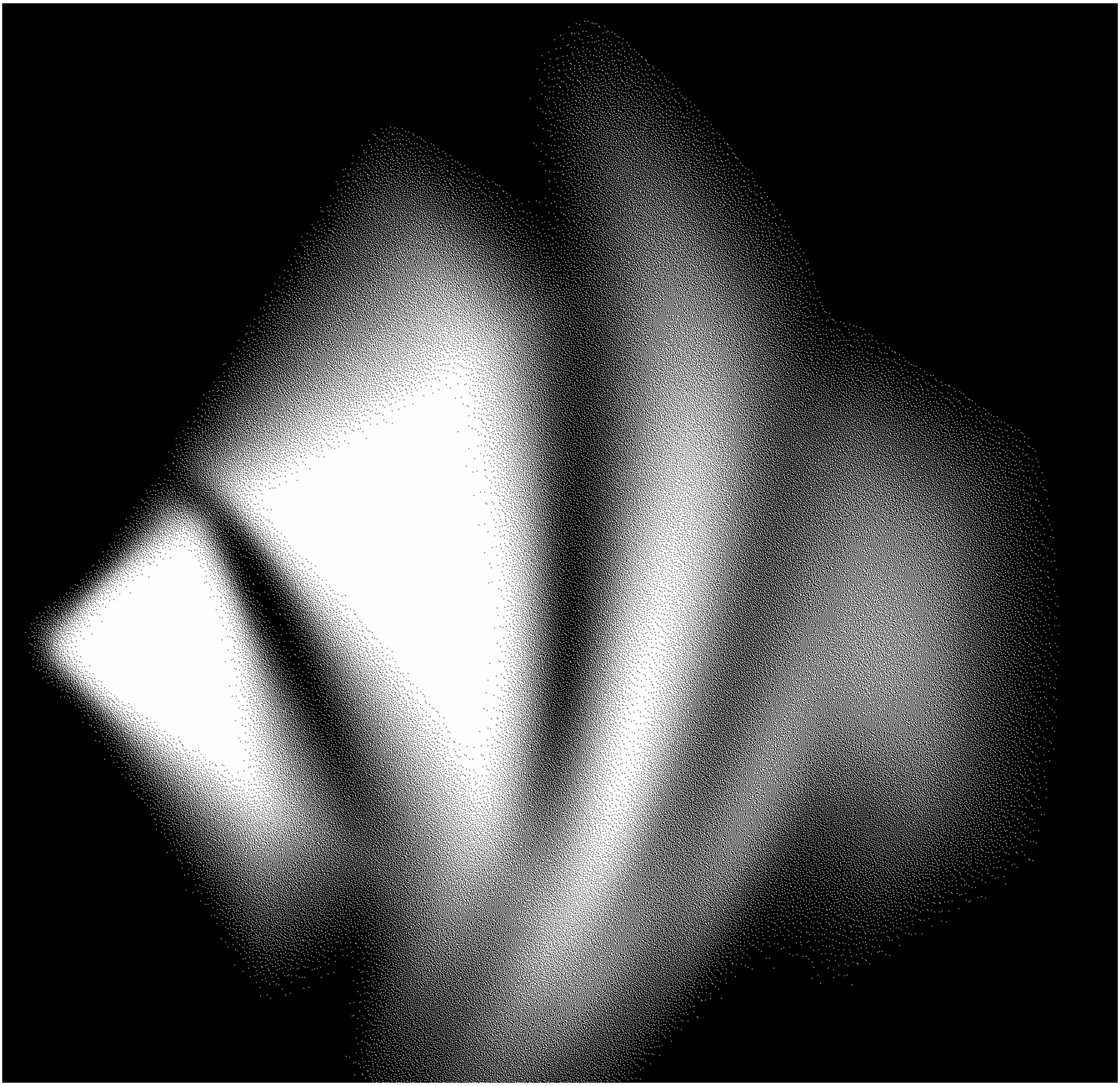
Australian Government
Productivity Commission

Trade & Assistance Review 2004-05

Productivity Commission
Annual Report Series



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The Productivity Commission

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 budgetary assistance to industry, as well as estimates of Australian Government and state and territory drought support. It also discusses recent developments in tariff, budgetary and other 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 2004-05 forms part of the Commission's annual report series. Its companion volumes are the Commission's *Annual Report 2004-05*, and *Regulation and its Review 2004-05*. While the review is normally released towards the end of each year, this edition has been delayed by data availability issues and the secondment of key staff to the secretariat of the Government's recent Regulation Taskforce.

In preparing this document, the Commission received helpful advice and feedback from officials from several Australian Government departments as well as from various state and territory rural assistance authorities. The Commission is grateful for their assistance.

Gary Banks
Chairman

April 2006

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Abbreviations

ASEAN	Association of South East Asian Nations
ABARE	Australian Bureau of Agricultural and Resource Economics
ACIS	Automotive Competitiveness and Investment Scheme
AFFC	Australian Film Finance Corporation
AFMA	Australian Fisheries Management Authority
ANZCERTA	Australia New Zealand Closer Economic Relations Agreement
APEC	Asia-Pacific Economic Cooperation
CARIFORUM	Caribbean Forum of African, Caribbean and Pacific States
CEMAC	Economic and Monetary Community of Central Africa
CER	Australia New Zealand Closer Economic Relations Agreement
CIE	Centre for International Economics
COA	Commonwealth of Australia
CRC	cooperative research centre
CSIRO	Commonwealth Scientific and Industrial Research Organisation
CTC	change of tariff classification
DFA	direct financial assistance
DSTO	Defence Science and Technology Organisation
EC	European Communities
EC	exceptional circumstances
ECOWAS	Economic Community Of West African States
EFTA	European Free Trade Association
EMDG	Export Market Development Grants
ESA	common market for Eastern and Southern Africa
FI	funding to institutions
FMD	Farm Management Deposits
GATT	General Agreement on Tariffs and Trade

GCC	Gulf Cooperation Council
GDP	gross domestic product
HdH	Hawker de Havilland
IC	Industry Commission
IOG	Industry Oversight Group
MERCOSUR	Acuerdo Commercial–Mercado Común del Sur (Southern Common Market Agreement)
MFN	most favoured nation
MPA	Marine Protected Area
MVP	motor vehicles and parts
NCC	National Competition Council
NCP	National Competition Policy
NDP	National Drought Policy
NDRA	National Disaster Relief Arrangements
NTIS	National Tourism Investment Strategy
PACIFIC EPA	Pacific Economic Partnership Agreement
PC	Productivity Commission
PIIP	Pharmaceutical Industry Investment Program
PMV	passenger motor vehicles
PTA	preferential trading agreement
QSL	Queensland Sugar Limited
R&D	research and development
RAG	Regional Advisory Group
RoO	rules of origin
SACU	Southern African Customs Union
SADC	Southern African Development Community
SARS	Severe Acute Respiratory Syndrome
SIC	Strategic Investment Coordination
SIP	Strategic Investment Program (TCF)
SIRP	Sugar Industry Reform Program
SME	small and medium enterprises

TA	Tourism Australia
TCF	textiles, clothing and footwear
TE	tax expenditure
TES	Tax Expenditures Statement
TFES	Tasmanian Freight Equalisation Scheme
TRADEX	Trade and Export Concession Scheme
TSA	Tourism Satellite Account
UAE	United Arab Emirates
WTO	World Trade Organization

Key points

- Governments assist industries through a range of mechanisms, including tariffs and regulatory restrictions on imported goods and services, as well as subsidies and tax concessions for domestic producers.
  - Assistance generally benefits the industry that receives it but can penalise other Australian industries, as well as taxpayers and consumers.
  - Some types of assistance, such as R&D funding, may deliver net community benefits; others entail net costs to the community.
- Tariffs on imports of manufactures have declined steadily over time, with most items in 2004-05 facing a tariff rate of 5 per cent or entering duty free. Automotive products and textiles, clothing and footwear items attract higher tariffs.
  - The Government has announced continuing transition programs designed to move both sectors to lower levels of assistance. Tariffs on imports of these goods were reduced further in 2005.
- Budgetary assistance to industry totalled an estimated $4.6 billion in 2004-05.
  - $2.6 billion was provided in budget outlays — the main components were funding for CSIRO (21%), certain R&D programs (13%) and Austrade's export promotion and grants (11%).
  - The Automotive Competitiveness and Investment Scheme was the most significant tax concession, accounting for more than one-quarter of the almost $2 billion of such assistance provided.
- In addition, significant drought relief has also been provided to farmers and rural communities in recent years.
  - The Australian Government expended $220 million on drought support in 2004-05, with expenditure projected to increase considerably in 2005-06.
- The tourism industry has received significant assistance in recent years. Further assistance and other policy initiatives to encourage additional travel and tourism-related investment have been recommended by a Government-appointed consultative group.
- There has been mixed progress on international trade liberalisation recently.
  - There has been some progress, albeit limited, in the WTO's Doha Round.
  - There has been a rapid worldwide increase in preferential trade arrangements. Australia has recently concluded a number of PTAs, with more in prospect.
  - A number of countries, including Australia, have unilaterally undertaken significant reform of their tariff arrangements over recent years.

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 edition of *Trade & Assistance Review* contains estimates of Australian Government budgetary assistance to industry for 2004-05 (chapter 2). However, it does not include new estimates of tariff assistance or of combined 'effective rates of assistance'. The Commission is currently mid-way through a revision to its broader assistance measurement methodology, and intends to publish a new series of estimates, based on more recent (2001-02) input-output data to be supplied by the Australian Bureau of Statistics, in the next edition of *Trade & Assistance Review*.

The review also reports on selected developments in industry assistance (chapter 3). The areas covered are:

- tariff arrangements for the automotive and textiles, clothing and footwear industries, and for business inputs;
- selective investment incentives, including for the aerospace industry;
- assistance for export marketing;
- assistance for the tourism industry;
- industry-specific assistance for sugar, rice, pigmeat and commercial fishing;
- drought relief; and
- anti-dumping arrangements.

Assistance 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 assistance 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*.

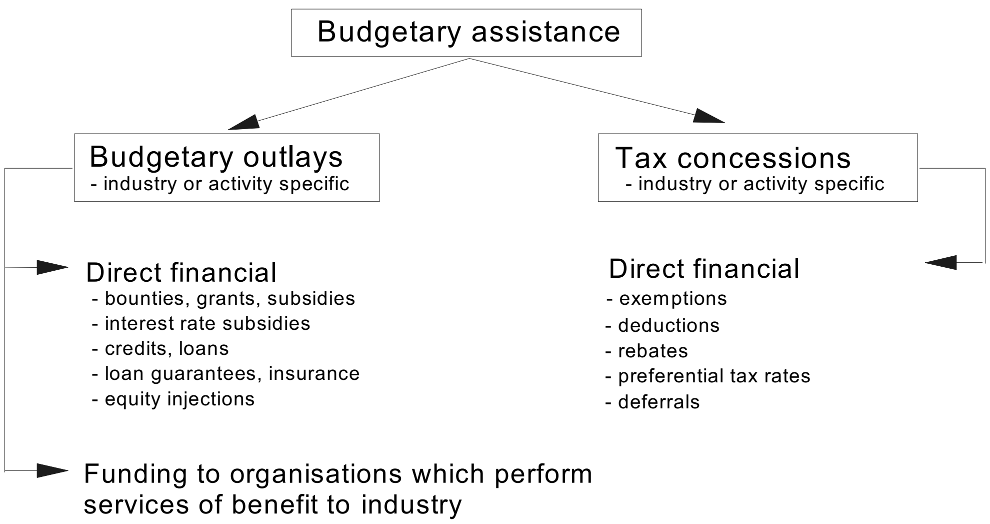
This year's *Review,* as well as reporting on industry assistance, covers selected developments in international trade policy over the last year (chapter 4). It documents progress in the current round of World Trade Organisation negotiations, Australia's involvement in preferential trading arrangements, and evidence of the extent of unilateral tariff reductions by various countries in recent years.

2 Budgetary assistance estimates

This chapter reports estimates of budgetary assistance provided by the Australian Government for 2004-05. A detailed breakdown of the estimates, covering the three years to 2004-05, is presented in appendix A.

Budgetary assistance takes a number of different forms, which can be grouped under the broad headings: outlays and tax concessions (figure 2.1).

Figure 2.1 **Forms of budgetary assistance**



As well as reporting budgetary assistance by form, the chapter also reports on:

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

The estimates are derived primarily from the Australian Government Budget Papers, Departmental Annual Reports and the Australian Treasury's 2005 Tax Expenditures Statement.

Care is needed when drawing inferences from assistance estimates. Some aspects of the coverage and interpretation of the budgetary estimates reported in this chapter are set out in box 2.1.

Box 2.1 **Aspects of the Commission's budgetary assistance estimates**

Budgetary assistance can be defined as comprising outlays and tax concessions that directly or indirectly assist a person to carry on a business or activity, or confer (or result in the conferring of) a pecuniary benefit to a person in respect of carrying on a business or activity.

The Commission's estimates of budgetary assistance seek to cover only those budgetary measures that *selectively* benefit particular firms, industries or activities, and that can be readily quantified given practical constraints in measurement and data availability. Budgetary assistance is not restricted to measures targeted at firms in particular industries; it also covers measures that seek to stimulate particular activities, such as R&D and exporting, that may be undertaken by firms in a number of industries. However, the estimates in this chapter contain a number of exclusions, including:

- Australian Government programs affecting a range of service industries, mainly relating to the provision of health and welfare, where funding predominantly benefits individual citizens;
- Australian Government budgetary outlays on defence, health, education, sport, the arts and the labour market;
- general taxation measures, such as the goods and services tax, and excises and various excise exemptions;
- certain specific items including capital depreciation subsidies and direct drought relief payments[1]; and
- budgetary assistance provided by state, territory and local governments.

In interpreting the estimates, it should be recognised that budgetary assistance estimates by their nature do not cover the substantial assistance provided by tariffs. They also do not cover assistance provided by restrictions on competition (such as agricultural pricing and marketing arrangements, occupational licensing and anti-dumping measures), and do not address any assistance affects of items such as government procurement preferences, quarantine restrictions and the (under)pricing of utilities.

These other forms of assistance may to some degree offset, or add to, any differences in the level of budgetary assistance received by different businesses, industries or activities. More generally, assistance estimates do not of themselves indicate the policy merits, or the precise resource allocation effects, of different government assistance measures.

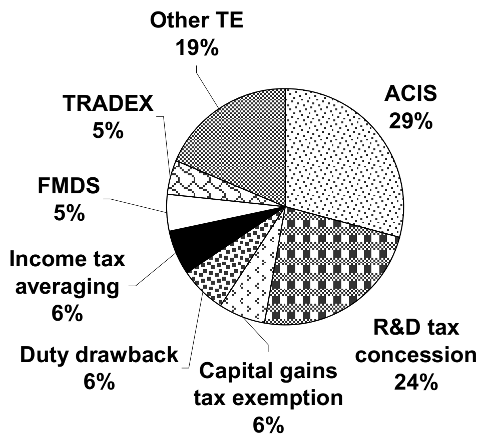
The Commission's approach to measuring assistance is explained in more detail in *Methodological Annex A* to the *Trade & Assistance Review 2001-02*.

1 While not included in the assistance estimates in this chapter, data on drought relief provided by the Australian Government and the states and territories are provided in section 3.6 of chapter 3

Main assistance programs

Of the $4.6 billion of budgetary assistance covered in the Commission's estimates for 2004-05, tax concessions totalled an estimated $1.9 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 2.2).

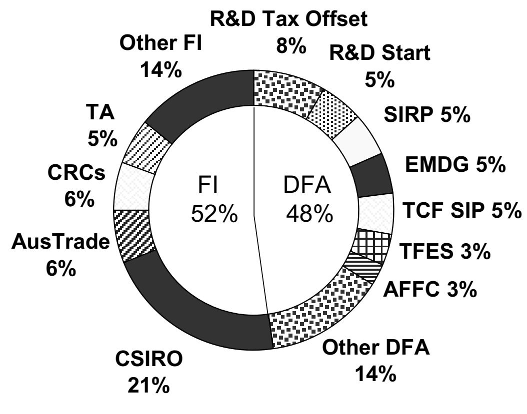
Figure 2.2 **Major Australian Government tax concessions, 2004-05**



Source: Commission estimates.

Budgetary outlays in 2004-05 totalled an estimated $2.6 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 Tourism Australia (TA) and CSIRO. As shown in figure 2.3, important outlays include Austrade's programs, including the Export Market Development Grants (EMDG) scheme, and funding for research institutions.

Figure 2.3 **Major Australian Government budgetary outlays, 2004-05**



Source: Commission estimates.

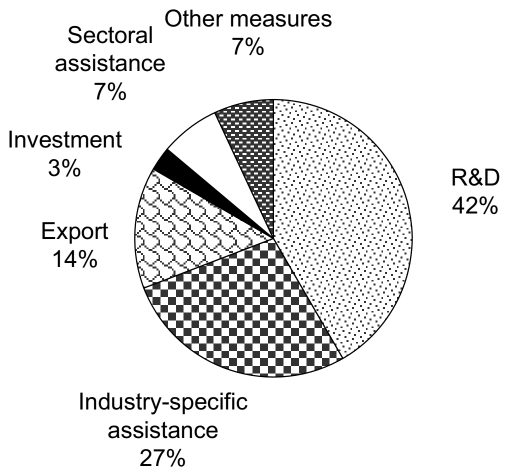
Activities targeted

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 the Australian Government budgetary assistance covered in the estimates into R&D, export, investment and sectoral assistance, as well as industry-specific assistance and 'other' (figure 2.4).

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 2.4, the largest shares of budgetary assistance are provided for R&D and industry-specific assistance.

Figure 2.4 **Australian Government budgetary assistance by activity[a], 2004-05**



[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 Tourism Australia) 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

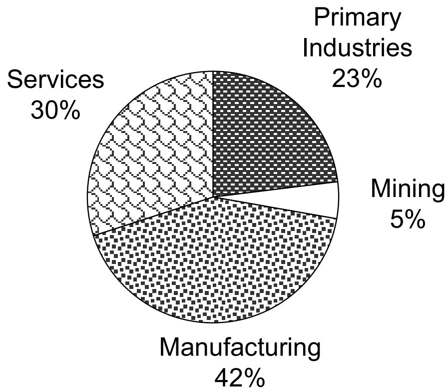
The Commission estimates the incidence of budgetary assistance according to the industries that initially benefit from it. It reports the incidence using a four sector classification of the Australian economy and a multiple 'industry grouping' classification. While the Commission has used detailed information to allocate budgetary assistance among the different sectors and industries, 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. Further, the effects of budgetary assistance ideally need to be considered in conjunction with the effects of other assistance, such as tariffs and agricultural pricing and regulatory assistance. 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 2.5).

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 2.5 **Australian Government budgetary assistance by sector, 2004-05**



Source: Commission estimates.

Table 2.1 **Budgetary assistance by industry grouping, 2004-05** ($ million)

Industry grouping	*Budgetary outlays*	*Tax concessions*	*Total assistance*
Primary production	**704.5**	**275.4**	**980.0**
Dairy cattle farming	29.5	20.8	50.3
Grain, sheep and beef cattle farming	192.7	163.9	356.6
Horticulture and fruit growing	86.3	45.6	131.9
Other crop growing	160.8	16.1	176.9
Other livestock farming	12.5	9.9	22.5
Fisheries	68.9	8.2	77.1
Forestry and logging	37.8	2.6	40.3
Other[a] and unallocated primary production[b]	116.0	8.3	124.4
Mining	**120.1**	**87.9**	**208.0**
Manufacturing	**769.5**	**1023.0**	**1792.5**
Food, beverages & tobacco	82.6	26.4	109.0
Textiles, clothing, footwear & leather	143.7	54.8	198.5
Wood & paper products	38.8	11.6	50.4
Printing, publishing & media	14.3	7.7	22.0
Petroleum, coal, chemical & associated products	108.8	27.3	136.1
Non-metallic mineral products	2.4	9.5	11.9
Metal product manufacturing	116.7	23.9	140.6
Motor vehicles & parts	5.3	664.9	670.2
Other transport equipment	12.9	13.0	25.9
Other machinery & equipment	91.2	50.1	141.3
Other manufacturing	109.5	12.8	122.3
Unallocated manufacturing[b]	43.2	121.1	164.3
Services	**750.8**	**557.2**	**1308.0**
Electricity, gas & water supply	19.3	18.7	38.0
Construction	22.9	19.8	42.7
Wholesale trade	20.1	59.8	79.9
Retail trade	6.6	40.6	47.2
Accommodation, cafes & restaurants	4.8	5.8	10.7
Transport & storage	8.1	24.9	33.0
Communication services	106.4	33.9	140.3
Finance & insurance	15.2	194.5	209.8
Property & business services	186.7	87.6	274.3
Government administration & defence	3.1	0.1	3.1
Education	9.0	12.7	21.7
Health & community services	38.5	3.1	41.6
Cultural & recreational services	132.4	54.6	187.0
Personal & other services	3.4	1.2	4.6
Unallocated services[b]	174.2	0.0	174.2
Unallocated other[b]	**270.1**	**-8.1**	**262.0**
TOTAL[c]	**2615.0**	**1935.5**	**4550.6**

[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] Numbers may not sum to total due to rounding.
Source: Commission estimates (see appendix A).

