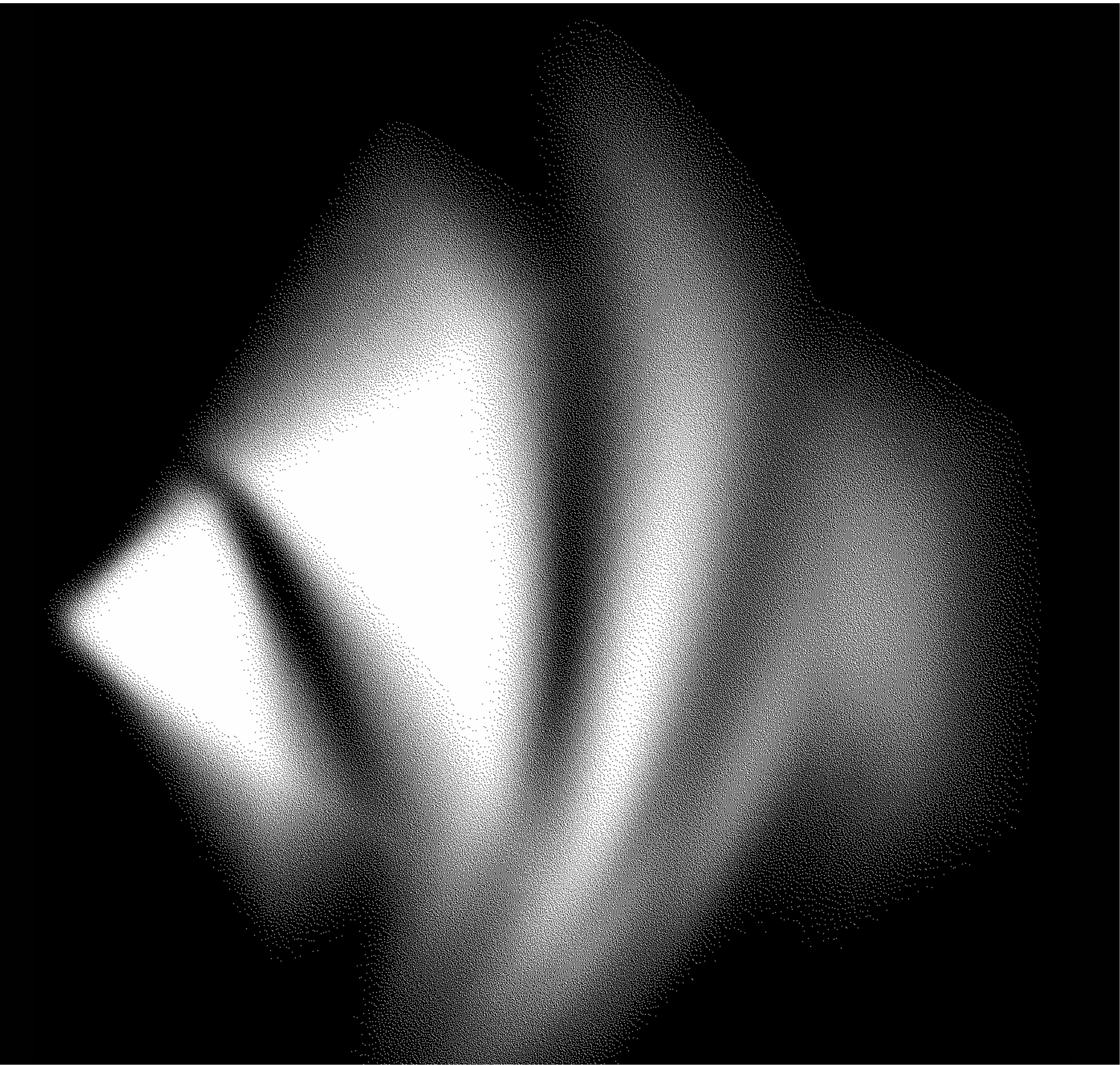
Australian Government
Productivity Commission

Trade & Assistance Review 2003-04

Productivity Commission
Annual Report Series



ISBN 1 74037 166 6

This publication is available in hard copy or PDF format from the Productivity Commission website at www.pc.gov.au. If you require part or all of this publication in a different format, please contact Media and Publications (see below).

Publications Inquiries:

Media and Publications
Productivity Commission
Locked Bag 2 Collins Street East
Melbourne VIC 8003

Tel: (03) 9653 2244
Fax: (03) 9653 2303
Email: maps@pc.gov.au

General Inquiries:

Tel: (03) 9653 2100 or (02) 6240 3200

An appropriate citation for this paper is:

Productivity Commission 2004, *Trade & Assistance Review 2003-04*, Annual Report Series 2003-04, Productivity Commission, Canberra, December.

<u>The Productivity Commission</u>

The Productivity Commission, an independent agency, is the Australian Government's principal review and advisory body on microeconomic policy and regulation. It conducts public inquiries and research into a broad range of economic and social issues affecting the welfare of Australians.

The Commission's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

Information on the Productivity Commission, its publications and its current work program can be found on the World Wide Web at www.pc.gov.au or by contacting Media and Publications on (03) 9653 2244.

Foreword

The Productivity Commission is required to report annually on industry assistance and its effects on the economy. This review contains the Commission's latest quantitative estimates of Australian Government assistance to industry. It also discusses recent developments in assistance in a range of sectors of the economy over the past year, and some recent international policy developments affecting Australia's trade.

Trade & Assistance Review 2003-04 forms part of the Commission's annual report series. Its companion volumes are the Commission's *Annual Report 2003-04*, and *Regulation and its Review 2003-04*.

Gary Banks
Chairman

December 2004

Contents

Abbreviations

AAA	Agriculture — Advancing Australia
ABARE	Australian Bureau of Agricultural and Resource Economics
ABS	Australian Bureau of Statistics
ACIS	Automotive Competitiveness and Investment Scheme
ACS	Australian Customs Service
ACT	Australian Capital Territory
AFFC	Australian Film Finance Corporation
AFTA	ASEAN Free Trade Area
AGO	Australian Greenhouse Office
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
ATO	Australian Taxation Office
ATC	Australian Tourist Commission
AUSFTA	Australia-United States Free Trade Agreement
BAA	Backing Australia's Ability
COMET	Commercialising Emerging Technologies
CER	Closer Economic Relations (Trade Agreement between Australia and New Zealand)
CRC	cooperative research centre
CSIRO	Commonwealth Scientific and Industrial Research Organisation
CTC	change of tariff classification
DAFF	Department of Agriculture, Fisheries and Forestry
DFA	direct financial assistance
DFAT	Department of Foreign Affairs and Trade
DITR	Department of Industry, Tourism and Resources
DRP	Drought Review Panel
DSAP	Dairy Structural Adjustment Program

EC	exceptional circumstances
ECRP	Exceptional Circumstances Relief Payment
EFIC	Export Finance and Insurance Corporation
EFTA	European Free Trade Agreement
EMDG	Export Market Development Grants
ERA	effective rate of assistance
EU	European Union
FI	funding to institutions
FMD	Farm Management Deposit scheme
FTA	free trade agreement
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GST	goods and services tax
GVA	gross value added
IC	Industry Commission
ICT	information and communication technology
IT	information technology
MERCOSUR	Acuerdo Commercial–Mercado Común del Sur (Southern Common Market Agreement)
MFN	most favoured nation
MPF	major project facilitation
MRA	mutual recognition agreement
MVP	motor vehicles & parts
NAFTA	North America Free Trade Agreement
NSE	net subsidy equivalent
NSW	New South Wales
NZ	New Zealand
OECD	Organisation for Economic Co-operation and Development
PANEURO	Pan-European
PATCRA	Papua New Guinea–Australia Trade and Commercial Relations Agreement

PBS	Pharmaceuticals Benefits Scheme
PC	Productivity Commission
PECC	Pacific Economic Cooperation Council
PIIP	Pharmaceutical Industry Investment Program
PMV	passenger motor vehicles
PRRT	petroleum resource rent tax
PTA	preferential trading agreement
R&D	research and development
RoO	rules of origin
SAFTA	Singapore–Australia Free Trade Agreement
SIIP	Strategic Investment Incentive Program
SIP	Strategic Investment Program (TCF)
SIRP	Sugar Industry Reform Program
SPARTECA	South Pacific Regional Trade and Economic Cooperation Agreement
SPS	sanitary and phytosanitary
TAFTA	Thailand–Australia Free Trade Agreement
TCF	textiles, clothing & footwear
TE	tax expenditures
TFES	Tasmanian Freight Equalisation Scheme
TRADEX	Trade and Export Concession Scheme
TRIPS	Trade Related Aspects of Intellectual Property Rights
TRQ	tariff rate quotas
TTMRA	Trans-Tasman Mutual Recognition Agreement
UK	United Kingdom
USA	United States of America
WCO	World Customs Organization
WET	wine equalisation tax
WTO	World Trade Organization

Key points

- While assistance to industry has fallen greatly in recent decades, assistance provided by the Australian Government remains significant — estimated to be equivalent to over $11 billion in gross terms in 2003-04.
  - Some types of assistance, such as R&D funding, may deliver net community benefits; others may entail net costs to the community.
- Tariffs provided the equivalent of an estimated $7.5 billion of assistance on outputs.
  - Virtually all of this was directed to industries in the manufacturing sector.
  - The resulting higher prices of manufactured inputs meant that net tariff assistance to other sectors (agriculture, mining and services) was negative.
- Budgetary assistance totalled an estimated $4.3 billion in 2003-04.
  - $2.3 billion was provided in outlays — the main components were funding for CSIRO (18%) and Austrade's export promotion and grants (13%).
  - The Automotive Competitiveness and Investment Scheme was the most significant tax concession, accounting for more than one-quarter of the $2 billion of such assistance provided.
- The manufacturing sector is the major beneficiary of Australian Government assistance, receiving the equivalent of an estimated $6 billion in net tariff and budgetary assistance in 2003-04.
  - Textiles, clothing and footwear and the automotive industries remain the most highly assisted manufacturing industry groupings, although the Government has announced continuing transition programs designed to move both sectors to lower levels of assistance.
- Measured assistance to most agricultural activities remains low.
  - An exception is the dairy industry, notwithstanding a decrease in assistance since its deregulation in 2000. Additional assistance has also been announced recently for the sugar industry.
  - Although not included in the Commission's estimates, significant drought relief has also been provided to farmers and rural communities in recent years.
- The services sector received around an estimated $800 million in Australian Government budgetary assistance in 2003-04. However, tariffs on manufactured inputs increased service industries' costs by an estimated $2.8 billion that year.
- There has been mixed progress on international trade liberalisation recently.
  - There has been renewed progress in multilateral trade negotiations, breaking a deadlock which arose during WTO talks in Mexico last year.
  - There has been an increase in preferential trade arrangements (PTAs) — Australia itself has recently concluded PTAs with Singapore, Thailand and the United States, with more in prospect.
  - PTAs incorporate 'rules of origin' which, depending on their detailed design, can limit the potential benefits from liberalisation and impose costs.

1 Introduction

The *Productivity Commission Act 1998* defines government assistance to industry as:

> … 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.

Assistance thus takes many forms. It extends beyond direct government subsidies targeted to particular firms or particular industries, and includes tariffs, quotas, anti-dumping duties and regulatory restrictions on imported goods and services, as well as tax concessions and subsidies for domestic producers. Assistance also arises from the provision of underpriced services by government agencies and from government procurement policies.

Although assistance generally benefits the firms or industries that receive it, it can come at a cost to other sectors of the economy. For example, direct business subsidies increase returns to recipient firms and industries, but to fund subsidies governments must increase taxes and charges, cut back on other spending, or borrow additional funds. Similarly, while tariffs provide some price relief to domestic producers, they result in higher input costs for some local businesses and higher prices for consumers, who then have less money to spend on other goods and services.

In some cases, particular types of industry assistance — most notably R&D funding — can deliver net community benefits. Similarly, some policies that have industry assistance effects may be justified on other grounds, such as the achievement of cultural, environmental or equity objectives.

However, in view of the many costs that industry assistance can entail, government measures that provide assistance need to be monitored and regularly reviewed. One of the Productivity Commission's functions is to review industry assistance arrangements. It also has a more general statutory obligation to report annually on assistance and its effects on the economy.

This year's *Trade & Assistance Review* contains the Commission's latest estimates of Australian Government assistance to industry (chapter 2). It also reports on selected developments in industry assistance (chapter 3).

These estimates and related information help to reveal who gains and who loses from industry assistance. They also provide a broad indication of the resource allocation effects of assistance policies, and can highlight the costs of industry support.

However, care is required in interpreting the estimates. Among other things, they cover only those government measures which selectively benefit particular firms, industries or activities, and which can be quantified given practical constraints in measurement and data availability. And while industry assistance is discriminatory and can distort resource allocation within the economy, assessing whether the benefits of any particular industry assistance program exceeds its costs involves case-by-case consideration — a task beyond the scope of the *Trade & Assistance Review*.

This year's *Review,* as well as reporting on industry assistance, covers selected developments in international trade policy over the last year (chapter 4). It documents progress in the current round of World Trade Organisation (WTO) negotiations and Australia's involvement in preferential trading arrangements (PTAs). It also discusses some findings of recent Commission research in relation to PTAs.

2 Assistance estimates

In this chapter, the Commission reports data and estimates covering:

- Australian Government budgetary assistance applying to all sectors;
- tariff assistance, which assists mainly the manufacturing sector;
- agricultural regulatory and pricing assistance;
- anti-dumping measures; and
- ‘combined’ assistance for all sectors, and effective rates of combined assistance for the manufacturing, primary production and mining sectors.

The estimates reported in the chapter are mainly for 2003-04. Detailed estimates and projections of budgetary assistance, for the years 2001-02 to 2004-05, are provided in Appendix A; and a time series of ‘combined’ assistance, and of effective rates of combined assistance, for the years 1997-98 and 2000-01 to 2003-04, is provided in Appendix B. Revisions to source data have been incorporated in the estimates for previous years.

The Commission’s estimates do not aim to capture all Australian Government support for industry (box 2.1); nor, apart from some minor agricultural assistance, do they include State government assistance. The Australian Government budgetary estimates also contain some measures that are counted in the tariff assistance estimates (although the Commission adjusts for possible double-counting when calculating ‘combined’ assistance). More generally, care is needed when drawing inferences from the estimates — in particular, if attempting to assess the relative importance of assistance to the services sector with assistance to the three merchandise sectors.

The estimates of government assistance to industry in *Trade & Assistance Review* are intended principally to aid transparency and to facilitate analysis. They do not of themselves indicate the policy merits, or the precise resource allocation effects, of different government assistance measures. Further guidance on the estimates is provided throughout this chapter and in *Methodological Annex A* to the 2001-02 *Review* (PC 2003c).

Box 2.1 **Coverage of the Commission's estimates**

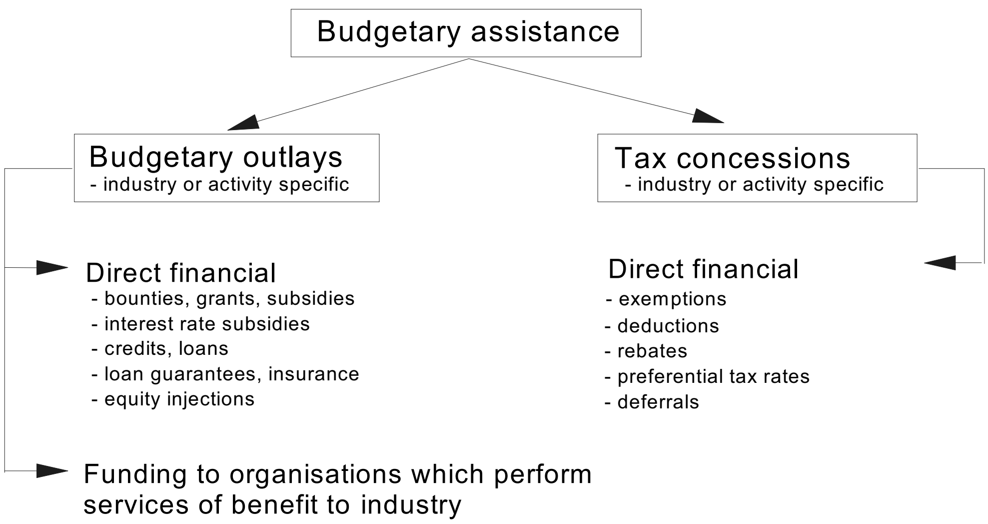
The Commission's assistance estimates cover only those measures which *selectively* benefit particular firms, industries or activities, and which can be quantified given practical constraints in measurement and data availability. Exclusions from the estimates include:

- for agricultural industries, certain drought relief and any assistance effects that may be associated with quarantine restrictions, the pricing of water resources or the impact of measures to address land degradation resulting from farming practices;
- government programs affecting a range of service industries, mainly relating to the provision of health and welfare, where funding predominantly benefits consumers and individual citizens;
- capital depreciation subsidies and the impact of tariffs on capital items;
- the effects of government purchasing preferences; for example, as they affect the manufacturing sector and IT industries; and
- Australian Government budgetary outlays on defence, health, education, sport, the arts and the labour market.

2.1 Australian Government budgetary assistance

Budgetary assistance comprises a range of outlays and tax concessions (figure 2.1). Recipients include individual firms, including those undertaking or utilising particular activities such as R&D, as well as particular industries or sectors.

Figure 2.1 **Forms of budgetary assistance**



As well as reporting budgetary assistance in aggregate and by form, the *Review* also reports on:

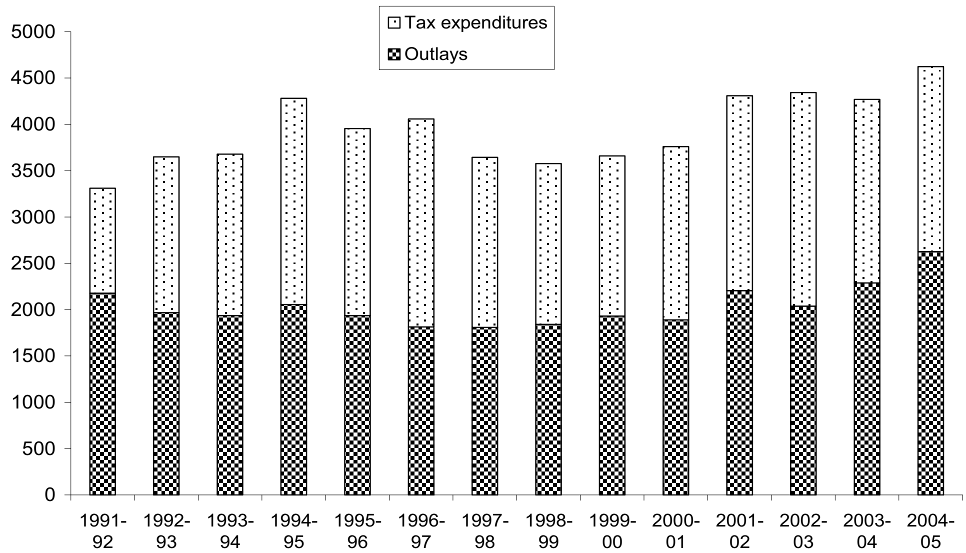
- the activities — R&D, export, industry-specific support etc — to which Australian Government budgetary assistance is directed; and
- the incidence of assistance across different sectors and industry groupings.

The assistance estimates in this section and in appendix A are derived primarily from the Australian Government Budget Papers and Treasury's Tax Expenditure Statement. This year, the Commission has provided data on budgetary assistance up to 2004-05. The outlay figures up to 2003-04 are estimates, and those for 2004-05 are projections (based on Treasury forecasts). The tax concession figures up to 2002-03 are estimates, while those for 2003-04 and 2004-05 are projections. The estimates incorporate revisions to outlays and tax concessions for previous years. The Commission's approach to measuring budgetary assistance is explained in more detail in *Methodological Annex A* to the 2001-02 *Review*.

Aggregate estimates

The Commission's estimates and projections of (nominal) budgetary assistance and its main components for the period 1991-92 to 2004-05 are shown in figure 2.2. Budgetary assistance is estimated to have totalled around $4.3 billion in 2003-04, similar to its 2002-03 level, and is projected to increase to around $4.6 billion in 2004-05 reflecting a projected increase in budgetary outlay assistance.

Figure 2.2 **Australian Government budgetary assistance to industry, 1991-92 to 2004-05** ($ million)

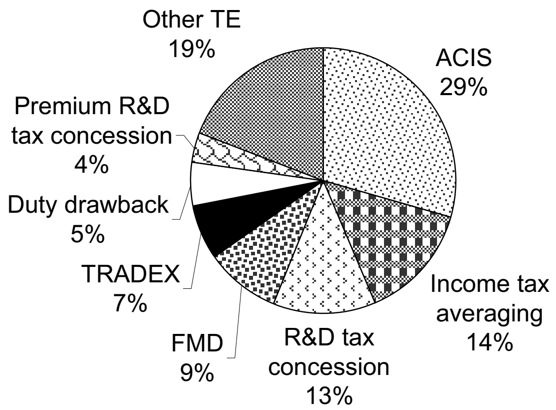


Data sources: Australian Government Budget Papers; Treasury (2004); Commission estimates.

Main assistance programs

Tax concessions in 2003-04 totalled an estimated $2 billion. The main tax concessions are the Automotive Competitiveness Investment Scheme (ACIS), the income tax averaging provisions for primary producers and the R&D tax concession (figure 2.3).

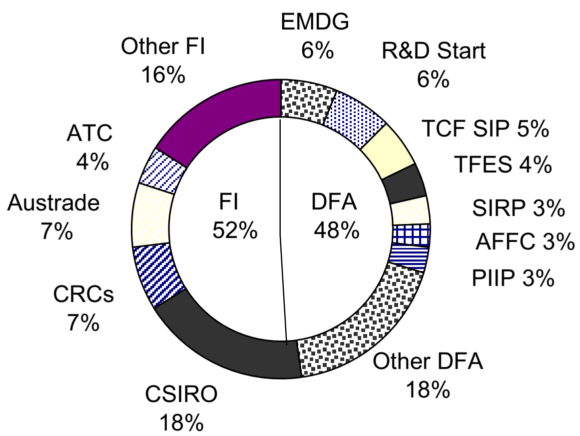
Figure 2.3 **Major Australian Government tax concessions, 2003-04**



Source: Commission estimates.

Budgetary outlays in 2003-04 totalled an estimated $2.3 billion. Around half of these outlays are provided as direct financial assistance (DFA), with the other half comprising the funding of institutions (FI) such as the Australian Tourist Commission (ATC) and CSIRO. As shown in figure 2.4, important outlays include Austrade's programs, including the Export Market Development Grants (EMDG) scheme, and funding for research institutions.

Figure 2.4 **Major Australian Government budgetary outlays, 2003-04**



Source: Commission estimates.

Activities targeted

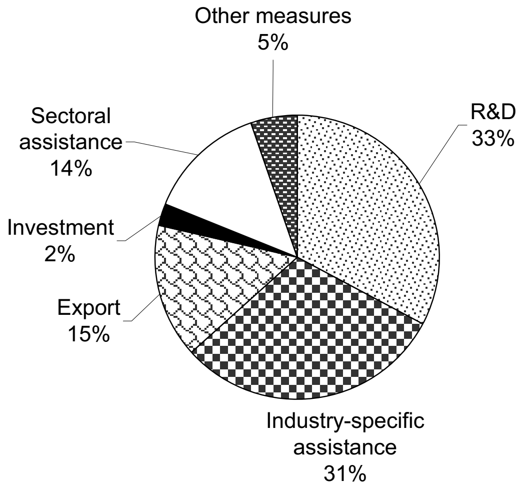
Budgetary assistance is often designed to encourage particular activities undertaken by firms across various industries and/or sectors. To provide an indication of the distribution of assistance among activities, the Commission classifies Australian Government budgetary assistance into R&D, export, investment and sectoral assistance, as well as industry-specific assistance and 'other' (figure 2.5).

Caution is required in interpreting these estimates because particular programs may be designed to encourage more than one type of activity. In such cases, the Commission has allocated the program's total funding to the activity deemed to be the main target of the assistance. A further qualification is that the extent to which an activity that appears to be targeted by a program actually benefits from the assistance is not always clear. This results from a lack of information on the operation of certain schemes and their economic effects.

As shown in figure 2.5, the largest shares of budgetary assistance are provided for R&D and industry-specific assistance.

The share of assistance classed as directly targeting investment declined in 2003-04 to 2 per cent, from 7 per cent in the previous year. This mainly reflects the cessation of assistance provided under the development allowance.

Figure 2.5 **Australian Government budgetary assistance by activity[a], 2003-04**



a The assistance categories include general as well as specific schemes targeting an activity within an industry. For example, the *export assistance* category includes broad-based export measures (such as the Export Market Development Grants scheme) as well as industry-specific measures (such as funding for the Australian Tourist Commission) which also facilitate exports. The *sectoral assistance* category covers programs specifically benefiting producers in a sector or facilitating adjustment. The other general assistance category covers measures (such as the regional assistance program) not already included in the above categories.

Source: Commission estimates.

Sectoral and industry distribution

The Commission estimates the incidence of budgetary assistance by the benefiting industry. It reports the incidence using a four sector classification of the Australian economy and a multiple 'industry grouping' classification.

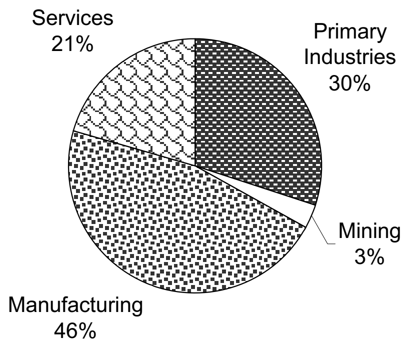
The methodology for allocating budgetary assistance among the sectors and industry groupings is discussed in *Methodological Annexes* to the 1999-2000 and 2001-02 *Reviews* (PC 2000c, 2002c). While the Commission has used detailed information to make these allocations, the need for judgment means that there remains some scope for imprecision.

Although the reporting of budgetary assistance by broad sectors and industries facilitates comparisons, the sectors and industry groupings are not equivalent in size and there can be significant variations in assistance between firms within a sector or industry grouping. Indeed, many firms do not make any use of government programs. For example, a study by Commission staff (Revesz and Lattimore 2001) found that the use of R&D and certain export programs between 1994 and 1998 ranged from 2 to 23 per cent of firms in the targeted activities. Thus, care is needed in drawing inferences from the data.

