and Commonwealth governments lacked a clear understanding of the role of local government. It was not the role of local government to assist industry; rather, it should provide an environment conducive to economic development. Some said competition among councils by providing incentive payments for firms to relocate to their area was harmful, in that it resulted in councils being unable to provide the basic services expected from them.

Although Victorian councils have the highest proportion of councils with specific assistance policies, and have by far the highest average budget allocation for the provision of assistance, some also said industry assistance was not a local government function. Rural councils, in particular, said that councils were too small to provide financial incentives to attract firms to their area. One council said it offered incentives, but only to 'indigenous' industries, as non-indigenous industries generally move away once the incentives are

discontinued. Some councils said they should be kept better informed about State and Commonwealth industry assistance programs.

Some rural Queensland councils said they were experiencing a drift of population to the bigger cities and the coastal strip. They said there was a lack of State and Commonwealth Government incentives for economic development inland. One council said it provides ongoing assistance to industry through its town planning activities and the provision of public infrastructure.

Some Western Australian councils said local government has a key role to play in regional economic development, but most have limited resources for that purpose. State and Federal governments provide grants for economic development but access to such grants is difficult.

Some South Australian councils also pointed to the inability of local government to provide sufficient incentives to attract industry. One said competition between councils could result in a reduction in environmental standards applied to development applications.

Tasmanian councils are increasingly becoming more actively involved in local economic development, but say they are disadvantaged because it is difficult to gain access to program funding. One council said strategic planning and identifying local resources are important prerequisites of providing assistance.

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## **APPENDIX 4: COMMONWEALTH ASSISTANCE**

This Appendix gives a brief snapshot of the nature and extent of Commonwealth assistance to industry. More detailed information on Commonwealth assistance can be found in the Commission's 1995–96 Annual Report (IC 1996a, Appendices D and F) and a recent Commission Information Paper (IC 1995c) on assistance to agricultural and manufacturing industries.

Section A4.1 provides a summary of the overall extent of Commonwealth assistance to industry, prior to looking at the individual components of that assistance. The nature and extent of, and trends in, assistance provided by tariffs and certain other forms of measured assistance to the agricultural, manufacturing and mining sectors, are reviewed in Section A4.2. Information on Commonwealth budgetary assistance to the agricultural, manufacturing, mining and services sectors is presented in Section A4.3.

### **A4.1 Extent of Commonwealth assistance to industry**

On the basis of the information contained in this appendix, the Commission has estimated that the total value of Commonwealth assistance to industry in 1994–95 (the last year for which relevant data are available for all sectors) was nearly \$9.9 billion. Of this total, \$6.5 billion was provided by way of tariffs and other measured assistance, such as domestic marketing arrangements for agriculture, while the other \$3.4 billion was budgetary assistance, including nearly \$1.4 billion of tax revenue forgone by the Commonwealth.

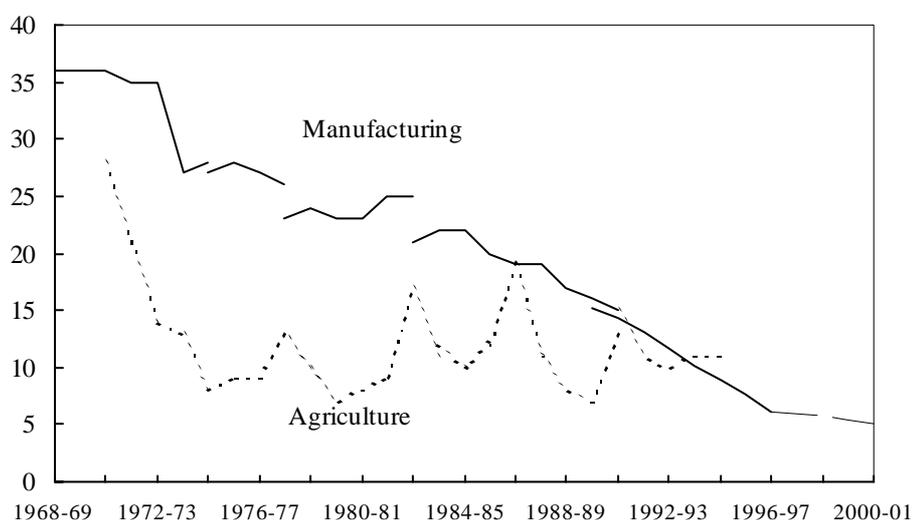
However, it should be noted that the value of Commonwealth assistance would be significantly less now. For instance, the net subsidy equivalent of tariff protection for manufacturing in 1996–97 is estimated to be only \$4 billion, or some one-third less than its 1994–95 level of about \$6 billion.

### **A4.2 Tariffs and other measured assistance**

Australia has made considerable progress since the late 1980s in opening the economy to greater international competition by reducing its tariff protection for industry. This has reduced the burden tariffs previously imposed on consumers and on the growth prospects of exporters and industry generally, and has allowed resources to be reallocated to more productive uses.

Commonwealth assistance to industry has been declining over the last decade or so, and is expected to continue to decline as a result of the program of phased reductions in tariffs and bounties, and the reforms already in place. The decline in assistance has been greatest for the manufacturing sector (see Figure A4.1). The effective rate of assistance for the manufacturing sector declined from 36 per cent in 1968–69 to 9 per cent in 1994–95 and is projected to decline to 5 per cent by 2000–01. After a short decline in the early 1970s, the effective rate of assistance for agriculture has been fairly steady in trend terms, oscillating around its 1994–95 level of 11 per cent.

Figure A4.1: **Average effective rates of assistance for agriculture<sup>a</sup> and manufacturing, 1968–69 to 2000–01 (per cent)**



a Estimates of assistance for the agricultural sector are not available before 1970–71.

Source: IC (1995c, 1996a).

### Assistance to agriculture

In 1994–95, the total value of Commonwealth assistance to agricultural outputs and value adding factors was about \$1.03 billion. Tariffs on agricultural commodities represent only a relatively small component of assistance to the agricultural sector. Most Commonwealth assistance to agriculture is provided by domestic marketing arrangements, while research, government guarantees,

adjustment assistance and various taxation concessions are also significant contributors (see Table A4.1).

**Table A4.1: Assistance to agriculture by form, 1990–91 to 1994–95 (\$ million)**

	1991–92	1992–93	1993–94	1994–95
<b>Assistance to outputs</b>				
Domestic pricing arrangements <sup>a</sup>	450	382	505	556
Tariffs	33	28	30	26
Local content schemes	22	30	21	–
Export incentives	1	3	2	3
Export inspection services <sup>b</sup>	8	9	16	6
Marketing support	56	50	22	1
Government guarantees	113	120	106	58
<b>Total</b>	<b>683</b>	<b>622</b>	<b>702</b>	<b>650</b>
<b>Assistance to value-adding factors</b>				
Adjustment assistance <sup>c</sup>	139	106	105	120
Agricultural research	150	167	156	160
Income taxation concessions <sup>d</sup>	27	78	79	98
Natural disaster relief	5	4	2	1
Sugar industry program	–	–	3	4
<b>Total</b>	<b>321</b>	<b>355</b>	<b>345</b>	<b>383</b>
<b>Assistance to inputs</b>				
Disease control <sup>e</sup>	8	5	3	3
Tariffs on inputs <sup>f</sup>	-103	-105	-87	-77
Tariffs on plant and machinery <sup>f</sup>	-68	-66	-63	-60
<b>Total</b>	<b>-163</b>	<b>-166</b>	<b>-147</b>	<b>-134</b>

– Nil.

a Estimates include the effects of any import restrictions which enable the domestic price to exceed the landed duty-free price of competing imports (eg tariffs on dried vine fruits and sugar imports). For 1994–95, estimates include transitional assistance to tobacco following the removal of the local content scheme.

b Based on shortfalls from 100 per cent cost recovery.

c Estimates for 1992–93 include improved measurement of assistance provided under the Rural Adjustment Scheme. Figures reflect actual Commonwealth interest subsidies provided to farmers.

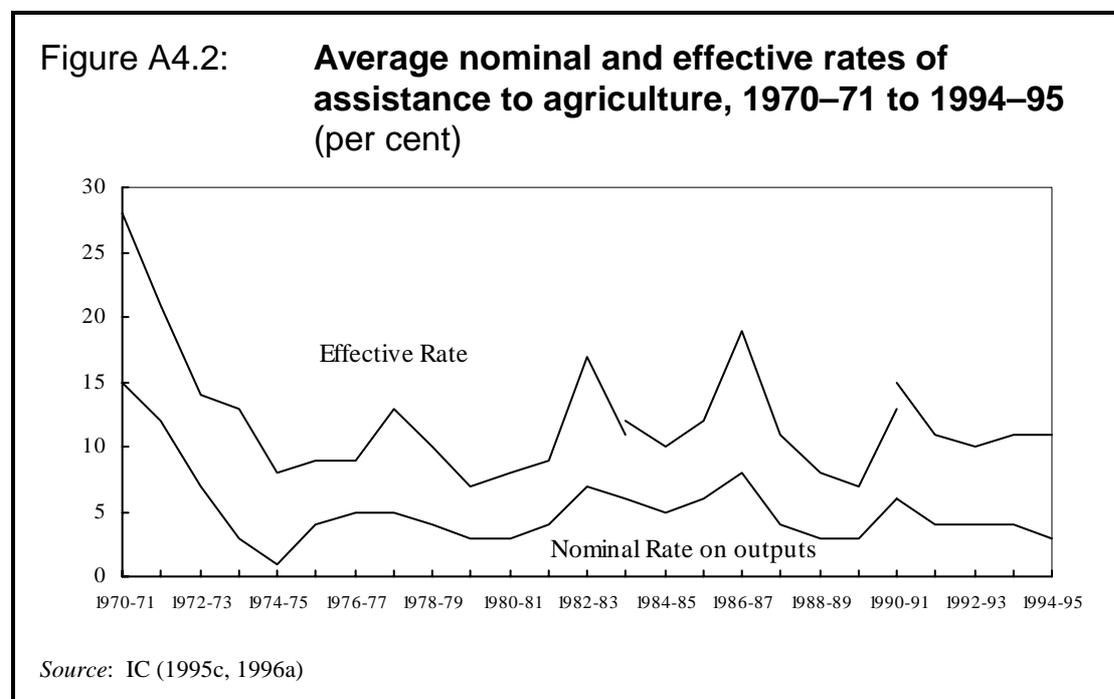
d A small amount of assistance supports activities for which nominal and effective rates are not estimated.

e Covers assistance provided by the bovine brucellosis and tuberculosis eradication campaign.

f The additional costs incurred due to assistance raising the prices of inputs. The current series includes the effect of tariffs on materials used in non-traded inputs.

Source: IC (1996a).

In 1994–95, the average nominal rate of assistance (NRA) to the agricultural sector was 3 per cent, while the average effective rate of assistance (ERA) was 11 per cent. In recent years, the ERA has been relatively high compared with the late 1970s and early 1980s (see Figure A4.2).



The average NRA and ERA for most broad agricultural activities had declined to relatively low levels by 1994–95. The exception was ‘intensive livestock’, which is dominated by the assistance afforded to dairy farming (see Table A4.2).

Disparities in effective assistance between industries indicate a potential efficiency loss from distortions in resource use. There are quite wide disparities in assistance between agricultural commodities. For example, in 1994–95, assistance to dairy farming and tobacco growing<sup>1</sup> was many times higher than the average. Wine grapes and sugar also received above average assistance in that year (see IC 1996a, Appendix F, Table F.3).

<sup>1</sup> Assistance to tobacco growing was terminated in January 1995.

**Table A4.2: Average nominal and effective rates of assistance by agricultural activity and standard deviations for the agricultural sector, 1991–92 to 1994–95 (per cent)**

Activity	<i>Nominal rate of assistance on output<sup>a</sup></i>				<i>Effective rate of assistance<sup>b</sup></i>			
	<i>1991–92</i>	<i>1992–93</i>	<i>1993–94<sup>c</sup></i>	<i>1994–95</i>	<i>1991–92</i>	<i>1992–93</i>	<i>1993–94<sup>c</sup></i>	<i>1994–95</i>
Horticulture	3	4	3	2	7	8	6	4
Extensive cropping	1	1	1	1	3	4	4	4
Extensive irrigation and high-rainfall crops	3	2	2	2	8	7	7	9
Extensive grazing	2	2	2	..	8	8	7	5
Intensive livestock	13	10	13	15	45	31	44	52
<b>Total agriculture</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>3</b>	<b>11</b>	<b>10</b>	<b>11</b>	<b>11</b>
Standard deviation <sup>c</sup>	9	8	13	13	24	25	56	61

.. Between -0.5 and 0.5 per cent.

a Average nominal rates on outputs are weighted by the unassisted value of output of each activity.

b Average effective rates are weighted by the unassisted value added of each activity.

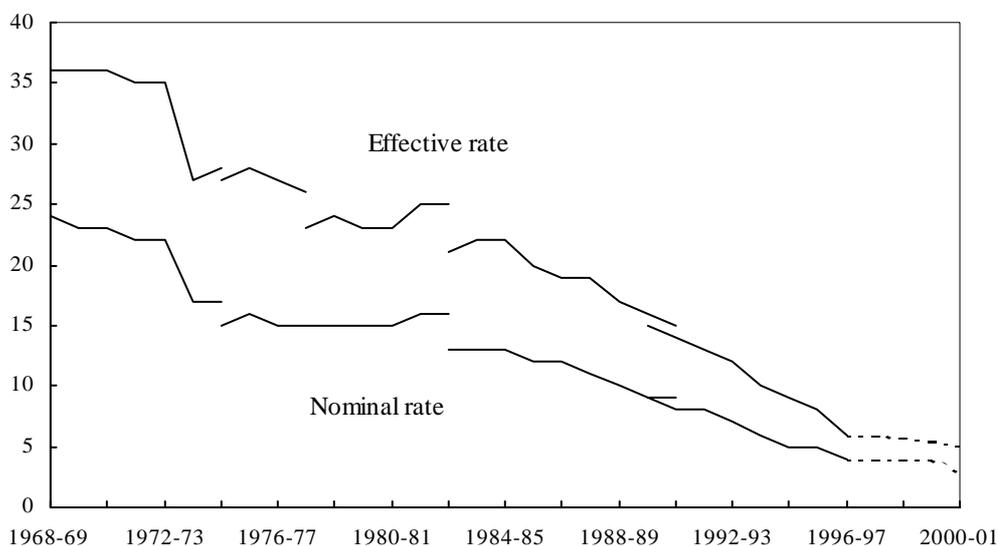
c The standard deviation in percentage points measures how far from the average items in a frequency distribution are located, thereby measuring the extent of variation or dispersion in the distribution. The larger the variability amongst individual activities' nominal and effective rates, the larger the standard deviation.

Source: Commission estimates.

## Assistance to manufacturing

The Australian manufacturing sector has undergone substantial declines in Commonwealth Government assistance between 1968–69 and 1996–97 (see Figure A4.3). The average NRA to manufacturing will have fallen to 4 per cent in 1996–97 (a 20 percentage point reduction from 1968–69) and the ERA to 6 per cent (a 30 percentage point reduction from 1968–69). Projections of assistance indicate that this trend will continue through to 2000–01.

**Figure A4.3: Average nominal and effective rates of assistance for the manufacturing sector<sup>a</sup>, 1968–69 to 2000–01 (per cent)**



a The discontinuities in the series reflect the periodic rebasing of the estimates to account for changes in the structure of the manufacturing sector.

Source: IC (1995c)

Tariffs have been the predominant form of assistance. In 1994–95, the total value of Commonwealth tariff assistance to the manufacturing sector, as measured by the net subsidy equivalent, was around \$6 billion (see Table A4.3).

**Table A4.3: Assistance to manufacturing by form<sup>a</sup>, selected years (\$ million)**

	1983–84	1989–90	1994–95	1996–97	2000–01
<b>Assistance to outputs</b>					
Tariffs <sup>b</sup>	8 205	13 671	9 674	6 629	5 562
Quantitative import restrictions	1 248	505	–	–	–
Bounties <sup>c</sup>	139	208	71	50	47
Export incentives <sup>c</sup>	219	241	285	285	285
<b>Assistance to materials</b>					
Tariffs <sup>b</sup>	3 604	5 064	3 542	2 624	2 274
Quantitative import restrictions	493	94	–	–	–
Excise taxes	8	97	100	100	100
<b>Assistance to value adding factors<sup>d</sup></b>	–	..	51	8	8

– Nil

.. Less than \$0.5 million.

a Estimates for 1983–84 and 1989–90 are in 1983–84 and 1989–90 prices, respectively. Estimates for 1994–95, 1996–97 and 2000–01 are in 1991–92 prices. The figures for assistance to outputs and materials are, respectively, the sum of the gross subsidy equivalents and the tax on materials for individual industries, classified according to form of assistance. The summation of these amounts across industries will exceed the actual total for the sector due to some of the outputs of industries being used as intermediate inputs by other industries within the sector.

b Includes relatively minor amounts of assistance from domestic pricing arrangements for certain agricultural commodities. Figures are net of the savings from concessional entry of imported materials under certain policy by-laws, commercial tariff concession orders, duty drawback and by-law for exports.

c Except for the base years 1983–84 and 1989–90 the estimates presented in this table do not represent the actual bounty and export incentive payments in each year. The estimates measure the assistance afforded by the current rates of bounty and export incentives in each year using fixed 1983–84 and 1989–90 production patterns, respectively.

d The Commission's new series of estimates includes, for the first time, some assistance to value-adding factors namely, certain capital grants and concessional loans for TCF industries.

Source: IC (1995c, 1996a).

Details of ERAs for 2-digit ASIC manufacturing industries are reported in Table A4.4. More disaggregated estimates for NRAs and ERAs are provided in the Commission's 1995 Information Paper on assistance to agricultural and manufacturing industries (IC 1995c, Appendix 6). By 2000, the average NRA for manufacturing is projected to fall to 3 per cent and the ERA to 5 per cent.

At the end of the general tariff reduction program in July 1996, some 80 per cent of manufacturing output remains tariff-assisted at rates up to, and typically at, 5 per cent. The major exceptions remain the passenger motor vehicle (PMV) and textile, clothing and footwear (TCF) industries, which

currently have tariffs of 25 per cent and up to 37 per cent, respectively, and are scheduled to fall to 15 per cent and up to 25 per cent, respectively, in 2000.

**Table A4.4: Average effective rates of assistance for manufacturing, selected years<sup>a</sup> (per cent)**

<i>ASIC</i>	<i>Description</i>	<i>1971-72</i>	<i>1983-84</i>	<i>1994-95</i>	<i>1996-97</i>	<i>2000-01</i>
21-22	Food, beverages and tobacco	19	6	3	2	2
23	Textiles	45	69	33	25	17
24	Clothing and footwear	86	227	60	52	34
25	Wood, wood products and furniture	23	18	7	4	4
26	Paper, paper products, printing and publishing	52	16	5	2	2
27	Chemical, petroleum and coal products	32	12	5	3	3
28	Non-metallic mineral products	14	4	3	2	2
29	Basic metal products	29	10	5	4	4
31	Fabricated metal products	58	25	10	4	4
32	Transport equipment	50	65	24	19	13
323	Motor vehicles and parts	49	129	35	28	19
33	Other machinery and equipment	44	22	9	5	6
34	Miscellaneous manufacturing	32	26	12	7	7
<b>21-34</b>	<b>Total manufacturing</b>	<b>35</b>	<b>22</b>	<b>9</b>	<b>6</b>	<b>5</b>

a Projection based on 1989-90 base year production.

Source: IC (1995c).

Importantly from a resource allocation viewpoint, the dispersion of assistance across manufacturing has more than halved since 1989-90. As shown in Table A4.5 below, the standard deviation for the manufacturing sector's average ERA fell from 22 percentage points in 1989-90 to 10 percentage points in 1996-97 and is expected to decline to 7 percentage points in 2000-01.

**Table A4.5: Standard deviations<sup>a</sup> for effective rates of assistance, manufacturing subdivisions<sup>b</sup>; selected years (percentage points)**

<i>Industry<sup>b</sup></i>						
<i>ASIC</i>	<i>Description</i>	<i>1968–69</i>	<i>1977–78</i>	<i>1989–90</i>	<i>1996–97</i>	<i>2000–01</i>
21	Food, beverages and tobacco <sup>c</sup>	26	18	7	3	5
23	Textiles	25	45	47	22	13
24	Clothing and footwear	36	36	33	15	10
25	Wood, wood products and furniture	15	14	12	2	2
26	Paper, paper products, printing and publishing	33	13	9	2	2
27	Chemical, petroleum and coal products	24	12	11	3	3
28	Non-metallic mineral products	20	7	6	2	2
29	Basic metal products	20	7	13	6	6
31	Fabricated metal products	23	12	7	1	1
32	Transport equipment	14	39	23	14	9
33	Other machinery and equipment	17	13	7	2	2
34	Miscellaneous manufacturing	14	12	6	3	3
<b>21–34</b>	<b>Total manufacturing</b>	<b>30</b>	<b>29</b>	<b>22</b>	<b>10</b>	<b>7</b>

a Standard deviations calculated between 4-digit ASIC industries within a subdivision. The standard deviation measures how far from the average the items in a frequency distribution are located, thereby measuring the extent of variation or dispersion in the distribution. The larger the variability in rates of assistance between individual industries, the larger the standard deviation.

b Industry subdivisions from the Australian Standard Industrial Classification (ASIC) 1983 Edition.

c Estimates for 1992–93, 1996–97 and 2000–01 reflect the Commission's projections of assistance to agricultural commodities. These exclude recent changes to assistance arrangements for dairy and tobacco resulting from the Uruguay Round.

Source: IC (1995c).

### Assistance to mining

The Commission's assistance estimates for mining are restricted to the effects of border interventions, ie tariffs and quotas. Estimates of ERAs for mining for the years 1983–84, 1988–89, 1989–90 and 1990–91 are provided in Table A4.6.

The mining sector is effectively taxed by the assistance structure, as evidenced by its negative effective rates of assistance. Between 1983–84 and 1990–91, the

average effective rate of assistance to mining changed from minus 3.5 per cent to minus 2.8 per cent. This trend is likely to continue in line with the reductions in assistance that were announced in March 1991. When this program is complete, effective rates for most mining industries will be around minus 1 per cent (Table A4.6).

The disparity in effective assistance levels among mining industries is small compared with the corresponding figures for manufacturing and agriculture.

**Table A4.6: Average effective rates of assistance to mining, 1983–84, 1988–89, 1989–90, 1990–91 and on completion of the March 1991 program<sup>a,b</sup> (per cent)**

<i>ASIC codes</i>	<i>Industry</i>	<i>1983 -84</i>	<i>1988 -89</i>	<i>1989 -90</i>	<i>1990 -91</i>	<i>March 1991 program</i>
	<b>Ferrous metal ores</b>					
1111, 2	Ferrous metal ores	-5.4	-4.9	-4.6	-4.3	-1.6
	<b>Non-ferrous metal ores</b>					
1121	Bauxite	-1.3	-3.2	-3.0	-2.8	-1.0
1122	Copper ores	-1.7	-4.7	-4.4	-4.1	-1.6
1123	Gold ores	-4.2	-3.5	-3.3	-3.0	-1.1
1124	Mineral sands	-4.9	-4.3	-4.0	-3.7	-1.4
1125	Nickel ores	-3.6	-2.9	-2.7	-2.6	-1.0
1126	Silver-lead-zinc ores	-4.6	-3.8	-3.5	-3.3	-1.2
1127	Tin ores	-3.0	-4.1	-3.8	-3.6	-1.4
1128	Uranium ores	-5.3	-4.4	-4.1	-3.8	-1.4
1129	Non-ferrous metal ores nec	-2.4	-3.9	-3.6	-3.4	-1.3
	<b>Coal, oil and gas</b>					
1201	Black coal	-2.4	-2.7	-2.5	-2.3	-0.9
1202	Brown coal	-1.9	-1.5	-1.4	-1.3	-0.5
1300	Crude oil and natural gas	-3.1	-2.5	-2.4	-2.2	-0.8
	<b>Other minerals</b>					
1401						
1505	Other minerals	-4.1	-3.7	-3.3	-2.9	-1.0
	<b>Services to mining</b>					
1611, 2	Petroleum and mineral exploration (own account)	-10.1	-8.2	-7.8	-7.4	-3.2
1620	Mining and exploration services nec	-3.5	-2.8	-2.6	-2.5	-1.0
	<b>Total mining</b>	<b>-3.5</b>	<b>-3.2</b>	<b>-3.0</b>	<b>-2.8</b>	<b>-1.1</b>

a Based on border interventions (eg tariffs).

b Assistance estimates are derived using material and tradeable capital inputs combined. March 1991 program shows projections for completion of announced assistance reductions.

Source: IC (1995c).

### A4.3 Commonwealth budgetary assistance

While tariffs have fallen substantially, support continues to be provided to industry in other forms. One major area is budgetary outlays. In 1994–95, Commonwealth budgetary assistance, including both outlays and tax revenue forgone, totalled nearly \$3.4 billion (Table A4.7). This represented slightly more than one-third of total Commonwealth assistance to industry in that year.

**Table A4.7: Commonwealth budgetary assistance, by industry, sector and total, 1994–95 (\$ million)**

	<i>Agriculture</i>	<i>Manufacturing</i>	<i>Mining</i>	<i>Services</i>	<i>Total</i>
Budgetary outlays	645	810	116	461	<b>2 032</b>
Tax revenue forgone	170	1 114	–	75	<b>1 359</b>
<b>Total budgetary assistance</b>	<b>815</b>	<b>1 924</b>	<b>116</b>	<b>536</b>	<b>3 391</b>

*Source:* Industry Commission estimates and Commonwealth Treasury 1995.

More detailed historical and sectoral information relevant to these aggregates is provided in the following sections.

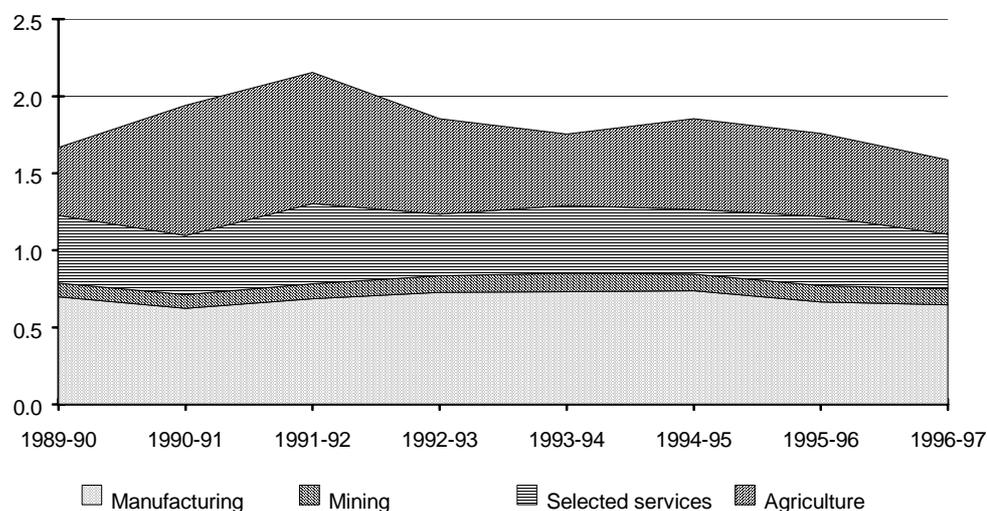
#### **Broad trends in Commonwealth budgetary outlays**

Commonwealth budgetary outlays on assistance to industry accounted for 1.6 per cent of total Commonwealth outlays in 1995–96. This is expected to decrease to 1.4 per cent in 1996–97.

Commonwealth budgetary outlays on industry decreased from \$2.1 billion in 1994–95 to \$2 billion in 1995–96 and are expected to fall by 8 per cent to \$1.8 billion in 1996–97. In real terms, budgetary outlays for 1996–97 are expected to decline to their lowest level in the eight year period reported (see Figure A4.4).

The manufacturing sector receives the largest proportion of budgetary support, accounting for 38 per cent of total government outlays on industry in 1995–96. This is expected to increase to 41 per cent in 1996–97. Outlays supporting primary producers accounted for 30 per cent, and those for selected service industries for 26 per cent in 1995–96. Outlays on service industries are expected to decline to 21 per cent of the total in 1996–97. At 6 per cent, budgetary support for the mining sector remains relatively minor.

**Figure A4.4: Real Commonwealth budgetary outlays on industry<sup>a</sup> by sector<sup>b</sup>, 1989–90 to 1996–97 (\$ billion)**



a Outlays on selected services excludes services programs which have major social objectives overriding assistance goals — for example, outlays on education and health.

b In 1989–90 prices. Values for 1995–96 are based on revised Commonwealth Budget estimates and 1996–97 values are based on Budget estimates. Outlays have been deflated by the annual GDP(E) implicit price deflator.

Source: Budget, Budget related papers, ABS (1996), departmental annual reports (various years) and Commission estimates

### Rate of budgetary outlays

The relative importance of budgetary outlays to industry may be assessed by examining the ratio of budgetary outlays to sectoral gross product (SGP).

Agriculture receives by far the greatest budgetary outlays relative to sectoral product — 3.2 per cent in 1995–96 (see Table A4.8). This ratio has fluctuated significantly, reflecting the volatility of agricultural prices and external factors. Typically, support has been highest at times when the value of sectoral product was comparatively low. The ratio of budgetary outlays to SGP has been more stable for the other sectors.

**Table A4.8: Real budgetary outlays<sup>a</sup> by sector, and as a proportion of sectoral gross product (SGP), 1991–92 and 1995–96**

<i>Industry Sector</i>	<i>1991–92</i>		<i>1995–96</i>	
	<i>Real outlays</i>	<i>Share of SGP</i>	<i>Real outlays</i>	<i>Share of SGP</i>
	<i>\$ million</i>	<i>%</i>	<i>\$ million</i>	<i>%</i>
Agriculture	850.7	5.6	537.5	3.2
Manufacturing	687.0	1.3	665.8	1.0
Mining	97.2	0.6	105.4	0.6
Selected services	519.7	0.3	449.9	0.2

a Expressed in terms of 1989–90 prices.

Source: ABS (1995a), ABARE (1996), Budget Papers and Commission estimates

### Components of budgetary outlays

Disaggregation of real Commonwealth budgetary outlays into payments that may be classified as adjustment, export, R&D, or subsidies provides an indication of the importance of the different types of outlays for each of the four sectors, and of how each type of outlay has fluctuated within a sector (see Figure A4.5).

For primary production (ie agriculture, forestry and fishing), the high level of outlays in 1990–91 and 1991–92 was associated with an increase in compensatory export payments due to:

- Australia's imposition of trade sanctions against Iraq;
- large subsidies to woolgrowers associated with the demise of the reserve price scheme; and
- a large increase in subsidy payments under the Rural Adjustment Scheme.

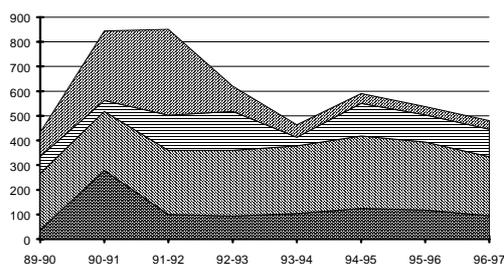
For primary production and mining, outlays supporting R&D have predominated in recent years. Export support and other subsidies make up most of the outlays on the services sector. While this has generally been the case also for manufacturing, R&D funding is expected to exceed export support in 1996–97.

The share of each type of support remained relatively constant between 1994–95 and 1995–96. For 1996–97, export support is estimated to decrease in each sector by an average of 35 per cent. Subsidies and adjustment support are also

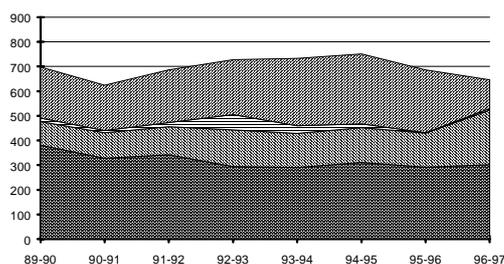
expected to decline, while funding for R&D support is expected to increase with manufacturing being the main beneficiary.

**Figure A4.5: Components of total real budgetary outlays<sup>a</sup> by sector, 1989–90 to 1996–97 (\$ million)**

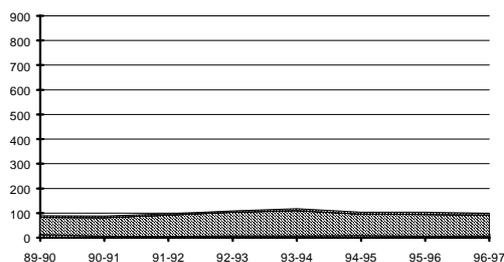
*Panel A: Agriculture, forestry and fisheries*



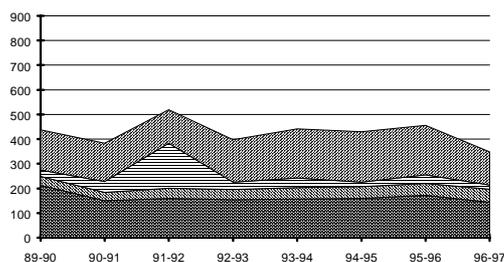
*Panel B: Manufacturing*



*Panel C: Mining*



*Panel D: Selected services*



■ Export    □ Adjustment    ■ R&D    ■ Subsidy

a In 1989–90 prices. Values for 1996–97 are Commonwealth Budget estimates. Outlays have been deflated by the annual GDP(E) implicit price deflator.

Source: Budget, Budget related papers, ABS (1996), departmental annual reports (various years) and Commission estimates

## Sectoral trends in Commonwealth budgetary outlays

### *Primary production*

Agriculture receives by far the largest share of budgetary outlays directed towards primary production, accounting for 91 per cent in 1995–96. This share is expected to decline to 82 per cent in 1996–97 (see Table A4.9).

In 1995–96, four programs — the Rural Adjustment Scheme, CSIRO Institute of Plant Production and Processing, the National Landcare Program and the CSIRO Institute of Animal Production and Processing — accounted for over 55 per cent of reported outlays on agriculture, forestry and fisheries.

**Table A4.9: Commonwealth budgetary outlays on primary production, 1992–93 to 1996–97<sup>a</sup> (\$ million)**

<i>Activity</i>	<i>1992–93</i>	<i>1993–94</i>	<i>1994–95</i>	<i>1995–96</i>	<i>1996–97</i>
<i>Agriculture</i>					
Crops	5.7	9.5	6.7	7.2	16.5
General agricultural activities	245.2	142.5	278.1	243.3	182.7
Livestock, poultry, etc	60.1	32.0	13.7	11.8	11.0
Research and development <sup>b</sup>	267.0	276.6	299.2	289.0	250.6
<b>Total outlays on agriculture</b>	<b>578.0</b>	<b>460.6</b>	<b>597.7</b>	<b>551.3</b>	<b>460.8</b>
<i>Forestry</i>	16.5	10.4	8.4	21.6	46.4
<i>Fisheries</i>	11.4	12.9	14.7	14.9	20.5
<b>Total outlays on agriculture, forestry and fisheries</b>	<b>605.9</b>	<b>483.9</b>	<b>620.8</b>	<b>587.8</b>	<b>527.7</b>
National interest business (NIB) <sup>c</sup>	53.9	14.8	24.0	17.4	27.9
<b>Total outlays on agriculture, forestry and fisheries including net NIB outlays</b>	<b>659.8</b>	<b>498.7</b>	<b>644.8</b>	<b>605.2</b>	<b>555.6</b>

a 1996–97 data are budget estimates.

b Estimates are derived in part from the Science and Technology Budget Statement 1996–97.

c The estimates reported in this section are net National Interest Business outlays. These payments are insurance pay-outs, which in 1991–92 were mainly connected with Australia's imposition of trade sanctions against Iraq. Unlike the 'Trade sanctions compensation – Iraq' payments reported elsewhere in the table, these outlays were in response to insurance claims for which premiums had been paid. Because any difference between the National Interest Business scheme's borrowing and lending rates is underwritten by the Commonwealth, the scheme may provide assistance to agricultural exporters. However, net National Interest Business outlays provide only a weak indication of any assistance provided.

Source: IC (1996a).

*Manufacturing sector*

Total Commonwealth budgetary outlays on general industry programs (including exports) increased by about 25 per cent (in absolute terms) over the period 1992–93 to 1995–96, and are expected to increase by a further 25 per cent in 1996–97. Conversely, outlays on industry-specific programs declined from 46 per cent of the total in 1992–93 to 32 per cent in 1995–96, but are expected to increase to nearly 39 per cent in 1996–97 (see Table A4.10).

In 1995–96, four programs — bounties, the Factor f program for pharmaceuticals, the Development Import Finance Facility and the Export Market Development Grants scheme — accounted for nearly 60 per cent of Commonwealth budgetary outlays on the manufacturing sector. Due to large cuts to the bounties and exports promotion programs, the significance of these four programs is expected to decline to about 50 per cent of outlays in 1996–97.