3 Selected developments in assistance

This chapter documents a number of recent policy announcements and developments with ramifications for Australia's assistance structure generally or for particular sectors or industries. The developments relate to:

- tariff arrangements for the automotive and textiles, clothing and footwear industries, and for business inputs;
- selective investment incentives, including for the aerospace industry;
- assistance for export marketing;
- assistance for the tourism industry;
- industry-specific assistance for sugar, rice, pigmeat and commercial fishing;
- drought relief; and
- anti-dumping arrangements.

3.1 Reform of tariff arrangements

Historically, the imposition of tariffs on imports has been the main mechanism used by the Australian Government to assist domestic manufacturing. High tariff rates were initially introduced for many industries after the Second World War. The more recent trend to lower tariffs began with a 25 per cent general tariff reduction in 1973. This was followed by ad hoc changes in tariffs, until broadly-based programs of phased reductions in tariffs commenced in 1989. Today, around half of all dutiable items are duty free and, for the remainder, the general tariff rate is 5 per cent (although higher tariffs remain for the TCF and PMV industries). Australia also operates a tariff concession system which waives or reduces the duty payable on imported goods where certain eligibility criteria are met.

Textiles, clothing and footwear and passenger motor vehicles

The textiles, clothing and footwear (TCF) and passenger motor vehicles (PMV) industries are the most highly assisted industry groupings in the manufacturing sector. They receive tariff protection from import competition as well as receiving significant budgetary assistance.

Previously scheduled tariff reductions for these industries came into effect on 1 January 2005. The reforms reduce the disparity in tariff protection between these industries and the manufacturing sector more generally.

For TCF products, tariffs were reduced:

- from 25 to 17.5 per cent on imports of clothing and certain other finished textiles goods;
- from 15 to 10 per cent on imports of cotton sheeting, fabrics, footwear and carpet; and
- from 10 to 7.5 per cent on imports of sleeping bags, table linen and footwear parts.

These reductions were provided for in the *Customs Tariff Amendment (Textile, Clothing and Footwear post-2005 Arrangements) Act 2004*. Under the Act, TCF tariffs will remain at their new rates until 2010, when they will be reduced to 5 per cent and maintained at that rate until 2015. The exception is for apparel and certain finished textile goods, for which the tariff will be reduced to 10 per cent in 2010, and then to 5 per cent in 2015.

For PMV products, the tariff rate was reduced from 15 to 10 per cent on 1 January 2005. This reduction was provided for in the *Customs Tariff Amendment (ACIS) Act 2003* and the *ACIS Administration Amendment Act 2003*. Under the legislation, automotive tariffs are to remain at 10 per cent until 2010, when they will be reduced to 5 per cent and remain at that level until 2015.

The post-2005 tariff assistance arrangements for the TCF and PMV industries, together with other assistance arrangements for those industries, were discussed in detail in *Trade & Assistance Review* 2001-02 (PC 2002b).

Assistance to TCF and PMV industries is also affected by recently-concluded preferential trading arrangements. For example, under the May 2004 Australia-United States Free Trade Agreement, certain motor vehicle imports from the United States can now enter Australia at a concessional tariff rate. The concession is scheduled to increase each year such that, by 2010, eligible US-sourced vehicles shall be able to enter duty-free. Similarly, under the March 2004 Thailand-Australia Free Trade Agreement, eligible motor vehicles and certain parts and components imported from Thailand can now enter Australia duty-free, while eligible TCF products can enter at concessional rates.

Revenue duty on business inputs

As a revenue-raising measure in the 1996-97 budget, the Australian Government introduced a 3 per cent duty on a range of imports that were used as business inputs and for which there was no competing domestic production. These imports had previously entered duty-free under the Tariff Concession Scheme.

In its *Review of Australia's General Tariff Arrangements* (PC 2000b), the Commission found that the 3 per cent revenue duty disadvantaged Australian manufacturers and imposed unnecessary costs on consumers. The Commission recommended that the duty on business inputs be removed. In subsequent reports, the Commission found similar impacts of the revenue duty on automotive producers and TCF manufacturers (PC 2002a and 2003a).

In the 2005-06 Budget, the Australian Government announced the removal of the duty, effective from 11 May 2005. The reform eliminated a cost impost on Australian industries and consumers of around $300 million a year.

3.2 Selective investment incentives

All Australian governments provide selective investment incentives to firms, generally on an ad hoc basis. At the Commonwealth level, such assistance is provided primarily through the Strategic Investment Coordination (SIC) process, which is designed to attract foreign investment into Australia. The SIC is administered by Invest Australia, which also undertakes facilitation of investment projects generally. State and Territory governments also provide an array of selective assistance, often in competition with other State governments, to attract targeted firms to invest or locate in their particular State.

The provision of investment incentives has sometimes led to costly bidding wars among Australian jurisdictions (IC 1996 and Banks 2002). The Commission has examined issues surrounding the provision of investment incentives and reported on the provision of such incentives by governments in previous *Trade & Assistance Reviews* (PC 1998, 2004b).

Aerospace incentives

In recent times, the aerospace manufacturing industry has been assisted mainly through government funding of research activities undertaken by the Defence Science and Technology Organisation (DSTO) and the Cooperative Research Centre for Advanced Composite Structures (DITR 2003, p. 71-9).

In its Aerospace Industry Action Agenda, the Department of Industry, Tourism and Resources (DITR 2003) canvassed different mechanisms to support the development of the Australian industry. It argued that, while the Australian industry is currently fragmented, there is potential for it to become a significant international supplier of major aerospace components (for example, aeroengines and wings). It was recommended in the Agenda that the Government:

> … recognise that some competing countries offer investment incentives for supply chain projects associated with the development of new and derivative aerospace platforms. … [and that] The SIC process is the established mechanism under which the Government considers investment incentives. (p. 10)

It was also recommended that the Government use its projected Defence aerospace procurement expenditure of $29 billion over the coming decade as 'leverage to sustain strategic industry capabilities' (p. 19).

In March 2005, the Australian Government announced an investment incentive of $12.5 million to the Victorian-based aerospace manufacturer, Hawker de Havilland (HdH). HdH is a subsidiary of the Boeing company and has announced that it intends to invest $175 million in a manufacturing plant to produce trailing wing edge components for the Boeing 787 'Dreamliner' aircraft.

The Australian Government's support is part of a joint incentive package provided in conjunction with the Victorian Government. The Victorian Government assistance has not been disclosed (Macfarlane 2005a and 2005b).

The Interstate Investment Agreement

In recognition of the adverse effects that selective investment incentives can have on 'efficient competition' and 'national welfare', in 2003 all State and Territory governments except Queensland signed an agreement to reduce cross-border bidding and restrict the use of financial incentives to attract investment.

In its *Review of National Competition Policy Reforms* (PC 2005a), the Commission received submissions from some State governments on this issue and also reviewed progress in implementing the interstate agreement.

The report found that the original concerns of state governments that had led to the signing of the Interstate Investment Agreement remain significant. For example, the Tasmanian Government suggested that investment attraction potentially becomes 'an important issue for smaller economies, such as Tasmania, in the event that national economic growth slows and investment becomes more difficult to attract'.

In addition, the Commission's report found that the agreement lacks mechanisms to ensure monitoring and compliance. Accordingly, the Commission recommended that the Interstate Investment Agreement be strengthened to encourage compliance and be extended to cover all jurisdictions, including the Australian Government.

3.3 Export marketing assistance

The Export Market Development Grants (EMDG) scheme is the Australian Government's principal financial assistance program for Australian exporters. Established in 1974, the scheme focuses on small and medium-sized enterprises and provides taxable grants to reimburse up to 50 per cent of designated export promotion and marketing expenses.

The number of grant recipients has traditionally represented a relatively small proportion of Australian exporters. For example, participants in the EMDG scheme represented approximately 16 per cent of Australian exporters in the four years to 1998 (Revez and Lattimore 2001). EMDG grants were provided to around 3200 eligible companies in 2004-05.

The EMDG scheme is administered by Austrade, which also undertakes export promotion activities, such as providing business information and advice, and administers other export programs. In 2004-05, total funding for Austrade's export promotion activities, the EMDG scheme and related export programs was around $280 million.

From 1997 to 2002, funding for the EMDG scheme was capped at $150 million a year. In the 2004-05 budget, the Australian Government announced an additional $30 million for the scheme, to be provided for 2005-06 and 2006-07.

As part of an Austrade review of the scheme which commenced in 2004, the Centre of International Economics (CIE) was commissioned to assess the scheme's effects on export activity and also its economy-wide effects.

Based on a survey of recipient firms together with economic modelling, the CIE (2005b) found uncertain results. While 63 per cent of the grant recipients surveyed considered that the scheme had either 'no' or 'small' influence on their export marketing, 37 per cent of grant recipients indicated that the scheme was a 'major' influence. The CIE found that the EMDG scheme could induce considerable additional export marketing and exports by recipient firms, particularly when they are 'capital-constrained' and the returns from their exports are increasing. The CIE study also indicated that the scheme would displace non-EMDG exports, may not generate significant spillover benefits and that it is difficult to be categorical about the net benefits of the scheme.

In its report of June 2005, Austrade (2005, p. 9) found that:

> … the scheme is effective in increasing the number of SMEs that develop into new exporters, in increasing the number of SMEs that achieve sustainability in export markets, in generating additional exports, and in further developing an export culture in Australia. In arriving at this conclusion, Austrade took into account:
>
> - strong business and industry views, expressed in public submissions and through the review facilitation process
> - the independent survey of recent EMDG scheme recipients and analysis of the results
> - Austrade's own experience as the administrator of the scheme

Austrade recommended that the scheme be continued. It also recommended some changes to the details of the scheme.

In January 2006, the Government announced that the scheme will continue until the end of 2010-11, with provision for another review of the scheme by June 2010. Among other things, the Government noted that it will consider the funding of the scheme in the context of the 2006-07 budget (Vaile 2006).

3.4 Assistance to tourism

Governments throughout Australia have traditionally provided significant support for tourist activities in the form of expenditures on tourism promotion, the maintenance of high profile sites, the funding of events that attract tourists and the provision of infrastructure services that benefit travellers more generally (as well as local residents).

Following more than twenty years of rapid growth, the tourism industry's fortunes dipped early in this decade. Beginning in September 2001, terrorism, airline failures and later outbreaks of contagious diseases, such as SARS, significantly dampened travel — particularly international travel.

In response to these shocks, governments in Australia introduced a number of additional measures to assist the local tourism industry, including the release of the *Tourism White Paper* in November 2003. These additional measures were outlined in previous editions of the *Trade & Assistance Review* (PC 2002b, 2003b).

In 2004 and 2005, the number of international tourists and other visitors travelling to Australia increased to 5.2 million and 5.5 million arrivals, respectively. This exceeded the previous high of 4.9 million international visitors in 2000, which included additional visitors for the Sydney Olympics.

Implementation of the Australian Government's White Paper initiatives

The *Tourism White Paper: a Medium to Long Term Strategy for Tourism* contained a wide-ranging package of measures costed at $235 million and to be implemented over four-and-a-half years.

As foreshadowed in the White Paper, in July 2004 the Australian Tourist Commission was amalgamated with the Bureau of Tourism Research, the Tourism Forecasting Council and See Australia Limited to form a new body: Tourism Australia. Tourism Australia is responsible for both international and domestic tourism marketing, and the delivery of research, statistics and forecasts for the sector. A unit has also been established to promote business events (including the 'meetings, incentives, conventions and exhibitions' sector) as well as sporting, cultural and other major events. Another unit has been established to promote niche markets (such as ecotourism, and food and wine tourism).

The White Paper also announced the development of 'a revitalised Brand Australia' and an increase in funding for tourism promotion. Key initiatives have included the '30 great spaces' domestic campaign, launched in March 2005, and the 'So where the bloody hell are you?' international campaign, launched in February 2006.

A government progress report on the implementation of these and other White Paper initiatives is expected to be released by April 2006.

The National Tourism Investment Strategy

In March 2005, the Australian Minister for Small Business and Tourism established a National Tourism Investment Strategy (NTIS) Consultative Group, comprising travel and tourism industry representatives, to 'develop initiatives to attract further private sector investment in tourism infrastructure, research and innovation, and education and training.' (Bailey 2005)

In its report released in March 2006 (COA 2006), the Consultative Group took a 'broad and comprehensive' view of tourism and argued that a significant part of Australia's long-term economic prosperity depends on the release and realisation of tourism investment opportunities across the whole nation, including regional and rural Australia. However, the report argued that, with the possible exception of the accommodation market in major cities, tourism investment opportunities are generally viewed as speculative and that the inherent riskiness is an impediment to large scale, innovative investment.

The report contained 44 recommendations for additional assistance and reform, including in the areas of national and regional economic development, tax breaks and depreciation arrangements, regulatory issues, 'niche market' development, border security, the utilisation of airports and other assets, information and research, and workforce and training issues. The report (COA 2006, p. 5) stated:

> The collective intention of the Consultative Group's recommendations is to improve investment returns [in tourism] relative to investment in competing sectors. If actioned, they will enable tourism to be an integral factor in the overall strategy of nation building and sustainable economic development. Given tourism's highly developed supply chain the investment community does not perceive it to stand alone as an industry, but the Australian Government has an opportunity to refashion that perception so tourism can be viewed as an enabler for future community development.

In the Australian Government's interim response, the Minister for Small Business and Tourism noted that the Consultative Group's recommendations 'cover a very broad range of issues across a number of Ministerial portfolios. As such it will take some time to properly consider the proposals, taking into account recent and current Government reforms and reviews.' The Minister also stated:

> A number of the Consultative Group's recommendations propose concessions and incentives delivered through the tax system including tax leveraging, revised depreciation schedules, and exemption from capital gains tax for certain assets. The Australian Government has carefully considered these tax related recommendations and decided not to pursue them. The Australian Government has pursued various policies directed towards simplifying the tax system and reducing the number of special exemptions and concessions to particular industries. (Bailey 2006)

Other recent Australian Government measures

In addition to the above initiatives, recently the Australian Government has:

- developed an Emerging Markets Strategy, to assist Australian industry to benefit from visitation from China and India; and strengthened the operation of the Approved Destination Status scheme which allows group tourists from China to visit Australia;
- established a new 'indigenous tourism' unit within Tourism Australia;
- developed a Korea Action Plan, and announced the development of an Action Plan for Japanese Tourism;
- committed to develop a 'National Road Tourism Strategy'; and
- announced $20 million in funding for 11 regional tourism projects during the 2004 election campaign.

Exploratory assistance estimates

In April 2005, the Commission released a study of assistance to the tourism industry. The study included estimates of assistance to tourism provided by the Australian Government and state and territory governments for the years 2000-01 to 2002-03 (PC 2005b). While the estimates were based on the Commission's normal assistance measurement methodology, the unusual nature of the tourism industry and the assistance it receives, in conjunction with data limitations, made measuring assistance to tourism more problematic than estimating assistance to conventional industries.

A key issue for the study was how to delineate tourism from other forms of travel and then to estimate the tourism industry's size. The Commission estimated that the tourism industry accounts for between 1.6 and 2.2 per cent of GDP, substantially less than recent estimates by the Australian Bureau of Statistics (see box 3.1).

In quantifying assistance to the industry, the paper included all government spending on destination promotion and marketing, tourism-related research, grants to firms and organisations for tourism-related purposes, and other items deemed to be 'dedicated' tourism assistance. The estimates also included up to one-third of the funding provided for the attraction of major events, such as the Commonwealth Games and the Australian Grand Prix, and for convention centres and convention bureaus. Also included was a small share of government funding on items including national parks, art galleries, sports facilities, passenger transport infrastructure and services, and regional development assistance, that support tourism activity. While the (relatively minor) effects of some tax expenditures and tariffs on tourism inputs were included, the assistance estimates did not cover the effects of general tax measures such as fuel excise and the goods and services tax.

Reflecting the conceptual and data difficulties entailed, the Commission presented both 'base line' and 'upper bound' estimates of tourism assistance, and cautioned that the estimates should be treated as 'exploratory'.

For the three years covered by the study, the Commission's base line estimates suggest that the net assistance provided by the Australian Government totalled around $145 million per year, which is equivalent to some 1.4 per cent of the industry's 'gross value added' as measured by the Commission. This suggests that tourism received more Australian Government assistance relative to its gross value added than do the services and mining sector, but less than the manufacturing and primary production sectors.

Box 3.1 **The size of the tourism 'industry'**

Although tourism has traditionally been considered a consumption activity, not a production activity, in recent years efforts have been made to measure production associated with tourism as if it were a single industry. One widely used measure is provided in the Australian Tourism Satellite Accounts (TSA), which has been published since 2000 by the Australian Bureau of Statistics, with the support of the Department of Industry, Tourism and Resources. The TSA is based on a very broad definition of 'tourism', promulgated by the World Tourism Organisation.

The TSA released in April 2005 (the most recent at the time this *Review* was finalised) estimated that the tourism industry accounted for 3.9 per cent of GDP in 2003-04. This was slightly lower than the level recorded for the preceding two years, and significantly lower than the level (4.6 per cent of GDP) recorded for 2000-01.

However, in its recent paper on assistance to tourism, the Commission found that the conception of the tourism industry used in the TSA is far broader than would commonly be understood to constitute tourism, and does not provide a good basis for assessing assistance to the industry.

- The TSA counts many people as tourists even when travelling for work or study, to do household shopping, to obtain medical treatment, or for personal/family matters such as to see friends or to attend weddings or funerals. Generally, such trips and their associated expenditure are unlikely to be induced much, if at all, by tourism considerations or government tourism promotion activities.
- Further, unlike conventional measures of the activity levels of other industries, the TSA includes production of businesses in upstream industries, such as food processors, clothing manufacturers and passenger motor vehicle producers, as part of the tourism industry's output.

Adjustments by the Commission to align the tourism industry more closely with the basis on which other industries are defined and with a more common understanding of tourism yielded estimates significantly smaller than those in the TSA. They suggest that tourism accounted for between 1.6 and 2.2 per cent of GDP, on average, over the three years from 2000-01 to 2002-03.

Contrary to some comments reported in the media following the report's release, the Commission's estimates did not ignore or exclude the value of expenditure by business people travelling to attend conferences and conventions. All such expenditure was included in the paper's upper bound estimates of tourism expenditure, as was one-third (on average) of expenditure by all visitors travelling for non-holiday/leisure reasons, such as those travelling for work, study or family get-togethers. This was in addition to the expenditure of people travelling primarily for holiday/leisure purposes, which comprised the paper's base line estimates of tourism expenditure.

Most assistance to tourism as measured in the paper is provided by State and Territory Governments. The Commission's base line estimates indicated that this assistance amounted to about $780 million per year, which is equivalent to 7.5 per cent of the tourism industry's gross value added. However, more uncertainty attaches to these estimates, and comparable estimates of state and territory assistance for other industries are not available.

While the study did not seek to assess the merits of existing tourism support measures, either individually or collectively, it noted that:

> Given the significant level of dedicated tourism assistance — totalling between around $350 to $400 million per annum during the years covered by the study — together with support for conventions and events which is often justified at least partly on tourism promotion grounds, it is important that support to tourism be rigorously reviewed from time to time to ensure that it addresses genuine instances of market failure or inequity, does so in an efficient manner and that it is associated with net benefits for the community.
>
> In this context, assessments of the potential benefits of tourism promotion depend in part on views of the initial size of the tourism industry. The estimates in this paper indicate that much of what has been counted as 'tourism' is expenditure and production that is unlikely to be affected significantly, if at all, by tourism promotion measures. Their inclusion can cloud assessments of the effectiveness of tourism support measures, as well as potentially distorting estimates of the rate of assistance that tourism receives, relative to other industries.

3.5 Industry-specific assistance for primary producers

Sugar production

Background

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

- In July 1997, following a National Competition Policy Review of the industry, the Australian Government removed tariffs on imported sugar, and domestic price supports were partly removed by the Queensland Government. These arrangements had previously provided significant assistance to domestic canegrowers and sugar millers.
- In July 1998, to help offset the reduction in assistance, the Australian Government announced the Sugar Industry (Research) Assistance Package, with

funding of $13.5 million over four years for research, particularly into ways of increasing the sugar content of cane.

- In 2000, the Australian Government introduced a Sugar Industry (Cane Growers) Assistance Package with funding of over $65 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 of up to $120 million in the form of the Sugar Industry Reform Program (SIRP) 2002, to be funded by a levy of 3 cents per kilogram on domestic sugar sales. $17.6 million (including administration costs) was provided by the Australian Government under this program in the 2002-03, and a further $9.1 million in 2003-04, before being superseded by the 2004 program (see below). As part of the September 2002 announcement, the Queensland Government indicated that it would contribute $30 million to the assistance package (although in practice the Australian Government and Queensland programs operated separately).
- 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, and following the 'Independent Assessment of the Sugar Industry' (Hildebrand 2002), the Australian Government announced the SIRP 2004, with funding up to $444 million. The main elements of the program are outlined in box 3.2.

