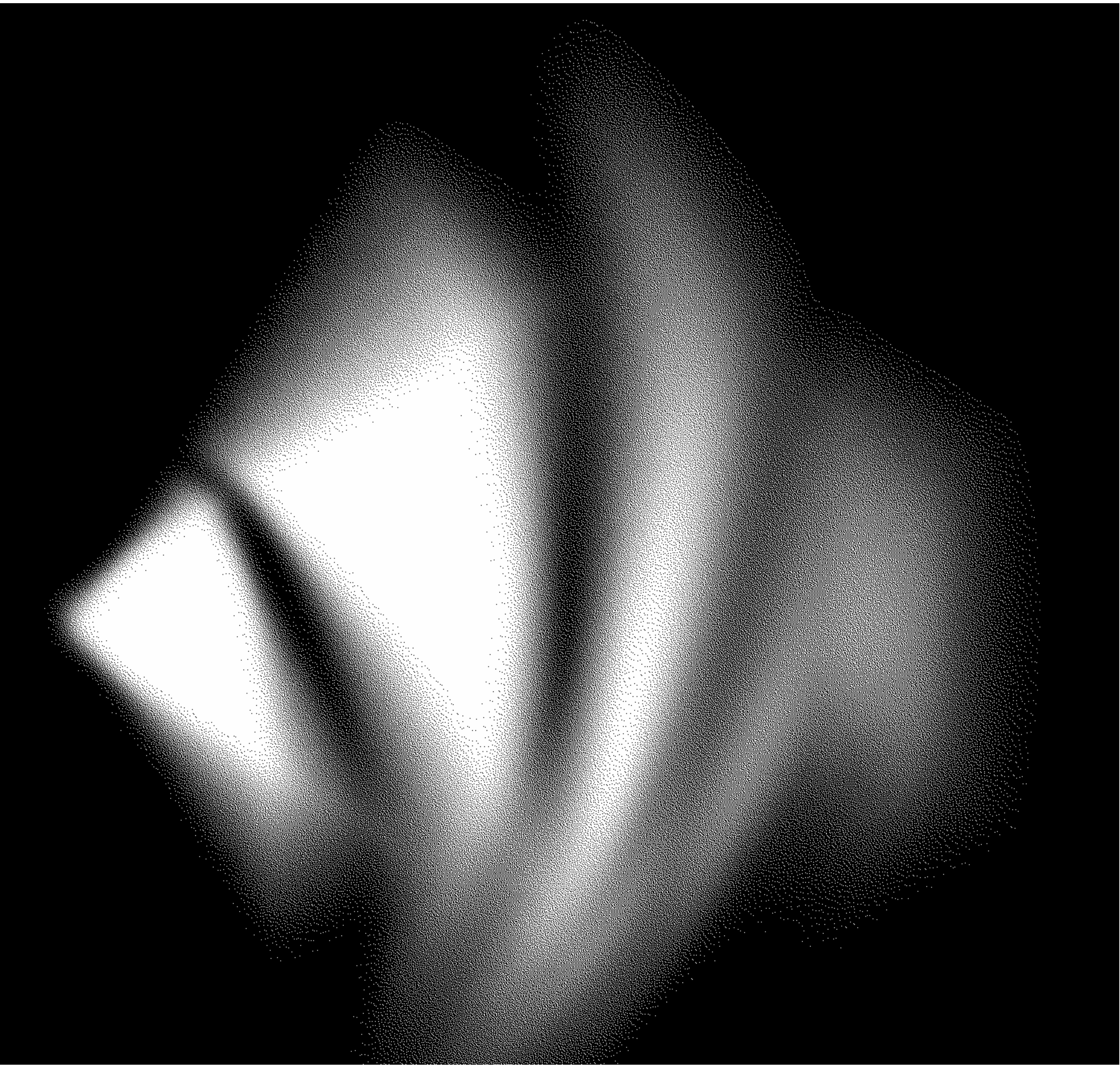
Australian Government
Productivity Commission

Trade & Assistance Review 2005-06

Productivity Commission
Annual Report Series



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

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

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

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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 consideration 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.

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Preface

The Productivity Commission is required under its Act to report annually on industry assistance and its effects on the economy. *Trade & Assistance Review 2005-06* contains the Commission's latest quantitative estimates of Australian Government assistance to industry. It also examines recent developments in assistance in various sectors of the economy over the past year or so, and discusses some recent international policy developments affecting Australia's trade.

The Commission periodically releases new series of assistance estimates, which incorporate updated input-output data and other revisions as appropriate. This edition of the *Review* reports the results of a new series of estimates based on recently published ABS input-output tables for 2001-02. The new estimates cover the five years to 2005-06. While the review is normally released towards the end of each calendar year, this edition has been held back in order to facilitate the introduction of the new estimates.

Trade & Assistance Review 2005-06 forms part of the Commission's annual report series. Its companion volumes are the Commission's *Annual Report 2005-06*, and *Regulation and its Review 2005-06*.

In preparing this document, the Commission received helpful advice and feedback from officials from several Australian Government departments. The Commission is grateful for their assistance.

Gary Banks
Chairman

April 2007

Abbreviations

AAA	Agriculture-Advancing Australia
ABS	Australian Bureau of Statistics
ACS	Australian Customs Service
ASEAN	Association of South East Asian Nations
ABARE	Australian Bureau of Agricultural and Resource Economics
ACIS	Automotive Competitiveness and Investment Scheme
ANAO	Australian National Audit Office
ANZCERTA	Australia-New Zealand Closer Economic Relations Trade Agreement
APEC	Asia-Pacific Economic Cooperation
ATO	Australian Taxation Office
AWBI	Australian Wheat Board International
CER	Closer Economic Relations
CGT	capital gains tax
COMET	Commercialising Emerging Technologies program
CTC	change of tariff classification
EC	exceptional circumstances
EU	European Union
ERA	effective rate of assistance
ESVCLP	Early stage venture capital limited partnerships
FMD	Farm Management Deposits
GATT	General Agreement on Tariffs and Trade
GCC	Gulf Cooperation Council
GDP	gross domestic product
GST	goods and services tax

HS	Harmonised System
IC	Industry Commission
ICT	information and communications technology
IIF	innovation investment fund
IMF	International Monetary Fund
LPG	Liquid petroleum gas
MFN	most favoured nation
MIS	managed investment schemes
MVP	motor vehicles and parts
NDP	National Drought Policy
OECD	Organisation for Economic Cooperation and Development
PC	Productivity Commission
PMV	passenger motor vehicles
PTA	preferential trading agreement
RFA	regional forest agreements
R&D	research and development
SIC	strategic investment coordination
SIRP	Sugar Industry Reform Program
TCF	textiles, clothing and footwear
US	United States
UN	United Nations
VCLPs	Venture Capital Limited Partnerships
WET	wine equalisation tax
WTO	World Trade Organization

Key points

- The Australian Government assists industries through an array 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.
- While industry assistance has declined greatly over recent decades, assistance provided by the Australian Government remains significant.
  - In 2005-06, the government measures covered in the Commission's latest series of estimates provided assistance to industry equivalent to $14.4 billion in gross terms, and $7.5 billion in net terms.
- Tariffs provided (gross) assistance equivalent to $8.2 billion in 2005-06.
  - Virtually all of this was directed to manufacturing industries.
  - The resulting higher prices of manufactured inputs meant that net tariff assistance to most industries in other sectors (agriculture, mining and services) was negative.
- Estimated budgetary assistance to industry totalled $6.1 billion in 2005-06.
  - Activities assisted included R&D (which received 28 per cent of measured budgetary assistance) and exporting (11 per cent). Sectoral and industry-specific assistance together accounted for 35 per cent of the total.
  - Manufacturing, primary production and the (much larger) services sector each received around one third of this assistance.
- The measured *rates* of combined assistance to manufacturing and primary production industries were, on average, roughly equal at around 5 per cent in 2005-06.
  - In manufacturing, the automotive and textiles, clothing and footwear industries attracted the highest effective rates of assistance, ranging up to 15 per cent.
  - The measured rate of assistance to primary production has increased in recent years, partly reflecting the provision of substantial drought relief.
- The current (Doha) round of multilateral trade negotiations has reached an impasse.
  - While the causes are many, a key underlying problem is a lack of understanding in most WTO member countries of the source of benefits that arise from trade liberalisation, which helps sectional interests to trump the national interest.
  - This could be alleviated by instituting mechanisms in all member countries to bring greater transparency to the costs and benefits of trade liberalisation.
- In line with a global trend, Australia has recently concluded a number of preferential trade agreements with particular countries, with more in prospect.
  - The outcome for Australia from such arrangements depends on detailed design features, including 'rules of origin' embodied in the agreements.

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 the Commission's latest estimates of Australian Government assistance to industry (chapter 2). The estimates are the first in a new series and incorporate revisions in the coverage of assistance programs as well as to underlying data sources and methodologies. The estimates in this edition cover the years 2001-02 to 2005-06.

The *Review* also reports on a number of recent developments with ramifications for Australia's assistance structure generally or for particular sectors or industries (chapter 3). The developments covered relate to:

- drought relief;
- specific assistance for various industries;
- small business support;
- regional adjustment support;
- selective investment incentives; and
- anti-dumping arrangements.

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

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

This year's *Review,* as well as reporting on industry assistance, covers selected developments in international trade policy over the last year (chapter 4). It reports on the impasse in the current round of World Trade Organisation negotiations, and on mechanisms to help alleviate the underlying domestic constraints on trade liberalisation. It also reports on Australia's involvement in preferential trading arrangements, and discusses recent changes to the rules of origin in Australia's preferential agreement with New Zealand.

2 Assistance estimates

Each year the Commission publishes estimates of the assistance to industry provided by a range of government programs and measures. Typically the estimates cover:

- tariff assistance, which assists mainly the manufacturing sector;
- Australian Government budgetary assistance applying to all sectors; and
- agricultural regulatory and pricing assistance.

As well as providing estimates for each of these categories, the Commission provides estimates of the 'combined' assistance for all sectors, and effective rates of combined assistance for the manufacturing, primary production and mining sectors.

The estimates do not aim to capture all Australian Government support for industry (box 2.1); nor, apart from some minor agricultural assistance, do they include State government assistance. Quantification constraints also limit the precision of some of the estimates, and care is needed when drawing inferences from them.

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

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

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

The estimates reported in this chapter cover the years 2001-02 to 2005-06. They are the first in a new series and incorporate revisions in the coverage of assistance programs as well as to underlying data sources and methodologies (box 2.2). As such, they differ to the estimates published in previous editions of the *Trade & Assistance Review*, and any comparisons of estimates from the different series should be carefully qualified. Further guidance on the derivation and interpretation of the estimates is provided throughout this chapter and in a (forthcoming) Methodological Annex to this *Review*.

Box 2.2 **The 'new series' of assistance estimates: key changes**

Estimation of tariff assistance

The Commission's previous tariff estimates (last published in *Trade & Assistance Review 2003-04*) were calculated using 1996-97 input-output data — which at that time were the latest suitable data available. For the new series, the Commission has used newly released input-output data (for 2001-02). It has also updated the Customs import data, used in weighting the tariff assistance estimates, to the same year.

Coverage of budgetary programs

In compiling the new series, the Commission has broadened the coverage of programs included in its budgetary assistance estimates. The changes reflect the introduction of new programs by the government, the inclusion of some previously unidentified or omitted assistance measures, and improvements in data availability. In total, some $1.5 billion of additional programs have been included in the estimates (for 2005-06). Appendix A contains a list of the programs covered.

Estimation of automotive assistance

Modifications have been made to the way that tariff concessions provided under the Automotive Competitiveness and Investment Scheme (ACIS) are reflected in the Commission's estimates. The previous methodology did not fully reflect the value of the scheme to firms in the automotive sector, due principally to the transferable nature of duty credits provided under the scheme. For the new series, the effects of the ACIS have been removed from the tariff assistance estimates, and are included as tax concessions in the budgetary estimates.

Calculation of effective rates

The Commission's previous estimates of the effective rate of assistance (published in *Trade & Assistance Review 2003-04*) were calculated using 1996-97 input-output data to determine the 'value added' for different manufacturing industries, and a three year average of 1995-96, 1996-97 and 1998-99 input-output data to determine value added for primary production industries. For the new series, the Commission has used newly released input-output data (for 2001-02) to determine value added by industry.

2.1 Tariff assistance

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

The Commission estimates that the gross dollar value of tariff assistance on outputs was around $8.2 billion in 2005-06 (table 2.1). This compares to an estimate of around $8.5 billion in 2004-05 and $9 billion in 2003-04. This decline partly reflects the scheduled reductions in tariffs on automotive and textiles, clothing and footwear (TCF) products, which took effect on 1 January 2005 (see PC 2006a).

Net tariff assistance to industry was estimated to be around $1.2 billion in 2005-06. Since 2001-02, net tariff assistance has fallen in *real* (ie price-adjusted[1]) terms by around 8 per cent.

Table 2.1 **Total tariff assistance, 2001-02 to 2005-06**
$ million

	2001-02	*2002-03*	*2003-04*	*2004-05*	*2005-06*
Output assistance	7594.8	8278.5	8960.6	8474.2	8161.7
Input assistance	-6434.0	-6962.7	-7604.5	-7415.9	-6926.5
Net assistance	1160.7	1315.8	1356.1	1058.3	1235.2

Source: Commission estimates.

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

Mining and primary production industries receive little tariff assistance on outputs, and tariffs cannot be levied on services. On the other hand, because of their cost-raising effects on inputs, tariffs impose net penalties on all industries in these sectors, other than *Horticulture & fruit growing* and *Forestry & logging*.

[1] The 'real' estimates in this chapter have been calculated by deflating the current value series to a 'real value' series, indexed to the reference year 2001-02, using the GDP deflator.

Table 2.2a **Net tariff assistance by industry grouping,[a] 2001-02 to 2004-05**

$ million

Industry grouping	*2001-02*	*2002-03*	*2003-04*	*2004-05*
Primary production	**-22.3**	**-13.8**	**-16.7**	**-11.1**
Dairy cattle farming	-4.1	-2.8	-2.9	-3.3
Grain, sheep and beef cattle farming	-25.6	-17.9	-22.0	-20.3
Horticulture and fruit growing	27.3	23.1	26.2	28.0
Other crop growing	-6.4	-5.4	-5.8	-5.6
Other livestock farming	-3.2	-2.8	-2.8	-3.0
Fisheries	-22.2	-21.3	-21.2	-19.8
Forestry and logging	23.1	22.2	22.1	22.9
Other primary production[b]	-11.1	-8.9	-10.1	-9.9
Mining	**-146.8**	**-147.5**	**-136.9**	**-180.2**
Manufacturing	**4544.3**	**4957.4**	**5351.5**	**5148.6**
Food, beverages & tobacco	905.3	978.6	1038.4	1096.8
Textiles, clothing, footwear & leather	548.0	569.4	620.9	430.7
Wood & paper products	355.4	418.2	465.5	483.6
Printing, publishing & media	195.4	214.0	226.8	246.0
Petroleum, coal, chemical & ass. products	560.9	615.5	657.8	724.7
Non-metallic mineral products	142.9	168.7	187.4	172.2
Metal product manufacturing	682.0	729.2	750.9	775.3
Motor vehicles & parts	625.1	689.6	772.8	603.0
Other transport equipment	30.1	33.2	37.2	35.5
Other machinery & equipment	275.7	312.5	337.2	327.7
Other manufacturing	223.6	228.5	256.7	253.1
Services	**-3214.5**	**-3480.3**	**-3841.9**	**-3899.1**
Electricity, gas & water supply[c]	-70.5	-76.5	-79.9	-77.3
Construction	-911.6	-1022.8	-1192.6	-1267.8
Wholesale trade[c]	-151.4	-168.7	-181.5	-176.1
Retail trade[c]	-530.6	-568.8	-615.2	-573.7
Accommodation, cafes & restaurants	-306.3	-315.6	-342.8	-370.7
Transport & storage	-211.2	-224.9	-243.2	-240.2
Communication services	-146.8	-155.9	-163.1	-158.2
Finance & insurance	-21.7	-22.8	-25.0	-26.5
Property & business services	-256.0	-272.6	-290.9	-296.4
Government administration & defence	-265.7	-280.5	-302.6	-303.4
Education	-65.3	-70.1	-74.5	-75.9
Health & community services	-85.9	-92.6	-101.3	-101.6
Cultural & recreational services	-114.1	-129.6	-145.7	-144.9
Personal & other services	-77.3	-78.9	-83.8	-86.4

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

Source: Commission estimates.

Table 2.2b **Tariff assistance by industry grouping,[a] 2005-06**

$ million

Industry grouping	*Output assistance*	*Input assistance*	*Net tariff assistance*
Primary production	**66.4**	**-63.4**	**3.0**
Dairy cattle farming	0.0	-3.1	-3.1
Grain, sheep and beef cattle farming	0.1	-16.7	-16.6
Horticulture and fruit growing	37.6	-7.3	30.3
Other crop growing	0.0	-4.5	-4.5
Other livestock farming	0.0	-2.5	-2.5
Fisheries	0.0	-14.5	-14.5
Forestry	28.6	-6.5	22.1
Other primary production[b]	0.0	-8.3	-8.3
Mining	**3.3**	**-228.3**	**-225.1**
Manufacturing	**7789.7**	**-2586.3**	**5203.4**
Food, beverages & tobacco	1460.0	-364.9	1095.1
Textiles, clothing, footwear & leather	423.2	-104.1	319.1
Wood & paper products	658.9	-173.7	485.2
Printing, publishing & media	387.9	-132.5	255.3
Petroleum, coal, chemical & ass. products	1013.6	-283.5	730.1
Non-metallic mineral products	246.1	-59.0	187.1
Metal product manufacturing	1260.6	-352.8	907.8
Motor vehicles & parts	1162.3	-619.7	542.5
Other transport equipment	104.1	-61.8	42.4
Other machinery & equipment	637.0	-248.7	388.3
Other manufacturing	436.0	-185.6	250.4
Services	**302.3**	**-4048.5**	**-3746.1**
Electricity, gas & water supply[c]	6.1	-80.2	-74.1
Construction	0.0	-1272.6	-1272.6
Wholesale trade[c]	128.4	-281.8	-153.4
Retail trade[c]	167.8	-678.8	-510.9
Accommodation, cafes & restaurants	0.0	-362.9	-362.9
Transport & storage	0.0	-213.3	-213.3
Communication services	0.0	-140.3	-140.3
Finance & insurance	0.0	-28.3	-28.3
Property & business services	0.0	-287.4	-287.4
Government administration & defence	0.0	-301.9	-301.9
Education	0.0	-79.1	-79.1
Health & community services	0.0	-101.9	-101.9
Cultural & recreational services	0.0	-138.2	-138.2
Personal & other services	0.0	-81.7	-81.7

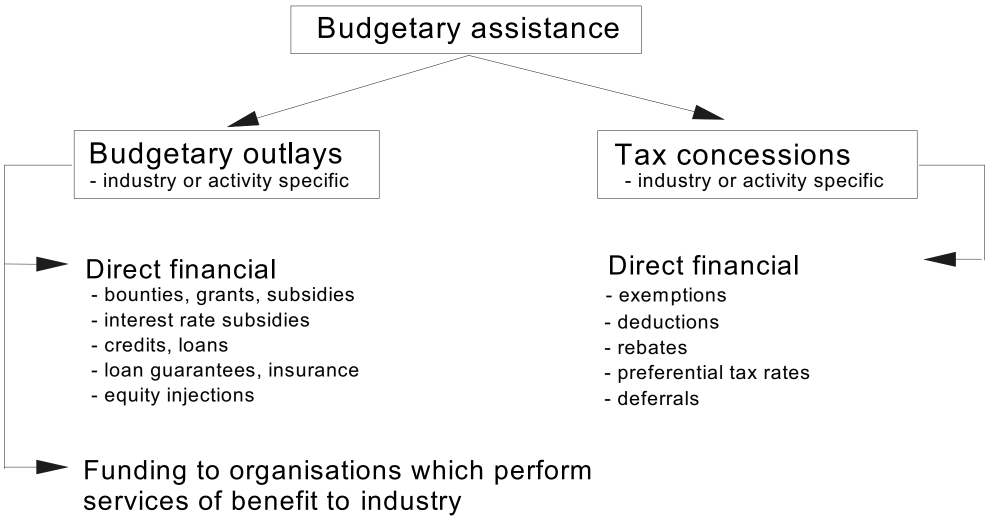
[a] Tariff assistance estimates are derived using ABS Industry Gross Value Added at current prices data. This information is subject to periodic revision by the ABS. [b] Other primary production includes *services to agriculture* (including *hunting & trapping)* and *poultry farming*. [c] Due to ABS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

Source: Commission estimates.

2.2 Australian Government budgetary assistance

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

Figure 2.1 **Forms of budgetary assistance**



As well as reporting its budgetary assistance estimates in the aggregate, the *Review* also reports on:

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

The assistance estimates in this section and in appendix A are derived primarily from the Australian Government Budget Papers, departmental annual reports and Treasury's 2006 Tax Expenditure Statement. The estimates incorporate revisions to outlays and tax concessions for previous years.

Aggregate estimates

Estimates of the assistance — in *nominal* terms — provided by the budgetary measures covered in this *Review*, for the period 2001-02 to 2005-06, are shown in table 2.3 and figure 2.2. That assistance totalled around $6.1 billion in 2005-06, compared to $5.6 billion in 2004-05 and, at the start of the series, $4.7 billion in 2001-02. This represents an increase in *real* terms since 2001-02 of 12 per cent.

The increases in estimated budgetary assistance over the period reflect in part the substantial drought relief provided by the Australian Government in recent years (see section 3.1 of chapter 3). The amount allocated under the ‘exceptional circumstances’ drought schemes increased by around $170 million from 2004-05 to 2005-06. Significant increases in the year to 2005-06 were also recorded in relation to capital gains tax concessions for small business (a net increase of more than $100 million) and R&D tax concessions and offsets (a net increase of $55 million). $135 million was also allocated for businesses affected by Cyclone Larry. Budgetary outlays constituted around 60 per cent of estimated budgetary assistance in 2005-06.

Table 2.3 **Total estimated budgetary assistance, 2001-02 to 2005-06**
$ million

	2001-02	*2002-03*	*2003-04*	*2004-05*	*2005-06*
Budgetary outlays	2221.4	2353.9	2836.5	3051.3	3530.2
Tax concessions	2450.6	2658.8	2508.3	2553.4	2547.3
Total	4671.9	5012.7	5344.8	5604.7	6077.5

Source: Commission estimates.

Figure 2.2 **Total estimated budgetary assistance, 2001-02 to 2005-06**
$ million

Sources: Australian Government Budget Papers; Treasury (2006); Commission estimates.

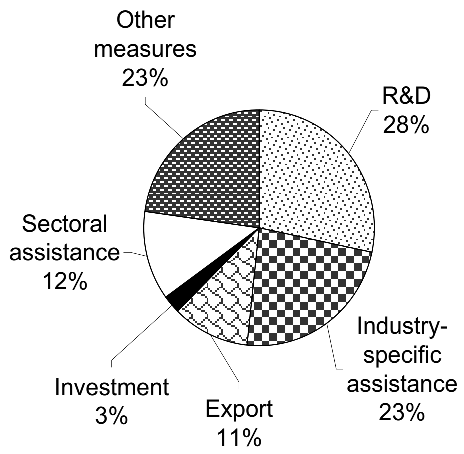
Activities targeted

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 its estimates of Australian Government budgetary assistance into several categories: R&D, export, investment, and sectoral assistance, as well as industry-specific assistance and a residual ‘other’ category.

A degree of 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.

As shown in figure 2.3, the largest share of budgetary assistance is provided for R&D activities.

Figure 2.3 **Estimated budgetary assistance by activity[a], 2005-06**



a The assistance categories include general as well as specific schemes targeting an activity within an industry. For example, the *R&D assistance* category includes broad-based measures (such as the general R&D tax concession) as well as industry-specific measures (such as government funding for the Grape and Wine R&D Corporation). The *sectoral assistance* category covers programs specifically benefiting producers in a sector or facilitating adjustment. The other general assistance category covers measures (such as the regional assistance program) not already included in the above categories.

Source: Commission estimates.

Sectoral and industry distribution

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

While reporting of budgetary assistance by broad sectors and industries helps highlight the incidence of assistance and facilitates comparisons, the estimates of the sectoral and industry distribution of assistance included in this edition of the *Review* are subject to a number of qualifications (box 2.3).

Box 2.3 **Sectoral and industry distribution estimates: the need for caution**

The methodology for allocating budgetary assistance among the sectors and industry groupings is discussed in Methodological Annexes to the earlier Reviews (PC 2000d, 2002c 2006b). While the Commission has used detailed information to make these allocations, the need for judgment means that there remains some scope for imprecision.

A further consideration for the estimates presented in this edition of the *Review* is that, at this stage, the assistance provided by a number of the programs introduced into the new series has not been allocated among sectors and industry groupings. Rather, they have been assigned to the ‘unallocated’ category.

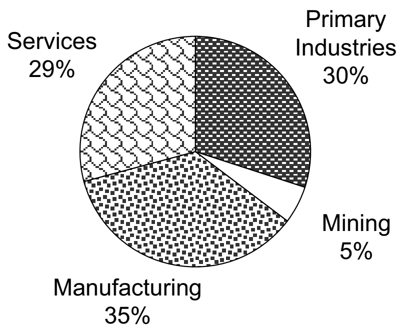
There can be significant variations in assistance between firms within a sector or industry grouping. Indeed, many firms do not make any use of government programs. For example, a study by Commission staff (Revesz and Lattimore 2001) found that the use of R&D and certain export programs between 1994 and 1998 ranged from 2 to 23 per cent of firms in the targeted activities.

Finally, the various sectors and industry groupings are of course not equivalent in size. The Commission’s ‘effective rate’ estimates (section 2.4) give an indication of the assistance received by different sectors and industries relative to their size.

As figure 2.4 shows, manufacturing, primary production and the (much larger) services sector each received around one third of estimated budgetary assistance.

Table 2.4 (on pages 2.10 and 2.11) details the incidence of estimated budgetary assistance by the Commission’s ‘industry grouping’ classification. These estimates indicate that *Grain, sheep and beef cattle farming* received the most budgetary assistance in 2005-06, in part due to the substantial drought assistance provided. *Motor vehicles & parts* also received significant budgetary assistance, mainly from ACIS duty credits which are included as tax concessions.

Figure 2.4 **Estimated budgetary assistance by sector[a], 2005-06**



[a] Shares of estimated budgetary assistance allocated by the Commission. Excludes assistance not allocated by sector.

Source: Commission estimates.