Australian Government budgetary assistance varies markedly between sectors, with the largest proportion directed to the manufacturing sector (figure 2.6).

Table 2.1 details the incidence of budgetary assistance by the Commission's 'industry grouping' classification. *Motor vehicles & parts* receives by far the most budgetary assistance — both in absolute terms and relative to its gross value added — because of the value of tariff concessions provided under the ACIS.

Figure 2.6 **Australian Government budgetary assistance by sector, 2003-04**



Source: Commission estimates.

Table 2.1 **Budgetary assistance by industry grouping, 2003-04** ($ million)

Industry grouping	*Budgetary outlays*	*Tax concessions*	*Total assistance*
Primary production	**644.7**	**514.8**	**1159.5**
Dairy cattle farming	35.3	30.0	65.3
Grain, sheep and beef cattle farming	198.9	316.7	515.7
Horticulture and fruit growing	67.8	74.7	142.6
Other crop growing	105.9	25.9	131.8
Other livestock farming	10.4	17.5	27.9
Fisheries	60.2	31.5	91.7
Forestry and logging	48.4	3.8	52.2
Other[a] and unallocated primary production[b]	117.7	14.7	132.4
Mining	**89.1**	**28.2**	**117.3**
Manufacturing	**779.3**	**1001.6**	**1781.0**
Food, beverages & tobacco	85.7	17.7	103.3
Textiles, clothing, footwear & leather	137.3	67.5	204.8
Wood & paper products	27.3	4.2	31.4
Printing, publishing & media	16.5	1.4	18.0
Petroleum, coal, chemical & associated products	133.7	13.4	147.2
Non-metallic mineral products	1.0	4.6	5.6
Metal product manufacturing	149.1	17.5	166.7
Motor vehicles & parts	3.1	674.0	677.1
Other transport equipment	19.9	45.6	65.5
Other machinery & equipment	69.0	29.5	98.6
Other manufacturing	97.4	20.4	117.8
Unallocated manufacturing[b]	39.2	105.9	145.2
Services	**514.2**	**278.9**	**793.1**
Electricity, gas & water supply	21.5	18.1	39.6
Construction	17.8	7.7	25.5
Wholesale trade	15.0	30.0	45.0
Retail trade	25.6	8.3	33.9
Accommodation, cafes & restaurants	38.2	8.2	46.3
Transport & storage	46.2	28.0	74.2
Communication services	93.9	5.5	99.4
Finance & insurance	4.8	72.0	76.8
Property & business services	72.8	43.8	116.6
Government administration & defence	0.0	1.9	2.0
Education	9.5	0.8	10.3
Health & community services	43.3	2.4	45.7
Cultural & recreational services	105.1	50.7	155.8
Personal & other services	0.9	1.4	2.4
Unallocated services[b]	19.6	0.0	19.6
Unallocated other[bc]	**259.9**	**158.0**	**417.9**
TOTAL[d]	**2287.2**	**1980.6**	**4267.8**

a Other primary production includes *services to agriculture* (including *hunting & trapping)* and *poultry farming*. **b** Unallocated includes general programs where details of claimants and/or beneficiaries are unknown. **c** Austrade export promotion expenditure, which was previously allocated, is now included in the *unallocated other* category. **d** Totals may not add due to rounding. *Source:* Commission estimates.

2.2 Tariff assistance

Tariffs have direct effects on the returns received by Australian producers. Tariffs on imported goods increase the price at which those goods can be sold on the Australian market, and thus allow scope for domestic producers of similar products to increase their prices. On the other hand, tariffs also increase the price of goods that are used as inputs and thus penalise local industries. This 'penalty' is reduced if tariff concessions are available to Australian producers. These effects are captured in the Commission's estimates of tariff assistance. The methodology underlying the estimates is set out in *Methodological Annex A* to the 2001-02 *Review*.

The Commission estimates that the gross dollar value of tariff assistance on outputs was around $7.5 billion in 2003-04. This compares to a (revised) estimate of around $7 billion in 2002-03. The increase reflects increases in industry output and prices over the period; the underlying tariff rates have remained unchanged.

Most tariff assistance is directed towards industries in the manufacturing sector (column 1, table 2.2). Indeed, the sector derives around three-quarters of its total measured assistance from this source.

Mining and primary production industries receive little tariff assistance on outputs, and tariffs cannot be levied on services. On the other hand, because of their cost-raising effects on the industries' inputs, tariffs impose net penalties on all industries in these sectors, other than horticulture and fruit growing (columns 2 & 3, table 2.2).

Following recent government decisions, tariffs for *motor vehicles & parts* (MVP) and *textiles, clothing & footwear* (TCF), which have been frozen since 2000, are scheduled to decline in 2005 and then again in 2010.[1] Other industries to be affected by these phasing arrangements are the *petroleum, coal & chemical products*, *fabricated metal products* and *other machinery & equipment* industries.

Other tariffs are likely to remain at their current rates of 5 per cent or less for the foreseeable future, although Australia is a signatory to the Bogor Declaration (APEC 1994) that commits industrialised countries in the Asia Pacific Economic Cooperation grouping (including Australia) to achieving 'free and open trade and investment' by no later than 2010.

[1] Automotive tariffs, currently at 15 per cent, are scheduled to decline to 10 per cent in January 2005. They are to remain at this level until January 2010 when they will be reduced to 5 per cent and remain at that level until (at least) 2015. TCF tariffs, currently at 25 per cent, 15 per cent or 10 per cent (apart from those already at rates of 5 per cent or less), are scheduled to decline to 17.5 per cent, 10 per cent and 7.5 per cent, respectively, in January 2005. In January 2010, the 10 per cent and 7.5 per cent TCF tariffs will be reduced to 5 per cent, while the 17.5 per cent TCF tariffs will be reduced to 10 per cent. These tariffs will be further reduced to 5 per cent in 2015.

Table 2.2 **Tariff assistance by industry grouping,[a] 2003-04** ($ million)

Industry grouping	*Output assistance*	*Input assistance*	*Net tariff assistance*
Primary production	**44.7**	**-94.9**	**-50.3**
Dairy cattle farming	0.0	-4.8	-4.8
Grain, sheep and beef cattle farming	0.0	-23.3	-23.3
Horticulture and fruit growing	38.7	-12.0	26.7
Other crop growing	0.0	-8.4	-8.4
Other livestock farming	0.0	-3.2	-3.2
Fisheries	0.1	-23.4	-23.3
Forestry	5.8	-11.6	-5.7
Other primary production[b]	0.0	-8.2	-8.2
Mining	**2.3**	**-172.5**	**-170.1**
Manufacturing	**7393.2**	**-2484.4**	**4908.8**
Food, beverages & tobacco	1323.0	-340.8	982.2
Textiles, clothing, footwear & leather	926.3	-195.3	731.1
Wood & paper products	552.3	-167.3	384.9
Printing, publishing & media	321.2	-126.8	194.4
Petroleum, coal, chemical & associated products	1098.9	-342.8	756.1
Non-metallic mineral products	215.7	-49.4	166.2
Metal product manufacturing	879.0	-331.7	547.3
Motor vehicles & parts	1115.1	-335.1	780.1
Other transport equipment	49.1	-90.2	-41.1
Other machinery & equipment	577.8	-356.9	220.8
Other manufacturing	334.8	-148.0	186.8
Services	**41.8**	**-2763.9**	**-2722.2**
Electricity, gas & water supply	0.0	-61.9	-61.9
Construction[c]	4.8	-906.0	-901.2
Wholesale trade[c]	25.9	-202.9	-177.1
Retail trade	0.0	-239.5	-239.5
Accommodation, cafes & restaurants	0.0	-222.5	-222.5
Transport & storage	0.0	-218.1	-218.1
Communication services[c]	11.1	-78.8	-67.7
Finance & insurance	0.0	-60.0	-60.0
Property & business services	0.0	-283.7	-283.7
Government administration & defence	0.0	-211.3	-211.3
Education	0.0	-47.2	-47.2
Health & community services	0.0	-98.3	-98.3
Cultural & recreational services	0.0	-63.6	-63.6
Personal & other services	0.0	-70.1	-70.1
TOTAL[d]	**7481.9**	**ne**	**ne**

a Tariff assistance estimates are derived using ABS Industry Gross Value Added at current prices data. This information is subject to periodic revision by the ABS. **b** Other primary production includes *services to agriculture* (including *hunting & trapping)* and *poultry farming*. **c** Due to ABS industry-of-origin classification conventions, a small amount of output tariff assistance is recorded for these service industries. **d** Totals may not add due to rounding. **ne** not estimated. *Source:* Commission estimates.

2.3 Agricultural pricing and regulatory assistance

Just as the manufacturing sector derives most of its assistance from tariffs and tariff concessions, so historically has the bulk of measured assistance to the agriculture sector been maintained through a range of statutory marketing arrangements, regulations and price support schemes.

While many of these schemes were dismantled in the 1980s, as recently as 1997 the Commission's estimates incorporated assistance derived from statutory marketing arrangements for dairy, sugar, rice and eggs, a local content scheme for tobacco leaf and loan guarantees for borrowings by the wheat and wool boards. However, for the last few years, pricing and regulatory support have been limited to the rice, dairy and sugar industries.

Prior to 2000-01, assistance to the dairy industry was derived from a combination of State Government price and regulatory controls, which maintained high prices for drinking milk, and Australian Government Market Support Payments for milk used in manufacturing. These arrangements provided dairy farmers with assistance of around $450 million in 1999-2000.

These arrangements were terminated as part of the deregulation of the dairy industry in July 2000, although a levy was imposed on retail sales of drinking milk to fund an adjustment package for existing dairy farmers. The Commission estimates that these arrangements provided around $180 million in 2000-01 to those farmers who remained in the industry. Assistance increased again in 2001-02, to around $260 million, as payments from the Supplementary Dairy Assistance Program — announced in May 2001 — came on stream (table 2.3). In 2002-03 and 2003-04, assistance is estimated to fall to around $170 million and $150 million, respectively, primarily because of reduced funding from the Supplementary Dairy Assistance Program, but also more dairy farmers exiting the industry. (The effects of dairy industry deregulation were discussed in the 2001-02 *Review*.)

In September 2002, the Australian Government announced a Sugar Industry Reform Program.[2] The package was funded by a levy of 3 cents per kilogram on domestic sugar sales, including sales of imported sugar and sugar for retail sale, food services and food processing. Assistance derived from the package was around $8 million in 2003-04 (table 2.3). These arrangements are discussed in more detail in chapter 3.

[2] Assistance provided under the new Sugar Industry Reform Program, announced in 2004, is included in the Commission's budgetary assistance estimates.

The rice industry is centred in the Riverina in New South Wales. It is assisted through statutory marketing arrangements which allow the NSW Rice Growers Co-operative to vest and market all rice grown in the state. This enables the domestic price of rice to be maintained at higher levels than would otherwise prevail. The Commission estimates that these arrangements provided $6 million in assistance in 2003-04 (table 2.3)

Table 2.3 **Agricultural pricing and regulatory assistance, 2003-04**

Industry grouping	*$m*
Dairy cattle farming	150.6
Grain, sheep and beef cattle farming (inc. rice)	6.0
Other crop growing (inc. sugar)	7.7
Total	**164.3**

Source: Commission estimates.

2.4 Trends in anti-dumping activity

Under Australia's anti-dumping rules, local companies can apply to have anti-dumping and countervailing measures — mainly 'temporary' customs duties — imposed on 'dumped' imports if the imports cause, or threaten to cause, material injury to the local industry.[3]

Like other measures that raise the price of imports, anti-dumping and countervailing measures assist the protected industries, but also impose higher costs on other domestic industries and consumers. Lack of information means that the Commission does not include the assistance effect of these duties in its national estimates, but monitors year-to-year usage.

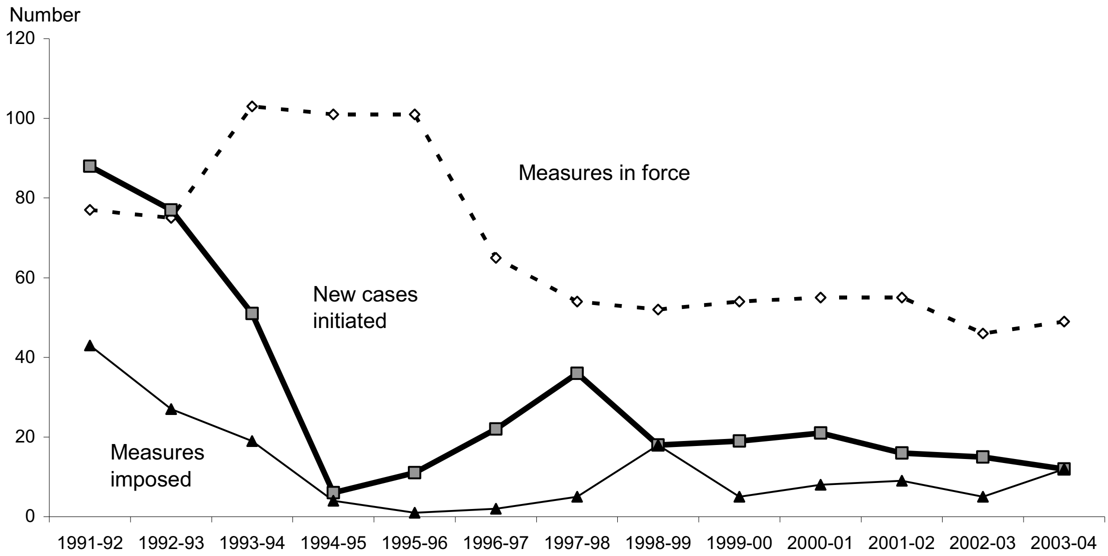
Aside from a rise in 1997-98, the number of new anti-dumping and countervailing cases *initiated* in Australia has been stable and relatively low over recent years, compared with the early 1990s (figure 2.7). There were 12 new cases in 2003-04, initiated mainly by firms in the *Food, beverages & tobacco* and *Metal product manufacturing* industries. Over the eight years to 2003-04, however, the *Petroleum, coal, chemical & associated products* industry (mainly chemical and plastic products) has been the largest initiator of anti-dumping and countervailing actions, accounting for over 40 per cent of total initiations.

3 Dumping is said to occur when a foreign supplier exports goods at a price below the value of the goods in the supplier's home market. WTO rules allow countries to apply anti-dumping measures on 'dumped' imports if they cause, or threaten to cause, material injury to a competing domestic industry. Similar measures (countervailing duties) may also be applied to imports that benefit from certain forms of subsidies in the country of origin, but are not necessarily dumped.

There were 12 anti-dumping and countervailing measures *imposed* by the government in 2003-04, compared to the previous year when 5 measures were imposed. Even so, the number of measures *in force* remained relatively stable at around 50 (figure 2.7).

More detailed information on the number and nature of recent anti-dumping cases in Australia and the level of anti-dumping activity overseas is presented in appendix C.

Figure 2.7 **Anti-dumping and countervailing activity[a], 1991-92 to 2003-04**



[a] A measure or case is counted as an action applying to one commodity from one economy. If multiple economies are involved, they are counted as separate actions.

Sources: ACS (2004b).

2.5 Combined tariff, budgetary and agricultural pricing and regulatory assistance

The Commission compiles 'combined' estimates of the key forms of national assistance covered in this chapter, namely:

- Australian Government budgetary assistance;
- tariff assistance; and
- agricultural pricing and regulatory assistance.

The combined estimates exclude State budgetary assistance and assistance provided through restrictions on services trade and anti-dumping measures, as well as other forms of assistance that are not captured in the Commission's estimates (as outlined in box 2.1).

Measures

Table 2.4 reports estimates of the dollar value of combined assistance to different industry groupings for 2003-04. This *net subsidy equivalent* is a measure of the net assistance to the land, labour and capital resources used in a particular industry or activity. It measures the transfers of income to benefiting producers from consumers, taxpayers and other firms, although it does not indicate the 'economic welfare' costs to the community of the assistance.

Table 2.4 also includes estimates of the *effective rate of assistance* for the manufacturing, primary production and mining sectors for 2003-04.[4] Technically, effective rates are a measure of the net assistance to an industry divided by the industry's unassisted value added. They can provide an indication of the extent to which assistance to an industry allows it to attract and hold economic resources. That is, where there is some competition between industries for resources, those industries with high effective rates of assistance are more likely, as a result of their assistance, to be able to attract resources away from those with lower rates. The effective rate concept is discussed further in *Methodological Annex A* to the 2001-02 *Review*.

Sectoral estimates

At the sectoral level, the estimates in table 2.4 indicate that, in 2003-04:

- the manufacturing sector attracted the most combined assistance, particularly in absolute dollar terms, but also in effective rate terms;
- primary production received a slightly lower rate of measured assistance;
- mining encountered slightly negative net measured assistance;
- combined assistance as measured to the services sector was negative; and
- compared to the levels of assistance recorded in earlier periods for some sectors[5], the goods-producing sectors recorded low average rates of assistance.

---

[4] Effective rates of assistance (ERA) have not been published for the services sector. Among other things, this reflects technical matters associated with the treatment of services in transportable goods sectors. Because of these technical issues, ERA for services would involve double-counting of services value added in the formation of economy-wide ERA measures.

[5] For example, although calculated on a slightly different basis, the effective rate of assistance for manufacturing was around 35 per cent in 1970-71.

Industry estimates

These sectoral averages hide significant variation in assistance between industries.

At the high end are TCF and parts of MVP. The effective rates for these industry groupings are 24 and 11 per cent respectively. However, the MVP industry grouping covers a broader range of activities than just passenger motor vehicle production. Some of the activities in this industry grouping receive low assistance; others attract high levels of assistance. Indeed, in its recent inquiry into the automotive industry (PC 2002a), the Commission estimated (using different data sources) that assistance in 2000 to a 'typical' motor vehicle assembler and component producer within the sector exceeded 30 per cent.

The dairy industry continues to record the highest level of assistance among agricultural industries, with an effective rate of around 12 per cent in 2003-04. However, this represents a significant decline compared with the level that prevailed prior to the industry's deregulation in July 2000, when the effective rate of combined assistance was 34 per cent. Further, under the new arrangements, assistance to dairy farmers has been 'decoupled' from dairy output and farm activity levels, thus diluting its effects on production incentives.

All other industry groupings covered in the estimates recorded an effective rate of less than 6 per cent in 2003-04, with many recording a rate of less than 4 per cent.

While mining recorded a negligible effective rate and fisheries and forestry recorded effective rates of around 4 and 5 per cent respectively, the forms of assistance covered in the 'combined' estimates are likely to play a relatively minor role in these industries compared with other government measures. Specifically:

- the mining industry is more affected by environmental regulation, prescribed royalty levels and accelerated depreciation provisions. Native title legislation can also affect land access and tenure; and
- the key government measures affecting forestry and fisheries relate to resource management issues, such as the pricing of forest products and the use of quotas to control harvesting rates to protect the resource stock.

The assistance implications of these measures, whether positive or negative, are not captured in the Commission's estimates.

Table 2.4 **Combined[a] assistance by industry grouping, 2003-04**

Industry grouping	*NSE[b]* *$m*	*ERA* *%*
Primary production[c]	**1273.4**	**4.1**
Dairy cattle farming	211.0	12.0
Grain, sheep and beef cattle farming	498.3	3.3
Horticulture and fruit growing	169.3	4.0
Other crop growing	131.0	4.3
Other livestock farming	24.7	2.4
Fisheries	68.4	3.8
Forestry	46.5	5.3
Other primary production[d]	17.6	0.6
Mining[c]	**-54.7**	**-0.1**
Manufacturing[c]	**5989.5**	**4.5**
Food, beverages & tobacco	1084.8	3.7
Textiles, clothing, footwear & leather	921.5	24.2
Wood & paper products	416.4	4.7
Printing, publishing & media	212.0	1.4
Petroleum, coal, chemical & assoc. products	900.3	4.0
Non-metallic mineral products	171.8	2.3
Metal product manufacturing	709.8	4.4
Motor vehicles & parts	799.8	10.6
Other transport equipment	24.3	0.9
Other machinery & equipment	315.6	2.3
Other manufacturing	288.1	5.4
Services[c]	**-1939.2**	**ne**
Electricity, gas & water supply	-22.3	ne
Construction	-877.2	ne
Wholesale trade	-132.9	ne
Retail trade	-205.8	ne
Accommodation, cafes & restaurants	-176.1	ne
Transport & storage	-146.6	ne
Communication services	31.8	ne
Finance & insurance	16.7	ne
Property & business services	-170.0	ne
Government administration & defence	-211.3	ne
Education	-36.9	ne
Health & community services	-52.6	ne
Cultural & recreational services	92.2	ne
Personal & other services	-67.7	ne

a 'Combined assistance' comprises budgetary, tariff and agricultural pricing and regulatory assistance, as reported in tables 2.1, 2.2 and 2.3 respectively. The total NSE has been adjusted to take account of programs included in both tariff and budgetary assistance. **b** NSE estimates are derived using ABS Industry Gross Value Added at current prices data. This information is subject to periodic revision by the ABS. **c** Totals may not add due to rounding. Sectoral totals also include assistance to the sector that has not been allocated to specific industry groupings. **d** Other primary production includes *services to agriculture* (including *hunting & trapping*) and *poultry farming*. **ne** not estimated.

Source: Commission estimates.

3 Selected developments in assistance

Government assistance to industries and activities, particularly budgetary assistance, is typically provided in ‘packages’ which contain a number of measures and span a number of years. Sometimes existing assistance packages, or individual measures, are terminated or allowed to lapse; in other cases they are modified and/or extended. New assistance packages and measures are also introduced from time to time, in response to changes in industry circumstances or to address emerging policy concerns.

In this chapter, the Commission documents key government announcements and policy developments affecting assistance over the last year. The developments relate to:

- drought relief;
- the sugar industry;
- research, development and commercialisation;
- energy;
- the automotive industry; and
- agriculture, wine and film production.

3.1 Drought relief

Background

The current drought has been one of the most widespread on record, causing an estimated 70 per cent reduction in the net value of farm production from $10.9 billion in 2001-02 to $3.6 billion in 2002–03 (ABARE 2004). The drought is estimated to have reduced GDP growth by around 1 per cent in 2002-03, or around $6.6 billion (Truss 2004b).

The Australian Government has provided substantial support to farmers and communities affected by the drought. To the end of 2003-04, it had provided around $500 million in drought relief (Truss 2004h), and it has estimated that around $1 billion in direct support is expected to be provided by the end of 2006-07 (Truss 2004e). This support has been delivered predominantly under the

Exceptional Circumstances (EC) program (see box 3.1). At the end of 2003-04, around two-thirds of agricultural land in Australia, including about 90 per cent of NSW and more than half of Victoria and Queensland, was 'EC declared' (Truss 2004b). In these areas, more than 30 000 applications for drought income assistance had been approved, while 10 000 applications from farming businesses for interest rate subsidies had been approved (Truss 2004e).

Box 3.1 **Exceptional circumstances drought relief**

Introduced in 1992, the Exceptional Circumstances (EC) program is the main (Australian Government) program providing support to drought-affected farmers. Before such support can be provided under the program, however, an area must receive an EC declaration. State and Territory Governments are responsible for lodging applications for EC support with the Australian Government Minister for Agriculture, Forestry and Fisheries, once they consider that the EC criteria have been met. EC applications must demonstrate that the event (whether a drought or other occurrence): is rare (a one in 20 to 25 year event); has resulted in a severe downturn in farm incomes over a prolonged period; affects a significant number of farmers in a region or industry; and was not predictable or part of a process of structural adjustment. Once an area has received an EC declaration, support provided under the EC program is available for a period of up to two years and takes two forms:

- *Family income support*, or Exceptional Circumstances Relief Payments (ECRP), are paid fortnightly at a rate equivalent to the Newstart Allowance.[1] The payments are available for a period of up to two years while the exceptional circumstances declaration is in force. Where an area continues to be affected by drought, an EC declaration, and in turn EC relief payments, can be extended.
- *Business support* is provided in the form of interest rate subsidies up to a maximum of 50 per cent of interest payments. Business support is funded jointly by the Commonwealth (90 per cent) and State and Territory governments (10 per cent). Like the family support payments, business support is also available for a period of up to two years and can be extended.

A requirement for EC drought relief payments to be triggered is that a drought be rare — a one in 20 or 25 year event. Significant drought relief payments were also triggered during the major drought of 1991–1995. In the previous major drought, which occurred in the early 1980s, drought relief was provided under the National Disaster Relief Arrangements.

[1] The Newstart Allowance is a fortnightly payment available to unemployed people who are actively looking for work. Subject to income and assets tests, the payment for a single person with no dependants is $394.60 per fortnight. The ECRP are subject to the same income and assets tests applying to Newstart Allowance, although farm assets are exempt from the assets test and proceeds from the forced sale of livestock due to drought are excluded from the income test.

The support provided by the Australian Government during the current drought is expected to significantly exceed that provided during the 1991–1995 drought, in relation to which it is estimated that the Australian Government spent around $590 million in total drought relief (ABS 2003).

At the State/Territory level, direct support during the current drought is expected to be around $200 million, with the amount of expenditure expected to vary significantly between jurisdictions (DRP 2004).

Other Australian and State/Territory Government support arrangements for drought affected farmers and rural communities were discussed in more detail in last year's *Review* (PC 2003b).

Recent developments

In October 2003, the Australian Government announced the establishment of a Drought Review Panel to examine Australia's drought policy, including drought assistance measures. The Panel consulted widely with industry and community stakeholders, and presented its report to the Government in March 2004. The Panel found significant support for some elements of current drought assistance policy, but some confusion and limited support for others (see box 3.2). The Panel also found that a more comprehensive review of the effectiveness of government drought assistance may be warranted, noting:

> A significant level of Government assistance has been committed to farmers affected by the drought, but no comprehensive evaluation of the effectiveness of Government drought assistance has yet been conducted. The Panel believes there would be merit in a review (perhaps conducted by the Productivity Commission) of the impact of this assistance on agricultural productivity and other outcomes, as well its effects on the pace of structural adjustment (p.6).

In April 2004, the Australian Government convened a National Drought Roundtable, comprising governments and rural industry representatives, to consider the Drought Review Panel's report and to discuss the future of drought policy in Australia. The main outcomes of the roundtable are outlined in box 3.3.