These assistance arrangements were discussed in more detail in *Trade & Assistance Review 2003-04* (PC 2004b).

Recent Australian Government developments

In February 2005, the Australian Government announced that the Industry Oversight Group (IOG), which had been established to report on the industry's progress with reform, was unable to recommend to the Government that the second tranche of the *sustainability grant* be paid (at that time). The first tranche of the sustainability grant was paid in June 2004 after the Government and industry representatives signed a Statement of Intent to Reform the Industry. The IOG had found insufficient evidence of reform and inadequate progress on the development of regional industry plans (Truss 2005a). Meeting these conditions was a requirement for receiving the second tranche of the sustainability grant.

Also in February 2005, the Australian Government reminded the industry that *income support* payments would, as scheduled under the SIRP 2004, cease on 1 March 2005. The Government noted that the 1 March deadline would affect around 1600 sugar farmers who were on income support, including 950 growers

Box 3.2 **The Sugar Industry Reform Program 2004**

The main elements of SIRP 2004 include:

- $146 million towards a one-off *sustainability grant* for cane growers and millers.
- Up to $21 million for *income support* for eligible growers and harvesters.
- Up to $40 million for *grower restructuring grants for* eligible farmers choosing to remain in the industry. The grants, payable in two instalments, were to be paid at a rate of $75 per hectare under cane production — capped at $7500 per instalment per farm enterprise.
- Up to $15 million for growers, harvesters and millers to access *business planning assistance*.
- Up to $75 million towards *regional and community projects* to assist the medium- and longer-term restructuring of the sugar industry.
- Up to $8 million for *industry oversight* and *regional advisory groups* to help insure the industry's long-term economic, social and environmental sustainability.
- Up to $23 million towards a sugar industry *intergenerational transfer scheme*.
- For those wishing to leave the industry, *re-establishment grants* of up to $50 000 and up to $100 000 for harvesters and growers, respectively.
- Up to $7 million towards *re-training assistance* for growers, harvesters and mill workers made redundant through the reforms, and up to $5 million for *crisis counselling* for families in the industry.

Source: Truss (2004)

who had also received support under the 2002 sugar program. The Government also noted that less than half of those receiving income support had taken the opportunity to develop an appropriate business or farm management plan (Truss 2005b).

In May 2005, the Australian Government announced that it would provide additional funding to the sugar Regional Advisory Groups, which had been established to progress local reforms. The additional funding was in response to advice from the IOG that there was insufficient evidence in the regional plans of progress with regard to realistic and genuine plans for structural reform (Truss 2005c).

The limited evidence of reform (including a lower-than-expected uptake of *re-establishment grants* which were available to assist farmers to exit the industry) may have been caused partly by changes in market conditions. In 2004-05, the world indicator price for raw sugar increased by over 30 per cent and is forecast to rise by a further 16 per cent in 2005-06. Higher world prices in 2005-06 are primarily the result of Brazil diverting a higher proportion of its sugar cane into ethanol production at the expense of raw sugar. This is being driven by increased demand for ethanol resulting from current and expected relatively high oil prices (ABARE 2005b).

In June 2005, the Australian Government announced that it would ease the assets tests for sugarcane farmers wishing to apply for *re-establishment grants* under the SIRP 2004. Under previous provisions, the value of the family home for a sugarcane farmer wanting to leave the industry was considered under a separate category to the value of all other assets. Homeowners with partners were allowed up to $217 500 of assets under each category. Under the new provisions, the separate categories have been amalgamated, allowing farmers to off-set their various assets into a single, overarching limit of $445 000. Changes have also been made to allow cane farmers who exceed the assets limit to qualify for a reduced grant. In these cases, the value of the re-establishment grant is reduced by $2 for every $3 in assets held above the relevant limit. The deadline for applying for the maximum grant of $100 000 has also been extended, by 12 months, to 30 June 2006. The (maximum) grant will then fall to $50 000 (Truss 2005f), and will be available until June 2007.

In September 2005, the Australian Government announced that it had agreed to the payment of the second tranche of the SIRP 2004 *sustainability grant*, following the acceptance of regional reform plans. The Government stated that the IOG had determined that the regional reform plans formed a solid basis for progressing sugar industry reform (McGauran 2005b). This payment had originally been scheduled for January 2005 (see above).

Recent Queensland Government developments

Reforms to the Queensland sugar industry, legislated in Queensland State Parliament in April 2004, took effect in January 2005. These reforms included the abolition of the cane production area system and the statutory bargaining system (replaced with a voluntary collective bargaining regime), and the phase-in of a new dispute resolution system. The abolition of the cane production area system removed restrictions on growers delivering cane to the mill of their choice. Under previous arrangements, growers were obliged to supply the mill to which their cane production area related. Reflecting the phasing-in of a new dispute resolution system, compulsory arbitration continued in a modified form in 2005, but industry parties will be required to decide their own dispute resolution process from 2006 onwards (Palaszczuk 2004).

In November 2005, the Queensland Government introduced legislation to amend the *Sugar Industry Act 1999* to deregulate the sugar market, including removal of Queensland Sugar Limited's compulsory acquisition powers. The amendments, which took effect on 1 January 2006, involved removal of the Queensland Minister for Primary Industries and Fisheries' statutory price control powers, which had allowed the Minister to issue a direction for the pricing of raw sugar sold on the domestic market at the export parity price. Individual mills are also being provided with the opportunity to develop markets for specialty sugars and products, including exports of speciality sugar in bags and containers. However, a preferred marketer (or 'voluntary single desk') is being retained for exports of bulk raw sugar. It is intended that commercially negotiated contractual arrangements will be introduced between individual milling companies and co-operatives, and Queensland Sugar Limited, for the export of bulk raw sugar for an initial three year period (Nuttal 2005).

Rice growing

The rice industry is centred in the Riverina area of New South Wales. In addition to Australian Government budgetary assistance, the industry has been 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 the arrangements provided around $3 million in assistance in 2004–05.

Background

In November 1995, a National Competition Policy (NCP) review of the New South Wales statutory marketing arrangements for rice recommended that the restrictions on the domestic rice market be removed, while retaining the single desk for rice exports (NCC 2005b).

In June 1997, in its first NCP assessment, the National Competition Council (NCC) found that the New South Wales Government had not met its NCP obligations, as the domestic marketing arrangements remained in place. The NCC, however, did not initially recommend reductions in that state's competition payments, as the New South Wales Government had agreed to work with the NCC to resolve the matter (NCC 2005b).

Over subsequent years, the New South Wales and Australian governments examined options for retaining a single export desk under Australian Government jurisdiction, while removing the domestic rice market monopoly. In December

2003, however, following consultations with other states, the Australian Government formally advised the New South Wales Government that it would not establish a single Australian rice export desk (NCC 2005b).

In March 2004, the New South Wales Government informed the NCC that it would conduct a 'new' review of the rice marketing arrangements. The NCC endorsed this action and recommended a specific suspension of 5 per cent of 2004-05 competition payments, recoverable on the completion of an appropriate review of the restrictions and, where necessary, timely implementation of NCP-compliant reforms (NCC 2005b).

Recent developments

In April 2005, the 'new' NCP review of New South Wales rice marketing arrangements was completed. In its report, the review estimated that the arrangements provided a net public benefit of around $45 million per year, and that it had found no feasible alternative to 'vesting'. The report recommended the government retain both the domestic and export monopolies.

In response, the NCC expressed a number of major reservations about the review, including in relation to the 'rigour and objectivity' of research drawn on by the review and the veracity of estimates of various benefits said to arise from the monopoly on the marketing of New South Wales rice. (NCC 2005b).

In October 2005, the New South Wales Government announced that it would deregulate the domestic rice market through the introduction of an authorised buyer scheme.[1] The new arrangements will be introduced on 1 July 2006 after the current rice crop has been harvested. Under the new arrangements:

- the single desk for rice exports from New South Wales will be retained;
- competition will be introduced on the domestic rice market through the implementation of an authorised buyer scheme;
- applicants for an authorisation to participate in the scheme will face minimum qualifying criteria and may have their authorisation suspended if they breach its conditions by, for example, exporting rice; and
- the scheme will be administered by the Rice Marketing Board, with the Board's decisions subject to appeals through the NSW Administrative Decisions Tribunal (NCC 2005a).

[1] In November 2005, the New South Wales Parliament passed legislation amending the *Marketing of Primary Products Act 1983* that would allow, from 1 July 2006, competition in the domestic marketing of rice grown in New South Wales (NCC 2005b).

As measured by the Commission, the introduction of competition on the domestic rice market will remove all agricultural pricing and regulatory assistance to the rice industry. (The Commission's estimates assume that the single desk export arrangements do not provide any pricing assistance industry as the industry has insufficient market power to extract prices on the export market in excess of those which would prevail under competitive conditions).

Pigmeat production

In recent years, the Australian pigmeat industry (including both production and processing) has experienced structural change and become increasingly integrated into world pigmeat markets. The industry experienced declining competitiveness between mid-2002 and late 2003 due to low pig prices in competitor countries, high feed costs due to drought and an appreciating Australian dollar. Profitability improved during 2004, but imports continued to rise and exports to fall.

In August 2004, the Australian Government asked the Commission to report on the competitive situation of the pigmeat industry and whether government measures are necessary to improve the industry's competitiveness.

In its August 2005 report, the Commission found that:

- The Australian pigmeat industry' main competitive advantages are its 'clean, green' image, disease free status and closeness to Asian markets, but that it faces high feed costs and low economies of scale. For the long term, the Commission predicted that the international competitiveness of pigmeat businesses will be driven by sustainable cost advantages and/or product differentiation.
- Imports of pigmeat into Australia do not benefit significantly from subsidies, and assistance to Australian pigmeat producers is comparable to that provided in key overseas exporting countries.
- While there are some ways in which governments could reduce impediments to industry performance and competitiveness, general government assistance is available to help Australian pigmeat businesses to adjust, and further assistance is not warranted at this time.

The Australian Government responded to the report in August 2005, in effect endorsing the bulk of the Commission's findings. It noted the substantial financial grants that have been provided to the pigmeat industry to help it adjust to market and climatic conditions of the past few years — this assistance is in addition to the $24 million adjustment package provided between 1998 and 2002 — and did not commit to additional industry-specific assistance measures for the pigmeat industry (McGauran 2005a).

Commercial fishing

Australian commercial fishing operates under fisheries management policies of the Australian and state governments, and environmental regulations imposed under the *Environment Protection and Biodiversity Conservation Act 1999*.

Fisheries management policies apply input and output controls on fish catches, which are designed to overcome problems associated with the 'open access' nature of fisheries resources. These problems include overfishing, overcapitalisation of fishing fleets, and thus the dissipation of economic returns over time. The Australian Fisheries Management Authority (AFMA) administers the Australian Government's managed fisheries, which are funded by the Australian Government and cost-recovery from Commonwealth fishers. The Australian Government also funds fisheries research and development by matching industry contributions. Industry contributes to fisheries research and development through statutory levies on Commonwealth fishers and voluntary funding from State commercial fisheries.

In November 2004, the Australian Bureau of Agriculture and Resource Economics prepared a report on fisheries mananagement for the Australian Government Department of Agriculture, Fisheries and Forestry (ABARE 2004). The ABARE report concluded that:

> Evidence from ABARE surveys suggests that net economic returns in many Commonwealth fisheries are close to zero … A net return of zero means that while all of the costs of fishing are covered and that a return is being made on the capital invested in the fishery, there is no return from the use of the stock …
>
> In fisheries where management results in no economic return, further management or research expenditure will not produce any long term benefits until fishing effort and harvests are controlled. If a fishery returns no net value over the long term, the point in managing it must be questioned (p. 1-2).

In November and December 2005, the Australian Government announced the *Securing Our Fishing Future* package, which contains three sets of measures aimed at ensuring the ongoing profitability and sustainability of the Australian fishing industry (Macdonald 2005a, 2005b).

First, the Australian Government directed AFMA to take 'immediate action' in all Commonwealth fisheries to halt existing and prevent further overfishing, to recover overfished stocks to sustainable and productive levels, and to manage the broader environmental impacts of fishing, including on threatened species.

In its response to the Government's directions, the AFMA announced that it will implement tighter controls on fish catches and fishing activity through new harvest strategies for each species. During 2006-07, the AFMA is also to complete Ecological Risk Assessments for all Commonwealth fisheries to prioritise management needs. In addition, vessel monitoring systems are to be a compulsory requirement in all Commonwealth fisheries to improve compliance with management arrangements. Additional measures will be introduced to significantly reduce 'bycatch'[2] in all Commonwealth fisheries. (AFMA 2005)

Second, a network of Marine Protected Areas (MPAs) has been proposed, subject to public consultation, and is to be declared under the *Environment Protection and Biodiversity Conservation Act 1999,* by the end of 2006. The network will cover a substantial proportion of Commonwealth waters in the South-east Marine Region off Tasmania, Victoria, eastern South Australia and far southern New South Wales. The MPA network will include significant areas where commercial fishing activity is limited or prohibited.

Third, a Fisheries Structural Adjustment package of $220 million will provide assistance through the following programs:

- *Business Exit Assistance*. $149 million to provide a one-off opportunity for operators to exit the industry. To this end, a voluntary tender will be conducted in a competitive process focussed at reducing fishing capacity in those Commonwealth fisheries that are assessed to be subject to overfishing, or at significant risk of overfishing in the future.[3]
- Funding of up to $30 million for:
  - *Business Restructuring Assistance.* Businesses which are directly related to the fishing industry, such as fish processors and marine engineers, will receive assistance to restructure their business operations. The recipients will be required to demonstrate that their turnover is affected by the reduced fishing activity associated with the package.
  - *Business Planning Assistance.* Up to $1500 each will be available to fishing businesses and directly affected onshore businesses to offset the costs of obtaining professional business advice on their options under the package.
  - *Worker Assistance.* Payments of $5000 and $3000 will be made to skippers and crew, respectively, who lose employment due to the fishing reductions, to help offset the costs of job seeking, retraining and/or relocation.

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[2] Bycatch refers to the take of non-target species in fishing.

[3] The targeted fisheries are the Southern and Eastern Scalefish and Shark Fishery (with the exception of the Great Australian Bight Trawl Sector); the Eastern Tuna and Billfish Fishery; and the Bass Strait Central Zone Scallop Fishery. The Northern Prawn Fishery was included in the process subject to the Northern Prawn fishers choosing to move to a management system based on output controls.

- *Fishing Community Assistance*. Funding of up to $20 million will be provided for projects that are deemed to be capable of generating local economic activity and opportunities in affected communities.
- *AFMA Levy Subsidy*. $15 million will be provided to subsidise AFMA fisheries management fees paid by those fishers remaining in the industry. The subsidy is to commence in 2006-07, and will be provided over 3 years.
- *Improved Science, Compliance and Data Collection.* $6 million will be directed towards science, compliance and data collection to improve management outcomes.

3.6 Drought relief

Drought is a natural phenomenon that frequently affects agricultural activities such as broadacre farming. Its occurrence has economic, environmental, social and political impacts. The effects of drought on primary producers depend on their production systems and management decisions, as well as on any government support provided.

Australia's National Drought Policy (NDP), agreed to in 1992 by the Australian and state governments, recognised that drought is a natural feature of Australia's variable climate and needs to be managed accordingly. The key objectives of the NDP, which embodies the principle of self-reliance, are summarised in box 3.3. The main element of the NDP is the Exceptional Circumstances scheme (discussed below).

Box 3.3 **Objectives of the National Drought Policy**

- Encourage primary producers and other sections of rural Australia to adopt self-reliant approaches to managing the risks stemming from climatic variability.
- Facilitate the maintenance and protection of Australia's agricultural and environmental resource base during periods of increased climatic stress.
- Facilitate the early recovery of agricultural and rural industries consistent with long-term sustainable levels.

Source: National Drought Policy Task Force 1997.

Australian governments have also introduced a range of agriculture-wide programs — for example, the *Agriculture-Advancing Australia* package — to support rural adjustment and improve drought preparedness, farm business management and land use planning. Additional support has also included the Farm Management Deposits scheme, which provides taxation benefits designed to assist farmers to handle income variability and reduce reliance on government support in times of drought (AFPRG 2006).

The following section outlines drought-specific programs which have been provided in recent years.

Exceptional Circumstances drought relief

The Exceptional Circumstances (EC) arrangements are the Australian Government's primary mechanism for providing assistance to farmers affected by drought. Under current arrangements, state governments are responsible for lodging applications for EC assistance to the Australian Government Minister for Agriculture, Fisheries and Forestry. Among other things, the EC applications should demonstrate that the event is rare (a one-in-20-25 year event)[4] and results in a severe downturn in farm incomes over a prolonged period. Once an area has received an EC declaration, assistance is available to eligible producers through the following programs:

- *Business support*. Farm enterprises are eligible for EC Interest Rate Subsidies of up to $100 000 per year or $300 000 over five years. EC Interest Rate Subsidies are funded jointly by the Australian Government (90 per cent) and state and territory governments (10 per cent).
- *Income support*. The EC Relief Payment provides eligible farmers a fortnightly payment at the rate equivalent to the Newstart Allowance, including additional benefits (such as a healthcare card).

In addition, the Australian Government has introduced interim income support payments, which can be accessed by eligible farmers during the EC application assessment process. Under the '*prima facie*' EC arrangements introduced in September 2002, the Australian Government may provide interim income support payments for up to six months for an area that is experiencing severe drought conditions.[5]

4 EC payments were triggered for the recent drought in late 2002. Significant drought relief payments were also triggered during the major drought of 1991-1995. In the previous major drought, which occurred during 1982-83, drought relief was provided under the National Disaster Relief Arrangements.

5 If the EC application is successful, the interim payments are replaced by EC Relief Payments and continue for two years. If not, applicants are eligible for assistance for up to six months from the commencing date of the Prima Facie assistance.

EC Interest Rate Subsidies are delivered via state rural adjustment authorities. To be eligible, farm businesses must be assessed to be viable. They must also satisfy an asset test which excludes essential farm assets and other government assistance such as Farm Management Deposits. Under revised arrangements announced in May 2005, the off-farm asset test for EC Interest Rate Subsidies has been lifted from a threshold of $217 500 to $446 000. Prior to May 2005, EC Interest Rate Subsidies were paid to eligible farmers at the rate of 50 per cent of the prevailing interest rate on existing, new or additional loans for up to two years. The rate of subsidy has also been raised, from 50 to 80 per cent for the second and subsequent years of an EC declaration. In addition, farmers who have already been paid the subsidy at 50 per cent and are assessed to be in their 'recovery' year (year 2 of their EC declaration) and 'extended recovery' year (year 3 of their EC declaration) will automatically be assessed to be considered for a 'top up' to the 80 per cent rate. The purchase of an additional farming property, during the term of an EC declaration, is not a reason for refusing an application based on the 'not-in-need' criterion (Truss 2005d and 2005e).

EC Relief Payment (income support) is delivered by Centrelink on behalf of the Department of Agriculture, Fisheries and Forestry. The benefits are available for the period of the EC declaration. To be eligible for EC Relief Payment, applicants must be farmers who hold a current EC certificate, which identifies the farm enterprise as being in an EC declared area. In contrast to the Newstart Allowance, EC Relief Payment does not require eligible applicants to search for alternative employment and/or market the farm. The assets test of the EC Relief Payment also excludes the farm assets essential to long-term profitable operations and the farmer's superannuation and life insurance. The income test also excludes the proceeds from the forced disposal of livestock due to drought that are deposited in either a Farm Management Deposit or a financial institution. From 1 July 2005, the income test also excludes up to $10 000 of off-farm income derived from salary or wages. (Centrelink 2005).

State government drought support

State and territory governments also have a range of programs to assist farm businesses affected by drought. In addition to EC Interest Rate Subsidy contribution, state governments provide freight, fodder and water subsidies to reimburse part of the costs of transport and use of fodder and water during drought periods. Assistance also includes grants and low interest loans for the purchase of fodder, water and grain during drought. The Queensland Government, for example, provides subsidies for the transport of drinking water (for stock), and concessional loans from the Queensland Rural Assistance Authority. In Western Australia, eligible producers may access several assistance measures, including water and water transport rebates, and professional advice and counselling.

Drought relief estimates

For this year's *Review*, the Commission has prepared estimates of drought relief to agricultural industries provided by the Australian and the state and territory Governments, for the years 2002-03 and 2003-04. Where information is readily available, the estimates are also presented for the projected budget funding for drought during 2004-05.

The estimates have been drawn mainly from budget papers, supplemented with additional information provided by state rural adjustment authorities and ABARE Farm Surveys. The estimates cover:

- Australian Government EC Interest Rate Subsidies and income support programs; and
- state government EC Interest Rate Subsidy contributions and drought-specific support, including freight, fodder and transport subsidies.