Table 2.4a **Total estimated budgetary assistance by industry grouping, 2001-02 to 2004-05**

$ million

Industry grouping	*2001-02*	*2002-03*	*2003-04*	*2004-05*
Primary production	**1014.8**	**1401.4**	**1365.0**	**1311.0**
Dairy cattle farming	71.1	135.0	142.5	118.8
Grain, sheep and beef cattle farming	476.3	721.4	663.7	489.3
Horticulture and fruit growing	111.7	157.0	140.6	138.1
Other crop growing	90.8	77.5	148.5	192.2
Other livestock farming	28.6	40.6	31.7	23.6
Fisheries	81.6	71.2	73.6	130.5
Forestry and logging	41.3	95.0	35.6	94.2
Other[a] and unallocated primary production[b]	113.3	103.7	128.9	124.5
Mining	**238.4**	**211.5**	**220.6**	**257.4**
Manufacturing	**1952.0**	**1842.0**	**1934.8**	**1770.7**
Food, beverages & tobacco	80.5	78.2	108.6	111.7
Textiles, clothing, footwear & leather	255.3	209.3	202.9	199.0
Wood & paper products	43.7	44.0	43.5	52.8
Printing, publishing & media	24.3	26.7	33.7	20.1
Petroleum, coal, chemical & ass. products	180.5	216.5	182.6	140.1
Non-metallic mineral products	20.7	10.5	10.7	10.1
Metal product manufacturing	120.6	141.8	191.0	143.1
Motor vehicles & parts	750.0	688.6	706.3	657.4
Other transport equipment	101.7	43.1	37.7	20.9
Other machinery & equipment	181.3	161.6	138.7	129.6
Other manufacturing	53.5	57.8	131.2	121.6
Unallocated manufacturing[b]	139.9	163.7	147.8	164.4
Services	**909.9**	**955.4**	**1135.0**	**1410.6**
Electricity, gas & water supply	55.1	54.3	54.0	37.3
Construction	17.8	21.5	25.0	23.4
Wholesale trade	51.7	50.8	62.1	71.2
Retail trade	10.0	21.8	25.8	34.3
Accommodation, cafes & restaurants	14.9	24.9	26.3	26.8
Transport & storage	69.0	67.5	73.7	71.5
Communication services	77.0	92.9	129.0	137.8
Finance & insurance	104.8	103.3	160.3	245.7
Property & business services	159.6	210.3	261.1	302.3
Government administration & defence	1.2	7.2	6.4	3.6
Education	12.3	11.7	13.0	11.7
Health & community services	34.1	29.3	43.4	46.6
Cultural & recreational services	92.5	112.5	127.6	213.6
Personal & other services	5.4	5.2	5.8	8.4
Unallocated services[b]	204.5	142.2	121.6	176.3
Unallocated other[b]	**556.7**	**602.5**	**689.5**	**855.0**

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.

Source: Commission estimates.

Table 2.4b Estimated budgetary assistance by industry grouping, 2005-06

$ million

Industry grouping	*Budgetary outlays*	*Tax concessions*	*Total assistance*
Primary production	**1154.4**	**343.1**	**1497.6**
Dairy cattle farming	124.7	34.9	159.6
Grain, sheep and beef cattle farming	461.9	158.2	620.1
Horticulture and fruit growing	100.4	49.7	150.1
Other crop growing	196.4	19.9	216.3
Other livestock farming	17.6	10.3	28.0
Fisheries	102.7	11.3	114.0
Forestry and logging	40.2	45.6	85.8
Other[a] and unallocated primary production[b]	110.5	13.2	123.8
Mining	**132.4**	**137.1**	**269.6**
Manufacturing	**870.5**	**906.2**	**1776.7**
Food, beverages & tobacco	99.6	28.5	128.0
Textiles, clothing, footwear & leather	152.6	57.2	209.8
Wood & paper products	30.1	26.0	56.2
Printing, publishing & media	17.5	7.0	24.5
Petroleum, coal, chemical & ass. products	161.7	26.0	187.7
Non-metallic mineral products	3.4	8.4	11.8
Metal product manufacturing	70.8	28.3	99.1
Motor vehicles & parts	43.1	542.0	585.1
Other transport equipment	19.9	8.4	28.3
Other machinery & equipment	101.9	44.1	146.0
Other manufacturing	127.0	9.1	136.1
Unallocated manufacturing[b]	43.0	121.1	164.1
Services	**897.3**	**566.2**	**1463.5**
Electricity, gas & water supply	48.5	16.5	65.0
Construction	9.2	15.9	25.2
Wholesale trade	25.6	50.3	75.9
Retail trade	8.3	31.0	39.3
Accommodation, cafes & restaurants	4.9	22.9	27.8
Transport & storage	38.7	28.2	66.8
Communication services	116.6	24.4	140.9
Finance & insurance	46.0	190.9	236.9
Property & business services	210.9	118.6	329.4
Government administration & defence	1.6	0.2	1.7
Education	13.5	3.1	16.6
Health & community services	38.1	8.6	46.7
Cultural & recreational services	154.8	50.9	205.8
Personal & other services	5.4	4.9	10.3
Unallocated services[b]	175.2	0.0	175.2
Unallocated other[b]	**475.6**	**594.7**	**1070.2**

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.

Source: Commission estimates.

2.3 Agricultural pricing and regulatory assistance

Historically the bulk of measured assistance to the agriculture sector has been maintained through a range of statutory marketing arrangements, regulations and price support schemes.

While many of these schemes were dismantled in the 1980s, as recently as 1997 the Commission's estimates incorporated assistance derived from statutory marketing arrangements for dairy, sugar, rice and eggs, a local content scheme for tobacco leaf and loan guarantees for borrowings by the wheat and wool boards.

However, for the last few years, the assistance included in this category has been limited to just three measures, namely:

- the ongoing payments to dairy farmers under a structural adjustment package introduced in conjunction with the deregulation of the industry in 2000, which are funded by a levy on milk;
- some payments to sugar producers under the Australian Government's 2002 Sugar Industry Reform Program, which was to be funded by a levy of 3 cents per kilogram on domestic sugar sales;[2] and
- assistance to rice farmers through statutory marketing arrangements which allow the NSW Rice Growers Co-operative to vest and market all rice grown in the state, enabling the domestic price of rice to be maintained at higher levels than would otherwise prevail. (Arrangements to introduce competition in the domestic rice market, through an 'authorised seller scheme', were to commence on 1 July 2006 — see PC 2006a.)

Total estimated assistance in this category for 2005-06 was $142 million (table 2.5).

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

Table 2.5 **Agricultural pricing and regulatory assistance by industry grouping, 2001-02 to 2005-06**

$ million

Industry grouping	*2001-02*	*2002-03*	*2003-04*	*2004-05*	*2005-06*
Dairy cattle farming	261.2	170.3	150.4	143.5	136.6
Grain, sheep and beef cattle farming (inc. rice)	6.6	8.4	6.4	5.2	5.7
Other crop growing (inc. sugar)	-	17.6	9.1	-	-
TOTAL	**267.8**	**196.3**	**165.9**	**148.7**	**142.3**

Source: Commission estimates.

2.4 Combined tariff, budgetary and agricultural pricing and regulatory assistance

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

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

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

Measures

Tables 2.6 and 2.7 report the dollar value of estimated combined assistance in current dollar terms, both in total and for different industry groupings, for the five years to 2005-06. This *net subsidy equivalent* is a measure of the net assistance to the land, labour and capital resources used in a particular industry or activity. It measures the transfers of income to benefiting producers from consumers, taxpayers and other firms, although it does not indicate the 'economic welfare' costs to the community of the assistance.

Table 2.8 reports estimates of the *effective rate of assistance* for the manufacturing, primary production and mining sectors for the five years to 2005-06.[3] Technically,

[3] Effective rates of assistance (ERA) have not been published for the services sector. Among other things, this reflects technical matters associated with the treatment of services in

effective rates are a measure of the net assistance to an industry divided by the industry's unassisted value added. They can provide an indication of the extent to which assistance to an industry allows it to attract and hold economic resources. That is, where there is some competition between industries for resources, those industries with relatively high effective rates of assistance are more likely, as a result of their assistance, to be able to attract resources away from those with lower rates.

Aggregate estimates

The total assistance to industry covered by the estimates in gross terms was $14.4 billion in 2005-06. With the deduction of the negative effects of tariff assistance on industry inputs, estimated net assistance amounted to around $7.5 billion (table 2.6).

Following increases in the first three years of the series, gross assistance has remained broadly stable in *nominal* terms since 2003-04, with a reduction in tariff output assistance offsetting an increase in budgetary assistance.

Estimated net assistance to industry has increased since 2001-02, by about 20 per cent in *nominal* terms and 5 per cent in *real* terms.

Table 2.6 **Estimated combined assistance, 2001-02 to 2005-06**
$ million

	2001-02	*2002-03*	*2003-04*	*2004-05*	*2005-06*
Tariff output assistance	7594.8	8278.5	8960.6	8474.2	8161.7
Budgetary outlays	2221.4	2353.9	2836.5	3051.3	3530.2
Tax concessions	2450.6	2658.8	2508.3	2553.4	2547.3
Agricultural marketing and pricing assistance	267.8	196.3	165.9	148.7	142.3
Total gross assistance	**12534.5**	**13487.5**	**14471.3**	**14227.6**	**14381.5**
Tariff input assistance	-6434.0	-6962.7	-7604.5	-7415.9	-6926.5
Total net assistance	**6090.6**	**6524.8**	**6866.8**	**6811.7**	**7455.0**

Source: Commission estimates.

Sectoral results

At the sectoral level, the estimates in tables 2.7 and 2.8 indicate that, in 2005-06:

transportable goods sectors. Because of these technical issues, ERA for services would involve double-counting of services value added in the formation of economy-wide ERA measures.

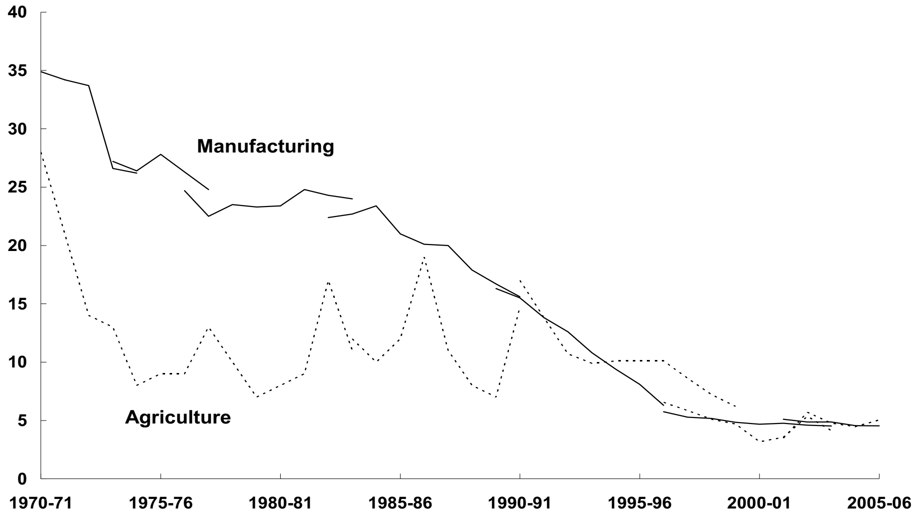
- the manufacturing sector attracted the most estimated assistance in absolute dollar terms;
- primary production received a slightly higher effective rate of measured assistance;
- mining received virtually no net measured assistance;
- combined assistance as measured to the services sector was negative; and
- compared to the levels of assistance recorded in earlier periods for some sectors, the goods-producing sectors recorded low average rates of assistance (see box 2.4).

Box 2.4 **Estimated effective rates of assistance to manufacturing and agriculture since 1970**

The Commission has estimated assistance to the manufacturing and agricultural sectors since the early 1970s. The estimates have been derived in several ‘series’, each spanning a number of consecutive years. Each series retains a common methodology, coverage of measures and data sources across those years. However, caution is required in comparing estimates from the different series, as there can be changes in the coverage of assistance measures, methodologies and data sources between them. That said, taken together, they do provide a broad indication of directions and trends in assistance at the sectoral level over time.

The chart below presents estimates from the different series from 1970-71. Breaks in the series are represented by gaps in the chart, and overlaps are included to show the effects, for particular years, of the changes made in moving between series.

The estimates indicate that there has been a significant decline in measured assistance to the manufacturing and agricultural sectors over the last 35 or so years. For example, the estimated effective rate of assistance for manufacturing (as calculated in the first series) was around 35 per cent in 1970-71, whereas since 2000, the rate (as calculated in the new 2001-02 series, as well as in the previous 1996-97 series) has been around 5 per cent. This decline has been driven in particular by the 25 per cent across-the-board tariff cut of 1973, the abolition of tariff quotas and the broad programs of tariff reductions that commenced in the late 1980s. For agriculture, the estimated effective rate of assistance (as calculated in the first series) was over 25 per cent in 1970-71, whereas today the estimate for primary production is in the order of 5 per cent.



Industry estimates

These sectoral averages hide significant variation in assistance between industries.

At the high end are TCF and parts of MVP. The effective rates for these industry groupings are 15 and 13 per cent, respectively. It should be noted that the MVP industry grouping covers a broader range of activities than just passenger motor vehicle production. Some of the activities in this industry grouping receive relatively low assistance; others attract high levels of assistance. That said, reflecting a series of reforms, assistance to both these industry groupings has declined significantly over recent decades.[4]

The dairy industry continues to record the highest level of assistance among agricultural industries, with an effective rate of around 13 per cent in 2005-06. However, this represents a significant decline compared with the level that prevailed prior to the industry's deregulation in July 2000, when the effective rate of combined assistance was estimated to exceed 30 per cent. Further, under the new arrangements, assistance to dairy farmers has been 'decoupled' from dairy output and farm activity levels, thus diluting its effects on production incentives.

All other industry groupings covered in the estimates recorded an effective rate of less than 10 per cent in 2005-06, with most recording a rate of less than 5 per cent.

While mining recorded a negligible effective rate and fisheries and forestry recorded effective rates of around 6 and 10 per cent respectively, the forms of assistance covered in the 'combined' estimates are likely to play a relatively minor role in these industries compared with other government measures. Specifically:

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

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

4 Whereas today automotive tariffs are at 10 per cent, and tariffs on textiles, clothing and footwear (TCF) are at 17.5 per cent or lower, in the late-1980s automotive tariffs were 45 per cent, and the highest tariff rate for any one TCF line item (inclusive of the effect of tariff quotas) was 125 per cent. The effective rates of assistance for the automotive industry and TCF (as estimated in the 1983-84 series) were 140 per cent and 157 per cent, respectively, in 1984-85.

Table 2.7 **Combined[a] assistance by industry grouping, 2001-02 to 2005-06**
$ million

Industry grouping	*2001-02*	*2002-03*	*2003-04*	*2004-05*	*2005-06*
Primary production[b]	**1260.3**	**1583.8**	**1514.2**	**1448.7**	**1642.8**
Dairy cattle farming	328.2	302.5	290.0	258.9	293.1
Grain, sheep and beef cattle farming	457.2	711.9	648.1	474.1	609.2
Horticulture and fruit growing	138.9	180.1	166.7	166.1	180.3
Other crop growing	84.4	89.7	151.8	186.6	211.7
Other livestock farming	25.4	37.7	28.9	20.6	25.4
Fisheries	59.4	49.9	52.4	110.6	99.5
Forestry and logging	64.5	117.2	57.7	117.1	108.0
Other primary production[c]	13.1	13.1	15.1	15.5	19.8
Mining	**91.7**	**64.0**	**83.7**	**77.2**	**44.5**
Manufacturing[b]	**6486.4**	**6799.4**	**7286.3**	**6919.3**	**6980.1**
Food, beverages & tobacco	985.8	1056.8	1147.1	1208.5	1223.1
Textiles, clothing, footwear & leather	793.4	778.8	823.9	629.7	528.9
Wood & paper products	399.1	462.2	509.0	536.3	541.4
Printing, publishing & media	219.7	240.8	260.5	266.1	279.8
Petroleum, coal, chemical & associated products	741.4	832.0	840.4	864.8	917.9
Non-metallic mineral products	163.6	179.2	198.0	182.3	198.9
Metal product manufacturing	802.5	870.9	941.9	918.4	1006.9
Motor vehicles & parts	1375.1	1378.2	1479.1	1260.4	1127.6
Other transport equipment	131.8	76.3	75.0	56.4	70.6
Other machinery & equipment	457.0	474.2	475.9	457.3	534.4
Other manufacturing	277.1	286.3	387.8	374.7	386.6
Services[b]	**-2304.6**	**-2524.9**	**-2706.9**	**-2488.5**	**-2282.7**
Electricity, gas & water supply	-15.4	-22.2	-26.0	-40.0	-9.1
Construction	-893.8	-1001.3	-1167.6	-1244.4	-1247.4
Wholesale trade	-99.7	-117.9	-119.4	-104.8	-77.5
Retail trade	-520.7	-547.0	-589.4	-539.4	-471.6
Accommodation, cafes & restaurants	-291.4	-290.7	-316.5	-343.9	-335.2
Transport & storage	-142.2	-157.4	-169.4	-168.7	-146.5
Communication services	-69.8	-63.0	-34.1	-20.5	0.6
Finance & insurance	83.1	80.5	135.3	219.3	208.6
Property & business services	-96.4	-62.3	-29.8	5.9	42.0
Govt. administration & defence	-264.5	-273.3	-296.1	-299.9	-300.2
Education	-53.0	-58.4	-61.5	-64.2	-62.5
Health & community services	-51.8	-63.3	-57.9	-55.0	-55.2
Cultural & recreational services	-21.6	-17.1	-18.0	68.8	67.6
Personal & other services	-71.9	-73.8	-78.0	-78.0	-71.4
Unallocated other	**556.7**	**602.5**	**689.5**	**855.0**	**1070.2**

a 'Combined assistance' comprises budgetary, tariff and agricultural pricing and regulatory assistance.
b Sectoral totals include assistance to the sector that has not been allocated to specific industry groupings.
c Other primary production includes *services to agriculture* (including *hunting & trapping*) and *poultry farming*.

Source: Commission estimates.

Table 2.8 Effective rate of combined[a] assistance by industry grouping, 2001-02 to 2005-06

per cent

Industry grouping	*2001-02*	*2002-03*	*2003-04*	*2004-05*	*2005-06*
Primary production[b]	**3.6**	**5.8**	**4.8**	**4.5**	**5.1**
Dairy cattle farming	13.2	18.0	16.6	12.2	13.3
Grain, sheep and beef cattle farming	2.6	5.9	4.3	3.2	4.1
Horticulture and fruit growing	3.3	5.1	4.2	3.9	4.2
Other crop growing	2.9	3.7	5.7	6.9	7.9
Other livestock farming	2.0	3.4	2.6	1.7	2.1
Fisheries	3.0	2.6	2.8	5.7	5.6
Forestry and logging	5.1	9.7	4.8	9.6	9.6
Other primary production[c]	0.3	0.4	0.4	0.4	0.5
Mining	**0.2**	**0.1**	**0.2**	**0.1**	**0.1**
Manufacturing[b]	**5.1**	**4.9**	**4.9**	**4.6**	**4.5**
Food, beverages & tobacco	3.5	3.5	3.6	3.6	3.7
Textiles, clothing, footwear & leather	18.6	17.6	17.1	16.0	15.2
Wood & paper products	4.8	4.7	4.7	4.8	4.9
Printing, publishing & media	1.8	1.8	1.8	1.7	1.8
Petroleum, coal, chemical & associated products	4.2	4.3	4.1	3.7	4.1
Non-metallic mineral products	3.0	2.7	2.7	2.7	2.7
Metal product manufacturing	3.5	3.6	3.8	3.6	3.5
Motor vehicles & parts	17.8	16.1	15.4	14.6	12.8
Other transport equipment	4.2	2.2	1.9	1.6	2.0
Other machinery & equipment	3.8	3.5	3.2	3.3	3.7
Other manufacturing	5.0	5.1	6.1	6.1	6.7

a 'Combined assistance' comprises budgetary, tariff and agricultural pricing and regulatory assistance. **b** Sectoral estimates include assistance to the sector that has not been allocated to specific industry groupings. **c** Other primary production includes *services to agriculture* (including *hunting & trapping*) and *poultry farming*.

Source: Commission estimates.

3 Selected developments in assistance

This chapter documents a number of recent developments with ramifications for Australia's assistance structure generally or for particular sectors or industries. It covers selected areas where new assistance measures have been introduced or foreshadowed, or where there have been policy reviews or changes to existing arrangements, since the last edition of *Trade & Assistance Review*. The developments covered relate to:

- drought relief;
- industry-specific assistance — for sugar production, wheat marketing, tobacco growing, forestry, wine products, the automotive industry, venture capital, alternative fuels and energy projects;
- small business;
- regional adjustment support;
- selective investment incentives; and
- anti-dumping arrangements.

3.1 Drought relief

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

A major drought event commenced in Australia in 2002. Ongoing severe drought conditions were again reported in 2006-07 for several rural regions, with forecasts of significant downturns in agricultural production activity (ABARE 2006c). Previous major droughts were recorded during 1994-1995 and 1982-1983.

Australia's National Drought Policy (NDP), agreed to in 1992 and reaffirmed in 2005 by the Australian and state governments, recognises that drought is a natural feature of Australia's variable climate and needs to be managed accordingly. The key objectives of the NDP, which among other things embodies the principle of self-reliance, are summarised in box 3.1.

Box 3.1 **Objectives of the National Drought Policy**
• Achieve self-reliance by farmers in managing the risks stemming from normal climatic variability by providing the focus on drought preparedness. • Provide appropriate assistance to farmers experiencing "exceptional circumstances". • Ensure that the provision of this assistance is equitable, efficient and timely using [the] best science and information. • Facilitate the maintenance and protection of Australia's agricultural and environmental resource base during periods of increasing climatic stress. • Facilitate the early recovery of agricultural and rural industries consistent with long-term sustainable levels. *Source:* PIMC (2005).

The Commission reported on aspects of drought assistance in *Trade & Assistance Review 2004-05*. This section outlines the key drought support arrangements, provides updated estimates of the assistance provided, and describes recent policy reviews and developments in the area.

Exceptional Circumstances drought relief

The Exceptional Circumstances (EC) arrangements are the Australian Government's primary mechanism for assisting farmers affected by drought. There are two main strands: interest subsidies and income support (box 3.2).

Estimates of EC support to agricultural industries by the Australian and state governments are shown in table 3.1 (on page 3.4). The estimates indicate that, in total, Australian governments provided $145 million of EC drought relief in 2002-03, rising to $420 million in 2005-06. The latter figure is equivalent to about one-third of the assistance for primary producers included in the Commission's assistance estimates for 2005-06. The main industries receiving drought support (in 2003-04) were *grain, sheep and beef cattle farming* (65 per cent) and *dairy cattle farming* (26 per cent).[1] Drought relief is concentrated in New South Wales, Queensland, Victoria and Western Australia.

1 Information on the distribution of EC Interest Rate Subsidies by agricultural commodities was provided by state rural adjustment authorities. For EC Relief Payments, estimates of the industry distribution of the funding were derived from ABARE Farm Surveys which contain data on farm characteristics and drought funding for 2003-04 (ABARE 2005).

Box 3.2 **Exceptional Circumstances support**

Under EC guidelines, a drought-affected region is declared eligible for EC support if the drought event is rare (a one-in-20–25 year event), results in a severe downturn in farm incomes over a prolonged period, and is not predictable or part of the process of structural adjustment (NRAC 2006, App 1). Once an area is 'EC declared', assistance is available to eligible producers, during the drought and recovery phase, through the following programs:

- *Business support*. EC Interest Rate Subsidies of up to $300 000 per year are available to eligible farm enterprises 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 a rate equivalent to the Newstart Allowance, including additional benefits (such as a healthcare card). The Australian Government funds all income support payments.

In addition, interim income support payments are available 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 while a full EC assessment is undertaken.

Eligibility to receive EC interest rate subsidies, EC Relief Payment and interim income support is subject to an off-farm asset test and income test. The asset test for EC interest rate subsidies allows off-farm assets of up to $458 000, but does not take into account work activity and on-farm assets, such as proceeds from the forced disposal of livestock and Farm Management Deposits.

Sources: NRAC 2006, DAFF 2006a.

Analysis by the Australian Bureau of Agriculture and Resource Economics (ABARE) indicates that 50 per cent of interest subsidy recipients also receive income support. In relation to interest subsidies, ABARE (2006b, p. 6) observed that:

> … the farms that receive the greatest assistance from [interest rate subsidies] are farms with the most debt … Generally, farm businesses with the largest debt are also the largest farms, have the greatest capacity to service debt and have sound long term prospects. The profile of their farm debt indicates that the majority of their farm debt is for farm expansion, farm development and investment in new technology. Often they are also operated by younger farmers in the expansionary phase of their careers. Farms with low or no debt and relatively high levels of liquid assets receive much less assistance from the [interest rate subsidies].

For both types of EC support in 2004-05, ABARE data also indicate that recipient farms have a high capital value ($2.1 million on average) and high equity in the farm assets (84 per cent). The estimated financial rates of return on the farm capital (which include appreciation in the capital value of the farm) were higher for recipients of EC support (8.2 per cent) than for non-recipients (7.4 per cent).

Table 3.1 **Estimates of EC assistance**[a]
$ million

	2002-03	*2003-04*	*2004-05*	*2005-06*
Australian Government	**140.8**	**294.0**	**220.4**	**386.4**
– EC interest subsidy	39.7	92.5	99.2	232.5
– Interest rate subsidy – Drought Relief Package of 2002	3.3	6.7	2.3	–
– EC Relief Payment	45.9	153.4	117.1	153.4
– Interim Income Support	52.0	41.5	1.9	0.5
State Government EC interest subsidy contribution[b]	**4.7**	**10.7**	**11.0**	**25.8**
TOTAL[c]	**145.5**	**310.3**	**237.4**	**420.4**

na not available. [a] Actual expenditure. [b] Estimates exclude state governments' other drought programs, such as transport, freight and fodder subsidies. Funding estimates of those programs can be found in the *Trade & Assistance Review 2004-05*. [c] Sum of individual funding components may not add to total funding as the total amount includes program administration costs (except for 2002-03).

Sources: NRAC (various) and data provided by DAFF.

Agriculture-wide programs and drought preparedness

Australian governments have also introduced a range of agriculture-wide programs to directly encourage rural adjustment and improve drought preparedness. Since 1997, the *Agriculture-Advancing Australia* (AAA) package has provided assistance measures covering farm business management, education and training, income support and land use planning. For example, the AAA Farm Help program supports farming families in financial difficulty and facilitates farming exits and reestablishment.

An important support measure included in the AAA package is the Farm Management Deposits (FMD) 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). Eligible primary producers can claim a tax deduction equivalent to the deposits made to FMDs of up to $300 000. The deposits are not assessable as income for tax purposes until they are withdrawn. However, for farms in EC declared areas, the deposits can be withdrawn within 12 months without losing the taxation deduction previously claimed.[2]

2 Normally, FMD deposits must be held for at least 12 months for the tax benefits to be realised.

A recent review of the FMD Scheme (DAFF 2006c) identified several reasons why farmers participate in the scheme. In addition to the immediate taxation benefits, the review noted that 'placing funds in FMDs provides farmers an option to later find a tax deduction to offset quarantined income' (such as when the withdrawals are used as working capital, which are themselves tax deductible expenses). It also observed that 'there is a distinct annual pattern of large net FMDs deposits in June, and net withdrawals in July, which may suggest that FMDs are used primarily as a tax planning instrument'.[3] Other benefits include earning market rates of interest on otherwise taxed income and the ability to "leverage up the effects of EC interest subsidies" (DAFF 2006c, p. 4).

The FMD Scheme has provided significant support over the current drought period. The tax revenue forgone under the scheme was $410 million in 2002-03, $245 million in 2003-04, $95 million in 2004-05 and $115 million in 2005-06 (Treasury 2006).

Recent developments

In March 2005, the Australian Government Minister for Agriculture, Fisheries and Forestry commissioned the Agriculture and Food Policy Reference Group (chair: Peter Corish — former President of the National Farmers Federation) to assess policies and assistance programs affecting the agriculture and food sector.

In its report released in February 2006, the Reference Group 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. According to the Reference Group, one-off programs such as EC support are likely to work against the intention of agriculture-wide programs that directly target drought preparedness and rural adjustment. In relation to the FMD Scheme, the Reference Group observed:

> The FMD Scheme was developed to help reduce dependence on government support, particularly exceptional circumstance type assistance … [It] is important that FMDs function as intended, with minimal potential to be used for other purposes, such as pure tax deferral (AFPRG 2006, pp. 177-8).