In July 2004, the Australian Government announced that it would streamline the re-application process for extending EC drought applications for farmers who have not experienced a break in the drought over the past 18 months. Instead of going through the EC application process for a second time, the new procedures involve the Drought Taskforce examining the climatic conditions in a particular area and assessing how the drought has affected farm production since the last EC application. This information will be referred to the National Rural Advisory Council

Box 3.2 **The Drought Review Panel: stakeholders' views**

In late 2003 and early 2004, the Drought Review Panel conducted consultations with producers, peak industry associations, community representatives, other interested bodies and local, Australian Government and State/Territory Government representatives about issues concerning drought assistance. Among other things, the Panel found:

- strong support for Governments to encourage greater drought preparedness and for appropriate preparedness measures to be the focus of future drought policy;
- limited support for business support measures where, overall, stakeholders considered these types of assistance measures encouraged greater debt and supported the less prepared producer;
- that family income support (or ECRP) is highly valued by recipients and considered to be 'necessary' during a drought;
- some confusion among stakeholders regarding the wide range of available drought assistance measures and their associated eligibility requirements;
- a general perception that there was scope to improve the timeliness and accessibility of Australian Government and State/Territory Government drought assistance measures; and
- support for greater co-operation between the Australian and State/Territory Governments in determining drought declarations.

Source: DRP (2004).

which will make a recommendation to the Australian Government on whether a case for an extension of EC has been established. By mid-July 2004, 33 EC declared regions, over half of all EC declarations, were eligible to apply for an extension of their EC assistance — the expiry date for eligibly for EC benefits in these areas was 9 December 2004 (Truss 2004g).

In late July 2004, at a meeting of Australian and State/Territory agricultural ministers, the Australian Government announced that agreement had been reached to develop a 'simpler and more responsive' approach to providing EC drought support. The new procedures remove the requirement for the application (of an EC declaration) to establish that a majority of producers in the application/region have experienced a serve downturn in income as a result of the drought. This requirement will be replaced with an assessment of the impacts on production and a range of event factors such as rainfall, temperature, soil moisture and remote sensing information. Producers will, mostly, not be required to provide State agencies with their income details as part of the EC application and assessment process. An

Box 3.3 **The National Drought Roundtable**

In April 2004, a National Drought Roundtable, comprising Australian Government and State/Territory Government officials and rural industry representatives, was held to discuss the report of the Drought Review Panel and future drought policy in Australia. Reflecting the main findings of the Panel's report, the key outcomes of the roundtable were reported as being:

- continued support for the main elements of the current drought policy;
- recognition of the importance of drought preparedness as the focus in future drought policy;
- continued support for a welfare safety net;
- recognition of the need for the Australian and State/Territory Governments to reach agreement on new national criteria for EC declarations;
- support for reform of the EC system to make it more efficient, effective and equitable;
- recognition of a need to better target and reduce the distortionary nature of drought assistance measures such as business support;
- support for new programs that reflect the broader impacts of severe drought on rural communities and businesses, non-farm rural small businesses and the environment; and
- support for young farmers.

Source: Truss (2004c).

objective of the new arrangements is to speed-up access of EC support to eligible farmers (Truss 2004h).

At the meeting, it was also agreed that the Primary Industries Standing Committee would undertake further investigation into how governments could play a greater role in helping farmers to better prepare for drought. The Australian Government intends to use a Rural Producer Survey, scheduled for early 2005, to gain information as to how farmers could be better prepared for drought. The Minister for Agriculture, Fisheries and Forestry noted, however, that it had been agreed with State/Territory Governments not to introduce new (drought preparedness) policies until the current drought is over (Truss 2004h).

3.2 Assistance to sugar

Background

The Australian sugar industry, which is centred mainly in north-east Queensland, has been subject to a number of reforms since the mid 1990s.

In July 1997, following a National Competition Policy Review of the industry, tariffs on imported sugar were removed, and domestic price supports were partly removed by the Queensland Government. These arrangements had provided significant assistance to domestic canegrowers and sugar millers. As then measured by the Commission, assistance to the industry fell from $66 million in 1996-97 to $13 million the following year.

To help offset the reduction in those forms of assistance, in July 1998 the Australian Government introduced a $14 million Sugar Industry (Research) Assistance Package.

In 2000, in response to adverse climatic and farming conditions in the industry, the Australian Government introduced a Sugar Industry (Cane Growers) Assistance Package with funding of up to $83 million. The Queensland Government also allocated $10 million for concessional loans for the replanting of sugar cane crops.

In September 2002, the Australian Government announced further assistance in the form of the Sugar Industry Reform Program 2002. The program was worth up to $120 million in Australian Government funding and was expected to last for five years. It was to be funded by a levy of 3 cents per kilogram on domestic sugar sales (including sales of imported sugar and sugar for retail sale, food services and food processing), which was put in place from 1 January 2003 with a five year sunset date. The Queensland Government also announced that it would contribute an additional $30 million to the assistance package.

Details of these assistance arrangements were discussed in the 2001-02 *Review* (PC 2002b).

Recent Australian Government assistance

In April 2004, against a background of no expansion in access to the US market for the sugar industry in the Australia-United States Free Trade Agreement, the Australian Government announced the Sugar Industry Reform Program (SIRP) 2004 with funding of $444 million (Truss 2004d). While this assistance was announced as a separate package, the Department of Agriculture, Fisheries and Forestry has indicated that it essentially expanded and built upon the Australian

Government components of the 2002 package which had final expenditure to growers of only \$20 million of Australian Government funding. The elements of the 2004 SIRP are described below.

It includes a one-off *'sustainability' grant* to cane growers and millers, amounting to \$146 million. The sustainability grant, which is to be provided in two instalments, is divided between operating mills and growers. As a condition for receiving the first instalment, peak industry groups signed a Statement of Intent on behalf of the industry to undertake reform (Truss 2004f). To receive the second instalment, due in January 2005, the Australian Government will need to be satisfied with the progress the industry has made on reform (DAFF 2004).

The SIRP also provides \$21 million for *income support* for eligible growers and harvesters. The support, having commenced in March 2004, will be available until 1 March 2005. Income support payments are made fortnightly and are equivalent to the Newstart Allowance.[2] To receive income support, recipients are required to undertake business planning. Income support recipients will be provided with up to \$2500 to obtain professional advice on ways to improve their sugar operation's financial position or to help them move to an alternative operation. (DAFF 2004).

Under the SIRP, farmers choosing to remain in the industry may also be eligible for *grower restructuring grants*. The grants, payable in two instalments in 2004-05 and 2005-06, will be paid at a rate of \$75 per hectare under cane production — capped at \$7 500 per instalment per farm enterprise. The grants are intended to be used for a range of activities including:

- improving farm management practices;
- enhancing productivity and reducing costs of production;
- engaging in alternative business structures; and
- assisting in diversifying the enterprise base.

Before accessing the restructuring grants, growers are required to undertake business planning (see below) and also satisfy a number of other program-specific criteria.[3] The SIRP contains \$40 million for these restructuring grants.

---

[2] As noted earlier, the Newstart Allowance is a fortnightly payment available to unemployed people who are actively looking for work. Subject to income and assets tests, the payment for a single person with no dependants is \$394.60 per fortnight. The income support payments available to sugar producers are also subject to income and assets tests, similar to those for the Newstart Allowance, except that farm assets are excluded from the assets test (DAFF 2004).

[3] For the first instalment, growers will be required to indicate, from a 'menu' of restructuring activities determined by the government, the activities they intend to undertake. Growers will then be required to demonstrate their use of funds in 2004-05 to qualify for a payment in 2005-06.

Under the SIRP, growers, harvesters and millers can also access *business planning assistance,* totalling \$15 million. Growers and harvesters who are also receiving income support have access to up to \$2500 for business planning (see above), while other growers and harvesters are allowed up to \$1500. Eligible sugar mills will receive up to \$100 000 in assistance to obtain accredited professional advice on their financial viability and to develop business plans to help identify an appropriate strategy to improve their financial position (DAFF 2004). This assistance will be provided for cooperative and smaller single-site mill businesses.[4]

Funding of \$75 million has been allocated for *regional and community projects* to assist the medium- and longer-term restructuring of the sugar industry. According to the Minister for Agriculture, Fisheries and Forestry, initiatives funded under this aspect of the SIRP are likely to include:

- rationalisation of transport and harvesting systems;
- alternative uses for sugarcane;
- diversification into alternative crops and other income streams such as cogeneration, ethanol and other new products; and
- cane farm aggregation, where considered appropriate by regional advisory groups (Truss 2004).

There is also funding of \$8 million for *industry oversight and regional advisory groups* to help ensure the industry's long-term economic, social and environmental sustainability.

The SIRP also contains a \$23 million sugar industry *intergenerational transfer scheme*. The scheme is to provide eligible sugarcane growers with a three year period in which to 'gift' their farm to the next generation without attracting the disposal, or gifting, of assets rules that apply to income support payments (the age pension). Farmers accessing this scheme will be ineligible to receive a re-establishment grant (see below).

For growers and harvesters wishing to leave the industry, the SIRP will provide *re-establishment grants,* totalling \$96 million. One-off grants of \$50 000 and up to \$100 000 will be available for harvesters and growers, respectively. Re-establishment grants will be available until 30 June 2007 (DAFF 2004). The SIRP also contains \$7 million in *re-training assistance* for growers, harvesters and mill workers made redundant through the reforms, and \$5 million for *crisis counselling* for families in the industry.

4 Income and business planning support were originally announced in March 2004 (Truss 2004a).

The Australia Government also announced that the sugar levy, introduced for the 2002 Sugar Industry Assistance Package (see above), will continue as scheduled, but will not be increased or extended to fund the SIRP (Truss 2004d). The package will be funded primarily through the Australian Government budget.

Recent Queensland Government developments

In March 2004, the Queensland Government signed an agreement with Queensland Canegrowers and the Australian Sugar Milling Council to pursue industry reform, including changed legislation and a new dispute resolution system. The agreement met a condition for Queensland sugar producers to be able to access the Queensland Government's assistance package, originally announced in September 2002 (see above), now worth up to $33 million (Beattie 2004a). The package comprises:

- a *Sugar Industry Innovation Fund* — $10 million to support new management systems and new technologies, increase export-oriented production of value-added sugar products and develop more efficient supply chains;
- a *Sugar Industry Change Management Program* — $13 million to assist farm viability and address environmental, water and training issues; and
- *Farm Consolidation Loans* — $10 million to assist cane growers to expand their operations by purchasing other sugar farms. The loans will be available at concessional interest rates over a period of 20 years, and can be combined with private finance.

In May 2004, the Queensland Government announced that it would provide additional assistance in the form of stamp duty relief for sugar producers who consolidate their properties. The scheme is designed to improve farm viability by encouraging eligible producers to amalgamate their properties with smaller adjoining cane farms. The scheme will operate for two years and is expected to cost between $2 million and $5 million (Beattie 2004b).

3.3 Research, development and its commercialisation

Support for R&D and commercialisation is a significant component of the Australian Government's budgetary assistance to industry, representing one-third of total budgetary support in 2003-04 (chapter 2).

In its *Backing Australia's Ability* (BAA) — *Building our Future through Science and Innovation* Statement released in May 2004, the Australian Government announced a new assistance package for R&D and related activities to 2011 (Australian Government 2004a). The package modifies and extends a number of existing schemes, and introduces new programs for R&D; commercialisation[5]; and related skills development. According to the Government, the new package will cost $5.3 billion and, together with the original *Backing Australia's Ability* plan announced in 2001, constitutes a funding commitment for science and innovation of $8.3 billion for the period from 2001 to 2011. Details of the measures announced by the Government are outlined below.

Research and development

Business R&D

The Statement indicated that the existing tax concessions that support business R&D will be maintained. Existing schemes include the 125 per cent R&D Tax Concession, which costs up to $360 million per year in tax revenue forgone. In addition, business R&D is also supported via the Tax Offset provisions and the 175 per cent Premium R&D Tax Concession. The number of companies registered for the tax concessions is shown in table 3.4.

Table 3.4 **Number of companies registered for R&D tax concessions**

Tax concession measures	*2001-02*	*2002-03*
125% tax concession	2626	2458
175% incremental tax concession	484	619
Tax Offset at 125%	1524	1828
Tax Offset at 175%	109	147
Total registrations	4745	5052

Source: Senate Economics Legislation Committee (2004b) and DITR.

Information and communications technology

The information technology sector has been a focus of public support in recent years. The Statement outlined funding commitments for future years for the following programs.

- *The ICT Centre of Excellence*. The Centre was established in 2002 to undertake ICT research. The Statement indicated that the Centre will be supported by funding of $126 million from the Department of Communications, Information Technology and the Arts, and $125 million from the Australian Research Council (see below), from 2006-07 to 2010-11.

5 'Commercialisation' in this context refers to the development of new commercial products, processes and services resulting from the application of R&D activities.

- *The Advanced Networks Program.* This program funds research and the commercialisation of broadband technologies. $21 million has been allocated to extend the program from 2004-05 to 2006-07.

Public sector research

The Statement also announced funding, generally for the period from 2004-05 to 2010-11, for public sector research which is of benefit to industry, including:

- $1189 million for the Australian Research Council to maintain funding for the National Competitive Grants Program (from 2006-07 to 2010-11);[6]
- $555 million to maintain university Research Infrastructure Block Grants support (from 2006-07 to 2010-11);
- $542 million to develop major industry-related research infrastructure. Previous support covers, for example, funding of the National Wine Industry Research Centre, the Australian Maritime Hydrodynamic Research Centre and the International Livestock Research and Information Centre.
- $305 million for the CSIRO to support large-scale collaborative research partnerships in six priority areas including agrifood, light metals, energy, water, preventative health, and oceans and marine industries (for example, oil, gas and fisheries);
- $200 million for overhead infrastructure costs of health and medical research institutes;
- $56 million for Australian researchers and firms to develop partnerships with overseas research institutions and to access overseas technologies (from 2006-07 to 2010-11); and
- $12 million for regional universities to undertake research deemed to be of benefit to regional areas (from 2004-05 to 2007-08).

Commercialisation programs

Commercial Ready

The Commercial Ready Program is designed to assist R&D and commercialisation activities of small- and medium-sized enterprises. The program combines and replaces previous firm-specific support for R&D, early-stage commercialisation and aspects of technology adaptation provided under the R&D Start Program, the

[6] $275 million was also allocated to the program, for 2006-07, in the 2003-04 budget.

Biotechnology Innovation Fund and elements of the Innovation Access Program respectively. The limited support afforded to large companies under previous programs is to be reallocated to small- and medium-sized enterprises under the Commercial Ready program (Senate Economics Legislation Committee 2004a).

The Commercial Ready Program has been allocated funding of around $200 million a year for the period to 2010-11. Assistance is provided as grants, applications for which will be assessed by the Industry Research and Development Board. The grants range from $50 000 to $5 million per project. AusIndustry's regional office staff is being increased to help deliver the assistance.

Eligible activities cover many aspects of the development of a new 'product, process or service', including activities related to:

- R&D and other activities that involve innovation, technology transfer into Australia or technical risk;
- demonstration of the commercial and technical viability of a product, process or service; and
- 'early-stage' commercialisation — including product design, market research, intellectual property protection costs, product trials and costs incurred for regulatory compliance.

Where directly related to a project, some costs associated with certain technology acquisition and its adaptation, may also be claimable under Commercial Ready.

To be eligible, applicants must have an annual turnover of less than $50 million and be able to fund half of the project's costs. An applicant also needs to show that it has rights over the intellectual property that is needed to commercialise the assisted project. Up to 1700 small and medium-sized companies are expected to be supported under the Commercial Ready Program. An applicant must also be a non-tax exempt company.

Other programs

The Statement also announced the extension of assistance for several commercialisation programs.

- *Commercialising Emerging Technologies (COMET) program*. The COMET program assists the commercialisation of new technologies and products that are developed by individuals, small Australian companies and researchers in universities. Eligible innovators receive financial assistance and business advice and services for marketing and business planning to develop and commercialise a product. $100 million has been allocated to extend the COMET program from 2004-05 to 2010-11.

- *Pre-seed Fund program*. This program assists the commercialisation of public sector R&D. Under the program, venture capital funds are established to invest in university or government agency 'spin-off' research companies. Venture capital funds also provide management and technical advice on the commercial exploitation of a technology developed by these agencies. While no new funds have been allocated for this program, the Government indicated that the period for distributing the $79 million, that was originally provided for the Pre-seed Fund in the 2001 BAA plan, has been extended to 2010-11.
- *Cooperative Research Centres (CRCs)*. The CRC program supports research partnerships and joint ventures between the public sector (universities and government research agencies) and private firms and industry organisations. CRCs seek to develop research results into commercial products and/or transfer new know-how to industry users. The centres also train researchers in the skills needed to work in industry. The Statement indicated that, commencing in 2004, the program will have a stronger commercial focus and be allocated additional funding of $65 million. In total, $926 million is to be provided as administered grants under the program between 2006-07 and 2010-11.
- *New Industries Development Program*. This program assists commercialisation projects in agricultural and food processing industries. $14 million has been allocated to extend the program from 2006-07 to 2010-11.
- *Biotechnology Centre of Excellence program — the Australian Stem Cell Centre*. The Centre, in partnership with institutions and companies, undertakes stem cell research with commercial applications in the biotechnology industry. The centre will receive $30.4 million in funding from the Department of Industry, Tourism and Resources, and $27.5 million in funding from the Australian Research Council, from 2006-07 to 2010-11. (The Government announced that it will also provide $20 million from 2004-05 to 2007-08 to continue the National Biotechnology Strategy and Biotechnology Australia.)
- *ICT Incubators program*. The program assists 'start-up' ICT firms by providing finance and business advice. $36 million has been allocated to extend the program from 2004-05 to 2007-08.

Skills development

The Statement also includes measures designed to develop greater skills in sciences and technology. The funding generally applies from 2004-05 to 2010-11, and includes:

- $199 million to maintain support for 5470 university places focussed on ICT, mathematics and science (from 2006-07 to 2010-11);
- $373 million to foster the scientific, mathematical and technological skills of Australian school students (from 2004-05 to 2007-08);
- $39 million for school teaching in science, technology and mathematics; and
- $11 million to fund Questacon to raise awareness on science and $26 million for the Science Connections program .

3.4 Energy

In June 2004, the Australian Government released an *Energy White Paper: Securing Australia's Energy Future*, which foreshadowed new funding measures for the commercialisation of energy technologies, including greenhouse abatement measures (Australian Government 2004b). The measures cover industries specialising in production of existing energy resources (such as oil, gas and coal) as well as renewable energy sources (for example, wind and solar power). The White Paper measures and some other recent energy assistance initiatives are outlined below.

Petroleum exploration

Existing Australian Government support to petroleum exploration is provided through research activities undertaken by a range of Commonwealth and State geoscientific research organisations, including Geoscience Australia, CSIRO Division of Petroleum Resources, Australian Petroleum CRC and university geoscience research units. In addition to R&D, support is also delivered via Geoscience Australia's provision of data on exploration activity.

In May 2003, the Australian Government announced funding of $61 million to be allocated to Geoscience Australia over four years to provide data for offshore oil exploration (Macfarlane 2003). Of this funding, $36 million is to be used to provide, free of charge, geological data on Australia's offshore petroleum reserves. The remaining funding of $25 million is to finance Geoscience Australia's acquisition of seismic data for remote frontier areas.

In the May 2004 Budget, taxation incentives were announced for exploration expenditure incurred in offshore frontier areas. The incentives take the form of an increase, from 100 to 150 per cent, in allowable exploration deductions on the petroleum resource rent tax (PRRT) in designated frontier areas.[7] Under the arrangement, the Minister for Industry, Tourism and Resources may designate up to 20 per cent of the annual offshore acreage releases for 2004 to 2008 as areas eligible for the incentive. These designated frontier areas are to be more than 100 kilometres from an existing commercialised oil discovery and are not to be adjacent to an area designated in a previous year's acreage release.

Commenting on the incentive, the Department of Industry, Tourism and Resources stated:

> The purpose of the PRRT concession is to increase the chance of finding a significant new oil province, such as another Bass Strait, by providing a strong signal to the global petroleum industry that Australia's untested frontier areas deserve their attention. This measure is needed, as despite the increased profitability of the oil sector and the prospects of sustained higher oil prices, the industry is reluctant to diversify their exploration to unexplored areas. This is because these areas carry higher geological risk (and higher exploration and development costs if the area is in deep water) and are generally distant from domestic markets (Senate Economics Legislation Committee 2004c, ITR 22).

Climate change measures

Developing low-emission technologies

The White Paper announced the creation of a Low-Emission Technology Development Fund, which will provide $500 million to support low-emission technology projects. Assistance will not be limited to renewable energy projects, but will also be available for technologies that reduce the demand for energy as well as to 'carbon capture' technologies. Eligible applicants can apply for support for technologies relating to renewable and fossil-fuel supply as well as energy efficiency measures in transport and non-transport industries. According to the Government:

> These technologies must have the potential to lower Australia's emissions by at least 2 per cent in the long term at a realistic uptake rate, and be commercially available by 2020 to 2030 (Australian Government 2004b, p. 144).

---

[7] The PRRT applies on the economic profits from the exploration and use of Australia's natural resources. The PRRT is designed to return to the community a share of the net income derived from extraction of its non-renewable resources. The PRRT is assessed at the rate of 40 per cent on the taxable profits of a petroleum project — the net amount received from the sale of all petroleum products after deducting capital or operating costs, including exploration expenditure.

The Government indicated that the program is intended to facilitate $1 billion of investment from industry. Financial support will be delivered to 2020. Applications for support will be assessed against criteria, including:

- potential scale and cost of abatement;
- likelihood of success/risk assessment;
- benefits for Australian industry development; and
- other considerations, including links with overseas developments, partnerships with research organisations, the likely level of technological advance and the ability to preserve and enhance the value of Australia's resource endowments.

Solar Cities

Under the Solar Cities initiative, trials of solar energy applications in urban Australia will be eligible for support at a cost to government of $75 million from 2004-05 to 2012-13. The trials will subsidise specific solar and energy efficiency technologies and their installation into residential and commercial buildings. The trials are intended to showcase the market viability of solar energy and energy efficiency technologies, and their economic and environmental benefits.

According to the White Paper, the initiative will also involve the development of energy pricing mechanisms, in consultation with industry and governments. Savings on transmission and distribution costs will be assessed and monitored. The trials will be located in major urban centres and are to involve the cooperation of industry, state, territory and local governments.

Other measures

The Energy White Paper also contained other measures to support energy technologies, including:

- *Renewable energy development initiative*. Funding of $100 million over seven years (commencing in 2004-05) will be used to assist the development of renewable technologies, systems and processes deemed to have strong commercial potential. Half of this fund will be financed by the Commercial Ready Program (see section 3.3).
- *Intermittent energy storage*. Certain renewable technologies, such as wind and solar technologies, produce electricity intermittently, which may make them appear less attractive for commercial electricity adoption. $20 million over four years will be used to support the development of advanced electricity storage

technologies for renewable energy. Examples of these technologies include batteries, electro-mechanical storage and chemical storage.

- *Wind forecasting*. Funding of up to $14 million over five years has been allocated for the development and installation of wind forecasting systems to facilitate greater penetration of wind power in energy markets and allow planning of wind farms.

In addition, it was announced that existing public support for greenhouse technology projects will be maintained. This includes funding of $203 million to the Australian Greenhouse Office (AGO)[8] for provision of programs such as the Remote Renewable Power Generation Program and the Greenhouse Gas Abatement Program.

From 1 July 2006, fuel excise credits of more than $3 million per year will be available to businesses that are large energy users, provided that they join the Greenhouse Challenge Program. Under this arrangement, recipients of the excise credits will measure their greenhouse emissions, develop possible abatement options and report on progress.

The Australian Government also announced a new mandatory scheme under which certain businesses must undertake energy efficiency opportunity assessments every five years and report publicly on their energy efficiency performance. The scheme applies to all businesses using more than 0.5 petajoules of energy per year.

The Australian Government indicated that it will also seek to address impediments in the national electricity market to promote the perceived benefits of smaller-scale local energy generation and production (distributed generation), including renewable energy sources. In addition, the Government indicated that it will introduce measures to improve the availability of information on energy efficiency, such as information on the energy performance of appliances, buildings and vehicles, and to expand the range of appliances and buildings subject to minimum energy performance standards.

Fuel excise reform

In the Energy White Paper, the Australian Government announced reforms of the fuel excise system, which it considered were needed because:

> While imposing a relatively low burden overall, Australia's fuel excise regime is in need of reform. The current system has a number of inconsistencies and anomalies. The result has been a system that imposes unnecessary costs on business and households (p. 95).

---

8 In October 2004, the Australian Government announced that the AGO will become a division of the Department of Environment and Heritage (Howard 2004b).

The fuel excise reforms, which are to be phased in over the period from July 2006 to July 2015, are intended to move towards a system that:

- applies in a consistent and transparent way to all fuels and all relevant fuel users;
- avoids instances where taxed fuels compete with untaxed fuels;
- minimises tax on business inputs to production;
- minimises the compliance and administration costs of levying fuel excise; and
- takes account of the government's environmental, social and fiscal objectives.

Among other things, the fuel excise reforms include the following commitments.

- All off-road business use of all fuel will receive an excise credit (relief). Excise relief will be extended, for the first time, to manufacturing, quarrying and construction activities as well as previously ineligible farming and mining activities. Excise credit will also be provided to local, state and territory governments. The excise credit will be phased in, with newly eligible off-road activities receiving a half credit from July 2008 to June 2012, and the full credit from July 2012.
- The existing partial excise on fuel used in heavy vehicles will be 'formally recognised' and set as a non-hypothecated road-user charge from July 2006. The charge will be set according to the National Transport Commission's charging determination process. The excise arrangements for heavy vehicles will apply to all fuels; not just diesel. The existing urban-rural boundaries applying to excise relief for heavy vehicles will be removed from 1 July 2006 to reduce compliance costs for businesses claiming on-road excise credits.
- Diesel and fuel oil used in commercial power generation will be excise free from 1 July 2006 (and gaseous fuels used for electricity generation will continue to be excise free). The measure is designed to ensure competitive neutrality between all fuels used to generate electricity for business and household use. Also, the current excise on burner fuels such as heating oil and kerosene will be removed from 1 July 2006 (except when used in a vehicle). The change is intended to place the use of burner fuels on the same excise basis as the use of electricity and gas for heating needs.
- A single business credit system will be introduced from July 2006. Fuel excise credits will be claimable through the Business Activity Statement in the same way as GST credits.