The estimates (table 3.1) indicate that, in total, Australian governments provided $246 million of such drought relief in 2002-03 and $359 million in 2003-04. The latter figure is equivalent to around one-third of the assistance for primary producers included in the Commission's assistance estimates for 2003-04. The Australian Government accounted for most of the drought relief funding (80 per cent). Funding data provided by the Australian Government indicates that the drought relief it provides fell from $294 million in 2003-04 to $220 million in 2004-05, but had been projected to rise to as much as $616 million in 2005-06.[6]

Table 3.2 shows estimates of the distribution of drought relief by agricultural commodities for 2003-04. The information on EC Interest Rate Subsidies has been provided by state rural adjustment authorities. For EC Relief Payment, estimates of the industry distribution of the funding have been derived from ABARE Farm Surveys which contain data on farm characteristics and drought funding for 2002-03 and 2003-04 (ABARE 2005a).

The estimates indicate that the main industries receiving drought support were grain, sheep and beef cattle farming; dairy cattle farming and other crop growing — grains, wheat and barley as well as rice and cotton. Drought relief is concentrated in New South Wales, Queensland, Victoria and Western Australia.

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[6] Data provided by the Australian Government Department of Agriculture, Fisheries and Forestry indicates that around $308 million had been expended in the first 8 months of 2005-06.

Table 3.1 Estimates of Australian and State drought relief

$ million

	2002-03	2003-04	2004-05
Australian Government	**140.8**	**294.0**	**220.4**
– EC interest subsidy	39.7	92.5	99.2
– Interest rate subsidy - Drought Relief Package of 2002	3.3	6.7	2.3
– EC Relief Payment	45.9	153.4	117.1
– Interim Income Support	52.0	41.5	1.9
State Government	**105.0**	**65.4**	**na**
New South Wales	46.0	48.8	na
Victoria	51.1	3.8	na
Queensland	3.6	8.9	na
Western Australia	2.3	1.3	na
South Australia	2.0	2.5	na
Tasmania	0.1	0.1	na
Northern Territory	–	–	na
Australian Capital Territory	–	–	na
TOTAL	**245.8**	**359.4**	**na**

Source: Commission estimates based on data provided by the Australian Government Department of Agriculture, Forestry and Fisheries and state rural adjustment authorities. The figures are actual expenditure. Figures may not add to totals due to rounding.

Table 3.2 Estimates of drought relief, by ANZSIC industry, 2003-04

$ million

	Australian Government		*State government*		*Total*
ANZSIC industry	*EC interest subsidies*	*Income support*[a]	*EC interest subsidies*	*Other programs*[b]	
Horticulture and fruit growing	2.1	–	0.2	0.4	2.7
Grain, sheep and beef cattle farming	70.9	117.9	7.7	49.0	245.5
Dairy cattle farming	21.1	56.0	2.3	2.3	81.7
Poultry farming	<0.1	2.5	<0.1	<0.1	2.6
Other livestock farming	1.3	1.5	0.1	0.7	3.6
Other crop growing	3.7	16.9	0.4	0.8	21.8
Services to agriculture	<0.1	–	<0.1	–	<0.1
Unallocated primary production	–	–	–	1.6	1.6
Total	99.1	194.9	10.7	54.8	359.4

a Includes EC Relief Payment and interim income support. **b** Include drought transport, fodder and water subsidies. Figures may not add to totals due to rounding.

Source: Commission estimates based on data provided by state adjustment authorities and ABARE Farm Survey (2005).

Recent reviews

The provision of drought assistance has been subject to several government reviews which have assessed the effects of government policies on the sector and suggested several improvements.

Prior to 1989, drought was considered a natural disaster, and drought assistance formed part of the Natural Disaster Relief Arrangements (NDRA). Reflecting a recognition that drought is actually a natural feature of Australia's climate, after 1 July 1989 drought was excluded from NDRA. In a recent review of drought assistance, the Australian National Audit Office commented on the developments of the late 1980s:

> Analysis at that time suggested that the assistance provided was poorly targeted and distorted farm input prices. It had acted as a disincentive for farmers to plan and prepare for drought (p. 106).

This led to the subsequent development of the National Drought Policy in 1992. Under this policy, the Australian and State and Territory Governments agreed to phase out 'transaction based' subsidies (ie fodder, water and transport subsidies), and to only provide interest subsidies in 'exceptional circumstances' (ANAO 2005 and NDP Task Force 1997).

Following the drought of 1991-95, the National Drought Policy (NDP) Review Taskforce (1997) was commissioned by the Government to assess drought policy. Among other things, the Taskforce examined possible problems for farmers seeking to access commercial finance in times of drought and the effectiveness of EC assistance to agricultural industries. The Taskforce found there was limited evidence of a lack of commercial finance to viable farmers to address income shortfalls from drought, and that there were many instances in which EC Interest Rate Subsidies assisted those whom the credit market was already supporting. The Taskforce recommended the phasing out of EC Interest Rate Subsidies and fodder, water and transport subsidies (called 'transaction-based subsidies') for drought. The Review also recommended phasing out the income support arrangements at the time (the Drought Relief Payment) and replacing it with an interim arrangement to facilitate farm exits and structural adjustment within the agricultural sector.

In October 2003, the Australian Government established a Drought Review Panel to examine Australia's drought policy, including drought assistance measures. Following consultations with industry and other stakeholders, the Panel 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. The Panel found that a more comprehensive review of the National Drought Policy 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 March 2005, the Australian Government Minister for Agriculture, Fisheries and Forestry commissioned the Agriculture and Food Policy Reference Group (chair: Peter Corish) to assess policies and assistance programs affecting the agriculture and food sector. The Reference Group released its report in February 2006. Among other things, the report found that EC Interest Rate Subsidies and transaction subsidies do not lead to improved management skills and do not encourage self-reliance, and there are risks that such assistance may influence the amount of debt some farming businesses carry.

The Reference Group recommended that the Government and the agriculture sector cooperate to achieve self-reliance, by:

- introducing a consistent approach to government assistance for those facing viability problems or wishing to lift their business performance;
- retaining the Farm Management Deposits scheme as a key risk management tool, informed by analysis to confirm that it is meeting its objectives; and
- introducing new and improved measures to develop better farm preparedness (including risk management strategies) to deal with market fluctuations and climatic extremes, while phasing out interest rate and other transaction based subsidies by the end of 2010. (AFPRG 2006, p. 189)

The Reference Group also proposed that the Government continue income support payments for drought, coupled with the provision of professional advice to facilitate adjustment.

3.7 Anti-dumping measures

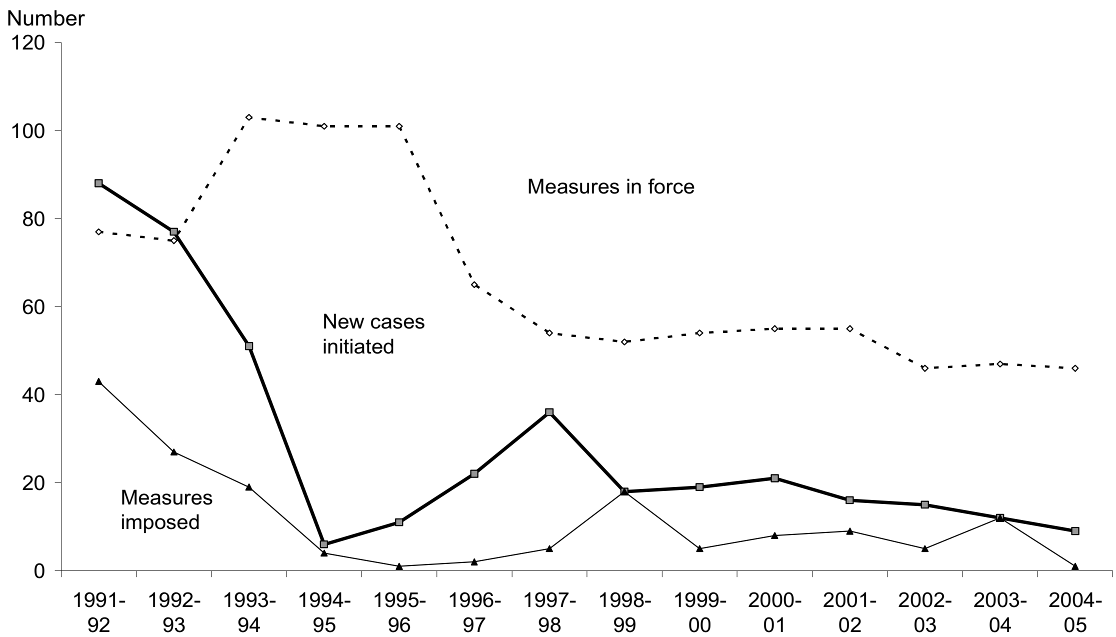
Under Australia's anti-dumping rules, local companies can apply to have anti-dumping and countervailing measures — mainly 'temporary' customs duties — imposed on 'dumped' imports if the imports cause, or threaten to cause, material injury to the local industry.[7]

Recent activity levels

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 3.1). There were 9 new cases in 2004-05, initiated mainly by firms in the *Metal product manufacturing* industry. Over the nine years to 2004-05, 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 40 per cent of total initiations.

One new measure was *imposed* by the government in 2004-05, compared to 12 measures imposed in the previous year. Even so, the number of measures *in force* remained relatively stable at around 50 (figure 3.1).

Figure 3.1 **Anti-dumping and countervailing activity,[a] 1991-92 to 2004-05**



[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.

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 B.

7 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.

Review of anti-dumping arrangements

Like other trade barriers, anti-dumping and countervailing measures provide immediate relief for the protected industries, but can also serve to restrict competition and, through higher prices, penalise consumers and domestic downstream industries.

Accordingly, Australia's anti-dumping regime was scheduled for review by 2000 under the legislation review element of the 1995 National Competition Policy Agreement. However, such a review has not yet taken place.

In its *Review of National Competition Policy Reforms* (PC 2005a), the Commission recommended that an independent review of anti-dumping arrangements be undertaken as soon as practicable, noting that:

> … the potential for the inappropriate applications of anti-dumping to jeopardise the wider benefits that trade and competition policy have delivered makes this one of the more important trade policy areas to be addressed.

In February 2006, the Australian Government announced an 'administrative' review of Australia's anti-dumping regime. The review will be conducted by the Australian Customs Service, the Department of Industry, Tourism and Resources, the Department of Foreign Affairs and Trade and the Trade Measures Review Officer. It is to examine a range of administrative matters including the complexity of information requirements on businesses making applications for anti-dumping measures, how those applications are 'screened', the information required from respondents to a Customs investigation, and the manner in which Customs monitors compliance with measures imposed.

In announcing the review, the Industry Minister stated:

> The Australian Government considers it a basic right that local industry is provided with an accessible but robust anti-dumping regime, consistent with our international obligations. The review has been initiated in response to industry suggestions there was scope for improvements to existing legislation. It is not a review of existing legislation (MacFarlane 2006).

4 Selected developments in international trade policy

Although not a major trading nation in global terms, Australia is an active participant in trade negotiations and trade policy reform. In recent years, as well as engaging in the current, ongoing round of trade negotiations in the World Trade Organisation, it has been pursuing preferential trade agreements with a number of countries. Notwithstanding its involvement in these multilateral and bilateral negotiations, Australia's traditional approach to obtaining the benefits that trade liberalisation can bring has been to unilaterally reduce its own import tariffs and other trade restricting measures. Continuing with this approach, in 2004-05 tariffs were reduced in the TCF and automotive industries (chapter 3). New evidence suggests that, like Australia, several other countries have made most of their tariff reductions unilaterally in recent years. This chapter reports on these developments.

4.1 Multilateral trade negotiations

For more than 50 years, the WTO and its predecessor, the General Agreement on Tariffs and Trade (GATT), have provided a stable, rules-based system for the conduct of international trade, providing significant benefits to members. In particular, the operation of the non-discriminatory 'most-favoured-nation' (MFN) principle,[1] together with the 'consensus-based' approach to negotiating WTO/GATT agreements, have limited the extent to which large trading nations can exploit their economic power and, in turn, have provided opportunities and legal protections for small- and medium-sized trading nations, such as Australia. Successive rounds of multilateral trade negotiations have facilitated substantial reductions in many trade barriers, and underpinned the strong expansion of international trade (see box 4.1) and growth in living standards (PC 2000c).

[1] The MFN principle bars a member country from discriminating between 'like' products of other members, or from favouring non-WTO members over members. Critically, however, WTO rules provide exceptions within the ambit of customs unions and preferential trade agreements, which have increased rapidly in number in recent years (see section 4.2), as well as in the case of 'special and differential treatment' provisions for developing countries.

The last major multilateral trade agreement (the Uruguay Round) was finalised in 1994. While it facilitated significant reductions in barriers to trade in many areas, it did not significantly liberalise agriculture and services. These are in some respects the more 'sensitive' areas, in which finding consensus on reform has proven difficult. In addition, the growth in WTO membership (which now stands at 149 members), and attempts to broaden negotiations to include matters such as barriers to investment and competition policy which can also be 'sensitive', have made achieving agreement on further liberalisation more complex.

Box 4.1 **Has the GATT/WTO increased trade?**

The post-WWII period has seen a considerable expansion in the level of trade between nations. Most commentators have posited that this was largely due to multilateral trade agreements finalised under the GATT and the WTO. Challenging this consensus, Rose (2004) presented evidence that the expansion of international trade has been experienced just as forcefully in member and non-member countries alike.

Of course, membership of the WTO (or, previously, the GATT) is not a reason in itself to expect an expansion in trade; rather, it is the trade liberalisation that follows from membership that should expand trade. In this regard, two recent papers show that Rose's results are reversed when account is taken of members who have not been required to liberalise their regimes to the same extent as other members and non-member participants, who, without being formal members, have adopted GATT and WTO rules.

Subramanian and Wei (2003) argue that because the GATT and the WTO have given developing countries 'special and differential' treatment (allowing them to reduce their barriers by less), these countries are largely members in name only. When they are excluded, trade between developed countries is shown to have increased, as a result GATT/WTO agreements, by 44 per cent. Summarising their results Subramanian and Wei (2003, p. 20) state that:

> ... the GATT/WTO has done a splendid job of promoting trade wherever it was designed to do so and correspondingly failed to promote trade where the design of rules militated against it.

In addition, they found that some developing countries that have joined the WTO since the Uruguay Round (such as China) have also experienced significant increases in trade, due to the greater obligations that have been placed on acceding countries in recent years.

Tomz et. al. (2005) argue that the *effective* membership of the GATT should be expanded to include colonies which, without actually being formal members, had the results of GATT rounds adopted for them by their colonial parents. When factoring in these additional countries, world trade is found to have increased significantly — by between 25 and 120 per cent — as a result of GATT participation. In addition, Tomz et. al. extend Subramanian and Wei's work to show that when non-member participants are included, multilateral reform has also expanded trade of those developing countries that have adopted the more rigorous liberalisation obligations of their parent countries.

Source: Rose (2004), Subrananian and Wei (2003) and Tomz et. al. (2005).

The early Doha negotiations

Despite these complexities, in 2001 a new round of WTO negotiations was launched at the Fourth WTO Ministerial Conference, held in Doha, Qatar. WTO members agreed to negotiations covering a broad range of issues, including agriculture, services, intellectual property rights and potentially the so-called 'Singapore' issues (investment rules, competition policy, transparency in government procurement and trade facilitation).

However, negotiations on the Doha Round stalled in 2003 when, at the Fifth WTO Ministerial Conference in Cancún, members were unable to agree on the scope and pace of reform (particularly in relation to agriculture and the Singapore issues). Underlying this disagreement was a concern among developing countries that their interests were not being given sufficient weight.

Following the Cancún conference, a number of intergovernmental forums, involving both developed and developing countries, 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' (ICTSD 2003). There was also renewed political engagement by the major players (including the European Union and the United States) in an effort to advance the negotiations.

Consequently, a 'framework package' was agreed to by the WTO General Council in Geneva in July 2004. This package removed some of the stumbling blocks of Cancún by reaching a consensus to remove all agricultural export subsidies (although not a date for their removal) and limiting the scope of the negotiations (the Singapore issues being reduced to just one: trade facilitation).

(The Commission commented in more detail on these developments in previous editions of *Trade & Assistance Review* (PC 2001, 2002b, 2003b, 2004b).)

Recent developments

Subsequent progress has been limited. All deadlines for the formulation of a tentative ('first approximations') framework for an agreement have been missed, and much time has been spent resolving technical issues such as a methodology to convert tariffs applied on a quantity basis (such as a per tonne or per litre) into an *ad valorem* equivalent.

Notwithstanding this slower than anticipated resolution of framework issues, the Sixth WTO Ministerial Conference, held in Hong Kong in December 2005, agreed to an end date for export subsidies, agreed on the broad structure that reductions in trade barriers for agriculture and industrial goods would take, and endorsed some measures to help less developed countries (see box 4.2). Pascal Lamy, the Director-General of the WTO, summed up the extent of the progress by suggesting that the Doha round was now 60 per cent complete, compared with 55 per cent at the start of the conference (WTO 2005b).

Box 4.2 **Key outcomes from Hong Kong**

Agriculture

- Members agreed to remove all *export subsidies* by 2013. Disciplines on commercially-displacing food aid, subsidised export credits and trade distorting elements of state trading enterprises are also to be imposed.
- Three bands have been created for the reduction of *domestic support*, with larger reductions required by those countries in the higher bands. The European Union (which grants the highest level of support) is in the top band, Japan and the United States in the middle, and all other countries are in the bottom band. There has been some convergence in views on the extent of the cuts that should occur in each of these bands.
- Tariffs will be divided into four bands. There has been no agreement on the thresholds for these bands, nor on how large the tariff reductions will be in each band.

Industrial tariffs

Members have agreed to adopt a tariff reduction formula that will reduce the highest tariffs by larger amounts, the intention being to reduce or eliminate tariff peaks and tariff escalation. However, there has been no agreement on the coefficients to be inserted in the formula which will determine how high the tariff cuts will be. Some developing countries have claimed that developed country demands on industrial goods are not commensurate with their offers in agriculture. Accordingly, members have agreed that liberalisation in agriculture and industrial goods will be achieved in a ‘balanced and proportionate manner’.

Services

There has been agreement to move beyond the initial bilateral request-offer process, to conduct sectoral negotiations ‘plurilaterally’ between multiple countries. Although there has been little agreement on specific issues in services, it is envisaged that the new procedure will accelerate progress and members have agreed that a services deal should be concluded by 31 October 2006.

Source: WTO (2005c)

The Hong Kong outcome has left much work to do before a final agreement is reached. For example, the World Bank (2005b) has estimated that only 2 per cent of the overall gains available from agriculture liberalisation would be achieved from the removal of export subsidies. The Hong Kong agreement left unresolved a number of the more difficult agricultural reform issues, particularly in relation to tariffs. More broadly, although WTO members have largely agreed on *how* barriers for agricultural (and industrial) goods are to be reduced, they have made little progress on *how much*. These details are intended to be settled by the end of April 2006.

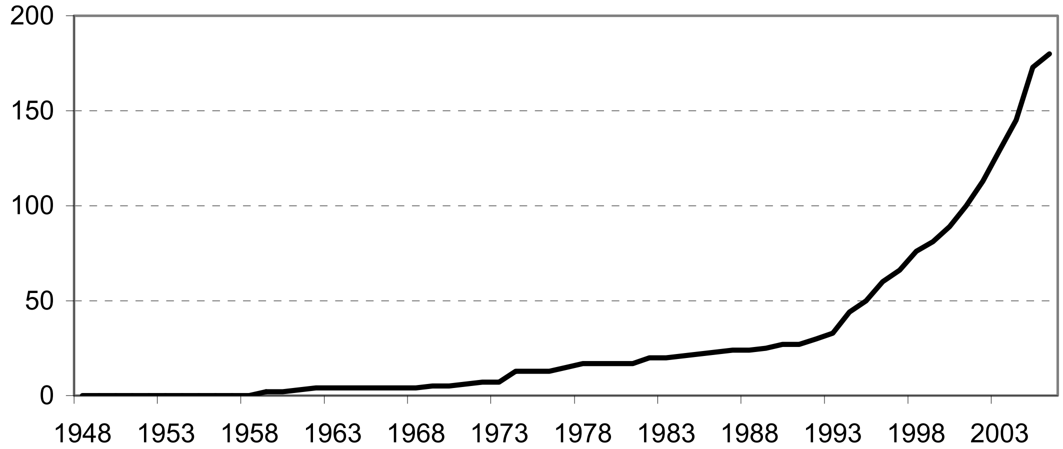
Such an apparent lack of progress is not an unusual occurrence for multilateral trade negotiations. For strategic reasons, many countries seek to conceal some of the 'concessions' they are willing to make until the final stages of negotiations. Consequently, it is difficult to judge the real gap that exists between different members' negotiating positions. Further, there are indications that delays in agricultural negotiations are preventing countries from engaging in negotiations in other areas. In this regard, a breakthrough in agriculture may 'unlock' other parts of the negotiations.