Table A4.10: **Commonwealth budgetary outlays on the manufacturing sector, 1992–93 to 1996–97<sup>a</sup>**  
(\$ million)

<i>Type of assistance</i>	<i>1992–93</i>	<i>1993–94</i>	<i>1994–95</i>	<i>1995–96</i>	<i>1996–97</i>
Bounties	186.2	158.5	146.7	124.5	86.6
Other industry-specific programs	167.0	142.0	128.5	117.3	201.6
General industry programs	184.5	196.5	232.4	244.2	325.6
<b>Total (excluding export outlays)</b>	<b>537.7</b>	<b>496.0</b>	<b>507.6</b>	<b>486.0</b>	<b>613.8</b>
Export outlays	235.9	291.4	302.1	263.7	132.4
<b>Total manufacturing</b>	<b>773.6</b>	<b>787.4</b>	<b>809.7</b>	<b>749.7</b>	<b>746.2</b>

a 1996–97 data are budget estimates.

Source: IC (1996a)

### *Mining and energy sector*

R&D represents around 85 per cent of Commonwealth outlays on the mining and energy sector. In particular, CSIRO's minerals and energy research programs have recently accounted for around 60 per cent of those outlays.

Overall, mining and energy sector outlays have remained relatively stable over the period 1992–93 to 1996–97 (see Table A4.11).

**Table A4.11: Commonwealth budgetary outlays on the mining and energy sector, 1992–93 to 1996–97<sup>a</sup> (\$ million)**

<i>Type of assistance</i>	<i>1992–93</i>	<i>1993–94</i>	<i>1994–95</i>	<i>1995–96</i>	<i>1996–97</i>
Export outlays	5.6	8.6	8.9	10.2	6.9
R&D outlays	100.7	109.2	97.6	101.0	101.6
Other outlays	9.2	9.1	9.9	7.5	9.5
<b>Total outlays on mining and energy</b>	<b>115.5</b>	<b>126.9</b>	<b>116.4</b>	<b>118.7</b>	<b>118.0</b>

a 1996–97 estimates are budget estimates.

Source: Derived from IC (1996a)

### *Selected services industries*

Total Commonwealth budgetary outlays on services industries increased steadily over the period 1992–93 to 1995–96, but are expected to decline by nearly 20 per cent in 1996–97 to levels below those in 1992–93. Until 1995–96, most of the growth in outlays was in general industry programs (see Table A4.12)<sup>2</sup>.

In 1995–96, four programs — Austrade's export promotion and export market development grants, the Australian Tourist Commission, the Australian Film Finance Corporation and Film Australia — accounted for 70 per cent of Commonwealth budgetary outlays on the services industries.

<sup>2</sup> For the purposes of information gathering for this Table, the services sector has been defined narrowly to include outlays to the communications, construction, film, retailing, tourism and transport industries.

**Table A4.12: Commonwealth budgetary outlays on selected services industries, 1992–93 to 1996–97<sup>a</sup>**  
(\$ million)

<i>Type of assistance</i>	<i>1992–93</i>	<i>1993–94</i>	<i>1994–95</i>	<i>1995–96</i>	<i>1996–97</i>
<i>General industry programs</i>					
Export outlays	182.9	213.5	218.5	219.8	156.4
Subsidies, etc	3.2	7.4	11.0	11.1	2.5
R&D outlays	43.3	49.9	51.0	54.6	61.4
<b>Total general industry programs</b>	<b>229.4</b>	<b>270.8</b>	<b>280.5</b>	<b>285.5</b>	<b>220.3</b>
<i>Industry-specific programs</i>					
Grants, subsidies etc	161.2	184.9	168.5	214.0	180.0
Adjustment outlays	31.9	17.6	11.8	7.1	8.6
<b>Total industry-specific programs</b>	<b>193.1</b>	<b>202.5</b>	<b>180.3</b>	<b>221.1</b>	<b>188.6</b>
<b>Total outlays on selected services industries</b>	<b>422.5</b>	<b>473.3</b>	<b>460.8</b>	<b>506.6</b>	<b>408.9</b>

a 1996–97 data are budget estimates.

Source: Derived from IC (1996a).

## Tax revenue forgone

The Commonwealth Government uses the tax system to benefit some industries and discriminate against others. Table A4.13 provides an indication of the extent to which Commonwealth preferential tax measures have benefited particular industry sectors.

Total tax revenue forgone by the Commonwealth increased from \$844 million in 1993–94 to nearly \$1.4 billion in 1994–95. This was due principally to a significant increase in the cost of the 150 per cent tax concession for eligible R&D programs, and the impact of the 10 per cent investment allowance. The manufacturing sector has been the main beneficiary, accounting for more than three-quarters of total Commonwealth tax revenue forgone in 1994–95.

**Table A4.13: Commonwealth tax revenue forgone, 1989–90 to 1994–95<sup>a</sup> (\$ million)**

<i>Industry sector</i>	<i>1989–90</i>	<i>1990–91</i>	<i>1991–92</i>	<i>1992–93</i>	<i>1993–94</i>	<i>1994–95<sup>a</sup></i>
Agriculture	287	246	41	40	92	170
Manufacturing	233	312	341	434	687	1 114
Mining	280	290	145	–	–	–
Services	53	45	47	58	65	75
<b>Total</b>	<b>853</b>	<b>893</b>	<b>574</b>	<b>532</b>	<b>844</b>	<b>1 359</b>

a Preliminary figures.

Source: Commonwealth Treasury (1995).

### **Other forms of Commonwealth assistance to industry**

Some other forms of (unmeasured) assistance, both of a general and industry-specific nature, provided by the Commonwealth Government, include:

- a broad range of non-tariff measures, such as technical, health, safety, packaging and labelling standards, government procurement policies, anti-dumping arrangements and restrictions on parallel imports; and
- a number of significant barriers and impediments to Australia's services imports, generally embodied in domestic regulations, such as regulations limiting the establishment of local operations by foreign investors, local content rules, and regulatory barriers to market entry which often limit the number of firms which can contest a market or restrict the nature of their operations.

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## **APPENDIX 5: DISTRIBUTION OF COMMONWEALTH ASSISTANCE BY STATE**

As part of the terms of reference, the Commission was asked to examine the extent of Commonwealth assistance to industry and its relationship to State, Territory and local government assistance. This appendix provides details on the extent to which the manufacturing and agricultural sectors in each State benefit from Commonwealth assistance to industry. It updates previous work by EPAC on the distribution of Commonwealth assistance among the States (EPAC 1986).

The main forms of Commonwealth assistance are tariffs, commodity marketing arrangements and other trade barriers. While these measures are not used specifically to assist particular regions or States, they have varying impacts on the States. This reflects both the different economic structures of each State and the divergence in rates of assistance to different industries.

For the manufacturing sector as a whole, measured Commonwealth assistance continues to decline under the program of tariff reductions set in place in 1991. The average effective rate of assistance has fallen to 6 per cent in 1996–97 from 21 per cent in 1982–83 and is projected to decline to 5 per cent by 2000–01. The average (production-weighted) nominal rate of assistance on output has fallen to 4 per cent from 13 per cent over the same period and is projected to decline to 3 per cent by 2000–01. At the end of the program, the textile, clothing and footwear (TCF) and passenger motor vehicle (PMV) industries will still be afforded assistance levels several times higher than average.

Measured assistance to agriculture has also declined, but only marginally. The average effective rate of assistance has fallen from 13 per cent in 1983–84 to 11 per cent in 1994–95. The average nominal rate of assistance on output has declined to 3 per cent in 1994–95, from 6 per cent in 1983–84. These declines, however, conceal significant fluctuations in assistance from year to year, reflecting the counter-cyclical nature of many agricultural assistance programs. In 1994–95 the effective rates of assistance to dairy, winegrapes, tobacco and sugar were higher than the sectoral average. The assistance arrangements for tobacco were terminated in 1995.

## A5.1 Methodology

The methodology the Commission used to measure the assistance the Commonwealth provides to industry and the coverage of forms of assistance are summarised in Box A5.1. For more details, see *Assistance to Agricultural and Manufacturing Industries* (IC 1995c).

### Box A5.1: Measurement methodology and coverage of forms of assistance

The Commission uses a number of standard measures in reporting industry assistance. Nominal and effective rates of assistance are the principal measures. The *nominal rate of assistance on output* for an activity is the percentage by which government assistance allows the average gross returns per unit of output to increase, relative to the hypothetical situation in which no assistance is provided. The *effective rate of assistance* is the percentage increase in returns to an activity's value added per unit of output, relative to the hypothetical situation of no assistance. (Value added is the return to land, labour and capital from the production process.) These measures are production weighted (rather than trade-weighted) and facilitate comparisons of the relative incentive effects of assistance on different industries within a sector and over time.

Two measures of the value of assistance are the amounts of money that would need to be paid by way of annual subsidies in order to provide the amount of assistance equivalent to the relevant nominal and effective rates. These money amounts are termed gross and net subsidy equivalents. The gross subsidy equivalent (GSE) is the notional amount of money, or subsidy, necessary to provide the same amount of assistance as is provided by an industry's nominal rate of assistance on output. The net subsidy equivalent (NSE) is the notional subsidy required to assist an industry to the same extent as its effective rate of assistance.

The focus is on trends in assistance and disparities in assistance within a sector. The Commission's purpose in measuring and monitoring assistance has been two-fold. The first is to identify the major government interventions which differentially assist industries. The second is to measure consistently over time and between industries the assistance within a sector, at the most disaggregated level practicable. Reflecting their relative importance and data limitations, the forms of assistance measured are broader in agriculture than in manufacturing. Hence, care should be exercised when making intersectoral comparisons.

The estimates reported cover the major Commonwealth Government interventions which selectively alter incentives between activities. The estimates include assistance provided via tariffs, quantitative import restrictions, local content schemes, certain export incentives and, for agricultural commodities, domestic pricing arrangements and income tax concessions. The estimates do not cover the entire range of assistance provided by the Commonwealth. For example, assistance arising from government procurement policies, the partnerships for development program, the Factor f scheme for pharmaceuticals and anti-dumping activity is not included.

State government interventions of national significance which raise the prices of agricultural commodities are included in the estimates. However, any assistance (positive or negative) which may arise from the Commonwealth or State Government provision of infrastructure is excluded due to the difficulty in quantifying the level of assistance involved in activities where there is no clear alternative benchmark price.

To measure the distribution of Commonwealth assistance among the States, it was first necessary to determine the structure of industries within each State. For manufacturing, this was measured by value added at the 4-digit ASIC industry level. Shares were calculated for each State for each industry. The net subsidy equivalents (NSEs) of Commonwealth assistance were then allocated to each State on the basis of each State's share of value added. For agriculture, each State's share of each commodity's NSE was determined by local values of production. State estimates of NSEs were simply an aggregation of these individual industry values. The methodology is similar to that used previously by EPAC.

Estimates are presented for 1982–83, 1989–90, 1994–95, 1996–97 and 2000–01 for manufacturing and 1983–84 and 1994–95 for agriculture. EPAC's estimates for 1982–83 for manufacturing and 1983–84 for agriculture, were used. This enables comparisons over time of both assistance levels and changes in the structure of industry. However, caution is required when comparing the different sets of estimates. This is due to the use of different base year data and methodological changes. In addition, effective rates of assistance for agriculture are not strictly comparable with those for manufacturing, because of the differences in the way they are compiled.

The lack of comprehensive published data for the Northern Territory and the Australian Capital Territory means that only a limited analysis is included here.

## **A5.2 Changes in Commonwealth assistance**

The manufacturing sector has undergone a substantial decline in Commonwealth Government assistance since 1982–83. Projections of assistance indicate that this trend will continue through to 2000–01. At that stage the program of assistance reductions announced in the March 1991 Statement (DPMC 1991) will be fully implemented. By 2000–01 the nominal rate of assistance will be 3 per cent — a 10 percentage point reduction from 1982–83. The effective rate will be 5 per cent — a 16 percentage point reduction over the same period.

Effective rates for the manufacturing sector are an average of the effective rate estimates for individual 4-digit ASIC industries, weighted by each industry's share of the sector's total value added (expressed in unassisted prices). Thus, changes over time in measured sector averages represent the combined effects of changes in the three components of the effective rate calculation. These are:

- changes in the level of assistance to the outputs and inputs of individual industries or production processes;

- changes in the structure of individual industries as measured by changes in their material to output ratios; and
- changes in the structural composition of sectors as reflected in changes in the share of value added accounted for by individual industries.

The May 1988 Economic Statement (Keating 1988) announced a general program of phased reductions in maximum tariff rates for most imports. By 1 July 1992 tariffs above 15 per cent (with some notable exceptions, such as PMV and TCF products) and between 15 and 10 per cent had been phased down in five equal steps to 15 and 10 per cent, respectively. The 2 per cent revenue duty on imports was removed in 1988. The TCF quotas were scheduled to terminate on 1 July 1995 when out-of-quota penalty duties were to be reduced to zero. The PMV quotas expired in April 1988.

The March 1991 Industry Policy Statement announced the continuation of this program beyond 1992, with most tariffs phasing down to 5 per cent by July 1996. The March 1991 Statement brought forward the termination date for TCF import quotas to March 1993 and substantially reduced tariffs applying to TCF and PMV. By July 2000, passenger motor vehicles and components and most textile and footwear industries will be assisted by tariffs of 15 per cent, while clothing imports will attract tariffs of 25 per cent.

Structural adjustment within manufacturing, in response to both changing market conditions and the longer term effects of changes in government assistance policies, has been on-going but has had only a marginal influence on sector levels of measured assistance. Of the 16 percentage point decline in the sectoral average effective rate between 1982–83 and 2000–01, 1 percentage point can be associated with changes in the relative shares of unassisted value added of individual industries. The remaining 15 percentage points reduction is due to general tariff reduction programs and other specific changes in assistance for particular industries.<sup>1</sup>

Agricultural assistance levels generally vary considerably between years. The average effective rate of assistance fell from 13 per cent in 1983–84 to 11 per cent in 1994–95, although the effective rate of assistance was as high as 15 per cent in 1990–91. This variability reflects a number of factors, including changes in assistance policy and the counter-cyclical nature of many of the forms of assistance.

Most assistance to agriculture is provided by domestic marketing arrangements. Government guarantees, adjustment assistance and various taxation concessions

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<sup>1</sup> Some caution is needed in interpreting this result as the base year for the latest series of estimates in 1989–90. Changes in industry structure since then are not reflected in the estimates.

also contribute significantly to agricultural assistance. Over time, some of this assistance is being reduced. Domestic marketing arrangements predominantly involve the existence of statutory marketing authorities with the power to acquire produce compulsorily as well as to administer prices. Typically they practice price discrimination between the domestic and export markets and, in some cases, pay a pooled price to producers. The arrangements usually involve the setting of domestic prices at levels higher than export prices.

Reform of agricultural marketing arrangements has been proceeding. For example:

- from the beginning of 1995, tariff protection for tobacco leaf and tobacco products was removed and local content arrangements protecting growers were terminated;
- all States have agreed in principle to deregulate market milk prices beyond the farm gate (with most having taken action to date), and assistance to the manufacturing milk sector from Commonwealth marketing support arrangements continues to decline and is scheduled to terminate in 2000;
- domestic marketing arrangements for wheat were deregulated in 1989 and the underwriting scheme which guaranteed growers a minimum price was removed;
- deregulation of egg marketing has occurred in New South Wales, South Australia and Victoria and commenced in Queensland; and
- the discriminatory sales tax regime for domestically produced fruit and vegetable juices was removed in 1995.

Changes in measured assistance to agriculture between years may reflect not only changes in the level of assistance afforded to individual commodities over time, but also changes in the physical size of particular activities. For example, assistance to agricultural commodities fell between 1982–83 and 1994–95 as the value of output increased. If the value and composition of output in 1994–95 had been the same as in 1982–83, the effective rate for the sector would have been 2 percentage points higher.

### **A5.3 Manufacturing**

The variations in levels of assistance between States are due to the size and composition of the manufacturing sector in each State and the different levels of Commonwealth assistance accorded to the activities comprising each State's manufacturing sector. Regional assistance provided by the Commonwealth Government and assistance provided by the State governments are not included.

## Industry structure

The contribution to the manufacturing sector by each State is shown in Figure A5.1 for 1982–83 and 1989–90 (the latest year available). Around 71 per cent of manufacturing value added was produced in New South Wales and Victoria in 1982–83, falling to 66 per cent in 1989–90. The majority of this decline in share of the total occurred in New South Wales. All other States increased their share of Australian manufacturing value added over that period.

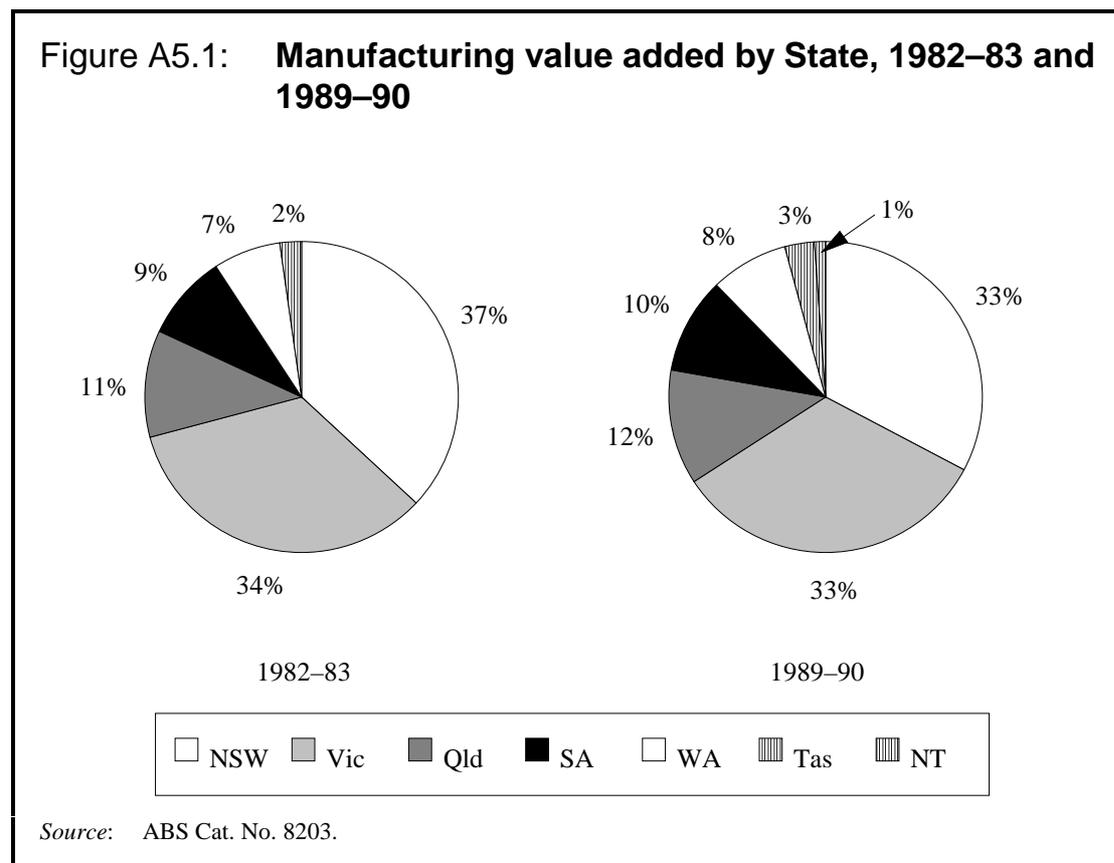


Table A5.1 shows the value added proportions for each industry within each State and for Australia as a whole. There are noticeable differences in the composition of production between States. For example, in 1989–90 food, beverage and tobacco was the largest industry in Tasmania (28 per cent of State value added), Queensland (27 per cent), Victoria (17 per cent) and New South Wales (16 per cent). Basic mineral products was the largest industry in the Northern Territory (68 per cent of Territory value added) and Western Australia (29 per cent). In South Australia it was transport equipment, with 32 per cent of State value added.

States that are heavily dependent on the highly assisted textile industry are Tasmania and Victoria; on the clothing and footwear industry is Victoria; and on the transport equipment industry are South Australia and Victoria.

Some States are heavily dependent on a few industries. For example, in the Northern Territory, Tasmania, Western Australia and South Australia over 50 per cent of the State value added is contributed by three or less industries.

There were significant changes in some sector shares between 1982–83 and 1989–90 within all States, especially in South Australia and Western Australia (see Table A5.1).

**Table A5.1: Value added shares for manufacturing by State, 1982–83 and 1989–90 (per cent)**

<i>Industry</i>		<i>NSW</i>		<i>Vic</i>		<i>Qld</i>		<i>SA</i>	
		<i>1982</i>	<i>1989</i>	<i>1982</i>	<i>1989</i>	<i>1982</i>	<i>1989</i>	<i>1982</i>	<i>1989</i>
<i>ASIC</i>	<i>Description</i>	<i>-83</i>	<i>-90</i>	<i>-83</i>	<i>-90</i>	<i>-83</i>	<i>-90</i>	<i>-83</i>	<i>-90</i>
21	Food, beverages & tobacco	17	16	18	17	29	27	20	15
23	Textiles	2	2	4	4	..	1	2	2
24	Clothing & footwear	3	3	8	5	1	2	3	3
25	Wood, wood products & furniture	5	5	4	4	7	7	6	4
26	Paper, paper products, printing & publishing	10	11	10	11	8	9	8	6
27	Chemical, petroleum & coal products	12	13	9	10	5	7	4	7
28	Non-metallic mineral products	5	5	4	4	8	7	5	4
29	Basic metal products	8	12	4	6	10	15	8	6
31	Fabricated metal products	9	8	8	8	10	8	7	5
32	Transport equipment	8	6	13	13	10	7	20	32
33	Other machinery & equipment	15	13	12	11	7	7	12	11
34	Miscellaneous manufacturing	5	5	6	7	3	3	5	5
<b>21–34</b>	<b>Total manufacturing<sup>a</sup></b>	<b>100</b>							

Table A5.1: Continued

<i>Industry</i>		<i>WA</i>		<i>Tas</i>		<i>NT</i>		<i>Australia</i>	
<i>ASIC code</i>	<i>Description</i>	<i>1982-83</i>	<i>1989-90</i>	<i>1982-83</i>	<i>1989-90</i>	<i>1982-83</i>	<i>1989-90</i>	<i>1982-83</i>	<i>1989-90</i>
21	Food, beverages & tobacco	19	16	23	28	na	10	19	18
23	Textiles	1	1	5	5	na	–	3	2
24	Clothing & footwear	1	1	1	1	na	1	4	3
25	Wood, wood products & furniture	7	6	12	13	na	3	5	5
26	Paper, paper products, printing & publishing	8	6	23	17	na	5	10	10
27	Chemical, petroleum & coal products	8	13	5	4	na	2	9	10
28	Non-metallic mineral products	8	7	5	4	na	3	5	5
29	Basic metal products	20	29	17	17	na	68	8	12
31	Fabricated metal products	11	8	4	4	na	7	9	8
32	Transport equipment	5	3	3	5	na	1	11	11
33	Other machinery & equipment	10	7	2	2	na	1	12	10
34	Miscellaneous manufacturing	3	3	2	2	na	1	5	5
<b>21–34</b>	<b>Total manufacturing<sup>a</sup></b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>na</b>	<b>100</b>	<b>100</b>	<b>100</b>

– nil.

.. less than 0.5 per cent.

na not applicable

a Totals may not add due to rounding.

Source: ABS Cat. No 8203.1 to 8203.7 and 8221.1 to 8221.7.

## Industry assistance

Tables A5.2 and A5.3 present effective and nominal rates of assistance respectively for each State's manufacturing sector. The manufacturing sectors in Victoria and South Australia benefit most from Commonwealth assistance. The level of assistance in most other States is significantly below the Australian average. Manufacturing industry assistance in all States will have decreased by around two-thirds between 1989–90 and 2000–01.

**Table A5.2: Effective rates of assistance for manufacturing by State, selected years (per cent)**

<i>State</i>	<i>1982</i> –83	<i>1989</i> –90	<i>1994</i> –95	<i>1996</i> –97	<i>2000</i> –01
New South Wales	22	14	8	5	5
Victoria	30	20	12	8	7
Queensland	19	10	9	4	3
South Australia	26	22	13	9	7
Western Australia	18	7	4	2	2
Tasmania	18	11	7	4	4
Northern Territory	na	3	2	1	1
<b>Australia</b>	<b>24</b>	<b>15</b>	<b>9</b>	<b>6</b>	<b>5</b>
Coefficient of variation	0.19	0.31	0.32	0.35	0.30

na not available.

Source: EPAC (1986) and Commission estimates.

**Table A5.3: Nominal rates of assistance on output for manufacturing by State, selected years (per cent)**

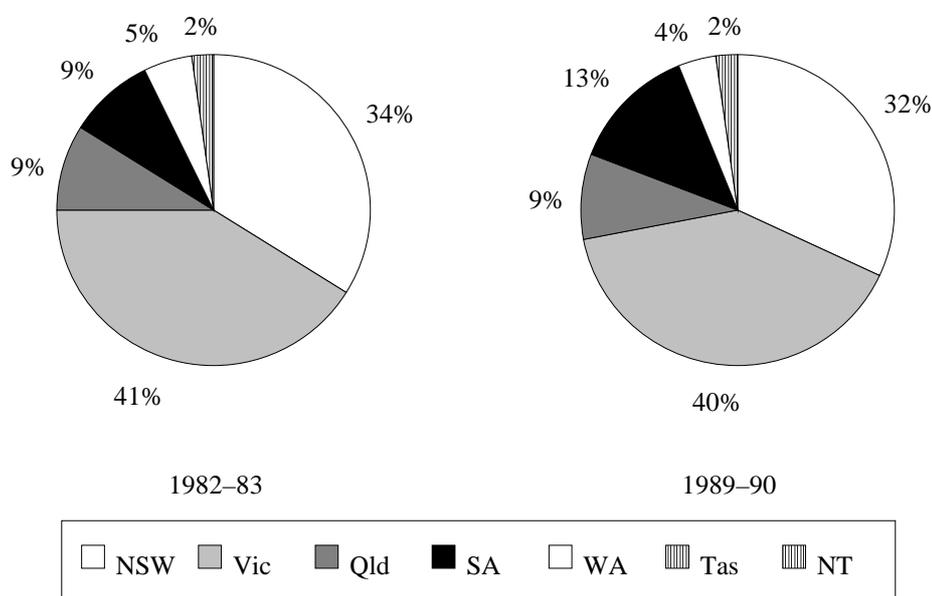
<i>State</i>	<i>1982</i> –83	<i>1989</i> –90	<i>1994</i> –95	<i>1996</i> –97	<i>2000</i> –01
New South Wales	na	8	5	3	3
Victoria	na	12	7	5	4
Queensland	na	5	3	2	2
South Australia	na	12	7	5	4
Western Australia	na	4	2	2	1
Tasmania	na	6	4	3	2
Northern Territory	na	3	2	1	1
<b>Australia</b>	<b>13</b>	<b>9</b>	<b>5</b>	<b>4</b>	<b>3</b>

na not available.

Source: Commission estimates.

Figure A5.2 shows the proportion of net assistance afforded to each State's manufacturing sector in 1982–83 and 1989–90. As indicated, there was little change in each State's share of the net subsidy equivalent provided to the manufacturing sector over this period, except for an increase in South Australia's share from 9 per cent to 13 per cent. This reflects South Australia's increased share of manufacturing (especially the highly assisted transport equipment industry) (see Table A5.1).

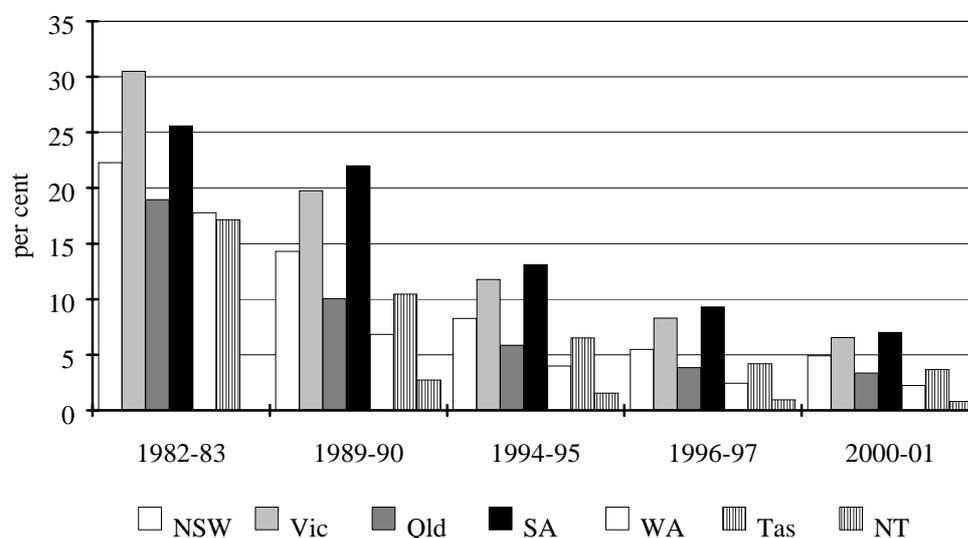
**Figure A5.2: Manufacturing net subsidy equivalent by State, 1982–83 and 1989–90**



Sources: Commission estimates.

Average effective rates of assistance for manufacturing in each State are shown in Figure A5.3. Since 1982–83 average levels of assistance have been reduced substantially in all States. By 1994–95 the average level had been reduced by one-half, to two-thirds. A further halving of the 1994–95 level is projected by 2000–01 for most States. Manufacturing is most highly assisted on average in South Australia and Victoria and least in Western Australia and the Northern Territory. This variation reflects the differing industry composition in each State and different levels of assistance to individual industries.

Details of average effective rates of assistance at the industry subdivision level for each State are given in Table A5.4. In general, the differences in rates of assistance between States are not large, when comparing industry groups. For example, within the fabricated metal products group and the other machinery and equipment group, average effective rates for 1989–90 ranged among States from 16 to 20 per cent and from 15 to 21 per cent, respectively. However, there are some exceptions. For example, within the transport equipment group, effective rates of assistance for 1989–90 ranged from 14 to 45 per cent. The low levels of assistance occur in States where there is little or no production of passenger motor vehicles.

**Figure A5.3: Effective rate of assistance for manufacturing by State, selected years**

**Table A5.4: Average effective rates of assistance for manufacturing by State, selected years (per cent)**

<i>Industry subdivision</i>		<i>New South Wales</i>					<i>Victoria</i>				
		<i>1982</i>	<i>1989</i>	<i>1994</i>	<i>1996</i>	<i>2000</i>	<i>1982</i>	<i>1989</i>	<i>1994</i>	<i>1996</i>	<i>2000</i>
<i>ASIC code</i>	<i>Description</i>	<i>-83</i>	<i>-90</i>	<i>-95</i>	<i>-97</i>	<i>-01</i>	<i>-83</i>	<i>-90</i>	<i>-95</i>	<i>-97</i>	<i>-01</i>
21	Food, beverages & tobacco	10	3	3	2	2	10	4	4	3	2
23	Textiles	73	42	25	19	13	73	66	42	33	22
24	Clothing & footwear	>250	111	59	52	34	>250	115	60	53	35
25	Wood, wood products & furniture	15	16	8	4	4	15	17	8	4	4
26	Paper, paper products, printing & publishing	15	7	4	2	2	15	10	6	3	3
27	Chemical, petroleum & coal products	13	8	5	3	3	13	10	6	3	3
28	Non-metallic mineral products	6	4	3	2	2	6	6	4	3	3
29	Basic metal products	14	17	11	8	8	14	11	7	5	5
31	Fabricated metal products	29	19	1	5	5	29	20	11	5	5
32	Transport equipment	50	20	13	10	7	50	45	30	25	17
33	Other machinery & equipment	17	20	10	6	6	17	19	10	5	5
34	Miscellaneous manufacturing	29	20	12	6	6	29	21	12	7	7
<b>21-34</b>	<b>Total manufacturing</b>	<b>22</b>	<b>14</b>	<b>8</b>	<b>6</b>	<b>5</b>	<b>30</b>	<b>19</b>	<b>12</b>	<b>8</b>	<b>7</b>

Table A5.4: Continued

<i>Industry subdivision</i>		<i>Queensland</i>					<i>South Australia</i>				
<i>ASIC code</i>	<i>Description</i>	<i>1982 -83</i>	<i>1989 -90</i>	<i>1994 -95</i>	<i>1996 -97</i>	<i>2000 -01</i>	<i>1982 -83</i>	<i>1989 -90</i>	<i>1994 -95</i>	<i>1996 -97</i>	<i>2000 -01</i>
21	Food, beverages & tobacco	10	1	1	1	1	10	6	4	3	3
23	Textiles	78	27	17	12	8	73	63	37	28	19
24	Clothing & footwear	>250	113	58	51	35	>250	108	58	50	33
25	Wood, wood products & furniture	15	16	8	5	5	15	14	7	4	4
26	Paper, paper products, printing & publishing	15	10	5	3	3	15	11	5	3	3
27	Chemical, petroleum & coal products	13	9	6	3	3	13	4	3	1	1
28	Non-metallic mineral products	6	2	1	1	1	6	2	2	1	1
29	Basic metal products	14	4	3	2	2	14	9	6	5	5
31	Fabricated metal products	29	18	9	4	4	29	18	10	4	4
32	Transport equipment	51	39	24	18	13	50	45	29	22	15
33	Other machinery & equipment	17	15	8	5	5	17	19	10	5	5
34	Miscellaneous manufacturing	29	22	13	7	7	28	21	12	7	7
<b>21-34</b>	<b>Total manufacturing</b>	<b>19</b>	<b>10</b>	<b>6</b>	<b>4</b>	<b>3</b>	<b>26</b>	<b>22</b>	<b>13</b>	<b>9</b>	<b>7</b>

<i>Industry subdivision</i>		<i>Western Australia</i>					<i>Tasmania</i>				
<i>ASIC code</i>	<i>Description</i>	<i>1982 -83</i>	<i>1989 -90</i>	<i>1994 -95</i>	<i>1996 -97</i>	<i>2000 -01</i>	<i>1982 -83</i>	<i>1989 -90</i>	<i>1994 -95</i>	<i>1996 -97</i>	<i>2000 -01</i>
21	Food, beverages & tobacco	10	2	2	2	2	10	7	5	3	3
23	Textiles	71	28	23	18	13	70	52	31	20	13
24	Clothing & footwear	>250	119	58	51	33	>250	98	58	50	32
25	Wood, wood products & furniture	14	13	7	4	4	15	9	5	3	3
26	Paper, paper products, printing & publishing	15	8	4	2	2	15	11	7	3	3
27	Chemical, petroleum & coal products	13	4	3	2	2	14	8	4	3	3
28	Non-metallic mineral products	6	3	2	1	1	6	2	1	1	1
29	Basic metal products	14	..	..	..	..	15	5	3	2	2
31	Fabricated metal products	29	16	9	4	4	30	17	9	4	4
32	Transport equipment	51	25	13	10	8	46	23	16	13	9
33	Other machinery & equipment	17	19	10	5	5	15	21	10	6	6
34	Miscellaneous manufacturing	29	22	13	7	7	38	21	12	7	7
<b>21-34</b>	<b>Total manufacturing</b>	<b>18</b>	<b>7</b>	<b>4</b>	<b>2</b>	<b>2</b>	<b>17</b>	<b>11</b>	<b>7</b>	<b>4</b>	<b>4</b>

Table A5.4: Continued

<i>Industry subdivision</i>		<i>Northern Territory</i>					<i>Australia</i>				
<i>ASIC code</i>	<i>Description</i>	<i>1982-83</i>	<i>1989-90</i>	<i>1994-95</i>	<i>1996-97</i>	<i>2000-01</i>	<i>1982-83</i>	<i>1989-90</i>	<i>1994-95</i>	<i>1996-97</i>	<i>2000-01</i>
21	Food, beverages & tobacco	na	1	1	1	1	10	4	3	2	2
23	Textiles	na	94	72	63	40	73	53	33	25	17
24	Clothing & footwear	na	111	54	46	24	>250	113	60	52	34
25	Wood, wood products & furniture	na	10	6	4	4	15	15	7	4	4
26	Paper, paper products, printing & publishing	na	13	6	3	3	15	9	5	2	2
27	Chemical, petroleum & coal products	na	2	1	1	1	13	8	5	3	3
28	Non-metallic mineral products	na	..	..	..	..	6	4	3	2	2
29	Basic metal products	na	..	..	..	..	14	9	5	4	4
31	Fabricated metal products	na	18	9	4	4	29	19	10	4	4
32	Transport equipment	na	14	11	11	7	50	37	24	19	13
33	Other machinery & equipment	na	18	9	6	6	17	19	9	5	5
34	Miscellaneous manufacturing	na	35	21	12	12	29	20	12	7	7
<b>21-34</b>	<b>Total manufacturing</b>	<b>na</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>24</b>	<b>15</b>	<b>9</b>	<b>6</b>	<b>5</b>

.. less than 0.5 per cent.  
*Source:* Commission estimates.