3.5 Automotive assistance

Background

Although assistance to both motor vehicle producers and parts suppliers has declined significantly since the mid-1980s, the automotive industry remains one of the most highly assisted industries in the manufacturing sector. This assistance derives largely from tariffs and tariff concession schemes, particularly the Automotive Competitiveness and Investment Scheme (ACIS):

- Tariffs on imported new passenger motor vehicles (other than 4WDs) have been fixed at 15 per cent since January 2000, but are scheduled to fall to 10 per cent on 1 January 2005.
- Participants in ACIS, which commenced in January 2001, receive transferable credits based on their domestic production, investment in plant and equipment, and in some cases investment in research and development. These credits can be used to reduce the customs duty payable on eligible imports. Total import duty forgone under ACIS is estimated at $2.8 billion for the five year period (2001–2005) for which the scheme was initially to run.

In addition to tariffs and tariff concession schemes, the automotive industry also receives assistance from other sources including government procurement programs and the luxury car tax that applies mainly to imported vehicles. There is also a specific tariff of $12,000 on imported second hand vehicles, to be levied in addition to the prevailing vehicle tariff.

In December 2002, the Australian Government announced a new assistance package for the automotive industry. Under the package, after their scheduled reduction in January 2005, automotive tariffs are to remain at 10 per cent until January 2010, when they will be reduced to 5 per cent and remain at that level until (at least) 2015. The package also included an extension of the ACIS scheme from January 2006 to December 2015, albeit with modifications including a phasing down of assistance between 2011 and 2015. The post-2005 assistance arrangements for the automotive industry, together with other Australian and State Government assistance projects, were discussed in more detail in the 2001-02 *Review* (PC 2002b).

Recent developments

In May 2004, the Australian Government announced a $50 million structural adjustment package in response to the foreshadowed closure of Mitsubishi's engine plant in Lonsdale, South Australia. The package comprises:

- up to $10 million, equivalent to more than $14 000 on average per displaced worker, for a labour market assistance program for the approximately 700 displaced Mitsubishi workers; and
- up to $40 million, to be delivered through Invest Australia, for investment facilitation and structural adjustment measures in South Australia, particularly southern Adelaide.

The labour market assistance program will provide Mitsubishi workers with access to personalised consultancy services including:

- job search training and advice;
- access to job vacancies;
- access to the Job Seeker Account and the Training Account for mature age and Indigenous job seekers; and
- access to the New Enterprise Incentive Scheme to provide assistance to displaced workers to take up attractive small business opportunities (Howard 2004a and Macfarlane 2004a).

At the same time, the South Australian Government also announced a workplace assistance package to assist Mitsubishi workers who lose their jobs following the closure of the Lonsdale engine plant. The South Australian package will include career and personal counselling, help with finding placement in new jobs, priority access to job vacancies, as well as the establishment of a register of Lonsdale factory workers. The package is to complement the Australian Government's labour market assistance program outlined above (Rann 2004a).

The South Australian Government also announced that it would provide a $5 million industry development rescue package for the southern suburbs of Adelaide, where the plant is located. The package is designed to help broaden the economic base of the area by attracting new industries to the area (Rann 2004b).

As part of its May 2004 statement, the Australian Government re-affirmed that $35 million in assistance remained available to Mitsubishi in 2004-05 for the establishment of an international R&D centre. The Government also estimated that, at current production levels, Mitsubishi could expect to receive around $300 million in assistance from the Government's extension of ACIS beyond 2006.

In August 2004, the Japanese company Hirotec announced that it would invest $70 million in South Australia to build a manufacturing plant for the production of car doors, bonnets and boot lids. In response, the Australian Government announced that it would grant Major Project Facilitation (MPF) status to the venture. MPF status will enable Hirotec to obtain information, advice and support to gain all government approvals for the project. Invest Australia will also identify areas where other government assistance may be available such as: to meet immigration requirements; to access local procurement opportunities; to avail the firm of customs concessions; and to access R&D programs (Macfarlane 2004b).

3.6 Other developments

Agricultural adjustment assistance

Introduced in 1997 to replace the Rural Adjustment Scheme and other rural programs, the *Agriculture — Advancing Australia (AAA)* package provides adjustment assistance, income support and taxation benefits to primary producers.

Of the current outlay measures, the AAA package comprises FarmBis, FarmHelp, the Rural Financial Counselling Service, the International Agricultural Cooperation Program, an Industry Partnerships and an Industry Leadership program. The Commission reported on these programs in the 1999-2000 and 2002-03 *Reviews* (PC 2000b and 2003b). These outlay measures assist eligible primary producers to obtain income support, improve their business skills, access financial information and referral, pursue new export opportunities and adjust to import competition. In the May 2004 Budget, the Australian Government indicated that the outlays component of the AAA package will be extended at a cost of $236 million from 2004-05 to 2007-08.

The AAA package also includes the Farm Management Deposits (FMD) scheme, which provides a tax deduction benefit for eligible primary producers. Preliminary estimates indicate that around $180 million of tax revenue was forgone under the FMD scheme in 2003-04 (Treasury 2004). The FMD scheme is ongoing.

Wine industry assistance

In the May 2004 Budget, the Australian Government announced a new wine industry assistance package. Under the package, wine producers receive a rebate from the wine equalisation tax (WET)[9] of up to $290 000 per year, compared with a maximum rebate of $42 000 per year under the previous Australian Government Cellar Door Rebate scheme. The new measure applies on all wholesale sales of wine and its effect is to exempt $1 million of each producer's domestic wholesale

---

[9] As part of the tax reform package in 1999, the WET was introduced to replace the difference between the then 41 per cent wholesale sales tax and the proposed GST.

wine sales from the WET on an annual basis. The new measure replaces accelerated depreciation provisions for grapevine plantings and the previous Australian Government Cellar Door Rebate Scheme. There have also been changes to State government cellar door rebate schemes.

Film

Introduced in 2002, the Refundable Film Tax Offset is an incentive for large budget film productions to locate in Australia. The measure provides a benefit of 12.5 per cent of a film's qualifying Australian production expenditure. To be eligible, a company must spend a minimum of $15 million on qualifying Australian production. In the May 2004 Budget, the Government announced that it would extend the offset to apply to large-budget television series at a cost of $12 million over 4 years.

4 Recent developments in trade policy

Australia has traditionally reduced its trade barriers as part of domestic programs of industry assistance reform, supported by participation in multilateral trade arrangements under the GATT and the WTO. Until the last few years, preferential trade agreements (PTAs) with New Zealand and neighbouring countries in the South Pacific were the only exceptions to Australia's unilateral/multilateral approach to trade policy. This has now changed, with bilateral trade agreements having been negotiated with Singapore, Thailand and the United States of America, and more in prospect. This chapter documents these and other developments in international trade policy involving Australia. It also reports on, and extends, recent Commission research on aspects of PTAs.

4.1 Multilateral trade negotiations

The WTO provides a stable, rules-based system for the conduct of international trade, and has provided significant benefits and legal protection for small to medium-sized trading nations such as Australia. Successive rounds of trade negotiations within the WTO and its predecessor (the General Agreement on Tariffs and Trade — GATT) have facilitated substantial reductions in many trade barriers over more than 50 years, and underpinned strong expansion of international trade and growth in living standards (PC 2000a).

However, barriers to trade remain, particularly in areas such as agriculture, textiles and clothing. Multilateral trade negotiations require compromises and trade-offs between the preferred positions of different countries to find a 'consensus' position that is acceptable to all parties. With the growth in membership of the WTO (which now stands at 148 governments, most of which are from developing countries), achieving agreement on further liberalisation has become more complex.

In November 2001, a new round of WTO trade negotiations was launched at the Fourth WTO Ministerial Conference, held in Doha, Qatar. WTO members agreed to negotiations covering a broad range of issues with potentially far-reaching implications for the development of world trade (box 4.1). The Commission commented on the scope of the negotiations mandated at the Doha Ministerial in *Trade & Assistance Review 2000-01* (PC 2001b), and discussed subsequent progress with the negotiations in the last two *Reviews* (PC 2002b, 2003b).

Box 4.1 **The key Doha outcomes**

At the Fourth WTO Ministerial Conference in Doha in 2001, trade ministers from the WTO member governments agreed to launch a new round of multilateral trade negotiations. The Doha agreement indicated that negotiations were to be conducted over three years and were to cover the following.

- *Agriculture* — comprehensive negotiations with the aims to substantially improve market access, to reduce, with a view to phasing out, all export subsidies and to substantially reduce long standing domestic support.
- *Non-agricultural goods* — negotiations to increase market access through reductions in tariffs and increased disciplines on non-tariff barriers.
- *Services* — improved access and reduced barriers for service providers.
- *Environment* — negotiations to look at the relationship between WTO rules and the Multilateral Environmental Agreements and to reduce trade barriers on environmental goods and services.
- *Intellectual property rights* — negotiations to establish a multilateral system for registration and notification of geographical indications for wines and spirits, with the possible extension of geographical indications protections to other products.
- *Foreign investment, competition policy, transparency in government procurement* and *trade facilitation* — negotiations on these issues to take place subject to explicit consensus at the Fifth WTO Ministerial Conference in 2003.
- *Subsidies and countervailing measures* and the *dispute settlement understanding* — negotiations to clarify and improve existing WTO rules.
- *Regional trading arrangements* — negotiations seeking to clarify and improve existing WTO disciplines on preferential trade.

In addition, the Doha conference agreed to several measures to assist developing countries, and clarified some contentious aspects of the TRIPS agreement.

In September 2003, the Fifth WTO Ministerial Conference was held at Cancún, Mexico. The conference provided an opportunity to advance the Doha agenda. However, WTO members were unable to agree on the scope and pace of reform in various areas, and the conference ended in deadlock (box 4.2).

Following the Cancún conference, a number of intergovernmental forums, involving both developed and developing countries, subsequently called on WTO members to restart serious negotiations on the Doha agenda. For example, at the APEC summit in Thailand in October 2003, APEC ministers strongly reaffirmed their commitment to ‘press for an ambitious and balanced outcome to the Doha Development Agenda, reiterating that the development dimension is at its core.’ There was also renewed political engagement by the key players (including the European Community and the United States) in efforts to push negotiations forward.

Box 4.2 **The Cancún stalemate**

The Fifth WTO Ministerial Conference, held in Cancún, Mexico, in September 2003, provided an opportunity to advance the Doha agenda. However, both during the lead-up and at the Cancún Conference itself, disagreements emerged on the pace and scope of reform in a number of areas, including:

- reductions in agricultural protection and support;
- the inclusion of the four so-called 'Singapore' issues — investment rules, competition policy, transparency in government procurement and trade facilitation measures — in the negotiating agenda; and
- other issues, such as non-agricultural market access, geographical indications, and reform of cotton subsidies.

Underlying the discussions was a concern among developing countries that their interests were not being given enough emphasis in negotiations. Notwithstanding progress towards consensus on some issues during the Cancún conference, the Conference disbanded in deadlock.

Subsequently, a 'framework package' was agreed to by the WTO General Council in Geneva in July 2004. The package provides more detail on the reform commitments by WTO members that are needed to achieve the objectives agreed to at the Doha conference, particularly in the area of agriculture The package effectively narrows down the matters open to contest in future negotiations. Key outcomes from the package are set out in box 4.3. In commenting on the package, the Director-General of the WTO, Supachai Panitchpakdi (2004), stated:

> For the first time, member governments have agreed to abolish all forms of agricultural export subsidies by a certain date. They have agreed to substantial reductions in trade distorting domestic support in agriculture. As part of this agreement we have achieved a significant breakthrough in cotton trade which offers great opportunity for cotton farmers in West Africa and throughout the developing world. Governments have agreed to launch negotiations to set new rules streamlining trade and customs procedures. We have assigned ourselves ambitious guidelines for opening trade in manufactured products and we have set ourselves a clear agenda for improving rules that are of great benefit to developing countries. As importantly, WTO governments have sharpened the focus of the Doha round and provided a foundation which will enable negotiators to continue these talks from significantly higher level; greatly enhancing our chances for successful completion of these important talks.

While these recent developments are a positive sign for multilateral trade reform, effectively breaking the deadlock experienced at the Cancún Conference, the extent to which they are translated into reform will depend on the detailed negotiations that lie ahead. A large number of unresolved issues remain, particularly on modalities for the agriculture and non-agricultural market access negotiations.The next WTO Ministerial Conference is scheduled to be held in Hong Kong in December 2005.

Box 4.3 **The July 2004 Framework Package: key outcomes**

Agriculture

- *Market access* — All WTO members (except ‘least developed countries’) are to reduce agricultural tariffs, based on a tiered formula to ensure that higher tariffs attract deeper reductions. There will be provision for lesser reductions in tariff and quota protection for some ‘sensitive’ products, and differentiated treatment for developing countries. The issues of tariff escalation, tariff simplification and special agricultural safeguards remain under negotiation.
- *Domestic support* — Each WTO member is to substantially reduce its overall level of trade-distorting support from bound levels, based on a tiered formula to ensure that the largest reductions occur in those areas of highest support. 20 per cent of the overall reduction is to occur in the first year after the negotiations are concluded.
- *Export subsidies* — WTO members are to phase out all export subsidies and subsidised export credit arrangements by a date to be agreed, with a longer phasing period for developing countries. There will be provision for non-trade distorting “export” of food for aid purposes.

Non-agricultural goods

Use of a formula has been agreed to reduce tariffs, and to reduce or eliminate tariff peaks, high tariffs and tariff escalation on all non-agricultural goods, with the aim of harmonising tariffs to a similar level across-the-board. Developing countries are to be provided with longer implementation periods for tariff reductions, and additional flexibilities to lessen or quarantine tariff reductions for some items. Least developed countries are exempt from tariff reductions but asked to bind their tariffs. All WTO members were also requested to make notifications of their non-tariff barriers by October 2004, as a precursor to further negotiations.

Services

Following an initial series of ‘requests’ and an (incomplete) round of ‘offers’, all WTO members have been requested to submit improved ‘offers’ to reduce their barriers to trade in services by May 2005, to facilitate subsequent negotiations. Members that have not yet submitted an offer are asked to do so as soon as possible.

Trade facilitation and other ‘Singapore’ issues

It was agreed that WTO members will negotiate on trade facilitation proposals (improvements in customs, transit and border procedures) as part of the Doha Round. However, the other three ‘Singapore issues’ — investment rules, competition policy and transparency in government procurement — are off the Doha Round negotiating agenda.

4.2 Preferential trade negotiations

Until recently, Australia was a member of only three preferential trade agreements (PTAs), with Papua New Guinea, South Pacific countries and New Zealand.[1] As discussed in last year's *Review* (PC 2003b), the Australian Government completed a PTA with Singapore which became operational in July 2003. More recently, the Government has signed agreements with Thailand and the United States and has signalled an interest in agreements with China, Japan, Malaysia and ASEAN nations. Some details of these recent agreements and negotiations are outlined below.

The Thailand–Australia Free Trade Agreement

In October 2003, the Prime Ministers of Australia and Thailand announced the conclusion of a Thailand–Australia Free Trade Agreement (Howard 2003, Vaile 2003b). The Agreement was signed in March 2004 and will enter into force on 1 January 2005. The Agreement is comprehensive, covering trade in goods and services and including provisions for the reduction or elimination of barriers to market entry as well as discrimination in domestic regulation.

Merchandise trade

Australia and Thailand are to eliminate virtually all tariffs on goods imported from the other country by 1 January 2010. Australia is to eliminate 83 per cent of its tariffs on imports of Thai origin upon the agreement entering into force, and to phase down 13 per cent of its tariffs to zero by 1 January 2010 and the remainder by 1 January 2015. Thailand is to immediately eliminate 49 per cent of its tariffs on imports of Australian origin, and to phase down 44 per cent of its tariffs to zero by 1 January 2010 and the remainder over the period 2015 and 2020.

Thailand is to expand access for Australian imports under 'tariff rate quotas' over a transition period that varies according to the product, with the eventual elimination of all tariff rate quota restrictions on imports from Australia.

[1] The PTAs are the Papua New Guinea–Australia Trade and Commercial Relations Agreement (PATCRA), the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) and the Australia–New Zealand Closer Economic Relations Trade Agreement (ANZCERTA or 'CER'). However, only the CER is a reciprocal agreement.

‘Rules of origin’[2] specifying local processing and/or content requirements are used to determine whether a good is deemed to come from the Thailand or Australia for the purpose of obtaining tariff concessions under the agreement. The content and processing requirements which qualify a good vary between items of trade (see below for details). Certification of origin must be provided by the exporting party under the Agreement.

The agreement also prohibits the use of export subsidies in agricultural trade between partners.

Services

The agreement seeks to strengthen trade between partners in a range of services by treating each partner’s service suppliers on the same terms as their own businesses and by progressively liberalising the barriers that prevent service suppliers from entering each other’s markets. Australia has given commitments regarding access to, among other sectors, a range of professional and business services; banking and finance; and telecommunications. In return, Thailand has given commitments to liberalise specified parts of sectors, including: business services; construction; communication services; tertiary education services; and hotel, restaurant and recreational services.

Other matters

Investors in both countries are to be afforded treatment no less favourable than that available to local investors or nationals of any other country. Australian and Thai investors will be able to transfer funds at any time and both will have the right to seek an impartial resolution of any disputes that may not be able to be addressed through the respective legal systems. Both countries are to improve the transparency and certainty of their investment regimes. Thailand is to permit majority Australian ownership in a range of sectors and sub-sectors, including mining. Australia is to bind its current foreign investment policy settings in manufacturing and mining.

Other matters addressed in the agreement include competition policy, e-commerce, industrial standards, quarantine procedures, intellectual property, government procurement and dispute settlement procedures.

2 ‘Rules of origin’ (RoO) are the criteria used to define where a product has been made for the purposes of ensuring that only the products of countries which are party to a PTA obtain the benefits of the agreement. RoO are discussed further in section 4.3.

The Australia–United States Free Trade Agreement

Negotiations between Australia and the United States began early in 2003, and the Australia-United States Free Trade Agreement was signed in May 2004. In August 2004, the Australian Federal Parliament passed legislation necessary for Australia to meet its commitments under Agreement, which is to enter into force on 1 January 2005 (DFAT 2004a). The agreement is broad ranging and characterised by detailed sector-specific provisions.

Merchandise trade

Under the Agreement, preferential tariffs will apply between Australia and the United States. More than half of Australia's items of merchandise trade and one-third of the United States' items are already duty free and will not be affected by tariff preferences.[3] For most of the remaining products (ie products currently subject to tariffs), the tariffs on bilateral trade will be eliminated when the Agreement comes into force. For the balance, the tariffs will be eliminated in stages.

United States' 'tariff rate quotas' on certain agricultural products imported from Australia will also be expanded and, except for dairy, will be removed by year 18 of the Agreement through the elimination of all tariffs. However, tariffs and tariff rate quotas on Australian sugar imported into the United States will remain unchanged under the Agreement.

Staging of the removal of tariffs and the expansion of United States tariff-quotas is subject to product specific-rules (box 4.4).

Product-specific 'rules of origin' will be used to determine whether a good is deemed to come from the United States or Australia for the purpose of obtaining trade concessions under the Agreement. An importer may make a claim for preferential treatment under the Agreement based on the importer's knowledge or on information it holds that the good qualifies as an 'originating good'.

'Safeguard' provisions against the competitive effects of lower bilateral tariffs will apply for goods until tariffs on them are eliminated or, for selected agricultural products, until new tariff quotas come into force under the Agreement. The safeguard measures may lead to the suspension of further reductions in tariffs or an increase in customs duties to MFN rates. Special safeguard provisions are included for some products such as beef.

---

[3] Evaluated at the 6-digit sub-heading level of the Harmonized System.

.

Box 4.4 Product-specific changes to tariff arrangements between Australia and the United States under the AUSFTA

The staging schedule for Australia involves product-specific rules for textiles, clothing and footwear (TCF) and passenger motor vehicles products. In addition to product-specific rules for TCF, the staging schedule for the United States, amongst other things, contains product-specific rules for certain agricultural product groups.

- Australian and United States duties on specified TCF will be phased down progressively and removed by 2015.
- Australian duties on some specified passenger motor vehicle tariff lines will be phased down progressively and removed by 2010 while United States duties will be eliminated immediately upon the Agreement coming into force.
- United States duties on some non-agricultural items will be eliminated between years 4 and 10 of the Agreement coming into force.
- United States duties on around 9 per cent of agricultural items to be eliminated within 4 years of the Agreement coming into force. The remainder (including avocadoes, peanuts, goya cheese, tobacco and wine) will be phased out over 10 to 18 years. Annual tariff quotas, where they apply, will be increased and for most items eliminated in year 18.
- For Australian beef imported to the United States, the annual tariff rate quota will be increased by 20 000 tonnes within three years of the Agreement coming into force and will be progressively increased to reach a total of 70 000 additional tonnes after 18 years. From year 19, no tariff rate quota will apply. In-quota duty will be eliminated immediately while over-quota duty will be phased out over years 9 to 18 of the Agreement.
- For Australian dairy products imported into the United States, in-quota tariffs will be eliminated immediately while over-quota tariffs remain unchanged. Tariff rate quotas will be expanded over years 1 to 18, and thereafter, according to a product-specific growth rate.

Source: AUSFTA, Annex 2B

Services

Under the Agreement, service providers cannot be discriminated against in the partner market. In particular, obligations require, in principle, that:

- service suppliers of the partner country will be accorded no less favourable treatment than is accorded local service suppliers, in like circumstances (national treatment); or, if better,
- service suppliers of the partner country will be accorded no less favourable treatment than is accorded to service suppliers of another country, in like circumstances (most favoured nation treatment) ;

- neither country will maintain measures that limit the number of suppliers or operators, the value of their operation or employment (market access); and
- neither country will require that a service supplier of the partner country establish a local presence as a condition of cross border supply (local presence).

In addition, sector-specific provisions apply to trade in telecommunications services, electronic commerce and financial services.

Where an existing measure does not comply with obligations for national treatment, most favoured nation treatment, market access and local presence, it may be retained as a 'non-conforming measure' under the Agreement. For example, in Australia, existing local content requirements in free-to-air commercial television will be retained. Australian standards require 55 per cent local content in free-to-air television and 80 per cent local content in television advertising. For subscription television, 10 per cent expenditure on Australian drama is required. The Agreement also provides scope to apply local content requirements to new free-to-air media (eg multi channelling, pay television).

However, future amendments to such a measure must not decrease their conformity with the Agreement.

Other matters

Under the agreement, investors cannot be discriminated against in the partner market. Where an existing measure does not comply with obligations for the treatment of investment, it may be retained as a 'non-conforming measure'. Under the non-conforming measures provisions of the Agreement, Australia has agreed to raise the screening threshold from $A50 million to $A800 million for US proposals for investment in Australian businesses (other than financial sector companies) and for acquisition of developed non-commercial residential land. Certain sensitive investments can still be screened under pre-existing foreign investment guidelines, and existing foreign investment limits relating to specified entities including Telstra, Qantas, certain airports, shipping and the media have been retained.

While most areas of Australia's intellectual property law will be unchanged under the agreement, Australia will afford more protection to intellectual property owners in some areas. This will include the extension of copyright from 50 to 70 years.

Australia's Pharmaceutical Benefits Scheme (PBS) delivers subsidised medicines to the Australian community. The agreement does not entail any direct changes to the PBS apart from the establishment of an independent body to deal with pharmaceutical companies' requests to review decisions by the Pharmaceutical Benefits Advisory Committee not to list new drugs

Australia's quarantine system will be maintained under the Agreement. However, working groups on sanitary and phytosanitary measures, including plant and animal health measures, will be established under the Agreement.

Under the Agreement, a working group to examine the extension of mutual recognition of professional qualifications will be established.

The Agreement also includes provisions on customs administration, technical barriers to trade, competition related matters, government procurement, labour and the environment, institutional arrangements and dispute settlement.

Other bilateral negotiations and developments

China

Following negotiations which commenced in May 2002, in October 2003 the Australian Trade Minister and Chinese Vice Minister for Commerce signed the Australia-China Trade and Economic Framework (Vaile 2003c). Among other things, the Framework covers cooperative activities in sectors such as energy and minerals, agriculture, services and investment, and refers to other matters including education, health, food safety, customs cooperation and intellectual property rights.

A key element of the Trade and Economic Framework is a commitment to undertake a joint feasibility study into a possible preferential trade agreement between Australia and China. The Australia-China joint trade agreement feasibility study does not commit China or Australia to an agreement. Rather, the feasibility study will present a basis upon which the Australian and Chinese governments may consider the opportunities and challenges of an agreement prior to any decision being taken to commence negotiations.

As noted in the Framework, when the Australian government considers whether to enter into negotiations for an agreement, it will also consider whether to recognise China as a market economy. Paragraph 8 of the Trade and Economic Framework states that 'Recognising that Australia and China should negotiate on an equal basis, a joint decision by the two Parties to negotiate an agreement will take account of the results of the feasibility study and only follow Australia's formal recognition of China's full market economy status' (DFAT 2004b).

In April 2004, Ministers agreed to fast track the feasiblity study process, to conclude the study by the end of March 2005 (DFAT 2004b). As part of Australia's study, the Department of Foreign Affairs and Trade called for public submissions or comment on issues relevant to a possible trade agreement.

Malaysia

At the Australia-Malaysia Joint Trade Committee Meeting on 26 July 2004, Australia's Trade Minister and the Malaysian Minister for International Trade and Industry agreed that the two countries would '…conduct parallel scoping studies of an FTA between Australia and Malaysia…' (DFAT 2004c).

The studies are to be completed in the first quarter of 2005. They will provide a basis for the Australian and Malaysian Governments to decide whether to negotiate a trade agreement. As part of Australia's study, the Department of Foreign Affairs and Trade has called for public submissions or comment on issues relevant to a possible agreement.

Japan

In 27 July 2003, the Prime Ministers of Australia and Japan signed the Australia-Japan Trade and Economic Framework. The Framework includes a commitment by the two countries to work towards comprehensive liberalisation of trade and investment. A detailed study will be carried out by the two governments into the benefits of trade and investment liberalisation between Australia and Japan and how to achieve that goal.

The Department of Foreign Affairs and Trade has called for comment on issues that should be pursued as part of the Australia-Japan Trade and Economic Framework and Joint Study process. These could include issues such as market access restrictions, regulatory arrangements affecting trade, or problems with transparency.

ASEAN

On 30 November 2004, the Joint Declaration of ASEAN Leaders announced that negotiations are to commence in early 2005 on an Australia-ASEAN-New Zealand Free Trade Area. The negotiations, to be completed within two years, are to be guided by agreed principles, including that:

- the agreement should be comprehensive in scope, covering trade in goods, services and investment; and

- an objective would be a move towards deeper economic integration between ASEAN and Australia and New Zealand through progressive elimination of all forms of barriers to trade in goods, services and investment; and through trade, investment and economic cooperation measures (ASEAN 2004).