There appears to be a widespread feeling among some members that negotiations ideally should be completed in 2006, as the United States President's 'fast track' negotiating authority (allowing the President to submit trade agreements to Congress for a 'yes' or 'no' vote, without risk of amendment) expires in mid-2007. At a minimum, a failure to reach agreement within the next year risks putting multilateral trade negotiations on hold for some time, simultaneously delaying the substantial benefits that could flow from multilateral trade reform and giving further impetus to the negotiation of 'second-best' preferential trade agreements.

4.2 Preferential trade agreements

The number of preferential trade agreements (PTAs) is increasing rapidly. More than half of all PTAs notified to the GATT/WTO since 1948 have been finalised in the last decade (see figure 4.1). 186 PTAs had been notified as of November 2005, and the WTO (2005d) estimates that this could rise to 300 if all the PTAs currently planned or in negotiation are concluded.

Figure 4.1 **PTAs by date of entry into force**



Data source: WTO (2005d)

Australia has followed the global trend. Prior to 2003, Australia was party to three agreements, with Papua New Guinea, South Pacific countries and New Zealand, of which only the latter was a reciprocal agreement.[2] Since then, Australia has signed bilateral agreements with Singapore, Thailand and the United States. (The Commission reported on these latter agreements in its past two *Trade & Assistance Reviews* (PC 2003b and 2004b).) Negotiations are underway on possible bilateral agreements with China, Malaysia and the United Arab Emirates (UAE) and a regional agreement encompassing the Association of South East Asian Nations (ASEAN) and New Zealand. The Department of Foreign Affairs and Trade is also undertaking a feasibility study on a PTA with Japan, and is seeking comment on the possibility of a PTA with Mexico. If Australia concludes PTAs with all of these countries, it is estimated that 43 per cent of Australia's total two-way trade in goods and services (combined exports and imports) will be covered by preferential arrangements (Mugliston 2006).

An eminent panel selected by the WTO recently commented on some of the costs of such trends, arguing that the proliferation of PTAs constitutes a threat to the current multilateral system (see box 4.3). The Commission also discussed some problematic aspects of PTAs in *Trade & Assistance Review 2003-04* (PC 2004b). The Australian Government's position is that PTAs that are comprehensive in scope and coverage can complement and provide momentum to Australia's wider multilateral trade

[2] The PTAs are the Papua New Guinea-Australia Trade and Commercial Relations Agreement, the South Pacific Regional Trade and Economic Cooperation Agreement and the Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA or 'CER'). However, only the CER is a reciprocal agreement; the others are essentially mechanisms by which Australia unilaterally grants preferential entry to its market for aid reasons.

objectives in the WTO, and that any progress in regional trade liberalisation should be multilateralised in due course through WTO negotiations. (DFAT 2006)

In addition to these possible new PTAs, some changes have recently been announced to the Rules of Origin (RoO) governing the Closer Economic Relations agreement between Australia and New Zealand. Progress on those PTAs under development, and the Government's recent announcement on RoO, are outlined below.

Box 4.3 **PTAs and the WTO**

Early in 2005, an eminent panel of trade policy experts (chaired by Peter Sutherland, former Director-General of the WTO, and including Jagdish Bhagwati) delivered a report on the challenges facing the WTO.

The Panel recognised that the establishment of PTAs can deliver benefits. For example, PTAs can provide an avenue for smaller groups of nations to develop trade relationships that are broader and deeper than is achievable at the multilateral level (and thus help 'test' agreements on new areas, such as investment, before they are adopted more broadly). Further, the negotiation of PTAs may help overcome some entrenched protectionist interests within a country and help developing countries adjust gradually to the opening of their markets.

Nevertheless, the Panel concluded that on balance the proliferation of PTAs could undermine the WTO system, stating that "MFN is no longer the rule; it is almost the exception" (p. 19). For example, the EU now applies its 'MFN' tariffs to only nine nations (including Australia).

The Panel noted that PTAs can introduce a number of other costs, including:

- diverting trade from the most efficient countries;
- entrenching support for less-ambitious multilateral reform from the beneficiaries of PTA discrimination;
- the diversion of skilled and experienced negotiating resources; and
- the emergence of 'non-trade' objectives in some PTAs (such as intellectual property rights and labour and environmental regulations) — creating the threat that these objectives may enter through a 'back-door' into multilateral agreements.

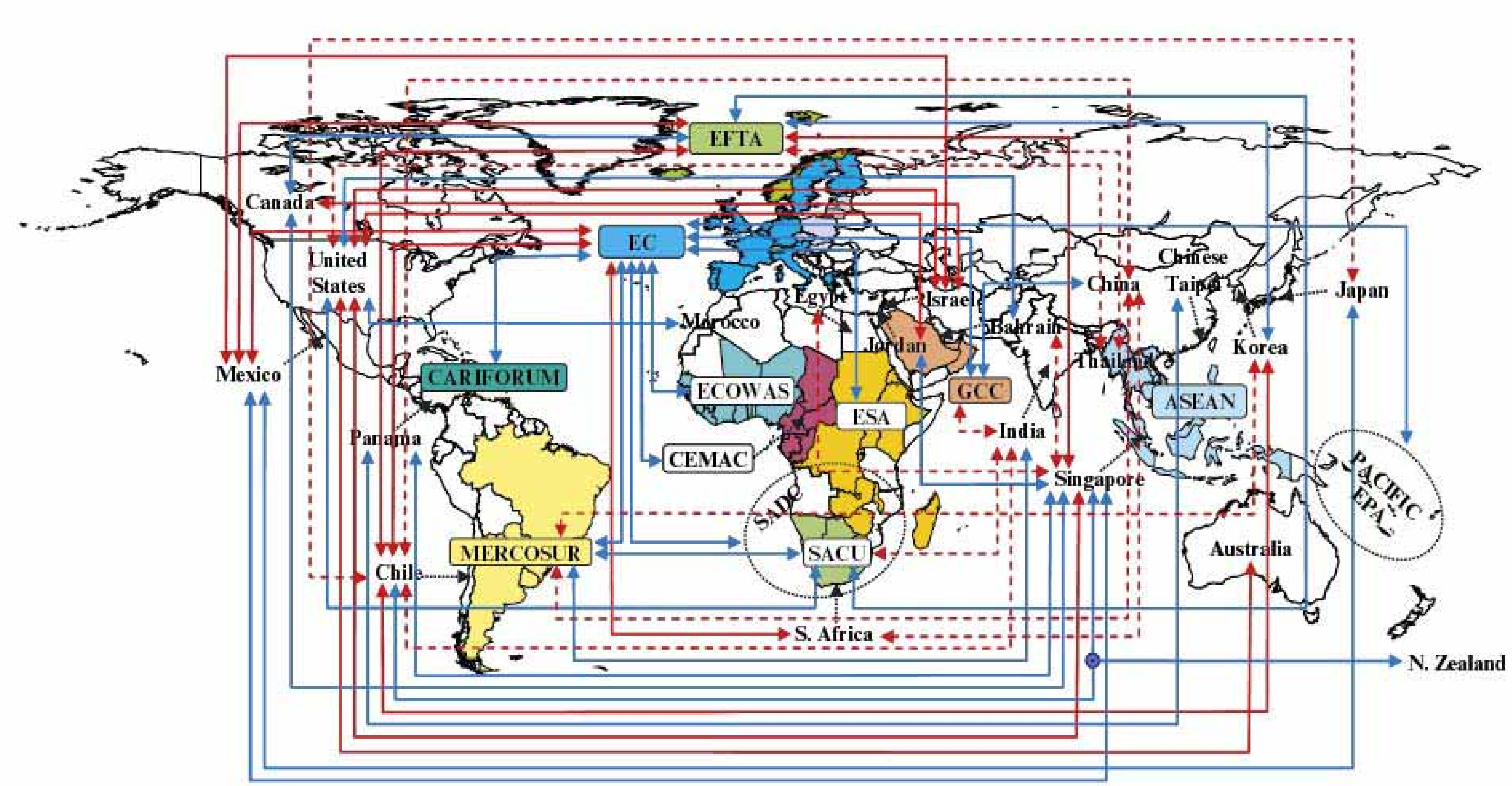
According to the Panel, the most significant cost is that PTAs complicate world product markets and add substantial costs to businesses trying to negotiate the 'spaghetti bowl' (figure 4.2) of different preferential rates and 'rules of origin'. (It noted that these problems particularly affect smaller companies and firms in developing countries.)

The Panel noted that harmonising the details of PTAs could minimise some of these transaction costs. However, given the number of PTAs now in force, each with its own set of rules of origin and negotiated arrangements, it concluded that this goal was nigh unachievable. Instead, it urged members to unilaterally reduce their MFN tariffs, which would automatically reduce trade diversion effects and the importance of rules of origin.

Source: WTO (2004b).

Figure 4.2 **The 'spaghetti bowl'**

Notified, under negotiation and proposed PTAs [a]



[a] As of February 2005. Dotted lines represent proposed agreements. *Source:* Crawford and Fiorentino (2005)

China

A joint feasibility study on a PTA between Australia and China was released in April 2005. Modelling undertaken as part of the study suggested that a PTA could increase Australia's GDP by as much as $25 billion over the period 2006-2015. (Some issues surrounding such estimates are outlined in box 4.4). The study also suggested that structural adjustment resulting from an agreement would be minimal relative to adjustment that is already occurring in response to globalisation and other reforms (DFAT and Ministry of Commerce (China) 2005).

Upon release of the study, the Prime Minister of Australia and the Premier of China agreed to enter into negotiations on a PTA. A number of meetings among Chinese and Australian trade officials have since been held — three covering procedural matters and information exchanges about each party's trade and investment regimes, and a fourth in late February/early March 2006 involving more substantive negotiations.

As part of the agreement to enter into negotiations on a PTA, Australia has recognised China as a 'market economy' for anti-dumping purposes.[3]

Nonetheless, China was until recently a largely state-run economy and remnants from this history pose challenges for the development of a PTA. For instance, there are concerns about Chinese non-tariff measures involving transparency of administration, appeal processes and dispute resolution, standards and technical regulations and intellectual property rights (DFAT and Ministry of Commerce (China) 2005). Lowering such barriers is likely to bring the greatest potential gains for both economies, since tariffs on trade between the two countries are already relatively low. However, realising fundamental institutional change may prove difficult within a bilateral trade agreement.

[3] Previously, China was recognised as an 'economy in transition'. This allowed the Minister responsible for customs to determine, where the Chinese Government controls or substantially controls the domestic price of a good, the 'normal' value of that good (for antidumping purposes). Following this change, estimates of the normal value of a good must now be guided by domestic or third-country pricing and only when this information is not available is the Minister permitted to make a determination on a good's normal value.

Box 4.4 **Modelling and PTAs**

Most of the recent PTAs that Australia has agreed to or is negotiating have been preceded by the estimation of their potential economic gains, generally through the use of 'ex ante' 'general equilibrium' modelling. Each of these studies has forecast that the PTA in question would deliver net benefits. However, some of the results have been contested (see, for example, Dee 2004).

While such modelling can provide insights (for example, comparing impacts of different liberalisation scenarios and estimating outcomes for sectors and regions), it also has limitations. Such modelling provides estimates or projections of the *potential* benefits of liberalising trade, rather than measure the *actual* outcomes of PTAs. Accordingly, key limitations follow from assumptions that need to be made about the degree of liberalisation and the response of industry and governmental actors. For example, such modelling cannot readily measure 'dynamic' productivity benefits (such as providing greater scope for the transfer of technology and ideas) and does not easily capture the effects of removing non-tariff barriers. In addition, the gains from PTAs can be overstated to the extent that modelling:

- assumes a greater degree of liberalisation than actually occurs — studies sometimes model the effects of removing all barriers to trade between members, whereas in practice most PTAs rarely provide for full liberalisation;
- does not consider the administrative costs of obtaining preference, under often complicated Rules of Origin (RoO);
- fails to take account of the trade-restricting effects of RoO and the adverse impact of these requirements on firm's costs of production; and
- fails to account for 'safeguard' actions that may temporarily remove preferences if import volumes rise above an agreed amount. (Australia has recently taken such action against Thai canned tuna products under the Thailand-Australian Free Trade Agreement, see McGauran 2005c.)

In a recent study by Commission staff (Adams et al 2003), empirical (econometric) techniques, rather than modelling, were used to examine the actual effects on trade and investment resulting from 18 existing PTAs. The study found that 12 of the PTAs had diverted more trade from non-members than they created among members. The authors accorded this potentially adverse result to the Rules of Origin (and other measures) that are needed to underpin and enforce preferential arrangements. In contrast, the study found that the removal of non-tariff barriers in most agreements resulted in net investment creation rather than diversion. The authors postulated that this was due to the non-preferential nature of many non-tariff barrier 'concessions' (such as commitments to more rigorously enforce intellectual property rights).

Malaysia

A scoping study, evaluating the effects of a PTA between Australia and Malaysia, was released in April 2005 (DFAT 2005a). This study concluded that Australia's GDP could increase by as much as $1.9 billion as a result of a trade agreement between Australia and Malaysia. The study noted that although most merchandise trade between Australia and Malaysia already occurs at zero or low tariffs, there are some exceptions (including a 50 per cent tariff on cars in Malaysia) and also some barriers to services (such as the Malaysian Public Service not recognising all Australian degrees).

Following the scoping study's release, the Prime Ministers of Australia and Malaysia agreed to begin negotiations on a PTA. Negotiations on the structure and content of an agreement have begun, taking place within four working groups covering goods, services, investment and other issues.

These negotiations are occurring in parallel to negotiations on a preferential agreement involving Australia, New Zealand and ASEAN (of which Malaysia is a member). In commenting on these parallel processes, the Australian scoping study (DFAT 2005a) stated that:

> It is likely that a bilateral agreement would achieve earlier and deeper liberalisation and comprehensively address worthwhile opportunities specific to the bilateral relationship. (p. ix)

Progress on the Australia-Malaysia PTA has been impeded, however, by Malaysia's commitment to negotiating eight other PTAs. Accordingly, the previously announced mid-2006 conclusion date for the negotiations will now not be met.

ASEAN-New Zealand

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 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 (DFAT 2004).

Currently the negotiations are only at a preliminary stage, with countries exchanging information on their trade regimes and the formation of working groups covering goods, services, investment, legal issues, rules of origin and economic cooperation. Another negotiating round is scheduled be held in New Zealand from 4-7 April 2006. The negotiations are expected to be completed within two years and implemented within 10 years.

United Arab Emirates

On 15 March 2005, the Australian Minister for Trade and the UAE Minister for Economy and Planning agreed to launch negotiations on a PTA. The UAE is Australia's second largest market in the Middle East. Commenting on the prospects for the agreement, the Department of Foreign Affairs and Trade (2005c) stated:

> Both economies also have relatively open markets, however there are opportunities to further liberalise investment and expand tourism and education exchanges, all of which are expected to grow under a more open regulatory environment.

To advance the negotiations, three working groups have been formed on goods, services and legal issues. These working groups met in December 2005. An internal qualitative study of trade and investment opportunities and bilateral impediments has also been completed (DFAT 2005c).

Japan

In April 2005, a study on the benefits and costs of trade liberalisation between Australia and Japan was released (DFAT 2005g). This study concluded that Australia's GDP could be increased by as much as $39 billion over the next 20 years as a result of bilateral liberalisation of Australia-Japan trade.

Following these results, Australia and Japan have agreed to commence a feasibility study to examine policy issues more closely, and particularly the pros and cons of entering into a PTA. The feasibility study is expected to be completed within two years. In announcing this study, DFAT (2005g) recognised that Japan's sensitivity to the liberalisation of agricultural products remains a difficult issue.

New Zealand

In 1983, Australia signed the Australian New Zealand Closer Economic Relations Trade Agreement (ANZCERTA, commonly known as CER). Like most PTAs, the CER has specific rules of origin (RoO) which determine whether goods are classified as being manufactured in either Australia or New Zealand and thus qualifying for concessional entry.[4]

In 2004, the Commission was asked to report on the suitability of these RoO. It found that, although there were some problems, generally the CER RoO were not overly restrictive (compared to RoO in other agreements) and, in any case, were becoming of less importance as both Australia and New Zealand continue to lower their trade barriers. Accordingly, the Commission recommended against changing the framework of CER RoO (including to the 'Change of Tariff Classification' (CTC) method). It found that the most prudent approach would be to make minor changes to reduce operational problems, and to liberalise the current rules by applying a waiver to provide duty free entry for CER goods manufactured in Australia or New Zealand which face trans-Tasman tariff differences of 5 percentage points or less (PC 2004a).

However, the Australian and New Zealand Governments have agreed to change the CER RoO to an approach which generally requires a good to satisfy a change in tariff classification during the production process in either Australia or New Zealand (Vaile and Macfarlane 2006) in order to gain duty free access to each other's markets under CER. It was originally anticipated that the revised origin rules would be implemented by 2006. However, finalisation of the new RoO took longer than anticipated — CTC-based systems often entail technical requirements and/or 'regional value of content' requirements to cater for different circumstances, such as to protect 'sensitive' industries such as TCF. It is now intended that the new RoO will be adopted from 1 January 2007, which will coincide with the introduction of a new global harmonised tariff code by the World Customs Organization. The details of the new RoO have not yet been made publicly available.

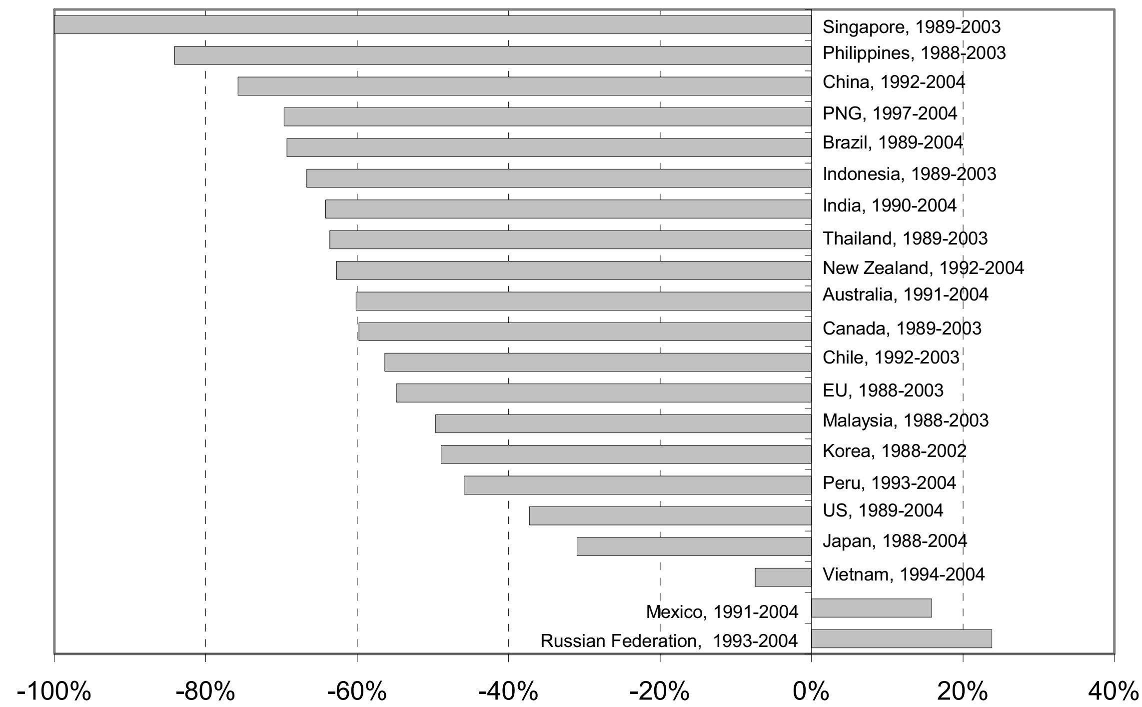
4.3 National tariff reform

While engaging in multilateral and, more recently, bilateral trade agreements, Australia has adopted a primarily unilateral approach to tariff reform, making reductions not necessitated by trade agreements. This process began with the 25 per cent 'across-the-board' tariff cut in 1973 and was followed by more consistent and sustained tariff reductions in the 1980s and 1990s. Tariff reductions are continuing in the relatively highly assisted PMV and TCF industries (see chapter 3).

[4] Without rules of origin there could be an incentive to import goods from a third party country into the PTA region (through the member with the lowest tariffs) and hence take advantage of the concessions *within* the region. Circumventing higher tariffs in this way reduces the value of the preference given to some exporters. RoO are designed to limit the extent of such circumventions.

Many other countries have also significantly reduced their tariff barriers recently. For example, many countries have more than halved their MFN tariffs over the last decade (see figure 4.3). These reductions have been particularly pronounced in the APEC region. For example, Singapore, the Philippines and China have all reduced their average tariffs by over 75 per cent.[5]

Figure 4.3 **Percentage changes in simple average MFN tariffs**



Source: World Bank (2005c)

While simple average tariff calculations mask significant tariff peaks in certain sectors and the impact of other forms of industry assistance, the scale of average tariff reductions does indicate significant steps towards more liberal trading regimes.

Across countries, some of the recent reductions in trade barriers reflect commitments made in the Uruguay Round (and, in the case of China, its accession to the WTO).