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;

3 For example, FMD statistics (DAFF 2006d) indicate that (net) deposits of $552 million were made in the quarter ending June 2005. These deposits were followed by (net) withdrawals of $336 million in the quarter ending September 2005.

- retaining the FMD 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.

In April 2006, ABARE (2006b) released a study on drought preparation practices in the rural sector. The study is based on an analysis of farm data before, during and after the drought of 2002-03, along with a survey of farm managers' attitudes on approaches to managing drought. Among other things, the study found that:

- A number of drought preparation strategies have been used widely in the past and are likely to continue to be used widely in the future …
- With the benefit of hindsight, the majority of farm managers in drought affected regions and industries believed that they were reasonably well prepared for the recent drought. However, a significant minority of farm managers believed that they were underprepared for drought …
- Government assistance to the farm sector in response to past and current droughts is likely to have reduced the riskiness of farming, and reduced the incentive for individual farm managers to prepare for severe climatic events (pp. 1-4).

In October 2006, the Australian Government released its response to the recommendations of the (Corish) Reference Group (DAFF 2006b). The Government "noted" the recommendations on drought support, and said that further evaluation of the AAA package was being undertaken.

Subsequently, the Department of Agriculture, Fisheries and Forestry (DAFF 2006c) released its review (mentioned earlier) on the operation of the FMD Scheme. Among other things, the review recommended that the Government reconsider the exemption of FMDs in determining eligibility for DAFF programs such as EC support, and consider raising the maximum deposits on which the tax benefits will apply, from \$300 000 to \$365 000. It also recommended that further analysis of the scheme be undertaken when climatic conditions improve.

In October 2006, the Australian Government announced several measures to extend EC business and income support (Howard 2006c and McGauran 2006a). Under the new assistance package:

- Total support has been increased, with around $900 million in funding available over two years, whereas previously $1.2 billion was allocated over five years.
- Existing EC declarations which had been due to expire in 2006 have been extended until 2008, and EC declarations which had already ceased have been reintroduced.
- All producers within an EC region are to be eligible for support, whereas previously only certain industries and producers would qualify.
- The maximum EC interest rate subsidy per farm has been increased from $300 000 to $500 000 over five years. Eligibility conditions have also been relaxed by the removal of the requirement that farm businesses have not received support in two out of the past five years.
- Eligible farmers can receive grants of up to $5000 for professional business and financial planning advice.

The eligibility conditions for depositing funds into the FMD scheme have also been relaxed. The maximum deposit to which eligible producers can gain an income tax deduction under the FMD Scheme has been increased from $300 000 to $400 000. In addition, the amount of income which farmers can earn from non-farm activities and still be eligible for FMD tax deductions has been increased from $50 000 to $65 000 per annum.

In November 2006, the Government announced more than $200 million in funding for new drought support measures for small businesses in EC declared areas (Howard 2006d). Under this arrangement, both income support and interest rate subsidies are available to eligible small businesses until March 2008. To be eligible, small businesses must employ up to 20 people and derive at least 70 per cent of their income directly from agriculture.

The Australian and state primary industries ministers met at the Primary Industries Ministerial Council in November 2006. Among other things, the Council considered longer-term options recommended by the Reference Group’s report to improve farmers’ drought preparedness and to achieve more consistent drought declaration processes. The Council communiqué responded that:

> … in recognising the current situation facing farmers and rural communities, Council agreed that longer-term options for improving drought preparedness should be considered further at a more appropriate time (PIMC 2006).

In February 2007, the Government announced that it will extend EC interest subsidies and income support to agricultural-dependent small businesses, such as agricultural machinery and equipment retailers. The EC eligibility criteria are to be widened to cover businesses employing up to 100 staff. To be eligible, at least 70 per cent of their business income must be derived directly from the provision of goods and services for farming activities in EC declared areas (McGauran 2007).

3.2 Industry-specific assistance

Sugar

The Australian sugar industry, which is centred mainly in Queensland, has been subject to a range of reforms and assistance packages since the mid 1990s. In recent times, key assistance arrangements have included the Sugar Industry Reform Program (SIRP), announced in 2002, and a subsequent broader measure, the Sugar Industry Reform Program 2004. These and other arrangements were discussed in *Trade & Assistance Review 2004-05*.

SIRP 2002 originally entailed funding of $120 million in assistance. However, in April 2004, those elements of SIRP 2002 which had not been completed were incorporated with SIRP 2004. Expenditure to date under both programs is over $311 million.

While the majority of funding for the two packages came from consolidated revenue, the initiatives have been partly funded by a levy of 3 cents per kilogram applied to all sales of domestic and imported sugar in the retail, food preparation and manufacturing sectors. The sugar levy operated to transfer payments to sugar producers through the higher sugar input prices on food manufacturing and beverage industries.[4]

As at 31 January 2007, the sugar levy had raised approximately $84 million. It had been due to expire on 31 December 2007 but, following consultation with the manufacturing activities affected by the arrangement, the Australian Government abolished the sugar levy in November 2006 (McGauran and Costello 2006). It is estimated that the levy's early termination will have reduced costs for businesses and consumers of sugar by around $28 million (in 2006-07 and 2007-08).

4 An exemption from the levy was available on all sugar that was produced for export and a rebate system was available for any levy paid on sugar that was ultimately exported as a component of manufactured food.

Wheat marketing

The *Wheat Marketing Act 1989* (the Act) provided for the deregulation of the domestic wheat market. On the export market, amendments to the Act in 1997 and 1998 modified the existing ‘single desk’ arrangement. They effectively provided AWB International (AWBI) with the sole right to export bulk wheat from Australia — under the amendments, AWBI was permitted to exercise a statutory power to block applications by competing traders to export bulk wheat sales (the “veto power”).[5] AWBI is a subsidiary of the AWB Limited, which was created as a grower-owned and controlled company that has operated as a commercial company since its public listing in August 2001. AWB Limited manages a national wheat pool for AWBI.

Although the primary rationale for having the single desk is to attain higher prices for wheat exports and maximise returns to growers, the assistance implications of the arrangements are unclear. While Australian wheat exports tend to attract relatively high prices, these may be largely explained by factors independent of the single desk, such as quality and additional services provided to buyers. In the past, the Commission (2000a, p. 2) has found that any genuine price premiums that might exist are likely to be confined to a limited number of markets and probably be quite small. At the same time, the Commission considered that the single desk was likely to become costly for some exporters, particularly those supplying new or specialised varieties, and create inefficiencies by discouraging innovation and takeup of specialist services. Indeed, it is possible that the arrangements could provide negative net assistance to the wheat growing industry, disadvantage other grain traders and be an impediment to higher export sales.

In its *Review of the National Competition Policy Reforms* (PC 2005), the Commission noted further evidence that introducing competition into wheat marketing could generate benefits for Australia, and recommended that an independent and transparent review into the future of wheat marketing arrangements be undertaken as soon as practicable.

In December 2006, the Government announced a temporary arrangement to facilitate alternative marketing of export wheat sales following the Cole Commission’s *Report of the Inquiry into certain Australian companies in relation to*

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5 Although the Act established the Wheat Export Authority to control the export of wheat, sections 57(3A) and 57(3B) of the Act provide that the Authority must receive written approval from AWBI in order to grant applications by other exporters to market bulk wheat. In relation to non-bulk shipments, other companies can receive approval from the Authority to export wheat in bags and containers without AWBI consent (although the Authority is required to consult AWBI on such applications).

the UN Oil-for-Food Programme, released in November 2006. The temporary arrangement transfers the veto power on wheat exports from AWBI to the Minister for Agriculture, Fisheries and Forestry (McGauran 2006c, 2006d). The Government subsequently assessed applications from entities seeking to export wheat. Of 46 applications submitted, only two export permits were issued for 800 000 tonnes of wheat, with the bulk of export sales for the 2006-07 harvest continuing to be marketed by AWBI through the national pool. This temporary measure operates until 30 June 2007.

Under the temporary export permits, eligible wheat marketing companies are required to contribute a payment of $4 per tonne to the national pool for each tonne of wheat exported, up to the total of 800 000 tonnes.

In January 2007, the Australian Government announced the creation of a Committee to consult with the Australian wheat industry, particularly growers, to report on their views on future wheat marketing by 30 March 2007.

Tobacco growing

In recent years, the tobacco growing industry, centred in Mareeba (Queensland) and Myrtleford (Victoria), has faced significant adjustment pressures from deregulation and the decision of tobacco manufacturers to scale back their purchases of Australian tobacco leaf.

At the same time, tobacco products have been subject to high excise taxes. In a 2006 report on the Administration of Petroleum and Tobacco Excise, the Australian National Audit Office (ANAO) found a significant diversion of tobacco products into an illegal trade market. The ANAO (2006, p. 27) commented:

> Illegal tobacco is tobacco that is grown and manufactured in Australia, and sold illegally to others, without excise being paid. Tobacco growers receive approximately $700 per 1000 kilogram bale, while the excise and GST levied on the same bale is approximately $30 000. This price disparity creates strong incentives to sell tobacco illegally. Anecdotal evidence suggests that growers may receive up to $10 000 per 1000 kilogram bale on the black market.

Producer licenses were cancelled following the withdrawal of major tobacco manufacturers as buyers of Australian grown tobacco. The excise licences of tobacco growers in Northern Queensland were cancelled by the Australian Taxation Office in February 2004, and tobacco growers in Victoria and southern Queensland had their licences cancelled in October 2006, when the manufacturers ceased purchases from these regions.

In October 2006, the Australian Government announced a funding package to assist tobacco growers to restructure and move into alternative business activities. As of February 2007, the package comprises funding of $45.9 million. Former tobacco growers in Northern Queensland are to be eligible for up to $23.2 million, with those in Victoria and Southern Queensland eligible for up to $21.8 million and $900 000, respectively. The maximum grant will be $150 000 per grower (McGauran 2006b).

Forest industries

Native forests accounted for 163 million hectares (21 per cent) of Australia's land area in 2003 (BRS 2007). Of this, the vast majority is publicly-owned forests held for environmental conservation, managed for multiple uses including timber production, or are in the form of pastoral leases.

In addition, there are 1.7 million hectares of plantation forestry, comprising both softwood and hardwood species.

Together, native forests and plantations play an important role in the provision of wood products in Australia. The logs are used to make sawn timber, fibreboard, particleboard, plywood, paper and other products.

In recent times, the share of private ownership of plantations has increased, from 30 per cent in 1990 to over 57 per cent in 2005. The private plantation sector comprises plantations financed by managed investment schemes, timber producing companies, superannuation funds, farm foresters and other private owners. In 2005, most of the area given to new private plantations (92 per cent) was financed by managed investment schemes (MIS) (BRS 2006).

Historically, the principal assistance mechanism for forestry was in the form of the Softwood Forestry Agreements, in which the Australian Government made loans on favourable terms to the States to establish and maintain softwood plantations. The softwood loans contributed to the increase in plantations during the 1960s and 1970s, and subsequently became the basis for much of Australia's wood processing industry. In more recent times, forest-based industries also received support for restructuring in response to changes in the availability of forest resources — for example, through the Forest Industry Structural Adjustment Program (funding for which expired on 30 June 2006).

Tasmanian Forest Community Agreement

Since 1992, provisions have been in place for the establishment of Regional Forest Agreements (RFA) to manage the uses of forest resources and to provide certainty for private investment. Under RFAs, the Australian and state governments establish native forest conservation reserves and provide industry access to forest resources in designated locations outside the reserve area.

In May 2005, the Australian and Tasmanian Government announced a joint funding package for the implementation of the Tasmanian Forest Community Agreement (Howard 2005a). Among other things, the agreement reserves over 170 000 hectares of forests on public and private land for environmental conservation. Additional measures include an end to the conversion of native forest to plantations on public land by 2010 and the phasing out of the clearing of native forest on private land over ten years. Measures to support the forest-based industries under the agreement include:

- *Intensive Forest Management Program* — $115 million allocated by the Australian and Tasmanian Governments to fund the establishment of additional plantations and to improve productivity (through pruning, thinning and fertilising) in existing plantations and native forests. The measure is intended to ensure the long term supply of sawlogs and veneer logs.
- *Hardwood Timber Industry* — $46 million of Australian Government funding to support the Tasmanian hardwood timber industry, including country sawmills.
- *Tasmanian Softwood Industry Development Program* — $10 million of Australian Government funding to assist the Tasmanian softwood industry to establish a facility for preserving pine and to phase out the use of copper chrome arsenate.
- *Special Species and Honey Producers* — $11 million of Tasmanian Government funding to support "special species" timber and the leatherwood honey industry.
- *Training and skills development* — $4 million to support training and skills development of workers in the Tasmanian forest-based industries (Howard and Lennon 2005).

Plantation forestry tax concessions

Prior to 1988, the general deduction provision of the income tax law (now ITAA 97 section 8-1) allowed taxpayers (including individual plantation forestry investors) to deduct all eligible prepayments on investments in the year of expenditure. In 1988, a 13 month prepayment rule was introduced to allow immediate deduction for expenditures that are incurred for services rendered within 13 months.

The 13-month pre-payment rule was reviewed by the (Ralph) Review of Business Taxation in 1999. Consistent with the Review's recommendations, in November 1999 the Australian Government announced the removal of the scheme with phasing-in arrangements to apply until September 2002.

In October 2001, the Australian Government announced revised concessional tax arrangements for plantation forestry (Kemp 2001).

- Under a new 12-month prepayment rule, investors in MIS schemes became eligible for an immediate deduction for the expenditures on the establishment of plantations, including those incurred from ripping and mounding, weed and pest control, and planting and fertilising.[6]
- In addition, under the "non-commercial losses" provisions, the Commissioner of Taxation was given the discretion to determine that investments in plantation forestry are a "business activity" and allow a loss generated from the tax deduction to be offset against any form of income. This concession was also available to non-forestry agricultural activities, including horticulture. The Government said:

  > This change is of particular benefit for the forestry industry, as well as other business activities, as it allows the discretion to be exercised for loss years after one-off profits have been earned from thinning operations (Kemp 2001).

The 12-month pre-payment rule provided favourable taxation benefits to plantation forestry relative to other investment classes, in which deductions can only be claimed in the year the services are rendered and income is earned. According to estimates in the Tax Expenditure Statement (Treasury 2006), the prepayment rule had a budgetary cost (in tax revenue forgone terms) of $40 million in 2005-06. The non-commercial loss provision associated with forestry plantations and non-forestry agricultural activities has not been costed.

The forestry tax concessions have been the subject of some debate recently. In particular, the farming sector has expressed concern about the impact of the concessions on competing farm activities and land prices. For example, the National Farmers Federation (2006) has argued that MIS are driven by taxation manipulation rather than the commercial reality of the agricultural industries involved, and that the schemes have been enabled to bid from a position of relative advantage in terms of their access to capital, and have resulted in an over-supply of certain commodities. MIS forestry industry participants have disputed the nature of the concessional tax arrangements and their precise impacts on rural activities.

6 This contrasts with general investment classes such as shares and buildings, where the purchase price of the investment cannot be claimed for an immediate tax deduction due to the capital nature of the expenditures.

In May 2005, the Australian Government announced that it would extend the 12 month pre-payment rule until 30 June 2008. The extension was to allow a review into support for the plantation timber industry, including:

- the commercial viability and current tax treatment of plantation investment;
- whether the operation of the *Income Tax Assessment Acts* impedes investment in longer term forest rotations which produce higher value products;
- the role of state and territory governments in plantation industry development, as investors, growers and land managers, and any implications this has for competitive neutrality with regard to tax liabilities and incentives;
- the capacity to adapt existing tax policies to contribute to achieving the Australian and state governments' desire to achieve greater integration of plantation and natural resources management policies to improve the management of salinity and water quality; and
- the relative roles and effectiveness of the tax system and expenditure programs in the delivery of assistance to industry (Brough and Macdonald 2005a, 2005b).

Detailed findings of the Review of Plantation Forestry, which was conducted by the Departments of Agriculture, Fisheries and Forestry, the Treasury, and Prime Minister and Cabinet on the above terms of reference, have not been released publicly.

However, following consultations on proposals released by the Government in May 2006, the Government announced in December 2006 that it will retain the tax deduction for forestry.

- From 1 July 2007, eligible investors in forestry MIS will be entitled to a specific statutory deduction for their expenditure. Investors will be entitled to immediate upfront deductibility for all expenditure provided that, among other things, at least 70 per cent of the expenditure is directly related to developing forestry — including the costs of planting, tending and harvesting of trees incurred at any time over the life of the investment, and the rental costs or lease payments for land.
- Investors in forestry MIS are no longer required to demonstrate that they are 'carrying on a business' in order to claim the tax deduction (Dutton and Abetz 2006).

In February 2007, the Government announced that, under a reinterpretation of the income tax law to be made by the ATO, investors in forestry and non-forestry agribusiness MIS will no longer be allowed upfront deductions from the MIS on the basis that the investor is 'carrying on a business'. The Government also announced that it would not be introducing taxation arrangements for non-forestry MIS similar to those that it had previously announced in relation to forestry MIS (Dutton 2007a).

In March 2007, following consultations with the agribusiness industry, the ATO announced that it will provide a transitional period for its reinterpretation of the tax treatment of non-forestry MIS. The transitional period is to ‘give industry time to adjust their financial arrangements accordingly’, and will apply to MIS arrangements entered into from 1 July 2008. The ATO also announced that, after 30 June 2008, it will not issue new product rulings for agribusiness MIS to be eligible for the tax deduction (ATO 2007a).

In April 2007, the ATO issued a draft ruling which outlines its reinterpretation of the income tax treatment of non-forestry MIS. The ATO concluded that investor contributions to MIS are capital expenditure in nature and are therefore not deductible under general income tax provisions. Accordingly, it will seek to expedite the application of the revised tax treatment through a test case in the courts (ATO 2007b).

Subject to any revisions by the courts, the upshot of these changes is that the previously favourable tax treatment for MISs will be available only for investments in forestry — not for investment in non-forestry activities, such as horticulture.

Wine products

The taxation of alcohol products is designed primarily to raise revenue and to help address the health impacts of alcohol consumption. Prior to July 2000, the wholesale sales tax applied on wine products at a rate of 41 per cent, which was higher than the wholesale tax rate applying to most other, non-alcoholic products. As part of the tax reform package of 2000, the wholesale sales tax was replaced by a goods and services tax (GST) and a wine equalisation tax (WET) was introduced. The WET is levied at an ad valorem rate of 29 per cent on the wholesale value of wine sales (before GST) including on grape wine, grape wine products, fruit and vegetable wines, cider, mead and sake. The WET rate was set to ensure that, after the replacement of the wholesale sales tax with a GST levied at 10 per cent, there would be no significant changes to the price of various wine products due to the tax changes.

In the May 2004 Budget, the Australian Government announced the WET rebate scheme, under which wine producers are eligible for a refund of the WET of up to $290 000 per year. The measure exempted $1 million of each producer’s domestic wholesale wine sales from the WET on an annual basis. The new rebate replaced the accelerated depreciation provisions for grapevine plantings and the previous Australian and State Government cellar door rebate scheme (which provided a rebate of up to $42 000 per year).

In July 2005, the Australian Government agreed to allow New Zealand producers exporting wine into Australia to claim the WET rebate without the need to be registered for GST purposes. The measure was in response to a concern raised by the New Zealand Government that the rebate arrangements breached the Australian and New Zealand Closer Economic Relations Trade Agreement.

In June 2006, the Australian Government announced that it will provide additional support to small-and medium-sized wine producers through increases in the WET producer rebate scheme (Costello 2006). On 1 July 2006, the maximum WET producer rebate was increased from $290 000 to $500 000 per year. The new measure effectively exempts $1.7 million of each producer's (or group of producers') domestic wholesale wine sales from WET (compared to the previous level of $1 million). The wine producer rebate is estimated to cost $125 million in 2006-07 (Treasury 2006).

Automotive

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

- Under legislated tariff reforms, automotive tariffs were reduced from 15 to 10 per cent in 2005, but 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.[7]
- Automotive producers are eligible for ACIS transferable duty credits based on their domestic production, investment and research and development activities. The credits can be used to reduce the customs duty payable on eligible imports. The amount of ACIS duty credits for the current five year period (2006-2010) comprises a capped allocation of $2 billion, with an additional allocation that is uncapped and not directly specified.
- Assistance to automotive producers is also available from other sources, including government procurement programs and the luxury car tax that applies mainly to imported vehicles. A specific tariff of $12 000 also applies on imports of used (second hand) vehicles.

7 In its response to the Productivity Commission's report on Automotive Assistance (PC 2002a), the Government announced that the Commission will undertake a further inquiry in 2008 to determine whether changes are warranted to the legislated tariff reductions in view of conditions in the international trade environment (Costello 2002).

In addition to formal tariff and ACIS assistance arrangements, ad hoc assistance to automotive producers is also substantial. This assistance often involves project or firm-specific support by both the Australian and the relevant state government.

For example, as noted in last year's *Review*, in May 2004 the Australian Government announced a $50 million structural adjustment package in response to the foreshadowed closure of Mitsubishi's engine plant in Lonsdale, South Australia. The package comprised a labour market assistance program of up to $10 million for displaced Mitsubishi workers, and investment facilitation and structural adjustment measures of up to $40 million for South Australia. This support is in addition to funding by the South Australian Government for a workplace assistance package to assist Mitsubishi workers and a $5 million industry development rescue package for the southern suburbs of Adelaide, where the plant is located (Rann 2004). The Australian Government also estimated that, at the then production levels, Mitsubishi could expect to receive around $300 million in assistance from the Government's extension of ACIS beyond 2006 (Macfarlane 2004).

In May 2006, the Australian Government announced that it would provide an assistance package of $52 million to Ford Australia to support two new projects. $40 million is to fund the design, engineering and manufacture of the next generation of Ford Falcon and Territory vehicles in Victoria. An additional $12.5 million will be used to fund the design and engineering of a Ford light commercial vehicle, with the manufacturing activities to be undertaken abroad. According to the Government:

> These projects will secure Ford's manufacturing operations in Australia over the longer term …
>
> The Australian Government's assistance is conditional on Ford undertaking to provide the Australian automotive component sector with every fair and reasonable opportunity to supply the necessary components for these projects (Howard 2006a).

In addition, the Ford projects are to receive assistance from the Victorian Government, although the details of this have not been publicly disclosed.

In October 2006, the Australian Government announced that it will provide $6.7 million over four years to General Motors Holden. The funding is earmarked for the introduction of safety and fuel management improvements and for reducing greenhouse gas emissions on Commodore vehicles. Eligible activities include research and development, as well as training to allow re-engineering on selected models. The South Australian and Victorian Governments will also provide $6.7 million in funding to this project (Macfarlane 2006c).

In December 2006, the Australian Government announced the Supplier Capability Development Program, which is to be formed as a component of ACIS with funding of $7 million from January 2007 to July 2008. Under the program, local car makers can apply for funding to enhance the capabilities of their components suppliers (MacFarlane 2006d). A steering committee, which comprises representatives from motor vehicle industry associations and the Department of Industry, Tourism and Resources, will manage the program (FAPM 2007).

Venture capital

Venture capital is "high risk capital directed towards new or young businesses with prospects of rapid growth and high rates of return" (ABS 2005). A venture capital firm generally invests capital and also provides management skills to enterprises with commercial prospects, and derives returns usually in the form of a capital gain when it sells its stake in the enterprises. Alternatives to venture capital include business 'angel' investment[8] and self-financing. Venture capital firms form part of the broader private equity sector.

Venture capital activities have experienced significant growth over time. Between June 2000 and June 2006, the number of venture capital (and private equity[9]) funds and their aggregate investment assets increased by 80 and 124 per cent, respectively. As at June 2006, there were 229 funds, with $6.3 billion in assets (ABS 2007).

A significant proportion of Australian venture capital and private equity firms are eligible for assistance under various government programs (table 3.2). As of June 2006, eligible firms have drawn on a total of $386 million in funding from government sources.

The first government program introduced to encourage the development of venture capital in Australia was the Management and Investment Companies program, established in 1984. This was replaced by the Pooled Development Funds program, announced in 1992. In a series of industry policy statements since 1997, the Australian

8 The term refers to individuals who provide capital for a business start-up, but who, unlike venture capitalists, typically do not manage the pooled money of others in a professionally-managed fund.

9 Information on venture capital activities is available from an ABS survey on the use by venture capital and private equity firms of government programs (ABS 2007). The ABS survey does not differentiate between venture capital and private equity firms.

Table 3.2 **Venture capital and private equity firms eligible for government programs**

	June 2000	June 2006
VC&PE funds eligible for government support[a]		
– Number of funds	55	120
– Assets ($ million)	660	2 174
VC&PE funds not receiving government support		
– Number of funds	72	109
– Assets ($ million)	2 130	4 175
Government funding as a source of funds in VC&PE firms		
Amount drawn down from government ($ million)[b]	60	386
Unused funds ($ million)[b]	61	380
Total funding committed by governments ($ million)[b]	120	766

[a] Includes the Pooled Development Funds; the Innovation Investment Funds; Preseed Fund; Venture Capital Limited Partnerships; and the Information and Communications Technology Incubator Program. [b] The funding committed to venture capital and private equity firms is measured on a cumulative basis.

Source: ABS (2007), tables 1 and 10.

Government has introduced additional measures to encourage venture capital, as well as making modifications to existing programs. These programs include:

- the Innovation Investment Fund (IIF);
- the Commercialising Emerging Technologies (COMET) program;
- the Preseed Fund; and
- Venture Capital Limited Partnerships (VCLPs).

The Commission has reported on these programs in previous editions of *Trade & Assistance Review* (see PC 1999, 2000c, 2001b).

In May 2005, the Australian Government announced a review of the Australian venture capital industry. Among other things, the review's terms of reference covered "the appropriateness, efficiency and effectiveness" of existing government support for venture capital and early-stage private equity investment (Macfarlane 2005).

In the 2006-07 budget, the Australian Government announced changes to venture capital programs. Although the venture capital review report has not been publicly released, the Government noted that the proposed changes are in response to the recommendations of the review (Macfarlane 2006b; Costello 2007). In March 2007, the *Tax Laws Amendment (2007 Measures No. 2) Bill 2007* was introduced in parliament to implement the announced initiatives (Dutton 2007b; Macfarlane 2007b). The changes are outlined below.

Innovation Investment Fund

The IIF program, which was established in 1997, provides funds to eligible venture capital firms to invest in small companies that are seeking to commercialise their technologies. The policy objectives of the IIF program are:

- to develop fund managers with experience in the early stage venture capital industry;
- by addressing capital and management constraints, to encourage the development of new companies which are commercialising research and development;
- to establish in the medium term a "revolving" or self funding scheme; and
- to develop a self-sustaining Australian early stage, venture capital industry (AusIndustry 2006a).

The IIF program affords assistance to venture capital companies in the form of an investment incentive. Until recently, the Government provided up to $2 for every $1 of private investment (66 per cent of the total investment). If and when a fund makes a return, the Government and the private investors receive a repayment of the capital plus interest. In relation to any additional profit from the investment, the Government receives a share of 10 per cent, whereas private investors receive a 72 per cent share, and an 18 per cent share goes to fund managers, effectively allocating the upside of the investment returns to the private sector.[10]

In 2002, the ANAO undertook an audit of the administration and governance of the IIF program. The ANAO (2002) found that:

> Implementation of the IIF program has involved challenging and unique issues of public administration, including those arising from investment by the Commonwealth in a market traditionally regarded as high risk and the Commonwealth having dual roles of program administrator and investor. The ANAO concluded that overall management of the program is largely effective, although there are areas that warrant improvement. As well, there has been considerable development in the early stage venture capital market since the initiation of the IIF program, consistent with the program's objectives (p. 13).