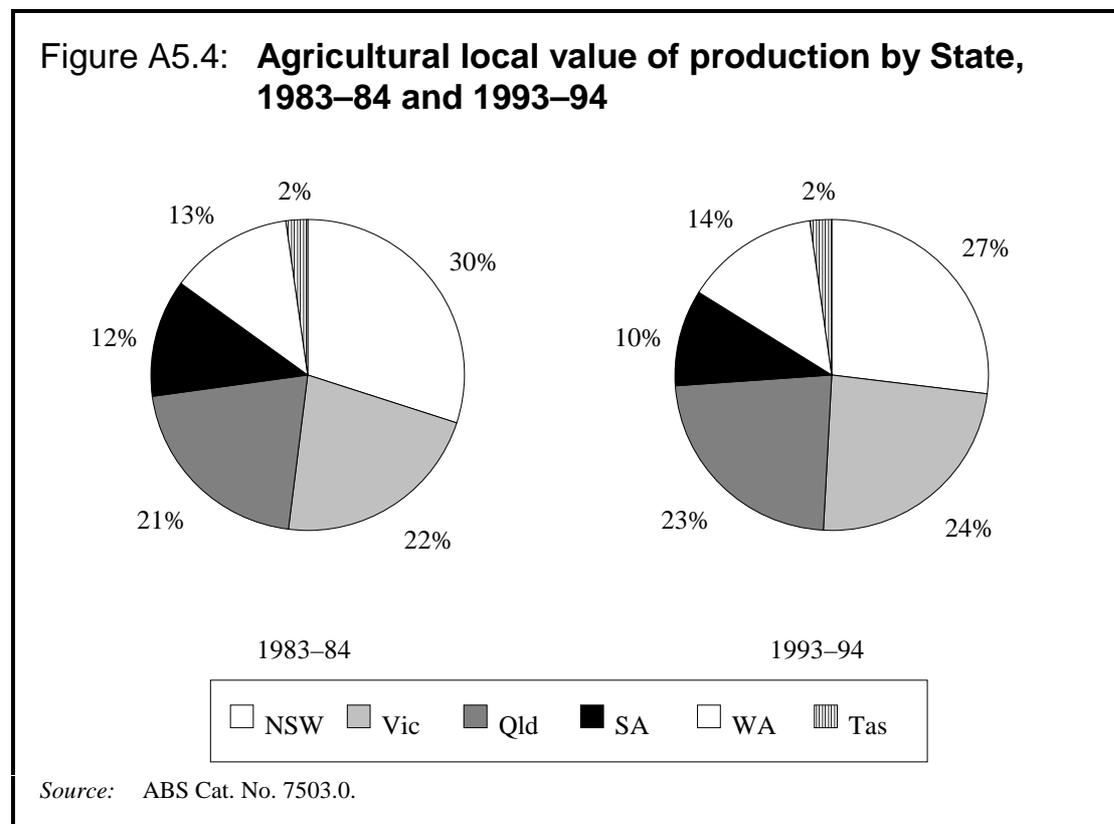
## A5.4 Agriculture

The distribution of Commonwealth assistance to each State's agricultural sector has been based on the distribution of the local value of production. The estimates presented in this appendix include mainly Commonwealth assistance. However, State government marketing arrangements of national significance which raise the prices of agricultural commodities domestically have been included in the estimates. These commodities are rice, sugar, eggs and market milk.

### Industry structure

The shares of agricultural local value of production in each State are shown in Figure A5.4 for 1983-84 and 1993-94 (the latest detailed data available). Over that period, the shares of agricultural production accounted for by New South Wales and South Australia fell from 30 to 27 per cent and from 12 to 10 per

cent, respectively. The shares for all other States (except Tasmania) increased marginally.



Almost 75 per cent of agricultural production is in New South Wales, Victoria and Queensland. Consequently, these three States benefit most in dollar terms from the assistance afforded to the agricultural sector (see Figure A5.5). The influence of particular industries on the sectoral average effective rate is determined by their contribution to total production. The extent to which the contributions of individual industry groups have changed between 1983–84 and 1993–94 is shown in Table A5.5. The major commodities within each industry group are given in Table A5.6.

The extensive grazing industry is the largest agricultural activity. It accounts for 95 per cent of the Northern Territory's agricultural production. However, in Western Australia and South Australia extensive cropping is the largest activity. In Western Australia extensive cropping accounts for just over 50 per cent of agricultural production. For the geographically smaller States — Victoria and Tasmania — over 30 per cent of agricultural production is in intensive livestock. The horticultural industries are relatively more significant in Victoria and South Australia than in the other States. New South Wales and Queensland are the only States which produce significant quantities of the irrigation and

high rainfall crops of sugar, rice and cotton, with Queensland being the major cane sugar growing State and New South Wales the major rice growing State.

**Table A5.5: Local value of production shares for agriculture by State, selected years (per cent)**

<i>Activity/Commodity</i>	<i>NSW</i>		<i>Vic</i>		<i>Qld</i>	
	<i>1983</i>	<i>1993</i>	<i>1983</i>	<i>1993</i>	<i>1983</i>	<i>1993</i>
	<i>-84</i>	<i>-94</i>	<i>-84</i>	<i>-94</i>	<i>-84</i>	<i>-94</i>
Horticulture	8	8	14	17	12	12
Extensive cropping	39	22	30	13	22	7
Irrigation & high rainfall crops	8	14	–	–	20	21
Extensive grazing	30	48	27	41	35	52
Intensive livestock	15	8	29	29	11	8
<b>Total agriculture</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<i>Activity/Commodity</i>	<i>SA</i>		<i>WA</i>		<i>Tas</i>	
	<i>1983</i>	<i>1993</i>	<i>1983</i>	<i>1993</i>	<i>1983</i>	<i>1993</i>
	<i>-84</i>	<i>-94</i>	<i>-84</i>	<i>-94</i>	<i>-84</i>	<i>-94</i>
Horticulture	14	22	6	7	26	26
Extensive cropping	47	39	48	51	1	2
Irrigation & high rainfall crops	–	–	–	–	–	–
Extensive grazing	27	32	37	38	41	44
Intensive livestock	12	7	8	4	22	28
<b>Total agriculture</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<i>Activity/Commodity</i>	<i>NT</i>		<i>ACT</i>		<i>Australia</i>	
	<i>1983</i>	<i>1993</i>	<i>1983</i>	<i>1993</i>	<i>1983</i>	<i>1993</i>
	<i>-84</i>	<i>-94</i>	<i>-84</i>	<i>-94</i>	<i>-84</i>	<i>-94</i>
Horticulture	na	6	na	5	11	33
Extensive cropping	na	–	na	–	35	22
Irrigation & high rainfall crops	na	–	na	–	6	9
Extensive grazing	na	94	na	95	31	44
Intensive livestock	na	–	na	–	16	12
<b>Total agriculture</b>	<b>na</b>	<b>100</b>	<b>na</b>	<b>100</b>	<b>100</b>	<b>100</b>

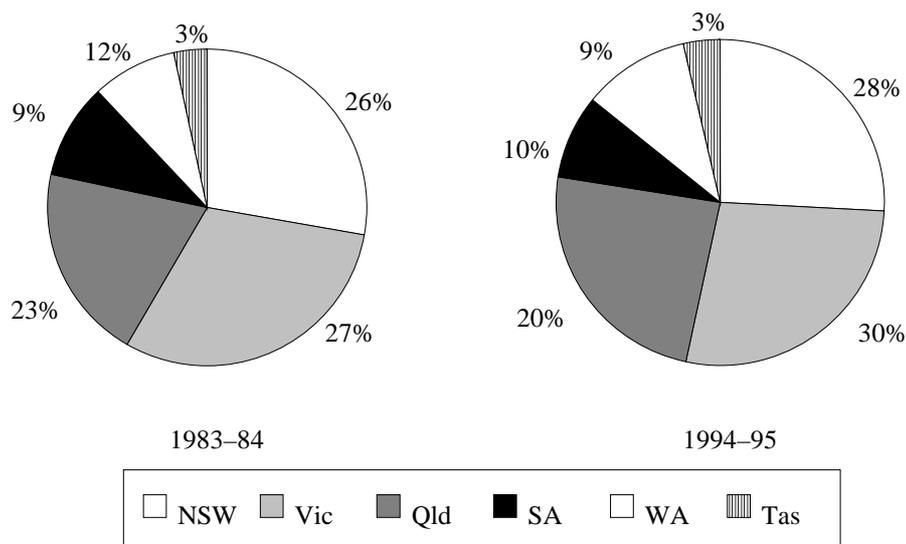
– nil.

na not available.

Source : ABS Cat. No. 7503.0.

**Table A5.6: Major commodities within industry groups**

Industry	Commodity
Horticulture	Apples and Pears, Citrus, Dried vine fruits, Wine grapes, Deciduous canning fruits, Bananas, Vegetables, Tobacco
Extensive cropping	Wheat, Barley, Oats, Maize, Sorghum, Oilseeds
Irrigation and high rainfall crops	Sugar, Cotton, Rice
Extensive grazing	Sheepmeat, Wool, Beef
Intensive livestock	Eggs, Poultry, Pigs, Dairy

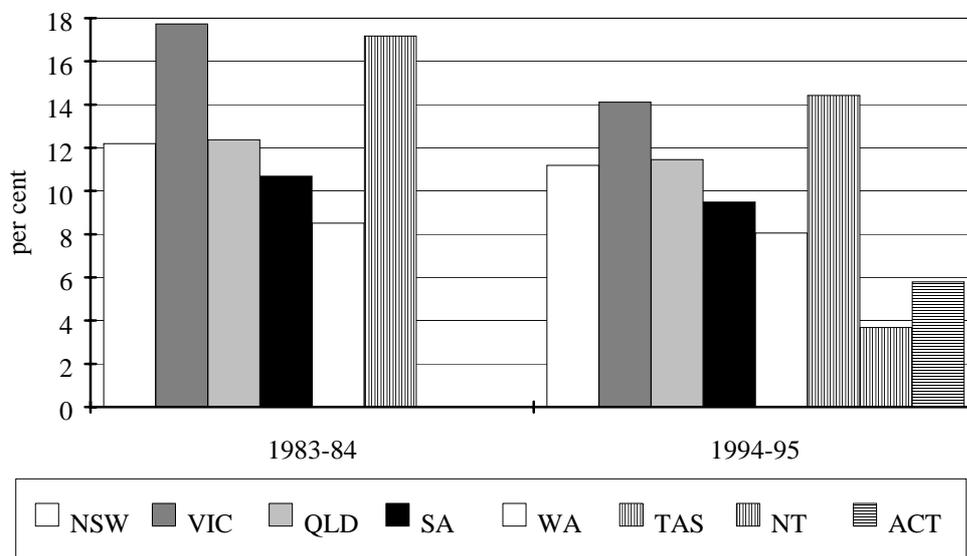
**Figure A5.5: Agricultural net subsidy equivalent by State, 1983–84 and 1994–95**

Source: Commission estimates.

## Industry assistance

Figure A5.6 presents the average effective rate of assistance for each State's agricultural sector in 1983–84 and 1994–95. As with manufacturing, there are significant differences between States in average levels of assistance, with Victoria and Tasmania benefiting the most. This is due to the relative significance of the highly assisted dairy industry in these two States.

Figure A5.6 : **Effective rates of assistance for agriculture by State, 1983–84 and 1994–95**



Source: Commission estimates.

Estimates of effective rates at the broad agricultural commodity level are presented in Table A5.7. The most highly assisted activity is intensive livestock, which contains the dairy industry. The table also highlights a dramatic fall in assistance to the horticultural industry between 1982–83 and 1993–94. This is due to the unwinding of high assistance afforded dried vine fruits and deciduous canning fruits since the early 1980s.

**Table A5.7: Average effective rates of assistance for agriculture by State, selected years (per cent)**

<i>Activity/Commodity</i>	<i>NSW</i>		<i>Vic</i>		<i>Qld</i>	
	<i>1983</i>	<i>1994</i>	<i>1983</i>	<i>1994</i>	<i>1983</i>	<i>1994</i>
	<i>-84</i>	<i>-95</i>	<i>-84</i>	<i>-95</i>	<i>-84</i>	<i>-95</i>
Horticulture	26	5	25	5	25	3
Extensive cropping	2	4	2	4	2	3
Irrigation & high rainfall crops	11	5	–	–	11	12
Extensive grazing	6	6	6	5	6	4
Intensive livestock	62	88	62	37	62	79
<b>Total agriculture</b>	<b>12</b>	<b>11</b>	<b>19</b>	<b>14</b>	<b>12</b>	<b>11</b>
<i>Activity/Commodity</i>	<i>SA</i>		<i>WA</i>		<i>Tas</i>	
	<i>1983</i>	<i>1994</i>	<i>1983</i>	<i>1994</i>	<i>1983</i>	<i>1994</i>
	<i>-84</i>	<i>-95</i>	<i>-84</i>	<i>-95</i>	<i>-84</i>	<i>-95</i>
Horticulture	25	9	30	2	24	..
Extensive cropping	2	3	4	4	2	2
Irrigation & high rainfall crops	–	–	–	–	–	–
Extensive grazing	6	6	3	6	5	5
Intensive livestock	62	66	25	80	65	43
<b>Total agriculture</b>	<b>11</b>	<b>9</b>	<b>6</b>	<b>8</b>	<b>18</b>	<b>14</b>
<i>Activity/Commodity</i>	<i>NT</i>		<i>ACT</i>		<i>Australia</i>	
	<i>1983</i>	<i>1994</i>	<i>1983</i>	<i>1994</i>	<i>1983</i>	<i>1994</i>
	<i>-84</i>	<i>-95</i>	<i>-84</i>	<i>-95</i>	<i>-84</i>	<i>-95</i>
Horticulture	na	..	na	11	26	5
Extensive cropping	na	1	na	–	3	4
Irrigation & high rainfall crops	na	–	na	–	11	9
Extensive grazing	na	4	na	6	6	5
Intensive livestock	na	–	na	–	60	56
<b>Total agriculture</b>	<b>na</b>	<b>3</b>	<b>na</b>	<b>6</b>	<b>13</b>	<b>11</b>

– nil.

.. less than 0.5 per cent.

na not available.

*Source* : Commission estimates.

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## **APPENDIX 6: REVIEW OF THE US LITERATURE**

### **A6.1 Introduction**

Concern with State assistance, especially selective assistance, is not unique to Australia. It has been studied extensively overseas, principally in the United States. US experience is of interest to Australia as it represents the situation of a federal system in which residual powers rest with the States, and the Constitution does not deal explicitly with 'State aids' to industry as does the Treaty of Rome. Assistance applies on a much larger scale in the United States, with a much larger number of players, and with the States having a greater range of tax instruments at their disposal.

There is an extensive US literature on the subject and an active debate on the role of State and federal governments in bidding wars between States for economic development. For example, on May 21 and 22 1996, a National Conference was convened in Washington DC under the Civic Journalism Initiative of Minnesota Public Radio specifically to consider 'The Economic War Among the States'.

While there are differences in jurisdictional roles and responsibilities, Australia can learn much from the US studies of the effect of State assistance to industry. By comparison, the Australian literature is limited.

The next sections set out the broader basis for jurisdictional competition in the United States, what the States in that country do, and the size of assistance packages offered. This is followed by an outline of the nature of competition for economic development and the prevailing views about such competition. The Appendix then considers whether State assistance makes a difference in the location of economic development, as well as who benefits from, and who pays for such action by governments.

### **A6.2 Broader interjurisdictional competition in the United States**

Many of the studies in the United States have looked at the more general forms of competition among States, that is, use of their general tax powers and general service provision to attract or retain citizens and/or business.

Bartik (1994) commented:

Although there is little research on the effects of State and local tax incentives and other *special* financial incentives for economic development, there has been extensive research on how *general* State and local taxes and public services affect local economies. (p. 852 – emphasis as in the original)

In part, this reflects the much broader range of tax measures available to the States in the United States in comparison with Australia. The States in the United States have, for example, access to income taxes and broad-based consumption taxes. There are other significant differences. The United States has a much larger number of States with large population centres in close geographical proximity (so that a person can work in one State and live in another). As a result of factors such as these, labour is more mobile in the United States. There are also differences in the responsibilities of the different tiers of government, particularly a greater role for local government in the United States than in Australia. For example, in the United States, local rates pay for local schools. In addition, the States and particularly local governments have greater social welfare responsibilities than is the case in Australia. Competition for people, rather than business has a much greater emphasis in the US literature than in the discussion of interjurisdictional competition in Australia.

Early works, beginning with Tiebout (1956) looked at competition between States for residents, with citizen-taxpayers ‘voting with their feet’ among jurisdictions. As Kenyon and Kincaid (1991) note, these early studies generally conclude that:

... goods and services provided by the local public sector will exhibit both allocative efficiency (the right amounts of the various goods and services are produced) and productive efficiency (they are produced at least cost). In Tiebout’s model, community taxes would be benefit taxes, or proportional to the benefits consumer-voters receive from public services, rather than taxes based on ability to pay. (p. 11)

A more recent study by Oates and Schwab (1991) looks at similar competition but with mobile capital (business firms) rather than mobile citizens. Jurisdictions compete by lowering taxes and providing services, such as highways, police, and fire protection, needed by businesses.

Oates and Schwab conclude that under interjurisdictional competition, all taxes become benefit taxes. In other words, in equilibrium, business taxes will equal the value that businesses place on the government services they receive, while taxes on individuals will equal the value that individuals place on the government services provided to them.

Oates and Schwab (1991) assert that, given their simplifying assumptions, interjurisdictional competition is efficient, providing the best package of government services for individuals and firms, and at the lowest cost (Kenyon and Kincaid, p. 17–18).

The important conclusion of these theoretical studies is that tax competition between jurisdictions results in an efficient outcome to the extent that the taxes paid equal the benefits received from the services provided by the jurisdiction.

Central to these studies are assumptions about mobility and information. They assume that either citizens or capital are highly mobile, with minimal costs of movement or other barriers. As specified, they typically assume among other things, no locational constraints and full knowledge of government revenue and expenditure packages. They also assume a large number of jurisdictions from which to choose.

An important finding of the Tiebout, Oates and Schwab, and similar studies in this field is that competition will prevent State and local government from redistributing income from businesses to individuals. A local government will not be able to tax businesses in excess of the benefits which it provides to those businesses, without causing businesses to flee its jurisdiction and ultimately making its citizens worse off.

The extent to which competition, in practice, drives State taxes to be benefit taxes (without income redistribution objectives) has been questioned. Gold (1991) concludes that the States have increased, not decreased the progressivity of their personal income taxes. Reschovsky (1991) questions the ability of local governments to link the taxation of business to the benefits received as a result of such things as the common provision of many services. Reschovsky also points to conflicting evidence on whether State and local government taxes are, in reality, following the expected tax-benefit model.

A paper by Breton (1991) looks at whether interjurisdictional competition was stable or unstable:

Breton does not find definitive evidence of unstable interjurisdictional competition, but he provides several types of suggestive evidence. One of these is the migration of high-income residents to suburban jurisdictions to escape a central city's high taxes and poor public services. The loss of high-income taxpayers forces the central city to raise tax rates again, thereby inducing further migration, and so forth. (p. 23)

This observation raises the question of whether, in reality, citizens are sufficiently mobile to 'vote with their feet' effectively, and whether governments can levy taxes effectively on the basis of the benefits provided (benefit taxes). For example, the location of public housing may limit

significantly the mobility of lower income groups, as may dependence on public transport. Similarly, lower income groups are likely to be significant consumers of government services, but without the ability to pay on the basis of the benefit received. The movement of high-income residents out of high tax, high social welfare locations is perhaps better seen as an example of adverse selection, of the type that sometimes can be observed in the insurance industry.

Nonetheless, this situation is consistent with a conclusion of both the studies based on mobile residents and mobile capital — that competition would preclude State governments from income redistribution activities.

Some researchers regard the pressure to limit the income redistribution activities of sub-national governments as an important reason to limit competition between jurisdictions. Others do not consider this to be a problem to the extent that income redistribution is undertaken appropriately by the federal government.

Bartik (1996) comments:

Current proposals to turn over responsibility for welfare and Medicaid to the States are going in the wrong direction. The traditional wisdom in public finance is that income redistribution should be a federal responsibility, because mobility of households and businesses makes this task difficult for State and local governments. (p.46)

Shannon (1991 pp. 16–17) sees competition between States on tax and benefit provisions as dual forces of tax and expenditure competition which regulate State and local government fiscal behaviour. Shannon uses the metaphor of a naval convoy to describe how the dual forces of tax and expenditure competition regulate States and local government fiscal behaviour. Interstate tax and expenditure competition is seen as two ‘unseen hands’ that set the outer limits on how far any State can push ahead of the other States on the tax front or lag behind them in the public service area.

Shannon (1991) argues that because of the observed increase in State local revenues over time, fears that interjurisdictional tax competition will seriously erode State tax bases are overstated. He notes that State and local own source general revenue has more than doubled as a proportion of GNP since World War Two.

### **A6.3 What States do in the United States**

There appears to be a general consensus in the United States that State and local governments increasingly are engaged in competitive economic development strategies and that the means of competition have evolved in noticeable ways.

Isserman (1994) comments:

The States have taken an increasingly active role in economic development policy during the past two decades. The strategies can be grouped into three distinct orientations. Chasing and acquisition focuses on bringing into the State businesses, export orders, federal facilities and contracts, tourists, retirees, and other external sources of growth. Self improvement focuses on helping businesses and people in the State become more competitive by improving education systems, stimulating research, helping firms adopt new technologies, providing venture capital, and improving roads, communications, and other infrastructure. Knowledge and process focuses on doing those things better by making greater use of markets and business practices. (p. 49)

As well as being of three types, these categories of assistance are also seen as having a time dimension:

The focus on chasing and acquisition has its roots in the successful efforts of southern States to woo manufacturers from the north since the 1930s and in the even older competition for federal spending and facilities. The focus on self-improvement and competitiveness was a response to the adverse economic conditions of the late 1970s and early 1980s. Finally, the focus on knowledge and process grew out of the adverse conditions of the late 1980s and early 1990s and the renewed interest and faith in markets .... At one time chasing was synonymous with economic development policy, but now all three orientations coexist. They are correctly viewed as layers of economic development policy not as alternatives. (pp. 88-89)

The role of a growing group of specialists and practitioners in the area of economic development policies was noted by Isserman (1994):

Current State policy and practice result not from the efforts of economics and regional science communities, but from those of a growing group of economic development professionals, most of whom are consultants or employees of State and multistate organisations. (p. 50)

The implication is that a significant element in the evolution of State development policy, especially its increasingly sophisticated approach, is the growing number of State employees, advisers, academics and consultants specialising in the field.

Another factor in the evolution of State industrial development policies has been changing ideas about the key factors influencing the location decisions of firms. Toft (1996a) points to changes in the location factors influencing industry. In the past, dominant factors have been:

Access to raw materials and markets, labour availability and supply, and cost and availability of energy and transportation ...

Today's location criteria are more complex. Worker quality, continuing education/training, safety/security and quality of life for managers and workers come into play. Most importantly, as Michael Porter of Harvard University argues, comparative advantage — the merits of alternative sites based on cost comparisons of

factors of production — must give way to competitive advantage — those factors that human intervention can improve, such as outstanding public education and training, easy access to public information, interfirm strategic alliances, and incentives for R&D and innovation. (p. 7)

An important feature of the new factors influencing the location decisions of firms is that they traditionally contain a significant degree of government involvement.

Tax subsidies are the most significant form of assistance offered by State and local governments in the United States. Bartik (1994) says:

Most of the public resources for economic development go to tax subsidies and other financial subsidies to encourage firms to locate or expand in a particular government jurisdiction. Examples of such subsidies include: property tax abatements; low-interest loans; tax exempt bonds to finance business expansion; wage subsidies; free land and infrastructure. (p. 848)

Bartik (1994) says that data on the extent of assistance in aggregate is rare, but he quotes three studies in the late 1980s and early 1990s that estimate annual revenue forgone through tax abatements at over \$16 per capita in Michigan; \$27 per capita in New York; and \$60 per capita in Louisiana.

These tax expenditures vastly exceed direct government spending for economic development. City government spending for economic development is estimated to be about \$3 per capita annually, while total State economic development agency spending is estimated to be about \$5 per capita. Bartik (1994) observes:

The emphasis on tax breaks for large new facilities and expansions has a strong political rationale. A ribbon cutting at a new plant or plant expansion attracts attention. Providing a tax break allows a governor or mayor to take credit for good news. Much of the cost of this tax break may be deferred to the future. (p. 848)

#### **A6.4 Size of assistance packages offered in the United States**

Assistance packages offered in the United States can be very large, certainly by Australian standards.

Farrell (1996) comments on the increasing size of assistance packages:

Problem is, costs are soaring in the battle for business. Micron Technology received some \$80 million from the State of Utah to build a chip plant in Provo. Alabama captured a Mercedes Benz factory with a package worth over \$250 million. Blue Water Fibre received about \$80 million in inducements from Michigan for a paper-recycling mill and its 34 employees — a subsidy of \$2.4 million per job. (p. 4)

Carnahan (1996) says:

In the last ten years there has been a dramatic expansion in State economic development programs. ... Between 1984 and 1986, Nissan, Mazda, Chrysler, Toyota and Isuzu announced plans to locate plants in the midwest. State governments provided large incentives to lure the firms, with the size of the incentives increasing. The usual way to measure incentives has been in terms of \$/job created. Using this measure, Nissan (the first automaker to locate) received an incentive which cost the Tennessee taxpayers \$11 000 per job created. When Isuzu located (the last of the six) the incentive offered cost the Indiana taxpayers \$50 000 per job created. The two automakers to locate in the 1990s, BMW and Mercedes, have received even larger subsidies. While the details are still unclear, Mercedes has been provided with in excess of \$250 million in incentives to locate in Alabama, or approximately \$169 000 per job created. (p. 4)

Use of incentives to attract investment is not limited to the auto industry, nor is it limited to foreign firms. Indiana provided over \$300 million in incentives to induce United Airlines to locate its new maintenance centre employing 6000 workers in Indianapolis. The largest package in terms of incentive cost per job created appears to be the one offered by Kentucky to Dofasco Steel, \$140 million in incentives for a plant that will employ 400 workers. States have also used incentive packages defensively to retain firms who threaten to relocate. Sears received incentives totalling \$240 million to stay in Illinois, while New York City awarded tax cuts of \$30 million to securities firms that threatened to move to the New Jersey or Connecticut suburbs. (p. 4)

Toft (1996a) says:

As an example of the price escalation in this war, Bidding for Business by the Corporation of Enterprise Development notes that Tennessee paid \$11 000 for every job created at a major Nissan plant in 1980. Five years later, the State paid \$26 000 per job to win the Saturn plant. More recently, South Carolina paid \$71 000 per job to land the BMW plant, and Alabama paid \$169 000 per job to win the Mercedes plant. (p. 5)

Table A6.1 shows recent incentive comparisons.

**Table A6.1: Selected large State incentive packages in the US**

<i>Employer (Offering State)</i>	<i>Gross offer</i>	<i>Direct jobs<sup>a</sup></i>	<i>Cost per Job created</i>
	<i>\$ million</i>	<i>number</i>	<i>\$</i>
BMW (SC)	135	1 900	71 000
Diamond Star (IL)	210	2 500	84 000
Dofasco Steel (KY)	140	400	350 000
Mercedes (AL)	253	1 500	169 000
Sears (IL)	240	5 500	43 600
United Airlines (IN)	300	6 000	50 000
Disney (VA)	163	2 700	60 400

a Full-time equivalents

SC South Carolina. IL Illinois. KY Kentucky. AL Alabama. IN Indiana. VA Virginia.

Source: Toft (1996a).

## **A6.5 Competition for economic development**

A number of researchers have looked at competition for economic development among States in the United States. The general conclusion seems to be that there are gains to individual States from pursuing an active economic development policy, but that the gains are small, the risks for governments large, and the effect for the States as a group are negative.

Netzer (1991) concludes:

Economic development incentives are, for the most part, neither very good nor very bad from the standpoint of efficient resource allocation in the economy. With all the imperfections, the offering of incentives does not represent a fall from grace, but neither does competition in this form operate in ways that truly parallel the efficiency-creating operations of private competitive markets. Given the low cost-effectiveness of most instruments, there is little national impact, only a waste of local resources in most instances. (pp. 239-40)

More precisely, as a result of his analysis, Netzer (1991) views are summarised as follows:

In a perfectly competitive world, Netzer argues, competition for economic development would be a negative-sum game, in terms of the consequences for efficiency of resource allocation, until all government had adopted the same economic development package, at which time such competition would become a zero-sum game. (pp. 22-23)

Netzer (1991) offers advice on the most and least effective incentives. Capital subsidies are not cost-effective. He supports certain public programs that reduce information costs, such as technology transfer and new product development efforts. He argues that certain State and local tax reforms can achieve the dual purpose of improving the tax system and promoting economic development.

Fosler (1991) draws a similar conclusion on which types of assistance are preferred. He criticises blatant efforts to recruit business firms from other jurisdictions as being economic development programs that are most likely to have zero or negative-sum results. He considers that State economic development policies should have an emphasis on internal economic development — the ‘basics’ such as education and physical infrastructure.

Nota (1991) speculates on the reasons why jurisdictions would continue to compete if there were no clear gain from doing so:

If research fails to support the efficacy of most specific economic development incentives, why do State and local officials still use them? (p. 24)

The following reasons are suggested: the ‘early bird’ can gain clear, though temporary, benefits; boom bust cycles may justify protecting employment in a bust; and political accountability provides incentives to err on the side of providing too much assistance rather than too little.

Nota’s conclusion is that there is a need for greater accountability in government actions.

The provision of jobs in local jurisdictions is a primary focus of much of the competition for business in the United States. The impression is that job creation is seen to be much more the responsibility of State and local governments than in Australia, where this is seen more readily (though certainly not exclusively) as the responsibility of the Commonwealth. The US literature reflects this view, with a focus on estimating the cost of assistance packages per job gained, or evaluating whether the development programs of States are successful in increasing employment.

Bartik (1994) presents results from his 1991 study which indicates that most of the new jobs gained from attracting new investment go to new migrants to the region, rather than to the existing population in the region. This is consistent with the view that assistance policies may increase employment but are

significantly less effective in reducing unemployment in a region. Nonetheless, Bartik's research indicates a significant impact on unemployment in the short term and the short term can last for a reasonable time — 3 years (see Bartik 1993). US researchers typically do not ask where the immigrants come from, or whether there is any net effect on unemployment in other States or the United States as a whole. Bartik (1994) elaborates on the impacts of tax and service competition on local activity:

Based on these 48 studies, if a State or metropolitan area reduces State and local business taxes by 10 percent, without changing its public services, and without other States or metropolitan areas changing their fiscal policies, then business activity in that State or metropolitan area on average seems to increase in the long run by about 3 percent. (In other words, the long-run elasticity of State or metropolitan area economic activity, with respect to taxes, is on average estimated to be around -0.3) Because studies differ, there is some uncertainty about this estimated effect of taxes. I argue in my book that the "true" average effect of a 10 percent reduction in State and local taxes is likely to be somewhere in between a 1 percent increase in business activity and a 6 percent increase in business activity (ie., the long-run elasticity is between -0.1 and -0.6). (p. 852)

State and local spending on public services has a positive effect on local economies. This positive effect is large enough that some studies have found that a balanced budget increase in taxes, and spending on education and roads, will boost a State's economy (Bartik, 1989; Helms, 1985; Munnell, 1990). For business tax cuts to boost a State economy, they must be financed by increases in personal taxes or reductions in spending that does not provide services valued by business. (pp. 852-853)

There has also been some research on how differences in property-tax rates within a metropolitan area affect the growth of suburban communities. Based on this research, a 10 percent reduction in an individual community's local business property taxes ... will, assuming other communities leave their property-tax rates unchanged, increase business activity in the community by around 20 percent ... How can the large effects of taxes on one community be reconciled with the modest effect of taxes on a metropolitan area? The most plausible reconciliation is that most of the increase in one community's business activity due to lower property taxes comes at the expense of other communities in the metropolitan area. (pp. 853)

Bartik (1994) concludes that the benefits of State development policies would be greater in areas of high unemployment:

Additional job growth [as a result of State development policies] is more likely to have social benefits in persistently high unemployment, economically declining areas. In high unemployment areas, many unemployed individuals will be desperate for a job, but unable to obtain one. These individuals will receive substantial benefits from obtaining the jobs provided by growth. (p. 850)

Areas that have declined in employment and population will also have greater fiscal benefits from job growth. Such areas will have underutilised public infrastructure and services. Adding jobs or preventing further decline may require little additional public spending. In rapidly growing areas, additional job growth will require investments in

roads, schools and other infrastructure. Case studies have indicated that such infrastructure costs often exceed the tax revenues from new job growth. (p. 850)

Net national benefits are more likely if the local areas that most aggressively “buy growth” are high unemployment areas. Even though greater job growth in high unemployment areas comes at the expense of low unemployment areas, this redistribution of jobs will yield net employment and fiscal benefits. The extra jobs in high unemployment areas will go to individuals who desperately need jobs, [value them more highly], whereas the reduced jobs in low unemployment areas will be taken away from individuals who could easily obtain a job anyway. Reallocating growth from booming areas to declining areas allows greater use of existing infrastructure, and less spending on new infrastructure. (p. 851)

However, growing areas are also in the business of offering incentives to attract additional investments. This may have more to do with the private incentives of the policymakers who may include an over-representation of land owners, some of the major beneficiaries in terms of capital gains from new development. Bartik (1994) comments:

Because the benefits of extra growth are lower for already booming areas, one could argue that high growth areas will not aggressively pursue growth. But political and economic elites may have strong private reasons for preferring pro-growth policies. Greater job growth will increase land prices and the prices charged by firms serving local markets. Local banks, newspapers, and real estate developers will benefit from growth and have political clout. (p 851)

Bartik (1994) expresses two reservations about providing tax breaks:

... targeting is usually a failure. Economic development agencies cannot read the minds of firms to tell whether a subsidy is really needed. The political pressure to extend incentives to all firms that qualify is great. (p. 853)

This last comment reflects a view that is expressed quite widely in the US literature, that the benefits of government intervention can be maximised, and the costs reduced, by more ‘efficient’ targeting of assistance. The extension to other firms is seen as a loss by providing assistance to firms which did not ‘need’ the assistance, that is, firms that were not marginal.

This view is challenged by work done by Holmes (1995). He analyses the impact of competition between two States for mobile capital under two scenarios, competition in general tax rates on capital, and selective tax competition targeting ‘marginal’ firms. He reaches a number of conclusions from this analysis:

Practising tax discrimination is always rational for an individual State. Yet as my analysis shows, this narrow view misses a broader point: the States altogether would be better off under a federal policy that prevents them from tax-discriminating. (p. 30)

The welfare of labour agents is lower in the discriminatory taxation regime because there labour agents pay higher taxes and enjoy less of the public good. (p. 37)

... making such tax breaks illegal could increase a summary measure of total welfare in the economy. According to the model, the policy could increase welfare because it would increase the tax revenue collected from capital agents, and that revenue could finance an increase in spending on public goods. The policy would also spread the tax burden more evenly in the economy and so reduce the deadweight loss of taxation per dollar collected. In addition, the policy would lead to a more efficient pattern of industry locations in the economy. (p. 29)

## **A6.6 General comments on the state of thinking in the United States**

Many of the researchers in the United States draw their own conclusions on the trends and ‘consensus’ in the thinking in the United States on State economic development policies.