5 A recent study by the CIE (2005a) showed that almost all APEC members had significantly reduced their tariffs since 1988. The average tariff barrier across APEC fell from 16 per cent in 1988 to 6 per cent in 2004. And, in the one APEC country where tariffs had increased over this period, Vietnam, reductions in non-tariff barriers, such as the intervention of state owned enterprises, were expected to offset the increased tariffs.

However, there is evidence that most have resulted from unilateral actions. In this vein, a recent study by Martin and Ng (2004) found that, since 1983, two-thirds of the reductions in tariffs undertaken by developing countries were enacted unilaterally — giving emphasis to the view that countries should, and do, reform their trade regimes primarily for domestic reasons, such as to improve the efficiency of their domestic industries and economic structures.

Balanced against this picture of substantial reductions in tariffs is the operation of other forms of protection — such as intervention through the management of exchange rates or the ownership and regulation of industry. For example, while China has reduced its average tariffs by around 75 per cent for both primary and manufactured products since 1992, its intervention in foreign exchange markets may have reduced for the time being the competitive pressures on its domestic industries. This highlights that national tariff reform is only one aspect of the overall reform agenda.

A Detailed 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. In 2002, further detail was provided by disaggregating the estimates for the primary production sector into 10 industry groupings. The methodology used to allocate budgetary assistance to these industry groupings was described in Methodological Annexes (PC 2000d, PC 2002c) to the 1999-2000 and 2001-02 editions, respectively, of *Trade & Assistance Review*. For the estimates in this edition, the Commission has revised its methodology for allocating various budgetary assistance measures among sectors and industries. Changes are set out in an accompanying Methodological Annex (forthcoming). In total, the Commission now reports estimates for 35 industry groupings (plus 4 *unallocated* groupings).

The tables in this appendix contain detailed estimates of budgetary assistance to each industry grouping for the years from 2002-03 to 2004-05. For each grouping, information is provided on:

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

The estimates are derived primarily from the Australian Government's budget papers, departmental annual reports and the Australian Treasury's Tax Expenditures Statements (TES). The estimates include a number of recently introduced measures as well as incorporating 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 assistance measurement methodology, and intends to review the coverage of its budgetary assistance estimates in the year ahead.

Table A.1 **Australian Government budgetary assistance to primary production, 2002-03 to 2004-05**

$ million

	Type[a]	*02-03*	*03-04*	*04-05*[b]
Horticulture and fruit growing				
Industry-specific measures				
Citrus Canker Eradication Programme	FI	-	-	3.5
Tax deduction for horticultural plantations	TE	5.0	5.0	5.0
Tax deduction for grape vines	TE	8.0	10.0	10.0
Sector-specific measures				
Agricultural development partnership	DFA	1.7	2.7	1.1
Farm Help	DFA	3.5	2.3	1.4
Farm Management Deposits Scheme	TE	37.3	25.2	10.1
Farm Bis Program	FI	4.0	3.8	1.8
Income tax averaging provisions	TE	26.0	16.4	13.6
Industry partnerships program	DFA	-	-	3.5
Rural Financial Counselling Service	FI	0.8	1.0	0.7
Skilling farmers for the future	FI	0.5	0.4	-
Tax deduction for conserving or conveying water	TE	5.6	5.6	5.6
Rural R&D measures				
Grape and Wine R&D Corporation	FI	7.0	6.9	8.1
Horticulture R&D	FI	29.6	28.4	32.9
Rural Industries R&D Corporation	FI	2.1	2.0	1.9
General export measures				
Export Market Development Grants Scheme	DFA	1.7	1.7	1.4
TRADEX	TE	<0.1	<0.1	<0.1
General investment measures				
Development allowance	TE	<0.1	-	-
General R&D measures				
Biotechnology Innovation Fund	DFA	-	0.1	0.1
COMET Program	DFA	<0.1	<0.1	0.1
Cooperative Research Centres	FI	2.0	4.1	3.7
CSIRO	FI	10.0	13.3	20.6
Farm Innovation Program	DFA	0.7	0.1	-
Major national research facilities	FI	0.7	1.1	1.3
New Industries Development Program	FI	1.3	1.1	1.2
Premium R&D tax concession	TE	0.1	0.2	0.2
Preseed fund	FI	3.4	0.7	0.3
R&D Start	DFA	1.6	0.2	0.4
R&D tax concession	TE	0.9	1.1	1.2
R&D tax offset for small companies[c]	DFA	1.4	2.0	2.4
Other measures				
Eden Structural Adjustment	DFA	<0.1	<0.1	-
South West Forests Structural Adjustment	DFA	0.1	-	-
Wide Bay Burnett Structural Adjustment Program	DFA	0.1	-	-
Total		*155.3*	*135.2*	*131.9*

Table A.1 (continued)

	Type[a]	02-03	03-04	04-05[b]
Grain, sheep and beef cattle farming				
Industry-specific measures				
Beef Expo + Gracemere Saleyards	FI	3.9	-	-
Ovine Johnes Disease Control Programme	FI	0.1	0.1	0.3
Tasmanian wheat freight subsidy	DFA	0.8	0.8	0.4
Tuberculosis Freedom Assurance Programme	FI	-	1.0	0.6
Sector-specific measures				
Agricultural development partnership	DFA	0.7	1.2	0.5
Farm Help	DFA	12.3	5.0	7.1
Farm Management Deposits Scheme	TE	306.4	182.4	67.8
Farm Bis Program	FI	17.7	14.2	6.7
Income tax averaging provisions	TE	139.3	87.8	72.7
Industry partnerships program	DFA	-	-	0.1
Rural Financial Counselling Service	FI	1.7	2.0	1.9
Skilling farmers for the future	FI	2.3	1.6	-
Tax deduction for conserving or conveying water	TE	9.9	9.9	9.9
Rural R&D measures				
Wool R&D	FI	16.2	14.1	13.5
Grains R&D Corporation	FI	39.2	42.4	35.7
Meat and livestock R&D	FI	26.6	32.8	39.0
Rural Industries R&D Corporation	FI	-	2.6	2.2
General export measures				
EFIC national interest business[d]	DFA	4.3	4.3	3.6
Export Market Development Grants Scheme	DFA	0.3	0.5	0.4
General investment measures				
Development allowance	TE	<0.1	-	-
General R&D measures				
Biotechnology Innovation Fund	DFA	0.1	0.1	<0.1
Commercial Ready Program	DFA	-	-	0.2
COMET Program	DFA	<0.1	<0.1	-
Cooperative Research Centres	FI	8.2	8.6	8.6
CSIRO	FI	42.4	61.3	70.6
Farm Innovation Program	DFA	0.2	<0.1	-
Innovation investment fund	DFA	-	-	1.0
New Industries Development Program	FI	0.3	0.2	0.3
Premium R&D tax concession	TE	0.2	0.3	0.3
R&D Start	DFA	-	0.1	-
R&D tax concession	TE	1.2	1.5	1.6
Other measures				
Small business capital gains tax exemption	TE	7.0	7.9	11.7
Total[e]		*641.2*	*482.7*	*356.6*

Table A.1 (continued)

	Type[a]	02-03	03-04	04-05[b]
Dairy cattle farming				
Sector-specific measures				
Agricultural development partnership	DFA	0.7	1.2	0.5
Farm Help	DFA	8.3	5.0	1.2
Farm Management Deposits Scheme	TE	21.2	12.7	5.6
Farm Bis Program	FI	2.4	1.6	0.8
Income tax averaging provisions	TE	26.1	16.5	13.6
Rural Financial Counselling Service	FI	0.6	0.6	0.4
Skilling farmers for the future	FI	0.3	0.2	-
Tax deduction for conserving or conveying water	TE	1.2	1.2	1.2
Rural R&D measures				
Dairy Research and Development	FI	14.1	15.4	14.5
General export measures				
Export Market Development Grants Scheme	DFA	<0.1	<0.1	<0.1
TRADEX	TE	-	-	0.4
General R&D measures				
CSIRO	FI	9.9	12.7	11.8
Farm Innovation Program	DFA	<0.1	<0.1	-
New Industries Development Program	FI	0.3	0.3	0.3
Total[f]		*85.3*	*67.3*	*50.3*
Poultry farming				
Sector-specific measures				
Farm Help	DFA	0.6	0.1	-
Farm Management Deposits Scheme	TE	0.6	0.5	0.3
Farm Bis Program	FI	0.1	0.1	<0.1
Income tax averaging provisions	TE	1.5	0.9	0.8
Industry partnerships program	DFA	-	-	0.1
Rural Financial Counselling Service	FI	<0.1	<0.1	<0.1
Skilling farmers for the future	FI	<0.1	<0.1	-
Tax deduction for conserving or conveying water	TE	0.1	0.1	0.1
Rural R&D measures				
Egg Research and Development	FI	-	1.1	0.8
Rural Industries R&D Corporation	FI	1.7	2.0	2.1
General export measures			-	-
Export Market Development Grants Scheme	DFA	-	0.1	<0.1
General R&D measures				
Cooperative Research Centres	FI	-	3.1	3.4
CSIRO	FI	-	1.0	6.5
Farm Innovation Program	DFA	0.1	<0.1	-
New Industries Development Program	FI	0.1	0.1	0.1
Total		*4.9*	*9.2*	*14.2*

Table A.1 (continued)

	Type[a]	02-03	03-04	04-05[b]
Other livestock farming				
Sector-specific measures				
Farm Help	DFA	1.1	0.2	0.2
Farm Management Deposits Scheme	TE	19.8	12.9	5.0
Farm Bis Program	FI	0.4	0.3	0.1
Income tax averaging provisions	TE	6.5	4.1	3.4
Industry partnerships program	DFA	-	-	0.1
Rural Financial Counselling Service	FI	0.4	0.4	0.3
Skilling farmers for the future	FI	<0.1	<0.1	-
Tax deduction for conserving or conveying water	TE	0.6	0.6	0.6
Rural R&D measures				
Pig Research and Development	FI	3.3	4.6	6.2
Rural Industries R&D Corporation	FI	1.2	1.1	1.2
General export measures			-	-
Export Market Development Grants Scheme	DFA	0.6	0.4	0.5
General R&D measures				
COMET Program	DFA	<0.1	-	-
CSIRO	FI	4.1	3.1	3.6
Farm Innovation Program	DFA	0.1	<0.1	-
New Industries Development Program	FI	0.3	0.2	0.3
R&D tax concession	TE	0.7	0.8	0.9
Total		*39.1*	*28.9*	*22.5*
Other crop growing				
Industry-specific measures				
Sugar Industry Reform Program	DFA	-	69.9	129.4
Sector-specific measures				
Farm Help	DFA	2.4	2.5	1.4
Farm Management Deposits Scheme	TE	21.3	14.3	5.5
Farm Bis Program	FI	1.1	0.9	0.4
Income tax averaging provisions	TE	6.9	4.3	3.6
Industry partnerships program	DFA	-	-	0.1
Rural Financial Counselling Service	FI	0.1	0.1	0.1
Skilling farmers for the future	FI	0.1	0.1	-
Tax deduction for conserving or conveying water	TE	6.2	6.2	6.2
Rural R&D measures				
Cotton Research and Development Corporation	FI	7.3	4.8	4.3
Rural Industries R&D Corporation	FI	3.3	0.7	0.6
Sugar Research and Development Corporation	FI	5.1	5.2	4.8

Table A.1 (continued)

	Type[a]	02-03	03-04	04-05[b]
General export measures				
Export Market Development Grants Scheme	DFA	0.3	0.2	0.1
TRADEX	TE	<0.1	<0.1	-
General R&D measures				
Biotechnology Innovation Fund	DFA	<0.1	0.2	0.2
COMET Program	DFA	<0.1	<0.1	<0.1
Cooperative Research Centres	FI	6.1	8.0	6.5
CSIRO	FI	9.5	8.5	12.6
Farm Innovation Program	DFA	0.2	<0.1	-
New Industries Development Program	FI	0.1	0.1	0.1
Premium R&D tax concession	TE	0.1	0.1	0.1
R&D Start	DFA	-	-	<0.1
R&D tax concession	TE	0.5	0.6	0.6
Total[g]		*70.8*	*126.9*	*176.9*
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	9.0	5.7	4.7
Skilling farmers for the future	FI	<0.1	<0.1	-
Tax deduction for conserving or conveying water	TE	1.3	1.3	1.3
General export measures				
Export Market Development Grants Scheme	DFA	0.4	0.6	0.1
TRADEX	TE	<0.1	<0.1	<0.1
General R&D measures				
Biotechnology Innovation Fund	DFA	1.2	0.9	0.5
Commercial Ready Program	DFA	-	-	0.1
COMET Program	DFA	0.1	0.1	0.2
Farm Innovation Program	DFA	<0.1	<0.1	-
Premium R&D tax concession	TE	0.1	0.2	0.2
R&D Start	DFA	1.4	1.3	1.3
R&D tax concession	TE	0.8	0.9	1.0
R&D tax offset for small companies	DFA	1.0	1.4	1.7
Other measures				
South West Forests Structural Adjustment	DFA	0.1	-	-
Wide Bay Burnett Structural Adjustment	DFA	<0.1	-	-
Total		*15.3*	*12.6*	*11.2*

Table A.1 (continued)

	Type[a]	02-03	03-04	04-05[b]
Forestry and logging				
Industry-specific measures				
Forest Industry Structural Adjustment	DFA	8.4	11.0	10.9
Sector-specific measures				

	Type[a]	02-03	03-04	04-05[b]
Farm Management Deposits Scheme	TE	0.4	0.3	0.1
Income tax averaging provisions	TE	4.1	2.6	2.1
Rural Financial Counselling Service	FI	0.1	<0.1	<0.1
Tax deduction for conserving or conveying water	TE	0.1	0.1	0.1
Rural R&D measures				
Forest and Wood Products R&D	FI	1.5	1.6	1.4
Rural Industries R&D Corporation	FI	1.8	1.7	1.3
General export measures				
Export Market Development Grants Scheme	DFA	<0.1	<0.1	-
General R&D measures				
COMET Program	DFA	0.1	<0.1	<0.1
Cooperative Research Centres	FI	2.4	2.5	0.4
CSIRO	FI	12.4	19.5	23.7
Farm Innovation Program	DFA	<0.1	<0.1	-
Premium R&D tax concession	TE	<0.1	<0.1	<0.1
R&D tax concession	TE	0.1	0.2	0.2
Other measures				
Eden Structural Adjustment	DFA	<0.1	<0.1	-
Total		*31.4*	*39.5*	*40.3*
Commercial fishing[h]				
Industry-specific measures				
Aquaculture Industry Action Agenda	FI	-	2.5	1.0
Sector-specific measures				
Farm Help	DFA	0.1	0.1	1.2
Farm Management Deposits Scheme	TE	3.0	1.6	0.6
Farm Bis Program	FI	1.1	3.7	1.7
Income tax averaging provisions	TE	10.6	6.7	5.5
Industry partnerships program	DFA	-	-	0.4
Rural Financial Counselling Service	FI	0.1	0.1	0.1
Skilling farmers for the future	FI	0.1	0.4	-
Rural R&D measures				
Fishing industry R&D	FI	17.4	17.7	16.9
General export measures			-	-
Export Market Development Grants Scheme	DFA	0.3	0.5	0.4
TRADEX	TE	<0.1	<0.1	<0.1
General investment measures				
Development allowance	TE	1.6	-	-

Table A.1 (continued)

	Type[a]	02-03	03-04	04-05[b]
General R&D measures				
Commercial Ready Program	DFA	-	-	0.1
COMET Program	DFA	<0.1	0.1	0.1
Cooperative Research Centres	FI	2.6	2.6	2.6
CSIRO	FI	28.7	29.0	39.0
Farm Innovation Program	DFA	0.1	<0.1	-
New Industries Development Program	FI	0.4	0.3	0.3
Premium R&D tax concession	TE	0.2	0.3	0.3
R&D Start	DFA	0.5	2.2	1.7
R&D tax concession	TE	1.4	1.7	1.7
R&D tax offset for small companies	DFA	1.9	2.7	3.3
Other measures				
Eden Structural Adjustment	DFA	0.1	<0.1	-
South West Forests Structural Adjustment	DFA	<0.1	-	-
Total		*70.3*	*72.2*	*77.1*
Unallocated primary production				
Industry-specific measures				
Australian animal health laboratory	FI	6.1	6.2	6.8
Exotic Disease Preparedness program	FI	1.2	3.0	1.2
Sector-specific measures				
Agricultural development partnership	DFA	1.4	2.3	1.0
Farm Help	DFA	0.5	0.3	0.4
Farm Bis Program	FI	1.2	1.1	0.5
Industry Partnerships Program	DFA	-	-	0.2
National landcare program	FI	32.7	39.1	39.3
Regional assistance	DFA	3.2	4.7	-
Rural Financial Counselling Service	FI	1.5	1.2	1.0
Skilling farmers for the future	FI	0.2	0.1	-
Rural R&D measures				
Land and water resources R&D	FI	11.9	12.2	12.5
Rural Industries R&D Corporation	FI	4.4	4.8	5.2

Table A.1 (continued)

	Type[a]	02-03	03-04	04-05[b]
General R&D measures				
Biotechnology Innovation Fund	DFA	-	0.2	-
Cooperative Research Centres	FI	11.0	18.6	20.4
Major national research facilities	FI	0.7	1.1	1.3
R&D Start	DFA	-	1.7	-
Other measures				
Tasmanian Freight Equalisation Scheme	DFA	5.5	6.0	9.2
Total		*81.5*	*102.9*	*99.0*
Total outlays		**502.1**	**626.3**	**704.5**
Total tax expenditures		**693.0**	**451.0**	**275.4**
Total Budgetary assistance		**1195.1**	**1077.3**	**980.0**

[-] Nil. Figures may not add to totals due to rounding. [a] DFA: direct financial assistance; FI: funding to institutions; TE: tax expenditures. [b] The estimates are derived primarily from Australian Government budget papers, departmental annual reports and Treasury's 2005 TES. The budget paper estimates for 2004-05 are estimated actuals. [c] In last year's *Review*, the R&D tax offset for small companies was allocated to 'unallocated other', with estimates of $15 and $12 million for 2002-03 and 2003-04, respectively, derived from Treasury's 2002 TES. The item was reclassified by Treasury as an 'expense' in 2003. The estimates in this year's *Review*, which total $122, $173 and $215 million in the three years covered by the estimates, are actual payments listed in the IR&D Board Annual Report, allocated among industry groupings using ATO data. [d] The estimates reported in this section are net National Interest Business outlays. [e] Excludes assistance derived from NSW statutory marketing arrangements for rice, which the Commission categorises as 'agricultural pricing and regulatory assistance' rather than budgetary assistance. The Commission estimates that assistance derived from the rice marketing arrangements totalled around $3 million in 2004-05. [f] Does not include funding provided under the Australian Government's Dairy Industry Adjustment Package, which has been included in the estimates of 'agricultural pricing and regulatory assistance' reported in recent *Reviews*. The Commission estimates that the package provided dairy farmers remaining in the industry with assistance totalling around $144 million in 2004-05. [g] Does not include funding of $17.6 and $9.1 million in 2002-03 and 2003-04, respectively, provided under the Australian Government's 2002 Sugar Industry Reform Program. Assistance provided under the 2002 SIRP has been included in the estimates of 'agricultural pricing and regulatory assistance' reported in recent *Reviews*. [h] *Commercial fishing* combines the previously reported *Marine fishing* and *Aquaculture* industry groupings.

Sources: Commonwealth Budget and Budget related papers (various years); departmental annual reports (various years); Treasury 2005; Nelson 2005; departmental data; Commission estimates.

Table A.2 **Australian Government budgetary assistance to the mining sector, 2002-03 to 2004-05**

$ million

	Type[a]	*02-03*	*03-04*	*04-05*[b]
Industry-specific measures				
Regional minerals program	FI	0.3	0.3	0.3
General export measures				
Export Market Development Grants Scheme	DFA	1.5	1.4	1.4
TRADEX	TE	2.3	1.9	0.2
General investment measures				
Development allowance	TE	78.1	-	-
General R&D measures				
Biotechnology Innovation Fund	DFA	0.1	<0.1	0.1
Commercial Ready Program	DFA	-	-	0.1
COMET Program	DFA	0.2	0.2	0.2
Cooperative Research Centres	FI	8.4	9.8	10.3
CSIRO	FI	52.9	72.7	102.7
Major national research facilities	FI	0.8	1.2	1.3
New Industries Development Program	FI	0.1	0.1	0.1
Premium R&D tax concession	TE	9.1	14.9	14.1
R&D Start	DFA	4.4	3.3	1.6
R&D tax concession	TE	57.7	70.5	73.7
R&D tax offset for small companies[c]	DFA	0.7	1.0	1.3
Other measures				
Greenhouse gas abatement program	DFA	0.2	0.7	0.6
Total outlays		**69.6**	**90.8**	**120.1**
Total tax expenditures		**147.2**	**87.3**	**87.9**
Total Budgetary assistance		**216.8**	**178.1**	**208.0**

- Nil. Figures may not add to totals due to rounding. [a] DFA: direct financial assistance; FI: funding to institutions; TE: tax expenditures. [b] The estimates are derived primarily from Australian Government budget papers, departmental annual reports and Treasury's 2005 TES. The budget paper estimates for 2004-05 are estimated actuals. [c] In last year's *Review*, the R&D tax offset for small companies was allocated to 'unallocated other', with estimates of $15 and $12 million for 2002-03 and 2003-04, respectively, derived from Treasury's 2002 TES. The item was reclassified by Treasury as an 'expense' in 2003. The estimates in this year's *Review*, which total $122, $173 and $215 million in the three years covered by the estimates, are actual payments listed in the IR&D Board Annual Report, allocated among industry groupings using ATO data.