The ANAO made a number of recommendations on risk management and program delivery, which were agreed to by the Department of Industry, Tourism and Resources and the Industry Research and Development Board.

In the 2006-07 budget, the Australian Government announced a third-round of the IIF program, with funding of up to $200 million. The revised IIF program will

[10] In March 2000, the Government announced a 'revolving fund' for the IIF program (Minchin 2000). Under this arrangement, if and when fund managers realise a return from their investment, the funding initially injected into the venture capital funds, plus interest, would be redistributed to the IIF program, instead of being returned to the Consolidated Revenue Fund.

provide funding to venture capital firms on a 1:1 matching basis between private and public funding. Each eligible fund will receive up to a maximum of $20 million to be invested over a ten-year period. Eligible investments include companies in the 'seed', 'start-up' or 'early expansion stages' that are seeking to commercialise their technologies (AusIndustry 2006a).

Early stage venture capital limited partnerships (ESVCLP)

Announced in the 2006-07 budget, the ESVCLP scheme is to replace the Pooled Development Fund program. Under the new arrangement, venture capital firms that qualify for ESVCLP status are eligible for a tax exemption on both income and capital gains realised in the sale of their investments. The tax exemption is provided under a 'flow-through tax treatment', in which an ESVCLP is taxed as an ordinary partnership rather than a corporate limited partnership. The tax exemption will be available to both domestic and foreign investors in the eligible funds (Costello 2007). The Regulation Impact Statement accompanying the *Tax Laws Amendment (2007 Measures No. 2) Bill 2007* said:

> Investors in ESVCLPs will benefit from higher returns on investments as returns will be fully tax-exempt. The ESVCLP investment vehicle replaces the PDF which was subject to tax (at concessional rates) although investors were exempt from tax (Costello 2007, p. 93).

Eligibility for the tax exemption is limited to venture capital firms registering as an ESVCLP using the limited partnership structure. To qualify, the ESVCLP will have a maximum fund size of $100 million and total assets of investee companies of not more than $50 million immediately prior to investment. The ESVCLP must also divest itself of any holdings once the total assets of the investee company exceed $250 million. There are also other conditions, including on the mode of investment by ESVCLPs. A provision will also disallow investors from deducting investment losses, on the basis that their income will already be exempt from tax (Costello 2007).

The tax revenue forgone under the ESVCLP measure from 2008-09 to 2010-11 is expected to be $25 million (Costello 2007).

Venture Capital Limited Partnerships (VCLP)

The VCLP regime was introduced in 2002 to provide concessional tax treatment to venture capital firms registered as a VCLP vehicle. A tax exemption is available to

VCLP foreign investors from certain countries on the profits and gains made from equity investments in Australian companies that have assets of $250 million or less.

The *Tax Laws Amendment (2007 Measures No. 2) Bill 2007* introduced several measures to relax the eligibility requirements for foreign investors to access the VCLP tax concession. Among other things, eligible venture capital firms will be allowed to invest in unit trusts as well as companies, and invest (up to 20 per cent of committed capital) in similar foreign resident entities. The relaxed requirements for VCLPs will also apply to ESVCLPs.

Alternative fuels

During 2005 and 2006, the prices of standard fuels such as oil and petroleum products increased significantly. In response, the Australian Government announced several programs to promote the supply and distribution of alternative fuels, including ethanol and liquid petroleum gas (LPG). These policies are in addition to existing assistance arrangements affecting the supply and distribution of alternative fuels. Previous developments in this area were discussed in *Trade & Assistance Review 2002-03*.

Ethanol

Ethanol is produced from the fermentation of feedstocks such as sugar or grain materials and is blended into petrol for use as a fuel or used in industrial applications. The economic viability of domestic ethanol production depends on many factors, of which key elements are its production costs, competition from imported ethanol and the price of petrol. Ethanol is a class of 'biofuels' that also include biodiesels and diesohols.[11]

The domestic production and distribution of ethanol has received significant government support, particularly since the Government's announcement in 2001 of a target of at least 350 million litres of biofuels in the domestic fuel supply by 2010 (box 3.2).

[11] Biodiesel is typically produced from a reaction of vegetable oil or animal fat with an alcohol. Biodiesel feedstock can include canola oil, soyabean oil, sunflower oil, tallow and used cooking oils and fats.

Box 3.3 **Assistance arrangements for ethanol**

- Historically, fuel ethanol received favourable treatment compared to other fuels by not being subject to fuel excise (prior to September 2002). From July 1994 to 1997, the development of the fuel ethanol industry also received support via the Ethanol Production Bounty scheme.
- A general tariff has also been applied on imported ethanol used as fuel in an internal combustion engine. Similar tariffs do not apply to imported petrol or other alternative fuels such as biodiesel.
- In 2001, the Australian Government set an objective that ethanol and other biofuels would contribute at least 350 million litres to the total fuel supply by 2010.
- In September 2002, a production subsidy was introduced for ethanol produced domestically. At the same time, an excise tax (of 38.142 cents per litre) was applied to both domestically-produced and imported ethanol. The subsidy fully offsets the excise on domestic ethanol. The effect of these arrangements was equivalent to levying an additional tariff on imported ethanol (of 38.142 cents per litre).
- In May 2003, the Australian Government announced as part of a package of fuel tax reforms that it would extend the existing production subsidy and excise arrangements on ethanol to 30 June 2008. The value of the subsidy to local producers is estimated to have been $51 million in 2006-07.
- In July 2003, under the *Fuel Quality Standards Act 2000*, the Australian Government introduced a fuel standard for petrol, which permits up to 10 per cent of ethanol to be blended with petrol.
- In July 2003, the Australian Government also announced the Biofuels Capital Grants Program with $37.6 million in funding for projects producing ethanol or biodiesel. Grants were provided to new or expanded projects producing a minimum of five million litres of biofuel per annum at a rate of 16 cents per litre. Grants were offered to seven biofuel projects.
- In March 2004 and in the Energy White Paper in June 2004, the Government announced that the existing production subsidy and excise arrangements on ethanol will be extended to July 2011, after which the favourable treatment of domestically-produced ethanol is to end. From July 2011, the effective rates of tax will increase annually until they reach final rates of 12.5 cents per litre for ethanol on July 2015. In energy content terms, these final rates allow for a 50 per cent discount on the rates levied on petrol and diesel. (See table 3.2).
- The Energy White Paper also foreshadowed that alternative fuels such as ethanol, that are used for business purposes in heavy vehicles on public roads, will continue to be eligible for a fuel grant under the Energy Grants Credits Scheme. However, the amount of the grant will be reduced to zero in five equal steps commencing from 1 July 2006 and concluding 30 June 2010. After July 2011, a tax credit will apply when the fuel tax applied exceeds a road user charge.

Sources: Howard (2003b), (2006b); Biofuels Taskforce (2005).

More recently, in August 2005, the Biofuels Taskforce released a report on the state of biofuels for transport in Australia. Among other things, the report found that:

- Biofuels cost more to produce than petroleum fuels, and barring unexpected scenarios, in the long term will generally remain uncompetitive with conventional fuels without assistance.
- The uptake of biofuels by oil suppliers and biofuel producers entails significant commercial risks and it is unlikely that the policy target of 350 million litres of biofuel production by 2010 would be achieved under the (then) existing circumstances.
- Subsidised ethanol grain plants have the potential to raise feedgrain prices in the short and medium term.
- The costs likely to be imposed on the national economy through assisted expansion of the biofuels industry to achieve the target of 350 million litres would be $90 million in 2009-10 and $72 million per annum (in 2004-05 terms) in the long term;
- Part of these losses would be offset by "environmental" and "regional development" benefits.

Following the Biofuels Taskforce report, in September 2005 the Australian Government reaffirmed its commitment to achieve the target of at least 350 million litres of biofuel production by 2010. A Biofuels Action Plan was announced in December 2005, encompassing volumetric goals, marketing strategies and other initiatives drawn up by oil companies and petrol retailers to encourage the uptake of ethanol. Additional initiatives announced by the Government included measures to encourage users of Commonwealth vehicles to purchase E10 (a blend of 10 per cent ethanol with petrol), vehicle testing of E5 (a blend of 5 per cent ethanol with petrol) and E10 blends, and increases in fuel quality compliance inspections to ensure ethanol blends meet fuel quality standards (Howard 2005b).

In August 2006, the Australian Government announced the Ethanol Distribution Program, with funding of $17.2 million, to run from 1 October 2006 to 30 June 2007. The program aims to:

- increase the number of retail service stations selling 10 per cent ethanol blended petrol (E10);
- increase the volume of E10 sold; and
- encourage the sale of E10 at a lower price than regular unleaded petrol. (AusIndustry 2006b, p. 2)

Under the scheme, retail service stations are eligible for two types of grants to install or upgrade equipment such as tanks, fuel lines and bowsers for ethanol fuel sales:

- *Infrastructure Upgrade Grants* — eligible service stations can receive payments of up to $10 000 to meet the costs of installing or upgrading ethanol equipment; and
- *Sales Target Grants* — additional payments of up to $10 000 are available to service stations which already receive the infrastructure upgrade grants and meet "predetermined sales targets" to increase the amount of ethanol distributed at their sites.

In November 2006, the Government announced funding of $7.72 million to support research into biofuel production technologies. The funding, provided under the National Collaborative Research Infrastructure Strategy, is for the construction of two pilot scale facilities and related university laboratory infrastructure to develop "novel" biofuel production technologies.

Liquid petroleum gas conversion

LPG is a transport fuel that, in Australia, is typically sold at a significantly lower retail price than regular unleaded petrol. Historically, this price differential resulted from a range of factors, including concessions on the rate at which excise tax is levied on LPG, compared to petrol.

In December 2003, the Australian Government announced an intention to progressively introduce excise tax on previously exempted fuel, including LPG. The Government also foreshadowed that, from 2008, a $1000 subsidy will be available to consumers who buy a new LPG vehicle, to provide 'assistance for the LPG sector to assist its transition into the excise net' (Howard 2003b).

In June 2004, the Government released the Energy White Paper which outlined excise tax arrangement for fuel products, including LPG, (and revised the excise arrangements foreshadowed in December 2003). From July 2011, LPG is to be subject to an excise of 2.5 cents per litre, rising to 12.5 cents per litre in 2015 — equivalent to half the excise on petrol and diesel, on an energy content basis.

Table 3.2 **Announced excise rates for fuel products**
cents per litre

	1 July 2006 to 30 June 2011	*1 July 2011*	*1 July 2012*	*1 July 2013*	*1 July 2014*	*1 July 2015*
Ethanol	0	2.5	5.0	7.5	10.0	12.5
Biodiesel	0	3.8	7.6	11.4	15.3	19.1
LPG	0	2.5	5.0	7.5	10.0	12.5
LNG	0	2.5	5.0	7.5	10.0	12.5
CNG[a]	0	3.8	7.6	11.4	15.2	19.0
Methanol	0	1.7	3.4	5.1	6.8	8.5
Petrol	38.143	38.143	38.143	38.143	38.143	38.143
Diesel	38.143	38.143	38.143	38.143	38.143	38.143

[a] Rates are cents per litre except compressed natural gas which is cents per cubic metre.

Source: DPMC (2004).

In August 2006, the Australian Government committed significant funding to support the conversion of motor vehicles to the use of LPG. The LPG Vehicle Scheme provides a grant of:

- $2000 for an approved and fitted LPG conversion of a new or used motor vehicle; and
- $1000 for a factory-fitted LPG-dedicated vehicle.

Eligibility for the scheme is limited to passenger or light commercial vehicles of less than 3.5 tonnes Gross Vehicle Mass that have been registered for private use. Vehicles that are registered for commercial or business purposes[12] are not eligible for the subsidy.

The estimated cost of the LPG incentives is $677 million over the eight year period from 2006. Because LPG is a substitute to petrol, the measure also has an impact on petroleum excise revenue. According to the Government, the total cost taking into account the loss of petroleum excise is more than $1.3 billion over eight years.

12 The Alternative Fuels Conversion Program, which was announced in December 1999, provides grants to operators and manufacturers of heavy commercial vehicles and buses to offset the costs of conversion to natural gas and LPG. The program currently supports key commercial fleet operators to trial selected alternatively-fuelled or hybrid diesel/electric engines in order to assess the commercial viability of these engine systems in heavy vehicles and to demonstrate their feasibility to the wider transport industry.

Oil recycling

Oil recycling involves processes such as filtering, de-watering and de-mineralising used oil to produce burner fuel, including high grade industrial burning oil. There are currently around 70 businesses in Australia engaged in oil recycling activity.

Under the Product Stewardship (Oil) Program, which began on 1 January 2001, support is available to encourage oil recycling through:

- *Excise levy* — producers and importers of all petroleum-based oil or synthetic equivalents are required to pay a levy of 5.449 cents per litre. The levy is intended to offset the costs of payments to oil recyclers as an incentive to undertake increased recycling of used oil. Payments are provided at different rates — as-new re-refined base oil attracts higher payments than basic burner fuels.
- *Transitional Assistance Grants* — grants are available to encourage the recycling of used oil and to develop used oil collection sites and recycling plants. The program entailed funding of $34.5 million from 2000-01 to 2006-07 (DEH 2005).

During 2006-07, the Government announced an additional $40.7 million over three years for used oil recycling in the form of additional payments to oil recyclers. The Government said:

> This Budget measure will ensure that the oil recycling industry will have time to adapt to the changes arising from the Federal Government's Fuel Excise Reform by adding an additional benefit for three years to the current product stewardship (oil) benefit scheme.
>
> The extra time given to the oil recycling industry to adapt will avoid potentially undermining the success of the Product Stewardship for Oil Program in removing used oil from Australia's environment.

The measure will cease on 30 June 2009.

Energy

In June 2004, the Australian Government released an *Energy White Paper: Securing Australia's Energy Future*, which foreshadowed new funding measures for the commercialisation of energy technologies, including greenhouse abatement measures (Australian Government 2004). The measures cover industries specialising in the production of existing energy resources (such as oil, gas and coal) as well as renewable energy sources (for example, wind and solar power). Various measures contained in the White Paper were discussed in *Trade & Assistance Review 03-04*.

Low emission technology projects

Under the Low Emission Technology Demonstration Fund, announced in the White Paper, $500 million has been allocated to support low emission technology projects. The assistance covers renewable energy projects, technologies to reduce the demand for energy, and 'carbon capture' technologies. Details of the projects supported under the Fund, as at March 2007, are shown in table 3.3.

Table 3.3 **Projects supported under Low Emission Technology Demonstration Fund**

$ million

Eligible projects	*Technology*	*Project*	*Australian Government funding ($m)*	*Total project costs ($m)*
Alinta Solar Systems Australia Pty Ltd	Concentrator – Photvoltaic	Large scale solar concentrator power station, Mildura, VIC	75	420
Chevron Australia Pty Ltd (Gorgon)	Geosequestration without electricity generation	Commercial scale demonstration of CCS, Barrow Island, WA	60	841.3
CS Energy Ltd	Flue Gas CO2 capture	Callide A oxy-fuel retrofit demonstration, Central QLD	50	187.8
Fairview Power Pty Ltd	Electricity generation with natural gas	Demonstration of overseas commercially available open cycle gas turbine, Central QLD	75	445.6
International Power (Technologies) Pty Ltd	Drying and ultra-supercritical generation	Demonstration retrofit of brown coal drying combined with ultra-supercritical coal technology Latrobe Valley, VIC	50	360.8
HRL Limited	Integrated drying gasification combined-cycle power generation	Latrobe Valley, VIC	100	750

Source: MacFarlane (2007a).

3.3 Assistance to small businesses

Small business capital gains tax (CGT) concessions

Under Division 115 of the *Income Tax Assessment Act 1997* (the Act), a general CGT discount of 50 per cent is available to general taxpayers on shares and building investments.

In addition, small business owners are eligible for several specific concessions under Division 152 of the Act, including:

- *small business rollover CGT provision* — small business owners can defer paying tax on capital gains where the gains are used to acquire replacement business assets for expansion;
- *small business 15-year exemption* — a full exemption from capital gains tax is available if the asset was held continuously for 15 years and the relevant person is over 55 and retiring;
- *small business 50 per cent deduction* — in other cases, small businesses can apply to reduce the capital gains tax by 50 per cent; and
- *small business retirement exemption* — the capital gains tax on small businesses can be reduced up to an amount of $500 000 if that amount is paid into a superannuation fund.

The effectiveness of the CGT concessions was reviewed by the Board of Taxation in 2005. The Board found that:

- Division 152 allowed small business owners a choice between the concessions to reduce their capital gains tax, as well as the ability to access multiple concessions at the same time.
- Many small businesses that meet the relevant asset test were not eligible for the concessions because of their business structures — this was, however, outside the scope of its review.
- The compliance costs of the CGT concessions were relatively insignificant for small business recipients, but were an important issue for tax practitioners — the cost was estimated to be about $110 million (Board of Taxation 2005, p. 7-9).

The Board made a range of recommendations to improve the operation and administration of the small business CGT concessions.

In the 2006-07 budget, the Australian Government announced it will implement most of the Board of Taxation's recommendations and make changes to the eligibility of all CGT small business concessions to reduce compliance costs. The tax revenue forgone under this revised arrangement is expected to be around $100 million per annum from 2007-08. Legislation has been passed by Parliament to give effect to the Government's changes.

The Government also announced that it will simplify and align various small business concessions, including the capital gains tax concessions. Any business with annual turnover of less than $2 million will be able to access these concessions, subject to any additional criteria set out in the particular concessions.

Thus businesses with a turnover below $2 million will be exempt from the net asset threshold. It was also announced that the net asset threshold that determines eligibility for the CGT concessions would be raised from $5 to $6 million for entities with turnover of $2 million or more. The tax revenue forgone under the revised arrangement is expected to be $130 million in 2008-09 (Costello and Bailey, 2006).

Entrepreneur Tax Offset

In the 2004 election policy statement *Promoting an enterprise culture*, the Australian Government announced the Entrepreneur Tax Offset (ETO — sometimes called the Entrepreneur Tax Discount) concession. The ETO took effect from July 2006.

Under the ETO provisions, businesses having low turnover relative to other business classes receive a reduction on the amount of income tax payable. A 25 per cent reduction on income tax applies to businesses with an annual turnover of $50 000 or less — this rate of reduction is phased down to zero as the business turnover reaches the level of $75 000 a year. The *Promoting an enterprise culture* statement stated:

> [the scheme] will provide further incentive and encouragement to small businesses – particularly those that set up and operate from home … it will provide a further source of capital which can be ploughed back into a business at its most vulnerable start-up and development stage (LPA-N 2004, p. 4-5).

According to the Tax Expenditure Statement (Treasury 2006), the tax revenue forgone under the ETO is projected to be $380 million in 2006-07, thereafter rising to $400 million per year.

3.4 Regional adjustment assistance

During 2006, the Australian Government provided relief to various industries or activities in particular regions that were adversely affected by natural disasters or adjustment pressures. These measures are outlined below.

- *Cyclone Larry Business Assistance Fund*. The fund provided $260 million in 2005-06 to support businesses and agricultural activities adversely affected by Tropical Cyclone Larry. Eligible businesses located in the Cyclone Larry disaster area can receive a one-off and a tax-free grant of $10 000 and those with significant losses may be eligible for an additional grant of $15 000. The grants also assist activities associated with the recovery stage, including, for example, re-stocking, re-planting, re-establishment and clean-up. In addition, businesses are eligible for a wage subsidy ($400 per fortnight) to retain employees for recovery activities.

- *The Beaconsfield Community Fund*. Announced in May 2006, the fund supports local projects in response to the Beaconsfield Gold Mine disaster in Tasmania. To be eligible, projects must contribute to employment or enhance local facilities in the Beaconsfield community. The fund provides $8 million in grants over two years.
- *Port Kembla Industry Facilitation Fund*. Announced in June 2006, the fund supports investment projects with potential employment opportunities in the Port Kembla area, in response to the closure of the BlueScope Steel tin mill plant in the area. Support is available for up to 50 per cent of the cost of projects that have a value greater than $100 000. The Australian Government will provide $5 million to the fund.

3.5 Selective investment incentives

Historically, all Australian governments have provided 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, administered by Invest Australia. State and Territory governments may also provide selective assistance, potentially in competition with other State governments, to attract targeted firms to invest or locate in their particular State.

In the past, 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 editions of *Trade & Assistance Review* (PC 1998, 2002b).

Commonwealth investment attraction

In the 1997 *Investing for Growth* statement, the Australian Government established Invest Australia as the dedicated agency for investment attraction and promotion. Invest Australia promotes industry investment opportunities by, among other things, providing market information and advice on business establishment costs, and connecting investors to government contracts. Following a review in 2001, Invest Australia's functions were broadened to incorporate the previous inward investment attraction activities of Austrade and the National Office of the Information Economy.

Invest Australia's activities were targeted at industries including information and communication technologies, biotechnology and pharmaceuticals, nanotechnology, and finance (box 3.4).

Box 3.4 **Invest Australia previous priority industries**

Industries to receive extensive promotion and attraction	*Industries to receive facilitation services*	*Industries with limited promotion*	*Other priorities*
Information and communication technologies Biotechnology and pharmaceuticals Nanotechnology Finance	Mining Energy, including liquefied natural gas	Renewable energy Environment industry Forest and wood Light metals	Heavy engineering and infrastructure Spatial information Film Food

Sources: ACG (2005) and Blackburne (2001).

The *Investing for Growth* Statement initially committed funding of $28 million for investment attraction over the four years to 2001-02. In the 2002-03 budget, an additional $44 million was allocated to continue Invest Australia for the four years to 2005-06.

In 2005, Invest Australia engaged the Allen Consulting Group (ACG) to evaluate the agency's activities. In its report in June 2005, ACG recommended that Invest Australia continue, but that its operations be improved in several areas, including by:

- developing further cooperation between Invest Australia and state government investment attraction agencies to improve overall effectiveness and "the division of labour between the two levels of government"; and
- narrowing the focus of existing priority industries, and giving a higher profile to other areas, such as agribusiness (ACG 2005, p xii).

In the 2006-07 budget, the Australian Government announced that it will provide $73 million in additional funding to Invest Australia over the four years to 2009-10. The new funding for Invest Australia is to support investment attraction in new markets, including the establishment of offices and market promotion activities in India, Canada, Southern Europe, Scandinavia, Latin America, South East Asia and the Middle East. Invest Australia's existing investment attraction activities in

Western Europe, the United States of America, Japan, and China will be retained. A review of Invest Australia has been scheduled for 2008.

In December 2006, Invest Australia released its Strategic Plan 2006-08, which outlines revised industry priorities for investment attraction. The revised priorities are intended to cover additional countries and industries on the basis of "the Australian Government's economic, social and environmental goals, industry development objectives and industry investment needs, as well as the prevailing market conditions". Different industry priorities have been established for each targeted country, and are to be reviewed annually. The activities and industry priorities in the Strategic Plan are outlined in table 3.4.

Table 3.4 **Invest Australia's revised priorities**

Countries	*Industries and activities*
North America	
Canada and the United States	Establish new partnerships between US and Australian companies. Attract smaller companies as their first step into the Asian region. Convince current investors to expand their operations. Maintain a focus on attracting major US financial services firms. Influence the North American market and media about Australia as an investment destination. Increased focus on Canada and additional activity in the US mid-west and south.
Europe	Continue previous priorities on high technology, biotechnology and pharmaceuticals, ICT, nanotechnology and environmental technologies.
North Asia	
Japan	ICT, biotechnology, renewable energy and environment industries and financial services sectors and promote energy, minerals and agribusiness industries.
Taiwan	ICT, energy, minerals and food.
South Korea	Energy, minerals, manufacturing, renewable energy, environmental technologies, forestry, wood products and food sub-sectors.
China	Minerals, energy and agribusiness with the focus on targeting the top 15 companies in each sector.
Hong Kong	Top 300 companies listed on the Hong Kong Stock Exchange.
Rest of world	
India	New priorities: financial services, minerals, shared services, biomedical biotechnology and ICT. Existing priorities: agribiotech, environmental services, automotive suppliers, film, dairy, functional foods and energy (including clean coal technologies).
Singapore	ICT, agribusiness, biotechnology and energy.
Malaysia	Food, energy and biotechnology.
Philippines	ICT, food and financial services.
Latin America	Minerals, energy, agribusiness, environmental services, ICT and shared services.

Source: Invest Australia (2006).

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 — the Interstate Investment Cooperation Agreement — to reduce cross-border bidding wars and restrict the use of financial incentives to attract investment. The agreement was due to expire in 2006.

In its *Review of National Competition Policy Reforms* (PC 2005), 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 remained significant. For instance, 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'.

The Commission's report also found that the agreement lacked 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.

In March 2006, all State and Territory governments, except Queensland, renewed the Interstate Investment Cooperation Agreement. The Agreement largely carries forward the commitments of signatory governments under the previous Agreement for another five years, with provisions for a formal review in 2010.

3.6 Anti-dumping measures

Under Australia's anti-dumping rules, local companies can apply to have anti-dumping and countervailing measures — mainly special customs duties — imposed on 'dumped' imports if the imports cause, or threaten to cause, material injury to the local industry.[13]

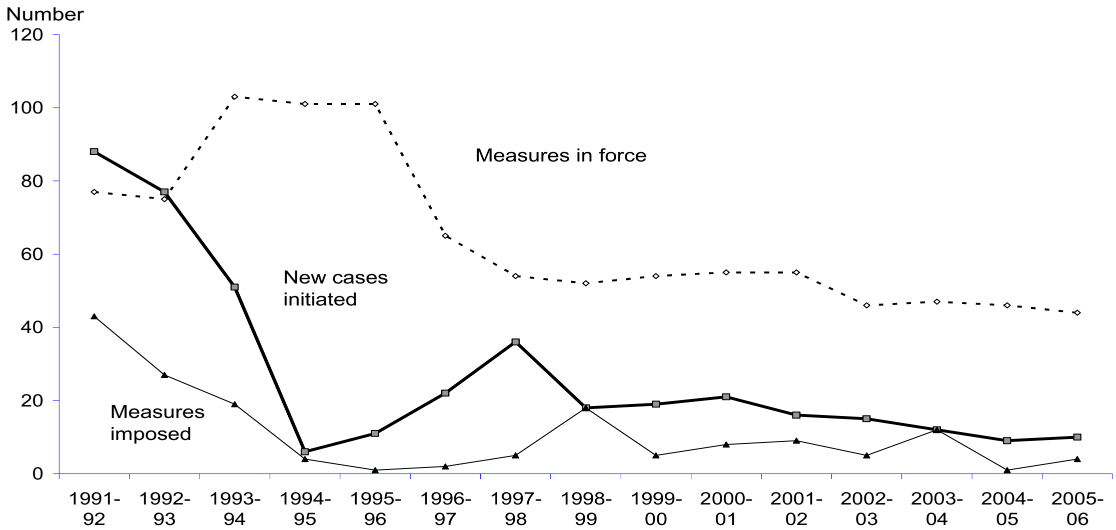
[13] Dumping is said to occur when a foreign supplier exports goods at a price below the 'normal value' of the goods in the supplier's home market. The price of the good in the exporter's home market is generally used to determine the normal value.

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 10 new cases in 2005-06, of which half were initiated mainly by firms in *the steel manufacturing* industry. Over the ten years to 2005-06, however, the chemical and plastic products industry has been the largest initiator of anti-dumping and countervailing actions, accounting for 38 per cent of total initiations.

Four new measures were *imposed* by the government in 2005-06, compared to one measure imposed in the previous year. Even so, the number of measures *in force* remained relatively stable at around 50 (figure 3.1). 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.