Farrell (1996) comments on the continuing divide between those who think such assistance is desirable, and those who regard it as destructive. He says:

Proponents say incentives create a business-friendly, entrepreneurial climate; promote local job opportunities and worker training; enhance private sector productivity and competitiveness. Opponents charge that these giveaways divert government money from supporting traditional public goods like education, frequently cost far more than any realised benefits, misallocate resources and make everyone worse off. (p. 4)

... many economists argue that even if States don’t overpay, the nation as a whole loses because “beggar-thy-neighbour” competition isn’t creating net new jobs, but simply shifting jobs from one State to another. (p. 5)

Kenyon and Kincaid (1991) present a number of general conclusions about the state of thinking on interstate competition in the United States:

The prevailing popular and academic consensus has long been that competition among States and local governments has predominantly negative effects. Various analysts have argued that such competition leads to inadequate State and local spending, reducing reliance on ability to pay taxes, too low a reliance on taxes borne directly by business, and a waste of resources as government efforts to attract businesses from other jurisdictions result in a zero-sum game. (p. 2)

Within the last two decades, however, the negative view of inter-jurisdictional competition has been challenged on a number of fronts. Instead, there is a growing realisation of the potential benefits that competition can provide for the citizens of the competing governments. (p. 2)

Policymakers and analysts have long had strong concerns about State and local competition for economic development. A wide range of economic development incentives is currently offered — so many that a recent 50 State survey of financial incentives totalled almost 800 pages (National Association of State Development Agencies 1991). Nevertheless, many questions are raised about their effectiveness. From the nation’s standpoint, the key question is whether such incentives merely shift

the location of business activity within the United States, constituting a zero-sum game. (p. 3)

There are also questions about whether these incentives are cost effective for the offering governments. For example, a recent study of financial incentives used by State and local government to attract new automobile plants concluded that the “incentive cost per job created” for certain plants was extremely high – in some cases exceeding \$100,000 (Fiordalisi 1989). Suggestions for curtailing such wasteful competition run the gamut from outright prohibition to proposals for changing the “rules of the game,” such as requiring officials to publish cost estimates of economic development incentives. (p. 3)

Is interjurisdictional competition a beneficial regulator of State and local government behaviour, or does it induce government to adopt “beggar-thy-neighbour” strategies? By and large, this volume’s authors suggest that interjurisdictional competition can serve as a regulator of State and local fiscal behaviour. (p. 26) Whether such competition has predominantly benign effects is less clear. (p. 27)

The traditional critique held that interjurisdictional competition leads to inadequate State and local spending, reduces reliance on ability-to-pay taxes, lowered reliance on taxes borne by businesses, and wasted resources, as efforts to attract industry from other jurisdictions result in a zero-sum game. (p.27)

The authors in this volume suggest that interjurisdictional competition can have either beneficial or harmful effects, depending on the circumstances surrounding such competition. Interjurisdictional competition will not always lead to inadequate State and local spending, and may even encourage higher spending. Furthermore, competition may improve public-service efficiency and, thereby, government responsiveness to citizens preferences. (p. 27)

The volume’s authors do partially reaffirm the traditional conclusion that interjurisdictional competition will reduce State and local reliance on ability-to-pay taxes. (p. 27)

Finally, the volume reaffirms the traditionally negative view of State and local uses of special tax incentives and subsidies to recruit businesses from other jurisdictions: however, common-good policies — such as innovation and infrastructure investment — motivated by competitive pressures are likely to have generally beneficial effects. (p. 27)

#### Bartik (1994):

Economic research suggests that traditional economic development policies of “buying growth” using various financial and tax subsidies, have a high cost per job created. Benefits large enough to justify such costs are more likely in economically distressed areas, in which the unemployed are more desperate for jobs and much of the existing public infrastructure is underutilized. Newer economic development policies, which provide services to enhance business productivity, may improve economic efficiency, but need careful evaluation. (p 847)

On September 20 1995, more than 100 Mid-west economists called for an end to the economic war between the States. They claimed that government-

sponsored selective business subsidy programs, such as direct grants and targeted tax abatements, are used by Mid-west States to lure businesses away from nearby States. According to the economists, these programs fail to promote healthy and even-handed state-wide economic development because they:

- unfairly penalise existing businesses and labour through higher taxes to subsidise relocating firms;
- target relocating firms that, according to empirical academic research, add little, if anything, to net job creation;
- serve only a small portion of the firms that need tax and regulatory relief;
- are minor factors in plant location decisions of most firms;
- give unfair advantage to large firms with administrative capabilities to negotiate the “best” deal with governments; and
- represent State-level industrial policies that attempt to pick winners and losers through political rather than economic process with all the potential for political abuse that this implies. (Quoted in Toft 1996b, p. 37)

### **A6.7 Does State assistance make a difference**

The question of whether State assistance actually influences the location of economic development is widely debated in the literature in the United States. The general conclusion appears to be that the effect is, at best, marginal. This is consistent with comments that firms ‘short list’ sites on the basis of fundamentals and then shop around for assistance packages. This implies that, at the margin, an assistance package could influence location decisions, but will rarely encourage a firm to locate in a region with significantly different fundamental characteristics.

A central problem faced in attempting to understand whether assistance is effective in influencing location decisions is that typically all or almost all States actively compete. While such ‘cancelling out’ may indicate that in total the States are wasting their money, it does not help to answer the question of whether the assistance packages are important for a single player, nor resolve the question of the risks that could be presented by ‘unilateral disarmament’. None of the studies evaluates competition between fundamentally similar regions where one provides an incentive package and the other does not.

Jordan et al. (1986) comments:

A question debated in the literature for nearly 20 years, but yet unresolved, is the effectiveness of State industrial development activities in attracting new industry to a State. (p. 114)

This observation is generally supported by other commentators. A considerable amount of taxpayers' money, and the time and effort of bureaucrats and politicians, is expended in efforts for which there appears to be no conclusive proof of any beneficial effect.

Rasmussen and Ledebur (1986):

Analysis of State and local economic development efforts have generally concluded that these programs subsidise jobs that would have, in any event, located in the jurisdiction. There is a recognition that current efforts occasionally alter the location decision of an enterprise among adjacent jurisdictions but no evidence that they have any net impact on employment. In short, many are of questionable utility to the State and from the national perspective are probably of minimal use. (p. 152)

It makes little difference from the local perspective whether the activity is a net new addition to the national economy or whether the activity was merely snatched from another jurisdiction. Of course, if the subsidised enterprise would have located in the same jurisdiction without the subsidy, the entire expenditure is simply a transfer of income from taxpayers to owners of the firm, with no offsetting social benefits. (p. 142)

After reviewing a wide range of US studies, Rasmussen and Ledebur (1986) conclude:

Survey and analytical research suggests that the myriad of tax exemptions and tax credits included in development programs have little impact on the location decisions of firms. Thus it can be argued that most of the expenditures for "economic development" are virtually worthless as instruments of net job creation and economic stimulation of the national economy. (p. 152)

Perhaps the most compelling case for State and local business incentives has come from Laird and Rinehart (1979) who argue that these efforts are the principal vehicle for the dissemination of information about alternative production sites. This information can be provided relatively inexpensively by jurisdictions while it would be prohibitively expensive if individual firms has to gather the relevant location information for all of the feasible locations. (p. 155)

Wassmer and Fischer (1992) also reviewed the literature on whether State and local taxes affect business investment location. They conclude that research has shown that tax differences between States or regions exert very small effects on business location decisions, but that tax effects within metropolitan areas can be substantial. However, they also highlight studies which indicate that the provision of business services is as important, if not more important than tax rates. They comment:

Whether cuts in taxes stimulate growth depends, therefore, on the reasons for lower taxes. If tax cuts are financed by less spending on business-related services or on resident-related services important to business, then new investment is unlikely to be stimulated and may even be discouraged. Direct research on this issue has been rather sparse. However, there are some important studies that show that increases in State and

local taxes and corresponding increases in services except welfare spending tend to increase State income or economic activity. (p. 4)

Netzer (1991) is sceptical of the influence of economic development incentives, and of statistical studies which seek to measure it:

... economic development initiatives typically reach a tiny fraction of firms. In New York State, the major business tax incentives features are each used by only a few hundred firms, and in any one year, State and local business loan closings probably number less than 1000 of the million or so business establishments in the State. So one should not take seriously the occasional regression study that purports to measure the effectiveness of economic development policies by examining the relation between a dependent variable for economic growth and independent policy variables like the number of economic development programs a State uses, or the dollars it spends for things labelled economic development, or the number of firms taking advantage of the State programs. (p. 233)

He refers to one recent effort to measure cost effectiveness which finds that:

... the cost to the government providing the subsidy exceeds the benefit to the firm being subsidised for every type of incentive examined, except for State loan guarantee programs. Typically, the excess of cost over benefit is substantial. (p. 233)

In these cases, the federal government actually gains from the incentive program, via higher federal tax liabilities. (p. 233)

Bartik (1994) comments on the effectiveness of information provision saying:

Claiming a “failure” in markets in information and training for small and medium-sized businesses does not justify every government-sponsored service that claims to correct these problems. ... In addition, such programs face the challenge of providing services that firms value. Providing such services ... is only efficient if the value of the information and training exceeds the costs of these services. Evaluating whether this is the case is important. ... The nature of the potential market failure in information and training markets suggests that firms should be required to pay for some of the costs of such services, rather than being given free services. (p. 850)

There have been few evaluations of economic development programs that seek to improve business productivity. Those that have been done, however, suggest that such programs can be effective. Several studies suggest that industrial extension services and small business development centres, which provide businesses with information and training about modernisation, exporting, worker training, or management, can be helpful. Comparisons of surveys suggest that business information programs are more effective when programs are locally run, with extensive business involvement. (p. 855)

Jordan, Sassone and Walking (1986):

This point of view [that, in the absence of incentives a State would attract less industrial development] runs counter to the tenets of location theory, which argues that the fundamental economic factors affecting long-run profitability guide industrial location decisions. That is, industrial location decisions are influenced mainly by proximity and size of markets, and the availability and costs of labour, raw materials,

land, and utilities. While location theory does not explicitly address industrial development activity, the inference can be made that such activity is not considered a significant determinant of industrial location. (p. 114)

and

First, even when a State or locality succeeds in effectively changing a fundamental factor like the cost of land, that State or locality may be at such a severe disadvantage in other respects that the change may not have much impact. Second, firms are likely to view severe factor price distortions with apprehension. What is offered today may be withdrawn tomorrow; or if something is given away today, something else may be taxed doubly tomorrow. (p. 137)

Their paper looks at three hypotheses:

- industrial location decisions are based on fundamental economic factors outside State control;
- a State can influence its own development activity but has no significant effect on other States (rivalry); and
- a State's development activity affects not only its own development but is at the expense of other States (competition).

Data on eight States in the southeast region were collected for the period 1960 to 1977, covering such things as manufacturing value added and manufacturing payroll as measures of effectiveness:

... in general, we find that the factors suggested by location theory (especially proximity to markets and factor prices) do tend to explain States' relative performance in industrial development, while State industrial development activities do not appear to have any significant impacts. (p. 135)

From the policy perspective, this work offers two conclusions. First, State officials should not uncritically accept the effectiveness of their industrial development agencies. Resources may be better utilised elsewhere in the State budget. ... Second, since we fail to refute location theory as a predictor of the pattern of State industrial development, State officials should consider redirecting development resources into programs which can beneficially influence the fundamental economic factors suggested by location theory. For example, resource development projects to ensure adequate water supplies, or "depoliticising" utility regulatory commissions to ensure adequate future energy supplies are actions which could enhance a State's attractiveness to industry. (p. 136)

Anderson and Wassmer (1995) are more sanguine about the effectiveness of incentives:

The debate that has raged over the offering of local development incentives in the United States began over 20 years ago and remains heated. Initially, the conventional wisdom of economists was that local incentives were incapable of altering firm location decisions and amounted to community give-aways. Business location decisions were understood to be influenced by proximity to input and product markets, not to local

fiscal variables. ... Economists have since softened their stance on local development incentives. More recent studies have shown that in a given region, for certain types of cities, local fiscal incentives can exert beneficial additive effects. Bartik (1991) and Wassmer (1994) offer evidence on these effects. However, if communities offer economic inducement to business just because other municipalities are offering corresponding incentives, the influence of inducements is lessened. Communities may then feel compelled to offer a new round of greater inducements. (pp. 739-40)

Importantly, even those who find benefits typically do so only if retaliation does not occur with all jurisdictions becoming involved in competitive assistance.

Anderson and Wassmer (1995) examine the behaviour of 112 communities in the Detroit metropolitan area over the period 1974 to 1992 to test hypotheses about why jurisdictions adopt tax abatement measures.

The study finds:

- The higher the median property income in the municipality, the longer it waits to grant manufacturing property tax abatements. Industrial development is clearly an inferior good.
- The higher the property tax price of local public services for the median homeowner, the longer the municipality waits to grant abatements. ... Voters desire fewer abatements that would further raise property tax prices [of public services] ...
- ... the probability that a community will offer an initial abatement has increased over the majority of time that the program has been available. This suggests that as time passes communities offer these abatements, not as a compensating differential that allows them to compete on equal grounds with other communities, but simply because other communities are offering abatements. Communities in metropolitan areas are likely involved in a game of prisoners' dilemma.
- We have provided evidence of the validity of the oft-told anecdotal story that a firm solicits an incentive offer from one community with negative location characteristics, and then uses this incentive offer to get a similar incentive from the community where it would have located without any incentive at all. (pp. 755-56)

They also conclude that the research has shown that restrictions on the type of community permitted to grant an incentive package may need to be considered by State policymakers.

Bartik (1996) concludes that economic development incentives can work in influencing the location of investment:

The issue isn't whether economic development incentives can work; empirical evidence suggests they can. The issues are whether benefits of incentives outweigh costs, and how benefits and costs are affected by local conditions and incentive design. Empirical research on taxes and business location suggests that State and local taxes

have a statistically significant effect on business location decisions. Local job growth has significant effects on the earnings of local residents. But do the earnings benefits justify the costs of incentives? Incentives are costly per job created. The effect of taxes on business location is modest. Many location and expansion decisions are unchanged by incentives. (p. 43)

Fisher and Peters (1996) are more definite in their conclusion, saying:

There is now substantial evidence that programs to attract jobs by lowering business costs are more effective than previously thought and are likely to provide some long-term benefits to the locality in the form of lower unemployment and higher annual earnings. (p. 52)

They then refer to the view that there are gains from incentive packages if they result in the redistribution of jobs to regions [those with high unemployment] that would benefit the most. This view is similar to that expressed by Bartik in a number of his papers. Fisher and Peters (1996) then seek to establish whether high unemployment regions, in fact did offer greater incentives so as to become the more attractive location (in terms of tax structures) for new investment. They study 112 cities in 24 States, using 16 hypothetical firms representing the characteristics of a typical large and small firm in each of eight fast-growing manufacturing industries. They conclude:

... the end result is a pattern of returns on investment that is essentially random: There is no discernible tendency for returns to be more attractive in high-unemployment or in low-unemployment places. (p. 56)

They speculate that this could be the result of factors other than unemployment influencing development incentives, such as slow growth and imitation of other States, or the result of incentive packages persisting even if State economic performance improves.

### **A6.8 Who pays, who benefits?**

The question of who benefits from assistance and who pays can be as important as the question of whether there is a net gain to society from States and local governments providing incentives for industry. As a number of the articles in this area have commented, who wins and who loses can be important to the decision making of policymakers who are subject to a wide range of political pressures and incentives.

Bartik(1994):

In the long run, around one in five of the new jobs created go to the original local residents, and the other four go to in-migrants. A 10 percent increase in metropolitan employment also increases long-run real wages in the metropolitan area by around 2 percent. This increase in real wages occurs because individuals in a growing local

economy are able to get and keep jobs in higher-paying occupations. The percentage increase in income from local job growth is greater for disadvantaged groups. (p. 854)

Bartik (1993):

I conclude that jobs from local growth go in part to local residents in the long-run. Research also suggests that minorities benefit most from growth, that local growth benefits are greater in low-mobility regions, and that higher wage industries provide greater benefits. (p. 297)

Carnahan (1995) refers to three recent case studies which indicate that landowners are unambiguous gainers from economic development:

Erickson and Syms (1986) conclude that industrial rents inside a specific enterprise zone in England rose enough to capture 60 percent of the financial incentives offered to firms locating in the zone. Using a hedonic pricing model, Gardner et al (1987) estimated that the decision by Chrysler/Mitsubishi to locate its plant in Bloomington, Illinois was associated with a 10 to 15 percent increase in housing prices in the area. Bartik (1991, p.119) estimates that the location of the Saturn plant in Maury County led to a \$200–\$400 million increase in the land value in the county, or a 20–40 percent increase in the total market property value in the county. (p. 6)

Carnahan (1995) also comments that:

The incentive packages offered to attract firms have included things such as upgrading or constructing roads and other infrastructure, funds for site acquisition or development, construction of worker training facilities, as well as explicit tax breaks or other financial incentives. The local companies that are awarded the contracts to undertake these projects will be gainers if the State is successful in attracting the new industry. (p. 6)

Carnahan goes on to suggest that situations exist where:

... optimising government agents responding to the incentives they face undertake policies which are not optimal in a social welfare maximising sense. The extent of the divergence of these policies from the optimal policy was linked to the concentration of the winners in the locations and to the degree of competition that occurred between the States. (p. 25)

Some have identified a ‘loser’ in the form of a loss of good government. McEntee (1996) comments:

“Good” government loses: Public subsidy of business is one reason taxpayers may feel they don’t get much for the taxes they pay. In addition, tax breaks for business create an environment where businesses can trade campaign contributions for tax breaks. The climate of influence peddling, corruption, bribery and blackmail fostered by such a relationship does not foster a healthy political environment. (p. 41)

Other ‘losers’ identified by McEntee (1996) are:

- other State programs; ...

- Individual taxpayers ... For every dollar that business taxes are reduced, someone else's taxes go up by a dollar; [and]
- Businesses lose: Tax incentives often are offered on a firm-by-firm basis. As a result, two firms selling exactly the same product with exactly the same costs for labour and raw materials may face very different tax bills. The firm without tax incentives will have to charge higher prices and will be at a competitive disadvantage. (pp. 41-42)

The political problems and temptations associated with the growth of assistance mechanisms are not new. Netzer (1991) notes the use of public funds for development from the 'earliest days':

Public funds were used to build transportation and other infrastructure that opened land to private development, ... No one called this "economic development"; instead, people spoke of opening up the country and accommodating the purportedly inevitable growth of the population in particular places. Then as today, the effect (and the very lightly disguised objective) was often to increase the value of privately owned land that came to be in the path of development. Largely because of the wanton thievery typically associated with this type of subsidisation, mid- and late-19th century State constitutions generally contained prohibitions on grants or loans of public funds to private parties. ... Moreover, those constitutions often had sweeping requirements for uniformity in taxation, ... precluding formal and overt tax preferences. (p. 222-23)

Another big winner out of State and local government industry incentive packages are those employed in their provision. Netzer (1991) comments:

Local economic development officials have every reason to exaggerate the effectiveness of their wares, so as to assure the continuance of the program and their continuance in office. The firm receiving the subsidy can gain the most favourable terms only by strenuously claiming that the subsidy will be *the* decisive factor. (p. 231)

## **A6.9 Suggestions on what should be done**

Suggestions on what could be done in the United States to limit interstate rivalry have ranged from advice on increasing transparency and accountability, to suggestions of prohibitions on State and local government policies by the federal government. Farrell (1996) says:

Nevertheless, there do seem to be some broad areas of agreement. For one thing, financial disclosure is far too sparse. To improve accountability, many experts advocate State and local governments better disclose the true cost of their incentive programs, and establish mechanisms for tracking the performance of their investments over time.

No State can stop using development incentives in a world of fierce domestic and international competition. To do so would be politically and economically suicidal. ... Only the federal government can bring this type of competition to an end. Many constitutional scholars agree that Congress has the power to stop "beggar-thy-

neighbour” competition, and there is support for congressional action among numerous participants in the economic development business. (p. 7)

Toft (1996b) refers to principles of good practice based on two notions:

(1) that incentives be treated like any other public expenditure, that is, as an investment choice evaluated on a reasoned risk-reward basis and (2) that given the public’s sour mood toward government, incentives be designed and administered according to strict standards of accountability. (p. 39)

Bartik (1996) observes that:

- targeting some firms for greater incentives than others may be rational;
- economic development incentives should be distributed with more reliance on rules and less on discretion; and
- better decisions will be made if incentives are required to be provided up front. ‘Clawback’ provisions should be attached to these upfront incentives, allowing some incentive funds to be recovered if the promised jobs do not arrive or later disappear.

He identifies a feasible federal role in:

- discouraging discretionary financial incentives and encouraging development policies that would have greater national benefits, for example, policies to encourage growth in high-unemployment areas or to increase labour productivity.
- penalising through withholding federal grants, discretionary financial assistance given to particular branch plants, but not to similar businesses;
- encouraging experiments with small business assistance; and
- supporting more consistent information on and evaluation of State and local economic development policies.

Dabson, Rist and Schweke (1996) conclude:

If incentives remain in a government’s development policy portfolio, they must be accompanied by a range of accountability and disclosure provisions, including:

- Full public disclosure of incentive costs. Some States even disclose how much an individual company benefits from the incentives.
- Rigorous and standardised approaches for calculating the cost of each job created or retained.
- Accurate tax expenditure [revenue forgone] reporting if tax-based incentives are used.
- “Sunset” reviews to assess the effectiveness and impact of tax and nontax incentives.
- Establishment of benchmark “return on investment” targets, if incentives are to be enacted or maintained.

Far-sighted State leadership should look for ways to slow the “arms race” by:

- Working with other States to devise workable compacts for responsible incentive competition.
- Calling for federal legislation to restrict these bidding wars as well ...
- Educating their constituencies about: (1) the dangers posed by an unregulated incentives arms race and the fact that most new jobs come from expansions and new business start-ups – not from relocations, and (2) the fact that creating the conditions for profitable companies (ie. delivering quality public services in an efficient manner) has a much greater impact on job growth than the combined effects of a State or local community's entire economic development arsenal. (p. 49)

Peters (1993) looks at the role of ‘clawbacks’ in agreements between States and investors. Clawbacks stipulate that a publicly subsidised firm not achieving agreed employment performance targets must pay back a portion of the subsidy it received. Peters (1993) reviews the arguments in favour of clawbacks and looks at data on clawback usage in major midwestern grant and loan incentive programs. This data indicates that clawbacks are fairly widely used, although there are considerable differences in the way that they are implemented. He concludes:

... there appears to be little agreement on how firm employment performance should be evaluated. (p. 328)

Peters (1993) also states that:

... most directors of State grant and loan programs feel that the inherent riskiness of business should be taken into account when deciding whether clawback sanctions should be applied to under performing firms. (p. 328)

The need to maintain an understanding attitude towards the inherent risks of doing business was cited most often as the most relevant reason for not imposing clawbacks. (p. 335)

Administrators are unwilling to take action against under-performing firms when their under-performance is the result of general economic downturn or some other factor outside their control. To do so would indicate that the authority is unsympathetic to the climate in which business operates. In Europe it appears that authorities are also concerned that their use of clawbacks will have a negative effect on the perceived regional business climate and therefore reduce their ability to use loans and grants to attract further business investment. As a consequence of this and other concerns, Peters (1993) notes:

Although clawback requirements are very common in major European regional loan grant programs, the evidence presented earlier suggests that funds seldom have been clawed back from firms failing to meet job creation and retention requirements. Part of the reason for this is that there appears to be very little monitoring of job creation and retention performance. (p. 335)

Burstein and Rolnick (1994) comment on the question of whether State and local development incentives improve economic performance. They say:

While States spend billions of dollars competing with one another to retain and attract businesses, they struggle to provide such public goods as schools and libraries, police and fire protection, and the roads, bridges and parks that are critical to the success of any community.

In this essay we argue that it is now time for Congress to exercise its Commerce Clause power to end another economic war among the States. It is a war in which States are actively competing with one another for businesses by offering subsidies and preferential taxes.

They [economists] find that there is a role for competition among States when it takes the form of a general tax and spend policy. Such competition leads States to provide a more efficient allocation of public and private goods. But when that competition takes the form of a preferential treatment for specific businesses, not only is it not “admirable”, it interferes with interstate commerce and undermines the national economic union by misallocating resources and causing States to provide too few public goods.

... even though it is rational for individual States to compete for specific businesses, the overall economy is worse off for their efforts. Economists have found that if States are prohibited from competing for specific businesses there will be more public and private goods for all citizens to consume. (p. 1-2)

They offer simple examples of the effect of State assistance to influence location (see Box A6.1).

#### **Box A6.1: Burstein and Rolnick’s examples of the effect of State assistance**

In the first outcome, no business actually moves to a new location. In other words, suppose that each State goes on the offensive to lure businesses away from other States, but defensive strategies prevail; local subsidies and preferential taxes to businesses that might consider moving, keep them from leaving. While each State could claim a victory of sorts (for no State loses a business), clearly all States are worse off than if they had not competed. Competition has simply led States to give away a portion of their tax revenue to local businesses; consequently, they have fewer resources to spend on public goods, and the country as a whole has too few public goods.

It is unlikely, of course, that businesses will not be enticed to relocate. In this second outcome, the damage to the overall economy can be even greater. At first glance, when businesses relocate there appears to be no net loss to the overall economy; jobs that one State loses another gains. As in the case with no relocations, there will be fewer public goods produced in the overall economy because, in the aggregate, States will have less revenue. This follows because the revenue decline in the losing States must be greater than the revenue increase in the winning State. (If this was not true, businesses would not have relocated). In addition to this loss, the overall economy becomes less efficient because output will be lost as businesses are enticed to move from their optimal locations.

*Source:* Burstein and Rolnick (1994).

On discriminatory taxes, they comment:

In general, it can be shown that the optimal tax (the tax that distorts the least) is one that is uniformly applied to all businesses. Allowing States to have a discriminatory tax policy, one that is based on location preferences or degree of mobility, therefore will result in the overall economy yielding fewer private and public goods. (p. 8)

An additional problem they identify is the lack of information on the part of the States, increasing the likelihood that they will get it wrong.

Burstein and Rolnick (1994) are of the view that the States will not cease using subsidies, and they considered that action by Congress is necessary to cease this activity. They say:

The States won't, on their own, stop using subsidies and preferential taxes to attract and retain businesses. There is anecdotal evidence that some State and local governments recognise they are all losing in this economic war. Nevertheless, as long as a single State engages in this practice, others will feel compelled to compete. (p. 10)

They also suggest that only Congress could end the war among the States through an active use of the Commerce Clause in the Constitution. They argue that the courts have had the running on this issue simply by default, and that the Congress has the constitutional power to act:

The Commerce Clause grants Congress the power to regulate "Commerce ... among the several States. ..." but it does not expressly prohibit the States from interfering with interstate commerce. (p. 15)

In their view:

The power of Congress under the Commerce Clause is so sweeping that to enact legislation to prohibit the States from using subsidies and preferential taxes to compete with one another, it need only make a finding, formal or informal, that such subsidies and taxes substantially affect interstate commerce. The Supreme Court will defer to such a congressional finding if there is any rational basis for the finding. (p. 15)

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## **APPENDIX 7:      MODELLING THE EFFECTS OF STATE ASSISTANCE TO INDUSTRY**

Much of the debate in both Australia and the United States on State assistance to industry, particularly rivalry in the form of bidding wars, has been expressed in terms of a ‘prisoners’ dilemma’. The expectation is that States individually are acting rationally by engaging in competitive assistance provision but that collectively they would be better off by not doing so. The presumption is that the economic welfare of the community will be improved by any agreement to cease State selective assistance to industry. While there are important exceptions, the rivalry between the States often is seen as efficiency-reducing beggar-thy-neighbour activity.

The Commission has sought to enhance its understanding of the likely payoffs to State assistance to industry through the use of a regionally (State and Territory) specified general equilibrium model of the Australian economy.

This appendix explores the likely effects of selective government assistance to industries or projects. It examines the effects on not only the industry or project being assisted, but also on other industries, the State in general, other States in Australia, and on the Australian economy as a whole.

The analysis does not find strong evidence for an actual (as opposed to perceived) ‘prisoners’ dilemma’, at least in the longer term. Once the efficiency costs of funding State assistance, including its overhead component, are taken into account, it is not clear that States can win by assisting industry unilaterally. In part, this is because the taxes available to States fall on business and labour — the mobile factors which the State is seeking to attract. While the analysis includes the beneficial effects of some forms of assistance — those targeted at market failure — the overall effect is not beneficial to the State providing it. Of course this result could be caused by the difficulty of modelling what are often vaguely described as external effects — but the vagueness also casts doubt on their existence, as noted in Chapter 2.

The analysis does support the view that there is an incentive to overbid for special events, when States bid against each other to attract them from overseas. When resources are mobile, they will tend to be attracted to the winning State from other States. Losers in this ‘assistance competition’ to attract such special events are doubly penalised — they lose the gains available to the nation as a

whole, and they lose additional resources to the winning State. From a national perspective, however, only the gains to the nation as a whole are relevant.

### **A7.1 The scenarios**

The following scenarios have been investigated:

- budgetary assistance by all States; and
- a special event (Grand Prix) in Victoria rather than South Australia.

The first scenario examines the direct and indirect impact of the \$2.5 billion in State government expenditures on budgetary assistance identified from State budget papers and other sources. The amounts spent on State assistance through tax expenditures (revenue forgone), as well as local government assistance to industry, are harder to quantify. The potential magnitudes of these latter forms of assistance are examined separately.

This scenario combines the likely effects of two distinct types of State assistance activity. It examines the industry-specific assistance provided to all firms in an industry. It also includes assistance to particular firms or investment projects. In each case, however, the intention is to attract investment, by either one or a number of firms, into the State from other States in Australia or from overseas. The modelling framework assumes in both cases that the assistance flows to 'marginal' investments that would not have been undertaken otherwise in that State (and possibly not at all, if they are sufficiently marginal). As such, it probably takes an overly generous view of the impact of such assistance. For example, Appendix 8 reports the results of the business attitude survey in which only 15 per cent of recipients of State assistance said that it was very influential in their decision on where to locate, while 18 per cent said that it had some influence.

The second scenario provides an indication of the likely effects of assistance designed to attract interstate and international tourists, rather than interstate and international investment. While investment adds to a State's supply capability, in the first instance an influx of tourists puts additional demand pressure on a State's existing productive base. Because the two types of activities have different initial effects, they could also have different flow-on effects.

One of the key factors likely to determine the overall effects of State assistance is whether the flow-on effects attract additional resources into the State. For example, additional tourists may make it profitable to build additional hotels. Additional investment may encourage additional workers into the State. On the

other hand, some types of assistance conceivably could drive other resources out of the State.

One of the key modelling assumptions is therefore the extent to which resources are mobile between States or internationally. The extent of resource mobility is a key determinant of the size of the multiplier associated with an event or initial investment. The modelling assumptions on resource mobility are spelt out below.

Another key factor determining the overall impact of State assistance is the opportunity cost of the government funds used to provide the assistance. This opportunity cost of funds is typically not taken into account in input-output analysis, though it is in cost-benefit analysis. It is taken into account in the current modelling exercise, in a way that is also spelt out below.

The following sections of the appendix describe:

- the key characteristics of the model;
- the specifications of the scenarios and the results obtained; and
- some general conclusions on the likely effects of State assistance for industry.

## **A7.2 Key model characteristics**

The model used for the analysis is based on MONASH-MRF (Peter et al. 1996). This model includes estimates of the supply and demand linkages between 12 industries located in each of the eight States and Territories of Australia. It also projects the impact of changes in level and location of economic activity on the fiscal positions of the Commonwealth and the eight State and Territory governments.

The States and Territories are linked on the demand side because producers, consumers, investors and governments can each choose to buy goods and services from their own State, from other States, or from overseas. The model assumes that they make these decisions based on relative prices and regional incomes. The model assumes that Australia's international exports from the eight States and Territories are also price-responsive. Although the model allows in principle for interstate trade in all goods and services, in practice the database shows interstate trade to be heavily concentrated in agricultural, mining and manufactured goods and in transport and communications services. The demand parameters in the model are set so that consumers and users switch much more readily between interstate sources of the same domestic product than

they do between domestic and imported sources, or between different product categories.

The States and Territories are linked on the supply side because producers can source material inputs from their own or other States. In the long term, another key supply side linkage is through the way the States and Territories compete for labour and capital.

### **Mobility of labour and capital**

As noted, one of the key assumptions governing the projected impact of State assistance is the extent and nature of capital and labour mobility. In the long term, it is assumed that labour is perfectly mobile across States and Territories, moving in response to any change in pre-existing after-tax wage differentials. In practice, this is likely to overstate the true extent of economically-determined interstate labour mobility (IC, 1993). It is also assumed that changes in the economic fortunes of a particular State are reflected entirely through changes in population and employment (with participation rates assumed constant), rather than through changes in unemployment. This means that in the long term, macroeconomic settings and overall wage levels are assumed to have eliminated all but frictional unemployment, and that overall wage levels remain sufficiently flexible to absorb fully the labour market impact of changes in national economic activity.

Some scenarios are also examined in a short-term setting. In this case, regional labour market pressures are assumed to be alleviated by changes in regional unemployment rates rather than by regional wage pressure (and its associated regional migration).

In the long term, capital is also assumed to be mobile, both between States and internationally, moving in response to changes in after-tax rates of return. Thus State assistance will succeed in attracting capital into a State if it raises, directly or indirectly, the after-tax returns to capital. In a minor modification to MONASH-MRF, the current framework recognises that *investors* do not need to move between States for *investment* to move between States. In particular, it is recognised that when investment within a State cannot be financed from private sector saving within that State, it will need to be financed from other States or from overseas. Some of the profits will then need to be returned as dividends or

interest to investors elsewhere, dampening the income boost within the State and hence the multiplier effect of the original investment.<sup>1</sup>

When scenarios are examined in a short-term setting, the short term is defined as a period over which capital stocks are not yet affected by additional investment. In the short term, therefore, capital stocks are fixed by region and industry.

In a second minor modification to MONASH-MRF, it is recognised that rural, mining and urban land are not mobile between States and Territories. However, urban land can be reallocated across manufacturing and service sector uses within a State, depending on its relative after-tax profitability in those uses. This modification has been made in order to recognise that the owners of geographically immobile factors are likely to be among the major beneficiaries of State assistance packages.

In a final modification to MONASH-MRF, mobile resources are assumed to move in response to changes in their returns net of State or local government taxes, ie. property as well as payroll taxes. With this modification, the model assumes that resources will be responsive when governments use such taxes (or tax-like equivalents) directly to influence location decisions. Resources will also be responsive when governments adjust such taxes to fund other forms of State assistance.

### **Opportunity cost of assistance**

As noted above, the modelling recognises that the funds used for State assistance initiatives have an opportunity cost. The US literature cited in Appendix 6 tends to emphasise the opportunity cost in terms of forgone public infrastructure. In infrastructure-starved parts of the United States, this may be the appropriate comparison. In Australia, the evidence is that State assistance initiatives mean that the general level of business taxation is higher than otherwise. There is likely to be an opportunity cost in terms of private consumption or investment, in addition to public infrastructure forgone. The Tasmanian Chamber of Commerce and Industry (Sub. 46) noted that

A taxation holiday for the favoured enterprise or industry by definition means that the balance of industry is paying more taxation than it should. (p. 3)

The Chamber of Commerce and Industry in WA (Sub. 55) noted more generally that:

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<sup>1</sup> These model modifications mirror the treatment of international borrowing and lending in the Salter model of the world economy (McDougall 1993).

... subsidies and assistance divert resources into subsidised business, and usually divert resources away from businesses or activities which are taxed in order to pay for the subsidy. (p. 5)

Other taxes have their own welfare cost when they influence resource allocation decisions. Thus, there is a net efficiency cost to the economy as a whole from the taxes needed to fund State assistance.

In most States, when assistance is adjusted, there is assumed to be an offsetting adjustment to payroll taxes in order to hold the government budget deficit constant in real terms.<sup>2</sup> This is consistent with the view that, since industry assistance is designed to attract investment, States would endeavour to avoid financing it by raising taxes on capital (such as stamp duties, motor vehicle registration and other charges, etc) which almost certainly would be self-defeating. Most States would be unable to finance their State assistance from commodity taxes such as franchise fees, since the base for these taxes is currently very narrow. One tax that would be better than payroll tax from an efficiency perspective would be a tax on immobile factors of production such as unimproved land. However, the most significant tax on unimproved land — municipal rates — is controlled by local rather than State governments.

In Tasmania and the NT, the current level of industry assistance is large even relative to their payroll tax collections. Eliminating the assistance could potentially more than eliminate all payroll tax, once induced changes in the tax base were taken into account. When modelling the removal of assistance in these States, the offsetting tax reductions instead have been spread equiproportionately between payroll and property taxes, with these reductions in turn limited to 50 per cent. Any additional release of funds is assumed to be used in the provision of additional transport and communications infrastructure (in the absence of an explicit intertemporal linkage between investment and capital, modelled as a subsidy on capital used in the transport and communications industry in these States). Note that although the model has been used to examine the impact of removing State assistance, the results have been reported with signs reversed to reflect the impact of having State assistance, since this facilitates the accompanying explanation.

The model has not been used to produce forecasts. It has been used to produce a snapshot view at some future date (after all the resource adjustments have

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<sup>2</sup> In a parallel fashion, average corporate and personal income tax rates are assumed to adjust to maintain the Commonwealth Government deficit constant in real terms. However, this has a minor effect since, apart from maintaining its grants to each State and Territory in real per capita terms in line with its 1995 COAG commitment, the Commonwealth is in all other respects assumed to take a passive role.

taken place) of how different the world would look with and without State assistance. The world could look worse than otherwise, but still be better than it is now, because of growth trends occurring in the meantime.