Sources: Commonwealth Budget and Budget related papers (various years); departmental annual reports (various years); Treasury 2005; Nelson 2005; departmental data; Commission estimates.

Table A.3 **Australian Government budgetary assistance to the manufacturing sector, 2002-03 to 2004-05**

$ million

	Type[a]	*02-03*	*03-04*	*04-05*[b]
Food, beverages and tobacco				
Industry-specific measures				
National food industry strategy	DFA	3.0	12.1	14.5
Tasmanian wheat freight subsidy	DFA	0.4	0.4	0.2
Brandy preferential excise rate	TE	5.0	5.0	5.0
Sector-specific measures				
Rural Financial Counselling Service	FI	0.1	0.2	0.2
General export measures			-	-
Export Market Development Grants Scheme	DFA	11.2	11.8	11.6
TRADEX	TE	0.9	0.7	1.2
General investment measures				
Development allowance	TE	2.9	-	-
General R&D measures				
Biotechnology Innovation Fund	DFA	-	0.1	<0.1
Commercial Ready Program	DFA	-	-	0.1
COMET Program	DFA	<0.1	<0.1	<0.1
Cooperative Research Centres	FI	2.6	2.6	2.6
CSIRO	FI	20.7	38.0	35.4
New Industries Development Program	FI	0.4	0.4	0.4
Premium R&D tax concession	TE	2.0	3.3	3.1
R&D Start	DFA	1.8	0.8	0.6
R&D tax concession	TE	13.4	16.3	17.1
R&D tax offset for small companies[c]	DFA	0.8	1.1	1.3
Other measures				
Eden Structural Adjustment	DFA	0.3	0.1	-
Tasmanian Freight Equalisation Scheme	DFA	12.5	13.6	15.7
Wide Bay Burnett Structural Adjustment Program		0.3	-	-
Total		*78.4*	*106.5*	*109.0*
Textiles, clothing, footwear and leather				
Industry-specific measures				
Howe leather – loan repayment	DFA	-	-2.3	-2.5
TCF Corporate Wear Program	TE	41.1	52.2	46.0
TCF Strategic Investment Program	DFA	109.7	119.1	123.7
General export measures				
Export Market Development Grants Scheme	DFA	5.1	4.1	3.5
TRADEX	TE	17.5	14.4	8.3

Table A.3 (continued)

	Type[a]	02-03	03-04	04-05[b]
General R&D measures				
COMET Program	DFA	<0.1	0.1	<0.1
CSIRO	FI	31.5	12.7	17.9
Premium R&D tax concession	TE	<0.1	0.1	0.1
R&D Start	DFA	1.0	0.6	<0.1
R&D tax concession	TE	0.3	0.4	0.4
R&D tax offset for small companies	DFA	0.4	0.5	0.7
Other measures				
Tasmanian Freight Equalisation Scheme	DFA	0.8	0.6	0.5
Total		*207.4*	*202.6*	*198.5*
Wood and paper products				
Industry-specific measures				
Forest Industry Structural Adjustment	DFA	8.1	10.5	10.4
Investment incentives to Visy industries	DFA	2.9	2.9	-
Sector-specific measures				
Industry partnerships program	DFA	-	-	0.1
Rural R&D measures				
Forest and Wood products R&D Corporation	FI	1.5	1.6	1.5
General export measures				
Export Market Development Grants Scheme	DFA	1.3	1.2	0.9
TRADEX	TE	<0.1	<0.1	0.1
General investment measures			-	-
Development allowance	TE	0.8	-	-
General R&D measures				
Commercial Ready Program	DFA	-	-	0.2
COMET Program	DFA	<0.1	0.1	<0.1
Cooperative Research Centres	FI	5.4	6.1	5.4
CSIRO	FI	5.7	-	-
Premium R&D tax concession	TE	1.2	1.9	1.8
R&D Start	DFA	0.1	<0.1	0.2
R&D tax concession	TE	7.6	9.3	9.7
R&D tax offset for small companies	DFA	0.4	0.6	0.7
Other measures				
Tasmanian Freight Equalisation Scheme	DFA	17.4	19.5	19.4
Wide Bay Burnett Structural Adjustment Program	DFA	<0.1	-	-
Total		*52.3*	*53.7*	*50.4*
Printing, publishing and recorded media				
Industry-specific measures				
Enhanced printing industry competitiveness	DFA	1.1	1.6	-
Extended printing industry competitiveness	DFA	8.6	11.2	-
Printing Industry Competitiveness Scheme	DFA	0.5	-	-

Table A.3 (continued)

	Type[a]	02-03	03-04	04-05[b]
General export measures				
Export Market Development Grants Scheme	DFA	3.2	3.2	2.2
TRADEX	TE	0.3	0.3	0.2
General investment measures				
Development allowance	TE	<0.1	-	-
General R&D measures				
COMET Program	DFA	0.1	<0.1	<0.1
Premium R&D tax concession	TE	0.8	1.3	1.2
R&D Start	DFA	0.5	0.6	0.2
R&D tax concession	TE	4.9	6.0	6.3
R&D tax offset for small companies	DFA	6.7	9.5	11.9
Total		*26.7*	*33.6*	*22.0*
Petroleum, coal, chemical and associated products				
Industry-specific measures				
Biofuels Infrastructure Grants	DFA	-	-	2.1
Ethanol production subsidy	DFA	21.7	10.8	8.6
Pharmaceutical industry development program	DFA	64.7	59.3	0.4
Pharmaceutical partnerships program	DFA	-	-	4.2
Renewable Energy Equity Fund	DFA	-	-	0.8
General export measures				
Export Market Development Grants Scheme	DFA	5.4	4.9	4.8
TRADEX	TE	3.6	3.0	2.0
General investment measures				
Development allowance	TE	6.7	-	-
General R&D measures				
Biotechnology Australia	FI	2.1	2.1	5.0
Biotechnology Innovation Fund	DFA	1.3	1.5	0.6
Commercial Ready Program	DFA	-	-	0.1
COMET Program	DFA	0.8	0.5	0.2
Cooperative Research Centres	FI	11.2	11.5	7.2
CSIRO	FI	41.9	22.3	44.2
Farm Innovation Program	DFA	<0.1	<0.1	-
Innovation Investment Fund	DFA	10.4	7.5	0.6
National Stem Cell Centre	FI	3.6	4.6	5.8
New Industries Development Program	FI	0.3	0.2	0.3
Premium R&D tax concession	TE	2.5	4.1	3.9
Preseed fund	FI	-	-	0.5
R&D Start	DFA	10.4	10.5	8.6
R&D tax concession	TE	16.8	20.5	21.4
R&D tax offset for small companies	DFA	5.3	7.6	9.4

Table A.3 (continued)

	Type[a]	02-03	03-04	04-05[b]
Other measures				
Greenhouse gas abatement program	DFA	0.7	3.0	2.7
Structural Adjustment Fund for South Australia	DFA	-	-	2.7
Total		*209.3*	*173.9*	*136.1*
Non-metallic mineral products				
General export measures				
Export Market Development Grants Scheme	DFA	1.2	0.7	0.6
TRADEX	TE	<0.1	<0.1	0.4
General investment measures				
Development allowance	TE	0.4	-	-
General R&D measures				
COMET Program	DFA	<0.1	0.1	-
Premium R&D tax concession	TE	1.0	1.6	1.5
R&D Start	DFA	1.6	0.2	0.8
R&D tax concession	TE	5.9	7.2	7.5
R&D tax offset for small companies	DFA	0.6	0.8	1.0
Total		*10.7*	*10.7*	*11.9*
Metal products				
Industry-specific measures				
Australian Magnesium Corporation	DFA	-	84.6	-
Investment incentives to Hismelt – grant	DFA	-	-	50.0
Investment incentives to Hismelt – loan	DFA	45.6	45.7	45.7
General export measures				
Export Market Development Grants Scheme	DFA	2.8	2.3	2.0
TRADEX	TE	5.0	4.1	1.4
General investment measures				
Development allowance	TE	40.1	-	-
General R&D measures				
Commercial Ready Program	DFA	-	-	0.1
COMET Program	DFA	0.1	0.1	0.1
Cooperative Research Centres	FI	8.3	8.0	7.1
CSIRO	FI	29.0	-	-
Premium R&D tax concession	TE	2.3	3.8	3.6
R&D Start	DFA	6.9	5.7	3.4
R&D tax concession	TE	14.9	18.2	19.0
R&D tax offset for small companies	DFA	1.6	2.2	2.8
Other measures				
Greenhouse gas abatement program	DFA	0.5	2.0	1.8
Tasmanian Freight Equalisation Scheme	DFA	2.2	2.8	3.7
Total		*159.2*	*179.5*	*140.6*

Table A.3 (continued)

	Type[a]	02-03	03-04	04-05[b]
Motor vehicles and parts				
Industry-specific measures				
Automotive competitiveness and investment scheme – post 2005	DFA	-	0.5	0.9
Automotive competitiveness and investment scheme[d]	TE	569.7	583.1	562.5
Investment incentive for Holden	DFA	4.0	-	-
General export measures				
Export Market Development Grants Scheme	DFA	1.5	1.8	1.4
TRADEX	TE	71.6	74.3	60.3
General investment measures				
Development allowance	TE	8.7	-	-
General R&D measures			-	-
COMET Program	DFA	0.2	0.2	0.1
Premium R&D tax concession	TE	4.2	6.9	6.5
Preseed fund	FI	0.8	-	-
R&D Start	DFA	1.4	0.6	0.7
R&D tax concession	TE	27.8	34.0	35.5
R&D tax offset for small companies	DFA	1.3	1.9	2.3
Other measures				
Wide Bay Burnett Structural Adjustment Program	DFA	<0.1	-	-
Total		*691.4*	*703.3*	*670.2*
Other transport equipment				
Industry-specific measures				
Shipbuilding bounty	DFA	13.3	6.8	0.8
Shipbuilding innovation scheme	DFA	8.7	7.0	2.1
General export measures				
Export Market Development Grants Scheme	DFA	1.3	1.8	1.2
TRADEX	TE	0.2	0.1	0.2
General R&D measures				
COMET Program	DFA	0.2	0.2	0.2
Cooperative Research Centres	FI	5.1	4.9	4.6
Major national research facilities	FI	0.7	1.1	1.3
Premium R&D tax concession	TE	1.3	2.1	2.0
R&D Start	DFA	3.3	2.2	1.5
R&D tax concession	TE	8.4	10.3	10.8
R&D tax offset for small companies	DFA	0.7	1.1	1.3
Total		*43.2*	*37.7*	*25.9*

Table A.3 (continued)

	Type[a]	02-03	03-04	04-05[b]
Other machinery and equipment				
Industry-specific measures				
Renewable energy equity fund	DFA	-	-	0.3
General export measures				
Export Market Development Grants Scheme	DFA	15.1	15.0	12.8
TRADEX	TE	4.7	3.9	4.3
General investment measures				
Development allowance	TE	0.7	-	-
General R&D measures			-	-
Biotechnology Innovation Fund	DFA	0.7	0.7	1.1
Commercial Ready Program	DFA	-	-	0.4
COMET Program	DFA	1.5	1.2	1.4
Cooperative Research Centres	FI	15.3	14.0	11.6
CSIRO	FI	36.1	-	-
Innovation Investment Fund	DFA	4.2	-	1.7
Major national research facilities	FI	2.4	3.6	4.0
New Industries Development Program	FI	0.2	0.1	0.1
Premium R&D tax concession	TE	4.7	7.8	7.3
R&D Start	DFA	27.3	31.1	28.2
R&D tax concession	TE	30.1	36.8	38.5
R&D tax offset for small companies	DFA	16.6	23.7	29.4
Other measures				
Small business programs	DFA	-	-	0.1
South West Forests Structural Adjustment	DFA	<0.1	-	-
Wide Bay Burnett Structural Adjustment Program	DFA	0.2	-	-
Total		*159.9*	*137.8*	*141.3*
Other manufacturing				
Industry-specific measures				
Renewable Energy Equity Fund	DFA	-	0.1	-
General export measures			-	-
Export Market Development Grants Scheme	DFA	8.4	9.4	8.1
TRADEX	TE	20.1	16.4	4.4
General investment measures				
Development allowance	TE	0.1	-	-
General R&D measures				
Biotechnology Innovation Fund	DFA	1.6	1.7	-
COMET Program	DFA	0.8	0.8	0.9
CSIRO	FI	-	55.4	89.1
Premium R&D tax concession	TE	0.9	1.4	1.3
Preseed fund	FI	-	1.0	-
R&D Start	DFA	13.3	27.1	0.1
R&D tax concession	TE	5.5	6.7	7.0
R&D tax offset for small companies	DFA	5.3	7.5	9.3

Table A.3 (continued)

	Type[a]	02-03	03-04	04-05[b]
Other measures				
Tasmanian Freight Equalisation Scheme	DFA	1.7	1.9	2.0
Wide Bay Burnett Structural Adjustment Program	DFA	<0.1	-	-
Total		*57.5*	*129.5*	*122.3*
Unallocated manufacturing				
General export measures				
Duty Drawback	TE	121.0	105.9	121.1
General R&D measures				
Cooperative Research Centres	FI	2.2	3.7	4.5
Technology Diffusion program	DFA	4.2	-	-
Other measures				
Tasmanian Freight Equalisation Scheme	DFA	36.3	38.0	38.7
Total		*163.7*	*147.6*	*164.3*
Total outlays		**781.9**	**852.9**	**769.5**
Total tax expenditures		**1077.8**	**1063.5**	**1023.0**
Total Budgetary assistance		**1859.8**	**1916.4**	**1792.5**

- Nil. Figures may not add to totals due to rounding. **a** DFA: direct financial assistance; FI: funding to institutions; TE: tax expenditures. **b** The estimates are derived primarily from Australian Government budget papers, departmental annual reports and Treasury's 2005 TES. The budget paper estimates for 2004-05 are estimated actuals. **c** In last year's *Review*, the R&D tax offset for small companies was allocated to 'unallocated other', with estimates of $15 and $12 million for 2002-03 and 2003-04, respectively, derived from Treasury's 2002 TES. The item was reclassified by Treasury as an 'expense' in 2003. The estimates in this year's *Review*, which total $122, $173 and $215 million in the three years covered by the estimates, are actual payments listed in the IR&D Board Annual Report, allocated among industry groupings using ATO data. **d** Data provided by DITR indicates that, while most (>95%) assistance provided under ACIS is received by businesses in the *Motor vehicles and parts* industry, there is also some assistance to businesses in other industry groupings. The Commission intends to revise its treatment of assistance provided through ACIS in the context of next year's *Review*.

Sources: Commonwealth Budget and Budget related papers (various years); departmental annual reports (various years); Treasury 2005; Nelson 2005; ACS 2005a; departmental data; Commission estimates.

Table A.4 **Australian Government budgetary assistance to the services sector, 2002-03 to 2004-05**

$ million

	Type[a]	02-03	03-04	04-05[b]
Electricity, gas and water supply				
Industry-specific measures				
Renewable energy commercialisation	DFA	9.2	9.2	1.7
Renewable Energy Equity Fund	DFA	2.6	1.0	0.5
General export measures				
Export Market Development Grants Scheme	DFA	0.4	0.3	0.4
TRADEX	TE	-	-	<0.1
General investment measures				
Development allowance	TE	4.3	-	-
Infrastructure bonds scheme	TE	10.4	10.4	10.4
Infrastructure borrowing's tax offsets scheme	TE	7.7	7.2	2.9
General R&D measures				
COMET Program	DFA	0.3	0.3	0.2
Cooperative Research Centres	FI	8.6	7.0	6.7
Premium R&D tax concession	TE	0.1	0.2	0.2
R&D Start	DFA	5.9	3.2	1.5
R&D tax concession	TE	4.0	4.9	5.2
R&D tax offset for small companies[c]	DFA	0.9	1.3	1.7
Other measures				
Greenhouse gas abatement program	DFA	1.8	7.5	6.7
Total		*56.3*	*52.6*	*38.0*
Construction				
General export measures				
Export Market Development Grants Scheme	DFA	1.8	1.5	1.1
TRADEX	TE	1.8	1.5	<0.1
General investment measures				
Development allowance	TE	<0.1	-	-
General R&D measures				
COMET Program	DFA	0.2	0.1	0.2
Cooperative Research Centres	FI	2.0	2.5	2.5
CSIRO	FI	22.7	12.8	14.9
Premium R&D tax concession	TE	1.1	1.8	1.7
R&D Start	DFA	1.2	0.9	0.3
R&D tax concession	TE	8.4	10.3	10.8
R&D tax offset for small companies	DFA	2.2	3.2	4.0
Other measures				
Small business capital gains tax exemption	TE	4.4	4.9	7.3
Total		*45.9*	*39.6*	*42.7*

Table A.4 (continued)

	Type[a]	02-03	03-04	04-05[b]
Wholesale trade				
General export measures				
Export Market Development Grants Scheme	DFA	12.6	12.4	10.2
TRADEX	TE	1.0	0.9	4.8
General investment measures				
Development allowance	TE	0.2	-	-
General R&D measures				
COMET Program	DFA	0.1	0.2	0.1
Premium R&D tax concession	TE	3.8	6.3	5.9
R&D Start	DFA	0.8	2.2	0.8
R&D tax concession	TE	24.6	30.1	31.4
R&D tax offset for small companies	DFA	5.1	7.2	9.0
Other measures				
Small business capital gains tax exemption	TE	10.6	12.1	17.7
Wide Bay Burnett Structural Adjustment Program	DFA	0.1	-	-
Total		*59.0*	*71.3*	*79.9*
Retail trade				
General export measures				
Export Market Development Grants Scheme	DFA	1.2	1.1	0.7
TRADEX	TE	0.2	0.2	1.6
General investment measures				
Development allowance	TE	0.1	-	-
General R&D measures				
COMET Program	DFA	0.1	<0.1	-
Premium R&D tax concession	TE	0.8	1.3	1.2
R&D Start	DFA	<0.1	0.3	-
R&D tax concession	TE	4.7	5.8	6.1
R&D tax offset for small companies	DFA	3.1	4.4	5.5
Other measures				
Eden Structural Adjustment	DFA	<0.1	<0.1	-
Greenhouse gas abatement program	DFA	0.1	0.4	0.3
Small business capital gains tax exemption	TE	19.0	21.5	31.7
South West Forests Structural Adjustment	DFA	0.5	-	-
Wide Bay Burnett Structural Adjustment Program	DFA	<0.1	-	-
Total		*30.1*	*35.1*	*47.2*

Table A.4 (continued)

	Type[a]	02-03	03-04	04-05[b]
Accommodation, cafes and restaurants				
General export measures				
Export Market Development Grants Scheme	DFA	8.0	7.5	4.7
Other measures				
Eden Structural Adjustment	DFA	0.1	<0.1	-
Small business capital gains tax exemption	TE	3.5	4.0	5.8
Small business programs	DFA	-	-	0.1
South West Forests Structural Adjustment	DFA	0.3	-	-
Wide Bay Burnett Structural Adjustment Program	DFA	<0.1	-	-
Total		*11.9*	*11.5*	*10.7*
Transport and storage				
General export measures				
Export Market Development Grants Scheme	DFA	8.6	7.6	5.4
TRADEX	TE	3.2	2.7	1.1
General investment measures				
Development allowance	TE	10.5	-	-
Infrastructure bonds scheme	TE	9.6	9.6	9.6
Infrastructure borrowing's tax offset scheme	TE	7.3	11.6	8.4
General R&D measures				
COMET Program	DFA	0.3	0.2	0.2
Premium R&D tax concession	TE	0.3	0.6	0.5
R&D Start	DFA	0.5	1.1	1.9
R&D tax concession	TE	3.3	4.1	4.3
R&D tax offset for small companies	DFA	0.4	0.6	0.7
Other measures				
Small business capital gains tax exemption	TE	0.6	0.7	1.0
Total		*44.7*	*38.7*	*33.0*
Communication services				
Industry-specific measures				
Investment incentives to IBM	DFA	0.8	-	-
Investment incentives to SITA	DFA	1.7	1.0	-
Software engineering centres	FI	2.4	1.1	-
General export measures				
Export Market Development Grants Scheme	DFA	1.1	1.5	1.7
TRADEX	TE	<0.1	<0.1	<0.1
General investment measures				
Development allowance	TE	11.9	-	-

Table A.4 (continued)