Figure 3.1 **Anti-dumping and countervailing activity,[a] 1991-92 to 2005-06**



[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 (various).

Review of anti-dumping arrangements

Like other trade barriers, anti-dumping and countervailing measures provide immediate relief for the protected industries, but can 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 2005), 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 Joint Study). The joint study was completed in August 2006. The study team noted that its terms of reference was limited and specifically excluded examination of issues or the legislative basis for the anti-dumping system. Even so, a substantial proportion of submissions raised broader policy issues that fell outside its terms of reference, including the need to consider economy-wide costs and benefits (the public benefit test) of imposing dumping duties. The review recommended several changes to administrative procedures (ACS and DITR 2006).

In November 2006, the Australian Government responded to the review, noting the key recommendations to be implemented (Ellison and MacFarlane 2006). They include:

- developing Customs's assessment guidelines and applying them consistently in considering anti-dumping applications;
- improving the availability of information during an anti-dumping investigation and making the public file on the investigation available on the Internet;
- engaging external experts to improve Customs's analysis and decision-making;
- appointing a specialist Customs officer to assist small and medium enterprises (SMEs) to understand the anti-dumping system; and
- developing plain English, user-friendly guidelines for applicants.

The Government also noted that, as outlined in its response to the *Report of the Taskforce on Reducing Regulatory Burdens on Business* (RTF 2006), it will commission a comprehensive public review of both the policy and administration of Australia's anti-dumping system. The findings of the joint study will form part of the input into this review.

4 Recent developments in trade policy

Australia has traditionally reduced its barriers to international trade mainly through domestic industry assistance reform initiatives, subsequently reinforced by participation in multilateral trade agreements under the GATT and the WTO. The latest round of multilateral trade negotiations (the Doha round) has been underway for over six years, but progress has been limited. This reflects a number of influences, the most fundamental being the political and policy-making environments within WTO member countries. In part reflecting the difficulties of achieving improved access for Australian exports through multilateral negotiations, Australia has recently negotiated bilateral trade agreements with several countries, most notably the United States of America, and more are in prospect. This chapter reports on these and other developments in Australia's international trade policy.

4.1 Impasse in multilateral trade negotiations

For more than 50 years, the World Trade Organization (WTO) and its predecessor, the General Agreement on Tariffs and Trade (GATT), have provided a stable rules-based system for international trade (box 4.1). They have also provided a forum for governments to negotiate agreements to liberalise trade. Successive rounds of multilateral trade negotiations have facilitated substantial reductions in many trade barriers and underpinned the strong expansion of international trade and growth in living standards (PC 2000b, 2006a).

Despite eight rounds of multilateral trade negotiations, many of the world's major economies continue to retain high trade barriers in areas such as textiles, clothing, services and agriculture — the latter two being largely excluded from GATT deals prior to the Uruguay Round.

Progress in the Doha negotiations has stalled

The Doha round of WTO trade negotiations was launched at the Fourth WTO Ministerial Conference, held in Doha in November 2001, with WTO member governments agreeing to negotiate on a broader and more complex range of issues than in previous GATT rounds (JSFADT 2003) (table 4.1). For example, the member governments agreed to negotiations covering intellectual property and public health, phasing out agricultural export subsidies, e-commerce, environment and the so-called 'Singapore' issues — including investment rules, competition policy, transparency in government procurement and trade facilitation (WTO 2001). However, given the broadened scope of the agenda and uncertainties surrounding some of the language in the declaration, the nature of the final outcome, including which elements would be included, was not established at the outset of the negotiating round (PC 2001a).

Member governments also made an ambitious undertaking to complete the wide ranging and complex agenda by January 2005; that is, some four years less than was required to complete the Uruguay round (WTO 2001, 2005).

Box 4.1 **The WTO: a global, rules-based trading system**

The WTO provides a framework of rules for international trade. This 'multilateral' framework was established in 1947 with the signing by 23 countries of the GATT. Currently, there are 150 members, with Vietnam joining in January 2007. Almost 30 more countries are negotiating membership.

The key trade rules

WTO provisions require members to apply their trade rules in a transparent and non-discriminatory manner. The key elements of the system are:

- the *most–favoured–nation* rule*,* which bars a member country from discriminating between 'like' products of other members or from favouring non-WTO members over members (except, for example, within the ambit of free trade agreements).
- the *national treatment* rule*,* which (with some exceptions) prevents foreign products, having satisfied quarantine and customs requirements, from being treated less favourably than domestically produced goods.
- rules to discipline protective measures (eg. tariffs, subsidies and other non-tariff barriers) and to discipline trade-distorting subsidies at the export level.

Consensual decision making

Agreements are negotiated through consensus, limiting the extent to which large trading nations can exploit their economic power and, in turn, providing opportunities and legal protections for small- and medium-sized trading nations, such as Australia.

Dispute resolution

Where a trade dispute occurs, WTO members are committed *not* to take unilateral action against perceived violations of their rights. If conciliation is unsuccessful, the parties in dispute must instead argue their case before an independent panel, with appeals to a separate body possible. The outcome is then confirmed by the WTO Dispute Settlement Body, constituted by all the member governments.

Sources: WTO (2005, 2007).

Table 4.1 **Coverage of multilateral trade rounds**

Year	*Place/Round name*	*Subjects covered*[a]	*No of countries*
1947	Geneva	Tariffs	23
1949	Annecy	Tariffs	13
1951	Torquay	Tariffs	38
1956	Geneva	Tariffs	26
1960–61	Dillon Round	Tariffs	26
1964–67	Kennedy Round	Tariffs & anti-dumping measures	62
1973–79	Tokyo Round	Tariffs and non-tariff measures, ‘framework agreements’	102
1986–94	Uruguay Round	Tariffs and non-tariff measures (for services as well as agriculture and non-agricultural products), anti-dumping measures, services, intellectual property, dispute settlement, textiles, agriculture, creation of WTO	123
2001–	Doha Round	Tariff and non-tariff measures (for services as well as agriculture and non-agricultural products), intellectual property, investment rules, competition policy, transparency in government procurement, trade facilitation, anti-dumping, regional trade agreements, dispute settlement understanding, environment, e-commerce, small economies, debt & finance, technology transfer, capacity building, least-developed countries, special & different treatment	150

a Not all subjects covered are necessarily included in the final agreement.

Sources: WTO (2001, 2005, 2007).

While there has been some progress in the Doha Round, member governments have failed to come to agreement on key issues. In earlier editions of *Trade & Assistance Review,* the Commission reported that:

- At the Fifth WTO Ministerial Conference, held in Cancún in September 2003, 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. The meeting ended in deadlock (PC 2003).
- In July 2004, the WTO General Council meeting in Geneva removed some of the stumbling blocks of Cancún by limiting the scope of the negotiations (the Singapore issues open to negotiation were reduced to just one: trade facilitation) in what is known as the ‘framework package’ (PC 2004a).
- The Sixth WTO Ministerial Conference, convened in Hong Kong in December 2005, could not resolve a number of the more difficult agricultural reform issues, such as the size of tariff reductions on agricultural goods (PC 2006a).

The December 2005 Hong Kong Ministerial Conference set a number of new timing objectives for progressing the negotiations. However, despite intensive negotiations over the seven months to July 2006, no agreement was reached on agriculture and non-agricultural tariff reductions, and agricultural subsidy reductions. When a meeting of ministers from six key trading nations — the G6 (US, EU, Japan, Australia, India and Brazil) — came to an impasse on the question of, how much to cut farm subsidies and agricultural tariffs on 24 July 2006, the negotiations were suspended.

As reported by the ICTSD (2006), unblocking the negotiations would require parallel progress on a 'triangle' of issues, two sides of which relate to agricultural trade liberalisation:

- the EU would have to agree to increased agricultural market access through greater tariff cuts in agricultural products;
- the US would have to agree to deeper cuts to its domestic farm support; and
- developing countries, such as Brazil and India, would have to agree to lower tariffs on non-agricultural products.

Trade negotiations recommenced informally in November 2006 after signs that member countries' requests to resume negotiations were 'widespread and genuine' (WTO 2006). After two months of informal meetings, including discussions by trade ministers from 30 WTO members at the World Economic Forum in January 2007, across-the-board negotiations formally recommenced in February 2007.

At this stage, however, there is still no agreement on the areas of difference that caused the suspension in negotiations in July 2006.

Why have multilateral trade negotiations become so difficult?

Protracted differences among negotiating parties and an apparent lack of progress is not an unusual occurrence for multilateral trade negotiations. For example, the Uruguay Round, which commenced in 1986, took almost eight years to complete, and still did not attain its objectives in a number of areas (Young 1994).

One reason suggested for the apparent difficulties and slowness in reaching agreement is the strategic behaviour of member countries, who typically seek to conceal the 'concessions' they are willing to make until the final stages of multilateral trade negotiations. The presence of such strategic behaviour can also make it difficult to judge the real gap that exists between different members' negotiating positions during the course of a negotiating round.

Nevertheless, delays in achieving agreement in multilateral trade negotiations and difficulties in assessing actual progress cannot be solely attributed to strategic behaviour of member countries. After five years of negotiations, a number of other factors have been canvassed to explain the slow progress of the Doha Round.

Increased complexity of negotiations

As multilateral trade agreements generally require a consensus among members, it is widely acknowledged that the substantial increase in membership of the WTO in recent years has increased the difficulty of achieving agreement on further liberalisation (JSFADT 2003, PC 2004a). The first GATT agreement, for example, comprised just 23 countries, most having similar levels of economic development, in contrast to the 150 members that are currently participating in the Doha Round (WTO 2005, 2007).

This much larger membership has been associated with a greater diversity of objectives and interests of member countries, and a greater role played by the newer member countries in the negotiating process. For example, the G20 is a group of developing countries, led by Brazil and India, seeking to achieve greater liberalisation of agriculture by *developed* countries (Gifford 2006). However, the G20 is divided about certain reform issues in relation to developing country agricultural products. Some G20 members (including Brazil) have a strong interest in achieving market access into other developing countries, while other members of this group (such as India and Indonesia) are also members of the G33, that has differing objectives and priorities.

Added to this is the progressive expansion of negotiating areas. Tariffs on manufactures were the ‘bread and butter’ of most GATT trade rounds, and were relatively simple to negotiate. Increasingly, more attention has been paid to politically ‘sensitive’ agriculture, as well as services and ‘behind the border’ issues such as standards and intellectual property, which tend to be seen primarily as domestic matters. At the same time, WTO member countries have come under pressure to include labour and environmental standards in trade agreements.

The rise of preferential trading agreements

The relationship between preferential trading agreements (PTAs) and multilateral trade agreements is contentious. WTO rules do not prevent member countries from participating in PTAs. However, they do require that such arrangements meet certain criteria, such as that they remove or reduce barriers on ‘substantially all’ goods within the region. While some claim that the outcomes of PTAs can be ‘building blocks’ for trade liberalisation, others see them as ‘stumbling blocks’. For instance, the OECD (2003, p. 5) has cautioned that:

> … the patchwork of regional initiatives may also give rise to systemic frictions because of divergence among [PTAs] and with WTO agreements.

Apart from issues relating to the impact of PTAs on trade (see below), it has been suggested that negotiating bilateral and regional agreements deflects resources and attention away from multilateral trade agreements. For example, it was suggested that not as much 'groundwork' had been undertaken in the Doha round as the Uruguay Round for this reason (Garnaut 2003). However, as noted in Australia's case, the rise in PTAs itself has in part reflected frustration at the difficulty and slow pace of multilateral negotiations.

Domestic political obstacles remain strong

The difficulties faced by multilateral negotiations can also be attributed to more fundamental political influences operating within WTO member countries. Compared to most PTAs, multilateral liberalisation generally places greater competitive pressure on domestic industries of participating countries. The political calculus favouring protectionist interests within democratic societies is well known and has long posed major obstacles to trade reform in agriculture and for other exports of interest to Australia. The key elements have been described previously and are summarised as follows:

- The beneficiaries of protection tend to be concentrated in specific industries and sometimes in particular regions. They have strong incentives to form associations to lobby politicians to maintain or increase their protection (and to change their vote if they don't). They also have incentives to rally public support by drawing attention in the media to the risks to their livelihoods from removing protection — witness protests by French farmers.
- By contrast, the costs of protection are generally dispersed widely but thinly throughout the community — for example, through higher prices for farm produce and other protected items. Individual consumers have little incentive to lobby to have the protection removed (or to change their votes if it isn't). In fact, many consumers may not even be aware of the existence of a tariff or other trade barrier on a particular item and its adverse effect on their spending power and product choice, let alone the broader adverse effects on productivity and resource allocation.
- This skewing of public awareness and political incentives is exacerbated because the costs of trade liberalisation are more immediate and visible than the benefits. For example, the potential loss of existing jobs in a protected industry is visible, tangible and a cause of immediate angst, and thus particularly amenable to media coverage. However, the jobs that would be brought into existence in other industries consequent upon reform are scattered throughout the economy and may not eventuate until some time after the reform takes place.
- These uneven political pressures are compounded by government administrative structures which tend to be aligned with particular groups or sectors, leading to a

focus on their welfare, and making it harder for governments to assess the economy-wide effects of trade reform.

- More broadly, there is often confusion about the source of the gains from trade liberalisation. It is widely recognised among economists that major benefits for a country from trade and its liberalisation come from having access to lower cost imported goods and services, and the stimulus to domestic industry performance and restructuring flowing from the increased competition it provides. However, much public debate continues to reflect mercantilist notions that exports are good for a country's prosperity while imports are bad.

Why isn't 'reciprocity' working?

The exchange of concessions in reciprocal fashion among member governments was an intentional design feature of the GATT (and now WTO) aimed at counteracting the skewed domestic politics that impedes trade reform (Dam 1970; Roessler 1989). Reciprocal agreements can potentially ameliorate the political difficulties confronting reform by:

- harnessing interests of exporting industries in gaining access to foreign markets to support domestic liberalisation (*quid pro quo*);
- setting foreign producers interested in export expansion against domestic protectionist interests; and
- reducing transitory adjustment losses from liberalisation.

Such influences no doubt contributed to the considerable success of the GATT in reducing manufacturing tariffs across most areas of merchandise trade in the decades following World War II. But they have proven much less effective in the most 'sensitive' sectors, like agriculture and TCF, and in a number of areas of services trade which are now encompassed within the negotiations.

Experience has shown that exporters are not likely to lobby their government for trade liberalisation policies as intensively as import competing industries are likely to lobby for the retention of protection. Further, the pressure from foreign exporters to improve market access has minimal influence on the domestic debate due to their lack of political representation and support within the community.

In fact, the reciprocity approach used in multilateral trade negotiations can reinforce the general lack of domestic willingness to liberalise trade, because the agreement to reduce protection levels can be treated as a 'concession' to other WTO members, rather than as a source of benefit to members. This mode of thinking may then be both reflected in, and reinforced by, governments 'selling' the benefits of trade agreements they enter by emphasising the improved market access for their country's exports, rather than the favourable effects of lower priced imports on national welfare (PC 2001b). This can further add to the tendency for the community to view an increase in exports as a good outcome for the economy, while increased import competition is not. In this way, trade negotiations can themselves become an impediment to domestic reform.

In relation to multilateral negotiations themselves, undue emphasis on reciprocity can stall progress, as member governments may be concerned about being seen to offer too many 'concessions' (such as reductions in their tariffs) relative to the concessions offered by others. This mutually self-defeating process was evident in the recent Doha Round negotiations, with claims that each country or region had requested that other countries 'offer' more before they give up more 'concessions' (ICTSD 2006). For example, EU Trade Commissioner Peter Mandelson made the comment that:

> The United States was unwilling to accept, or indeed to acknowledge, the flexibility being shown by others in the room and, as a result, felt unable to show any flexibility on the issue of farm subsidies (ICTSD 2006, p.1).

In response, US Trade Representative released a statement claiming:

> During the recent G-6 meeting the US made clear that it was ready and willing to demonstrate greater flexibility in the area of domestic supports if the EU and advanced developing economies demonstrated greater flexibility in market access. (Office of the US Trade Representative 2006, p.1).

Domestic mechanisms to promote trade liberalisation?

The sticking point in the Doha Round — the divisions between the EU, US and developing countries regarding the adequacy of current concessions — relates to perceptions within those countries regarding the source of the benefits of trade liberalisation and how this translates to the multilateral negotiating arena. Resolution of these differences will not be straight-forward, and there is currently no process within the WTO trade negotiation process that can solve the underlying problem.

What is needed are processes and institutions within member countries that can promote a better understanding of the domestic tradeoffs in trade liberalisation, and help counter the political influence of protected industries by demonstrating which sections of the economy and community bear the costs of trade protection and which sections benefit.

This of course is not a new idea. Indeed it is an approach which Australia itself has followed in its approach to industry assistance. This has been favourably remarked on by international agencies such as the OECD (2003), as well as the WTO (2007) and has attracted some interest within APEC.

The notion of using GATT/WTO processes to establish 'domestic transparency' mechanisms within member countries was advocated two decades ago by two eminent international study groups reporting on ways to overcome the then impasse in progressing multilateral trade negotiations (Leutwiler 1985, Long 1987). The Long Report, headed by a former Director-General of the GATT and including W. B. Carmichael, a former Chairman of the Industries Assistance Commission, set out the broad features that a transparency mechanism would need to contain (see box 4.2).

Box 4.2 **The Long Report's model for domestic transparency**

The Long Report suggested that the following elements might be suitable for a domestic transparency mechanism:

Institutional vehicle: The designation of an independent, and preferably statutory, body within each country to prepare regular reports … to their governments on public assistance to industries.

Charter: Its reports should cover all forms of public assistance, including measures under laws on 'unfair trade' practices, to all industries. The reports should be made public so that they are a vehicle for public scrutiny, within the domestic economy, of industry support.

Focus of guidelines: The standard code of objectives negotiated to provide a reference framework for such bodies should be related to domestic economic efficiency and the general public interest rather than any international commitments (although these are clearly compatible).

Status in domestic institutional arrangements: While it is essential that the independence and industry-neutrality of these bodies should be guaranteed by statute, they should have only an informational role in the domestic policy environment. They should have no judicial, executive or direct policy role and they should be accountable solely to their respective governments or legislatures.

Status in international negotiations: The public informational output of each such body would assist its national government to determine what approach to international relations would be most rewarding nationally but they would have no mandatory or pre-emptive effects on the course of any [multilateral trade] negotiations.

Source: Long (1987).

Methods of establishing greater domestic transparency were under consideration in the first stages of the Uruguay Round in the negotiating group on the Functioning of the GATT System (Rattigan, Carmichael and Banks 1989). Despite widespread recognition of the need for greater domestic transparency of industry assistance, finalising the institutional arrangements was placed on the 'backburner' with priority given to establishing the Trade Policy Review Mechanism (PC 2000b). This vehicle for international surveillance of member countries' trade policies has generally been regarded as a useful advance. Nevertheless, it remains a mechanism that is largely *external* to the policy debate within member countries.

The idea of promoting greater transparency in trade policy development within WTO member countries continues to have support.

The Tasman Transparency Group, a collective of Australian and New Zealand agriculture and business organisations, released a paper, in July 2006, proposing that a unit be established within the WTO to assist countries to build a local institutional capacity in trade policy formulation (see box 4.3).

Box 4.3 **The Tasman Transparency Group's proposal**

The 'Tasman Transparency Group' recently proposed that a special facility, a 'transparency agency', be created within the WTO. This agency would be at arms length from the negotiating process. Its role would be to assist individual governments introduce domestic processes that would enable governments to secure better outcomes from multilateral negotiations — that is, greater trade liberalisation. Member countries would have the option to make use of this facility, but there would be no obligation to do so.

The Group proposed that the transparency agency would have no power of enforcement. The aim of the agency would be to raise awareness of the source of domestic gains from reform including trade liberalisation. The Group recognised that, given the consensus nature of decision-making in the WTO, considerable effort and debate would be required to gain the necessary support.

The Tasman Group suggested that the Australian and New Zealand Governments advocate their proposal to APEC, the World Bank, the IMF, the OECD and UNCTAD (United Nations Conference on Trade and Development).

Source: Tasman Transparency Group (2006).

Australia's Prime Minister, John Howard, has acknowledged the benefits of a domestic transparency mechanism in assisting trade reform:

> …supporting trade liberalisation in democracies will only succeed if communities in each country believe that it is in their interest to liberalise. In the Australian context, the work of the Productivity Commission and its predecessors … has been fundamental to building and maintaining Australian public understanding of the benefits of greater openness to international competition. … If other countries could adopt similar transparent institutional responses, public opinion would be better informed on the cost of trade barriers… (Howard 2003a, p.2).

The particular institutional arrangements to achieve this would need to reflect each member country's social and political environment. Developing and implementing such arrangements is not something that is likely to be achieved quickly or easily. Nevertheless, the longer term benefits could be substantial and warrant renewed attention within the WTO forum.

4.2 Developments in preferential trade agreements

Worldwide, 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 — 186 PTAs had been notified as of November 2005 (PC 2006a). More recently, the WTO has estimated that the number of PTAs could rise to 400 by 2010 (Lamy 2007).

The effects of PTAs are significantly more complex and uncertain than the effects of multilateral reform. The recent surge in PTAs, while affording possible benefits, also carries some risk (PC 2004a).

An eminent panel of trade policy experts (WTO 2004) noted that PTAs can provide an avenue for small groups of nations to further liberalise trading arrangements beyond what is currently achievable in a multilateral arena, and that any progress in regional trade liberalisation could be multilateralised through WTO negotiations in the future. It is also argued that the negotiation of PTAs may also help challenge some well-established protectionist interests within a country, and assist developing countries to adjust gradually to the opening of their markets.

However, the panel suggested that the proliferation of PTAs could undermine the key 'most favoured nation' principle of the WTO rules and global trade liberalisation. The panel cautioned that PTAs can divert trade from the most efficient countries, entrench support for less ambitious multilateral reform from the beneficiaries of PTA discrimination; divert skilled and experienced negotiating resources; and facilitate the emergence of 'non-trade' objectives in trade agreements (WTO 2004). PTAs can also introduce other costs for businesses, associated with different preferential rates and 'rules of origin'.[1]

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[1] Rules of origin specify the conditions under which a good is deemed to have originated from one of the countries that are party to a PTA, and thus be eligible for concessional treatment. For example, rules of origin might specify that, to be eligible for concessions, at least 50 per cent of the value added of the good must have been added in the countries party to the PTA. Without such rules, 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.

Much of the analysis of PTAs has been undertaken at a conceptual level, or has involved modelling the potential impacts on trade and production in advance of the implementation of a PTA. Key influences on the trade and economic outcomes from a PTA include: the scope for trade diversion relative to trade creation, the nature of rules of origin, the coverage of trade under the agreement, and the number of exemptions and escape clause provisions. How these will play out in practice is often hard to predict.[2]

One of the few empirical studies to assess the effects of PTAs *in place* was conducted a few years ago by Productivity Commission staff (Adams et al. 2003). This analysis, while not definitive, suggested that a number of longer-standing PTAs may have diverted more trade than they created, potentially reducing welfare in the countries where this had occurred. However, the study also found evidence that some non-trade provisions could enhance international investment flows, particularly where the provisions were non-preferential in nature.

While the Australian Government has indicated that its 'highest trade priority is to free up global trade through the Doha Round' (Vaile 2006a), Australia has also followed the current trend of developing more PTAs, in part reflecting views about the pace and scope of likely outcomes from multilateral negotiations under the WTO. According to the (then) Minister for Trade:

> In addition to our multilateral trade efforts, Australia is also looking for trade results through bilateral and regional agreements. These can often get faster commercial results than the multilateral process. They can also address non-tariff barriers like government procurement, competition, intellectual property and investment controls (Vaile 2006b).

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.[3] Since then, Australia has concluded bilateral agreements with Singapore, Thailand and the United States.

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[2] The Australian Department of Foreign Affairs and Trade has indicated that, in recognition of these points, Australian trade negotiators are pushing for strengthened disciplines on PTAs as part of the Doha negotiations. It has stated that "Subjecting [regional trade agreements] to review and effective disciplines in the WTO is important to Australia's broader trade objectives by ensuring the comprehensive [free trade agreements] are concluded that can serve as building blocks to broader trade liberalisation" (DFAT 2006c, p. 82).

[3] 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). However, only the ANZCERTA is a reciprocal agreement; the others are essentially mechanisms by which Australia unilaterally grants preferential entry to its market for aid reasons.

The Australian Government is currently negotiating further bilateral agreements with China, Malaysia, Japan, Chile and the Gulf Cooperation Council (GCC). It is also pursuing a joint agreement encompassing the Association of South East Asian Nations (ASEAN) and New Zealand. The Australian Government is undertaking a feasibility study of the benefits of a PTA with the Republic of Korea. The details of these negotiations are summarised below.

The Australian Government has also recently implemented changes to the rules of origin in the Australia-New Zealand Closer Economic Relations Trade Agreement. These changes are also outlined and discussed in this section.

On-going negotiations

China

A joint feasibility study on a PTA between Australia and China, released in April 2005, suggested that it could provide significant economic benefits. Following the release of the study, the Prime Minister of Australia and the Premier of China agreed to enter into negotiations.

Eight rounds of negotiations have been held thus far, with the market access negotiations for goods and services starting at the 7th round held in December 2006. While the exact details of country goods offers are confidential, Australia's offer did not include any acceleration of the current tariff reduction in existing industry plans for textile, clothing and footwear and passenger motor vehicles sectors (DFAT 2006a). Following this initial round of offers, Australia has requested that China provide a broader goods offer, particularly in the area of agriculture. Matters subject to forthcoming negotiations include the methodology for the rules of origin and import licensing.

Despite China acknowledging that negotiations with Australia were complex, reflecting a level of ambition in the PTA that is unprecedented for China, it has committed to significant progress in negotiations by mid-2008 (Chinese Government 2006, DFAT 2006b).

Malaysia

In April 2005, following the release of scoping studies, the Prime Ministers of Australia and Malaysia agreed to begin negotiations on a PTA.

There have been four full rounds of negotiations since May 2005. Initial tariff offers on goods were tabled in July 2006, which began the process of each country identifying areas for improved offers. Agreement has been reached on the approach to rules of origin, and negotiations have significantly advanced agreement on intellectual property. A number of issues remain to be resolved. Australia has raised concerns that Malaysia's import licensing system may impede realisation of the market access benefits brought about by tariff reductions. Negotiations are also continuing in relation to government procurement, services and investment.

ASEAN-New Zealand

Regional trade negotiations commenced in early 2005 on an Australia–ASEAN–New Zealand Free Trade Area.

Tariff negotiations are proceeding using a two-track ('normal' and 'sensitive') approach. Tariffs on goods covered by the normal track, covering 90 per cent of tariff lines, will be eliminated over an agreed timeframe (still subject to negotiation). Tariff commitments on the remaining tariff lines are still being discussed, but will involve a combination of tariff elimination for some products and commitments such as tariff caps for others. Indicative lists of sensitive goods have been exchanged by ASEAN countries, Australia and New Zealand. Initial tariff offers are expected to be exchanged in the middle of 2007, to be followed by detailed market access negotiations.

Negotiations relating to rules of origin are underway. All parties have agreed to establish a rule of origin regime under which exporters will be able to use either a Change in Tariff Classification approach or a value added approach.

Discussions have begun on the broader services agenda, including provisions regarding the movement of persons, telecommunications, electronic commerce and financial services. Initial services offers are to be exchanged by mid-2007. Negotiations have also been held on investment regimes, although a number of issues are still to be resolved (DFAT 2007).

