1 About this Review

One of the Productivity Commission’s functions under its legislation is to review industry assistance arrangements. It also has a statutory obligation to report annually on assistance and its effects on the economy. 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 to, a person in respect of carrying on a business or activity.

Assistance takes many forms. It extends beyond direct government subsidies to particular firms or industries and includes tariffs, quotas, regulatory restrictions on imported goods and services and tax concessions. Assistance can also arise from the provision of services below cost by government agencies and from government procurement policies.

Although assistance benefits the firms or industries that receive it, it typically imposes costs on other sectors of the economy. For example, direct business subsidies increase returns to recipient firms and industries, but to fund the subsidies governments must increase taxes and charges, cut back on other spending, or borrow additional funds. Funding provided to a single firm also discriminates against its competitors.

Similarly, while tariffs provide some price support to domestic goods producers, they result in higher input costs for other local businesses, reducing their competitiveness. They also impose higher prices for consumers, who then have less money to spend on other goods and services.

Governments provide assistance for many different reasons. Some types of assistance — such as for R&D and to meet environmental objectives — can overcome market failure and deliver net community benefits. Similarly, some policies which have industry assistance effects may be justified on other grounds, such as the achievement of social or equity objectives. However, the way in which such assistance is provided requires assessment to minimise its unintended impacts on resource allocation.

In view of the costs, as well as the potential benefits, that industry assistance can entail, government measures that provide assistance need to be monitored and regularly reviewed. To that end, the annual *Trade & Assistance Review* fulfils a transparency function of identifying existing government assistance and contemporary assistance issues and allowing closer examination to be made when it is not obvious why such costs are being incurred.

This edition of *Trade & Assistance Review* begins with a focus on the industry assistance aspects of defence procurement (chapter 2). Previous editions of *Trade & Assistance Review* have taken a detailed look at particular assistance arrangements including carbon emission reduction measures (2007‑08), assistance to the finance industry (2008‑09), state government assistance to industry (2009‑10), adjustment assistance (2010‑11), and intellectual property (2011‑12).

Chapter 2 is followed by shorter background pieces on other contemporary policies and programs relating to: support for research and development; foreign investment; and special economic zones (chapter 3).

The Commission’s latest estimates of Australian Government assistance to industry, up to 30 June 2013, are presented in chapter 4. This continues a time series of assistance estimates dating back four decades. This long series provides a clear illustration of the patterns of industry preferment through time and the reform of trade barriers. The estimates generally cover those government measures which selectively benefit particular firms, industries or activities, and which can be quantified, given practical constraints in measurement and data availability.

Chapter 5 reports on industry assistance announcements since May 2013 (the cut-off reporting date of the last *2011‑12* *Review*). This provides some insight into potential changes in assistance beyond those estimates in chapter 4. The announcements cover an array of industry arrangements including in relation to research and development, primary industries, manufacturing, carbon emissions reduction and energy efficiency, regional assistance, and broadcasting and communications.

Chapter 6 reports on recent developments in Australia’s trade policy environment including ongoing efforts to conclude the Doha Round of multilateral trade negotiations and negotiation of preferential bilateral and regional trade agreements. The detailed, complex and costly rules of origin embedded in such trade agreements are illustrated. The chapter also covers trade complaints affecting Australia lodged through the WTO disputes resolution framework and recent anti-dumping and countervailing duty activity.