It is intended that the agreement would be fully implemented within 10 years. The Department of Foreign Affairs and Trade has called for public submissions or comment on issues relevant to a potential agreement with ASEAN and New Zealand.

Australia and New Zealand economic relations

At the annual meeting of Australian and New Zealand Trade and Economic Ministers held in Queenstown in December 2004, Ministers agreed to change the rules of origin under the Australia and New Zealand Closer Economic Relations (CER) Trade Agreement. According to the Joint Ministerial Communiqué:

> …A Change of Tariff Classification (CTC) approach will be adopted, subject to final agreement on sensitive sectors. Ministers are committed to the liberalisation of all tariff items over time. A detailed proposal will be developed by the end of March 2005 for submission to Ministers (CERMF 2004).[4]

While details of the changed origin rules are yet to be announced, the agreed change represents a departure from the approach recommended by the Productivity Commission in its report on CER rules of origin (PC 2004a). Details of the Commission's recommendations and some aspects of trade agreements are discussed in section 4.3.

The Commission has also undertaken two commissioned research reports recently into across border measures governing trade and commerce between Australia and New Zealand:

- the Trans-Tasman Mutual Recognition Agreement (TTMRA); and
- the Australia and New Zealand Competition and Consumer Protection Regimes.

The Commission's reviews found that there was scope to improve the operation of these measures and thereby further integrate the two economies (box 4.5).

---

[4] The Australian Ministers also agreed, in principle, to extend the Australian Wine Equalisation Tax rebate to certain New Zealand wine producers selling into Australia.

Box 4.5 **Cross border measures between Australia and New Zealand**

The Trans-Tasman Mutual Recognition Arrangement (TTMRA)

The Government requested the Commission to undertake a review of the TTMRA and the Australian Mutual Recognition Agreement (MRA) on which it is based, in January 2003. These two schemes embody two basic principles:

- goods that can be sold lawfully in one jurisdiction may, unless specifically excluded, be sold in any other, even where regulatory requirements on sale differ between jurisdictions; and
- if a person is registered to carry out an occupation in one jurisdiction, he or she can be registered to carry out the equivalent occupation in an other jurisdiction without the need for further assessment of qualifications.

In its final report (PC 2003a), the Commission found that there was scope to selectively extend mutual recognition to the use of goods in areas, where this is assessed to provide net benefits as judged by a proposed review body. Further progress in expanding mutual recognition to six special exemptions under the TTMRA — chemicals, therapeutic goods, road vehicles, gas appliances, electromagnetic and radio-communication equipment, and consumer product safety standards and bans — will require greater cooperation across agencies and jurisdictions to address inconsistent and cumbersome regulation and regulatory practices. Selective modifications to coverage, scope, administrative practices and review mechanisms were also recommended.

Australia and New Zealand Competition and Consumer Protection Regimes

In July 2004, the Commission was asked to examine to potential for greater cooperation, coordination and integration of the competition and consumer protection regimes in Australia and New Zealand.

The Commission's draft report (PC 2004d) found that there has already been significant convergence of Australia's and New Zealand's competition and consumer protection laws. The Commission suggested that major change was not warranted. Nevertheless, it found that there was scope for regulators in each country to engage in greater cooperation, including in operations, enforcement, information sharing and research.

The report and its recommendations are being finalised, following comments received on the draft. The Commission's final report is expected to be submitted to the Australian and New Zealand Governments in late December 2004.

Sources: PC (2003a), PC (2004d)

4.3 Some aspects of preferential trade agreements

The recent increase in the negotiation of PTAs by Australia reflects a global trend. Until relatively recently, the number of preferential trade agreements in force world-wide was small (WTO 2004b). Most world trade between market economies was conducted on a non-preferential — or most favoured nation (MFN) — basis whereby all countries are obliged to receive tariff treatment equivalent to the lowest rate applied. Since 1990, however, the global trading system has seen a substantial increase in the number of PTAs which encourage trade and economic integration between two or more countries. Unlike many earlier PTAs which involved several nations, the vast majority of PTAs created since 1990 have been bilateral agreements. By October 2004, more than 260 arrangements covering trade in goods or services had been notified to the GATT/WTO — with 15 being notified in the last year alone. Of those notified, 156 are currently in force. By the end of 2005, if trade agreements reportedly planned or already under negotiation are concluded, the total number of agreements notified could approach 300 (WTO 2004b).

The term ‘trade agreement’ (and especially ‘free’ trade agreement) is used loosely. It covers a wide variety of arrangements for providing more favourable market access to and among a selected group of countries. At a basic level, such arrangements can refer to the reduction or elimination of traditional border protection such as tariffs on imports and barriers to trade in services, investment and the movement of people imposed at the border. They can also refer to the liberalisation of measures that are ‘beyond the border’ such as local content schemes and ownership rules. Finally, they can relate to the harmonisation of standards ‘across the border’, such as alignment of competition policy and the mutual recognition of each others standards. The full implementation of these reforms would lead to a single market encompassing countries within an agreement.

With trading agreements being determined by the economic and political factors particular to each, the design and coverage of individual agreements and supporting regulation differ significantly. For example, in a recent survey of trade agreements involving Australia, Lloyd and MacLaren (2004) found little consistency in the coverage of beyond-the-border and across-the-border measures. The Commission’s analysis of rules for determining the origin of goods (discussed below) also found little consistency between agreements despite important similarities in the basic frameworks for the design of origin rules.

With many possible design features, with scope for provisions to erode the trade liberalising intent of an agreement and with the emergence of numerous overlapping agreements with different provisions, the effects of PTAs are significantly more complex and uncertain than the effects of multilateral reform. The recent surge in the creation of PTAs, while affording possible benefits, also carries some risk.

The Commission has recently undertaken a number of studies which have explored aspects of PTAs, including:

- a staff study which measured changes in trade and investment flows following the establishment of some longer-standing trade agreements between market economies (Adams et al. 2003);
- a commissioned research report on 'rules of origin' that apply under the CER agreement, and options for their reform (PC 2004a — see box 4.6); and
- as supplements to the above report, an analysis of assistance to Australian and New Zealand industries provided by CER (PC 2004b); and an analysis (in the form of a restrictiveness index) of preferential 'rules of origin' in 18 PTAs (PC 2004c).

Box 4.6 **Rules of origin under CER: the Commission's study**

In August 2003, the Commission was asked to examine Australia's rules of origin (RoO) arrangements under the Australia–New Zealand Closer Economic Relations (CER) Agreement and, amongst other things, to propose changes to ensure the CER RoO promote the goals of the CER.

As noted, RoO in preferential trade agreements, such as the CER Agreement between Australia and New Zealand, are required to confine access to trade concessions to goods from member countries.

In its research report released in May 2004, the Commission found that CER RoO are relatively 'clean' and simple. Nevertheless, it found that the rules had not kept pace with changes in technology and business practices. The Commission also found that:

- trade concessions under CER had declined in value as tariffs in both countries had been reduced and that the relevance of origin rules has consequently diminished; and
- in view of the maturity of the CER Agreement and the significant limitations of alternative models for determining origin, the basic framework of the CER RoO should remain unchanged.

The Commission found that the most fruitful approach to addressing problems with CER origin rules would be:

- to implement some relatively minor changes to reduce operational problems; and
- to liberalise the current rules by applying a waiver to provide duty free entry to CER goods manufactured within Australia or New Zealand which face trans-Tasman tariff differences of 5 percentage points or less.

The report also suggested some design principles to guide the assessment of options for change.

Source: PC 2004a

This section discusses some of the findings of this research. It also extends the analysis of the restrictiveness of different rules of origin to cover the recent PTAs negotiated with Thailand and the United States.

Some general trade and investment effects of PTAs

As the Commission has previously noted (PC 2001a), preferential reductions of tariffs among PTA members may have beneficial or adverse effects for members and for third parties. For example, the exchange of tariff preferences may generate new trade, to the benefit of members and their trading partners. However, such an agreement may also divert trade from more efficient third-party producers to less efficient PTA members, to the detriment of both members and third parties. The net effect of the trade provisions of any PTA may be positive or negative.

An empirical study by Commission staff (Adams et al. 2003) suggested that a number of longer-standing PTAs may have diverted more trade than they created, although it also found evidence that some non-trade provisions could enhance international investment flows, particularly if the provisions are non-preferential in nature. The results of this and other studies highlight the desirability of undertaking careful assessments of the details of proposed PTAs.

Assistance provided by preferential tariffs

One side-effect of PTAs is that, in seeking to increase trade by providing preferential access to goods originating in the preferential area, they may extend assistance afforded by the tariffs of one country to producers in the other. Under the CER agreement, for example, New Zealand products exported to Australia are exempt from Australian tariffs, whereas competing products exported to Australia from other nations are not exempt. This provides a degree of assistance to the New Zealand producers — who may be able to maintain their prices on the Australian market and effectively 'pocket' the tariff saving. Similarly, duty free access available to Australian producers in the New Zealand market can extend that country's tariff protection to them.

Even when tariffs are low, as they generally now are in Australia and New Zealand, tariff preferences can expand the protected market available to domestic producers in both countries and raise assistance. For example, using an extension of conventional assistance measurement methodologies (see box 4.7), the Commission found in its recent study on the CER (PC 2004a) that the Agreement is likely to have increased the effective assistance to manufacturing in Australia by nearly 0.1 percentage point and in New Zealand by 0.7 percentage points in 2001-02. The greatest advantage was afforded textiles, clothing and footwear producers in New Zealand, who received an additional 2 percentage points in effective assistance.

Clearly when tariffs are high, as they were at the inception of the CER Agreement in 1984, preferential trade agreements can afford significant additional border protection to producers in the partner countries. When tariffs are disparate, the assistance afforded by tariff preferences to producers of similar products can also differ significantly. The extent to which such assistance differences erode economic efficiency and welfare in partner countries depend on the level of trade between partners and market conditions.

Box 4.7 **Measuring assistance afforded by preferential trade**

To assist in assessing the link between tariff preferences and industry assistance in trade agreements, the standard effective assistance framework can be extended to include the assistance effects of a preferential agreement and provide new measures of the value of this assistance to Australian producers. In calculating total assistance to industry in Australia (and the partner country), standard assistance calculations are first applied to that part of output sold to the local market. Assistance to that part of production which enters the PTA trade is then added to traditional assistance measures.

The assistance calculations invoke the standard assumptions of assistance measurement. They include the 'small country assumption', whereby a country is assumed to be unable to influence world prices of either their imports or exports. In conjunction with this assumption, it is normally assumed that Australian producers price up to the value of competing imports plus the effect of duty or other border restrictions on trade. In addition, the analysis of preferential assistance assumes that the landed price available to an Australian exporter in the partner country is equal to the import parity price plus the margin of preference implied by the MFN rates in the partner economy.

The assistance measures are derived using static, partial-equilibrium assumptions. These focus attention on the initial impact of border protection and other interventions on prices, costs and returns. Thus, while the assistance measures indicate the initial transfers associated with industry protection, they do not indicate changes in industry supply, demand or productivity, or economy-wide effects.

Similarly, when applied to the measurement of assistance afforded by a preferential trade agreement, while the measures indicate the initial transfers associated with trade preferences, they do not indicate the extent to which trade is created or diverted to higher cost sources, the impacts of rules of origin on productivity, or the economy-wide effects of trade preferences.

Source: PC 2004b.

The restrictiveness of rules of origin

As noted above, RoO are the criteria used to define where a product has been made for the purposes of ensuring that only the products of countries which are party to a PTA obtain the benefits of the agreement. In the case the AUSFTA for example, RoO would be used to determine whether a product exported to the United States from Australia, which comprises inputs or components sourced from another country, can be considered to be an Australian product and thus receive preferential access to the United States market (and vice versa).

Origin rules are a necessary part of a PTA. However, depending upon how they are specified, they can — to varying degrees — restrict trade, misdirect investment, inhibit productivity growth and reduce welfare. They can also raise the administrative costs to firms of doing business (including complying with paperwork requirements) and the Customs Services face costs in administering and auditing the RoO. The global increase in the number of PTAs will result in diverse RoO, adding to the complexity and compliance costs of engaging in trade. However, because RoO act as regulatory (non-tariff) barriers to trade, their impact is not easily measured or evaluated.

To assist in addressing the issues raised in the study and to help fill the information gap concerning the impact of origin rules, the Commission estimated the relative restrictiveness of RoO for various PTAs using an index framework. This is a useful way to assess the degree of restrictiveness when price and quantity measures are not available. The index measures provide insights into the extent to which RoO-related regulatory barriers may restrict trade. An overview of the index methodology is provided in box 4.8.

Results from index calculations show variation in restrictiveness of origin rules across PTAs. They suggest that the restrictiveness of RoO in the CER Agreement is low to moderate, relative to the level of restrictiveness identified in seventeen other agreements (figure 4.1). They also suggest that NAFTA and related agreements and agreements entered into by the European Union, have the most restrictive rules. These agreements tend to be associated with regimes that adopt multiple criteria for determining origin, more restrictive variants of individual criteria and product specific rules, particularly in areas otherwise supported by higher tariffs. In addition, the more restrictive RoO tend to be associated with PTAs where member countries have higher average tariffs and non-tariff barriers and where differences in tariffs in each member country are also relatively high (PC 2004a).

Box 4.8 The restrictiveness index

Index methodologies have been applied in the assessment of North American and European Union-related trade agreements. Indexes developed in previous studies have focused on primary provisions of origin rules. Other, supplementary, factors affecting the restrictiveness or origin rules have also been taken into account. The Commission's study expands the range of factors taken into account. It includes for example, details of regional value requirements and factors influencing market access in the index.

The overall index score for a particular set of RoO in the Commission's index reflects the number of restrictions that are applied and the relative importance of those restrictions. The higher the overall index, the more restrictive is the trading regime for the members of that PTA. Within each restriction category, a score is assigned to the particular category of origin determination. The score ranges from 0 (least restrictive) to 1 (most restrictive). Each category also receives a weighting that indicates the relative restrictiveness of that category on the aggregate merchandise trade and firms' economic efficiency. The results for all relevant RoO provisions are normalised to a scale of zero to 1. The higher the weighting, the more restrictive an origin category is considered to be, relative to other categories. However, it needs to be appreciated that the information base for compiling the index — for example, for nominating the weights to be used — is limited. The results should therefore be seen as indicative of orders of magnitude, rather than as a precise measure of restrictiveness.

RoO are not readily modelled in quantitative assessments of the welfare implications of agreements. Nevertheless, simulations of the possible welfare gains from an agreement will be biased upward because these rules reduce the degree of liberalisation implicit in the size of the reductions in tariffs. The more restrictive the RoO the larger the bias is likely to be. By indicating the restrictiveness of origin rules, the index also reflects the welfare implications of those rules.

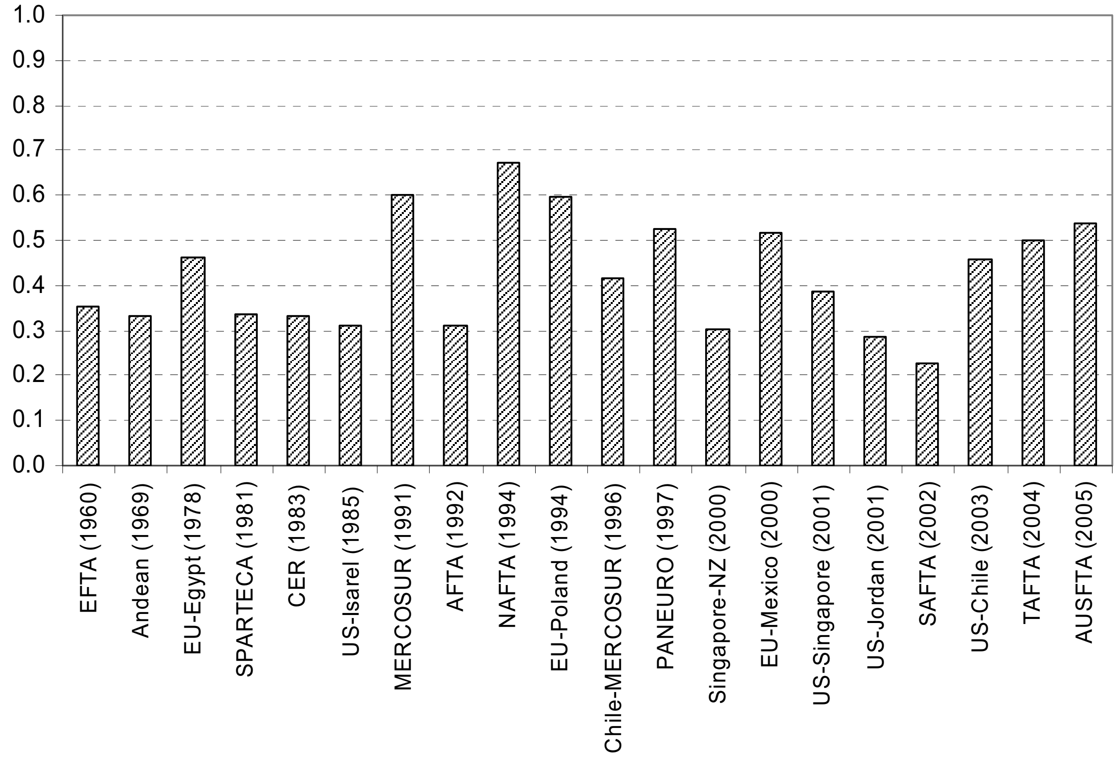
Source: PC 2004c.

The methodology has also been applied to consider the relative restrictiveness of origin rules that will apply in the AUSFTA and TAFTA outlined above. The index suggests that the regimes will be of medium to high restrictiveness. This reflects the product-specific nature of the rules, which often involve multiple criteria and more restrictive variants of some criteria. In particular, regional value content tests will apply in conjunction with one or more other tests in around one quarter of trade items with non-zero tariffs under TAFTA origin rules.[5] Under the AUSFTA origin rules, about 15 percent of non-zero items in the US tariff will be subject to regional value content requirements. Where regional value content requirements do not apply, more restrictive variants of other provisions are often applied. For example,

[5] Items of trade as defined at the 6-digit sub-heading level of the Harmonized Commodity Description and Coding System (Harmonized System) for the classification of international trade.

in AUSFTA, a NAFTA-based 'yarn-forward' rule applies, which in many cases requires that the yarn used to make fabric must be 'formed' within the territory of the trade agreement. This rule is widely regarded as being highly prescriptive concerning the sourcing of inputs into textile production and hence restrictive.[6]

Figure 4.1 **Restrictiveness of preferential RoO in selected PTAs**
Index score ranges from zero (least restrictive) to 1 (most restrictive).



Source: Commission estimates.

The indexes also suggest that the TAFTA and AUSFTA rules will be more restrictive than those applying in pre-existing agreements made by Australia — CER, Singapore–Australia Free Trade Agreement (SAFTA) and South Pacific Region Trade and Economic Cooperation Agreement (SPARTECA).[7] These other

[6] The basic origin rule for textile and clothing articles under NAFTA and like agreements is the yarn–forward rule. Variations of this rule are used in more recent US trade agreements, such as with Chile and Singapore.

[7] Under SAFTA and CER, members offer trade concessions to each other on a reciprocal basis. SPARTECA is a non-reciprocal trade agreement under which Australia and New Zealand offer duty free and unrestricted or concessional access for virtually all products originating from Forum Island Countries. The Agreement on Trade and Commercial Relations between the Government of Australia and the Government of Papua New Guinea (PATCRA II) is also non-reciprocal. The rules of origin for this agreement are similar to those applying in SPARTECA.

agreements are free from product-specific rules and more restrictive variants of provisions in use for determining origin.

Design principles for RoO

Countries engage in trade agreements with the expectation that the agreements will yield gains in income to members. However, as mentioned, rules of origin raise costs and lower productivity and can erode the potential benefits that may otherwise accrue from the formation a PTA. Any costs would be on top of losses of efficiency and productivity arising from higher effective assistance to industry arising from preferential trade. The risk of erosion of potential benefits of bilateral tariff reductions from RoO are highest when tariff rates are high and disparate.

To fully realise the potential benefits of bilateral tariff reductions from a PTA, the Commission found that the formation of origin rules should be guided by certain design principles (box 4.9).

Box 4.9 **Rules of origin: some design principles**

To help ensure that the potential benefits from a PTA are fully realised, RoO should:

- include a clear and unambiguous statement of their objective;
- conform with the goals of the PTA;
- be consistent with the country's international obligations;
- avoid product-specific rules;
- avoid undue distortions in the allocation of resources and associated reductions in economic efficiency;
- facilitate organisational and technological innovation and the capacity of producers to respond to changes in consumer tastes;
- minimise compliance costs for industry;
- minimise administration costs for government;
- be certain and consistent in the determination of origin; and
- operate in a transparent and accountable manner.

Ideally, the design of RoO in a PTA would comply with each of these principles. In practice, however, the presence of tariff and non-tariff barriers that differ between countries, together with other factors specific to the economies of particular members of a PTA, can make it difficult to achieve full compliance with some of these principles, or simultaneous compliance with all of them.

Hence, some trade-offs between these design principles are likely — for example, the mere introduction of RoO that conform to the goals of the PTA would distort the allocation of resources and raise costs, relative to a situation of multilateral liberalisation. This means that application of the design principles should be aimed at moving toward unrestrictive RoO and ultimately, freer trade, rather than toward RoO which reinforce the discriminatory nature of a PTA.

The Commission's analysis suggests that, as a minimum objective, RoO should not be used as an instrument for *increasing* border protection afforded to producers in participating economies, nor as a means to compensate them for differences in input costs or tariffs on inputs between member countries. It found that it would not be appropriate to use preferential origin rules in trade agreements:

- as a substitute for tariff assistance, particularly to compensate for increased competition arising from bilateral tariff reductions implemented through the PTA; or
- to implement specific industry policy objectives, such as encouraging investment in a particular activity or region.

A Estimates of Australian Government budgetary assistance

Each year, the Commission calculates estimates of the Australian Government's budgetary assistance to industry. Prior to 2000, estimates had been reported only at the sectoral level — that is, for manufacturing, primary production, mining and services. To provide more detailed information on the incidence of this assistance, in 2000 the Commission disaggregated its estimates for the manufacturing and services sectors into 11 and 14 industry groupings respectively. The methodology used to allocate budgetary assistance to these industry groupings was described in a *Methodological Annex* to the 1999-2000 *Review* (PC 2000c). In 2002, the Commission provided further detail by disaggregating its estimates for primary production sector into 10 industry groupings. The methodology used was set out in *Methodological Annex B* to the 2001-02 *Review* (PC 2002c). In total, the Commission now reports estimates for 36 industry groupings (plus 4 *unallocated* groupings).

The tables in this appendix provide information on budgetary assistance to each industry grouping, for the years from 2001-02 to 2004-05, including;

- the programs classified as assisting the grouping and the extent of that assistance;
- the activity that each program assists — such as exports and research and development; and
- the type of assistance that each program provides — that is, tax exemptions (TE), direct financial assistance (DFA) or the funding of institutions (FI).

The assistance estimates in this appendix are derived primarily from the Australian Government Budget Papers and Treasury's Tax Expenditure Statement. The outlay figures up to 2003-04 are estimates, and those for 2004-05 are projections (based on Treasury forecasts). The tax concession figures up to 2002-03 are estimates, while those for 2003-04 and 2004-05 are projections. The estimates incorporate revisions to outlays and tax concessions for previous years.

The Commission's approach to measuring budgetary assistance is explained in more detail in *Methodological Annex A* to the 2001-02 *Review* (PC 2003c). The Commission periodically reviews its approach to assistance measurement, and intends to review its budgetary assistance allocation methodologies, and the coverage of the estimates, in the year ahead.