Recent announcements

In December 2006, the Australian Government announced that it would seek to commence bilateral negotiations, with a view to developing comprehensive and ambitious PTAs, with:

- Japan;
- the Gulf Cooperation Council (GCC[4]); and
- Chile.

4 The GCC comprises Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

Bilateral negotiations are expected to commence during 2007 (Truss 2006a, 2006b, 2006c).

Previous bilateral negotiations with the United Arab Emirates have been incorporated into the GCC negotiations following the decision by the Supreme Council of the GCC that member countries could only negotiate trade agreements collectively, with the exception of those with the United States.

In addition to the announcement of a number of bilateral trade negotiations, Australia and the Republic of Korea agreed to conduct a joint study on a possible PTA in December 2006. The feasibility study will be undertaken by private research institutions in both countries. The study is expected to report to both governments towards the end of 2007 (Truss 2006d).

Changes to the Australian New Zealand CER rules of origin

In 1983, Australia signed the Australian New Zealand Closer Economic Relations Trade Agreement (ANZCERTA). Like most PTAs, ANZCERTA has specific rules of origin which determine whether goods are classified as being manufactured in either Australia or New Zealand, thus qualifying for concessional entry. The rules are relevant only where concessional entry applies under ANZCERTA — that is, for items with non-zero tariffs in Australia or New Zealand.

In 2004, the Commission was asked to report on the suitability of these rules of origin. It found that, although there were some problems, generally the ANZCERTA rules of origin were not overly restrictive (compared to rules of origin 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 ANZCERTA rules of origin. 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 2004b).

Subsequently, a new framework for ANZCERTA rules of origin was agreed at the annual meeting of Australian and New Zealand Trade and Economic Ministers, December 2004. The Ministers agreed to adopt a 'change of tariff classification' (CTC) approach to determining origin in ANZCERTA, and committed to 'the liberalisation of all tariff lines over time' (CERMF 2004). The new rules of origin were finalised in 2006, taking effect on 1 January 2007.

The new rules of origin will operate concurrently with the existing 'factory cost' rules until the end of December 2011, when the factory cost rules will cease. Under this transition arrangement, producers of goods not currently qualifying for preferential treatment under the outgoing 'factory cost' rules would be able to apply under the 2006 rules. Similarly, producers failing to qualify under the 2006 rules would be able to apply under the factory cost rules. From 1 January 2012, origin for the purpose of obtaining ANZCERTA tariff preferences would be determined only by the 2006 rules.

The 2006 rules differ significantly from the outgoing rules. The latter are relatively free from deliberately restrictive and product-specific provisions (PC 2004b). While the 2006 are based on a CTC approach, they also contain a variety of product-specific provisions, sector-specific technical tests and regional value-of-content provisions (see box 4.4), settled after a significant period of negotiation involving exporters, industry associations and government officials. Such additional provisions apply to nearly 20 per cent of the line items to which tariffs apply, including many 'sensitive' items which attract relatively high tariffs.

The Commission has found that product-specific rules (typically associated with the CTC model) are fraught with problems including: inconsistent treatment of industries; differences between PTAs for individual items of trade; openness to manipulation to provide sectoral assistance with limited transparency; and multiple criteria for individual items (PC 2004b). These problems tend to reduce efficiency and raise compliance and administrative costs.

However, the ultimate impact of the new ANZCERTA rules of origin will depend on the relative tariffs in Australia and New Zealand and the margin of preference these differences afford Australian and New Zealand producers — the lower the tariffs and differences in tariffs between PTA partners, the lower the potential efficiency costs of product-specific rules of origin. The Commission found that further scheduled tariff reductions in Australia and New Zealand could render ANZCERTA rules of origin 'virtually irrelevant in 5 to 10 years time' (that is, before 2015).

It noted that there would be gains to both Australia and New Zealand from closer alignment of their trade regimes, such that there would be little or no need for rules of origin and the economic and administrative costs associated with them. Accordingly, among other things, the Commission recommended that:

> Before 2010, consideration should be given to advancing the goals of the CER Agreement by: … alignment of remaining non-zero MFN rates in the Australian and New Zealand tariff schedules, so that ultimately merchandise trade from all sources enters each jurisdiction on a common basis. (PC 2004b, p. 178)

Box 4.4 Selected examples from the 2006 CER rules of origin

While the majority of the new rules of origin are based on the CTC approach alone, a significant minority also include applications of product-specific regional value content and technical tests for determining origin.[5] Three examples of such rules follow.

Example 1: Men or boy's coats and jackets (HS 6101 & 6103)

The rule requires that there is a change to heading 6101 or 6103 from any other chapter:

- provided that the good is both cut (or knit to shape) and sewn or otherwise assembled in the territory of one or both of the Parties; and
- there is a regional value content of not less than 50 percent based on the factory cost method.

Example 2: Blankets and travelling rugs (HS 6301)

The rule requires that there is a change to heading 6301 from any other heading:

- except from headings 5007, 5111 through 5113, 5208 through 5212, 5309 through 5311, 5407 through 5408, 5512 through 5516, 5602 through 5603, 5801 through 5802, 5809 through 5811, 5903, 5906 through 5907 or 6001 through 6002; or
- provided there is a regional value content of not less than 55 percent based on the build down method.

Example 3: Insecticides, rodenticides, fungicides, herbicides etc (HS 380850)

The rule requires that there is a change to heading 380850 from any other subheading:

- provided that 50 per cent, by weight of the active ingredient or ingredient, is originating.

Source: Customs (New Zealand Rules of Origin) Regulations 2006.

5 The CTC approach requires that each of the non-originating materials used in the final goods must undergo the applicable classification change. Generally, this means that the non-originating materials are classified under one tariff provision before processing and under another once processing is complete. The regional value content approach requires that a certain proportion of the value of the final good must originate in the preferential trade area (that is, Australia or New Zealand). The product specific rules adopt a number of methods for defining origin. Technical or specific process tests require certain industrial processes to be undertaken to confer origin in the country in which the processes are carried out.

A Detailed budgetary assistance estimates

Each year, the Commission calculates estimates of the Australian Government's budgetary assistance to industry. For the new series of estimates introduced with this edition of *Trade & Assistance Review*, the Commission has broadened the coverage of budgetary measures. The changes reflect the introduction of new programs by the government, the inclusion of some previously unidentified or omitted assistance measures, and improvements in data availability.

The Commission also provides estimates of the incidence of the assistance provided by those budgetary measures. 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 Commission now reports estimates for 35 industry groupings (plus 4 'unallocated' groupings).

The methodology used to allocate budgetary assistance to these industry groupings has been described in Methodological Annexes to previous editions of *Trade & Assistance Review* (PC 2000d, PC 2002c, PC 2006b). For the estimates in this edition, the Commission has revised its allocations for some previously-included programs, and made allocations for a number of programs included for the first time this year. These changes are set out in a (forthcoming) Methodological Annex to this year's *Review*.

The tables in this appendix contain detailed estimates of budgetary assistance to each industry grouping from 2001-02 to 2005-06. For each grouping, information is provided on:

- the programs classified as assisting the grouping and the extent of that assistance; and
- the activity that each program assists — such as exports and R&D.

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 incorporate revisions to outlays and tax concessions for previous years.

Table A.1 **Estimated[a] Australian Government budgetary assistance to primary production, 2001-02 to 2005-06**

$ million

	01-02	*02-03*	*03-04*	*04-05*	*05-06*
Horticulture and fruit growing					
Industry-specific measures					
Citrus Canker Eradication Programme	-	-	-	3.5	9.8
Citrus industry market diversification subsidy	0.7	-	-	-	-
Tax deduction for horticultural plantations	4.0	5.0	5.0	5.0	5.0
Tax deduction for grape vines	7.0	8.0	10.0	10.0	9.0
Sector-specific measures					
Agricultural development partnership	0.4	1.7	2.7	1.1	-
Drought Relief Package	-	<0.1	0.1	<0.1	-
Exceptional circumstances – interest rate subsidy	-	0.2	1.9	2.1	4.9
Farm Help	3.0	3.5	2.3	1.4	2.5
Farm Management Deposits Scheme	13.3	37.3	24.7	10.1	13.0
Farm Bis Program	1.9	4.0	3.8	2.7	1.1
Income tax averaging provisions	21.8	26.0	16.4	11.1	11.1
Industry partnerships program	-	-	-	3.5	2.7
Rural adjustment scheme	0.1	-	-	-	-
Rural Financial Counselling Service	0.9	0.8	1.0	0.7	0.7
Skilling farmers for the future	0.4	0.5	0.4	-	-
Tax allowance on drought preparedness assets	<0.1	-	-	-	-
Tax deduction for conserving or conveying water	4.5	5.6	5.6	8.3	9.9
Rural R&D measures					
Grape and Wine R&D Corporation	5.9	7.0	6.9	8.1	12.0
Horticulture R&D	26.3	29.6	28.4	32.9	33.6
Rural Industries R&D Corporation	1.9	1.9	2.0	1.9	2.3
General export measures					
Export Market Development Grants Scheme	1.7	1.7	1.7	1.4	0.9
TRADEX	0.1	<0.1	<0.1	<0.1	-
General investment measures					
Development allowance	<0.1	<0.1	<0.1	<0.1	<0.1
General R&D measures					
Biotechnology Innovation Fund	-	-	0.1	0.1	0.1
Commercial Ready Program	-	-	-	-	1.0
COMET Program	0.1	<0.1	<0.1	0.1	<0.1
Cooperative Research Centres	2.1	2.0	4.2	3.7	1.6
CSIRO	10.2	10.5	15.7	24.0	22.9
Major national research facilities	0.1	0.7	1.1	1.3	1.3
New Industries Development Program	1.4	1.3	1.1	1.2	0.9
Premium R&D tax concession	<0.1	0.1	0.2	0.1	0.2
Preseed fund	-	3.4	0.7	0.3	-
R&D Start	0.1	1.6	0.2	0.4	0.2
R&D tax concession	0.3	0.9	1.1	0.7	0.7

Table A.1 (continued)

	01-02	02-03	03-04	04-05	05-06
Other measures					
Eden Structural Adjustment	<0.1	<0.1	<0.1	-	-
Farm Innovation Program	3.1	0.7	0.1	-	-
R&D tax offset for small companies	-	1.4	1.9	1.6	2.0
Small business capital gains tax exemption	0.3	1.1	1.3	0.8	0.8
South West Forests Structural Adjustment	0.1	0.1	-	-	-
Wide Bay Burnett Structural Adjustment Program	0.1	0.1	-	-	-
Total	*111.7*	*157.0*	*140.6*	*138.1*	*150.1*
Grain, sheep and beef cattle farming					
Industry-specific measures					
Beef Expo & Gracemere Saleyards	1.8	3.9	-	-	-
Lamb industry development program	11.7	-	-	-	-
National Livestock Identification System	-	-	-	5.0	5.0
Ovine Johnes Disease Control Programme	0.4	0.1	0.1	0.3	0.3
Tasmanian wheat freight subsidy	0.8	0.8	0.8	0.4	0.7
Tuberculosis Freedom Assurance Programme	-	-	1.0	0.6	-
Sector-specific measures					
Agricultural development partnership	0.2	0.7	1.2	0.5	-
Drought Relief Package	-	2.1	4.8	1.6	-
Exceptional circumstances – interest rate subsidy	-	25.2	66.1	70.9	166.2
Exceptional circumstances – relief payments	10.6	24.5	92.8	70.9	92.8
Farm Help	8.1	12.3	5.0	7.1	6.2
Farm Management Deposits Scheme	109.8	306.4	178.8	67.8	78.3
Farm Bis Program	11.6	17.7	14.2	6.9	6.5
Income tax averaging provisions	163.2	139.3	87.8	61.0	61.0
Industry partnerships program	-	-	-	0.1	0.3
Interim Income Support	-	27.8	25.1	1.1	0.3
Rural adjustment scheme	8.1	-	-	-	-
Rural Financial Counselling Service	1.4	1.7	2.0	1.9	2.5
Skilling farmers for the future	2.3	2.3	1.6	-	-
Tax allowance on drought preparedness assets	0.8	-	-	-	-
Tax deduction for conserving or conveying water	7.3	10.0	10.0	8.5	10.2
Rural R&D measures					
Wool R&D	14.4	16.2	14.1	13.5	11.0
Grains R&D Corporation	40.8	39.2	42.4	35.7	43.1
Meat and livestock R&D	22.9	26.6	32.8	39.0	40.3
Rural Industries R&D Corporation	2.6	2.7	2.6	2.2	1.8
General export measures					
EFIC national interest business[b]	3.9	4.3	4.3	3.6	3.1
Export Market Development Grants Scheme	0.2	0.3	0.5	0.4	0.4
General investment measures					
Development allowance	<0.1	<0.1	<0.1	<0.1	<0.1

Table A.1 (continued)

	01-02	02-03	03-04	04-05	05-06
General R&D measures					
Biotechnology Innovation Fund	-	0.1	0.1	<0.1	-
Commercial Ready Program	-	-	-	0.2	-
COMET Program	-	<0.1	<0.1	-	0.1
Cooperative Research Centres	6.2	8.2	9.0	8.7	10.7
CSIRO	43.3	44.4	61.4	71.3	69.9
Innovation investment fund	-	-	-	1.0	-
New Industries Development Program	0.3	0.3	0.2	0.3	0.2
Premium R&D tax concession	0.1	0.2	0.3	0.1	0.1
R&D Start	-	-	0.1	-	-
R&D tax concession	2.0	1.2	1.5	0.4	0.4
Other measures					
Farm Innovation Program	0.8	0.2	<0.1	-	-
R&D tax offset for small companies	-	-	-	0.3	0.4
Small business capital gains tax exemption	0.8	2.9	3.2	8.0	8.3
Total[c]	*476.3*	*721.4*	*663.7*	*489.3*	*620.1*
Dairy cattle farming					
Sector-specific measures					
Agricultural development partnership	0.2	0.7	1.2	0.5	-
Drought Relief Package	-	0.9	1.4	0.5	-
Exceptional circumstances – interest rate subsidy	-	11.0	19.7	21.2	49.6
Exceptional circumstances – relief payments	7.5	17.5	44.1	33.6	44.1
Farm Help	2.4	8.3	5.0	1.2	1.0
Farm Management Deposits Scheme	10.0	21.2	12.5	5.6	8.2
Farm Bis Program	1.3	2.4	1.6	0.5	0.3
Income tax averaging provisions	18.8	26.1	16.5	24.5	24.5
Interim Income Support	-	19.8	11.9	0.5	0.1
Rural adjustment scheme	3.5	-	-	-	-
Rural Financial Counselling Service	0.6	0.6	0.6	0.4	0.4
Skilling farmers for the future	0.3	0.3	0.2	-	-
Tax allowance on drought preparedness assets	<0.1	-	-	-	-
Tax deduction for conserving or conveying water	0.6	1.2	1.2	1.4	1.7
Rural R&D measures					
Dairy Research and Development	15.4	14.1	15.4	14.5	15.4
General export measures					
Export Market Development Grants Scheme	<0.1	<0.1	<0.1	<0.1	<0.1
TRADEX	-	-	-	0.4	0.5
General R&D measures					
CSIRO	10.1	10.4	11.1	13.7	13.6
New Industries Development Program	0.4	0.3	0.3	0.3	0.2
Other measures					
Farm Innovation Program	0.1	<0.1	<0.1	-	-
Small business capital gains tax exemption	<0.1	-	-	-	-
Total[d]	*71.1*	*135.0*	*142.5*	*118.8*	*159.6*

Table A.1 (continued)

	01-02	02-03	03-04	04-05	05-06
Poultry farming					
Sector-specific measures					
Drought Relief Package	-	<0.1	<0.1	<0.1	-
Exceptional circumstances – interest rate subsidy	-	0.1	<0.1	<0.1	0.1
Exceptional circumstances – relief payments	0.3	0.6	2.0	1.5	2.0
Farm Help	0.5	0.6	0.1	-	<0.1
Farm Management Deposits Scheme	0.3	0.6	0.5	0.3	0.4
Farm Bis Program	<0.1	0.1	0.1	<0.1	<0.1
Income tax averaging provisions	1.8	1.5	0.9	0.6	0.6
Industry partnerships program	-	-	-	0.1	0.2
Interim Income Support	-	0.7	0.5	<0.1	<0.1
Rural adjustment scheme	<0.1	-	-	-	-
Rural Financial Counselling Service	<0.1	<0.1	<0.1	<0.1	<0.1
Skilling farmers for the future	<0.1	<0.1	<0.1	-	-
Tax allowance on drought preparedness assets	<0.1	-	-	-	-
Tax deduction for conserving or conveying water	0.1	0.1	0.1	0.1	0.2
Rural R&D measures					
Egg Research and Development	-	-	1.1	0.8	0.8
Rural Industries R&D Corporation	2.8	1.7	2.0	2.1	2.0
General export measures					
Export Market Development Grants Scheme	-	-	0.1	<0.1	<0.1
General R&D measures					
Cooperative Research Centres	-	-	3.2	3.5	3.4
CSIRO	-	-	1.2	1.2	1.2
New Industries Development Program	0.2	0.1	0.1	0.1	0.1
R&D tax concession	<0.1	-	-	-	-
Other measures					
Farm Innovation Program	0.4	0.1	<0.1	-	-
Small business capital gains tax exemption	<0.1	-	-	1.2	1.2
Total	*6.4*	*6.2*	*12.1*	*11.5*	*12.4*

Table A.1 (continued)

	01-02	02-03	03-04	04-05	05-06
Other livestock farming					
Industry-specific measures					
Pigmeat processing grants program	1.6	-	-	-	-
Sector-specific measures					
Drought Relief Package	-	<0.1	0.1	<0.1	-
Exceptional circumstances – interest rate subsidy	-	0.5	1.2	1.3	3.1
Exceptional circumstances – relief payments	0.2	0.3	1.2	0.9	1.2
Farm Help	0.4	1.1	0.2	0.2	0.2
Farm Management Deposits Scheme	7.8	19.8	12.6	5.0	6.7
Farm Bis Program	0.1	0.4	0.3	0.1	0.1
Income tax averaging provisions	7.0	6.5	4.1	2.8	2.8
Industry partnerships program	-	-	-	0.1	<0.1
Interim Income Support	-	0.4	0.3	<0.1	<0.1
Rural adjustment scheme	0.2	-	-	-	-
Rural Financial Counselling Service	0.4	0.4	0.4	0.3	0.3
Skilling farmers for the future	<0.1	<0.1	<0.1	-	-
Tax allowance on drought preparedness assets	<0.1	-	-	-	-
Tax deduction for conserving or conveying water	0.3	0.6	0.6	0.2	0.2
Rural R&D measures					
Pig Research and Development	3.7	3.3	4.6	6.2	3.6
Rural Industries R&D Corporation	1.2	1.2	1.1	1.2	1.2
General export measures					
Export Market Development Grants Scheme	0.3	0.6	0.4	0.5	0.5
General R&D measures					
COMET Program	0.1	<0.1	-	-	-
Cooperative Research Centres	-	-	-	-	3.3
CSIRO	4.1	4.3	3.4	3.8	3.8
New Industries Development Program	0.3	0.3	0.2	0.3	0.2
R&D tax concession	0.6	0.7	0.8	0.6	0.6
Other measures					
Farm Innovation Program	0.5	0.1	<0.1	-	-
Small business capital gains tax exemption	<0.1	-	-	-	-
Total	*28.6*	*40.6*	*31.7*	*23.6*	*28.0*

Table A.1 (continued)

	01-02	02-03	03-04	04-05	05-06
Other crop growing					
Industry-specific measures					
Sugar Industries Package	19.3	-	-	-	-
Sugar Industry Infrastructure Program	1.8	-	-	-	-
Sugar Industry Reform Program	-	-	69.9	129.4	140.0
Sector-specific measures					
Drought Relief Package	-	0.2	0.2	0.1	-
Exceptional circumstances – interest rate subsidy	-	2.7	3.4	3.7	8.6
Exceptional circumstances – relief payments	1.3	2.9	13.3	10.2	13.3
Farm Help	10.0	2.4	2.5	1.4	0.9
Farm Management Deposits Scheme	7.7	21.3	14.0	5.5	7.5
Farm Bis Program	0.2	1.1	0.9	0.1	0.1
Income tax averaging provisions	7.0	6.9	4.3	5.1	5.1
Industry partnerships program	-	-	-	0.1	-
Interim Income Support	-	3.3	3.6	0.2	<0.1
Rural adjustment scheme	0.9	-	-	-	-
Rural Financial Counselling Service	0.1	0.1	0.1	0.1	0.1
Skilling farmers for the future	<0.1	0.1	0.1	-	-
Tax allowance on drought preparedness assets	0.1	-	-	-	-
Tax deduction for conserving or conveying water	6.8	6.2	6.2	5.2	6.2
Rural R&D measures					
Cotton Research and Development Corporation	7.2	7.3	4.8	4.3	4.9
Rural Industries R&D Corporation	0.4	0.6	0.7	0.6	0.8
Sugar Research and Development Corporation	7.0	5.1	5.2	3.8	5.2
General export measures					
Export Market Development Grants Scheme	0.5	0.3	0.2	0.1	0.2
TRADEX	-	<0.1	<0.1	-	-
General R&D measures					
Biotechnology Innovation Fund	-	<0.1	0.2	0.2	0.1
Commercial Ready Program	-	-	-	-	0.1
COMET Program	-	<0.1	<0.1	<0.1	<0.1
Cooperative Research Centres	7.5	6.1	8.3	6.6	8.1
CSIRO	9.7	9.9	9.6	14.2	13.6
New Industries Development Program	0.2	0.1	0.1	0.1	0.1
Premium R&D tax concession	<0.1	0.1	0.1	0.2	0.2
R&D Start	0.1	-	-	<0.1	-
R&D tax concession	2.0	0.5	0.6	0.8	0.9
Other measures					
Farm Innovation Program	0.9	0.2	<0.1	-	-
R&D tax offset for small companies	-	-	-	0.2	0.2
Small business capital gains tax exemption	0.1	-	-	-	-
Total[e]	*90.8*	*77.5*	*148.5*	*192.2*	*216.3*

Table A.1 (continued)

	01-02	02-03	03-04	04-05	05-06
Services to agriculture (inc hunting and trapping)					
Industry-specific measures					
Renewable Energy Equity Fund	-	-	-	-	0.5
Sector-specific measures					
Drought Relief Package	-	<0.1	<0.1	<0.1	-
Exceptional circumstances – interest rate subsidy	-	<0.1	<0.1	<0.1	<0.1
FarmBis Program	-	<0.1	0.1	-	<0.1
Income tax averaging provisions	10.3	9.0	5.7	4.4	4.4
Rural adjustment scheme	<0.1	-	-	-	-
Skilling farmers for the future	-	<0.1	<0.1	-	-
Tax allowance on drought preparedness assets	<0.1	-	-	-	-
Tax deduction for conserving or conveying water	0.4	1.3	1.3	0.6	0.7
General export measures					
Export Market Development Grants Scheme	0.3	0.4	0.6	0.1	0.3
TRADEX	0.1	<0.1	<0.1	<0.1	<0.1
General R&D measures					
Biotechnology Innovation Fund	0.1	1.2	0.9	0.5	0.2
Commercial Ready Program	-	-	-	0.1	1.0
COMET Program	0.3	0.1	0.1	0.2	0.3
Premium R&D tax concession	<0.1	0.1	0.2	0.7	0.7
R&D Start	5.2	1.4	1.3	1.1	0.2
R&D tax concession	0.8	0.8	0.9	3.6	3.8
Other measures					
Farm Innovation Program	0.1	<0.1	<0.1	-	-
R&D tax offset for small companies	-	1.0	1.4	1.5	1.8
Small business capital gains tax exemption	0.2	0.5	0.5	1.1	1.1
Small business programs	-	-	-	-	0.4
South West Forests Structural Adjustment	0.1	0.1	-	-	-
Wide Bay Burnett Structural Adjustment	<0.1	<0.1	-	-	-
Total	*17.9*	*15.7*	*13.1*	*13.8*	*15.7*
Forestry and logging					
Industry-specific measures					
12-month prepayment rule	-	55.0	-15.0	40.0	40.0
Forest Industry Structural Adjustment	18.9	16.4	21.5	21.3	9.7
Sector-specific measures					
Farm Management Deposits Scheme	0.1	0.4	0.3	0.1	0.2
Income tax averaging provisions	2.9	4.1	2.6	4.1	4.1
Industry partnerships program	-	-	-	0.1	-
Rural Financial Counselling Service	<0.1	0.1	<0.1	<0.1	<0.1
Tax deduction for conserving or conveying water	<0.1	0.1	0.1	0.8	0.9

Table A.1 (continued)

	01-02	02-03	03-04	04-05	05-06
Rural R&D measures					
Forest and Wood Products R&D	1.4	1.5	1.6	1.4	1.4
Rural Industries R&D Corporation	2.2	1.8	1.7	1.3	1.8
General export measures					
Export Market Development Grants Scheme	<0.1	<0.1	<0.1	-	<0.1
General R&D measures					
Commercial Ready Program	-	-	-	-	0.6
COMET Program	-	0.1	<0.1	<0.1	-
Cooperative Research Centres	2.4	2.4	2.6	0.4	2.7
CSIRO	12.6	13.0	19.9	24.2	24.0
Premium R&D tax concession	<0.1	<0.1	<0.1	0.1	0.1
R&D tax concession	0.5	0.1	0.2	0.3	0.3
Other measures					
Eden Structural Adjustment	0.1	<0.1	<0.1	-	-
Farm Innovation Program	0.1	<0.1	<0.1	-	-
R&D tax offset for small companies	-	-	-	0.1	0.1
Small business capital gains tax exemption	0.1	-	-	-	-
Total	*41.3*	*95.0*	*35.6*	*94.2*	*85.8*
Commercial fishing					
Industry-specific measures					
Aquaculture Industry Action Agenda	-	-	2.5	1.0	-
Fisheries Structural Adjustment Package	-	-	-	-	1.3
Great Barrier Reef Structural Adjustment	-	-	-	49.1	32.6
Sector-specific measures					
Farm Help	0.1	0.1	0.1	1.2	0.1
Farm Management Deposits Scheme	1.0	3.0	1.6	0.6	0.7
Farm Bis Program	0.2	1.1	3.7	1.6	0.3
Income tax averaging provisions	27.2	10.6	6.7	6.4	6.4
Industry partnerships program	-	-	-	0.4	0.4
Rural Financial Counselling Service	0.1	0.1	0.1	0.1	0.1
Skilling farmers for the future	<0.1	0.1	0.4	-	-
Tax allowance on drought preparedness assets	<0.1	-	-	-	-
Tax deduction for conserving or conveying water	<0.1	-	-	-	-
Rural R&D measures					
Fishing industry R&D	15.8	17.4	17.7	16.9	16.0
General export measures					
Export Market Development Grants Scheme	0.4	0.3	0.5	0.4	0.5
TRADEX	<0.1	<0.1	<0.1	<0.1	<0.1
General investment measures					
Development allowance	1.6	0.8	0.4	0.3	0.2

Table A.1 (continued)

	01-02	02-03	03-04	04-05	05-06
General R&D measures					
Commercial Ready Program	-	-	-	0.1	1.6
COMET Program	<0.1	<0.1	0.1	0.1	0.1
Cooperative Research Centres	1.5	2.6	2.7	2.6	2.6
CSIRO	29.0	30.1	29.6	39.9	40.7
New Industries Development Program	0.4	0.4	0.3	0.3	0.3
Premium R&D tax concession	0.1	0.2	0.3	0.4	0.4
R&D Start	2.3	0.5	2.2	1.8	1.2
R&D tax concession	0.5	1.3	1.6	1.9	2.1
Other measures					
Eden Structural Adjustment	0.2	0.1	<0.1	-	-
Farm Innovation Program	0.6	0.1	<0.1	-	-
Industry Cooperative Innovation Program	-	-	-	-	0.1
R&D tax offset for small companies	-	1.9	2.7	3.9	4.9
Small business capital gains tax exemption	0.4	0.3	0.3	1.5	1.5
South West Forests Structural Adjustment	<0.1	<0.1	-	-	-
Total	*81.6*	*71.2*	*73.6*	*130.5*	*114.0*
Unallocated primary production					
Industry-specific measures					
Australian animal health laboratory	5.9	6.1	6.2	6.8	6.9
Exotic Disease Preparedness program	1.2	1.2	3.0	1.2	0.8
Sector-specific measures					
Agricultural development partnership	0.3	1.4	2.3	1.0	-
Drought Relief Package	-	<0.1	<0.1	<0.1	-
Exceptional circumstances – interest rate subsidy	-	<0.1	<0.1	<0.1	<0.1
Farm Help	0.6	0.5	0.3	0.4	0.3
Farm Bis Program	0.6	1.2	1.1	0.3	0.1
Industry Partnerships Program	-	-	-	0.2	0.2
National landcare program	40.3	32.7	39.1	39.3	37.0
Regional assistance	-	3.2	4.7	-	-
Rural adjustment scheme	8.8	-	-	-	-
Rural Financial Counselling Service	1.8	1.5	1.2	1.0	1.0
Skilling farmers for the future	0.1	0.2	0.1	-	-
Rural R&D measures					
Land and water resources R&D	11.6	11.9	12.2	12.5	12.5
Rural Industries R&D Corporation	4.2	4.7	4.8	5.2	5.4

Table A.1 (continued)

	01-02	02-03	03-04	04-05	05-06
General R&D measures					
Biotechnology Innovation Fund	-	-	0.2	-	-
Cooperative Research Centres	9.1	11.0	19.4	20.8	22.0
Major national research facilities	0.1	0.7	1.1	1.3	1.3
R&D Start	-	-	1.7	-	-
Other measures					
Tasmanian Freight Equalisation Scheme	4.4	5.5	6.0	9.2	8.2
Total	*89.1*	*81.7*	*103.7*	*99.1*	*95.6*
Total outlays	**562.1**	**656.5**	**936.2**	**993.0**	**1154.4**
Total tax expenditures	**452.7**	**744.9**	**428.8**	**318.0**	**343.1**
Total Budgetary assistance	**1014.8**	**1401.4**	**1365.0**	**1311.0**	**1497.6**

- Nil. Figures may not add to totals due to rounding. [a] The estimates are derived primarily from Australian Government budget papers, departmental annual reports and Treasury's Tax Expenditure Statement. The budget paper estimates are 'estimated actuals'. [b] The estimates reported in this section are net National Interest Business outlays. These payments are insurance pay-outs. Because any difference between the National Interest Business scheme's borrowing and lending rates is underwritten by the Australian Government, the scheme may provide assistance to agricultural exporters. However, net National Interest Business outlays provide only a weak indication of any assistance provided. [c] 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 $6 million in 2005-06. [d] 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 $137 million in 2005-06. [e] Does not include funding of $18 and $9 million in 2002-03 and 2003-04, respectively, provided under the Australian Government's 2002 Sugar Industry Reform Program. This assistance has been included in the estimates of 'agricultural pricing and regulatory assistance'.