The model has been used as a guide to intuition, a framework to assist thinking in a reasonably systematic fashion about the likely effects of State assistance packages. Its particular projections of the impacts for individual States are likely to be deficient in a number of respects — because of uncertainty about the true size of the packages, uncertainty in many instances about the very purpose of some of the expenditures, and because the model is an abstraction from reality that misses many of the economic and other linkages that influence the true overall outcome. Used as a guide to intuition, however, it can be helpful in distilling some general principles about the effects of State assistance.

### **A7.3 Budgetary assistance by all States**

Table A7.1 shows how the estimated \$2.5 billion in expenditure on State assistance is distributed by State and recipient industry in 1994–95, the most recent year for which a detailed breakdown could be obtained.

In order to enhance the effectiveness of the modelling of the effects of budgetary assistance, the assistance expenditure in Table A7.1 is also divided into three distinct categories. Each of these categories is modelled differently, as described below.

The first category of expenditure in Table A7.1 represents State assistance delivered directly to industry. The category includes various types of cash grant to industry, as well as a wide range of other forms of assistance. Some assistance is clearly designed to lower the cost of specific inputs (such as fertiliser or transport services). It has been modelled as a subsidy on the use of those inputs. Concessional loans and similar assistance has been modelled as a subsidy on the use of capital. Expenditure on training programs and similar assistance has been modelled as a subsidy on the use of labour. Government expenditure on industry parks and similar assistance has been modelled as a subsidy on land use. All other assistance, including cash grants and forms of assistance whose nature and purpose is unclear, has been modelled as a subsidy on the output of the recipient industry. The subsidies will have direct impacts on the recipient industries, but will also need to be funded. As noted above, the funding is assumed to occur by increases in payroll taxes (with increases in property taxes and some forgone infrastructure spending also being required in Tasmania and the NT).

**Table A7.1: State expenditure on budgetary assistance to industry, 1994–95<sup>a</sup> (\$ million)**

	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>ACT</i>	<i>NT</i>
<b>Assistance to industry</b>								
Agriculture <sup>b</sup>	123.5	46.6	21.8	49.9	14.2	15.1	-	11.8
Mining	6.4	-	11.0	2.0	-	-	-	-
Manufacturing	163.2	239.1	56.5	39.9	31.6	12.8	0.6	4.9
Personal services	136.7	114.7	96.4	29.0	36.0	15.3	4.4	8.1
Public utilities	1.3	-	-	-	-	-	-	-
Housing	-	-	-	-	-	-	-	-
Transp, Comm	-	5.0	-	-	18.9	-	-	-
<b>Government expenditure on R&amp;D, extension and export marketing<sup>c</sup></b>								
Agriculture	150.2	46.4	90.7	46.5	38.3	12.5	0.1	10.8
Mining	6.4	9.5	13.9	19.4	7.6	6.1	-	4.8
Manufacturing	37.3	64.6	30.3	14.6	60.1	19.6	-	8.8
Personal services	16.1	35.1	-	21.9	13.5	13.6	1.8	6.5
Public utilities	-	-	-	3.7	-	-	-	-
<b>Other government operating costs</b>								
Mining	4.3	6.0	-	-	-	-	-	-
Manufacturing	62.7	56.1	21.9	10.3	20.4	6.7	0.2	2.9
Personal services	99.3	11.7	6.1	22.8	17.8	6.0	1.1	5.3
Housing	-	-	-	-	-	-	-	-
Transp, Comm	-	2.7	-	-	7.0	-	-	-
<b>Total</b>	<b>807.4<sup>d</sup></b>	<b>637.5<sup>e</sup></b>	<b>348.6</b>	<b>260.0</b>	<b>265.4</b>	<b>107.7</b>	<b>8.2</b>	<b>63.9</b>
<b>Grand total</b>								<b>2498.7</b>

a Unless separately identified in source documents, all budgetary assistance expenditure has been allocated to the manufacturing industry. The estimates exclude tax expenditures (revenue forgone).

b Includes all directly attributable operating costs.

c Includes all operating costs.

d The NSW total in Appendix 1 includes the total expenditure for two redevelopment programs of the Department of Urban Development and Planning. That expenditure has been annualised here, resulting in a lower total expenditure for the State.

e In Appendix 1 not all Victorian program expenditures include overheads. To place the current assessment of Victoria's industry assistance on a footing comparable to that of other States, all Victoria's programs in this table have had a share of the responsible agency's administration costs apportioned to them. Thus, the total in this table is larger than the Victorian total in Appendix 1.

Source: State government budget papers and departmental annual reports.

The third category of expenditure is more straightforward than the second. It constitutes the overhead costs of operating the assistance schemes covered in the first category, where these have been able to be identified separately. Note that these operating costs amount to 28 per cent of the funds being administered

on average, although for particular industries the ratio is as high as 84 per cent and for individual programs the ratio can be even higher. This form of assistance expenditure has been modelled as a pure increase in State government expenditure, funded in the same way as the assistance schemes themselves.

The second category is expenditure by State governments on R&D, extension and export marketing services on behalf of industry, including the overheads associated with providing such activity. This form of assistance will increase the government's call on real resources, and will also need to be funded.

Such expenditure may also generate genuine benefits for industry, although their extent is unclear.

### *Research and Development*

The Commission's recent inquiry into R&D gave an extensive review of the rationale for government involvement in R&D, arising from the 'public good' nature of knowledge creation (IC, 1995b). It also provided some indicative empirical evidence of how publicly-funded R&D could raise the total factor productivity of the industries on whose behalf it was being undertaken.

Using this evidence, the impact of expenditure on R&D (including overheads) has been modelled by increasing State government expenditure and simultaneously raising the total factor productivity of the affected industries. The relationship between the two is not dollar for dollar, but has been estimated in the econometric evidence reported in IC (1995b, Table QC1 and p. QC5, footnote 5). The impact on total factor productivity is relatively small, for two reasons. First, each State contributes only a small proportion towards the total of all non-business (Commonwealth, State and local general government, higher education and private non-profit) R&D, the category for which the econometric estimates were obtained. Second, productivity was found to depend on accumulated knowledge rather than current R&D, and non-business R&D has traditionally grown only slowly over time.

The econometric evidence was obtained at the national level, while the current modelling is regional. This raises the question of whether R&D expenditure by a State government could be expected to increase the productivity of industries in that State alone, or in other States as well. For example, a significant proportion of all State expenditure on R&D is the agricultural R&D undertaken in NSW. This is likely to benefit farmers in all States. The difficulty of capturing all of the benefits of R&D and the wide applicability of the knowledge created is the very source of the market failure justifying government intervention. State expenditure on R&D has therefore been

assumed to affect total factor productivity of the associated industry in all States.

Modelling the impact of government-funded R&D expenditure through total factor productivity assumes that, were the State governments not undertaking the expenditure, the R&D would not be undertaken at all. This assumption is appropriate when the government expenditure is addressing a market failure, as with R&D (in principle at least). It is less clear whether State government expenditure on extension and export marketing is meeting a market failure, and would not be replaced to a large extent by private expenditure on these services were the government support removed.

### *Extension*

The Commission's R&D report (IC, 1995b) considered the case for government funding of agricultural extension as follows:

It could be argued that it is the research which provides the necessary knowledge; but only the dissemination of that knowledge through some form of extension can transmit the knowledge to farmers for implementation. These kinds of spillovers may justify government funding of extension.

Where the information is of benefit only to those farmers within an industry, or within a region, the case for government funding is less clear. Collective funding of extension may be more appropriate in such a situation. (p. 789)

Huffman and Evenson (1993) estimated the rates of return to publicly-funded agricultural extension in the United States and showed them to be variable — some were as high as 40 per cent, but some were negative. On the basis of these numbers they doubted the future worthiness of public investment in extension:

Farmers who have a high school education and operate very large farms most likely do not get much benefit from traditional agricultural extension programs. They can go directly to scientists, or in some cases employ their own scientist or consultant, for their technical and marketing information. (p. 247)

In Australia, there is limited evidence that the partial withdrawal of the public sector from agricultural extension services has resulted in an increase in the number of private consultancies engaged in extension services (Hone, 1991).

In the non-agricultural area, some of the Commonwealth's extension service programs have been the subject of recent reviews. For example, the BIE (1992) looked at the National Industry Extension Service (NIES), which also has significant State government involvement. The BIE report made a useful distinction between the market failure that may lead to the suboptimal provision of R&D, and incentive problems in taking it up, once it is created. It concluded that:

On the demand side, however, the justification for continuing assistance is less credible. The non-appropriability problem for adopters should diminish over time so that eventually, there should no longer be a need for subsidies for adopters of NIES-type technologies. (executive summary, not numbered)

The Burgess report (1994) looked at a wider range of Commonwealth programs, and attributed Commonwealth involvement in extension activities with a 'catalyst for change' role for government. It stated:

By its very nature, the catalyst for change role for government intervention in enterprise improvement should be transitory. This type of assistance should have a clear sunset clause. (p. 36)

This evidence suggests that government provision of extension is likely to be largely replacing activity that would otherwise be undertaken by the private sector. The government provision therefore acts primarily like a subsidy on existing private sector activity, rather than providing something new.

The modelling nevertheless assumes that half of State government expenditure on extension services is providing something new (which otherwise would not be provided by industry itself), while half is acting as a subsidy on the output of the activities on whose behalf it is being undertaken. This is in recognition that some of the expenditure included in this category is for facilitation, such as providing one-stop shops for regulatory approvals, and that such facilitation services in particular can generate genuine benefits for industry.

In the absence of quantitative estimates of the benefits of facilitation-type activities, the 'productive' portion of expenditure on extension has been modelled in the same way as expenditure on R&D. Of the remaining expenditure, some will be to cover overheads rather than to provide subsidy-equivalent services, although the true proportion is difficult to determine. In the absence of better information, it has been assumed that overheads for this portion of extension are the same as for grants and other direct subsidies — 28 per cent of the funds being administered (or the service being provided), or roughly 20 per cent of total expenditure on that form of assistance. Thus, while 80 per cent of the expenditure on this portion of extension has been modelled as an output subsidy, 20 per cent has been modelled as an increase in government expenditure. All expenditures are funded in the same way as other assistance.

### *Export marketing*

The Committee for Review of Export Market Development Assistance (1989) looked at the rationale for and impact of several forms of export marketing assistance in Australia. It concluded:

Incentives which assist exporters to overcome the initial difficulties of entering foreign markets can play only a limited role in stimulating export growth. The economic policy environment swamps their effect. However, because it will take time to improve economic policies even if new policy changes are initiated and ongoing reforms are accelerated, incentives to exporters can be used in the interim to increase the involvement of small and medium sized businesses in exports. (p. xix)

The Industry Commission (1992) examined a range of export enhancement measures in other countries. On export marketing initiatives it concluded:

Although there are examples where governments appear to have been successful, the existence of private sector marketing organisations in a number of economies studied, and their reputed achievements, suggests that government involvement should be kept to a minimum. (p. 111)

These reports suggest that government assistance to export marketing activity is in the same category as the provision of extension services — it is subsidising activity that largely would otherwise be provided privately (either by individual firms or through industry-specific levies), rather than providing something new. It has nevertheless been modelled in the same way as extension services, with half being treated as providing something new, and half treated as a subsidy on the output of the activities on whose behalf it is being undertaken. The details are also the same as for extension services.

### **The impact of budgetary assistance by one State**

It is useful to examine the projected longer-term impact of assistance offered by a single State in isolation, before considering the impact when all States offer such packages.

In general terms, a tax-financed subsidy package offered by a single State could be expected to impose efficiency costs on the economy as a whole, because both the subsidies and the taxes used to fund them are likely to divert resources from their highest-valued uses. Whether the efficiency costs are borne by the State itself is unclear, however, because its resource base is not fixed. The subsidies may attract resources into the State, with the costs being borne by other States in which those resources may have had higher-valued uses. On the other hand, payroll tax funding will impose definite costs on the State, by encouraging resources to leave the State. The economy-wide efficiency costs of payroll tax funding nevertheless may be smaller than those of other taxes. Payroll taxes are not likely to drive significant amounts of labour offshore, whereas various forms of State capital taxation may reduce the capital base not just of the State, but also of the economy as a whole. On the other hand, industry assistance is now too large in Tasmania and the NT to be financed from payroll tax

collections alone. It is therefore likely that in at least some States, industry assistance has led to property taxes being higher than otherwise.

Tax-financed administration costs are also likely to impose an efficiency cost on the economy as a whole. Resources used in the administration of assistance packages have an opportunity cost — they could have been used for producing other things. To the extent that administration costs divert resources from producing goods and services of direct value to consumers and users, they are likely to impose a net cost on the economy as a whole, as will the taxes used by government to fund them. A net loss is less likely, however, if the government operating costs are directed not just to administration, but towards producing services of genuine benefit to industry.

### *Absolute size versus per capita income?*

State assistance packages attempt to make State economies bigger by attracting resources, although the need to fund both the packages and their administration costs through higher taxation may have the opposite effect. Gross State Domestic Product (GSDP, the equivalent at the State level of what is called GDP at the national level) is one measure of size. Total employment is another. Both measures feature prominently in the political discussion of the supposed benefits of State assistance packages. The implication is that the political process values the size of a State economy.

But a bigger economy may not generate greater welfare for its citizens. One measure of economic welfare is per capita Gross State Resident Product (GSRP, the equivalent at the State level of what is called GNP at the national level). This measures that portion of the returns to economic activity within a State that flow to the public sector and private residents of that State, as opposed to being returned by households or government to out-of-State financiers in the form of interest or dividend payments.<sup>3</sup>

There are two key reasons why per capita GSRP may react differently from gross State domestic product to changes in State assistance. The first is that changes in activity levels tend to induce procyclical changes in borrowing and lending, so that income net of interest payments tends to react in a more muted fashion than activity per se.

Even if GSRP grows in proportion to GSDP, it may not translate into per capita GSRP growth if population is also growing. The modelling recognises that if

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<sup>3</sup> At the State level, the model defines GSRP to be net of State government interest payments to other States or internationally, while at the national level GNP is also net of Commonwealth interest payments.

additional investments or additional tourists create additional employment opportunities (taking account of the need to fund the assistance through payroll taxes), additional workers will be attracted into the State. The converse will also apply. In practice, the extent of labour mobility may be less than has been modelled here, but making some allowance for labour mobility reflects the concerns of the smaller States, for example, that failure to provide sufficient local employment will lead to a loss of people to other States.

If labour is indeed mobile to some extent across States, this makes it more difficult for State governments to be successful in influencing economic welfare on a per capita basis. Indeed, there is at least one additional factor that may tend to put downward pressure on per capita incomes, even as State economies get bigger in absolute terms. This is the diminishing returns that set in when increased capital and labour are combined with fixed amounts of land (or other immobile factors). The owners of the immobile factors benefit from this process through the increased scarcity value of the resources they control. But overall, per capita GSRP may decline (more precisely, be smaller than otherwise), although this also depends on how capital is affected relative to labour. State assistance packages could need to generate sufficient other benefits in the form of improved allocative efficiency (which it is argued is unlikely), productivity or other externalities to offset the impact of diminishing returns before per capita incomes could increase. The modelling allows for productivity improvements from R&D expenditure, as well as some limited productivity/external benefits from spending on facilitation and export marketing activities.

### *The projected effects — dubious long-term benefits for the State*

Table A7.2 shows the projected impact on each State, and the economy as a whole, of the assistance offered by a single State — Queensland. There are no particular reasons for selecting Queensland. No State has a ‘typical’ assistance package, because each package includes one-off expenditures for 1994–95, as well as a range of ongoing program expenditures. The projected impact of the first category of Queensland’s assistance expenditure will not necessarily be representative. The projected impacts of the other categories, however, are likely to be much more typical of the effects for other States.

**Table A7.2: The projected long-term effects of Queensland's State assistance expenditure (per cent)**

	<i>Effects on Queensland</i>	<i>Effects on other States</i>	<i>Total effects on Australia</i>
Real GSDP/GDP	-0.20	0.04	..
Real GSRP/GNP	-0.19	0.03	-0.01
Real GSRP/GNP per capita <sup>a</sup>	0.03	-0.02	-0.01
Real household consumption	-0.15	-0.03	-0.04
Real investment	-0.11	0.03	0.01
Real State government consumption <sup>b</sup>	1.32	..	0.20
Real international exports	-0.93	0.27	..
Real interstate exports	-0.35	0.05	na
Real international imports	-0.24	0.02	-0.02
Real interstate imports	-0.02	0.01	na
Employment	-0.22	0.05	..
Capital stock	-0.14	0.04	0.01
CPI	0.34	-0.05	0.01
GSDP/GDP deflator	0.45	-0.06	0.01

a Population moves equiproportionately with employment, because unemployment and participation rates are assumed fixed.

b Commonwealth Government consumption expenditure is not reported separately because it is held fixed in real terms by assumption. It is nevertheless taken into account in calculating real GSDP/GDP and GSRP/GNP at the State and national level.

Source: Projections from MONASH-MRF.

The projected long-term effects illustrate the following points about unilateral State assistance.

When the States need to fund their assistance packages by raising taxes on mobile factors, they tend not to make their economies bigger, and in fact can have the opposite effect. Queensland is projected to succeed in raising its capital/labour ratio, but only by driving out more labour than capital! This is because the dominant effect is the impact of the payroll taxes used to fund the assistance (especially its operating costs), as discussed in more detail shortly. The projected increase in the ratio of capital to labour, combined with an unwinding of the effects of diminishing returns, contributes to a small net increase in per capita GSRP. But not all States are projected even to succeed in raising their capital/labour ratios. Where their assistance is directed towards attracting capital into relatively labour-intensive sectors at the expense of other

sectors, the change in industrial composition can increase the labour intensity of their economy overall.

Although the projected effects in Table A7.2 are not shown broken down by category of assistance, a detailed look at the components confirms the following additional insights:

- abstracting from its administration costs, the category of assistance providing genuine services to industry (such as R&D, and arguably some components of extension and export marketing) can raise activity levels and GSRP per capita (this is on the assumption that the services would not otherwise have been undertaken by the industries themselves);
- the category of assistance operating through tax-financed subsidies is also projected to raise total activity, though not per capita GSRP — its efficiency costs are borne by the other States and the economy as a whole;
- the category of assistance expenditure representing the operating costs of the other categories of assistance is assumed to expand Queensland's government sector, and is also projected to raise overall activity levels in Queensland (though not nationally); and
- the key factor accounting for the overall decline in activity in Queensland, shown in Table A7.2, is therefore the overall burden of the payroll tax increases needed to fund the operating costs of the R&D and assistance schemes.

#### *Costs for other States and for the economy as a whole*

The second two columns of Table A7.2 indicate that State assistance packages reduce per capita incomes in other States, as well as total income for the economy as a whole. The efficiency costs of the payroll tax funding of operating costs are borne primarily by Queensland itself. The efficiency costs of the tax-financed subsidy packages are passed in part to other States.

#### *Possible short-term benefits at the State level*

Nevertheless, State assistance is defended not only in terms of its purported ability to raise gross State domestic product or total employment in the longer term. It is also defended as a way in which States can reduce their unemployment in the short term.

Table A7.3 shows the projected effects of Queensland's State assistance package on the Queensland economy in the short term, under two different assumptions about whether the financial cost of the subsidies, administration and other operating costs are covered by increases in payroll taxes.

Were States required to fund their assistance packages via payroll taxes in the short term, they would clearly unwind the very effect on unemployment they were trying to create (shown in the first column of Table A7.3). Were they able to borrow to fund the assistance fully, they would have more success (shown in the second column of Table A7.3). With increasing financial stringency, it is not clear that the States can engage in what then becomes short-term demand management.

**Table A7.3: The projected short-term impact on Queensland of its State assistance expenditure (per cent)**

	<i>With budget neutrality preserved by payroll tax increases</i>	<i>Funded by borrowings</i>
Real GSDP	-0.12	0.28
Real GSRP	-0.15	0.10
Real GSRP per capita <sup>a</sup>	-0.15	0.10
Real household consumption	-0.10	0.52
Real investment	..	..
Real State government consumption <sup>b</sup>	1.32	1.32
Real international exports	-0.78	-0.49
Real interstate exports	-0.29	0.13
Real international imports	-0.12	0.28
Real interstate imports	..	0.21
Employment	-0.16	0.42
Capital stock	..	..
CPI	0.32	0.47
GSDP deflator	0.43	0.38

a Participation rates are fixed, while unemployment rates adjust fully and there is no incentive for population movements between States — population is therefore fixed.

b Commonwealth Government consumption expenditure is not reported separately because it is held fixed in real terms by assumption. It is nevertheless taken into account in calculating real GSDP/GDP and GSRP/GNP at the State and national level.

*Source:* Projections from MONASH-MRF.

A third option would be to use taxes other than payroll taxes as a funding mechanism in the short run. In an additional simulation not shown in Table A7.3, it was confirmed that when State taxes on capital are used, the effects would be similar to those when the assistance was funded by borrowing. This

would be a dangerous strategy, however, for while capital may be immobile in the short term, it is not in the long term.

Perhaps the best funding mechanism would be for the States to use taxes on immobile factors such as unimproved land. As noted earlier, however, the main tax on unimproved land (municipal rates) is not controlled directly by States, but rather by local governments.

### The impact of budgetary assistance by all States

With this background, it is now possible to examine the long-term effects on each State, and on Australia as a whole, when all States assist industry. Tables A7.4 and A7.5 present two payoff matrices — one reporting payoffs in terms of size, as measured by real GSDP, and the other reporting payoffs in terms of economic welfare, as measured by per capita GSRP.

In general, the payoff matrices do not show a strong tendency towards actual ‘prisoners’ dilemma’ outcomes from the State assistance game in the long term. This is because there do not appear to be strong gains to playing the game on a unilateral basis.

**Table A7.4: State assistance payoff matrix in the long term: real GSDP (per cent)**

	<i>Effect on:</i>								
	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>ACT</i>	<i>NT</i>	<i>Aust</i>
<b>Assistance by:</b>									
NSW	-0.19	0.12	0.06	0.10	0.15	0.06	-0.03	0.11	..
VIC	0.05	-0.15	..	0.04	0.05	-0.04	-0.04	-0.05	-0.02
QLD	0.03	0.02	-0.20	0.12	0.05	0.06	-0.02	0.15	..
WA	0.02	0.02	0.04	-0.36	0.04	0.04	-0.02	0.12	-0.01
SA	0.03	0.04	0.04	0.05	-0.47	0.04	-0.02	-0.10	..
TAS	0.09	0.04	0.09	0.07	0.12	-3.43	0.01	0.05	..
ACT	..	..	..	..	..	..	0.02	..	..
NT	0.04	0.02	0.07	0.11	-0.04	0.03	-0.03	-7.82	-0.05
All States	0.08	0.13	0.12	0.15	-0.10	-3.31	-0.11	-7.56	-0.07

*Source:* Projections from MONASH-MRF.

**Table A7.5: State assistance payoff matrix in the long term:  
real per capita GSRP (per cent)**

	<i>Effect on:</i>								
	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>ACT</i>	<i>NT</i>	<i>Aust</i>
<b>Assistance by:</b>									
NSW	0.02	-0.06	-0.02	-0.07	-0.07	-0.03	-0.01	-0.08	-0.02
VIC	-0.03	0.01	-0.01	-0.04	-0.03	..	..	-0.01	-0.02
QLD	-0.01	-0.01	0.03	-0.06	-0.02	-0.02	..	-0.07	-0.01
WA	-0.01	-0.01	-0.02	0.12	-0.02	-0.01	..	-0.05	-0.01
SA	-0.01	-0.02	-0.02	-0.03	0.12	-0.02	..	0.02	..
TAS	-0.03	-0.02	-0.04	-0.03	-0.05	1.02	..	-0.04	0.01
ACT	..	..	..	..	..	..	-0.01	..	..
NT	-0.02	-0.01	-0.03	-0.05	0.01	-0.01	0.01	2.48	..
All States	-0.09	-0.11	-0.11	-0.16	-0.05	0.96	-0.02	2.26	-0.05

*Source:* Projections from MONASH-MRF.

Most States do not gain in size terms when they alone play the game. While each may be able to pass the efficiency cost of tax-financed subsidies on to other States, each State tends to bear the burden of financing the administration of assistance alone. The nature of the States' tax base means that the tax financing of this administrative overhead tends to fall on mobile resources. The tax financing of overheads tends to undo any work done by the assistance packages themselves, and drives resources from the State.

Most States do gain slightly in terms of per capita GSRP from playing the game unilaterally. However, this projected effect seems to come primarily from a projected lowering of the population — hardly an effect to make headline news, and not the effect that seems to dominate the discussion of State assistance issues.

If there is seen to be a 'prisoners' dilemma' aspect to the State assistance game, it could come about from a combination of factors. It could be that the political process is focused on the short term, before the full costs of playing the game are manifest. It could also be that the political process ignores the costs associated with playing the assistance game.

The payoff matrices indicate, however, that when all States play the game there is a net loss imposed on the economy as a whole. The estimated economy-wide loss from all States' budgetary assistance amounts to \$330 million in real GDP, or \$240 million in real GNP.

#### **A7.4 Estimating State tax expenditures (revenue forgone)**

It has proven impossible to obtain comprehensive information on tax expenditures for particular projects (especially those offered via exemptions) in most States. There are some notable exceptions. Queensland has made available information on the tax concessions offered through its Major Projects Incentives Scheme and for offshore banking units and regional headquarters, along with information on its stamp duty concession for company restructure or amalgamation and its payroll tax rebate for apprenticeships/trainees. The amounts involved are listed in Attachment 1C. NSW has a policy of offering tax rebates rather than exemptions, because the rebate mechanism is more transparent. However, tax rebates are just one of the uses to which the NSW Industries Assistance Fund is put, so for the purposes of this analysis it is difficult to establish how much of the fund is used for tax rebates alone. In Tasmania both exemptions and rebates of payroll tax for particular projects are prohibited.

In addition to specific exemptions on particular projects, each State offers more general payroll tax exemptions. In some States (specifically, Queensland, WA and the NT) the exemptions are available only to small business. In other States the exemptions are made available generally to both large and small business, but only for some initial portion of payroll. Even in the latter case the exemption is unlikely to operate in a totally neutral fashion, however, since the tax rates applying to 'marginal' hiring decisions will still differ as between firms with payrolls above and below the threshold level(s). Therefore, these payroll tax exemptions can potentially be an important additional form of assistance to industry. The statutory payroll tax schedules which specify these general exemptions are shown in Appendix Table A14.2.

It is possible to obtain a crude indirect estimate of the payroll tax revenue forgone from both sources — specific exemptions for particular projects and exemptions made available more generally. This can be done by comparing actual payroll tax collections (net of both types of exemption) with the payroll tax revenue that could have been collected had all firms paid at the top statutory rate.

By comparing data on actual payroll tax collections with estimates of wages and salaries by State and industry, estimates of current average effective payroll tax rates can be obtained. The latest available estimates are shown in Table A7.6. If all industries except Public services (ie public administration and defence) and Community Services (ie health, education, welfare and community services) in each State were instead paying the top statutory payroll tax rate in that State, payroll tax collections would be \$3.2 billion higher than otherwise (Table A7.7).

This is a broad estimate of the payroll tax revenue forgone through the specific and general exemptions.

**Table A7.6: Estimated average effective payroll tax rates by State and industry, 1993–94 (per cent)**

	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>ACT</i>	<i>NT</i>
Agriculture	2.12	2.12	2.12	2.12	2.12	2.12	2.12	2.12
Mining	5.46	4.57	3.98	3.74	4.53	4.58	6.77	3.60
Manufacturing	5.03	5.32	3.13	3.73	3.89	6.00	3.34	4.05
Utilities	6.42	6.70	4.27	6.48	6.62	5.75	6.77	3.60
Construction	2.77	1.92	1.17	1.80	1.42	0.74	1.79	2.51
Trade	3.80	5.26	2.48	3.10	2.99	2.90	3.96	3.22
Transport	6.69	6.23	4.58	5.28	4.54	5.04	6.15	5.68
Finance	4.99	4.30	2.78	2.62	2.71	3.04	2.65	3.56
Public Services	2.15	1.32	5.46	0.26	1.55	0.30	..	5.76
Community Services	2.83	2.33	2.33	1.04	2.79	2.82	1.58	2.33
Personal Services	4.26	5.31	3.10	2.00	3.24	2.35	1.94	3.70
Actual average rate	4.16	4.13	2.97	2.54	3.08	3.26	1.58	3.61
Top statutory rate	6.85	7.00	5.00	6.00	6.00	7.00	6.85	7.00

*Source:* Calculated from data on industry payroll tax collections and estimates of industry wages and salaries for each State. Wages, salaries and supplements data published by ABS (Cat. No. 5220.0) for each industry in each State were deflated by a factor of 0.895 (obtained from unpublished national data, ABS Cat. No. 5204.0) to estimate wages and salaries only. State payroll tax collections for all sectors other than agriculture were obtained from unpublished data in ABS Labour Cost Survey (Cat. No. 6348.0). For agriculture, the national payroll tax collection figure is proportioned across States on a pro rata basis. A few of the estimated payroll tax rates exceed the current statutory rate. This is partly because the wage and salary base for the taxes has had to be estimated. In addition, while the Labour Cost Survey in principle collects information on the payroll taxes paid only on behalf of employees, in practice it also includes information on payroll taxes payable on contract payments. Some States charge payroll taxes on some categories of 'supplements', in which case payroll tax rates based on wages and salaries only will be overstated. Finally, sampling errors become more problematic for small States having a few enterprises in some industries. This has been identified as a particular problem in the NT, for example, where the ABS figures underestimate payroll tax collections from the private sector by \$10 million.

This estimate is likely to overstate, perhaps significantly, the level of assistance afforded by the general payroll tax exemptions. This is because, except in Queensland, WA and the NT, it includes the value of exemptions afforded to large businesses or business groups whose marginal employment decisions are still made at the top payroll tax rate. The extent of overstatement is likely to be most severe in States and/or industries dominated by large businesses or business groups. Unfortunately, in the absence of more detailed information

provided by the States or available from the ABS, the above crude calculations are the best that can be done.

**Table A7.7: Estimated payroll tax revenue forgone by State and industry, 1993–94 (\$ million)**

	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>ACT</i>	<i>NT</i>
Agriculture	48	23	17	14	9	5	..	1
Mining	18	7	12	30	2	3	..	4
Manufacturing	200	164	79	47	58	7	4	4
Utilities	6	3	3	-1	-2	2	..	1
Construction	198	148	92	82	42	17	17	9
Trade	344	129	123	82	64	25	12	9
Transport	8	26	9	8	14	5	1	1
Finance	215	199	79	84	62	14	29	7
Public Services	..	..	..	..	..	..	..	..
Community Services	..	..	..	..	..	..	..	..
Personal Services	103	39	37	44	24	12	15	5
Total	1140	739	452	390	274	89	78	42
<b>Australian total</b>								<b>3203</b>

*Source:* Industry Commission estimates, based on Table A7.6.

A second important qualification is that, were all industries paying the top statutory payroll tax rate, it is likely that the top rates could be lower than otherwise. The net budgetary impact of eliminating the specific and general payroll tax exemptions is therefore likely to be much smaller than the gross estimate of revenue forgone suggests. However, reporting gross revenue forgone means that this form of assistance is reported on the same basis as others.

## **A7.5 Estimating local government assistance**

The Commission's survey of local governments in Appendix 3 gives some basis for estimating the extent of local government assistance to industry in the six States for which there was an adequate response rate — NSW, Victoria, Queensland, WA, SA and Tasmania. The results are shown in Table A7.8.

The survey information summarised in Appendix 3, Tables A3A.3, A3A.5, A3A.7 and A3A.9 gave expenditures on own organisational structures, the costs of sharing the provision of assistance with other local governments, the cost of

contributions to other development organisations and the cost of involvement in RDOs. The first category of assistance has been categorised as administrative overhead. In the survey, the latter three categories were divided further into direct costs and assistance in kind. In each case, the direct costs have been attributed to administrative overhead while the in kind component has been viewed as half facilitation-type activity and half subsidy.

The survey respondents' expenditures were then grossed up to give an estimate of expenditures of all local governments, not just those responding to the survey questionnaire. The grossing up assumed that assistance given by non-responding local governments bore the same proportion to total revenue as for the responding local governments. The necessary data on the revenue bases of each local government were obtained from the peak local government body in each State. Table A7.8 reports the resulting estimates of subsidies, facilitation and administrative overhead for each State as a whole.

**Table A7.8: Estimates of local government assistance to industry, 1994–95 (\$ million)**

	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>
Subsidies	9.5	10.8	10.5	1.1	0.9	0.7
Facilitation	11.9	13.5	13.1	1.3	1.1	0.8
Administrative overhead	31.4	14.9	22.9	2.4	1.5	1.6
Revenue forgone	24.2	21.7	15.7	3.1	3.9	0.3
Total	77.0	60.9	62.2	7.9	7.4	3.4
As % of total revenue	2.4	2.9	2.2	3.2	3.5	1.2

*Source:* Commission estimates.

The survey also asked each local government to report the proportion of its revenue base that was devoted to all forms of assistance, including revenue forgone. From these responses, an estimate for each State as a whole was obtained, shown in Table A7.8 as total assistance. The separate estimate of revenue forgone was calculated as a residual.

These estimates, crude though they are, indicate that local government assistance to industry is very small. It seems reasonable that responses are more likely to have come from local governments active in the field, in which case the estimates shown in Table A7.8 (which assume that non-respondents are equally active) are likely to be overstated. Either way, since the direct

expenditures by local governments are small, their economy-wide effects are also likely to be small.

## **A7.6 Bidding the Grand Prix from SA to Victoria**

As noted, the distinguishing feature of a special event such as a Grand Prix or an Olympic Games is that it switches demand towards the winning State from other States and from overseas. Since the Grand Prix is an annual event in Australia while the Olympic Games are a once-off event, it makes more sense to consider the longer term effects of the Grand Prix.

An event such as the Grand Prix has several effects on a State economy. When within-State and interstate visitors attend, there is a temporary switch in demand towards the travel, hotel, entertainment services and Grand Prix paraphernalia offered by the host State. This has been modelled as a pure demand switch, funded by temporary reductions in other forms of expenditure (such as groceries, or other forms of entertainment) rather than by a reduction in savings. Within-State visitors therefore have little impact on the total level of spending in the State, as their switch in demand tends to come at the expense of other forms of local expenditure (though some impact will also fall on imports from other States). Interstate visitors, however, bring additional spending into the State, largely at the expense of spending in their home State. (Even with these visitors, though, there is the possibility that their visit to the Grand Prix may displace a separate visit to the State hosting the event.)

An event such as the Grand Prix would also attract international visitors, whose additional spending would be a net addition both to the host State and to the economy as a whole. On the assumption that the international visitors to the Grand Prix would not otherwise have come to Australia at all, the impact of their spending has been modelled as an increase in international export demand for travel, hotel and entertainment services from the host State.

Hosting an event such as the Grand Prix involves staging costs (predominantly track construction/maintenance and marketing) that typically have been borne by State governments. The indications from the information available on the Adelaide Grand Prix (Price Waterhouse 1993) are that the direct staging costs for that event were only partially funded by ticket sales. The modelling indicates that the boost to State revenue collections as a result of the influx of interstate and international visitors was also insufficient to cover the difference. The overall impact of staging costs has been modelled therefore as an increase in government expenditure on construction and marketing services, along with an increase in general payroll tax rates sufficient to cover the difference

between these costs and the revenue obtained from ticket sales and induced increases in the tax base.

Table A7.9 gives an indication of the projected impact of the Adelaide Grand Prix on the South Australian economy, the Victorian economy and the national economy.

	<i>Domestic visitors</i>	<i>Foreign visitors</i>	<i>State budget implications</i>	<i>Total</i>
<b>Effect on South Australia</b>				
Real GSDP	0.089	0.021	0.031	0.140
Real per capita GSRP	-0.031	-0.008	-0.048	-0.087
<b>Effect on Victoria</b>				
Real GSDP	-0.011	-0.001	-0.002	-0.014
Real per capita GSRP	0.004	..	0.001	0.006
<b>Effect on Australia</b>				
Real GDP	-0.001	..	-0.001	-0.001
Real per capita GNP	0.001	..	-0.003	-0.002

*Source:* Projections from MONASH-MRF.

The first thing to note is that despite the publicity surrounding these events, the projected impacts are very small compared with the overall size of the economies involved.

Nevertheless, an Adelaide Grand Prix appears to be slightly good for the size of the South Australian economy and slightly bad for the size of the Victorian economy, with a trivial impact on the economy as a whole. One interesting point is that, to the extent that the increase in international and government demand in South Australia puts pressure on existing supply capability and upward pressure on prices, this seems to penalise activities in other States rather than activities in South Australia. Interstate resource mobility alleviates the demand pressure in the host State, but at the expense of activity levels in other States. But the resource mobility in turn undermines the ability of a Grand Prix to improve GSRP on a per capita basis. Nevertheless, from a size perspective, winning a Grand Prix in a bidding war appears to provide a clear gain to the winning State.