Table A.1 **Australian Government budgetary assistance to primary production, 2001-02 to 2004-05**

$ million

	Type[a]	*01-02*	*02-03*	*03-04*[b]	*04-05*[b]
Horticulture and fruit growing					
Industry-specific measures					
Citrus Industry Market Diversification Subsidy	DFA	0.7	-	-	-
Tax deduction for horticultural plantations	TE	6.0	7.0	8.0	8.0
Tax deduction for grape vines	TE	12.0	16.0	20.0	25.0
Sector-specific measures					
Farm Help	DFA	5.0	3.5	2.3	5.1
Farm Management Deposits Scheme	TE	13.3	37.3	18.1	18.1
Farm Bis Program	FI	1.9	4.0	3.8	1.8
Income tax averaging provisions	TE	20.1	23.5	23.5	23.5
Rural Financial Counselling Service	FI	0.6	0.5	0.6	0.5
Skilling farmers for the future	FI	0.4	0.5	0.4	-
Tax allowance on drought preparedness assets	TE	<0.1	-	-	-
Tax deduction for conserving or conveying water	TE	4.5	4.5	4.5	5.6
Rural R&D measures					
Grape and Wine R&D Corporation	FI	5.9	7.0	7.4	9.1
Horticulture R&D	FI	26.3	29.6	29.5	30.0
Rural Industries R&D Corporation	FI	2.2	2.1	2.2	2.2
General export measures					
Export Market Development Grants Scheme	DFA	1.7	1.7	1.6	1.7
TRADEX	TE	0.1	<0.1	<0.1	<0.1
General investment measures					
Development allowance	TE	<0.1	<0.1	-	-
General R&D measures					
Biotechnology Innovation Fund	DFA	-	-	0.1	-
Commercial Ready Program	DFA	-	-	-	0.3
COMET Program	DFA	0.1	<0.1	<0.1	<0.1
Cooperative Research Centres	FI	2.1	2.0	4.1	4.1
CSIRO	FI	9.8	10.0	13.3	14.0
Farm Innovation Program	DFA	3.1	0.7	0.1	-
New Industries Development Program	FI	1.4	1.3	1.1	1.2
Preseed fund	FI	-	3.4	0.7	1.3
R&D Start	DFA	0.1	1.6	0.2	-
R&D tax concession	TE	0.3	0.1	0.1	0.2
Other measures					
Eden Structural Adjustment	DFA	-	<0.1	<0.1	-
Small business capital gains tax exemption	TE	0.3	0.5	0.5	0.5
South West Forests Structural Adjustment	DFA	0.1	0.1	0.3	0.3
Wide Bay Burnett Structural Adjustment Program	DFA	0.1	0.1	0.2	0.2
Total		*117.9*	*157.2*	*142.6*	*152.6*

Table A.1 (continued)

	Type[a]	01-02	02-03	03-04[b]	04-05[b]
Grain, sheep and beef cattle farming					
Industry-specific measures					
Beef Expo + Gracemere Saleyards	FI	1.8	3.9	-	-
Lamb Industry Development Program	DFA	11.7	-	-	-
Tasmanian wheat freight subsidy	DFA	0.8	0.8	0.8	0.8
Sector-specific measures	FI				
Farm Help	DFA	8.1	12.3	5.0	11.1
Farm Management Deposits Scheme	TE	109.8	306.4	131.3	131.3
Farm Bis Program	FI	11.6	17.7	14.2	6.7
Income tax averaging provisions	TE	150.6	175.7	175.7	175.7
Rural Financial Counselling Service	FI	3.1	3.1	1.0	0.9
Skilling farmers for the future	FI	2.3	2.3	1.6	-
Tax allowance on drought preparedness assets	TE	0.8	-	-	-
Tax deduction for conserving or conveying water	TE	7.3	7.3	7.3	9.1
Rural R&D measures					
Grains R&D Corporation	FI	40.8	39.2	41.3	37.9
Meat and livestock R&D	FI	22.9	26.6	32.8	28.5
Wool R&D	FI	14.4	16.2	14.1	16.2
General export measures					
EFIC national interest business[c]	DFA	15.5	17.1	17.1	14.3
Export Market Development Grants Scheme	DFA	0.2	0.3	0.5	0.3
General investment measures					
Development allowance	TE	<0.1	<0.1	-	-
General R&D measures					
Biotechnology Innovation Fund	DFA	-	0.1	0.1	-
Commercial Ready Program	DFA	-	-	-	0.2
COMET Program	DFA	-	<0.1	<0.1	<0.1
Cooperative Research Centres	FI	3.9	5.2	8.8	8.8
CSIRO	FI	41.3	42.4	61.3	64.6
Farm Innovation Program	DFA	0.8	0.2	<0.1	-
New Industries Development Program	FI	0.3	0.3	0.2	0.3
R&D Start	DFA	-	-	0.1	-
R&D tax concession	TE	2.0	1.0	1.1	1.3
Other measures					
Small business capital gains tax exemption	TE	0.7	1.3	1.3	1.3
Total		*450.8*	*679.3*	*515.7*	*509.2*

Table A.1 (continued)

	Type[a]	01-02	02-03	03-04[b]	04-05[b]
Dairy cattle farming					
Sector-specific measures					
Farm Help	DFA	2.4	8.3	5.0	10.9
Farm Management Deposits Scheme	TE	10.0	21.2	9.2	9.2
Farm Bis Program	FI	1.3	2.4	1.6	0.8
Income tax averaging provisions	TE	17.3	20.2	20.2	20.2
Rural Financial Counselling Service	FI	0.4	0.8	0.1	0.1
Skilling farmers for the future	FI	0.3	0.3	0.2	-
Tax allowance on drought preparedness assets	TE	<0.1	-	-	-
Tax deduction for conserving or conveying water	TE	0.6	0.6	0.6	0.8
Rural R&D measures					
Dairy Research and Development	FI	15.4	14.1	15.4	15.2
General export measures					
Export Market Development Grants Scheme	DFA	-	<0.1	<0.1	<0.1
General R&D measures					
CSIRO	FI	9.7	9.9	12.7	13.4
Farm Innovation Program	DFA	0.1	<0.1	<0.1	-
New Industries Development Program	FI	0.4	0.3	0.3	0.3
Other measures					
Small business capital gains tax exemption	TE	<0.1	<0.1	<0.1	<0.1
Total		*57.9*	*78.3*	*65.3*	*70.9*
Poultry farming					
Sector-specific measures					
Farm Help	DFA	0.5	0.6	0.1	0.3
Farm Management Deposits Scheme	TE	0.3	0.6	0.4	0.4
Farm Bis Program	FI	<0.1	0.1	0.1	<0.1
Income tax averaging provisions	TE	1.7	2.0	2.0	2.0
Rural Financial Counselling Service	FI	-	<0.1	<0.1	<0.1
Skilling farmers for the future	FI	<0.1	<0.1	<0.1	-
Tax deduction for conserving or conveying water	TE	0.1	0.1	0.1	0.1
Rural R&D measures					
Egg Research and Development	FI	-	-	1.3	1.3
Rural Industries R&D Corporation	FI	2.8	1.7	2.0	2.0
General export measures					
Export Market Development Grants Scheme	DFA	-	-	0.1	-
General R&D measures					
Cooperative Research Centres	FI	-	-	3.1	3.1
CSIRO	FI	-	-	1.0	1.0
Farm Innovation Program	DFA	0.4	0.1	<0.1	-
New Industries Development Program	FI	0.2	0.1	0.1	0.1
R&D tax concession	TE	<0.1	<0.1	<0.1	<0.1
Other measures					
Small business capital gains tax exemption	TE	<0.1	0.1	0.1	0.1
Total		*5.9*	*5.4*	*10.3*	*10.4*

Table A.1 (continued)

	Type[a]	01-02	02-03	03-04[b]	04-05[b]
Other livestock farming					
Sector-specific measures					
Farm Help	DFA	0.4	1.1	0.2	0.5
Farm Management Deposits Scheme	TE	7.8	19.8	9.3	9.3
Farm Bis Program	FI	0.1	0.4	0.3	0.1
Income tax averaging provisions	TE	6.5	7.6	7.6	7.6
Rural Financial Counselling Service	FI	0.1	0.2	0.2	0.2
Skilling farmers for the future	FI	<0.1	<0.1	<0.1	-
Tax allowance on drought preparedness assets	TE	<0.1	-	-	-
Tax deduction for conserving or conveying water	TE	0.3	0.3	0.3	0.4
Rural R&D measures					
Pig Research and Development	FI	3.7	3.3	4.7	4.1
Rural Industries R&D Corporation	FI	1.2	1.2	1.1	1.1
General export measures					
Export Market Development Grants Scheme	DFA	0.3	0.6	0.4	0.6
General R&D measures					
COMET Program	DFA	0.1	<0.1	-	-
CSIRO	FI	4.0	4.1	3.1	3.3
Farm Innovation Program	DFA	0.5	0.1	<0.1	-
New Industries Development Program	FI	0.3	0.3	0.2	0.3
R&D tax concession	TE	0.5	0.3	0.3	0.4
Other measures					
Small business capital gains tax exemption	TE	<0.1	<0.1	<0.1	<0.1
Total		*25.8*	*39.2*	*27.9*	*27.8*
Other crop growing					
Industry-specific measures					
Sugar industries package	FI	19.3	-	-	-
Sugar Industry Infrastructure Program	FI	1.8	-	-	-
Sugar Industry Reform Program	DFA	-	-	69.9	208.1
Sector-specific measures					
Farm Help	DFA	10.0	2.4	2.5	5.6
Farm Management Deposits Scheme	TE	7.7	21.3	10.3	10.3
Farm Bis Program	FI	0.2	1.1	0.9	0.4
Income tax averaging provisions	TE	6.4	7.5	7.5	7.5
Rural Financial Counselling Service	FI	0.3	0.1	0.1	<0.1
Skilling farmers for the future	FI	<0.1	0.1	0.1	-
Tax allowance on drought preparedness assets	TE	0.1	-	-	-
Tax deduction for conserving or conveying water	TE	6.8	6.8	6.8	8.5
Rural R&D measures					
Cotton Research and Development Corporation	FI	7.2	7.3	4.7	3.7
Rural Industries R&D Corporation	FI	3.0	3.3	3.2	3.2
Sugar Research and Development Corporation	FI	7.0	5.1	4.8	3.9

Table A.1 (continued)

	Type[a]	01-02	02-03	03-04[b]	04-05[b]
General export measures					
Export Market Development Grants Scheme	DFA	0.5	0.3	0.2	0.3
TRADEX	TE	-	<0.1	<0.1	<0.1
General R&D measures					
Biotechnology Innovation Fund	DFA	-	<0.1	0.2	-
Commercial Ready Program	DFA	-	-	-	0.2
COMET Program	DFA	-	<0.1	<0.1	<0.1
Cooperative Research Centres	FI	10.2	8.7	10.6	10.6
CSIRO	FI	9.2	9.5	8.5	9.0
Farm Innovation Program	DFA	0.9	0.2	<0.1	-
New Industries Development Program	FI	0.2	0.1	0.1	0.1
R&D Start	DFA	0.1	-	-	-
R&D tax concession	TE	2.0	1.0	1.1	1.3
Other measures					
Small business capital gains tax exemption	TE	0.1	0.1	0.1	0.1
Total		*93.0*	*75.2*	*131.8*	*273.0*
Services to agriculture (inc hunting and trapping)					
Sector-specific measures					
Farm Bis Program	FI	-	<0.1	0.1	0.1
Income tax averaging provisions	TE	9.5	11.1	11.1	11.1
Skilling farmers for the future	FI	-	<0.1	<0.1	-
Tax allowance on drought preparedness assets	TE	<0.1	-	-	-
Tax deduction for conserving or conveying water	TE	0.4	0.4	0.4	0.5
General export measures					
Export Market Development Grants Scheme	DFA	0.3	0.4	0.6	0.4
TRADEX	TE	0.1	<0.1	<0.1	<0.1
General R&D measures					
Biotechnology Innovation Fund	DFA	0.1	1.2	0.9	-
Commercial Ready Program	DFA	-	-	-	2.7
COMET Program	DFA	0.3	0.1	0.1	0.1
Farm Innovation Program	DFA	-	<0.1	<0.1	-
R&D Start	DFA	5.2	1.1	1.3	-
R&D tax concession	TE	0.7	0.4	0.4	0.5
Other measures					
Small business capital gains tax exemption	TE	0.2	0.3	0.3	0.3
South West Forests Structural Adjustment	DFA	0.1	0.1	0.2	0.2
Wide Bay Burnett Structural Adjustment	DFA	<0.1	<0.1	0.1	0.1
Total		*16.9*	*15.2*	*15.6*	*15.9*

Table A.1 (continued)

	Type[a]	01-02	02-03	03-04[b]	04-05[b]
Forestry and logging					
Industry-specific measures					
Forest Industry Structural Adjustment	DFA	18.9	16.4	21.5	14.3
Sector-specific measures					
Farm Management Deposits Scheme	TE	0.1	0.4	0.2	0.2
Income tax averaging provisions	TE	2.7	3.1	3.1	3.1
Rural Financial Counselling Service	FI	-	-	<0.1	<0.1
Tax deduction for conserving or conveying water	TE	<0.1	<0.1	<0.1	<0.1
Rural R&D measures					
Forest and Wood Products R&D	FI	2.8	2.9	3.1	3.3
Rural Industries R&D Corporation	FI	2.2	1.8	1.7	1.7
General export measures					
Export Market Development Grants Scheme	DFA	-	<0.1	<0.1	<0.1
General R&D measures					
COMET Program	DFA	-	0.1	<0.1	<0.1
Cooperative Research Centres	FI	2.4	2.4	2.5	2.5
CSIRO	FI	12.0	12.4	19.5	20.5
Farm Innovation Program	DFA	-	<0.1	<0.1	-
R&D tax concession	TE	0.5	0.2	0.3	0.3
Other measures					
Eden Structural Adjustment	DFA	0.1	<0.1	<0.1	-
Small business capital gains tax exemption	TE	0.1	0.1	0.1	0.1
Total		*41.7*	*40.1*	*52.2*	*46.2*
Marine fishing					
Sector-specific measures					
Farm Management Deposits Scheme	TE	0.9	2.4	1.0	1.0
Farm Bis Program	FI	0.1	0.8	3.3	1.5
Income tax averaging provisions	TE	22.7	26.5	26.5	26.5
Skilling farmers for the future	FI	<0.1	0.9	1.0	
Tax deduction for conserving or conveying water	TE	<0.1	0.1	0.4	-
Rural R&D measures					
Fishing industry R&D	FI	8.7	9.6	10.4	9.8
General export measures					
Export Market Development Grants Scheme	DFA	0.2	0.2	0.3	0.2
TRADEX	TE	<0.1	<0.1	<0.1	<0.1
General R&D measures					
Commercial Ready Program	DFA	-	-	-	1.1
COMET Program	DFA	<0.1	-	-	-
CSIRO	FI	25.8	26.8	29.0	30.2
Farm Innovation Program	DFA	0.5	0.1	<0.1	-
New Industries Development Program	FI	0.2	0.1	0.1	0.1
R&D Start	DFA	1.3	0.1	0.9	-
R&D tax concession	TE	0.1	0.1	0.1	0.1

Table A.1 (continued)

	Type[a]	01-02	02-03	03-04[b]	04-05[b]
Other measures					
Eden Structural Adjustment	DFA	0.2	0.1	<0.1	-
Small business capital gains tax exemption	TE	0.4	0.6	0.6	0.6
Total		*61.1*	*67.5*	*72.5*	*71.1*
Aquaculture					
Industry-specific measures					
Aquaculture Industry Action Agenda	FI	-	-	2.5	1.0
Sector-specific measures					
Farm Help	DFA	0.1	0.1	0.1	0.2
Farm Management Deposits Scheme	TE	0.2	0.6	0.2	0.2
Farm Bis Program	FI	0.1	0.3	0.4	0.2
Income tax averaging provisions	TE	2.4	2.8	2.8	2.8
Rural Financial Counselling Service	FI	-	<0.1	<0.1	<0.1
Skilling farmers for the future	FI	<0.1	<0.1	<0.1	-
Tax deduction for conserving or conveying water	TE	<0.1	<0.1	<0.1	<0.1
Rural R&D measures					
Fishing industry R&D	FI	7.1	7.8	8.4	8.0
General export measures					
Export Market Development Grants Scheme	DFA	0.2	0.1	0.2	0.1
TRADEX	TE	<0.1	<0.1	<0.1	<0.1
General investment measures					
Development allowance	TE	1.9	1.6	-	-
General R&D measures					
Commercial Ready Program	DFA	-	-	-	1.7
COMET Program	DFA	-	<0.1	0.1	0.1
Cooperative Research Centres	FI	1.5	2.6	2.6	2.6
CSIRO	FI	1.9	1.9	-	-
Farm Innovation Program	DFA	0.2	<0.1	<0.1	-
New Industries Development Program	FI	0.3	0.2	0.2	0.2
R&D Start	DFA	1.0	0.4	1.3	-
R&D tax concession	TE	0.4	0.2	0.2	0.3
Other measures					
Eden Structural Adjustment	DFA	-	<0.1	<0.1	-
Small business capital gains tax exemption	TE	<0.1	<0.1	<0.1	<0.1
South West Forests Structural Adjustment	DFA	<0.1	0.1	0.1	0.1
Total		*17.3*	*19.0*	*19.3*	*17.5*

Table A.1 (continued)

	Type[a]	01-02	02-03	03-04[b]	04-05[b]
Unallocated primary production					
Industry-specific measures					
Australian animal health laboratory	FI	5.9	6.1	6.2	6.8
Exotic Disease Preparedness program	FI	1.2	1.2	3.0	1.2
Sector-specific measures					
Agricultural development partnership	DFA	1.0	4.5	7.4	3.0
Farm Help	DFA	0.6	0.5	0.3	0.7
Farm Bis Program	FI	0.6	1.2	1.1	0.5
Industry Partnerships Program	DFA	-	-	-	4.7
National landcare program	FI	40.3	32.7	39.1	39.3
Rural adjustment scheme	DFA	21.6	3.2	4.7	-
Rural Financial Counselling Service	FI	0.7	0.6	3.3	2.8
Skilling farmers for the future	FI	0.1	0.2	0.1	-
Rural R&D measures					
Land and water resources R&D	FI	11.6	11.9	12.2	12.6
Rural Industries R&D Corporation	FI	3.9	4.4	4.6	4.6
General R&D measures					
Biotechnology Innovation Fund	DFA	-	-	0.2	-
Commercial Ready Program	DFA	-	-	-	2.4
Cooperative Research Centres	FI	7.7	8.5	13.0	13.0
Major national research facilities	FI	0.4	2.2	3.4	3.8
R&D Start	DFA				
Other measures					
Tasmanian Freight equalisation scheme	DFA	4.4	5.5	6.0	6.1
Total		*100.1*	*82.7*	*106.5*	*101.5*
Total outlays		**549.1**	**518.0**	**644.7**	**770.5**
Total tax expenditures		**493.3**	**741.2**	**514.8**	**525.6**
Total Budgetary assistance		**988.4**	**1259.2**	**1159.5**	**1296.1**

- Nil. Figures may not add to total due to rounding. [a] DFA: direct financial assistance; FI: funding to institutions; TE: tax expenditures. [b] 2003-04 data are Budget estimates and 2004-05 data are Budget appropriations. [c] The estimates reported in this section are net National Interest Business outlays. These payments are insurance pay-outs. 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.

Sources: Commonwealth Budget and Budget related papers (various years); departmental annual reports (various years); Treasury 2004; McGauran 2004; Commission estimates.

Table A.2 **Australian Government budgetary assistance to the mining sector, 2001-02 to 2004-05**

$ million

	Type[a]	*01-02*	*02-03*	*03-04*[b]	*04-05*[b]
Industry-specific measures					
Investment Incentives to GTL Resources	DFA	-	-	-	27.4
Regional minerals program	FI	0.3	0.3	0.3	0.3
General export measures					
Export Market Development Grants Scheme	DFA	2.2	1.5	1.4	1.5
TRADEX	TE	0.4	2.3	1.9	2.1
General investment measures					
Development allowance	TE	91.9	78.1	-	-
General R&D measures					
Biotechnology Innovation Fund	DFA	-	0.1	<0.1	-
Commercial Ready Program	DFA	-	-	-	4.1
COMET Program	DFA	0.3	0.2	0.2	0.2
Cooperative Research Centres	FI	7.4	8.4	9.8	9.8
CSIRO	FI	51.6	52.9	72.7	74.3
Innovation Investment Fund	DFA	0.8	-	-	-
Major national research facilities	FI	-	0.8	1.2	1.3
New Industries Development Program	FI	0.2	0.1	0.1	0.1
R&D Start	DFA	13.0	4.4	3.3	-
R&D tax concession	TE	46.1	24.1	26.2	31.5
Other measures					
Small business capital gains tax exemption	TE	<0.1	0.1	0.1	0.1
Total outlays		**75.7**	**68.7**	**89.1**	**119.1**
Total tax expenditures		**138.5**	**104.6**	**28.2**	**33.7**
Total Budgetary assistance		**214.2**	**173.4**	**117.3**	**152.8**

- Nil. Figures may not add to total due to rounding. [a] DFA: direct financial assistance; FI: funding to institutions; TE: tax expenditures. [b] 2003-04 data are Budget estimates and 2004-05 data are Budget appropriations.

Sources: Commonwealth Budget and Budget related papers (various years); departmental annual reports (various years); Treasury 2004; McGauran 2004; Commission estimates.

Table A.3 **Australian Government budgetary assistance to the manufacturing sector, 2001-02 to 2004-05**

$ million

	Type[a]	*01-02*	*02-03*	*03-04*[b]	*04-05*[b]
Food, beverages and tobacco					
Industry-specific measures					
Brandy excise preferential rate	TE	5.0	5.0	5.0	5.0
National food industry strategy	DFA	-	3.0	12.1	14.4
Pigmeat processing grants program	DFA	1.6	-	-	-
Tasmanian wheat freight subsidy	DFA	0.4	0.4	0.4	0.4
Sector-specific measures					
Rural Financial Counselling Service	FI	-	-	0.1	0.1
General export measures					
Export Market Development Grants Scheme	DFA	8.4	11.2	11.7	11.1
TRADEX	TE	0.6	0.9	0.7	0.8
General investment measures					
Development allowance	TE	3.4	2.9	-	-
General R&D measures					
Biotechnology Innovation Fund	DFA	-	-	0.1	-
Commercial Ready Program	DFA	-	-	-	1.2
COMET Program	DFA	0.1	<0.1	<0.1	<0.1
Cooperative Research Centres	FI	8.7	7.8	7.8	7.8
CSIRO	FI	20.0	20.7	38.0	40.0
New Industries Development Program	FI	0.5	0.4	0.4	0.4
R&D Start	DFA	2.1	1.8	0.8	-
R&D tax concession	TE	20.3	10.6	11.5	13.8
Other measures					
Eden Structural Adjustment	DFA	0.7	0.3	0.1	-
Small business capital gains tax exemption	TE	0.2	0.4	0.4	0.4
Tasmanian Freight equalisation scheme	DFA	12.2	12.5	13.5	13.7
Wide Bay Burnett Structural Adjustment Program	DFA	0.4	0.3	0.6	0.6
Total		*84.7*	*78.3*	*103.3*	*109.8*
Textile, clothing, footwear and leather					
Industry-specific measures					
TCF Corporate Wear Program	TE	37.4	41.1	52.2	52.2
TCF import credit scheme	TE	9.9	-	-	-
TCF strategic investment program	DFA	150.7	109.7	119.1	135.0
General export measures					
Export Market Development Grants Scheme	DFA	6.2	5.1	4.1	5.0
TRADEX	TE	15.7	17.5	14.4	16.1

Table A.3 (continued)

	Type[a]	01-02	02-03	03-04[b]	04-05[b]
General R&D measures					
Commercial Ready Program	DFA	-	-	-	0.8
COMET Program	DFA	0.1	<0.1	0.1	0.1
CSIRO	FI	30.7	31.5	12.7	12.2
R&D Start	DFA	0.7	1.0	0.6	-
R&D tax concession	TE	1.6	0.8	0.9	1.1
Other measures					
Small business capital gains tax exemption	TE	<0.1	<0.1	<0.1	<0.1
Tasmanian Freight equalisation scheme	DFA	0.8	0.8	0.6	0.6
Total		*253.8*	*207.5*	*204.8*	*223.2*
Wood and paper products					
Industry-specific measures					
Investment incentives to Visy industries	DFA	3.0	2.9	2.9	-
General export measures					
Export Market Development Grants Scheme	DFA	1.8	1.3	1.2	1.2
TRADEX	TE	0.2	<0.1	<0.1	<0.1
General investment measures					
Development allowance	TE	1.0	0.8	-	-
General R&D measures					
Commercial Ready Program	DFA	-	-	-	<0.1
COMET Program	DFA	<0.1	<0.1	0.1	0.1
Cooperative Research Centres	FI	1.3	3.0	3.6	3.6
CSIRO	FI	5.5	5.7	-	-
R&D Start	DFA	0.1	0.1	<0.1	-
R&D tax concession	TE	7.3	3.8	4.1	4.9
Other measures					
Small business capital gains tax exemption	TE	<0.1	<0.1	<0.1	<0.1
Tasmanian Freight equalisation scheme	DFA	20.1	17.4	19.4	19.6
Wide Bay Burnett Structural Adjustment Program	DFA	0.1	<0.1	0.1	0.1
Total		*40.4*	*35.1*	*31.4*	*29.6*
Printing, publishing and recorded media					
Industry-specific measures					
Enhanced printing industry competitiveness	DFA	-	1.1	1.6	-
Extended printing industry competitiveness	DFA	15.9	8.6	11.2	-
Printing Industry Competitiveness Scheme	DFA	1.9	0.5	-	-
General export measures					
Export Market Development Grants Scheme	DFA	2.9	3.2	3.1	3.2
TRADEX	TE	0.1	0.3	0.3	0.3

Table A.3 (continued)

	Type[a]	01-02	02-03	03-04[b]	04-05[b]
General investment measures					
Development allowance	TE	<0.1	<0.1	-	-
General R&D measures					
Commercial Ready Program	DFA	-	-	-	0.7
COMET Program	DFA	0.1	0.1	<0.1	<0.1
R&D Start	DFA	1.5	0.5	0.6	-
R&D tax concession	TE	1.4	0.7	0.8	1.0
Other measures					
Small business capital gains tax exemption	TE	0.2	0.4	0.4	0.4
Total		*24.0*	*15.4*	*18.0*	*5.6*
Petroleum, coal, chemical and associated products					
Industry-specific measures					
Biofuels Infrastructure Grants	DFA	-	-	-	37.6
Ethanol production subsidy	DFA	-	21.7	10.8	45.0
Investment incentives to Syntroleum	DFA	20.0	-	-	-
Pharmaceutical industry development program	DFA	62.8	64.7	59.3	0.4
Pharmaceutical partnerships program	DFA	-	-	-	14.6
General export measures					
Export Market Development Grants Scheme	DFA	5.0	5.4	4.8	5.3
TRADEX	TE	2.8	3.6	3.0	3.3
General investment measures					
Development allowance	TE	7.9	6.7	-	-
General R&D measures					
Biotechnology Innovation Fund	DFA	1.3	1.3	1.5	-
Commercial Ready Program	DFA	-	-	-	14.9
COMET Program	DFA	0.4	0.8	0.5	0.5
Cooperative Research Centres	FI	14.5	13.6	16.2	16.2
CSIRO	FI	40.9	41.9	22.3	21.4
Farm Innovation Program	DFA	0.1	<0.1	<0.1	-
Innovation Investment Fund	DFA	0.4	10.4	7.5	8.5
New Industries Development Program	FI	0.3	0.3	0.2	0.3
R&D Start	DFA	12.1	10.4	10.5	-
R&D tax concession	TE	17.2	9.0	9.7	11.7
Other measures					
Small business capital gains tax exemption	TE	0.4	0.7	0.7	0.7
Total		*186.1*	*190.4*	*147.2*	*180.5*

Table A.3 (continued)

	Type[a]	01-02	02-03	03-04[b]	04-05[b]
Non-metallic mineral products					
General export measures					
Export Market Development Grants Scheme	DFA	1.1	1.2	0.7	1.2
TRADEX	TE	0.1	<0.1	<0.1	<0.1
General investment measures					
Development allowance	TE	0.5	0.4	-	-
General R&D measures					
Commercial Ready Program	DFA	-	-	-	0.2
COMET Program	DFA	<0.1	<0.1	0.1	0.1
R&D Start	DFA	10.6	1.6	0.2	-
R&D tax concession	TE	7.8	4.1	4.5	5.3
Other measures					
Small business capital gains tax exemption	TE	<0.1	0.1	0.1	0.1
Total		*20.2*	*7.5*	*5.6*	*6.9*
Metal products					
Industry-specific measures					
Australian Magnesium Corporation	DFA	-	-	84.6	-
Investment incentives to Hismelt – grant	DFA	-	-	-	80.0
Investment incentives to Hismelt – loan[c]	DFA	-	45.6	45.7	45.7
General export measures					
Export Market Development Grants Scheme	DFA	3.1	2.8	2.3	2.8
TRADEX	TE	3.6	5.0	4.1	4.6
General investment measures					
Development allowance	TE	47.1	40.1	-	-
General R&D measures					
Commercial Ready Program	DFA	-	-	-	7.1
COMET Program	DFA	0.1	0.1	0.1	0.1
Cooperative Research Centres	FI	8.8	8.3	8.0	8.0
CSIRO	FI	28.2	29.0	-	-
R&D Start	DFA	7.4	6.9	5.7	-
R&D tax concession	TE	23.4	12.3	13.3	16.0
Other measures					
Small business capital gains tax exemption	TE	<0.1	0.1	0.1	0.1
Tasmanian Freight equalisation scheme	DFA	1.7	2.2	2.8	2.8
Total		*123.5*	*152.3*	*166.7*	*167.1*