Sources: Commonwealth Budget and Budget related papers (various years); departmental annual reports (various years); Treasury 2006; Bishop 2006; departmental data; Commission estimates.

Table A.2 **Estimated[a] Australian Government budgetary assistance to the mining sector, 2001-02 to 2005-06**

$ million

	01-02	*02-03*	*03-04*	*04-05*	*05-06*
Industry-specific measures					
Greenhouse gas abatement program	0.3	0.2	0.7	0.6	0.6
Regional minerals program	0.3	0.3	0.3	0.3	-
Sector-specific measures					
Capital expenditure deduction for mining	30.0	30.0	20.0	20.0	20.0
General export measures					
Export Market Development Grants Scheme	2.2	1.5	1.4	1.4	1.3
TRADEX	0.4	2.3	1.9	0.2	0.5
General investment measures					
Development allowance	78.6	41.1	21.4	12.5	8.9
General R&D measures					
Biotechnology Innovation Fund	-	0.1	<0.1	0.1	<0.1
Commercial Ready Program	-	-	-	0.1	2.4
COMET Program	0.3	0.2	0.2	0.2	0.1
Cooperative Research Centres	7.3	8.4	10.2	10.5	10.9
CSIRO	54.1	55.4	74.4	104.8	109.0
Innovation Investment Fund	0.8	-	-	-	0.9
Major national research facilities	0.1	0.8	1.2	1.3	1.3
New Industries Development Program	0.2	0.1	0.1	0.1	0.1
Premium R&D tax concession	3.3	9.0	14.7	16.6	17.6
R&D Start	13.0	4.4	3.3	1.6	2.8
R&D tax concession	47.4	56.9	69.6	84.6	90.1
Other measures					
R&D tax offset for small companies[c]	-	0.7	1.0	2.4	3.0
Small business capital gains tax exemption	0.1	-	-	-	-
Total outlays	**78.6**	**72.2**	**92.9**	**123.5**	**132.4**
Total tax expenditures	**159.9**	**139.4**	**127.7**	**133.9**	**137.1**
Total Budgetary assistance	**238.4**	**211.5**	**220.6**	**257.4**	**269.6**

- Nil. Figures may not add to totals due to rounding. **a** The estimates are derived primarily from Australian Government budget papers, departmental annual reports and Treasury's Tax Expenditure Statement. The budget paper estimates are 'estimated actuals'.

Sources: Commonwealth Budget and Budget related papers (various years); departmental annual reports (various years); Treasury 2006; Bishop 2006; departmental data; Commission estimates.

Table A.3 **Estimated[a] Australian Government budgetary assistance to the manufacturing sector, 2001-02 to 2005-06**

$ million

	01-02	*02-03*	*03-04*	*04-05*	*05-06*
Food, beverages and tobacco					
Industry-specific measures					
Brandy preferential excise rate	5.0	5.0	5.0	5.0	5.0
Food Processing in Regional Australia	-	-	-	-	3.6
National food industry strategy	-	3.0	12.1	14.5	18.0
Tasmanian wheat freight subsidy	0.4	0.4	0.4	0.2	0.4
TCF Development	-	-	0.1	-	-
Sector-specific measures					
Rural Financial Counselling Service	0.1	0.1	0.2	0.2	0.3
General export measures					
Export Market Development Grants Scheme	8.4	11.2	11.8	11.6	15.2
TRADEX	0.6	0.9	0.7	1.2	0.8
General investment measures					
Development allowance	2.9	1.5	0.8	0.5	0.3
General R&D measures					
Biotechnology Innovation Fund	-	-	0.1	<0.1	-
Commercial Ready Program	-	-	-	0.1	0.8
COMET Program	0.1	<0.1	<0.1	<0.1	<0.1
Cooperative Research Centres	4.1	2.6	2.7	2.6	2.6
CSIRO	21.0	21.7	38.9	36.1	37.7
New Industries Development Program	0.5	0.4	0.4	0.4	0.3
Premium R&D tax concession	0.7	2.0	3.2	3.1	3.3
R&D Start	2.1	1.8	0.8	0.6	0.9
R&D tax concession	20.8	13.1	16.0	15.8	16.8
Other measures					
Australia HomeGrown Campaign	-	-	-	-	0.5
Eden Structural Adjustment	0.7	0.3	0.1	-	-
R&D tax offset for small companies[c]	-	0.7	1.1	1.9	2.3
Small business capital gains tax exemption	0.3	0.5	0.6	2.2	2.3
Small business programs	-	-	-	-	0.6
Tasmanian Freight Equalisation Scheme	12.2	12.5	13.6	15.7	16.3
Wide Bay Burnett Structural Adjustment Program	0.4	0.3	-	-	-
Total	*80.5*	*78.2*	*108.6*	*111.7*	*128.0*
Textiles, clothing, footwear and leather					
Industry-specific measures					
Howe leather – loan repayment	-	-	-2.3	-2.5	-2.4
TCF Corporate Wear Program	37.4	41.1	52.2	46.0	50.9
TCF Development	-	0.5	-	-	0.5
TCF Import Credits Scheme	9.9	-	-	-	-
TCF Strategic Investment Program	150.7	109.7	119.1	123.7	123.8
TCF Strategic Investment Program - Post 2005	-	-	-	-	4.3
TCF Structural Adjustment Scheme	-	-	-	-	2.8

Table A.3 (continued)

	01-02	*02-03*	*03-04*	*04-05*	*05-06*
General export measures					
Export Market Development Grants Scheme	6.2	5.1	4.1	3.5	4.2
TRADEX	15.7	17.5	14.4	8.3	5.8
General R&D measures					
COMET Program	0.1	<0.1	0.1	<0.1	<0.1
CSIRO	32.2	33.0	13.0	18.2	17.8
Premium R&D tax concession	<0.1	<0.1	0.1	0.1	0.1
R&D Start	0.7	1.0	0.6	<0.1	-
R&D tax concession	1.6	0.3	0.4	0.3	0.3
Other measures					
R&D tax offset for small companies	-	0.4	0.5	0.8	1.0
Small business capital gains tax exemption	<0.1	-	-	0.1	0.1
Tasmanian Freight Equalisation Scheme	0.8	0.8	0.6	0.5	0.5
Total	*255.3*	*209.3*	*202.9*	*199.0*	*209.8*
Wood and paper products					
Industry-specific measures					
Investment incentives to Visy industries	3.0	2.9	2.9	-	-
Rural R&D measures					
Forest and Wood products R&D Corporation	1.4	1.5	1.6	1.5	1.6
General export measures					
Export Market Development Grants Scheme	1.8	1.3	1.2	0.9	0.8
TRADEX	0.2	<0.1	<0.1	0.1	0.6
General investment measures					
Development allowance	0.8	0.4	0.2	0.1	0.1
General R&D measures					
Commercial Ready Program	-	-	-	0.2	-
COMET Program	<0.1	<0.1	0.1	<0.1	-
Cooperative Research Centres	2.5	5.4	6.4	5.4	5.3
CSIRO	5.8	5.9	-	-	-
Premium R&D tax concession	0.4	1.2	1.9	3.6	3.8
R&D Start	0.1	0.1	<0.1	0.2	0.3
R&D tax concession	7.5	7.5	9.2	20.2	21.6
Other measures					
R&D tax offset for small companies	-	0.4	0.6	1.0	1.3
Small business capital gains tax exemption	<0.1	-	-	-	-
Tasmanian Freight Equalisation Scheme	20.1	17.4	19.5	19.4	20.8
Wide Bay Burnett Structural Adjustment Program	0.1	<0.1	-	-	-
Total	*43.7*	*44.0*	*43.5*	*52.8*	*56.2*

Table A.3 (continued)

	01-02	02-03	03-04	04-05	05-06
Printing, publishing and recorded media					
Industry-specific measures					
Enhanced printing industry competitiveness	-	1.1	1.6	-	-
Extended printing industry competitiveness	15.9	8.6	11.2	-	-
Printing Industry Competitiveness Scheme	1.9	0.5	-	-	-
General export measures					
Export Market Development Grants Scheme	2.9	3.2	3.2	2.2	3.4
TRADEX	0.1	0.3	0.3	0.2	0.2
General investment measures					
Development allowance	<0.1	<0.1	<0.1	<0.1	<0.1
General R&D measures					
Commercial Ready Program	-	-	-	-	0.1
COMET Program	0.1	0.1	<0.1	<0.1	<0.1
Premium R&D tax concession	0.3	0.8	1.2	1.0	1.1
R&D Start	1.5	0.5	0.6	0.3	0.4
R&D tax concession	1.4	4.9	6.0	5.4	5.7
Other measures					
R&D tax offset for small companies	-	6.6	9.4	11.0	13.6
Small business capital gains tax exemption	0.2	0.2	0.2	-	-
Total	*24.3*	*26.7*	*33.7*	*20.1*	*24.5*
Petroleum, coal, chemical and associated products					
Industry-specific measures					
Biofuels Infrastructure Grants	-	-	-	2.1	11.5
Ethanol production subsidy	-	21.7	10.8	8.6	15.4
Greenhouse gas abatement program	1.5	0.7	3.0	2.7	2.8
Investment incentive to Syntroleum	20.0	-	-	-	-
Pharmaceutical industry development program	50.3	64.7	59.3	0.4	-
Pharmaceutical partnerships program	-	-	-	4.2	12.4
Product Stewardship (Oil) program	2.6	8.8	6.4	5.5	5.4
Renewable Energy Equity Fund	-	-	-	0.8	2.8
General export measures					
Export Market Development Grants Scheme	5.0	5.4	4.9	4.8	4.5
TRADEX	2.8	3.6	3.0	2.0	2.1
General investment measures					
Development allowance	6.8	3.5	1.9	1.1	0.8

Table A.3 (continued)

	01-02	02-03	03-04	04-05	05-06
General R&D measures					
Biotechnology Australia	2.3	2.1	2.1	5.0	5.0
Biotechnology Innovation Fund	1.3	1.3	1.5	0.6	0.8
Commercial Ready Program	-	-	-	0.1	10.6
COMET Program	0.4	0.8	0.5	0.2	0.2
Cooperative Research Centres	12.0	11.2	12.0	7.3	9.1
CSIRO	42.9	44.0	22.8	45.1	44.9
Innovation Investment Fund	0.4	10.4	7.5	0.6	-
National Stem Cell Centre	0.8	3.6	4.6	5.8	7.1
New Industries Development Program	0.3	0.3	0.2	0.3	0.2
Premium R&D tax concession	0.9	2.5	4.1	3.4	3.6
Preseed fund	-	-	-	0.5	-
R&D Start	12.1	10.4	10.5	9.3	4.9
R&D tax concession	17.6	16.4	20.1	18.3	19.5
Other measures					
Farm Innovation Program	0.1	<0.1	<0.1	-	-
Industry Cooperative Innovation Program	-	-	-	-	0.2
R&D tax offset for small companies	-	5.3	7.5	8.7	10.7
Small business capital gains tax exemption	0.5	-	-	-	-
Structural Adjustment Fund for South Australia	-	-	-	2.7	13.1
Total	*180.5*	*216.5*	*182.6*	*140.1*	*187.7*
Non-metallic mineral products					
General export measures					
Export Market Development Grants Scheme	1.1	1.2	0.7	0.6	0.9
TRADEX	0.1	<0.1	<0.1	0.4	0.2
General investment measures					
Development allowance	0.4	0.2	0.1	0.1	<0.1
General R&D measures					
Commercial Ready Program	-	-	-	-	1.0
COMET Program	<0.1	<0.1	0.1	-	<0.1
Premium R&D tax concession	0.4	1.0	1.6	1.2	1.3
Preseed fund	-	-	-	-	0.2
R&D Start	10.6	1.6	0.2	0.8	0.6
R&D tax concession	8.1	5.8	7.1	6.0	6.4
Other measures					
R&D tax offset for small companies	-	0.6	0.8	0.6	0.7
Small business capital gains tax exemption	<0.1	-	-	0.4	0.4
Total	*20.7*	*10.5*	*10.7*	*10.1*	*11.8*

Table A.3 (continued)

	01-02	02-03	03-04	04-05	05-06
Metal products					
Industry-specific measures					
Australian Magnesium Corporation	-	-	84.6	-	-
Greenhouse gas abatement program	1.0	0.5	2.0	1.8	1.8
Investment incentives to Hismelt – grant	-	-	-	50.0	50.0
Investment incentives to Hismelt – loan	-	45.6	45.7	45.7	-
General export measures					
Export Market Development Grants Scheme	3.1	2.8	2.3	2.0	1.5
TRADEX	3.6	5.0	4.1	1.4	1.8
General investment measures					
Development allowance	40.3	21.1	11.0	6.4	4.6
General R&D measures					
Commercial Ready Program	-	-	-	0.1	2.1
COMET Program	0.1	0.1	0.1	0.1	0.4
Cooperative Research Centres	8.8	8.3	8.3	7.2	8.0
CSIRO	29.6	30.4	-	-	-
Premium R&D tax concession	0.8	2.3	3.8	3.2	3.4
R&D Start	7.4	6.9	5.7	1.5	1.3
R&D tax concession	24.1	14.7	18.0	17.1	18.2
Other measures					
R&D tax offset for small companies	-	1.6	2.2	2.6	3.2
Small business capital gains tax exemption	<0.1	0.3	0.4	0.3	0.3
Tasmanian Freight Equalisation Scheme	1.7	2.2	2.8	3.7	2.4
Total	*120.6*	*141.8*	*191.0*	*143.1*	*99.1*
Motor vehicles and parts					
Industry-specific measures					
Automotive competitiveness and investment scheme – post 2005	-	-	0.5	0.9	-
Automotive competitiveness and investment scheme[b]	594.9	571.5	584.3	568.8	479.8
Automotive incentives – Ford	-	-	-	-	32.5
Automotive market access and development	4.9	-	-	-	-
Investment incentive for Holden	8.5	4.0	-	-	-
Mitsubishi international R&D centre	-	-	-	<0.1	<0.1
General export measures					
Export Market Development Grants Scheme	2.1	1.5	1.8	1.4	1.5
TRADEX	96.3	71.6	74.3	60.3	38.0
General investment measures					
Development allowance	8.8	4.6	2.4	1.4	1.0

Table A.3 (continued)

	01-02	02-03	03-04	04-05	05-06
General R&D measures					
Commercial Ready Program	-	-	-	-	1.3
COMET Program	0.3	0.2	0.2	0.1	<0.1
Cooperative Research Centres	-	-	-	-	4.6
Premium R&D tax concession	1.5	4.2	6.9	3.6	3.8
Preseed fund	-	0.8	-	-	0.3
R&D Start	2.9	1.4	0.6	0.4	<0.1
R&D tax concession	29.7	27.5	33.6	18.2	19.4
Other measures					
R&D tax offset for small companies	-	1.3	1.8	2.2	2.7
Small business capital gains tax exemption	0.1	-	-	-	-
Wide Bay Burnett Structural Adjustment Program	<0.1	<0.1	-	-	-
Total	*750.0*	*688.6*	*706.3*	*657.4*	*585.1*
Other transport equipment					
Industry-specific measures					
Aerospace incentives – Hawker de Havilland	-	-	-	-	10.0
Shipbuilding bounty	5.5	13.3	6.8	0.8	-
Shipbuilding innovation scheme	4.0	8.7	7.0	2.1	-
General export measures					
Export Market Development Grants Scheme	1.0	1.3	1.8	1.2	1.4
TRADEX	0.1	0.2	0.1	0.2	0.2
General R&D measures					
Commercial Ready Program	-	-	-	-	0.1
COMET Program	0.2	0.2	0.2	0.2	<0.1
Cooperative Research Centres	3.9	5.1	5.1	4.7	4.3
Major national research facilities	0.1	0.7	1.1	1.3	1.3
Premium R&D tax concession	0.5	1.3	2.1	1.3	1.4
R&D Start	4.2	3.3	2.2	1.6	1.2
R&D tax concession	82.2	8.3	10.2	6.3	6.7
Other measures					
R&D tax offset for small companies	-	0.7	1.1	1.2	1.5
Small business capital gains tax exemption	-	-	-	0.2	0.2
Total	*101.7*	*43.1*	*37.7*	*20.9*	*28.3*
Other machinery and equipment					
Industry-specific measures					
Renewable energy equity fund	-	-	-	0.3	0.1
General export measures					
Export Market Development Grants Scheme	14.8	15.1	15.0	12.8	13.2
TRADEX	7.4	4.7	3.9	4.3	4.7
General investment measures					
Development allowance	0.7	0.4	0.2	0.1	0.1

Table A.3 (continued)

	01-02	02-03	03-04	04-05	05-06
General R&D measures					
Biotechnology Innovation Fund	-	0.7	0.7	1.1	0.7
Commercial Ready Program	-	-	-	0.4	14.7
COMET Program	1.6	1.5	1.2	1.4	1.4
Cooperative Research Centres	19.3	15.3	14.5	11.7	8.3
CSIRO	36.8	37.8	-	-	-
Innovation Investment Fund	-	4.2	-	1.7	1.4
Major national research facilities	0.4	2.4	3.6	4.0	4.0
New Industries Development Program	0.2	0.2	0.1	0.1	0.1
Premium R&D tax concession	1.7	4.7	7.7	6.0	6.3
Preseed fund	-	-	-	-	1.3
R&D Start	51.8	27.3	31.1	30.0	26.4
R&D tax concession	46.2	29.8	36.4	30.1	32.1
Other measures					
Industry Cooperative Innovation Program	-	-	-	-	0.2
R&D tax offset for small companies	-	16.5	23.4	24.3	30.0
Small business capital gains tax exemption	0.1	0.7	0.8	0.9	1.0
Small business programs	<0.1	0.2	0.2	0.2	-
South West Forests Structural Adjustment	<0.1	<0.1	-	-	-
Wide Bay Burnett Structural Adjustment Program	0.3	0.2	-	-	-
Total	*181.3*	*161.6*	*138.7*	*129.6*	*146.0*
Other manufacturing					
Industry-specific measures					
Renewable Energy Equity Fund	-	-	0.1	-	-
General export measures					
Export Market Development Grants Scheme	8.1	8.4	9.4	8.1	6.0
TRADEX	18.1	20.1	16.4	4.4	1.8
General investment measures					
Development allowance	0.1	0.1	<0.1	<0.1	<0.1
General R&D measures					
Biotechnology Innovation Fund	0.1	1.6	1.7	-	0.1
Commercial Ready Program	-	-	-	-	6.4
COMET Program	0.8	0.8	0.8	0.9	0.7
CSIRO	-	-	56.6	91.0	90.7
Premium R&D tax concession	0.3	0.8	1.4	1.1	1.2
Preseed fund	-	-	1.0	-	-
R&D Start	17.5	13.3	27.1	0.1	11.5
R&D tax concession	6.3	5.4	6.6	5.7	6.1

Table A.3 (continued)

	01-02	02-03	03-04	04-05	05-06
Other measures					
Industry Cooperative Innovation Program	-	-	-	-	0.1
R&D tax offset for small companies	-	5.2	7.4	8.2	10.2
Small business capital gains tax exemption	0.3	0.5	0.6	-	-
Tasmanian Freight Equalisation Scheme	1.7	1.7	1.9	2.0	1.3
Wide Bay Burnett Structural Adjustment Program	<0.1	<0.1	-	-	-
Total	*53.5*	*57.8*	*131.2*	*121.6*	*136.1*
Unallocated manufacturing					
General export measures					
Duty Drawback	93.7	121.0	105.9	121.1	121.1
General R&D measures					
Cooperative Research Centres	2.3	2.2	3.9	4.6	4.0
Technology Diffusion program	12.9	4.2	-	-	-
Other measures					
Enterprise Development program	0.7	-	-	-	-
Tasmanian Freight Equalisation Scheme	30.2	36.3	38.0	38.7	39.0
Total	*139.9*	*163.7*	*147.8*	*164.4*	*164.1*
Total outlays	**750.3**	**790.9**	**853.6**	**762.1**	**870.5**
Total tax expenditures	**1201.7**	**1051.1**	**1081.2**	**1008.6**	**906.2**
Total Budgetary assistance	**1952.0**	**1842.0**	**1934.8**	**1770.7**	**1776.7**

- Nil. Figures may not add to totals due to rounding. [a] The estimates are derived primarily from Australian Government budget papers, departmental annual reports and Treasury's Tax Expenditure Statement. The budget paper estimates are 'estimated actuals'. [b] 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.

Sources: Commonwealth Budget and Budget related papers (various years); departmental annual reports (various years); Treasury 2006; Bishop 2006; SELC 2005, p. 27; departmental data; Commission estimates.