	Type[a]	02-03	03-04	04-05[b]
General R&D measures				
COMET Program	DFA	0.8	0.4	0.6
Cooperative Research Centres	FI	5.8	5.8	5.7
CSIRO	FI	21.5	57.2	62.2
ICT centre of excellence	FI	10.3	11.3	17.2
Innovation Investment Fund	DFA	6.8	2.3	2.0
Premium R&D tax concession	TE	2.5	4.1	3.9
Preseed fund	FI	-	2.2	1.8
R&D Start	DFA	4.6	8.4	10.9
R&D tax concession	TE	15.4	18.8	19.7
R&D tax offset for small companies	DFA	2.5	3.5	4.4
Other measures				
Small business capital gains tax exemption	TE	6.1	7.0	10.2
Small business programs	DFA	-	-	<0.1
Total		*94.3*	*124.7*	*140.3*
Finance and insurance				
Industry-specific measures				
Renewable Energy Equity Fund	DFA	-	-	0.4
General export measures			-	-
Export Market Development Grants Scheme	DFA	0.8	0.9	0.9
TRADEX	TE	0.1	0.1	0.1
General investment measures				
Development allowance	TE	0.4	-	-
Infrastructure borrowing's tax offsets scheme	TE	5.0	6.3	3.8
Offshore banking unit tax concession	TE	45.0	50.0	75.0
General R&D measures				
Biotechnology Innovation Fund	DFA	-	0.2	<0.1
COMET Program	DFA	0.2	0.2	0.1
Innovation Investment Fund	DFA	-	-	5.0
Premium R&D tax concession	TE	5.8	9.5	9.0
Preseed fund	FI	-	-	2.3
R&D Start	DFA	1.2	3.5	2.4
R&D tax concession	TE	39.4	48.1	50.3
R&D tax offset for small companies	DFA	2.3	3.3	4.1
Other measures				
Pooled development funds	TE	6.0	6.0	7.0
Small business capital gains tax exemption	TE	14.7	16.6	24.5
Venture capital limited partnerships	TE	-	20.0	25.0
Total		*120.7*	*164.6*	*209.8*

Table A.4 (continued)

	Type[a]	02-03	03-04	04-05[b]
Property and business services				
General export measures				
Export Market Development Grants Scheme	DFA	27.1	27.6	24.9
TRADEX	TE	3.6	2.9	0.6
General investment measures				
Development allowance		1.8	-	-
General R&D measures				
Biotechnology Innovation Fund	DFA	3.7	4.7	3.6
Commercial Ready Program	DFA	-	-	0.3
COMET Program	DFA	3.7	2.9	2.3
Cooperative Research Centres	FI	5.6	10.9	13.3
Innovation Investment Fund	DFA	3.3	2.1	4.8
Premium R&D tax concession	TE	9.1	14.9	14.1
Preseed fund	FI	-	-	0.7
R&D Start	DFA	20.9	24.6	30.6
R&D tax concession	TE	57.1	69.7	72.9
R&D tax offset for small companies	DFA	55.7	79.2	98.4
Other measures				
Eden Structural Adjustment	DFA	<0.1	<0.1	-
Small business programs	DFA	-	-	5.3
Techfast	FI	-	-	2.5
Wide Bay Burnett Structural Adjustment Program	DFA	0.1	-	-
Total		*191.7*	*239.6*	*274.3*
Government administration and defence				
General export measures				
Export Market Development Grants Scheme	DFA	<0.1	<0.1	-
TRADEX	TE	2.4	1.9	0.1
General R&D measures				
COMET Program	DFA	<0.1	<0.1	0.1
R&D Start	DFA	0.1	-	<0.1
Other measures				
Small business programs		-	-	3.0
Total		*2.6*	*2.0*	*3.1*

Table A.4 (continued)

	Type[a]	*02-03*	*03-04*	*04-05*[b]
Education				
General export measures				
Export Market Development Grants Scheme	DFA	7.8	8.0	6.6
General investment measures				
Development allowance	TE	0.1	-	-
General R&D measures				
COMET Program	DFA	0.2	0.2	0.1
Premium R&D tax concession	TE	0.3	0.5	0.5
R&D Start	DFA	0.1	0.2	0.2
R&D tax concession	TE	1.8	2.2	2.3
R&D tax offset for small companies	DFA	1.1	1.5	1.9
Other measures				
Small business capital gains tax exemption	TE	5.9	6.7	9.9
Small business programs	DFA	-	-	0.3
Total		*17.3*	*19.4*	*21.7*
Health and community services				
Industry-specific measures				
Renewable Energy Equity Fund	DFA	0.4	-	-
General export measures				
Export Market Development Grants Scheme	DFA	0.9	0.8	1.6
TRADEX	TE	-	-	0.2
General investment measures				
Development allowance	TE	<0.1	-	-
General R&D measures				
Biotechnology Innovation Fund	DFA	3.2	3.1	2.8
Commercial Ready Program	DFA	-	-	<0.1
COMET Program	DFA	0.8	0.3	0.2
Cooperative Research Centres	FI	7.2	13.6	15.1
Innovation Investment Fund	DFA	-	5.8	3.9
Premium R&D tax concession	TE	0.1	0.2	0.2
Preseed fund	FI	-	2.5	0.5
R&D Start	DFA	10.6	9.3	11.2
R&D tax concession	TE	0.8	0.9	1.0
R&D tax offset for small companies	DFA	1.7	2.4	3.0
Other measures				
Small business capital gains tax exemption	TE	1.1	1.2	1.8
Small business programs	DFA	-	-	<0.1
Wide Bay Burnett Structural Adjustment Program	DFA	0.1	-	-
Total		*26.9*	*40.0*	*41.6*

Table A.4 (continued)

	Type[a]	*02-03*	*03-04*	*04-05*[b]
Cultural and recreational services				
Industry-specific measure				
Australian Film Commission	DFA	20.5	22.5	48.6
Australian Film Finance Corporation	DFA	57.5	60.5	65.6
Exemption of film tax offset payments	TE	1.0	3.0	15.0
Refundable tax off set for large scale film production[d]	TE	5.0	35.0	35.0
General export measures				
Export Market Development Grants Scheme	DFA	11.3	12.2	11.3
TRADEX	TE	-	-	<0.1
General investment measures				
Development allowance	TE	0.3	-	-
General R&D measures				
COMET Program	DFA	0.1	<0.1	0.2
Cooperative Research Centres	FI	2.4	4.1	4.7
Premium R&D tax concession	TE	0.1	0.1	0.1
R&D Start	DFA	0.3	0.3	0.1
R&D tax concession	TE	0.8	1.0	1.1
R&D tax offset for small companies	DFA	1.0	1.5	1.9
Other measures				
Eden Structural Adjustment	DFA	<0.1	<0.1	-
Small business capital gains tax exemption	TE	2.0	2.3	3.4
Small business programs	DFA	-	-	0.1
South West Forests Structural Adjustment	DFA	0.3	-	-
Wide Bay Burnett Structural Adjustment Program	DFA	0.1	-	-
Total		*102.9*	*142.6*	*187.0*
Personal and other services				
General export measures				
Export Market Development Grants Scheme	DFA	0.7	0.7	0.9
General R&D measures				
COMET Program	DFA	<0.1	-	0.1
Premium R&D tax concession	TE	0.1	0.2	0.2
R&D Start	DFA	0.3	0.2	<0.1
R&D tax concession	TE	0.8	1.0	1.1
R&D tax offset for small companies	DFA	0.9	1.3	1.6
Other measures				
Small business programs	DFA	-	-	0.8
Total		*2.9*	*3.4*	*4.6*
Unallocated services				
Industry-specific measures				
Building IT strengths	DFA	24.8	18.2	20.6
General export measures				
Australian Tourist Commission/Tourism Australia[e]	FI	99.9	97.9	138.4

Table A.4 (continued)

	Type[a]	02-03	03-04	04-05[b]
General R&D measures				
CSIRO	FI	10.1	-	-
R&D Start	DFA	-	0.2	-
Other measures[e]				
Australian Tourism Development Program	FI	-	-	4.0
Back of Bourke Exhibition Centre	DFA	0.2	-	-
Cairns Esplanade Development	DFA	-	-	2.9
Cairns Foreshore Promenade Development	DFA	-	-	2.0
Fairbridge Village Redevelopment	DFA	-	-	0.7
Indigenous Tourism Business Ready Program	FI	-	-	0.2
Kimberley Cultural Tourism Promotion	DFA	-	-	0.1
Lancefield Visitor Information Centre & Reserve	DFA	-	-	0.2
National Tourism Accreditation Framework	FI	-	-	0.7
Oatlands Callington Mill upgrade	DFA	-	-	0.1
Regional Tourism Program	DFA	3.0	0.5	-
See Australia Domestic Tourism Initiative	FI	1.5	1.5	2.4
Stockman's Hall of Fame	DFA	1.4	1.3	-
Tasmanian Infrastructure Initiative	DFA	-	1.1	-
Tasmanian Regional Tourism	DFA	0.4	-	-
The Great Green Way - Tourism Initiative	DFA	-	-	1.9
Willow Court Restoration of 'The Barracks'	DFA	-	-	<0.1
Tourism Operations	FI	0.5	-	-
Total		*141.7*	*120.6*	*174.2*
Total outlays		**556.5**	**622.7**	**750.8**
Total tax expenditures		**392.5**	**482.8**	**557.2**
Total Budgetary assistance		**949.0**	**1105.5**	**1308.0**

- Nil. Figures may not add to totals due to rounding. [a] DFA: direct financial assistance; FI: funding to institutions; TE: tax expenditures. [b] The estimates are derived primarily from Australian Government budget papers, departmental annual reports and Treasury’s 2005 TES. The budget paper estimates for 2004-05 are estimated actuals. [c] In last year’s *Review*, the R&D tax offset for small companies was allocated to ‘unallocated other’, with estimates of $15 and $12 million for 2002-03 and 2003-04, respectively, derived from Treasury’s 2002 TES. The item was reclassified by Treasury as an ‘expense’ in 2003. The estimates in this year’s *Review*, which total $122, $173 and $215 million in the three years covered by the estimates, are actual payments listed in the IR&D Board Annual Report, allocated among industry groupings using ATO data. [d] Estimate for 2004-05 based on the previous year’s funding. [e] Funding for the Australian Tourist Commission (ATC) was previously allocated across services industries based on international visitor expenditure data, while other tourism assistance measures were allocated to ‘unallocated other’. For this year’s *Review*, funding for the ATC/Tourism Australia together with other tourism-related assistance has been allocated to ‘unallocated services’. The Commission intends to revise its treatment of tourism assistance in the context of next year’s *Review*.

Sources: Commonwealth Budget and Budget related papers (various years); departmental annual reports (various years); Treasury 2005; Nelson 2005; departmental data; Commission estimates.

Table A.5 **Australian Government budgetary assistance, Unallocated other[a], 2002-03 to 2004-05**

$ million

	Type[b]	*02-03*	*03-04*	*04-05[c]*
Industry-specific measures				
Australian Seafood Industry Council	FI	-	-	0.1
General export measures				
Austrade	FI	163.8	158.5	155.1
EFIC national interest business	DFA	12.8	12.8	10.7
Export access	FI	0.2	-	-
TRADEX	TE	-	-	1.4
General investment measure				
Invest Australia	FI	16.7	19.4	22.3
Regional headquarters program	TE	0.5	0.5	0.5
General R&D measures				
Biotechnology Australia	FI	-	-	1.2
Commercial Ready Program	DFA	-	-	0.8
COMET Program	DFA	-	-	<0.1
Innovation Access Program	DFA	10.7	11.0	5.8
Innovation Investment Fund	DFA	-	-	0.5
Major national research facilities	FI	7.1	10.9	11.9
Preseed fund	FI	-	-	0.1
R&D Start	DFA	0.3	-	27.5
R&D tax offset payments - exemption	TE	60.0	30.0	-10
Other measures				
Australian Made Campaign – export strategy	FI	-	-	0.9
Industry Capability Network Limited	FI	-	1.5	1.8
Regional assistance program	DFA	21.9	-	-
Regional partnerships program	DFA	-	27.6	30.4
Small business programs	DFA	13.2	12.8	0.1
Tasmanian Freight Equalisation Scheme	DFA	0.8	1.0	0.9
Total outlays		**247.4**	**255.5**	**270.1**
Total tax expenditures		**60.5**	**30.5**	**-8.1**
Total Budgetary assistance		**307.9**	**286.0**	**262.0**

- Nil. Figures may not add to totals due to rounding. [a] Includes programs or amounts of funding where the initial benefiting industry is not stated and/or has not been ascertained. [b] DFA: direct financial assistance; FI: funding to institutions; TE: tax expenditures. [c] The estimates are derived primarily from Australian Government budget papers, departmental annual reports and Treasury' 2005 TES. The budget paper estimates for 2004-05 are estimated actuals.

Sources: Commonwealth Budget and Budget related papers (various years); departmental annual reports (various years); Treasury 2005; Nelson 2005; departmental data; Commission estimates.

B 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 can be 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, show that dumping is causing, or threatening to cause, material injury to a competing domestic industry, and calculate the extent of dumping (how much lower the export price is compared to the exporter's home price).

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.

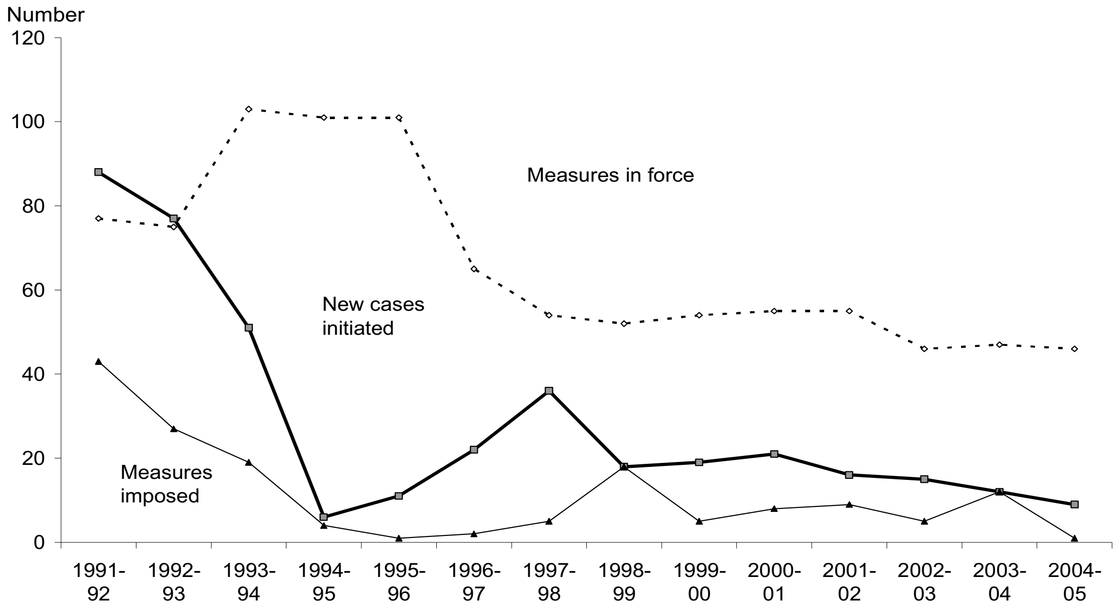
Like other measures that raise the price of imports, anti-dumping and countervailing measures assist particular industries, but can also impose higher costs on other domestic industries and consumers. Australia's current anti-dumping and countervailing system, which took effect in July 1998, was described 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 B.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 9 cases initiated in 2004-05. 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 B.1). Table B.1 lists the anti-dumping cases initiated in 2004-05.

Figure B.1 **Anti-dumping and countervailing activity,[a] 1991-92 to 2004-05**



[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.

There was one new measure *imposed* in 2004-05, compared to 12 measures imposed in 2003-04. The total number of measures *in force* has been relatively static over the last six or so years — as of 30 June 2005, there were 46 measures in force. This is around half of the roughly 100 measures that were in force between 1993 and 1996.

In 2004-05, the *Metal product manufacturing* industry accounted for almost half of the 9 initiations (table B.2). Over the nine year period to 2004-05, 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 40 per cent of total initiations.

During 2004-05, Australian firms initiated 9 anti-dumping complaints against firms from 5 economies. Eight complaints were against firms from Asia and one was against a Canadian firm (table B.3).

Table B.1 **Australian anti-dumping and countervailing initiations,[a] 2004-05**

Commodity	*Exporting economy*
Linear low density polyethlene	Canada
Greyback cartonboard	Korea
Certain hollow steel sections	China, Korea, Malaysia, Thailand
Domestic refrigerators	Korea
Sodium hydrogencarbonate	China
Preserved mushrooms	China

[a] Complaints formally initiated by industry. Initiations are defined as actions applying to one commodity from one economy.

Source: ACS.

Table B.2 **Anti-dumping and countervailing cases,[a] by industry, 1996-97 to 2004-05**

				1996-97 to 2004-05	
Industry[b]	*2002-03*	*2003-04*	*2004-05*	*Number of cases*	*Per cent of total[c]*
Food, beverages and tobacco	1	5	1	12	7
Textiles, clothing, footwear and leather	–	–	–	6	4
Wood and paper products	–	1	1	26	15
Printing, publishing and recorded media	–	–	–	–	–
Petroleum, coal, chemical and associated products	11	–	2	67	40
Non-metallic mineral products	6	1	–	13	8
Metal product manufacturing	2	5	4	25	15
Machinery and equipment manufacturing	1	–	1	11	7
Other manufacturing	2	–	–	8	5
Total	**23**	**12**	**9**	**168**	**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.

International trends

In 2003-04, Australia accounted for 12 (or 5 per cent) of the 254 anti-dumping and countervailing cases initiated internationally (table B.4). In 2003-04, the countries with the most initiations were the United States, India, China and the European Union.

Australia, with 54 measures in force in 2003-04, was the ninth largest user of anti-dumping and countervailing duties, the largest users being the United States, the European Union and India.

Table B.3 **Australian initiations of anti-dumping and countervailing cases, by trading region and economy,[a] 1996-97 to 2004-05**

Region/economy	*2002-03*	*2003-04*	*2004-05*	*1996-97 to 2004-05 Total*	*1996-97 to 2004-05 Per cent* [b]
North America	**2**	**–**	***1***	***9***	**5**
Canada	1	–	1	3	2
United States	1	–	–	6	4
European Union	***6***	***5***	**–**	***44***	**26**
Austria	–	–	–	2	1
Belgium/Lux	1	–	–	3	2
Finland	–	–	–	3	2
France	–	–	–	3	2
Germany	2	–	–	9	5
Italy	2	2	–	7	4
Netherlands	–	–	–	3	2
Sweden	1	–	–	5	3
UK	–	–	–	5	3
Other EU	–	3	–	4	2
Asia	***7***	***7***	***8***	***93***	***55***
China	–	3	3	19	11
Hong Kong	–	–	–	1	1
India	–	–	–	4	2
Indonesia	–	1	–	15	9
Japan	–	1	–	5	3
Korea (south)	3	2	3	16	20
Malaysia	1	–	1	7	4
Singapore	1	–	–	5	3
Thailand	2	–	1	12	7
Taiwan	–	–	–	9	5
Other	**–**	**–**	**–**	***22***	***13***
Saudi Arabia	–	–	–	2	1
South Africa	–	–	–	4	2
Other	–	–	–	16	10
Total	**15**	**12**	**9**	**168**	**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.

Table B.4 **International anti-dumping and countervailing actions, 2002-03 and 2003-04**

Country	*Initiation*		*Provisional measures*		*Definitive duties*		*Price undertakings*		*Measures in force*		*Per cent of total measures in force*[a]	
	02-03	*03-04*	*02-03*	*03-04*	*02-03*	*03-04*	*02-03*	*03-04*	*02-03*	*03-04*	*02-03*	*03-04*
US	35	47	24	23	22	18	–	–	335	350	23	24
India	67	37	54	12	64	38	–	2	210	216	15	15
EU[b]	17	19	7	13	17	10	4	2	224	183	16	13
Canada	7	17	5	15	1	9	–	–	97	95	7	7
South Africa	5	10	1	6	9	2	–	–	100	88	7	6
Argentina	4	7	12	–	25	2	4	–	80	79	6	5
Mexico	8	13	6	12	4	8	–	–	55	59	4	4
China	17	22	38	13	11	26	–	1	29	56	2	4
Brazil	10	8	1	–	4	3	–	–	59	54	4	4
Australia	15	12	9	4	6	12	–	2	49	54	3	4
Turkey	11	19	6	10	24	11	–	–	48	53	3	4
Korea	11	17	–	9	–	5	–	1	16	23	1	2
New Zealand	3	4	1	1	1	3	–	–	9	11	1	1
13 WTO Members	**210**	**232**	**164**	**118**	**188**	**147**	**8**	**8**	**1311**	**1321**	**92**	**93**
All WTO Members	**251**	**254**	**197**	**128**	**243**	**173**	**11**	**10**	**1426**	**1451**	**100**	**100**

– Nil. [a] The sum of the percentages for individual countries may not equal the total due to rounding. [b] From 2003-04, includes new member states that acceded on 1 May 2004.

Source: WTO (2004, 2005).

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