Table A.3 (continued)

	Type[a]	01-02	02-03	03-04[b]	04-05[b]
Motor vehicles and parts					
Industry-specific measures					
Automotive competitiveness and investment scheme	TE	581.9	569.7	583.1	583.1
Automotive competitiveness and investment scheme – post 2005	DFA	-	-	0.5	0.9
Automotive market access and development	FI	4.9	-	-	-
Investment incentive for Holden	DFA	8.5	4.0	-	-
Mitsubishi – international R&D centre	DFA	-	-	-	35.0
General export measures					
Export Market Development Grants Scheme	DFA	2.1	1.5	1.7	1.5
TRADEX	TE	96.4	71.6	74.3	83.3
General investment measures					
Development allowance	TE	10.3	8.7	-	-
General R&D measures					
Commercial Ready Program	DFA	-	-	-	0.8
COMET Program	DFA	0.3	0.2	0.2	0.2
Preseed fund	FI	-	0.8	-	-
R&D Start	DFA	2.9	1.4	0.6	-
R&D tax concession	TE	28.9	15.1	16.4	19.7
Other measures					
Small business capital gains tax exemption	TE	0.1	0.1	0.1	0.1
Wide Bay Burnett Structural Adjustment Program	DFA	<0.1	<0.1	0.1	0.1
Total		*736.2*	*673.2*	*677.1*	*724.7*
Other transport equipment					
Industry-specific measures					
Shipbuilding bounty	DFA	12.0	13.3	6.8	1.0
Shipbuilding innovation scheme	DFA	10.1	8.7	7.0	9.4
General export measures					
Export Market Development Grants Scheme	DFA	1.0	1.3	1.8	1.3
TRADEX	TE	0.1	0.2	0.1	0.2
General R&D measures					
Commercial Ready Program	DFA	-	-	-	2.7
COMET Program	DFA	0.2	0.2	0.2	0.2
Cooperative Research Centres	FI	0.8	1.9	1.9	1.9
R&D Start	DFA	4.2	3.3	2.2	-
R&D tax concession	TE	80.0	41.8	45.4	54.5
Total		*108.4*	*70.6*	*65.5*	*71.2*

Table A.3 (continued)

	Type[a]	01-02	02-03	03-04[b]	04-05[b]
Other machinery and equipment					
General export measures					
Export Market Development Grants Scheme	DFA	14.8	15.1	14.9	15.0
TRADEX	TE	7.4	4.7	3.9	4.3
General investment measures					
Development allowance	TE	0.8	0.7	-	-
General R&D measures					
Biotechnology Innovation Fund	DFA	-	0.7	0.7	-
Commercial Ready Program	DFA	-	-	-	39.4
COMET Program	DFA	1.6	1.5	1.2	1.2
Cooperative Research Centres	FI	22.5	18.5	17.0	17.0
CSIRO	FI	35.1	36.1	-	-
Innovation Investment Fund	DFA	-	4.2	-	-
Major national research facilities	FI	0.4	2.4	3.6	4.0
New Industries Development Program	FI	0.2	0.2	0.1	0.1
R&D Start	DFA	51.8	27.3	31.1	-
R&D tax concession	TE	44.9	23.5	25.5	30.6
Other measures					
Small business capital gains tax exemption	TE	0.1	0.1	0.1	0.1
South West Forests Structural Adjustment	DFA	<0.1	<0.1	<0.1	<0.1
Wide Bay Burnett Structural Adjustment Program	DFA	0.3	0.2	0.4	0.4
Total		*179.9*	*135.2*	*98.6*	*112.3*
Other manufacturing					
Industry-specific measures					
Renewable Energy Equity Fund	DFA	-	-	0.1	0.1
General export measures					
Export Market Development Grants Scheme	DFA	8.1	8.4	9.3	8.3
TRADEX	TE	18.1	20.1	16.4	18.4
General investment measures					
Development allowance	TE	0.2	0.1	-	-
General R&D measures					
Biotechnology Innovation Fund	DFA	0.1	1.6	1.7	-
Commercial Ready Program	DFA	-	-	-	35.7
COMET Program	DFA	0.8	0.8	0.8	0.8
CSIRO	FI	-	-	55.4	53.1
Preseed fund	FI	-	-	1.0	1.9
R&D Start	DFA	17.5	13.3	27.1	-
R&D tax concession	TE	6.2	3.2	3.5	4.2

Table A.3 (continued)

	Type[a]	01-02	02-03	03-04[b]	04-05[b]
Other measures					
Small business capital gains tax exemption	TE	0.3	0.5	0.5	0.5
Tasmanian Freight equalisation scheme	DFA	1.7	1.7	1.9	1.9
Wide Bay Burnett Structural Adjustment Program	DFA	<0.1	<0.1	<0.1	<0.1
Total		*53.0*	*49.6*	*117.8*	*125.0*
Unallocated manufacturing					
General export measures					
Duty Drawback	TE	93.7	121.0	105.9	105.9
General R&D measures					
Cooperative Research Centres	FI	-	-	1.5	1.5
Technology Diffusion program	DFA	12.9	4.2	-	-
Other measures					
Enterprise development program	FI	0.7	-	-	-
Tasmanian Freight equalisation scheme	DFA	30.2	36.3	37.7	38.1
Total		*137.6*	*161.5*	*145.2*	*145.6*
Total outlays		**763.1**	**728.0**	**779.3**	**858.4**
Total tax expenditures		**1184.6**	**1048.6**	**1001.6**	**1043.0**
Total Budgetary assistance		**1947.7**	**1776.7**	**1781.0**	**1901.4**

- Nil. Figures may not add to total due to rounding. [a] DFA: direct financial assistance; FI: funding to institutions; TE: tax expenditures. [b] 2003-04 data are Budget estimates and 2004-05 data are Budget appropriations. [c] Reclassified: previously included as assistance to mining.

Sources: Commonwealth Budget and Budget related papers (various years); departmental annual reports (various years); Treasury 2004; McGauran 2004; ACS 2004a; Commission estimates.

Table A.4 **Australian Government budgetary assistance to the services sector, 2001-02 to 2004-05**

$ million

	Type[a]	*01-02*	*02-03*	*03-04*[b]	*04-05*[b]
Electricity, gas and water supply					
Industry-specific measures					
Renewable energy commercialisation	DFA	8.9	9.9	14.0	4.8
Renewable Energy Equity Fund	DFA	3.4	2.6	1.0	1.2
General export measures					
Export Market Development Grants Scheme	DFA	0.4	0.4	0.3	0.4
General investment measures					
Development allowance	TE	5.1	4.3	-	-
Infrastructure bonds scheme	TE	13.0	10.4	10.4	10.4
Infrastructure borrowing's tax offsets scheme	TE	9.6	9.6	7.2	5.8
General R&D measures					
Commercial Ready Program	DFA	-	-	-	3.9
COMET Program	DFA	0.4	0.3	0.3	0.3
Cooperative Research Centres	FI	3.5	4.1	2.8	2.8
R&D Start	DFA	3.0	5.9	3.2	-
R&D tax concession	TE	0.8	0.4	0.5	0.5
Other measures					
Small business capital gains tax exemption	TE	<0.1	<0.1	<0.1	<0.1
Total		*48.1*	*47.9*	*39.6*	*30.0*
Construction					
General export measures					
Export Market Development Grants Scheme	DFA	0.9	1.8	1.5	1.8
TRADEX	TE	0.9	1.8	1.5	1.7
General investment measures					
Development allowance	TE	<0.1	<0.1	-	-
General R&D measures					
Commercial Ready Program	DFA	-	-	-	1.1
COMET Program	DFA	0.1	0.2	0.1	0.1
Cooperative Research Centres	FI	1.5	2.0	2.5	2.5
CSIRO	FI	22.1	22.7	12.8	13.0
Innovation Investment Fund	DFA	1.2	-	-	-
R&D Start	DFA	3.5	1.2	0.9	-
R&D tax concession	TE	7.7	4.1	4.4	5.3
Other measures					
Small business capital gains tax exemption	TE	1.1	1.8	1.8	1.8
Total		*39.1*	*35.7*	*25.5*	*27.4*

Table A.4 (continued)

	Type[a]	01-02	02-03	03-04[b]	04-05[b]
Wholesale trade					
General export measures					
Export Market Development Grants Scheme	DFA	12.4	12.6	12.4	12.5
TRADEX	TE	5.9	1.0	0.9	1.0
General investment measures					
Development allowance	TE	0.2	0.2	-	-
General R&D measures					
Commercial Ready Program	DFA	-	-	-	2.7
COMET Program	DFA	-	0.1	0.2	0.2
R&D Start	DFA	0.6	0.8	2.2	-
R&D tax concession	TE	18.1	9.4	10.3	12.3
Other measures					
Small business capital gains tax exemption	TE	11.0	18.8	18.8	18.8
Wide Bay Burnett Structural Adjustment Program	DFA	0.2	0.1	0.3	0.3
Total		*48.4*	*43.1*	*45.0*	*47.8*
Retail trade					
General export measures					
Australian Tourist Commission	FI	22.6	23.1	22.6	28.0
Export Market Development Grants Scheme	DFA	1.3	1.2	1.1	1.2
TRADEX	TE	0.1	0.2	0.2	0.2
General investment measures					
Development allowance	TE	0.2	0.1	-	-
General R&D measures					
Commercial Ready Program	DFA	-	-	-	0.3
COMET Program	DFA	0.1	0.1	<0.1	<0.1
R&D Start	DFA	0.3	<0.1	0.3	-
R&D tax concession	TE	2.6	1.3	1.5	1.7
Other measures					
Eden Structural Adjustment	DFA	0.1	<0.1	<0.1	-
Small business capital gains tax exemption	TE	3.9	6.6	6.6	6.6
South West Forests Structural Adjustment	DFA	0.5	0.5	1.5	1.5
Wide Bay Burnett Structural Adjustment Program	DFA	0.1	<0.1	0.1	0.1
Total		*31.5*	*33.4*	*33.9*	*39.7*
Accommodation, cafes and restaurants					
General export measures					
Australian Tourist Commission	FI	30.0	30.6	29.9	37.0
Export Market Development Grants Scheme	DFA	9.1	8.0	7.4	8.0
General R&D measures					
COMET Program	DFA	<0.1	-	-	-
R&D Start	DFA	<0.1	-	-	-

Table A.4 (continued)

	Type[a]	01-02	02-03	03-04[b]	04-05[b]
Other measures					
Eden Structural Adjustment	DFA	0.2	0.1	<0.1	-
Small business capital gains tax exemption	TE	4.8	8.2	8.2	8.2
South West Forests Structural Adjustment	DFA	0.2	0.3	0.7	0.7
Wide Bay Burnett Structural Adjustment Program	DFA	<0.1	<0.1	0.1	0.1
Total		*44.3*	*47.1*	*46.3*	*53.9*
Transport and storage					
Industry-specific measures					
Investment incentive to Asia Pacific Space Centre	DFA	6.0	<0.1	-	31.4
General export measures					
Australian Tourist Commission	FI	37.3	38.0	37.2	46.1
Export Market Development Grants Scheme	DFA	9.3	8.6	7.6	8.6
TRADEX	TE	2.4	3.2	2.7	3.0
General investment measures					
Development allowance	TE	12.3	10.5	-	-
Infrastructure bonds scheme	TE	12.0	9.6	9.6	9.6
Infrastructure borrowing's tax offset scheme	TE	5.4	9.2	11.6	16.8
General R&D measures					
Commercial Ready Program	DFA	-	-	-	1.4
COMET Program	DFA	0.2	0.3	0.2	0.2
R&D Start	DFA	0.7	0.5	1.1	-
R&D tax concession	TE	3.3	1.7	1.9	2.3
Other measures					
Small business capital gains tax exemption	TE	1.3	2.3	2.3	2.3
Total		*90.2*	*84.0*	*74.2*	*121.5*
Communication services					
Industry-specific measures					
Investment incentives to IBM	DFA	0.8	0.8	-	-
Investment incentives to SITA	DFA	2.3	1.7	1.0	-
Software engineering centres	FI	3.5	2.4	-	-
General export measures					
Australian Tourist Commission	FI	1.3	1.3	1.3	1.6
Export Market Development Grants Scheme	DFA	1.2	1.1	1.5	1.1
TRADEX	TE	<0.1	<0.1	<0.1	<0.1
General investment measures					
Development allowance	TE	14.0	11.9	-	-

Table A.4 (continued)

	Type[a]	01-02	02-03	03-04[b]	04-05[b]
General R&D measures					
Commercial Ready Program	DFA	-	-	-	10.4
COMET Program	DFA	1.1	0.8	0.4	0.4
Cooperative Research Centres	FI	5.6	8.2	8.3	8.3
CSIRO	FI	20.9	21.5	57.2	54.9
ICT centre of excellence	FI	<0.1	10.3	11.3	17.2
Innovation Investment Fund	DFA	6.1	6.8	2.3	2.6
Preseed fund	FI	-	-	2.2	4.1
R&D Start	DFA	14.8	4.6	8.4	-
R&D tax concession	TE	6.7	3.5	3.8	4.6
Other measures					
Small business capital gains tax exemption	TE	1.0	1.7	1.7	1.7
Total		*79.3*	*79.7*	*99.4*	*106.9*
Finance and insurance					
General export measures					
Export Market Development Grants Scheme	DFA	1.0	0.8	0.9	0.8
TRADEX	TE	0.1	0.1	0.1	0.1
General investment measures					
Development allowance	TE	0.5	0.4	-	-
Infrastructure borrowing's tax offsets scheme	TE	5.0	6.3	6.3	7.5
Offshore banking unit tax concession	TE	40.0	40.0	40.0	40.0
General R&D measures					
Biotechnology Innovation Fund	DFA	-	-	0.2	-
Commercial Ready Program	DFA	-	-	-	4.6
COMET Program	DFA	0.1	0.2	0.2	0.2
R&D Start	DFA	4.1	1.2	3.5	-
R&D tax concession	TE	36.9	19.3	21.0	25.2
Other measures					
Small business capital gains tax exemption	TE	2.7	4.7	4.7	4.7
Total		*90.4*	*72.8*	*76.8*	*82.9*
Property and business services					
General export measures					
Export Market Development Grants Scheme	DFA	25.7	27.1	27.5	26.9
TRADEX	TE	0.1	3.6	2.9	3.3
General investment measures					
Development allowance	TE	2.1	1.8	-	-

Table A.4 (continued)

	Type[a]	01-02	02-03	03-04[b]	04-05[b]
General R&D measures					
Biotechnology Innovation Fund	DFA	2.2	3.7	4.7	-
Commercial Ready Program	DFA	-	-	-	36.1
COMET Program	DFA	4.5	3.7	2.9	2.9
Cooperative Research Centres	FI	4.7	5.6	10.9	10.9
Innovation Investment Fund	DFA	15.0	3.3	2.1	2.4
R&D Start	DFA	35.9	20.9	24.6	-
R&D tax concession	TE	59.3	31.0	33.7	40.5
Other measures					
Eden Structural Adjustment	DFA	-	<0.1	<0.1	-
Small business capital gains tax exemption	TE	4.2	7.2	7.2	7.2
Wide Bay Burnett Structural Adjustment Program	DFA	0.1	0.1	0.2	0.2
Total		*153.8*	*108.0*	*116.6*	*130.3*
Government administration and defence					
General export measures					
Export Market Development Grants Scheme	DFA	-	<0.1	<0.1	<0.1
TRADEX	TE	<0.1	2.4	1.9	2.2
General R&D measures					
COMET Program	DFA	<0.1	<0.1	<0.1	<0.1
R&D Start	DFA	0.7	0.1	-	-
Total		*0.8*	*2.6*	*2.0*	*2.2*
Education					
General export measures					
Australian Tourist Commission	FI	1.1	1.1	1.1	1.4
Export Market Development Grants Scheme	DFA	8.4	7.8	8.0	7.7
General investment measures					
Development allowance	TE	0.1	0.1	-	-
General R&D measures					
Commercial Ready Program	DFA	-	-	-	0.2
COMET Program	DFA	0.1	0.2	0.2	0.2
R&D Start	DFA	2.2	0.1	0.2	-
R&D tax concession	TE	1.4	0.7	0.8	1.0
Other measures					
Small business capital gains tax exemption	TE	<0.1	<0.1	<0.1	<0.1
Total		*13.2*	*10.1*	*10.3*	*10.5*
Health and community services					
Industry-specific measures					
Renewable Energy Equity Fund	DFA	-	0.4	-	-
General export measures					
Export Market Development Grants Scheme	DFA	0.5	0.9	0.8	0.9
TRADEX	TE	<0.1	-	-	-
General investment measures					
Development allowance	TE	<0.1	<0.1	-	-

Table A.4 (continued)

	Type[a]	01-02	02-03	03-04[b]	04-05[b]
General R&D measures					
Biotechnology Innovation Fund	DFA	1.1	3.2	3.1	-
Commercial Ready Program	DFA	-	-	-	15.2
COMET Program	DFA	0.9	0.8	0.3	0.3
Cooperative Research Centres	FI	13.3	13.4	21.4	21.4
Innovation Investment Fund	DFA	0.6	-	5.8	6.5
Preseed fund	FI	-	-	2.5	4.7
R&D Start	DFA	20.8	10.6	9.3	-
R&D tax concession	TE	2.3	1.2	1.3	1.5
Other measures					
Small business capital gains tax exemption	TE	0.7	1.2	1.2	1.2
Wide Bay Burnett Structural Adjustment Program	DFA	0.1	0.1	0.1	0.1
Total		*40.1*	*31.8*	*45.7*	*52.0*
Cultural and recreational services					
Industry-specific measures					
Australian Film Commission	DFA	16.7	20.5	22.5	46.1
Exemption of film tax offset payments	TE	-	1.0	10.0	10.0
Australian Film Finance Corporation	DFA	50.0	57.5	60.5	60.5
Film industry tax incentives – 10B & 10BA	TE	<0.1	-	-	-
Refundable tax off-set for large scale films	TE	-	5.0	35.0	-
General export measures					
Australian Tourist Commission	FI	4.4	4.5	4.4	5.4
Export Market Development Grants Scheme	DFA	10.6	11.3	12.1	11.2
General investment measures					
Development allowance	TE	0.3	0.3	-	-
General R&D measures					
Commercial Ready Program	DFA	-	-	-	0.4
COMET Program	DFA	0.1	0.1	<0.1	<0.1
Cooperative Research Centres	FI	2.4	2.4	4.1	4.1
Innovation Investment Fund	DFA	0.6	-	-	-
R&D Start	DFA	0.7	0.3	0.3	-
R&D tax concession	TE	8.8	4.6	5.0	6.0
Other measures					
Eden Structural Adjustment	DFA	0.1	<0.1	<0.1	-
Small business capital gains tax exemption	TE	0.4	0.7	0.7	0.7
South West Forests Structural Adjustment	DFA	0.2	0.3	0.8	0.8
Wide Bay Burnett Structural Adjustment Program	DFA	0.2	0.1	0.3	0.3
Total		*95.6*	*108.7*	*155.8*	*145.5*

Table A.4 (continued)

	Type[a]	01-02	02-03	03-04[b]	04-05[b]
Personal and other services					
General export measures					
Export Market Development Grants Scheme	DFA	1.2	0.7	0.7	0.7
General R&D measures					
Commercial Ready Program	DFA	-	-	-	0.2
COMET Program	DFA	<0.1	<0.1	-	-
R&D Start	DFA	2.7	0.3	0.2	-
R&D tax concession	TE	0.6	0.3	0.3	0.4
Other measures					
Small business capital gains tax exemption	TE	0.6	1.1	1.1	1.1
Total		*5.1*	*2.5*	*2.4*	*2.5*
Unallocated services					
Industry-specific measures					
Building IT strengths	DFA	64.6	24.8	18.2	20.6
General export measures					
Australian Tourist Commission	FI	1.3	1.3	1.3	1.5
General R&D measures					
Commercial Ready Program	DFA	-	-	-	0.2
CSIRO	FI	9.8	10.1	-	-
R&D Start	DFA	-	-	0.2	-
Total		*75.7*	*36.2*	*19.6*	*22.4*
Total outlays		**546.0**	**475.6**	**514.2**	**608.7**
Total tax expenditures		**309.7**	**265.1**	**278.9**	**267.0**
Total Budgetary assistance		**855.7**	**740.7**	**793.1**	**875.7**

- Nil. Figures may not add to total due to rounding. [a] DFA: direct financial assistance; FI: funding to institutions; TE: tax expenditures. [b] 2003-04 data are Budget estimates and 2004-05 data are Budget appropriations.

Sources: Commonwealth Budget and Budget related papers (various years); departmental annual reports (various years); Treasury 2004; McGauran 2004; Commission estimates.

Table A.5 **Australian Government budgetary assistance, Unallocated other[a], 2001-02 to 2004-05**

$ million

	Type[b]	*01-02*	*02-03*	*03-04[c]*	*04-05[c]*
Industry-specific measures					
Greenhouse Gas Abatement Program	DFA	9.0	7.2	12.0	17.9
General export measures					
Austrade	FI	174.5	163.8	158.5	155.7
Export access	FI	2.9	0.2	-	-
Tourist programs	FI	15.5	-	-	-
General investment measure					
Invest Australia	FI	14.0	16.7	19.4	19.4
Regional headquarters program	TE	1.0	1.0	1.0	1.0
General R&D measures					
Biotechnology Australia	FI	2.3	2.1	2.1	5.0
Commonwealth technology park	FI	11.5	-	-	-
Innovation Access Program	DFA	-	5.2	11.0	2.1
Innovation Awareness Program	DFA	-	0.5	0.5	0.5
Major national research facilities	FI	1.6	8.0	12.3	13.5
Premium R&D tax concession	TE	20.0	65.0	75.0	70.0
Preseed fund	FI	<0.1	-	-	-
R&D refundable tax off-set for small companies	TE	-	15.0	12.0	-
R&D Start	DFA	-	0.3	-	-
R&D tax offset payments	TE	-	50.0	35.0	15.0
Biotechnology/National Stem Cell Centre	FI	0.8	3.6	4.6	5.8

Table A.5 (continued)

	Type[b]	*01-02*	*02-03*	*03-04*[c]	*04-05*[c]
Other measures					
Cairns foreshore promenade development	DFA	-	-	-	2.0
Fishing hall of fame	DFA	-	-	-	3.0
Further tourism promotion	DFA	5.0	-	-	-
Pooled development funds	TE	12.0	15.0	15.0	17.0
Regional assistance program	DFA	29.2	21.9	21.6	21.5
Regional tourism program	DFA	-	3.0	0.5	-
See Australia domestic tourism initiative	DFA	-	1.5	1.5	2.5
Small business assistance program	DFA	1.2	13.2	12.8	13.1
Small business participation in major projects	FI	3.0	-	-	-
Stockman's hall of fame	DFA	-	-	1.3	-
Tasmanian freight equalisation scheme	DFA	0.8	0.8	1.0	1.0
Tasmanian infrastructure initiative	DFA	-	-	1.1	0.7
Tourism White Paper initiatives	FI	-	-	-	6.0
Venture capital limited partnerships	TE	-	-	20.0	25.0
Total outlays		**271.2**	**247.8**	**259.9**	**269.6**
Total tax expenditures		**33.0**	**146.0**	**158.0**	**128.0**
Total Budgetary assistance		**304.2**	**393.8**	**417.9**	**397.6**

- Nil. Figures may not add to total due to rounding. [a] Includes programs or amounts of funding where the industry is not stated or recipients are unknown. [b] DFA: direct financial assistance; FI: funding to institutions; TE: tax expenditures. [c] 2003-04 data are Budget estimates and 2004-05 data are Budget appropriations.

Sources: Commonwealth Budget and Budget related papers (various years); departmental annual reports (various years); Treasury 2004; McGauran 2004; Commission estimates.

B Combined assistance estimates

This appendix provides updated estimates of combined assistance for the years 1997-98 and 2000-01 to 2003-04. The combined estimates include:

- Australian Government budgetary assistance;
- tariff assistance; and
- agricultural pricing and regulatory assistance.

The combined estimates exclude State budgetary assistance and assistance provided through restrictions on services trade and anti-dumping measures, as well as other forms of assistance that are not captured in the Commission's estimates (see chapter 2).

Tables B.1 and B.2 report estimates of the dollar value of combined assistance, or *net subsidy equivalent*, and the *effective rate of combined assistance*, respectively, for different industry groupings. A more detailed discussion of these measures is provided in chapter 2.