Table A.4 **Estimated[a] Australian Government budgetary assistance to the services sector, 2001-02 to 2005-06**

$ million

	01-02	*02-03*	*03-04*	*04-05*	*05-06*
Electricity, gas and water supply					
Industry-specific measures					
Greenhouse gas abatement program	3.8	1.8	7.5	6.7	7.0
Low emission technology development fund	-	-	-	-	2.0
Remote renewable power generation program	-	-	-	-	28.7
Renewable energy commercialisation	8.9	9.2	9.2	1.4	1.7
Renewable Energy Equity Fund	3.4	2.6	1.0	0.5	0.3
General export measures					
Export Market Development Grants Scheme	0.4	0.4	0.3	0.4	0.5
TRADEX	-	-	-	<0.1	0.1
General investment measures					
Development allowance	4.4	2.3	1.2	0.7	0.5
Infrastructure bonds scheme	13.0	10.5	10.4	10.4	10.4
Infrastructure borrowing's tax offsets scheme	9.6	7.7	7.2	2.9	1.0
General R&D measures					
Commercial Ready Program	-	-	-	-	0.5
COMET Program	0.4	0.3	0.3	0.2	0.2
Cooperative Research Centres	7.4	8.6	7.3	6.8	5.6
Premium R&D tax concession	<0.1	0.1	0.2	0.1	0.1
Preseed fund	-	-	-	-	0.1
R&D Start	3.0	5.9	3.2	1.6	0.1
R&D tax concession	0.8	4.0	4.9	3.7	4.0
Other measures					
R&D tax offset for small companies	-	0.9	1.3	1.5	1.8
Small business capital gains tax exemption	<0.1	-	-	0.4	0.4
Total	*55.1*	*54.3*	*54.0*	*37.3*	*65.0*
Construction					
General export measures					
Export Market Development Grants Scheme	0.9	1.8	1.5	1.1	1.2
TRADEX	0.9	1.8	1.5	<0.1	<0.1
General investment measures					
Development allowance	<0.1	<0.1	<0.1	<0.1	<0.1
General R&D measures					
COMET Program	0.1	0.2	0.1	0.2	0.2
Cooperative Research Centres	1.5	2.0	2.6	2.5	2.3
Innovation Investment Fund	1.2	-	-	-	-
Premium R&D tax concession	0.4	1.1	1.8	1.2	1.3
R&D Start	3.5	1.2	0.9	0.3	0.2
R&D tax concession	8.0	8.5	10.4	8.3	8.9

Table A.4 (continued)

	01-02	02-03	03-04	04-05	05-06
Other measures					
Industry Cooperative Innovation Program	-	-	-	-	0.3
R&D tax offset for small companies	-	2.2	3.2	4.1	5.0
Small business capital gains tax exemption	1.2	2.6	2.9	5.5	5.7
Small business programs	-	-	-	-	0.1
Total	*17.8*	*21.5*	*25.0*	*23.4*	*25.2*
Wholesale trade					
General export measures					
Export Market Development Grants Scheme	12.4	12.6	12.4	10.2	11.0
TRADEX	5.9	1.0	0.9	4.8	2.8
General investment measures					
Development allowance	0.2	0.1	0.1	<0.1	<0.1
General R&D measures					
Biotechnology Innovation Fund	-	-	-	-	<0.1
Commercial Ready Program	-	-	-	-	0.1
COMET Program	-	0.1	0.2	0.1	0.1
Premium R&D tax concession	1.4	3.8	6.2	6.4	6.8
R&D Start	0.6	0.8	2.2	0.8	1.4
R&D tax concession	18.6	24.2	29.5	35.4	37.7
Other measures					
R&D tax offset for small companies	-	5.0	7.2	10.6	13.1
Small business capital gains tax exemption	12.4	3.1	3.5	2.9	3.0
Wide Bay Burnett Structural Adjustment Program	0.2	0.1	-	-	-
Total	*51.7*	*50.8*	*62.1*	*71.2*	*75.9*
Retail trade					
Industry-specific measures					
Greenhouse gas abatement program	0.2	0.1	0.4	0.3	0.4
General export measures					
Export Market Development Grants Scheme	1.3	1.2	1.1	0.7	1.3
TRADEX	0.1	0.2	0.2	1.6	3.6
General investment measures					
Development allowance	0.1	0.1	<0.1	<0.1	<0.1
General R&D measures					
COMET Program	0.1	0.1	<0.1	-	<0.1
Premium R&D tax concession	0.3	0.8	1.3	0.9	1.0
R&D Start	0.3	<0.1	0.3	-	-
R&D tax concession	2.6	4.7	5.7	4.7	5.0
Other measures					
Eden Structural Adjustment	0.1	<0.1	<0.1	-	-
R&D tax offset for small companies	-	3.1	4.3	5.4	6.7
Small business capital gains tax exemption	4.4	10.9	12.3	20.6	21.4
South West Forests Structural Adjustment	0.5	0.5	-	-	-
Wide Bay Burnett Structural Adjustment Program	0.1	<0.1	-	-	-
Total	*10.0*	*21.8*	*25.8*	*34.3*	*39.3*

Table A.4 (continued)

	01-02	02-03	03-04	04-05	05-06
Accommodation, cafes and restaurants					
General export measures					
Export Market Development Grants Scheme	9.1	8.0	7.5	4.7	4.8
General R&D measures					
COMET Program	<0.1	-	-	-	-
Premium R&D tax concession	-	<0.1	<0.1	-	-
Other measures					
Eden Structural Adjustment	0.2	0.1	<0.1	-	-
Small business capital gains tax exemption	5.4	16.4	18.6	22.0	22.9
Small business programs	<0.1	0.1	0.1	0.1	0.2
South West Forests Structural Adjustment	0.2	0.3	-	-	-
Wide Bay Burnett Structural Adjustment Program	<0.1	<0.1	-	-	-
Total	*14.9*	*24.9*	*26.3*	*26.8*	*27.8*
Transport and storage					
Industry-specific measures					
Bass Strait Passenger Vehicle Equalisation	17.4	26.6	30.8	32.4	31.1
Investment incentive to Asia Pacific Space Centre	6.0	-	-	-	-
General export measures					
Export Market Development Grants Scheme	9.3	8.6	7.6	5.4	5.2
TRADEX	2.4	3.2	2.7	1.1	0.4
General investment measures					
Development allowance	10.6	5.5	2.9	1.7	1.2
Infrastructure bonds scheme	12.0	9.5	9.6	9.6	9.6
Infrastructure borrowing's tax offset scheme	5.4	7.3	11.6	8.4	6.5
General R&D measures					
Commercial Ready Program	-	-	-	-	0.2
COMET Program	0.2	0.3	0.2	0.2	0.2
Premium R&D tax concession	0.1	0.3	0.5	0.5	0.5
R&D Start	0.7	0.5	1.1	1.7	0.7
R&D tax concession	3.4	3.0	3.7	3.2	3.4
Other measures					
R&D tax offset for small companies	-	0.4	0.5	1.1	1.4
` Small business capital gains tax exemption	1.5	2.2	2.5	6.2	6.5
Total	*69.0*	*67.5*	*73.7*	*71.5*	*66.8*
Communication services					
Industry-specific measures					
Investment incentives to IBM	0.8	0.8	-	-	-
Investment incentives to SITA	2.3	1.7	0.3	-	-
Software engineering centres	3.5	2.4	1.1	-	-
The Advanced Networks Program	-	8.8	6.6	8.0	7.0

Table A.4 (continued)

	01-02	02-03	03-04	04-05	05-06
General export measures					
Export Market Development Grants Scheme	1.2	1.1	1.5	1.7	2.4
TRADEX	<0.1	<0.1	<0.1	<0.1	-
General investment measures					
Development allowance	12.0	6.3	3.3	1.9	1.4
General R&D measures					
Commercial Ready Program	-	-	-	-	1.2
COMET Program	1.1	0.8	0.4	0.6	0.5
Cooperative Research Centres	4.4	5.8	6.0	5.8	4.6
CSIRO	21.9	22.5	58.6	63.5	62.5
ICT centre of excellence	-	10.3	11.3	17.2	23.5
Innovation Investment Fund	6.1	6.8	2.3	2.0	0.7
Premium R&D tax concession	0.9	2.5	4.1	3.1	3.3
Preseed fund	-	-	2.2	1.8	2.4
R&D Start	14.8	4.6	8.4	8.4	5.3
R&D tax concession	6.9	15.2	18.6	15.5	16.5
Other measures					
Industry Cooperative Innovation Program	-	-	-	-	0.2
R&D tax offset for small companies	-	2.5	3.5	5.2	6.4
Small business capital gains tax exemption	1.1	0.8	0.9	3.1	3.2
Small business programs	<0.1	<0.1	<0.1	<0.1	-
Total	*77.0*	*92.9*	*129.0*	*137.8*	*140.9*
Finance and insurance					
Industry-specific measures					
High Costs Claims scheme	-	-	-	0.4	0.1
Premium Support scheme	-	-	-	24.4	17.1
Renewable Energy Equity Fund	-	-	-	0.4	0.5
United Medical Protection support	-	-	15.9	24.4	13.7
General export measures					
Export Market Development Grants Scheme	1.0	0.8	0.9	0.9	1.3
TRADEX	0.1	0.1	0.1	0.1	<0.1
General investment measures					
Development allowance	0.4	0.2	0.1	0.1	<0.1
Infrastructure borrowing’s tax offsets scheme	5.0	5.0	6.3	3.8	2.5
Offshore banking unit tax concession	45.0	45.0	50.0	75.0	75.0
General R&D measures					
Biotechnology Innovation Fund	-	-	0.2	<0.1	-
Commercial Ready Program	-	-	-	-	0.3
COMET Program	0.1	0.2	0.2	0.1	0.2
Innovation Investment Fund	-	-	-	5.0	4.6
Premium R&D tax concession	2.1	5.3	8.6	9.7	10.2
Preseed fund	-	-	-	2.3	3.9
R&D Start	4.1	1.2	3.5	2.0	0.7
R&D tax concession	37.9	35.6	43.5	57.8	61.5

Table A.4 (continued)

	01-02	02-03	03-04	04-05	05-06
Other measures					
Pooled development funds	6.0	6.0	6.0	7.0	7.0
R&D tax offset for small companies	-	1.5	2.1	3.1	3.8
Small business capital gains tax exemption	3.1	2.6	3.0	4.3	4.5
Venture capital limited partnerships	-	-	20.0	25.0	30.0
Total	*104.8*	*103.3*	*160.3*	*245.7*	*236.9*
Property and business services					
Industry-specific measures					
Renewable Energy Development Initiative	-	-	-	2.6	1.7
Solar cities initiative	-	-	-	-	0.6
General export measures					
Export Market Development Grants Scheme	25.7	27.1	27.6	24.9	30.3
TRADEX	0.1	3.6	2.9	0.6	0.3
General investment measures					
Development allowance	1.8	0.9	0.5	0.3	0.2
General R&D measures					
Biotechnology Innovation Fund	2.2	3.7	4.7	3.6	1.2
Commercial Ready Program	-	-	-	0.3	11.4
COMET Program	4.5	3.7	2.9	2.3	2.6
Cooperative Research Centres	4.7	5.6	11.4	13.5	12.2
Innovation Investment Fund	15.0	3.3	2.1	4.8	4.9
Premium R&D tax concession	3.3	9.0	14.7	14.3	15.2
Preseed fund	-	-	-	0.7	2.6
R&D Start	35.9	20.9	24.6	31.5	13.6
R&D tax concession	61.0	56.1	68.6	75.5	80.4
Other measures					
Eden Structural Adjustment	<0.1	<0.1	<0.1	-	-
Industry Cooperative Innovation Program	-	-	-	-	0.1
R&D tax offset for small companies	-	54.9	78.1	98.6	121.5
Small business capital gains tax exemption	4.7	14.9	16.9	21.5	22.4
Small business programs	0.6	6.4	6.2	4.8	8.3
Techfast	-	-	-	2.5	-
Wide Bay Burnett Structural Adjustment Program	0.1	0.1	-	-	-
Total	*159.6*	*210.3*	*261.1*	*302.3*	*329.4*
Government administration and defence					
General export measures					
Export Market Development Grants Scheme	<0.1	<0.1	<0.1	-	-
TRADEX	<0.1	2.4	1.9	0.1	0.2
General R&D measures					
COMET Program	<0.1	<0.1	<0.1	0.1	-
R&D Start	0.7	0.1	-	<0.1	-
Other measures					
Small business programs	0.4	4.6	4.5	3.4	1.6
Total	*1.2*	*7.2*	*6.4*	*3.6*	*1.7*

Table A.4 (continued)

	01-02	02-03	03-04	04-05	05-06
Education					
General export measures					
Export Market Development Grants Scheme	8.4	7.8	8.0	6.6	7.0
General investment measures					
Development allowance	0.1	0.1	<0.1	<0.1	<0.1
General R&D measures					
COMET Program	0.1	0.2	0.2	0.1	0.3
Premium R&D tax concession	0.1	0.3	0.5	0.4	0.4
R&D Start	2.2	0.1	0.2	0.2	0.1
R&D tax concession	1.4	1.8	2.2	1.9	2.0
Other measures					
R&D tax offset for small companies	-	1.1	1.5	1.7	2.1
Small business capital gains tax exemption	<0.1	-	-	0.6	0.6
Small business programs	<0.1	0.4	0.4	0.3	4.1
Total	*12.3*	*11.7*	*13.0*	*11.7*	*16.6*
Health and community services					
Industry-specific measures					
Renewable Energy Equity Fund	-	0.4	-	-	-
General export measures					
Export Market Development Grants Scheme	0.5	0.9	0.8	1.6	2.0
TRADEX	<0.1	-	-	0.2	0.2
General investment measures					
Development allowance	<0.1	<0.1	<0.1	<0.1	<0.1
General R&D measures					
Biotechnology Innovation Fund	1.1	3.2	3.1	2.8	1.5
Commercial Ready Program	-	-	-	<0.1	3.5
COMET Program	0.9	0.8	0.3	0.2	0.6
Cooperative Research Centres	7.1	7.2	14.1	15.3	19.6
Innovation Investment Fund	0.6	-	5.8	3.9	2.3
Premium R&D tax concession	<0.1	0.1	0.2	0.2	0.2
Preseed fund	-	-	2.5	0.5	1.8
R&D Start	20.8	10.6	9.3	12.1	4.4
R&D tax concession	2.3	0.7	0.9	1.0	1.1
Other measures					
R&D tax offset for small companies	-	1.6	2.3	1.9	2.4
Small business capital gains tax exemption	0.8	3.6	4.0	6.7	7.0
Small business programs	<0.1	<0.1	<0.1	<0.1	0.2
Wide Bay Burnett Structural Adjustment Program	0.1	0.1	-	-	-
Total	*34.1*	*29.3*	*43.4*	*46.6*	*46.7*

Table A.4 (continued)

	01-02	02-03	03-04	04-05	05-06
Cultural and recreational services					
Industry-specific measure					
Australian Film Commission	16.9	20.5	22.5	48.6	52.0
Australian Film Finance Corporation	50.0	57.5	60.5	65.6	70.5
Exemption of film tax offset payments	-	1.0	3.0	15.0	30.0
Film Australia	4.9	9.8	10.0	10.8	13.0
Film industry tax incentives - 10B & 10A	-4.0	3.0	2.0	0.5	-3.0
Refundable tax offset for large scale film production[d]	-	3.0	9.0	53.0	22.0
General export measures					
Export Market Development Grants Scheme	10.6	11.3	12.2	11.3	12.1
TRADEX	-	-	-	<0.1	-
General investment measures					
Development allowance	0.3	0.2	0.1	<0.1	<0.1
General R&D measures					
Commercial Ready Program	-	-	-	-	0.2
COMET Program	0.1	0.1	<0.1	0.2	0.1
Cooperative Research Centres	2.4	2.4	4.3	4.8	4.7
Innovation Investment Fund	0.6	-	-	-	-
Premium R&D tax concession	<0.1	0.1	0.1	0.1	0.1
R&D Start	0.7	0.3	0.3	0.1	-
R&D tax concession	9.0	0.8	1.0	0.7	0.8
Other measures					
Eden Structural Adjustment	0.1	<0.1	<0.1	-	-
R&D tax offset for small companies	-	1.0	1.5	1.8	2.3
Small business capital gains tax exemption	0.5	0.9	1.1	1.0	1.0
Small business programs	<0.1	0.1	0.1	<0.1	-
South West Forests Structural Adjustment	0.2	0.3	-	-	-
Wide Bay Burnett Structural Adjustment Program	0.2	0.1	-	-	-
Total	*92.5*	*112.5*	*127.6*	*213.6*	*205.8*
Personal and other services					
General export measures					
Export Market Development Grants Scheme	1.2	0.7	0.7	0.9	1.2
General R&D measures					
Commercial Ready Program	-	-	-	-	0.6
COMET Program	<0.1	<0.1	-	0.1	0.1
Premium R&D tax concession	<0.1	0.1	0.2	0.2	0.2
R&D Start	2.7	0.3	0.2	<0.1	-
R&D tax concession	0.6	0.8	1.0	1.6	1.7
Other measures					
R&D tax offset for small companies	-	0.9	1.3	1.8	2.2
Small business capital gains tax exemption	0.7	1.0	1.2	2.8	2.9
Small business programs	0.1	1.3	1.2	0.9	1.2
Total	*5.4*	*5.2*	*5.8*	*8.4*	*10.3*

Table A.4 (continued)

	01-02	02-03	03-04	04-05	05-06
Unallocated services					
Industry-specific measures					
Building IT strengths	64.6	24.8	18.2	20.6	17.6
Travel compensation fund	5.0	-	-	-	-
General export measures					
Tourism Australia	97.9	99.9	97.9	138.4	137.8
General R&D measures					
CSIRO	10.3	10.6	-	-	-
R&D Start	-	-	0.2	-	-
Other measures					
Australian Tourism Development Program	-	-	-	4.0	7.0
Back of Bourke Exhibition Centre	0.9	0.2	-	-	-
Cairns Esplanade Development	-	-	-	2.9	3.0
Cairns Foreshore Promenade Development	-	-	-	2.0	2.9
Fairbridge Village Redevelopment	-	-	-	0.7	-
Further Tourism Promotion	5.0	-	-	-	-
Indigenous Tourism Business Ready Program	-	-	-	0.2	0.8
Kimberley Cultural Tourism Promotion	-	-	-	0.1	0.1
Lancefield Visitor Information Centre & Reserve	-	-	-	0.2	-
National Tourism Accreditation Framework	-	-	-	0.7	0.8
North East Chinese Heritage Trail	-	-	-	<0.1	0.5
Oatlands Callington Mill upgrade	-	-	-	0.1	0.1
Regional Online Tourism Program	1.4	-	-	-	-
Regional Tourism Program	1.9	3.0	0.5	-	-
See Australia Domestic Tourism Initiative	-	1.5	1.5	2.4	-
Small business assistance – Tourism	10.5	-	-	-	-
Stockman's Hall of Fame	1.4	1.4	1.3	-	-
Tasmanian Infrastructure Initiative	-	-	1.1	-	0.7
Tasmanian Regional Tourism	0.2	0.4	-	-	-
The Great Green Way - Tourism Initiative	-	-	-	1.9	1.9
Tourism Assistance Package	5.0	-	-	-	-
Tourism in Protected Areas	-	-	1.1	1.9	1.7
Tourism Operations	0.5	0.5	-	-	-
Willow Court Restoration of 'The Barracks'	-	-	-	<0.1	0.3
Woodend Bike Trail	-	-	-	0.2	-
Total	*204.5*	*142.2*	*121.6*	*176.3*	*175.2*
Total outlays	**581.2**	**591.4**	**686.4**	**842.5**	**897.3**
Total tax expenditures	**328.7**	**363.9**	**448.6**	**568.0**	**566.2**
Total Budgetary assistance	**909.9**	**955.4**	**1135.0**	**1410.6**	**1463.5**

- Nil. Figures may not add to totals due to rounding. [a] The estimates are derived primarily from Australian Government budget papers, departmental annual reports and Treasury's Tax Expenditure Statement. The budget paper estimates are 'estimated actuals'.

Sources: Commonwealth Budget and Budget related papers (various years); departmental annual reports (various years); Treasury 2006; Bishop 2006; departmental data; Commission estimates.

Table A.5 **Estimated[a] Australian Government budgetary assistance, Unallocated other[b], 2001-02 to 2005-06**

$ million

	01-02	*02-03*	*03-04*	*04-05*	*05-06*
Industry-specific measures					
Australian Seafood Industry Council	-	-	-	0.1	0.1
General export measures					
Austrade	174.5	163.8	158.5	155.1	167.0
EFIC national interest business	11.6	12.8	12.8	10.7	9.4
Export access	2.9	0.2	-	-	-
International Food and Agricultural Service	-	-	-	30.7	30.5
TRADEX	-	-	-	1.4	-
General investment measure					
Development allowance	48.9	25.6	13.3	7.8	5.6
Invest Australia	14.0	16.7	19.4	22.3	22.0
Regional headquarters program	0.5	0.5	0.5	0.5	0.5
General R&D measures					
Biotechnology Innovation Fund	-	-	-	1.2	0.3
Commercial Ready Program	-	-	-	0.8	1.3
COMET Program	-	-	-	<0.1	-
Commonwealth technology park	11.5	-	-	-	-
Innovation Access Program	-	10.7	11.0	5.8	9.3
Innovation Investment Fund	-	-	-	0.5	-
Major national research facilities	1.3	7.1	10.9	11.9	11.9
Premium R&D tax concession	-	1.1	1.7	2.0	2.2
Preseed fund	-	-	-	0.1	-
R&D Start	-	0.3	-	28.2	4.7
R&D tax concession	27.7	8.3	10.2	14.2	15.1
R&D tax offset payments - exemption	40.0	60.0	30.0	-10.0	-40.0

Table A.5 (continued)

	01-02	02-03	03-04	04-05	05-06
Other measures					
Australian Made Campaign – export strategy	-	-	-	0.9	0.7
Industry Capability Network Limited	-	-	1.5	1.8	1.5
R&D tax offset for small companies	-	2.3	3.3	5.6	6.9
Regional assistance program	29.2	21.9	-	-	-
Regional partnerships program	-	-	27.6	30.4	35.7
Small business CG tax 50 percent reduction	130.0	160.0	220.0	300.0	390.0
Small business CG tax asset exemption	5.0	10.0	16.0	13.0	30.0
Small business CG tax retirement exemption	55.0	85.0	120.0	185.0	180.0
Small business capital gains tax exemption	0.5	9.0	10.2	10.9	11.3
Small business interest rate subsidy	-	0.1	0.5	0.5	-
Small business participation in major projects	3.0	-	-	-	-
Small business programs	<0.1	0.1	0.1	0.1	-
Sustainable regions program	0.4	6.2	20.9	22.6	36.8
Tasmanian Freight Equalisation Scheme	0.8	0.8	1.0	0.9	0.9
Tropical Cyclone Larry – Business Assistance	-	-	-	-	136.5
Total outlays	**249.2**	**243.0**	**267.5**	**330.2**	**475.6**
Total tax expenditures	**307.6**	**359.5**	**422.0**	**524.8**	**594.7**
Total Budgetary assistance	**556.7**	**602.5**	**689.5**	**855.0**	**1070.2**

- Nil. Figures may not add to totals due to rounding. [a] The estimates are derived primarily from Australian Government budget papers, departmental annual reports and Treasury's Tax Expenditure Statement. The budget paper estimates are 'estimated actuals'. [b] Includes programs or amounts of funding where the initial benefiting industry is not stated and/or has not been ascertained.

Sources: Commonwealth Budget and Budget related papers (various years); departmental annual reports (various years); Treasury 2006; Bishop 2006; 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*. This appendix reports recent anti-dumping and countervailing activity.

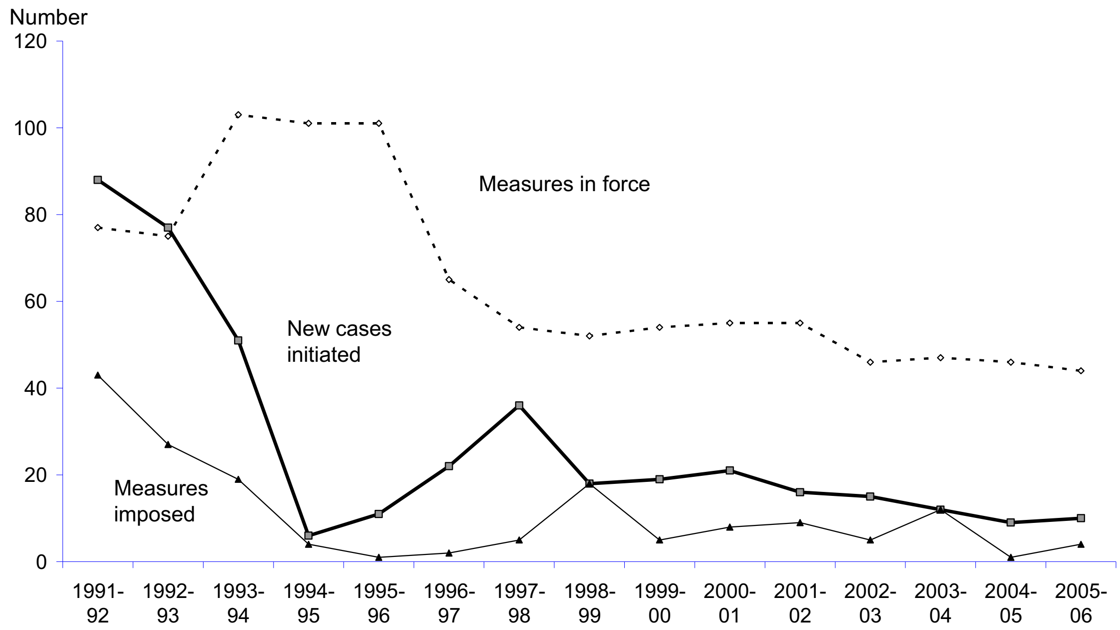
Australian trends

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 new anti-dumping and countervailing cases *initiated* in Australia has been stable and relatively low over recent years, compared with the early 1990s (figure B.1). There were 10 new cases in 2005-06. Table B.1 lists the anti-dumping cases initiated in 2005-06.

Four new measures were *imposed* by the government in 2005-06, compared to one measure imposed in the previous year. The number of measures *in force* remained relatively stable at around 50 (figure B.1).

Figure B.1 **Anti-dumping and countervailing activity,[a] 1991-92 to 2005-06**



[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.

During 2005-06, Australian firms initiated 10 anti-dumping complaints against firms from 7 economies, all of which were against firms from Asia.

In 2005-06, the *Metal product manufacturing* industry accounted for half of the 10 initiations (table B.2). Over the 10-year period to 2005-06, 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 almost 40 per cent of total initiations.

Table B.1 **Australian anti-dumping and countervailing initiations,[a] 2005-06**

Commodity	*Exporting economy*
Certain hollow structural sections	China, Korea, Malaysia, Taiwan, Thailand
Pineapple fruit, prepared or preserved in containers	China, Philippines
Clear laminated safety glass	China, Indonesia
Mobile garbage bins	Malaysia

[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 2005-06**

				1996-97 to 2005-06	
Industry[b]	*2003-04*	*2004-05*	*2005-06*	*Number of cases*	*Per cent of total*[c]
Food, beverages and tobacco	5	1	2	14	8
Textiles, clothing, footwear and leather	–	–	–	6	3
Wood and paper products	1	1	–	26	15
Printing, publishing and recorded media	–	–	–	–	–
Petroleum, coal, chemical and associated products	–	2	1	68	38
Non-metallic mineral products	1	–	2	15	8
Metal product manufacturing	5	4	5	30	17
Machinery and equipment manufacturing	–	1	–	11	6
Other manufacturing	–	–	–	8	4
Total	**12**	**9**	**10**	**178**	**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 (various).

International trends

In 2004-05, Australia accounted for 9 (or 4 per cent) of the 214 anti-dumping and countervailing cases initiated internationally (table B.4). In 2004-05, the countries with the most initiations were the European Union (35), India (30) and China (27).

Thirteen WTO countries account for just over 90 per cent of anti-dumping and countervailing duties in force. Australia, with 54 measures in force in 2004-05, was the 10th largest user of anti-dumping and countervailing duties. The largest users are the United States, India and the European Union.

Table B.3 **Australian initiations of anti-dumping and countervailing cases, by trading region and economy,[a] 1996-97 to 2005-06**

				1996-97 to 2005-06	
Region/economy	*2003-04*	*2004-05*	*2005-06*	*Total*	*Per cent* [b]
North America	**–**	**1**	**–**	**9**	**5**
Canada	–	1	–	3	2
United States	–	–	–	6	3
European Union	5	–	–	**44**	**25**
Austria	–	–	–	2	1
Belgium/Lux	–	–	–	3	2
Finland	–	–	–	3	2
France	–	–	–	3	2
Germany	–	–	–	9	5
Italy	2	–	–	7	4
Netherlands	–	–	–	3	2
Sweden	–	–	–	5	3
UK	–	–	–	5	3
Other EU	3	–	–	4	2
Asia	**7**	**8**	**10**	**103**	**58**
China	3	3	3	22	12
Hong Kong	–	–	–	1	1
India	–	–	–	4	2
Indonesia	1	–	1	16	11
Japan	1	–	–	5	3
Korea (south)	2	3	1	17	6
Malaysia	–	1	2	9	5
Philippines	–	–	1	1	1
Singapore	–	–	–	5	3
Thailand	–	1	1	13	7
Taiwan	–	–	1	10	7
Other	**–**	**–**	**–**	**22**	**12**
Saudi Arabia	–	–	–	2	1
South Africa	–	–	–	4	2
Other	–	–	–	16	9
Total	12	9	10	178	**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, 2003-04 and 2004-05**

Country	*Initiation*		*Provisional measures*		*Definitive duties*		*Price undertakings*		*Measures in force*		*Per cent of total measures in force*[a]	
	03-04	*04-05*	*03-04*	*04-05*	*03-04*	*04-05*	*03-04*	*04-05*	*03-04*	*04-05*	*03-04*	*04-05*
US	47	9	23	26	18	22	–	0	350	335	24	24
India	37	30	12	9	38	29	2	1	216	191	15	14
EU[b]	19	35	13	14	10	8	2	4	183	183	13	13
South Africa	10	19	6	8	2	2	–	0	88	77	6	6
China	22	27	13	17	26	20	1	3	56	71	4	5
Turkey	19	20	10	2	11	16	–	0	53	68	4	5
Mexico	13	7	12	7	8	7	–	0	59	64	4	5
Canada	17	8	15	13	9	9	–	0	95	63	7	5
Argentina	7	6	–	2	2	1	–	2	79	56	5	4
Australia	12	9	4	2	12	1	2	0	54	54	4	4
Brazil[c]	8	5	–	0	3	4	–	2	54	51	4	4
Korea	17	1	9	3	5	11	1	2	23	32	2	2
New Zealand	4	5	1	5	3	4	–	0	11	15	1	1
13 WTO Members	**232**	**181**	**118**	**108**	**147**	**134**	**8**	**14**	**1321**	**1260**	**93**	**91**
All WTO Members	**254**	**214**	**128**	**126**	**173**	**155**	**10**	**15**	**1451**	**1383**	**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. **c** Certain measures in force were notified as having been fully or partially suspended.

Source: WTO (2005, 2006).

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