Similar results are obtained when the model is used to project the impact of a Grand Prix of the same size and scope as the Adelaide Grand Prix on to the Victorian economy. However, the Victorian Grand Prix as it is actually held is different from the Adelaide Grand Prix as it used to be. Firstly, the event is now bigger. Secondly, many of the interstate visitors to the Adelaide Grand Prix were from Victoria. With the event now held in Victoria, that State could expect a higher proportion of within-State visitors and a lower proportion of interstate visitors than when the event was in Adelaide. Thirdly, the staging costs appear to be proportionately higher in Victoria.

To the extent that the higher staging costs have created a 'superior' Grand Prix, this could account for the growth in attendance. Higher attendance figures would contribute to higher promoter revenues and could in turn explain the willingness of the event's owners to switch venues. However, this is speculation. The Commission has been unable to find any information on the nature and size of any other inducements that might have been offered to persuade the event's owners to shift.

A comparison of the Adelaide Grand Prix with the Victorian Grand Prix is shown in Table A7.10, and is expressed in a 'multiplier' format.<sup>4</sup>

The real GSDP figures are the model's projected increases in real GSDP in the host State, converted into dollars. A multiplier can be calculated as the ratio of the net injection of funds to the final real GSDP increase.

The direct expenditure shown for each component of the Grand Prix represents the initial net injection of funds into the State economy associated with that component. Thus, the direct expenditure shown for domestic visitors represents only the net addition contributed by interstate visitors. The direct expenditure shown under staging costs is that injected by the State government. The negative direct expenditure shown under the funding column represents the withdrawal of funds via an increase in payroll taxes.

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<sup>4</sup> The Victorian grand prix has been modelled using expected attendance figures from the Australian Grand Prix Corporation (reported in a Tourism Victoria research update) and figures on staging costs and sales revenue reported in the *Sunday Age*, 17 March 1996.

**Table A7.10: Comparing long-term effects of the Adelaide and Victorian Grand Prix (millions of 1990–91 dollars)**

	<i>Interstate visitors</i>	<i>Foreign visitors</i>	<i>Staging costs</i>	<i>Payroll tax funding</i>	<i>Grand total</i>
<b>Impact of Adelaide Grand Prix on South Australia (relative to no event at all)</b>					
Real GSDP increase (\$m)	26.61	6.18	15.39	-6.15	42.03
Direct expenses (\$m)	20.57	6.64	18.80	-2.87	43.14
Multiplier (ratio)	<b>1.29</b>	<b>0.93</b>	<b>0.82</b>	<b>2.14</b>	<b>0.97</b>
<b>Impact of 'Victorian' Grand Prix on Victoria: base case (relative to no event at all)</b>					
Real GSDP increase (\$m)	21.25	5.21	13.86	-4.79	35.52
Direct expenses (\$m)	20.57	6.64	18.80	-2.77	43.25
Multiplier (ratio)	<b>1.03</b>	<b>0.78</b>	<b>0.74</b>	<b>1.73</b>	<b>0.82</b>
<b>Impact of Victorian Grand Prix on Victoria: actual (relative to no event at all)</b>					
Real GSDP increase (\$m)	24.06	7.92	24.33	-26.10	30.21
Direct expenses (\$m)	20.30	10.22	33.48	-14.91	49.09
Multiplier (ratio)	<b>1.19</b>	<b>0.77</b>	<b>0.73</b>	<b>1.75</b>	<b>0.62</b>
<b>Impact of Victorian Grand Prix on Victoria: actual (relative to having it in Adelaide)</b>					
Real GSDP increase (\$m)	35.42	9.06	27.41	-27.55	44.34
Direct expenses (\$m)	20.30	10.22	33.48	-14.91	49.09
Multiplier (ratio)	<b>1.74</b>	<b>0.89</b>	<b>0.82</b>	<b>1.85</b>	<b>0.90</b>

*Source:* Derived from projections from MONASH-MRF.

The first thing to note from the projected impact of the Adelaide Grand Prix on the South Australian economy is that the multipliers are all relatively small. This is despite an assumption that capital and labour are relatively mobile geographically, and that Grand Prix-related expenditure (including on paraphernalia) falls on goods and services produced entirely in the host State, instead of falling at least partly on imports. The multiplier for interstate visitors appears to be higher than for foreign visitors, but this is because the real GSDP gain also includes the impact of expenditure switching by within-State visitors, and their switch towards purely locally-produced goods and services in fact has its own small multiplier effect.

The small size of the multipliers indicates the significance of resource constraints (such as on land) and efficiency effects that are not always taken into account in conventional input-output analysis. Note that the largest multiplier is attached to changes in payroll taxes, reflecting the relative inefficiency of this method of revenue from a State (though not necessarily from a national) perspective.

When a Grand Prix of the same size and scale as the Adelaide one is held in Victoria, the multipliers are all projected to be slightly smaller. This is because Victoria is more dependent than South Australia on international exports, and thus is more vulnerable to upward price pressure caused by the influx of tourists.

The impact of the Victorian Grand Prix as it is actually held is shown in the third set of calculations. Because of the change in the visitor mix away from interstate visitors towards within-State visitors, the direct expenses of interstate visitors are in fact slightly smaller than in the artificial 'base case'. Because the Victorian Grand Prix is bigger in scale than the Adelaide Grand Prix, the direct expenses by international visitors are higher than in the 'base case'. Staging costs (and payroll tax funding) are also bigger. Despite these scaling differences, the multipliers are virtually identical to those in the base case, as expected.

However, the true gain to the Victorian economy has not been its gain from having a Grand Prix, relative to not having the event in Australia at all. South Australia had already lured the Grand Prix to Australia. The true gain to Victoria from bidding the Grand Prix away from South Australia is its gain relative to having the event in Adelaide. This is shown in the last set of numbers in Table A7.10, which incorporates the additional gain to Victoria from avoiding the diversion of Victorian expenditure into SA when the event was held in Adelaide (indicated in Table A7.9).

Expressed in these terms, the gain to Victoria (in terms of size) from bidding the event from Adelaide is fully one and a half times the gain it would have had from winning the Grand Prix directly from overseas.

Thus any State bidding against its neighbours for an event from overseas would have an incentive to 'overbid' (from a national perspective) to win the event. This is because the State stands to gain more than the nation as a whole, or equivalently, a losing State is twice penalised — it not only fails to receive the national gains, it loses additional resources to the winning State. The modelling confirms that the incentive to 'overbid' comes from the beggar-thy-neighbour aspect of interstate competition.

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## **APPENDIX 8: SURVEY OF BUSINESS ATTITUDES TO ASSISTANCE**

This appendix reports the results from a survey of manufacturers' attitudes to the provision of assistance by State, Territory and local governments and on the receipt of such assistance by them over the last three years.

The majority (61 per cent) of firms surveyed believe that State, Territory and local governments should not offer assistance to develop specific firms. However, a majority of firms support State, Territory and local governments offering assistance to develop specific projects (71 per cent) and to develop industry in specific locations (64 per cent).

Some 14 per cent of firms surveyed had applied for, and 10 per cent of firms received, assistance from State, Territory and local governments over the last three years. A total of \$20.5 million was received by the 49 firms which provided an estimate of the assistance received. This was an average of \$6352 per person directly employed where the assistance was received. Nearly all the assistance received was provided by State governments. The assistance was given predominantly by way of grants. Two-thirds of those that received assistance said that it was not influential in their decision on where to locate. Of the balance, 18 per cent said it had some influence and only 15 per cent considered it was very influential.

### **A8.1 The survey**

The survey of manufacturers' attitudes to, and receipt of, assistance from State, Territory and local governments was undertaken as part of the Australian Chamber of Manufacturers' (ACM) ACM-Telstra quarterly survey of Australian Manufacturing. To their March 1996 survey were added six questions on: attitudes to the provision of State, Territory and local government assistance; application for and receipt of such assistance; types of assistance received; value of assistance received; number of people employed where the assistance was received; and whether the assistance was influential in the locational decisions of the firm. A copy of the 'Special Issues - Government Assistance' section that was added to the ACM's standard questionnaire is reproduced at the end of this appendix.

## A8.2 Results

### Survey responses

Survey responses were received from 573 member firms of the ACM. As indicated in Table A8.1, the survey covered 1.2 per cent of manufacturing management units which employed 9.4 per cent of the total manufacturing workforce. The survey involved a higher representation of manufacturing from South Australia and Tasmania than from other states. Some 27 per cent of the survey responses were from each of New South Wales and Victoria, a further 13 per cent from each of Queensland and South Australia, 11 per cent from Western Australia and 9 per cent from Tasmania.

**Table A8.1: State composition of manufacturing, survey firms and assisted firms**

<i>State</i>	<i>Manufacturing</i>		<i>Survey firms</i>		<i>Assisted firms</i>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
NSW	16 342	35	155	27	11	19
Victoria	14 135	31	152	27	16	28
Queensland	7 436	16	77	13	6	11
SA	3 210	7	72	13	16	28
WA	4 165	9	65	11	4	7
Tasmania	913	2	52	9	4	7
<b>Total State</b>	46 201	100	573	100	57	100
		100		1.24		0.12
Employees	992 304	100	92 891	9.4	9 437	0.95

*Sources:* ABS, Management Units, Business Register Counts as at March 1994.  
ACM-Telstra, Survey of Australian Manufacturing, March Quarter 1996.

Of the surveyed firms, approximately 10 per cent had received assistance in the last three years to remain, expand or relocate the firm or part of its operations. Firms in South Australia were more likely on average to receive assistance from their State and local governments, while those in New South Wales and Western Australia were less likely. The firms which received assistance employed a similar 10 per cent of total persons employed by all survey firms.

The industry composition of manufacturing, the survey and assisted firms is set out in Table A8.2. This information indicates that the industry composition of

survey firms is broadly representative of the manufacturing sector. It also indicates that firms in the textiles and basic metal products industries were more likely on average to receive assistance from State, Territory and local governments. Firms in the food, beverages and tobacco, and chemical, petroleum and coal products industries were less likely on average to receive such assistance.

**Table A8.2: Industry composition of manufacturing, survey firms and assisted firms**

<i>Industry</i>	<i>Manufacturing</i>		<i>Survey firms</i>		<i>Assisted firms</i>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
Food, beverages and tobacco	4 475	10	75	13	4	7
Textiles	1 050	2	25	4	6	11
Clothing and footwear	3 482	8	29	5	3	5
Wood, wood products & furn.	7 517	16	73	13	6	11
Paper, paper products, etc.	5 452	12	41	7	3	5
Chemical, pet. & coal prods	1 152	2	35	6	1	2
Non-metallic minerals prods	1 692	4	27	5	2	4
Basic metal products	858	2	34	6	7	12
Fabricated metal products	7 236	16	95	17	10	18
Transport equipment	2 339	5	20	3	1	2
Oth. machinery & equip.	6 624	14	68	12	7	12
Miscellaneous manufacturing	4 324	9	51	9	7	12
<b>Total</b>	<b>46 201</b>	<b>100</b>	<b>573</b>	<b>100</b>	<b>57</b>	<b>100</b>

*Sources:* ABS, Management Units, Business Register Counts as at March 1994.  
ACM-Telstra, Survey of Australian Manufacturing, March Quarter 1996.

Firms were asked three questions about their attitude to industry assistance provided by State, Territory and local governments. The questions and their responses are summarised in Table A8.3.

Some 61 per cent of firms said governments should not provide assistance to help the development of individual firms. However, 71 per cent considered governments should offer assistance to help the development of a specific project and 64 per cent considered that assistance should be offered to help develop an industry in a specific location.

**Table A8.3: Attitude of firms: Should State, Territory and local governments provide assistance?**

<i>Attitude</i>	<i>Yes</i>		<i>No</i>		<i>No reply</i>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
To develop a specific firm	213	37	351	61	9	2
To develop a specific project	404	71	159	28	10	2
Develop in a specific location	365	64	201	35	7	1

*Source:* ACM-Telstra, Survey of Australian Manufacturing, March Quarter 1996.

As indicated in Table A8.4, 14 per cent of the surveyed firms had applied for assistance from State, Territory and local governments over the last three years and 10 per cent had received assistance.

**Table A8.4: Application and receipt of State, Territory and Local Government assistance**

<i>Assistance</i>	<i>Yes</i>		<i>No</i>		<i>No reply</i>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
Applied within last 3 years	78	14	493	86	2	-
Received within last 3 years	57	10	513	90	3	1

*Source:* ACM-Telstra, Survey of Australian Manufacturing, March Quarter 1996.

### Assisted firms

Of the 573 survey responses, 57 firms reported receiving assistance from their State Government. Grants were the main form of assistance received. As shown in Table A8.5, grants were received by 68 per cent of the assisted firms. The next most common form of assistance provided was loans and guarantees, which were received by 14 per cent of the assisted firms. The provision of land, to 5 per cent of assisted firms, was minor.

From the Commission's discussion with State, Territory and local governments, it is somewhat surprising to find that only 9 per cent of the assisted firms reported receiving assistance in the form of help with regulatory compliance.

Governments had placed emphasis on the need for, and their provision of, facilitative assistance.

**Table A8.5: Forms of State, Territory and local government assistance provided**

<i>Form of assistance</i>	<i>Yes</i>		<i>No</i>		<i>No reply</i>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
Grants	39	68	16	28	2	4
Loans or guarantees	8	14	48	84	1	2
Tax concessions	4	7	51	89	2	4
Rebates	5	9	50	88	2	4
Help with regulatory compliance	5	9	50	88	2	4
Land	3	5	52	91	2	4

*Source:* ACM-Telstra, Survey of Australian Manufacturing, March Quarter 1996.

The influence of the assistance provided on a firm's decision to locate is shown in Table A8.6. As indicated, 35 firms or some two-thirds of those which received assistance and replied, considered that the assistance was not influential in their decision on where to locate. Of the balance, 10 firms or 19 per cent of the total considered that it had some influence, with only 8 firms or 15 per cent of the total considering it very influential in their decision on where to locate.

**Table A8.6: Influence of assistance on location**

<i>Category</i>	<i>Units</i>	<i>No reply</i>	<i>Not influential</i>	<i>Some influence</i>	<i>Very influential</i>	<i>Total</i>
Assisted firms	No.	4	35	10	8	57
Employment in firms	No.	409	4 362	1 531	3 135	9 437
Employment per firm	No.	102	182	153	392	166

*Source:* ACM-Telstra, Survey of Australian Manufacturing, March Quarter 1996.

The 35 firms which received assistance which was not influential to their location employed 4362 persons or 48 per cent of the total persons employed by assisted firms at the time of the survey. A total of 3135 persons, or one-third of the total, were employed by the eight firms which considered that the assistance

was very influential to their locational decision. The firms that considered the assistance very influential were on average larger than those that considered it had only some or no influence.

The Commission notes that the survey finding of the assistance provided not being influential to locational decisions for the majority of firms receiving assistance is consistent with what it was told in discussions with industry organisations and with overseas experience (see Rasmussen and Ledebur 1986, p. 152).

Not all the firms which received assistance and reported on its influence on their locational decisions reported on the value of the assistance received and on the number of people directly employed where the assistance was received. However, 49 firms did and details for those firms are given in Table A8.7.

**Table A8.7: Value of assistance received and employment where assistance received**

<i>Category</i>	<i>Units</i>	<i>Not influential</i>	<i>Some influence</i>	<i>Very influential</i>	<i>Total</i>
Firms providing details	No.	33	9	7	49
Employment in those firms	No.	3 985	1 496	3 002	8 483
Employment where assistance recd.	No.	2 312	675	560	3 547
State government assistance	\$000	15 820	1 104	5 540	22 464
Local government assistance	\$000	-	-	65	65
Assistance/employee where recd.	\$	6 843	1 636	10 009	6 352

*Source:* ACM-Telstra, Survey of Australian Manufacturing, March Quarter 1996.

Of the 49 firms which provided details of both the amount of assistance received and direct employment where the assistance was received, 33 considered that it was not influential in their locational decision. Those 33 firms received a total of \$15.8 million and employed 2312 persons, or 58 per cent of their total employment of 3985 at locations where the assistance was received. Of the total employment of 3002 at the seven firms which considered that the assistance was very influential in their locational decision, some 560 persons, or 19 per cent of their total employment were at locations where the \$5.5 million they received was spent. Finally, as indicated in Table A8.7, the firms which considered the assistance received very influential to their locational decision were not only larger on average, but also received a greater

amount of assistance per person directly employed where the assistance was received.

### A8.3 ACM-Telstra 'Special Issues — Government Assistance' Questionnaire

SPECIAL ISSUES - GOVERNMENT ASSISTANCE		OFFICE USE ONLY
Q6	<b>Should state and local governments offer financial assistance to:</b> * develop a specific firm?..... YES.... 1 NO.... 2 * develop a specific project? ..... YES.... 1 NO.... 2 * develop industry in specific location?..... YES.... 1 NO.... 2	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> 54-56
Q7	<b>Has your firm applied for assistance from a state or local government over the last three years to remain, expand or relocate your firm or part of its operations?</b> YES....1 NO.... 2	<input type="checkbox"/> 57
Q8	<b>Has your firm received assistance from a state or local government over the last three years to remain, expand or relocate your firm or part of its operations?</b> YES....1 NO.... 2	<input type="checkbox"/> 58
Q9	<b>Was the assistance in the form of :</b> * Grants?..... YES.... 1 NO.... 2 * Loans or financing guarantees? ..... YES.... 1 NO.... 2 * Tax concessions? ..... YES.... 1 NO.... 2 * Rebates? ..... YES.... 1 NO.... 2 * Land? ..... YES.... 1 NO.... 2 * Help with regulatory compliance? ..... YES.... 1 NO.... 2	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> 59-61 <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> 62-64
Q10	<b>What was the value of assistance received :</b> * from a state government?..... \$ _____ * from a local government? ..... \$ _____	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> 65-69 <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> 70-74
Q11	<b>What was the number of people directly employed in the location or project which received assistance?</b> _____ people	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> 65-69
Q12	<b>How influential was the government assistance to your decision to locate within a particular state or locality?</b> Not influential ..... 1    Some influence ..... 2    Very influential ..... 3	<input type="checkbox"/> 80

THANK YOU FOR YOUR CO-OPERATION AND SUPPORT

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## **APPENDIX 9: CONSULTANT'S REPORT ON EVALUATION METHODOLOGIES**

As part of the reference, the Commission was asked to review methodologies for assessing net benefits from the State and Territory provision of assistance to industry. The Commission engaged Applied Economic Solutions to prepare a paper on *Methodologies for the Evaluation of Assistance Provided to Firms Within a Particular Jurisdiction*.

The following is a copy of the Summary and Conclusions from the consultant's report. The complete report is available on request from the Commission. Minor modifications have been made to present the Summary and Conclusions in a style similar to the balance of the report.

### **1 SUMMARY AND CONCLUSIONS**

1.1 Typically, decisions to provide assistance by government require a benefit-cost study. This paper contains guidelines for carrying out these studies. However, it is not intended as a comprehensive guide to benefit-cost studies as there are many widely respected text books, such as Sugden and Williams (1985), and the Commonwealth Department of Finance (1991), which meet this requirement.

1.2 This paper focuses on some of the issues which are not covered in these publications. Most of these issues are associated with the way benefit-cost studies are affected by jurisdictional arrangements in a federal system. In a system with multiple tiers of government, costs at one level can become benefits at another. For example, many State benefit-cost studies treat grants from the Federal Governments as benefits whereas from a national perspective Federal funding should be regarded as a cost.

1.3 There has been a shift in the composition of projects which are currently being considered by regional governments. The traditional guidelines have focused on traditional government projects. These have usually involved the provision of public infrastructure. Typically they involve significant initial costs with a stream of benefits in the future. As community time preferences have changed, with an increasing preference for current consumption, there has

been a shift away from the conventional project to projects which involve much shorter periods between outlays and benefits.

1.4 The hosting of special events such as sporting and cultural events has been an obvious manifestation of this trend. In most cases, and with the obvious exception of the Olympic Games in Sydney, benefits are obtained relatively quickly and the discount rate does not become a factor in the evaluation of these projects.

1.5 There is another major change in the nature of public projects in recent years which has implications for benefit-cost analysis. The greater opportunities for private sector involvement in projects which even five years ago would have been considered in the exclusive domain of the public sector, have important implications for the choice of discount rates and the way in which projects are assessed within the benefit-cost framework. Discount rates are covered in detail in Appendix B.<sup>1</sup>

1.6 This paper also reviews how decisions on implementing regional projects are made in Australia. The examination of some cost-benefit studies indicates that there are many benefit-cost assessments which do not conform to established guidelines. Appendix C contains a review of a typical benefit-cost study recently submitted as supporting documentation for an application for government funding. Basic errors, which had not been identified by the reviewing agencies, were contained in the benefit-cost analysis. There were addition errors in the cost calculations; differing discount procedures for costs and benefits, incorrect calculation of the internal rate of return, failure to consider alternative projects, and failure to distinguish between benefits which accrued to the nation and the region and transfer benefits which benefited the region at the expense of other regions where tourism facilities would be adversely affected. In this case study it is also shown that some of the key funding decisions were made prior to the benefit-cost study becoming available so that even if the study had been methodologically sound, it would still have not greatly influenced funding decisions.

1.7 The study also highlights problems at the federal level where decisions to support a regional project are made by separate federal agencies. This is not a decision making structure which is conducive to optimal assistance levels being afforded to regionally based projects.

1.8 The regionally based projects which are of primary concern in the Australian context are infrastructure and special event projects. Government

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<sup>1</sup> *Note:* In this Appendix, the reference to an Appendix is to an Appendix of the Consultant's report.

assistance for these types of projects often comes from a variety of government sources. It is common for a project to obtain financial support from federal, State and local government levels. Guidelines for carrying out benefit-cost analysis for both these types of projects are set out in this paper. However, the guidelines are more detailed for special event evaluation as technical guides on the estimation of benefit-cost calculations for infrastructure projects are extensively covered in other readily available material.

1.9 There are good reasons for the provision of government assistance to regionally based projects. The major reason for government involvement in projects such as the hosting of special events is that they provide externalities which are not easily internalised by a private operator. This is because governments can reduce the free rider problem and they can achieve administrative economies in cases where private sector implementation, without the support of government, may involve costly and extended negotiations associated with groups within the community affected, both adversely and beneficially, by the project. A further justification for government involvement is that successful implementation of a project may require the co-ordination of activities. This co-ordination can often be done more efficiently by government. It should be noted that none of these arguments are necessarily arguments for a government agency to carry out the function of project implementation, but they are arguments for possible government financial support and action by governments to assist project implementation.

1.10 Having established the justification for government assistance, the next step is to determine the level of assistance to be provided to various projects. The issue of the level of assistance to be provided and the share of the assistance provided by different tiers of government will always involve negotiation. However, there are two general principles which are consistent with the recommended general approach that can be used in these negotiations:

- At the national level the decision to proceed with the project should be influenced by whether the national net social benefits, calculated with the total assistance from all tiers of government required to fund the project included as a cost, is positive; and
- at the regional level, the assistance provided by any level of regional government should not exceed the net regional social benefits, plus the net social benefits which are confined to higher tiers, plus the total assistance required from all tiers of government, less the total value of assistance provided by higher tiers of government.

1.11 While procedures which implement these principles may sound complicated, they only require a single benefit-cost study. Most of the

information required is already collected when preparing a regionally based project proposal. There are only two additional pieces of work required over that which is already provided under current procedures.

1.12 The first additional information requirement is that benefits to one tier which are in fact transfers when viewed from the perspective of a higher tier of government should be explicitly included as benefits to that tier and the transfers entered as a cost which accrues to a higher tier of government. This means that transfers are netted out of the national benefit-cost study but can be included when assessing the information from a regional perspective.

1.13 The second additional information requirement is that all costs and benefits shown on the usual benefit-cost work sheet should be classified as to whether they are incurred at the federal, State, local or a combination of levels.

1.14 Most regional benefit-cost studies are undertaken by, or on behalf of, the proposed implementing agency. If they are a public agency, the agency has an interest in the project proceeding since implementing projects is usually the primary reason for the institution's existence. In these circumstances benefit-cost studies can become simply an exercise in pseudo ex post justification. It is not surprising therefore that, for regional projects, benefits of projects tend to be overstated. The moral hazard incorporated in these institutional arrangements should not be underestimated as many of the problems associated with the use of the benefit-cost framework for decision making arise because of this institutional weakness.

1.15 A major problem with regional benefit-cost analysis is the view that regional authorities take that funds provided by higher jurisdictions are benefits. This is quite explicit in some cases such as the calculation for the Adelaide Grand Prix (Burns et al, 1986) where the published benefit-cost calculation included the Commonwealth grant for the event as a State benefit. The view taken is that these funds would not be available to the State in the absence of the event and therefore they are a benefit to the State.

1.16 One way of overcoming this would be to make available a Commonwealth entitlement to each State for regional projects. Under this system, when the Commonwealth made a decision based on the benefit-cost analysis to provide assistance for a specific regional project it would provide the funds out of the State entitlement. The advantage of this approach is that the States would no longer view federal assistance as free and it would encourage States to make rational choices between alternative uses of Commonwealth funds.

1.17 While the fund approach would encourage States to attach an opportunity cost to Commonwealth funds, the problem that States and regions do not take

account of national costs which occur outside the State or region would remain. The major component of national costs is transfer costs. These arise in projects which create demand in the State or region by attracting demand from other states or regions. The case study in Appendix C provides an example of this problem. In this example a new tourist facility is proposed to be provided in the Mareeba region. A large component of the demand for this facility would be demand taken from existing facilities. No allowance has been made in the calculations for this demand-switching. The approach recommended earlier which involves higher jurisdictions imposing limits to the total amount of assistance provided by all tiers of government to projects could be used to reduce this problem.

1.18 A common problem with many benefit-costs calculations is that they overestimate demand for the facility. The reasons for overestimation of demand, apart from the moral hazard problem, are outlined in this study. In addition to being aware of technical problems which can arise when demand forecasting is involved, it is strongly recommended that risk analysis should be carried out. This involves defining the most likely, optimistic and pessimistic values for all independent parameters in the benefit-cost calculation and fitting a probability distribution (a gamma distribution is probably most useful unless there are strong reasons to select an alternative distribution). Computer simulation methods can then be used to derive a probability distribution for the net social benefits associated with the project.

1.19 There are also problems in the estimation of indirect benefits using multiplier analysis. Procedures used in multiplier analysis are described in detail in Appendix A of this study. The use of multipliers is designed to allow for the indirect demand which an initial new demand creates. Multiplier analysis assumes that factors involved in meeting this derived demand do not have an opportunity cost. That is, they have no alternative employment. In many regions where there is underemployment an expansion of the production of goods and services, particularly for a short period, is relatively costless. It is for these reasons that the use of multipliers for the evaluation of special events can be justified much more easily than can the use of multipliers when evaluating traditional public infrastructure projects. If multipliers are to be used, they should be income multipliers derived from the open model (see Appendix A for details).

1.20 Other problems include cost underestimation. Transfer benefits, for example, often require a balancing cost item, which is incurred by a higher jurisdiction when markets are taken from one region and transferred to another.

Lower jurisdictions are unlikely to formally recognise these costs when undertaking benefit-cost analysis.

1.21 The issue of the appropriate discount rate to employ in regionally based project evaluation is covered in Appendix B. A risk-adjusted opportunity cost of capital approach is recommended. The discount rate will vary with the degree of risk and the willingness of the implementing agency to accept risk. It is expected that for projects with an average degree of risk the discount rate should be set at about 8.5 per cent real. Discount rates should be broadly comparable to the before tax rate of return for private sector projects with similar risk levels.

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## **APPENDIX 10: US NATIONAL GOVERNORS' ASSOCIATION POLICY ON ECONOMIC GROWTH AND DEVELOPMENT INCENTIVES (1993)**

The following policy on economic growth and development incentives was developed at the US National Governors' Association 1993 Winter Meeting in Washington D.C and adopted at the Association's 1993 Annual Meeting in Tulsa, Oklahoma.

### **Preamble**

The accelerated use of direct development incentives by states to attract economic investment is symptomatic of the continuing slow rate of growth of the nation's economy. State government finds itself pressured to take whatever steps are necessary to support job creation that otherwise might occur unaided under more healthy economic conditions.

The current economic climate also affects the way the business community behaves when making investment decisions. To minimise new investment in plant and equipment, businesses readily take advantage of available subsidies in the form of development incentives.

Both the public and private sectors are responding to legitimate objectives. The issue is whether current practices by states that utilise development incentives and by businesses that take advantage of these incentives provide a rational, long-term strategy for either party.

The Governors believe that the public and private sectors should undertake cooperative efforts that result in improvements to the general economic climate rather than focus on subsidies for individual projects or companies. We acknowledge that this will not be easy. It will require a behavioural change by both government and business, balancing short-term self-interest with the long-term common good.

Finally, we do not believe this change should result from the threat of punitive measures or federal intervention. Governors and business leaders should operate in accordance with the following principles because they represent good public policy; in the long run, adherence to these principles will achieve the desired outcomes in terms of new jobs and higher income in all states and sustained profitability for businesses that invest and operate in these jurisdictions.

**Principles of mutual cooperation**

The Governors offer the following principles for cooperation between state government and the business community. These principles support our mutual development objectives through the creation of a business climate in all states that will result in economic growth and the ability to compete in international markets.

**Partnership between State Government and Business**

The relationship between state government and business should be a true partnership. Both state government and business have certain responsibilities and anticipated benefits. States and the business community within states should maintain an ongoing dialogue for the purpose of developing sound public policy and programs. States should implement policy processes that are non-threatening to the business community and the public.

**State Competition**

States will always be in competition with one another for business investments. However, this competition should not be characterised by how much direct assistance a state can provide to individual companies. It should focus on how each state attempts to provide a business climate in which existing businesses can operate profitably and expand and new businesses can be established and survive. The competition should be judged on factors such as improvements in education, transportation, and telecommunications; stable fiscal conditions; tax policies; business regulation; and the provision of quality public services.

**Subsidies**

States will continue to provide subsidies to businesses. However, they should adhere to the following criteria.

- Public resources should be used to encourage and foster development that otherwise would not occur, not merely to influence the location of private investment.
- Public subsidies should benefit and be available to all businesses — large and small, new and existing, of domestic or foreign ownership — based on individual state development objectives, identified criteria, and a calculated rate of return.
- Public subsidies should be in the form of investments in people, resulting in a better educated and skilled workforce, and in communities, by developing the physical and social infrastructures that are prerequisites of healthy economic development. Although such investments may be tied to the location or expansion of an individual company, the improvements in the workforce and community should not be wholly dependent on the fortunes of one business and should be viewed as assets for other businesses that locate in the community.

- States and the business community need to identify and address specific tax and regulatory barriers that slow the rate of new investment in economic activity. When appropriate, the parties should jointly petition the federal government for regulatory relief.
- To the extent possible, programs (eg workforce training and research and technology transfer) that support mutual development objectives should be joint ventures between government and business.
- The business community has an obligation to deliver the promised benefits (eg, investment, jobs, and payroll) in return for state development subsidies. The state owes it to its citizens to ensure that all development agreements include provisions for recouping subsidies when businesses fail to meet this obligation.
- When two or more Governors believe that a company is engaged in counterproductive interstate competition in order to increase the value of a subsidy package, those Governors should feel free to exchange information related to the types of assistance being offered. In cases where a company informs one state of the specifics of another state's incentive package, Governors should have the right to verify the accuracy of this information.
- Using subsidies to encourage investment in distressed areas of the state or to increase employment opportunities that bring the underclass into the economic mainstream are viewed as legitimate development objectives.

Governors and representatives of the business community must support each other's efforts to adhere to these principles. State governments, businesses, and citizens need to understand the relationship among tax bases, tax rates, and quality public services. Both government and business should engage in a continuing process to educate each other and the public on this issue. Business leaders should be prepared to stand by state officials when it is clear that one company is seeking unreasonable incentives at the expense of other businesses or the state in general. Business leaders also must be prepared to publicly voice their disapproval when corporations engage in counterproductive interstate competition. Conversely, Governors must be prepared to withstand the political pressure that may result when they announce that their state will not engage in a bidding war for a high-visibility, high-impact project.

***Time Limited (effective August 1993-August 1995)***  
***Adopted August 1993.***

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## **APPENDIX 11: EUROPEAN UNION RULES ON STATE ASSISTANCE TO INDUSTRY**

At the creation of the European common market, state aids or subsidies were identified by the member countries as being detrimental to the interests of the Community as a whole. The European Economic Community's response was to formalise, within its founding treaty, a framework to address the issue of assistance provided by member countries.

### **A11.1 Government assistance and the European Union (EU)**

In creating a European common market under the Treaty of Rome in the 1950s, the European nations recognised that, in addition to the elimination of tariff barriers, there were other factors which were likely to inhibit trade and competition between the member states. In drawing up the Treaty of Rome, government subsidies and aids were targeted specifically as being incompatible with free trade between the member states and the establishment of a system to ensure non-distortionary competition within a European common market. In the context of European integration, Swann (1983) identified state aid or subsidies as distorting competition by providing an unfair advantage to domestic producers when exporting to other member states or in competing against imports from other member states. The European Commission (EC)'s (1995a) view is that state subsidies prop up unprofitable firms at the expense of efficient and innovatory firms, hold back necessary structural change and provide the subsidised firm with an unjustifiable advantage over its competitors.

The issue of member country aid or subsidies is addressed specifically under the Articles of the Treaty of Rome which sets out the framework for EC monitoring of assistance and the circumstances in which member countries can provide assistance. The Treaty aims to prohibit only those subsidies which are likely to affect the unity of the market.

### **EU regulation on industry assistance by member states**

The Treaty of Rome sets out a legal framework regulating government assistance provided by member countries. Under the Treaty, the European Commission monitors and reviews all assistance provided by member countries.

As signatories to the Treaty, member countries may provide assistance only in accordance with the terms of the Treaty and are obligated to notify the Commission and be granted approval by the Commission prior to granting or altering any assistance.

The EC (1995b) defines assistance as any measure granted to certain firms or for the production of certain goods which provides a firm with an advantage it would not have received in the normal course of its business. Under Article 92 of the Treaty, any assistance which distorts, or threatens to distort, competition and trade among the member countries is prohibited. However, the Treaty provides for two categories of exemption — assistance which is exempted completely from the prohibition and assistance which may be exempted by the EC according to the circumstances.

The completely exempted category consists of assistance of a social character granted to individuals and assistance provided for natural disaster relief.

Under the second category of exemption, there are a number of circumstances in which the member countries may provide assistance. First, assistance may be provided to areas of the EU where the standard of living is abnormally low or where there is serious unemployment. This is seen as strengthening economic and social cohesion, a major objective of the Treaty (see Box A11.1).

The EC (1995b) in its assistance guidelines recognises that assistance to alleviate unemployment may have primarily a social objective and where assistance is provided for all enterprises recruiting workers regardless of the size, location or sector, the Commission is likely to approve member states providing assistance on this basis. Assistance provided on a discriminatory basis to maintain existing jobs rather than create new jobs is viewed unfavourably by the EC as, "... keeping unprofitable businesses artificially alive" (EC 1995c).

### **Box A11.1: Regional assistance to Jaguar cars in the United Kingdom**

In 1994 the EC approved government assistance worth ECU 12.6 million (approximately \$20.1 million) to Jaguar Cars in the United Kingdom, a subsidiary of the Ford Motor Company, to set up a new production line for a new luxury sports car in the company's Liverpool, Birmingham and Coventry plants. The assistance is to be provided in the form of a grant to be paid in four instalments from 1994 to 1997.

The EC held that the Jaguar car plants were based in regions which were eligible for regional assistance pursuant to Article 92(3)(c) of the Treaty. In determining the eligibility of a region for regional assistance the Commission undertakes an analysis of the socio-economic situation of the regions based on a number of factors such as GDP per capita and structural unemployment compared with the national average. From this analysis, the Commission produces regional aid maps to identify economically disadvantaged regions.

The maximum level of assistance, or the intensity of assistance, allowable to a certain region depends on the disadvantages facing the region according to the regional aid maps. The intensity of the assistance allowable is measured by the level of the assistance provided in proportion to the total investment. For example, in the case of the assistance provided to Jaguar Cars the maximum intensity or level of assistance allowable in those particular regions was set at 20 to 30 per cent net (ie the net grant remaining to the beneficiary after taxation) of the total investment.

The level of assistance provided to Jaguar amounted to 11.9 per cent of the total investment, below the 20 to 30 percent ceiling set by the Commission for these particular regions. In approving the assistance, the Commission considered that the project would make an important contribution to the development of the regions concerned, without increasing the level of capacity in the motor vehicle industry within the EU. Given that the project required the replacement of the existing body and car assembly lines of the XJS model, the Ford Motor Company had actively examined alternative locations for the project, which according to the Commission underlined the necessity for assistance to safeguard both the short and long-term prospects for the existing locations.