Table B.1 **Combined[a] net subsidy equivalent[b] by industry grouping, 1997-98 and 2000-01 to 2003-04** ($ million)

Industry grouping	*1997-98*	*2000-01*	*2001-02*	*2002-03*	*2003-04*
Primary production[c]	**1255.5**	**903.6**	**1207.0**	**1415.3**	**1273.4**
Dairy cattle farming	525.9	216.4	313.8	244.7	211.0
Grain, sheep and beef cattle farming	291.4	277.8	432.6	663.2	498.3
Horticulture and fruit growing	111.6	112.7	148.5	180.1	169.3
Other crop growing	57.4	89.4	83.4	97.5	131.0
Other livestock farming	14.6	15.8	22.3	36.6	24.7
Fisheries	35.5	43.2	56.4	62.6	68.4
Forestry	33.3	20.8	36.3	34.2	46.5
Other primary production[d]	7.1	9.9	13.6	13.7	17.6
Mining[c]	**159.5**	**42.5**	**39.3**	**-5.7**	**-54.7**
Manufacturing[c]	**5525.1**	**5125.9**	**5464.6**	**5600.7**	**5989.5**
Food, beverages & tobacco	822.9	971.3	953.0	1005.9	1084.8
Textiles, clothing, footwear & leather	1105.7	739.7	853.0	853.2	921.5
Wood & paper products	286.4	301.6	344.4	383.4	416.4
Printing, publishing & media	135.5	171.0	184.9	190.9	212.0
Petroleum, coal, chemical & assoc. prod.	786.4	769.7	844.4	871.0	900.3
Non-metallic mineral products	131.5	142.0	149.9	153.9	171.8
Metal product manufacturing	674.1	674.7	625.0	655.6	709.8
Motor vehicles & parts	897.5	659.5	723.4	752.6	799.8
Other transport equipment	-4.9	71.3	73.2	32.5	24.3
Other machinery & equipment	357.9	330.1	369.8	335.3	315.6
Other manufacturing	143.0	174.3	205.8	204.9	288.1
Services[c]	**-1218.0**	**-1265.4**	**-1441.8**	**-1777.9**	**-1939.2**
Electricity, gas & water supply	36.5	8.3	-5.1	-8.5	-22.3
Construction	-553.1	-570.5	-664.6	-777.9	-877.2
Wholesale trade	-96.2	-91.1	-110.3	-124.2	-132.9
Retail trade	-146.0	-140.6	-171.2	-188.4	-205.8
Accommodation, cafes & restaurants	-144.2	-153.1	-152.9	-161.1	-176.1
Transport & storage	-10.6	-72.2	-94.8	-115.9	-146.6
Communication services	-20.8	23.3	20.2	13.9	31.8
Finance & insurance	68.7	84.2	41.2	16.8	16.7
Property & business services	-142.8	-124.9	-103.2	-160.6	-170.0
Government administration & defence	-160.2	-166.7	-183.9	-196.9	-211.3
Education	-17.2	-24.6	-28.2	-33.9	-36.9
Health & community services	-57.5	-45.1	-45.9	-59.9	-52.6
Cultural & recreational services	62.9	41.7	38.4	48.4	92.2
Personal & other services	-47.4	-51.2	-57.3	-65.7	-67.7

[a] 'Combined assistance' comprises budgetary, tariff and agricultural pricing and regulatory assistance, as reported in tables 2.1, 2.2 and 2.3 respectively. The total NSE has been adjusted to take account of programs included in both tariff and budgetary assistance. [b] NSE estimates are derived using ABS Industry Gross Value Added at current prices data. This information is subject to periodic revision by the ABS. [c] Totals may not add due to rounding. Sectoral totals also include assistance to the sector that has not been allocated to specific industry groupings. [d] Other primary production includes *services to agriculture, hunting and trapping* and *poultry farming*.

Source: Commission estimates.

Table B.2 **Effective rate of combined[a] assistance[b] by industry grouping, 1997-98 and 2000-01 to 2003-04** (per cent)

Industry grouping	*1997-98*	*2000-01*	*2001-02*	*2002-03*	*2003-04*
Primary production[c]	**5.8**	**3.2**	**3.6**	**5.4**	**4.1**
Dairy cattle farming	37.8	12.6	15.4	16.2	12.0
Grain, sheep and beef cattle farming	3.1	2.1	2.6	5.3	3.3
Horticulture and fruit growing	3.3	2.7	3.0	4.9	4.0
Other crop growing	2.4	3.1	2.4	3.8	4.3
Other livestock farming	2.0	1.6	1.9	4.2	2.4
Fisheries	2.7	2.7	3.3	3.4	3.8
Forestry	5.3	2.6	4.4	3.8	5.3
Other primary production[d]	0.3	0.3	0.4	0.5	0.6
Mining[c]	**0.5**	**0.1**	**0.1**	**0.0**	**-0.1**
Manufacturing[c]	**5.3**	**4.7**	**4.8**	**4.6**	**4.5**
Food, beverages & tobacco	3.4	3.6	3.7	3.6	3.7
Textiles, clothing, footwear & leather	25.8	20.6	26.2	24.7	24.2
Wood & paper products	4.7	4.9	4.9	4.8	4.7
Printing, publishing & media	1.4	1.5	1.5	1.4	1.4
Petroleum, coal, chemical & assoc. prod.	5.0	4.6	4.3	4.3	4.0
Non-metallic mineral products	2.5	2.5	2.5	2.3	2.3
Metal product manufacturing	4.0	4.2	4.2	4.4	4.4
Motor vehicles & parts	14.0	11.3	11.2	10.8	10.6
Other transport equipment	-0.2	3.4	3.2	1.3	0.9
Other machinery & equipment	3.5	3.0	3.0	2.6	2.3
Other manufacturing	4.0	4.3	4.2	4.1	5.4

a 'Combined assistance' comprises budgetary, tariff and agricultural pricing and regulatory assistance, as reported in tables 2.1, 2.2 and 2.3 respectively. **b** ERAs have not been estimated for the services sector. **c** Sectoral ERAs also include assistance to the sector that has not been allocated to specific industry groupings. **d** Other primary production includes *services to agriculture, hunting and trapping* and *poultry farming*.

Source: Commission estimates.

C Anti-dumping and countervailing activity

Dumping is said to occur when a foreign supplier exports goods at a price below the ‘normal value’ of the goods in the supplier’s home market. The price of the good in the exporter’s home market is generally used to determine the normal value, but in certain prescribed circumstances, alternatives such as the good’s price in another export market or a constructed price are sometimes used.

The WTO ‘Anti-dumping Agreement’ places certain disciplines on anti-dumping actions by setting out rules about when and how a WTO member can or cannot react to dumping. To apply anti-dumping measures, a country has to demonstrate that dumping is taking place, calculate the extent of dumping (how much lower the export price is compared to the exporter’s home price) and show that dumping is causing, or threatening to cause, material injury to a competing domestic industry.

Countries may also apply countervailing duties where imports — benefiting from certain forms of subsidies in the country of origin — cause, or threaten to cause, material injury to a domestic industry.

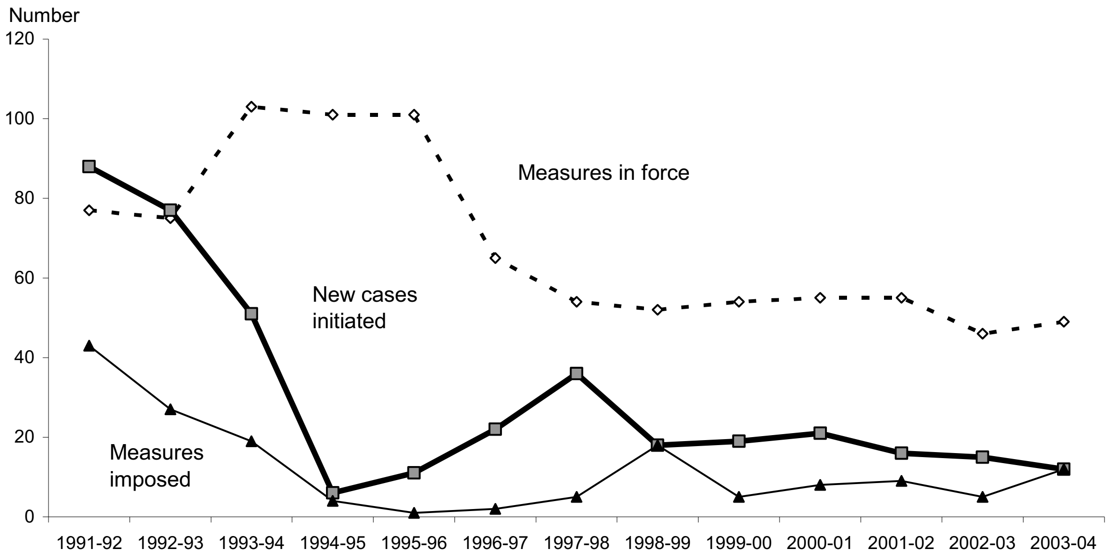
Like other measures that raise the price of imports, anti-dumping and countervailing measures assist particular industries, but can also impose higher costs on other domestic industries and consumers. Australia’s current anti-dumping and countervailing system, which took effect in July 1998, was described in *Trade & Assistance Review 1997-98* (PC 1998). This appendix reports recent anti-dumping and countervailing activity.

Australian trends

Anti-dumping and countervailing activity is shown by three statistics: *initiations,* measures *imposed* and measures *in force* (figure C.1). A case is *initiated* when a complaint of dumping or subsidisation is first made. If after investigation the case is found to have substance, the Customs Minister may *impose* measures to remedy the situation. These measures generally last for five years (although, for some cases, measures may be extended at the end of the period) and the stock of these measures at any point is reported as measures *in force*.

The number of Australian *initiations* of anti-dumping and countervailing cases has been relatively stable over the past five years, with 12 new cases initiated in 2003-04. Most of these were anti-dumping actions. The number of cases initiated in recent years has been far fewer than in the early 1990s (figure C.1). Table C.1 lists the anti-dumping cases initiated in 2003-04.

Figure C.1 **Anti-dumping and countervailing activity,[a] 1991-92 to 2003-04**



[a] A measure or case is counted as an action applying to one commodity from one economy. If multiple economies are involved, they are counted as separate actions.

Source: ACS 2004b.

There were 12 new measures *imposed* in 2003-04, compared to 5 measures imposed in 2002-03. The total number of measures *in force* has been relatively static over the last six or so years. As of 30 June 2004, there were 49 measures in force — slightly higher than the previous year. This is around half of the roughly 100 measures that were in force between 1994 and 1997.

In 2003-04, the *Food, beverages & tobacco* and *Metal product manufacturing* industries accounted for 10 of the 12 initiations (table C.2). Over the eight year period to 2003-04, however, the *Petroleum, coal, chemical & associated products* industry (mainly chemical and plastic products) has on average been the largest user of anti-dumping and countervailing actions, accounting for over 40 per cent of total initiations.

Table C.1 **Australian anti-dumping and countervailing initiations,[a] 2003-04**

Commodity	*Exporting economy*
Hot rolled plate steel	China, Indonesia, Korea and Japan
Uncoated paper	China
Olive oil	Italy and Spain, Spain, Greece and Italy[b]
Welded iron & steel sections	Korea
Silicons	China

[a] Complaints formally initiated by industry. Initiations are defined as actions applying to one commodity from one economy. [b] The investigation of olive oil covered both anti-dumping (Italy and Spain) and countervailing complaint (Spain, Greece and Italy).

Source: ACS 2004b.

Table C.2 **Anti-dumping and countervailing cases,[a] by industry, 1996-97 to 2003-04**

			8-year period	
Industry[b]	*1996-97*	*2003-04*	*Total*	*Per cent of total*[c]
Food, beverages and tobacco	–	5	11	7
Textiles, clothing, footwear and leather	–	–	6	4
Wood and paper products	–	1	25	16
Printing, publishing and recorded media	–	–	–	–
Petroleum, coal, chemical and associated products	11	–	65	41
Non-metallic mineral products	6	1	13	8
Metal product manufacturing	2	5	21	13
Machinery and equipment manufacturing	1	–	10	6
Other manufacturing	2	–	8	5
Total	**22**	**12**	**159**	**100**

– Nil. [a] Complaints formally initiated by industry. Cases are defined as actions applying to one commodity from one economy. Cases where dumping and subsidisation are alleged for the same economy and commodity are counted as two distinct initiations. [b] Based on Australian and New Zealand Standard Industry Classification subdivisions. [c] Percentages for individual industries may not sum to the total due to rounding.

Source: ACS 2004b.

During 2003-04, Australian firms initiated 12 anti-dumping complaints against firms from 7 economies. Seven complaints were against firms from Asia and five were against European firms (table C.3).

International trends

In 2002-03, Australia accounted for 15 (or 6 per cent) of the 251 anti-dumping and countervailing cases initiated internationally (table C.4). In 2002-03, the countries with the most initiations, and also the most measures in force, were the United States, the European Union and India. Australia, with 49 measures in force in 2002-03, was the eighth largest user of anti-dumping and countervailing duties.

Table C.3 **Australian initiations of anti-dumping and countervailing cases, by trading region and economy,[a] 1996-97 to 2003-04**

			8-year period	
Region/economy	*1996-97*	*2003-04*	*Total*	*Per cent* [b]
North America	**1**	**–**	***8***	***5***
Canada	–	–	2	1
United States	1	–	6	4
European Union	***7***	***5***	***44***	***28***
Austria	–	–	2	1
Belgium/Lux	–	–	3	2
Finland	–	–	3	2
France	–	–	3	2
Germany	3	–	9	6
Italy	–	2	7	4
Netherlands	1	–	3	2
Sweden	2	–	5	3
UK	–	–	5	3
Other EU	1	3	4	3
Asia	***9***	***7***	***85***	***53***
China	3	3	16	10
Hong Kong	–	–	1	1
India	1	–	4	3
Indonesia	1	1	15	11
Japan	–	1	5	3
South Korea	–	2	13	6
Malaysia	1	–	6	4
Singapore	–	–	5	3
Thailand	1	–	11	7
Taiwan	2	–	9	7
Other	***5***	–	***22***	***14***
Saudi Arabia	–	–	2	1
South Africa	–	–	4	3
Other	5	–	16	10
Total	**22**	**12**	**159**	**100**

– Nil. **a** Cases are defined as actions applying to one commodity from one economy. Cases where dumping and subsidisation are alleged for the same economy and commodity are counted as two distinct initiations. **b** The sum of the percentages for the individual economies may not add to the regional totals due to rounding.

Source: ACS 2004b.

Table C.4 **International anti-dumping and countervailing actions, 2001-2002 and 2002-03**

Country	*Initiation*		*Provisional measures*		*Definitive duties*		*Price undertakings*		*Measures in force*		*Per cent of total measures in force*[a]	
	01-02	*02-03*	*01-02*	*02-03*	*01-02*	*02-03*	*01-02*	*02-03*	*01-02*	*02-03*	*01-02*	*02-03*
US	69	35	71	24	49	22	–	–	317	335	25	23
EU	28	17	23	7	23	17	8	4	239	224	19	16
India	76	67	73	54	41	64	1	–	150	210	12	15
South Africa	2	5	22	1	10	9	–	–	101	100	8	7
Canada	6	7	3	5	11	1	–	–	100	97	8	7
Mexico	11	8	5	6	1	4	–	–	61	55	5	4
Australia	16	15	13	9	9	6	–	–	60	49	5	3
Brazil	17	10	–	1	–	4	1	–	53	59	4	4
Argentina	26	4	30	12	28	25	4	4	61	80	5	6
South Korea	2	11	1	–	1	–	–	–	19	16	1	1
Turkey	15	11	–	6	9	24	–	–	24	48	2	3
New Zealand	–	3	–	1	–	1	–	–	8	9	1	1
12 WTO Members	**268**	**193**	**241**	**126**	**182**	**177**	**14**	**8**	**1193**	**1282**	**93**	**90**
All WTO Members	**327**	**251**	**262**	**197**	**194**	**243**	**14**	**11**	**1287**	**1426**	**100**	**100**

– Nil. **a** The sum of the percentages for individual countries may not equal the total due to rounding.

Source: WTO (2003, 2004).

References

ABARE (Australian Bureau of Agricultural Economics) 2004, *Australian Commodities*, September Quarter, Canberra, September.

ABS (Australian Bureau of Statistics) 2003, *Year Book Australia 2003*, Cat.no.1301.0, ABS, Canberra.

ACS (Australian Customs Service) 2004a, *Customs Figures: Australian Customs Service Quarterly Statistical Bulletin*, Issue 35, June.

—— 2004b, 'Anti-dumping and countervailing actions-status report as at 30 June 2004', *Australian Customs Dumping Notice no. 2004/21*, June.

Adams, R., Dee, P., Gali, J. and McGuire, G. 2003, *The Trade and Investment Effects of Preferential Trading Arrangements — Old and New Evidence*, Productivity Commission Staff Working Paper, Canberra, May.

APEC (Asia Pacific Economic Cooperation) 1994, *Apec Economic Leaders' Declaration of Common Resolve*, Bogor, Indonesia, 15 November.

ASEAN 2004, *Joint Declaration of the Leaders at the ASEAN-Australia and New Zealand Commemorative Summit*, Vientiane, 30 November.

Australian Government 2004a, *Backing Australia's Ability — Building Our Future through Science and Innovation*, information booklet and fact sheets, May.

—— 2004b, *Energy White Paper — Securing Australia's Energy Future*, June.

Beattie, P.D. (Premier of Queensland and Minister for Trade) 2004a, 'Sugar industry & government sign landmark reform agreement', *Ministerial Media Statement*, 1 March.

—— 2004b, 'Further Incentive for Reform in Sugar Industry: Beattie', *Ministerial Media Statement*, 26 May.

Brenton, P. 2003, *Rules of Origin in Free Trade Agreements*, Trade Note 4, World Bank Group http://siteresources.worldbank.org/INTRANETTRADE/Resources/TradeNote4.pdf (accessed 10 September 2003).

CERMF (Closer Economic Relations Ministerial Forum) 2004, *Joint Communique: 11 December 2004*, http://www.dfat.gov.au/geo/new_zealand/anz_cer/cer_communique_ 2004. html (accessed 13 December 2004).

DAFF (Department of Agriculture, Fisheries and Forestry) 2004, *Sugar Industry Reform Program 2004*, http://www.affa.gov.au/content/output.cfm?ObjectID=3662DAEF-3235-4FA8-6F13B5961C60A12, (accessed 29 October 2004).

DFAT (Department of Foreign Affairs and Trade, Australia) 2004a, *Free Trade Agreements: Australia–United States Free Trade Agreement*, http://www.dfat.gov.au/trade/negotiations/AUSFTA.html (accessed September 2004).

—— 2004b, *Free Trade Agreements: China–Australia Free Trade Agreement*, http://www.dfat.gov.au/trade/negotiations/ChinaAustralia.html (accessed September 2004).

—— 2004c, *Free Trade Agreements: Malaysia–Australia Free Trade Agreement*, http://www.dfat.gov.au/trade/negotiations/MalaysiaAustralia.html (accessed September 2004).

DRP (Drought Review Panel) 2004, *Consultations on National Drought Policy: Preparing for the Future, Elect Printing*, Canberra, March.

Estevadeordal A. 1999, *Negotiating Preferential Market Access: the Case of NAFTA*, Working Paper 3, Inter-American Development Bank, http://www.iadb.org (accessed September 2003).

Estevadeordal, A. and Suominen, K. 2003, *Measuring Rules of Origin in the World Trading System and Proposals for Multilateral Harmonization*, Integration, Trade and Hemispheric Issues Division, Integration and Regional Programs Department, Inter-American Development Bank.

Hoekman, B. 1993, 'Rules of origin for goods and services', *Journal of World Trade*, vol. 3.

Howard, J. (Prime Minsiter) 2003, 'Australia–Thailand Free Trade Agreement', *Media Release*, 19 October.

—— 2004a 'Mitsubishi: $50 Million Federal Assistance Package', *Media Release*, 21 May.

—— 2004b, 'Fourth Howard Ministry', *Media Release*, 22 October.

Krishana, K and Krueger, A. 1995b, 'Implementing free trade areas: rules of origin and hidden protection', in Deardorff, A., Levinsohn, J. and Stern, R. (eds), *New Directions in Trade Theory*, University of Michigan Press, Ann Arbor.

Krueger, A. O. 1993, *Free Trade Agreements as Protective Devices: Rules of Origin*, Working Paper No. 4352, National Bureau of Economic Research.

Lloyd, P. J. 2002 'Country of origin in the global economy', *World Trade Review*, vol. 1, pp. 171–185.

Lloyd P.J. and MacLaren, D. 2004, 'Recent Development in Australian Trade Policy', *Quarterly Bulletin of Trends, 3.04*.

Macfarlane, I. (Minister for Industry, Tourism and Resources) 2003, ‘Major Investment in Offshore Oil Exploration’, *Media Release*, 13 May.

—— 2004a ‘Certainty for Mitsubishi Australia’, *Media Release*, 04/137, 24 May.

—— 2004b, ‘Hirotec Opening Doors for Holden’, *Media Release*, 04/222, 19 August.

McGauran, P. (Minister for Science) 2004, 'Funding for Science and Innovation', *Media Release*, MINBUD 37/04, 11 May.

Moïsé, E. 2002, ‘Rules of origin’, chapter 10 in OECD *Regional Trade Agreements and the Multilateral Trading System: Consolidated Report*, Paris.

OECD (Organisation for Economic Co-operation and Development) 2003, *Tariffs and Trade*, OECD Query and Simulation package, OECD, Paris.

PECC (Pacific Economic Cooperation Council) 1998, *Report by the Task Force on ‘Rules of Origin’*, PECC XII, Santiago, Chile.

PC (Productivity Commission) 1998, *Trade and Assistance Review 1997-98*, Annual Report Series 1997-98, AGPS, AusInfo, Canberra.

—— 2000a, *Annual Report 1999-2000*, Annual Report Series 1999-2000, AusInfo, Canberra, October.

—— 2000b, *Trade & Assistance Review 1999-2000*, Annual Report Series 1999-2000, AusInfo, Canberra, December.

—— 2000c, *Allocating Budgetary Assistance by 24 ANZSIC-based Industry Groupings*, Methodological Annex to Trade & Assistance Review 1999-2000, Canberra, December.

—— 2001a, *Submission to DFAT on Australia’s Approach to Forthcoming Trade Negotiations*, Productivity Commission, Canberra, July.

—— 2001b, *Trade & Assistance Review 2000-01*, Annual Report Series 2000-01, AusInfo, Canberra, December.

—— 2002a, *Review of Automotive Assistance*, Report No. 25, Canberra, September.

—— 2002b, *Trade and Assistance Review 2001-02*, Annual Report Series 2001-02, AusInfo, Canberra, December.

—— 2002c, *Allocating Budgetary Assistance to Primary Production by 10 ANZSIC-based Industry Groupings*, Methodological Annex B to Trade & Assistance Review 2001-02, Canberra, December.

—— 2003a *Evaluation of Mutual Recognition Schemes*, Research Report, Canberra.

—— 2003b, *Trade and Assistance Review 2002-03*, Annual Report Series 2002-03, Canberra, December.

—— 2003c, *The Commission's Assistance Measurement System*, Methodological Annex A to Trade & Assistance Review 2001-02, December.

—— 2004a, *Rules of Origin under the Australia–New Zealand Closer Economic Relations Trade Agreement*, Research Report, Canberra.

—— 2004b, 'Industry assistance in Australia and New Zealand under the CER Agreement', Supplement to Productivity Commission Research Report, *Rules of Origin under the Australia–New Zealand Closer Economic Relations Trade Agreement*, Canberra.

—— 2004c, 'Restrictiveness Index for preferential Rules of Origin', Supplement to Productivity Commission Research Report, *Rules of Origin under the Australia–New Zealand Closer Economic Relations Trade Agreement*, Canberra.

—— 2004d, Australia–New Zealand Competition and Consumer Protection Regimes, Draft Research Report, Canberra.

Rann, M. (Premier of South Australia) 2004a, 'Rapid Response for Workers and Advisory Group on Mitsubishi', *Media Release*, 22 May.

—— 2004b, '$5m Industry Development for the South', *Media Release*, 23 May.

Revesz, J. and Lattimore, R. 2001, *Statistical Analysis of the Use and Impact of Government Business Programs*, Productivity Commission Staff Research Paper, AusInfo, Canberra.

Senate Economics Legislation Committee 2004a, Consideration of Additional Estimates, *Official Committee Hansard*, Canberra, 31 May.

—— 2004b, Answers to Questions on Notice: R&D Tax Concession, *Industry, Tourism and Resources Portfolio, Budget Estimates 2004-05*, 31 May to 2 June.

—— 2004c, Answers to Questions on Notice: Petroleum Resources Rent Tax, *Industry, Tourism and Resources Portfolio, Budget Estimates 2004-05*, 31 May to 2 June.

Stephenson, S. 1997, 'The economic impact of rules of origin in the Asia-Pacific region', *Asia–Pacific Review*, vol. 3, August, pp. 14–27.

Panitchpakdi, S. (WTO Director-General) 2004, 'Round-the-clock meetings produce 'historic' breakthrough', *Media Release*, http://www.wto.org/english/news_e/news04_e/dda_package_sum_31july04_e.htm (accessed 12 November 2004).

Treasury (Department of Treasury) 2004, *Tax Expenditures Statement 2003*, AusInfo, Canberra, January.

Truss, W. (Minister for Agriculture, Fisheries and Forestry) 2004a, 'Australian Government action to help sugar industry', *Media Release*, AFFA04/040WT, 2 March.

—— 2004b, 'Historic National Drought Roundtable', *Media Release*, AFFA04/92WT, 13 April.

—— Truss, W. (Minister for Agriculture, Fisheries and Forestry) 2004c, 'National Drought Policy – the way ahead', *Media Release*, AFFA04/94WT, 15 April.

—— 2004d, '$444.4 million to help the sugar industry', *Media Release*, AFFA04/103WT, 29 April.

—— 2004e, 'Billion-dollar drought commitment', *Media Release*, AFFA04/111WT, 11 May.

—— 2004f, '$68.4 million Queensland Sugar Sustainability Grants rollout today', *Media Release*, AFFA04/169WT, 21 June.

—— 2004g, 'Coalition stands by drought-affected farmers', *Media Release*, AFFA04/202WT, 12 July.

—— 2004h, 'Truss welcomes EC drought reform support', *Media Release*, AFFA04/216WT, 27 July.

Vaile, M. (Minister for Trade) 2003a, 'Australia-Japan Trade and Economic Framework', *Media Release*, MVT55/2003, 27 July.

—— 2003b, 'Australia–Thailand FTA raise benchmark in regional free trade negotiations', *Media Release*, MVT83/2003, 20 October.

—— 2003c, 'Australia-China trade and economic framework', *Media Release*, MVT85/2003, 24 October.

Vermulst, E. A. 1994, 'Rules of origin as commercial policy instruments? — revisited', in Vermulst, E., Waer, P. and Bourgeois, J. (eds) 1994, *Rules of Origin in International Trade*, The University of Michigan Press, Ann Arbor.

WCO (World Customs Organization) 1975, *Handbook: International Convention on the Simplification and Harmonization of Customs Procedures*, Internet Edition, http://www.unece.org/trade/kyoto/ky-01-e0.htm (accessed July 2003).

WTO (World Trade Organisation) 2003, *Annual Report 2003*, WTO, Geneva.

—— 2004a, *Annual Report 2004*, WTO, Geneva.

—— 2004b, Regional Trade Agreements, http://www.wto.org/english/tratop_e/region_e/regfac_e.htm (accessed 26 October 2004).