# Trade and Assistance Review 2014-15

Productivity Commission, Annual Report Series, July 2016

**Trade and Assistance Review 2014-15
Productivity Commission, Annual Report Series, July 2016
**

Commonwealth of Australia 2016

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| The Productivity Commission |
| The Productivity Commission is the Australian Government’s independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long term interest of the Australian community.  The Commission’s independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.  Further information on the Productivity Commission can be obtained from the Commission’s website ([www.pc.gov.au](http://www.pc.gov.au/)). |
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# Foreword

The Productivity Commission is required under its Act to report annually on industry assistance and its effects on the economy. The *Trade & Assistance Review 2014-15* contains the Commission’s latest quantitative estimates of Australian Government assistance to industry.

This year’s review also explores how the size and nature of the assistance estimates might be influenced by recent developments such as the Agricultural Competitiveness White Paper, the Defence Industry Statement and submarine procurement, programs to increase renewable energy and reduce carbon emissions, and programs targeted at business innovation.

Views inevitably differ on what constitutes industry assistance and whether it is warranted. Fundamental to these questions is transparency of measures. The annual *Review* seeks to identify government arrangements that may be construed as assistance, as well as their target, size, and nature. This information provides a basis for considered assessment of the benefits and costs of the arrangements.

In preparing this report, the Commission has received helpful advice and feedback from officials in Australian Government agencies. The Commission is very grateful for their assistance.

Peter Harris  
Chairman

July 2016

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# Abbreviations and explanations

Abbreviations

|  |  |
| --- | --- |
| ERA | Effective rate of assistance |
| GPA | WTO Government Procurement Agreement |
| IAC | Industries Assistance Commission |
| IC | Industry Commission |
| NSE | Net subsidy equivalent |
| PC | Productivity Commission |
| R&D | Research and Development |
| TPP | Trans Pacific Partnership |
| TiSA | Trade in Services Agreement |
| WTO | World Trade Organization |

Explanations

|  |  |
| --- | --- |
| Billion | The convention used for a billion is a thousand million (109). |

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| Key points |
| * For 2014‑15, estimated assistance to industry (provided by the Australian Government) was $15.1 billion in *gross* terms. * It comprised $7.8 billion in tariff assistance, $4.2 billion in budgetary outlays and $3.1 billion in tax concessions. While tariff assistance is inherently distortionary, not all budgetary outlays create distortions that result in a misallocation of resources. * After deducting the cost penalty of tariffs on imported inputs ($7.5 billion, two-thirds incurred by services industries), *net* assistance to industry was $7.6 billion. * The incidence of assistance varies widely between sectors. * Manufacturing received an estimated $7.0 billion in net assistance (largely due to tariff protection), Primary production received an estimated $1.3 billion (mostly through budgetary assistance), and Mining recorded a small but positive assistance ($0.3 billion). * The measured industry assistance arrangements imposed a net cost of $1.6 billion on services industries (as the tariff cost penalty on inputs outweighed budgetary assistance). * Of the eight categories of measured budgetary industry assistance the two largest are: * R&D support (generally available to all industries and specific to rural industry), which represented around 40 per cent ($3.1 billion), the majority of which relates to the R&D Tax Incentive (around $2.2 billion) * Industry specific assistance, which consists of a range of grants and concessions such as for the automotive, film, finance and ethanol industries, and represented 18 per cent ($1.3 billion) of measured assistance. * The measured estimates are conservative as they exclude significant assistance that is difficult to quantify. This includes: favourable finance (loans, debt, equity, guarantees); local purchasing preferences for defence equipment; and regulatory restrictions on competition. The estimates also exclude state and territory government support to industry. * A number of recent developments will likely add to the level of assistance in coming years. Measures providing assistance have been proposed in the Agricultural Competitiveness White Paper, the Defence Industry Statement, programs to increase renewable energy and reduce carbon emissions, and programs targeted at innovation, collaboration and commercialisation. * Regional industry investment grant programs continue to be introduced as a response to the closure of iconic local employers. * These schemes deliver high subsidy rates to recipient businesses, but the outcomes of these programs are uncertain. A review is needed to determine what design best assists displaced workers and regions to adjust. * Australia continues to negotiate on a wide array of trade agreements and in a multitude of membership forums. Apart from the conclusion of negotiations on the Trans-Pacific Partnership Agreement, and the China Australia Free Trade Agreement coming into force in December 2015, developments include: * final arbitration in Australia’s favour of the investor-state dispute in relation to tobacco plain packaging * a tightening of screening thresholds for foreign investment proposals in Australian agribusiness and pastoral land purchase * an increase in anti-dumping protection. |
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