The EC estimates that 883 jobs will be safeguarded by 1998 through the provision of the assistance. The cost of safeguarding each job is ECU 14 269 (\$22 763).

The assistance provided to Jaguar Cars for training amounted to 2.4 million ECU (approximately \$3.8 million). The Commission considered that the subsidised training provided general vocational skills, which are not related specifically to the motor vehicle industry, and as such are not likely to distort, or threaten to distort competition by favouring certain enterprises or the production of certain goods in accordance with Article 92(1) of the Treaty.

*Source:* EC 1995a.

Second, member countries may provide assistance to projects which are in the common interest of the member states. For example, according to Swann (1983), assistance provided to projects such as a hydro-electric scheme in Luxembourg, which would provide power to Germany and France, falls into this category. Furthermore, the Commission may allow assistance under certain specific guidelines for rescuing and restructuring firms in economic difficulty. The EC (1995a) recognises that such assistance may inhibit structural change,

but believes that there are circumstances in which social and regional policy considerations, the competitive structure of the relevant market or the small size of the recipient firm may justify assistance provided to a firm in difficulty or in helping the firm to restructure.

The EC (1995a) has a negative view of sectoral assistance and has been reluctant to approve assistance to whole industries. However, while the Commission has found sectoral assistance to be incompatible with the common market, a number of sectoral assistance schemes in the steel, shipbuilding, textiles and motor vehicles industries are in existence and continue to be monitored by the Commission.

In general, assistance which does not endanger competition or affect trading conditions contrary to the common interest is allowable. However, as Jovanovic (1992) points out, when and where unemployment prevails, the EC finds it difficult to resist approving member country assistance.

Where the Commission finds that assistance provided by a member state is incompatible with the Treaty, the Commission has the power to issue a Decision requiring the member country to amend or abolish the assistance being provided and recover any assistance provided to the recipient (see Box A11.2). In cases where the member country does not comply, the Commission can take action against the member country through the European Court of Justice.

**Box A11.2: Assistance refunded: Regional assistance in Sicily**

In 1993 the EC examined a number of regional assistance measures worth ECU 139 million (\$218 million) provided by the regional authorities in Sicily to firms in the chemical, cement and engineering sectors operating in Sicily. The Commission concluded that the assistance provided was illegal under the Treaty as the assistance had been provided without the prior notification or approval of the Commission. Also, the Commission decided that the assistance provided would not be of economic benefit to the region as the companies receiving the assistance had not been economically viable for a number of years before the assistance was provided and the assistance provided was not linked to a restructuring plan to restore their viability. As a result, the Commission requested that the Italian Government recover the assistance already provided.

*Source:* EC (1995a).

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## **APPENDIX 12: CANADA'S INTERNAL TRADE AGREEMENT**

### **A12.1 Introduction**

In July 1994, the Canadian Government and the governments of the Canadian Provinces and Territories signed an agreement on internal trade to reduce barriers to trade, investment and mobility within Canada. The agreement came into force on 1 July 1995.

Trade obstacles to the free flow of goods, services, capital and investment through the use of regulation and public sector procurement by Provincial and Territory governments, according to Schwanen (1995), have undermined, often unintentionally, one of the original objectives of Canadian federation. This was to ensure unhindered access to markets across Canada for Canadian goods, services, labour and capital. Industry Canada (1995) estimates that the cost of internal trade barriers has been as high as 1 per cent of Canadian gross domestic product (GDP), or C\$7 billion annually.

Several attempts were made during the constitutional negotiations in 1980 and 1991–92 to secure an agreement on internal trade. Although these attempts failed, a number of intergovernmental agreements relating to certain specific trade barriers — liquor board marketing practices and government procurement — were reached following the establishment of the Committee of Ministers on Internal Trade in 1987. Negotiations through the Committee eventually developed into formal negotiations in March 1993 between the Canadian, Provincial and Territory governments to formulate an agreement on internal trade.

The Agreement covers:

- procurement;
- investment;
- labour mobility;
- consumer-related measures and standards;
- agriculture and food;
- alcoholic beverages;
- natural resources processing;

- communications and transportation; and
- environmental protection.

The Agreement has left the removal of a number of existing trade barriers to future sectoral negotiations (eg energy) and has put in place a time frame for further negotiations involving transport, labour mobility and public sector procurement.

## **A12.2 General rules of the agreement**

The agreement is based on the following six general rules.

### **Rule 1: Reciprocal non-discrimination**

Reciprocal non-discrimination requires governments to establish equivalent treatment for all Canadian persons, goods and services. For example, governments cannot charge firms from other Provinces higher fees than they charge local firms.

### **Rule 2: Right of entry and exit**

The right of entry and exit prohibits governments from implementing measures which prevent or restrict the movement of goods, services, labour or investment across Provincial or Territorial boundaries.

### **Rule 3: No obstacles**

The obstacles to trade rule requires governments to ensure that their policies and practices do not create obstacles to trade. For example, governments have to ensure that the tendering of contracts does not favour suppliers of a particular Province.

### **Rule 4: Legitimate objectives**

In pursuing certain non-trade objectives, it may be necessary for governments to deviate from the three preceding rules where it is intended to achieve a specified objective, including consumer and environmental protection, public health and safety.

In these cases, measures used must not unduly impair the access of goods, services, investment and labour which meet the government's legitimate

objective, must not be more restrictive of trade than necessary to meet that legitimate objective and must not create a disguised trade barrier. For example, a Province can prohibit the transportation of hazardous goods through its jurisdiction. However, prescribing a particular container design rather than a performance standard may be more restrictive than necessary.

### **Rule 5: Reconciliation**

Reconciliation provides the basis for eliminating trade barriers resulting from differences in standards and regulation between jurisdictions. Reconciliation of standards and regulations across Provinces is to be achieved through harmonisation, mutual recognition or other means.

### **Rule 6: Transparency**

Transparency is required to ensure that information relating to trade matters is fully accessible to individuals, firms and other governments to expose potentially unacceptable policies and practices (see Section A12.4).

### **Exemptions**

The following areas are exempt from the application of the Agreement:

- actions necessary to protect national security (eg access to Federal Government information which it considers to be contrary to national security);
- Aboriginal people and their treaty rights; and
- the regulation of financial institutions (subject to separate negotiations).

Regional economic development is also exempt, subject to the following conditions:

- the exemption cannot be used in bidding for government contracts and environmental protection;
- where the exception is used, its impact on trade must be kept to a minimum; and
- all regional development programs must be subject to public scrutiny and evaluation.

## A12.3 Investment incentives

### Investment incentives

Chapter 6 of the Agreement contains articles relating to the treatment of investment and an Annex to the chapter outlines a Code of Conduct on incentives. The Code of Conduct has been set out to limit and, in certain cases, prohibit the use of incentives by governments to attract firms and investment. In formulating this Code, the governments of Canada recognised, and agreed to minimise, the adverse effects of their provision of incentives on other jurisdictions.

The Code of Conduct sets out incentives as either prohibited incentives or other incentives which each jurisdiction should refrain from providing.

#### *Prohibited incentives*

Prohibited incentives are any incentives provided by government which are contingent on, or would result in, a firm located in one Province or Territory relocating within its jurisdiction.

However, governments are not prohibited from providing incentives to encourage firms to relocate when the government can demonstrate that the firm was intending to relocate outside Canada and the relocation was “imminent, well known and under active consideration”.

#### *Avoidance of certain incentives*

The governments of Canada affirm that incentives can be provided to promote economic development within their respective jurisdiction. As part of the code of Conduct on incentives, governments have agreed to take into account the economic interests of other jurisdictions in developing and providing incentives for industry and refrain from providing incentives which:

- sustain for an extended period an economically non-viable firm which will affect the competitive position of firms in other jurisdictions;
- increase capacity in sectors where any increase is not warranted by market conditions; or
- are excessive either in absolute terms or relative to the total value of the specific project, taking into account such factors as the economic viability of the project and the magnitude of the economic disadvantage which the incentive is designed to overcome.

Under the Code of Conduct, only incentives that are provided to ‘poach’ firms or projects from other jurisdictions are prohibited. Other incentives, under the code of conduct, require governments to only ‘refrain’ from providing incentive measures. For example, in the case of bidding wars the code sets out that governments “shall endeavour to refrain from engaging in bidding wars”.

However, under the environmental protection section of the Agreement governments are prohibited from relaxing their environmental regulations and standards to attract business.

#### **A12.4 Institutional provisions**

The ministerial-level Committee on Internal Trade is the main body charged with overseeing the implementation and operation of the Agreement. The Committee is supported by a permanent Secretariat based in Winnipeg, Manitoba. The Secretariat is funded by both the Federal and Provincial Governments. The Federal Government provides 50 per cent of the funding and the Provinces and Territories collectively provide the other 50 per cent with each jurisdiction’s contribution based on its relative population share.

#### **Monitoring of investment incentives and enforcement arrangements**

The monitoring of incentives is undertaken by the Working Group on Investment through its annual report which is submitted to the Committee on Internal Trade. The Working Group on Investment is to provide the following information:

- a short description of incentive programs and individual incentive packages offered by each government, including the goals and objectives;
- the total amount of grants, loans or loan guarantees and equity injections provided by each government;
- the details of each grant over \$500 000, each loan or loan guarantee over \$1 million and each equity injection over \$1 million; and
- a summary of any matter that has resulted in consultations or disputes between governments relating to the provision of incentives.

#### *Consultation*

Where a government has reason to believe that another government is providing incentives prohibited under the Agreement or incentives which should be

avoided under that agreement, the government can request information from the other government concerning the incentive being provided. The government providing incentives is required to respond promptly to the request.

After reviewing the information requested, a government which considers that its economic or commercial interests have been affected adversely by the provision of an incentive measure can request consultation with the government providing the incentives, to attempt to arrive at a mutually satisfactory resolution. The consulting governments may refer the matter to the Working Group on Investment to assist in finding a satisfactory resolution.

Where a dispute has not been resolved through the consultation process, and involves prohibited incentives (ie incentives aimed at attracting firms from other jurisdictions), the parties to the dispute may use the formal dispute settlement procedures available (see Box A12.1). However, for disputes involving incentives which governments are to 'refrain' from providing under the Agreement, only the consultation process is available.

#### **Box A12.1: Dispute involving incentives for relocation**

In January 1995, United Parcel Service (UPS) announced that it was moving 870 jobs from British Columbia, Manitoba and Ontario to New Brunswick. New Brunswick announced that it was providing UPS with incentives (later confirmed to be worth C\$11 million) to assist it in moving to New Brunswick.

While the Agreement on internal trade did not come into effect until July 1995, the Provincial governments agreed not to introduce any new measures in breach of the Agreement between signature and the implementation of the Treaty.

British Columbia, in April 1996, launched a formal dispute resolution procedure against New Brunswick with officials from both Provinces meeting to initiate the formal consultation process. According to the Ministry of Employment and Investment in British Columbia, documents obtained from New Brunswick clearly show that the New Brunswick Cabinet approved the incentives offered to UPS to relocate to New Brunswick which are prohibited under the Agreement. The outcome of the dispute is not yet known.

*Source:* Ministry of Employment and Investment, British Columbia (1996).

#### *Dispute resolution*

The initial stage of the formal dispute resolution process involves the Committee on Internal Trade mediating in the dispute. Where the dispute has not been resolved through mediation, a government involved in the dispute may seek to have a panel established to make findings and recommendations to resolve the dispute. Panels are drawn from a roster of individuals nominated by

each government. All proceedings before a panel are public and all documents and submissions, both oral and written, provided to the panel are to be accessible to the parties involved in the dispute.

The report of the panel contains a determination as to whether or not the action of a government has impaired or would impair internal trade or would cause injury, and recommendations to resolve the dispute.

Firms or individuals wishing to initiate proceedings against a government believed to be in breach of the Agreement are required to use the government with which the individual or firm has a substantial connection to initiate proceedings on their behalf.

### *Enforcement*

The parties to the dispute are obliged to comply with the recommendations of the panel. Where the panel has determined that the measure used by a government is inconsistent with the Agreement, the complainant may make the panel report public in an effort to embarrass the offending government into complying with the recommendations of the panel. If unsuccessful, the complainant government, after discussion with the Committee, may take retaliatory action or suspend benefits of equivalent effect against the government found in breach of the Agreement. These retaliatory actions can remain in place until the recommendations of the panel have been implemented.

However, the Agreement does not allow a government to take retaliatory action that is inconsistent with the Constitution of Canada.

## **A12.5 Assessment of the Internal Trade Agreement**

Because of the recent implementation of the Internal Trade Agreement, no empirical evidence is available as to its effectiveness. However, there has been some analysis of the prospects and the likely effectiveness of the Agreement in achieving its objectives.

The removal of Provincial barriers to trade and the associated costs is seen as a major benefit to Canada as a whole. As Schwanen (1995) said:

Estimates of the actual or potential costs of these practices to the Canadian economy as a whole — costs resulting from the loss of efficiencies, of economies of scale, and of the dynamism normally associated with a large open market — vary widely, but a majority of experts have found them to be significant: they cost consumers, producers and taxpayers combined hundreds of millions, and probably several billion dollars each year. These are the “net” costs of the barriers. Under the concept of net cost, to the extent that a barrier simply redistributes income from a Canadian living in one province

to a Canadian living in another, there is no “cost” to the economy. But the “gross” cost of any barrier — the cost to the particular Canadian firms or individuals affected by it — is a very relevant concept within an economic association, insofar as it represents a violation of the basic rules that should benefit every member of the association, rather than any one province. (p. 5)

In general, analysts believe that the Agreement will have significant positive effects, but point out that it contains numerous limitations which are likely to seriously reduce its effectiveness.

### **Enforcement and sanctions**

A major concern is that the overall effectiveness of the Agreement will be limited by the inadequate enforcement and sanction mechanisms in place for breaches of the Agreement.

For example, Schwanen (1995) claims:

... the dispute mechanism does not produce results that are legally binding on the parties. The only recourse by the complaining party in the event of noncompliance with a panel report by the party complained against is publication of the report, an obligation by the CIT [Committee on Internal Trade] to continue discussing the matter until it is resolved, and, as a last resort, retaliation of equivalent effect — itself a measure subject to limits and to the possibility of being challenged. (p. 14)

Trebilcock and Behboodi (1995) are also critical of the sanctions to be used under the Agreement:

... it is questionable whether the threat of publicity, withdrawal of benefits, or retaliation in the case of disputes between governments is the most effective way of enforcing panel recommendations. ... It is questionable whether the threat of retaliation against Ontario by, for example, Prince Edward Island is credible enough to force Ontario to abide by panel recommendations in the case of a dispute between the two. (p. 79–80)

Even if the threat of retaliation is credible, effective sanctions are generally not available to Provincial or Territory governments. Howse (1995) points out that Canadian Provinces cannot withdraw tariff concessions against each other as the imposition of tariffs on inter-Provincial trade is prohibited under section 121 of the Canadian *Constitution Act 1867*. However, as Howse (1995) said in relation to government procurement:

... it is possible to imagine a relatively straight forward retaliatory pressure; for instance, the offending province’s goods or services could simply be excluded from procurement for a time. However, insuring that retaliation is proportional to the injury caused by the impugned measures is likely to be no easy exercise when different kinds of trade-impacting internal measures must be compared. (p. 179)

The lack of any legal mechanisms to enforce the Agreement also has been criticised. Trebilcock and Behboodi (1995) believe that the most significant and recent development in economic integration, the European Union, has involved courts and the binding jurisprudence of the court in dispute resolution. In the case of the Canadian Agreement on Internal Trade, Trebilcock and Behboodi (1995) said:

... the panel process is seriously flawed. We have noted our concern about the lack of a permanent structure like that of the Commission of the European Community to provide institutional memory and support for the agreement and the integration process. In our view, the panel system as envisaged, with a large roster of panellists and ad hoc panels, unnecessarily exacerbates the problem. (p. 81)

However, the lack of legally binding enforcement may not necessarily lessen the effectiveness of the Agreement. According to Swinton (1995):

The agreement is as detailed and as ambitious as it is precisely because the enforcement mechanism is political and not binding, leaving room for debate about what constitutes an unacceptable barrier to trade. If the agreement were made fully binding and directly enforceable, its content would be significantly different to counteract fears about its impact on sovereignty and on values other than maximising national income. (p. 205)

Howse (1995) agrees that the Agreement can be effective without legally binding enforcement and considers that:

... the legitimacy conferred on the agreement in political practice will be a major determinant of its ultimate impact in liberalizing interprovincial trade. This heightens the importance of dispute settlement; the higher the quality of dispute rulings and the more they are grounded in a coherent and consistent interpretation of the agreement, the more politically difficult it will be for governments to walk away from their commitment to free internal trade. (p. 171)

## **Investment incentives**

The section of the Agreement dealing with investment incentives is limited in its detail.

The code of conduct on incentives, except for incentives provided to assist firms to relocate from other Provinces, only stipulates that government shall “endeavour to refrain from providing incentives” that may harm the economic interests of the other Provinces as well as “refrain from” engaging in bidding wars to attract prospective investors. The code requires Provincial and Territory governments to avoid providing incentives, but permits those governments to provide incentives to promote economic development.

Trebilcock and Behboodi (1995) consider that the range of investment incentives is not adequately covered :

... the other provisions of Chapter Six wrestle inconclusively with the question of what direct and indirect subsidies may be provided by parties to investors to establish, maintain, or expand activities within a given party's jurisdiction. (p. 55)

Furthermore, they are sceptical that Provincial and Territory governments will be able to cease their involvement in bidding wars:

This is the paradigmatic case of provinces' engaging in subsidy wars to attract, for example, a new automobile plant. While in theory there may be merit to attempting to formulate some credible "hands-tying" rule to resolve prisoners'-dilemma-type problems in this context, we are sceptical that this will be easy to achieve. The range of scenarios seems likely to be too varied to be easily captured in a manageable set of rules. (p. 55)

Trebilcock and Behboodi (1995) then provide the following examples:

... would the Ontario government's decision to invest resources in Algoma Steel count as an incentive to sustain a losing investment? Similarly, would the Ontario government's decision to invest resources in upgrading one of Chrysler's auto plants count as undesirable competition for new investment? (p. 55)

### **Exemption for regional development**

Under the Agreement, the Provinces and Territories may provide incentives to promote regional economic development. There is a concern that the emphasis placed on this exemption will affect the overall aims of the Agreement.

Trebilcock and Behboodi (1995) stated that:

The concern over providing sufficient latitude to the provinces to engage in regional development policies pervades the entire agreement and, in our view, unnecessarily complicates and obfuscates many of the rules to which the parties are ostensibly committed themselves. (p. 56)

If government on-budget expenditures (eg loans, grants and loan guarantees) for regional development were allowable and provided in a transparent manner, the greater public scrutiny and budgetary constraints faced by Provincial and Territory governments would help constrain the provision of regional development incentives.

As Trebilcock and Behboodi (1995) said:

If there were a blanket exemption for the most straightforward forms of direct government subsidies, the whole subsidy issue generally — and the issue of regional development specifically — would be channelled into highly transparent, largely on-budget expenditures. The combination of an environment of severe fiscal constraint and the enhanced transparency entailed in on-budget expenditures is likely in itself to ensure adequate discipline of this form of potential economic distortion through appropriate democratic channels.

This is to say, we would restrict the *type* of instrument that can be used for regional development purposes, but we would not regulate the *purposes*. (p. 57)

### **Completing the Agreement**

The Agreement has left many of the existing trade barriers to future negotiations. The premise that future negotiations will allow for the Agreement to be completed has been treated with scepticism. For example, Lenihan (1995) said:

Work plans for further talks are sometimes specified, but they range from the well defined to the sketchy and vague. (p. 98)

A more significant problem is the failure of the Provincial and Territory governments to actually begin the negotiations required to complete the agreement. As Schwanen (1995) said:

Perhaps more worrisome than the lack of detail of a well-defined negotiating agenda in some areas is the fact that a number of the deadlines set in the agreement for completing sectoral negotiations have already fallen by the wayside. This raises significant questions as to the commitment, or at least the ability, of governments to reach the objectives they have set for themselves in the agreement. (p. 11)

For example, Schwanen pointed out (1995) that commitments made by governments to conclude negotiations on energy and corporate registration and reporting requirements had not been met within the agreed time frame.

### **Institutional arrangements**

The processes involved in implementing the Agreement and the institutional model on which it is based have been criticised for lessening its effectiveness.

For example, the technical work of removing barriers to internal trade is to be carried out by committees of Ministers or officials who are often in charge of administering the very barriers which the Agreement seeks to remove. Consequently, the Agreement has been limited by the concessions which the Provinces and Territories were willing to concede.

As Schwanen (1995) said:

The limitations of this approach were apparent in the negotiations on the agreement itself, at the start of which ministers responsible for internal trade made substantial progress in devising clear general rules and principles, only to see them emasculated at the sectoral negotiating tables where, one suspects, those who had a strong interest in maintaining barriers to trade were directly or indirectly well represented. (p. 12)

A further criticism of the Agreement is that it is based on an international trade agreement model, allowing the Provincial and Territory governments to trade off concessions and act as sovereign nations in an agreement aimed at furthering economic integration within a federation.

As Howse (1995) said:

Canada is a single country, united under a constitution. ... It is somewhat ironic that the disputes settlement provisions of the agreement seem to be modelled on features of international trade treaties that reflect the traditional anarchic character of interstate relations — above all, the reluctance of sovereign states to submit unambiguously to a common legal authority. (p. 193)

On this point de Mestral (1995) is even more critical:

Instead of preparing a document consistent with the principles and institutions of Canadian federalism, which involve a very high degree of economic integration, the provinces have chosen as their model the international law of the General Agreement on Tariffs and Trade (GATT). They have not even been willing to accept commitments comparable to those in the most recent round of GATT negotiations (the Uruguay Round, completed in 1994); instead, they have in many respects modelled the agreement on the GATT of the mid-1960s. (p. 95)

Founding the internal trade agreement on an international trade agreement model is believed to be a result of political tensions within the Canadian federation, with a need to prepare for an economic union with Quebec outside the federation or to appease separatist influences in Quebec. The Agreement, at least in its basic elements, according to Trebilcock and Behboodi (1995), represents, “the best exit option Quebec could hope for”. (p. 87)

As Trebilcock and Behboodi (1995) said:

In the run up to the referendum, arguments will be made by wishful thinkers in some quarters in Quebec that a new entity — confederation, union or common market — can be created out of the ashes of the old one along the model of the European Union under the Maastricht Treaty. Thus, it will be argued, the economic costs of separation are not likely to be high. (p. 86)

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## **APPENDIX 13: INTERNATIONAL OBLIGATIONS**

### **A13.1 Introduction**

Australia is signatory to a number of international trade agreements which have implications for industry assistance policy in Australia, including that of State, Territory and local governments. The most significant of these are agreements entered into as part of the World Trade Organisation agreement (including the General Agreement on Tariffs and Trade (GATT) 1994) and the Australia New Zealand Closer Economic Relations (CER) Trade Agreement. Both of these agreements seek to limit industry assistance within member states with particular emphasis on assistance which distorts international trade.

### **A13.2 The World Trade Organisation (WTO)**

The GATT 1994 is one of several agreements concluded in the Uruguay Round of Trade Negotiations which concluded in April 1994. The WTO, which commenced operation on 1 January 1995, is the international organisation responsible for administering the GATT 1994, and the other Uruguay Round agreements, and provides a forum for disputes settlement and future negotiations. Australia is both a member of the WTO and a signatory to GATT 1994.

While State, Territory and local governments are not themselves signatories to the GATT, the Agreement does not distinguish between national or subnational policies. That is, the GATT rules to which Australia is a signatory apply, in principle, equally to Commonwealth, State and Territory or local government activities.

At the recent Uruguay Round of Trade Negotiations a number of Understandings and Agreements were negotiated to provide an interpretation of some of the Articles of the existing GATT (now termed GATT 1994), and to develop trade rules in areas not covered by GATT, for example, services and government procurement.

There are several GATT disciplines which may affect Australian States' industry assistance and export assistance programs. These include:

- the Agreement on Subsidies and Countervailing Measures;

- the Agreement on Agriculture;
- the Agreement on Trade Related Investment Measures;
- the Agreement on Trade in Services; and
- the Agreement on Government Procurement.

These are discussed below.

### **Agreement on Subsidies and Countervailing Measures**

The Agreement on Subsidies and Countervailing Measures (SCM) contains strengthened disciplines on the definition of a subsidy and on countervailing procedures. The Agreement requires that each member annually notify the SCM Committee of all the subsidies that it maintains. The Agreement classifies subsidies into three categories:

- Prohibited Subsidies which are subsidies contingent upon export performance, or on the use of domestic inputs over imported goods. All such subsidies are deemed to be ‘specific’<sup>1</sup>. Any export subsidy is prohibited, as well as subsidies related to import substitution to the extent that they take the form of domestic content requirements;
- Actionable Subsidies are non-prohibited specific subsidies that cause adverse trade effects. For example, when the subsidy causes material injury to the domestic industry, serious prejudice to the interests of another member, or nullification or impairment of benefits to another member; and
- Non-actionable subsidies are specified in a ‘positive’ list or ‘green box’ of subsidies. They can be either subsidies that are not specific to certain enterprises or specific subsidies for research activities, regional development or environmental requirements. For each of these activities, detailed limits on the use of such subsidies are provided (see GATT 1994b, pp. 273-6).

Provisions of the SCM Agreement are applicable to agriculture only to the extent that they are not overridden by the Agreement on Agriculture (discussed later).

For prohibited and actionable subsidies, where a country is deemed by another to be in breach of the SCM Agreement, the complaining member is able to take either multilateral remedies or countervailing measures.

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<sup>1</sup> Within the SCM Agreement ‘specific’ subsidies are separate from general subsidies and only ‘specific’ subsidies are subject to anti-subsidy measures. Specificity is defined as access to a subsidy being limited to certain economic entities (eg. firms, groups of firms, industries).

For multilateral remedies, the Agreement has in place a different remedy for each type of subsidy. The differences between the remedies are in their time constraints, the bodies involved and the many procedural details. They all, however, should be preceded by bilateral consultations between the subsidising country and the complaining member (OECD 1995, p. 70).

In the case of *prohibited subsidies*, where a member complains that a prohibited subsidy is being granted or maintained by another member and no mutually agreed solution can be reached through consultation, the complaining Member may refer the matter to the Dispute Settlement Body (DSB) of the WTO for scrutiny. The DSB then establishes a panel, which, may seek assistance from a Permanent Group of Experts (PGE) to determine whether the measure in question is a prohibited subsidy. This is established through a review of the evidence with regard to the existence and nature of the measure in question and by providing an opportunity for the Member applying or maintaining the measure to demonstrate that the measure in question is not a prohibited subsidy. The PGE then reports its conclusions to the panel.<sup>2</sup>

Once the PGE report is adopted by the DSB, the member applying or maintaining the measure is required to notify its intentions with respect to the implementation of adopted recommendations. Under the GATT, panels have generally recommended that an inconsistent measure be brought into conformity with the rules by, for example, withdrawal of the subsidy. If such a step is not taken within a specified period of time, the DSB shall grant authorisation to the complaining Member to take appropriate countermeasures<sup>3</sup>, unless the DSB decides by consensus to reject the request. Compensation or the suspension of concessions or other obligations are available as temporary measures.

In the case of *actionable subsidies*, multilateral action is broadly similar to the procedure available for prohibited subsidies except that the time schedule is looser and the PGE has no explicitly mentioned role. However, an important constraint on the procedure is that the burden of proof rests on the member applying or maintaining the measure. Also, multilateral action is conditional on the alleged actionable subsidies causing injury, impairment of GATT rights or serious prejudice to another WTO member.

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<sup>2</sup> If a panel investigating an allegedly prohibited subsidy requests assistance from the PGE, the PGE's conclusions on whether or not the subsidy is a prohibited one must be accepted by the panel without modification.

<sup>3</sup> Countermeasures are usually taken to mean additional duties imposed on the market of the complainant as for example, additional tariffs on goods of the complainant. They are not countervailing duties in the sense of the Agreement even though they may resemble these.

For *non-actionable subsidies*, if a member has reason to believe that serious adverse effects to its domestic industry are the result of another member's implementation of non-actionable subsidies, such as to cause damage which would be difficult to repair, and no mutually acceptable solution can be reached through consultations, the complaining Member may refer the matter to the Committee on Subsidies and Countervailing Measures. If the Committee determines that such effects exist, it may recommend to the subsidising Member that it modify its program so as to remove these effects. In the event that this recommendation is not followed, the Committee will authorise the requesting Member to take appropriate countermeasures commensurate with the nature and degree of the effects determined.

Countervailing duties<sup>4</sup> can be enforced by the country facing prohibited subsidies or actionable subsidies, but not for non-actionable subsidies. Countervailing duties may be imposed only after investigations have been initiated. An investigation to determine the existence, degree and effect of any alleged subsidy shall be initiated upon a written application by or on behalf of the domestic industry. The countervailing duties rules provide considerable procedural detail as to how to quantify subsidies and injury. If countervailing duties are imposed, the Agreement provides that any definitive countervailing duty shall be terminated on a date no longer than five years from its imposition, unless another inquiry determines that the conditions which warranted its imposition still exist.

### **Agreement on Agriculture**

The Agreement on Agriculture limits the scope and form of any continuing government intervention in agricultural support and protection. It provides for commitments in the areas of market access, export subsidies and domestic support.

Non-tariff border measures are to be replaced by tariffs that provide substantially the same level of protection. Members are to bind all such tariffs and are not to introduce new non-tariff measures. Tariffs from this process and all other tariffs on agricultural products, are to be reduced by an average of 36 per cent for developed countries over a six-year implementation period (1995–2001).

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<sup>4</sup> The term 'countervailing duty' refers to a special duty levied for the purpose of offsetting any subsidy bestowed directly or indirectly upon the manufacture, production or export of any merchandise as provided for in paragraph 3 of Article VI of GATT 1994.

In the case of export subsidies, Members from developed countries are required to reduce expenditure on export subsidies by 36 per cent of the base period (1986–1988) expenditure and to reduce the quantity of subsidised exports by 21 per cent of the base period quantities during the six year implementation period.

All forms of domestic support to agricultural producers, with the exception of the policies designated as exempt (noted below), are subject to reduction commitments of 20 per cent, for developed countries, over the six year implementation period through equal annual instalments specified in the schedules.

There are a number of policies which are excluded from the reduction commitments. These include measures with no, or at most minimal, trade distortion effects or effects on production ('green box' policies) — for example, general government services (such as research, disease control, infrastructure and food security stockholding), certain forms of 'decoupled' (from production) income support, structural adjustment assistance, direct payments under environmental programs and under regional assistance programs. Other excluded policies include direct payments under production-limiting programs (of the form used in the US and the EU), certain government assistance measures to encourage agricultural and rural development in developing countries and other support which makes up only a low proportion (5 percent in the case of developed countries and 10 percent in the case of developing countries) of the value of production of individual products or, in the case of non-product-specific support, the value of total agricultural production (GATT 1994c, p. 20).

The Agreement has in place a Due Restraint Provision (or 'Peace Clause') which provides that policies conforming to these new rules should not be subject to challenge under the GATT. Under this Provision:

- green box policies are non-actionable for purposes of countervailing duties and other GATT challenges;
- all domestic support measures which conform with the commitments are exempt from the imposition of countervailing duties provided that they do not cause injury, and are exempt from other GATT challenges provided support for individual commodities does not exceed that applied in 1992; and
- export subsidies allowed under the Agreement are exempt from most GATT challenges and subject to countervailing duties only if they cause injury (OECD 1995, pp. 89-90).

## **General Agreement on Trade in Services (GATS)**

GATS is one of the suite of WTO Agreements. It attempts to extend to services multilateral trading rules along principles similar to those underlying GATT. Liberalising commitments are limited to those services which are scheduled, and the commitments can apply to State and local as well as central government regulations. Government procurement of services is excluded, though negotiation on this aspect is scheduled to commence in 1997.

## **Agreement on Trade-Related Investment Measures (TRIMS)**

This Agreement applies to a narrow range of trade-related investment measures affecting goods only. That is, it prohibits Members from imposing or maintaining certain measures relating to investment that adversely affect trade in goods. It recognises that certain measures restrict and distort trade and sets out a list of measures deemed to be inconsistent with Articles III (obligation to provide national treatment<sup>5</sup>) and XI (obligation to eliminate prohibition of quantitative restrictions<sup>6</sup>) of the GATT. This list is appended to the agreement and includes measures which require particular levels of local procurement by an enterprise ('local content requirements'), trade balancing requirements, import substitution, foreign exchange and export limitation requirements.

The agreement requires mandatory notification of all non-conforming TRIMs and their elimination within two years for developed countries. The WTO dispute settlement mechanisms apply to this Agreement. Review of the operation of the Agreement is to take place five years after its entry into force.

## **Agreement on Government Procurement**

The World Trade Organisation's revised Agreement on Government Procurement (AGP) took effect on January 1 1996 and replaces a procurement code which first became effective in 1981. The broad objective of the AGP is to prevent government purchasing arrangements being used to discriminate between domestic and foreign suppliers. Unlike most other WTO agreements (GATT-1994 being the prime example), the AGP remains, however, a plurilateral agreement whereby its provisions strictly apply to only those

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<sup>5</sup> National treatment is defined as non-discrimination between like domestic and imported goods in internal regulations and requirements, including taxation (DFAT 1994, p. 24).

<sup>6</sup> Quantitative restrictions are defined as limits or quotas on the physical amounts of particular commodities that can be imported or exported during a specific time period, usually measured by volume but sometimes by value (DFAT 1994, p. 24).

member countries which are signatories to it. Members are, of course, free to extend the provisions to non-signatories. With the notable exception of the United States, most countries do. Of the one hundred and twenty four current WTO member nations (including the European union as a separate entity) only twenty four have signed the AGP.<sup>7</sup>

The agreement covers purchasing contracts for specified goods, services and construction above stipulated threshold values which vary depending on the level of government, nature of the requirement and nature of the purchasing entity. It covers only those government entities which are specified in the schedules to the agreement and distinguishes between central government, sub-central government (states and local authorities) and other entities (such as government trading enterprises). The minimum thresholds serve the purpose of reducing the administrative burden associated with smaller procurement items and are generally in the following ranges:

- central government (goods and services, excluding construction) \$A260 000;
- sub-central government (goods and services, excluding construction) \$A400 000;
- utilities (goods and services, excluding construction) \$A800 000; and
- construction \$A10 million.

Goods and services are treated differentially in the sense that the agreement applies to all goods unless excluded while it applies only to those services which are specifically included in the schedules of the agreement.

Each country nominates entities and sectors to be covered by the AGP provisions. In Australia's context, the Commonwealth government would nominate those entities to be included at the federal and state levels, the latter presumably following negotiations with the states. These nominations would then be negotiated between AGP signatories on a conditional Most Favoured Nation (MFN) or reciprocal basis.

That is, countries negotiate commitments with other members of the AGP and generally confine procurement market access to those countries with which they have negotiated similar access. Moreover, many countries have negotiated major sectoral derogations and exclusions of goods and services, both at the central and sub-central government level.

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<sup>7</sup> These countries are the fifteen member nations of the European Union (EU), Aruba, Canada, Israel, Japan, Korea, Norway, Singapore, Switzerland and the United States. While the EU constitutes a single entity in the WTO, individual EU members are signatories to the AGP.

As such, although the AGP aims to ensure that foreign suppliers are accorded no less favourable treatment than domestic suppliers (the so called national treatment principle) in bidding for government purchasing contracts (and that purchasing procedures at every point of the tendering process are transparent) there are major weaknesses in its structure and limitations in its coverage.

In support of these objectives, the AGP deals in some detail with various issues in purchasing practice. These include :

- tendering procedures;
- use of specifications;
- conditions on the qualification of suppliers eligible to bid;
- publication of invitations to tender;
- time limits for tendering and delivery;
- tender documentation; and
- procedures for submission, receipt and opening of tenders and awarding of contracts;

In addition, the new agreement includes dispute resolution mechanisms which involve the use of local courts or independent review authorities. Each signatory is required to provide a challenge mechanism and unlike other WTO agreements private firms (along with governments) are given the right to take action in national courts against a signatory entity.

However, the reciprocal nature of the AGP does violate the fundamental MFN principle of the WTO where all members grant each other treatment as favourable as that granted to any other country. In addition, the opportunity to exclude certain sectors or negotiate derogations at the central and sub-central government levels can and does significantly dilute the agreement's coverage and its usefulness in providing an effective discipline on Australia in reforming its procurement practices at both the Commonwealth and state levels. Moreover, the extent to which membership by Australia would improve market opportunities in government procurement overseas (especially in the United States) remains somewhat unclear.

Australia did not sign the earlier Code and to this point in time has not joined those countries which have acceded to the new agreement. The decision on whether to become a member is currently under review.

As described in a joint discussion paper by the Department's of Foreign Affairs and Trade and Administrative Services:

“... the revision of the Code has greatly increased its coverage in value and in the range of purchasing entities and variety of purchases covered. It is against this background

that the current review of the trade and economic implications of the Agreement on Government Procurement is being conducted ...”(DFAT 1995 p. vi).

The most significant benefits to Australia of signing the agreement would appear, however, to be based not on the issue of access to other countries’ procurement markets, but the efficiency and transparency disciplines which would be placed on Australia to reform its own procurement procedures at both the Commonwealth and, in the context of this inquiry, on the States from using procurement policy as an (inefficient) industry development tool.

However, the effectiveness of the AGP in this context will ultimately depend on the basis upon which Australia accedes to the agreement. Generally speaking, the more derogations and exceptions provided for in the agreement by Australia, the less effective is the AGP likely to be in providing a discipline on Australia to reform its procurement policies.

### **A13.3 CER Trade Agreement**

The Australia New Zealand Closer Economic Relations (CER) Trade Agreement came into force on 1 January 1983, replacing the New Zealand Australia Free Trade Agreement. Under the agreement, bilateral trade in all products originating in the two countries is free of tariffs, quantitative restrictions, anti-dumping measures and safeguard measures (except in certain cases, such as those of overriding national interest) (GATT 1994, p. 30). A ‘negative list’ approach was adopted whereby all goods were subject to free trade unless they were mentioned specifically in an annex to the agreement.

The Agreement committed Australia and New Zealand to the gradual elimination of tariffs on trans-Tasman trade by 1 January 1988 for goods not specified in the annexes to the agreement and import quotas by 30 June 1995. All export subsidies and export incentives on goods traded between the countries were also to be eliminated under the Agreement.

#### **Services trade**

The Protocol on Trade in Services came into force on 1 January 1989. It establishes a framework of transparent rules to govern trade in services. The Protocol committed Australia and New Zealand to eliminate by 30 June 1990 export subsidies and other forms of assistance which directly affected trans-Tasman services trade. The Protocol also includes the right of firms to select the form of their commercial presence in the other economy, and a requirement that licensing and certification measures do not impair trade in a discriminatory

manner. Exemptions to the Protocol are contained in a 'negative list'. Many of the original exemptions have since been removed. However, Australia still excludes aspects of telecommunications, aviation, coastal shipping, broadcasting, insurance and postal services. New Zealand's exclusions include aviation, telecommunications, postal services and coastal shipping.

### **Elimination of government procurement preferences**

The CER agreement (under Article II) also committed the two governments to reform their purchasing policies in order to eliminate any preferences which favoured domestically produced goods over those from their CER partner and to avoid requiring offsets in relation to content from the other CER member. The Commonwealth of Australia further undertook to treat New Zealand tenderers as equivalent to Australian content (that is, national treatment). Initially, Australia did not apply the agreement to purchases made by Australian State governments.

In June 1989, New Zealand joined the National Preference Agreement (NPA) between the Australian States. New Zealand and the Australian States committed themselves to avoid the use of preferential purchasing policies which discriminated against producers located in other members of the NPA. In 1991 New Zealand joined the NPA's successor, the Government Procurement Agreement (GPA), which guaranteed equal treatment to Australasian suppliers in addition to eliminating inter-State and trans-Tasman preferences on Australian and New Zealand local content. The GPA was also extended to government purchases of services (except for those excluded from the Services Protocol) (BIE 1995, p. 26).

### **Industry assistance**

The 1988 CER review resulted in the Agreed Minute on Industry Assistance which committed Australia and New Zealand to avoid industry assistance for most industries which directly affected trans-Tasman trade. Australia initially excluded its Export Facilitation Scheme for passenger motor vehicles from the Agreed Minute but this exemption was later removed (BIE 1995, p. 30).

The Minute included a commitment by both countries to seek to take account of the views of the other government before finalising any decision to adopt industry-specific measures that could adversely affect trans-Tasman trade.

In the 1990 review of the CER, both governments agreed not to pay production bounties or like measures on goods which are exported to the other country. In

addition, it was agreed that from 1 January 1989, each government would endeavour to avoid the adoption of industry specific-measures which have adverse effects on competition between industries in the Free Trade Area. Some exemptions were provided for, such as measures to support research and development, extension services, and export promotion measures other than those specifically designated for elimination (DFAT 1991, p. 17).

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## **APPENDIX 14: FEDERAL ECONOMIC CHARACTERISTICS**

### **A14.1 Australia's federal framework**

The Australian federation has three tiers of government — the Commonwealth Government, with designated and delegated powers; six State governments, with residual powers, and two Territory governments, with 'State-type' powers granted to them by the Commonwealth; and, at present, around 700 local authorities with delegated powers and responsibilities. The ACT is the only State or Territory without the 'local authority' level of government.

The roles and responsibilities of the Commonwealth and the six State governments are defined by the Australian Constitution. In areas where the Commonwealth shares power with the States (concurrent powers), Commonwealth legislation takes precedence over State legislation.

Territory governments are not recognised under the Constitution, but exist by virtue of Commonwealth legislation. Their powers, while similar to those of the States, are determined by the details of this legislation. The Constitution also does not recognise local governments, which are created under individual State and NT<sup>1</sup> legislation.

### **A14.2 Broad fiscal characteristics**

#### **Revenue and expenditure**

The Commonwealth Government collects about 72 per cent of all tax revenue raised in Australia, and accounts for 54 per cent of all direct government expenditures (ABS 1995c). By contrast, State governments collect around 24 per cent of total tax revenues and are responsible for about 41 per cent of government expenditure. As a result, the States rely on Commonwealth Government transfer payments for a substantial percentage of their total revenue. For example, in 1995–96, Commonwealth grants were estimated to

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<sup>1</sup> Hereafter, 'States and Territories' collectively will be referred to as 'States', ie unless a distinction is required for clarity of discussion purposes.

account for about 41 per cent of Victorian Government revenue and 75 per cent of NT Government revenue (see Table A14.1).

The Commonwealth's dominant fiscal position is a result principally of the States' surrender to the Commonwealth of personal and corporate income taxing powers in 1942 as a temporary war-time measure in exchange for reimbursement grants. In addition, the High Court's interpretation of Section 90 of the Constitution, which sets out the Commonwealth's exclusive powers to levy customs and excise duties, has prevented the States from levying broad-based taxes on the production of goods.

**Table A14.1: Government revenue by State and Territory, 1995–96<sup>a</sup>**

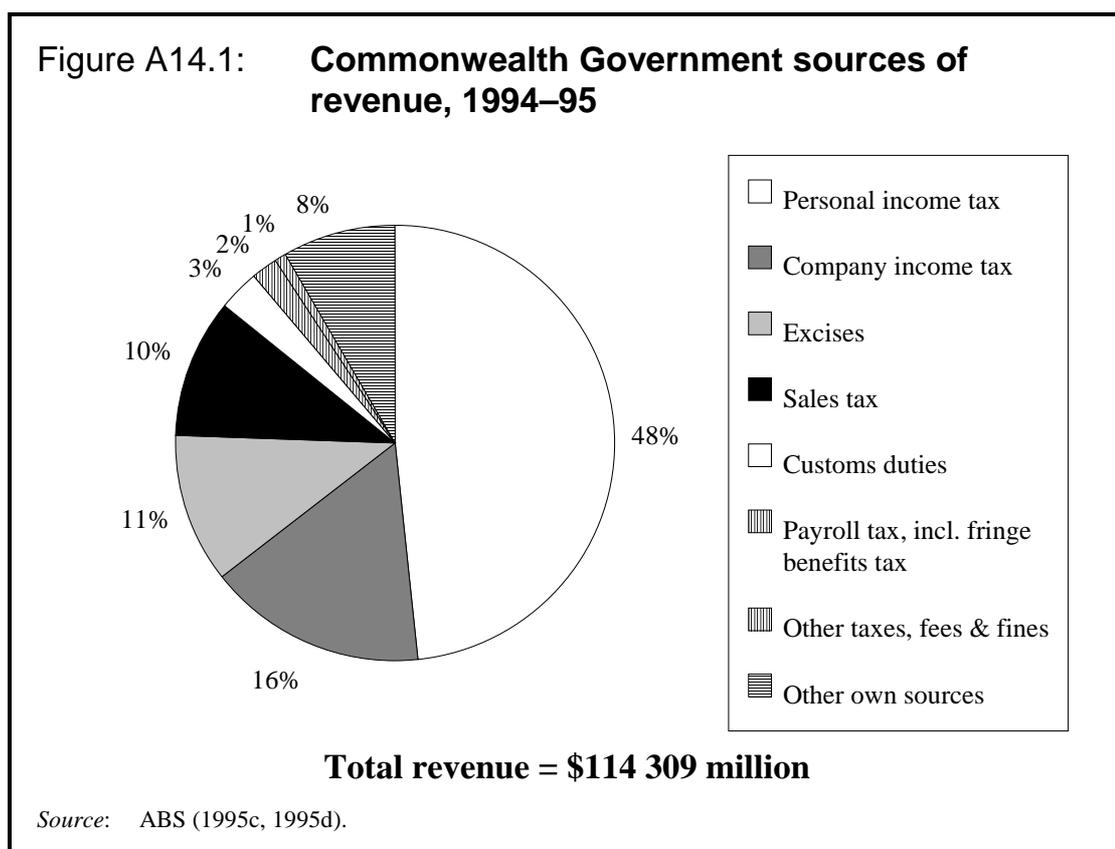
<i>Revenue source</i>	<i>NSW</i>		<i>Vic</i>		<i>Qld</i>		<i>WA</i>	
	<i>\$m</i>	<i>%</i>	<i>\$m</i>	<i>%</i>	<i>\$m</i>	<i>%</i>	<i>\$m</i>	<i>%</i>
Taxes, fees and fines	11 156	44.2	7 942	42.2	4 084	29.2	2 596	32.2
Net operating surplus of GBEs	1 425	5.6	2 563	13.6	1 751	12.5	798	9.9
Interest received	1 029	4.1	208	1.1	1 270	9.1	229	2.8
Other revenue	918	3.6	306	1.6	634	4.5	730	9.1
<b>Total non-grant revenue</b>	<b>14 528</b>	<b>57.5</b>	<b>11 019</b>	<b>58.5</b>	<b>7 739</b>	<b>55.4</b>	<b>4 353</b>	<b>54.1</b>
Grants received								
–for own use	8 399	33.3	5 904	31.4	5 018	35.9	3 005	37.3
–for on-passing	2 318	9.2	1 903	10.1	1 222	8.7	695	8.6
<b>Total grants received</b>	<b>10 717</b>	<b>42.5</b>	<b>7 807</b>	<b>41.5</b>	<b>6 240</b>	<b>44.6</b>	<b>3 700</b>	<b>45.9</b>
<b>Total revenue</b>	<b>25 245</b>	<b>100.0</b>	<b>18 825</b>	<b>100.0</b>	<b>13 979</b>	<b>100.0</b>	<b>8 052</b>	<b>100.0</b>
<i>Revenue source</i>	<i>SA</i>		<i>Tas</i>		<i>ACT</i>		<i>NT</i>	
	<i>\$m</i>	<i>%</i>	<i>\$m</i>	<i>%</i>	<i>\$m</i>	<i>%</i>	<i>\$m</i>	<i>%</i>
Taxes, fees and fines	2 062	31.4	661	27.5	568	46.9	259	16.2
Net operating surplus of GBEs	544	8.3	270	11.3	54	4.5	61	3.8
Interest received	407	6.2	215	9.0	37	3.1	56	3.5
Other revenue	241	3.7	72	3.0	–	–	31	1.9
<b>Total non-grant revenue</b>	<b>3 254</b>	<b>49.5</b>	<b>1 218</b>	<b>50.8</b>	<b>659</b>	<b>54.5</b>	<b>407</b>	<b>25.4</b>
Grants received								
–for own use	2 748	41.2	1 001	41.7	482	39.8	1 121	69.9
–for on-passing	573	8.7	182	7.6	69	5.7	74	4.6
<b>Total grants received</b>	<b>3 321</b>	<b>50.5</b>	<b>1 183</b>	<b>49.3</b>	<b>551</b>	<b>45.5</b>	<b>1 195</b>	<b>74.5</b>
<b>Total revenue</b>	<b>6 575</b>	<b>100.0</b>	<b>2 400</b>	<b>100.0</b>	<b>1 210</b>	<b>100.0</b>	<b>1 603</b>	<b>100.0</b>

a Forward estimates data.

Source: ABS (1995a).

### Commonwealth Government

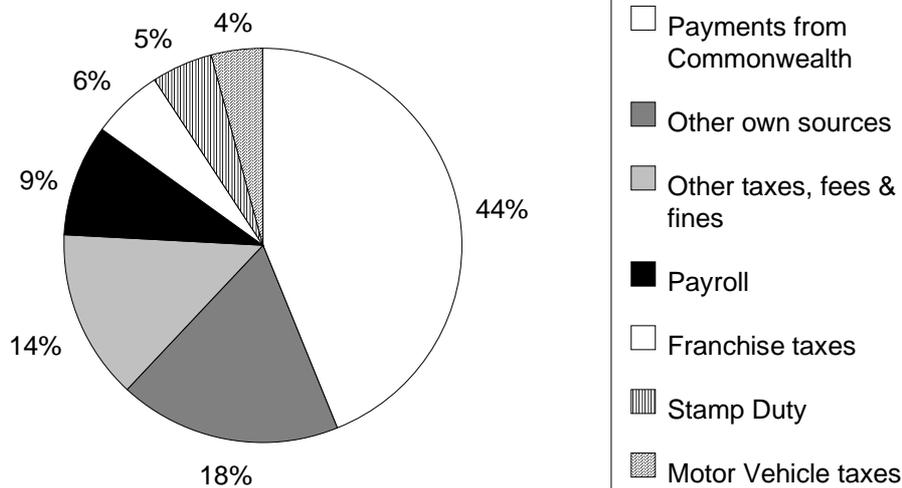
Almost half of the Commonwealth Government's annual revenue in 1994–95 of \$114.3 billion came from personal income tax, with a further 16 per cent from company income tax. Excises and customs duties, which were the dominant revenue source at the time of federation, now constitute only 11 per cent and 3 per cent of revenue, respectively. Commonwealth Government revenue sources for 1994–95 are shown in Figure A14.1.



### State governments

In 1994–95, 44 per cent of State revenue, of \$74.8 billion, was made up of payments from the Commonwealth. A further 14 per cent was sourced from payroll tax and stamp duties, collectively. Other significant sources of State government revenue include: franchise taxes on alcoholic beverages and petroleum products; motor vehicle taxes; mineral royalties; profits from government business enterprises; and gambling revenue. The sources of State government revenue in 1994–95 are shown in Figure A14.2.

Figure A14.2: **State and Territory government sources of revenue, 1994–95**

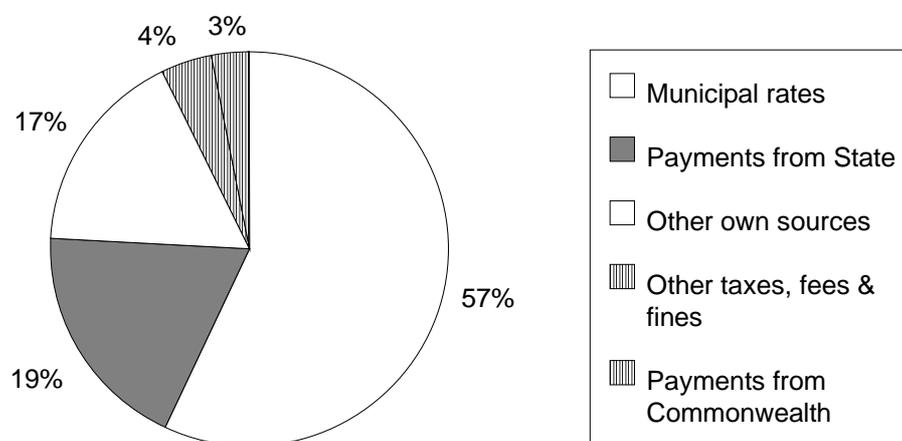


**Total revenue = \$74 830 million**

Source: ABS (1995c, 1995d).

### *Local governments*

Total local government revenue in 1994–95 was around \$8.7 billion, of which some 57 per cent was derived from rates (see Figure A14.3). Other important sources of revenue were: payments from the State governments (19 per cent); other own source revenue, such as profits from trading enterprises (17 per cent); and Commonwealth Government payments (3 per cent).

Figure A14.3: **Local government sources of revenue, 1994–95**

**Total revenue = \$8 660 million**

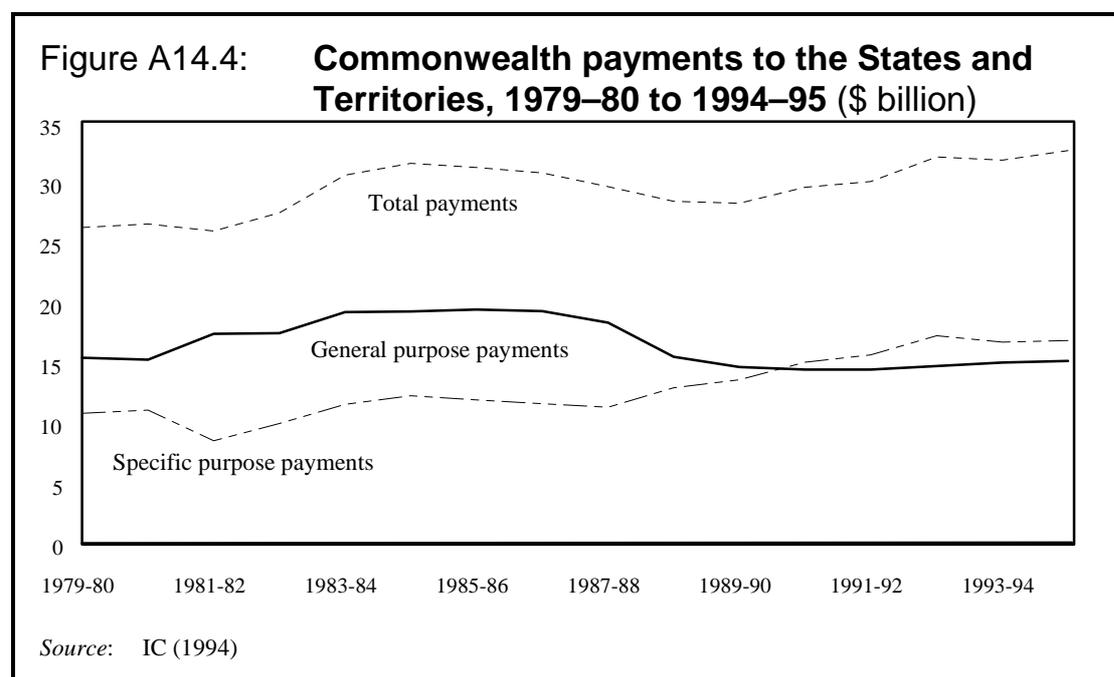
Source: ABS (1995c, 1995d).

The relative importance of different local government revenue sources varies considerably between the States, reflecting the differing roles and responsibilities of councils in different States. For example, operating surpluses of public trading enterprises accounted for nearly 21 per cent of local government revenue in Queensland in 1994–95, while local governments in WA and the NT received no income from trading enterprises (ABS 1995c). This reflects the responsibility of Queensland local governments for the distribution of power and water in their regions — responsibilities undertaken exclusively by State government business enterprises in WA and NT.

The proportion of local government revenue received as grants from other levels of government ranges from just under 19 per cent in Queensland and NSW, to almost 42 per cent in NT. However, NT's characteristics make it exceptional in this regard as the next highest level of grants funding was just under 29 per cent in WA (ABS 1995c).

## Grants provided to the States and Territories

Grants to the States and Territories are provided as either general purpose payments (GPPs) or specific purpose payments (SPPs). There are generally no conditions placed on the States or Territories for receipt of GPPs. SPPs are subject to conditions. In recent years, the relative importance of SPPs has increased (Figure A14.4). The relative share of GPPs to SPPs and the total value of the grants provided to the States and Territories are largely at the discretion of the Commonwealth, with some input provided by the States and Territories through negotiations with the Commonwealth.



## Payroll tax rates and thresholds

Payroll tax is a significant broad-based tax which is under the control of State governments and which has been used as a competitive instrument, as the variations in rates and, in particular, the thresholds between jurisdictions show (see Table A14.2).

Each State offers payroll tax exemptions. In some States — specifically, Queensland, WA and the NT — the exemptions are available only to small business. Deductions for the threshold cut out at \$3.2 million in Queensland, \$2.5 million in WA and \$1.3 million in the NT. In the other States, the

exemptions are made available generally to both large and small business, but only for the initial portion of payroll below the respective thresholds.

**Table A14.2: Payroll tax rates and thresholds, by State and Territory, as at 30 September 1996**

<i>State/Territory</i>	<i>Tax free threshold</i>	<i>Tapers</i>	<i>Rate</i>
	<i>\$'000</i>		<i>per cent</i>
New South Wales	600		6.85
Victoria	515		7
Queensland <sup>a</sup>	750		5
Western Australia	625	(payroll of \$625 000 to \$2.5 million)	3.95
		(payroll of \$2.5 million to \$4.17 million)	3.95 to 4.95
		(payroll of \$4.17 million to \$5.2 million)	4.95 to 6
		(payroll above \$5.2 million)	6
South Australia	456		6
Tasmania	565		7
Australian Capital Territory <sup>b</sup>	650		6.85
Northern Territory	520	(payroll of \$520 000 to \$1.25 million)	5
		(payroll of \$1.25 million to \$10 million)	6
		(payroll above \$10 million)	7

a The tax-free threshold in Queensland will be increased to \$800 000 as of 1 January 1997, at which time, for payrolls exceeding \$800 000, the effective rate of tax will increase progressively up to a flat rate of 5 per cent for payrolls of more than \$3.2 million.

b The tax-free threshold in the ACT will be increased to \$700 000 as of 1 January 1997.

Source: Information supplied to the Commission.

### State governments' fiscal positions

The 'underlying' structural position of a State's budget is a major determinant of its ability to offer industry assistance. A summary of State structural positions, for the period 1993–94 to 1995–96, is provided in Table A14.3 below. Taken together, the State governments have shown a surplus in two of the last three years.

While Queensland and WA were in surplus in each of the years, NSW and SA were in deficit each year. Each of the other States has been in deficit in two of the three years.

**Table A** Error! Reference source not found.4.3: **Fiscal position of State and Territory governments, 1993–94 to 1995–96 (\$ million)**

	1993–94	1994–95 <sup>a</sup>	1995–96 <sup>b</sup>
<b>New South Wales</b>			
Revenue	23 630	24 392	25 245
Outlays	25 476	25 779	27 489
<i>Structural position<sup>c</sup></i>	(379)	(81)	(596)
<b>Victoria</b>			
Revenue	17 710	18 019	18 825
Outlays	17 041	18 030	17 945
<i>Structural position<sup>c</sup></i>	176	499	(56)
<b>Queensland</b>			
Revenue	12 843	13 278	13 979
Outlays	11 098	12 241	14 041
<i>Structural position<sup>c</sup></i>	2 327	1 622	640
<b>Western Australia</b>			
Revenue	7 325	7 552	8 052
Outlays	7 452	7 387	7 350
<i>Structural position<sup>c</sup></i>	167	530	247
<b>South Australia</b>			
Revenue	6 598	6 619	6 575
Outlays	6 588	6 794	6 205
<i>Structural position<sup>c</sup></i>	(102)	(253)	(301)
<b>Tasmania</b>			
Revenue	2 209	2 284	2 400
Outlays	2 320	2 381	2 518
<i>Structural position<sup>c</sup></i>	(187)	34	(8)
<b>Australian Capital Territory</b>			
Revenue	1 178	1 191	1 210
Outlays	1 220	1 278	1 320
<i>Structural position<sup>c</sup></i>	5	(32)	(53)
<b>Northern Territory</b>			
Revenue	1 448	1 512	1 603
Outlays	1 486	1 586	1 632
<i>Structural position<sup>c</sup></i>	(33)	(24)	6
<b>All States and Territories</b>			
Revenue	72 594	74 561	77 689
Outlays	72 335	75 191	78 299
<i>Structural position<sup>c</sup></i>	1 752	2 296	(120)

( ) Brackets indicate deficits.

a Preliminary data.

b Forward estimates data.

c The structural position is not the difference between the revenue and outlays shown above. It is the Statistician's indicator of structural deficit, termed deficit adjusted for net advances, with the sign changed to aid interpretation. It is the cash-based surplus/deficit adjusted for equity sales and debt repayment.

Source: ABS (1995a).

### **A14.3 Broad economic characteristics**

Broad economic characteristics of Australia and the States are given in Table A14.4.

The total population of Australia was nearly 18.2 million in December 1995, while the labour force was around 9.1 million in July 1996. At that time, the Australian unemployment rate was 8 per cent, with a participation rate of 63.4 per cent. Measured at 1989–90 prices, Australia's gross domestic product (GDP) at June 1995 was almost \$416 billion.

NSW is the most populous of the States, with over one third of Australia's population in December 1995. Victoria is the next largest, with almost one quarter of the population, followed by Queensland, at around 18 per cent. WA and SA contain around 10 per cent and 8 per cent of the population, respectively, with Tasmania, the ACT and the NT at around 3 per cent, almost 2 per cent and 1 per cent, respectively.

In terms of labour force and gross State product (GSP), the relativities between the States are similar. However, in July 1996, the shares of Queensland, WA and the ACT of Australia's labour force were slightly higher than their shares of population in December 1995. In addition, the shares of GSP in GDP, in June 1995, of NSW, Victoria, WA, the ACT and the NT were higher than their shares of population in December 1995.

The unemployment rates in NSW, WA, the ACT and the NT were lower than the Australian unemployment rate in July 1996. Also, in July 1996, the participation rates were higher than for the whole of Australia in Victoria, Queensland, WA, the ACT and the NT.

Table A14.4: Selected economic characteristics

	<i>Population<sup>a</sup></i>		<i>GSP<sup>b</sup></i>		<i>Labour force<sup>c</sup></i>		<i>Unemp't rate<sup>c</sup></i>	<i>Particip'n rate<sup>c</sup></i>
	<i>total</i>	<i>share</i>	<i>total</i>	<i>share</i>	<i>total</i>	<i>share</i>		
	<i>000</i>	<i>%</i>	<i>\$m</i>	<i>%</i>	<i>000</i>	<i>%</i>	<i>%</i>	<i>%</i>
New South Wales	6 155	33.9	142 596	34.3	3 024	33.2	7.4	62.6
Victoria	4 522	24.9	109 153	26.2	2 269	24.9	8.2	63.1
Queensland	3 317	18.3	68 200	16.4	1 694	18.6	8.8	64.7
Western Australia	1 747	9.6	45 302	10.9	912	10.0	7.1	66.4
South Australia	1 476	8.1	28 929	7.0	727	8.0	8.8	61.8
Tasmania	473	2.6	8 544	2.1	225	2.5	10.7	61.1
ACT	305	1.7	8 312	2.0	169	1.9	7.9	72.4
Northern Territory	178	1.0	4 676	1.1	91	1.0	6.3	71.6
<b>Australia<sup>d</sup></b>	<b>18 174</b>	<b>100</b>	<b>415 859</b>	<b>100</b>	<b>9 112</b>	<b>100</b>	<b>8.0</b>	<b>63.4</b>

a Population as at December 1995.

b Gross State Product at average 1989–90 prices, as at June 1995.

c As at July 1996.

d Shares may not add to 100 due to rounding.

Source: ABS (PCAusstats, 1996a).

## State industry structure

Table A14.5 gives an indication of the compositional structure of each State's GSP for 1994–95. Collectively, the services sector represents around 75 per cent of each State's GSP.

Each State has a distinct industry structure. For most States, manufacturing is significant. This is particularly so in Victoria and SA, where it accounted for 18 per cent of GSP in 1994–95. In WA and the NT, mining represented the greatest share of GSP in 1994–95 — accounting for 15 per cent and 17 per cent, respectively.

As a result of the ACT's specific role as the site of the Commonwealth Government, government administration and defence accounted for 27 per cent of its GSP in 1994–95. The only other activity accounting for over 10 per cent of the ACT's GSP was property and business services.

NSW, Queensland and Tasmania all have industry structures fairly similar to that of Australia as a whole. However, manufacturing was less significant in Queensland than in the other two States in 1994–95 (12 per cent compared with 15 per cent), while mining was more significant (5 per cent compared with

2 per cent). The agricultural sector was most significant in Queensland, WA and Tasmania, at 5, 5 and 6 per cent, respectively.

**Table A14.5: Industry contribution to Gross State Product at factor cost, 1994–95<sup>a</sup> (per cent)**

<i>Industry</i>	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>ACT</i>	<i>NT</i>	<i>Aust</i>
Agriculture, forestry and fishing	2	3	5	5	4	6	–	4	3
Mining	2	3	5	15	2	2	–	17	4
Manufacturing	15	18	12	10	18	15	3	5	15
Electricity, gas and water	3	4	3	3	3	6	2	2	3
Construction	7	6	8	8	6	7	7	9	7
Wholesale trade	6	6	6	6	5	5	2	4	6
Retail trade	8	7	9	8	9	10	7	9	8
Accommodation, cafes and restaurants	2	2	3	2	2	3	2	3	2
Transport and storage	6	5	7	5	6	5	3	6	6
Communication	3	3	3	3	3	2	3	3	3
Finance and insurance	5	4	3	2	4	2	3	2	4
Property and business services	10	9	7	8	8	5	11	6	9
Government admin. and defence	3	3	4	3	3	5	27	7	4
Education	5	5	5	4	5	5	6	5	5
Health and community services	6	7	6	6	8	7	5	6	6
Culture and recreational services	2	2	1	1	2	2	3	3	2
Personal and other services	2	2	2	2	3	2	3	2	2
Ownership of dwellings	11	9	9	7	9	10	9	5	10
General government	2	2	2	2	2	3	6	2	2
Totals	100	100	100	100	100	100	100	100	100

a Shares may not add to 100 due to rounding.

Source: ABS (1996b)

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## **APPENDIX 15: INQUIRY PROCESS**

### **A15.1 Inquiry processes**

To gather information to assist in its investigations, the Commission visited all States and Territories in Australia to talk to State and local governments, industry organisations, and others with an interest in the inquiry. A list of the people and organisations visited is presented in Section A15.3. An initial round of public hearings was held in each capital city in February and March 1996 and some 60 submissions were received. A draft report was released in July, and hearings to allow comment on the draft report were held in August and September. A further 26 submissions were received following the draft report. A list of submissions is presented in Section A15.2.

The Commission conducted a survey of local governments in order to gather information on their involvement in providing assistance to industry within their jurisdictions. The assistance of the State and Territory local government associations in conducting this survey was much appreciated. The results of the survey are included in Appendix 3.

Information on the views of industry about State, Territory and local government assistance was sought also by way of a qualitative survey conducted through the Australian Chamber of Manufactures (ACM). The Commission thanks ACM for its assistance in this regard. The results of this survey are presented in Appendix 8.

Because of concern about the manner in which proposals for assistance are being evaluated by governments, and the general lack of transparency, the Commission arranged an external study of the strengths and weaknesses of the analyses typically undertaken. A summary of this report is attached as Appendix 9. A full copy of the consultant's report is available on request.

### **A15.2 Inquiry Participants**

Organisations and individuals who made submissions to the inquiry are listed below. Participants marked \* appeared at public hearings. Participants marked \*\* made no written submissions but appeared at the hearings. The remainder made written submissions only.

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<i>Organisation or Individual's Name</i>	<i>Submission Nos</i>
ACT Government	58, 61, 86
American Express International	77
Anglin, Ms Tirzah	1
Australian and New Zealand Association of Business Incubators	70
Australian Chamber of Commerce and Industry	52
Australian Chamber of Manufactures *	21
Australian Conservation Foundation *	28, 68
Brisbane City Council *	42
Cabonne Council	38
Caloundra City Council *	3
Central Midlands Business Enterprise Centre *	20
Chamber of Commerce and Industry of Western Australia	55
City of Bunbury	10
City of Greater Geelong *	16
Clarence City Council **	
Council of the City of Wagga Wagga *	44
Department of Commerce and Trade (WA) *	23, 62
Department of Housing and Regional Development (Commonwealth)	24
Department of Premier and Cabinet - Tasmania	63
Department of Resources Development (WA)	51
Development Albury-Wodonga 2000	22
Gippsland Development Ltd	66
Glenorchy City Council *	45
Gosford City Council and Central Coast Regional Development Corporation	15, 54

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Government of New Zealand	76
Greater Green Triangle Region Association Inc.	79
Griffith City Council	5
Heritage Country Development Agency	65
International Business Planning	17
Local Government Association of Queensland Inc. *	48, 50
McAuley, John P *	12, 39, 47, 64
MFP Australia Local Focus Group *	27
Mohun Sinha, Mr Anand *	31
Mid-Murray Regional Development Board	73
Mines and Energy South Australia	9
Murray Regional Development Board	8
Narrandera Shire Council	6
New South Wales Government	56
Northern Territory Government *	30, 78
Office of the Supervising Scientist	2
Outback Regional Development Organisation Inc.	83
Outlook Management	49
Public Sector Unions *	41, 67
Queensland Chamber of Commerce and Industry *	37
Redland Community Economic Development Board and Redland Shire Council *	13, 59, 81
Schroder, Professor W	14
Shire of Gnowangerup	7
Shire of Yarra Ranges *	26, 43
Small Business Development Corporation - Western Australia	29

South Australian Government	75
South Australian Regional Development Association Inc.	57
South Metro Development	71
South West Groups *	11
Tasmanian Chamber of Commerce and Industry Ltd	46
Tasmanian Government	87
Terraderm	4
The Association of Professional Engineers Scientists and Managers, Australia	32
The Welshpool Business Enterprise Centre Incorporated	35
Thomson, Kelvin MP	69
Tourism Council of Australia	72
Tropical Economic Taskforce Incorporated	82
Tweed Shire Council *	53
University of South Australia **	
Victoria's Golden Regional Development Organisation Inc.	80
WA Farmers Federation (Inc.)	19
West Australian Regional Manufacturers (Inc.)	18
Western Australian Tourism Council	74
Western Australian Treasury	33, 60
Western Melbourne Regional Economic Development Organisation Ltd	85
Woodleigh Nominees Pty Ltd *	34
Wyndham City Council *	40
Wyong Shire Council	25
Yorke Regional Development Board	84
Young Region Development Corporation *	36

**A15.3 Informal discussions/list of visits undertaken**

The following organisations, companies and individuals were visited:

**New South Wales**

BHP

Cabinet Office

Cowra Shire Council

Department of Business and Regional Development

Development Albury Wodonga 2000

Illawarra Regional Economic Development Organisation

Local Government and Shires Association of New South Wales

NSW Farmers' Association

The Council of the City of Wagga Wagga

Young Regional Development Corporation

**Victoria**

Australian Chamber of Manufactures

Municipal Association of Victoria

Victorian Auditor-General's Office

**Queensland**

Department of Transport

Department of Treasury

Department of the Premier

Office of Economic Development, City of Brisbane Ltd

Queensland Audit Office

Queensland Cabinet Office

Queensland Chamber of Commerce and Industry

Queensland Events Corporation

Queensland Government

Queensland Local Government Association

### **Western Australia**

BSD Consultants and Business Horizons

Chamber of Commerce and Industry

Department of Commerce and Trade

Department of Local Government

Department of Resources Development

Department of Treasury

Municipal Association

Office of the Auditor-General

Premier's Department

Tourism Commission

### **South Australia**

Cabinet Office

Department of Premier and Cabinet

Department of Treasury and Finance

MFP Australia Local Government Focus Group

South Australian Centre for Economic Studies

South Australian Employers' Chamber of Commerce and Industry Inc

South Australian Economic Development Council

South Australian Local Government Association

### **Tasmania**

Chamber of Commerce and Industry

Department of Premier and Cabinet

Department of Primary Industries and Fisheries

Department of Tourism, Sport and Recreation

Department of Treasury

Local Government Association of Tasmania

Tasmania Development and Resources

### **Australian Capital Territory**

ACT Government

American Express International Inc.

AusIndustry

Australian Chamber of Commerce and Industry

Bureau of Industry Economics

Commonwealth Grants Commission

Department of Administrative Services

Department of Housing and Regional Development

Department of Industry, Science and Transport

Department of Transport and Regional Development (workshop on regional organisations)

Schaub, Dr. Alexander. Director-General, Directorate-General IV – Competition, European Commission

### **Northern Territory**

Darwin City Council

Department of Asian Relations, Trade and Industry

Northern Territory Local Government Association

Palmerston Municipal Council

Trade Development Zone Authority

## **New Zealand**

Department of Internal Affairs

Department of Treasury

## **Washington DC**

Commerce Department

Corporation for Enterprise Development

Council for Urban Economic Development

Economic Development Administration

Economics Department, Purdue University

Department of Labour

Housing and Urban Development

National Academy of Public Administration

National Association of State Governors

North East Mid West Institute

Urban Institute

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